3M

Quarterly Statement
3 Months 2018

SALZGITTER AG
Stahl und Technologie

Contents

The Salzgitter Group in Figures

		Q1 2018	Q1 2017	+/−
Crude steel production	**kt**	**1,773.8**	**1,739.6**	**34.2**
External sales	**€ m**	**2,307.5**	**2,353.9**	**−46.4**
Strip Steel Business Unit	€ m	609.4	548.9	60.5
Plate / Section Steel Business Unit	€ m	286.6	265.5	21.1
Mannesmann Business Unit	€ m	271.0	289.3	−18.3
Trading Business Unit	€ m	759.8	861.8	−101.9
Technology Business Unit	€ m	327.7	335.1	−7.5
Industrial Participations / Consolidation	€ m	52.9	53.4	−0.5
EBIT before depreciation and amortization (EBITDA)	**€ m**	**193.0**	**184.8**	**8.2**
Earnings before interest and taxes (EBIT)	**€ m**	**108.5**	**99.9**	**8.6**
Earnings before taxes (EBT)	**€ m**	**95.9**	**77.1**	**18.8**
Strip Steel Business Unit	€ m	62.5	53.7	8.8
Plate / Section Steel Business Unit	€ m	9.3	9.4	−0.1
Mannesmann Business Unit	€ m	1.6	−3.0	4.6
Trading Business Unit	€ m	13.8	21.6	−7.9
Technology Business Unit	€ m	11.2	13.1	−1.9
Industrial Participations / Consolidation	€ m	−2.4	−17.8	15.3
Consolidated net income/loss	**€ m**	**65.2**	**48.7**	**16.5**
Earnings per share – basic	**€**	**1.18**	**0.87**	**0.31**
Return on capital employed (ROCE)[1]	**%**	**11.6**	**10.3**	**1.2**
Cash flow from operating activities	**€ m**	**100.6**	**−29.6**	**130.2**
Investments[2]	**€ m**	**69.1**	**55.6**	**13.5**
Depreciation/amortization[2]	**€ m**	**−84.6**	**−85.0**	**0.4**
Total assets	**€ m**	**8,407.7**	**8,635.7**	**−228.0**
Non-current assets	**€ m**	**3,586.2**	**3,764.3**	**−178.1**
Current assets	**€ m**	**4,821.5**	**4,871.4**	**−49.8**
of which inventories	€ m	2,075.8	1,872.6	203.1
of which cash and cash equivalents	€ m	624.0	686.7	−62.8
Equity	**€ m**	**3,103.5**	**2,890.8**	**212.8**
Liabilities	**€ m**	**5,304.2**	**5,744.9**	**−440.7**
Non-current liabilities	€ m	3,204.5	3,278.4	−73.8
Current liabilities	€ m	2,099.6	2,466.5	−366.9
of which due to banks[3]	€ m	468.4	492.6	−24.1
Net financial position on the reporting date[4]	**€ m**	**320.0**	**155.7**	**164.4**
Employees				
Personnel expenses	€ m	−422.4	−414.7	−7.7
Core workforce on the reporting date[5]	empl.	23,333	23,287	46
Total workforce on the reporting date[6]	empl.	25,051	25,117	−66

Disclosure of financial data in compliance with IFRS
[1] Annualized
[2] Excluding financial investments
[3] Current and non-current bank liabilities
[4] Including investments, e.g. securities and structured investments
[5] Excl. trainee contracts and excl. non-active age-related part-time work
[6] Incl. trainee contracts and incl. non-active age-related part-time work

Profitability of the Group and Business Units

Earnings Situation within the Group

		Q1 2018	Q1 2017
Crude steel production	kt	1,773.8	1,739.6
External sales	**€ m**	**2,307.5**	**2,353.9**
EBIT before depreciation and amortization (EBITDA)	€ m	193.0	184.8
Earnings before interest and taxes (EBIT)	€ m	108.5	99.9
Earnings before taxes (EBT)	**€ m**	**95.9**	**77.1**
Consolidated net income/loss	**€ m**	**65.2**	**48.7**
Return on capital employed (ROCE)[1]	**%**	**11.6**	**10.3**
Investments[2]	€ m	69.1	55.6
Depreciation/amortization[2]	€ m	−84.6	−85.0
Cash flow from operating activities	€ m	100.6	−29.6
Net financial popsition[3]	**€ m**	**320.0**	**155.7**
Equity ratio	%	36.9	33.5

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

In an overall tangibly improved market environment that is nevertheless still characterized by global excess capacities and trade policy uncertainties, the Salzgitter Group generated a very gratifying pre-tax profit of € 95.9 million in the first quarter of 2018 (Q1 2017: € 77.1 million). The strong result of the Strip Steel Business Unit made a special contribution to this result. Moreover, all other business units delivered positive results, also thanks to the rigorously implemented programs within the Group.

The **external sales** of the Salzgitter Group remained virtually at the year-earlier level (€ 2,307.5 million; Q1 2017: € 2,353.9 million). The sales of the steel companies rose largely on the back of selling prices, as opposed to international trading that reported a decline. **Earnings before taxes** were up by almost one quarter to € 95.9 million (Q1 2017: € 77.1 million). This figure comprises € 7.5 million in after-tax contribution from an investment in Europe's leading copper producer Aurubis AG, a company included at equity (Q1 2017: € 33.6 million). An **after-tax result** that stood at € 65.2 million (Q1 2017: € 48.7 million) brings earnings per share to € 1.18 (Q1 2017: € 0.87) and return on capital employed to 11.6% (ROCE; Q1 2017: 10.3%). An equity ratio of 36.9% and a net financial position that has almost doubled in comparison with the previous year's period (€ 320 million; 2017/03/31: € 156 million) characterize a comfortable financial basis and sound balance sheet for the Salzgitter Group.

Special Items/EBT Business Units and Group

	EBT		Restructuring		Impairment/ Reversal of impairment		Other		EBT without special items	
In € m	**Q1 2018**	**Q1 2017**	**Q1 2018**	**Q1 2017**	**Q1 2018**	**Q1 2017**	**Q1 2018**	**Q1 2017**	**Q1 2018**	**Q1 2017**
Strip Steel	62.5	53.7	0.0	0.0	0.0	0.0	0.0	0.0	62.5	53.7
Plate / Section Steel	9.3	9.4	0.0	0.0	0.0	0.0	0.0	0.0	9.3	9.4
Mannesmann	1.6	−3.0	0.0	0.0	0.0	0.0	0.0	0.0	1.6	−3.0
Trading	13.8	21.6	0.0	0.0	0.0	0.0	0.0	0.0	13.8	21.6
Technology	11.2	13.1	0.0	0.0	0.0	0.0	0.0	0.0	11.2	13.1
Industrial Participations / Consolidation	−2.4	−17.8	0.0	0.0	0.0	0.0	0.0	0.0	−2.4	−17.8
Group	**95.9**	**77.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**95.9**	**77.1**

Strip Steel Business Unit

		Q1 2018	Q1 2017
Order intake	kt	1,240.3	1,195.1
Order backlog on reporting date	kt	944.6	903.0
Crude steel production	kt	1,159.7	1,136.6
Rolled steel production	kt	907.3	884.3
Shipments	kt	1,197.4	1,168.0
Segment sales[1)]	**€ m**	**804.4**	**731.8**
External sales	**€ m**	**609.4**	**548.9**
Earnings before taxes (EBT)	**€ m**	**62.5**	**53.7**

1) Including sales with other business units in the Group

Market development

Demand recovered on the global steel market. Global crude steel output increased in a year-on-year comparison, which gave the European steel industry a dynamic start to 2018. Double-digit growth rates were registered for the order intake of the European strip steel producers. Price increases for strip steel products have contributed to margins firming up throughout the sector. Notwithstanding this positive scenario, the stability of the European steel market is threatened from the import front and growing protectionism. Strip steel imports from non-EU countries rose again in the first quarter of 2018. Considerable risks arise in particular from the protective tariffs in the US imposed at the end of March as larger volumes could be redirected from the ring fenced US market into the EU. Following a further extension through to June 1, 2018, the EU is excluded from the measures. If, however, no agreement is reached by then in the negotiations with the US, the import duties of 25% will also apply to steel imports from the EU. In response to the import duties adopted by US President Trump, the EU Commission opened a safeguard clause procedure on March 26, 2018 in order to avert damage to the EU steel industry from redirected trade flows. The results can be expected at the end of May/start of June 2018.

Procurement

Iron ore

Over the course of 2017, the iron ore market was once again characterized by high volatility. The iron ore index moved within a range of between 54 and 95 USD/dmt. Expressed as an annual average for 2017, the figure came in at around 71 USD/dmt, which is 22% higher than in the previous year. The fluctuations persisted in the first quarter of 2018. With the prospect of strong demand after the vacation period following Chinese New Year celebrations in February, prices rose initially but, at the end of the reporting period, had settled at around only 64.00 USD/dmt in the wake of the weaker-than-expected development. Inventories in the Chinese harbors reached a new record of around 162 million tons in March.

Coking coal

Pricing on the coking coal market is largely determined by the index since the second quarter of 2017. The previously customary benchmarking system, with prices agreed between the large Japanese consumers and the Australian coking coal producers, has therefore been replaced. The spot market proved to be very volatile in 2017 with prices ranging between 139.50 and 304.00 USD/t FOB Australia. As an annual average, spot prices stood at 187.99 USD/t, thereby exceeding the 2016 figure by 31.2%. Buying restraint before the Chinese New Year and weaker-than-expected demand from China after the festive season influenced the price development. In addition, only slight constraints on production and logistics due to the weather conditions in Australia caused prices to decline from 260.00 to 196.50 USD/t FOB Australia in the first quarter of 2018.

Business development
Order intake and **orders on hand** as well as the **shipments** of the Strip Steel Business Unit were higher than in the previous year due to improved demand for steel in Germany and in the EU. The **crude steel** and **rolled steel output** also settled slightly above the year-earlier level. **Segment** and **external sales** increased significantly, above all on the back of selling prices.

At € 62.5 million, the segment reported a gratifying increase in its **pre-tax profit** that, compared with the previous year's period (€ 53.7 million), was boosted by higher selling prices for strip steel products. A counter trend emanated from higher procurement prices for raw materials, especially coking coal and scrap.

Investments
In the first quarter of 2018, the Strip Steel Business Unit focused its investments on new aggregates as well as on optimizing and extending its existing facilities. SZFG is pursuing its strategy of developing its portfolio in the direction of high and ultra-high grades by making additional investments. With this in mind, a new hot strip slitting line that is ideally suited to catering for these product requirements is being installed. Furthermore, work commenced on building a new coil binding line that is to be used to take samples of the hot rolled coils as well as for transport locking devices on material ready for shipment.

The construction of a further hot-dip galvanizing facility was approved back in 2017. The line is currently at the tendering phase and is scheduled to take up production at the beginning of 2021.

Plate / Section Steel Business Unit

		Q1 2018	Q1 2017
Order intake	kt	629.2	586.1
Order backlog on reporting date	kt	380.8	373.3
Crude steel production	kt	290.1	254.1
Rolled steel production	kt	611.2	598.8
Shipments[1]	kt	648.7	625.3
Segment sales[2]	**€ m**	**497.8**	**451.0**
External sales	**€ m**	**286.6**	**265.5**
Earnings before taxes (EBT)	**€ m**	**9.3**	**9.4**

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

Market development
The **European plate market** continues to be dominated by production and supply capacities that exceed market demand. While Chinese imports have declined massively, increased deliveries from South Korea and India have almost made up for them. Despite the partly significant price increases, particularly also for simple commercial grades, the competitive scenario can still only be described as uneven as a result of different booking situations.

The demand uptrend from mid-January on the **European sections market** enabled the much needed price increases to be initially implemented. Sales of the stockholding steel trade, however, were weaker than expected, which resulted in higher inventory levels. Moreover, trade speculated on producers lowering their prices due to the downturn in scrap prices in February. As a result, order intake by the plants declined until mid-March when it rose again on the back of somewhat improved demand and inventory adjustments.

Procurement
Steel scrap
The start of the year in Germany ushered in price rises on the steel scrap market of between 5 and € 10/t depending on the grade and region. Despite robust demand and the growing scrap requirements of domestic steelworks, prices dropped by around € 15/t in February. This development was triggered by Turkish scrap importers withdrawing from the deep sea shipping market. Toward the end of the month, Turkish plants resumed negotiations with potential sellers, and the first transactions were then agreed at slightly higher prices. As a result prices increased, albeit only in small but nevertheless steady increments. Combined with very healthy domestic demand, this led to a counter trend in prices of up to €+20/t in Germany in March.

Business development
The **order intake** and **orders on hand** as well as the **rolled steel production** of the Plate / Section Steel Business Unit exceeded the year-earlier figures in the first three months of 2018. This performance was attributable to the good order activity of Peiner Träger GmbH (PTG). **Shipments** were also higher than in the year-earlier period, which was due to the increase in tonnage in the heavy plate segments and at PTG. **Segment** and **external sales** rose sharply in terms of selling prices and shipments. At € 9.3 million, the segment's **pre-tax result** settled at the year-earlier level (€ 9.4 million). PTG's significantly higher and now positive result made a substantial contribution to this performance. By contrast, the heavy plate companies were unable to repeat the previous year's pre-tax profit that was impacted by the release of order-related provisions and delivered a negative result.

Investments

The “Heavy Plate Strategy – Finishing Section II” investment measure under the “Salzgitter AG 2021” growth program is ongoing. This measure is aimed at enlarging the product portfolio and achieving an even stronger positioning in the higher-end grade segment. Selective individual projects aimed at improving the quality and process optimization are being implemented in the context of realizing efficiency measures.

Mannesmann Business Unit

		Q1 2018	Q1 2017
Order intake	€ m	382.8	411.9
Order backlog on reporting date[1]	€ m	539.7	457.7
Crude steel production Hüttenwerke Krupp Mannesmann (30%)	kt	324.0	348.9
Shipments[1]	kt	134.2	155.0
Segment sales[2]	**€ m**	**400.4**	**416.3**
External sales	**€ m**	**271.0**	**289.3**
Earnings before taxes (EBT)	**€ m**	**1.6**	**–3.0**

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

Market development

In the first quarter of 2018, the steel tubes industry was able to repeat the positive trend of the previous year. A robust economy in the industrial nations in conjunction with the recovery in crude oil prices resulted in stable demand. Uncertainty emanated from the growing protectionist tendencies of the US administration, however. This was initially reflected above all in sustained strong demand for steel and therefore also for steel tubes and pipes in the US. In response to the import duties on steel tubes and pipes approved by US President Trump at the start of March, the EU Commission opened a safeguard procedure on March 26, 2018 in order to avert damage to the EU tube/pipe industry by a redirection of the trade flows. Results are anticipated at the end of May/start of June 2018.

Business development

The **order intake** of the Mannesmann Business Unit fell below the previous year's result due to the notable decrease in the figures of Mannesmann Grossrohr (MGR) and the Mannesmann Stainless Tubes Group (MST Group). **Orders on hand**, by contrast, exceeded the 2017 figure, boosted by the growth of the Mannesmann Precision Tubes Group (MPT Group) and of MGR. Outside the group of consolidated companies, the new orders of the EUROPIPE Group (EP Group), a company reported at equity, declined appreciably. This development is due in particular to the booking of the major EUGAL project in the first three months of 2017. Orders on hand were also lower than in the previous year's period. **Shipments** as well as **segment** and **external sales** settled below the year-earlier figures. Due to the downturn in the result of the German company, the shipments of the EP Group did not quite match the figure posted in the first quarter of 2017, while segment sales were slightly higher. The business unit reported a **pre-tax profit** of € 1.6 million (first quarter of 2017: € –3.0 million). To the exception of MGR, all companies reported growth. The EP Group in particular achieved a significant increase.

Investments

The investment activities of the Mannesmann Business Unit in 2018 are focused on expansion and replacement investments. As part of extending the MPT Group's Mexican precision tubes company at the El Salto location, the systems for Finishing Line 2 were installed, which has enabled serial production to begin. The main aggregates for the new production halls that is under construction were commissioned. The investment of the MST Group in a large cold pilger machine at the Remscheid location is progressing according to plan. The measure is aimed at extending capacity and the product range in the seamless cold finished stainless steel segment by adding larger tube diameters. Commissioning has been scheduled for the second half of 2019. Mannesmann Line Pipe GmbH upgraded the seam-annealing system in the Siegen plant to improve the quality and optimize processes with a view to covering the growing qualitative requirements and extending the range of dimensions.

Trading Business Unit

		Q1 2018	Q1 2017
Shipments	kt	1,122.7	1,258.8
Segment sales[1)]	**€ m**	**775.2**	**884.6**
External sales	**€ m**	**759.8**	**861.8**
Earnings before taxes (EBT)	**€ m**	**13.8**	**21.6**

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

Market development
Demand remained largely stable on the international steel markets in the first quarter of 2018. The price uptrend from the financial year 2017 held steady for the most part in the period under review. Similarly, prices for the main product groups were also rising on the European market.

Business development
The **shipment** volume of the Trading Business unit fell short of the first quarter of 2017. This development was principally due to the shipments of international trading that were impacted by the lower volume of project business and the lack of major orders. The European stockholding steel trade also reported declining volumes. The better selling price situation in all segments did not fully compensate for the development of shipments. The customer base of the digital trading activities was expanded again in the first quarter of 2018, which has now raised the business volume conducted via digital interfaces to more than 12% of the German stockholding steel trade's shipments and sales. S**egment** and **external sales** did not match the year-earlier figures. Thanks to the improved margin situation of the stockholding steel trade and of the Universal Eisen und Stahl Group, the shortfall in volumes was partly offset. The business unit therefore reported a perfectly presentable **pre-tax profit** of € 13.8 million in the first three months of 2018, albeit lower than the previous year's figure (€ 21.6 million).

Investments
Maintaining and upgrading existing facilities as well as the measures initiated under the "Salzgitter AG 2021" strategy form the focus of investments by the Trading Business Unit in 2018. Against this backdrop, the projects aimed at digitalizing sales processes mainly in the European stockholding steel progressed according to plan.

Technology Business Unit

		Q1 2018	Q1 2017
Order intake	€ m	305.9	290.0
Order backlog on reporting date	€ m	686.1	627.6
Segment sales[1)]	**€ m**	**327.8**	**335.2**
External sales	**€ m**	**327.7**	**335.1**
Earnings before taxes (EBT)	**€ m**	**11.2**	**13.1**

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

Market development
According to the German Engineering Federation (VDMA), new domestic and foreign orders were considerably higher year on year. The sector also reported an increase in sales. Order activity developed well on the market for food and packaging machinery with substantial growth, both domestic and international. By contrast, sales entered a decline.

Business development
In the first three months of 2018, the Technology Business Unit's **order intake** settled above the level of 2017. The order intake of the Klöckner Desma Elastomer Group (KDE Group) and DESMA Schuhmaschinen GmbH (KDS) surged and new orders of the KHS Group also edged up. The segment's **orders on hand** clearly exceeded that of the previous year.**Segment** and **external sales** did not quite match the year-earlier figures. The KDE Group and KDS reported growth as opposed to the KHS Group where sales declined markedly. With **earnings before taxes** of € 11.2 million, the Technology Business Unit delivered a result for the first quarter of 2018 that dropped below the previous year's strong level (€ 13.1 million). While the KDE Group and KDS outperformed the year-earlier period, the result of the KHS Group was lower.

"KHS Future", the updated comprehensive efficiency and growth program, was launched at the start of 2018 while continuing the previous measures. The program that is focused on lowering costs and expanding the service business is already showing the first signs of success.

Investments
In the reporting period, the Technology Business Unit continued to focus on replacement and streamlining measures geared to promoting its sustainable competitiveness. IT projects in Germany and in the international companies were carried out at the KHS Group to further optimize workflows. Implementation of the extensive modernization of the Bad Kreuznach site to ensure lean manufacturing was ongoing in various individual subprojects.

Industrial Participations / Consolidation

		Q1 2018	Q1 2017
Sales[1)]	**€ m**	**250.7**	**225.2**
External sales	**€ m**	**52.9**	**53.4**
Earnings before taxes (EBT)	**€ m**	**– 2.4**	**– 17.8**

1) Including sales with other business units in the Group

Sales in the Industrial Participations / Consolidation segment, which are based mainly on business in semi-finished products with subsidiaries and external parties, increased year on year to € 250.7 million on the back of selling prices (first quarter of 2017: € 225.2 million). **External sales** remained at the previous year's level (€ 52.9 million; first quarter of 2017: € 53.4 million).

Earnings before taxes came in at €–2.4 million, and were therefore significantly higher compared with the year-earlier period (€–17.8 million). This figure includes the contribution of Aurubis AG, an investment included at equity, amounting to € 7.5 million (first quarter of 2017: € 33.6 million). The previous year was additionally impacted by the negative valuation effect of the bond convertible into Aurubis shares (€–41.2 million). This convertible bond was repaid in the fourth quarter of 2017 through the return of the shares. Reporting-date valuation effects of derivative positions as well as the net interest from the cash management of the consolidated group additionally underpinned the result in 2018. The pre-tax result of the Group companies not directly assigned to a business unit dropped considerably below the figure achieved in first three months of 2017. This is essentially due to the lower result achieved by the RSE Group that, in 2017, comprised income from the disposal of a non-core property.

Financial Position and Net Assets

Explanations on the balance sheet

The **total assets** of the Salzgitter Group rose by € 90 million in the current reporting period compared with December 31, 2017.

Non-current assets (€+20 million) increased owing in particular to the higher level of shares in the companies accounted for using the equity method (€+75 million). In the reporting period, the sum total of scheduled depreciation and amortization of fixed assets (€–85 million) came in above the level of investments (€+69 million) and reduced the non-current assets. Non-current income tax assets declined in comparison with the previous year (€–20 million). The increase in **current assets** (€+70 million) results mainly from the selling-price induced higher level of trade receivables, including contract assets (€+129 million) to be disclosed separately for the first time due to the application of IFRS 15.

On the **liabilities side**, equity increased slightly due to the good result (€+114 million). The equity ratio has therefore risen and amounts to a sound 36.9%. Non-current liabilities were € 117 million lower compared with the prior-year reporting date. Pension reserves declined (€–102 million) due to the adjusted interest rate compared with the reporting date (1.75%, December 31, 2017: 1.5%). Non-current financial liabilities declined by € 12 million. Current liabilities climbed by € 93 million, mainly due to the increase in trade payables, including liability contracts (€+25 million) as well as to the growth in other current liabilities (€+63 million).

The **net financial position** dropped to € 320 million due above all to the increase in non-current assets (2017/12/31: € 381 million). Cash investment, including securities (€ 956 million; 2017/12/31: € 1,020 million), was offset by liabilities of € 636 million (2017/12/31: € 639 million), of which € 468 million were owed to banks (2017/12/31: € 471 million).

Notes to the cash flow statement

With a pre-tax profit of € 96 million, the **cash flow from operating activities** was positive at € 101 million (previous year: €–30 million), due in particular to the lower increase of working capital in comparison with the year-earlier period.

The **cash outflow from investing activities** of € 147 million (previous year: €–95 million) mainly reflects disbursements for capital expenditure in intangible assets and property, plant and equipment (€–74 million) and in other non-current assets (€–81 million). The latter disbursement almost exclusively comprises the additional acquisitions of the participating investment in Aurubis AG accounted for using the equity method.

Interest payments, along with the redemption of loans, constituted a **cash outflow from financing activities** of € 7 million (previous year: €–8 million).

As a result of the negative overall cash flow, **cash and cash equivalents** (€ 624 million) declined accordingly compared with December 31, 2017 (€ 687 million).

Employees

	2018/03/31	2017/12/31	Change
Core workforce[1)]	**23,333**	**23,139**	**194**
Strip Steel Business Unit	6,183	6,092	91
Plate / Section Steel Business Unit	2,467	2,479	– 12
Mannesmann Business Unit	4,651	4,638	13
Trading Business Unit	1,991	1,959	32
Technology Business Unit	5,425	5,386	39
Industrial Participations / Consolidation	2,616	2,585	31
Apprentices, students, trainees	1,211	1,422	– 211
Non-active age-related part-time employment	507	513	– 6
Total workforce	**25,051**	**25,074**	**– 23**

Rounding differences may occur due to pro-rata shareholdings

1) Excluding executive body members

The **core workforce** of the Salzgitter Group came to 23,333 employees on March 31, 2018, representing an addition of 194 staff members since December 31, 2017. A total of 142 trainees were hired during the reporting period, 105 of whom were given temporary contracts. A counter effect emanated from members of the company reaching retirement age or going into non-active age-related part-time.

The **total workforce** comprised 25,051 employees.

The number of **temporary staff** outsourced stood at 1,356 as of March 31, 2018, which marks an increase of 61 persons compared with the 2017 reporting date.

At the end of the reporting period no employees were affected by short-time work.

Forecast, Opportunities and Risk Report

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

The flood of cheap Chinese imports has declined notably in the European strip steel market in the wake of the EU's anti-dumping measures. The market environment nevertheless remains sensitive due to significant inflows from other countries such as Turkey, India and South Korea. The **Strip Steel Business Unit** got off to a very good start to the year 2018 thanks to the increase in selling prices. Assuming demand continues to be robust, we anticipate significantly higher sales in comparison with the previous year. Earnings before taxes are likely to be higher than originally forecast albeit clearly below the outstanding year-earlier result.

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

The development of the **Mannesmann Business Unit's** companies is also proving to be very disparate in 2018. As opposed to the American companies, capacities of the German large-diameter pipe companies of the EUROPIPE Group remain well booked due to the Nord Stream 2 and EUGAL projects. In the medium-diameter line pipe segment, demand from North America is likely to be lower than in the year-earlier period. Mannesmann Grossrohr GmbH is confronted by ongoing reticence in awarding projects. The precision and stainless steel tubes segments expect business to develop well. All in all, we anticipate sales of the business unit at the previous year's level as well as a substantially improved, now positive pre-tax result. The success of the profit enhancing programs should make a contribution in this context.

The **Trading Business Unit** anticipates a slight downturn in sales in the financial year 2018. Although international trading looks with confidence to the months ahead, the weaker sales of the first quarter will not, however, be fully compensated. Compared with the exceptionally successful previous year that was impacted by the temporary widening of margins, the earnings level can be expected to continue the process of returning to more normal levels. The Trading Business Unit therefore predicts a gratifying pre-tax profit that will nevertheless fall considerably short of the previous year's outstanding figure.

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

Given the good start to the year, the generally positive business outlook, as well as the planned further effects of the programs of measures and to promote growth, Salzgitter AG lifted its earnings forecast at the end of April for the financial year 2018. We now anticipate:

- a slight increase in sales to above the € 9 billion mark,
- a pre-tax profit of between € 250 million and € 300 million and
- a return on capital employed (ROCE) that is stable compared the previous year's figure.

The forward-looking statements assume the absence of renewed recessionary development in Europe. Instead, we anticipate an at minimum stable development in our fiercely contested main markets during the current financial year. Moreover, we make explicit reference to the fact that imponderables, including changes in the cost of raw materials, precious metal prices and exchange rates, along with global trade policy measures, may have a considerable impact over the course of the financial year 2018. The resulting fluctuation in the consolidated pre-tax result may be within a considerable range, either to the positive or to the negative. The dimensions of this range become clear if one considers that, with around 12 million tons of steel products sold by the Strip Steel, Plate / Section Steel, Mannesmann and Trading business units, an average € 25 change in the margin per ton is sufficient to cause a variation in the annual result of more than € 300 million. Moreover, the accuracy of the company's planning is restricted by the volatile cost of raw materials and shorter contractual durations, on the procurement as well as on the sales side.

Risk management

At the time of reporting there were no risks that could endanger the Salzgitter Group as a going concern. With regard to the individual **opportunities and risks**, we make reference to the Annual Report 2017.

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

The ongoing structural crisis in the global steel market, with massive distortions of competition in countries outside the EU, and sustained import pressure and foreign policy developments burden our business. Despite the numerous trade defense measures adopted by the EU Commission, imports into the European Union remain very high and were running at record levels at the start of 2018 as well. Other regions, such as India, South Korea or Turkey, have replaced Chinese imports that have declined due to anti-dumping duties. Suppliers with aggressive pricing, such as the Ukraine, are preventing a stronger recovery in a number of product segments, for instance in the heavy plate market. Whether dumping and damage to the market is potentially also the case with these imports is regularly investigated by Eurofer as Europe’s umbrella association for steel.

Especially noteworthy are the risks arising from political developments in the US. At the end of March, the US imposed protective tariffs as a result of their investigation on whether steel imports pose a threat to national security (Section 232). Following a further extension through to June 1, 2018, the EU is excluded from the measures. If, however, no agreement is reached by then in the negotiations with the US, the import duties of 25% will also apply to steel imports from the EU. The EU remains adamant about full exemption – with no quota system – since the EU countries as long-term allies and NATO partners do not constitute any danger whatsoever to the national security of the US. Moreover, on April 17, 2018, the EU applied for a dispute settlement procedure before the World Trade Organization (WTO).

The direct impact of the protective tariffs on the Salzgitter Group’s US business is moderate. Along with risks for export, opportunities also arise locally for the producing companies. Risks from a possible increase in imports into the EU market result as an indirect consequence for the European steel industry: The countries affected by the US protective tariffs might redirect their faltering export volumes into the EU market. In this context, 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 flood of imports of up to 13 million tons a year. The results can be expected at the end of May/start of June 2018.

Furthermore, Salzgitter AG is affected by the US trade defense measures through anti-dumping proceedings against heavy plate and wide strip imports. The Group brought an appeal before the US International Court of Trade against the, in our view unjustified, anti-dumping duty of 22.9 % imposed in May 2017. The first results are anticipated in mid-2018.

Interim Report

I. Consolidated Income Statement

In € million	Q1 2018	Q1 2017
Sales	2,307.5	2,353.9
Increase/decrease in finished goods and work in process/other own work capitalized	18.9	16.0
	2,326.4	2,369.9
Other operating income	55.8	76.1
Cost of materials	1,505.0	1,576.2
Personnel expenses	422.4	414.7
Amortization and depreciation of intangible assets and property, plant and equipment	84.6	85.0
Other operating expenses	270.7	303.9
Income from shareholdings	0.1	0.7
Result from investments accounted for using the equity method	9.5	33.1
Finance income	3.6	5.3
Finance expenses	16.9	28.4
Earnings before taxes (EBT)	**95.9**	**77.1**
Income tax	30.7	28.4
Consolidated result	**65.2**	**48.7**
Amount due to Salzgitter AG shareholders	64.1	47.0
Minority interest	1.2	1.7
Appropriation of profit		
Consolidated result	65.2	48.7
Profit carried forward from the previous year	27.1	21.1
Minority interest in consolidated net loss for the year	1.2	1.7
Transfer from (+)/to (–) other retained earnings	–64.1	–47.0
Unappropriated retained earnings of Salzgitter AG	**27.1**	**21.1**
Earnings per share (in €) – basic	**1.18**	**0.87**
Earnings per share (in €) – diluted	**1.12**	**0.83**

II. Statement of Comprehensive Income

in € million	Q1 2018	Q1 2017
Consolidated result	**65.2**	**48.7**
Recycling		
Reserve from currency translation	–5.9	0.7
Changes in value from cash flow hedges	–19.7	–9.0
Fair value change	–8.2	24.3
Basis adjustments	–11.9	–31.3
Recognition with effect on income	0.3	–1.7
Deferred tax	–	–0.2
Change in value due to available-for-sale financial assets	–0.4	–0.5
Fair value change	–0.4	–0.5
Recognition with effect on income	–	–
Deferred tax	–	–
Changes in value of investments accounted for using the equity method	–2.3	–1.5
Fair value change	–	–
Recognition with effect on income	–	–
Currency translation	–2.3	–1.5
Deferred tax	–	–
Deferred taxes on other changes without effect on the income	–0.0	0.0
Subtotal	–28.3	–10.3
Non-recycling		
Remeasurements	90.6	–0.0
Remeasurement of pensions	90.6	–0.0
Deferred tax	–	–
Changes in value of investments accounted for using the equity method	–0.0	0.0
Subtotal	90.6	0.0
Other comprehensive income	**62.3**	**–10.3**
Total comprehensive income	**127.5**	**38.4**
Total comprehensive income due to Salzgitter AG shareholders	126.4	36.7
Total comprehensive income due to minority interests	1.1	1.7
	127.5	**38.4**

III. Consolidated Balance Sheet

Assets in € million	2018/03/31	2017/12/31
Non-current assets		
Intangible assets	213.6	218.5
Property, plant and equipment	2,198.5	2,214.8
Investment property	21.4	21.5
Financial assets	81.0	84.1
Investments accounted for using the equity method	653.0	577.5
Trade receivables	20.6	25.6
Other receivables and other assets	20.2	26.0
Income tax assets	2.8	4.5
Deferred income tax assets	375.1	393.2
	3,586.2	**3,565.9**
Current assets		
Inventories	2,075.8	2,084.5
Trade receivables	1,428.0	1,492.2
Contract assets	193.0	0.0
Other receivables and other assets	401.8	394.2
Income tax assets	28.6	24.9
Securities	70.6	76.6
Cash and cash equivalents	624.0	679.4
	4,821.5	**4,751.8**
	8,407.7	**8,317.7**

Equity and liabilities in € million	2018/03/31	2017/12/31
Equity		
Subscribed capital	161.6	161.6
Capital reserve	257.0	257.0
Retained earnings	2,995.8	2,854.6
Other reserves	22.6	51.1
Unappropriated retained earnings	27.1	27.1
	3,464.1	**3,351.3**
Treasury shares	−369.7	−369.7
	3,094.4	**2,981.6**
Minority interest	9.2	8.1
	3,103.5	**2,989.7**
Non-current liabilities		
Provisions for pensions and similar obligations	2,338.2	2,440.5
Deferred tax liabilities	41.9	41.9
Income tax liabilities	98.2	97.6
Other provisions	299.9	303.5
Financial liabilities	422.0	433.8
Other liabilities	4.3	4.1
	3,204.5	**3,321.5**
Current liabilities		
Other provisions	225.8	232.3
Financial liabilities	245.7	237.8
Trade payables	1,103.0	1,169.0
Liability contracts	90.9	0.0
Income tax liabilities	32.4	28.2
Other liabilities	401.9	339.2
	2,099.6	**2,006.5**
	8,407.7	**8,317.8**

IV. Cash Flow Statement

In € million	Q1 2018	Q1 2017
Earnings before taxes (EBT)[1)]	95.9	77.1
Depreciation, write-downs (+)/write-ups (–) of non-current assets	84.5	85.0
Income tax paid (–)/refunded (+)	– 8.4	– 6.2
Other non-cash expenses (+)/income (–)	50.7	68.0
Interest expenses	16.2	27.9
Gain (–)/loss (+) from the disposal of non-current assets	0.6	– 10.1
Increase (–)/decrease (+) in inventories	34.5	– 36.8
Increase (–)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	– 179.6	– 293.4
Use of provisions affecting payments, excluding income tax provisions	– 69.7	– 76.9
Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	75.9	135.8
Cash outflow/inflow from operating activities	**100.6**	**– 29.6**
Cash inflow from the disposal of fixed assets	1.4	12.5
Cash outflow for investments in intangible assets and property, plant and equipment	– 74.2	– 65.8
Cash inflow from investments of funds	4.9	2.3
Cash inflow from the disposal of non-current assets	2.1	2.5
Cash outflow for investments in non-current assets	– 81.1	– 46.9
Cash flow from investment activities	**– 147.0**	**– 95.4**
Repayment of loans and other financial liabilities	– 2.4	– 3.8
Cash outflow from repayments of loans	–	– 0.1
Interest paid	– 4.6	– 3.8
Cash outflow/inflow from financing activities	**– 7.0**	**– 7.7**
Cash and cash equivalents at the start of the period	679.4	818.1
Gains and losses from changes in foreign exchange rates	– 2.1	1.4
Payment-related changes in cash and cash equivalents	– 53.4	– 132.8
Cash and cash equivalents at the end of the period	**624.0**	**686.7**

Notes

Segment Reporting

In € million		Strip Steel	Plate / Section Steel			Mannesmann
	Q1 2018	Q1 2017	Q1 2018	Q1 2017	Q1 2018	Q1 2017
External sales	609.4	548.9	286.6	265.5	271.0	289.3
Sales to other segments	194.0	181.8	211.1	185.4	33.3	31.6
Sales to group companies that are not allocated to an operating segment	1.0	1.0	0.2	0.2	96.1	95.4
Segment sales	804.4	731.8	497.8	451.0	400.4	416.3
Interest income (consolidated)	0.2	0.3	0.1	0.2	0.2	0.1
Interest income from other segments	–	–	–	0.0	–	–
Interest income from group companies that are not allocated to an operating segment	0.0	0.0	0.2	0.0	0.6	0.3
Segment interest income	0.2	0.3	0.2	0.2	0.8	0.5
Interest expenses (consolidated)	3.2	3.6	0.7	0.7	1.7	1.9
Interest expenses to other segments	–	–	–	–	–	–
Interest expenses from group companies that are not allocated to an operating segment	6.3	6.4	1.2	1.3	1.7	1.5
Segment interest expenses	9.5	10.0	1.9	2.1	3.4	3.5
of which interest portion allocations to pension provisions	2.7	3.0	0.6	0.7	1.0	1.2
Depreciation of property, plant and equipment and amortization of intangible assets	46.0	43.7	9.6	11.5	14.7	15.0
of which scheduled depreciation of property, plant and equipment and amortization of intangible assets	46.0	43.7	9.6	11.5	14.7	15.0
EBIT before depreciation and amortization (EBITDA)	117.9	107.2	20.6	22.7	19.0	14.9
Earnings before interest and taxes (EBIT)	71.9	63.5	10.9	11.3	4.2	0.0
Segment earnings before taxes	62.5	53.7	9.3	9.4	1.6	−3.0
of which result from investments accounted for using the equity method	–	–	–	–	4.7	−0.7
Investments in property, plant and equipment and intangible assets	29.1	26.1	15.8	5.9	16.2	15.2

	Trading		Technology		Total segments		Industrial Participations / Consolidation		Group
Q1 2018	Q1 2017	Q1 2018	Q1 2017	Q1 2018	Q1 2017	Q1 2018	Q1 2017	Q1 2018	Q1 2017
759.8	861.8	327.7	335.1	2,254.6	2,300.5	52.9	53.4	2,307.5	2,353.9
15.3	22.8	0.1	0.1	453.8	421.7	197.8	171.8	651.6	593.5
0.0	0.0	–	–	97.2	96.7	–	–	97.2	96.7
775.2	884.6	327.8	335.2	2,805.6	2,819.0	250.7	225.2	3,056.3	3,044.1
0.6	0.5	1.3	1.0	2.2	2.1	1.4	3.0	3.6	5.1
–	–	–	–	–	0.0	9.6	10.0	9.6	10.0
1.8	2.2	0.2	0.2	2.8	2.7	–	–	2.8	2.7
2.3	2.7	1.5	1.1	5.0	4.8	11.0	13.0	16.0	17.7
3.9	2.8	0.6	0.3	10.1	9.4	6.1	18.5	16.2	27.9
–	0.0	–	–	–	0.0	2.8	2.7	2.8	2.7
0.1	0.1	0.3	0.6	9.6	10.0	–	–	9.6	10.0
4.0	2.8	0.9	0.9	19.7	19.3	8.8	21.2	28.6	40.5
0.5	0.5	0.4	0.5	5.2	5.9	3.6	4.5	8.9	10.5
2.5	2.6	5.3	5.5	78.2	78.2	6.3	6.7	84.6	85.0
2.5	2.6	5.3	5.5	78.2	78.2	6.3	6.7	84.6	85.0
17.9	24.4	15.9	18.4	191.3	187.6	1.8	–2.8	193.0	184.8
15.4	21.8	10.6	12.9	113.1	109.4	–4.6	–9.5	108.5	99.9
13.8	21.6	11.2	13.1	98.3	94.9	–2.4	–17.8	95.9	77.1
–	–	–	–	4.7	–0.7	4.8	33.8	9.5	33.1
2.8	1.7	3.2	3.0	67.0	51.8	2.1	3.8	69.1	55.6

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

1. The consolidated financial report of Salzgitter AG, Salzgitter (SZAG), for the reporting period from January 1 to March 31, 2018, has been prepared as a condensed report with selected notes. The report has been drawn up, as before, in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) in consideration of the requirements set out under IAS 34 for condensed interim reports.
2. In comparison with the annual financial statements as at December 31, 2017, no changes have been made in the accounting, valuation, calculation and consolidation methods applied to the interim financial statement for the period ended March 31, 2018.
3. In calculating the fair value of defined benefit obligations as of March 31, 2018, an actuarial rate of 1.75% was applied (December 31, 2017: 1.5%). The resulting reduction in provisions for pensions and similar obligations is reported in other comprehensive income (pension revaluation) and incurs a corresponding increase in equity.
4. The IFRS 9 "Financial Instruments" standard has been applicable to the Salzgitter Group since January 1, 2018. This standard includes new rules on classifying and measuring financial assets. The adjustments with no effect on net income associated with the introduction of this new standard were implemented as of January 1, 2018. These adjustments resulted from valuation allowances anticipated on the basis of an expected loss model. They do not give rise to any significant impact on the consolidated financial statements of Salzgitter AG.
5. IFRS 15 "Revenue from Contracts with Customers" has been applicable to the Salzgitter Group since January 1, 2018. This standard is aimed at combining numerous rules and interpretations on revenue realization into one standard. Similarly, the new standard defines uniform basic principles across all sectors and all categories. The initial application was carried out in accordance with the modified retrospective method. Any effects from adopting this standard were reported at the start of the period on January 1, 2018 as an aggregate adjustment in the opening balance sheet directly in Retained earnings. In the special machine manufacturing business of the Technology Business Unit, revenue was recognized at a later point in time in the case of only a few, overall immaterial construction contracts, reported according to the percentage-of-completion method pursuant to IAS 11 up until the end of 2017, as the preconditions for revenue recognition in the accounting period pursuant to IFRS 15 were no longer fulfilled. Cases reported through to the end of 2017 in accordance with the percentage-of-completion method pursuant to IAS 11 were disclosed under trade receivables. As from 2018, receivables and liabilities that form part of revenue recognition in the accounting period pursuant to IFRS 15 are disclosed under the balance sheet items of contract assets or contract liabilities. Adjustment to the year-earlier figures is not required under the modified retrospective method applied.
6. The contingent liabilities reported as at December 31, 2017, relating to the adjustment of company pensions had essentially not been specified as of March 31, 2018.
7. Owing to losses over many years, HSP Hoesch Spundwand und Profil Gesellschaft mit beschränkter Haftung (HSP) terminated the production of heavy section steel products in December 2015. HSP and all the associated sheet piling activities were disclosed until December 31, 2017, as a discontinued operation in accordance with the standards laid down under IFRS 5. Owing to the immaterial nature in respect of the consolidated financial statements, separate disclosure is waived as of March 31, 2018 onward.

Selected explanatory notes to the income statement

1. Sales by business segment are shown in the segment report.
2. Earnings per share are calculated in accordance with IAS 33. Basic earnings per share, calculated from the weighted number of shares of SZAG, stood at € 1.18 in the period under review. Dilution would occur if earnings per share were reduced through the issuance of potential shares from option and conversion rights. Such rights, attached to a convertible bond, existed as of the balance sheet date. When taken into account there is a decrease in earnings per share from continuing operations, as a result of which these option and conversion rights have a dilutive effect. Diluted earnings per share amount to € 1.12.

Disclosures on fair value

Fair value disclosures comply with the standards set out under IFRS 13 “Fair Value Measurement”. A deviation between the book value and fair value results from the reporting of a convertible bond at amortized cost.

The calculation of fair value disclosures for non-current financial assets and liabilities not accounted for by applying fair value is always carried out by discounting future cash flows. In this instance, a term-dependent interest rate was applied that reflected the risk-free rate and the default risk derived from a peer group of the Salzgitter Group.

Book value and fair value of the bonds:

In € million	Convertible bond	
	2018/03/31	2017/12/31
Book value	158.9	157.9
Fair value	166.4	165.5

Related party disclosures

In addition to business relationships with companies that are consolidated fully and proportionately in the consolidated financial statements, relationships also exist with associated companies recognized at equity, as well as non-consolidated subsidiaries that must be designated as related companies in accordance with IAS 24. The category of other associated companies comprises the majority interests and joint ventures of the Federal State of Lower Saxony.

The deliveries and services provided essentially comprise deliveries of input material for the manufacture of large-diameter pipes. Their volumes are shown in the table below:

In € million	Sale of goods and services	Purchase of goods and services	Receivables	Liabilities
	01/01/-03/31/2018	01/01/-03/31/2018	2018/03/31	2018/03/31
Non consolidated group companies	10.5	6.9	23.5	3.8
Joint ventures	85.8	1.4	52.4	0.1
Joint operations	1.0	0.3	55.1	34.0
Other related parties	0.7	0.4	2.6	97.6

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

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

Legal disclaimer

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

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

Unless otherwise indicated, all figures and corresponding information as well as the guidance include the sheet piling activities that were discontinued at the end of 2015.

The Quarterly Statement of Salzgitter AG is also available in German. In the event of any discrepancy, the German version shall prevail.

Editorial Details and Contact

Contact
SALZGITTER AG
Eisenhüttenstraße 99
38239 Salzgitter
Germany

Postal address
38223 Salzgitter
Germany

Public Relations
Telephone: +49 (0)53 41/21-27 01
Telefax: +49 (0)53 41/21-23 02

Investor Relations
Telephone: +49 (0)53 41/21-18 52
Telefax: +49 (0)53 41/21-25 70

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