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Annual Report 2016



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.

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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		
Investments⁵⁾	€ m	352	411		
Depreciation/amortization⁵⁾	€ 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 position⁷⁾	€ 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, forfeiting, derivatives

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 off 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 Wentze 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 Wentze
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 "YOUNITED" for our Group. In this process, employees from all Group companies across all hierarchical levels defined a shared system of values, among other things. This system includes values such as reliability, fairness and sustainability. You will find our mission statement on our website at www.salzgitter-ag.com/en/company/mission-statement-youunited.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.

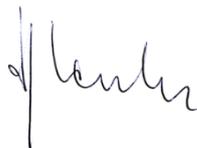
Salzgitter, March 23, 2017

The Executive Board



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

The Supervisory Board



Heinz-Gerhard Wente
Chairman