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Annual Report 2016

SALZGITTER AG
Stahl und Technologie

Salzgitter AG ranks as one of Germany's companies rooted in a long tradition. Our business activities are concentrated on steel and technology. Through its sustainable organic and external growth, our company has advanced to take its place as one of Europe's leading steel and technology groups – with external sales of around € 8 billion in 2016, a crude steel capacity of approximately 7 million tons and a workforce of more than 25,000 employees. The primary objective of our company – now and in the future – is the preservation of our independence through profitability and growth.

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

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

Contents

Salzgitter Group in Figures

		Total Group		Continuing operations[1]	
		2016	2015[2]	2016	2015[2]
Crude steel production	**kt**	**6,804**	**6,652**	**6,804**	**6,652**
External sales	**€ m**	**7,906**	**8,618**	**7,893**	**8,501**
Strip Steel Business Unit	€ m	1,815	1,922	1,815	1,922
Plate / Section Steel Business Unit	€ m	742	909	729	836
Mannesmann Business Unit	€ m	999	1,063	999	1,063
Trading Business Unit	€ m	2,855	3,211	2,855	3,167
Technology Business Unit	€ m	1,300	1,309	1,300	1,309
Industrial Participations / Consolidation	€ m	195	204	195	204
EBIT before depreciation and amortization (EBITDA)[3]	**€ m**	**476**	**423**	**464**	**472**
Earnings before interest and taxes (EBIT)[3]	**€ m**	**119**	**82**	**107**	**134**
Earnings before taxes (EBT)	**€ m**	**53**	**4**	**41**	**56**
Strip Steel Business Unit	€ m	–2	–26	–2	–26
Plate / Section Steel Business Unit	€ m	–32	–74	–44	–42
Mannesmann Business Unit	€ m	–22	2	–22	2
Trading Business Unit	€ m	45	32	45	50
Technology Business Unit	€ m	28	25	28	25
Industrial Participations / Consolidation	€ m	36	45	36	47
Net income/loss for the financial year	**€ m**	**57**	**–56**	**45**	**–4**
Earnings per share – basic	**€**	**1.00**	**–1.08**	**0.78**	**–0.12**
Return on capital employed (ROCE)[4]	**%**	**2.7**	**1.9**	**2.4**	**3.4**
Cash flow from operating activities	**€ m**	**290**	**448**		
Investments[5]	**€ m**	**352**	**411**		
Depreciation/amortization [5]	**€ m**	**–357**	**–340**		
Balance sheet total	**€ m**	**8,450**	**8,228**		
Non-current assets	**€ m**	**3,700**	**3,650**		
Current assets	**€ m**	**4,750**	**4,577**		
Inventories	€ m	1,843	1,751		
Cash and cash equivalents	€ m	818	836		
Equity	**€ m**	**2,852**	**2,837**		
Liabilities	**€ m**	**5,598**	**5,391**		
Non-current liabilities	€ m	3,258	3,265		
Current liabilities	€ m	2,340	2,126		
of which due to banks[6]	€ m	483	282		
Net financial position[7]	**€ m**	**302**	**415**		
Employees					
Personnel expenses	€ m	–1,655	–1,675		
Core workforce on the reporting date[8]	empl.	23,152	23,524		
Total workforce on the reporting date[9]	empl.	25,168	25,459		

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

Preface by the Executive Board

Ladies and Gentlemen and our Shareholders,

In a succession of eventful years, not least for our Group, 2016 is likely to be remembered – also in times to come – for marking a series of significant phases, if not turning points.

Many political events and decisions have called assumptions deemed certain, accepted views and much prized habits into question. The presidential election in the US and the referendum on whether the UK will stay in the European Union sparked huge media coverage.

For Salzgitter AG, however, the EU Commission's implementing of effective trade protection instruments for the very first time against the flood of dumped imports was of more immediate significance. These measures were urgently required, as the medium- to long-term survival of Europe's steel industry was meanwhile at stake.

A broad-based alliance comprising companies, trade unions and industry associations formed to ward of this threat to the industry's very existence. At a series of days run to campaign for steel, both at a national and European level, we demonstrated for the future of the steel industry. With its some 330,000 jobs spread across Europe, it is an industry that is intrinsically and consummately competitive on a global scale, as well as being indispensable for the value chain. And we succeeded! The introduction of the anti-dumping measures from February 2016 onward was a major factor in bringing about an end for now to the in effect total desolate steel price erosion in Europe that had prevailed for several years.

The challenges are nevertheless still great. Large swathes of the line pipe market and the heavy plate sector remain in a precarious state. The extent to which the political upheavals in Europe and America will influence the basically favorable economic outlook is not foreseeable. Consequently, we think it would be sheer negligence to solely rely on improved framework conditions in these uncertain times.

The extremely successful conclusion of the extensive "Salzgitter AG 2015" reorganization program, launched in 2012 with € 260 million realized in cost savings, which is around one third more than the original target, does not mean that we will rest on our laurels. Quite the opposite! The package of measures flanking "Salzgitter AG 2015" in selected companies continues under the heading of "FitStructure SZAG" and is supplemented where expedient and necessary.

Following this phase, when of necessity we concentrated our action on restructuring and lowering costs, we will now refocus on growth and innovation topics. With our "Salzgitter AG 2021" strategy approved in the autumn of 2016, we have now set about shaping the future of our Group. Alongside affordable investments and R&D expenditure, our aim is to generate an additional profit contribution of more than € 200 million a year from organic growth by 2021. We will therefore be charting the course of diversification that we have followed since 2000, with sound judgment but also with élan. Our aim is to develop the Group's de facto sales and value added portfolio in the direction of achieving a balance between steel-related activities and areas that are not closely related. This does not change the fact that Salzgitter AG's DNA originates in steel, which will remain the case in the future as well.

There is no contradiction in us changing and adjusting to new circumstances, as clearly illustrated – though at a more detailed level – by this Annual Report. In this more compact version, we concentrate on information that is important for understanding our performance, while other information has been made available on our website. We have deliberately opted for a contrast to the increasingly prevalent “disclosure overload”. By this we mean demands that have become excessive, even for professional capital market participants, induced by regulations entailing an overkill of data drilldown that ultimately makes it more difficult rather than easier to understand what is relevant.

The Salzgitter Group achieved a great deal within the company in 2016 as well as externally. This is reflected in the 48 % increase in our share price. The prospects for the coming year are more favorable at present than they have been for a long time. Against this backdrop, we propose another increase in dividend and the distribution of € 0.30 per share for the financial year 2016.

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

Sincerely,

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

Report of the Supervisory Board

In the financial year 2016, the Group raised its earnings compared with the previous year despite the difficult market conditions. A sustainable level over the long-term has, however, not yet been reached. For this reason, emphasis was placed on enhancing efficiency further and focusing even more strongly on high-margin business. The company continued to invest in the quality of its products and in product innovation. Activities in lucrative international markets were stepped up. Various measures were aimed at strengthening customer loyalty and at developing other market segments with a view to products and applications. The endeavors of the European steel industry to protect itself from cheap steel imports achieved notable success. The company's strategic realignment has been updated.

Monitoring and advising the Executive Board in the exercising of its management duties

The Supervisory Board kept itself continuously informed about the situation of the Group and the development of business. It deliberated the current situation, the risks and the prospects with the Executive Board in four meetings. Transactions requiring the approval of the Supervisory Board, as well as discrepancies between the development of business and corporate planning, were questioned in detail and discussed. Furthermore, between meetings, the Chairman of the Supervisory Board was regularly informed by the Executive Board Chairman on current topics.

The attendance rate at the Supervisory Board meetings exceeded 90%. No conflicts of interest were brought to the attention of the Supervisory Board, neither by the Supervisory Board members nor by members of the Executive Board.

Focus of the consultations of the Supervisory Board

Reports were made to the Supervisory Board on the final stage of implementing the "Salzgitter AG 2015" restructuring program. Along with the current development of the individual business units, the Supervisory Board devoted special attention to the functional capability of the compliance management system, to defining key audit areas for the statutory audit, to corporate planning for the years 2017 through to 2019, as well as to the audit of the 2016 consolidated and annual financial statements. From an operational standpoint, the strategic situation, the alignment as well as the ongoing development of the heavy plate product segment formed the focus of consultations.

Work of the committees

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

The Presiding Committee met four times in 2016. Topics in these meetings included important questions concerning the course of business, deliberations on the further development of the heavy plate product segment, reviewing the structure of Executive Board remuneration, and investigating the efficiency of the Supervisory Board's activities. In addition, following on from work carried out by the Strategy Committee, the Group's strategic development was discussed thoroughly.

The members of the Audit Committee held four meetings in the period under review. Apart from the proposal for selecting the independent auditor for the annual financial statements as at December 31, 2016, it discussed the interim reports of the company, published on a quarterly basis throughout the year, with the Executive Board and prepared the audit and ratification of the 2016 financial statements at company and at Group level by the Supervisory Board, as well as its dividend proposal. In addition, the committee dedicated special attention to the compliance management system, the structure and security of the Group's information technology, as well as to the need for action owing to reforms under German law on the auditing of financial statements.

The Strategy Committee met once in 2016. Together with the Executive Board, it discussed the Group's strategic development with a view to securing the future, both in its steel and steel-related areas and well as in its other activities.

The Nomination Committee met once and discussed the nomination for a successor on the Supervisory Board.

Audit of the Annual Financial Statements of Salzgitter AG and Consolidated Financial Statements
In its meeting on March 23, 2017, the Supervisory Board examined the financial statements of Salzgitter AG (SZAG) and of the Group, both drawn up as of December 31, 2016, as well as the joint management report on the company and the Group for the financial year 2016. Prior to this meeting, the independent auditor PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, Germany, selected by the General Meeting of Shareholders, reviewed both sets of financial statements and issued an unqualified auditor's opinion. The auditor thereby confirmed that the accounting, valuation and consolidation carried out in the consolidated financial statements complied with the International Financial Reporting Standards (IFRS). Furthermore, as part of its assessment of the early risk detection system, the auditor ascertained that the Executive Board had taken the steps required by the German Stock Corporation Act (AktG) for the early recognition of risks that could endanger the company as a going concern.

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

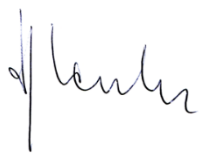
The Supervisory Board's examination of the annual financial statements, the consolidated financial statements and the joint management report did not lead to any objections. The Board therefore approved the findings of the auditor's review and ratified the annual financial statements and the consolidated financial statements. The annual financial statements are thereby adopted. The Supervisory Board gave its approval to the proposal made by the Executive Board on the appropriation of retained earnings.

Changes to the Supervisory Board
Mr. Rainer Thieme, shareholder representative and Chairman of the Supervisory Board, laid down his office as of March 31, 2016 for reasons of age. Similarly, Mr. Bernhard Breemann, employee representative, withdrew from the Supervisory Board effective August 31, 2016. The Supervisory Board thanks these two gentlemen for their dedication to the Group, in particular Mr. Thieme who served many years as Chairman of Supervisory Board with great commitment. Important milestones in the company's development occurred during his term of office. In place of Mr. Thieme, the District Court of Braunschweig appointed Prof. Dr. Dr.-Ing Birgit Spanner-Ulmer as a new member of the Supervisory Board and representative of the shareholders. Her appointment was ratified by the General Meeting of Shareholders. Ms. Tina Dreßen, also appointed by the District Court of Braunschweig, is to succeed Mr. Breemann. The Supervisory Board elected Mr. Heinz-Gerhard Wente as its new Chairman.

Our thanks go to the Executive Board and all the employees of the Group for their dedicated work and sound commitment throughout the financial year 2016.

Salzgitter, March 23, 2017

The Supervisory Board



Heinz-Gerhard Wente
Chairman

Corporate Governance

Declaration of Conformity and Corporate Governance Report

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

2016 Declaration of Conformity with the recommendations of the German Corporate Governance Code
The Executive Board and Supervisory Board submitted the following declaration in respect of the recommendations of the German Corporate Governance Code, pursuant to Section 161 of the German Stock Corporation Act (AktG) on December 8, 2016:

"In 2016, Salzgitter Aktiengesellschaft conformed – and currently continues to conform – to all of the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, with the exception of the recommendation included in Code item 5.4.1 (setting of specific targets for the composition of the Supervisory Board).

In its nominations submitted to the General Meeting of Shareholders for the election of shareholder representatives and other members, the Supervisory Board complies with all statutory requirements and all recommendations made in the Code regarding the personal qualifications for supervisory board members. It is the professional and personal competence of potential candidates – regardless of gender – that is of primary importance, while taking company-specific requirements into special consideration, in ensuring that the nominees, if elected, generally possess the knowledge, skills and professional experience necessary for carrying out their duties. In assessing their competence, the Supervisory Board also bears in mind the company's international activities, potential conflicts of interest, the number of independent Supervisory Board members, the defined age limit for Supervisory Board members and the regulation on limiting the length of membership of the Supervisory Board, as well as diversity. At this point in time, the Board does not consider it necessary to set specific targets."

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

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

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

The results of the 2016 General Meeting of Shareholders are available on our website at:
https://www.salzgitter-ag.com/en/investor-relations/shareholders-meeting.html.

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

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

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

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

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

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

The Supervisory Board of SZAG

The core tasks of the Supervisory Board are to appoint Executive Board members, as well as to advise and supervise the Executive Board in its management of the company. In accordance with the law, certain fundamental decisions may only be made with its approval. It has determined that, in addition, certain types of transactions require its approval.

The Supervisory Board comprises 21 members, specifically ten shareholder and ten employee representatives plus one other member. This composition has been laid down under the provisions of the Co-Determination Amendment Act applicable to the company, in conjunction with Article 7 of the company's Articles of Incorporation. The members of the Supervisory Board are liable to the company for any dereliction of duty. The company's D&O insurance provides for a suitable deductible in accordance with the recommendation of the German Corporate Governance Code.

Working practices of the Supervisory Board

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

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

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

Working practices of the committees of the Supervisory Board

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

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

The Audit Committee deals with the following above all:

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

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

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

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

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

Corporate compliance

The Executive Board is responsible for compliance with the relevant statutory requirements and company guidelines. It acts through the Group companies with the aim of ensuring compliance. The Executive Board has expressly committed itself in our mission statement and in the Code of Conduct binding on our employees to observing and complying with legal framework conditions and ethical values. The management task at all levels also entails adherence to the relevant regulations in their respective areas of tasks and responsibilities. Each superior must therefore give his/her staff clear instructions as to their tasks and areas of responsibility and must document this accordingly. This responsibility includes ensuring that staff members have the competences necessary for fulfilling their compliance duties and the monitoring of this compliance. The regular requesting of appropriate reports is part of guaranteeing that compliance tasks are monitored. The Executive Board has defined this process in detail in a set of corporate guidelines. It regularly reports to the Supervisory Board on compliance.

Target parameters for the proportion of women in management

In 2015, the Executive Board defined a target of 19% for the proportion of women in the first management level under the Board and 17% for women at the second management level under the Board. These quotas are to have been achieved by June 30, 2017.

In 2015, the Supervisory Board decided, in the event of an Executive Board member having to be replaced by June 30, 2017, to strive for a target of 30% in respect of the proportion of women represented on the Executive Board that currently consists of three male persons. The statutory minimum requirement in respect of the Supervisory Board was adhered to during the financial year.

Transparency of the company

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

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

Salzgitter, March 23, 2017

The Executive Board

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

The Supervisory Board

Heinz-Gerhard Wente
Chairman

Management Report

Group Management Report and Management Report, combined

Background Information of the Group

Report on the Economy

I. Company and Organization

1. Group Structure and Operations

With a crude steel capacity of more than 7 million tons, more than 25,000 employees, and external sales of around € 8 billion in 2016, the Salzgitter Group ranks among Europe's leading steel technology and plant engineering corporations. Worldwide, the Group comprises more than 150 subsidiaries and affiliated companies.

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

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

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

2. Management and Control

The Executive Board

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

In the financial year 2016, the following members belonged to the Executive Board of SZAG:

Prof. Dr.-Ing. Heinz Jörg Fuhrmann CEO
Chairman

a)
- Aurubis AG, Hamburg (Chairman)
- Hüttenwerke Krupp Mannesmann GmbH, Duisburg (Chairman)
- Ilsenburger Grobblech GmbH, Ilsenburg (Chairman)
- KHS GmbH, Dortmund (Chairman)
- Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr (Chairman)
- Öffentliche Lebensversicherung Braunschweig, Braunschweig
- Öffentliche Sachversicherung Braunschweig, Braunschweig
- Peiner Träger GmbH, Peine (Chairman)
- Salzgitter Flachstahl GmbH, Salzgitter (Chairman)
- Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Chairman)
- Salzgitter Mannesmann Handel GmbH, Düsseldorf (Chairman)
- Salzgitter Mannesmann Precision GmbH, Mülheim an der Ruhr (Chairman), since March 1, 2016
- TÜV Nord AG, Hanover

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

Burkhard Becker
Finance

a)
- Aurubis AG, Hamburg
- EUROPIPE GmbH, Mülheim an der Ruhr
- Ilsenburger Grobblech GmbH, Ilsenburg, until June 2, 2016
- KHS GmbH, Dortmund, since July 1, 2016
- Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr
- Nord/LB Asset Management AG, Hanover
- Peiner Träger GmbH, Peine
- Salzgitter Flachstahl GmbH, Salzgitter, until September 30, 2016
- Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr
- Salzgitter Mannesmann Handel GmbH, Düsseldorf, since July 1, 2016
- Salzgitter Mannesmann Precision GmbH, Mülheim an der Ruhr

b)
- Ilsenburger Grobblech GmbH, Ilsenburg, and Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Joint Advisory Council)
- KHS Industria de Márquineas Ltda., São Paulo, Brazil (Advisory Council)
- KHS Mexico S.A. de C.V., Zinacantepec, Mexico (Board of Directors), until June 27, 2016
- KHS USA, Inc., Waukasha, USA (Board of Directors)

a) Membership in other supervisory boards formed subject to the definition of Section 125 German Stock Corporation Act (AktG)
b) Membership in comparable domestic and foreign controlling bodies of commercial enterprises

Michael Kieckbusch
Personnel
a)
- KHS GmbH, Dortmund
- Ilsenburger Grobblech GmbH, Ilsenburg until June 2, 2016
- Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr
- Peiner Träger GmbH, Peine
- Salzgitter Flachstahl GmbH, Salzgitter
- Salzgitter Mannesmann Handel GmbH, Düsseldorf
- Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter (Chairman)

b)
- Allianz für die Region GmbH, Braunschweig (Supervisory Board)
- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg (Supervisory Board, Chairman)
- Ilsenburger Grobblech GmbH, Ilsenburg, and Salzgitter Mannesmann Grobblech GmbH, Mülheim/Ruhr (Joint Advisory Council)
- Industriepark Salzgitter-Watenstedt Entwicklungs-GmbH, Salzgitter (Supervisory Board, Vice Chairman)
- Wohnungsbaugesellschaft mbH Salzgitter, Salzgitter (Supervisory Board)

Group Management Board

Prof. Dr.-Ing. Heinz Jörg Fuhrmann CEO
Chairman

Burkhard Becker
Finance

Ulrich Grethe
Strip Steel Business Unit

Michael Kieckbusch
Personnel

Prof. Dr.-Ing. Matthias Niemeyer
Technology Business Unit

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

Prof. Dr. jur. Gerd Schöler
Trading Business Unit until September 30, 2016

Volker Schult
Trading Business Unit since October 1, 2016

Dr. Clemens Stewing
Mannesmann Business Unit

a) Membership in other supervisory boards formed subject to the definition of Section 125 German Stock Corporation Act (AktG)
b) Membership in comparable domestic and foreign controlling bodies of commercial enterprises

Supervisory Board

Rainer Thieme
Chairman until March 30, 2016
Chairman of the Management Board of Wilhelm Karmann GmbH, retired, Osnabrück
a) ▪ Köster Holding AG, Osnabrück

Heinz-Gerhard Wente
Chairman since April 1, 2016
Member of the Management Board of Continental AG, retired, Hanover
Vice President of the Hanover Chamber of Industry and Commerce (IHK) until January 31, 2016
▪ No membership in other governing bodies

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

Konrad Ackermann
Chairman of the General Works Council of KHS GmbH, Dortmund
a) ▪ KHS GmbH, Dortmund

Bernhard Breemann
until August 31, 2016
Chairman of the General Works Council of Salzgitter Mannesmann Stahlhandel GmbH
Chairman of the Works Council of Salzgitter Mannesmann Stahlhandel GmbH, Gladbeck
a) ▪ Salzgitter Mannesmann Handel GmbH, until December 31, 2016

Ulrike Brouzi
Member of the Management Board of Norddeutsche Landesbank Girozentrale, Hanover
a) ▪ NORD/LB Asset Management AG, Hanover (Vice Chairwoman of the Supervisory Board)
b) ▪ NORD/LB Luxembourg S. A., Luxembourg (Supervisory Board)
▪ NORD/LB Covered Finance Bank S.A., Luxembourg (Supervisory Board)

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

Hasan Cakir
Chairman of the Group Works Council of Salzgitter AG, Salzgitter
Chairman of the Works Council of Salzgitter Flachstahl GmbH, Salzgitter
a) ▪ Salzgitter Flachstahl GmbH, Salzgitter

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

Tina Dreßen
since September 1, 2016
Vice Chairwoman of the Works Council of Salzgitter Mannesmann Handel GmbH, Düsseldorf
▪ No membership in other governing bodies

Dr. Thea Dückert
Member of the Bundestag, retired
Member of the German national council for impact assessment (NKR) of the German Federal Government, Berlin
b) ▪ Norddeutscher Rundfunk, Hamburg (Board of Administration)

Karl Ehlerding
Managing Director of KG Erste "Hohe Brücke 1" Verwaltungs-GmbH & Co., Hamburg
a) ▪ Elbstein AG, Hamburg (Chairman)
▪ KHS GmbH, Dortmund
▪ MATERNUS-Kliniken AG, Berlin
▪ WCM Beteiligungs- und Grundbesitz-AG, Frankfurt am Main
b) ▪ German Dry Docks GmbH & Co. KG, Bremerhaven (Board of Administration) until May 24, 2016

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

a) Membership in other supervisory boards formed subject to the definition of Section 125 German Stock Corporation Act (AktG)
b) Membership in comparable domestic and foreign controlling bodies of commercial enterprises

Gabriele Handke
Vice Chairwoman of the Works Council of Peiner Träger GmbH, Peine
a) ▪ Peiner Träger GmbH, Peine, since June 2, 2016

Prof. Dr.-Ing. Dr. h. c. Jürgen Hesselbach
President of the Technische Universität Carolo-Wilhelmina zu Braunschweig, Braunschweig
a) ▪ Öffentliche Lebensversicherung Braunschweig, Braunschweig
▪ Öffentliche Sachversicherung Braunschweig, Braunschweig

Ulrich Kimpel
Chairman of the Works Council of Hüttenwerke Krupp Mannesmann GmbH, Duisburg
a) ▪ Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr

Dr. Dieter Köster
Managing Shareholder of HomeStead GmbH & Co. KG, Osnabrück
Chairman of the Executive Board Board of Köster Holding AG, retired, Osnabrück
a) ▪ Köster Holding AG, Osnabrück (Chairman)
▪ Klinikum Osnabrück GmbH, Osnabrück

Bernd Lauenroth
Secretary of the Management Board of Industriegewerkschaft Metall, Branch Office Düsseldorf
a) ▪ Georgsmarienhütte Holding GmbH, Georgsmarienhütte
▪ Aluminium Norf GmbH, Neuss
▪ Hydro Aluminium Rolled Products GmbH, Grevenbroich, since April 27, 2016
b) ▪ Norsk Hydro Deutschland Verwaltungs GmbH, Grevenbroich (Supervisory Board), April 27, 2016 until October 25, 2016
▪ Hydro Aluminium Deutschland GmbH Grevenbroich (Supervisory Board), since April 27, 2016

Volker Mittelstädt
Chairman of the Works Council of Ilsenburger Grobblech GmbH, Ilsenburg
a) ▪ Ilsenburger Grobblech GmbH, Ilsenburg, (Vice Chairman) since June 2, 2016
b) ▪ Ilsenburger Grobblech GmbH, Ilsenburg, and Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Joint Advisory Council)

Prof. Dr. Hannes Rehm
Chairman of the Executive Board of Norddeutsche Landesbank Girozentrale, retired, Hanover
President of the Hanover Chamber of Industry and Commerce (IHK), Hanover, until January 31, 2016
General Manager of Nord-Ostdeutsche Bankbeteiligungs GmbH, Hanover
▪ No membership in other governing bodies

Peter-Jürgen Schneider
Minister of Finance of the Federal State of Lower Saxony
a) ▪ Bremer Landesbank, Bremen (Vice Chairman)
▪ Deutsche Messe AG, Hanover
▪ Norddeutsche Landesbank Girozentrale, Hanover (Chairman)
b) ▪ Kreditanstalt für Wiederaufbau, Frankfurt am Main, (Board of Administration)

Univ.-Prof. Dr. Dr.-Ing. Birgit Spanner-Ulmer
Director of Production and Technology Bayerischer Rundfunk, Munich
b) ▪ Bavaria Studios & Production und Services GmbH, Geiselgasteig (Supervisory Board)
▪ Bayerische Medien Technik GmbH, Munich (General Meeting of Shareholders)
▪ Bayern Digital Radio GmbH, Munich (Supervisory Board)

Dr. Werner Tegtmeier
State Secretary, retired, of the Federal Ministry of Labor and Social Affairs
a) ▪ Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr until June 30, 2016
▪ Salzgitter Mannesmann Precision GmbH, Mülheim an der Ruhr until June 30, 2016

a) Membership in other supervisory boards formed subject to the definition of Section 125 German Stock Corporation Act (AktG)
b) Membership in comparable domestic and foreign controlling bodies of commercial enterprises

Committees of the Supervisory Board

Presiding Committee:
Rainer Thieme, Chairman, until March 31, 2016
Heinz-Gerhard Wente, Chairman, since April 1, 2016
Hasan Cakir
Peter-Jürgen Schneider
Dr. Hans-Jürgen Urban

Audit Committee:
Prof. Dr. Hannes Rehm, Chairman
Konrad Ackermann
Bernd Lauenroth
Rainer Thieme until March 31, 2016
Heinz-Gerhard Wente since April 1, 2016

Strategy Committee:
Rainer Thieme, Chairman, until March 31, 2016
Heinz-Gerhard Wente, Chairman, since April 1, 2016
Hasan Cakir
Ulrich Kimpel
Prof. Dr. Hannes Rehm
Peter-Jürgen Schneider
Dr. Hans-Jürgen Urban

Nomination Committee:
Peter-Jürgen Schneider
Rainer Thieme until March 31, 2016
Heinz-Gerhard Wente since April 1, 2016

Remuneration of the Executive Board and of the Supervisory Board

Remuneration of the Executive Board

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

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

The amount of pension commitment depends on the length of service to the Group and is a maximum 60% of the fixed salary. The variable remuneration components are not relevant for pension commitments. Pension entitlement is valid when an Executive Board member reaches the age of 65. If Prof. Dr.-Ing. Fuhrmann retires from the company at its request at the age of 59 or at his own wish after having reached the age of 61, he will be deemed eligible for payments as if he had already reached the age of 65. In the event that the company does not offer Mr. Becker and Mr. Kieckbusch further terms of office when their employment contracts expire, they will upon reaching the age of 61 (Mr. Becker) or 60 (Mr. Kieckbusch) be deemed eligible for payments as if they had reached the age of 65. In the event of premature termination of Executive Board member activities due to a change of control, the Board members are entitled to settlement in the amount of overall remuneration for the remaining term of their contracts of employment. This settlement is, however, capped to the value of three years of remuneration. Should Executive Board activities be terminated without an important reason, the Executive Board members are entitled to the remuneration agreed until expiry of the contract. However, this entitlement is restricted to the amount of two years' remuneration (fixed and variable components). No benefits were granted or pledged by external parties to the individual members of the Executive Board in the financial year 2016 or in 2015 for their activities as Executive Board members.

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

	Prof. Dr.-Ing. Heinz Jörg Fuhrmann CEO				Burkhard Becker CFO				Michael Kieckbusch Personnel			
In k€	**2015**	**2016**	**2016 (min.)**	**2016 (max.)**	**2015**	**2016**	**2016 (min.)**	**2016 (max.)**	**2015**	**2016**	**2016 (min.)**	**2016 (max.)**
Fixed remuneration	984	1,020	1,020	1,020	535	540	540	540	520	540	540	540
Benefits	21	18	18	18	24	24	24	24	44	41	41	41
Total	**1,005**	**1,038**	**1,038**	**1,038**	**559**	**564**	**564**	**564**	**564**	**581**	**581**	**581**
One-year variable remuneration[1)2)]	590	523	0	595	345	315	0	315	315	315	0	315
Multi-year variable remuneration	0	0	0	850	0	0	0	450	0	0	0	450
Total[1)2)]	**1,595**	**1,561**	**1,038**	**2,483**	**904**	**879**	**564**	**1,329**	**879**	**896**	**581**	**1,346**
Pension expenses[3)]	314	324	324	324	154	166	166	166	170	208	208	208
Total remuneration[1)2)]	**1,909**	**1,885**	**1,362**	**2,807**	**1,058**	**1,045**	**730**	**1,495**	**1,049**	**1,104**	**789**	**1,554**

[1)] The one-year variable remuneration of Mr. Becker for 2015 includes k€ 30 for the additional interim assumption of the position of Managing Director of the Group company KHS GmbH on an intermediary basis.
[2)] With regard to the one-year variable remuneration of Prof. Dr.-Ing. Heinz Jörg Fuhrmann, k€ 72 of his remuneration as Chairman of the Supervisory Board of the shareholding Aurubis AG were offset in 2016 in accordance with the terms of his employment.
[3)] Service cost pursuant to IAS 19

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

	Prof. Dr.-Ing. Heinz Jörg Fuhrmann CEO		Burkhard Becker CFO		Michael Kieckbusch Personnel	
In k€	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Fixed remuneration	984	1,020	535	540	520	540
Benefits	21	18	24	24	44	41
Total	**1,005**	**1,038**	**559**	**564**	**564**	**581**
One-year variable remuneration[1)2)]	590	523	345	315	315	315
Multi-year variable remuneration	0	0	0	0	0	0
Total[1)2)]	**1,595**	**1,561**	**904**	**879**	**879**	**896**
Pension expenses[3)]	314	324	154	166	170	208
Total remuneration[1)2)]	**1,909**	**1,885**	**1,058**	**1,045**	**1,049**	**1,104**

[1)] The one-year variable remuneration of Mr. Becker for 2015 includes k€ 30 for the additional interim assumption of the position of Managing Director of the Group company KHS GmbH on an intermediary basis.
[2)] With regard to the one-year variable remuneration of Prof. Dr.-Ing. Heinz Jörg Fuhrmann, k€ 72 of his remuneration as Chairman of the Supervisory Board of the shareholding Aurubis AG were offset in 2016 in accordance with the terms of his employment.
[3)] Service cost pursuant to IAS 19

Overall remuneration received by the active members of the Executive Board for their activities in the financial year amounted to k€ 4,034 in total (previous year: k€ 4,016).

Pensions

		Annual payment	Allocation to pension provision		Present value of the obligation	
In €		**upon pension eligibility**	**according to HGB**	**according to IFRS**	**according to HGB**	**according to IFRS**
Prof. Dr.-Ing. Heinz Jörg Fuhrmann	2016	612,000[1)]	323,260	1,599,143	8,373,707	12,454,561
Chairman	2015	612,000[1)]	1,747,609	693,012	8,050,447	10,855,418
Burkhard Becker	2016	324,000[1)]	137,394	846,386	3,801,905	6,011,661
	2015	324,000[1)]	972,821	520,687	3,664,511	5,165,275
Michael Kieckbusch	2016	324,000[1)]	190,631	892,951	3,179,154	5,222,518
	2015	324,000[1)]	1,115,337	959,854	2,988,523	4,329,567

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

Remuneration of the Supervisory Board

Since the start of the current Supervisory Board's term of office on May 23, 2013, each member of the Supervisory Board has received a fixed amount of € 60,000 in accordance with a resolution passed by the 2013 Annual General Meeting of Shareholders. The fixed remuneration is double the amount for the Vice Chairman and three times the amount for the Chairman. In addition, each member receives € 5,000 for committee activities, the respective committee chairmen and members of the Audit Committee € 10,000, and the chairman of the Audit Committee € 30,000. The Chairman of the Supervisory Board and the Vice Chairman are not remunerated for membership in the committees. An attendance fee of € 500 is paid for participation in each Supervisory Board meeting; participation and decision making by way of telephone do not count as participating in a meeting.

Remuneration received by the individual members of the Supervisory Board

In €		Annual remuneration			
		Fixed remuneration	Committee remuneration	Attendance fees	Total
Heinz-Gerhard Wente, since 2015/09/16	2016	150,000	0	5,000	155,000
Chairman since 2016/04/01	2015	20,000	0	1,000	21,000
Rainer Thieme, Chairman	2016	45,000	0	2,000	47,000
until 2016/03/31	2015	180,000	0	7,000	187,000
Dr. Hans-Jürgen Urban,	2016	120,000	0	4,500	124,500
Vice Chairman	2015	120,000	0	4,500	124,500
Konrad Ackermann	2016	60,000	10,000	4,000	74,000
	2015	60,000	10,000	4,000	74,000
Bernhard Breemann	2016	40,000	0	1,000	41,000
until 2016/08/31	2015	60,000	0	2,000	62,000
Ulrike Brouzi	2016	60,000	0	2,000	62,000
	2015	60,000	0	1,500	61,500
Annelie Buntenbauch	2016	60,000	0	1,500	61,500
	2015	60,000	0	2,000	62,000
Hasan Cakir	2016	60,000	10,000	4,500	74,500
	2015	60,000	10,000	4,500	74,500
Ulrich Dickert	2016	60,000	0	2,000	62,000
	2015	60,000	0	1,500	61,500
Tina Dreßen	2016	20,000	0	1,000	21,000
since 2016/09/01	2015				0
Dr. Thea Dückert	2016	60,000	0	2,000	62,000
	2015	60,000	0	2,000	62,000
Karl Ehlerding	2016	60,000	0	2,000	62,000
	2015	60,000	0	1,000	61,000
Roland Flach	2016	60,000	0	2,000	62,000
	2015	60,000	0	2,000	62,000
Gabriele Handke	2016	60,000	0	2,000	62,000
since 2015/03/01	2015	50,000	0	2,000	52,000
Prof. Dr.-Ing. Dr. h.c.	2016	60,000	0	2,000	62,000
Jürgen Hesselbach	2015	60,000	0	2,000	62,000

In €		Annual remuneration			
		Fixed remuneration	Committee remuneration	Attendance fees	Total
Ulrich Kimpel	2016	60,000	5,000	2,000	67,000
	2015	60,000	5,000	2,500	67,500
Dr. Dieter Köster	2016	60,000	0	2,000	62,000
	2015	60,000	0	2,000	62,000
Bernd Lauenroth	2016	60,000	10,000	4,000	74,000
	2015	60,000	10,000	4,000	74,000
Thomas Lehne	2016	0	0	0	0
until 2015/02/28	2015	10,000	0	0	10,000
Volker Mittelstädt	2016	60,000	0	1,500	61,500
	2015	60,000	0	2,000	62,000
Prof. Dr. Hannes Rehm	2016	60,000	35,000	4,500	99,500
	2015	60,000	35,000	4,500	99,500
Peter-Jürgen Schneider	2016	60,000	10,000	5,000	75,000
	2015	60,000	10,000	6,000	76,000
Prof. Dr. Dr.-Ing. Birgit Spanner-Ulmer	2016	45,000	0	1,500	46,500
since 2016/04/27	2015				0
Dr. Werner Tegtmeier	2016	60,000	0	2,000	62,000
	2015	60,000	0	2,000	62,000
Dr. Johannes Teyssen	2016	0	0	0	0
until 2015/09/15	2015	45,000	0	500	45,500
Total	**2016**	**1,440,000**	**80,000**	**60,000**	**1,580,000**
	2015	**1,445,000**	**80,000**	**60,500**	**1,585,500**

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

In €		**Annual remuneration**			
		Fixed remuneration	**Committee remuneration**	**Attendance fees**	**Total**
Konrad Ackermann	2016	10,000	0	750	10,750
(KHS)	2015	10,000	0	750	10,750
Bernhard Breemann	2016	10,000	0	300	10,300
(SMHD)	2015	10,000	0	300	10,300
Hasan Cakir	2016	8,000	0	400	8,400
(SZFG)	2015	8,000	0	400	8,400
Ulrich Dickert	2016	10,000	0	200	10,200
(MRW)	2015	10,000	0	300	10,300
Karl Ehlerding	2016	10,000	0	750	10,750
(KHS)	2015	10,000	0	250	10,250
Roland Flach	2016	10,000	0	750	10,750
(KHS)	2015	10,000	0	750	10,750
Gabriele Handke	2016	2,917	0	300	3,217
(PTG)	2015	0	0	0	0
Ulrich Kimpel	2016	10,000	0	300	10,300
(MRW)	2015	10,000	0	300	10,300
Thomas Lehne	2016	0	0	0	0
(SZFG)	2015	8,000	0	400	8,400
Volker Mittelstädt	2016	5,625	0	400	6,025
(ILG/MGB)	2015	3,000	0	400	3,400
Dr. Werner Tegtmeier	2016	5,000	0	200	5,200
(MRW)	2015	10,000	0	300	10,300
(SMP)	2016	2,500	0	200	2,700
	2015	5,000	0	200	5,200
Dr. Hans-Jürgen Urban	2016	12,000	0	400	12,400
(SZFG)	2015	12,000	0	400	12,400
Total	**2016**	**96,042**	**0**	**4,950**	**100,992**
	2015	**106,000**	**0**	**4,750**	**110,750**
Sum total	**2016**	**1,536,042**	**80,000**	**64,950**	**1,680,992**
	2015	**1,551,000**	**80,000**	**65,250**	**1,696,250**

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

3. Corporate Governance and Declaration of Conformity

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

4. Employees

As per December 31, 2016, the core workforce of the Salzgitter Group numbered 23,152 employees, which is 372 people less (2%) compared with the end of the financial year 2015. This reflects the implementation of the "Salzgitter AG 2015" program. The core workforce of the companies included herein has declined by 279, which comprises 195 staff reductions under "Salzgitter AG 2015". A counter trend emanated from the initial consoledation and business combination of various companies, which resulted in a total of 154 employees being included in the personnel statistics for the first time. In addition, we have raised the number of our employees mainly at the KHS international companies based on the expansion of activities and in line with our strategy.

Including trainees and employees in non-active age-related part-time work, the core workforce of the Salzgitter Group stood at 25,168 persons.

At the end of the year we had 964 temporary employees, which corresponded to 4.0% of the sum total of core workforce members and staff outsourced. The number of external temporary employees has therefore risen by 134 in a year-on-year comparison.

As of December 31, 2016, no members of the workforce were working short time.

Trends in the workforce

	2016/12/31	2015/12/31	Change
Core workforce Group[1]	**23,152**	**23,524**	**–372**
Strip Steel Business Unit	6,062	6,130	–68
Plate / Section Steel Business Unit	2,585	2,952	–367
Mannesmann Business Unit	4,731	4,895	–164
Trading Business Unit	1,914	1,858	56
Technology Business Unit	5,301	5,146	155
Industrial Participations / Consolidation	2,559	2,543	16
Apprentices, students, trainees	1,452	1,494	–42
Non-active age-related part-time employment	564	441	123
Total workforce	**25,168**	**25,459**	**–291**

[1] Excluding the members of executive and non-executive bodies

Regional distribution of the core workforce

		Germany	Rest of Europe	America	Asia	Other regions
Core workforce[1]	empl.	19,076	1,889	1,411	666	110
	%	82.4	8.2	6.1	2.9	0.5

[1] Excluding the members of executive and non-executive bodies

Personnel expenses amounted to € 1,655.3 million in 2016, which is 1.2% lower than the year-earlier period. Among the effects that raised expenses were the expansion of the consolidated group, along with increases from collective bargaining. The impact of the “Salzgitter AG 2015” reorganization program and additional structural programs compensated for these increases.

Part of the restructuring measures of Ilsenburger Grobblech GmbH (ILG) and Salzgitter Mannesmann Grobblech GmbH (MGB) included a reconciliation of interests and redundancy scheme for each company. In the case of ILG these measures were supplemented by a company-specific collective agreement. Measures to improve earnings were negotiated at Salzgitter Mannesmann Line Pipe GmbH in addition to the MLP 2020 program of action. The same applied to a restructuring agreement.

All in all, the implementation of the personnel-related effects identified under our “Salzgitter AG 2015” streamlining program progressed according to plan. As of December 31, 2016, the Group’s potential for personnel reduction identified at more than 1,500 jobs had been realized. The basis of this process is formed by a Pact for the Future signed back in 2013 between the Executive Board and employee representatives, accompanied by IG Metall. Since launching the program the instruments largely used comprised the signing of severance agreements and natural fluctuation; key structural areas under the implementation were focused on Peiner Träger GmbH (PTG), the Salzgitter Mannesmann Precision Group (SMP Group) and Salzgitter Flachstahl GmbH (SZFG).

5. Research and Development

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

The ability to innovate is our strength: This is evidenced by 5,924 patents and 1,480 trademark rights registered for the entire Group at year-end 2016 (2015: 5,587 and 1,537 respectively). Of these, 5,238 active patents and patent applications (2015: 4,854) and 587 trademark rights (2015: 526) were accounted for by the Technology Business Unit.

R&D expenses

In 2016, the Salzgitter Group spent € 94.1 million on R&D and R&D-related activities, of which € 9.0 million on behalf of external customers. A breakdown of expenses by business unit is shown in the table below:

Research and development expenses by business unit

		Group	Strip Steel BU	Plate / Section Steel BU	Mannesmann BU	Technology BU	Not attributable to a BU
R&D expenses[1]	€ m	94.1	39.5	11.2	8.3	24.5	10.6
	%	100.0	42.0	11.9	8.8	26.0	11.3

[1] Excluding the EUROPIPE Group

The R&D activities of Salzgitter AG (SZAG) were leveraged through cooperation projects with other market participants and research institutions, bringing the overall project budget to more than € 190 million. As of December 31, 2016, 733 employees were engaged in R&D and R&D-related activities. Of this number, 276 members of staff work at SZMF and 457 at the operating companies. This allocation underscores how strongly our R&D activities are focused on products – and therefore on our customers.

Multi-year overview of research and development

		2016[1]	2015[1]	2014[1]	2013[2]	2012	2011	2010	2009	2008	2007[3]
R&D expenses[4]	€ m	85	85	87	88	82	79	78	81	80	60
R&D employees	empl.	733	767	784	828	879	910	972	916	983	725
R&D ratio[5]	%	1.1	1.0	1.0	0.9	0.8	0.8	0.9	1.2	0.6	0.6
R&D intensity[6]	%	4.8	4.8	5.2	7.4	5.1	4.4	4.9	9.0	3.0	2.2

[1] Excluding the EUROPIPE Group
[2] Restated
[3] KHS not consolidated
[4] R&D expenses in relation to goods and services for Group companies
[5] R&D expenses in relation to Group sales
[6] R&D expenses in relation to Group value added

R&D focus areas in 2016

The R&D focus is on market and customer requirements. Demand is not only for products but also increasingly for end-to-end technological solutions. The Salzgitter Group has grouped its automotive activities under the "Initiative Automotive" and presents them on a dedicated website (www.initiative-automotive.de). An example of an ongoing development in the area of automotive is Pretex®focar®, a thin sheet surface procedure enabling a resource efficient and primerless body shell. In the Mannesmann Business Unit, for instance, Super Duplex pipes for deep sea applications were optimized for use in deeper water to ensure a similarly safe media supply. The Technology Business Unit enhances its customers' competitiveness through its products, solutions and services by enabling them to increase their productivity conserve resources, while lowering their CO_2 emissions, thereby achieving significant cost advantages.

More detailed information on the aforementioned projects:

Pretex®focar® – optimized body shell for the automotive industry
With its Pretex®focar® brand, Salzgitter Flachstahl GmbH has presented a new product characteristic for body shell applications in the automotive industry. Primerless coating systems are being increasingly deployed for ecological and economic reasons. The requirements with regard to the outward appearance of the painted body shell have nonetheless continually increased. In Pretex®, SZFG has had a sheet metal surface in a leading quality for many years. With Pretex®focar®, small waviness parameters, along with the customary parameters of roughness and peak count, are set systematically and reproducibly.

Super Duplex pipes for deep sea applications
Deep sea supply pipes, also known as umbilicals, are used on offshore platforms for the purpose of transporting control signals, energy or chemicals from the surface of the water right down to the seabed. Extremely demanding requirements are placed on the strength and fatigue properties, as well as on the corrosion resistance of pipes used in locations at depths of up to 2,500 m. Salzgitter Mannesmann Stainless Tubes GmbH (MST) and SZMF have joined forces in developing trial procedures, enabling Super Duplex pipes to qualify for deep sea applications. In close cooperation with the first customers, the pipe properties were analyzed quickly and efficiently and successfully qualified. These results create a valuable database for the ongoing development of this business line.

Nature MultiPack™ packaging innovation
In Nature MultiPack™, KHS subsidiary NMP Systems GmbH (NMP) has launched a unique packaging technology on the market that dispenses with the use of conventional multipacks of cardboard, shrink film and plastic rings. By comparison, Nature MultiPack™ uses up to 85% less packaging material in addition to energy savings of up to 67% during production. The PET bottles are bonded together with specially developed adhesives and made easy to carry with the aid of consumer-friendly handles. The packaging has been designed to withstand transport and distribution logistics, while making it easy for the consumer to peel away individual bottles from the multipack.

Future key areas of R&D within the Group

To ensure that our materials offer particularly sustainable solutions, SZMF analyzes the relevant megatrends in the areas of mobility, energy and raw materials that have a direct impact on use of steel. Moreover, as part of the “Salzgitter AG 2021” group strategy, growth areas to be supported through the respective R&D undertakings in the coming years were identified for all business units.

The Strip Steel Business Unit concentrates on developing ultra-high-strength grades of hot strip steels and cold-rolled multi-phase steels. The resource efficient production of conventional and innovative high-performance steels using belt casting technology is another key area. The Mannesmann Business Unit focuses on the customer-oriented optimization of product properties, examples being precision tubes for higher injection pressure and therefore more environmentally responsible combustion in engines, as well as variable tube wall thicknesses to support an appropriate load-bearing, light-weight optimized application. In addition, solutions for the future production of steel with lower CO_2 emissions are under investigation.

SZMF is pushing ahead with advance development projects driving innovative R&D undertakings which entail a longer time horizon. We draw on our extensive R&D network to build up our know-how and conduct targeted research as part of joint, partly funded projects with application-oriented and innovative content.

In the Technology Business Unit, we maximize our endeavors to ensure that our facilities use less energy and resources, which delivers increased cost effectiveness for our customers. The modular structure of plants and machinery remains a focal point in achieving maximum flexibility based on standardized kits. In addition, this results in the further standardization of procurement processes, foresighted stockholding and the associated accelerated availability of parts.

II. Financial Control System

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

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

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

Management and control system applied within the company – ROCE

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

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

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

In € m	**2016**	**2015[1)]**
EBT	53.2	4.1
+ Interest expenses	94.6	113.2
– Interest expenses for pension provisions	–51.2	–47.7
= EBIT I	**96.6**	**69.5**

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

Capital employed is interest-bearing equity and debt.

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

In € m	2016	2015[1]
Total assets	8,450	8,228
– Pension provisions	– 2,449	– 2,327
– Other provisions excluding provision for income taxes	– 538	– 607
– Liabilities excluding bonds, bank liabilities and notes payable, liabilities from finance leasing and forfaiting, derivatives	– 1,524	– 1,374
– Deferred tax claims	– 355	– 300
= Capital employed	**3,584**	**3,620**

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

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

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

Since the ROCE target (12 %) is to be achieved within the Group as an average over the economic cycle, it is more of a medium to long-term target. We derive specific strategic objectives from this target for each individual business unit and company. These objectives are taken account of in medium-term planning – in an updated form whenever necessary. In 2016 we generated an ROCE of 2.7 % (previous year: 1.9 %).

Profit Improvement Program (PIP)

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

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

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

Agreeing individual objectives with executives and non-tariff employees

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

III. Performance Report

1. Global Business Conditions

Economic environment[1)]

Following the weak winter months in 2015/16, **global economic** growth gathered momentum in the period under review. While, at the start of the year, the weak phase in the second half of 2015 still exerted a certain influence, February marked the beginning of a price uptrend in raw materials and energy sources delivering the first positive stimulus that varied depending on the region. With the advent of summer, the global economy noticeably picked up the pace. In the US, the inventory cycle, combined with an upturn in exports, resulted in expansion accelerating. Supported by economic measures, China developed better than initially expected, while in Russia the recession slowed. In the UK, the impact of Brexit has so far had less of an impact on demand than predicted. Overall, the International Monetary Fund (IMF) estimated the global economic growth rate at 3.1% in 2016, virtually unchanged compared with the previous year (2015: +3.2%).

The **eurozone's** economic recovery held steady in 2016. After a comparatively strong expansion during the first months of the year, momentum slowed slightly, however, as the year progressed. The main drivers consisted of private and public consumer spending. By contrast, investment activity declined in the second half of the year. Growing political uncertainty caused by the Brexit referendum is also likely to have been a contributing factor. The regional development remained disparate. Whereas Spain and many smaller euro countries achieved strong growth, the economies of Italy and France, reported merely modest expansions. The current IMF survey indicates growth of 1.7% for the eurozone (2015: 2.0%).

Germany's economy also reported a moderate upswing in 2016. Not least thanks to the low price increases, accompanied by stable wage developments, domestic consumption remained the mainstay of growth. Another increase in the number of gainfully employed is also likely to have been a contributing factor. Alongside consumption, capital expenditure, particularly in construction, proved to be the second mainstay of this development. Foreign trade, by contrast, curbed economic development slightly due to markedly higher imports despite the increase in exports. The IMF puts the growth of the German economy at 1.7% in 2016 (2015: 1.5%). According to the German Federal Statistical Office, the growth rate in 2016 was somewhat higher at 1.9%.

[1)] Information was obtained mainly on the basis of the following sources: International Monetary Fund (January 2017): World Economic Outlook Update, German Steel Federation (Wirtschaftsvereinigung Stahl): Steel Forecast 2017; ifo economic forecast 2016–2018; German Federal Statistical Office, February 2017

2. Overall Statement by Management on the Economic Situation

Salzgitter Group continues on its successful course with a further increase in the result

Despite the disastrous conditions on the European steel market caused by imports at the start of the year, the Salzgitter Group closed the financial year 2016 with a significant year-on-year increase in earnings before taxes. The company has therefore affirmed its uptrend. The significant impact of internal programs of measures as well as the positive effect of the European Union's urgently required trade defense measures as from February 2016 onward were major factors contributing to this development. In the second half of the year, the Strip Steel and Trading Business Units in particular benefited from steel prices firming up.

The Salzgitter Group's external sales (€ 7,905.7 million; 2015: € 8,618.4 million) declined above all due to the downtrend in the average selling prices of steel products. Pre-tax profit increased to € 53.2 million (2015: € 4.1 million) and includes € 19.1 million in contribution from the Aurubis investment (2015: € 21.8 million) as well as a net figure of € –2.3 million in burdens on earnings from special items. Earnings after tax stood at € 56.8 million (2015: € –56.0 million), exceeding the pre-tax result mainly due to the anticipated greater use of tax loss carryforwards. Earnings per share therefore came in at € 1.00 (2015: € –1.08) and return on capital employed at 2.7% (ROCE, 2015: 1.9%). With a net financial position of € 302 million and an equity ratio of 34%, the company continues to have a sound balance sheet and a comfortable financial basis.

3. Performance and General Business Conditions of the Business Units

Strip Steel Business Unit

Key data		2016	2015
Order intake	kt	4,498	4,578
Order backlog as of 12/31	kt	881	878
Crude steel production	kt	4,563	4,221
Rolled steel production	kt	3,501	3,373
Shipments	kt	4,552	4,465
Segment sales[1)]	**€ m**	**2,393.9**	**2,518.3**
Sales to other segments/Group companies	**€ m**	**–579.3**	**–595.8**
External sales[2)]	**€ m**	**1,814.6**	**1,922.5**
Earnings before taxes (EBT)	**€ m**	**–2.3**	**–26.0**
EBIT before depreciation and amortization (EBITDA)[3)]	**€ m**	**212.5**	**200.9**
Earnings before interest and taxes (EBIT)[3)]	**€ m**	**35.0**	**29.3**

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

The core competences of the Strip Steel Business Unit lie in the production of steel in the fully integrated steelworks of Salzgitter Flachstahl GmbH (SZFG) and in subsequent processing to produce high-grade strip steel products. The affiliated Steel Service Centers of Salzgitter Mannesmann Stahlservice GmbH (SMS) serve the growing prefabrication requirements of our customers. The two processing companies Salzgitter Europlatinen GmbH (SZEP) and Salzgitter Bauelemente GmbH (SZBE) extend the value chain within the business unit with their customized products (tailored blanks as well as roofing and wall elements). The European automotive industry is the most important customer sector.

Market development
Huge overcapacity and the associated pressure on margins continued to dominate the steel markets all over the world. This situation was further exacerbated by the ongoing high inflow of imports from the Asian region, first and foremost from China, but also from other countries such as Turkey, Russia and the Ukraine. Particularly the first half-year saw selling prices in steep downtrend due to imports at dumping prices. They only started to rise again when, in the spring, the EU decided on anti-dumping measures on cold-rolled strip imports and announced them for hot-rolled products in the second half of the year; here provisional anti-dumping duties have meanwhile been introduced. By contrast, the order situation of Europe's steel industry improved in 2016 supported by the moderately good business of the EU steel processors, with the German automotive industry leading the way. EU rolled steel producers, for instance, reported strong order growth. Compared with 2015, new orders received by the German steel industry also increased over the period under review.

Procurement
Iron ore
The iron ore market was characterized by growing volatility in 2016. Platts IODEX 62% Fe CFR China, the spot market's benchmark, fluctuated within a range of 40 USD/dmt and 84 USD/dmt. Whereas an average of 52 USD/dmt was reported in the first half year, the market picked up slight momentum in the third quarter, settling at an average of approximately 59 USD/dmt. The fourth quarter, however, proved to be much stronger contrary to many market forecasts, delivering prices averaging around 71 USD/dmt. Daily rates stood at just under 84 USD/dmt in December 2016, marking the highest level since September 2014. This trend resulted from the interplay of several factors: On the one hand, fundamental data, especially increasing excess supply, were factors against strong ore

prices. The large producers in Australia and Brazil have significantly ramped up their output in recent years to support their long-standing drive to expand, which has exerted considerable pressure on ore prices. Moreover, the increase in Chinese imports that accounted for some 70% of seaward traded ore fell short of expectations. On the other, the market responded quickly to rising steel prices and production figures from China that exerted a huge influence on pricing, especially in the fourth quarter. Price fluctuations were additionally exacerbated by the growing interest of speculative investors on the market for financial instruments.

In order to cushion the risks resulting from procurement, the prices of iron ore volumes in particular were secured through hedging.

Coking coal

In contrast to the index-determined ore market pricing, the quarterly prices for coking coal with benchmark quality continue to be negotiated between large producers and customers. Compared with the years 2014 and 2015, the first quarter of 2016 brought adverse weather effects in Australia that hampered production. This was compounded by greater demand for coking coal from China; the country's government closed illegal mining operations and reduced the production times permitted in the other mines, which resulted in a significant increase in the demand for coal imports. Particularly in the second half-year, this upturn in demand coincided with a substantially lower level of supply, due to mine closures and geological production restrictions. As a result, prices increased dramatically, from 81 USD/t FOB Australia in the first three months to 200 USD/t in the fourth quarter. The spot market prices also fluctuated strongly, ranging between 73 USD/t FOB in mid-February and 310 USD/t FOB at the start of November. At year-end, prices declined again, settling at 230 USD/t FOB Australia.

Business development

Order intake of the Strip Steel Business Unit remained virtually stable while **shipments** rose marginally in a year-on-year comparison. **Orders on hand** remained at the-earlier level. SZFG produced at the limits of its capacity at 4,563 kt of **crude steel,** with facilities operating in the downstream process also close to full capacity. **Segment** and **external sales** reported a slight price-induced decline.

The Strip Steel Business Unit improved its **pre-tax result** to € –2.3 million compared with the year 2015 (€ –26.0 million) that was burdened by € –41.9 million from the relining of a blast furnace. The result was significantly impacted by insufficient margins in the first half of the year due to the effect of imports. Spot prices that rose as the year progressed, and were gradually reflected in a better selling price quality, were largely able to compensate for the losses accumulated in the first half of the year.

Investments

In 2016, investment activities were focused on new aggregates as well as on optimizing and extending existing facilities. Progress at SZFG was made above all with the following projects.

The **pulverized coal injection plant** that was successfully taken into operation back in 2015 enables the substitution of oil and coke sourced externally by pulverized coal. Despite the steep downturn in oil prices in 2016, this resulted in a positive cash flow. Further work on optimizing the plant was carried out.

In order to strengthen its competitiveness, SZFG is investing € 80 million in the construction of a **Ruhrstahl-Heraeus plant** for the vacuum treatment of crude steel, which extends its capacities in secondary metallurgy. The production of decarburized and desulphurized steels and grades of the highest purity is intended to satisfy steadily growing customer requirements. The solid construction work was concluded in 2016, and work commenced on the steel and plant engineering. Commissioning is scheduled for 2017.

During the blowing process on the converters hot steel gas is generated and captured in a boiler system, cooled, refined and recovered for thermal reuse. The technological conversion of the cooling systems of these converter boilers had been carried out by the start of 2017. This reduces energy requirements by more than 10% while lowering the procurement of natural gas and thus also of CO_2 emissions.

Plate / Section Steel Business Unit

Key data		2016	2015[1]
Order intake	kt	2,199	2,199
Order backlog as of 12/31	kt	390	334
Crude steel production	kt	1,091	1,039
Rolled steel production	kt	2,227	2,428
Shipments	kt	2,176	2,410
Segment sales[2]	**€ m**	**1,423.4**	**1,733.8**
Sales to other segments/Group companies	**€ m**	**–681.5**	**–825.0**
External sales[3]	**€ m**	**741.8**	**908.8**
Earnings before taxes (EBT)	**€ m**	**–32.1**	**–74.1**
EBIT before depreciation and amortization (EBITDA)[4]	**€ m**	**26.3**	**–8.2**
Earnings before interest and taxes (EBIT)[4]	**€ m**	**–19.9**	**–57.2**

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

The Plate / Section Steel Business Unit incorporates the companies of the Group that primarily serve customers in the project-oriented construction and infrastructure sectors. The business unit comprises Ilsenburger Grobblech GmbH (ILG) and Salzgitter Mannesmann Grobblech GmbH (MGB) as well as Peiner Träger GmbH (PTG). ILG and MGB produce a wide range of high-grade plate products. The most important customers include heavy mechanical engineering, tube and pipe producers, as well as wind turbine manufacturers. PTG supplies to construction and civil engineering products throughout the whole of Europe. The integration of DEUMU Deutsche Erz- und Metall-Union GmbH (DMU) as a scrap supplier of Peiner Träger GmbH (PTG) permits logistics processes to be more closely and flexibly co-ordinated. HSP Hoesch Spundwand und Profil GmbH (HSP) that also belonged to the business unit discontinued its business activities in December 2015. Almost all the employees left the company in the year now ended. Operations are being wound down.

Market development

The main markets of the companies that are part of the business unit consist of those for heavy plate, including delivery to the large-diameter pipe industry, and those for sections. The ongoing fundamental stagnation in demand in the European steel market in 2016 as well, combined with surplus capacity in Europe, the cautious ordering pattern of trade and processors, and massive imports into the EU led to difficult conditions in the relevant markets. Above all the **plate market** was confronted with ruinous price declines due to the flood of imports at dumping prices. A discernible market stabilization only set in upon the announcement of the awarding of the offshore Nord Stream 2 pipeline from the end March onward. In addition, import volumes from China entered a downtrend over the course of the year due to the announcement of an anti-dumping action filed against Chinese imports of heavy plate, as well as the announcement of provisional anti-dumping duties of up to 74% in October. The development of the volume and selling prices of higher-end grades were maintained at a stable level.

The competitive situation in the **European section market** remained tense in 2016 as production capacities continued to exceed demand by almost double. Market development was determined by extremely volatile scrap prices that triggered alternating phases of partly very high and short- lived demand, followed by months with significantly lower order volumes. In contrast to the heavy plate market, Chinese and Russian imports into the EU 28 were virtually immaterial.

Procurement

Slab supplies

The plate companies are supplied with input material within the group via Salzgitter Flachstahl GmbH (SZFG) and Hüttenwerke Krupp Mannesmann GmbH (HKM), with SZFG delivering to ILG and HKM to MGB in particular.

Steel scrap

Steel scrap is the section steel business' most important input material. Every year around 1.1 million tons of this material is melted down into crude steel in PTG's two electric arc furnaces. The market development of this material is therefore particularly relevant for the company. At the beginning of the new financial year, the German steelworks' **demand for scrap steel** settled at supply levels, enabling consumers to stock up initially at unchanged or marginally lower prices. From March onward, the improved capacity utilization of a number of domestic customers resulted in greater scrap requirements. Combined with concurrently high demand from Turkish importers, this drove prices up by 15 to 20 €/t. In the months of April and May, the market continued to recover at an unexpectedly strong pace. Depending on the plant and grade, prices in Germany therefore rose again by 65 up to 105 €/t. From June onward, Western European processors ordered considerably lower volumes and, compounded by the additional weakening of Turkish demand, the ripple effect of exports dwindled. The high level of inventories resulted in excess supply, which caused steel scrap prices to shed between 40 and 70 €/t. Whereas, at the start of the third quarter, the downtrend persisted, prices climbed in August and subsequently stabilized at the level reached in September. After the initial decline in scrap steel prices in the fourth quarter, brisk demand by Turkish consumers, accompanied by significantly higher international raw materials prices and the rising dollar, pushed up export prices, which then led to further declines in the shipment volumes in the deep sea market. In order to counteract this trend, domestic plants raised their prices in November by between 30 and €40/t and again in December by between 5 and 10 €/t.

Business development

The **order intake** of the Plate / Section Steel Business Unit matched the year earlier figure. The downturn resulting from the discontinuation of the sheet piling product segment was compensated through increases at MGB and PTG. Orders on hand in 2016 were higher year on year since **rolled steel production** and **shipments** settled accordingly at a lower year-on-year level. This was mainly attributable to the discontinuation of the sheet piling business as well as due to lower volumes in the heavy plate sector. **Segment** and **external sales** entered a downtrend due to selling prices and lower shipments.

Although the business unit improved its performance compared with 2015, it nonetheless delivered another negative **pre-tax result** (€ –32.1 million €; 2015: € –74.1 million). This figure includes order-related provisions and € 6.3 million in expenses for measures aimed at structural improvements in the plate companies. PTG achieved a pre-tax profit for the third year in a row, substantiating the company's sound operations, and entailed a write-up of € 25.0 million due to its sustainability. By contrast, the plate companies delivered a notably negative result. Despite the efficiency programs, initiated in both companies at the start of 2016, the losses that were primarily the result of the ruinous price and earnings situation caused by imports in the first half of 2016 and the processing of low-margin orders from 2015 were not compensated.

Investments

The Plate / Section Steel Business Unit essentially made investments purely for the purpose of maintaining facilities, which primarily entailed procuring replacement rollers as well as, among other things, the renewal of the plant control and warehouse management systems. In some instances, these investments also included measures aimed at improving processes and enhancing the quality.

Mannesmann Business Unit

Key data		2016	2015
Order intake	€ m	1,168	1,301
Order backlog as of 12/31	€ m	404	430
Crude steel production Hüttenwerke Krupp Mannesmann (30%)	kt	1,150	1,392
Shipment tubes	kt	543	526
Segment sales[1]	**€ m**	**1,333.0**	**1,496.4**
Sales to other segments/Group companies	**€ m**	**–333.6**	**–433.9**
External sales[2]	**€ m**	**999.4**	**1,062.6**
Earnings before taxes (EBT)	**€ m**	**–22.4**	**2.2**
EBIT before depreciation and amortization (EBITDA)[3]	**€ m**	**63.5**	**77.1**
Earnings before interest and taxes (EBIT)[3]	**€ m**	**–9.7**	**17.3**

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

As of August 1, 2016, the Energy Business Unit that comprises the Salzgitter Group's steel tubes producing companies was renamed as the Mannesmann Business Unit. This measure serves to underscore the quality aspiration associated with internationally renowned Mannesmann brand. The business unit is primarily geared to serving the international project business in the sectors of energy supply and infrastructure and covers a wide range of line pipe diameters. A leading supplier in Europe for precision steel tubes used in automotive construction, as well as a leading global manufacturer of seamless stainless steel and nickel-based tubes supplement the portfolio. Customer demand is driven by the megatrends of "water", "energy" and "mobility".

The business unit has its own supply of input material as well as the production of semi-finished materials for the manufacturing of seamless tubes in the form of a 30% stake in Hüttenwerke Krupp Mannesmann GmbH (HKM), an integrated steelworks with an annual capacity of more than 5 million tons of crude steel. In addition, it makes extensive use of our trading organization to source semi-finished material and to sell its products.

The EUROPIPE Group (EP Group) is reported at 50%, with the proportionate after-tax result (consolidated at equity). HKM is reported at 30% on a proportionate basis and is included accordingly in the order intake, sales and the result of the business unit. HKM's orders on hand and shipments are not reported as only tubes are disclosed here.

Market development
Global steel production declined somewhat again in 2016 for the first time since the crisis year of 2009 and, at 164 million tons, dropped 3% below the record set in 2015. Production in North America, the CIS countries and China fell markedly below the year-earlier level, as opposed to the EU and Germany that reported an increase of 4%.

Compared with the previous year, the production of welded steel tubes with external diameters of up to 16" remained unchanged. US output was significantly lower year on year, whereas in the EU it increased slightly for the third time in a row. The global output of large-diameter pipes and seamless tube producers both fell 8% short of the year-earlier volumes, which also varied depending on the region: Large-diameter pipe production, especially in North America and the CIS countries, stood at a notably lower level whereas European output expanded by 6% following the very weak previous year. The manufacturing of seamless steel tubes entered a downtrend on a global scale in particular due to the ongoing investment restraint in the energy sector. The sharpest decline was again reported in the US where the shortfall measured against the record figure achieved in 2014 stood at 60%. EU producers reported a production downturn of 5%, one quarter less than the all-time high achieved in 2014.

Business development
The **order intake** of the Mannesmann Business Unit dropped below the previous year's figure for two reasons: Firstly, the Salzgitter Mannesmann Stainless Tubes Group (MST Group) reported a lower order intake by the European stockholding steel trade and only very few projects from the oil and gas business, and secondly Salzgitter Mannesmann Großrohr GmbH (MGR) was unable to achieve the above-average year-earlier figure, wich was in line with expectations. The business unit's **order backlog** did not match the previous year's figure in particular due to the development in the stainless steel segment. Outside the group of consolidated companies, new orders of the EP Group increased significantly thanks to the booking of the Nord Stream 2, TAP On-/Offshore and Zohr, bringing orders on hand to above the level posted in 2015.

Tubes shipments were higher year on year on the back of growth at MGR, as opposed to **segment** and **external sales** that nevertheless entered a downtrend caused by selling prices and structural aspects. The EP Group that is included at equity significantly outperformed the previous year mainly due to the delivery of several major projects.

Despite the improved result of MGR and the higher positive contribution to earnings of the EP Group included at equity, the Mannesmann Business Unit reported a **pre-tax loss** of € –22.4 million (2015: € +2.2 million). This figure includes € 6.0 million in expenses for structural measures, mainly at Salzgitter Mannesmann Line Pipe GmbH (MLP), to respond to the challenge of the weak international oil and gas business and fierce price-led competition through a restructuring program to adjust capacity and reduce costs further. In addition, impairment of € –15.0 million was carried out on MLP's assets.

Investments
The Mannesmann Business Unit focused first and foremost on replacement and supplementary investments. This also included the blast furnace relining necessary at HKM. In France, the MST Group successfully commissioned a state-of-the-art leveling machine for large diameters in the third quarter of 2016. Along with organizational and logistic optimizations, investment measures to enhance the efficiency of the facilities at the Hamm location of Salzgitter Mannesmann Precision Group (SMP Group) were implemented.

Trading Business Unit

Key data		2016	2015
Shipments	kt	5,038	5,473
Segment sales[1]	€ m	**2,881.0**	**3,313.1**
Sales to other segments/Group companies	€ m	**–26.1**	**–102.4**
External sales[2]	€ m	**2,855.0**	**3,210.7**
Earnings before taxes (EBT)	€ m	**45.2**	**32.2**
EBIT before depreciation and amortization (EBITDA)[3]	€ m	**59.4**	**48.6**
Earnings before interest and taxes (EBIT)[3]	€ m	**49.0**	**38.7**

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

Alongside a well-developed organization of stockholding steel trading subsidiaries in Europe with a wide range of processing capabilities, the Trading Business Unit comprises companies specialized in plate, as well as an international trading network spanning the globe. Apart from the rolled steel, pipes and tubes products of the Salzgitter Group, it also sells the products of other manufacturers in Germany and abroad. Moreover, the Trading Business Unit procures input material for Group companies and external customers on the international markets.

In the third quarter, the consolidated scope of the Salzgitter Group was expanded retroactively as of January 1, 2016 to include:

- Salzgitter Mannesmann International (HK) Ltd., Hong Kong (SMHK),
- Universal OCEL spol. s r.o., Prague (UOC) and
- Universal-Stal Sp. z o.o., Gliwice (USP).

Along with SMHK, a company in the trading business, UOC and USP maintain stockholding operations for heavy plate within the Universal Eisen und Stahl Group (UES Group). When drawing comparisons with the previous year, consideration must be given to the fact that the figures of these newly consolidated companies were not yet included in 2015.

Market development

The international steel markets reported generally subdued demand in 2016. The project business that was only partly satisfactory and the volatile price situation determined the sentiment of the main markets. The European market presented a similar picture. As from mid-February onward, the first isolated positive effects of the EU's anti-dumping measures were observed that subsequently had positive effect on the price trend over the course of the second quarter, with momentum then slowing toward autumn. Demand in Germany remained stable overall at a nonetheless modest level.

Business development

Shipments of the Trading Business Unit remained below the year-earlier level due above all to the low level of international project business and the strategic realignment of the plate trade with a focus on high-margin orders. As a result, and due to prices that were notably lower in an annual average, **segment** and **external sales** declined significantly in a year-on-year comparison.

Although the earnings position of the stock holding steel trade remained weak in the first three months, the following months up until and including autumn brought a temporary widening of margins that was based on the steel price trend. Combined with the result of international trading, this led to a very presentable **pre-tax profit** of € 45.2 million (2015: € 32.2 million). The companies newly included in the consolidated group also had a positive impact on the figures.

Investments

Maintaining and upgrading existing facilities continued to form the focus of investments by the Trading Business Unit in 2016. The projects initiated by Salzgitter Mannesmann Stahlhandel GmbH (SMSD) to expand the finishing capacities of the German stockholding steel trade, as exemplified by extending the flame cutting operations at the Plochingen site, have been largely completed. The projects concerning the digitalization of sales processes are also making headway:

The “e-WORLD” project is aimed at enhancing the efficiency of sales and tapping the as yet unrealized potential of small customers more effectively. “e-CONNECT” links customer systems to SMSD systems based on defined standards, thereby ensuring the faster, more cost-effective and efficient exchange of information and data. The new web shop (“e-SHOP”) launched in April 2016 is designed to address additional customer groups.

Technology Business Unit

Key data		2016	2015
Order intake	€ m	1,317	1,282
Order backlog as of 12/31	€ m	668	718
Segment sales[1]	**€ m**	**1,300.7**	**1,310.0**
Sales to other segments/Group companies	**€ m**	**–0.4**	**–0.6**
External sales[2]	**€ m**	**1,300.3**	**1,309.4**
Earnings before taxes (EBT)	**€ m**	**28.4**	**24.6**
EBIT before depreciation and amortization (EBITDA)[3]	**€ m**	**50.4**	**47.9**
Earnings before interest and taxes (EBIT)[3]	**€ m**	**28.1**	**25.0**

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

The Technology Business Unit comprises three well-established special machinery manufacturers each with a long tradition. KHS GmbH (KHSDE), a company holding a leading international position in filling and packaging technology, represents the mainstay of sales. The KHS Group is a full-line supplier, from intralogistics and processing through to the filling and packaging of beverages. Other companies within the business unit sell special machinery for the shoe industry or specialize in the manufacturing of rubber and silicon injection molding machinery.

On September 30, the following companies belonging to the business unit were newly admitted to the group of consolidated companies of Salzgitter AG (SZAG) with retrospective effect as of January 1, 2016:

- KHS Schweiz GmbH, Wolfwil (KHSCH),
- KHS Polska Sp. z.o.o. Warsaw (KHSPL),
- KHS Andes S.A.S., Bogotá (KHSCO),
- KHS East Africa Ltd., Nairobi (KHSEA) and
- KHS Argentina S.A., Buenos Aires (KHSAR).

When drawing comparisons with the previous year, consideration must be given to the fact that the figures of these newly consolidated companies were not yet included in 2015.

Market development
According to German Engineering Federation (VDMA), new orders settled around the year-earlier level, with domestic demand stagnating and international demand in marginal decline. Sales of the sector dropped slightly. Orders placed in the market for food and packaging machinery developed well. Domestic order activity notably exceeded the previous year while international orders increased significantly. Sales rose accordingly, boosted in particular by strong international growth.

Business development
The **order intake** of the Technology Business Unit rose in 2016 compared with the previous year on the back of the higher order levels at both the KHS Group and Klöckner DESMA Elastomer Group (KDE Group). The segment's **orders on hand** fell short of the very high year-earlier level.

Thanks to the growth of the KHS Group and of DESMA Schuhmaschinen GmbH (KDS), **segment** and **external sales** remained at the level achieved in 2015.

The Technology Business Unit delivered another increase in **earnings before taxes** that came in at € 28.4 million (2015: € 24.6 million). The result of the KHS Group rose by a third and also reflected the success of the measures introduced under the improvement program. Similarly, KDS also outperformed the year-earlier result, as opposed to the pre-tax profit of the KDE Group that was lower year on year.

The KHS Group continues to consistently pursue measures to develop its business. With this in mind, the "Fit4Future 2.0" program that comprises 14 different components was launched in 2015. The focus was placed on the topics of clarifying offers, 100%-Time-In-Full (OTIF), and the preference portfolio in 2016.

Investments
In 2016, 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. This also included a project, launched in 2014 and expedited in the reporting period with the aid of further measures, to standardize and update the global SAP system. Work on the extensive modernization of the Bad Kreuznach site to ensure lean manufacturing, initiated in 2015 for implementation over a number of years, is being rigorously implemented. The undertaking was supplemented by the construction of a logistics center. With a view to the sustained growth of the PET business, the Hamburg and Kleve sites were strengthened through the building of further assembly halls, and the blow mold production in Dortmund was extended.

Industrial Participations / Consolidation

Key data		2016	2015[1]
Sales	**€ m**	**738.7**	**821.0**
Sales to other segments/Group companies	**€ m**	**–544.1**	**–616.5**
External sales[2]	**€ m**	**194.6**	**204.5**
Earnings before taxes (EBT)	**€ m**	**36.3**	**45.2**
EBIT before depreciation and amortization (EBITDA)[3]	**€ m**	**64.2**	**56.4**
Earnings before interest and taxes (EBIT)[3]	**€ m**	**36.6**	**28.8**

[1] Restatement because of a correction of the stock value
[2] Contribution to consolidated external sales
[3] EBIT = EBT + interest expenses/– interest income; EBITDA = EBIT + depreciation and amortization

Industrial Participations / Consolidation comprises activities that are not directly allocated to a business unit. As a management holding company, Salzgitter AG does not have any operations of its own. Instead it manages Salzgitter Mannesmann GmbH (SMG) and Salzgitter Klöckner Werke GmbH (SKWG) under which the major companies of the Salzgitter Group are held. In addition, results of companies operating primarily within the Group as well as those of Group companies that support the core activities of the business units with their products and services are recorded here.

Sales in the Industrial Participations / Consolidation segment, which are based mainly on business in semi-finished products with subsidiaries and external parties, dropped slightly to € 738.7 million in the financial year 2016 (previous year: € 821.0 million). **External sales** declined marginally (€ 194.6 million; previous year: € 204.5 million).

Earnings before taxes stood at € 36.3 million, which is lower than in the year-earlier period (€ 45.2 million) and includes the contribution of the Aurubis investment amounting to € 19.1 million (2015: € 21.8 million). This figure is made up of the proportionate Aurubis after-tax result of € 51.8 million, as well as the valuation result of € –32.6 million pertaining to a exchangeable bond that depends on the price performance of the Aurubis share, among other factors. Interest income resulting from Group cash management as well as positive reporting-date-related valuation effects from foreign exchange and derivatives positions boosted the result. The pre-tax result of the Group companies not directly assigned to a business unit fell short of the figure achieved in 2015.

4. Comparison between Actual and Forecasted Performance

Given the significant increase in imports from China in 2015, the steel companies in particular were confronted with an extremely challenging environment. Against this backdrop, we anticipated the following for the **Salzgitter Group** in 2016:

- sales virtually stable at around € 8.6 billion (2015: € 8.6 billion).
- a pre-tax result around breakeven at the operational level (2015: € 4.1 million).
- a marginally positive return on capital employed (ROCE) (2015: 1.9 %).

Due to the discernible stabilization in Europe's steel market since the spring of 2016, the surprisingly sharp decline in Chinese dumped imports, with the resulting increase in the price levels of many steel products, we revised our profit forecast in June as follows:

- a reduction in sales to between € 8.0 billion and € 8.5 billion,
- an increase in the pre-tax profit compared with the previous year to between € 30 million and € 60 million, and
- a return on capital employed (ROCE) that is marginally higher than the previous year's figure.

In effect, due to lower-than-expected average selling prices,

- the sales of the Salzgitter Group that came in at € 7.9 billion only approximately reached the forecast adjusted in June.

By contrast, thanks to the profound success of the restructuring projects implemented and the effects of the first- EU anti-dumping measures, the following upward revisions to the forecast at mid-year were realized:

- pre-tax result (2016: € 53.2 million) and
- ROCE (2016: 2.7 %).

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

The **Strip Steel Business Unit** expected selling prices to stabilize as from the second half of 2016 depending on the EU's anti-dumping measures. Based on the assumption of ongoing satisfactory demand and support from cost savings, the following was anticipated:

- virtually stable sales in comparison with the previous year (€ 1.9 billion) and
- a slight deterioration in the pre-tax result (2015: € –26.0 million).

In the financial year ended, SZFG produced at the limits of its capacity. Nonetheless, sales declined (2016: € 1.8 billion) due to price pressure. By contrast, spot prices that rose as the year progressed and were gradually reflected in a better selling price quality were largely able to compensate for the losses accumulated in the first half of the year. The business unit was therefore able to deliver an improved pre-tax result (2016: € –2.3 million) that notably exceeded original expectations.

In the forecast for 2016, the **Plate / Section Steel Business Unit** was expected to operate in a difficult market environment. The plate mills above all were confronted with partly ruinous price declines due to the flood of imports. The section steel business anticipated another somewhat lower but nevertheless positive pre-tax result. It was, however, not anticipated that this result, combined with the non-recurrence of losses from Hoesch Spundwand GmbH (HSP) whose operations were discontinued at year-end 2015, would be sufficient to compensate for the plate mills' deficit. We therefore assumed the following:

- a notable downturn in sales owing first and foremost to weak selling prices but also to the discontinuation of the sheet piling business (2015: € 0.9 billion) and
- a significant reduction in the pre-tax loss (2015: € –74.1 million).

With sales in decline due to selling prices and shipments (2016: € 0.7 billion) and a reduction in the pre-tax loss to € –32.1 million, the business unit remained within the scope of the expectations announced at the start of the year. This figure includes order-related provisions, expenses of € 6.3 million for measures aimed at structural improvements in the plate companies as well as € 25.0 million in impairment reversals carried out on the assets of Peiner Träger GmbH (PTG).

The companies belonging to the **Mannesmann Business Unit** continued to operate in markets with varying potential in 2016. Low oil and gas prices dampened customers' investment propensity. The first contracts that secured capacity utilization were nonetheless acquired in the large-diameter pipes business as early as the start of the year. All in all, we assumed:

- slightly lower sales overall (2015: € 1.1 billion) due to weak selling prices and
- a pre-tax profit that matched the year-earlier level (2015: € 2.2 million).

As expected, sales declined in the year elapsed (2016: € 1.0 billion) due to selling prices and for structural reasons. Despite the improved results of the large-diameter pipe companies, the result before taxes (2016: € –22.4 million) did not reached the targeted year-earlier level due to an amount totaling € 21.0 million in expenses for structural measures and impairment.

In 2016, **Trading Business Unit** the forecasted a stabilization of the price level and a recovery in demand. International trading anticipated an upturn in shipments on the back of the recovery in project awards, and the stock holding steel trade also anticipated growth stimulus. Moreover, the assumption was made that there would be no repeat in the financial year 2016 of the support for profit from special items in 2015, which was likely to be reflected in:

- a marginal increase in sales overall (2015: € 3.2 billion) and
- a significantly lower pre-tax result (2015: € 32.2 million).

Notably lower annual average prices and a downturn in shipment tonnage in international trading prevented the targeted sales growth from being achieved (2016: € 2.9 billion). Although the earnings position of the stock holding steel trade remained weak in the first three months, a temporary widening of margins in the following months up until and including autumn, combined with the result of international trading, contributed to a pre-tax profit that was notably higher year on year and therefore better than expected (2016: € 45.2 million).

Against the backdrop of fierce price-led competition for project business, the **Technology Business Unit** was expected to generate growth in profitable product segments and expand its service business. Based on a high level of orders on hand, a stable development was assumed

- for sales (2015: € 1.3 billion) and pre-tax profit (2015: € 24.6 million).

While sales (2016: € 1.3 billion) was in line with forecast, the segment outperformed earnings before taxes predicted at the start of the year (2016: € 28.4 million). This development also reflected the success of the improvement programs introduced.

IV. Profitability, Financial Position and Net Assets

1. Profitability of the Group

Despite the disastrous conditions on the European steel market caused by imports at the start of the year, the **Salzgitter Group** closed the financial year 2016 with a significant year-on-year increase in earnings before taxes. The company has therefore affirmed its uptrend. The significant impact of internal programs of measures as well as the positive effect of the European Union's urgently required trade defense measures as from February 2016 onward were major factors contributing to this development. In the second half of the year, the Strip Steel and Trading business units in particular benefited from steel prices firming up. Return on capital employed came in at 2.7% (ROCE, 2015: 1.9%). With a net financial position of € 302 million and an equity ratio of 34%, the company continues to have a sound balance sheet and a comfortable financial basis.

The Group's **external sales** declined to € 7,905.7 million (–8%) due to the downturn in the average selling prices for steel products. The table below shows a breakdown by business unit:

Consolidated sales by business unit

	2016		2015		
	In € m	%	In € m	%	Change
Strip Steel	1,815	23	1,922	22	–6%
Plate / Section Steel	742	9	909	11	–18%
Mannesmann	999	13	1,063	12	–6%
Trading	2,855	36	3,211	37	–11%
Technology	1,300	16	1,309	15	–1%
Industrial Participations / Consolidation	195	2	204	2	–5%
Group	**7,906**	**100**	**8,618**	**100**	**–8%**
Discontinued operations	13		117		–89%
Continuing operations	**7,893**		**8,501**		**–7%**

The regional distribution of sales revenues remained virtually unchanged: As before, the business activities of the Salzgitter Group were therefore focused on the EU (€ 5.3 billion; 67 % share of sales). Germany remained by far the largest single market with sales of € 3.5 billion, equivalent to a share of 45%. It should be noted in this context, however, that many of our products are supplied to export-oriented German businesses and therefore ultimately find their way abroad.

Consolidated sales by region

	2016		2015	
	In € m	%	In € m	%
Germany	3,536	45	3,851	45
Other EU countries	1,800	23	1,799	21
Rest of Europe	314	4	281	3
America	972	12	1,196	14
Asia	764	10	789	9
Other regions	520	7	701	8
Group	**7,906**	**100**	**8,618**	**100**
Discontinued operations	13		117	
Continuing operations	**7,893**		**8,501**	

The Salzgitter Group generated **earnings before taxes** of € 53.2 million (2015: € 4.1 million). This figure includes a profit contribution of € 19.1 million from the Aurubis investment (2015: € 21.8 million), as well as € –2.3 million on balance in burdens on earnings from special items.

The business units delivered the following results:

The **Strip Steel Business Unit** lifted its pre-tax result to € –2.3 million compared with the year 2015 (€ –26.0 million) that was burdened by € –41.9 million from the relining of a blast furnace. The result was significantly impacted by insufficient margins in the first half of the year due to the effect of imports. Spot prices that rose as the year progressed, and were gradually reflected in a better selling price quality, were largely able to compensate for the losses accumulated in the first half of the year.

Although the **Plate / Section Steel Business Unit** improved its performance considerably compared with 2015, it nonetheless delivered another pre-tax loss (€ –32.1 million €; 2015: € –74.1 million). This figure includes order-related provisions, expenses of € 6.3 million for measures aimed at structural improvements in the plate companies as well as € 25.0 million in impairment reversals carried out on the assets of Peiner Träger GmbH (PTG).

Despite the improved result of Salzgitter Mannesmann Großrohr GmbH (MGR) and the higher positive contribution to earnings of the EUROPIPE Group (EP Group), a company included at equity, the **Mannesmann Business Unit** reported a pre-tax loss of € –22.4 million (2015: € +2.2 million). This figure includes € 6.0 million in expenses for structural measures, mainly at Salzgitter Mannesmann Line Pipe GmbH (MLP). In addition, impairment of € –15.0 million was carried out on MLP's assets.

Although the earnings position of the stock holding steel trade remained weak in the first three months, a temporary widening of margins in the following months up until and including autumn, combined with the result of international trading, led to a very presentable pre-tax profit of € 45.2 million for the **Trading Business Unit**. This performance therefore represented an improvement on the already gratifying year-earlier result (2015: € 32.2 million).

The **Technology Business Unit** delivered another increase in earnings before taxes that came in at € 28.4 million (2015: € 24.6 million). The result of the KHS Group rose by a third, which was also based on the success of the measures introduced under the improvement programs. Similarly, DESMA Schuhmaschinen GmbH (KDS) also notably outperformed the year-earlier result, as opposed to the pre-tax profit of the KDE Group that was lower year on year.

Earnings before taxes of **Industrial Participations / Consolidation** stood at € 36.3 million, which is lower than in the year-earlier period (2015: € 45.2 million). This figure includes the contribution of the Aurubis investment amounting to € 19.1 million (2015: € 21.8 million). Interest income resulting from Group cash management as well as positive reporting-date-related valuation effects from foreign exchange and derivatives positions boosted the result. The pre-tax result of the Group companies not directly assigned to a business unit fell short of the figure achieved in 2015.

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

In € m	2016	2015[1]
Strip Steel	−2.3	−26.0
Plate / Section Steel	−32.1	−74.1
Mannesmann	−22.4	2.2
Trading	45.2	32.2
Technology	28.4	24.6
Industrial Participations / Consolidation	36.3	45.2
EBT Group	**53.2**	**4.1**
Discontinued operations	11.8	−52.1
EBT from discontinuing operations	**41.4**	**56.2**
Taxes	−3.6	60.1
Consolidated net income/loss for the financial year[2]	**56.8**	**−56.0**

[1] Restatement because of a correction of the stock value
[2] Including minority interests

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

	EBT		Restructuring		Impairment/ Reversal of impairment		Other		EBT without special effects	
In € m	2016	2015[1]	2016	2015	2016	2015	2016	2015	2016	2015[1]
Strip Steel	−2.3	−26.0						−41.9	−2.3	15.9
Plate / Section Steel	−32.1	−74.1	−6.3	−29.4	25.0			−7.0	−50.8	−37.7
Mannesmann	−22.4	2.2	−6.0	−10.0	−15.0				−1.4	12.2
Trading	45.2	32.2						27.0	45.2	5.2
Technology	28.4	24.6							28.4	24.6
Industrial Participations / Consolidation	36.3	45.2						−12.5	36.3	57.7
Group	**53.2**	**4.1**	**−12.3**	**−39.4**	**10.0**	**0.0**	**0.0**	**−34.4**	**55.5**	**77.9**

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

Development of selected income statement items
The consolidated income statement is explained in detail in the "Notes to the Consolidated Financial Statements". Selected items are explained in the following.

Sales that declined in a year-on year comparison are offset in particular by the lower cost of materials due especially to price reductions in raw materials, semi-finished goods and steel products sourced externally. The result of the companies included at equity increased significantly. The 25% investment in Aurubis AG (NAAG) made a particularly gratifying contribution.

Adjusted for € 3.6 million in tax expenses, a consolidated net income of € 56.8 million was recorded. The after-tax result exceeded pre-tax profit above all due to the higher expected use of tax loss carryforwards in the future.

Multi-year overview of earnings

In € m	2016	2015[1]	2014	2013[2]	2012	2011	2010	2009	2008	2007
EBT	53.2	4.1	–15.2	–482.8	–29.4	201.6	48.9	–496.5	1,003.4	1,313.9
EBIT I[3]	96.6	69.5	63.9	–422.7	59.8	264.7	102.9	–468.1	1,072.1	1,350.7
EBIT[4]	119.2	81.9	97.9	–393.2	98.0	304.5	159.8	–411.3	1,026.9	1,312.4
EBITDA[5]	476.4	422.6	483.6	138.1	462.7	666.8	539.7	156.9	1,317.2	1,543.1
EBT margin	0.7	0.1	–0.2	–5.2	–0.3	2.1	0.6	–6.4	8.0	12.9
EBIT margin[4]	1.5	1.0	1.1	–4.2	0.9	3.1	1.9	–5.3	8.2	12.9
EBITDA margin[5]	6.0	4.9	5.4	1.5	4.5	6.8	6.5	2.0	10.5	15.1
ROCE %	2.7	1.9	1.8	–10.5	1.3	5.6	2.2	–10.5	21.9	28.0

Values 2007 until 2012 not restated, including discontinued operations

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

Reconciliation EBIT/EBITDA

In € m	2016	2015[1]
EBT	53.2	4.1
+ Interest expenses	94.6	113.2
– Interest income	–28.6	–35.4
= EBIT	**119.2**	**81.9**
+ Depreciation/amortization[2]	357.2	340.7
= EBITDA	**476.4**	**422.6**

[1] Restatement because of a correction of the stock value
[2] Depreciation/amortization of tangible, intangible fixed assets and non-current financial assets

The EBIT and EBITDA earnings ratios are merely indicative of the operating strength of a company set apart from its capital structure. These ratios allow management, the shareholders and interested third parties to carry out an additional analysis and assessment of a company's results, as well as facilitating approximate comparability with its peers at an operating level. Differences in taxation specific to the respective country, as well as special features concerning the structure of financing and property, plant and equipment of the individual company, can therefore be disregarded.

Value added in the Salzgitter Group

The operational value added of the Group amounted to € 1,784 million in 2016, thereby providing full coverage for personnel expenses (€ 1,707 million). The public sector received –0.2% in the form of taxes and levies (previous year: 3.4%). Lenders accounted for a portion of 1.4% which was lower than the year-earlier figure (1.6%). Value added worth 1.2% is available for the shareholders (including treasury shares) for the financial year ended (previous year: 0.9%).An amount of € 2.9 billion from the value added has remained within the Group since 2003. In 2016, funds of € 35 million were contributed to the Group.

Value added

	2016/12/31		2015/12/31[1]	
	In € m	%	In € m	%
Sources				
Group outputs	8,246	100.0	8,888	100.0
Inputs	6,462	78.4	7,135	80.2
Value added	**1,784**	**21.6**	**1,753**	**19.8**
Appropriation				
Employees	1,707	95.7	1,723	98.2
Public sector	–4	–0.2	60	3.4
Shareholders	21	1.2	15	0.9
Lenders	25	1.4	27	1.6
Remaining within the Group	35	2.0	–72	–4.1
Value added	**1,784**	**100.0**	**1,753**	**100.0**

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

2. Financial Position and Net Assets

Financial management

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

The internal financing of Group companies is fundamentally conducted through making Group credit lines available in the context of Group financial transactions and, in individual cases, external loan guarantee commitments. To cover the financial requirements of foreign Group companies, in particular those outside the euro area, the Salzgitter Group also makes use of local lending markets. At the same time, it draws on the liquidity surplus of the Group companies for financing. Supplies and services within the Salzgitter Group are settled via internal accounts. Central finance management enables us to procure external capital at favorable conditions and has a positive impact on interest income. We calculate the Group's liquidity requirements through financial planning with a multi-year planning horizon and a monthly rolling liquidity planning with a six-month forecasting horizon. Funds invested, medium-term bilateral credit lines, a syndicated credit limit and the use of bond markets guarantee that our liquidity requirements are covered.

For the purpose of further optimizing the financing structure, SKWG issued its first bonded loan in an overall volume of € 200 million in April 2016. Placement was carried out in two currencies, the euro and the US dollar. The volume was divided into fixed and variable tranches with terms of three, five and seven years. The initial average interest across all tranches amounted to around 1.8% p.a.

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

Pension provisions still play a significant role in corporate financing. Based on a lower actuarial interest rate (1.75%) derived from the current level of capital market rates, they amounted to € 2,449 million (previous year: € 2,327 million at 2.25%). In accordance with the standards of international accounting, the effect of the overall actuarial rate was reported in equity with no effect on net income.

Cash Flow Statement

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

Cash and cash equivalents

In € m	2016	2015
Cash inflow from operating activities	290.2	447.7
Cash outflow from investment activities	–363.6	–507.8
Cash inflow from financing activities	52.6	114.9
Change in cash and cash equivalents	**–20.7**	**54.8**
Changes in the Group of consolidated companies/changes in exchange rates	2.6	7.4
Cash and cash equivalents on the reporting date	**818.1**	**836.2**

The Group generated € 290 million in cash flow from operating activities (previous year: € 448 million). The decline in comparison with 2015 results from the increase in inventories and trade payables, as well as to a precautionary payment of income taxes. The cash outflow from investment activities (€ 364 million) dropped in comparison with the year-earlier period (€ 508 million) in particular due to the lower level of disbursements for investments in property, plant and equipment and intangible assets.

In the financial year 2016, a positive cash flow from financing activities of € 53 million was generated (previous year: € +115 million) that was mainly due to the issuing of a bonded loan. A counter trend emanated from the redemption of part of the bonds and the repayment of a convertible bond. Dividend distribution for the financial year 2015 to the shareholders of SZAG amounted to approximately € 13 million, which equates to € 0.25 per share.

Net financial position

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

In € m	2016/12/31	2015/12/31
Cash and cash equivalents acc. to balance sheet	818.1	836.2
+ Certificates held for trading	250.0	250.0
+ Other investments of funds	149.9	131.8
= Investments of funds	1,218.0	1,218.0
Financial liabilities acc. to balance sheet	946.0	827.9
– Liabilities from leasing agreements, from financing/ financial transactions and other	29.8	24.8
= Financial liabilities of net financial position	916.2	803.1
Net financial position	**301.8**	**414.9**

The net financial position of € 302 million declined in comparison with 2015 (€ 415 million). While cash investments, including securities (€ 1,218 million) remained at the year-earlier level, this was offset by higher liabilities owed to banks of € 916 million (previous year: € 803 million) at the end of the financial year. The latter figure includes € 433 million in obligations attached to nominal convertible and exchangeable bonds. Obligations from finance lease are not included in the net financial position.

Investments

Additions to non-current assets from investments totaled € 359 million (previous year: € 419 million). Capitalized investments from these additions in property, plant and equipment and in intangible assets (€ 352 million) were almost fully covered by scheduled depreciation and amortization (€ 342 million). Financial assets rose by € 7 million, which was mainly attributable to investments in the securities portfolio for deferred compensation.

Along with the Strip Steel Business Unit (€ 189 million), major investments in non-current assets and intangible assets were made in the Mannesmann Business Unit (€ 88 million) in 2016.

Depreciation and amortization includes unscheduled write-downs of € 15 million (previous year: € 0).

Depreciation/amortization[1)]

	Investments[2)]		Depreciation/amortization[2)3)]	
In € m	Group	Strip Steel BU and Plate / Section Steel BU[4)]	Group	Strip Steel BU and Plate / Section Steel BU[4)]
2016	**352**	**213**	**357**	**224**
2015	411	278	340	221
2014	270	155	382	261
2013	359	193	530	423
2012	325	187	358	248
Total	**1,717**	**1,026**	**1,967**	**1,376**

[1)] Property, plant and equipment and intangible assets, excluding financial assets
[2)] 2013 restated
[3)] Scheduled and unscheduled write-downs
[4)] 2012 Steel Division

Investments/depreciation and amortization by business unit[1]

	Investments		Depreciation/amortization[2]	
In € m	**2016**	**2015**	**2016**	**2015**
Strip Steel	189.3	239.2	177.5	171.5
Plate / Section Steel	23.8	38.8	46.2	49.0
Mannesmann	87.7	73.9	73.2	59.4
Trading	7.7	14.6	10.4	9.9
Technology	21.8	17.2	22.3	22.9
Industrial Participations / Consolidation	21.9	27.8	27.6	27.6
Group	**352.1**	**411.4**	**357.1**	**340.3**

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

The liquidity and debt-to-equity ratios in the financial year 2016 are as follows:

Multi-year overview of the financial position

	2016	2015[1]	2014	2013[2]	2012	2011	2010	2009	2008	2007
Solvency I (%)[3]	123	132	116	130	156	169	192	211	157	211
Solvency II (%)[4]	201	214	196	227	262	287	287	302	281	317
Dynamic debt burden (%)[5]	11.6	19.8	26.0	6.8	22.0	– 12.1	30.1	406.8	64.9	– 304.5
Gearing (%)[6]	196.3	190.0	195.4	158.9	145.1	120	125.9	106.2	100.3	98.0
Cash flow (€ m) from operating activities	290	448	599	141	427	– 197	209	1,190	547	781
Net financial position (€ m)[7]	– 302	– 415	– 403	– 303	– 497	– 508	– 1,272	– 1,561	– 991	– 2,115

Values 2007 until 2012 not restated, including discontinued operations

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

[2] restated

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

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

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

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

[7] – ≙ cash in bank, + ≙ liabilities

Asset position

The Group's total assets had increased by 2.7% to € 8,450 million in comparison with the 2015 reporting date (€ 8,228 million). The increase in non-current assets (€ +50 million) resulted from the higher level of shares of the companies accounted for using the equity method (€ +48 million). In addition, deferred tax assets also increased (€ +55 million). This was offset by the lower level of non-current securities (€ –48 million). Current assets rose mainly owing to the increase in inventories (€ +92 million) as well as in other receivables and assets (€ +88 million).

Asset and capital structure

In € m	2016/12/31	%	2015/12/31[1]	%
Non-current assets	3,700	43.8	3,650	44.4
Current assets	4,750	56.2	4,577	55.6
Assets	**8,450**	**100.0**	**8,228**	**100.0**
Equity	2,852	33.8	2,837	34.5
Non-current liabilities	3,258	38.6	3,265	39.7
Current liabilities	2,340	27.7	2,126	25.8
Equity and liabilities	**8,450**	**100.0**	**8,228**	**100.0**

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

As part of non-current assets, investments in property, plant and equipment and intangible assets (€ 352 million) were entirely offset by depreciation and amortization (€ 357 million). Working capital stood at € 2,165 million (–4.7%), which is below the year-earlier figure.

The equity ratio (33.8%) declined slightly in comparison with the previous year (34.5%). The determining factor here was the reporting-date-related decline to 1.75% in the actuarial interest rate applied to pension provisions (previous year: 2.25%). This effect that increases provisions is reported under equity without effect on income and was offset by the lower non-current financial liabilities that arose through the reclassification of an exchangeable bond under current financial liabilities. Furthermore, trade payables are higher than in the previous year.

Multi-year overview of the asset position

	2016	2015[1]	2014	2013[2]	2012	2011	2010	2009	2008	2007
Asset utilization ratio (%)[3]	43.8	44.4	42.1	43.9	42.5	41.8	39.7	39.5	33.5	25.8
Inventory ratio (%)[4]	21.8	21.3	23.4	23.9	23.2	23.9	19.9	18.2	29.3	24.8
Depreciation/amortization ratio (%)[5]	13.9	13.3	15.3	20.7	13.6	13.5	14.2	21.3	11.7	11.7
Debtor days[6]	68.2	63.4	66.5	57.8	54.2	53.7	51.7	49.3	48.4	54.5
Capital employed (€ m)	3,584	3,620	3,526	4,034	4,481	4,733	4,596	4,457	4,886	4,829
Working capital (€ m)	2,165	2,271	2,487	2,598	2,694	2,753	2,193	1,981	3,338	2,845

Values 2007 until 2012 not restated, including discontinued operations

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

[2] restated

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

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

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

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

3. The Annual Financial Statements of Salzgitter AG

The annual financial statements of Salzgitter AG (SZAG) for the financial year 2016 have been drawn up in application of the accounting policies and valuation methods of the German Commercial Code, taking account of the supplementary provisions set out under the German Stock Corporation Act, and have been approved without qualification by the auditor PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Hanover. The complete text is published in the German Federal Gazette.

As before, SZAG as the management holding company heads up the Group's business units that are responsible at the operational level. Consequently, the profitability of the company depends on the business progress made by its subsidiaries and shareholdings and on the extent to which they retain their value.

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

As a non-operational holding company, SZAG is an integral part of the Salzgitter Group's management and control concept and is therefore subject to the same control parameters and the same opportunities and risks as the Salzgitter Group. The legal requirements placed on managing and controlling SZAG have been taken into account here.

Balance sheet of Salzgitter AG (condensed)

In € m	2016/12/31	%	2015/12/31	%
Non-current assets	**59.0**	**6.8**	**50.9**	**5.4**
Property, plant and equipment[1]	20.7	2.4	19.0	2.0
Financial investments	38.3	4.4	31.9	3.4
Current assets	**808.6**	**93.2**	**896.2**	**94.6**
Inventories	0.1	0.0	0.0	0.0
Trade receivables and other assets[2]	808.5	93.2	896.2	94.6
Cash and cash equivalents	0.0	0.0	0.0	0.0
Assets	**867.7**	**100.0**	**947.1**	**100.0**
In € m	**2016/12/31**	**%**	**2015/12/31**	**%**
Equity	391.0	45.1	385.0	40.6
Provisions	282.2	32.5	314.7	33.2
Liabilities	194.4	22.4	247.5	26.1
due to banks	[0.0]		[0.0]	
Equity and liabilities	**867.7**	**100.0**	**947.1**	**100.0**

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

The receivables from the liquidity (€ 707 million) provided to the subsidiary SKWG as part of a groupwide cash management continue to form the main items on the assets side. The treasury shares are disclosed separately from equity in accordance with the regulations prescribed by the German Commercial Code (HGB).

On the liabilities side, in particular pension obligations of € 262 million as well as residual repayment obligations (€ 168 million) in respect of the Dutch issuer of a convertible bond are disclosed, alongside equity. The reduction in liabilities is attributable to the repayment of a convertible bond (€ 57 million), thereby resulting in an increase in the equity ratio to 45.1% (previous year: 40.6%).

Income statement of Salzgitter AG (condensed)

In € m	2016	2015
Sales	**22.3**	**0**
Other operating income	23.0	26.5
Personnel expenses	19.1	48.6
Depreciation/amortization[1)]	1.3	1.3
Other operating expenses	29.4	29.0
Income from shareholdings	42.5	80.9
Net interest result	–10.1	–12.8
Income tax	0.3	0.0
After-tax result	**28.3**	**15.6**
Other taxes	–8.8	–1.7
Net income for the financial year	**19.5**	**13.8**

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

Sales revenues largely comprise earnings from the levying of a Group contribution, which was attributable to the first-time application of the German Accounting Directive Implementation Act (BilRUG) in 2016. In the previous year, these earnings were disclosed under other operating income. Other operating income in 2016 includes allocations to non-current financial investments, among other items, as well as the reversal of accruals. Personnel expenses were impacted in the previous year by one-off allocations to pension provisions of € 29.6 million. Income from shareholdings consisted almost exclusively of the contribution to the result received by SMG. As of December 31, 2016, the company had a workforce of 159 employees.

Disclosures pursuant to Sections 289 para. 4 and 315 para. 4 of the German Commercial Code (HGB)

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

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

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

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

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

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

- Upon approval by the Supervisory Board, the Executive Board may issue 30,048,500 new no par bearer shares against payment in cash or in kind on or before May 23, 2017 (Authorized Capital 2012), whereby a maximum of 12,019,400 units may be issued excluding the subscription rights of the shareholders (20% of all shares issued on May 24, 2012). The 20% cap is reduced by the proportionate amount in the capital stock to which the following relate: the option or conversion rights and the option or conversion obligations attached to the warrants, convertible bonds, profit participation rights and/or participating bonds or a combination of these instruments which have been issued, with subscription rights excluded, since May 24, 2012.
- Moreover, upon approval by the Supervisory Board, the Executive Board may issue bonds in a total nominal amount of up to € 1 billion on or before May 22, 2018, and grant the holders of the respective bonds conversion rights to shares of the company in a total amount of up to 26,498,043 units (Contingent Capital 2013). These shareholders' subscription rights can be precluded up to a total nominal amount of bonds with which conversion rights to shares are combined, of which the pro rata amount in the capital stock may not exceed 10% of the capital stock. Bonds with conversion rights excluding shareholder subscription rights may be issued only if shares making up a proportion of 20% of the capital stock, excluding subscription rights, from the Authorized Capital have not been issued since May 23, 2013. By the reporting date no shares had been issued from the Authorized Capital since May 23, 2013. On June 5, 2015, the Executive Board made use of the authorization to issue a bond in the form of a convertible bond to the exclusion of shareholder subscription rights with conversion rights pertaining to up to 3,548,407 new shares from contingent capital (Contingent Capital 2013), exercisable until May 26, 2022. By the reporting date, no holder of bonds forming part of the issue had yet exercised their conversion rights.
- The Executive Board is authorized to purchase the company's own shares equivalent to a proportion of the capital stock of up to 10% in the period on or before May 27, 2020, and to use these shares for all purposes permitted under the law.

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

- In the case of the 2015 convertible bond of € 168 million and the 2010 bond of €295 million exchangeable into shares, all bondholders are entitled to request the repayment of their bonds within a certain period in the event of a change of control; moreover, should bondholders exercise their conversion and/or exchange rights within a certain period, the convertible and/or exchangeable ratio will be adjusted in application of a specific formula.
- Under a contract agreed in 2012 with a banking syndicate on a credit line of € 500 million, each syndicate bank is entitled in the event of a change of control to terminate its participation in the credit line and, if desired, to request repayment.
- Under an agreement of the shareholders of EUROPIPE GmbH, Mülheim an der Ruhr, 50% of whose shares are held by the Group, the company may, if there is a change of control, retract shares without the consent of the shareholder affected in the event that the business activities of the third party that has attained a controlling influence stand in direct competition to the company's business activity. In place of retracting the shares, the other shareholders may request that shares are assigned to a designated purchaser.

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

Appropriation of the profit of Salzgitter AG

SZAG reported annual net income of € 19.5 million in the financial year 2016. Including the profit carryforward (€ 1.6 million), unappropriated retained earnings amount to € 21.1 million.

The Executive Board and the Supervisory Board will propose to the General Meeting of Shareholders that these unappropriated retained earnings (€ 21.1 million) be used to fund payment of dividend of € 0.30 per share (based on the capital stock of € 161.6 million divided into 60,097,000 shares) and that the remaining amount be carried forward to new account.

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

V. Opportunities and Risk Report, Guidance

1. Opportunity and Risk Management System

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

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

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

Our group and management structure that underwent fundamental changes back in 2014 and is aligned to efficient and effective structures and workflows forms an important basis for the consistent leveraging of potential. This allows us to seize market opportunities more swiftly and in a more selective manner against the backdrop of a challenging and dynamic environment.

The development of the business units is clearly aligned to customer and market requirements and geared to premium, innovative products as well as to ensuring the broadest base possible for the Group's business. Business opportunities are to be specifically used under the aspect of sustainable profitability. Alongside measures to promote organic growth, we also screen external options with regard to their potential contribution to securing the Salzgitter Group's success. Plant productivity and efficient resource deployment as well as the continuous optimization of product quality are also components that are critical to our Group's success.

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

Risks and risk management
In the past year our risk management system has proven its worth and effectiveness, also in the light of the impact of the financial, debt and European steel crisis as well as political imponderables.

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

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

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

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

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

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

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

Assessment
We generally document the quantitative extent of the potential calculated loss or damage in the light of all influencing factors in order to track and assess the threat scenario. In the event, provisions and valuation allowances reduce the amount of loss, which is noted in the risk documentation.

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

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

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

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

Dealing with risk
Measures that would need to be taken for evaluating and overcoming each respective risk are documented and reported as described below.

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

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

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

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

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

2. Individual Risks

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

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

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

are particularly significant for the Salzgitter Group.

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

Our business is burdened by the ongoing structural crisis in the steel market, massive competitive distortions from direct and indirect nationalization, and foreign policy developments. This is compounded by the United Kingdom leaving the EU ("Brexit"), the political imponderables from the Russia-Ukraine conflict, in Turkey and in the Near and Middle East, as well as by the direction the US trade policy may take in the future. We regard the persistently high import pressure as well as Germany's respective European energy and environmental policy as particularly serious factors of influence for our future development. Risks to the survival of the company may arise under certain circumstances from these scenarios.

A burdening effect is meanwhile also emanating from the numerous, often purely trade defense mechanisms from countries outside the EU that are no longer aimed at China alone but similarly at EU producers. SZAG is directly affected by an ongoing antidumping lawsuit in the US against heavy plate and wide strip imports from Germany, among other countries. On November 7, 2016, the US Department of Commerce imposed preliminary duties. A preliminary duty of 5% was imposed on SZAG. A decision on final duties is anticipated at the end of March 2017.

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

Policies on the climate and energy, the German Renewable Energies Act (EEG), along with emission trading and energy systems, for instance, are already causing burdens today. Compared with the status last reported, there has been a reevaluation of the risk situation to factor in considerations that the EEG was adjusted with effect from January 1, 2017, with consequences for electricity generated for own consumption. This amended version ultimately rules that the exemption on electricity generated for own consumption from the EEG levy will be basically retained in the future. Only if, for example, a power generating system or generator is replaced or significantly upgraded in a power plant will this trigger a proportion of 20% of the EEG levy on the electricity produced from such a system or part of a system in the future. Due to this amendment, we therefore retract the respective risk estimated and quantified at € 139 million a year. Additional costs already foreseeable in this context at a significantly lower level compared with the former risk assessment have been included in the planning. The background to this scenario is in particular that the Group's most important power generating unit, namely the power plant of Salzgitter Flachstahl GmbH (SZFG), was extensively upgraded only a few years ago. We are not anticipating more major replacements or significant upgradings in the area of power production.

Furthermore, our Group will likely have to purchase CO_2 allowances for the fourth ETS trading period commencing 2021. Indirectly associated in this context is the risk of a price increase in the electricity sourced externally. In terms of these two aspects, we still assess risk to be in the order of a maximum € 155 million a year. We view the probability of occurrence of the CO_2 emissions trading issue as generally likely. The amount of loss will hinge on the development of the political environment. The proposal to adjust the Emissions Trading Directive from 2021 onward put forward by the EU Commission in mid-2015 and the results in the meantime from the committees of the European Parliament have likely increased the fundamental probability of burdens of this kind occurring.

In the procurement of CO_2 allowances, we keep an eye on the threat of escalation in the current legal situation and prices.

Beginning with the cost aspect, using all energy sources sparingly is an important aspect for us, which is why we operate intensive groupwide energy monitoring.

Price risks of essential raw materials
During 2016, price trends on the international procurement markets were of a heterogeneous nature. Whereas iron ore largely remained within a price band similar to 2015, coking coal saw an absolute price rally from the summer onward. We assume that burdens can be passed on to customers, so that we do not anticipate any risks that could constitute a threat to our company as a going concern. We fundamentally endeavor to even out fluctuations in the price of raw materials through natural hedging: The Group applies a permanent system of monitoring sales and procurement to ensure congruence between the fixed-price procurement of raw materials and the fixed-price sale of our products. This system allows changes to be recognized at an early stage so that any resulting risk can be dealt with in time. In addition, we use hedging to a limited extent mainly for iron ore as well as increasingly for coking coal.

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

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

Selling risks
A risk typical of our business may also result from sharply fluctuating prices and volumes in our target markets. In assessing the current economic environment with regard to the outlook for the financial year 2017, we refer to the section entitled “Overall Statement on Anticipated Group Performance”.

We counteract the general risk to our company as a going concern by maintaining a diversified portfolio of products, customer sectors and regional sales market to achieve a certain balance in our risk portfolio. Owing to the aforementioned steel crisis and uncertainty in the project business on the large-diameter pipes market, the economic impact on the individual business units is not fully offset, even given an improvement in capacity utilization.

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

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

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

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

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

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

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

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

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

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

Legal risks
In order to exclude potential risks arising from a possible breach of the manifold fiscal, environmental, competition- and corruption-related rules and regulations and other legal provisions we require our employees' strict compliance. The Executive Board has communicated its fundamental set of values by distributing a Code of Conduct to all the Group's employees. We seek extensive legal advice from our experts as well as, on a case-by-case basis, from qualified external specialists. Comprehensive training supports the process of raising our employees' awareness of this aspect. In our opinion, there are no discernible material legal risks.

Personnel risks
SZAG actively competes on the market to attract qualified specialists and managers. The company counters the risk of fluctuation and the associated loss of knowledge by means of broad-based measures designed to develop its personnel. To this end, specialist career paths have been explicitly introduced with the aim of creating appropriate career prospects for our specialists. In our knowledge transfer, which is applied groupwide, we have developed an instrument that, in the case of successor staff, ensures continuity in the transfer of all knowledge-based information, contact and business connections pertaining to the respective professional activity. Moreover, we also offer attractive company pension schemes that, given the dwindling benefits under the state pension scheme, are becoming increasingly important.

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

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

In the meantime, judgments that are not yet final have been made in the court of first instance in four model proceedings.

Full subsequent adjustment to company pensions as of the reporting date of December 31, 2016, would result in an increase in the capitalized net pension obligation of around € 31.8 million. Of this amount, € 7.3 million would have to be reported as past service charge through profit and loss and € 24.5 million without effect on income in the context of revaluations. Transfers in companies for which the respective provisions were formed in the financial years 2015 and 2016 respectively have not been taken into consideration.

Product and environmental risks
We meet the challenge of product and environmental risks with a multitude of measures aimed at securing quality. Examples include:

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

Right at the manufacturing stage we aim to supply our customers with the agreed specifications, ensured through quality assurance systems.

SZAG's head of Environmental Protection and Energy Policies is tasked with centralizing and coordinating environmental and energy policy issues affecting all companies, representing the Group externally in matters relating to the environment and energy policies, and managing individual projects affecting the whole Group, as exemplified by the program to sustainably raise energy efficiency.

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

Information technology risks
The growing integration of information systems, also in the context of "Industry 4.0", and the demand for their permanent availability place increasingly greater requirements on the information technology (IT) and the IT infrastructure deployed.

We counteract potential risks and guarantee the availability and security of our information systems by using cutting-edge hard- and software and ensuring the ongoing technological upgrading of our IT infrastructure.

In the context of a multi-year program, the Group is endeavoring to harmonize IT structures that have evolved heterogeneously over time with a view to replacing them by a largely standardized EDP infrastructure. The first sub-projects under this harmonization process have already been completed. Alongside the necessary economic aspect, the compatibility and security of the IT systems and databases are guaranteed. The risks from this area are deemed manageable, and we estimate the probability of an adverse event occurring to be low.

Corporate strategy risks
We invest regularly in securing our future profitability. More detailed information on the individual business units is included in the section on “General Business Conditions and Performance of the Business Units”. We nevertheless see the need for restructuring for market and competitive reasons. We are addressing this in a targeted manner (reorganization of the heavy plate product segment [Ilsenburger Grobblech GmbH and Salzgitter Mannesmann Grobblech GmbH], termination of sheet piling activities [HSP Hoesch Spundwand und Profil GmbH], reorganization of the Mannesmann product segment [completed at the EUROPIPE Group, Dunkirk location, in the process of implementation at Salzgitter Mannesmann Line Pipe GmbH and the Salzgitter Mannesmann Precision Group]). We consider the risks inherent in this restructuring to be manageable.

3. Overall Statement on the Risk Position of the Group

Evaluation of the risk position by management
Having reviewed the overall risk position of the Salzgitter Group, we can conclude that there were no risks endangering either the individual companies or the entire Group as going concerns at the time when the 2016 annual financial statements were drawn up. This evaluation applies to the individual companies as well as to the Group as a whole.

Nevertheless, burdens on us continue to emanate from the ongoing structural crisis in the steel market, massive distortions of competition from direct and indirect nationalization, and foreign policy development. This is compounded by political imponderables in Turkey as well as in the Near and Middle East due to from the terrorist activities of Islamic State in Iraq and Syria extremists (ISIS). We regard Germany’s respective European energy and environmental policy as well as ongoing huge import pressure as particularly serious factors of importance for our future development. Risks to the survival of the company may arise under certain circumstances from these scenarios. The prices of important raw materials, such as iron ore or coking coal, also displayed a great deal of volatility in the year elapsed. The risk situation arising from these circumstances is contingent on passing on the potential burden to the customers.

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

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

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

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

Description of the main features of the accounting-related internal control system and the risk management system with respect to the (Group) accounting process (Sections 289 para. 5 and 315 para. 2 item 5 of the German Commercial Code (HGB))
To supplement the information already contained in the risk report, the main features of the internal control and risk management system implemented within the Salzgitter Group in respect of the (Group) accounting process can be described as follows:

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

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

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

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

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

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

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

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

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

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

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

4. General Business Conditions in the coming Year

According to the International Monetary Fund (IMF), **global economic momentum** is set to accelerate slightly in 2017, driven mainly by the emerging markets. While a notable recovery is anticipated for the US, most of the other industrial nations are more likely to report stable growth rates. Somewhat more moderate growth is predicted for the Chinese economy, along with an end to the recessions in Russia and Brazil, while stronger growth is forecast for the other emerging markets. All in all, the IMF anticipates global economic growth of 3.4% in 2017 (2016: 3.1%).

The **euro zone** is expected to continue its gradual recovery, with domestic economy considered a decisive factor, although private consumption may slow a little as a result of the recent renewed rise in energy prices. Capital expenditure is likely to make a below-average contribution to macroeconomic development due to the structural problems still prevailing in many euro countries. With an estimated 1.6%, the IMF anticipates a largely stable growth rate in the euro area compared with 2016 (1.7%).

The moderate upswing in **Germany's** domestic economy is forecast to continue in 2017. This development will still be attributable to private consumption, as opposed to the export trade from which little impetus is anticipated, also in view of the uncertainty surrounding the future economic policy of Germany's important trading partners. The IMF predicts a slight overall slowdown in economic growth for Germany to 1.5% in 2017 (2016: 1.7%).

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

Market outlook for steel
The World Steel Association anticipates that the marginal recovery in the demand for steel will hold steady in 2017. This assessment is supported by expectations of recessionary developments in important regional markets (Brazil, Russia) tailing off and a renewed upturn in demand for steel in the United States, following the slump in market supply in 2015/2016 due to the downturn in oil and gas prices. Global demand for steel is therefore likely to grow by 1% in the current year, which is too slow an acceleration for creating the stimulus crucial to finding a solution to the global structural crisis in steel, all the more so as the supply side also contributes too little to mitigating the structural problems. In China, the first steps toward sustainable capacity reduction were introduced over the past year that will, however, be far from sufficient. In addition, capacities in the rest of the world continue to be ramped up, with the exception of the EU and Japan where capacities were shut down.

Based on the forecast for the steel processing industries in Germany and in the EU that indicates stable demand, market supply in Germany is expected to rise (+2%). In the assessment of the German Steel Federation, positive demand impetus from the inventory cycle will also contribute to this development. Assuming that German steel imports and exports remain around the level posted in 2016, crude steel output is likely to grow by 2%. The anticipated paring down of stock levels that are too high, especially in Italy, and the consequences expected from the Brexit referendum will generally burden demand in the EU. Accordingly, EUROFER 2017 predicts that there will be no growth in demand in the EU countries as a whole. Given the persistently difficult foreign trade conditions, the question of whether the currently assumed easing of the EU balance of trade for steel actually materializes over the course of the year, with the anticipated growth in EU crude steel output (+1.5%), remains open.

Market outlook for steel tubes
Compared with the very cautious assessment in the previous year, the outlook for the steel tube industry has improved slightly. Following the initial upside impetus emanating from rising raw material and steel prices, the steel tubes business is also likely to receive support. Similarly, this is also likely to benefit from North America's expansive economic policy and energy policy that is focused more strongly again on fossil fuels. The seamless tubes business in particular could recover further, even if there are still significant surplus capacities specifically in this market segment. The large-diameter pipes market will remain dominated by the project business and will continue to be fiercely contested. The latter applies especially to the line pipe business with pipes of up to 16". The precision tubes industry is likely to develop at a stable level against the backdrop of a robust economy.

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

Market outlook for machine engineering
For the full year 2017, the German Engineering Federation (VDMA) anticipates a slight increase in sales of 1%. By contrast, growth in the food and packaging machinery market has been estimated at between 3% and 4% in 2017. The industry has proved to be more resilient compared with other segments of mechanical engineering. Strong impetus is anticipated from the region of North America. However, the extent to which the political situation in the US impacts future capital expenditure will require close observation. Strong propensity to invest has been assumed in Asia and particularly in China in 2017. The same applies to Africa and the Middle East where there have been signs of an uptrend since the end of the reporting year that is likely to continue over the course of 2017.

A positive development (+2%) in 2017 has also been assumed for the companies of the Technology Business Unit that operate in the plastics processing industry.

5. Overall Statement on Anticipated Group Performance

5.1 Planning Process

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

5.2 Expected Earnings

Compared with the previous year, the business units anticipate that business in the financial year 2017 will develop as follows:

Thanks mainly to selling prices rising in the EU steel market in response to the anti-dumping measures initiated in Europe, the **Strip Steel Business Unit** anticipates a more positive development of business. Assuming that robust demand holds steady, a notable increase in sales can be expected. Supported by ongoing cost reduction measures, a significant increase in the pre-tax result due to its return to the profit zone is envisaged despite the partly sharp rise in raw materials prices, particularly for iron ore and coking coal.

The **Plate / Section Steel Business Unit** will continue to be exposed to a difficult market environment in the current financial year. Satisfactory capacity utilization is nevertheless expected for the two heavy plate producers. Hence, the production of input materials for the Nord Stream II contract will contribute to a notable basic capacity utilization at the Mülheim mill. Moreover, the two companies will benefit from the extensive cost cutting and efficiency enhancement measures initiated in 2016. Passing on the full scope of hikes in raw material costs in a timely manner is, however, particularly challenging. Capacity utilization in the section steel business is expected to run at a satisfactory level. However, the volatile scrap price is likely to prompt speculative buying patterns on the part of customers. Drastic increases in grid usage fees for procuring electricity will pose an additional burden. All in all, the business unit anticipates a substantial volume- and selling price-induced increase in sales as well as a significant improvement in the result before taxes in the direction of breakeven.

The companies belonging to the **Mannesmann Business Unit** will again reflect very heterogeneous developments in 2017: While the German large-diameter pipe mills report good capacity utilization, also due to bookings in the previous year, the order situation in the North American market has deteriorated. The segments of medium-diameter line pipe, precision and stainless steel tubes are likely to stage a hesitant recovery at minimum. Rising shipment volumes supported by a higher selling price level should result in moderate sales growth in the segment. In conjunction with the profit improvement programs, both initiated and planned, a notably increased pre-tax result around breakeven is predicted.

In 2017, the **Trading Business Unit** anticipates marked sales growth on the back of the recovery in the international project business, as well as an increase in the sale of prefabricated products. Support should also emanate from expanding the customer base in the context of stepping up the digitalization of sales. As it cannot be assumed that the temporary widening of margins attributable to the steel price trend in 2016 will repeat in the financial year 2017, a very satisfactory pre-tax profit, albeit at a discernably lower level than in the previous year, is anticipated.

Based on a high order backlog, the **Technology Business Unit** anticipates that sales will remain stable. 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. Moreover, above all the efficiency enhancing measures introduced under the new "Fit4Future 3.0" program are likely to develop their positive impact. In conjunction with the promising outlook for the other specialist mechanical engineering companies, a tangible increase in pre-tax profit is expected.

In **Industrial Participations / Consolidation** that is mainly influenced by the costs of the management holding company, reporting-date related valuation effects from foreign exchange and derivatives positions, the results of the services companies assigned to it, and other associated companies, including Aurubis AG (NAAG), we expected a significantly lower year-on-year pre-tax result due to the very high year-earlier level.

Against the backdrop of additional positive effects from measures and growth programs, we anticipate the following for the Salzgitter Group in 2017:

- an increase in sales to around € 9 billion,
- a pre-tax profit of between € 100 million and € 150 million, as well as
- a return on capital employed (ROCE) that marginally exceeds the previous year's figure.

The forward-looking statements on the individual business units assume the absence of renewed recessionary developments. Instead, we anticipate an ongoing economic recovery in our fiercely contested main markets in the current financial year. As in recent years, please note that opportunities and risks from currently unforeseeable trends in selling prices, input material prices and capacity level developments, as well as exchange rate fluctuations, may considerably affect performance in the course of the financial year 2017. The resulting fluctuation in the consolidated pre-tax result may be within a considerable range, either to the positive or to the negative. The dimensions of this range become clear if one considers that, with around 12 million tons of steel products sold by the Strip Steel, Plate / Section Steel, Mannesmann and Trading business units, an average € 25 change in the margin per ton is sufficient to cause a variation in the annual result of more than € 300 million. Moreover, the accuracy of the company's planning is restricted by the volatile cost of raw materials and shorter contractual durations, on the procurement as well as on the sales side.

5.3 Anticipated Financial Position

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

An amount of € 456 million has been earmarked for our Group's capital expenditure budget in 2017. Together with the follow-up amount of around € 150 million in investments approved in previous years, the cash-effective portion of the 2017 budget should amount to approximately € 400 million (previous year: € 352 million). As previously, investments will be effectively triggered on a step-by-step basis and in accordance with the development of profit and liquidity.

The funds required in the financial year 2017 for foreseeable investment measures will exceed depreciation and amortization.

The financial position of our Group should be comparatively sound at the end of the year 2017 as well, particularly given the measures implemented in the capital markets in recent years. With a view to exploiting attractive placement conditions, external financing measures are subject to ongoing review.

The dividend amount will continue to be geared to the profit trend. The cyclical fluctuations typical of the sector are by nature reflected in the results of the Group, on the one hand, and in its share price, on the other. The separate financial statements of Salzgitter AG (SZAG) are decisive for the ability to pay dividend. The Salzgitter Group pursues a fundamental policy of paying out steady and attractive dividend – removed from volatile reporting-date related influences – based on the pre-requisite of achieving actual operating profit. Such payments do not necessarily have to fully reflect the cyclicality of the earnings performance. Against the backdrop of the market environment currently to be expected and the dependence of the earnings of SZAG on its subsidiaries we anticipate a result available for distribution for the financial year 2017 around the level of the previous year.

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

Consolidated Financial Statements

Overview of consolidated financial statements

I. Consolidated Income Statement

In € m	Note	2016	2015 restated
Sales	[1]	7,892.9	8,501.5
Increase/decrease in finished goods and work in process/other own work capitalized		–57.3	–60.8
		7,835.6	**8,440.6**
Other operating income	[2]	314.9	308.6
Cost of materials	[3]	5,072.0	5,648.0
Personnel expenses	[4]	1,652.9	1,621.0
Amortization and depreciation of intangible assets and property, plant and equipment	[5]	357.1	338.0
Other operating expenses	[6]	1,028.0	1,037.8
Income from shareholdings		3.9	13.8
Result from investments accounted for using the equity method		63.3	15.8
Finance income		28.9	35.3
Finance expenses		95.1	113.2
Earnings before taxes (EBT)		**41.4**	**56.2**
Income tax	[7]	–3.6	60.1
Consolidated result from continued operations		45.0	–3.8
Consolidated result from discontinued operations	[8]	11.8	–52.1
Consolidated result		**56.8**	**–56.0**
Amount due to Salzgitter AG shareholders		54.2	–58.6
Minority interests		2.6	2.6

Appropriation of profit in € m	Note	2016	2015 restated
Consolidated result		56.8	–56.0
Profit carried forward from the previous year		15.1	12.1
Minority interests in consolidated net loss for the year		2.6	2.6
Dividend payment		–13.5	–10.8
Allocations/withdrawals to/from retained earnings		–34.6	72.4
Unappropriated retained earnings of Salzgitter AG		**21.1**	**15.1**
Earnings per share (in €) – basic	**[9]**	**1.00**	**–1.08**
Earnings per share (in €) from continuing operations – basic	[9]	0.78	–0.12
Earnings per share (in €) – diluted	**[9]**	**0.99**	**–1.08**
Earnings per share (in €) from continuing operations – diluted	[9]	0.77	–0.12

II. Statement of Comprehensive Income

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

2015 restated in € m	Total	Share of the Salzgitter AG shareholders	Minority interests
Consolidated profit or loss	**–56.0**	**–58.6**	**2.6**
Recycling			
Reserve from currency translation	12.1	12.2	–0.0
Changes in value from cash flow hedges	–14.1	–14.1	–
Fair value change	–60.9	–60.9	–
Basis adjustments	42.8	42.8	–
Recognition with effect on income	–2.9	–2.9	–
Deferred tax	7.0	7.0	–
Change in value due to available-for-sale financial assets	–0.1	–0.1	–0.0
Fair value change	0.3	0.3	–0.0
Recognition with effect on income	–	–	–
Deferred tax	–0.3	–0.3	–
Changes in value of investments accounted for using the equity method	14.8	14.8	–
Fair value change	–3.4	–3.4	–
Recognition with effect on income	8.7	8.7	–
Currency translation	9.1	9.1	–
Deferred tax	0.4	0.4	–
Deferred taxes on other changes without effect on the income	0.1	–0.0	0.2
	12.9	**12.8**	**0.1**
Non-recycling			
Remeasurements	53.8	54.1	–0.3
Remeasurement of pensions	68.0	68.1	–0.1
Deferred tax	–14.3	–14.0	–0.3
Changes in value of investments accounted for using the equity method	–9.1	–9.1	–
	44.6	**44.9**	**–0.3**
Other comprehensive income	**57.5**	**57.8**	**–0.2**
Total comprehensive income	**1.6**	**–0.8**	**2.4**
Continuing operations		50.5	
Discontinued operations		–51.3	

III. Consolidated Statement of Financial Position

Assets in € m	Note	2016/12/31	2015/12/31 restated	2015/01/01 restated
Non-current assets				
Intangible assets	[10]	223.3	156.6	106.3
Property, plant and equipment	[11]	2,343.4	2,405.0	2,387.3
Investment property	[12]	21.8	21.4	21.6
Financial assets	[13]	95.6	154.6	160.6
Investments accounted for using the equity method	[14]	660.4	612.4	602.1
Deferred income tax assets	[15]	355.1	299.7	295.8
Other receivables and other assets		0.0	0.7	1.4
		3,699.5	**3,650.4**	**3,575.1**
Current assets				
Inventories	[16]	1,842.8	1,751.4	1,940.6
Trade receivables	[17]	1,476.2	1,495.8	1,646.6
Other receivables and other assets	[18]	504.3	416.8	374.4
Income tax assets	[19]	26.5	21.6	18.6
Securities	[20]	82.3	55.8	113.6
Cash and cash equivalents	[21]	818.1	836.2	774.0
		4,750.3	**4,577.5**	**4,867.8**
		8,449.8	**8,227.9**	**8,442.9**

Equity and liabilities in € m	Note	2016/12/31	2015/12/31 restated	2015/01/01 restated
Equity				
Subscribed capital	[22]	161.6	161.6	161.6
Capital reserve	[23]	257.0	257.0	238.6
Retained earnings		2,703.4	2,784.2	2,802.7
Other reserves		71.4	−19.1	−22.8
Unappropriated retained earnings	[24]	21.1	15.1	12.1
		3,214.5	**3,198.8**	**3,192.2**
Treasury shares		−369.7	−369.7	−369.7
		2,844.8	**2,829.1**	**2,822.5**
Minority interest		7.1	8.1	7.8
		2,852.0	**2,837.2**	**2,830.3**
Non-current liabilities				
Provisions for pensions and similar obligations	[25]	2,449.0	2,327.3	2,442.2
Deferred income tax liabilities	[15]	39.3	27.0	4.5
Income tax liabilities	[19]	67.7	37.2	132.9
Other provisions	[26]	245.3	307.2	327.9
Financial liabilities	[27]	452.4	543.0	180.0
Other liabilities		4.5	23.5	23.0
		3,258.1	**3,265.2**	**3,110.5**
Current liabilities				
Other provisions	[26]	292.5	299.6	310.8
Financial liabilities	[28]	493.6	284.9	568.6
Trade payables	[29]	1,154.5	975.7	1,150.7
Income tax liabilities	[19]	34.1	190.6	55.4
Other liabilities	[30]	365.1	374.7	416.6
		2,339.7	**2,125.5**	**2,502.1**
		8,449.8	**8,227.9**	**8,442.9**

IV. Cash Flow Statement

In € m	2016	2015 restated
Earnings before taxes (EBT)	53.2	4.1
Depreciation, write-downs (+) / write-ups (–) of non-current assets	332.1	340.7
Income tax paid (–) / refunded (+)	– 137.6	– 32.6
Other non-cash expenses (+) / income (–)	110.0	164.3
Interest expenses	94.6	113.2
Gain (–) / loss (+) from the disposal of non-current assets	7.6	8.6
Increase (–) / decrease (+) in inventories	– 82.6	202.1
Increase (–) / decrease (+) in trade receivables and other assets not attributable to investment or financing activities	9.0	137.2
Use of provisions affecting payments, excluding use of tax provisions	– 256.2	– 247.8
Increase (+) / decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	160.1	– 242.0
Cash inflow from operating activities	**290.2**	**447.7**

€ million	2016	2015 restated
Deposits from retirement of fixed assets	2.6	2.4
Payments for investments in intangible assets and property, plant and equipment	–347.8	–421.0
Deposits (+) / payments (–) for financial investments	–24.3	–96.0
Deposits from retirement of non-current financial assets	11.4	13.5
Payments for investments in non-current financial assets	–5.5	–6.7
Outflow of funds from investment activity	**–363.6**	**–507.8**
Payments to owners	–13.5	–10.8
Deposits (+) / repayments (–) from taking out loans and other financial debts	99.0	142.0
Interest payments	–32.9	–16.3
Inflow of funds from financing activity	**52.6**	**114.9**
Cash and cash equivalents at the start of period	836.2	774.0
Cash and cash equivalents after change to consolidation group	4.4	8.1
Changes in exchange rates for cash and cash equivalents	–1.8	–0.7
Change in cash and cash equivalents from cash relevant transactions	–20.7	54.8
Cash and cash equivalents at the end of period	**818.1**	**836.2**

[1] The result from ordinary activities (EBT) refers to the continuing and discontinued operations in total. A reconciliation of the result from discontinued operations can be found in Note (8) Result from discontinued operations.

V. Statement of Changes in Equity

In € m	Subscribed capital	Capital reserve	Treasury shares	Retained earnings	Other reserves from Currency translation
As of 2015/01/01 before restatement	**161.6**	**238.6**	**−369.7**	**2,847.8**	**−2.2**
Adjustment	–	–	–	−45.1	–
Status as at 2015/01/01 restated	**161.6**	**238.6**	**−369.7**	**2,802.7**	**−2.2**
Consolidated result	–	–	–	–	–
Other comprehensive income	–	–	–	54.1	12.2
Total comprehensive income	–	–	–	54.1	12.2
Dividend	–	–	–	–	–
Allocations contributions and withdrawals to/from capital reserve	–	18.3	–	–	–
Allocations/withdrawals to/from retained earnings	–	–	–	−72.4	–
Initial consolidation of Group companies so far not consolidated for materiality reasons	–	–	–	4.3	–
Other	–	–	–	−4.5	–
As of 2015/12/31 not restated	**161.6**	**257.0**	**−369.7**	**2,839.8**	**9.9**
Adjustment	–	–	–	−55.7	–
Status as at 2015/12/31 restated	**161.6**	**257.0**	**−369.7**	**2,784.2**	**9.9**
Consolidated result	–	–	–	–	–
Other comprehensive income	–	–	–	−123.0	8.4
Total comprehensive income	–	–	–	−123.0	8.4
Dividend	–	–	–	–	–
Allocations contributions and withdrawals to/from capital reserve	–	–	–	–	–
Allocations/withdrawals to/from retained earnings	–	–	–	34.6	–
Initial consolidation of Group companies so far not consolidated for materiality reasons	–	–	–	6.3	–
Other	–	–	–	1.4	−0.1
As of 2016/12/31	**161.6**	**257.0**	**−369.7**	**2,703.4**	**18.2**

Cash flow hedges	Available-for-sale financial assets	Investments in companies accounted for using the equity method	Unappropriated profit	Share of the Salzgitter AG shareholders	Minority interests	Equity
−19.2	**−9.4**	**8.1**	**12.1**	**2,867.7**	**7.8**	**2,875.4**
–	–	–	–	−45.1	–	−45.1
−19.2	**−9.4**	**8.1**	**12.1**	**2,822.5**	**7.8**	**2,830.3**
–	–	–	−58.6	−58.6	2.6	−56.0
−14.1	−0.1	5.7	–	57.8	−0.2	57.5
−14.1	−0.1	5.7	−58.6	−0.8	2.4	1.6
–	–	–	−10.8	−10.8	−2.6	−13.5
–	–	–	–	18.3	–	18.3
–	–	–	72.4	–	–	–
–	–	–	–	4.3	–	4.3
–	–	–	–	−4.5	0.6	−3.9
−33.3	**−9.4**	**13.7**	**15.1**	**2,884.7**	**8.1**	**2,892.8**
–	–	–	–	−55.7	–	−55.7
−33.3	**−9.4**	**13.7**	**15.1**	**2,829.1**	**8.1**	**2,837.2**
–	–	–	54.2	54.2	2.6	56.8
89.7	−7.4	−0.1	–	−32.4	−0.3	−32.7
89.7	−7.4	−0.1	54.2	21.7	2.3	24.1
–	–	–	−13.5	−13.5	−3.0	−16.5
–	–	–	–	–	–	–
–	–	–	−34.6	–	–	–
–	–	–	–	6.3	–	6.3
–	–	–	–	1.3	−0.3	1.0
56.5	**−16.9**	**13.6**	**21.1**	**2,844.8**	**7.1**	**2,852.0**

VI. Notes

(36) Segment Reporting

In € m	Strip Steel		Plate / Section Steel		Mannesmann	
	2016	2015 restated	2016	2015 restated	2016	2015 restated
External sales	1,814.6	1,922.5	741.8	908.8	999.4	1,062.6
Sales to other segments	577.7	593.9	680.5	824.0	77.1	105.3
Sales to group companies that are not allocated to an operating segment	1.6	1.9	1.0	1.0	256.5	328.6
Segment sales	2,393.9	2,518.3	1,423.4	1,733.8	1,333.0	1,496.4
Interest income (consolidated)	4.1	0.6	1.5	0.6	1.3	0.4
Interest income from other segments	–	–	–	0.0	–	–
Interest income from group companies that are not allocated to an operating segment	0.1	0.2	0.1	0.1	1.4	0.9
Segment interest income	4.2	0.8	1.6	0.8	2.6	1.3
Interest expenses (consolidated)	17.6	21.9	4.1	3.4	9.0	9.0
Interest expenses to other segments	–	–	–	–	–	–
Interest expenses from group companies that are not allocated to an operating segment	23.9	34.2	9.7	14.3	6.3	7.3
Segment interest expenses	41.6	56.1	13.8	17.7	15.3	16.3
Scheduled depreciation of property, plant and equipment and amortization of intangible assets (excluding impairment costs in acc. with IAS 36)	177.5	171.5	46.2	49.0	58.2	59.4
Impairment of tangible and intangible assets (according to IAS 36)	–	–	–	–	15.0	–
Reversal of impairment of tangible and intangible assets (according to IAS 36)	–	–	25.0	–	–	–
Impairment of financial assets	–	–	–	–	0.0	0.4
Segment earnings before taxes	–2.3	–26.0	–32.1	–74.1	–22.4	2.2
of which result from investments accounted for using the equity method	–	–	–	–	7.1	0.6
Material non-cash items	21.9	6.7	40.8	41.0	30.0	18.4
Investments in property, plant and equipment and intangible assets	189.3	239.2	23.8	38.8	87.7	73.9

Trading		Technology		Total segments		Reconciliation		Group	
2016	2015 restated	2016	2015 restated	2016	2015 restated	2016	2015 restated	2016	2015 restated
2,855.0	3,210.7	1,300.3	1,309.4	7,711.1	8,413.9	194.6	204.5	7,905.7	8,618.4
26.0	102.4	0.4	0.6	1,361.7	1,626.2	544.1	616.5	1,905.8	2,242.7
0.1	0.1	0.0	–	259.2	331.5	–	–	259.2	331.5
2,881.0	3,313.1	1,300.7	1,310.0	9,332.0	10,371.7	738.7	821.0	10,070.7	11,192.6
2.6	4.1	4.5	3.5	13.8	9.2	14.7	26.2	28.6	35.4
–	0.0	–	–	–	0.0	41.4	58.1	41.4	58.1
4.0	1.2	0.7	0.0	6.3	2.5	–	–	6.3	2.5
6.6	5.3	5.1	3.5	20.1	11.6	56.2	84.3	76.3	95.9
10.2	10.2	3.4	3.2	44.4	47.7	50.2	65.4	94.6	113.2
–	0.0	–	–	–	0.0	6.3	2.5	6.3	2.5
0.2	1.6	1.3	0.7	41.4	58.1	–	–	41.4	58.1
10.4	11.8	4.8	3.9	85.8	105.8	56.5	67.9	142.3	173.7
10.4	9.9	22.3	22.9	314.6	312.7	27.6	27.6	342.1	340.3
–	–	–	–	15.0	–	–	–	15.0	–
–	–	–	–	25.0	–	–	–	25.0	–
–	–	–	–	0.0	0.4	–	–	0.0	0.4
45.2	32.2	28.4	24.6	16.9	–41.1	36.3	45.2	53.2	4.1
–	–	–	–	7.1	0.6	56.2	15.2	63.3	15.8
11.5	–5.9	32.2	38.0	136.3	98.2	8.5	13.4	144.8	111.7
7.7	14.6	21.8	17.2	330.2	383.6	21.9	27.8	352.1	411.4

Analysis of Fixed Assets 2016

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

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

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

Analysis of Fixed Assets 2015

In € m	Acquisition and production costs						
	2015/01/01 restated	Currency translation differences	Changes in the con-solidated group	Additions	Disposals	Transfers to other accounts	2015/12/31 restated
Intangible assets							
Concessions, brand names, industrial property rights plus licenses and emission rights	311.9	−0.1	0.2	62.8	6.3	2.9	371.4
Payments on account	–	–	–	2.1	–	−1.8	0.3
	311.9	**−0.1**	**0.2**	**64.9**	**6.3**	**1.1**	**371.7**
Property, plant and equipment							
Land, similar rights and buildings, including buildings on land owned by others	1,634.9	3.7	1.1	13.4	4.2	9.2	1,658.2
Plant equipment and machinery	6,480.3	5.5	0.6	222.7	125.0	82.9	6,667.1
Other equipment, plant and office equipment	396.5	0.7	3.2	25.0	18.9	5.1	411.5
Payments made on account and equipment under construction	109.1	0.1	0.2	85.4	0.2	−98.3	96.4
	8,620.8	**10.0**	**5.1**	**346.5**	**148.3**	**−1.1**	**8,833.2**
Investment property	**28.7**	**–**	**–**	**–**	**–**	**–**	**28.7**
Financial assets							
Investments in affiliated companies	16.8	–	−2.9	1.7	4.1	17.0	28.6
Shareholdings	10.0	–	–	–	–	–	10.0
Non-current securities	36.2	–	–	4.3	2.1	−0.7	37.8
Other loans	90.3	0.2	3.3	1.9	11.3	–	84.3
	153.3	**0.2**	**0.4**	**7.9**	**17.5**	**16.3**	**160.7**
	9,114.8	**10.1**	**5.7**	**419.3**	**172.1**	**16.3**	**9,394.3**

								Valuation allowances		Book values
2015/01/01 restated	Currency trans-lation differ-ences	Changes in the con-solidated group	Write-ups in the financial year	Deprecia-tion in the financial year	Disposals	Other changes without effect on income	Transfers to other accounts	2015/12/31 restated	2015/12/31 restated	2014/12/31 restated
−205.6	−0.1	–	–	−15.5	6.0	–	–	−215.1	156.3	106.3
–	–	–	–	–	–	–	–	–	0.3	–
−205.6	**−0.1**	**–**	**–**	**−15.5**	**6.0**	**–**	**–**	**−215.1**	**156.6**	**106.3**
−959.7	−0.8	−0.8	–	−31.3	3.2	–	–	−989.5	668.7	675.2
−4,953.9	−3.0	−0.4	–	−264.0	115.8	–	−2.3	−5,107.8	1,559.3	1,526.4
−313.8	−0.6	−1.8	–	−29.1	18.5	–	–	−326.8	84.7	82.7
−6.1	–	–	–	−0.2	–	–	2.3	−4.0	92.4	103.0
−6,233.5	**−4.4**	**−3.0**	**–**	**−324.6**	**137.5**	**–**	**–**	**−6,428.2**	**2,405.0**	**2,387.3**
−7.1	**–**	**–**	**–**	**−0.2**	**–**	**–**	**–**	**−7.3**	**21.4**	**21.6**
−0.2	–	0.5	–	−0.4	1.5	–	−17.0	−15.7	12.8	16.6
–	–	–	–	–	–	–	–	–	10.0	10.0
7.9	–	–	–	–	−0.1	1.5	0.7	10.0	47.8	44.1
−0.4	–	–	–	–	–	–	–	−0.4	83.9	89.9
7.3	**–**	**0.5**	**–**	**−0.4**	**1.4**	**1.5**	**−16.3**	**−6.1**	**154.6**	**160.6**
−6,438.9	**−4.3**	**−2.5**	**–**	**−340.7**	**144.9**	**1.5**	**−16.3**	**−6,656.7**	**2,737.5**	**2,675.8**

Principles of the Consolidated Financial Statements

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

The guiding principles for the preparation of SZAG's consolidated financial statements are the accounting rules of the International Accounting Standards Board (IASB) that are mandatory in the European Union as of the balance sheet date, as well as the supplementary rules of Section 315a para. 1, German Commercial Code (HGB). These standards, together with the interpretations based on them, constitute the foundation for the accounting and valuation principles that must be applied uniformly throughout the Group. All of the requirements set down in these standards were fulfilled without exception, with the result that the consolidated financial statements were prepared in compliance with the applicable accounting rules (IFRS). The consolidated financial statements of SZAG are prepared in euros. Unless otherwise indicated, the amounts are stated in millions of euros (€ m). As a result, there may be deviations from the unrounded amounts.

On Thursday, December 8, 2016, the Executive Board and the Supervisory Board issued the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG) and made it permanently available to shareholders on the company’s website (www.salzgitter-ag.de). The Declaration of Conformity is also printed in the “Corporate Governance Report” section of the Annual Report.

The consolidated financial statements and the Group management report were approved by the Executive Board on Monday, February 27, 2017, for submission to the Supervisory Board. They will then be published in the German Federal Gazette.

Accounting and Valuation Principles

Effects of standards applied for the first time or amended standards

Standards/Interpretation		Mandatory date in financial year	Adoption by EU Commission[1]	Effects
	Annual Improvements of IFRS (cycle 2010–2012)[1]	2016	yes	none
	Annual Improvements (2012–2014 cycle)[2]	2016	yes	none
IAS 1	Amendment – disclosure initiative	2016	yes	compare with following information
IAS 16 IAS 38	Amendment – clarification of acceptable methods of depreciation and amortization	2016	yes	none
IAS 19	Employee Benefits – Defined Benefit Plans: Employee contributions	2016	yes	none
IFRS 10 IFRS 12 IAS 28	Amendment – investment companies – application of consolidation exception	2016	yes	none
IFRS 11	Amendment – accounting for acquisition of interest in joint operations	2016	yes	none

[1]Marginal changes to a multitude of standards (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38)
[2]Marginal changes to a multitude of standards (IFRS 5, IFRS 7, IAS 19, IAS 34)

The amendments to IAS 1 made in connection with the Disclosure Initiative were implemented in the current financial year. In the process, the entire Notes were freed of insignificant details in order to promote the communication of relevant information.

Foreseeable effect of new and/or amended standards to be applied in the future

Standards/Interpretation		Mandatory date in financial year	Adoption by EU Commission[1]	Likely effects
	Annual Improvements of IFRS (cycle 2014–2016)[1]	2017	no	none
IAS 7	Amendment – disclosure initiative	2017	no	notes
IAS 12	Amendment – recognition of deferred tax assets for unrealized losses	2017	no	none
IAS 40	Amendment – changes of usage for the classification of property as "self-used" or "held for investment" must be demonstrable.	2018	no	none
IFRS 9	Financial instruments	2018	yes	compare with following information
IFRS 15	Revenue from contracts with customers including change in effective date and other details	2018	partially	compare with following information
IFRS 16	leasing	2019	no	compare with following information
IFRS 10 IAS 28	Amendment – sale of an investor's assets or their transfer to an affiliated company or joint venture	deferred indefinitely	no	not foreseeable

[1]Details to following standards (IFRS 1, IFRS 12, IAS 28)

The new standards, IFRS 9 "Financial Instruments" and IFRS 15 "Sales Revenues from Customer Contracts" are to be applied from 1 January 2018. It has been established in the course of impact analyses that there would be no notable effects on the present consolidated financial statements arising from the changes for which these new standards are responsible. It is currently assumed that there are no major effects, even at the time of changeover.

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

Effects of the retroactive correction of an error

A retrospective correction of the value for inventories was required as a result of a procedural error discovered in 2016 at a subsidiary in the Plate / Section Steel Division. The carrying amount was adjusted for the period of 2014 and before – in compliance with the relevant IFRS rules – and recognized directly in equity. A correction impacting on profit and loss was also made for the 2015 financial year. A detailed description of the adjustments can be found in Section 34.

Consolidation principles and methods

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

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

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

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

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

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

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

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

Consolidated Group

In addition to the annual financial statements of the parent company, the consolidated financial statements include the annual financial statements of 59 (previous year: 61) domestic and 51 (previous year: 43) foreign affiliated companies, all prepared as of the same reporting date. The financial year of SZAG and its subsidiaries included in the consolidated financial statements generally corresponds to the calendar year. Two companies in the domestic market are no longer part of the Group as they have merged. The additions concern eight foreign – hitherto on the grounds of immateriality – non-consolidated companies from the Trading and Technology business units whose IFRS figures from ongoing operations were included in SZAG's consolidated financial statements for the first time in the financial year 2016. Profits or losses carried forward were recognized directly in equity.

A total of eight (previous year: eight) domestic and 17 (previous year: 25) foreign subsidiaries have not been consolidated due to their minor overall significance for the Group's net assets, financial position and results of operations, but shown as financial assets (shares in affiliated companies). Most of these companies are non-operational shell or holding companies and very small marketing or real estate companies.

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

As an associated company, Aurubis AG, Hamburg, in which Salzgitter Mannesmann GmbH has a 25% participating interest, is accounted for using the equity method, as it was in the previous year. Aurubis AG in turn holds a stake of 1.2% (previous year: 1.8%) in Salzgitter AG. There is no business relationship between the companies. Salzgitter Mannesmann GmbH has a 50% participating interest in EUROPIPE GmbH, Mülheim. As both owners of EUROPIPE GmbH run the company jointly and have a contractual share of its net assets, this constitutes a joint venture. The EUROPIPE Group is therefore also accounted for using the equity method. The EUROPIPE Group procures input material from the Salzgitter Group.

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

Currency translation

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

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

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

Estimates and assumptions

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

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

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

Income taxes

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

Provision for pensions and similar obligations

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

Provisions for typical operational risks

This item mainly contains landfill obligations. In determining these very long-term obligations, assumptions must be made about future payment streams and cost increases.

Intangible assets

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

Intangible assets generated internally are capitalized if it is probable that their usefulness for the Group is reliable and if the acquisition or production costs can be measured with accuracy. The production costs of internally generated intangible assets are determined on the basis of directly attributable costs. Costs that are necessary for the creation, production and development of the asset so that it is in good operational condition for the purposes intended for it by the Group's management are included. These intangible assets are usually amortized over a period of 5 years.

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

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

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

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

Property, plant and equipment

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

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

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

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

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

Useful economic lives

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

Leasing

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

Investment property

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

Financial assets – categorization

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

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

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

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

Financial assets – recognition and measurement

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

Financial assets are initially recognized at their fair value.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair value hedge

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

Cash flow hedge

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

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

Inventories

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

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

Construction contracts

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

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

Provision for pensions and similar obligations

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

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

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

Income tax

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

As of December 31, 2016, the deferred taxes of domestic corporate entities were evaluated with an overall tax rate of 30.8 % (previous year: 30.8 %). This tax rate is made up of the business tax rate applicable to the Group of 15.0 % (previous year: 15.0 %) and the corporation tax rate of 15.8 % (including the solidarity surcharge; previous year: 15.8 %).

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

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

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

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

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

Other provisions

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

Financial liabilities held for trading

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

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

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

Discontinued operations

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

Income and expense recognition

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

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

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

Impairment of assets (impairment test)

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

Financial risk management

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

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

Currency risk

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

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

Cash flow and fair value interest rate risk

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

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

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

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

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

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

Notes to the Income Statement

(1) Sales

In € m	2016	2015 restated
By product group		
Strip Steel	3,572.5	3,856.7
Section Steel	575.7	681.0
Pipes	1,341.1	1,299.1
Filling and packaging machinery	1,281.3	1,298.8
Other	1,122.3	1,365.9
	7,892.9	**8,501.5**
Breakdown by region		
Domestic	3,534.5	3,822.8
Other EU	1,788.5	1,754.2
Rest of Europe	314.0	281.4
America	972.4	1,196.4
Asia	764.0	789.3
Africa	495.0	624.4
Australia/Oceania	24.6	32.9
	7,892.9	**8,501.5**

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

Sales include revenues amounting to € 761.8 million (previous year: € 750.1 million) recorded using the percentage-of-completion method.

(2) Other operating income

Other operating income contains essentially income from the release of provisions and writedowns as well as from the valuation of financial derivatives and foreign currency positions. Furthermore, this item also contains subsidies amounting to € 4.1 million (previous year: € 3.6 million) as well as lease income amounting to € 6.7 million (previous year: € 6.5 million).

(3) Material expenses

In € m	2016	2015 restated
Cost of raw materials, consumables, supplies and goods purchased	4,639.7	5,225.3
Cost of services purchased	432.3	422.7
Cost of materials	**5,072.0**	**5,648.0**

(4) Personnel expenses

In € m	2016	2015 restated
Wages and salaries	1,368.7	1,335.7
Social security, pensions and other benefits	284.2	285.3
of which pension plans and retirement benefits	[131.1]	[130.9]
Personnel expenses	**1,652.9**	**1,621.0**

In the financial year the sum total of all defined-contribution pension expenses in the Salzgitter Group stood at € 102.2 million (previous year: € 98.8 million). The service cost for defined-benefit pension commitments in the financial year amounted to € 28.9 million (previous year: € 32.1 million).

Average number of employees (excl. employees in non-active age-related part-time employment)	2016	2015 restated
Wage labor	13.640	13.904
Salaried employees	9.773	9.773
Group core workforce	**23.413**	**23.677**

Of the Group employees, 906 (previous year: 913) are involved in joint arrangements.

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

The scheduled depreciation and amortization comprise amortization of intangible assets and depreciation of property, plant and equipment, and are shown in the assets analysis. An impairment expense of € 15.0 million has been recognized for technical equipment and machinery.

Reversals of writedowns are recorded under other operating income (2). They were made up as follows:

In € m	2016	2015 restated
Freehold land and leasehold rights/ interests and buildings including buildings on leasehold land	8.9	–
Plant equipment and machinery	16.1	–
Reversal of impairment	**25.0**	–

The impairment expenses as well as the reversals of impairment are determined in accordance with the rules contained in IAS 36 and were applied to the value-in-use or fair value less sales costs whichever is the higher.

The calculation was made using the discounted cash flow method based on an interest rate of 6.17 % (previous year: 5.43 %) for the Technology Business Unit and 5.22 % p.a. (previous year: 5.97 % p.a.) for the other business units. The calculation is based on the current plans prepared by management for the three following years (Level 3 of the valuation hierarchy). The premises of the plans are adjusted to the current status of knowledge that, in turn, is based on general business and economic data supplemented by the company’s own estimates. In the process, basic assumptions are made especially in the areas of exchange rates, sale and procurement prices, and production and sales volumes.

An impairment expense resulted for the cash-generating unit of Salzgitter Mannesmann Line Pipe GmbH on the basis of the fraught underlying economic conditions and the resulting decline in sales. A stable earnings position was achieved for the cash-generating unit of Peiner Träger GmbH with the implementation of the altered corporate plan, with the result that it was possible to reverse the impairment loss.

(6) Other operating expenses

This item essentially contains expenditure for external services, for the formation of provisions and for distribution. It also recognizes expenditure from operating leases amounting to € 34.7 million (previous year: € 34.9 million).

(7) Taxes on income

In € m	2016	2015 restated
Income tax		
current tax expenses/tax income (+/–)	32.0	49.0
deferred tax expenses/tax income (+/–)	–35.6	11.0
	–3.6	**60.1**
of which unrelated to the reporting period	[–1.9]	[17.7]
Total	**–3.6**	**60.1**

The income taxes amounting to € –3.6 million relate to the result from ordinary activities from ongoing operations. The income taxes unrelated to the reporting period comprise deferred and actual taxes for previous years.

The reduction in actual income taxes to € 32.0 million is essentially due to the fact that they were affected in the previous year by taxes unrelated to the reporting period. All in all, the actual income taxes applicable to domestic companies amount to € 14.3 million (previous year: € 33.3 million). The essential reason for the rise in deferred tax income to € 35.6 million is the re-estimation of the value of deferred tax assets on loss carryforwards in the controlling company in Germany.

Thanks to the use of tax loss carryforwards that had not previously been availed of, the actual tax expenses were reduced by € 1.4 million (previous year: € 2.5 million).

Future dividend payments will not incur any consequences as far as income tax is concerned. Claims for credits for reducing corporation tax at German companies in the amount of € 0.2 million (previous year: € 0.5 million) are included in the balance sheet.

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

In € m	2016/12/31		2015/12/31 restated	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Intangible assets	5.6	10.5	6.9	10.6
Property, plant and equipment	48.7	143.4	63.1	160.3
Financial assets	0.8	2.1	0.7	2.1
Current assets	23.8	72.3	22.0	53.8
Pension provisions	279.5	–	227.3	–
Other provisions	89.2	6.0	75.8	6.0
Special reserve with equity portion	–	3.2	–	3.2
Liabilities	7.7	6.2	37.6	5.0
Other items	9.1	0.9	6.9	–
Total	**464.4**	**244.6**	**440.3**	**241.0**

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

In € m	2016/12/31	2015/12/31 restated
Corporate income tax	52.0	39.6
Trade tax	44.0	33.9
Capitalized tax savings	**96.0**	**73.5**

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

In € m	2016	2015 restated
Capitalized tax savings, 01/01	73.5	69.5
Changes in the consolidated group	–	0.2
Capitalization of tax savings from losses carried forward	27.5	6.8
Valuation allowances from losses carried forward	−0.5	−0.6
Use of losses carried forward	−4.5	−2.4
Capitalized tax savings, 12/31	**96.0**	**73.5**

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

For a number of domestic companies, no deferred taxes were activated for trade tax loss carryforwards amounting to € 1,566.1 million (previous year: € 1,619.6 million) and corporation tax loss carryforwards amounting to € 1,893.0 million (previous year: € 1,971.2 million) because, from a current viewpoint, the possibility of their being used can be regarded as unlikely. The tax loss carryforwards can be utilized without time restrictions.

For foreign non-recoverable loss carryforwards amounting to € 94.4 million (previous year: € 77.8 million), deferred tax assets have likewise not been activated. Of this amount, € 85.0 million (previous year: € 68.8 million) can be utilized for an unlimited period of time, € 7.1 million (previous year: € 6.5 million) limited to the next five years and € 2.3 million (previous year: € 2.5 million) limited to the next 20 years. For domestic and foreign companies, moreover, no deferred tax assets for deductible temporary differences in the amount of € 112.3 million (previous year: € 99.8 million) were formed.

In the case of Group companies that have generated tax losses in the current or previous financial year, deferred tax assets amounting to € 4.4 million (previous year: € 5.8 million) are reported as of December 31, 2016 because of anticipated future taxable income.

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

In € m	2016	2015 restated
Earnings before taxes (EBT)	**41.4**	**56.2**
Expected income tax expenses (30.8 %)	12.7	17.3
Tax share for:		
differences between tax rates	–0.5	0.5
effects of changes in statutory tax rates	0.0	–0.4
tax credits	–1.6	–4.2
tax-free income	–16.5	–8.6
non-deductible tax expenses and other permanent differences	12.5	23.6
effects of variances and losses		
without capitalization of deferred tax	17.3	19.1
adjustments in the value of capitalization benefits	–24.7	–3.1
utilization of benefits not previously capitalized	–1.4	–2.5
tax expenses and income unrelated to the reporting period	–1.9	17.7
other deviations	0.5	0.7
Disclosed income tax expenses (+) / income (–)	**–3.6**	**60.1**

The income tax income shown of € 3.6 million from ongoing operations differs from the expected income tax expense of € 12.7 million by a total of € 16.3 million. This results essentially from the non-capitalization of deferred taxes for current losses and the non-deductibility of expenses for tax purposes. This is counteracted in particular by the effects of the reassessment of capitalized benefits and tax-free income.

(8) Result from discontinued operations

HSP Hoesch Spundwand und Profil Gesellschaft mit beschränkter Haftung (HSP) manufactures heavy sections, especially sheet piling and mining sections. Despite a high level of investment, the company had been operating at a loss for years. This was attributable in particular to declining demand in the sheet piling market. The Executive Board therefore decided in June of the last financial year to discontinue the company's operations in their entirety to prevent any further negative consequences for the Salzgitter Group. Production was stopped in December 2015, and products delivered in 2016. HSP as a company and all sheet-piling activities associated with it are reported, in accordance with the rules of IFRS 5, as a discontinued operation.

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

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

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

2015 restated in € m	discontinued operations	continuing operations	Total
Sales	116.9	8,501.5	8,618.4
Increase/decrease in finished goods and work in process/ other own work capitalized	–8.3	–60.8	–69.1
	108.6	**8,440.6**	**8,549.2**
Other operating income	4.3	308.6	312.9
Cost of materials	96.7	5,648.0	5,744.6
Personnel expenses	53.8	1,621.0	1,674.8
Amortization and depreciation of intangible assets and property, plant and equipment	2.3	338.0	340.3
Other operating expenses	12.0	1,037.8	1,049.8
Income from shareholdings	0.0	13.8	13.8
Result from investments accounted for using the equity method	0.0	15.8	15.8
Finance income	0.0	35.3	35.4
Finance expenses	0.3	113.2	113.5
Earnings before taxes (EBT)	**–52.1**	**56.2**	**4.1**
Income tax	0.0	60.1	60.1
Consolidated profit or loss	**–52.1**	**–3.8**	**–56.0**

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

Condensed cash flow statement

In € m	2016	2015 restated
Cash inflow from operating activities	–6.9	–9.4
Cash outflow from investment activities	1.2	–2.2
Cash inflow/outflow from financing activities	–0.0	–
Change in cash and cash equivalents of the discontinued operations	**–5.6**	**–11.7**

(9) Earnings per share

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

	Shares issued	Treasury shares	Shares in circulation	Potentially diluting shares
Start of financial year	60,097,000	6,009,700	54,087,300	4,234,066
Change	–	–	–	–685.659
End of financial year	60,097,000	6,009,700	54,087,300	3,548,407
Weighted number of shares	**60,097,000**	**6,009,700**	**54,087,300**	**3,548,407**

Earnings per share		**2016**	**2015 restated**
Consolidated result	In € m	56.8	–56.0
Minority interest	In € m	2.6	2.6
Amount due to Salzgitter AG shareholders	In € m	54.2	–58.6
from continuing operations	In € m	42.3	–6.4
from discontinued operations	In € m	11.8	–52.1
Earnings per share – basic	(in €)	1.00	–1.08
from continuing operations	(in €)	0.78	–0.12
from discontinued operations	(in €)	0.22	–0.96
Diluted result	In € m	56.8	–55.0
from continuing operations	In € m	45.0	–2.8
from discontinued operations	In € m	11.8	–52.1
Earnings per share – diluted	**(in €)**	**0.99**	**–1.08**
from continuing operations	(in €)	0.77	–0.12
from discontinued operations	(in €)	0.22	–0.96

Notes to the Consolidated Balance Sheet

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

Non-current assets

(10) Intangible assets

Of the entire capitalized development costs, € 0.1 million was subjected to scheduled amortization (previous year € 0.1 million). Total research and development costs in the reporting year amounted to € 95.8 million (previous year: € 100.6 million) including € 9.0 million (previous year: € 15.3 million) for external services.

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

(11) Property, plant and equipment

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

In € m	2016/12/31	2015/12/31 restated
Plant equipment and machinery	36.2	41.5
Assets capitalized as finance leases	**36.2**	**41.5**

The restrictions on ownership and disposal have declined to € 4.8 million (previous year: € 5.2 million).

Government grants amounting to € 0.7 million (previous year: € 0.4 million) were deducted from the acquisition costs of property, plant and equipment. The conditions to which the public financial assistance was attached were fulfilled as of the balance sheet date.

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

(12) Investment property

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

Rental income amounted to € 6.6 million (previous year: € 7.5 million). The direct operating expenses totaled € 3.4 million (previous year: € 3.6 million) and were basically incurred for properties that generated rental earnings in the reporting year.

As of December 31, 2016, the fair value of the investment properties stood at € 37.3 million (previous year: € 32.1 million); there is no knowledge of any significant impairing factors. This fair value is calculated using the gross rental method, the dis-counted cash flow method and comparisons with current market values of comparable properties. Input factors to measure the fair values include anticipated rental income, possible vacancy costs and maintenance costs. The fair values of the investment properties are assessed at regular intervals by independent experts. The valuation is based on an alternative utilization of potential, the „highest and best-use method", in accordance with IFRS 13, and must be classified in Level 3 of the fair value hierarchy.

(13) Financial assets

In € m	2016/12/31	2015/12/31 restated
Investments in affiliated companies	10.4	12.8
Shareholdings	10.0	10.0
Non-current securities	0.1	47.8
Other loans	75.2	84.0
Financial assets	**95.6**	**154.6**

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

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

	Aurubis AG, Hamburg		EUROPIPE Group		Total	
In € m	2016	2015 restated	2016	2015 restated	2016	2015 restated
Opening balance, 01/01	505.1	512.5	107.3	89.7	612.4	602.1
Result of current financial year	51.8	16.1	11.6	−0.3	63.3	15.8
Proportionate gain/loss	56.6	21.0	7.1	0.6		
Adjustments recognized in income as part of the equity method	−4.9	−4.9	4.4	−0.9		
Dividends	−15.2	−11.2	–	–	−15.2	−11.2
Other changes in equity	−2.2	−12.3	2.1	18.0	−0.1	5.7
Proportional other comprehensive income	−2.2	−12.3	2.1	18.0		
Book value, 12/31	**539.4**	**505.1**	**121.0**	**107.3**	**660.4**	**612.4**

The fair value of Aurubis AG amounts to € 616.0 million (previous year: € 528.1 million).

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

	Aurubis AG, Hamburg		EUROPIPE Group		Total	
In € m	2016	2015	2016	2015	2016	2015
Non-current assets	1,540.8	1,480.9	177.2	178.7	1,718.0	1,659.6
Current assets	2,713.6	2,419.7	420.4	594.2	3,134.0	3,013.9
Non-current liabilities	856.5	964.8	115.7	120.8	972.2	1,085.6
Current liabilities	1,298.2	989.5	234.9	423.5	1,533.1	1,413.0
Sales	9,539.2	10,758.4	1,147.9	888.0	10,687.1	11,646.5
Profit/loss	226.4	84.1	14.3	1.1	240.7	85.3
Other comprehensive income	−11.4	41.4	4.2	36.0	−7.2	77.4
Total comprehensive income	215.0	125.6	18.5	37.1	233.5	162.7
Dividends received	15.2	11.2	–	–	15.2	11.2
Share (%)	25.0	25.0	50.0	50.0	–	–

Further summarizing financial information for joint ventures:

	EUROPIPE Group	
In € m	2016	2015
Cash and cash equivalents	53.1	104.9
Current financial liabilities	19.9	19.5
Non-current financial liabilities	–	11.7
Depreciation and amortization	17.8	18.9
interest income	0.1	0.1
Interest expenses	6.7	4.1
Income tax expense (−) / income (+)	**−16.0**	**−24.1**

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

If it is likely that tax benefits will be realized, they must be capitalized. Netting is possible only if the deferred tax assets and liabilities have matching maturities and relate to the same tax authority. After offsetting, the deferred tax assets and liabilities for the financial year 2016 are as follows:

In € m	2016/12/31	2015/12/31 restated
Deferred income tax assets	**355.1**	**299.7**
Realization within 12 months	12.8	11.0
Realization after more than 12 months	342.3	288.7
Deferred income tax liabilities	**39.3**	**27.0**
Realization within 12 months	38.4	26.5
Realization after more than 12 months	0.9	0.5
Balance of deferred tax assets and deferred tax liabilities	**315.8**	**272.7**

Current assets

(16) Inventories

In € m	2016/12/31	2015/12/31 restated
Raw materials, consumables and supplies	687.8	590.0
Unfinished products	444.2	511.8
Unfinished goods or services	11.0	9.6
Finished goods	315.4	320.5
Goods	367.6	291.4
Payments on account	16.7	28.1
Inventories	**1,842.8**	**1,751.4**

In the reporting period there were write-ups amounting to € 1.0 million (previous year: € 3.1 million). Inventory impairments of € 41.8 million (previous year: € 61.3million) were posted to expenses. The book value of the inventories reported at fair value less selling costs amounted to € 366.4 million (previous year: € 477.6 million). There are restrictions on ownership or disposal amounting to € 11.0 million (previous year: € 9.2 million) for the inventories disclosed.

(17) Trade receivables

Impairments of € 33.7 million (previous year: € 25.8 million) on trade receivables amounting to € 1,476.2 million (previous year: € 1,495.8 million) have been carried out for all discernible individual risks, the credit risk assessed on the basis of empirical values and particular country-specific risks.

Trade receivables subject to restrictions on ownership or disposal amount to € 148.1 million (previous year: € 131.5 million). These are accounted for largely by the forfeiting and factoring of receivables. For further details, please refer to Note (28), „Current financial liabilities".

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

In € m	2016/12/31	2015/12/31 restated
Production costs, including result from construction contracts	571.6	487.3
Payments received on account	–343.5	–257.5
Receivables from construction contracts	**228.1**	**229.8**

(18) Other receivables and other assets

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

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

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

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

Future rental revenues in € m	2016/12/31	2015/12/31 restated
up to 1 year	2.9	3.3
1 to 5 years	3.7	2.1
over 5 years	0.7	0.8
Total	**7.3**	**6.2**

In the income for the reporting year, € 0.6 million (previous year: € 0.7 million) was reported as conditional rental income.

(19) Income tax assets and income tax liabilities

The existing income tax assets as of December 31, 2016 amounting to € 26.5 million (previous year: € 21.6 million) largely concern capital gains tax demands from domestic Group companies. On the other side there are long-term income tax liabilities of € 67.7 million (previous year: € 37.2 million) and short-term income tax liabilities of € 34.1 million (previous year: € 190.6 million).

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

(20) Securities

Funds for short-term financial investments are shown in the total amount for securities of € 82.3 million (previous year: € 55.8 million). The funds invested shown here have terms of more than three and less than twelve months.

(21) Cash and cash equivalents

In € m	2016/12/31	2015/12/31 restated
Cash at banks	390.7	347.0
Term deposits	426.0	480.0
Checks, cash in hand	1.4	9.1
Cash and cash equivalents	**818.1**	**836.2**

Equity

(22) Subscribed capital

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

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

In accordance with Section 71 para. 1 no. 8 of the German Stock Corporation Act (AktG), all shares were acquired on the basis of an authorization issued by the Shareholders' Meeting (2,487,355 pcs on authorization dated May 26, 2004, 462,970 pcs on authorization dated June 8, 2006, 2,809,312 pcs on authorization dated May 21, 2008, 35,600 pcs on authorization dated May 27, 2009 and 214,463 pcs on authorization dated June 8, 2010) in order to be able to use them in particular for future acquisitions, fulfilling option or conversion rights from option or convertible bonds or to be given to employees of the company or a company affiliated with it.

The Executive Board is authorized to increase the share capital with the approval of the Supervisory Board by up to a nominal amount of € 80,807,636.65, in the period up to May 23, 2017, by issuing up to 30,048,500 new no par value bearer shares against payment in cash or kind (Authorized Capital 2012). This capital, combined and to the exclusion of the shareholders' subscription rights, may be increased only by up to € 32,323,054.66 (20% of the share capital) through the issuance of up to 12,019,400 new no par value bearer shares. The 20% ceiling is reduced by the pro-rata amount of the share capital to which option or conversion rights, or option or conversion obligations from warrant-linked bonds, convertible bonds, profit-sharing rights and/or participating bonds and/or combinations of these instruments that were issued since May 24, 2012, to the exclusion of subscription rights, relate.

Moreover, upon approval by the Supervisory Board, the Executive Board may issue bonds in a total nominal amount of up to € 1 billion on or before May 22, 2018, and grant the holders of the respective partial bonds conversion rights to shares of the company in a total amount of up to 26,498,043 units (Contingent Capital 2013). In connection with this, the shareholders' subscription right can be excluded up to a total nominal amount of bonds that are linked with conversion rights to shares whose proportion of the share capital does not exceed 10 %. Bonds with conversion rights excluding shareholder subscription rights may only be issued provided that shares making up a proportion of 20 % of the share capital, excluding subscription rights, from the Authorized Capital have not been issued since May 23, 2013. By the reporting date there had been no shares issued from the Authorized Capital since May 23, 2013.

On June 5, 2015, a convertible bond was issued in an overall amount of €167,900,000 to the exclusion of shareholders' subscription rights with conversion rights up to 3,548,407 no par value bearer shares. The total nominal value of the bonds issued by the company from this convertible bond was unchanged as of the balance sheet date. They certify an interest entitlement and a right of conversion into shares in the company at a conversion price of € 47.3170 per share that can be exercised up until May 26, 2022. The secure, irrevocable benefit of € 537,000 arising by the earliest possible time of conversion (July 25, 2015) due to the fact that the convertible bond issued in the 2015 financial year is non-interest-bearing, was paid into capital reserves in accordance with Section 272 para. 2 no. 2 of the German Commercial Code (HGB).

In addition, the Executive Board is authorized by a resolution of the General Meeting of Shareholders from May 28, 2015, to acquire treasury shares up to a maximum of 10% of the share capital in the period up to May 27, 2020. This authorization was not used in the financial year 2016.

(23). Capital reserve

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

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

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

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

(24) Unappropriated retained earnings

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

The proposal will be made to Salzgitter AG's General Meeting of Shareholders that a dividend for the financial year 2016 of € 0.30 per share be paid from Salzgitter AG's unappropriated retained earnings and that the remaining amount be brought forward to new account. The dividend for the previous year was € 0.25 per share.

Based on the Salzgitter share's closing Xetra price of € 33.55 on December 31, 2016, the dividend yield amounts to 0.9 % (previous year: 1.1 %).

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

Non-current liabilities

(25) Provisions for pensions and similar obligations

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

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

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

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

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

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

Balance sheet

In € m	2016/12/31	2015/12/31 restated
Provisions for pensions and similar obligations		
Net pension provision	2,449.0	2,327.3
Other receivables and other assets		
Reimbursement right	4.6	5.2

Consolidated Income Statement (including continuing operations)

In € m	2016	2015 restated
Personnel expenses		
Service cost	28.9	31.3
Finance expenses		
Net interest	51.2	47.7

Other comprehensive income

In € m	2016	2015 restated
Remeasurement of pensions		
Remeasurements from pension provision	–166.0	68.1
Remeasurements from reimbursement right	0.1	–0.1
	–166.0	68.0

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

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

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

As of December 31, 2016, the plan assets are essentially made up of investment funds (€ 52.7 million) and other equity instruments (€ 0.8 million) whose present values were determined on an active market on the closing date. Plan assets also consist of insurance contracts (€ 15.9 million) the present values of which were not determined on an active market.

The net pension commitment as of December 31, 2015 was calculated as follows:

In € m	Defined benefit obligation	Plan assets	Net pension provision
Status as at 2015/01/01 restated	**2,456.8**	**14.6**	**2,442.2**
Service cost			
Current service cost	31.1	–	31.1
Past service cost	1.8	–	1.8
Profit (-) / loss (+) from the settlement of a plan	–1.6	–	–1.6
	31.3	**–**	**31.3**
(Net) Interest expense/income	**48.1**	**0.4**	**47.7**
Remeasurements			
Experience gains (–) / losses (+)	25.5	–	25.5
Gain (–) / loss (+) from change in demographic assumptions	1.9	–	1.9
Gain (–) / loss (+) from change in financial assumptions	–96.3	–	–96.3
Return on plan assets excluding amounts included in interest income	–	–0.8	0.8
	–68.9	**–0.8**	**–68.1**
Benefits paid	**–127.0**	**–0.3**	**–126.7**
Contributions			
Employers	–	1.3	–1.3
Plan participants	0.1	0.1	–
	0.1	**1.4**	**–1.3**
Currency translation differences	**–0.9**	**–**	**–0.9**
Transfers/transfers to other accounts/ changes in the consolidated group	**3.1**	**–**	**3.1**
Status as at 2015/12/31 restated	**2,342.6**	**15.3**	**2,327.3**

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

In € m	2016/12/31	2015/12/31 restated
Actual net present value of the defined benefit obligation (Germany)	**2,483.1**	**2,312.2**
of which aspirant	950.1	810.3
of which recipient	1,533.0	1,501.9
Actual net present value of the defined benefit obligation (abroad)	**35.4**	**30.4**
	2,518.4	**2,342.6**

The sensitivity of the defined benefit obligation is as follows:

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

In € m				2015/12/31 restated
	Reference	Degree of sensitivity	+ Unit	– Unit
Discount rate	2.25%	0.25%-points	–79.2	+84.3
Salary trend	2.75%	0.5%-points	+5.2	–4.9
Pension trend	1.75%	0.25%-points	+63.4	–60.9
Mortality	Heubeck 2005G/Mod. Salzgitter	1 year	+118.5	–115.9

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

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

In € m	
2017	123.7
2018	119.1
2019	116.5
2020	117.4
2021	114.5
2022-2026	544.9
2027-2036	937.0

The duration of the obligation's net present value according to Macaulay as of December 31, 2016 is 15.16 years.

(26) Other provisions

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

In € m	1/1/2016	Currency translation differences	Addition/ disposal from changes in consolidated Group	Transfer	Transfer to other accounts
Other taxes	**14.6**	**0.0**	**–0.0**	**–**	**–**
Personnel	**209.2**	**0.3**	**0.0**	**0.1**	**–47.2**
of which anniversary provisions	[55.2]	[–]	[–]	[–]	[0.1]
of which for the social compensation/ age related part-time employment/ demographics fund	[75.0]	[–]	[0.0]	[0.1]	[3.3]
Operating risks	**172.3**	**0.0**	**–**	**–0.0**	**–**
Other risks	**210.8**	**2.7**	**1.7**	**–0.0**	**–**
of which price reductions/complaints	[108.5]	[1.0]	[0.9]	[–]	[1.1]
of which risks from pending transactions	[18.7]	–0.1	[–]	[–]	[0.2]
Total	**606.9**	**3.0**	**1.7**	**0.0**	**–47.2**

The anniversary provisions shown under personnel provisions have a duration of ten years. The restructuring expenses incurred during the year amount to € 12.7 million (previous year: € 36.2 million) of which € 12.5 million (previous year: € 28.9 million) are accounted for by allocations to provisions, € 0.2 million (previous year: € 7.3 million) were accounted for as current expenses for restructuring.

Provisions for typical operational risks are formed, in particular for landfill obligations, and have a duration of 13 years. The provisions for other risks primarily comprise provisions for discounts/complaints, litigation risks, warranties and risks from pending transactions.

Used	Reversal	Allocation	Compound interest	2016/12/31	of which long-term
–5.8	**–0.1**	**3.8**	**0.3**	**12.8**	**–**
–65.2	**–7.6**	**62.2**	**2.8**	**154.5**	**101.6**
[–4.1]	[–0.0]	[7.1]	[1.1]	[59.4]	[59.4]
[–46.7]	[–4.1]	[33.1]	[0.5]	[61.2]	[28.8]
–5.2	**–20.9**	**5.7**	**–3.1**	**148.8**	**143.7**
–58.7	**–53.4**	**118.4**	**0.1**	**221.7**	**–**
[–38.6]	[–29.1]	[67.3]	[0.0]	[111.1]	[–]
[–3.0]	[–7.7]	[32.5]	[–]	[40.6]	[–]
–134.9	**–82.1**	**190.1**	**0.2**	**537.8**	**245.3**

(27) Non-current financial liabilities

In € m	2016/12/31	2015/12/31 restated
Liabilities to banks	257.4	63.1
Bonds	154.0	431.9
Liabilities from finance lease agreements	34.7	41.7
Liabilities from financing	6.4	6.4
Financial liabilities	**452.4**	**543.0**

For the convertible bonds issued on June 5, 2015 in an aggregate amount of € 167,900,000, the debt component totaled € 148,0 million. The values of the equity and debt components were determined as of the convertible bonds' date of issue.

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

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

In € m	Residual term 1 to 5 years	Residual term > 5 years	2015/12/31 restated
Minimum lease payments	31.3	18.2	49.5
Finance costs	5.9	1.9	7.8
Present value of minimum lease payments	**25.4**	**16.3**	**41.7**

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

Current liabilities

(28) Current financial liabilities

In € m	2016/12/31	2015/12/31 restated
Bonds	260.0	55.4
Liabilities from factoring	144.9	129.1
Liabilities to banks	80.6	90.2
Liabilities from finance lease agreements	6.5	6.0
Other borrowings	1.6	4.2
Current financial liabilities	**493.6**	**284.9**

Companies at home and abroad have made external financing arrangements outside of the Group. These trade receivables act as security for liabilities from factoring totaling € 144.7 million. The default risk and the late payment risk regarding the sold receivables continue to be borne by the companies. The receivables will continue to be shown only in the companies' balance sheets. The funds received are reported as liabilities. Due to their short terms, the book value of the receivables and liabilities corresponds to their fair value. The receivables will be assigned to the bank. In the case of sold receivables amounting to € 99.5 million, the purchaser of the receivables has the right to transfer the sold receivables to third parties, but without the reciprocal rights and obligations being infringed.

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

In € m	2016/12/31	2015/12/31 restated
Minimum lease payments	8.6	8.2
Finance costs	2.1	2.3
Present value of minimum lease payments	**6.5**	**6.0**

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

(29) Trade payables

Trade payables amounting to € 1,154.5 million (previous year: € 975.7 million) include the following liabilities resulting from the percentage-of-completion method in relation to contract production:

In € m	2016/12/31	2015/12/31 restated
Payments received on account	316.1	311.0
Less production costs including result from construction contracts	– 207.1	– 182.5
Payables from construction contracts	**109.0**	**128.5**

(30) Other liabilities

In € m	2016/12/31	2015/12/31 restated
Liabilities to employees	89.9	85.6
Payments received on account	88.7	76.9
Liabilities from derivatives	64.6	78.3
Tax liabilities	37.1	40.7
Liabilities from social security contributions	12.3	13.7
Customer credit balances	5.0	7.8
Other liabilities	67.4	71.7
Other liabilities (current)	**365.1**	**374.7**

As well as the liabilities from factoring secured by receivables, a sum of € 37.0 million (previous year: € 40.5 million) is secured through mortgages.

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

(31) Contingencies

Contingencies are potential liabilities not shown on the balance sheet that are disclosed in the amount of their fixed value on the balance sheet date. Their aggregate amount is € 130.6 million (previous year € 140.3 million).

The contingencies include sureties and guarantees totaling €124.0 million (previous year € 130.7 million). Based on past experience, the probability of their being utilized can be regarded as low.

As of January 1, 2014, Salzgitter AG and its domestic subsidiaries carried out the audit stipulated by Section 16 of the German Company Pensions Act (BetrAVG) for the purpose of adjusting the company pension payments. The commercial situation of the respective individual company is authoritative in any decision on whether to adjust. Given the unsatisfactory financial situation, the pensions awarded by several Group companies were not adjusted as of January 1, 2014. In order to reduce procedural costs, an agreement on model procedures was concluded with the IG Metall labor union. It stipulates that the decision-making principles of the legally valid model procedure should be transferred to the other company pension recipients in the companies concerned. For those companies in which the risk of an obligation to implement the company pension adjustment subsequently is regarded as improbable, full subsequent payment of the company pension adjustment as of the cut-off date Saturday, December 31, 2016 would lead to an increase of some € 31.8 million in the net pension commitment. Of this sum, € 7.3 million would be posted through profit and loss as past service cost and € 24.5 million would be recorded within the scope of the remeasurements with no impact on income.

Since the spring of 2014, the Braunschweig public prosecutor's office has been investigating various Group companies on grounds of suspected tax evasion. The investigation proceedings concerning the formation of allegedly fiscally impermissible provisions, as well as commission payments and credit notes not recognized under tax legislation, are ongoing. SZAG and its subsidiaries are cooperating unconditionally with the investigating authorities and have hired external attorneys to investigate the matter comprehensively. We believe that the tax returns in question submitted by the Group companies are in compliance with the statutory regulations. In view of the present state of knowledge and taking the overall circumstances into account, there is no serious or overwhelming probability of a quantifiable demand for back taxes on the part of the fiscal authorities.

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

(32) Other financial obligations

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

In € m			2015/12/31 restated
	up to 1 year	1 to 5 years	over 5 years
Purchase commitments for investments	77.7	58.2	–
Obligations from rental and leasing agreements	34.5	71.7	112.8
Other financial obligations	423.0	373.0	159.0
Total	**535.2**	**502.9**	**271.8**

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

(33) Financial instruments

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

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

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

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

As of the balance sheet date of Thursday, December 31, 2015, the transition of the balance sheet items to the various categories of financial instruments was as follows:

2015 restated in € m	Book value		
	2015/12/31 restated	Loans and receivables originated by the company	Financial assets available for sale
Assets			
Financial assets	154.6	84.0	70.7
Other non-current receivables and assets (€ 0.7m acc. to balance sheet); of which financial instruments	0.7	–	–
Trade receivables	1,495.8	1,495.8	–
Other current receivables and assets (€ 416.8m acc. to balance sheet); of which financial instruments	369.3	105.6	–
Securities	55.8	–	55.8
Cash and cash equivalents	836.2	–	836.2
Assets financial instruments		**1,685.4**	**962.6**
Equity and liabilities			
Non-current financial liabilities	543.0	–	–
Current financial liabilities	284.9	–	–
Trade payables	975.7	–	–
Other liabilities (€ 398.2m acc. to balance sheet); of which financial instruments	160.2	–	–
Equity and liabilities financial instruments		–	–

Money market funds in the „available-for-sale financial assets" category and commercial papers with a term of more than three months in the „loans and receivables originated by the company" category are reported under the „Securities" item.

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

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

		Valuation according to IAS 39	Valuation according to IAS 17	Fair value
Financial instruments held for trading	Derivates with documented hedging arrangements	Financial liabilities measured at amortized cost		
–	–	–	–	161.8
–	–	–	0.7	0.7
–	–	–	–	1,495.8
261.7	1.5	–	0.5	369.3
–	–	–	–	55.8
–	–	–	–	836.2
261.7	**1.5**	**–**	**1.2**	
–	–	501.4	41.7	523.2
–	–	278.9	6.0	287.7
–	–	975.7	–	975.7
38.4	58.4	63.4	–	160.2
38.4	**58.4**	**1,819.4**	**47.6**	

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

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

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

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

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

In the „Available-for-sale financial assets“ category, the total financial assets amount to € 20.4 million (previous year € 70.7 million). This sum includes financial assets amounting to € 20.3 million (previous year € 22.8 million) for which no reliable fair values can be ascertained because they are not listed on the market. These are shares in partnerships and corporations for which there are no intentions to sell in the near future. These assets are recognized at amortized cost. The „Available-for-sale financial assets“ category also includes securities totaling € 82.3 million (previous year € 55.8 million) as well as financial resources amounting to € 818.1 million (previous year € 836.2 million).

Fair value calculation – assets:

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

In € m				2015/12/31 restated
	Financial assets available for sale	Financial instruments held for trading	Derivates with documented hedging arrangements	Total
Level 1	103.6	249.1	–	352.7
Level 2	–	12.6	1.5	14.1
Level 3	–	–	–	–
Total	**103.6**	**261.7**	**1.5**	**366.8**

Fair value calculation – equity and liabilities:

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

In € m			2015/12/31 restated
	Financial instruments held for trading	Derivates with documented hedging arrangements	Total
Level 1	–	–	–
Level 2	38.4	58.4	96.8
Level 3	–	–	–
Total	**38.4**	**58.4**	**96.8**

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

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

In € m		2016/12/31		2015/12/31 restated
	Maximum default risk	Hedged default risk	Maximum default risk	Hedged default risk
Trade receivables	1,476.2	666.0	1,495.8	784.7
Other receivables	349.5	2.0	105.6	1.9
Financial assets	75.2	–	84.0	–
Total	**1,901.0**	**668.0**	**1,685.4**	**786.6**

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

Analysis of the age of financial instruments overdue on the reporting date to the amount of € 258.8 million (previous year € 225.8 million) but not impaired, revealed the following:

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

2015/12/31 in € m	overdue for				
	< 30 days	31–60 days	61-90 days	91-180 days	> 180 days
Loans and receivables originated by the company	147.2	33.8	12.8	13.3	18.7

A sum of € 130.6 million (previous year € 81.4 million) comprising overdue, non-impaired financial assets in the „Loans and receivables originated by the company" category is secured by credit insurance.

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

In the reporting year, the Salzgitter Group recorded impairments of assets categorized as „Loans and receivables originated by the company" in an amount of € 33.7 million (previous year € 25.8 million) and reversals of impairment and allowances in an amount of € 10.8 million (previous year € 16.2 million).

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

It is assumed that those assets that are neither overdue nor impaired could be collected at any time.

The net results of the categories are as follows:

In € m	2016	2015
Assets/liabilities held for trading	29.3	–9.1
Loans and receivables originated by the company	–22.3	26.2
Financial assets available for sale	15.5	13.1
Financial liabilities measured at amortized cost	–19.3	–20.8
Total	**3.3**	**9.5**

The net result in the „Assets/liabilities held for trading" category primarily comprises income and expenses from the balance-sheet-date valuation of embedded derivatives and forward exchange contracts. The „Loans and receivables originated by the company" and „Financial assets available for sale" categories include interest income amounting to € 20.6 million (previous year € 20.2 million) as well as writedowns. Interest expenses amounting to € 18.2 million (previous year € 24.0 million) are allocated to the „Financial liabilities measured at amortized cost" category. These categories also include effects from currency translation and impairment.

As in the previous year, no gains were generated from the disposal of non-consolidated companies valued at acquisition cost in the reporting year. There were no losses upon disposal of assets in the financial year 2016 (previous year: € 0.1 million). Valuation allowances of under € 0.1 million (previous year: € 0.4 million) with effect on income were recorded for the assets in the „Financial assets available for sale" category in the reporting year.

For financial instruments not measured at fair value through profit and loss, the expenses incurred in financial and monetary transactions amounted to € 10.4 million (previous year: € 8.1 million); these were immediately recognized with effect on income.

Changes in the valuation reserve for financial instruments in the „Available for sale" category developed as follows:

In € m	2016	2015
As of 01/01	–5.9	–6.1
Write-up without effect on income	2.1	1.5
Disposal	12.7	0.1
Write-down without effect on income	–	1.2
As of 12/31	**–16.5**	**–5.9**

The Salzgitter Group applied hedge accounting in accordance with IAS 39 for forward exchange contracts, commodity futures and, to a minor extent, forward rate agreements. In the process, it hedged the currency, price and interest rate risks using cash flow hedges. The respective market values were as follows:

Positive market value in € m	**2016/12/31**	**2015/12/31 restated**
Forward exchange contracts – cash flow hedges	2.8	1.5
Commodity futures – cash flow hedges	73.8	–
Total	76.7	1.5

Negative market values in € m	**2016/12/31**	**2015/12/31 restated**
Forward exchange contracts – cash flow hedges	0.1	0.5
Commodity futures – cash flow hedges	3.9	57.9

The underlying transactions that were secured using cash flow hedges will generally affect income within twelve months of the reporting date. The secured underlying transactions for price hedging will affect income in the financial years 2017, 2018 and 2019.

The cash flow hedge reserve, which was posted to equity with no effect on income, developed as follows:

In € m	**2016**	**2015**
As of 01/01	–48.6	–27.6
Write-up without effect on income	126.9	0.6
Write-down without effect on income	–	–61.5
Basis adjustment	3.8	42.8
Realization	–0.6	–2.9
As of 12/31	**81.5**	**–48.6**

The effectiveness of all hedging arrangements is examined as of every reporting date. This involves comparing the cumulative changes in the value of the underlying transaction with the cumulative changes in the value of the hedging transaction. In the financial year, ineffectivities totaling € 9.0 million (previous year: € –1.1 million) arose from cash flow hedges. The ineffectivities were recognized in other operating income and other operating expenses.

In the financial year under review, an amount of € 3.8 million (previous year: € 42.8 million) from expired forward exchange contracts was added to the acquisition costs of non-financial assets (basis adjustment).

In the case of foreign currency receivables, rate hedging cover is provided by entering into forward exchange contracts with various banks. The relevant claims are reported at the rate agreed in each case. Hedging relationships were established both for firm obligations and for anticipated future transactions.

The nominal volume of the derivative financial instruments comprises the unnetted total of all purchase and sale amounts, valued at the respective settlement rates. Market values were always determined on the basis of conditions that prevailed on the reporting date, using the values at which the relevant derivative financial instruments were traded or listed, without considering contrary movements in the value deriving from the underlying transactions. The current value of the derivatives to be reported derives from the valuation of the hedged foreign currency amount, with the difference between the rate applying when the forward contract was entered into and the forward rate on the reporting date; this amount is discounted to the balance sheet date in accordance with the residual term.

The following key interest rates were used to determine the fair values of the currency derivatives as of the end of the reporting year and the previous year:

Term	EUR interest rate (%)		GBP interest rate (%)		USD interest rate (%)	
	2016/12/31	2015/12/31	2016/12/31	2015/12/31	2016/12/31	2015/12/31
1 month	−0.3680	−0.2050	0.2558	0.5032	0.7717	0.4295
3 months	−0.3190	−0.1310	0.3666	0.5904	0.9979	0.6127
6 months	−0.2210	−0.0400	0.5330	0.7519	1.3177	0.8462
1 year	−0.0820	0.0600	0.7765	1.0703	1.6857	1.1780
2 years	−0.1560	−0.0280	0.6220	1.0930	1.5190	1.1870
4 years	−0.0190	0.1980	0.7920	1.4570	1.9430	1.6220
10 years	0.6550	1.0130	1.2290	1.9940	2.4380	2.2360

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

As of 2016/12/31 in € m	up to 1 year	1 to 5 years	over 5 years
Trade payables	1,154.5	–	–
Financial liabilities	498.9	412.2	19.4
Lease liabilities	8.6	26.8	13.9
Other liabilities	59.7	–	–

2015/12/31 in € m	up to 1 year	1 to 5 years	over 5 years
Trade payables	975.7	–	–
Financial liabilities	290.1	539.9	1.2
Lease liabilities	8.2	31.2	18.2
Other liabilities	63.4	–	–

As of December 31, 2016, derivative financial liabilities with a term of under one year lead to disbursements of € 264.2 million (previous year: € 208.8 million), while those with a term of between one and five years lead to payouts totaling € 0.1 million (previous year: € 18.5 million). The disbursements from derivative financial liabilities for which payments on a gross basis were agreed are counterbalanced by in-payments. If these in-payments are taken into account, the payouts are substantially lower.

Netting

Salzgitter AG concludes financial futures transactions only with core banks and solely on the basis of the standardized German Master Agreement on Financial Derivatives. This agreement contains a conditional netting agreement according to which – in the event of insolvency – the party that owes the higher amount pays the difference. Derivatives with, respectively, positive or negative market values are not netted with each other in the balance sheet. The „not offset amount“ column contains the amounts of the derivatives accounted for which do not satisfy the criteria for netting under IAS 32.42.

As of 2016/12/31 in € m

	Gross book value	Offsetting amount	Net book value	Not offset amount	Total net book value
Positive market values derivates	110.4	–	110.4	3.3	107.1
Negative market values derivates	7.7	–	7.7	3.3	4.4

2015/12/31 in € m

	Gross book value	Offsetting amount	Net book value	Not offset amount	Total net book value
Positive market values derivates	14.1	–	14.1	2.5	11.6
Negative market values derivates	64.9	–	64.9	2.5	62.4

Sensitivity Analysis

The Salzgitter Group is exposed to a variety of financial risks. These, as defined by the sensitivity analysis prescribed under IFRS 7, are interest rate risks, currency risks and other price risks. For the interest rate risks, the sensitivity analysis assumes a change of 100 base points in the market interest rate. With regard to the currency risks, a fluctuation of 10% in the Group companies' respective functional currencies against the foreign currencies is assumed. The other price risks arise for the Salzgitter Group from changes in commodity prices or stock market indices. In this case, the impact of a 10% change in the respective quoted prices is taken into account. The sensitivities are ascertained by banks or by means of internal calculations using acknowledged methods (e.g. Black-Scholes, Heath-Jarrow-Morton). The portfolio of financial instruments as of the balance sheet date is representative of the financial year as a whole.

2016/12/31	Recognized in profit and loss	Affecting equity	Total	Recognized in profit and loss	Affecting equity	Total
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
USD	–32.4	–18.9	–51.3	34.7	23.6	58.3
GBP	1.1	2.5	3.6	–1.4	–3.1	–4.5
Other currencies	5.7	–	5.7	–6.4	–0.2	–6.6
Currency sensitivities	**–25.6**	**–16.4**	**–42.0**	**26.9**	**20.3**	**47.2**
Degree of sensitivity	+100 bp	+100 bp	+100 bp	–100 bp	–100 bp	–100 bp
Interest rate sensitivities	**–4.9**	–	**–4.9**	**6.3**	–	**6.3**
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
Other price sensitivities	**–24.8**	**32.2**	**7.4**	**21.7**	**–32.2**	**–10.5**

2015/12/31 restated	Recognized in profit and loss	Affecting equity	Total	Recognized in profit and loss	Affecting equity	Total
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
USD	–26.7	1.0	–25.7	28.9	–0.8	28.1
GBP	0.7	1.5	2.2	–0.9	–1.7	–2.6
Other currencies	5.2	–1.5	3.7	–6.2	1.4	–4.8
Currency sensitivities	**–20.8**	**1.0**	**–19.8**	**21.8**	**–1.1**	**20.7**
Degree of sensitivity	+100 bp	+100 bp	+100 bp	–100 bp	–100 bp	–100 bp
Interest rate sensitivities	**–4.1**	**–**	**–4.1**	**4.3**	**–**	**4.3**
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
Other price sensitivities	**–14.8**	**10.2**	**–4.6**	**11.8**	**–10.2**	**1.6**

(34) Adjustments due to the retroactive correction of an error

The following table shows the adjustments in the income statement (taking into account IFRS 5):

In € m	2015 not restated	Adjustment	2015 restated
Increase/decrease in finished goods and work in process/ other own work capitalized	–50.9	–9.9	–60.8
Cost of materials	5,649.4	–1.4	5,648.0
Earnings before taxes (EBT)	**64.7**	**–8.5**	**56.2**
Income tax	58.0	2.1	60.1
Consolidated result from continued operations	6.7	–10.5	–3.8
Consolidated result	**–45.5**	**–10.5**	**–56.0**
Amount due to Salzgitter AG shareholders	–48.1	–10.5	–58.6

Appropriation of profit in € m	2015 not restated	Adjustment	2015 restated
Consolidated result	–45.5	–10.5	–56.0
Withdrawal from other retained earnings	61.9	10.5	72.4
Earnings per share (in €) – basic	**–0.89**	**–0.19**	**–1.08**
Earnings per share (in €) from continuing operations – basic	0.08	–0.20	–0.12
Earnings per share (in €) – diluted	**–0.89**	**–0.19**	**–1.08**
Earnings per share (in €) from continuing operations – diluted	0.08	–0.20	–0.12

The adjustments in the statement of comprehensive income can be taken from the following table:

In € m	2015 not restated	Adjustment	2015 restated
Group result (total)	–45.5	–10.5	–56.0
Amount due to Salzgitter AG shareholders	–48.1	–10.5	–58.6
Total comprehensive income (total)	12.1	–10.5	1.6
Amount due to Salzgitter AG shareholders	9.7	–10.5	–0.8
Total comprehensive income continuing operations	61.0	–10.5	50.5

The adjustments in the statement of financial position can be taken from the following tables:

In € m	As of 2015/01/01 not restated	Adjustment	2015/01/01 restated
Inventories	1,991.5	–51.0	1,940.6
Income tax assets	17.7	0.9	18.6
Equity	2,875.4	–45.1	2,830.3
Deferred income tax liabilities	9.4	–4.9	4.5

In € m	As of 2015/12/31 not restated	Adjustment	2015/12/31 restated
Inventories	1,810.8	–59.4	1,751.4
Income tax assets	18.3	3.2	21.6
Equity	2,892.8	–55.7	2,837.2
Deferred income tax liabilities	27.6	–0.6	27.0

The adjustments with regard to changes in equity are shown in V. Changes in equity.

The adjustments in the Cash Flow Statement can be taken from the following table:

In € m	2015 not restated	Adjustment	2015 restated
Earnings before taxes (EBT)	12.6	–8.5	4.1
Increase (–) / decrease (+) in inventories	193.6	8.5	202.1

(35) Notes to the Cash Flow Statement

In accordance with IAS 7, the cash flow statement depicts the development in cash flows for the financial years 2016 and 2015 broken down into inflows and outflows of funds from current operating, investment and financing activities. The cash flow statement is derived from the consolidated financial statements of Salzgitter AG using the indirect method.

The cash and cash equivalents used consist of cash in hand, checks and cash at banks and term deposits (term of under three months).

In the cash flow from operating activities, the income and expenses from fixed asset disposals have been eliminated. Interest income amounts to € 11.3 million (previous year: € 13.1 million). Income received from shareholdings during the financial year 2016 amounted to €14.9 million (previous year: € 23.9 million).

The investments reported under the cash outflow for investment activities comprise the additions to intangible assets, property, plant and equipment, and financial investments.

The cash outflows for investment in financial assets mainly concern payouts for non-current securities and for capital increases at non-consolidated companies.

The cash inflows and outflows from/for financial investments comprise bond funds and futures contracts. The cash inflows in the financial year 2016 amounted to € 250.0 million (previous year: € 175.8 million), while the cash outflows totaled € 274.3 million (previous year: € 271.8 million).

Interest paid is attributed solely to financing activities. In the financial year ended, non-current financial liabilities amounting to € 13.2 million were redeemed and € 200.3 million borrowed on the basis of issuing a borrower's note loan (previous year: redeemed € 42.7 million, borrowed: € 18.5 million). The cash flow from financing activity also includes outflows for the repayment of bonds (€ 88.1 million). The previous year contained inflows from the issuance of a bond in an amount of € 166.3 million.

(36) Notes on Segment Reporting

The segmentation of the Salzgitter Group into five business units accords with the Group's internal controlling and reporting functions. The main decision-maker is the Executive Board.

In the segment report, the business activities of the Salzgitter Group are assigned to the Strip Steel, Plate / Section Steel, Mannesmann, Trading, and Technology business units in accordance with the Group structure in line with different products and services.

The Strip Steel Business Unit manufactures high-quality branded steel and special steels. Its main products are hot-rolled strip steel and cold-rolled steel, sections and tailored blanks.

The companies in the Plate / Section Steel Business Unit produce a broad spectrum of high-grade plate products. Further product areas are sections production and scrap trading.

The Mannesmann Business Unit is concerned primarily with the manufacture of line pipes, HFI-welded pipes, precision tubes and stainless steel tubes.

The Trading Business Unit operates a tightly-knit European sales network, as well as trading companies and agencies worldwide that ensure that the Salzgitter Group's products and services are marketed efficiently.

The Technology Business Unit operates mainly in the filling and packing technology segment, as well as in special machinery engineering for shoe manufacturing and elastomer production.

Companies in the Industrial Participations category mainly comprise service providers working for the Group and comply with the summary in accordance with IFRS 8.16. Some of the companies among the service units also offer their services to third-party customers. On this basis, the companies conceive and implement a broad spectrum of attractive service offerings. These encompass raw materials supplies, IT services, facility management, logistics, automotive engineering and research and development. Included in the consolidations are Salzgitter AG as the management holding company, the intermediate holding companies Salzgitter Mannesmann GmbH, Salzgitter-Klöckner- Werke GmbH, and Salzgitter Finance B.V. as well as Aurubis AG.

There are no relationships with individual customers whose sales represent a significant proportion of the Group's total sales. The accounting principles are the same as described for the Group in its Accounting and Valuation principles. For an overview of sales by region, please see item (1) „Sales" in the Notes to the Consolidated Income Statement. Non-current assets are allocated to countries by their respective location, and country allocations are shown for intangible assets, tangible assets and property investments.

In € m	2016	2015
Domestic	2,431.5	2,432.2
Other EU	89.2	85.0
Rest of Europe	0.1	0.0
America	56.0	56.0
Asia	8.9	9.2
Africa	0.8	0.4
Australia/Oceania	2.0	0.2
	2,588.4	**2,583.0**

The transition of total segment sales and segment results to, respectively, consolidated sales and the consolidated result from ordinary activities is shown in the following overviews. For the transition to the operation discontinued in accordance with the rules of IFRS 5, please see the section „(8) Results from discontinued operations".

In € m	2016	2015 restated
Total sales of the segments	9,332.0	10,371.7
Industrial Participations	391.4	389.0
Consolidation	–1,817.7	–2,142.3
Sales	**7,905.7**	**8,618.4**
Discontinued operations	12.8	116.9
Consolidated from continuing operations	**7,892.9**	**8,501.5**

In € m	2016	2015 restated
Total results of the segments for the period	16.9	–41.1
Industrial Participations	12.0	19.3
Consolidation	24.3	25.9
Earnings before taxes (EBT)	**53.2**	**4.1**
Discontinued operations	11.8	–52.1
Consolidated from continuing operations	**41.4**	**56.2**

(37) Related party disclosures

In addition to business relationships with companies that are consolidated fully in the consolidated financial statements, relationships also exist with associated companies and shareholdings that must be designated as related companies in accordance with IAS 24. The category of joint operations includes only Hüttenwerke Krupp Mannesmann GmbH, Duisburg. The category of other related parties includes the majority shareholdings and joint ventures of the State of Lower Saxony.

The following delivery and service relationships exist between companies in the consolidated group and companies related to the Salzgitter Group:

In € m	Sale of goods and services		Purchase of goods and services	
	2016	2015 restated	2016	2015 restated
Non consolidated group companies	45.3	46.2	7.5	21.8
Joint ventures	213.7	259.1	193.8	26.9
Joint operations	6.9	11.6	1.0	1.1
Other related parties	–	–	1.2	1.5

Outstanding balances from deliveries and services arising from the purchase or sale of goods and services between companies in the consolidated group and companies related to the Salzgitter Group:

In € m	Receivables		Liabilities	
	2016/12/31	2015/12/31 restated	2016/12/31	2015/12/31 restated
Non consolidated group companies	37.3	23.8	3.2	7.0
Joint ventures	67.4	71.7	42.6	0.6
Joint operations	1.0	0.8	14.5	19.9
Other related parties	5.9	6.5	99.5	84.3

In addition, the Group has an outstanding long-term loan of € 93.0 million (previous year: € 105.0 million) in respect of the 30% consolidated company Hüttenwerke Krupp Mannesmann GmbH, Duisburg, in a residual amount, after consolidation, of € 65.1 million (previous year: € 73.5 million).

The sale of goods and services essentially comprises deliveries of input material for the production of large-diameter pipes.

There are contingencies in relation to non-consolidated associated companies totaling € 7.3 million (previous year: € 11.5 million).

(38) Fees for the Auditor of the Consolidated Financial Statements that were reported as expenses in the financial year in accordance with Section 314 para. 9 of the German Commercial Code HGB

In € m	2016	2015 restated
Audit services	2.7	2.6
Other certification or assessment services	0.2	0.2
Tax consulting services	0.1	0.0
Other services	–	0.2

In addition, expenses relating to other auditors were incurred in an amount of under € 0.1 million (previous year: under € 0.1 million) for the auditing of the annual financial statements of consolidated German-based companies.

(39) Significant Events occurring after the Reporting Date

There were no significant events occurring after the reporting date.

(40) Waiver of disclosure and preparation of a management report pursuant to Section 264 para. 3 German Commercial Code (HGB) or Section 264b HGB

The following fully consolidated domestic subsidiaries have fulfilled the conditions required under Section 264 para. 3 or Section 264b of the German Commercial Code and are therefore exempted from disclosure of their financial statements and from the obligation to prepare a management report.

- Salzgitter Mannesmann GmbH, Salzgitter[1) 2)]
- Salzgitter Klöckner-Werke GmbH, Salzgitter[1) 2)]
- Salzgitter Flachstahl GmbH, Salzgitter
- Salzgitter Europlatinen GmbH, Salzgitter[1)]
- Salzgitter Bauelemente GmbH, Salzgitter[1)]
- Hövelmann & Lueg Vermögensverwaltung GmbH, Schwerte[1)]
- Salzgitter Mannesmann Stahlservice GmbH, Karlsruhe[1)]
- Peiner Träger GmbH, Peine
- Ilsenburger Grobblech GmbH, Ilsenburg
- DEUMU Deutsche Erz- und Metall-Union GmbH, Peine[1) 2)]
- Salzgitter Mannesmann Grobblech GmbH, Mülheim
- Mannesmannröhren-Werke GmbH, Mülheim[1)]
- Salzgitter Mannesmann Großrohr GmbH, Salzgitter[1)]
- Salzgitter Mannesmann Line Pipe GmbH, Siegen[1)]
- Salzgitter Mannesmann Rohr Sachsen GmbH, Zeithain[1)]
- Salzgitter Mannesmann Precision GmbH, Mülheim[1) 2)]
- Salzgitter Mannesmann Stainless Tubes GmbH, Mülheim[1) 2)]
- Salzgitter Mannesmann Stainless Tubes Deutschland GmbH, Remscheid[1)]
- Salzgitter Mannesmann Handel GmbH, Düsseldorf[1) 2)]
- Universal Eisen und Stahl GmbH, Neuss[1) 2)]
- Salzgitter Mannesmann International GmbH, Düsseldorf[1) 2)]
- Salzgitter Mannesmann Stahlhandel GmbH, Düsseldorf[1) 2)]
- Stahl-Center Baunatal GmbH, Baunatal[1)]
- KHS GmbH, Dortmund[2)]
- Klöckner PET-Technologie GmbH, Salzgitter[1) 2)]
- Klöckner DESMA Elastomertechnik GmbH, Fridingen[1)]
- Klöckner DESMA Schuhmaschinen GmbH, Achim[1)]
- KHS Corpoplast GmbH, Hamburg[1)]
- KHS Plasmax GmbH, Hamburg[1)]
- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg
- GESIS Gesellschaft für Informationssysteme mbH, Salzgitter[1)]
- TELCAT MULTICOM GmbH, Salzgitter[1) 2)]
- TELCAT KOMMUNIKATIONSTECHNIK GmbH, Salzgitter[1)]
- Glückauf Immobilien GmbH, Peine[1)]
- Salzgitter Mannesmann Forschung GmbH, Salzgitter[1)]
- Salzgitter Business Service GmbH, Salzgitter[1)]
- Salzgitter Hydroforming GmbH & Co. KG, Crimmitschau[1)]
- Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Osnabrück[1) 2)]
- Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück[1)]
- Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück[1)]
- RSE Projektentwicklungs-GmbH, Mülheim[1)]

[1)] Use was made of the option under Section 264 para. 3 to waive the preparation of Notes.
[2)] Use was made of the option under Section 291 to waive the preparation of consolidated financial statements and a group management report.

Furthermore, the company Verkehrsbetriebe Peine Salzgitter GmbH, Salzgitter, has, in accordance with Section 291 HGB, made use of its right to waive the preparation of consolidated financial statements and a group management report.

(41) Disclosures on the Remuneration of the Executive Board, Supervisory Board and other Members of the Key Management Personnel

Key management personnel pursuant to IAS 24 comprises the members of Group's Executive Board and the members of the Supervisory Board. In addition to the active members of the Executive Board, the Group management comprises the heads of the Salzgitter group's five business units. In the tables below, they are referred to as „other members of key management personnel".

Remuneration from the Salzgitter Group:

In € m	Short-term employee benefits (salary and other compensation)		Post employment benefits (pension obligation)	
	2016	2015	2016	2015
Current members of the Executive Board	3.3	3.4	0.7	0.6
Members of the Supervisory Board	1.7	1.7	–	–
Other members of the key management personnel	3.1	3.7	0.3	0.3

In addition to the amounts shown, the employee representatives on the Supervisory Board who are employees of the Salzgitter Group received their salaries within the scope of their employment contracts. Their amount constituted remuneration that is appropriate for their functions and tasks in the Group.

Obligations of the Salzgitter Group:

In € m	Short-term employee benefits (salary and other compensation)		Post employment benefits (pension obligation)	
	2016/12/31	2015/12/31	2016/12/31	2015/12/31
Former members of the Executive Board	–	–	58.4	54.9
Current members of the Executive Board	1.2	1.2	23.7	20.4
Other members of the key management personnel	1.2	1.2	6.4	6.7

The obligations arising from short-term employee benefits include the variable annual remuneration that is paid out in the respective subsequent year.

Former members of the Executive Board and their surviving dependents received pensions totaling € 2.6 million (previous year: € 2.4 million).

Detailed information about the remuneration of the individual members of the Executive Board and the Supervisory Board of Salzgitter AG is disclosed in the „Group Management Report and Management Report on Salzgitter AG" in Section I.2. „Management and Control".

(42) Assurance from the Legal Representatives

We give our assurance that, to the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group and that the course of business, including the business result and the position of the Group, are portrayed in such a way in the Group Management Report that a true and accurate picture is conveyed and that the significant opportunities and risks of the Group's future development are fairly described.

Salzgitter, Monday, February 27, 2017

The Executive Board

Fuhrmann Becker Kieckbusch

VII. Audit opinion

„Auditor's certificate

We have audited the consolidated financial statements prepared by Salzgitter Aktiengesellschaft, Salzgitter – consisting of income statement, statement of total comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes – and the group management report, which is combined with the company’s management report, for the financial year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the condensed group management report according to IFRS, as adopted in the EU, and the additional provisions stated in Section 315a para. 1 of the German Commercial Code (HGB) are the responsibility of the Company’s Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the condensed group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit in such a way that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements, observing the German principles of proper accounting, and in the condensed group management report are detected with a reasonable degree of certainty. Knowledge of the business activities and the economic and legal environment of the Group and expectations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the condensed group management report are examined primarily on a sample basis within the framework of the audit. The audit includes an assessment of the annual financial statements of the companies in the consolidated group, the determination of the composition of the consolidated group, the accounting and consolidation principles used and significant estimates made by the Company’s Executive Board, as well as an assessment of the overall presentation of the consolidated financial statements and the condensed group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections.

In our opinion based on the results of our audit, the consolidated financial statements are in compliance with the IFRS, as adopted by the EU, and the additional provisions stated in Section 315a para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The condensed group management report accords with the consolidated financial statements, complies with statutory regulations and, all in all, provides an accurate picture of the Group's position and an accurate description of the opportunities and risks of future development."

Hanover, February 27, 2017

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed	signed
Martin Schröder	ppa. Stephan Hachmeyer
Auditor	Auditor

Some of the statements made in this report have the character of forecasts or can be interpreted as such. They have been made to the best of our knowledge and belief, and by the nature of things, they apply on the condition that no unforeseeable deterioration in the economy or the specific market situation for companies in the business segments occurs, and that the basis for planning and forecasting proves, as expected, to be accurate in terms of its scope and timeframe. Notwithstanding existing statutory requirements, particularly in terms of the regulations governing capital markets, the company accepts no obligation to continually update forward-looking statements which are based solely on the circumstances on the day of publication.

For computational reasons, rounding differences amounting to ± one unit (€, %, etc.) may occur in the tables.

To improve readability, we only use the male form in the present annual report. Personal designations always apply to both genders.

The annual report of Salzgitter AG is also available in an English translation. In the event of discrepancies, the German version takes precedence over the English version.

Unless indicated otherwise, all key figures and remarks associated with them as well as the outlook in the group management report include the sheet piling activities discontinued at the end of 2015.

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