9M

Quarterly Statement
9 Months 2018

SALZGITTER AG
Stahl und Technologie

Contents

The Salzgitter Group in Figures

		9M 2018	9M 2017	+/–
Crude steel production	**kt**	**5,203.6**	**5,151.0**	**52.6**
External sales	**€ m**	**6,931.2**	**6,813.2**	**118.0**
Strip Steel Business Unit	€ m	1,812.1	1,649.7	162.4
Plate / Section Steel Business Unit	€ m	773.9	772.1	1.8
Mannesmann Business Unit	€ m	841.6	824.0	17.5
Trading Business Unit	€ m	2,405.7	2,463.1	–57.4
Technology Business Unit	€ m	956.9	954.9	2.0
Industrial Participations / Consolidation	€ m	141.2	149.5	–8.3
EBIT before depreciation and amortization (EBITDA)	**€ m**	**584.4**	**486.4**	**98.0**
Earnings before interest and taxes (EBIT)	**€ m**	**331.5**	**233.3**	**98.2**
Earnings before taxes (EBT)	**€ m**	**284.6**	**174.5**	**110.1**
Strip Steel Business Unit	€ m	171.2	159.2	11.9
Plate / Section Steel Business Unit	€ m	14.5	–18.7	33.2
Mannesmann Business Unit	€ m	20.7	1.4	19.3
Trading Business Unit	€ m	35.2	44.8	–9.6
Technology Business Unit	€ m	30.5	17.8	12.7
Industrial Participations / Consolidation	€ m	12.6	–30.0	42.7
Consolidated net income/loss	**€ m**	**194.0**	**112.6**	**81.3**
Earnings per share – basic	**€**	**3.51**	**2.01**	**1.50**
Return on capital employed (ROCE)[1]	**%**	**11.6**	**7.9**	**3.7**
Cash flow from operating activities	**€ m**	**280.4**	**118.2**	**162.2**
Investments[2]	**€ m**	**220.0**	**185.7**	**34.3**
Depreciation/amortization[2]	**€ m**	**–252.9**	**–253.2**	**0.2**
Total assets	**€ m**	**8,562.0**	**8,600.9**	**–38.9**
Non-current assets	**€ m**	**3,659.2**	**3,769.0**	**–109.8**
Current assets	**€ m**	**4,902.8**	**4,831.9**	**70.9**
of which inventories	€ m	2,225.1	2,010.9	214.2
of which cash and cash equivalents	€ m	511.6	636.6	–125.0
Equity	**€ m**	**3,119.3**	**2,873.6**	**245.7**
Liabilities	**€ m**	**5,442.7**	**5,727.3**	**–284.6**
Non-current liabilities	€ m	3,275.4	3,254.2	21.2
Current liabilities	€ m	2,167.3	2,473.1	–305.8
of which due to banks[3]	€ m	491.7	467.0	24.7
Net financial position on the reporting date[4]	**€ m**	**177.9**	**131.8**	**46.1**
Employees				
Personnel expenses	€ m	–1,292.0	–1,259.2	–32.8
Core workforce on the reporting date[5]	empl.	23,338	23,276	62
Total workforce on the reporting date[6]	empl.	25,245	25,272	–27

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 the Business Units

Earnings Situation within the Group

		Q3 2018	Q3 2017	9M 2018	9M 2017
Crude steel production	kt	1,674.7	1,735.7	5,203.6	5,151.0
External sales	**€ m**	**2,314.2**	**2,197.1**	**6,931.2**	**6,813.2**
EBIT before depreciation and amortization (EBITDA)	€ m	177.8	175.1	584.4	486.4
Earnings before interest and taxes (EBIT)	€ m	94.3	91.6	331.5	233.3
Earnings before taxes (EBT)	**€ m**	**86.0**	**74.2**	**284.6**	**174.5**
Consolidated net income/loss	**€ m**	**58.6**	**48.0**	**194.0**	**112.6**
Return on capital employed (ROCE)[1)]	**%**	**9.7**	**9.3**	**11.6**	**7.9**
Investments[2)]	€ m	84.2	77.3	220.0	185.7
Depreciation/amortization[2)]	€ m	−83.5	−83.5	−252.9	−253.2
Cash flow from operating activities	€ m	110.3	190.4	280.4	118.2
Net financial position[3)]	**€ m**			**177.9**	**131.8**
Equity ratio	%			36.4	33.4

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

With **earnings before taxes** of € 284.6 million, the Salzgitter Group significantly outperformed the result achieved in the first nine months of 2017 (€ 174.5 million). Along with the dynamic earnings performance of the Strip Steel Business Unit, this outcome was attributable to the turnaround in the Plate / Section Steel Business Unit, in particular thanks to the gratifying improvement in the result of Peiner Träger GmbH. The Mannesmann and Technology business units increased their respective pre-tax earnings, while the Trading Business Unit delivered another very presentable contribution, although below the outstanding previous year's figure. In the first three quarters of the financial year 2018, the Salzgitter Group's **external sales** remained virtually stable compared with the year-earlier figure (€ 6,931.2 million; 9 months 2017: € 6,813.2 million). The growth in the sales of the Strip Steel Business Unit, above all on the back of selling prices, more than compensated for the decline in the Trading Business Unit. The pre-tax profit of € 284.6 million (9 months 2017: € 174.5 million) includes € 29.2 million in after-tax contribution from a participating investment in Aurubis AG, a company included at equity (9 months 2017: contribution of Aurubis investment: €–8.7 million, including €–80.0 million in valuation effects from the bond convertible into Aurubis shares at the time). The **after-tax result** stood at € 194.0 million (9 months 2017: € 112.6 million). Earnings per share therefore came in at € 3.51 (9 months 2017: € 2.01) and the return on capital employed stood at 11.6 % (ROCE 9 months 2017: 7.9 %). With an equity ratio of 36.4 % and a net financial position of € 177.9 million, the Salzgitter-Group continues to enjoy a comfortable financial basis and sound balance sheet.

Special Items / EBT Business Units and Group

	EBT		Restructuring		Impairment/ Reversal of impairment		Other		EBT without special items	
In € million	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017
Strip Steel	171.2	159.2	0.0	0.0	0.0	0.0	0.0	0.0	171.2	159.2
Plate / Section Steel	14.5	−18.7	0.0	0.0	0.0	0.0	0.0	0.0	14.5	−18.7
Mannesmann	20.7	1.4	0.0	0.0	0.0	0.0	0.0	0.0	20.7	1.4
Trading	35.2	44.8	0.0	0.0	0.0	0.0	0.0	0.0	35.2	44.8
Technology	30.5	17.8	0.0	0.0	0.0	0.0	0.0	0.0	30.5	17.8
Industrial Participations / Consolidation	12.6	−30.0	0.0	0.0	0.0	0.0	0.0	0.0	12.6	−30.0
Group	**284.6**	**174.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**284.6**	**174.5**

Strip Steel Business Unit

		Q3 2018	Q3 2017	9M 2018	9M 2017
Order intake	kt	1,104.0	1,062.9	3,487.0	3,368.2
Order backlog on reporting date	kt			928.6	896.0
Crude steel production	kt	1,127.8	1,158.9	3,406.2	3,295.3
Rolled steel production	kt	942.2	931.5	2,763.6	2,689.6
Shipments	kt	1,092.6	1,079.0	3,497.2	3,351.8
Segment sales[1)]	**€ m**	**758.8**	**722.4**	**2,389.3**	**2,202.2**
External sales	**€ m**	**569.3**	**547.5**	**1,812.1**	**1,649.7**
Earnings before taxes (EBT)	**€ m**	**61.4**	**65.1**	**171.2**	**159.2**

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

Market development

Demand on the global steel market improved overall, and global crude steel output rose in comparison with the previous year's period. Over the course of the year to date, European producers of steel reported an increase in order intake on the back of prices that increased slightly. The stability of Europe's steel market nevertheless remains fragile as growing protectionism may endanger market equilibrium. WTO-inconsistent import duties of 25% on steel introduced by the US in March 2018, from which the EU, Canada and Mexico were temporarily exempted, have been in force for imports from these regions since June 1, 2018. In order to avert the threat of damage to the domestic industry through another flood of imports as a potential consequence of redirection effects, the EU Commission responded on July 19, 2018, by introducing provisional safeguard measures on wide range of steel and tubes. These measures take the form of import quotas based on the average imports from 2015 to 2017. Only if the specific product quotas are exceeded are import duties of 25 percent applied. The manner in which the safeguard measures have been structured effectively limits the redirection of trade flows as a consequence of the US duties, while ensuring that traditional import flows into downstream sectors are unaffected. By the start of February 2019 at the latest, a decision must be taken on the introduction of final safeguards that would then take effect for four years.

Procurement

Iron ore

The iron ore index displayed volatility during the first nine months of 2018. although this was less pronounced than in the year-earlier period. Accordingly, prices in February climbed in a range up to 80 USD/dmt at the prospect of strong demand after the vacation period following Chinese New Year festivities. Following a downturn lasting from mid-March to the end of June, prices then moved within a narrow band of between 63 and 68 USD/dmt. This trend persisted at the start of the summer quarter as well. For a short time, the index stood at 62 USD/dmt before climbing to just under 70 USD/dmt over the course of the following weeks. It subsequently settled at a level of between 65 and 68 USD/dmt. Prices in the third quarter averaged 67 USD/dmt.

Coking coal

Pricing on the coking coal market has largely been determined by the index since the second quarter of 2017. The spot market proved to be very volatile in 2017, with prices ranging between 140 and 304 USD/t FOB Australia. Buying restraint before the Chinese New Year, weaker-than-expected demand from China after the festive season, and only slight constraints on production and logistics due to the weather conditions in Australia caused prices to decline from 260 to 197 USD/t FOB Australia in the first quarter of 2018. The trend continued through to the end of April and bottomed out at 179 USD/t FOB Australia. This price level made it attractive for many Chinese consumers to procure coal from across the seas rather than on the domestic market. Concerns about supply bottlenecks owing to capacity problems of the Australian railway company in the most important coal mining area of Queensland had pushed prices up again by the end of June to a level of 200 USD/t FOB Australia. Following the retraction of the reduction envisaged in the Australian railway capacity, the index dropped to a new low for the year (172 USD/t FOB Australia) before reaching a level of 202 USD/t FOB Australia at the end of September, supported by stronger demand and due to an accident in an Australian mine. Expressed as average for the third quarter, the coking coal price stood at 189 USD/t FOB Australia.

Business development

The healthy demand for steel in Germany and the EU resulted in higher **order intake** and **orders on hand** as well as **shipments** for the Strip Steel Business Unit in comparison with the previous year's period. **Crude steel** and **rolled steel production** also increased. **Segment** and **external sales** rose sharply, lifted above all by selling prices. The segment's **pre-tax profit** that came in at € 171.2 million reported pleasing growth compared with the year-earlier period (€ 159.2 million) on the back of better selling prices for strip steel products. A counter trend emanated from higher procurement prices for raw materials.

Investments

In the first nine months 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 strength grades by making additional investments. With this in mind, a new hot strip slitting plant that is ideally suited to catering for these product requirements is being installed. In addition, construction work on a new coil binding line commenced. The investment in a third hot-dip galvanizing line approved in 2017 at the Salzgitter site is in the bidding phase.

Plate / Section Steel Business Unit

		Q3 2018	Q3 2017	9M 2018	9M 2017
Order intake	kt	523.9	627.4	1,688.9	1,727.8
Order backlog on reporting date	kt			395.6	435.8
Crude steel production	kt	216.6	217.2	806.5	777.4
Rolled steel production	kt	496.7	486.7	1,706.7	1,673.7
Shipments[1)]	kt	505.0	514.7	1,714.8	1,717.9
Segment sales[2)]	**€ m**	**422.6**	**387.0**	**1,377.1**	**1,272.8**
External sales	**€ m**	**219.5**	**234.5**	**773.9**	**772.1**
Earnings before taxes (EBT)	**€ m**	**–7.5**	**–24.4**	**14.5**	**–18.7**

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

Market development
After a modest start, the situation on Europe's **heavy plate market** brightened from the second quarter of 2018 onward. Robust market conditions, supported by a stable economic environment, particularly in Western Europe and Germany, resulted in steady order intake as the year progressed. Plant downtime in the summer months reduced the rolling capacities available, with the result that the demand from customers and consumers ran at a high level. Price hikes were reported at the end of the period under review. Imports from non-EU countries to Europe declined only slightly in a year-on-year comparison and largely originated from the Ukraine, India and South Korea.

Thanks to an increase in bookings at the start of the year, rising prices were commanded on the **European sections market**. Most producers closed the gaps feared in capacity utilization in the second quarter through price concessions and booking export volumes. The summer vacation standstill of almost all plants reduced the inventories of trading in the third quarter and enabled producers to implement price increases due to the resulting backlog in demand.

Procurement
Steel scrap
Despite robust demand and the growing scrap requirements of domestic steelworks, prices had already declined by February again after an increase at the start of the year due to the withdrawal of Turkish scrap dealers from the deep-sea market. Toward the end of the month, Turkish steelworks resumed discussions with potential sellers. After the first deals resulted in a marginal increase, prices rose – on the back of very healthy domestic demand – in small, but steady increments. During the second quarter steel scrap prices edged down before considerable price adjustments took place in the third quarter, reflecting the US government's trade policy against Turkish steel from mid-August onward. These adjustments had been virtually corrected by mid-September.

Business development
While the **order intake** of the Plate / Section Steel Business Unit almost repeated the year-earlier level, **orders on hand** declined. **Rolled steel production** increased somewhat. With **shipments** and **external sales** remaining stable, **segment sales** clearly outperformed the previous year's level due to the growth achieved by all the companies. At € 14.5 million, the **pre-tax profit** was considerably higher year on year (9 months 2017: € –18.7 million) thanks to the gratifying result of Peiner Träger GmbH. The heavy plate companies also exceeded the first nine months of 2017 and, along with the DEUMU Deutsche Erz und Metall-Union Group, contributed a positive result.

Investments

The ground-breaking ceremony in Ilsenburg for the “New heat treatment plant” under the “Salzgitter AG 2021” growth program took place in September 2018. This measure is aimed at enlarging the product portfolio and achieving an even stronger positioning in the higher-end grade segment. Selected individual projects aimed at improving the quality and process optimization are being implemented in the context of realizing efficiency measures.

Mannesmann Business Unit

		Q3 2018	Q3 2017	9M 2018	9M 2017
Order intake	€ m	351.6	430.1	1,118.2	1,221.1
Order backlog on reporting date[1]	€ m			553.6	522.0
Crude steel production Hüttenwerke Krupp Mannesmann (30 %)	kt	330.3	359.6	990.9	1,078.3
Shipments[1]	kt	156.4	169.8	440.5	490.9
Segment sales[2]	**€ m**	**445.5**	**426.4**	**1,283.8**	**1,286.4**
External sales	**€ m**	**278.1**	**254.8**	**841.6**	**824.0**
Earnings before taxes (EBT)	**€ m**	**8.3**	**4.1**	**20.7**	**1.4**

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

Market development
In the first three quarters of 2018, the steel tube industry benefited from the robust economy in the industrial nations. Moreover, the ongoing catch-up effects of the energy industry bolstered by the crude oil market returning to normal levels exerted a particularly positive impact. Irrespective of distortions caused by trade policies, North America remained an especially important sales market. The demand for seamless and small-diameter welded steel tubes increased significantly in this region and proved a factor contributing to the stabilization of manufacturers' capacity utilization outside North America. In the large-diameter pipes sector, capacity utilization ran at a high level. The producers of precision steel tubes reported satisfactory order activity from the automotive industry. Demand from the mechanical engineering industry and other sectors generally settled at an acceptable level. Stainless steel producers recorded healthy demand from the chemicals industry.

Business development
In the first nine months of 2018, the **order intake** of the Mannesmann Business Unit settled below the year-earlier period. Apart from the downturn in the order activity of Mannesmann Großrohr GmbH (MGR) and the Mannesmann Stainless Tubes Group (MST Group) this also reflected a decline of the production volume of Hüttenwerke Krupp Mannesmann GmbH (HKM), a company reported at 30 % on a proportionate basis. By contrast, **orders on hand** were higher than in the previous year's period also due to the lower volume of **shipments**. Outside the group of consolidated companies, new orders of the EUROPIPE Group (EP Group), a 50 % participation reported at equity, declined sharply compared with the year-earlier period that was dominated by the booking of the major EUGAL project. Orders on hand also remained notably below the previous year's figure. The **segment sales** of the Mannesmann Business Unit repeated the level posted in the first nine months of 2017, while **external sales** increased slightly. The EP Group's sales grew, boosted by selling prices, while shipments declined marginally. The business unit reported a **pre-tax profit** of € 20.7 million (9 months 2017: € 1.4 million), reflecting a result that was significantly higher year on year. The EP Group, the Mannesmann Precision Tubes Group (MPT Group) and Mannesmann Line Pipe GmbH (MLP) generated notable improvements in their results.

Investments
The investment activities of the Mannesmann Business Unit in 2018 are focused on expansion and replacement investments. The furnace and leveling machines were installed as part of expanding the Mexican precision tubes company of the **MPT Group** at the El Salto location, and the drawbench is under construction. The investment of the **MST Group** in a large cold pilger machine at the Remscheid location continues to progress according to plan. The measure is aimed at extending capacity and the product range in the seamless cold finished stainless steel segment by the ability to manufacture larger tube diameters. Commissioning has been scheduled for the first quarter of 2019. **MLP** is upgrading 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

		Q3 2018	Q3 2017	9M 2018	9M 2017
Shipments	kt	1,134.9	1,087.4	3,381.5	3,587.5
Segment sales[1)]	**€ m**	**883.2**	**805.5**	**2,469.8**	**2,531.3**
External sales	**€ m**	**856.8**	**787.3**	**2,405.7**	**2,463.1**
Earnings before taxes (EBT)	**€ m**	**10.2**	**10.2**	**35.2**	**44.8**

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

Market development
Demand on Europe's steel market proved stable over the course of the first nine months of 2018. The strong price level prevailing on the global markets largely held steady. Ongoing, high selling prices were reported for almost all product groups on the European market as well.

The **shipments** of the Trading Business Unit did not quite achieve the previous year’s level, which was especially attributable to the lower volume of project business and the lack of large-scale contracts in international trading. Protectionist measures, for instance in the US, also placed a constraint on cross-border trading. The European stockholding trade also saw volumes decline, as opposed to the shipments of the Universal Eisen und Stahl Group (UES Group) that exceeded the year-earlier figures. Against the background of improved selling prices, **segment** and **external sales** dropped somewhat below the first nine months of 2017 due to lower volumes. The positive trend in the margins of the UES companies was unable to compensate for the results of the stockholding steel trade and of international trading that fell below the high level achieved in the previous year. The business unit nevertheless delivered another very presentable **pre-tax profit** of € 35.2 million (9 months 2017: € 44.8 million) in the first nine months of 2018.

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 continued to progress according to plan. The volume of business conducted via digital interfaces meanwhile amounts to almost 13% of the German stockholding steel trade’s shipments.

Technology Business Unit

		Q3 2018	Q3 2017	9M 2018	9M 2017
Order intake	€ m	332.4	354.3	946.2	987.1
Order backlog on reporting date	€ m			697.2	654.0
Segment sales[1)]	**€ m**	**347.0**	**324.9**	**957.2**	**955.3**
External sales	**€ m**	**346.9**	**324.8**	**956.9**	**954.9**
Earnings before taxes (EBT)	**€ m**	**10.0**	**4.2**	**30.5**	**17.8**

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

As of September 30, 2018, the companies listed below were included in the consolidation scope of Salzgitter AG for the first time 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
- Corpoplast Beverage Equipment (Suzhou) Co. Ltd., Suzhou

Market development
According to the German Engineering Federation (VDMA), new domestic and foreign orders (VDMA) were notably higher year on year. Sales also saw appreciable growth. Order activity on the market for food and packaging machinery improved slightly overall. Growth from international business was juxtaposed to declines in domestic business. Shipments fell somewhat short of the year-earlier level.

Business development
In the first three quarters of the reporting period, the **order intake** of the Technology Business Unit did not quite repeat the level achieved in 2017 due above all to slower order activity at the KHS Group. While new orders placed with the Klöckner Desma Elastomer Group (KDE Group) increased slightly, orders of DESMA Schuhmaschinen GmbH (KDS) dropped below the exceptionally high year-earlier figure. Due to the high order intake at year-end 2017, the segment's **orders on hand** settled considerably above the previous year's level. **Segment** and **external sales** matched the year-earlier figures. The KDE Group and KDS reported significant growth, while sales of the KHS Group weakened slightly. With a **pre-tax profit** of € 30.5 million, the Technology Business Unit notably outperformed the result posted for the first nine months of 2017 (€ 17.8 million). While the KDE Group more than doubled its result, DESMA Schuhmaschinen GmbH delivered three times the amount. The result of the KHS Group also showed a gratifying development.

"KHS Future", the updated comprehensive efficiency and growth program, was launched at the start of 2018 as a successor to the previous measures. The program that is focused on lowering costs and expanding the service business contributed to lifting profit.

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. Extensive investments to upgrade production and expand assembly operations commenced at the Dortmund location. At KDS, the focus was placed on the “Fabrik der Zukunft” (factory of the future) investment approved in December 2017 for the construction of office and production buildings on the existing site in Achim. The investment is aimed at sustainably ensuring KDS’s growth and profitability and supports the achieving of the company’s long-term goals as a technology, market and innovation leader. Productivity is also to be raised through the optimization of the information and material flow and the assembly process.

Industrial Participations / Consolidation

		Q3 2018	Q3 2017	9M 2018	9M 2017
Sales[1]	**€ m**	**222.7**	**234.1**	**688.0**	**669.8**
External sales	**€ m**	**43.6**	**48.3**	**141.2**	**149.5**
Earnings before taxes (EBT)	**€ m**	**3.6**	**15.1**	**12.6**	**–30.0**

[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 slightly year on year to € 688.0 million (9 months 2017: € 669.8 million). **External sales** remained virtually unchanged at € 141.2 million (9 months 2017: € 149.5 million).

Earnings before taxes came in at € 12.6 million, which is considerably higher than in the year-earlier period (€ –30.0 million). This figure includes the contribution of Aurubis AG, an investment included at equity, amounting to € 29.2 million (9 months 2017: € 71.3 million in at-equity-contribution; Aurubis investment: € –8.7 million). The previous year's period was impacted in particular by the negative valuation effect of the bond convertible into Aurubis shares (€–80.0 million) at the time that was repaid in the fourth quarter of 2017 through the return of the shares. The reporting-date valuation effects of derivative positions as well as the net interest from the cash management of the consolidated group underpin the accrued result in 2018. The pre-tax result of the Group companies not directly assigned to a business unit dropped notably below the figure achieved in first nine months of 2017. This is essentially due to the lower result achieved by the RSE Group that comprised income from the disposal of a non-core property in 2017.

Financial Position and Net Assets

Explanations on the balance sheet

The **total assets** of the Salzgitter Group rose by € 244 million in the current reporting period compared with December 31, 2017.

Non-current assets (€+93 million) increased owing in particular to the higher level of shares in the companies accounted for using the equity method (€+201 million). In the reporting period, the sum total of the scheduled depreciation and amortization of fixed assets (€–253 million) came in above the level of investments in intangible assets and property, plant and equipment (€+220 million) and reduced the non-current assets. Deferred income tax assets declined in comparison with the previous year (€–51 million). The growth in **current assets** (€+151 million) resulted mainly from the selling price-induced higher level of trade receivables, including contract assets (€+148 million). Explanations on the contract assets to be disclosed separately for the first time in 2018 due to the application of IFRS 15 can be found under item 5 in the section on "Principles of accounting and consolidation, balance sheet reporting and valuation methods". Inventories also increased (€+141 million). Higher working capital was offset by lower cash and cash equivalents (€–168 million). Other assets rose by € 43 million.

On the **liabilities side**, equity increased slightly (€+130 million) due to the good result. The higher equity ratio amounts to a sound 36.4 %. Non-current liabilities were € 46 million lower compared with the prior-year reporting date. Given an actuarial interest rate of 1.50 %, unchanged from the reporting date, pension reserves remained at a virtually stable level (€–33 million). Income tax liabilities declined by € 12 million. Current liabilities rose by € 161 million, mainly due to the increase in trade payables, including contractual obligations, (€+82 million), as well as to growth in other current liabilities (€+55 million). Current financial assets rose by € 22 million.

The **net financial position** dropped to € 178 million due above all to the investments in non-current assets (2017/12/31: € 381 million). Cash investment, including securities (€ 838 million; 2017/12/31: € 1,020 million), was offset by liabilities of € 660 million (2017/12/31: € 639 million), of which € 492 million were owed to banks (2017/12/31: € 471 million).

Notes to the cash flow statement

With a pre-tax profit of € 285 million, the cash flow **from operating activities** was positive at € 280 million (previous year: € 118 million), due in particular to the significantly lower level of working capital, along with improved earnings, in comparison with the year-earlier period.

The **cash outflow from investing activities** of € 409 million (previous year: €–251 million) mainly reflects disbursements for capital expenditure in intangible assets and property, plant and equipment (€–227 million) and in other non-current assets (€–195 million). The latter disbursement essentially comprises the additional acquisitions of the participating investment in Aurubis AG accounted for using the equity method.

Dividend payments to our shareholders, interest payments, along with the redemption of loans constituted a **cash outflow from financing activities** of € 43 million (previous year: €–41 million).

As a result of the negative overall cash flow, **cash and cash equivalents** (€ 512 million) declined accordingly compared with December 31, 2017 (€ 679 million).

Employees

	2018/09/30	2017/12/31	Change
Core workforce[1)]	**23,338**	**23,139**	**199**
Strip Steel Business Unit	6,174	6,092	82
Plate / Section Steel Business Unit	2,460	2,479	–19
Mannesmann Business Unit	4,602	4,638	–36
Trading Business Unit	2,003	1,959	44
Technology Business Unit	5,493	5,386	107
Industrial Participations / Consolidation	2,606	2,585	21
Apprentices, students, trainees	1,424	1,422	2
Non-active age-related part-time employment	483	513	–30
Total workforce	**25,245**	**25,074**	**171**

Rounding differences may occur due to pro-rata shareholdings

[1)] Excluding executive body members

The **core workforce** of the Salzgitter Group came to 23,338 employees on September 30, 2018, representing an addition of 199 staff members since December 31, 2017. Discounting the initial consolidation of three Group companies, employee growth would have amounted to only 117 persons. New consolidations took place on September 30, 2018, with retrospective effect as of January 1, 2018.

A total of 245 trainees were hired during the reporting period, 186 of whom were given temporary contracts. Along with the programs of measures, a counter effect emanated above all from members of the company entering into non-active age-related part-time or reaching retirement age.

The **total workforce** comprised 25,245 employees.

The number of temporary staff outsourced stood at 1,248 as of September 30, 2018, which marks a decline of 171 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:

During the period under review import pressure increased overall in the European strip steel market. This situation is attributable to the significant influx of imports from other countries such as Turkey, India and South Korea – and also because of the redirection effects resulting from US anti-dumping duties. The market environment therefore remains sensitive. At present, however, the economic position of the **Strip Steel Business Unit** is very positive. Assuming that capacity utilization remains good, and flanked by EU safeguard measures, we anticipate sales that are significantly higher compared with the year-earlier figure and a pre-tax profit at minimum at the level of the outstanding previous year's result.

As before, the **Plate / Section Steel Business Unit** is exposed to a difficult environment. The heavy plate market continues to be characterized by high import volumes from non-EU countries, such as the Ukraine, into the EU although there have been signs over the course of the year that the situation is brightening. Despite the persistently speculative buying patterns of customers in the sections market, we expect that Peiner Träger GmbH will continue to perform well. All three locations predict largely sound capacity utilization. All in all, the business unit anticipates moderate sales growth and a return to the profit zone.

The development of the **Mannesmann Business Unit** is proving to be positive overall in 2018. After the end of the Nord Stream 2 project, the EUROPIPE Group's large-diameter pipe mill in Germany remains well booked with the connecting EUGAL pipeline through to year end. The recovery in the US market has improved the US mills' order situation. Mannesmann Grossrohr GmbH continues to be confronted by ongoing reticence in the awarding of projects. Demand in the mid-sized line pipe segment is lower due to the decline in export business compared with the exceptionally good previous year, which is nevertheless more than compensated for by the significant increase in selling prices. The precision tubes business should benefit from the uptrend in selling prices and widening margins, while the stainless steel segment anticipates an only marginal improvement compared with the previous year. 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 is a contributing factor in this context.

Even if the subdued activities in international trading cannot be fully compensated by the other areas, the **Trading Business Unit** expects a slight increase in sales for the financial year 2018 on the back of an initial consolidation in the fourth quarter. Compared with the exceptionally successful previous year, with a temporary widening of margins, earnings are increasingly returning to 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, the **Technology Business Unit** predicts a moderate increase in sales. In view of the fierce price-led competition for the project business, the KHS Group will rely on growth in the profitable product segments as well as on expanding its service business. In addition, the measures implemented to raise efficiency will have a positive impact. In conjunction with the two DESMA companies performing at record levels, a tangible increase in pre-tax profit is expected.

We affirm our forecast that we raised in September and continue to anticipate the following for the Salzgitter Group in the financial year 2018:

- a slight increase in sales to above the € 9 billion mark,
- 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.

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 and their conceivable impact may still exert a considerable influence 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.

Sectoral risks

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 remained very high and were running at record levels in the reporting period. Other regions, such as India, South Korea and Turkey in particular, have replaced Chinese imports that have declined due to anti-dumping duties.

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 an exemption lasting two months, import duties of 25% have been applicable to steel imports from the EU as well since June 1, 2018. The EU initially responded on June 1, 2018, by filing a lawsuit with the World Trade Organisation (WTO) against this action by the US. Owing to the preceding and unsuccessful attempt to resolve the dispute before the WTO, the EU Commission also introduced import duties on US products worth € 2.8 billion as a compensatory measure. The EU remains willing to negotiate with the US, while nevertheless insisting on full exemption from the US import duties – with no quota system – as the EU countries as long-term allies and NATO partners do not constitute any danger whatsoever to the national security of the US.

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 an additional increase in imports arise as an indirect consequence for the European steel industry: Given the surplus capacities that exist on a global scale, 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. On July 19, 2018, the EU Directorate General for Trade introduced provisional safeguard measures on a wide range of steel and tubes. To the exception of seamless tubes, all Salzgitter products are covered by the measures. By the start of February 2019 at the latest, a decision must be taken on the introduction of final safeguards that would then take effect for four years.

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 protection clauses for tariffs. 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.

Furthermore, Salzgitter AG (SZAG) 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 (ITC) against the, in our view unjustified, anti-dumping duty of 22.9% imposed in May 2017. A verdict is anticipated in the spring of 2019.

In the matter of US anti-dumping proceedings against cold drawn precision tubes from Germany, among other countries, the ITC ruled on May 17, 2018 that the defendants' imports have inflicted damage on the US market. The ITC finally enacted the anti-dumping duties as a consequence. Mannesmann Precision Tubes Deutschland has had a 3.1% rate of duty imposed on it. Duty-exempt deliveries of precision tubes to the US remain possible via the domestic companies in France, the Netherlands and Mexico.

Personnel risks

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.

Interim Report

I. Consolidated Income Statement

In € million	Q3 2018	Q3 2017	9M 2018	9M 2017
Sales	2,314.2	2,197.1	6,931.2	6,813.2
Increase/decrease in finished goods and work in process/other own work capitalized	– 5.0	70.0	24.7	107.9
	2,309.2	2,267.1	6,955.9	6,921.2
Other operating income	49.5	48.1	196.7	193.3
Cost of materials	1,489.7	1,467.0	4,503.6	4,553.9
Personnel expenses	429.7	417.9	1,292.0	1,259.2
Amortization and depreciation of intangible assets and property, plant and equipment	83.5	83.5	252.9	253.2
Other operating expenses	266.4	273.4	811.1	890.7
Income from shareholdings	0.0	0.2	4.8	5.8
Result from investments accounted for using the equity method	4.9	17.5	35.7	69.3
Finance income	2.8	4.0	9.4	14.3
Finance expenses	10.9	20.9	58.3	72.6
Earnings before taxes (EBT)	**86.0**	**74.4**	**284.6**	**174.5**
Income tax	27.3	26.2	90.6	61.8
Consolidated result	**58.6**	**48.0**	**194.0**	**112.7**
Amount due to Salzgitter AG shareholders	57.5	47.1	190.0	108.7
Minority interest	1.2	0.9	4.0	3.9
Appropriation of profit				
Consolidated result	58.6	48.0	194.0	112.7
Profit carried forward from the previous year	–	–	27.1	21.1
Minority interest in consolidated net loss for the year	1.2	0.9	4.0	3.9
Dividend payment	–	–	– 24.3	– 16.2
Transfer from (+)/to (–) other retained earnings	– 57.5	– 47.1	– 189.9	– 108.7
Unappropriated retained earnings of Salzgitter AG	**0.0**	**– 0.0**	**2.8**	**4.9**
Earnings per share (in €) – basic	**1.06**	**0.87**	**3.51**	**2.01**
Earnings per share (in €) – diluted	**1.00**	**0.83**	**3.32**	**1.92**

II. Statement of Comprehensive Income

In € million	Q3 2018	9M 2018	Q3 2017	9M 2017
Consolidated result	**58.6**	**194.0**	**48.0**	**112.6**
Recycling				
Reserve from currency translation	0.8	0.0	−7.8	−22.8
Changes in value from cash flow hedges	−4.0	−13.6	−11.4	−54.5
Fair value change	7.5	21.0	5.1	6.3
Basis adjustments	−11.3	−33.7	−14.7	−56.3
Recognition with effect on income	0.5	0.7	−0.5	−3.7
Deferred tax	−0.6	−1.7	−1.4	−0.7
Change in value due to available-for-sale financial assets	−0.1	−0.6	0.5	0.3
Fair value change	−0.1	−0.6	0.5	0.3
Recognition with effect on income	–	–	–	–
Deferred tax	–	–	–	–
Changes in value of investments accounted for using the equity method	−3.4	−2.1	1.3	−6.0
Fair value change	−5.3	−6.2	6.9	6.2
Recognition with effect on income	–	–	–	–
Currency translation	0.8	3.1	−4.2	−11.1
Deferred tax	1.0	1.0	−1.4	−1.1
Deferred taxes on other changes without effect on the income	−0.0	−0.0	−0.0	−0.0
Subtotal	−6.7	−16.3	−17.5	−83.0
Non-recycling				
Remeasurements	0.1	0.1	0.0	−0.0
Remeasurement of pensions	0.1	0.1	0.0	−0.0
Deferred tax	–	–	–	–
Changes in value of investments accounted for using the equity method	0.0	1.2	0.2	10.2
Subtotal	0.1	1.3	0.2	10.2
Other comprehensive income	**−6.6**	**−15.1**	**−17.3**	**−72.8**
Total comprehensive income	**52.0**	**178.9**	**30.7**	**39.9**
Total comprehensive income due to Salzgitter AG shareholders	50.9	174.9	29.8	36.0
Total comprehensive income due to minority interest	1.2	4.0	0.9	3.9
	52.0	**178.9**	**30.7**	**39.9**

III. Consolidated Balance Sheet

Assets in € million	2018/09/30	2017/12/31
Non-current assets		
Intangible assets	206.1	218.5
Property, plant and equipment	2,185.0	2,214.8
Investment property	21.4	21.5
Financial assets	87.5	84.1
Investments accounted for using the equity method	778.2	577.5
Trade receivables	20.6	25.6
Other receivables and other assets	16.0	26.0
Income tax assets	2.3	4.5
Deferred income tax assets	342.2	393.2
	3,659.2	**3,565.9**
Current assets		
Inventories	2,225.1	2,084.5
Trade receivables	1,458.5	1,492.2
Contract assets	181.7	0.0
Other receivables and other assets	437.4	394.2
Income tax assets	20.0	24.9
Securities	68.6	76.6
Cash and cash equivalents	511.6	679.4
	4,902.8	**4,751.9**
	8,562.0	**8,317.8**

Equity and liabilities in € million	2018/09/30	2017/12/31
Equity		
Subscribed capital	161.6	161.6
Capital reserve	257.0	257.0
Retained earnings	3,022.6	2,854.6
Other reserves	36.0	51.1
Unappropriated retained earnings	2.8	27.1
	3,480.0	**3,351.3**
Treasury shares	–369.7	–369.7
	3,110.3	**2,981.6**
Minority interest	9.1	8.1
	3,119.3	**2,989.7**
Non-current liabilities		
Provisions for pensions and similar obligations	2,407.4	2,440.5
Deferred tax liabilities	41.9	41.9
Income tax liabilities	85.3	97.6
Other provisions	306.0	303.5
Financial liabilities	430.7	433.8
Other liabilities	4.2	4.1
	3,275.4	**3,321.5**
Current liabilities		
Other provisions	237.3	232.3
Financial liabilities	259.5	237.8
Trade payables	1,172.4	1,169.0
Liability contracts	79.0	0.0
Income tax liabilities	24.6	28.2
Other liabilities	394.5	339.2
	2,167.3	**2,006.5**
	8,562.0	**8,317.8**

IV. Cash Flow Statement

In € million	9M 2018	9M 2017
Earnings before taxes (EBT)	284.6	174.5
Depreciation, write-downs (+)/write-ups (–) of non-current assets	252.7	253.2
Income tax paid (–)/refunded (+)	–38.1	–27.3
Other non-cash expenses (+)/income (–)	60.4	140.2
Interest expenses	56.3	71.9
Gain (–)/loss (+) from the disposal of non-current assets	4.8	–11.8
Increase (–)/decrease (+) in inventories	–106.2	–186.7
Increase (–)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	–198.7	–241.9
Use of provisions affecting payments, excluding income tax provisions	–168.5	–176.9
Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	133.1	123.1
Cash outflow/inflow from operating activities	**280.4**	**118.2**
Cash inflow from the disposal of fixed assets	1.2	24.9
Cash outflow for investments in intangible assets and property, plant and equipment	–227.0	–198.5
Cash inflow from investments of funds	155.4	3.5
Payments for financial investments	–150.4	–
Cash inflow from the disposal of non-current assets	6.6	10.9
Cash outflow for investments in non-current assets	–194.8	–92.0
Cash flow from investment activities	**–409.0**	**–251.3**
Cash outflow in payments to company owners	–24.3	–16.2
Deposits from taking out loans and other financial debts	15.9	–
Repayment of loans and other financial liabilities	–8.4	–9.8
Cash outflow from repayments of loans	–	–0.1
Interest paid	–26.1	–14.8
Cash outflow/inflow from financing activities	**–43.0**	**–40.9**
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	1.2	–11.6
Payment-related changes in cash and cash equivalents	–171.6	–174.0
Cash and cash equivalents at the end of the period	**511.6**	**636.6**

Notes

Segment Reporting

In € million	Strip Steel		Plate / Section Steel		Mannesmann	
	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017
External sales	1,812.1	1,649.7	773.9	772.1	841.6	824.0
Sales to other segments	574.6	549.7	602.7	500.1	157.6	158.4
Sales to group companies that are not allocated to an operating segment	2.7	2.8	0.5	0.6	284.7	304.0
Segment sales	2,389.3	2,202.2	1,377.1	1,272.8	1,283.8	1,286.4
Interest income (consolidated)	0.5	0.8	0.1	0.3	0.5	0.4
Interest income from other segments	–	–	–	0.0	–	–
Interest income from group companies that are not allocated to an operating segment	0.0	0.0	0.5	0.1	1.5	1.0
Segment interest income	0.5	0.8	0.6	0.4	2.1	1.5
Interest expenses (consolidated)	10.4	10.8	2.7	2.2	5.2	5.8
Interest expenses to other segments	–	–	–	–	–	–
Interest expenses from group companies that are not allocated to an operating segment	16.8	19.5	3.7	4.2	6.1	5.5
Segment interest expenses	27.2	30.3	6.4	6.4	11.3	11.3
of which interest portion of allocations to pension provisions	8.2	9.1	1.9	2.1	3.0	3.4
Depreciation of property, plant and equipment and amortization of intangible assets	136.8	130.1	29.2	34.0	44.1	44.7
of which scheduled depreciation of property, plant and equipment and amortization of intangible assets	136.8	130.1	29.2	34.0	44.1	44.7
EBIT before depreciation and amortization (EBITDA)	334.6	318.9	49.4	21.4	74.0	55.9
Earnings before interest and taxes (EBIT)	197.8	188.8	20.3	–12.7	29.9	11.2
Segment earnings before taxes	171.2	159.2	14.5	–18.7	20.7	1.4
of which resulting from investments accounted for using the equity method		–		–	9.0	–4.1
Investments in property, plant and equipment and intangible assets	86.8	85.7	50.3	19.9	50.4	49.4

	Trading		Technology		Total segments		Industrial Participations / Consolidation		Group
9M 2018	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017
2,405.7	2,463.1	956.9	954.9	6,790.1	6,663.8	141.2	149.5	6,931.2	6,813.2
64.1	68.2	0.4	0.4	1,399.3	1,276.8	546.8	520.3	1,946.1	1,797.1
0.1	0.1	–	–	287.9	307.4	–	–	287.9	307.4
2,469.8	2,531.3	957.2	955.3	8,477.3	8,247.9	688.0	669.8	9,165.3	8,917.7
2.2	1.9	2.1	2.9	5.4	6.3	4.1	6.8	9.4	13.1
–	–	–	–	–	0.0	27.8	31.3	27.8	31.4
5.7	5.9	0.6	0.7	8.5	7.7	–	–	8.5	7.7
7.9	7.8	2.7	3.5	13.8	14.0	31.8	38.2	45.7	52.1
13.7	10.3	1.5	1.9	33.5	31.1	22.8	40.8	56.3	71.9
–	0.0	–	–	–	0.0	8.5	7.7	8.5	7.7
0.2	0.3	1.0	1.9	27.8	31.3	–	–	27.8	31.3
13.9	10.6	2.5	3.8	61.3	62.4	31.2	48.6	92.5	111.0
1.4	1.6	1.3	1.5	15.9	17.7	11.0	13.6	26.9	31.3
7.6	7.8	16.1	16.4	233.7	233.0	19.2	20.2	252.9	253.2
7.6	7.8	16.1	16.4	233.7	233.0	19.2	20.2	252.9	253.2
48.9	55.3	46.3	34.4	553.2	485.9	31.3	0.5	584.4	486.5
41.2	47.5	30.2	18.1	319.4	252.9	12.0	−19.6	331.5	233.3
35.2	44.8	30.5	17.8	272.0	204.5	12.6	−30.0	284.6	174.5
	–		–	9.0	−4.1	26.7	73.4	35.7	69.3
7.7	5.7	14.9	13.5	210.0	174.0	10.0	11.7	220.0	185.7

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

1. The consolidated financial report of Salzgitter AG, Salzgitter (SZAG), for the reporting period from January 1 to September 30, 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 September 30, 2018.
3. In calculating the fair value of defined benefit obligations as of September 30, 2018, an actuarial rate of 1.50 % was applied, unchanged from the last reporting date.
4. IFRS 9 "Financial Instruments" has been applicable to the Salzgitter Group since January 1, 2018. This standard defines new regulations for the classification and measurement of financial assets. The adjustments with no effect on income associated with the introduction of this new standard were implemented as of January 1, 2018. These adjustments result 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 revenue reserves. 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 liability contracts. Adjustment to the year-earlier figures is not required under the qualified retrospective method applied.
6. The contingent liabilities reported as at December 31, 2017, relating to the adjustment of company pensions have essentially not been substantiated.
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 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, came to € 3.51 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, as a result of which these option and conversion rights have a dilutive effect. Diluted earnings per share amount to € 3.32.

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
	2018/09/30	2017/12/31
Book value	160.9	157.9
Fair value	166.6	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/-09/30/2018	01/01/-09/30/2018	2018/09/30	2018/09/30
Non consolidated group companies	25.8	19.4	22.2	2.1
Joint ventures	215.0	2.8	23.1	0.2
Joint operations	2.6	0.8	50.9	60.7
Other related parties	1.6	0.8	6.9	93.4

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.

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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