9M

Quarterly Statement
9 Months 2019

SALZGITTER AG
Stahl und Technologie

Table of Contents

The Salzgitter Group in Figures

		9M 2019	9M 2018	+/–
Crude steel production	**kt**	**5,060.1**	**5,203.6**	**–143.5**
External sales	**€ m**	**6,637.3**	**6,931.2**	**–293.9**
Strip Steel Business Unit	€ m	1,730.1	1,812.1	–82.0
Plate / Section Steel Business Unit	€ m	630.6	773.9	–143.3
Mannesmann Business Unit	€ m	842.1	841.6	0.5
Trading Business Unit	€ m	2,294.5	2,405.7	–111.1
Technology Business Unit	€ m	1,000.9	956.9	44.1
Industrial Participations / Consolidation	€ m	139.1	141.2	–2.0
EBIT before depreciation and amortization (EBITDA)	**€ m**	**351.9**	**584.4**	**–232.5**
Earnings before interest and taxes (EBIT)	**€ m**	**89.7**	**331.5**	**–241.8**
Earnings before taxes (EBT)	**€ m**	**40.7**	**284.6**	**–243.9**
Strip Steel Business Unit	€ m	84.6	171.2	–86.5
Plate / Section Steel Business Unit	€ m	–13.0	14.5	–27.4
Mannesmann Business Unit	€ m	–2.9	20.7	–23.5
Trading Business Unit	€ m	3.3	35.2	–31.9
Technology Business Unit	€ m	22.5	30.5	–8.0
Industrial Participations / Consolidation	€ m	–53.9	12.6	–66.5
Consolidated net income/loss	**€ m**	**–29.8**	**194.0**	**–223.8**
Earnings per share – basic	**€**	**–0.63**	**3.51**	**–4.14**
Return on capital employed (ROCE)[1]	**%**	**2.5**	**11.6**	**–9.1**
Cash flow from operating activities	**€ m**	**77.7**	**280.4**	**–202.7**
Investments[2]	**€ m**	**436.2**	**220.0**	**216.2**
Depreciation/amortization[2]	**€ m**	**–262.2**	**–252.9**	**–9.3**
Total assets	**€ m**	**9,089.3**	**8,562.0**	**527.3**
Non-current assets	**€ m**	**4,159.7**	**3,659.2**	**500.5**
Current assets	**€ m**	**4,929.6**	**4,902.8**	**26.8**
of which inventories	€ m	2,347.8	2,225.1	122.7
of which cash and cash equivalents	€ m	455.3	511.6	–56.3
Equity	**€ m**	**2,981.5**	**3,119.3**	**–137.9**
Liabilities	**€ m**	**6,107.9**	**5,442.7**	**665.2**
Non-current liabilities	€ m	3,823.4	3,275.4	548.0
Current liabilities	€ m	2,284.5	2,167.3	117.2
of which due to banks[3]	€ m	820.2	491.7	328.4
Net financial position on the reporting date[4]	**€ m**	**–216.8**	**177.9**	**–394.7**
Employees				
Personnel expenses	€ m	–1,335.7	–1,292.0	–43.8
Core workforce on the reporting date[5]	empl.	23,562	23,338	224
Total workforce on the reporting date[6]	empl.	25,498	25,245	253

Disclosure of financial data in compliance with IFRS
[1] Annualized
[2] Excluding financial assets, as from FY 2019 incl. non-cash additions from the initial application of IFRS 16 Leases
[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 its Business Units

Earnings Situation within the Group

		Q3 2019	Q3 2018	9M 2019	9M 2018
Crude steel production	kt	1,648.0	1,674.7	5,060.1	5,203.6
External sales	**€ m**	**2,111.1**	**2,314.2**	**6,637.3**	**6,931.2**
EBIT before depreciation and amortization (EBITDA)	€ m	–1.7	177.8	351.9	584.4
Earnings before interest and taxes (EBIT)	€ m	–87.6	94.3	89.7	331.5
Earnings before taxes (EBT)	**€ m**	**–104.6**	**86.0**	**40.7**	**284.6**
Consolidated net income/loss	**€ m**	**–126.2**	**58.6**	**–29.8**	**194.0**
Return on capital employed (ROCE)[1)]	**%**	**–10.0**	**9.7**	**2.5**	**11.6**
Investments[2)]	€ m	129.6	84.2	436.2	220.0
Depreciation/amortization[2)]	€ m	–85.8	–83.5	–262.2	–252.9
Cash flow from operating activities	€ m	103.6	110.3	77.7	280.4
Net financial position[3)]	**€ m**			**–216.8**	**177.9**
Equity ratio	%			32.8	36.4

[1)] Annualized
[2)] Excluding financial assets, as from FY 2019 incl. non-cash additions from the initial application of IFRS 16 Leases
[3)] Including investments, e.g. securities and structured investments

The Salzgitter Group generated a **pre-tax profit** of € 40.7 million in the first nine months of the financial year 2019 (9 months 2018: € 284.6 million). The gradual decline in rolled steel selling prices over the course of the year, accompanied by a temporary sharp increase in the cost of iron ore and a downturn in demand, not only from the automotive sector, burdened the steel producing and processing companies in particular. By contrast, the KHS Group as the largest company of the Technology Business Unit continues to develop very satisfactorily. Earnings before taxes comprise a risk provision of € 141.0 million in connection with the desired mutually agreed and timely end to the investigations conducted on the grounds of suspected cartel arrangements regarding heavy plate and strip steel products, as well as well as the release of € 48.8 million in provisions at the Strip Steel and Plate/Section Steel business units. The result also includes a contribution of € 78.1 million from the participating investment in Aurubis AG accounted for using the equity method (9 months 2018: € 29.2 million). The Salzgitter Group's **external sales** decreased to € 6.6 billion in the first nine months of the financial year 2019 (9 months 2018: € 6.9 billion) due above all to selling prices. The **after-tax result** stood at € –29.8 million (9 months 2018: € 194.0 million). The high tax rate is attributable in particular to the provision established in the context of an end to the anti-trust investigation proceedings and that is not tax deductible, as well as to the remeasurement of deferred tax assets relating to loss carryforwards. Earnings per share came in at € –0.63 (9 months 2018: € 3.51) and return on capital employed at 2.5 % (9 months 2018: 11.6 %).

Special items / EBT business units and Group

	EBT		Restructuring		Impairment/ Reversal of impairment		Other		EBT without special items	
In € million	**9M 2019**	**9M 2018**	**9M 2019**	**9M 2018**	**9M 2019**	**9M 2018**	**9M 2019**	**9M 2018**	**9M 2019**	**9M 2018**
Strip Steel	84.6	171.2	–	–	–	–	–	–	84.6	171.2
Plate/Section Steel	−13.0	14.5	–	–	–	–	–	–	−13.0	14.5
Mannesmann	−2.9	20.7	–	–	–	–	–	–	−2.9	20.7
Trading	3.3	35.2	–	–	–	–	–	–	3.3	35.2
Technology	22.5	30.5	–	–	–	–	–	–	22.5	30.5
Industrial Participations/ Consolidation	−53.9	12.6	–	–	–	–	−141.0	–	87.1	12.6
Group	**40.7**	**284.6**	**–**	**–**	**–**	**–**	**−141.0**	**–**	**181.7**	**284.6**

Strip Steel Business Unit

		Q3 2019	Q3 2018	9M 2019	9M 2018
Order intake	kt	1,064.8	1,104.0	3,347.2	3,487.0
Order backlog on reporting date	kt			910.2	928.6
Crude steel production	kt	1,110.4	1,127.8	3,330.5	3,406.2
Rolled steel production	kt	990.5	942.2	2,755.5	2,763.6
Shipments	kt	1,120.8	1,092.6	3,438.4	3,497.2
Segment sales[1)]	**€ m**	**734.8**	**758.8**	**2,303.3**	**2,389.3**
External sales	**€ m**	**554.6**	**569.3**	**1,730.1**	**1,812.1**
Earnings before taxes (EBT)	**€ m**	**24.3**	**61.4**	**84.6**	**171.2**

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

Development of the European steel market
Germany's economic slowdown continued after the summer break. Consequently, the customary upturn in demand in the autumn failed to materialize. The uncertain global economic environment, trade conflicts, Brexit, and geopolitical crises impeded global trade and had a particularly strong impact on the German economy that depends on exports. Weak demand from important customer groups burdened the European steel producers that reported a decline in order intake, ongoing since mid-2018. As a result, the competition between EU producers for capacity utilization bookings intensified in the reporting period, with negative effects on the development of the spot market prices that slipped again despite the increase in raw material prices. Even though the proportion of imports declined slightly compared with the record year-earlier period, it nevertheless remained at a high level. The EU safeguards have so far failed to deliver the desired impact, and the adjustments that entered into force on October 1, affecting quota volumes as well as allocation, among other aspects, do not take sufficient account of the current market environment either. Additional modifications are therefore necessary to counteract further production cuts, price declines, and the threat of job losses in Europe's steel industry.

Procurement
Iron ore
The benchmark price for the spot market, Platts IODEX 62% Fe CFR China, averaged 69 USD/dmt over the year 2018. Up until the dam in VALE's ore mining complex in Brazil was breached at the end of January, the iron ore price had settled slightly above this level on the back of stable demand. As a result of the disaster, the price shot up temporarily to 95 USD/dmt and then subsequently moved sideways within a range of between 83 and 89 USD/dmt. Production adjustments at VALE and delivery problems in Australia drove prices up again as from the second quarter to 126 USD/dmt at the start of July, marking their highest level since February 2014. By the end of July, however, prices had already come under considerable pressure from market sentiment and the growing availability of Brazilian ore. The benchmark price for the spot market had shed around one third of its value by the end of August. The start of September saw prices rise again gradually to settle in due course within a range of 90 and 95 USD/dmt. The average price of the first nine months of 2019 came in at 95 USD/dmt, which is 38% higher in comparison with the previous year's period. In order to mitigate the risks resulting from procurement, defined iron ore volumes are hedged to secure against price risks.

Coking coal

Expressed as an annual average for 2018, the price of premium qualities stood at 207 USD/t FOB Australia. In January 2019, the price dropped below 200 USD/t for the first time since October 2018 due to lower demand from China before rising slightly above this level again in March and April. Greater interest in purchasing held steady through to May and resulted in the price level firming up. The significant drop in the yuan/US dollar exchange rate as a consequence of the American-Chinese trade dispute prompted a notable increase in the price of coal imports of Chinese consumers, which in turn led to growing demand for domestic product. The price of Australian coking coal therefore dropped to 193 USD/t at the end of June. The decline accelerated in the third quarter, driving prices down to 137 USD/t FOB Australia in September, the lowest figure for three years. This development is attributable, on the one hand, to the opportunistic and reticent stance of Chinese consumers. On the other, demand outside China was somewhat weaker due to slight decline in pig iron production worldwide. The average price of the first nine months of 2019 stood at 190 USD/t, down 6% compared with the year-earlier period. In order to mitigate the risks resulting from procurement, defined coking coal volumes are hedged to secure against price risks.

Business development

The **order intake** of the Strip Steel Business Unit mirrored the trend in the European steel industry and declined somewhat. **Crude steel production** settled slightly below the previous year, while **rolled steel output** remained stable. **Orders on hand**, **shipments** as well as **segment** and **external sales** almost matched the year-earlier figures. The business unit reported € 84.6 million in **earnings before taxes** (9 months 2018: € 171.2 million) that included the release of a provision for typical operating risks amounting to € 41.3 million in the third quarter. The decline in earnings compared with the outstanding-earlier result primarily reflects the increase in ore prices and the downturn in the selling prices of strip steel products.

Investments

In 2019, the Strip Steel Business Unit is focusing its investments on new aggregates as well as on optimizing and extending its existing facilities. The “Hot Dip Galvanizing Line 3” project was initiated in the period under review and construction has commenced on the foundations. The construction of the facility is currently at the engineering stage. In line with Salzgitter Flachstahl GmbH’s strategy, the product portfolio is being developed in the direction of high and extremely high strength grades. Investments in a hot strip slitting plant that is currently at the assembly stage, as well as in the exchange of the machine head of Continuous Casting Line 1 also serve this purpose.

Plate/Section Steel Business Unit

		Q3 2019	Q3 2018	9M 2019	9M 2018
Order intake [1]	kt	394.0	523.9	1,429.2	1,688.9
Order backlog[1] on reporting date	kt			243.8	395.6
Crude steel production	kt	215.5	216.6	747.5	806.5
Rolled steel production	kt	427.2	496.7	1,502.4	1,706.7
Shipments[1]	kt	470.1	505.0	1,570.5	1,714.8
Segment sales[2]	**€ m**	**371.8**	**422.6**	**1,259.2**	**1,377.1**
External sales	**€ m**	**188.3**	**219.5**	**630.6**	**773.9**
Earnings before taxes (EBT)	**€ m**	**–13.5**	**–7.5**	**–13.0**	**14.5**

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

Market development
Uncertainty arising from the unresolved trade conflicts and the current geopolitical situation, with the associated slowdown in demand, also impacted the European **heavy plate market**. Fierce competition by the rolling mills for the utilization of their capacities exerted huge pressure on prices and led to reductions in selling prices. Consequently, the European market lost its appeal for imports. This is reflected by the decline in import volumes from non-EU countries that dropped by 15% compared with the same period a year ago. In view of the high trading positions, both traders and consumers continued to act cautiously, with attempts to reduce excess stock.

Demand on the **European sections market** was very restrained, resulting in uneven capacity utilization at producers. Speculation about falling prices resulted in only absolutely essential orders being placed at extremely short notice. Despite the summer vacation standstills of almost all producers, capacities were not fully booked in the third quarter. Due to the weak capacity utilization, accompanied by scrap price declines, section producers reduced their selling prices without, however, eliciting any changes in order patterns. The negative price trend was felt more keenly in the export markets than in the core countries of Europe. Focusing on these markets as an alternative was therefore only possible to a small extent.

Procurement
Steel scrap
As a result of the drop in the demand of German consumers, falling selling prices for the finished products of the steel industry, and the lower volume of scrap steel exports, domestic scrap prices slipped at the start of the year. This trend reversed briefly in February due to brisk purchasing by Turkey in Europe, only to be followed by partly steep price reductions from May onward. In September alone, declines of more than € 30/t were recorded. The starting point for these strong corrections were the sharp price declines on the deep-sea markets that accelerated over the course of the month, with a tangible deterioration in the demand for scrap.

Business development

The **order intake** and **orders on hand** of the Plate/Section Steel Business Unit settled significantly below the first nine months of 2018, as both the heavy plate and the sections segments did not match the year-earlier tonnages. Consequently, **crude** and **rolled steel output** was also lower year on year. **Segment** and **external sales** dropped below the previous year's figures, due to selling prices as well as lower **shipments**. Although Peiner Träger GmbH and the DEUMU Deutsche Erz- und Metall-Union Group generated positive results, this was nevertheless insufficient to offset the decline in the result of the heavy plate companies. All in all, the business unit therefore reported a **pre-tax loss** of € –13.0 million (9 months 2018: € 14.5 million) that comprised the release of a provision amounting to € 7.5 million in the third quarter for typical operating risks at Ilsenburger Grobblech GmbH.

Investments

The extensive investment launched as part of the "Salzgitter AG 2021" growth program in the "New heat treatment line" for the Ilsenburg heavy plate producer serves to expand the product portfolio and to reinforce the positioning in the higher-end grade segment. The facilities are due for commissioning by the start of 2021. Other investments of the business unit are concentrated above all on maintaining production capabilities.

Mannesmann Business Unit

		Q3 2019	Q3 2018	9M 2019	9M 2018
Order intake	€ m	379.9	351.6	1,065.9	1,118.2
Order backlog on reporting date	€ m			481.4	553.6
Crude steel production Hüttenwerke Krupp Mannesmann (30 %)	kt	322.1	330.3	982.1	990.9
Shipment tubes[1]	kt	129.8	156.4	411.6	440.5
Segment sales[2]	**€ m**	**414.5**	**445.5**	**1,302.0**	**1,283.8**
External sales	**€ m**	**259.8**	**278.1**	**842.1**	**841.6**
Earnings before taxes (EBT)	**€ m**	**–11.9**	**8.3**	**–2.9**	**20.7**

[1] Disclosure of volumes measured pursuant to IFRS 15
[2] Including sales with other business units in the Group

Market development
The global steel tubes and pipes business held steady in the first nine months of 2019, while the European market was characterized by a downtrend. Seamless steel and precision tubes output declined due to weaker demand from the key industries of energy, automotive and mechanical engineering. Large-diameter pipe production was particularly low after the strong first nine months of 2018 owing to the lack of major projects, while the decline in the production of medium-diameter welded pipes was not quite as pronounced. The stainless steel tubes segment reported growth.

Business development
In the first nine months of 2019, the **order intake** of the Mannesmann Business Unit settled moderately below the year-earlier figure. This development was especially attributable to lower order volumes in the precision tubes group's customer sectors of automotive and industry. Although the medium line pipe segment recorded a satisfactory volume of inquiries, order intake nevertheless fell short of the very high previous year's figure. Orders placed with the Mannesmann Stainless Tubes Group rose sharply, however. **Orders on hand** dropped tangibly below the previous year's figure. Despite the lower volume of **shipments**, **segment** and **external sales** remained stable on the back of selling prices. The Mannesmann Business Unit recorded **earnings before taxes** of € –2.9 million (9 months 2018: € 20.7 million). Although the stainless steel tubes group reported growth, all other product segments did not repeat the year-earlier figures.

Outside the group of consolidated companies, the order intake and orders on hand of the EUROPIPE Group (EP Group) increased considerably thanks to the bookings in the US. Against the backdrop of notably weaker shipments, the sales and the earnings before taxes of the EP Group were tangibly lower than in the year-earlier period.

Investments
The investment activities of the Mannesmann Business Unit in 2019 continue to focus on expansion and replacement investments. As part of expanding the Mexican precision tubes company at El Salto, ramping up production, with the corresponding serial manufacturing, is making progress. The stainless steel tubes group's large cold pilger machine at the Remscheid location is due for commissioning at the beginning of next year. The measure is aimed at expanding capacities and the product range in the seamless cold finished stainless steel segment through in order to produce larger diameters.

Trading Business Unit

		Q3 2019	Q3 2018	9M 2019	9M 2018
Shipments	kt	936.9	1,134.9	3,027.7	3,381.5
Segment sales[1)]	**€ m**	**723.1**	**883.2**	**2,332.5**	**2,469.8**
External sales	**€ m**	**716.3**	**856.8**	**2,294.5**	**2,405.7**
Earnings before taxes (EBT)	**€ m**	**–0.9**	**10.2**	**3.3**	**35.2**

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

Market development

Demand on the international steel markets was subdued in the period under review. As a result of protectionist trading measures, the trading business was characterized by uncertainty about economic policies and restrictions. The European stockholding steel trade experienced weaker demand in Germany, in particular in conjunction with the downtrend in selling prices.

Business development

Against this backdrop the **shipments** of the business unit fell short of the previous year's figure due to the lower volume of international trading. The Universal Eisen und Stahl Group that is specialized in the trading and processing of plate achieved a slight increase in shipments. The **segment and external** sales declined. The Trading Business Unit generated a **pre-tax profit** of € 3.3 million, which is notably lower than a year ago due to the margin situation in the stockholding steel trade (9 months 2018: € 35.2 million).

Investments

Maintaining and upgrading existing facilities continue to form the focus of investments by the Trading Business Unit in 2019. In addition, the measures launched as part of the "Salzgitter AG Strategy 2021" will be pursued further. In this environment, numerous projects aimed at digitalizing sales processes – mainly in the European stockholding steel trade – from warehousing through to shipment, were initiated and taken forward.

Technology Business Unit

		Q3 2019	Q3 2018	9M 2019	9M 2018
Order intake	€ m	328.1	332.4	1,010.0	946.2
Order backlog on reporting date	€ m			716.4	697.2
Segment sales[1)]	**€ m**	**344.1**	**347.0**	**1,001.3**	**957.2**
External sales	**€ m**	**344.0**	**346.9**	**1,000.9**	**956.9**
Earnings before taxes (EBT)	**€ m**	**6.4**	**10.0**	**22.5**	**30.5**

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

The following companies were newly established in the reporting period:

- KHS Eurasia LLC, Almaty
- KHS d.o.o. Beograd, Novi Beograd

On September 30, 2019, the following companies were newly admitted to SZAG's group of consolidated companies, with retrospective effect as of January 1, 2019:

- KHS ME FZCO, Dubai
- PT. KHS Packaging Machinery Indonesia, Jakarta

NMP Systems GmbH, Kleve, was combined with KHS GmbH on September 30, 2019, with retrospective effect as of January 1, 2019.

Market development
According to the statistics of the German Engineering Federation (VDMA), order intake fell significantly short of the previous year's level due to the downturn in demand, both domestic and international. Orders placed in the market for food and packaging machinery also declined notably. Although domestic order activity improved markedly compared with the previous year's figure, this was not sufficient to offset the dropping off of international orders.

Business development
In the first three quarters of 2019, the **order intake** of the Technology Business Unit was significantly higher than in the previous year's period. The business unit therefore successfully bucked the market trend. The KHS Group raised the volume of its new orders gratifyingly compared with the first nine months of 2018 while the Klöckner DESMA Elastomer Group (KDE Group) and DESMA Schuhmaschinen GmbH (KDS) did not match the high year-earlier figures. **Orders on hand** of the business unit increased slightly, following on from order intake. **Segment** and **external sales** also posted levels above those achieved over the same period in 2018 as the KHS Group reported significant growth. By contrast, the sales levels of the KDE Group and of KDS ranged below the excellent figures posted a year earlier. The substantial increase in the result of the KHS Group compared with the previous year's period is attributable to cost cutting measures, as well as to the positive stimulus from the selling of new innovative products, and served to partly compensate for the downturn in the pre-tax results of the KDE Group and KDS. All in all, the Technology Business Unit generated a **pre-tax profit** of € 22.5 million (9 months 2018: € 30.5 million).

The KHS Group continues to rigorously pursue the measures from its comprehensive "KHS Future" efficiency and growth program. With a focus on reducing costs and expanding the service business, the program has already made a significant contribution to lifting profit and will promote the development of the company in the fiercely competitive market environment in the future as well.

Investments

In the reporting period, the Technology Business Unit continued to focus on replacement and streamlining measures. To ensure the steady optimization of organizational workflows, IT projects in Germany and in the international companies were carried out within the KHS Group to further optimize workflows. Implementation of the extensive modernization of the Bad Kreuznach site to ensure lean manufacturing was ongoing. Sizeable investments to upgrade production and expand assembly operations are taking place at the Dortmund location. An investment program for strategic realignment has been launched for the Chinese market. At KDS, the “Fabrik der Zukunft” (factory of the future) investment for the construction of office and production buildings on the existing site in Achim progressed. The investment is aimed at ensuring KDS’ sustainable growth and profitability. Productivity is also to be raised through the optimization of the information and material flow and the assembly process.

Industrial Participations/Consolidation

		Q3 2019	Q3 2018	9M 2019	9M 2018
Sales[1)]	**€ m**	**241.5**	**222.7**	**711.5**	**688.0**
External sales	**€ m**	**48.2**	**43.6**	**139.1**	**141.2**
Earnings before taxes (EBT)	**€ m**	**–109.0**	**3.6**	**–53.9**	**12.6**

1) Including sales with other business units in the Group

The **sales** of Industrial Participations/Consolidation, which are generated mainly by business in semi-finished products and through the service business with subsidiaries and external parties, rose slightly compared with the previous year's period, while **external sales** settled at the level of the first nine months of 2018.

Earnings before taxes came in at € –53.9 million and were therefore unable to repeat the year-earlier figure (€ 12.6 million). Included is a contribution of € 78.1 million from the participating investment in Aurubis AG accounted for using the equity method (9 months 2018: € 29.2 million). This figure comprises € 27.8 million (9 months 2018: € 0) in income from an accounting adjustment through profit and loss in connection with the Aurubis shares acquired at an average price below the market value of the pro rata equity of the shares. Net interest income from the cash management of the consolidated group, as well as the gains from the valuation of derivative positions, bolstered the result. By contrast, the risk provisions that were raised by € 141.0 million as of September 30, 2019 in connection with the desired mutually agreed end to the investigations conducted on the grounds of suspected cartel arrangements regarding heavy plate and strip steel products placed a considerable burden on the result. The services companies that mainly operate on behalf of the Group almost matched the pre-tax profit of the year-earlier period.

Financial Position and Net Assets

Explanations on the balance sheet

The **total assets** of the Salzgitter Group rose by € 332 million in the current reporting period compared with December 31, 2018.

Non-current assets (€ +324 million) increased owing in particular to the higher level of the shares in the companies accounted for using the equity method (€ +142 million), as well as to investments. In the period under review, investments in intangible assets and property, plant and equipment (€ +436 million) came in above the sum total of scheduled depreciation and amortization of fixed assets (€ –262 million). Investments comprise € 134 million in non-cash additions from the initial application of IFRS 16 Leases. More detailed explanations can be found in the section on "Principles of accounting and consolidation, balance sheet reporting and valuation methods" under item 4. Deferred income tax assets rose due to the higher valuation of pension provisions (€ +37 million) in comparison with the previous year's reporting date. Current assets remained at the year-earlier level (€ +9 million). While trade receivables, including contract assets (€ +68 million), inventories (€ +20 million), as well as other receivables and assets (€ +38 million) increased on the back of higher raw materials prices, among other things, cash and cash equivalents in particular declined (€ –100 million).

On the **liabilities side**, provisions grew by € 323 million, with an actuarial rate of 0.75% that was lower than at the end of the previous year (2018/12/31: 1.75 %). Consequently, equity has decreased noticeably despite the positive result (€ –351 million). The equity ratio nonetheless comes in at a sound 32.8%. Non-current liabilities of € 788 million were higher overall compared with the prior-year reporting date. As against the 2018 reporting date, non-current financial liabilities rose by € 510 million in total due to the bonded loan newly issued in the second quarter (€ 363.7 million) as well as to the initial application of IFRS 16. Non-current other provisions declined essentially owing to the release of a provision for typical operating risks in the Strip Steel and Plate / Section Steel business units (€ 48.8 million). Current liabilities were € 105 million lower. Compared with year-end 2018, lower trade payables, including liability contracts (€ –157 million), above all in international trading with a smaller volume of business, and financial liabilities (€ –107 million) were recorded. By contrast, other current provisions increased by € 133 million overall owing to a risk provision that had been raised by € 141.0 million as of September 30, 2019, in connection with the desired mutually agreed end to the investigations conducted on the grounds of suspected cartel arrangements regarding heavy plate and strip steel products.

The **net financial position** (€ –217million; 2018/12/31: € 192 million) declined primarily as a result of the increase in working capital that was largely due to the lower level of liabilities, as well as to replenishing the participation in Aurubis AG and to progressing the strategic investment projects. Cash investment, including securities (€ 754 million; 2018/12/31: € 878 million), was offset by liabilities of € 971 million (2018/12/31: € 687 million), of which € 820 million were owed to banks (2018/12/31: € 519 million). As before, assets and liabilities from leasing arrangements are not considered in the net financial position.

Notes to the cash flow statement

With a pre-tax profit of € 41 million, a positive **cash flow from operating activities**

of € 78 million (previous year: € +280 million) was recorded despite the increase in working capital.

The **cash outflow from investing activities** of € –378 million (previous year: €–409 million) mainly reflects disbursements for capital expenditure in intangible assets and property, plant and equipment (€ –309 million; previous year: €–227 million) as well as in other non-current assets (€–97 million; previous year: €–195 million). The latter disbursement essentially comprises the additional acquisitions of the participating investment in Aurubis AG accounted for using the equity method.

The **cash outflow from financing activities** is determined by disbursements to our shareholders, the redemption of loans granted, as well as interest payments. This outflow is offset by proceeds from borrowing, including from the bonded loan (€ 363.7 million) issued in May 2019, resulting overall in a positive cash inflow of € 193 million from financing activities (previous year: €–27 million).

As a result of the negative overall cash flow, **cash and cash equivalents** (€ 455 million) declined accordingly compared with December 31, 2018 (€ 556 million).

Employees

	2019/09/30	2018/12/31	Change
Core workforce[1)]	**23,562**	**23,523**	**39**
Strip Steel Business Unit	6,138	6,182	–44
Plate/Section Steel Business Unit	2,414	2,451	–37
Mannesmann Business Unit	4,670	4,675	–5
Trading Business Unit	2,106	2,109	–3
Technology Business Unit	5,576	5,490	86
Industrial Participations/Consolidation	2,658	2,616	42
Apprentices, students, trainees	1,450	1,375	75
Non-active age-related part-time employment	486	465	21
Total workforce	**25,498**	**25,363**	**135**

Rounding differences may occur due to pro-rata shareholdings.
1) Excluding executive body members

The **core workforce** of the Salzgitter Group came to 23,562 employees on September 30, 2019, representing an addition of 39 staff members since December 31, 2018.

As of the reporting date, two companies with 26 employees in total were included in the personnel statistics for the first time. The new consolidations took place on January 1, 2019, with retrospective effect.

A total of 259 trainees were hired during the reporting period, 168 of whom were given temporary contracts. A counter effect emanated above all from members of the company going into non-active age-related part-time or reaching retirement age.

The **total workforce** comprised 25,498 employees.

The number of **temporary staff** outsourced stood at 1,277 as of September 30, 2019, which marks a decline of 12 persons compared with the reporting date of the previous year.

At the end of the reporting period, 754 employees were affected by **short-time work**, mainly in the companies of Salzgitter Mannesmann Grobblech GmbH and Peiner Träger GmbH.

Forecast, Opportunities and Risk Report

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

The **Strip Steel Business Unit** reports a challenging development of business compared with the good, above-average previous year and lower sales, as well as a tangible reduction in the pre-tax profit due to margins. This is attributable to oversupply on the European steel market, on the one hand, and to higher raw material costs, particularly for iron ore, on the other.

The heavy plate market is characterized by sustained weakness. Moreover, the lack of follow-up contracts for the delivery of input material for line pipes adds to the difficulty of the situation for the Mülheim company. With regard to the section steel segment, lower, but nevertheless satisfactory margins as well as a reduction in volumes are expected after the very good previous year. All in all, with sales having decreased notably compared with the previous year, we expect a result that is tangibly below the 2018 figure and, based on the performance of the heavy plate companies, assume a notable pre-tax loss for the **Plate/Section Steel Business Unit**.

The capacity utilization of the EUROPIPE Group's German company as part of the **Mannesmann Business Unit** is unsatisfactory. By contrast, the American Europipe companies are booked partly well into next year. Mannesmann Grossrohr GmbH anticipates double-shift capacity utilization of the plant until the first quarter of 2020. After two very good years, the medium line pipe segment is seeing the volumes in demand settling at a normal level. The weaker development of the precision tubes companies is above all a reflection of the current situation of the automotive industry, while the stainless steel segment expects the market situation to brighten somewhat. With shipments declining and a moderate downturn in sales, we expect a positive pre-tax result for the business unit

The **Trading Business Unit** anticipates lower shipments and sales compared with the year-earlier period. The margins generated in international trading remain under pressure due to the sustained impact of restrictive trade policies everywhere and subdued market conditions. The stockholding steel trade reports narrowing margins due to the downtrend in selling prices. We expect marginally positive earnings before taxes for the business unit that will be significantly lower than the year-earlier figure.

Based on the high level of orders on hand and good order intake, the **Technology Business Unit** predicts a slight increase in sales. The KHS Group has opted for accepting orders on a selective basis, expanding the service business, as well as positive effects from the measures initiated to enhance efficiency. Starting from the very high level of the previous year, the two mechanical engineering companies of the DESMA Group anticipate a downturn in earnings. The business unit therefore generally assumes a pre-tax profit that will be above the average of the previous years, but notably lower than in 2018.

We affirm our earnings forecast for the financial year 2019, adjusted on September 26. Against the backdrop of restructuring expenses still to be determined for the implementation of the "FitStructure 2.0" profit improvement program, we anticipate for the **Salzgitter Group**:

- a pre-tax loss in the mid-double-digit million euro range,
- lower external sales of under € 9.0 billion compared with the previous year,
- a return on capital employed (ROCE) that is tangibly below the year-earlier figure.

We make reference to the fact that criteria of the annual financial statements and imponderables, including changes in the cost of raw materials, precious metal prices and exchange rates, may still have a considerable impact on the end of the financial year 2019.

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 2018.

The development of prices in the sales and procurement markets, as well as of energy prices and exchange rates (above all, USD/EUR) is particularly important for the Salzgitter Group. The associated earnings effects for risks have been factored in for the companies in the current year to the extent foreseeable.

In order to minimize the additional impact of the business risks resulting from the aforementioned development, we monitor the relevant trends and take account of them in risk forecasts. This is also true of potential restrictions resulting from financial or political measures affecting international business. Risks exist as a result of the global trade disputes initiated by the USA, as well as from the United Kingdom withdrawing from the EU. Specific risks in this context are:

- the ongoing US threat of possibly levying special import duties on vehicles and vehicle parts,
- a further escalation of the trade dispute between the US and China, with a wider impact on the global economy,
- uncertainty with regard to the future status of the United Kingdom, with a potential impact on the economy and the flow of goods within the EU.

Sectoral risks

Industry-specific risks arise from distortions to competition in the international steel markets, huge and increasing excess capacities, US special duties on steel products, and the associated import pressure in the EU.

The duties of 25% introduced on steel imports into the US at the end of March 2018 (Section 232) remain in force. In response to the redirection effects and the ensuing threat of damage to the local steel industry, the EU Commission enacted the final safeguards on February 2, 2019, through to July 2021. Import quotas based on the average imports in the years 2015 through 2017 apply. A duty of 25% becomes due once these quotas are exceeded. Owing to the quotas, which are in any event not restrictive enough, and their successive increase in February and July 2019, the safeguards have had virtually no impact so far and caused a great deal of pressure from volumes and prices.

As of October 1, the EU Commission introduced a number of positive administrative changes in the safeguard system through a revision procedure. The generous quotas were, however, adjusted only insufficiently. Solely the progressive increases provided for were reduced slightly. There is a danger that imports will increase further.

Moreover, many countries outside the EU have responded with their own safeguard measures for steel products in response to the US import duties. These developments are likely to hinder exports even further, causing additional redirections into the EU market. A number of Group companies are also directly affected by the measures, albeit to a lesser extent.

Further risks arise from the attempts of importers to obviate the existing trade defense measures, thus rendering them ineffective. To counteract such practices, the flow of goods is monitored on an ongoing basis and potential breaches are passed on via Eurofer, the European Steel Association, to the EU Commission and the EU anti-corruption authority.

Furthermore, uncertainty prevails with regard to the direct and indirect business relations with Russia, also due to the US sanction (Countering America's Adversaries Through Sanctions Act) that entered into force in August 2017. The act provides for the following: companies deemed by the US administration to have business ties with Russian energy export pipelines may have punitive measures imposed on them by the US President in the US. At present, the US Senate is considering a number of competing legislative proposals aimed at extending the sanctions.

A similar degree of uncertainty – although Salzgitter AG (SZAG) is less affected – is emanating from the withdrawal of the US from the nuclear agreement with Iran (Joint Comprehensive Plan of Action, JCPOA) announced on May 8, 2018. In terminating JCPOA, the US has also reactivated the sanctions and is planning to extend them, as it did latterly in September 2019. The EU Commission's intention, however, is to uphold the agreement, and it is currently working on measures to sustain trading with Iran.

The fourth period of the EU emission trading scheme will commence on January 1, 2021 and will run up until and including 2030. Thanks to the precautionary purchasing of CO_2 allowances, the shortfall estimated in the medium term following allocation for the SZAG subsidiaries subject to emissions trading has been largely compensated. After the data for our applications to be submitted by the end of June had been finally calculated and externally verified in the reporting period, we announced this in the context of an insider information on June 14, 2019. Consequently, we estimate the risk of our subsidiaries and affiliated companies experiencing a shortfall in CO_2 allowances and the indirect additional cost risk from emissions trading for electricity sourced externally in the dimensions of up to € 75 million per year (previously: € 155 million per year) for the fourth emissions trading period. We view the probability of the "CO_2 emissions trading" issue occurring as generally likely. The amount of loss will also continue to hinge on the further development of the political and regulatory environment in particular. In procuring CO_2 allowances, we still keep an eye on a potential deterioration in the situation and in prices.

Legal risks

Along with other companies, Salzgitter AG is the subject of investigations on the grounds of suspected cartel arrangements regarding heavy plate and strip steel products. Given the advanced stage of discussions with the German Federal Cartel Office, we assume that the procedure can be brought to an end in the near future in mutual agreement. The risk provisions formed in the 2018 annual financial accounts were therefore increased by € 141 million as of September 30, 2019.

Interim Report

I. Consolidated Income Statement

In € million	Q3 2019	Q3 2018	9M 2019	9M 2018
Sales	2,111.2	2,314.2	6,637.3	6,931.2
Increase/decrease in finished goods and work in process/other own work capitalized	0.6	–5.0	2.3	24.7
	2,111.7	2,309.2	6,639.7	6,955.9
Other operating income	99.4	49.5	196.4	196.7
Cost of materials	1,391.5	1,489.7	4,329.6	4,503.6
Personnel expenses	445.1	429.7	1,335.7	1,292.0
Amortization and depreciation of intangible assets and property, plant and equipment	85.8	83.5	262.2	252.9
Other operating expenses	396.3	266.4	897.8	811.1
Income from shareholdings	0.5	0.0	1.8	4.8
Result from investments accounted for using the equity method	18.8	4.9	73.9	35.7
Finance income	3.9	2.8	13.9	9.4
Finance expenses	20.3	10.9	59.5	58.3
Earnings before taxes (EBT)	**–104.6**	**86.0**	**40.7**	**284.6**
Income tax	21.6	27.3	70.5	90.6
Consolidated result	**–126.2**	**58.6**	**–29.8**	**194.0**
Amount due to Salzgitter AG shareholders	–127.6	57.5	–34.2	190.0
Minority interest	1.4	1.2	4.5	4.0
Appropriation of profit				
Consolidated result	–126.2	58.6	–29.8	194.0
Profit carried forward from the previous year	–	–	33.1	27.1
Minority interest in consolidated net loss for the year	1.4	1.2	4.5	4.0
Dividend payment	–	–	–29.7	–24.3
Transfer from (+)/to (–) other retained earnings	127,6	–57,5	34,2	–189,9
Unappropriated retained earnings of Salzgitter AG	**0,0**	**0,0**	**3,3**	**2,8**
Earnings per share (in €) – basic	**–2,36**	**1,06**	**–0,63**	**3,51**
Earnings per share (in €) – diluted	**–2,27**	**1,00**	**–0,63**	**3,32**

II. Statement of Comprehensive Income

In € million	Q3 2019	9M 2019	Q3 2018	9M 2018
Consolidated result	**–126.2**	**–29.8**	**58.6**	**194.0**
Recycling				
Reserve from currency translation	7.0	11.0	0.8	0.0
Changes in value from cash flow hedges	–32.6	18.4	–4.0	–13.6
Fair value change	–31.9	20.1	7.5	21.0
Basis adjustments	–	–	–11.3	–33.7
Recognition with effect on income	–0.4	–1.7	0.5	0.7
Deferred tax	–0.3	–	–0.6	–1.7
Changes in value of investments accounted for using the equity method	5.4	5.8	–3.4	–2.1
Fair value change	1.4	1.2	–5.3	–6.2
Recognition with effect on income	–	–	–	–
Currency translation	4.3	4.9	0.8	3.1
Deferred tax	–0.4	–0.2	1.0	1.0
Deferred taxes on other changes without effect on the income	–0.0	0.0	–0.0	–0.0
Subtotal	–20.2	35.3	–6.6	–15.8
Non-recycling				
Changes in equity for financial equity instruments valued without effect on the income	–0.0	0.0	–0.1	–0.6
Fair value change	–0.0	0.0	–0.1	–0.6
Deferred tax	–	–	–	–
Remeasurements	–82.7	–263.7	0.1	0.1
Remeasurement of pensions	–87.9	–351.7	0.1	0.1
Deferred tax	5.2	88.0	–	–
Changes in value of investments accounted for using the equity method	–5.7	–13.7	0.0	1.2
Subtotal	–88.4	–277.4	0.0	0.7
Other comprehensive income	**–108.5**	**–242.1**	**–6.6**	**–15.1**
Total comprehensive income	**–234.8**	**–271.8**	**52.0**	**178.9**
Total comprehensive income due to Salzgitter AG shareholders	–236.2	–276.3	50.9	174.9
Total comprehensive income due to minority interest	1.4	4.5	1.2	4.0
	–234.8	**–271.8**	**52.0**	**178.9**

III. Consolidated Balance Sheet

Assets in € million	2019/09/30	2018/12/31
Non-current assets		
Intangible assets	209.7	219.4
Property, plant and equipment	2,289.9	2,120.5
Investment property	82.4	83.5
Financial assets	69.6	75.6
Investments accounted for using the equity method	1,030.4	888.3
Trade receivables	19.9	25.5
Other receivables and other assets	16.7	24.0
Income tax assets	5.4	0.1
Deferred income tax assets	435.8	399.1
	4,159.7	**3,835.9**
Current assets		
Inventories	2,347.8	2,327.5
Trade receivables	1,402.3	1,367.2
Contract assets	207.6	175.2
Other receivables and other assets	442.1	403.7
Income tax assets	22.2	24.5
Securities	50.3	67.4
Cash and cash equivalents	455.3	555.6
Assets available for sale	1.9	0.0
	4,929.6	**4,921.0**
	9,089.3	**8,756.9**

Equity and liabilities in € million	2019/09/30	2018/12/31
Equity		
Subscribed capital	161.6	161.6
Capital reserve	257.0	257.0
Retained earnings	2,885.3	3,181.0
Other reserves	33.8	60.0
Unappropriated retained earnings	3.3	33.1
	3,340.9	**3,692.6**
Treasury shares	−369.7	−369.7
	2,971.2	**3,322.9**
Minority interest	10.2	9.1
	2,981.5	**3,332.1**
Non-current liabilities		
Provisions for pensions and similar obligations	2,598.1	2,275.5
Deferred tax liabilities	67.6	67.6
Income tax liabilities	36.1	36.9
Other provisions	308.5	358.4
Financial liabilities	801.0	291.1
Other liabilities	12.2	6.1
	3,823.4	**3,035.7**
Current liabilities		
Other provisions	413.9	281.4
Financial liabilities	320.1	426.9
Trade payables	1,022.6	1,130.2
Contract liabilities	200.8	250.2
Income tax liabilities	6.9	37.0
Other liabilities	320.3	263.4
	2,284.5	**2,389.2**
	9,089.3	**8,756.9**

IV. Cash Flow Statement

In € million	9M 2019	9M 2018
Earnings before taxes (EBT)	40.7	284.6
Depreciation write-downs (+)/write-ups (–) of non-current assets	261.9	252.7
Income tax paid (–)/refunded (+)	–51.3	–38.1
Other non-cash expenses (+)/income (–)	121.3	60.4
Interest expenses	59.5	56.3
Gain (–)/loss (+) from the disposal of non-current assets	6.3	4.8
Increase (–)/decrease (+) in inventories	–13.6	–106.2
Increase (–)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	–78.3	–198.7
Use of provisions affecting payments, excluding income tax provisions	–152.0	–168.5
Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	–116.7	133.1
Cash outflow/inflow from operating activities	**77.7**	**280.4**
Cash inflow from the disposal of intangible assets, property, plant and equipment and investment properties	0.5	1.2
Cash outflow for investments in intangible assets, property, plant and equipment and investment properties	–309.4	–227.0
Cash inflow from investments of funds	30.5	155.4
Payments for financial investments	–10.0	–150.4
Cash inflow from the disposal of non-current assets	6.9	6.6
Cash outflow for investments in non-current assets	–96.5	–194.8
Cash flow from investment activities	**–378.1**	**–409.0**
Cash outflow in payments to company owners	–29.7	–24.3
Deposits from taking out loans and other financial debts	637.5	15.9
Repayment of loans and other financial liabilities	–374.2	–8.4
Cash outflow from repayments of loans	–16.8	–
Interest paid	–23.4	–26.1
Cash outflow/inflow from financing activities	**193.3**	**–43.0**
Cash and cash equivalents at the start of the period	555.6	679.4
Cash and cash equivalents relating to changes in the consolidated group	0.4	2.6
Gains and losses from changes in foreign exchange rates	6.4	1.2
Payment-related changes in cash and cash equivalents	–107.1	–171.6
Cash and cash equivalents at the end of the period	**455.3**	**511.6**

Notes

Segment Reporting

In € million	Strip Steel		Plate/Section Steel		Mannesmann	
	9M 2019	9M 2018	9M 2019	9M 2018	9M 2019	9M 2018
External sales	1,730.1	1,812.1	630.6	773.9	842.1	841.6
Sales to other segments	570.7	574.6	628.0	602.7	133.2	157.6
Sales to group companies that are not allocated to an operating segment	2.5	2.7	0.6	0.5	326.7	284.7
Segment sales	2,303.3	2,389.3	1,259.2	1,377.1	1,302.0	1,283.8
Interest income (consolidated)	1.6	0.5	0.1	0.1	0.7	0.5
Interest income from other segments	–	–	0.0	–	–	–
Interest income from group companies that are not allocated to an operating segment	0.0	0.0	0.1	0.5	0.7	1.5
Segment interest income	1.7	0.5	0.2	0.6	1.4	2.1
Interest expenses (consolidated)	11.0	10.4	2.3	2.7	5.5	5.2
Interest expenses to other segments	–	–	–	–	–	–
Interest expenses from group companies that are not allocated to an operating segment	16.6	16.8	4.3	3.7	6.8	6.1
Segment interest expenses	27.7	27.2	6.6	6.4	12.3	11.3
of which interest portion of allocations to pension provisions	9.2	8.2	2.1	1.9	3.4	3.0
Depreciation of property, plant and equipment and amortization of intangible assets	132.6	136.8	29.2	29.2	42.7	44.1
of which scheduled depreciation of property, plant and equipment and amortization of intangible assets	132.6	136.8	29.2	29.2	42.7	44.1
EBIT before depreciation and amortization (EBITDA)	243.2	334.6	22.7	49.4	50.7	74.0
Earnings before interest and taxes (EBIT)	110.6	197.8	–6.6	20.3	8.1	29.9
Segment earnings before taxes	84.6	171.2	–13.0	14.5	–2.9	20.7
of which resulting from investments accounted for using the equity method	–	–	–	–	–4.2	9.0
Investments in property, plant and equipment and intangible assets	118.1	86.8	86.8	50.3	57.1	50.4

	Trading		Technology		Total segments		Industrial Participations/ Consolidation		Group
9M 2019	9M 2018	9M 2019	9M 2018	9M 2019	9M 2018	9M 2019	9M 2018	9M 2019	9M 2018
2,294.5	2,405.7	1,000.9	956.9	6,498.2	6,790.1	139.1	141.2	6,637.3	6,931.2
38.0	64.1	0.4	0.4	1,370.3	1,399.3	572.4	546.8	1,942.8	1,946.1
0.0	0.1	–	–	329.8	287.9	–	–	329.8	287.9
2,332.5	2,469.8	1,001.3	957.2	8,198.3	8,477.3	711.5	688.0	8,909.9	9,165.3
2.5	2.2	1.8	2.1	6.7	5.4	3.8	4.1	10.5	9.4
–	–	–	–	0.0	–	29.2	27.8	29.3	27.8
3.7	5.7	0.7	0.6	5.1	8.5	–	–	5.1	8.5
6.2	7.9	2.4	2.7	11.8	13.8	33.1	31.8	44.9	45.7
16.0	13.7	2.0	1.5	36.9	33.5	22.7	22.8	59.5	56.3
0.0	–	–	–	0.0	–	5.1	8.5	5.1	8.5
0.4	0.2	1.1	1.0	29.2	27.8	–	–	29.2	27.8
16.4	13.9	3.1	2.5	66.1	61.3	27.8	31.2	93.9	92.5
1.5	1.4	1.4	1.3	17.6	15.9	11.4	11.0	29.0	26.9
11.5	7.6	17.9	16.1	233.9	233.7	28.3	19.2	262.2	252.9
11.5	7.6	17.9	16.1	233.9	233.7	28.3	19.2	262.2	252.9
25.1	48.9	41.1	46.3	382.8	553.2	−30.9	31.3	351.9	584.4
13.6	41.2	23.2	30.2	148.9	319.4	−59.2	12.0	89.7	331.5
3.3	35.2	22.5	30.5	94.6	272.0	−53.9	12.6	40.7	284.6
–	–	–	–	−4.2	9.0	78.1	26.7	73.9	35.7
32.4	7.7	42.5	14.9	336.9	210.0	99.3	10.0	436.2	220.0

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

1. The consolidated financial report of Salzgitter AG, Salzgitter (SZAG), for the reporting period from January 1 to September 30, 2019 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, 2018, 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, 2019.
3. In calculating the fair value of defined benefit obligations as of September 30, 2019, an actuarial rate of 0.75% was applied (December 31, 2018: 1.75%). The resulting increase in provisions for pensions and similar obligations are reported in other comprehensive income (pension remeasurement) and incurs a corresponding reduction in equity.
4. IFRS 16 "Leases" that regulates the accounting of leases will replace IAS 17 as well as the relevant interpretations. The transition to IFRS 16 has been effected in accordance with the modified retrospective approach. Prior year periods have therefore not been adjusted. The companies within the SZAG Group mainly use operating leases, which is the reason why the application of IFRS 16 will affect the net assets, financial position and results of operations. The usage rights are reported at the cost of acquisition less accumulated depreciation and amortization and, if appropriate, any necessary impairment. The cost of acquiring the usage rights is calculated as the present value of all future leasing payments plus the lease payments that are remitted on or before the term of the lease commences, as well as the cost of contracts signed and the estimated costs of dismantling or reinstating the leased asset. All leasing incentives received are deducted from the aforementioned. If the leasing payments to be included also entail the transfer of ownership and the exercising of a purchase option relating to the underlying asset at the end of the lease term, the asset will be depreciated over its useful economic life. The usage right will otherwise be written down over the term of the leasing arrangement.
   The initial recognition of the lease liability assigned to financial liabilities is calculated as the present value of the lease payments to be made less prepayments already remitted. In subsequent measurement, the carrying amounts of the lease liability are compounded and reduced by the lease payments remitted with no effect on income. The respective incremental borrowing rate of interest is used for discounting at the time of the first-time adoption. In the case of leases classified to date pursuant to IAS 17 as operating leases, the lease liability is recognized in the present value of the remaining lease payments.
   By contrast, the accounting rules for lessors have remained largely unchanged, particularly with regard to the classification of leasing arrangements pursuant to IAS 17 that is still required.
   SZAG avails itself of the options under IFRS 16 according to which reporting the usage right and the lease liability can be dispensed with in the case of lease agreements with a term of up to twelve months (short-term leases) and lease agreements on low value assets. Leases that expire in the period up until December 31, 2019 and will not be renewed are not reported as short-term lease arrangements for reasons of simplification.
   The term of the lease is determined at the time when it commences on the basis of the non-cancellable contractual period and while including existing renewal options and termination options. Current information is taken into account in the process inasmuch as an assessment is deemed sufficiently certain. Non-lease components are identified at the beginning only for leases from the areas of real estate and vehicle fleets and are therefore not an integral part of the underlying lease payments. In calculating the incremental borrowing rate of interest, the yield curve depending on the maturity for industrial companies in Europe that corresponds to the rating of the group of SZAG is used. In the case of foreign Group companies, the conditions specific to the country are taken into account.

The table below shows the derivation of liabilities from leases from lease agreements as of January 1, 2019:

In € million	
Minimum lease payments from operating leases as of December 31, 2018	187.9
Standard simplification rules, effects of discounting with incremental borrowing rate as of January 1, 2019 and reestimation of contracts	–64.5
Lease liabilities based on first-time adoption of IFRS 16 as of January 1, 2019	**123.4**
Finance lease liabilities as of December 31, 2018	29.1
Lease liabilities as of January 1, 2019	**152.5**

In the presentation below on the usage rights and the lease liabilities, assets are included that were capitalized through to December 31, 2018 in the context of finance leases pursuant to IAS 17. Through to the third quarter of 2019, this resulted in the following effects on the balance sheet and on the income statement:

In € million	2019/09/30
Right of use of land, similar rights and buildings, including buildings on land owned by others	82.7
Right of use of plant equipment and machinery	45.7
Right of use of other equipment, plant and office equipment	10.7
Non-current assets	**139.1**
Lease liabilities	**143.0**

In € million	2019/09/30
Right of use of land, similar rights and buildings, including buildings on land owned by others	–6.9
Right of use of plant equipment and machinery	–70.3
Right of use of other equipment, plant and office equipment	–4.8
Depreciation/amortization	**–81.9**
Lease interest expenses	**–3.1**

Selected explanatory notes to the income statement

1. Sales by business segment are shown in the segment report.
2. Earnings per share are calculated in accordance with IAS 33. Basic earnings per share, calculated from the weighted number of shares of SZAG, came to € –0.63 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 € –0.63.

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	
	2019/09/30	2018/12/31
Book value	148.3	162.0
Fair value	150.9	166.7

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 with 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/-09/30/2019	01/01/-09/30/2019	2019/09/30	2019/09/30
Non consolidated group companies	29.2	13.6	13.7	2.6
Joint ventures	49.9	6.6	14.3	0.1
Joint operations	1.5	0.7	42.3	66.9
Other related parties	0.9	13.9	3.8	93.3

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.

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