THINKING AHEAD.

Annual Report 2012

SALZGITTER AG
Stahl und Technologie

Annual Report 2012

Financial Year
from January 1 to December 31, 2012

SALZGITTER AG
Stahl und Technologie

Who we are.

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 over € 10 billion in 2012, a crude steel capacity of approximately 9 million tons and a workforce of around 25,500 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 200 domestic and international subsidiaries and holdings and is structured into the Steel, Trading, Tubes, Services and Technology Divisions.

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

Salzgitter Group in Figures

		2012	2011	2010	2009	2008
External sales	**€ m**	**10,397**	**9,840**	**8,305**	**7,818**	**12,499**
Steel Division	€ m	2,655	2,740	2,269	1,674	3,002
Trading Division	€ m	4,647	3,904	2,958	3,039	5,622
Tubes Division	€ m	1,560	1,687	1,736	2,045	2,172
Services Division	€ m	412	457	413	303	519
Technology Division	€ m	1,094	967	873	718	1,038
Other/Consolidation	€ m	30	85	56	41	146
Earnings before taxes (EBT)	**€ m**	**– 29**	**202**	**49**	**– 496**	**1,003**
EBT by division						
Steel Division	€ m	– 176	26	– 101	– 374	546
Trading Division	€ m	77	61	71	– 128	151
Tubes Division	€ m	8	67	60	104	312
Services Division	€ m	16	20	26	8	24
Technology Division	€ m	10	– 79	– 30	– 210	4
Other/Consolidation	€ m	37	107	22	103[1)]	– 32[1)]
Net income/loss for the financial year	**€ m**	**– 100**	**236**	**30**	**– 387**	**677**
Balance sheet total	**€ m**	**8,930**	**8,800**	**8,689**	**8,052**	**8,701**
Non-current assets	**€ m**	**3,792**	**3,675**	**3,447**	**3,184**	**2,918**
Current assets	**€ m**	**5,137**	**5,125**	**5,242**	**4,868**	**5,783**
Inventories	€ m	2,068	2,106	1,730	1,466	2,551
Equity	**€ m**	**3,644**	**4,000**	**3,846**	**3,904**	**4,346**
Liabilities	**€ m**	**5,286**	**4,800**	**4,843**	**4,147**	**4,355**
Non-current liabilities	€ m	3,339	3,043	3,033	2,553	2,380
Current liabilities	€ m	1,947	1,757	1,810	1,595	1,975
of which due to banks	€ m	122[2)]	103[2)]	83[2)]	95[2)]	132
Investments[3)]	**€ m**	**325**	**361**	**497**	**677**	**653**
Depreciation and amortization[3)]	**€ m**	**358**	**359**	**377**	**543**	**278**
Employees						
Personal expenses	€ m	1,506	1,471	1,424	1,397	1,472
Annual average core workforce[4)]	empl.	23,432	23,475	23,190	23,769	23,866
Annual average total workforce[5)]	empl.	25,541	25,478	25,124	25,639	25,628
Crude steel production[6)]	**kt**	**7,647**	**7,263**	**6,755**	**4,918**	**6,901**
Key figures						
EBIT before depreciation and amortization (EBITDA)[7,8)]	€ m	463	667	540	157	1,362
Earnings before interest and taxes (EBIT)[7,9)]	€ m	98	304	160	– 411	1,072
Return on capital employed (ROCE)[10)]	%	1.3	5.6	2.2	– 10.5	21.9
Cash flow	€ m	427	– 197	209	1,190	547

1) Incl. goodwill amortization
2) Current and non-current bank liabilities
3) Excl. financial investments
4) Excl. trainee contracts and excl. non-active age-related part-time work
5) Incl. trainee contracts and incl. non-active age-related part-time work
6) Incl. participation in HKM under company law
7) Definition changed as per 2010/01/01; adjusted retrospectively for 2009
8) EBIT excl. depreciation and amortization (EBITDA) = EBT + interest expenses/– interest income + depreciation and amortization
9) Earnings before interest and taxes (EBIT) = EBT + interest expenses/– interest income
10) Return on capital employed (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 provisions) and liabilities from finance leasing, forfaiting

The world is in a constant state of flux, which is admittedly nothing new. This does present challenges – for each of us individually, for society and naturally also for companies.

Salzgitter AG knows exactly what it needs to do to shape its future successfully. The emphasis though, is not on any one single aspect. It is rather more the sum total of many principles and approaches that will equip our Group for the years ahead. Looking critically at the status quo, the willingness to embark on change and openness to new ideas and developments will play a key role.

In this year's Annual Report we would like to present you with a few examples that are not only directly connected with us as a company and with our products, but also rooted in the fundamental questions of our time.

HIGHLIGHTS OF THE FINANCIAL YEAR 2012

01

The Salzgitter Group realigns its organization structure as per January 1, 2012. Under the former structure, the profit and loss generated by the individual domestic Group companies could only be offset to a limited extent, resulting in sizable tax disadvantages to the Group in the forthcoming years. Combining all material domestic Group companies into one uniform Group for tax purposes is a solution that avoids these disadvantages. No changes are made to the management structure of the Group.

02

EUROPIPE GmbH (EP), a joint venture of Salzgitter Mannesmann GmbH (SMG) and AG of Dillinger Hüttenwerke, participates in a major offshore project in Australia as a supplier of large-diameter pipes.

EP delivers 410,000 tons of large-diameter pipes for the Ichthys LNG project (liquefied natural gas). The natural gas is transported from the Ichthys Field via pipelines stretching 900 km all the way to Darwin where it is liquefied in one of the world's largest LNG plants. Production at EP's large-diameter pipe facilities based in Mülheim runs through to the end of the first quarter of 2013.

03

The Tubes Division exhibits its wide range of steel tubes at the international trade fair Tube in Düsseldorf and seeks dialog with customers and partners.

The Executive Board releases the Annual Report 2011 on March 30 at the Annual Results Press Conference and subsequently engages in intensive dialog with representatives of the capital markets at well-attended analyst conferences in Frankfurt am Main and London.

04

The Salzgitter Group participates in the Hanover Trade Fair. Its range of exhibits and processes demonstrate that steel is indispensable for economical lightweight construction, energy efficiency and for conserving resources. The Group's Job & Career Market information stand where young people can inform themselves about joining the company and career opportunities is an important part of its presence at the trade fair.

05

Around 800 shareholders and shareholder representatives attend Salzgitter AG's General Meeting of Shareholders in Braunschweig on May 24. They approve the items on the agenda by a large majority. The dividend paid for the year 2011 amounts to € 0.45 per share.

06

Salzgitter takes over part of the operations of Kovac Stahl, Graz, Austria. The company operates steel trading and steel service center activities. The Trading Division reinforces its market position in Austria through the acquisition of the Graz and Gratkorn locations.

07

Our Klöckner DESMA Elastomertechnik GmbH (KDE) subsidiary is a welcome guest at Group headquarters. As part of its roadshow, with 72 stops in eight European countries, KDE exhibits in Salzgitter, showcasing injection molding machines and moldmaker products in particular. KDE manufactures injection molding machinery for sophisticated rubber and silicone molded products and is a global leader in this business.

08

Ilsenburger Grobblech GmbH (ILG) wins another contract for the delivery of around 15,200 tons of plate for the tubular steel towers of the Meerwind Offshore Wind Farm. As a result, the overall steel volume produced by ILG for the tower structures of the 42 km^2 wind farm in the North Sea totals more than 85,000 tons.

09

BSH Bosch Siemens Hausgeräte GmbH confers an award on Salzgitter Flachstahl GmbH (SZFG) in the "Prematerials" category for its excellence in respect of quality, reliability, flexibility, innovation and pricing. SZFG is only the second steel producer to have received such recognition by BSH.

10

The Salzgitter Group presents its innovative HSD® steel, among other products, at EuroBlech in Hanover, the world's leading trade fair for sheet metal working. With its high manganese content, alloyed with aluminum and silicon, HSD® steel offers high strength and very good formability. Salzgitter Mannesmann Forschung GmbH (SZMF) is granted the "Innovative Allianz" seal of approval by Europäische Forschungsgesellschaft für Blechverarbeitung e.V.

11

In a newspaper interview, David McAllister, Minister President of Lower Saxony, takes a clear stand in affirming the federal state's participation in Salzgitter AG in the words: "This is extremely important for us and for the company, and will remain so."

BKK Bundesverband (Federal Association of Company Health Insurance Funds) confers the German Corporate Health Award on Salzgitter AG. The Group receives a special prize under the "Mental Health" category for its exemplary health management together with partners such as BKK Salzgitter, TU Braunschweig, Hannover Medical School and Deutsche Rentenversicherung Braunschweig-Hannover.

12

Salzgitter AG issues invitations to its first Capital Markets Day on December 4 and 5. The event focuses on the KHS Group following its successful turnaround in 2012. Delegates include 22 financial analysts from almost all German and English banks covering the Salzgitter share. They take the opportunity of gaining an overview of the operations, the strategy and the medium-term prospects of the KHS Group.

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Preface by the Executive Board

Ladies and Gentlemen,

Thinking ahead – unceasingly – and having the courage to explore beyond what the mainstream consensus, both in large and small issues, allows – even in a democratically structured environment, this presents a challenge at times.

There are too many economical and societal developments that jolt equanimity, to the point of being disconcerting. While, in 2010, it still looked as if Europe had left the financial market crisis behind it and overcome the ensuing huge recession, we now know otherwise. No matter what mix of debt constraint and stimulus is applied: it will be many years before the EU actually comes to grips with the volatile combination of unmanoeverability induced by the debt load, ailing growth and unemployment – even if and when the EU Commission and the Member States do agree on a therapy.

As Germany and its citizens have been less rather than more directly affected to date, the sheer magnitude of this societal problem has not yet permeated the collective consciousness in this country. In the neighboring European countries, Germany is viewed with a mixture of admiration and fear, and, irrespective of agreements in force, such as “Maastricht”, is expected to shoulder an ample share of the burden arising from the consequences of mismanagement and corruption engendered elsewhere.

Europe has consensus on one point, however: industry that creates real values stabilizes prosperity and social peace in an economy. Sadly, capacity utilization in many key sectors of Europe’s industry is poor, with the result that discussions focus more on reducing capacity than on actual reindustrialization, which is more important. All this naturally has its roots in rationality, as the global competitiveness of many European industrial enterprises leaves much to be desired. All the more, as the EU and a number of local governments, with their constant stream of new and unrealistic requirements in the field of energy and environmental policies, see to it that general conditions continue deteriorate to our disadvantage.

This also applies to the steel industry. Measured by current demand, there is surplus capacity on a global scale, and specifically in Europe. As is typical of such constellations, the outcome is an existentially threatening price-led competition that sends margins and earnings tumbling towards the red.

The Executive Board
(from left to right)
Michael Kieckbusch,
Burkhard Becker,
Prof. Dr.-Ing.
Heinz Jörg Fuhrmann,
Peter-Jürgen Schneider,
Heinz Groschke,
Wolfgang Eging

The necessity of adjusting organization patterns and outlay structures is universally recognized – and this is no different in our Group. Indeed, we started back in 2009 to initiate streamlining programs in our subsidiaries. But the scope of these measures is not sufficient at all locations. Whereas the KHS Group came close to breakeven in 2012, we will have to step up our endeavors for our long product manufacturers and in the precision tubes segment.

Added to this is the insight that our Group organization, now in place for almost 15 years, in part lacks the necessary market and customer orientation, and is too fragmented. A certain amount of internal frictional loss prevents us from "harnessing our full horse power". This is why we will be forging ahead with our "Salzgitter AG 2015" organization development project in a committed and open minded manner.

Without questioning the numerous core values that are our distinguishing feature, we will be moving to set up a new, lean, customer-oriented and more efficient Salzgitter AG over the course of this year. Notwithstanding all the positive input from our managers and our employees, accomplishing this task will entail considerable effort: thinking ahead, letting go of familiar processes and organizational forms, a sum total of challenges that should not be underestimated. But our goal is well worth it: to preserve the independence of Salzgitter AG, also in a turbulent environment, with its world-class products, cutting-edge energy-efficient facilities, an expert and motivated workforce as well as, last but not least, profitable Group companies.

Thinking ahead, taking initiative, seeing the opportunities that change brings rather than just the risk – this is the motto and the story behind the illustrations in the Annual Report 2012. We believe that this will shed a light on topical and thought-provoking interconnections that are not only relevant for our company alone.

Naturally, the hope remains that politicians in Brussels and Berlin do not put too many hurdles in the way of our thinking and acting ...

Back to the financial year 2012: Despite a loss before and after tax, we want to make a dividend payout of € 0.25 per share. We do this in the long-standing pursuit of our policy of steady dividend distribution without tangible detriment to the intrinsic value of our Group.

We would like to thank you as valued shareholders and business partners of Salzgitter AG, also on behalf of our committed employees, for the trust you have vested in our company.

Sincerely,

Prof. Dr.-Ing. Heinz Jörg Fuhrmann	Burkhard Becker	Wolfgang Eging
Heinz Groschke	Michael Kieckbusch	Peter-Jürgen Schneider

Report of the Supervisory Board

Salzgitter AG's result in the financial year 2012 was unsatisfactory despite largely sound capacity utilization in its production facilities and a gratifying expansion of its trading operations. This performance was primarily attributable to the poor business environment in the countries of southern Europe that were battling spiraling sovereign debt and the general slowdown in the global economy. Both these factors exacerbated competitive pressure and caused a significant decline in prices on the European steel market. At the same time, raw materials and energy costs remained at a high level, as prices were determined first and foremost by demand in China.

Rainer Thieme, Chairman of the Supervisory Board

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

The Supervisory Board received detailed information in the form of both written and oral reports on the performance, the financial and earnings position of Salzgitter AG, as well as on the business policy pursued. It held four meetings to review the development of business, the situation and the outlook of the Group extensively with the Executive Board, including pertinent economic risks. Divergences between the course of business and the plans and goals defined were explained and discussed. Decisions requiring the approval of the Supervisory Board were thoroughly deliberated on. Moreover, the Chairman of the Supervisory Board maintained regular and extensive contact with the Chief Executive Officer. The current situation of the company and material transactions were jointly discussed.

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

Given the unsatisfactory earnings situation and the unfavorable market conditions prevailing in the foreseeable future, the Supervisory Board gave great attention to the Group's strategy in the financial year 2012. It accorded with the Executive Board's proposal to initiate a process of reorganization, with external support, for the purpose of reviewing both the current organization and material business processes and realizing the optimization potential identified.

In view of the comparatively high consumption of energy in steel production, we also devoted special attention to the changes in the energy sector, especially the possible additional expenses incurred in the future by energy and emission certificates, and their impact on the company. Other topics of consultation included product development, the status of the Profit Improvement Program, the non-personnel costs initiative and the measures taken to enhance energy efficiency.

The request of Mr. Johannes Nonn to withdraw from the Executive Board on January 31, 2013, to assume other duties outside the Salzgitter Group was granted. On February 19, 2013, Executive Board member Peter-Jürgen Schneider withdrew from the Board to join the state government of Lower Saxony. Mr. Michael Kieckbusch was appointed in his place as a member of the Executive Board and Industrial Relations Director with effect from February 20, 2013. The Supervisory Board would like to thank Mr. Nonn and Mr. Schneider for their successful service of more than ten years for Salzgitter AG.

Work of the Committees

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

The **Presiding Committee** met five times in the financial year. Matters addressed in these meetings included important issues relating to the development of business and changes at Executive Board level.

The **Audit Committee** met four times during the period under review. In these meetings the Committee addressed issues relating to the accounting, the effectiveness of the risk management, the internal control system and the internal audit system as well as compliance issues. The financial reports compiled over the course of the year were discussed with the Executive Board prior to being released. Moreover, key audit areas were defined for the annual auditing of the 2012 accounts. In its meeting on March 1, 2013, the Board focused on the separate and consolidated 2012 financial statements and on the audit conducted on these statements by the independent auditor. To this end, the Committee had the Executive Board and the independent auditor explain the details of the financial statements and discussed any questions which arose. Its recommendation was for the entire Supervisory Board to ratify the financial statements.

The **Strategy Committee** met once in the period under review. Together with the Executive Board, it discussed the strategy for the sustainable development of the Salzgitter Group.

The **Nomination Committee** held one meeting to discuss questions relating to the future composition of the Supervisory Board in the run-up to the new election of the Board in 2013.

Audit of the Annual Financial Statements of Salzgitter AG and Consolidated Financial Statements
In our meeting on March 21, 2013, we examined the financial statements of Salzgitter AG and of the Group, both drawn up as of December 31, 2012, as well as the joint management report on the company and the Group for the financial year 2012. 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 Salzgitter AG, 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 us for examination. The representatives of the auditor took part in the discussions of the annual financial statements and the consolidated financial statements at the Supervisory Board meeting on March 21, 2013, and elaborated on the most important findings of their audit.

Our examination of the annual financial statements, the consolidated financial statements and the joint management report did not lead to any objections. We 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. We gave our approval to the proposal made by the Executive Board on the appropriation of retained earnings.

Changes to the Supervisory Board
Mr. Frank Markowski, employee representative on the Supervisory Board, withdrew from the Board on August 31, 2012, to go into retirement. In his place, Mr. Volker Mittelstädt was elected as a new member of the Supervisory Board, effective September 1, 2012. The Supervisory Board would like to thank Mr. Markowski for his dedication to promoting the development of the Salzgitter Group. The current members of the Supervisory Board are listed in the Management Report on the Group with reference to other mandates which they exercise.

Our thanks go to the Executive Board and all the employees of the Group for their work and commitment throughout the financial year 2012.

Salzgitter, March 21, 2013

The Supervisory Board

Rainer Thieme
Chairman

Corporate Governance Report

Declaration of Conformity in the Financial Year 2012 and Corporate Governance Report

The Executive Board and the Supervisory Board view good, responsible management of the company geared to sustainable development as a prerequisite for the long-term success of the Salzgitter Group. This approach fosters the trust of employees, business partners, shareholders and investors. The management of our company is based on the provisions set out under German stock corporation law and the recommendations laid down in German Corporate Governance Code (http://www.corporate-governance-code.de/index-e.html).

2012 Declaration of Conformity with the recommendations of the German Corporate Governance Code
The Executive Board and the Supervisory Board of Salzgitter AG 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, on December 18, 2012:

> "Salzgitter AG has conformed and currently continues to conform to all of the recommendations of the Government Commission on 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 recommendations included in 2010 in Code item 5.4.1 DCGK that specific targets should be set for the composition of the Supervisory Board.
>
> In its nominations submitted to the General Meeting of Shareholders for the election of shareholder representatives and the one other member, 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, as well as diversity. At this point in time, the Board does not consider it necessary to set specific targets."

Ethical standards of Salzgitter AG
Beyond the statutory requirements placed on managing companies and the recommendations of the Code, employees of the company developed a set of corporate guidelines and a corporate mission statement back in 2001 determining ethical standards for the entire Group that were subsequently approved by the Executive Board. The aspirations that the company has defined for itself and its employees are also formulated in these guidelines and mission statement and are available at the company's website at www.salzgitter-ag.de/en/Konzern/Leitbild_5P. As the Salzgitter Group has grown in recent years,

in terms of its size as well as its international profile, and, at the same time, new megatrends determine the development of the economy and society, a new corporate mission is currently being defined. Further information is provided in the section on “Employees”.

The shareholders of Salzgitter AG

The shareholders principally exercise their rights at general meetings of shareholders. Each shareholder of Salzgitter AG 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 can only be carried out subject to approval by the General Meeting of Shareholders. The General Meeting of Shareholders 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 2012 General Meeting of Shareholders are available on our website at www.salzgitter-ag.de/en/Investor_Relations/Veranstaltungen/Hauptversammlung.

The Executive Board of Salzgitter AG

In accordance with legal requirements, the Executive Board manages the company under its own responsibility. Its tasks also comprise the strategic alignment and development of the company in consultation with the Supervisory Board. In carrying out these activities, the Executive Board is bound by the interests of the company and obligated to raise the value of the company on a sustainable basis. It strives to achieve the highest possible return on capital employed within the scope of the corporate purpose.

The Executive Board of Salzgitter AG currently comprises five members who have partly functional and partly divisional responsibilities. The Supervisory Board has assigned each Executive Board member a portfolio of responsibilities for specific organization units in a schedule for the allocation of duties. Moreover, it has defined the decisions for which all Executive Board members are jointly responsible and specified which business transactions require approval by the Supervisory Board.

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. At present, it has not formed any standing committees.

The Executive Board deploys the following instruments, among others, in its management and control of the subsidiaries and affiliates:

- 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 audits performed by an internal audit department,
- operating of a groupwide monitoring system for the early detection of risks and a risk management system,
- agreeing of goals and deciding of a performance-oriented remuneration component for managers and senior executives of the Group companies.

The Supervisory Board of Salzgitter AG

The core tasks of the Supervisory Board are to advise and supervise the Executive Board in its management of the company, to appoint members of the Executive Board, and to plan their successors on a long-term basis. Certain fundamental decisions may only be made with 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 of 1956 applicable to the company in its current version, 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 at regular intervals by the Executive Board 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 business activities and measures of the Executive Board that may only be carried out with Supervisory Board approval,
- obligation of the Executive Board to submit long-term corporate plans on an annual basis and to report on the execution of such plans 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 Presiding Committee confers whenever necessary in the form of meetings or telephone conferences.

The Audit Committee deals with the following in particular:

- the annual financial statements and the quarterly financial statements,
- the effectiveness of the internal control system, the internal audit system and the risk management system,
- issues relating to compliance with the provisions applicable to the company (corporate compliance) and
- the independence of the external auditor, the assignment of the audit mandate and 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 orally 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 is tasked with discussing the strategy of the company with the Executive Board in depth. It meets for this purpose whenever required.

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. It becomes especially active in the run-up to the new elections to the Supervisory Board and advises in a suitable capacity.

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 and the Supervisory Board view compliance with the statutory provisions applicable to the company's activities and the corporate guidelines as an integral part of corporate governance. The Executive Board has expressly committed itself in our mission statement to observing and complying with legal framework conditions and ethical values. The obligation of managers at all levels also entails adherence to the relevant regulations in their respective areas of tasks and responsibilities. To this end, each superior must 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. The Executive Board regularly reports to the Supervisory Board on compliance.

Transparency of the company

Along with the annual report, Salzgitter AG also publishes condensed interim accounts and an interim management report at the end of the first, second and third quarter of a financial year. This ensures that our shareholders are kept informed about the business performance and the situation of the company in a timely manner. The dates of publication are announced in the financial calendar that is made accessible on the company's website. 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 ensures that information that could, if made public, have a considerable impact on the share price is published immediately in the form of ad-hoc releases disseminated simultaneously throughout Europe. All reports and statements are available on the company's website (salzgitter-ag.de) in both German and English.

Salzgitter, March 21, 2013

The Executive Board

Prof. Dr.-Ing. Heinz Jörg Fuhrmann
Chairman

The Supervisory Board

Rainer Thieme
Chairman

I. Business and Organization

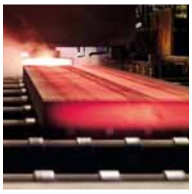
1. Group Structure and Operations

With a crude steel capacity of almost 9 million tons, around 25,500 employees and external sales totaling € 10 billion in 2012, the Salzgitter Group ranks among Europe's leading steel technology and plant engineering corporations. It comprises more than 200 subsidiaries and affiliated companies all over the world. Headed by Salzgitter AG as the holding company, the Group is divided into the five divisions of Steel, Trading, Tubes, Services and Technology. The share of Salzgitter AG is listed on the MDAX index of Deutsche Börse AG.

Global presence

Steel Division · Tubes Division · Trading Division · Technology Division

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



Steel and Technology

- Steel strip
- Plate
- Sections
- Engineering
- Logistic services
- Injection molding machines
- Pipeline tubes
- Precision tubes
- Seamless steel tubes
- Stockholding trading
- International trading
- Beverage filling facilities





Since the start of the financial year 2012, all major companies of the Salzgitter Group have been combined under Salzgitter Klöckner-Werke GmbH (SKWG), an interim holding. This structure allows us to carry out centralized and unrestricted financial management for the Group, among other tasks. As the management holding, Salzgitter AG manages SKWG via the interim holding Salzgitter Mannesmann GmbH (SMG), along with all associated companies. The Executive Board of Salzgitter AG 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 bodies responsible for Salzgitter AG (Executive Board, Supervisory Board). The specific responsibilities associated with the entrepreneurial management of the divisions have been combined under the respective organization units and subsidiaries within the holding.

Legal factors of influence

As the Group's industrial production is mainly located in Germany, both production and the associated business are subject to the legal provisions prevailing in this country, which specifically includes German tax rules and regulations as well as legislation on environmental protection under German and EU law.

The structure of the Salzgitter Group is shown in the chart on the next page.

Divisions

Salzgitter AG

Salzgitter Mannesmann/Salzgitter Klöckner-Werke

Steel

- **Salzgitter Stahl**
  - Salzgitter Flachstahl
  - Peiner Träger
  - Ilsenburger Grobblech
- Salzgitter Europlatinen
- Salzgitter Bauelemente
- HSP Hoesch Spundwand und Profil

Trading

- **Salzgitter Mannesmann Handel**
  - Salzgitter Mannesmann Stahlhandel
    - Stahl-Center Baunatal
  - Salzgitter Mannesmann International
    - Salzgitter Mannesmann International (USA)
    - Salzgitter Mannesmann International (Canada)
  - Salzgitter Mannesmann Staalhandel (Netherlands)
  - Salzgitter Mannesmann Stahlhandel (Poland)
  - Salzgitter Mannesmann Stahlhandel (Czech Republic)
  - Salzgitter Mannesmann Acélkereskedelmi (Hungary)
- Hövelmann & Lueg
- Universal Eisen und Stahl
- Stahl-Metall-Service Gesellschaft für Bandverarbeitung

Tubes

- **Mannesmannröhren-Werke**
  - Europipe 50 %
  - Salzgitter Mannesmann Grobblech
  - Salzgitter Mannesmann Großrohr
  - Salzgitter Mannesmann Line Pipe
  - Salzgitter Mannesmann Precision
    - Salzgitter Mannesmann Präzisrohr
    - Salzgitter Mannesmann Précision Etirage (France)
    - Salzgitter Mannesmann Precisión (Mexico)
    - Salzgitter Mannesmann Precisie (Netherlands)
    - Salzgitter Mannesmann Rohr Sachsen
  - Salzgitter Mannesmann Stainless Tubes
  - Hüttenwerke Krupp Mannesmann 30 %
  - Borusan Mannesmann Boru (Turkey) 23 %

Services

- DEUMU Deutsche Erz- und Metall-Union
- SZST Salzgitter Service und Technik
- Verkehrsbetriebe Peine-Salzgitter
- Hansaport 51 %
- Salzgitter Mannesmann Forschung
- Salzgitter Mannesmann Personalservice
- Glückauf Immobilien
- **Salzgitter Information und Telekommunikation**
  - Gesis Gesellschaft für Informationssysteme
  - Telcat Multicom
  - Telcat Kommunikationstechnik
- Salzgitter Hydroforming
- Salzgitter Automotive Engineering

Technology

- KHS
- Klöckner PET-Technologie
  - KHS Corpoplast
  - KHS Plasmax
- Klöckner DESMA Elastomertechnik
- Klöckner DESMA Schuhmaschinen
- RSE Grundbesitz und Beteiligung

Parent company

Schematic diagram
as of November 2012

The five divisions are composed of independent companies which operate with a high degree of discretionary scope, carrying out their market-, location- and product-related activities under their own responsibility.

With its branded and special steels, the **Steel Division** is particularly representative of our Group's core competence. The division's companies produce a wide range of steel products (flat steel and sections, plates, sheet piling, components for roofing and cladding and tailored blanks) for constantly evolving new areas at the locations of Salzgitter, Peine, Ilsenburg and Dortmund. Especially with regard to flat steel products, the product portfolio is geared to premium steel grades and qualities for use in sophisticated application scenarios. The German automobile industry is, for instance, a major customer sector whose service and quality requirements are very demanding. Thanks to intensive research and development and our strong customer orientation, we are in a position to develop future market potential for our creative and innovative products.

As result of a multi-year investment program in 2012, our integrated steel works in the Salzgitter and Peine mini mill are now able to smelt around 7 million tons of crude steel a year. The three large rolled steel mills of Salzgitter, Peine and Ilsenburg rank among the most modern of their type thanks to their highly sophisticated and complex facilities and process technology. The division works in close cooperation with our trading organization that is not only our most important sales channel but also operates in the sourcing of semi-finished products on a case-by-case basis.

The **Trading Division** comprises a tight European sales network as well as trading companies and agencies worldwide. This combination underpins the successful market presence of the Salzgitter Group with area-wide, extensive coverage which supports the optimal sale of its products and services. In this way, we ensure that we reach major customers as well as smaller and medium-size customers alike.

The following companies have been assigned to the Trading Division: the Salzgitter Mannesmann-Handel Group (SMHD Group) that operates under Salzgitter Mannesmann Handel GmbH (SMHD), the plate specialist Universal Eisen und Stahl GmbH (UES), the steel service center Hövelmann & Lueg GmbH (HLG), Stahl-Metall-Service Gesellschaft für Bandbearbeitung mbH (SMS), taken over in the fourth quarter of 2011, as well as parts of the Kovac Stahl operations, acquired in the second quarter of 2012 and integrated into Salzgitter Mannesmann Stahlhandel Austria (SMSA). SMS will be joining the group of consolidated companies as from the financial year 2013.

The SMHD Group comprises three companies which operate in the German stockholding steel trade from fifteen sales locations, eleven of which are in warehouses. Seven companies engage in steel trading in European countries, with an additional four active agencies. International trading is mainly handled by nine independent companies and four locations abroad managed as representative offices.

The plate specialist UES conducts its trading and processing activities mainly in Germany, while also maintaining representative offices in other European countries and in the US. The steel service centers HLG and SMS, with their customized flat steel products, round off the range offered by the Trading Division.

The companies and holdings of the **Tubes Division**, headed by Mannesmannröhren-Werke GmbH (MRW), provide their customers with a comprehensive portfolio of steel tubes on three continents. The scope of products comprises in particular longitudinally and spiral-welded large-diameter pipes, HFI (high-frequency inductive) welded pipes, seamless and welded precision tubes and seamless stainless steel tubes. Fielding their high quality products of international standing, these companies occupy leading positions in the market or even rank as global market leaders.

The Division has its own supply of crude steel in the form of a 30 % stake in steel producer Krupp Mannesmann GmbH ([HKM] technical crude steel capacity of 6 million tons), through its own cutting-edge plate mill and the production of semi-finished material for the manufacturing of seamless tubes. This division also makes extensive use of our trading organization, both for the sale of its products and the sourcing of semi-finished products.

The range of services provided by the **Services Division** is focused primarily on requirements within the Group. However, we also offer services to external customers in order to generate additional contributions to the Group's profit. This serves to ensure that the know-how of the companies is perpetually benchmarked against market requirements. With this as a basis, they conceive and realize attractive service offerings in a wide spectrum, ranging from the supply of raw materials, logistics and plant engineering through to researching and developing materials as well as complete IT solutions. These activities are supplemented by products and services for the automotive industry.

The products and services range of the **Technology Division** is geared first and foremost to machinery and plants for the filling and packaging of beverages: The business activities of this division are concentrated in Dortmund-based KHS GmbH (KHSDE) which ranks among the global market leaders in the field of industrial filling and packaging plants. The KHS Group, managed from this location, is represented through its production sites and more than 30 service and sales outlets on all continents. The filling and packaging technology business accounts for around 90% of the division's sales. Other activities of the division are focused on the construction of special machinery.

The holdings are listed in the "Consolidated Financial Statements".

2. Management and Control

The Executive Board

The members of the Executive Board of Salzgitter AG are appointed by the Supervisory Board. The Supervisory Board can rescind the appointment for an important reason. The Executive Board represents and 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 2012, the following members belonged to the Executive Board of Salzgitter AG:

Prof. Dr.-Ing. Heinz Jörg Fuhrmann
Chairman
Technology Division
Steel Division since February 1, 2013
a) ▪ Aurubis AG, Hamburg (Chairman)
▪ EUROPIPE GmbH, Mülheim/Ruhr, until April 26, 2012
▪ KHS GmbH, Dortmund (Chairman)
▪ Mannesmannröhren-Werke GmbH, Mülheim/Ruhr (Chairman)
▪ Öffentliche Lebensversicherung Braunschweig, Braunschweig
▪ Öffentliche Sachversicherung Braunschweig, Braunschweig
▪ Salzgitter Mannesmann Handel GmbH, Düsseldorf (Chairman)
▪ Salzgitter Stahl GmbH, Salzgitter (Chairman)
▪ TÜV Nord AG, Hanover
b) ▪ Ets. Robert et Cie S.A.S., Le Thillay, France (Comité de Surveillance)
▪ EUROPIPE GmbH, Mülheim/Ruhr (Shareholders' Committee)

Burkhard Becker
Finance
a) ▪ EUROPIPE GmbH, Mülheim/Ruhr
▪ KHS GmbH, Dortmund
▪ Mannesmannröhren-Werke GmbH, Mülheim/Ruhr
▪ Nord/LB Kapitalanlagegesellschaft AG, Hanover
▪ Peiner Träger GmbH, Peine
▪ Salzgitter Flachstahl GmbH, Salzgitter
▪ Salzgitter Mannesmann Handel GmbH, Düsseldorf
▪ Salzgitter Mannesmann Precision GmbH, Mülheim/Ruhr, since June 1, 2012
▪ Salzgitter Stahl GmbH, Salzgitter
b) ▪ Nord/LB Capital Management GmbH, Hanover (Supervisory Board)

Wolfgang Eging
Tubes Division
Chairman of the Executive Board of Mannesmannröhren-Werke GmbH, Mülheim/Ruhr
a) ▪ EUROPIPE GmbH, Mülheim/Ruhr (Chairman since April 27, 2012)
▪ Hüttenwerke Krupp Mannesmann GmbH, Duisburg (Chairman)
▪ Salzgitter Mannesmann Grobblech GmbH, Mülheim/Ruhr (Chairman)
▪ Salzgitter Mannesmann Handel GmbH, Düsseldorf
▪ Salzgitter Mannesmann Line Pipe GmbH, Siegen (Chairman)
▪ Salzgitter Mannesmann Präzisrohr GmbH, Hamm (Chairman until May 31, 2012)
▪ Salzgitter Mannesmann Precision GmbH, Mülheim/Ruhr, since June 1, 2012 (Chairman since June 4, 2012)
b) ▪ Borusan Mannesmann Boru Yatirim Holding A.S., Istanbul, Turkey (Board of Administration, Vice Chairman)
▪ EUROPIPE GmbH, Mülheim/Ruhr (Shareholders' Committee, Chairman since April 27, 2012)
▪ Hüttenwerke Krupp Mannesmann GmbH, Duisburg (Shareholders' Committee, Chairman)
▪ Salzgitter Mannesmann Précision Etirage S.A.S., St. Florentin, France (Conseil d'Administration until August 31, 2012)

Heinz Groschke
Trading Division
Chairman of the Executive Board of Salzgitter Mannesmann Handel GmbH, Düsseldorf
a) ▪ EUROPIPE GmbH, Mülheim/Ruhr, since April 27, 2012
▪ KHS GmbH, Dortmund
▪ Salzgitter Flachstahl GmbH, Salzgitter
▪ Salzgitter Mannesmann Line Pipe GmbH, Siegen

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

b) ▪ EUROPIPE GmbH, Mülheim/Ruhr (Shareholders' Committee)
▪ Salzgitter Mannesmann (España) S. A., Madrid, Spain (Board of Administration)
▪ Salzgitter Mannesmann International (Asia) Pte. Ltd., Singapore (Board of Administration)
▪ Salzgitter Mannesmann International (Canada) Inc., Vancouver, Canada (Board of Directors, Chairman)
▪ Salzgitter Mannesmann International (HK) Ltd., Hong Kong, China (Board of Administration)
▪ Salzgitter Mannesmann International (México) S. A. de C. V., Mexico City, Mexico (Board of Directors, Chairman)
▪ Salzgitter Mannesmann International (USA) Inc., Houston/Texas, USA (Board of Directors, Chairman)
▪ Salzgitter Mannesmann (Italia) S. r. l., Milan, Italy (Board of Administration)
▪ Salzgitter Mannesmann Pentasteel International (India) Pvt. Ltd., Mumbai, India (Board of Directors, Chairman)
▪ Salzgitter Mannesmann (Scandinavia) AB, Lulea, Sweden (Board of Administration)
▪ Salzgitter Mannesmann Trade (Beijing) Co. Ltd., Beijing, China (Board of Directors, Chairman)
▪ Salzgitter Mannesmann (UK) Ltd., Harrogate, UK (Board of Directors, Chairman)

Michael Kieckbusch
Personnel
Services Division
since February 20, 2013
a) ▪ SZST Salzgitter Stahl und Technik GmbH, Salzgitter
▪ Verkehrbetriebe Peine-Salzgitter GmbH, Salzgitter

Johannes Nonn
Steel Division until January 31, 2013
Chairman of the Executive Board of Salzgitter Stahl GmbH, Salzgitter, until January 31, 2013
a) ▪ Hüttenwerke Krupp Mannesmann GmbH, Duisburg, until December 31, 2012
▪ Ilsenburger Grobblech GmbH, Ilsenburg, (Chairman) until December 31, 2012
▪ Peiner Träger GmbH, Peine, (Chairman) until December 31, 2012
▪ Salzgitter Flachstahl GmbH, Salzgitter, (Chairman) until December 31, 2012
▪ Salzgitter Mannesmann Handel GmbH, Düsseldorf, until December 31, 2012

Peter-Jürgen Schneider
Personnel
Services Division
until February 19, 2013
a) ▪ Ilsenburger Grobblech GmbH, Ilsenburg
▪ KHS GmbH, Dortmund
▪ Mannesmannröhren-Werke GmbH, Mülheim/Ruhr
▪ Peiner Träger GmbH, Peine
▪ Salzgitter Flachstahl GmbH, Salzgitter
▪ Salzgitter Mannesmann Handel GmbH, Düsseldorf
▪ Salzgitter Mannesmann Präzisrohr GmbH, Hamm, until May 1, 2012
▪ Salzgitter Stahl GmbH, Salzgitter
▪ SZST Salzgitter Service und Technik GmbH, Salzgitter (Chairman)
▪ Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter (Chairman)
b) ▪ Allianz für die Region GmbH, Braunschweig (formerly: Projekt Region Braunschweig GmbH) (Supervisory Board)
▪ Hansaport Hafenbetriebsgesellschaft mbH, Hamburg (Supervisory Board, Chairman)
▪ Wohnungsbaugesellschaft mbH Salzgitter, Salzgitter (Supervisory Board)

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

The Supervisory Board

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

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

Bernhard Breemann
Chairman of the General Works Council of Salzgitter Mannesmann Stahlhandel GmbH, Düsseldorf
Chairman of the Works Council of Salzgitter Mannesmann Stahlhandel GmbH, Gladbeck
a) ▪ Salzgitter Mannesmann Handel GmbH, Düsseldorf

Hasan Cakir
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
▪ No membership in other governing bodies

Karl Ehlerding
Managing Director of KG Erste "Hohe Brücke 1" Verwaltungs-GmbH & Co., Hamburg
a) ▪ KHS GmbH, Dortmund
▪ MATERNUS-Kliniken AG, Berlin
▪ WCM Beteiligungs- und Grundbesitz-AG, Frankfurt am Main
▪ Lloyd Werft Bremerhaven AG, Bremerhaven, since February 27, 2012

Hannelore Elze
Secretary of the Management Board of Industriegewerkschaft Metall, Branch Office Düsseldorf
a) ▪ AluNorf GmbH, Neuss
▪ Hydro Aluminium Deutschland GmbH, Bonn (Vice Chairwoman)
▪ Hydro Aluminium Rolled Products GmbH, Grevenbroich (Vice Chairwoman)
▪ NORSK Hydro Deutschland Verwaltungs-GmbH, Grevenbroich (Vice Chairwoman)

Prof. Dr.-Ing. Dr. h. c. Jürgen Hesselbach
President of the Technische Universität Carolo-Wilhelmina zu 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/Ruhr, since September 10, 2012

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

Dr. Dieter Köster
Chairman of the Executive Board of
Köster Holding AG, retired, Osnabrück
a) ▪ Köster Holding AG, Osnabrück,
(Chairman) since October 1, 2012
▪ Köster GmbH, Osnabrück, (Chairman)
since October 1, 2012

Bernd Lauenroth
Secretary of the Management Board of Industriegewerkschaft Metall, Branch Office Düsseldorf
a) ▪ Georgsmarienhütte Holding GmbH,
Georgsmarienhütte

Frank Markowski
until August 31, 2012
Chairman of the Works Council of Salzgitter Mannesmann Präzisrohr GmbH, Mülheim/Ruhr, until August 31, 2012
a) ▪ Mannesmannröhren-Werke GmbH,
Mülheim/Ruhr, until August 31, 2012
▪ Salzgitter Mannesmann Präzisrohr GmbH,
Hamm, until August 31, 2012

Volker Mittelstädt
since September 1, 2012
Vice Chairman of the Works Council of
Ilsenburger Grobblech GmbH, Ilsenburg
▪ No membership in other governing bodies

Dr. Arno Morenz
Chairman of the Executive Board of Aachener Rückversicherung AG, retired, Aachen
Member of the Presiding Board of DSW Deutsche Schutzvereinigung für Wertpapierbesitz e. V., Düsseldorf
a) ▪ alfabet AG, Berlin (Chairman)
▪ Business Keeper AG, Berlin (Chairman)
b) ▪ Fidelity Funds, Luxembourg
(Board of Administration)
▪ FIL Investment Management GmbH, Kronberg im Taunus (Supervisory Board)

Hartmut Möllring
Minister of Finance of the Federal State of
Lower Saxony
a) ▪ Bremer Landesbank, Bremen
▪ Deutsche Messe AG, Hanover
▪ Norddeutsche Landesbank – Girozentrale,
Hanover (Chairman)
b) ▪ JadeWeserPort Logistic Zone GmbH & Co. KG,
Wilhelmshaven (Supervisory Board)
▪ JadeWeserPort Realisierungs-Beteiligungs-GmbH, Wilhelmshaven (Supervisory Board)
▪ JadeWeserPort Realisierungs GmbH & Co. KG,
Wilhelmshaven (Supervisory Board)

Prof. Dr. Hannes Rehm
President of the Hanover Chamber of Industry and Commerce (IHK), Hanover
Chairman of the Executive Board of Norddeutsche Landesbank – Girozentrale, retired, Hanover
a) ▪ ÖPP Deutschland AG, Berlin
(Vice Chairman)

Dr. Rudolf Rupprecht
Chairman of the Executive Board of MAN AG,
retired, Munich
▪ No membership in other governing bodies

Christian Schwandt
Chairman of the Group's Works Council of
Salzgitter AG, Salzgitter
Member of the Works Council of
SZST Salzgitter Service und Technik GmbH,
Salzgitter
a) ▪ SZST Salzgitter Service und Technik GmbH,
Salzgitter, until March 31, 2012

Dr. Werner Tegtmeier
State Secretary, retired, of the Federal Ministry of Labor and Social Affairs
a) ▪ Mannesmannröhren-Werke GmbH,
Mülheim/Ruhr
▪ Salzgitter Mannesmann Precision GmbH,
Mülheim/Ruhr, since June 1, 2012

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

Dr. Johannes Teyssen
Chairman of the Board of Directors of E.ON SE, Düsseldorf
a) ▪ Deutsche Bank AG, Frankfurt/Main
▪ E.ON Energie AG, Munich, until June 30, 2012
▪ E.ON Ruhrgas AG, Essen, until August 21, 2012

Helmut Weber
Chairman of the General Works Council of KHS GmbH, Dortmund
▪ No membership in other governing bodies

Prof. Dr. Dr. h.c. mult. Martin Winterkorn
Chairman of the Executive Board of Volkswagen AG, Wolfsburg
Chairman of the Executive Board of Porsche Automobil Holding SE, Stuttgart
a) ▪ Audi AG, Ingolstadt (Chairman)
▪ Dr. Ing. h.c. F. Porsche AG, Stuttgart
▪ FC Bayern München AG, Munich
b) ▪ Scania AB, Södertälje, Sweden (Supervisory Board, Chairman)
▪ other mandates within the Volkswagen Group

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
Hartmut Möllring
Christian Schwandt
Dr. Hans-Jürgen Urban

Audit Committee:
Prof. Dr. Hannes Rehm, Chairman
Hannelore Elze
Rainer Thieme
Helmut Weber

Strategy Committee:
Rainer Thieme, Chairman
Hasan Cakir since December 18, 2012
Ulrich Kimpel
Hartmut Möllring
Prof. Dr. Hannes Rehm
Christian Schwandt until December 17, 2012
Dr. Hans-Jürgen Urban

Nomination Committee:
Hartmut Möllring
Rainer Thieme

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 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, paid out in equal monthly installments, variable annual remuneration and a pension commitment. Variable remuneration is determined partly on the basis of the individual Executive Board member's performance in the respective financial year, measured by the degree to which personal goals have been achieved, and partly according to the company's success, measured by the Group's return on capital employed as an average over the last five years. The multi-year assessment basis has an incentive effect that promotes the sustainable development of the company. The performance-based component is capped.

The amount of pension commitment depends on the length of service to the Group and is limited to a maximum of 60 % of the fixed salary. The variable remuneration components are not relevant for pension commitments. 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. In the event of a termination of Executive Board activities without an important reason, the Executive Board members are entitled to the remuneration agreed until expiry of the contract. However, in the case of contracts signed after June 2008, 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 2012 or in 2011 for their activities as Executive Board members.

Remuneration received by the individual members of the Executive Board

In €	Annual remuneration paid in 2012 (2011)				
	Fixed remuneration	**Remuneration in kind**	**Variable remuneration**	**Remuneration for Supervisory Board activities in subsidiaries**	**Total**
Prof. Dr.-Ing. Heinz Jörg Fuhrmann	900,000	17,455	600,000	1,750	1,519,205
Chairman since 2011/02/01, Vice Chairman until 2011/01/31	(708,000)	(23,321)	(900,000)	(58,750)	(1,690,071)
Prof. Dr.-Ing. E. h. Wolfgang Leese					0
Chairman until 2011/01/31	(60,000)	(3,984)	(0)	(0)	(63,984)
Burkhard Becker	420,000	15,772	245,000	2,650	683,422
since 2011/02/01	(385,000)	(13,324)	(385,000)	(8,300)	(791,624)
Wolfgang Eging	480,000	20,021	280,000	1,000	781,021
	(450,000)	(20,307)	(480,000)	(900)	(951,207)
Heinz Groschke	480,000	26,251	280,000	1,100	787,351
	(450,000)	(40,817)	(480,000)	(24,350)	(995,167)
Johannes Nonn	480,000	24,359	280,000	1,600	785,959
	(420,000)	(22,194)	(420,000)	(1,600)	(863,794)
Peter-Jürgen Schneider	480,000	37,373	280,000	3,200	800,573
	(450,000)	(37,853)	(480,000)	(27,250)	(995,103)
Sum total	**3,240,000**	**141,231**	**1,965,000**	**11,300**	**5,357,531**
	(2,923,000)	(161,800)	(3,145,000)	(121,150)	(6,350,950)

Pension entitlement

In €	Annual payment upon pension eligibility as per 2012/12/31 (as per 2011/12/31)	Transfer to pension provision in 2012 (2011)	Present value of the obligation 2012 (2011)
Prof. Dr.-Ing. Heinz Jörg Fuhrmann[1] Chairman since 2011/02/01, Vice Chairman until 2011/01/31	540.000 (540.000)	1.865.938 (2.264.892)	6.752.947 (4.887.009)
Burkhard Becker[1] since 2011/02/01	252.000 (252.000)	531.204 (1.534.227)	2.577.986 (2.046.782)
Wolfgang Eging[1]	288.000 (288.000)	1.167.025 (795.785)	5.469.366 (4.302.341)
Heinz Groschke[1]	288.000 (288.000)	1.152.792 (800.872)	5.456.044 (4.303.252)
Johannes Nonn[1]	288.000 (252.000)	723.646 (799.365)	1.990.384 (1.266.738)
Peter-Jürgen Schneider[2]	118.656 (118.656)	522.659 (356.288)	2.047.917 (1.525.258)
Sum total	**1.774.656** (1.738.656)	**5.963.264** (6.551.429)	**24.294.644** (18.331.380)

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

[2] Pension entitlement as per end of contract (final age: 66)

Remuneration of the Supervisory Board

Each member of the Supervisory Board receives annual remuneration which consists of a fixed and variable component. The fixed remuneration component amounts to € 40,000 for each member of the Supervisory Board. The variable component is geared to the success of the company in the long term and amounts to € 300.00 per full € 5 million on the portion of the pre-tax result – prior to deduction of minority interest in the consolidated financial statements of the company (EBT) – which exceeds € 150 million on average over the last three financial years (including the year when remuneration is paid).

The Chairman of the Supervisory Board receives double and the Vice Chairman one and a half times the amount from the addition of the respective remuneration components. The sum total of both remuneration components paid annually is limited to € 160,000 for the Chairman of the Supervisory Board, to € 120,000 for the Vice Chairman of the Supervisory Board and to € 80,000 for all other Supervisory Board members. Beyond this, compensation is paid for attendance fees and, if appropriate, membership of the committees.

Annual remuneration received by the individual Supervisory Board members

In €	Annual remuneration paid in 2012 (2011)				
	Fixed remuneration	Performance-based remuneration	Committee remuneration	Attendance fees	Total
Rainer Thieme, Chairman	80,000 (80,000)		20,000 (20,000)	7,500 (7,500)	107,500 (107,500)
Dr. Hans-Jürgen Urban, Vice Chairman since 2011/08/26	60,000 (48,333)		10,000 (2,083)	5,000 (3,500)	75,000 (53,916)
Manfred Bogen until 2011/09/30	(30,000)		(3,750)	(2,000)	0 (35,750)
Bernhard Breemann since 2012/01/01	40,000			2,000	42,000
Hasan Cakir	40,000 (40,000)			2,000 (2,000)	42,000 (42,000)
Ulrich Dickert	40,000 (40,000)			2,000 (2,000)	42,000 (42,000)
Karl Ehlerding	40,000 (40,000)			2,000 (1,500)	42,000 (41,500)
Hannelore Elze	40,000 (40,000)		5,000 (5,000)	3,500 (3,500)	48,500 (48,500)
Prof. Dr.-Ing., Dr. h.c. Jürgen Hesselbach	40,000 (40,000)			2,000 (2,000)	42,000 (42,000)
Ulrich Kimpel	40,000 (40,000)		5,000	2,500 (2,000)	47,500 (42,000)
Dr. Dieter Köster	40,000 (40,000)			2,000 (1,500)	42,000 (41,500)
Bernd Lauenroth since 2011/08/26	40,000 (16,667)			2,000 (1,000)	42,000 (17,667)
Frank Markowski since 2011/10/01 until 2012/08/31	26,667 (10,000)			1,000 (500)	27,667 (10,500)
Volker Mittelstädt since 2012/09/01	13,333			1,000	14,333
Dr. Arno Morenz	40,000 (40,000)			2,000 (2,000)	42,000 (42,000)
Hartmut Möllring	40,000 (40,000)		10,000 (10,000)	5,500 (5,000)	55,500 (55,000)
Jürgen-Peters until 2011/08/25 ,Vice Chairman	(40,000)		(6,667)	(2,500)	0 (49,167)
Udo Pfante until 2011/12/31	(40,000)			(2,000)	0 (42,000)
Prof. Dr. Hannes Rehm	40,000 (40,000)		15,000 (15,000)	4,500 (4,500)	59,500 (59,500)
Dr. Rudolf Rupprecht	40,000 (40,000)			2,000 (2,000)	42,000 (42,000)
Christian Schwandt	40,000 (40,000)		10,000 (10,000)	4,500 (5,000)	54,500 (55,000)
Dr. Werner Tegtmeier	40,000 (40,000)			2,000 (2,000)	42,000 (42,000)
Dr. Johannes Teyssen	40,000 (40,000)			1,500 (1,500)	41,500 (41,500)
Helmut Weber	40,000 (40,000)		5,000 (5,000)	4,000 (4,000)	49,000 (49,000)
Prof. Dr. Martin Winterkorn	40,000 (40,000)			1,000 (500)	41,000 (40,500)
Total	**900,000** (905,000)	**0** (0)	**80,000** (77,500)	**61,500** (60,000)	**1,041,500** (1,042,500)

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

In €	Annual remuneration paid in 2012 (2011)				
	Fixed remuneration	Performance-based remuneration	Committee remuneration	Attendance fees	Total
Manfred Bogen					0
(MRW) until 2011/09/30	(7,500)			(200)	(7,700)
Bernhard Breemann (SMHD)	10,000			300	10,300
Hasan Cakir					0
(SZS) until 2011/05/30	(4,167)			(100)	(4,267)
(SZFG)	8,000			300	8,300
	(8,000)			(300)	(8,300)
Karl Ehlerding					0
(SKWG) until 2011/12/14	(10,000)		(7,466)	(1,000)	(18,466)
(KHS)	10,000			750	10,750
	(8,000)			(1,000)	(9,000)
Ulrich Kimpel	3,333			100	3,433
(MRW) since 2012/09/10					
Frank Markowski	6,666			200	6,866
(MRW) until 2012/08/31	(10,000)			(200)	(10,200)
(MPR) until 2012/08/31	2,000			100	2,100
	(3,000)			(200)	(3,200)
Udo Pfante					0
(SMHD) until 2011/12/31	(10,000)			(300)	(10,300)
Christian Schwandt	1,250			100	1,350
(SZST) until 2012/03/31	(5,000)			(300)	(5,300)
Dr. Werner Tegtmeier	10,000			300	10,300
(MRW)	(10,000)				(10,000)
(SMP) until 2012/06/01	2,917			200	3,117
Dr. Hans-Jürgen Urban	15,000			400	15,400
(SZS)	(15,000)			(400)	(15,400)
Helmut Weber					0
(SKWG) until 2011/12/14	(10,000)		(6,233)	(750)	(16,983)
(KHS) until 2011/03/31					0
	(2,000)			(250)	(2,250)
Total	**69,166**	**0**	**0**	**2,750**	**71,916**
	(102,667)	(0)	(13,699)	(5,000)	(121,366)
Sum total	**969,166**	**0**	**80,000**	**64,250**	**1,113,416**
	(1,007,667)	(0)	(91,199)	(65,000)	(1,163,866)

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 under http://www.salzgitter-ag.de/en/Investor_Relations/Corporate_Governance/ at any time.

4. Employees

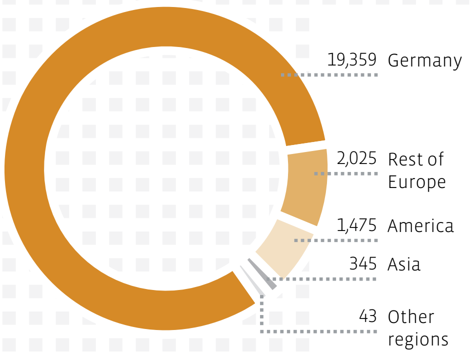
The commitment, skills and abilities of our employees are the cornerstone of Salzgitter AG's success. Consequently, we have made it our goal to ensure that all our employees have a working environment that is motivating, conducive to performance and healthy. Our personnel work is also focused on finding talent within and outside the Salzgitter Group and fostering its development. With this in mind, we initiated and further developed numerous measures in 2012 in order to secure the competitive capabilities and future viability of our Group against the backdrop of changing demographic conditions.

Trends in the workforce: employee numbers stable

The core workforce of the Salzgitter Group came to 23,247 employees on December 31, 2012, thereby decreasing by 120 persons even though these numbers include 256 employees recorded for the first time in the personnel statistics owing to the initial consolidation of three international companies. The decline was mainly attributable to employees going into non-active age-related part time and the expiry of temporary contracts. Including trainees and employees in non-active age-related part-time work, the core workforce of the Salzgitter Group stood at 25,558 persons.

The chart below shows a breakdown of the core workforce by region and division:

Regional distribution of the workforce



Workforce

	2012/12/31	2011/12/31	Change
Core workforce Group[1]	**23,247**	**23,367**	**– 120**
Steel Division	7,091	7,014	77
Trading Division	2,052	2,070	– 18
Tubes Division	5,552	5,550	2
Services Division	3,746	3,943	– 197
Technology Division	4,639	4,625	14
Holding	167	165	2
Apprentices, students, trainees	1,542	1,550	– 8
Non-active age-related part-time employment	769	591	178
Total workforce	**25,558**	**25,508**	**50**

[1] Core workforce excluding the members of executive and non-executive bodies, non-active age-related part-time employees, non-active workforce members and trainees

At the end of the year we had 1,181 temporary employees, which corresponds to 4.8% of the sum total of core workforce members and staff outsourced. Whereas 172 employees were still affected by short-time work as per December 31, 2011, this number had fallen to 38 by the end of 2012.

Personnel expenses amounted to € 1,506.4 million in the financial year 2012 and were therefore 2.4 % higher than the year-earlier figure, which was mainly attributable to wage increases from collective bargaining.

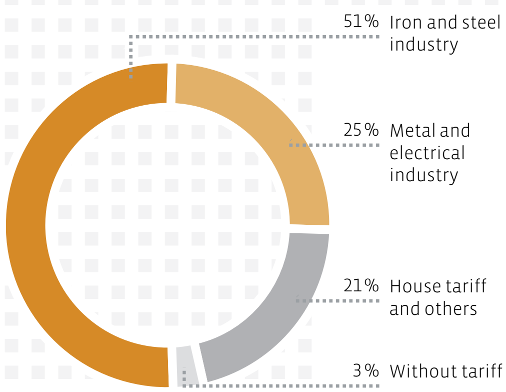
Collective bargaining agreements

A collective agreement with a term through to April 30, 2013, was concluded in the metal and electronics industry in May 2012. Along with a 4.3 % increase in wages and salaries and the fundamentally permanent hiring of the trainees required, a collective agreement was concluded for temporary staff hired through agencies. The collective bargaining agreement on increments signed at the same time in the temporary employment sector provides for additional charges of between 15 % and 50 % on top of the remuneration paid for the work of temporary staff sourced from agencies and deployed in the operations of the metal industry from November 2012 onward.

There were no negotiations on collective agreements in the steel industry in the financial year 2012 as the agreement signed the year before is still valid until February 28, 2013.

The increase in actual remuneration of 2.2 % agreed in the previous year had been largely implemented with effect from August 1, 2012, for the majority of employees in the Trading Division. This agreement runs until July 31, 2013.

Breakdown of tariffs within the Group



Human resources planning

In order to win well-qualified junior employees we focus on a variety of programs and projects that are generally geared to the long-term. The Group's activities include the extensive support of trainees, cooperations with universities and school partnerships, some of which have been fostered for more than 20 years.

On the reporting date we were in the process of training 1,329 young people in 29 professions and dual study programs. In addition, there were 213 other training placements for working students, interns and trainees. The ratio of trainees in the Salzgitter Group has exceeded its own requirements for decades, which is how we secure the next generation of employees, while also making contributions to society.

In response to predictions for a lack of highly qualified staff in technical and scientific professions, we launched STEP.ING SZ to complement the existing BONA SZ program at our Salzgitter location. Whereas BONA SZ offers school pupils from grades eight to ten with career and university guidance in these professions, STEP.ING SZ is designed for grade eleven secondary school students who are interested in technology and engineering and is aimed at overcoming any reservations against studying at university. Partners co-operating with Salzgitter AG are the City of Salzgitter, the Braunschweig Labor Exchange and the other four large corporations in the area, namely Alstom Transport Deutschland GmbH, MAN Truck & Bus AG, Robert Bosch Elektronik GmbH and Volkswagen AG, as well as all secondary schools in Salzgitter and universities in the region. BONA SZ is meanwhile on permanent offer in all 14 schools offering general education in Salzgitter. Similar programs have been initiated or are at the planning stage in other cities.

Sustainable personnel policy

Salzgitter AG's groupwide "GO – Generation Campaign 2025" has been the company's systematic response to the challenge of demographic change since 2005. Under "GO" we have set in place the framework conditions for remaining competitive and retaining our capacity for innovation, also in the face of changing workforce structures, and for holding our own as an attractive employer in the competition for highly qualified personnel and managers.

In 2012, we supplemented the existing HRD programs (FORWARD) for junior staff, managers and experts in the Salzgitter Group by adding a mentoring program for women. This program supports qualified women who have worked successfully in their jobs for several years in their professional development. At a prior point, we had already extended our employer marketing to encompass special offers for women students of technology and engineering, thereby reinforcing the foundations for raising the share of women managers at the various managerial levels within the Group.

Occupational health management

Preserving and promoting the health of our employees is part of the credo of the Salzgitter Group. The key components of our extensive occupational health management consist in promoting individual responsibility for health, special training for managers, a comprehensive concept for employees with musculoskeletal disorders and an operational model for psychological problems. The "German Corporate Health Award" in the "Mental Health" category, awarded once a year by the Federal Association of Company Health Insurance Funds (BKK Bundesverband), was conferred on Salzgitter AG in November 2012.

Communication

The Group forum of Salzgitter AG took place this year under the motto of “Taking Responsibility – Tapping Potential”. During the two-day event, around 330 board members, managers and senior executives from all Group companies in Germany and abroad listened attentively to the explanations of the Executive Board on the general situation of the Group, along with the Group’s financial and personnel policies. In addition, current projects and innovative business processes from the Steel, Tubes, Trading and Technology Divisions were presented. A keynote presentation was given by Jürgen Fitschen, Co-Chairman of the Management Board of Deutsche Bank AG, on the topic of “The crisis in the financial markets and its significance for the real economy”.

Mission statement

In recent years, the Salzgitter Group has grown in terms of its size and international profile and, at the same time, new megatrends are determining the development of the economy and society. We have therefore decided to develop a new mission statement that integrates the changes that have occurred and strengthens the sense of identity shared throughout the Group.

On the occasion of two major events, employees from all companies and all hierarchical levels met to work on defining the values that will determine the direction of the Salzgitter Group – and its workforce in the future.

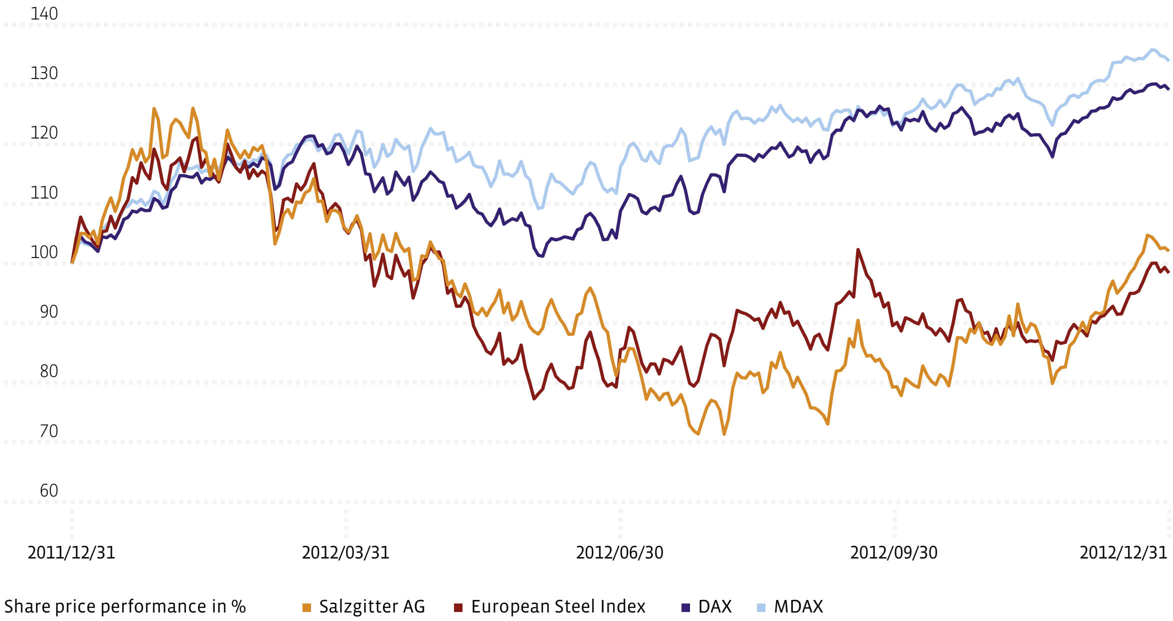
These are the values on which Salzgitter AG’s new mission statement will be built. Statements on the entrepreneurial goals and the ways of achieving these goals are to be formulated on this basis. Running in parallel with our “Salzgitter AG 2015” project, the draft of the mission statement will be discussed within the Group in 2013 before it takes on its final form. Our intention is to secure the participation of our employees, as well as their acceptance.

5. The Salzgitter Share

Capital Market and Price Performance of the Salzgitter Share

The sentiment on the stock exchanges improved discernibly in 2012. Initially, at the start of the year, confident expectations of the economy drove the uptrend that was broken in spring due to the increasingly distressed financial situation of a number of eurozone countries, triggering fears of recession. Even before the end of the first half-year, stock exchange sentiment brightened in response to China's move to lower key interest rates and various measures initiated under Europe's fiscal policies. The resulting positive share price trend held steady through to the end of the year, to the exception of a correction phase lasting from the start of October through to mid-November. It is worth noting that this development was at least partly attributable to a dearth in investment opportunities owing to the expansionary monetary policy of international central banks, with correspondingly low key rates. All in all, the DAX gained 15 % compared with its status at year-end 2011 and the MDAX rose by around one third.

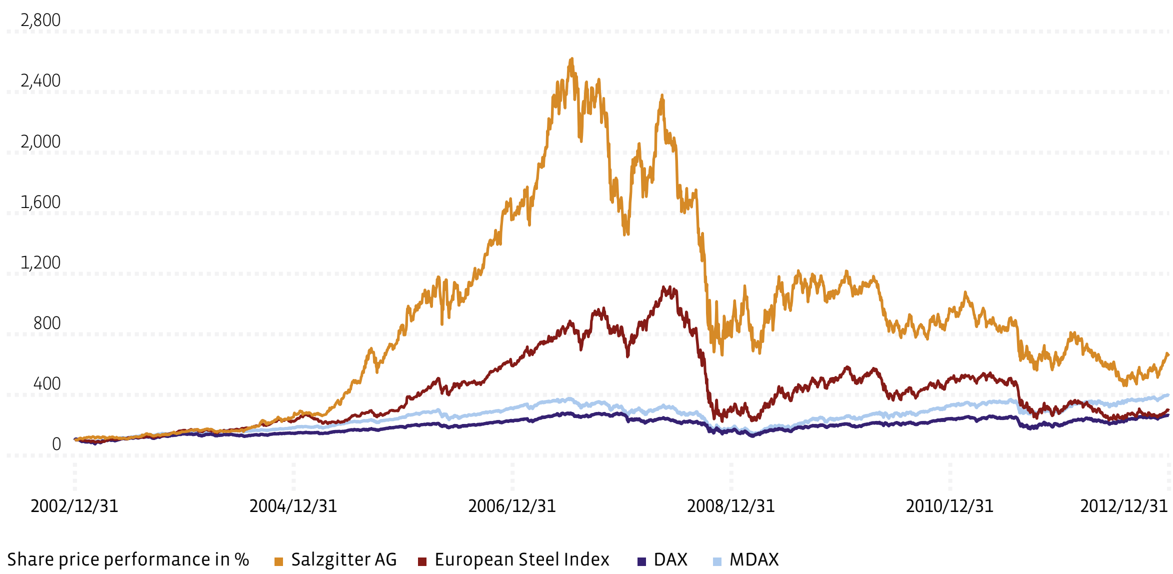
Salzgitter AG share performance vs the European Steel Index, MDAX and DAX in 2012



Sources: XETRA closing price Deutsche Börse AG, Datastream STEELEU

The lack of a clear, positive macroeconomic trend and skepticism typical of the capital market about cyclically sensitive sectors prevailing in times of uncertainty were the main factors of influence on the development of the Salzgitter share in 2012. In the first weeks of the reporting period, the share price climbed more swiftly than the DAX and MDAX, from € 38.63 posted at year-end 2011 to its peak of € 48.95 on February 8. The anxiety which took hold before the end of the first quarter, prompted by the sovereign debt situation of several eurozone countries, affected almost all steel shares, triggering significant consolidation. Somewhat improved sentiment from June onward allowed steel equities to recover gradually. In the final weeks of the year, news reporting a slow uptrend in steel prices fueled this development. With a share price of € 39.43 at year-end, the overall performance of our share amounted to +2% in the year under review.

Salzgitter AG price performance vs the European Steel Index, Mdax and DAX from 2003 to 2012



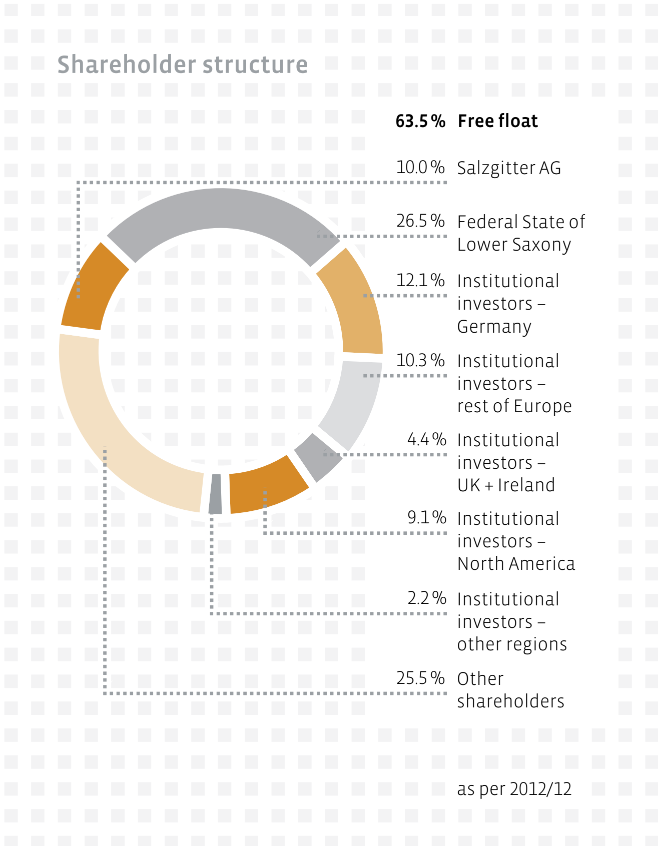
Sources: XETRA closing price Deutsche Börse AG, Datastream STEELEU

Seen from a long-term standpoint, our share has considerably outperformed the DAX and MDAX as well as the European Steel Index despite the extremely difficult stock exchange environment challenging steel equities for more than two years. In a ten-year comparison, the DAX rose 163 % as against December 31, 2002; the MDAX and the European Steel Index grew by 294% and 197% respectively. The overall performance of the Salzgitter share posted +558% between 2003 and 2012 and, including dividend paid over this period (€ 10.88), was as much as +743%.

The average daily turnover in the Salzgitter share on German stock exchanges stood at around 320,000 units during the period under review, thereby declining 13% compared with the year before (367,000 units). The sum total of shares traded in the financial year 2012 amounted to 81 million. With an accumulated trading volume of € 2.9 billion, Salzgitter AG took ninth place in the MDAX ranking of Deutsche Börse AG on December 31, 2012. The free float market capitalization of almost € 1.5 billion ranks the share in 21st place, measured by this criterion.

Shareholder structure

According to a survey commissioned in November 2012, the shareholder structure of Salzgitter AG has changed only slightly in comparison with year-end 2011. Apart from 10% in treasury shares, shareholders registered in Germany, including the Federal State of Lower Saxony as a major investor, held at least 38.6% of the Salzgitter shares, which is slightly higher than in the previous year (2011: 37.6%). The stake held by German institutional investors rose marginally to 12.1% (2011: 11.1%). The share of foreign investors declined to 25.9% (2011: 27.4%), while 25.5% of our investors could not be identified. The latter are likely to be private domestic and foreign private investors, as well as institutional investors with no reporting requirements, such as insurance companies and trust foundations. Salzgitter shares in free float remain unchanged at 63.5%.



Treasury shares

Salzgitter AG's portfolio of treasury shares came to 6,009,700 units as per December 31, 2012, and is unchanged from December 31, 2011.

Information for investors

		2012	2011	2010	2009	2008
Nominal capital[1]	€ m	161.6	161.6	161.6	161.6	161.6
Number of shares[1]	units m	60.1	60.1	60.1	60.1	60.1
Number of shares outstanding[1]	units m	54.1	54.1	54.1	54.3	54.1
Market capitalization[1][2]	€ m	2,132.4	2,089.4	3,124.6	3,716.4	2,974.8
Year-end closing price[1][3]	€	39.43	38.63	57.77	68.44	55.00
Stock market high[3]	€	48.95	65.64	74.32	73.40	143.88
Stock market low[3]	€	27.03	32.43	45.76	40.22	37.8
Earnings per share (EPS)[4]	€	–1.89	4.31	0.55	–7.10	12.11
Cash flow per share (CPS)[4]	€	7.90	–3.63	21.96	22.75	9.83
Dividend per share (DPS)	€	0.25[5]	0.45	0.32	0.25	1.40
Total dividend	€ m	15.0[5]	27.0	19.3	15.1	84.1

Securities identification number: 620200, ISIN: DE0006202005

[1] All information as per December 31
[2] Calculated on the basis of the respective year-end closing price multiplied by the number of shares outstanding as per December 31
[3] All data relate to prices in XETRA trading
[4] Calculated by taking account of the weighted average number of shares outstanding
[5] Subject to approval by the General Meeting of Shareholders

Dividend
The Executive and Supervisory boards propose that the General Meeting of Shareholders approve a basic dividend payment of € 0.25 per share for the financial year 2012. Based on a nominal share capital of € 161.6 million, the total dividend distribution proposed totals € 15.0 million.

Investor Relations

In 2012, our wide range of information for private and institutional investors met with great demand once again. We presented the results of the financial year 2011, along with those of the first six months of 2012, at well-attended analyst conferences in Frankfurt am Main and London and engaged in intensive dialog. We arranged telephone conferences when the reports were published for the first quarter and the first nine months of 2012. We also made presentations at numerous investor conferences and road shows in Germany, Europe and the US. Investors and analysts were eager to take the opportunity of visiting our production sites where they informed themselves in situ about the relevant processes, facilities and products. In addition, the business situation and the potential of the Salzgitter Group were discussed with Executive Board members and other managers. In December, more than 20 analysts from nearly all banks covering the Salzgitter share took part in Salzgitter AG's first Capital Markets Day which took place at KHS GmbH (KHSDE) in Dortmund.

The "Freundeskreis der Aktionäre der Salzgitter AG" (circle of friends of Salzgitter AG shareholders) arranged a series of events for our private investors who were able to gain an overview of current developments within the Group and its business environment. Speakers engaged for these events also included members of the Group's Executive Board.

Recommendations and company reports on Salzgitter AG were issued by a minimum of 26 financial institutions in the financial year 2012. At year-end their ratings were:

- 13 buy/outperform
- 11 hold/neutral
- 2 sell/underperform

Four financial institutions took up the coverage of our company in 2012.

At present, the institutions listed below report regularly on the Salzgitter Group:

Baader Bank	HSBC
Bank of America/Merrill Lynch	Jefferies
Bankhaus Lampe	JP Morgan
BHF Bank	Kepler Capital Markets
Citigroup	M.M. Warburg
Commerzbank	MainFirst
Credit Suisse	Metzler
Davy	Nomura
Deutsche Bank	NORD/LB
DZ Bank	Société Générale
Equinet	Steubing
EXANE BNP Paribas	UBS
Goldman Sachs	

II. Goals and Key Factors for Success

1. Management and Control of the Company, Goals and Strategy

In an environment that is increasingly determined by the rapid pace of change and uncertainty, the emphasis at Salzgitter AG is placed on the long-term success of the company to the benefit of all its stakeholders. The Group strategy and all decisions and tactical measures derived therefrom are geared to implementing our corporate policy of self-determination. The overriding goal of “preserving our independence through profitability and growth” remains unchanged.

Achieving financial stability and a sound balance sheet are also key prerequisites that underpin our long-term success, as is the adjustment of our company to volatilities in its key sales and procurement markets and meeting the challenge of the burdens anticipated from policies on energy and climate protection and demographic change in our society. The Management of Salzgitter AG recognized these challenges at an early stage and has addressed them with programs that have partly already stood the test of time. Examples include the Profit Improvement Program, the drive to reduce non-personnel costs, as well as additional impetus from initiatives such as the Generation Campaign 2025 (“GO”) and other measures designed to raise energy and resource efficiency.

The “Salzgitter AG 2015” project has been initiated in order to safeguard the competitiveness of Salzgitter AG and its Group companies in an environment set to remain challenging in the medium term. Under this project, the Salzgitter Group has set itself the task of reviewing its process and organization structure, set in place more than ten years ago and characterized by extensive decentralization, and implementing changes wherever necessary. The objective is to create the prerequisites that will enable our company to respond even more swiftly and effectively and in a more customer-oriented way, thereby being better able to identify and exploit market opportunities. The implementation of an extensive catalog detailing individual measures is to commence at mid-year 2013. The ongoing measures and structural programs in individual Group companies continue to be consistently carried out, developed further wherever necessary, and networked with the “Salzgitter AG 2015” project.

One of the first steps in the direction of realigning our core processes was taken in 2012 when a Shared Service Center for accounting was set up. The task of this Service Center is to centralize and perform the accounting of companies belonging to the Steel, Tubes and Services Divisions in future. It had already taken up operation by the start of November 2012 in Salzgitter, and it is to be rolled out and a second location in North Rhine Westphalia established by the end of 2013. Once the processes have been optimized, we anticipate substantial cost savings such as those already achieved through centralizing pension and payroll accounting.

The valuable contributions of our employees are critical for achieving our corporate objectives. Consequently, forward-looking further training, the systematic fostering of the workforce and the recruiting of highly qualified junior staff have always been given high strategic priority.

In order to ensure a top-down/bottom-up synthesis between our corporate goals and the endeavors of our operational units and enable a systematic method of procedure, we have used a set of management and control instruments for many years that will now be reviewed under the “Salzgitter AG 2015” project.

Management and Control Instruments

We strive to steadily and sustainably enhance the competitive ability of the Salzgitter Group. To this end, the company deploys a range of management and control instruments, alongside the regular coordination of goals at Executive Board level, flanked by the respective reporting to the supervisory and controlling bodies:

- Return on Capital employed (ROCE),
- Profit Improvement Program (PIP) and
- Agreeing individual goals for executives and non-tariff employees.

Management and control system applied within the company – ROCE

The primary objective of our company remains the “preservation of our independence through profitability and growth”. As a quantitative, performance-related target, the Group has set itself the goal of achieving a return on capital employed (ROCE) of at least 12% over an economic cycle, generally defined as a period of five years. ROCE shows the relationship of EBIT I to capital employed and measures the return on capital employed:

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

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	2012	2011
EBT	–29.4	201.6
+ Interest expenses	167.1	142.5
– Interest expenses for pension provisions	–77.9	–79.4
= EBIT I	**59.8**	**264.7**

Capital employed is interest-bearing equity and debt.
This ratio is calculated by deducting pension provisions and non-interest-bearing balance sheets items from the total assets.

in € m	2012	2011
Balance sheet total	8,930	8,800
– Pension provisions	– 2,182	– 1,893
– Other provisions excluding tax provisions	– 678	– 684
– Liabilities excluding bonds, bank liabilities and notes payable, liabilities from finance leasing and forfaiting	– 1,329	– 1,233
– Deferred tax claims	– 260	– 256
= Capital employed	**4,481**	**4,733**

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 as per the reporting date.

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. Specific strategic objectives are derived from this target for each individual division and company. These objectives are taken account of in medium-term planning – in an updated form whenever necessary.

Over the period from 2003 up until and including 2012, we exceeded our profitability target by delivering a ROCE of 15.2 %. In the year 2012, we earned a ROCE of 1.3 % (previous year: 5.6 %). Upon elimination of net cash investments held at banks, ROCE from industrial operations came to 0.7 % (previous year: 6.2 %).

Profit Improvement Program (PIP)

We view the ongoing optimization of value-added processes as a permanent management task which makes a major contribution to preserving the Group's competitive edge. We place special emphasis on the systematic and consistent leverage of the existing potential in all our divisions.

To this end, we introduced the concept of our 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 to the extent 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. The results of programs specific to individual companies are also incorporated into PIP. Noteworthy examples are, among others, "Fit4Future" (KHS Group) and the structural programs run by the main companies in the Steel Division. In addition, measures from Group projects such as the "Non-Personnel Costs Initiative", the goal of which is to reduce non-personnel expenses that can be influenced in the short term by 10% in all Group companies, and "f(IT)", specifically aimed at generating additional profit contributions in or through IT, are also integrated. The objective is to enhance performance across the whole Group.

Employees play an active part in PIP

In contrast to pure top-down approaches, the commitment of all involved under the PIP concept ensures the successful implementation of the steps agreed. Accordingly, our employees' suggestions for improvement are also incorporated into PIP. The acceptance of the program, which relies mainly on our employees' initiative and their willingness to use the structures and mechanisms established to consistently improve the profitability of their own projects, therefore remains very high across all management levels.

Start to the new PIP 4.0 program

The fourth iteration to our PIP program was launched in 2011. Key features of this relaunch include a flexible base year and the implementation of a continuous program with no time restriction. The basic idea at the heart of the Profit Improvement Program has, however, remained unchanged. The three-letter abbreviation P, I, P continues to be synonymous with the efficient and sustainable conducting of business based on the premise of initiative and has become firmly anchored in the Group's corporate culture over the years.

Project success stories

Compared with 2011, we have raised a number of active measures given a monetary value to 590 (2011: 447). The full-year effect (FYE) to be achieved through these measures amounts to € 405 million, which is an appreciable increase against the previous year (€ 286 million).

The pleasing result has come about from the contributions of various areas of the company: For instance, activities in the sales markets, with products delivering higher value added and an expansion of sales channels, contribute a full-year effect of € 191 million. Moreover, in the course of improving process workflows in production and administration and streamlining the use of material and external services, we have identified a potential of € 235 million. A precondition for achieving the goals set for the Group partly involves an increase in expenses, such as those incurred by investments. Accordingly, an annual amount of € 21 million was included to cover depreciation and amortization. The fact that a large proportion of these measures depend on the economic environment and that, as a result, we see a further need for action toward internal optimization should be taken into account. This is where our "Salzgitter AG 2015" project comes into play.

Current status of PIP 4.0

in € m	FYE
Increase in overall operating performance	191
Saving on expenses	235
Depreciation and amortization/interest	– 21
Earnings effect before taxes	**405**

Agreeing individual objectives for executives and non-tariff employees

Agreements on objectives serve to transmit corporate goals and cascade them down to the level of each individual employee's personal endeavors. Salzgitter AG divides these objectives up into individual targets for executives and non-tariff employees and a collective, quantitative component of selecting the Group's goal of achieving a return of capital employed (ROCE) of at least 12%. Part of this process is to define a target for each individual subsidiary. Individual objectives are agreed between superiors and their staff and derived from the goals of the next organization unit up in the hierarchy. Beyond this, we are paying increasing attention to ensuring that the interaction between the various targets of the employees in their entirety has a positive impact on achieving the overall results of the Group.

Strategy

Growth strategy

With its focus on the Steel, Tubes, Trading and Technology Divisions, the Salzgitter Group pursued its path of its strategic development in the financial year 2012 as well. The goals associated with this development can be classified as follows:

Internal goals
- Optimizing quality
- Raising productivity and resource efficiency
- Eliminating bottlenecks
- Rounding off the product program
- Reducing our dependency on external deliveries and services in sensitive areas

External goals
- Closing of gaps and optimizing the value and logistics chains
- Making attractive acquisitions in our core segments
- Selectively strengthening regional market positions
- Supplementing/extending the product program
- Industrial diversification

The Salzgitter Group has the potential to achieve growth, resulting in annual external sales within a range of between € 13 billion and € 15 billion in the years ahead. Our preference is for generating this increase through organic growth, while exploiting our technological and industrial know-how. More substantial measures to promote growth in an international environment subject to swift change where accurate predictions are virtually impossible go hand in hand with high business risks as, based on empirical data, knowledge and experience and the deployment of substantial funds, decisions that will have a far-reaching effect on the future must be made. Owing to the economic and sovereign debt crisis prevailing in many European countries and the associated economic risks, our external growth targets have currently been given a lower priority than measures to enhance performance and foster the organization development of the Group. Smaller to mid-sized acquisitions are nonetheless feasible and readily financed.

It is our intention to actively accompany potential consolidation processes in the sectors of steel, trading, tubes and technology which represent our key operations in the future as well. Our premise of not taking part in “bidding wars” or paying unrealistic prices for acquisitions still applies.

Thanks to our foresight in building up liquidity reserves we were in a position to proceed with extensive investments at any given time. The process of due diligence and evaluation conducted on all investments are fundamentally subject to conservative assumptions and benchmarks. We are therefore confident that, given the internal optimization and growth projects implemented in our core businesses of steel, trading, tubes and technology, we are optimally equipped to achieve the goals envisaged, also if there is a delay in some instances. In some cases, the time when the success of individual projects comes to fruition depends greatly on the state of the economy.

Strategy of the divisions

The investment program in the **Steel Division**, initiated in 2007 and costing around € 1.7 billion, has been concluded. These measures have enabled us to supplement our current product program, lower our costs through the improved efficiency of our facilities, reduce the volume of input material purchased externally and scale back the processing outsourced in the Steel and Tubes divisions. In the context of future investment decisions, deliberations on how we can inject more flexibility into and optimize the way we use energy and resources are set to play an even greater role than before. The restructuring program at Peiner Träger GmbH (PTG), launched in 2010 and already partly realized, is to be consistently implemented and supplemented by further measures in 2013.

Our **Trading Division** will continue to place great importance on closely coordinating with the export business of our production companies and leveraging existing synergy potential in the future as well. The purchase of part of the Kovac Stahl operations at the Graz and Gratkorn locations has strengthened our market position in Austria where we are now present as Salzgitter Mannesmann Stahlhandel Austria (SMSA) with our own warehouses and steel service activities. We have plans to expand our international trading, foster existing customer relationships, and support our steel mills in the procurement of input materials.

A major part of the **Tubes Division**’s activities is focused on infrastructure projects in the energy sector and is of a typically late cyclical nature due to the industry’s requirements being generally oriented towards the long term. The Group’s subsidiaries that supply the markets for the transportation of agents (media such as gas) reliant on pipelines are especially set to benefit – as before – from their excellent competitive position and the fact that access to energy and water are indispensable prerequisites underpinning society’s prosperity. Growth opportunities in this business are to be found specifically outside Western Europe in particular, with the competitive pressure in a number of markets having greatly intensified. In order to sharpen its profile the Tubes Division will continue to optimize existing structures and cooperation with the Group’s international trading activities so as to create additional channels for sales and input material procurement. As part of the restructuring process that commenced in 2009 at the French precision tubes company Salzgitter Mannesmann Précision Etirage SAS (MPE), the Rachecourt plant was shut down in October 2012, following on from the closure of the La Charité plant in 2009, in response to the downturn in demand in western and southern Europe. Endeavors toward a leaner structure and process organization will progress in 2013 with the aim of enhancing the competitive ability.

The primary purpose of the **Services Division** remains geared to raising the productivity and sharpening the competitive edge of the individual companies. At the same time, the producing units of the Group are to receive support in the form of the best possible service offerings. The main task of the Service Division's core companies is to provide services to the Group on a non-profit basis, although some of these companies also generate considerable sales volumes in business with third parties. Assigned to the Services Division, Salzgitter Mannesmann Forschung GmbH (SZMF) occupies a special position in terms of its value for the Group: It combines research on materials, products, processes and applications at the cutting edge of technology destined first and foremost for the companies of the Steel and Tubes divisions, but also for our customers and partners.

The strategy of the **Technology Division** is designed to offer its customers and partners all over the world solution competence from a single source, to exploit the advantages of the international production and service networks, and to deliver a comprehensive and streamlined product portfolio. In the future, even greater emphasis will be placed on the development of holistic, innovative products for our customers encompassing the entire life cycle of a plant, from planning right through to final decommissioning. In order to be in a position to meet the challenges of fierce competition in this business, we will be stringently pursuing "Fit4Future", the restructuring process introduced at the KHS Group, under which internal business processes are to be optimized and the Group's competitive ability increased.

2. Investments

As in previous years, the investments measures of the Salzgitter Group focused on the Steel Division in the financial year 2012. The most important projects are explained in the detailed sections which follow on the individual divisions.

Additions to non-current assets from investments totaled € 393 million (2011: € 437 million). At € 325 million, the volume of investment capitalized in property, plant and equipment and intangible assets was not covered by depreciation and amortization (€ 358 million). The financial assets rose by € 68 million, which was primarily attributable to an acquisition in the Trading Division and a loan extended to a portfolio company.

Investment/depreciation and amortization[1]

in € m	Investments Group	Investments of which Steel Division	Depreciation/amortization[2] Group	Depreciation/amortization[2] of which Steel Division
2012	**325**	**187**	**358**	**248**
2011	361	233	359	249
2010	497	410	377	275
2009	677	541	543	308
2008	653	454	278	154
Total	**2,898**	**2,071**	**2,140**	**1,381**

[1] Excluding financial assets
[2] Scheduled and unscheduled write-downs

Of the investments in property, plant and equipment and intangible assets during the financial year, € 187.0 million was attributable to the Steel Division, € 49.9 million to the Tubes Division and € 16.6 million to the Trading Division. The Services and Technology divisions invested € 49.5 million and € 19.2 million respectively.

Investments in property, plant and equipment and depreciation and amortization of property, plant and equipment by division

in € m	Investments[1] 2012	Investments[1] 2011	Depreciation/amortization[1][2] 2012	Depreciation/amortization[1][2] 2011
Steel	187.0	233.1	248.1	249.1
Trading	16.6	12.5	11.3	11.2
Tubes	49.9	52.5	46.1	48.5
Services	49.5	43.8	24.9	22.9
Technology	19.2	17.1	25.7	25.6
Other/Consolidation	3.1	2.0	2.1	1.8
Group	**325.3**	**361.0**	**358.2**	**359.2**

[1] Including intangible assets
[2] Scheduled and unscheduled write-downs

Steel Division

The investment activities of **Salzgitter Flachstahl GmbH** (SZFG) were concentrated on optimizing existing facilities, in order to secure availability, and on environmental protection measures.

SZFG's "Sinter Cooler Dust Removal" environmental protection project, for instance, was completed on time. With the new filter to remove part of the sinter cooler dust in the preparation of ore, all defined statutory limits were definitively undercut.

The “Blast Furnace B Top Gas Recovery Turbine”, commissioned step by step in 2012, allows energy to be recovered from the top gas resulting from the blast furnace process, which reduces the volume of electricity purchased externally by up to 57 GWh/year.

SZFG’s tandem mill is to be supplemented by an inlet system comprising strip storage and a welding machine that will allow partly continuous rolling, thereby optimizing both the mill’s efficiency and the quality of the products produced. During the reporting period, the building and the foundations for the machinery were completed.

As part of the “Belt Casting Technology” project at the Peine and Salzgitter sites, facilities for producing innovative steel materials with special properties while conserving resources are being built. The project progressed to schedule in 2012. The first tests on the Peine strip caster and the rolling mill for further processing in Salzgitter were satisfactory.

Engineering for the “Converter A Replacement” project has been concluded. The measure entails enlarging the vessel by around 50 m³ and improving the drive concept. The aim is to optimize output volumes while reducing operating costs.

The ramping up phase of the second electric arc furnace at **Peiner Träger GmbH** (PTG) proceeded according to plan. The start of 2012 saw the parallel operation of the two furnaces commence. All activities in the steel works are geared to stabilizing processes further while reducing operating costs. In addition, the rolling stand 3 of the continuous casting line 1 was refurbished.

Ilsenburger Grobblech GmbH (ILG) concentrated first and foremost on implementing the major “ILG 2015” investment in 2012. As a result of this project, the processed volume of thick slabs (350 mm) is to be more than doubled and the weight of the plate raised from 21 to 28 tons.

Tubes Division

The **EUROPIPE Group**’s investments were largely channeled into ongoing streamlining and the objective of safeguarding its leading market position through improving the quality of its products on an ongoing basis. For example, the Mülheim pipe mill installed new ultrasound testing equipment to accommodate the more stringent specifications anticipated in the awarding of pipe projects.

Preparatory work on the major “Replacement of the Cross Cut Shear” project in the plate rolling mill of **Salzgitter Mannesmann Grobblech GmbH** (MGB) proceeded as planned. The component parts have been manufactured and the new hall crane delivered for the Mülheim mill.

Salzgitter Mannesmann Line Pipe GmbH (MLP) invested in both its sites, concentrating particularly on upgrading facilities for processing greater pipe wall thicknesses and higher steel grades. In addition, the company focused on optimizing its production processes and occupational safety.

The investment activities of the **Salzgitter Mannesmann Precision Group** centered around the German mill in Hamm, where a new tube welding machine for the production of custom precision steel tubes was taken into operation at the end of 2012, and its Dutch mill in Helmond where a tube bending line was installed.

The **Salzgitter Mannesmann Stainless Tubes Group** forged ahead with its market entry into promising areas of business in order to expand its product portfolio further. At its Costa Volpino site (Italy), for instance, a new production line was installed for umbilicals that will be used to supply energy in the business of offshore oil production. The Group's French mill in Montbard is consistently raising its technological standards so as to satisfy the increasingly sophisticated demands placed on quality, especially in the energy industry.

Trading Division
The Trading Division concentrated its investments on measures to modernize existing facilities and on making new acquisitions in the financial year 2012. For example, the **Universal Eisen und Stahl Group** expanded the finishing capacities of its American subsidiary in Houston, thereby taking account of the greater customer requirements for services.

Services Division
Another ten of a total of 40 new locomotives arrived at **Verkehrsbetriebe Peine-Salzgitter GmbH** (VPS) in 2012. The company is now well equipped to transport the greater volumes incurred by the parallel operation of the two electric arc furnaces in Peine. In its function as property developer and cost-bearing company, **Glückauf Immobilien GmbH** (GIG) commenced with building a new visitor center for SZFG that was completed within a construction period of only nine months.

Technology Division
The investment activities of the Technology Division were channeled into replacement and streamlining measures geared to promoting the sustainable competitiveness of the **KHS Group** in 2012. IT projects in Germany and in the international companies were carried out to further optimize processes.

The relocation of the keg technology from Kriftel for the purpose of combining its operations with **KHS GmbH**'s (KHSDE) second largest site in Bad Kreuznach has been completed. Along with its excellent infrastructure, this plant site is better equipped to smooth demand peaks. Moreover, the location also offers sufficient area to accommodate further expansion. The relocation of packaging and pallet transport production from Worms to Dortmund is still ongoing due to the high level of orders to be processed.

An extensive project for a software-based configuration of KHS products and packaging lines under the name of "Product Configurator" was launched in 2012. This measure is aimed at enabling the efficient tendering of quotations and the processing of orders, based in future on products and processes standardized to a higher degree.

At mid-year 2012, the inauguration ceremony of the factory of **Corpoplast Beverage Equipment (Suzhou) Co. Ltd.** (CBE) took place in Suzhou near to Shanghai. Work on the assembly of machinery for the production and filling of PET bottles from mineral water kicked off in August. The first machine built there was exhibited a month later at the "China Brew & Beverage" in Peking and was subsequently sold to a Chinese customer.

KHS Corpoplast GmbH (BEVCP) has started construction work on a new building to accommodate an extended assembly surface area. Expanding the stretch blow machine business as part of KHS' "Fit4Future" program is an important strategic cornerstone in PET technology.

3. Research and Development

Research and development (R&D) at Salzgitter AG mainly focuses on the relevant megatrends of the scarcity of resources, climate change and demographics, accompanied by the growth in the global demand for energy and mobility. Customer benefits are at the center of all activities and form the basis for our long-term success.

Salzgitter Mannesmann Forschung GmbH (SZMF), one of Europe's leading steel research institutes, is the central coordinator responsible for ensuring innovation and product development in the Steel and Tubes Divisions. With more than 75 years of expertise in R&D, it creates a synthesis between market requirements and the latest scientific trends from fundamental research and the knowledge about products, processes and applications within the Group.

SZMF's R&D philosophy extends well beyond the conventional development of existing products and processes: trend and market analyses form the basis for a systematically managed R&D process. This process covers an entire spectrum of activities, from generating ideas and assessing them for their strategic and intellectual property significance, project planning and profitability analysis, actual project and technology development through the start of production and market launch to active support for serial production.

In addition, SZMF actively participates in deciding the relevant norms and standards. We systematically foster our tight network with prestigious universities, research institutes and industrial partners, also in the context of numerous national and international research projects. We view the resulting research cooperations as clearly preferable to buying in external know-how, which is also the reason why no commensurate expenses have been incurred during the reporting period.

Activities at the Salzgitter location are concentrated on the development and optimization of new steels and coatings in the hot-rolled and cold-rolled product segment. They cover the entire process chain of steel production, coating and processing. In order to be able to offer full-line solutions, the complex further processing sequences of customers are incorporated right through to final component engineering.

The Duisburg location concentrates on the tube, section and plate segments. The company's range of expertise in the tubes segment covers welded and seamless precision tubes and line pipes right through to large pipelines. In this segment as well, numerical simulations and experimental trials are harnessed in developing new steels and processing know-how. Other areas of expertise comprise engineering analyses of materials and building component mechanics, structural mechanical and metal forming tests, along with the development and construction of non-destructive testing facilities and services encompassing standardization and industrial property rights.

Tradition and innovation go hand in hand in the Technology Division, as R&D underpins the future viability and sustainability of the products. The innovation and product development processes are consistently geared to customer and market requirements. The emphasis is on maintaining technological and service leadership with high-quality and cost-efficient products.

Proof of our innovative strength is evidenced in the increase in the total number of patents in the Technology Division to 3,676 (2011: 3,356) and by the rise in registered trademarks to 487 (2011: 372). The latter included, the whole Group held more than 4,332 (2011: 3,960) registered patents and 1,358 (2011: 1,212) trademark rights by the end of 2012.

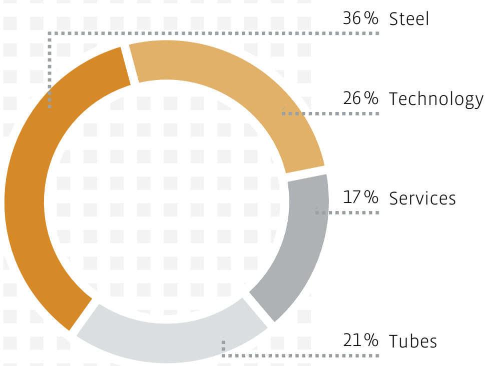
R&D Expenses

In 2012, the Salzgitter Group dedicated a budget totaling € 96.1 million to research and development and activities relating to this field, of which external customers accounted for € 14.4 million. This amount was divided up within the divisions as shown by the adjacent chart:

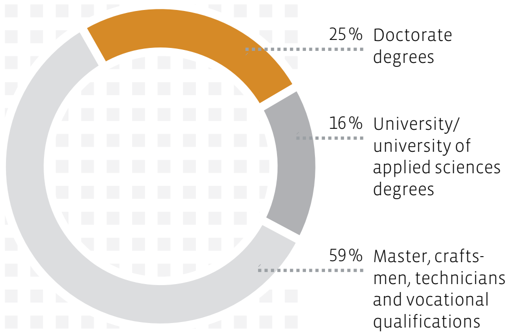
Moreover, Salzgitter AG invested an amount of around € 200 million in cooperation projects with other market participants and research and development institutions. R&D-related expenses contributing to value added within the Group came to 5.1% (2011: 4.4%).

As per December 31, 2011, 879 employees in our Group were engaged in research and development activities. Of this number, 315 members of staff work at SZMF and 564 at the operating companies. This allocation underscores how strongly our R&D activities are oriented towards processes – and therefore towards our customers. Highly qualified experts work in Salzgitter and Duisburg, the two SZMF locations. They have access to an extensive range of technical equipment in accredited and certified cutting-edge laboratories.

Research and development expenses by division



Breakdown of qualifications at SZFM



R&D Focus Areas in 2012

The R&D focus areas are based on market and customer requirements. There is a demand not just for products but also for solutions. In the ongoing development and creation of new materials concepts, activities are characterized, on the one hand, by a move towards increasingly more detailed analytical procedures that, for instance, enable a more exact examination of the structural composition of steels. On the other hand, there is a trend towards more application-oriented test procedures, as rising stress loads necessitate close-to-reality conditions.

The Technology Division's subsidiaries not only focus on developing individual pieces of machinery, but increasingly on providing comprehensive, integrated system solutions.

Here are a few examples from 2012:

Award-winning steel mill temperature model

SZMF process analysts and steel mill experts have created a mathematical model for calculating optimal melting temperatures for the operational steps between the converter and the continuous casting line in the steel mill. Taking into consideration process-specific and grade-specific influencing factors, such as the steel's chemical composition, the process times and the equipment conditions, temperature forecasts are determined for optimal temperature control in the steel mill. The model is currently being put into operational practice in order to optimize the product quality further. It was honored at an international symposium on the use of statistical and mathematical methods in industry.

HSD® lightweight construction

Together with the research department of a major German automobile manufacturer, SZMF has succeeded in proving the advantages of high-manganese HSD® steel using the example of a vehicle seating component: it complies with stringent crash standards and is 30 % lighter than the current serial part. Numerous applications are being tested in other component projects.

Hidden high performers – bainitic hot-rolled strip for automobile bodywork

Two chassis components delivered proof of the excellent properties of the material SZBS800 of Salzgitter Flachstahl GmbH (SZFG). In close collaboration with a renowned German automobile manufacturer, the material was qualified for use in a new volume model and put into serial production. The challenge in developing the material was to produce relatively thin hot strip in a very large coil width. Another necessity was satisfying the special demands placed on the formability of this bainitic material.

Sour gas resistance of large-diameter pipes after plastic deformation

In the transport of media containing hydrogen sulfide such as oil and gas, large-diameter pipes must meet special demands. SZMF conducted a testing program involving large-diameter pipes from EUROPIPE GmbH (EP) with regard to the effects of plastic deformation on the sour gas resistance. It was ascertained that the plastic deformation that arises through external influences as in pipe laying or the operation of a pipeline does not incur any negative effects. The challenge of the examinations consisted in adjusting the necessary testing technology accordingly. To this end, SZMF developed an innovative 4-point bending test that enables an additional 2% plastic deformation of the test samples, in addition to the tension normally applied to the elastic section of the pipe material. These findings allow the points of failure of large diameter pipes for the transport of media containing hydrogen sulfide to be assessed in connection with additional plastic deformation.

Longitudinally-welded large-diameter pipes for arctic applications

The transport of natural gas from arctic regions to the market is becoming increasingly important against the backdrop of the world's dwindling natural resources. The environmental conditions result in extremely demanding low-temperature endurance requirements for steels used in longitudinally-welded large-diameter pipes. The optimization of the heat-affected zone of the longitudinal weld from a cost standpoint is therefore especially challenging. Extensive interdisciplinary investigations were carried out at SZMF on behalf of EP. The influence of alloying elements on the heat-affected zone toughness under realistic welding conditions was investigated using laboratory heats. Cost-efficient alloying concepts were identified based on these results that enable application scenarios under arctic conditions.

Extended Innofill Glass filler platform

At the end of last year, KHS GmbH (KHSDE) launched a new era in filling technology with the KHS "Innofill Glass" platform solution. The wine, champagne and spirit sectors are now joining the brewing and soft drink industry in profiting from the numerous positive aspects. In addition to an optimized, computer-aided platform solution, KHSDE has launched another two new filling systems. All fillers process bottle sizes from 0.1 to 3 liters and output from 10,000 to 72,000 glass bottles an hour. Improved system availability, reduced media and energy consumption, and lower maintenance and service costs are just a few of the advantages.

Solutions for large-format shrink packaging

The successful KHS shrinkpacker has further consolidated its market position thanks to a highly acclaimed innovation. For the first time, the new KHS FullyEnclosed FilmPack™ system enables all companies operating in the beverage, food and non-food industry to shrink-wrap cans and bottles without holes ("bull's eyes") on the front and back. Not only is the resulting packaging compact and robust, but the trays or pads previously used to stabilize the pack are no longer required. This solution offers significant cost and material savings, as well as effective waste separation.

Future Key Areas of R&D within the Group

The demands placed on steel as a construction material are steadily growing, not only as regards its properties but also in terms of processing and applications. The aspects of resource efficiency and life cycle assessment play an especially important role. In order to create innovative steel products and improve manufacturing processes on an ongoing basis, we at the Salzgitter Group undertake extensive endeavors in the research and development area. This commitment is our contribution towards ensuring that steel will continue to be the most important material used in construction in the future as well. Without steel, the realization of wind farms, solar power plants, geothermal plants and highly efficient gas power plants would be impossible. Innovative steel-based concepts are also in demand in lightweight automotive construction and particularly in connection with electro mobility.

Our Technology Division consistently implements our “Fit4Future” strategy program for filling and packaging technology. Our product developments explicitly combine customer benefits and sustainability by using minimal resources and maximizing efficiency, which sharpens our competitive edge. The modular structure of plants and machinery will remain a focal point in achieving maximum flexibility based on standardized kits. The KHS Group is also committed to offering cutting-edge, highly standardized technological solutions, which are also capable of catering to customer requirements in a flexible and cost-efficient manner.

Multi-year overview of research & development

		2012[3]	2011[3]	2010[3]	2009[3]	2008[3]	2007	2006	2005	2004	2003
R&D expenses	€ m	82	79	78	81	80	60	58	58	57	58
R&D employees	empl.	879	910	972	916	983	725	688	706	701	670
R&D ratio[1]	%	0.8	0.8	0.9	1.2	0.6	0.6	0.7	0.8	1.0	1.2
R&D intensity[2]	%	5.1	4.4	4.9	9.0	3.0	2.2	2.0	2.9	4.2	5.3

[1] R&D expenses in relation to Group sales
[2] R&D expenses in relation to Group value added
[3] KHS GmbH fully consolidated

4. Environmental Protection

Steel as part of the current climate protection debate

For years now public attention has been focused on climate protection out of the numerous environmental topics and thus on the necessity of avoiding greenhouse gases – first and foremost CO_2. The European Union has set itself the goal of pioneering the decoupling of economic prosperity from greenhouse gas emissions. Its intention is, on the one hand, to encourage other economies to participate while, on the other, creating additional entrepreneurial prospects for European goods and services in the field of "clean technologies".

An array of instruments intended to reduce CO_2 emissions has been implemented in the European Union for some time now. Emissions trading, initiated in 2005 for the energy sector and energy-intensive industries, and framework conditions for the automotive sector are particularly noteworthy in this context. In its "Low Carbon Economy Roadmap 2050"[1)] submitted in March 2011, the European Commission presented a series of considerations spanning all sectors in a holistic approach to how reductions of at least 80 % can be achieved by 2050, taking 1990 as the base year. As the steel sector is also expected to make deep emission reductions, our industry is confronted with many questions and challenges. That Salzgitter AG is also participating in the discussions aimed at preventing political shortcomings is therefore a matter of course. Moreover, the debate in Germany is dominated by the societal and political will to forge ahead with policies to promote renewable energies, a factor that will most particularly impact electricity price levels in the future.

[1)] Communication by the Commission: "A roadmap for moving to a competitive low carbon economy in 2050", COM (2011) 112 final.

Up until now, ambitious policies to cut CO_2 have nonetheless been pursued mainly in the European Union – 15 years down the road from the Kyoto Protocol. The upshot is that around only 10 % of the global production of crude steel is currently subject to emissions trading. Therefore, adopting a stand-alone approach in imposing a stringent regime of cutting CO_2 emissions solely from Europe's steel production while ignoring the convergence of markets on a global scale cannot be the answer. From a cost standpoint, this might prompt steel production in Europe to relocate elsewhere while, at the same time, being detrimental to climate protection – especially as German steelworks, similar to many of their European counterparts, are at the top of the international league table in terms of energy efficiency.

The question therefore arises as to the overall form that the climate protection strategy in Europe should take if it is to be motivating enough for other regions of the world to participate. The European steel industry takes the view that, along with setting technically and economically achievable, and thus realistic, benchmarks for production processes, there should be a clear focus on the CO_2 reductions that can be realized through its steel products. A study commissioned by the German Steel Association and prepared by the Boston Consulting Group in 2010 showed that innovative steel products can be instrumental in achieving CO_2 savings that far exceed the emissions generated during the production of the necessary steels.

The European steel industry – and Salzgitter AG along with it – is prepared to make its contribution to lowering emissions within the scope of scientific fundamentals and in the context of global policies. In any case, the size alone of the energy cost position has always dictated the necessity of minimizing energy consumption and, accordingly, the emissions.

Groupwide project for sustainably improving energy efficiency

We initiated a groupwide project in 2011 with the aim of improving energy efficiency on a sustainable basis and conserving resources: The starting point of this endeavor is an up-to-date and extensive analysis of consumption incorporating the relevant processes within the Group. The second focus is on investigating possible ways of using renewable energies and looking into how we can tap the potential of unavoidable process waste heat. An analysis of energy purchasing, aimed at optimizing the Group's procurement structures, is an integral part of this process. Underpinned by the development of an energy management system across the whole Group, the ongoing improvement of energy efficiency is to be rendered both transparent and measurable.

The Energy Efficiency (EE) Program of Salzgitter Flachstahl GmbH, introduced back in 2009, is a prime example of how ecological and economic improvements can go hand in hand: Under the EE Program, energy savings potential is identified, evaluated and implemented in all production areas. As a result, substantial savings effects have been achieved since the project began.

Commitment to the expansion of renewable energies

The construction of wind turbines would be unthinkable without robust, corrosion resistant steel components. Today's wind turbines are more than 80 % steel. As early as 1996, Ilsenburger Grobblech GmbH (ILG) was making heavy plate and cut-to-size blanks for the wind power industry. By the end of 2012, it had delivered more than 1.2 million tons for the construction of around 8,500 towers for onshore wind turbines right across Europe. The installed capacity supplies more than 9.5 million households with electricity.

Securing sustainable landfill sites

Through to mid-2009, SZFG was operating the Heerte landfill site for the deposit of various production waste materials. In the subsequent phase of decommissioning, a package of measures is being carried out to restore the landfill site long term to a final state with low emissions and minimum settling. Measures also include extending the groundwater runoff as well as profiling and surface sealing. Implementation of the first sub-activity that involves extending the groundwater runoff commenced in 2012: an impervious sheet pile wall, extending 350 meters along the southern flank of the Heerte landfill site, was rammed into the ground at a depth of up to 12 meters. The sheet piles were delivered by our subsidiary HSP Hoesch Spundwand und Profil GmbH (HSP), demonstrating that Salzgitter AG is also able to provide competent solutions in this area of environmental protection.

Energy and efficiency management at KHS GmbH

Three pillars underpin the endeavors of KHS toward energy efficiency: The first pillar ensures that the machinery used for beverage filling consumes little energy and materials in the production process, which is also achieved through optimizing production processes and applying lightweight construction principles. Moreover, KHS machinery is above average in terms of its robustness and longevity, thereby keeping the need for spare and wear parts to a minimum. The second pillar consists of the savings achievable by our customers in primary and secondary packaging materials: The trend toward increasingly lighter PET bottles remains unbroken, also owing to the cost of materials. KHS also advises its customers, in the shape of the bottles for instance, so that maximum efficiency in the use of PET material can be attained while ensuring that the bottles produced are stable. The third pillar represents the reduction of consumables such as water, air, chemicals and electrical energy in our customers' production processes. An example of this is the new Evoglass filler offering low consumption of energy and other resources as confirmed by the "Energy-efficient plant technology" label granted by TÜV Süd (German technical inspectorate). It is the first machine in a filling line in the world to be awarded this certificate. The company's stretch blow machinery has also achieved the same certification.

KHS is looking beyond today's production processes to the future: Together with partners, it is participating in the publicly funded "rebas" project launched to investigate the resource-efficient development and operation of filling plants in the food industry. Innovative simulation software is to assist in dynamically streamlining material flows at line level across a range of machinery. The sustainable operation of the plant is to be achieved through implementing new control algorithms in a manufacturing execution system.

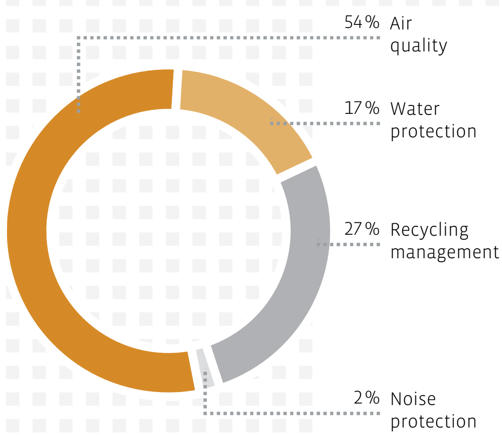
Environmental protection spend

The total spend of the Steel Division on environmental protection came to around € 184 million in the financial year 2012.

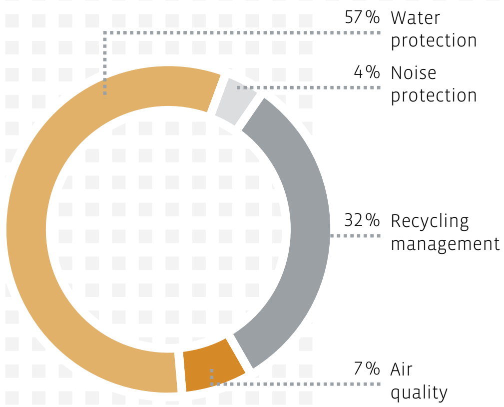
The Tubes Division's companies based in Germany spent approximately € 13 million on environmental protection.

The adjacent chart shows the allocation of funds committed.

Environmental protection spend
Steel Division



Environmental protection spend
by domestic companies
of the Tubes Division



III. Performance Report

1. Global Business Conditions

Economic Environment[1)]

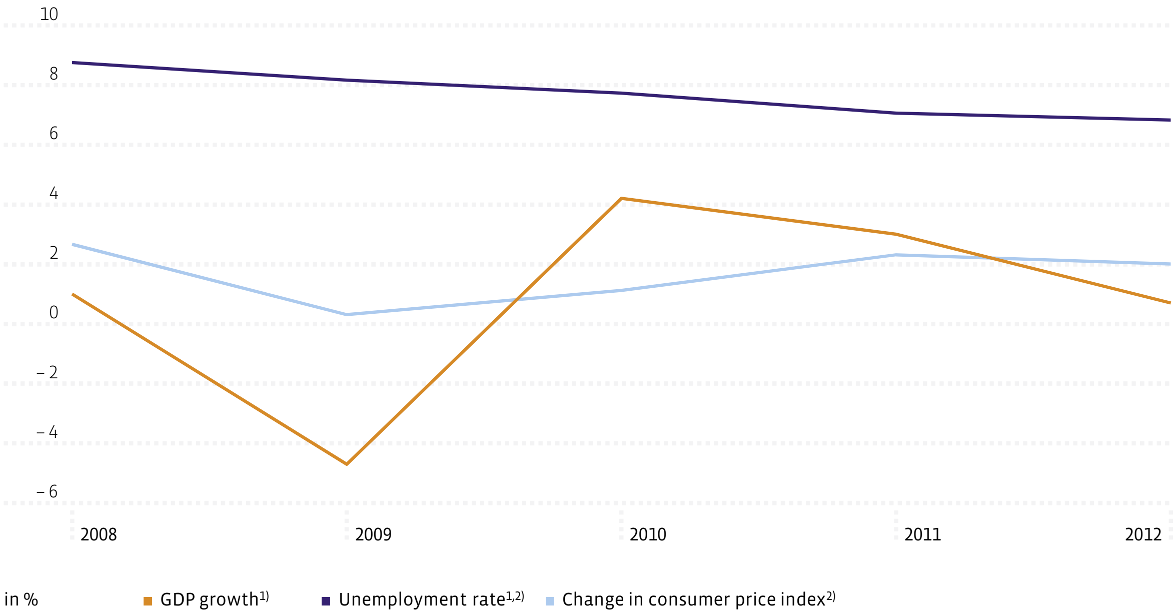
The overall development of the **global economy** was modest in 2012. The industrial nations above all saw a slowdown in the economy, with the initial signs of recovery at the start of the year being swiftly overshadowed again by discussions about the sovereign debt crisis of a number of eurozone countries. In addition, many countries are still battling the after-effect of the recession years of 2008 and 2009. The unemployment rate, for instance, is still high in many of the advanced economies, and reducing the debt burden in the private and public sector is running a slow course at best, if occurring at all. Reticent demand from the industrial nations was also the primary reason for waning momentum in the large emerging markets. According to the most recent estimate of the International Monetary Fund (IMF), global economic growth in the year ended stood at a mere 3.2% as opposed to 2011, which recorded an increase of 3.9%.

Uncertainty about the development of the European Union and the ongoing fiscal consolidation measures burdened the **euro area** economy in 2012. Although foreign trade provided pleasing stimulus, it was unable to compensate for the decline in domestic demand and capital expenditure. The individual countries are affected to widely varying degrees: Germany and Austria developed relatively well, along with Belgium and Slovakia. By contrast, the countries particularly affected by the sovereign debt crisis sustained significant production downturns. Of these countries, only Ireland is showing signs of stabilizing, whereas the economies of Spain, Italy, Portugal and Greece continued their downward spiral. According to the IMF, the eurozone's gross domestic product (GDP) contracted by 0.4% (2011: +1.4%).

Even though growth continued to slow over the course of the year, **Germany's economy** proved to be relatively resilient in 2012 in a difficult international environment. Supporting factors included steady and robust foreign trade to countries outside the eurozone and domestic consumption. Capital expenditure, however, was unable to make a positive contribution to growth for the first time since 2009 and even declined significantly in part. The number of persons in gainful employment reached a new high for the sixth year in a row. The German economy grew in the first three quarters of 2012, but at a steadily slowing pace. In the final quarter it contracted by 0.6% compared with the preceding period. According to the German Federal Statistical Office, overall GDP rose by 0.7% in the reporting period, which is significantly below the year-earlier figure (2011: +3.1%) when the process of making good after the economic crisis was still having a positive effect.

[1)] Information was obtained mainly on the basis of the following sources: International Monetary Fund (1/2013): World Economic Outlook Update, German Steel Federation (Wirtschaftsvereinigung Stahl 2013/2014): Steel Forecast 2012/2013, Federal Association of German Industry (BDI): Autumn Report 2012; German Federal Statistical Office, February 2013

Overall economic indicators – Germany



[1]Source: German Federal Statistical Office
[2]Source: German Central Bank

Performance Report

Procurement

Iron ore spot market characterized by notable price corrections

Different price models with different reference periods were established on the global market for iron ore in 2012. Generally the spot market price trend in China is the determining parameter. The benchmark pricing of fine ore with an iron content of 62% fluctuated within a range of 89 and 151 USD/dmt (dry metric ton) CFR China during the year. The huge slump on the spot market in the third quarter drove the index down below the 100 USD threshold again for the first time since the end of 2009. The start of the fourth quarter brought a marked uptrend. The price models valid for Salzgitter Flachstahl GmbH (SZFG) with a time lag of four months were derived from the spot market benchmark prices for the Carajás fine ore reference grade (Brazil) of 141, 122, 126 and 106 USD/dmt in the successive quarters (all prices on an FOB basis).

Decline in prices on the coking coal market

Unlike the iron ore market, benchmark contracts for coking coal are concluded on a quarterly basis, as before. Their price level is fixed in negotiations between large producers and customers, with a benchmark effect for the market. Along with contracts concluded on a quarterly basis, that affect some 75 % of all seaborne tonnage, and the conventional spot business, BHP Billiton as the world market leader offers its long-term customers mostly only monthly contracts now. Renewed flooding in Australia's Queensland and strikes lasting several weeks in a number of Australian mining operations affected the market development from January through to June 2012. It was only by the summer quarter that an easing in the market set in, which led to prices settling at a lower level in the fourth quarter. Prices fell, starting from 235 USD/t FOB, then 210 and 225 to 170 USD/t FOB for the last three months of the year.

Low sea freight level

A significant ramping up of capacity determined the freight market in 2012. The most important Atlantic and Pacific routes sustained notable declines in freight rates compared with the year-earlier period. Still at 15 USD/t in the fourth quarter of 2011, the Tubarão–Rotterdam benchmark rate averaged around a mere 9 USD/t in 2012.

Price fluctuations in metals and ferro-alloys

The international markets for metals and alloys presented a very disparate picture in 2012: After gaining discernible momentum in the first quarter, the prices of manganese-based bulk alloys fell sharply again in the second, and ultimately settled at year end around the level seen at the start of the year. In contrast, the prices of listed metals, such as zinc, nickel, copper and aluminum displayed more of a sideways movement in the first quarter and subsequently fell. At the end of the fourth quarter, prices climbed again and also closed at the level observed at the beginning of the year.

Strong fluctuation in the price of liquid reduction agents

The price of liquid reduction agents (heavy heating oil and substitute reduction agents) was extremely volatile again. Having largely risen over a period of nine months, prices entered a steep downtrend from the fourth quarter onward and reached their lowest point for the year in December. Prices quoted for crude oil also fluctuated sharply, but nonetheless remained stable seen as an average (111 USD/barrel 2011; 112 USD/barrel 2012).

Less volatility on the steel scrap market

After having risen at the beginning of the year, prices in the German **steel scrap market** came increasingly under pressure from disappointing economic data from China and fears about the euro sovereign debt crisis from the end of the first half-year onward. Moreover, demand in the deep sea shipping market and for container scrap exports slowed, which meant that there was also no support from the export markets. The only braking factor on the downturn in prices was the strong US dollar. The signs emanating from the steel and scrap market could hardly have contrasted more starkly in August and September. Whereas the steel industry was confronted by weaker steel business activities with renewed deterioration, the insufficient supply from the scrap sector resulted in price increases of up to € 25/t due to the factory vacations of the automotive industry. Owing to the dampened economic outlook, coupled with a difficult export market, prices dropped temporarily in October only to resume their uptrend a month later. This was attributable, on the one hand, to greater demand for scrap by producers of electrical steel and, on the other, to improved export opportunities.

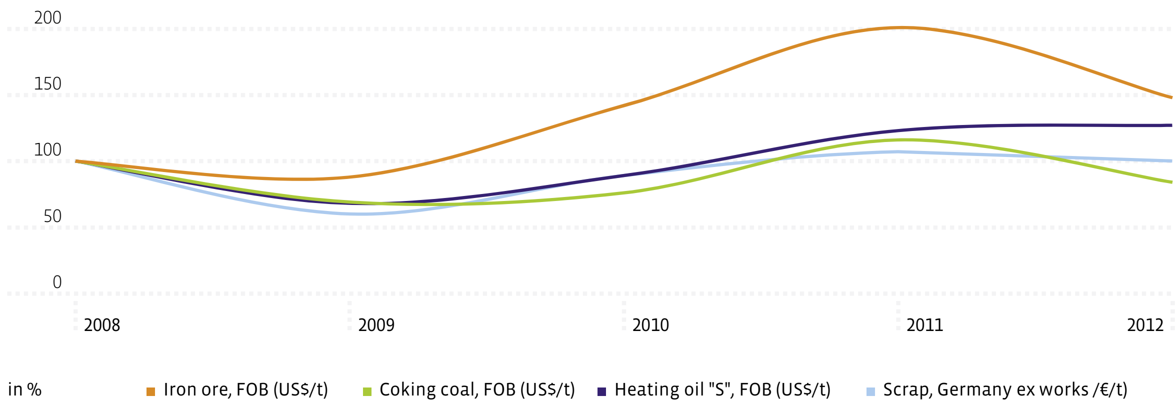
Slight decrease in the price of electricity sourced externally

Salzgitter Flachstahl GmbH (SZFG) covers virtually all its electricity requirements through its own power plant. Peiner Träger GmbH (PTG), however, sources electricity externally on the futures and spot markets. Compared with 2011, the average price of electricity sourced externally (energy price plus the statutory charges and grid fees) declined slightly for PTG. The development of the individual components making up the electricity price varied: The charges levied under the Combined Heat and Energy Act (KWKG) and the Renewable Energies Act (EEG) remained unchanged, as opposed to the pure price of energy and grid utilization costs which fell.

Natural gas price hikes due to higher oil price

The price of natural gas purchased for the SZFG/PTG interconnected plants is linked through a sliding scale to light (HEL) and heavy (HS) heating oil, with changes filtering through after half a year (HEL) and three months (HS) respectively. The determining heating oil prices rose substantially compared with 2011, which caused the average price of purchasing natural gas to climb appreciably as well.

Price development of selected raw materials and energy sources



Uneven trend in operating supplies

The market for operating supplies was hallmarked by good production capacity utilization on the supplier front, on the one hand, and by the steel industry's tense earnings situation, on the other. Accordingly, individual purchase prices rose on the back of robust demand compared with some project-related areas of procurement where price reductions were achieved.

Input material – disparate semi-finished price trend

In response to the recovery in global demand for steel products at the start of 2012, slab prices in Europe and Asia rose initially. By mid-year they had already entered a decline in line with the slowdown in the global demand for steel. Only in the second half of the fourth quarter did the downtrend come to a halt, and prices stabilized at a low level, with signs of a marginal upturn. In contrast, slab prices in Latin America remained at a constant level for nine months and declined substantially in the final quarter of the year. This negative trend held steady through to the end of the year.

As before, there are two key options open to **Tubes Division** for sourcing input materials internally, that can be supplemented by purchasing from strategic partners to cover any supply shortfall: The delivery volume of Hüttenwerke Krupp Mannesmann GmbH (HKM) earmarked for Salzgitter Mannesmann GmbH (SMG) is used, on the one hand, to supply Salzgitter Mannesmann Grobblech GmbH (MGB) with slabs for its plate production as input material for longitudinally welded large-diameter pipes and, on the other, to provide the precision tube companies with tube rounds for the production of seamless precision tubes. The tube companies' requirements for hot-rolled strip are mainly covered by SZFG's hot strip mill. The capacities of HKM are also tapped to supply the Steel Division's companies as part of an optimization strategy.

The **Technology Division**'s procurement volume was marginally higher than a year ago. The reasons for this were twofold: the considerably higher level of sales and the rise in the price of raw materials passed on by the suppliers. Active procurement management and longer-term supply contracts served largely to compensate for these anticipated price hikes. Good supplier capacity utilization caused delivery bottlenecks and delays on occasion, which were counteracted through an optimized order management.

The companies of the Technology Division concentrated on achieving savings in procurement with the aid of successfully standardized processes. Moreover, KHS GmbH (KHSDE), the division's largest subsidiary, improved its order processing by introducing electronic catalogs on its new supplier portal. The company made intensive use of the options on the international procurement markets to improve purchasing conditions, focusing mainly on China and Eastern Europe.

Distribution Structures

The companies of the Salzgitter Group maintain manifold supplier relationships with their customers in Germany and abroad. These relationships are characterized by their strong orientation toward the businesses and needs of the individual customers. As in 2011 and 2012, adjusting price fixing terms on the procurement side entailed changes in the way in which supplier relationships of the Salzgitter Group are set up and managed. The various forms are differentiated as follows:

Monthly and quarterly contracts

A major part of the Steel Division's delivery volumes continues to be sold to customers by way of quarter-year contracts. Against the backdrop of still growing volatility of procurement market prices, the significance of contracts concluded on a monthly basis became all the more important in the past year. Both the base prices as well as dimension- and grade-related markups, generally announced every quarter by the respective rolled steel producers, are now negotiated and signed with an increasing number of customers for individual months. The precision tubes companies sell their products primarily to the automotive industry, as well as to the mechanical engineering, retail and wholesale, and energy sectors. Production is tailored to the customer and relates exclusively to the respective order. Whereas a major part of deliveries in the past were based on longer-term price agreements, contracts are now realized mostly with terms of between three and a maximum of six months or prices are index linked. The terms for prices agreed in the stockholding steel trade business have also become shorter.

Longer-term contracts

Salzgitter Flachstahl GmbH (SZFG) agrees contracts for part of its sales under which prices are fixed in regular negotiations for a period of time exceeding one quarter. Customer groups typical of this type of supplier relationship include the automotive industry and its suppliers, specialized producers of cold rolled strip and steel service centers (SSC). Automotive manufacturers are increasingly involving the SSC in what are known as resale models, and negotiate prices, volumes and the specifications of their steel requirements to be covered by the SSC directly with the steel producers. The curtailing of contractual terms (duration) relating to raw materials procurement fundamentally necessitates a reduction in the number of longer-term contracts. Ilsenburger Grobblech GmbH (ILG) also sells up to a quarter of its output through supplier agreements based on prices agreed over longer terms (for instance, the project business in tank and steel engineering and the wind offshore business). This enables the company to contain the risk by having the greatest possible synchronization of matching maturity structures on the purchasing and procurement side and through price adjustment clauses. Peiner Träger GmbH (PTG) has always sold only small tonnages under longer-term contracts.

Spot market transactions

Business transactions consisting of delivery, acceptance and payment of a defined volume of products are settled directly in the spot market. The Trading Division transacts most of its shipments through such short-term supply agreements, whereby this type of relationship with key customers in Germany and abroad has generally developed over many years. Medium and smaller steel traders that operate independently, steel construction companies, as well as mechanical and plant engineering companies are typical customer sectors.

Project deliveries

The Tubes Division supplies its customers mainly via project contracts. Alongside international pipeline projects and supplying metal sheet for energy pipelines, deliveries for newly constructed power plants and chemical plants are also taken under this type of contract. The same applies to some of the products of the Steel Division, first and foremost to sheet piling and trapezoidal profiles which are used in civil engineering undertakings. The Trading Division acquires and supplies international projects as a stockholder and, additionally, in the role of an intermediary acting as an interface between the steel and tubes manufacturers of the Group, or producers external to the Group on the one hand, and the end customers on the other. The conditions are usually valid over the whole term of the respective project; there are, however, some contracts with adjustment agreements or price adjustment clauses. The products of the Technology Division include turnkey plants and individual machinery that are manufactured to an increasingly greater degree of standardization based on individual orders.

As a matter of principle, the Salzgitter Group does not disclose contractual details such as prices, other conditions and terms (duration). Officially released spot market price information can be used for orientation purposes with many steel and tubes products, but are only valid for purely standard products that make up only a very small part of the delivery program.

The well balanced and diversified mix of customer relationships, which also remained virtually unchanged in the financial year 2012, allows the Salzgitter Group to seize advantages in the market at short notice. However, it also offers greater visibility in some segments with regard to the scope of orders. Customers belong to a variety of sectors where economic cycles do not move in parallel or even partly run counter to one another. The sales structures described above therefore constitute a significant basis for the Salzgitter Group's profitability and stability.

2. Overall Statement by Management on the Economic Situation

Economic environment in the euro area determines the financial year 2012

In 2012, the Salzgitter Group was exposed to an extremely challenging economic environment. Declining selling prices in the European steel market, compounded by high input materials and energy costs and temporary capacity underutilization in the Tubes Division, could not be compensated by the positive development of the Trading and Technology Divisions and a gratifying profit contribution by the 25% holding in Aurubis AG (NAAG). With an equity ratio of 41% and a net financial position of € 497 million, the company has a sound balance sheet and a solid financial footing, as before.

Boosted first and foremost by the considerable growth in international steel trading, the Group's external sales rose by 6% to € 10,397.2 million (2011: € 9,839.5 million). Earnings before taxes stood at € –29.4 million (2011: € 201.6 million). This figure comprises risk provisions, impairment and negative effects from reporting-date related market valuations, which were offset on balance by the release of inventory risk provisions. The result after tax of € –99.8 million (2011: € 236.0 million) includes non-cash deferred income tax expenses of € 62.3 million that became necessary under the International Financial Reporting Standards (IFRS) owing to a revaluation of tax loss carryforwards capitalized to date. The Group's loss carryforwards remain available in their actual amount and can be used in subsequent periods. The return on capital employed (ROCE) stood at 1.3% (2011: 5.6%).

The restructuring measures currently under way at Peiner Träger GmbH (PTG) and Salzgitter Mannesmann Precision Group (SMP Group) will gradually develop their full impact on profit in the financial year 2013 and subsequent years. The same applies to the "Fit4Future" program of KHS GmbH (KHSDE), which has already contributed substantially to raising the profit of the Technology Division by almost € 90 million measured against the previous year. At the same time, development potential will continue to be identified and leveraged through the Profit Improvement Program 4.0 that has been set in place in all Group companies. In addition, the "Salzgitter AG 2015" project, launched at the end of 2012 with the aim of reviewing organizational processes from a holistic standpoint, will provide stimulus from mid-2013 onwards and result in concrete proposals for improving process and organization structures.

To summarize: the Salzgitter Group can be said to be well and soundly positioned today, also in terms of benchmarking against global peer competitors. Backed by this dependable foundation, management and employees alike will continue to work systematically and consistently – today against the backdrop of a tangibly challenging environment – on the continuation of the success story which began with the company's launch on the stock exchange in 1998.

3. Performance and General Business Conditions of the Divisions

As the management holding company, Salzgitter AG coordinates the five divisions of Steel, Trading, Tubes, Services and Technology. In the following, the business performance of these divisions in the financial year 2012 are outlined on the basis of the annual reports of the individual companies drawn up pursuant to the International Financial Reporting Standards (IFRS).

Other/Consolidation is not a segment within the meaning of IFRS. The derivation of the sum total of segment assets and liabilities to form the consolidated balance sheet total and the derivation of the sum total of segment revenues and results to form the consolidated revenues and the earnings before taxes of the Group are shown in the “Consolidated Annual Financial Statements”.

Steel Division

Key data		2012	2011
Order intake	**kt**	**5,650**	**5,082**
Order backlog as of 12/31	**kt**	**1,300**	**1,082**
Shipments	**kt**	**5,422**	**5,157**
Salzgitter Flachstahl[1]	kt	4,216	4,210
Peiner Träger[1]	kt	1,383	1,059
Ilsenburger Grobblech	kt	754	775
Hoesch Spundwand und Profil	kt	164	121
Salzgitter Bauelemente	kt	38	44
Salzgitter Europlatinen	kt	89	93
Consolidation	kt	–1,222	–1,144
Segment sales[2]	**€ m**	**3,831.5**	**3,883.0**
Salzgitter Flachstahl	€ m	2,832.3	2,956.4
Peiner Träger	€ m	840.5	673.4
Ilsenburger Grobblech	€ m	667.8	736.7
Hoesch Spundwand und Profil	€ m	134.6	99.2
Salzgitter Bauelemente	€ m	49.5	55.1
Salzgitter Europlatinen	€ m	90.9	98.6
Consolidation	€ m	–784.0	–736.4
Sales to other segments	**€ m**	**1,176.8**	**1,143.3**
External sales[3]	**€ m**	**2,654.7**	**2,739.7**
Division earnings before taxes (EBT)	**€ m**	**–176.3**	**25.7**
Salzgitter Stahl	€ m	–2.7	–2.9
Salzgitter Flachstahl	€ m	–84.7	66.8
Peiner Träger	€ m	–62.0	–51.7
Ilsenburger Grobblech	€ m	2.9	44.3
Hoesch Spundwand und Profil	€ m	–35.6	–40.2
Salzgitter Bauelemente	€ m	2.2	3.4
Salzgitter Europlatinen	€ m	3.3	5.4
Other/Consolidation	€ m	0.4	0.6
EBITDA	**€ m**	**178.7**	**361.7**
EBIT	**€ m**	**–69.4**	**112.5**
Investments[4]	**€ m**	**187**	**233**

[1] Including inter-company deliveries in the Steel Division, adjusted retrospectively for 2011
[2] Including sales with other divisions in the Group
[3] Contribution to consolidated external sales
[4] Excluding financial assets

The Steel Division comprises six production sites and an intermediate holding company. The production sites in Salzgitter, Peine, Ilsenburg and Dortmund are equipped with cutting-edge plant and equipment technology that is optimized on an ongoing basis to ensure their efficiency and the quality of their products. More information on the structure and competences of the division can be found under "Group Structure and Operations". The companies assigned to the individual segment are listed in the "Consolidated Financial Statements" and have remained unchanged from last year's Annual Report.

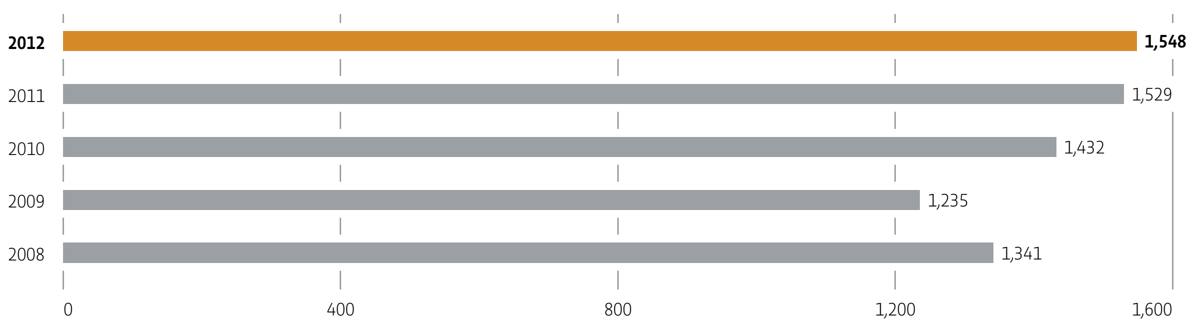
The product range includes the following in particular:

- rolled steel in the form of coils (rolled strip), also known as hot-rolled coil (HRC) or cold-rolled coil (CRC) depending on the manufacturing process,
- longitudinally slit HRC,
- cut-to-length plate manufactured from HRC,
- surface-coated HRC and CRC (galvanized, organically coated),
- corrugated sheet and sandwich elements for the construction industry,
- tailored blanks (cut-to-size and welded sheet), patchwork panels and stamped blanks for the automotive industry,
- heavy plate (rolled blanks more than 3 mm thick),
- medium and heavy hot-rolled sections (beams), especially with I, H and U-profile and
- hot-rolled sheet piling products.

Dampened economic environment for steel

The loss of global economic momentum is reflected by the slowdown in the growth of the **world's production of crude steel**. Nonetheless, the reporting year saw a new record set with an increase of 1.2 % to around 1.55 billion tons. Positive stimulus emanated particularly from Asia that accounts for around two thirds of the global output of crude steel: Irrespective of a growth rate of 3 %, down by almost a third, China exceeded the 700 million ton threshold for the first time in terms of production volume. India and South Korea also reported increases although Japan stagnated despite the reconstruction work in the area hit by the earthquake that necessitates a great deal of steel. North America also developed well as opposed to Europe and South America where production was scaled back.

Crude steel production – world



in m tons

Source: World Steel Association 2013/01/22 (previous years adjusted accordingly)

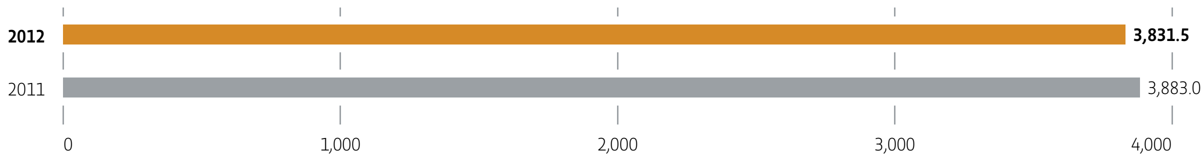
The steel market in the **European Union** suffered a severe slump in 2012. The market supply of rolled steel contracted by around 10 %. This was attributable, on the one hand, to a broad-based decline in demand from the steel processing sectors, above all in southern European countries and, on the other, to pronounced destocking in the second half of the year as the result of economic uncertainty. A surplus in EU foreign trade in steel supported capacity utilization, which led to a disproportionate decline (–5 %) in crude steel output (169 million tons). The capacity utilization of EU plants nevertheless fell below 80 % on average. With the exception of 2009, this is the lowest level since the 90's.

The capacity utilization of German steel producers averaged 84 %, and was therefore higher than in most other European countries. With a downturn in the market supply of around 7 %, the **German steel market** nonetheless fell significantly short of expectations. Stock movement played a key role here as well. The discernible improvement in the foreign steel trade balance was the only factor mitigating the reduction in crude steel output to 42.7 million tons (–4 %), which was therefore more moderate.

Performance of the Division

The consolidated **order intake** of the Steel Division amounted to 5,650 ktons and has therefore risen by 568 ktons in comparison with 2011. This increase reflected a notable improvement in new orders placed with Peiner Träger GmbH (PTG) and Hoesch Spundwand und Profil GmbH (HSP), as well as growth achieved by Salzgitter Flachstahl GmbH (SZFG). **Orders on hand** had climbed to 1,300 ktons by the reporting date.

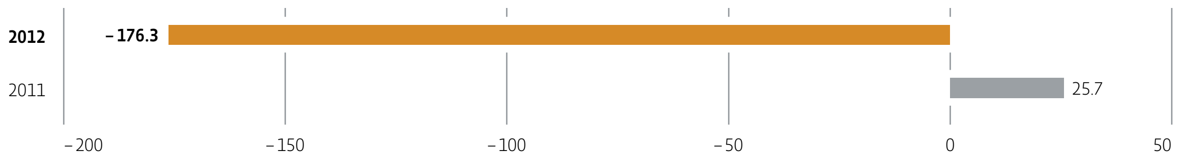
Sales



in € m

The Steel Division's **external sales** (€ 2,654.7 million) dropped slightly compared with 2011, as the higher level of **shipments** was unable to fully compensate for the downturn in average selling prices. In contrast, **segment sales** that also include business relationships with Group companies outside the Steel Division, an example being the Trading Division, held a virtually steady level (€ 3,831.5 million).

EBT



in € m

Despite generally satisfactory capacity utilization, larger shipment volumes and progress achieved with streamlining programs, the Steel Division reported a **pre-tax loss** of € 176.3 million due to unsatisfactory selling prices, compounded by the persistently high cost of raw materials and energy.

Total production volumes[1] of the most important production facilities in the Steel Division

		2012	2011	2010	2009	2008
Pig iron (SZFG)	kt	4,273	4,289	4,020	3,149	3,985
Crude steel	kt	6,086	5,659	5,201	4,073	5,340
of which SZFG	kt	4,588	4,578	4,322	3,369	4,319
of which PTG	kt	1,499	1,081	878	704	1,021
SZFG						
hot rolling mill: hot-rolled coil (HRC)	kt	3,469	3,396	3,228	2,393	3,153
cold rolling mill: cold-rolled coil (CRC)	kt	1,458	1,509	1,590	1,248	1,512
galvanizing plants: galvanized HRC/CRC	kt	1,146	1,189	1,232	1,001	1,219
strip coating plants: coated HRC/CRC	kt	193	221	191	195	218
PTG: sections/beams	kt	1,258	1,027	931	796	1,188
of which heavy beam-making mill: large sections	kt	533	406	381	371	527
of which medium section mill: other sections	kt	725	621	550	426	660
ILG: plate	kt	761	789	739	658	816
HSP: sheet piling, mine support sections, hot-rolled bulb flats	kt	175	130	109	94	259
SZBE: profiled sheet and sandwich elements	m^2 m	3.1	3.7	3.2	2.6	4.3
SZEP: tailored blanks, pachtwork panels and stamped blanks	kt	88	95	72	45	52

[1] Total production volumes comprise not only finished products (e.g. "HRC intended for sale"), but also volumes which are then processed in further production steps (e.g. "HRC as feed stock product of cold rolling").

The individual steel companies reported the following developments:

The Steel Division set a new record in its **crude steel output**, which came to 6,086 ktons thanks to the full operation of all three blast furnaces in Salzgitter and the parallel operation of the two electric arc furnaces in Peine – for the first time over the entire year. Including the pro-rata volume of Hüttenwerke Krupp Mannesmann GmbH (HKM), a joint venture that is assigned to the Tubes Division, the production of crude steel within the Group amounted to 7,647 ktons, which is largely sufficient to cover the internal supply to Group companies. Compared with the year before, the **production of rolled steel** increased to 5,618 ktons.

The European **flat steel market** got off to a good start to the year 2012, with volumes developing well on the back of inventory replenishing. During the second and third quarter, however, demand entered a downtrend, caused by the recessionary markets of southern Europe, and only stabilized somewhat toward the end of the year. Moreover, capacity underutilization in many areas across Europe had a negative impact on selling price levels. The decline in imports into the European Union resulting from the low price level and the poor euro exchange rate over much of the year had an easing effect.

Despite the unfavorable market trend, **Salzgitter Flachstahl GmbH** (SZFG) raised its **order intake**, also through the acquisition of special business outside the EU market and an increase in intra-group deliveries to the Tubes Division. Compared with the previous year, the development of the **order book** was also positive. **Crude steel output** and **shipments** settled at the year-earlier level, whereas the **production of rolled steel** rose slightly compared with 2011. **Sales** fell as a result of lower selling prices. The negative **pre-tax result** fell discernibly short of the previous year's figure, pressured by the persistently high cost of raw materials.

As a consequence of southern Europe's weak economy and the associated reticent approach adopted by many consumers in managing their inventories, the European **heavy plate market** came under pressure after an initially pleasing start to the year. This trend translated into capacity underutilization in many European plate mills, which, in turn, pushed down prices mainly for standard steel products, but also for higher-end grades. Nickel grades proved to be relatively stable despite isolated instances of declining prices.

Ilsenburger Grobblech GmbH (ILG) again reaped the benefit of its long-term collaboration with the wind power industry. **New orders** matched the level of the year before, and the **order book** also remained stable at a high level despite the difficult market environment. **Rolled steel production** and **shipments** fell short of the 2011 volumes. **Sales** were lower in a year-on-year comparison due to selling prices. Both easing on the input materials front and savings achieved in processing costs were unable to fully compensate for the weak selling prices. As a result, a **profit before tax** was achieved, albeit notably lower than the previous year's figure.

The recovery in the **European sections market** that began back in 2011 failed to hold steady in 2012. Although the manufacturers of steel sections reported a strong recovery in orders at the beginning of the year, supported by the low level of inventories in trading in Europe's core markets, order volumes had already fallen again by the end of the first quarter owing to weaker-than-expected inventory turnover. Starting with the second quarter, the problematic economic situation in the EU was reflected in customer demand patterns, as exemplified by the delays in the awarding of steel construction projects. Uncertainty about price developments in the third quarter caused traders to order at even shorter notice and based more on inventory levels, despite the temporary shortfalls in supply due to the producers' summer break.

The **order intake** and **orders on hand**, **crude** and **rolled steel production**, **shipments** and the **sales** of **Peiner Träger GmbH** (PTG) were appreciably higher than in the year before. This was attributable, on the one hand, to an increase in the demand for slabs within the Group, enabled through the two-furnace parallel operation. On the other hand, a weaker euro temporarily permitted rolled steel exports to countries outside the EU, which raised capacity utilization in Peine's rolling mills. The initial improvement in selling prices at the start of the year did not stabilize as the year progressed and resulted in unsatisfactory margins. The **pre-tax result** was therefore clearly negative.

Some four years later, demand for sheet piling in Europe has not reattained the pre-crisis level. The European **sheet piling market** is extremely dependent on public-sector investment where spending policies are constrained by cuts to contain the financial crisis. Projects for new measures and expanding the waterway engineering infrastructure and flood protection have therefore been shelved. At present, signs of a slight recovery in demand for sheet piling are discernible in the eastern European and non-European economic regions.

With an **output** of 175 ktons, capacity utilization at **HSP Hoesch Spundwand und Profil GmbH** (HSP) was insufficient and necessitated the introduction of short-time work in the first six months of the year. Following the termination of the sales cooperation with ThyssenKrupp GfT Bautechnik GmbH (TKBT) in 2011, the sale and distribution of sheet piling products were integrated into the HSP organization and expanded in 2012. Enhanced customer proximity resulting from these measures and the ongoing supplementation of the Z-section series strengthened HSP's market position, which was reflected in a better second half-year. In addition, the meanwhile almost full coverage of the internal supply of input materials by Group companies allowed price advantages to be realized in procurement. The year-on-year **increase in sales** is mainly the result of the higher **volume sold**. Although a considerable amount of impairment was carried out in the context of preparing the annual accounts, the **pre-tax loss** was lower compared with 2011.

In the period under review, domestic vehicle production declined marginally by comparison with 2011. With the aim of reducing inventories, vehicle manufacturers made more production cuts toward the end of the year than were actually necessary given the market situation. Compared with the record year 2011, **Salzgitter Europlatinen GmbH** (SZEP) therefore reported lower figures, both for **shipments** and **sales**. **Earnings before taxes** were satisfactory.

Industrial construction in Germany proved relatively stable in 2012. By mid-year, however, the effects of fierce competition were being felt, particularly in the sandwich elements segment. Short-term projects and special products were still able to command satisfactory selling prices as opposed to standard products that were exposed to considerable price pressure. Against this backdrop, the **shipments** and **sales** of **Salzgitter Bauelemente GmbH** (SZBE) did not match the year-earlier figures. The company nonetheless achieved a sound **pre-tax profit**.

Trading Division

Key data		2012	2011
Shipments	**kt**	**6,039**	**4,724**
Salzgitter Mannesmann Handel Group	kt	5,569	4,273
Universal Eisen und Stahl Group	kt	236	210
Hövelmann & Lueg	kt	257	259
Consolidation	kt	– 22	– 17
Segment sales[1]	**€ m**	**4,672.1**	**3,988.3**
Salzgitter Mannesmann Handel Group	€ m	4,254.2	3,550.1
Universal Eisen und Stahl Group	€ m	259.8	263.8
Hövelmann & Lueg	€ m	174.3	188.0
Consolidation	€ m	– 16.2	– 13.6
Sales to other segments	**€ m**	**25.3**	**84.4**
External sales[2]	**€ m**	**4,646.8**	**3,903.9**
Division earnings before taxes (EBT)	**€ m**	**77.1**	**60.6**
Salzgitter Mannesmann Handel Group	€ m	66.4	51.0
Universal Eisen und Stahl Group	€ m	16.0	11.2
Hövelmann & Lueg	€ m	– 5.4	– 1.6
EBITDA	**€ m**	**111.5**	**82.1**
EBIT	**€ m**	**93.7**	**70.8**
Inventories	**€ m**	**350**	**369**

[1] Including sales with other divisions in the Group

[2] Contribution to consolidated external sales

Alongside a well-developed organization of stockholding steel trading subsidiaries in Europe, the Trading Division comprises four companies specialized in plate and flat steel products structured as steel service centers (SSC), as well as a globalized international trading network. Apart from the rolled steel and tubes products of the Salzgitter Group, it also sells the products of other manufacturers in Germany and abroad. Moreover, the Trading Division procures semi-finished products for the Group and external customers on the international markets.

The year 2012 saw Salzgitter Mannesmann Stahlhandel GmbH (SMSD) establish Salzgitter Mannesmann Stahlhandel Austria GmbH (SMSA) in Austria. The company was founded in the context of the takeover of the Graz and Gratkorn warehouse locations formerly belonging to the Austrian steel trader Kovac Stahl. Stahl-Metall-Service Gesellschaft für Bandbearbeitung mbH (SMS), taken over in the fourth quarter of 2011, will form part of the group of consolidated companies as from the financial year 2013.

More information can be found in the section on "Group Structure and Operations". The individual companies are listed in "Consolidated Financial Statements".

Volatile demand with uneven price trend

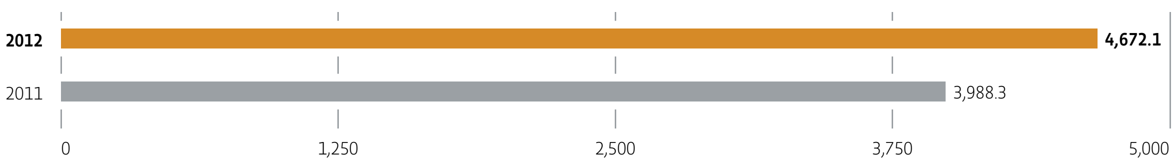
In the first months of the financial year, the international steel markets were initially characterized by a recovery in business activities as well as a marginal price uptrend. From the summer onward, market conditions were determined by uncertainty again, and a trend reversal set in. Many steel consumers adopted a wait-and-see stance in anticipation of steel prices falling again and endeavored to keep their inventory levels low. In the fall, the downturn in the selling prices in southern Europe in particular induced local producers in these countries to step up their activities in the comparatively robust market of northern and central Europe. Moreover, at the end of the year, suppliers from Eastern Europe pursued an aggressive pricing strategy in order to raise their capacity utilization. Pressure from imports was, however, generally modest, as the markets outside Europe were more attractive for steel exports in terms of price levels and exchange rate parities. From December onwards, selling prices across almost all product segments began to rise again.

Demand in the German market was relatively steady compared with many other European regions, but nonetheless also slowed toward the end of the year. Mirroring the international trend, selling prices declined in the second half of the year. The shipment prices of trading fell more sharply than the replacement costs, causing margins to narrow. The trend only bottomed out in December in response to climbing selling prices on the back of the price hikes announced by steel producers.

Performance of the Division

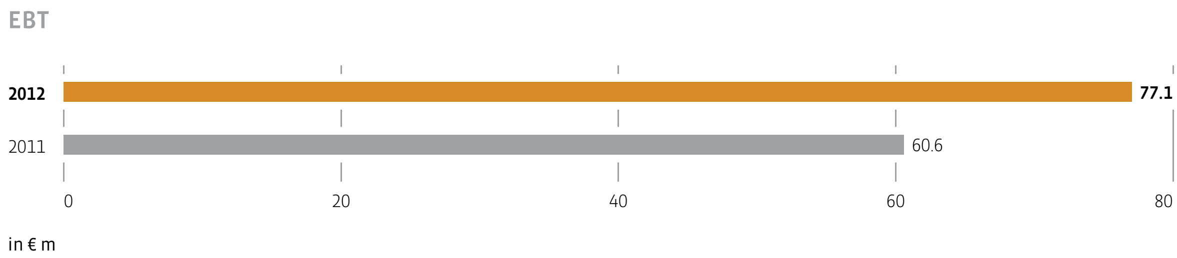
The Trading Division's business developed very well for the most part in 2012. International trading staged a strong recovery and the activities of the stockholding steel trade remained stable. Both **shipment volumes** (6,039 ktons) as well as **segment** (€ 4,672.1 million) and **external sales** (€ 4,646.8 million) of the division were appreciably higher than the year-earlier figures.

Sales



in € m

The division disclosed **pre-tax profit** of € 77.1 million, thereby significantly outperforming the previous year's result.



The Trading Division's companies developed as follows:

Thanks to the favorable development of international trading, the **Salzgitter Mannesmann Handel Group** (SMHD Group) lifted shipments and sales significantly compared with the year before. Earnings before taxes were higher than the year-earlier figure, first and foremost due to an increase in profit generated by the international trading business and risk provisions for impairment released in the context of preparing the annual accounts.

European stockholding steel trading almost achieved the 2011 shipment tonnage. Greater shipments in the Netherlands and the Czech Republic were unable to fully compensate for the downturn in demand in the other regions. Sales and pre-tax profit fell short of the figures posted in 2011 due to the lower level of selling prices and the resulting weaker margins.

International trading reported an increase in shipments volumes of more than 50% in a year-on-year comparison. Hot-rolled flat deliveries to the Far East and stable business in Africa had a major impact on the results. In addition, almost 130 ktons of Peiner Träger GmbH (PTG) products were sold. In the second half of the year, significant project volumes from the tubes business provided support for the positive trend. Sales and the pre-tax profit rose on the back of the higher shipments tonnage and healthier margins owing to the order mix.

Despite the difficult business environment, **Universal Eisen und Stahl Group** (UES Group) continued to raise its shipments in the period under review. Brisk demand in the offshore sector and in part from eastern European plate customers provided beneficial support. The American UES subsidiary benefited from strong demand by the energies sector. Sales were almost as high as in the previous year. Including effects from inventory revaluations, the pre-tax profit grew as against the year-earlier period.

The shipment volume of the steel service center **Hövelmann & Lueg GmbH** (HLG) dropped marginally below the 2011 level. The fierce price and competitive pressure prevailing in the market mainly due to surplus capacity pared down sales and earnings before tax.

Tubes Division

Key data		2012	2011
Order intake	**€ m**	**1,928**	**2,029**
Order backlog as of 12/31	**€ m**	**837**	**928**
Shipment tubes	**kt**	**1,122**	**1,146**
Europipe Group (50 %)	kt	375	537
Sz Mannesmann Großrohr	kt	139	23
Sz Mannesmann Line Pipe	kt	293	249
Sz Mannesmann Precision Group[1)]	kt	286	314
Sz Mannesmann Stainless Tubes Group	kt	30	22
Segment sales[2)]	**€ m**	**2,089.0**	**2,179.4**
Europipe Group (50 %)	€ m	439.5	561.2
Sz Mannesmann Grobblech	€ m	428.9	591.6
Sz Mannesmann Großrohr	€ m	150.3	27.4
Sz Mannesmann Line Pipe	€ m	324.9	281.0
Sz Mannesmann Precision Group[1)]	€ m	534.7	580.1
Sz Mannesmann Stainless Tubes Group	€ m	361.4	317.1
Consolidation	€ m	– 150.7	– 179.0
Sales to other segments	**€ m**	**529.5**	**492.7**
External sales[3)]	**€ m**	**1,559.5**	**1,686.8**
Division earnings before taxes (EBT)	**€ m**	**7.8**	**67.3**
Europipe Group (50 %)	€ m	20.2	– 8.2
Sz Mannesmann Grobblech	€ m	– 3.2	51.5
Sz Mannesmann Großrohr	€ m	– 3.8	– 4.5
Sz Mannesmann Line Pipe	€ m	14.0	– 5.0
Sz Mannesmann Precision Group[1)]	€ m	– 30.7	16.7
Sz Mannesmann Stainless Tubes Group	€ m	13.3	19.3
Consolidation	€ m	– 2.1	– 2.5
EBITDA	**€ m**	**76.5**	**135.4**
EBIT	**€ m**	**30.4**	**83.8**

1) Adjusted retrospectively as per 2012/01/01, owing to initial consolidation of companies

2) Including sales with other divisions in the Group

3) Contribution to consolidated external sales

The Tubes Division has a large number of subsidiaries and associated companies which manufacture and process welded and seamless steel tubes on three continents. The product portfolio consists mainly of line pipes and tubes of all diameters, ranging from gas pipelines through to injection tubes for diesel engines, stainless oil field and boiler tubes, precision tubes and cold-finished tubes for the automotive and machine building industries, as well as construction tubes in a variety of profiles.

One company of the Tubes Division was included in the group of consolidated companies of Salzgitter AG with retrospective effect as of January 1, 2012:

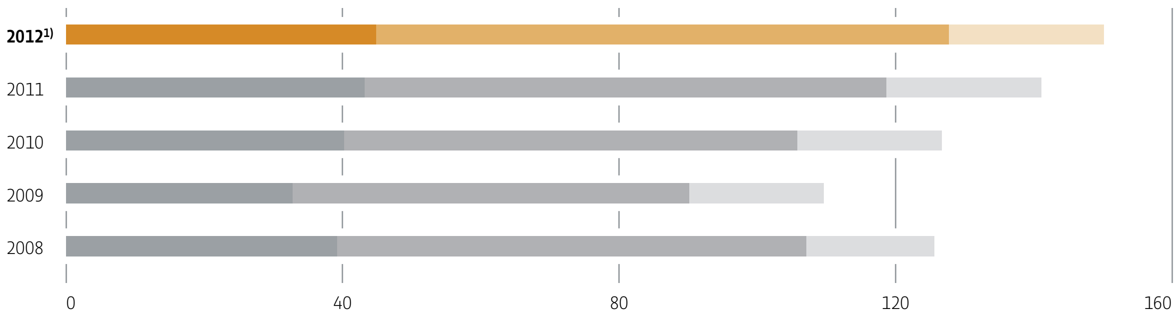
- Salzgitter Mannesmann Precisión S.A. de C.V., El Salto (Mexico) (MPM)

More information can be found in the section on "Group Structure and Operations". The individual companies are listed in the "Consolidated Financial Statements".

Another increase in global steel tubes production

The production of steel tubes reached another record high of almost 150 million tons (+6%). This was mainly the result of increased demand by the oil and gas sector and infrastructure development in the emerging markets. China, whose output rose disproportionately (+10%), lifted its share in global production to almost 50%. The rest of the world accounted for an increase in production of just under 3% to 76 million tons.

Global steel tubes production by production method



[1)] Extrapolation

in m tons ▪ seamless ▪ welded up to 406.4 mm ▪ welded exceeding 406.4 mm

Source: German steel tubes trade association

While the manufacturing of large-diameter tubes remained at a virtually unchanged level (22 million tons), the worldwide production of steel tubes advanced to 44 million tons (+2%). Welded tubes with external diameters of up to 406 mm reported the most dynamic growth, increasing to 83 million tons (+10%).

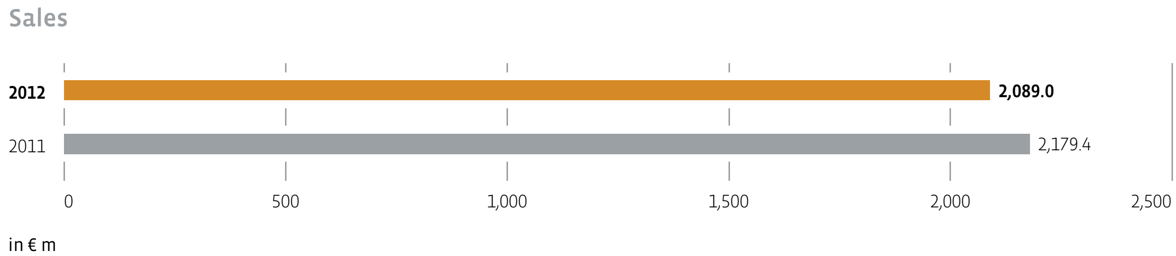
European steel production fell slightly to 14 million tons (–2%) due to the economic environment that slowed demand in southern Europe. German manufacturers also reported marginal downturns (3 million tons, –3%).

Performance of the Division

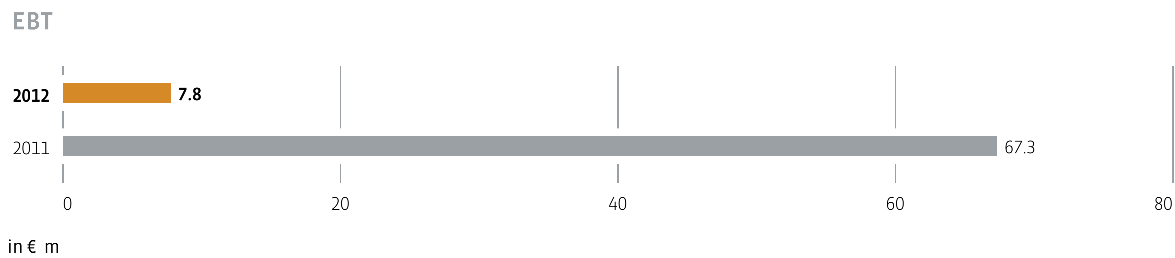
The Tubes Division benefited from the positive results of the HFI-welded pipes and stainless steel tubes segments. In contrast, interruptions in the processing of an order at the start of the year caused a temporary gap in capacity utilization in the large-diameter pipes segment. This had, however, been largely made up by the end of the first quarter. Following on from the very successful financial year in 2011, market conditions for precision tubes deteriorated over the reporting period, particularly in France.

Order intake in 2012 almost re-attained the year-earlier level as new orders placed for large-diameter and HFI-welded pipes almost compensated for the slowdown in orders for precision and stainless steel tubes. The **order book** was lower in comparison with the year before.

Shipments (1,122 ktons) and **segment sales** (€ 2,089.0 million) settled around the level of the year-earlier period in 2012. Seamless stainless steel and HFI-welded pipes both reported growth. In contrast, the shipment volumes and sales of large-diameter pipes and precision tubes had entered a decline. The division's **external sales** (€ 1,559.5 million) did not quite match the year-earlier figure.



The Tubes Division generated **earnings before taxes** of € 7.8 million, thereby falling short of the previous year's figure. The downturn was primarily attributable to the temporary hitch in the Europipe project and the unfavorable development of the French precision tubes business that came under pressure from the desolate market environment.



Business development of the individual product segments:

The **large-diameter pipes segment** was determined by severe capacity utilization downtime at the start of the year that was, however, largely resolved by the placing of a major order for the delivery of 410 million tons of large-diameter pipes for an Australian natural gas pipeline, as well as other smaller contracts.

The shipments and sales of the **EUROPIPE Group** (EP Group) fell short of the year-earlier figures owing to the aforementioned situation. In contrast, the release of risk provisions for inventory impairment supported the result, allowing a pre-tax profit to be achieved.

Impacted by weak demand for plate for the production of pipes, both the shipments and the sales of **Salzgitter Mannesmann Grobblech GmbH** (MGB) declined significantly as against the previous year. A marginal pre-tax loss was reported.

Thanks to the delivery of two major orders from the previous year, **Salzgitter Mannesmann Großrohr GmbH** (MGR) lifted shipment volumes and sales significantly. The first half of 2012 was characterized by small-batch orders with narrow margins due to lackluster demand. Despite continuous production in the third and fourth quarter, it was not possible to compensate for the ensuing loss.

The business of **Salzgitter Mannesmann Line Pipe GmbH** (MLP) in **HFI-welded pipes** developed very satisfactorily in 2012. Larger orders were acquired in the gas and oil pipeline business. Order intake was therefore marginally higher than in 2011. The level of orders on hand at the end of the year was, however, somewhat lower. Throughout the whole year, capacity utilization remained at a healthy level with shipments and sales growing substantially. The improved framework conditions and the positive impact of the cost reduction program launched back in 2011 resulted in a successful turnaround, reflected by a presentable pre-tax profit.

The situation in the **precision tubes market** deteriorated increasingly as the year progressed. The French precision tubes company was particularly hard hit by the slump in southern and western Europe's vehicle industry. Moreover, demand from the mechanical engineering sector, trading and the energy industry slowed notably. New orders declined by around 30 % as against 2011, and the order book contracted accordingly. Against this background, **Salzgitter Mannesmann Precision Group** (SMP Group) had to introduce short-time work on occasion. Shipments and sales were lower compared with the year before. The unsatisfactory development of business, first and foremost of the French company, and provisions formed in this context to provide for a social compensation resulted in a significant pre-tax loss.

Having held steady in 2011, the market recovery for the **seamless stainless steel tubes** of **Salzgitter Mannesmann Stainless Tubes Group** (MST Group) also remained firm in the financial year ended. New orders fell short of the year-earlier period due to selling prices. Shipments and sales were considerably higher than in 2011. The company achieved a gratifying pre-tax profit.

Services Division

Key data		2012	2011
Segment sales[1]	**€ m**	**1,358.6**	**1,267.3**
DEUMU Deutsche Erz- und Metall-Union	€ m	904.7	813.1
SZST Salzgitter Service und Technik	€ m	119.1	127.6
Verkehrsbetriebe Peine-Salzgitter	€ m	114.4	106.0
TELCAT Group[2]	€ m	55.9	53.6
GESIS Gesellschaft für Informationssysteme	€ m	40.3	43.0
Hansaport Hafenbetriebsgesellschaft	€ m	37.7	39.5
Salzgitter Automotive Engineering	€ m	19.9	19.0
Salzgitter Hydroforming	€ m	39.0	38.9
Salzgitter Mannesmann Forschung	€ m	36.0	36.0
Glückauf Immobilien	€ m	11.6	10.5
Other/Consolidation	€ m	– 20.1	– 19.9
Sales to other segments	**€ m**	**946.2**	**810.0**
External sales[3]	**€ m**	**412.4**	**457.3**
Division earnings before taxes (EBT)	**€ m**	**15.9**	**19.6**
DEUMU Deutsche Erz- und Metall-Union	€ m	4.4	4.3
SZST Salzgitter Service und Technik	€ m	– 0.8	0.1
Verkehrsbetriebe Peine-Salzgitter	€ m	0.7	0.6
TELCAT Group[2]	€ m	2.8	2.5
GESIS Gesellschaft für Informationssysteme	€ m	3.0	3.3
Hansaport Hafenbetriebsgesellschaft	€ m	6.3	9.0
Salzgitter Automotive Engineering	€ m	– 3.2	– 3.5
Salzgitter Hydroforming	€ m	1.5	2.5
Salzgitter Mannesmann Forschung	€ m	0.4	0.4
Glückauf Immobilien	€ m	1.0	0.8
Other/Consolidation	€ m	– 0.3	– 0.3
EBITDA	**€ m**	**47.6**	**46.0**
EBIT	**€ m**	**22.7**	**23.1**

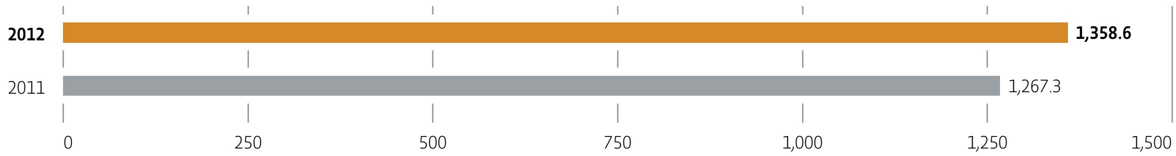
[1] Including sales with other divisions in the Group
[2] Excluding TBM
[3] Contribution to consolidated external sales

The Services Division comprises a number of service companies that are mainly aligned to the requirements of the Group itself, but are also equally successful in providing services to external customers. The division conceives and realizes a broad-based portfolio of attractive, competitive services, from the supply of raw materials and logistics across IT and central administration services and automotive products through to research and development. More information can be found under the section on "Group Structure and Operations". The individual companies are described in section entitled "Consolidated Financial Statements".

The business activities of the companies directly associated with the production of steel depend to a great extent on the extent of the capacity utilization in the Group's steel producing companies.

Segment sales rose to € 1,358.6 million in 2012. The increase was largely attributable to growth generated by **DEUMU Deutsche Erz- und Metall-Union GmbH** (DMU) that resulted primarily from covering the greater demand for scrap steel resulting from the parallel operation of the two arc furnaces of Peiner Träger GmbH (PTG). **External sales** stood at € 412.4 million, which is slightly below the previous year's level.

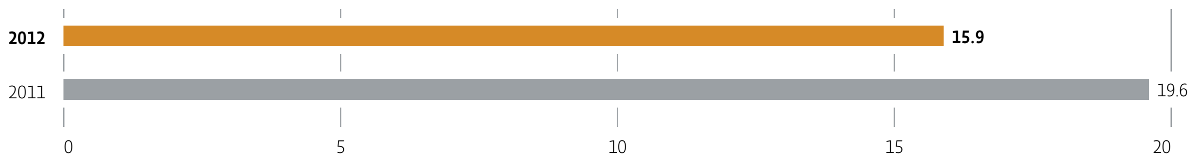
Sales



in € m

The Services Division's **pre-tax profit** amounted to € 15.9 million, and therefore did not quite match the year-earlier figure. Whereas **DMU**'s earnings before taxes remained at the 2011 level due to the squeeze on trading margins, **Hansaport Hafenbetriebsgesellschaft mbH** (HAN), for instance, and a few other companies reported a decline in their results.

EBT



in € m

Technology Division

Key data		2012	2011
Order intake	**€ m**	**1,121**	**1,015**
Order backlog as of 12/31	**€ m**	**464**	**436**
Segment sales[1]	**€ m**	**1,094.7**	**967.7**
KHS Group (consolidated)[2]	€ m	980.0	858.5
KDE Group (consolidated)[2]	€ m	71.9	78.2
Klöckner DESMA Schuhmaschinen	€ m	35.9	36.7
RSE Grundbesitz und Beteiligungs-GmbH	€ m	6.2	5.7
Other	€ m	1.4	6.0
Consolidation	€ m	– 0.7	– 17.5
Sales to other segments	**€ m**	**1.1**	**1.1**
External sales[3]	**€ m**	**1,093.6**	**966.6**
Division earnings before taxes (EBT)	**€ m**	**9.5**	**– 79.1**
KHS Group (consolidated)[2]	€ m	– 0.4	– 78.9
KDE Group (consolidated)[2]	€ m	5.9	5.0
Klöckner DESMA Schuhmaschinen	€ m	2.9	2.6
RSE Grundbesitz und Beteiligungs-GmbH	€ m	4.1	4.0
Consolidation	€ m	– 2.9	– 11.8
EBITDA	**€ m**	**38.1**	**– 35.2**
EBIT	**€ m**	**12.4**	**– 60.9**

[1] Including sales with other divisions in the Group
[2] Adjusted retrospectively as per 2012/01/01 owing to initial consolidation of companies
[3] Contribution to consolidated external sales

The Technology Division of Salzgitter AG comprises mechanical engineering companies that operate worldwide. KHS GmbH (KHSDE), a company holding a leading international position in filling and packaging technology, is the mainstay of sales. The KHS Group views itself as a full-line supplier, from intralogistics across processing through to the filling and packaging of beverages under one roof. Other companies of the division sell special machinery for the shoe industry and specialize in the manufacturing of rubber and silicon injection molding machinery. In addition, RSE Grundbesitz und Beteiligungs-GmbH (RSE), a company managing and developing commercial real estate in Germany, is also assigned to the Technology Division.

Two companies of the Technology Division were included in the group of consolidated companies of Salzgitter AG with retrospective effect as per January 1, 2012:

- DESMA Slovakia s.r.o., Povazska Bystrica (Slovakia) (KDESL)
- DESMA Rubber Injection Machinery (Wuxi) Co. Ltd., Wuxi (China) (DRIM)

Klöckner-Werke AG (KWAG) changed its company name, legal form and location with effect from October 28, 2011. As of this date it trades under the name of Salzgitter Klöckner-Werke GmbH (SKWG) and maintains its head office in Salzgitter. As part of the reorganization of the Salzgitter Group's structure, it has functioned as an interim holding for all the Salzgitter Group's major holdings, formerly held under Salzgitter Mannesmann GmbH (SMG), since January 1, 2012.

More information can be found under the section on "Group Structure and Operations". The individual companies are listed in the "Consolidated Financial Statements".

German machine building unable to repeat the previous year's high growth

The German Engineering Federation (VDMA) reports that, starting from an exceptionally high level, order intake fell by 3 % across the entire sector in 2012 compared with the year before. Potential investors adopted a reticent approach in the face of general uncertainty about the economy. Whereas the sector's domestic business had entered a clear downtrend, the export business remained virtually unchanged from the year-earlier level.

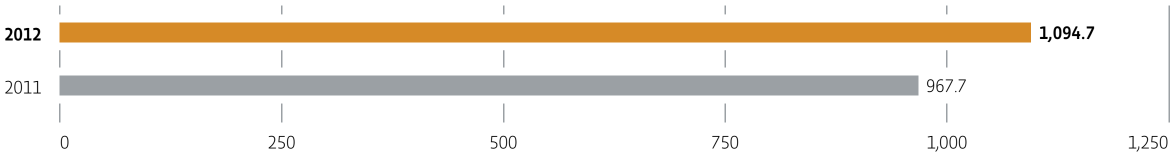
In contrast, the food and packaging machinery market in which the KHS Group operates enjoyed a pronounced uptrend, reporting sharp year-on-year growth as per December 2012 (+8 %). The strongest stimulus emanated from Southeast Asia as well as China and Japan. The increase in the global population, growing prosperity in the emerging markets, accompanied by the product differentiation prevailing in saturated markets, such as in Central Europe or America, resulted in a higher global consumption of filled beverages in 2012. The markets of the special machinery manufacturers that are part of the group were also advantageous environments for investing. These companies benefited accordingly.

Performance of the Division

The companies of the Technology Division look back on another year of growth. Following the market induced plunge in 2009 and the rapid recovery ensuing in 2010, efforts were then directed toward raising machinery and plants sales and widening margins. Against this backdrop, the **new orders** of the Technology Division exceeded the € 1 billion mark, with the KHS Group reporting the strongest growth. The division thus continued to outperform the food and packaging machinery sector as a whole. In particular the KHS companies located in Germany, the USA and India made considerable contributions to this result. The high level of order intake continues to ensure balanced capacity utilization. **Orders on hand** totaled € 464.2 million and were therefore notably higher than the year-earlier figure.

Segment (€ 1,094.7 million) and **external sales** (€ 1,093.6 million) were raised substantially (+13 %). This growth was mainly attributable to the healthy business of KHSDE as well as of the American and Indian companies. Whereas the KDE Group did not quite achieve 2011 sales, Klöckner DESMA Schuhmaschinen GmbH (KDS) repeated the previous year's level.

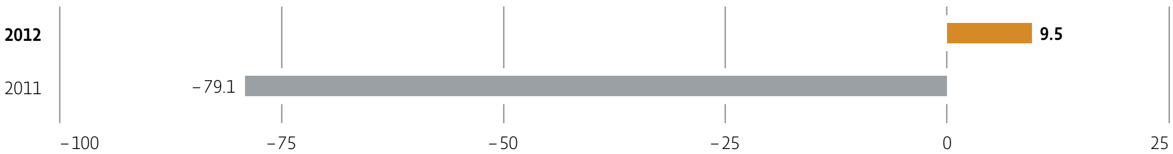
Sales



in € m

The division generated a **pre-tax profit** of € 9.5 million, thereby achieving an impressive turnaround (2011: € –79.1 million). Along with high capacity utilization, this result reflects rising sales and margins in the project business at the KHS Group and the first significant success of the “Fit4Future” program launched at the end of 2011. In addition, both the KDE Group and Klöckner DESMA Schuhmaschinen GmbH (KDS) made pleasing profit contributions.

EBT



in € m

In order to achieve sustainable competitiveness and profitability, the KHS Group has been forging ahead more swiftly with its streamlining measures since the second half of 2011. The “Fit4Future” program launched for this purpose comprises eleven components and is aimed at lowering costs, enhancing the flexibility with which the volatile order intake is handled, and reducing complexity by focusing production and standardizing the global product program. As part of this program, 174 jobs were cut (as per December 31, 2012) based on a social compensation plan, mainly in administration at KHSDE.

Other/Consolidation

The Other/Consolidation segment comprises activities that are not directly allocated to a division. 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.

Sales in the Other/Consolidation segment, that are based mainly on business in semi-finished products with subsidiaries and external parties, climbed to € 249.5 million during the financial year 2012 (previous year: € 200.1 million) because of higher internal input material shipments. **External sales** fell to € 30.2 million due to the poor economic environment (previous year: € 85.3 million).

The amount of € 36.7 million in **pre-tax profit** (previous year: € 107.4 million) includes € 55.5 million in after-tax profit from Aurubis AG (NAAG), an investment included at equity (previous year: € 74.2 million). An additional positive effect derived from interest income resulting from Group cash management. The result was burdened first and foremost by the reporting-date related valuation effects of currency and derivatives items. A large part of this was attributable to the option structure embedded in the bond that is exchangeable into the shares of NAAG. The main value driver of the option structure is the development of the NAAG share price on the reporting date.

4. Comparison between Actual and Forecasted Performance

At the time when the financial statements for the financial year 2011 were released, the main risk for macroeconomic development in 2012 was a renewed escalation of Europe's debt crisis. Issuing reliable statements on the development of the business situation was not possible nor was providing sound, detailed profit guidance for the Salzgitter Group. Taking the expectations of the individual divisions into account, and based on the premise of no drastic recessionary developments, we anticipated stable sales at minimum and turning a profit before tax. As the start of the year was already being impacted by burdens hindering the performance of the Steel and Tubes divisions, achieving the year-earlier result nonetheless appeared challenging.

In the first three months of 2012, the Salzgitter Group reported tangible growth in its business activities in almost all its operations. The first signs of success from the KHS Group's "Fit4Future" program and a marked improvement in the result of Peiner Träger GmbH (PTG) were, however, unable to fully offset the effects of the severe downturn in the average selling prices of many steel products at the end of 2011 and a temporary, huge gap in the capacity utilization of the large-diameter pipes segment. Consequently, the Group closed the first quarter of 2012 with a marginally negative pre-tax result. In view of a difficult first three months, achieving the previous year's results continued to present a challenge. Barring the occurrence of an economic slump, we nonetheless upheld our original guidance for the Salzgitter Group

In the wake of the clouding economic outlook for Germany and the rest of the euro area, we specified our profit guidance for the Salzgitter Group at the end of June 2012. Although the Tubes, Trading, Services and Technology Divisions were developing in line with the segment guidance released in May, the Steel Division was, however, no longer expected to achieve breakeven in its annual results. This development was attributable, on the one hand, to the reticent approach adopted by many steel processors and stockholding steel traders. On the other, it was not possible to implement the price increases so urgently needed to compensate the persistently high level of input material costs, induced also by currency-related effects. In view of the almost satisfactory capacity utilization situation against the backdrop of the unsatisfactory selling price trend, the Group achieved a healthy breakeven in pre-tax profit that was, however, not sufficient to make up for the loss in the first quarter. We therefore put our estimations for the pre-tax profit of the Salzgitter Group in the lower to mid-double-digit million euro range. The sales guidance was affirmed once again.

Owing to an environment that became increasingly difficult as the year progressed, the Salzgitter Group was obliged to readjust its profit guidance in November 2012: The previously anticipated seasonal recovery in the steel market in the second half of the year did not materialize, contrary to our expectations. Instead, along with a European steel market weakened by macroeconomic influences, the business activities of German steel processors and traders had ultimately also discernibly lost momentum. Against the backdrop of the unexpectedly severe and sudden slump in iron ore prices, it became impossible to realize the necessary selling price increases for rolled steel. The Salzgitter Group reported a notable decline in its pre-tax result as against the previous year, which was primarily attributable to the unsatisfactory development in the results of the Steel Division. Given this situation, we affirmed guidance for external sales, while anticipating a pre-tax result only at around breakeven for the Salzgitter Group.

The Salzgitter Group closed the financial year 2012 with a pre-tax loss of € –29.4 million. This figure includes risk provisions, impairment and negative effects from reporting-date related market valuations, which were offset on balance by the release of inventory risk provisions in around the same amount. External sales climbed to € 10.4 billion, thereby outperforming the guidance released at the start of the year.

In our published statements we always made specific reference to the opportunities and risks that may influence the results in the financial year 2012. We explained that additional positive or negative effects may potentially arise from structural and methodological changes and may be within in a considerable range, either to the positive or negative. These effects particularly include measurement pursuant to IFRS standards and their application. For instance, the annual financial statements pertaining to the financial year include, among other items, impairment carried out on non-current assets, reporting-date related valuation effects and various positive non-recurrent items.

In view of the generally good capacity utilization in the relevant steel processing sectors and the increase in deliveries to our Tubes Division, the **Steel Division** anticipated an overall improvement in its order book. Although the start to the new financial year was determined by a downturn in average selling prices in the fourth quarter of 2011, it appeared initially feasible that the Steel Division might generate a marginally positive pre-tax result again. Despite comparatively satisfactory capacity utilization, larger shipment volumes and the consistent progressing of streamlining programs, the Steel Division reported a pre-tax loss of € –176.3 million due to unsatisfactory selling prices, compounded by the ongoing high cost levels of raw materials.

Combined with higher shipment volumes in international trading, the **Trading Division** predicted an increase in sales. Assuming generally stable steel prices, another mid-double-digit million profit appeared to be achievable at the beginning of the financial year 2012. Our guidance proved to be accurate: The division reported generally satisfactory business in 2012 and raised both shipments and sales considerably over the previous year. This achievement was due especially to good shipment tonnage and the increase in the sales of international trading. Earnings before taxes amounted to a gratifying € 77.1 million.

The **Tubes Division** was cautiously optimistic about its development in the financial year ended and anticipated making a contribution to profit in 2012 as well. Whereas demand stimulus for precision tubes was anticipated from the requirements of the automotive industry and the mechanical engineering sector, the stainless steel tubes products segment was expected to benefit from recovery in the activities of the oil and gas sector. At the time our guidance was released, the results of large-diameter pipes had already been impacted by a temporary gap in capacity utilization. The Tubes Division benefited from business in HFI-welded pipes and the upbeat performance of the stainless steel tubes segment in the financial year 2012. Ground lost through capacity utilization downtime in the large-diameter pipes segment had been largely made up as from April. Contrary to expectations, however, the market conditions for precision tubes deteriorated in 2012, particularly in France. All in all, the Tubes Division achieved the targets set for a positive pre-tax result.

As predicted, sales and the pre-tax profit of the **Services Division** settled around the year-earlier level.

KHS as part of the **Technology Division** endeavored to raise its order intake, boosted by a stable global market for filling and packaging technology. With support from the “Fit4Future” program launched in 2011 that was geared to improving performance and optimizing costs, alongside innovation and customer benefits, the company strove to deliver a significant improvement in the result in 2012 compared with the previous year. The companies operating in special machinery expected business to develop profitably, as before. The order intake of the Technology Division exceeded the € 1 billion threshold. The KHS Group achieved the strongest growth, outperforming the entire food and packaging machinery sector in 2012. Once again, the KDE Group and Klöckner DESMA Schuhmaschinen GmbH (KDS) made pleasing profit contributions. In achieving a pre-tax profit of € 9.5 million, the Technology Division not only delivered a significant improvement compared with the financial year 2011, but also successfully returned to the profit zone.

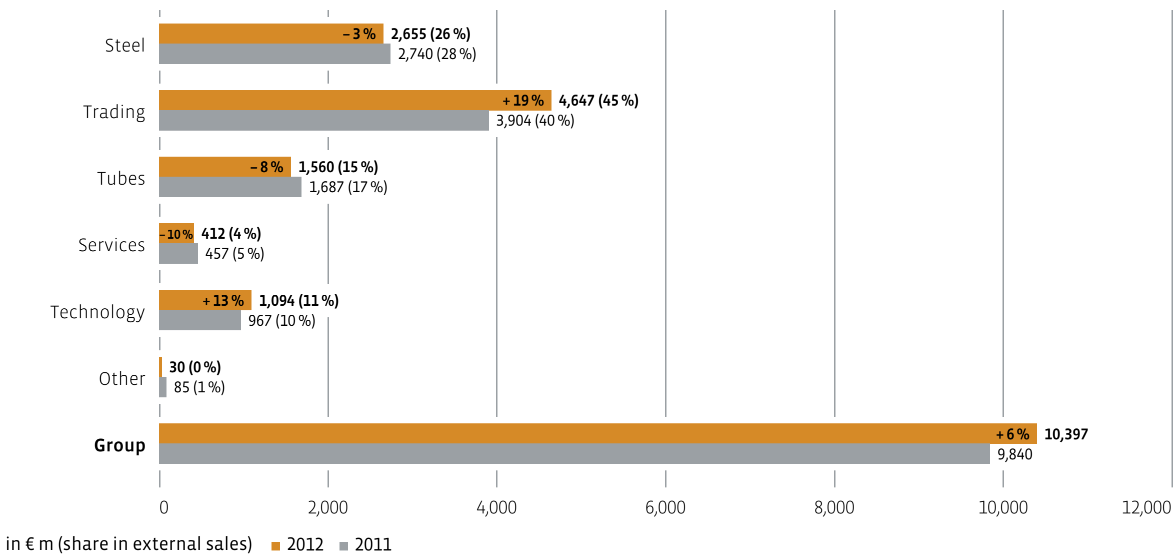
IV. Profitability, Financial Position and Net Assets

1. Profitability of the Group

In 2012, the **Salzgitter Group** was exposed to an extremely challenging economic environment. Declining selling prices in the European steel market, compounded by high input materials and energy costs and temporary capacity underutilization in the Tubes Division, could not be compensated by the positive development of the Trading and Technology divisions and a gratifying profit contribution by the 25% holding in Aurubis AG (NAAG). However, with an equity ratio of 41% and a net financial position of € 497 million, the company has a sound balance sheet and a solid financial footing, as before.

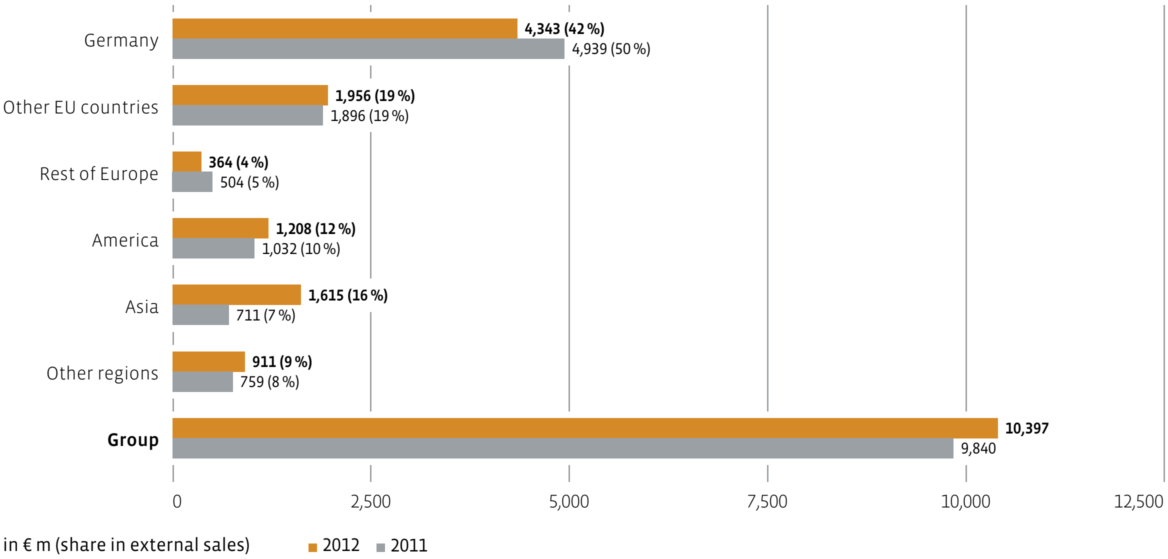
External sales rose by +6% to € 10,397.2 million, accounted for by the divisions as follows.

Consolidated sales by division



The regional distribution of sales revenues remained unchanged for the most part: As before, the business activities of the Salzgitter Group are focused on the European Union (€ 6.3 billion; 61 % share of sales). Germany remained by far the largest single market with sales of € 4.3 billion, equivalent to a share of 42%. 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 regions



In comparison with € 201.6 million in 2011, the pre-tax result of the Salzgitter Group declined to € –29.4 million. This figure comprises risk provisions, an impairment and negative effects from reporting-date related market valuations, which were offset on balance by the release of inventory risk provisions in around the same amount.

The divisions recorded the following developments:

Despite generally satisfactory capacity utilization, larger shipment volumes and progress made with streamlining programs, the **Steel Division** reported a pre-tax loss of € –176.3 million due to unsatisfactory selling prices, compounded by the persistently high cost of raw materials and energy.

The **Trading Division**'s business developed very well for the most part in 2012. International trading staged a strong recovery and the activities of the stockholding steel trade remained stable. The division disclosed pre-tax profit of € 77.1 million, thereby significantly outperforming the previous year's result.

The **Tubes Division** generated earnings before tax of € 7.8 million, thereby falling noticeably short of the previous year's figure. The downturn was primarily attributable to the temporary halt to a project in the large-diameter pipes business at the start of the year and the unfavorable development of the French precision tubes business that came under pressure from the desolate market environment.

At € 15.9 million, the **Services Division** delivered a pre-tax profit that did not quite match the year-earlier result. Whereas DMU's earnings before taxes remained at the 2011 level due to the squeeze on trading margins, Hansaport Hafenbetriebsgesellschaft mbH (HAN), for instance, and a few other companies reported a decline in their results.

The **Technology Division** generated a pre-tax profit of € 9.5 million, thereby achieving an impressive turnaround. Along with high capacity utilization, this result reflects rising sales and margins in the project business at the KHS Group and the first significant success of the "Fit4Future" program launched at the end of 2011. In addition, both the KDE Group and Klöckner DESMA Schuhmaschinen GmbH (KDS) made pleasing profit contributions.

Earnings before taxes of **Other/Consolidation** stood at € 36.7 million, which is considerably lower compared with a year ago (€ 107.4 million). The result includes € 55.5 million in after-tax profit from Aurubis AG (NAAG), an investment included at equity (previous year: € 74.2 million). An additional positive effect derived from interest income resulting from Group cash management. The result was burdened first and foremost by the reporting-date related valuation effects of currency and derivatives items.

Results by Division and Consolidated net income/loss for the year

in € m	2012	2011
Steel	–176.3	25.7
Trading	77.1	60.6
Tubes	7.8	67.3
Services	15.9	19.6
Technology	9.5	–79.1
Other/Consolidation	36.7	107.4
Earnings before taxes (EBT)	**–29.4**	**201.6**
Tax	70.4	–34.4
Consolidated net income/loss for the financial year[1)]	**–99.8**	**236.0**

[1)] Including minority interests

Development of selected income statement items

The consolidated income statement is explained in detail in the section on "Consolidated Financial Statements". Selected items are explained in the following.

The substantially lower amount of the Tubes and Steel Divisions' product inventories was the main factor behind the decline in "Increase/decrease in goods and work in process/other own work capitalized" item. The rising prices of input materials, semi-finished goods and steel products sourced externally, as well as the higher level of sales, were reflected in an increase in the cost of materials. Income from associated companies includes the very pleasing after-tax profit contribution made by the 25 % holding in Aurubis AG (NAAG).

Adjusted for € 70.4 million in tax income, a consolidated net loss of € 99.8 million was recorded. The tax expense item includes non-cash deferred income taxes expenses of € 62,3 million that became necessary under the International Financial Reporting Standards (IFRS) owing to a revaluation of capitalized tax loss carryforwards. The Group's loss carryforwards remain available in their actual amount and can be used in subsequent periods.

Multi-year overview of earnings

In € m	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
EBT	– 29.4	201.6	48.9	– 496.5	1,003.4	1,313.9	1,854.8	940.9	322.8	42.5
EBIT I[1]	59.8	264.7	102.9	– 468.1	1,072.1	1,350.7	1,900.5	970.0	345.6	60.8
EBIT[2]	98.0	304.5	159.8	– 411.3	1,026.9	1,312.4	1,891.6	1,017.4	411.1	132.2
EBITDA[3]	462.7	666.8	539.7	156.9	1,317.2	1,543.1	2,092.9	1,233.5	732.1	380.9
EBT margin	– 0.3	2.1	0.6	– 6.4	8.0	12.9	22.0	13.2	5.4	0.9
EBIT margin[2]	0.9	3.1	1.9	– 5.3	8.2	12.9	22.4	14.2	6.9	2.7
EBITDA margin[3]	4.5	6.8	6.5	2.0	10.5	15.1	24.8	17.3	12.3	7.9
ROCE %	1.3	5.6	2.2	– 10.5	21.9	28.0	47.8	38.9	24.4	4.6
ROCE % from industrial operations[4]	0.7	6.2	2.7	– 17.3	26.9	46.9	55.1	49.4	–	–

[1] Excluding interest expenses for pension provisions
[2] EBT + interest expenses/– interest income
[3] EBT + interest expenses/– interest income + amortization and depreciation
[4] Adjusted for the net cash position and interest income thereon

Value Added in the Salzgitter Group

The operational value added of the Group amounted to € 1,600 million in 2012; this corresponds to a decline of 10.8 % compared with a year ago. An amount of 99.0 % of the value added was expended on employees. The public sector received 4.4 % in the form of taxes and levies (previous year: –1.9 %). Lenders accounted for a portion of 2.6 %, which was marginally higher than the year-earlier figure (2.2 %). Value added worth 0.9 % has been earmarked as dividend for the shareholders (including treasury shares) to be disbursed for the financial year ended (previous year: 1.5 %). An amount of € 3.56 billion from the value added has remained within the Group since 2003. In 2012, funds of € 110 million were deployed.

Value added

	2012/12/31		2011/12/31	
	in € m	%	in € m	%
Sources				
Group outputs	10,743	100.0	10,555	100.0
Inputs	9,143	85.1	8,760	83.0
Value added	**1,600**	**14.9**	**1,795**	**17.0**
Appropriation				
Employees	1,584	99.0	1,550	86.4
Public sector	70	4.4	– 34	– 1.9
Shareholders (dividend)	15	0.9	27	1.5
Lenders	41	2.6	40	2.2
Group	– 110	– 6.9	212	11.8
Value added	**1,600**	**100.0**	**1,795**	**100.0**

2. Financial Position and Net Assets

Financial Management

Salzgitter Klöckner-Werke GmbH (SKWG), a wholly-owned subsidiary of Salzgitter AG, 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 conducted in principle by way of granting Group credit lines in the context of Group financial transactions and, in individual cases, through guarantee commitments for external loans. 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, if appropriate, to procure external capital at favorable conditions and has a positive impact on interest income. We use financial planning with a multi-year planning horizon and a monthly rolling liquidity planning with a six-month forecasting horizon to calculate the Group's liquidity requirements. Funds invested, medium-term bilateral credit lines, a syndicated loan limit, and the successful placement of a convertible bond in 2009, as well as a bond exchangeable into a proportion of the shares held in Aurubis AG (NA AG) placed in 2010, guarantee that our liquidity requirements are covered.

Our international business activities also 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. The Group's Internal Audit monitors compliance with these regulations. For transactions denominated in USD, 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 hedged by way of instruments customary in the market.

Pension provisions still play a significant role in corporate financing. Using an actuarial rate (3.00 %) derived from the current rate of capital market interest rates, the pension provisions calculated amounted to € 2,182 million (previous year: € 1,893 million at 4.25 %). The effect on total comprehensive income was reported under shareholders' equity with no effect on income in accordance with the international reporting standards.

Cash flow statement

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

Cash and cash equivalents

in € m	2012	2011
Cash inflow/outflow from operating activities	427.2	–196.6
Cash outflow from investment activities	–443.7	–351.6
Outflow from financing activities	–51.7	–84.8
Change in cash and cash equivalents	**–68.2**	**–633.0**
Changes in the group of consolidated companies/changes in exchange rates	0.6	4.9
Cash and cash equivalents on the reporting date	**878.6**	**946.2**

The Group achieved a cash flow from operating activities of € 427 million (previous year: € –197 million). Due to the stabilization of working capital, among other factors, marginally below the year-earlier level, cash inflow has improved significantly overall. The higher cash outflow from investment activities in comparison with the year before (€ +92 million) reflects greater disbursements for the investment of funds. The increase of € 150 million and the decrease of cash inflow from the disposal of financial assets by € 18 million were offset by a decline in disbursements for investments in property, plant and equipment and intangible assets (€ –42 million), as well as lower cash outflow for investments in financial assets (€ –33 million).

A negative cash flow of € –52 million from financing activities was recorded in the financial year 2012. This was attributable to the repayment of non-current financial liabilities (€ 2 million), disbursements for finance leasing (€ 7 million), as well as interest payments of € 18 million. In addition, dividend distribution for the financial year 2011 to shareholders of Salzgitter AG amounted to approximately € 24 million, which equates to € 0.45 per share.

The net financial position of € 497 million held at banks is somewhat lower than in the previous year (€ 508 million). Cash investments, including securities (€ 1,211 million), as per the end of 2011 were offset by a marginal increase in liabilities owed to banks of € 713 million (previous year: € 695 million). The latter amount includes € 592 million in obligations attached to convertible and exchangeable bonds.

The liquidity and debt-to-equity ratios in the financial year 2012 are shown in the following:

Multi-year overview of earnings

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Solvency I (%)[1]	156	169	192	211	157	211	252	150	100	91
Solvency II (%)[2]	262	287	287	302	281	317	365	253	187	187
Dynamic debt burden (%)[3]	22.0	–12.1	30.1	406.8	64.9	–304.5	–95.5	41.3	20.2	12.5
Gearing (%)[4]	145.1	120	125.9	106.2	100.3	98.0	101.9	169.1	278.0	268.7
Cash flow (€ m) from operating activities	427	–197	209	1,190	547	781	488	468	352	223
Net bank debt (€ m)[5]	–497	–508	–1,272	–1,561	–991	–2,115	–2,283	–822	–71	56

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

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

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

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

[5] – ≙ cash in bank, + ≙ liabilities

Asset Position

The Group's total assets rose by 1.5 % to € 8,930 million compared with the end of the 2011 reporting period (€ 8,800 million). The growth in non-current assets (€ +117 million) was mainly attributable to the increase in financial assets and the higher amount recognized for holdings in associated companies. Despite a slight decrease in inventories (€ –38 million), current assets remained virtually unchanged (€ +13 million).

Asset and capital structure

in € m	2012/12/31	%	2011/12/31	%
Non-current assets	3,792	42.5	3,675	41.8
Current assets	5,137	57.5	5,125	58.2
Assets	**8,930**	**100.0**	**8,800**	**100.0**
Equity	3,643	40.8	4,000	45.5
Non-current liabilities	3,339	37.3	3,043	34.5
Current liabilities	1,947	21.8	1,757	20.0
Equity and liabilities	**8,930**	**100.0**	**8,800**	**100.0**

As part of non-current assets, investments in property, plant and equipment and intangible assets (€ 325 million) were slightly lower than depreciation and amortization (€ 358 million). Working capital stood at € 2,694 million (–2.1%) and thus remained virtually at the year-earlier level.

The equity ratio has declined marginally (40.8%) in comparison with a year ago (45.5 %). This was especially attributable to the actuarial rate used to calculate pension provisions that had fallen to 3.00% as per the reporting date (previous year: 4.25%). Pension provisions rose on the liabilities side for the same reason. Accordingly, consolidated equity fell by the amounts corresponding to the actuarial effects recorded under this item (change of € 316 million respectively).

Multi-year overview of the asset position

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Asset utilization ratio (%)[1)]	42.5	41.8	39.7	39.5	33.5	25.8	23.4	35.1	45.3	51.3
Inventory ratio (%)[2)]	23.2	23.9	19.9	18.2	29.3	24.8	23.7	26.6	25.5	25.0
Depreciation/amortization ratio (%)[3)]	13.6	13.5	14.2	21.3	11.7	11.7	13.9	14.5	22.6	16.8
Debitor days[4)]	54.2	53.7	51.7	49.3	48.4	54.5	47.9	44.9	55.4	47.4
Capital employed (€ m)	4,481	4,733	4,596	4,457	4,886	4,829	3,974	2,496	1,418	1,308
Working capital (€ m)	2,694	2,753	2,193	1,981	3,338	2,845	2,159	1,809	1,479	1,222

1) $\frac{\text{non-current assets x 100}}{\text{total assets}}$

2) $\frac{\text{inventories x 100}}{\text{total assets}}$

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

4) $\frac{\text{trade receivables x 365}}{\text{sales}}$

Profitability, Financial Position and Net Assets

3. Annual Financial Statements of Salzgitter AG

The annual financial statements of Salzgitter AG for the financial year 2012 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 electronic German Federal Gazette.

As before, Salzgitter AG as the management holding heads up the Group divisions 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 via the wholly-owned company Salzgitter Mannesmann GmbH (SMG) through its wholly-owned subsidiary Salzgitter Klöckner-Werke GmbH (SKWG). There are no profit transfer agreements between SZAG and SMG or between SMG and SKWG. There are, however, contractual agreements pertaining to the respective companies for the voluntary assumption of losses.

Balance Sheet of Salzgitter AG (summarized)

in € m	2012/12/31	%	2011/12/31	%
Non-current assets	**43.9**	**4.2**	**43.5**	**4.0**
Property, plant and equipment[1]	21.1	2.0	21.1	2.0
Financial investments	22.8	2.2	22.4	2.1
Current assets	**1,004.3**	**95.8**	**1,033.6**	**96.0**
Trade receivables and other assets[2]	1,004.3	95.8	1,033.6	96.0
Cash and cash equivalents	0.0	0.0	0.0	0.0
Assets	**1,048.2**	**100.0**	**1,077.1**	**100.0**

in € m	2012/12/31	%	2011/12/31	%
Equity	384.4	36.7	396.4	36.8
Provisions	347.6	33.2	376.0	34.9
Liabilities	316.1	30.2	304.7	28.3
due to banks	[0.0]		[0.0]	
Equity and liabilities	**1,048.2**	**100.0**	**1,077.1**	**100.0**

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

The receivables from the liquidity (€ 893 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 shareholders' equity in accordance with the regulations prescribed by the German Commercial Code (HGB).

Along with shareholders' equity, pension obligations of € 321 million and repayment obligations in respect of the Dutch issuer of the convertible bond are disclosed on the liabilities side. The equity ratio currently stands at 36.7 % (previous year: 36.8 %).

Income Statement of Salzgitter AG (summarized)

in € m	2012	2011
Other operating income	33.5	34.3
Personnel expenses	22.3	21.2
Depreciation/amortization[1]	1.3	1.2
Other operating expenses	22.2	25.0
Income from shareholdings	49.3	66.2
Net interest result	–27.4	–27.6
Earnings before taxes (EBT)	**9.7**	**25.5**
Tax	2.6	–0.4
Net income for the financial year	**12.3**	**25.1**

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

Other operating income includes gains from the levying of a Group contribution and from the disposal of non-current assets.

Income from shareholdings pertains almost exclusively to the earnings contributions received from SMG.

The company's workforce comprised 167 employees as of December 31, 2012, unchanged from the year before.

Profitability, Financial Position and Net Assets

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 stake in the equity of more than 10 % of the voting rights was held on the reporting date only by Hannoversche Beteiligungsgesellschaft mbH (HanBG), Groß Berßen, that, according to its notification of April 2, 2002, holds a participating interest in the form of 25.5 % of the voting rights in Salzgitter AG; as a result of the reduced number of overall shares outstanding as per the reporting date, this corresponded to a proportion in the voting rights of 26.5 %. 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 resolutions passed by the General Meeting of Shareholders, the Executive Board has the following four 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 June 7, 2015, 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 2010). Under this transaction, the subscription rights of shareholders can be excluded up to a total nominal amount of bonds to which conversion rights of up to 2,459,243 shares are attached. Bonds with conversion rights excluding shareholder subscription rights may only be issued provided that shares making up a proportion of 20 % of the capital stock, excluding subscription rights, from the Authorized Capital have not been issued since May 27, 2009. By the reporting date there had been no shares issued since May 27, 2009, from the Authorized Capital.
- On October 6, 2009, 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 3,550,457 new shares from contingent capital (Contingent Capital 2009), exercisable until September 27, 2016. By the reporting date, no holder of convertible bonds 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 June 7, 2015, and to use these shares for all purposes permitted under the law.

The material agreements of the company set out below are subject to the condition of change of control following a takeover offer, with the following effects:

- In the case of the 2009 convertible bond of € 296 million and the 2010 exchangeable bond of € 295 million, bond holders are entitled, within a certain period, to require repayment of their respective bonds in the event of a change of control; moreover, if a bond holder exercises their conversion or exchange rights within a certain period, the conversion or exchange ratio will be adjusted using a special formula.
- Under an agreement with a banking consortium on a credit line of € 500 million signed in 2012, all the syndicate banks have the right to terminate their participation in the credit line and to require repayment in the event of a change of control, where appropriate.
- Under an agreement with the shareholders of EUROPIPE GmbH, Mülheim an der Ruhr, a company in which the Group holds a stake of 50 %, the company can withdraw shares without consent by the shareholder affected in the event of a change of control if the business activity of the third party exercising majority control is in competition with the company's activity. Instead of withdrawal, the remaining shareholders can request that the shareholding be 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

Salzgitter Aktiengesellschaft reported a net income of € 12.3 million for the financial year 2012. Including profit carried forward (€ 2.8 million), unappropriated retained earnings amount to € 15.1 million.

The Executive Board and the Supervisory Board will propose to the General Meeting of Shareholders that these unappropriated retained earnings (€ 15.1 million) be used to fund payment of a dividend of € 0.25 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, on the day of the General Meeting of Shareholders, the company holds treasury shares, the proposed appropriation of earnings will be adjusted accordingly as these shares are not eligible for dividend.

V. Risk Report

1. Risks and Opportunities Management System

In the past year our risk management system has proven its worth and effectiveness, also in the face of the financial and debt crisis.

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 “Events after the Reporting Date and Forecast”.

Business activity as defined by the Articles of Incorporation makes risk taking unavoidable in many instances, as this is frequently a precondition for exploiting opportunities. All risks must therefore be containable and kept within 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 towards safeguarding the company as a going concern, along with capital invested and jobs.

Differentiation between risk and opportunities management

We treat risk and opportunity management separately as a matter of principle. A separate reporting system maps, tracks and supports the monitoring of risks. By contrast, the recording and communication of opportunities forms an integral part of the management and controlling system that operates between our subsidiaries and 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 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 of the Company, Goals and Strategy”.

Organizational permeation

All fully consolidated companies in the Steel, Trading, Services and Technology divisions and, in addition, a number of non-consolidated companies are incorporated on principle into our risk management. Alongside the fully consolidated companies of the Tubes Division, jointly held EUROPIPE GmbH (EP) and its subsidiaries have been integrated in accordance with Salzgitter AG’s guidelines. The Stahl-Metall-Service Gesellschaft für Bandverarbeitung mbH (SMS), acquired and assigned to the Trading Division, has been incorporated into the risk management of Salzgitter Mannesmann Handel GmbH, Düsseldorf (SMHD).

Qualified top-down set of rules and regulations

Our subsidiaries and associated companies apply the risk management system autonomously. It is, however, the task of the management holding to put guidelines in place that constitute the basis on which a uniform and adequate consideration and communication of risks can be ensured throughout the Group. We convey the respective concept to the companies through a risk manual that lays down the principles through which we harmonize groupwide risk inventory, thereby ensuring the informative value for the whole Group. The risk management system is to be developed further in line with the requirements.

Methodology and reports

We include risks as an integral part of our intra-year forecasting, medium-term planning and strategy discussions. With the aim of avoiding potential risks and of controlling and managing the risks that arise and taking preventive measures, we have defined a set of different procedures, rules, regulations and tools. 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.

At Salzgitter AG there is a clear demarcation between risk management and controlling that complement one another. Actual risks can therefore be handled either through the medium of controlling (for example, by way of provisioning), or through the risk management system (by taking action to overcome the risk), or by applying both approaches.

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 monthly controlling reports or ad hoc directly to the Executive Board. Almost all companies subject to reporting requirements use the database specially developed in house to facilitate the effective handling of data. We analyze and assess the risks at Group level, monitor them punctiliously, allocate them to risk categories and align them to our overall business situation.

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.

Evaluation aspects

We make a distinction between five categories based on the likelihood of their occurrence: three “improbable” and two “probable”. The occurrence of risks in the “unlikely” categories are events that, after careful commercial, technical and legal consideration, are deemed unlikely to occur. The conditions that must be fulfilled for this judgment to stand are documented, periodically examined and updated if necessary. It is the task of controlling and internal auditing at Salzgitter AG to monitor observance of the criteria established. In the case of risks in the “probable” categories, loss accruing to the company from an undesirable event can no longer be ruled out. We document the quantitative extent of the calculated loss or damage in the light of all influencing factors in order to track and assess the risks.

Derivation of net loss from gross loss

In the derivation of net loss from gross loss we take account of all measures to contain loss. Provisions and impairment are handled by our Controlling. The gross loss is reduced accordingly, a measure to which we make specific reference in our risk documentation.

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.

Risks are recorded in the internal planning and controlling system of the respective companies and communicated to the Group in accordance with the specific company reporting thresholds.

It is evident that, even if a number of major risks in the magnitude of € 25 million were to occur simultaneously, the Group would not be endangered as a going concern.

Measures to overcome risk

Measures that would need to be taken for the evaluation and overcoming of each respective risk are documented and reported on.

2. Individual Risks

Sectoral risks

Based on macroeconomic changes in the international markets, the development of the following factors are of special significance for the Salzgitter Group:

- prices in sales and procurement markets,
- the exchange rates (especially USD/EUR) and
- energy prices.

In order to minimize the associated business risks, we monitor the relevant trends and take account of them in risk forecasts. This is also valid for potential restrictions resulting from financial or political measures affecting international business.

Along with efforts to set in place healthy sales structures with sectoral and geographical diversification, we are committed to optimizing manufacturing processes and promoting the targeted growth of our Group.

We view a widely diversified holdings portfolio as instrumental in reducing our dependency on the strongly cyclical nature of the steel industry. We limit risks from changes in the steel and tubes markets by ensuring swift decision-making processes which allow us to adapt rapidly to new market conditions. From today's standpoint, there are no risks identifiable from developments in the relevant sectors which could constitute a threat to Salzgitter AG as a going concern. With regard to risks arising from the current discussions on climate and energy policy, we make reference to the section entitled "Environmental Protection". Using energy carriers sparingly is an important aspect for us. Consequently, we have stepped up our groupwide energy monitoring in order to more effectively record the influence of the general uptrend in electricity prices that we observe in Germany, particularly due to the policies introduced on renewable energies. Risks arising here can be better counteracted in this way.

Price risks of purchasing essential raw materials

The procurement prices of raw materials, especially iron ore and coking coal, are extremely volatile. In order to stabilize prices, a one-year contract has been signed again with an ore supplier from which a significant volume is traditionally sourced. The contract covers the period from April 2012 to March 2013 and includes a flexibility clause that has served to lower the purchase price since the fourth quarter. Delivery contracts with the market leader for coking coal are priced on a monthly basis. This affects around one third of the volume purchased by Salzgitter AG. From today's standpoint, we do not anticipate any fundamental change in these risks.

In principle, the Salzgitter Group's approach is to smooth price fluctuations for raw materials through natural hedging: The Group uses a permanent system of monitoring sales and procurement to ensure the congruence between the fixed-price sales and the fixed-price procurement of raw materials. This system enables changes to be recognized at an early stage so that any resulting risk can be dealt with in time.

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 an 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 mainly on a contractually secured basis if our needs exceed our own generating capacity. In order to minimize the risks of further electricity price hikes, two new 110 megawatt power-generating units were built at the Salzgitter location in December 2010 that serve to cover the consumption of Salzgitter Flachstahl GmbH (SZSG). In addition, a groupwide project to enhance sustainable energy efficiency has been launched. 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.

The scheduled and punctual rail transport of iron ore and coal from our overseas port in Hamburg to the Salzgitter site is also important. Our contractual partner in guaranteeing this logistics task is DB Schenker Rail Deutschland 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 Schenker 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 via rail at the weekend and public holidays through closely coordinating activities with railway operatives or opting to use our own means of transport more intensively.

Selling risks

A risk typical of our business may also result from the sharp fluctuation in prices and volumes in our target markets. With regard to the current economic environment, we refer to the outlook for the financial year 2013 under the section entitled “Events after the Reporting Date and Forecast”.

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.

As the effects of the economic situation on various divisions differ and therefore even partly compensate for one another, we achieve a certain balance in our risk portfolio. The “Salzgitter AG 2015” project has been initiated in order to safeguard the competitiveness of Salzgitter AG and its Group companies in an environment set to remain difficult in the medium term. The objective is to create the prerequisites that will enable our company to respond even more swiftly and effectively and in a more customer-oriented way so as to better identify and use market opportunities. Further information can be found in the section entitled “Management and Control of the Company, Goals and Strategy”.

Production downtime risks

We counteract the risk of unscheduled, protracted downtime of our key plant components through regular plant and facility checks, a program of preventive maintenance measures, 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 other conceivable compensation and liabilities claims, the Group has concluded insurance policies which guarantee that the potential financial consequences are curtailed, if not fully excluded. 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 low.

Legal risks

In order to exclude potential risks arising from a breach of the manifold fiscal, environmental, competition-related rules and regulations and other legal provisions we require our employees’ strict compliance. We seek extensive legal advice from our experts as well as, on a case-by-case basis, from qualified external specialists.

To coordinate the Group's initiatives with respect to policies relating to the steel industry and its associations, as well as to ensure that these initiatives are pursued on a systematic basis, we have set up an international affairs contact within the Group.

In our opinion, there are no discernible material legal risks.

Financial risks

Salzgitter Klöckner-Werke GmbH (SKWG) coordinates the funding and manages the interest rate and currency risks of companies financially integrated into the Group. The risk horizon which 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 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").

In relation to the operating risks, the financial risks are of lesser importance.

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 segment 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, and thereby minimize the risk potential.

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 ascertained on a monthly basis. 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").

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. As opposed to the notable curtailment of limits or even full retraction of cover by trade credit insurers at the start of the financial crisis, measures that, from our perspective, first and foremost affected the automotive supplier sector and customers in Eastern Europe, the granting of cover has returned to normal levels over the period since the financial year 2010. We nonetheless continue to observe and assess the development of unsecured positions with the utmost caution and take this into account in our business.

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 section entitled "Consolidated Financial Statements". As a result of the preventative measures, we believe that currency risks do not constitute a threat to the company as a going concern.

Liquidity risks

The management holding company 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 which could constitute a going concern risk. We counteract this risk by way of a 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 low risk investment categories with appropriate credit ratings while, at the same time, ensuring the availability of positions. In order to keep a check on the interest rate risk, we regularly conduct interest rate analyses the results of which are directly incorporated into investment decisions. Long-term structural interest rate risk may arise from a persistent gap between the deposit interest rate and interest- and income-induced developments in pension obligations. This type of risk is currently not discernible; if – unexpectedly from today's standpoint – it should arise, the Group's robust balance sheet constitutes a good basis for corrective 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. Salzgitter AG, Salzgitter Mannesmann GmbH (SMG) and SKWG are responsible for provisioning, for example, with regard to the risks inherent in audits conducted on their tax group. Companies with independent tax liability are responsible for their own provisioning.

In the context of former statutory government aid to border regions, the EU Commission required Salzgitter AG back in 2000 to make compensatory payments on tax advantages accruing prior to 1995, that from our standpoint were granted legally and legitimately. The General Court of the European Union (EGC) ruled in our favor in the first instance in respect of the action that we had filed against the claim. The European Court of Justice, however, made a decision which went largely against the company in the second instance, but has nonetheless referred the case back to the EGC. In 2009, the German tax authorities set the compensatory amount at € 17.8 million (including interest). This amount was paid by us under reserve to avoid further interest liabilities. In its ruling of January 22, 2013, the EGC dismissed our claim. The court decision is not yet final and absolute.

Personnel risks

Salzgitter AG 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 developments with the aim of responding in good time to the impact of these developments on our Group, thereby securing our innovative strength and competitiveness also 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 (see the section on “Employees”).

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 and
- comprehensive environmental management.

More information, for instance on the legal provisions concerning energy and climate policies, can be found in the section on “Environmental Protection”.

Salzgitter AG’s head of Environmental and Energy Policy is tasked with centralizing and coordinating environmental and energy policies issues affecting all companies, wjth representing the Group externally in matters relating to the environment and energy policies, and with managing individual projects affecting the whole Group.

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

Information technology risks

We contain the risks arising in the field of information technology (IT) by developing and maintaining a knowledge base within the Group in the form of IT services in our subsidiaries. This ensures that we always remain at the forefront of technological progress.

The authority and competence granted to Group IT in matters of general policy in this area ensure the ongoing development of our groupwide IT systems and form the basis for the economic deployment of the required investment funds.

The consistent replacement of our hard- and software resources in line with the latest technology ensures that availability, maintenance and IT security are kept at the highest level. The historically evolved, heterogeneous IT structures in the Group are being gradually streamlined. The risks from this area are deemed manageable, and we estimate the probability of an adverse event occurring to be low.

Corporate strategy risks

In order to secure our future earnings strength, we have been regularly investing considerable sums in recent years, especially at our Group locations in Salzgitter and Peine. In KHS GmbH (KHSDE), we own one of the three largest companies in the global market for beverage filling machinery. Our intention is to reduce our dependency on the "typical" steel cycle in the future.

More detailed information can be found in the sections on "Management and Control of the Company, Goals and Strategy" and "Investments".

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 Salzgitter AG's Executive Board are, for instance, represented on the Supervisory Board of EUROPIPE GmbH (EP) in order to ensure the transparency of our 50 % joint venture. Similarly, a member of our company's Executive Board sits on the Supervisory Board of Aurubis AG (NAAG), one of our participations.

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 2012 annual financial statements were drawn up.

The major risk for the future development of the global economy is still constituted by a potential escalation of the debt crisis in the eurozone. Based on the premise that this crisis of confidence, of the economy and sovereign debt can be overcome, we view the financial year 2013 with cautious optimism. Although the accuracy of planning achievable has not returned to pre-crisis levels, we believe that we are well equipped in the current situation to master this phase when the challenges of managing opportunities and risks are considerably greater. Our business policy, which takes due account of risks and is geared towards sustainability, and our sound strategic alignment form the basis for this assessment.

The independent auditor has examined the groupwide early warning system installed at Salzgitter AG in accordance 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, Salzgitter AG'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 Salzgitter AG by international rating agencies recognized in the capital market. From our perspective, there is currently no need for such a rating as, despite our strong, self-funded growth achieved over the years from 2004 to 2008, we have achieved an excellent financial standing in a peer comparison and have maintained this position also in the face of the financial and economic crisis.

The ratings ascertained internally by our financing banks correspond largely to the basic methodology applied by international rating agencies. Given these ratings, we can assume that the majority of external valuations, that take account of the significant level of pension obligations, would continue to place us in the investment-grade category.

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. 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 bodies of the various companies. Supervision is carried out by the holding departments.

Group internal audit examines the operations and transactions relevant to the accounting of Salzgitter AG and its subsidiaries and holdings independently and on behalf of the Executive Board in observance of regulatory requirements. 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 audit informs the Executive Board of Salzgitter AG and the Group's external auditor of the outcome of audits by way of audit reports. Group audit follows up on the implementation of measures and recommendations agreed in the audit reports.

Salzgitter AG'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, Group guidelines are formulated 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, management report, cash flow statement and segment report are first and foremost defined, taking into account the legal position prevailing within the European Union. 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 which Group companies must prepare is similarly defined in detail. A standardized and comprehensive set of forms is used for this purpose. The 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 heads of accounting in the companies are informed about changes under the law in annual 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 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 individual control activities ensuring the regularity and reliability of Group accounting include the analysis and, if appropriate, the correction of the individual financial statements submitted by the Group company, including the reports submitted by the auditors and the respective discussions on the financial statements.

Control mechanisms and plausibility controls already built into the consolidation software allow financial statements forms containing errors to be corrected before the consolidation process takes place.

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

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

VI. Events after Reporting Date and Forecast

1. Significant Events after the Reporting Date

There were no events requiring reporting after the reporting date.

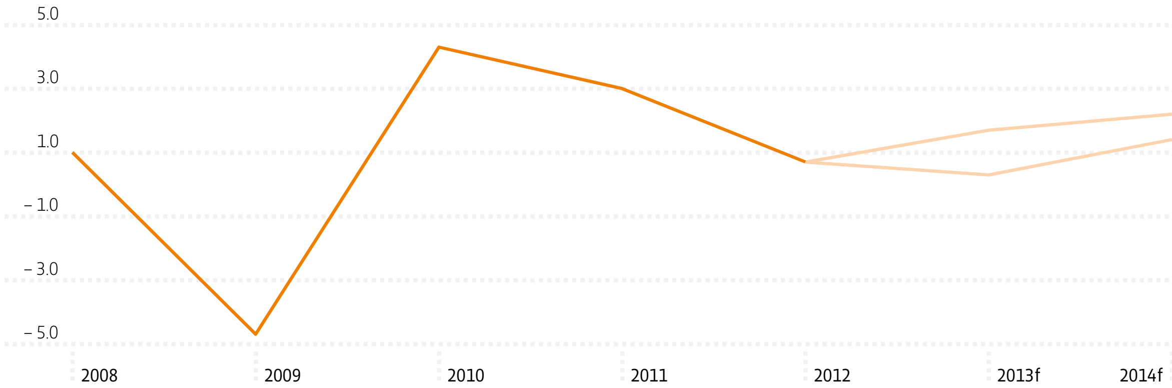
2. General Business Conditions in the next two Financial Years

Once again, regional economic development is set to vary widely in 2013. Overall, the International Monetary Fund (IMF) anticipates renewed greater momentum for the **global economy.** A growth of around 5.5 % in the emerging and developing markets is expected. In contrast, growth rates in the mature economies are likely to remain at a modest 1.4 %: The envisaged fiscal consolidation in the United States of America is burdening the economy. In the euro area, the corrective recession in the peripheral countries is ongoing, although uncertainty is likely to gradually wane. All in all, the IMF estimates growth in global output at 3.5 % in 2013. A swifter expansion of 4.1 % has been predicted for 2014.

The stabilization anticipated in the **eurozone** depends to a great extent on the uncertainty gradually lessening due to support measures by the European Central Bank and in an improvement in the financial situation of southern EU countries. Although most forecasts assume that the euro area will overcome the recession in the medium term, no far-reaching recovery can yet be expected in 2013. In its most recent publication, the IMF has therefore revised its growth forecast downward to –0.2% for the year as a whole, despite the receding risks. The IMF assumes an increase of 1.0 % the year after.

Most assessments anticipate a slight increase in the gross domestic product (GDP) of less than 1% for **Germany** due to the weak start to the year. As the global economy is expected to pick up greater momentum in 2014, exports are likely to rise, driven by the strong competitiveness of Germany's industry in the international arena. GDP growth predictions range from 1.4 % to 2.2 %.

GDP Germany: forecast range 2013/2014



in % GDP y/y change Source: BDA as of 2013/02/12 (f=forecast)

Diverging growth rates are expected in the steel markets

According to the German Steel Association, the **global demand for steel** is likely to expand by between 3.5% and 4.0%, with trends varying depending on the region and a growing differentiation between the industrial nations and emerging markets. Another acceleration in growth rates to between 4.0% and 4.5% is anticipated in 2014. A similar expansion in crude steel output to 1.60 billion tons in 2013 and 1.67 billion tons in the following years is expected.

The outlook for the **EU** remains subdued overall: The January forecast of the European steel association Eurofer does not anticipate any stimulus from the demand of the important steel processing sectors for the time being. Demand for steel in 2013 is therefore likely to contract slightly (around 1%; 141 million tons). Expert opinion assumes that the second half of the year will see market conditions gradually improve and demand for steel stabilize. A marginal recovery is assumed for 2014. Thanks to the still high export levels in 2013, the German Steel Federation (WV Stahl) predicts a slight upturn in crude steel production (1.0%; 171 million tons) compared with growth in the following year of around 3% to 177 million tons.

General conditions in the **German steel market** in 2013 are set to remain challenging due to the economic environment. Nonetheless, the German Steel Association expects a slight increase in the market supply, boosted by positive inventory-induced effects as a result of currently low inventory levels, and in crude steel production (1.2%; 43.0 million tons). Business activities with capital goods, in conjunction with inventory replenishing, are expected to pick up momentum in 2014, leading to an increase in crude steel production to 44.0 million tons (2.3%).

Outlook for the steel tubes market tentatively positive in 2013

Despite the current economic uncertainty, the **global production of steel tubes** is likely to continue to grow overall. Selective state intervention should be instrumental in easing the burden from the European financial crisis as well as the American debt problem in the medium term compared with previous periods. Positive impetus should emanate especially from sustained strong demand from the energy sector, which will be the determining factor for steel tubes capacity utilization in 2013 as well. Examples here are requirements for natural gas pipelines in the global market and the expansion of offshore wind energy in Europe. Moreover, intensive exploration of unconventional gas and oil resources, above all in the US, should continue to provide support for the demand for steel tubes by the Oil Country Tubular Goods (OCTG) industry. The weakness of Europe's automotive market is likely to be largely mitigated, at least for premium German carmakers, by ongoing robust demand first and foremost from the US and China. From the standpoint of the German steel tubes industry the outlook may be dampened by the trend toward relocating manufacturing sites of customer industries to emerging or industrialized countries with more favorable local conditions, energy costs, for example, and by steel tubes producers move to ramp up of capacities in excess of demand, particularly in China.

The underlying trends described above are expected to persist in 2014 as well.

Mechanical engineering sector remains optimistic

After a year of declining orders, the German Engineering Federation (VDMA) anticipates growth again in 2013. According to expert predictions, the overall production of German mechanical engineering and of food and packaging machinery is set to expand by 2 % and 3 % respectively.

Global trends, which include the increase in the world's population and growing prosperity in the emerging markets and developing nations such as Brazil, India and China, will continue to ensure above-average growth in consumption in the filling and packing technology business. The global trend towards more PET receptacles is holding steady. Also in the saturated markets of the industrial nations, the increasingly wider variety of products and brands holds potential for packaged beverages.

The division's machine building companies that cater to the plastics processing industry also anticipate a slight increase in production.

Leading indicators specific to the company

We systematically screen and analyze our environment on an ongoing basis in order to detect risks and opportunities for our operations at an early stage. To assess the general macroeconomic framework conditions of the Group and the specific situation in the individual sales markets, we use aggregated economic data and the knowledge of our employees who are actively engaged in these markets. This forms the basis for our annual rolling corporate planning and sales forecasts, which are prepared for each individual company and at Group level. The integration of specific product and market information, such as regional differences, ultimately allows us to derive a sound strategy.

We can derive forecasts for shipments and sales figures for the Steel Division and also for the tubes companies that have customer relationships in the automotive sector from sales forecasts for motorized vehicles and vehicle components, differentiated by country and region.

The performance of the individual Group companies is greatly affected by the economic activity of the construction, chemical and mechanical engineering sectors. The development of the mechanical engineering sector naturally has a direct impact on the future capacity utilization situation of the Technology Division.

In order to assess how the business of our large-diameter pipes companies will develop, we keep ourselves abreast of the status of major project pipelines planned which become public knowledge many years beforehand. Beyond this, there are several key indicators, an example being the oil price, the number of active drillings worldwide (known as the “rig count”) and the total scope of exploratory drilling, as well as the consumption of OCTG products.

Particularly in an increasingly volatile environment such as that of the steel industry, the informative value of such indicators in terms of their time horizon must be reviewed. Moreover, situations may arise that present short- to medium-term imbalances in supply and demand, for example due to excess inventories held by traders and end consumers, or unfavorable situations on the import front which temporarily distort long-term trends. In addition, spikes in demand, driven by speculation, may also be deceptive on occasion because they cover up structural deficits in the market or even trigger a reversal in the form of excess supply.

In view of the plethora of factors exerting an influence and the complexity of their interaction, providing reliable detailed predictions with long-term validity is not practically feasible from a conscientious standpoint, neither for the individual companies nor for the Group as a whole.

Opportunities and opportunities management
The cornerstone of opportunities management is the consistent screening and analysis of the Group's environment, particularly with regard to developments affecting the relevant products, technologies, markets and competition. These tasks are carried out both centrally by the holding and decentrally by the operating subsidiaries. The simultaneous performing of these tasks is fundamental to the swift recognition of potential opportunities and the deriving of suitable strategies. This procedure enables us to leverage the existing abilities, strengths and core competencies within our Group at an early stage in the preparation and execution of strategic decisions.

In recent financial years, Salzgitter AG has invested extensively across all divisions and has set in place the prerequisites for successfully taking advantage of perceived opportunities. Adjusting the production program, selectively ramping up capacity and seizing market opportunities from regional differences should allow potential to be leveraged more effectively. More detailed explanations can be found in the section on "Investments". Consistent cost management in all divisions, coupled with the ongoing optimization of product quality, are further indispensable prerequisites and key components for our corporate success.

Opportunities also arise especially from our manifold research and development activities. We provide information on our latest projects in the section entitled "Research and Development".

Along with projects initiated to promote organic growth, we also fundamentally review external growth options in terms of their suitability for enhancing the corporate success of Salzgitter AG. Thanks to the takeover of the Kovac Stahl operations in Graz and Gratkorn, Salzgitter AG was able to strengthen its market position in Austria and will be operating in future in this market with its own warehouses and steel service centers.

More information can be found in the section on "Management and Control of the Company, Goals and Strategy".

3. Overall Statement on Anticipated Group Performance

3.1 Planning Process

As a matter of principle, the corporate planning of Salzgitter AG 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. As a result, 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 and the Group's Executive Board. 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 starting 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.

The underlying boundary of the Group that was, by definition, the status quo at the time, may not necessarily accord with the structure of the group at the end of the planning period. The "Salzgitter 2015" project initiated in the financial year 2012 (see the section on "Management and Control of the Company, Goals and Strategy") will be conducting a detailed review of this status quo over the course of 2013, which is likely to result in the introduction of extensive measures for change.

3.2. Expected Earnings

Guidance on the development of the macroeconomic situation is fundamentally subject to great uncertainty. As described above, this has a direct impact on the intrinsic value and reliability of corporate planning. The forward-looking statements below on the individual divisions assume the absence of any drastic recessionary development. Against this background, the divisions anticipate that business will develop as follows in the current financial year:

The **Steel Division** assumes an increase in sales compared with 2012 and a significant improvement in its pre-tax result that will nonetheless remain negative. This forecast presupposes a relief anticipated with regard to raw materials and input materials purchasing, stable shipments, and the positive effects of the streamlining program that is underway. In a rather weaker market environment, Salzgitter Flachstahl GmbH (SZFG) is aiming to strengthen its position in the European market. Beyond this, increased deliveries to our Tubes Division have been planned. As investment activities no longer put any constraints on production, Ilsenburger Grobblech GmbH (ILG) will be striving to expand its business activities. At Peiner Träger GmbH (PTG), the effects from the streamlining program and an increase in intra-Group crude steel shipments should lift profit.

The **Trading Division** expects the recently very dynamic project business in international trading to return to normal levels in 2013, while also perceiving additional shipment potential in America. Based on this premise, complemented by satisfactory margins in stockholding trading, sales growth with limited upside potential and a profit in the mid-double-digit million range appear achievable.

The **Tubes Division** anticipates the possibility of a temporary phase of capacity underutilization over the course of 2013 due to the economic environment and late cyclical nature of the tubes business. This will foreseeably affect the large-diameter pipes segment in particular. Nonetheless, demand from strategic projects should at least secure basic capacity utilization in this product segment. As regards precision tubes, a further intensification of the demand-side crisis is not anticipated. In comparison to the very good year in 2012, we expect a manageable decline in the HFI-welded pipes segment. The market for stainless steel tubes is likely to remain stable, and the volume and selling price situation of this product segment should improve accordingly. All in all, we expect a marginal decline in sales and a profit contribution comparable with the year-earlier level

The **Services Division** predicts sales and profit at the year-earlier level.

Based on the order intake trend, we anticipate a continuation of the sales and profit momentum for the **Technology Division**. Supported by the "Fit4Future" program, initiated back in 2011 and systematically implemented, the KHS Group is likely to raise sales, improve price quality, and achieve additional cost reductions. Expectations for the companies of the KDE Group and KDS operating in special machine construction are similarly positive.

In terms of the pre-tax result of **Other/Consolidation** that is principally determined by the costs of the management holding, reporting-date related valuation effects of currency and derivatives positions and the holding in Aurubis AG (NAAG), a positive result below the level of the previous year is assumed.

The weak – and hardly reliable – economic forecasts for Germany and above all for Europe naturally hamper providing valid and detailed guidance for the results of the **Salzgitter Group**. The assumption being that general conditions do not deteriorate further over the period covered by guidance, we assume that, based on the expectations of the individual divisions in 2013,

- sales will remain stable and
- a positive pre-tax profit in the lower double-digit million range can be achieved.

Furthermore, there may be additional effects from the implementation of the "Salzgitter AG 2015" Group project.

As in recent years, we make reference to the fact that opportunities and risks from currently unforeseeable trends in selling prices, input material prices and capacity level developments, as well as changes in the currency parity, may considerably affect performance in the course of the financial year 2013. The resulting fluctuation in the consolidated pre-tax result may, as current events show, 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 Steel, Trading and Tubes divisions, an average € 25 contraction 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, both on the procurement and on the sales side.

The **medium- and long-term outlook** is considered to be relatively intact in respect of all Group companies. As, at the current point in time, there is no reliable information available whatsoever about how the relevant framework conditions will develop in 2014, no quantifiable outlook can be made for that financial year. Provided that the economic environment remains stable in our core markets, sales are likely to increase slightly and the result should benefit tangibly from the effects of the investments made and the structural measures implemented.

3.3 Anticipated Financial Position

Our financial reserves will be used partly to finance the investments currently being implemented and to raise working capital. 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 any potential crisis situation, we will not have to procure funds in the capital market to finance our operating activities.

The extensive investment program in the Steel Division has been largely completed. We have therefore estimated a lower investment budget (€ 223 million) for the Group in the financial year 2013 than in the previous year. Together with the follow-up amounts of investments approved in previous years, the cash-effective portion of the 2013 budget should be around € 360 million and thus be higher than the 2012 level. As before, investments will be effectively triggered on a step-by-step basis and in accordance with the development of profit and liquidity.

As a result of the foreseeable investment amounts, the financial resources required for the financial year 2013 will approximate the level of depreciation and amortization, so that financing can be funded by the cash flow from operating activities.

The financial position of our Group should be comparatively sound at the end of the year as well, particularly in view of the measures implemented in the capital markets in recent years. At present, further external financing measures are not envisaged. However, measures of this kind may, at a given time, become feasible and also practicable in the context of larger acquisition projects or the exploitation of attractive placement conditions.

As before, the dividend amount will 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 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 payment does not necessarily have to fully reflect the cyclicality of the earnings performance.

In conclusion, proof has been delivered that, owing to its broad-based business and sound financial base, the Salzgitter Group is comparatively well prepared to meet challenging phases. We will continue to attach great importance to this approach, now and in the future.

Overview of Consolidated Financial Statements

B. Consolidated Financial Statements

I. Consolidated Income Statement

In € m	Note	2012	2011
Sales	[1]	10,397.2	9,839.5
Increase/decrease in finished goods and work in process/other own work capitalized	[2]	23.7	257.6
		10,420.9	**10,097.1**
Other operating income	[3]	260.2	357.2
Cost of materials	[4]	7,712.8	7,350.5
Personnel expenses	[5]	1,506.4	1,471.1
Amortization and depreciation of intangible assets and property, plant and equipment	[6]	358.2	359.2
Other operating expenses	[7]	1,072.0	1,049.8
Income from shareholdings	[8]	17.6	6.4
Income from associated companies	[9]	54.5	77.5
Impairment losses on financial assets	[10]	6.5	3.1
Finance income	[11]	45.8	39.6
Finance expenses	[11]	172.4	142.5
Earnings before taxes (EBT)		**– 29.4**	**201.6**
Income tax	[12]	70.4	– 34.4
Consolidated net loss/income		**– 99.8**	**236.0**
Consolidated net loss/income for the financial year due to Salzgitter AG shareholders		– 102.0	233.0
Minority interests in consolidated net income for the year	[13]	2.2	3.0

Appropriation of profit in € m	Note	2012	2011
Consolidated net loss/income		– 99.8	236.0
Profit carried forward from the previous year		27.1	19.3
Minority interests in consolidated net loss/income for the year		2.2	3.0
Dividend payment		– 24.3	– 17.3
Transfers to/from other retained earnings		114.3	– 207.9
Unappropriated retained earnings of Salzgitter AG		**15.1**	**27.1**
Basic earnings per share (in €)	**[14]**	**– 1.89**	**4.31**
Diluted earnings per share (in €)	**[14]**	**– 1.89**	**4.22**

II. Statement of Total Comprehensive Income

In € m	2012	2011
Consolidated net loss/income	**– 99.8**	**236.0**
Changes in currency translation	– 0.9	– 0.4
Change in value from hedging transactions		
of which changes in fair value recorded directly in equity	– 0.2	2.0
of which recognition of settled hedging transactions with effect on income	– 1.1	– 0.7
Changes in the value of financial assets in the "held-for-sale assets" category recorded directly in equity	4.3	– 7.9
Actuarial gains and losses	– 315.6	5.9
Deferred taxes on current changes without effect on income	66.6	– 51.7
Adjustments from associated companies without effect on income	– 13.4	– 2.5
Other comprehensive income	**– 260.2**	**– 55.4**
Total comprehensive income	**– 359.9**	**180.6**
Total profit/loss due to Salzgitter AG shareholders	– 361.9	177.4
Total profit/loss due to minority interests	1.9	3.2
	– 359.9	**180.6**

III. Consolidated Balance Sheet

Assets in € m	Note	2012/12/31	2011/12/31
Non-current assets			
Intangible assets	[15]	112.3	120.8
Property, plant and equipment	[16]	2,519.7	2,533.6
Investment property	[17]	22.8	24.0
Financial assets	[18]	192.1	136.1
Associated companies	[19]	680.3	600.9
Deferred income tax assets	[20]	260.4	256.1
Other receivables and other assets	[21]	4.7	3.8
		3,792.3	**3,675.3**
Current assets			
Inventories	[22]	2,068.0	2,105.8
Trade receivables	[23]	1,544.8	1,447.3
Other receivables and other assets	[24]	482.4	477.3
Income tax assets	[25]	31.1	71.1
Securities	[26]	132.5	77.0
Cash and cash equivalents	[27]	878.6	946.2
		5,137.4	**5,124.7**
		8,929.7	**8,800.0**

Equity and liabilities in € m	Note	2012/12/31	2011/12/31
Equity			
Subscribed capital	[28]	161.6	161.6
Capital reserve	[29]	238.6	238.6
Retained earnings	[30]	3,589.7	3,933.1
Unappropriated retained earnings	[31]	15.1	27.1
		4,005.0	**4,360.4**
Treasury shares	[30]	–369.7	–369.7
		3,635.3	**3,990.7**
Minority interests	[32]	8.2	9.0
		3,643.5	**3,999.8**
Non-current liabilities			
Provisions for pensions and similar obligations	[33]	2,182.2	1,893.2
Deferred income tax liabilities	[20]	66.8	81.8
Income tax liabilities	[25]	193.5	207.4
Other provisions	[34]	284.4	259.6
Financial liabilities	[35]	612.1	601.4
		3,339.0	**3,043.4**
Current liabilities			
Other provisions	[34]	337.2	352.3
Financial liabilities	[36]	158.2	146.5
Trade payables	[37]	918.6	800.5
Income tax liabilities	[25]	57.5	40.6
Other liabilities	[38]	475.7	416.9
		1,947.2	**1,756.8**
		8,929.7	**8,800.0**

IV. Cash Flow Statement

(42) Cash flow statement

In € m	2012	2011
Earnings before taxes (EBT)	– 29.4	201.6
Depreciation, write-downs (+)/write-ups (–) of non-current assets	355.0	362.3
Income tax refunded (+)/paid (–)	7.8	87.4
Other non-cash expenses (+)/income (–)	137.8	– 27.8
Interest expenses	167.1	142.5
Gain (–)/loss (+) from the disposal of non-current assets	4.4	– 3.0
Increase (–)/decrease (+) in inventories	42.7	– 354.5
Increase (–)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	– 139.2	– 361.2
Use of provisions affecting payments, excluding use of tax provision	– 266.8	– 274.5
Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	147.8	30.6
Cash inflow/outflow from operating activities	**427.2**	**– 196.6**

In € m	2012	2011
Cash inflow from the disposal of fixed assets	3.9	3.2
Cash outflow for investments in intangible assets and property, plant and equipment	–320.8	–363.1
Cash inflow (+)/cash outflow (–) for investments of funds	–45.6	104.8
Cash inflow from the disposal of financial assets	2.0	20.1
Cash outflow for investments in financial assets	–83.2	–116.6
Cash outflow from investment activities	**–443.7**	**–351.6**
Purchase of minority interests	–	–34.8
Cash outflow in payments to company owners	–24.3	–17.3
Cash inflow (+)/outflow (–) for borrowings and other financial liabilities	–9.1	–19.7
Interest paid	–18.3	–13.0
Cash outflow from financing activities	**–51.7**	**–84.8**
Cash and cash equivalents at the start of the period	946.2	1,574.3
Cash and cash equivalents relating to changes in the consolidated group	1.0	5.4
Gains and losses from changes in foreign exchange rates	–0.4	–0.5
Payment-related changes in cash and cash equivalents	–68.2	–633.0
Cash and cash equivalents at the end of the period	**878.6**	**946.2**

V. Statement of Changes in Equity

(28 to 32) Statement of changes in equity

In € m	Subscribed capital	Capital reserve	Sale/repurchase of treasury shares	Other retained earnings	Reserve from currency translation	Change in the value of the reserve from hedging transactions	Changes in the value of the reserve from available-for-sale assets	Other changes without effect on income	Unappropriated retained earnings	Equity (excluding minority interests)	Minority interests	Equity
As of 2011/01/01	**161.6**	**238.6**	**−369.7**	**4,108.1**	**−14.5**	**−0.3**	**−6.1**	**−301.8**	**19.3**	**3,835.3**	**10.6**	**3,845.9**
Initial consolidation of Group companies so far not consolidated for materiality reasons	–	–	–	24.3	–	–	–	–	–	24.3	–	24.3
Goodwill resulting from the acquisition of minority interests	–	–	–	−31.8	–	–	–	–	–	−31.8	−1.0	−32.8
Total comprehensive income	–	–	–	−0.2	−0.4	1.3	−7.9	−48.3	233.0	177.4	3.2	180.6
Dividend	–	–	–	–	–	–	–	–	−17.3	−17.3	–	−17.3
Group transfers to retained earnings	–	–	–	207.9	–	–	–	–	−207.9	–	–	–
Other	–	–	–	2.8	–	–	–	–	–	2.8	−3.7	−0.9
As of 2011/12/31	**161.6**	**238.6**	**−369.7**	**4,311.1**	**−15.0**	**1.1**	**−14.0**	**−350.1**	**27.1**	**3,990.7**	**9.0**	**3,999.8**
Value adjustment in connection with the equity method (Aurubis)	–	–	–	–	–	–	–	33.8	–	33.8	–	33.8
As per 2012/01/01	**161.6**	**238.6**	**−369.7**	**4,311.1**	**−15.0**	**1.1**	**−14.0**	**−316.3**	**27.1**	**4,024.4**	**9.0**	**4,033.5**
Initial consolidation of Group companies so far not consolidated for materiality reasons	–	–	–	1.7	–	–	–	–	–	1.7	0.1	1.8
Goodwill resulting from the acquisition of minority interests	–	–	–	–	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	0.3	−0.9	−1.3	4.3	−262.4	−102.0	−361.9	1.9	−359.9
Dividend	–	–	–	–	–	–	–	–	−24.3	−24.3	−3.2	−27.5
Group transfers from retained earnings	–	–	–	−114.3	–	–	–	–	114.3	–	–	–
Other	–	–	–	−0.2	–	–	–	−4.5	–	−4.7	0.3	−4.4
As of 2012/12/31	**161.6**	**238.6**	**−369.7**	**4,198.5**	**−15.8**	**−0.2**	**−9.7**	**−583.2**	**15.1**	**3,635.3**	**8.2**	**3,643.5**

VI. Notes

(43) Segment reporting

In € m	Steel		Trading		Tubes		Services		Technology		Total segments	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
External sales	2,654.7	2,739.7	4,646.8	3,903.9	1,559.5	1,686.8	412.4	457.3	1,093.6	966.6	10,367.0	9,754.2
Sales to other segments	1,176.8	1,143.3	25.3	84.4	528.9	491.5	940.3	805.4	0.7	0.6	2,671.8	2,525.3
Sales to Group companies that cannot be allocated to an operating segment	–	–	–	–	0.6	1.2	5.9	4.6	0.5	0.5	7.0	6.2
Segment sales	3,831.5	3,883.0	4,672.1	3,988.3	2,089.0	2,179.4	1,358.6	1,267.3	1,094.7	967.7	13,045.9	12,285.7
Interest income (consolidated)	2.6	4.4	6.1	6.1	1.0	1.4	0.8	0.9	3.6	2.5	14.1	15.3
Interest income from Group companies that cannot be allocated to an operating segment	0.2	0.3	1.6	0.9	–	1.7	11.4	13.4	0.1	0.3	13.4	16.6
Segment interest income	2.8	4.7	7.7	7.0	1.0	3.1	12.2	14.3	3.7	2.8	27.5	31.9
Interest expenses (consolidated)	33.5	17.9	14.3	8.4	8.9	8.3	15.1	13.9	5.5	16.1	77.3	64.6
Interest expenses to Group companies that cannot be allocated to an operating segment	76.2	73.8	10.1	8.7	14.7	11.3	4.0	3.8	1.0	4.9	106.0	102.5
Segment interest expenses	109.7	91.7	24.4	17.1	23.6	19.6	19.0	17.7	6.5	21.0	183.3	167.1
Scheduled depreciation of property, plant and equipment and amortization of intangible assets (excluding impairment costs in accordance with IAS 36)	233.1	234.1	11.3	11.2	46.1	42.9	24.9	22.9	25.7	25.6	341.1	336.7
Impairment of tangible and intangible assets (according to IAS 36)	15.0	15.0	–	–	–	5.6	–	–	–	–	15.0	20.6
Reversal of impairment of tangible and intangible assets (according to IAS 36)	2.5	–	–	–	5.6	–	–	–	–	–	8.1	–
Impairment of financial assets	–	–	6.5	–	–	3.1	–	–	–	–	6.5	3.1
Segment result for the period	–176.3	25.7	77.1	60.6	7.8	67.3	15.9	19.6	9.5	–79.1	–66.0	94.2
of which income from associated companies	–	0.2	–	–	–1.0	3.1	–	–	–	–	–1.0	3.3
Material non-cash items	27.9	27.9	35.4	–10.9	28.2	–6.5	18.9	12.8	36.7	42.7	147.1	66.0
Segmental operating assets	3,090.4	2,981.3	1,283.8	1,260.6	1,246.5	1,312.0	656.9	606.7	832.6	885.5	7,110.3	7,046.1
of which shares in associated companies	–	–	–	–	111.4	109.6	–	–	–	–	111.4	109.6
Investments in property, plant and equipment and intangible assets	187.0	233.1	16.6	12.5	49.9	52.5	49.5	43.8	19.2	17.1	322.2	359.0
Segmental operating liabilities	2,590.1	2,292.8	1,175.3	1,153.2	1,010.0	1,000.8	680.1	555.3	466.5	1,364.3	5,922.0	6,366.4

Analysis of fixed assets 2012

In € m	Acquisition and production costs							Valuation allowances									Book values	
	2012/01/01	Currency translation differences	Changes in the consoli-dated group	Additions	Disposals	Transfers to other accounts	2012/12/31	2012/01/01	Currency translation differences	Changes in the consoli-dated group	Write-ups in the financial year	Deprecia-tion in the financial year[1]	Disposals	Other changes without effect on income	Transfers to other accounts	2012/12/31	2012/12/31	2011/12/31
Intangible assets																		
Goodwill	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Concessions, industrial property rights and similar rights and assets, including licenses to such rights and assets	306.2	−0.2	0.1	6.4	11.2	1.0	302.2	186.3	−0.1	–	–	15.8	11.2	–	–	190.9	111.3	119.9
Payments on account	0.9	–	–	0.3	–	−0.3	0.9	–	–	–	–	–	–	–	–	–	0.9	0.9
	307.1	**−0.2**	**0.1**	**6.7**	**11.2**	**0.7**	**303.1**	**186.3**	**−0.1**	**–**	**–**	**15.8**	**11.2**	**–**	**–**	**190.9**	**112.3**	**120.8**
Property, plant and equipment																		
Land, similar rights and buildings, including buildings on land owned by others	1,451.8	−0.6	2.5	16.9	3.0	7.3	1,474.9	779.9	0.3	–	2.5	31.0	4.4	–	–	804.3	670.6	671.9
Plant equipment and machinery	5,551.7	−2.1	12.2	167.5	39.1	70.9	5,761.1	3,900.4	−1.0	2.5	5.6	282.1	32.5	–	0.1	4,146.0	1,615.1	1,651.3
Other equipment, plant and office equipment	356.3	−0.4	0.5	24.8	17.8	3.0	366.3	272.4	−0.2	0.2	–	28.9	17.0	–	–	284.3	82.0	83.9
Payments made on account and equipment under construction	127.9	−0.2	0.7	109.3	1.8	−83.2	152.7	1.4	–	–	–	–	0.6	–	−0.1	0.7	152.0	126.5
	7,487.7	**−3.3**	**15.9**	**318.4**	**61.6**	**−2.0**	**7,755.1**	**4,954.1**	**−0.9**	**2.7**	**8.1**	**342.0**	**54.4**	**–**	**–**	**5,235.4**	**2,519.7**	**2,533.6**
Investment property	**30.9**	**–**	**–**	**0.1**	**2.8**	**1.3**	**29.5**	**6.9**	**–**	**–**	**–**	**0.4**	**0.5**	**–**	**–**	**6.7**	**22.8**	**24.0**
Financial assets																		
Investments in affiliated companies	58.5	–	−8.7	7.8	3.7	–	53.9	13.9	–	−7.0	1.7	6.5	3.5	–	–	8.3	45.7	44.6
Shareholdings	10.1	0.1	–	–	–	–	10.2	0.8	–	–	–	–	–	–	–	0.8	9.3	9.3
Loans to affiliated companies	43.1	–	−2.2	41.5	1.0	–	81.5	–	–	–	–	–	–	–	–	–	81.5	43.1
Non-current securities	26.4	–	–	7.1	0.9	–	32.6	−0.1	–	–	–	–	0.1	−0.9	–	−1.1	33.7	26.5
Other loans	13.0	−0.4		11.0	1.2	–	22.4	0.4	0.2	–	–	–	–	−0.2	–	0.5	21.9	12.6
	151.1	**−0.3**	**−10.8**	**67.4**	**6.8**	**–**	**200.6**	**15.0**	**0.2**	**−7.0**	**1.7**	**6.5**	**3.6**	**−1.0**	**–**	**8.5**	**192.1**	**136.1**
	7,976.8	**−3.7**	**5.1**	**392.7**	**82.5**	**–**	**8,288.4**	**5,162.3**	**−0.8**	**−4.3**	**9.8**	**364.7**	**69.7**	**−1.0**	**–**	**5,441.4**	**2,846.9**	**2,814.5**

[1] The composition of the impairments (unscheduled amortization) included here is explained in Note 6.

Analysis of fixed assets 2011

In € m	Acquisition and production costs							Valuation allowances								Book values	
	2011/01/01	Currency translation differences	Changes in the consoli-dated group	Additions	Disposals	Transfers to other accounts	2011/12/31	2011/01/01	Currency translation differences	Changes in the consoli-dated group	Write-ups in the financial year	Deprecia-tion in the financial year[1]	Disposals	Transfers to other accounts	2011/12/31	2011/12/31	2010/12/31
Intangible assets																	
Goodwill	51.6	–	–	–	51.6	–	–	51.6	–	–	–	–	51.6	–	–	–	–
Concessions, industrial property rights and similar rights and assets, including licenses to such rights and assets	297.8	–	0.2	13.1	12.6	7.7	306.2	183.0	–	0.1	–	15.6	12.4	–	186.3	119.9	114.8
Payments on account	7.0	–	–	0.5	–	−6.6	0.9	–	–	–	–	–	–	–	–	0.9	7.0
	356.4	**–**	**0.2**	**13.6**	**64.2**	**1.1**	**307.1**	**234.6**	**–**	**0.1**	**–**	**15.6**	**64.0**	**–**	**186.3**	**120.8**	**121.8**
Property, plant and equipment																	
Land, similar rights and buildings, including buildings on land owned by others	1,418.6	−1.1	6.0	17.0	12.3	23.6	1,451.8	756.3	0.1	0.7	–	30.6	7.8	–	779.9	671.9	662.3
Plant equipment and machinery	5,362.8	1.4	6.0	200.8	107.0	87.7	5,551.7	3,713.3	1.0	2.7	–	283.9	101.0	0.5	3,900.4	1,651.3	1,649.5
Other equipment, plant and office equipment	340.0	−0.3	2.8	27.3	16.9	3.4	356.3	257.9	−0.1	1.9	–	28.7	16.0	–	272.4	83.9	82.1
Payments made on account and equipment under construction	137.2	0.1	4.5	102.3	–	−116.2	127.9	1.9	–	–	–	–	–	−0.5	1.4	126.5	135.3
	7,258.6	**0.1**	**19.3**	**347.4**	**136.2**	**−1.5**	**7,487.7**	**4,729.4**	**1.0**	**5.3**	**–**	**343.2**	**124.8**	**–**	**4,954.1**	**2,533.6**	**2,529.2**
Investment property	**30.7**	**–**	**–**	**–**	**0.2**	**0.4**	**30.9**	**6.5**	**–**	**–**	**–**	**0.4**	**–**	**–**	**6.9**	**24.0**	**24.2**
Financial assets																	
Investments in affiliated companies	41.9	–	–	20.7	4.1	–	58.5	13.9	–	–	–	–	–	–	13.9	44.6	28.0
Shareholdings	34.0	–	–	3.0	26.9	–	10.1	23.0	–	–	–	3.1	25.3	–	0.8	9.3	11.0
Loans to affiliated companies	5.2	–	–	40.9	3.0	–	43.1	–	–	–	–	–	–	–	–	43.1	5.2
Non-current securities	24.7	–	–	3.0	1.3	–	26.4	−0.1	–	–	–	–	–	–	−0.1	26.5	24.8
Other loans	10.5	0.2	–	8.1	5.8	–	13.0	0.6	–	–	–	–	0.2	–	0.4	12.6	9.9
	116.3	**0.2**	**–**	**75.7**	**41.1**	**–**	**151.1**	**37.4**	**–**	**–**	**–**	**3.1**	**25.5**	**–**	**15.0**	**136.1**	**78.9**
	7,762.0	**0.3**	**19.5**	**436.7**	**241.7**	**–**	**7,976.8**	**5,007.9**	**1.0**	**5.4**	**–**	**362.3**	**214.3**	**–**	**5,162.3**	**2,814.5**	**2,754.1**

[1] The composition of the impairments (unscheduled amortization) included here is explained in Note 6.

List of shareholdings

	Abbrevia-tion	Cur-rency	Direct in %	Indirect in %	Equity in 1,000	Net income/ loss for the financial year in 1,000	Comments
1. Consolidated group companies							
a) Domestic							
Salzgitter Stahl GmbH, Salzgitter	SZS	EUR		100.00	240,024	0	P&L A.
Salzgitter Flachstahl GmbH, Salzgitter	SZFG	EUR	5.05	94.95	185,287	0	P&L A.
Peiner Träger GmbH, Peine	PTG	EUR	5.18	94.82	54,930	0	P&L A.
Ilsenburger Grobblech GmbH, Ilsenburg	ILG	EUR	5.37	94.63	26,213	0	P&L A.
Salzgitter Bauelemente GmbH, Salzgitter	SZBE	EUR		100.00	1,013	0	P&L A.
HSP Hoesch Spundwand und Profil GmbH, Dortmund	HSP	EUR		100.00	14,724	0	P&L A.
Salzgitter Europlatinen GmbH, Salzgitter	SZEP	EUR		100.00	4,886	0	P&L A.
Hövelmann & Lueg GmbH, Schwerte	HLG	EUR	5.10	94.90	2,999	0	P&L A.
Salzgitter Mannesmann Handel GmbH, Düsseldorf	SMHD	EUR	5.10	94.90	75,211	0	P&L A.
Salzgitter Mannesmann International GmbH, Düsseldorf	SMID	EUR		100.00	10,312	0	P&L A.
Salzgitter Mannesmann Stahlhandel GmbH, Düsseldorf	SMSD	EUR		100.00	22,892	0	P&L A.
Stahl-Center Baunatal GmbH, Baunatal	SCB	EUR		100.00	5,583	0	P&L A.
Universal Eisen und Stahl GmbH, Neuss	UES	EUR	5.10	94.90	14,975	0	P&L A.
Salzgitter Mannesmann Großrohr GmbH, Salzgitter	MGR	EUR	5.10	94.90	7,029	0	P&L A.
Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr	MRW	EUR		100.00	1,018	0	P&L A.
Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr	MGB	EUR		100.00	10,633	0	P&L A.
Salzgitter Mannesmann Präzisrohr GmbH, Hamm	MPR	EUR		100.00	38,356	0	P&L A.

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Comments
Salzgitter Mannesmann Rohr Sachsen GmbH, Zeithain	MRS	EUR		100.00	14,665	0	P&L A.
Salzgitter Mannesmann Precision GmbH, Mülheim an der Ruhr	SMP	EUR		100.00	51,680	0	P&L A.
Salzgitter Mannesmann Line Pipe GmbH, Siegen	MLP	EUR		100.00	19,838	0	P&L A.
Salzgitter Mannesmann Stainless Tubes GmbH, Mülheim an der Ruhr	MST	EUR		100.00	15,118	0	P&L A.
Salzgitter Mannesmann Stainless Tubes Deutschland GmbH, Remscheid	MSTD	EUR		100.00	33,805	0	P&L A.
KHS GmbH, Dortmund	KHSDE	EUR		100.00	206,018	0	P&L A.
Klöckner Desma Elastomertechnik GmbH, Fridingen	KDE	EUR		100.00	3,835	0	P&L A.
Klöckner Desma Schuhmaschinen GmbH, Achim	KDS	EUR		100.00	8,758	0	P&L A.
RSE Grundbesitz und Beteiligungs-GmbH, Mülheim an der Ruhr	RSE	EUR		100.00	35,906	3,706	Change of legal form in the financial year
Klöckner PET-Technologie GmbH, Salzgitter	SMPET	EUR		100.00	97,946	0	P&L A.
KHS Corpoplast GmbH, Hamburg	BEVCP	EUR		100.00	47,800	0	P&L A.
KHS Plasmax GmbH, Hamburg	BEVPX	EUR		100.00	1,534	0	P&L A.
DEUMU Deutsche Erz- und Metall-Union GmbH, Peine	DMU	EUR	5.10	94.90	10,699	0	P&L A.
Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter	VPS	EUR	5.10	94.90	19,784	0	P&L A.
Hansaport Hafenbetriebsgesellschaft mbH, Hamburg	HAN	EUR		51.00	5,156	0	P&L A.
Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Osnabrück	SZAB	EUR	100.00		12,974	8	Transfer of losses
SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter	SIT	EUR		100.00	26	0	P&L A.

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/ loss for the financial year in 1,000	Comments
Salzgitter Hydroforming GmbH & Co. KG, Crimmitschau	SZHF	EUR	100.00		13,700	1,495	
Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück	SZAE	EUR		100.00	37	– 131	
Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück	SZAI	EUR		100.00	387	66	
GESIS Gesellschaft für Informationssysteme mbH, Salzgitter	GES	EUR		100.00	2,626	0	P&L A.
telcat Kommunikationstechnik GmbH, Salzgitter	TCG	EUR		100.00	526	0	P&L A.
Glückauf Immobilien GmbH, Peine	GIG	EUR	5.19	94.81	30	0	P&L A.
SZST Salzgitter Service und Technik GmbH, Salzgitter	SZST	EUR		100.00	250	0	P&L A.
Salzgitter Mannesmann Forschung GmbH, Salzgitter	SZMF	EUR		100.00	804	0	P&L A.
telcat multicom GmbH, Salzgitter	TMG	EUR		100.00	2,996	0	P&L A.
Salzgitter Mannesmann GmbH, Salzgitter	SMG	EUR	100.00		2,631,728	0	Transfer of losses
Salzgitter Klöckner-Werke GmbH, Salzgitter	SKWG	EUR		100.00	515,070	5,925	Transfer of losses
b) Abroad							
Salzgitter Mannesmann Staalhandel B.V., Oosterhout	SMNL	EUR		100.00	80,386	4,226	
Salzgitter Mannesmann International (Canada) Inc., Vancouver	SMIV	CAD		100.00	25,019	495	
UNIVERSAL STEEL AMERICA, Inc., Houston	UESUS	USD		100.00	21,922	4,284	
Salzgitter Mannesmann Acélkereskedelmi Kft., Budapest	SMHU	HUF		100.00	3,066,134	111,794	
Salzgitter Mannesmann Stahlhandel s.r.o., Prague	SMCZ	CZK		100.00	41,654	– 5,442	
Salzgitter Mannesmann Stahlhandel Sp. z o.o., Slupca	SMPL	PLN		100.00	10,937	– 7,297	

	Abbrevia-tion	Cur-rency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Comments
Salzgitter Mannesmann International (USA) Inc., Houston	SMIH	USD		100.00	12,546	3,195	
Salzgitter Mannesmann Précision Etirage SAS, Chéu	MPE	EUR		100.00	12,897	– 542	
Salzgitter Mannesmann Precisie B.V., Helmond	MPN	EUR		100.00	12,196	1,324	Change of name in the financial year
Salzgitter Mannesmann Precisión S.A. de C.V., El Salto	MPM	USD		100.00	– 10,425	– 1,984	
Salzgitter Mannesmann Stainless Tubes France SAS, Montbard	MSTF	EUR		100.00	47,049	5,792	
Salzgitter Mannesmann Stainless Tubes Italia S.r.l., Costa Volpino	MSTI	EUR		100.00	5,053	– 503	
Salzgitter Mannesmann Stainless Tubes USA, Inc., Houston	MSTU	USD		100.00	19,734	1,710	
KHS USA Inc., Waukesha	KHSUS	USD		100.00	60,445	8,606	IFRS annual financial statements
KHS Industria de Máquinas Ltda., São Paulo	KHSBR	BRL		100.00	– 11,756	– 10,970	IFRS annual financial statements
KHS Mexico S.A. de C.V., Zinacantepec	KHSME	MXN		100.00	103,155	29,935	IFRS annual financial statements
KHS Machinery Pvt. Ltd., Ahmedabad	KHSIN	INR		94.50	736,835	198,110	IFRS annual financial statements
KHS Pacific Pty. Ltd., Tullamarine	KHSAU	AUD		100.00	3,497	3,297	IFRS annual financial statements
KHS Manufacturing (South Africa) (Pty.) Ltd., Kramerville	KHSSA	ZAR		100.00	45,658	12,560	IFRS annual financial statements
KHS RUS OOO, Moscow	KHSRU	RUB		99.00	84,548	44,975	IFRS annual financial statements
KHS Asia Pte. Ltd., Singapore	KHSSI	EUR		100.00	180	– 331	IFRS annual financial statements
KHS Japan Corporation, Osaka	KHSJA	JPY		100.00	282,249	94,082	IFRS annual financial statements
Klöckner DESMA Machinery Pvt., Ahmedabad	KDEIN	INR		100.00	429,060	91,377	IFRS annual financial statements
DESMA USA, Inc., Hebron	KDEUS	USD		100.00	4,682	813	IFRS annual financial statements
Salzgitter Finance B.V., Oosterhout	SZFBV	EUR	100.00		2,937	365	
DESMA Slovakia s.r.o., Povazska Bystrica	KDESL	EUR		90.00	1,611	330	

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/ loss for the financial year in 1,000	Comments
DESMA Rubber Injection Machinery (Wuxi) Co. Ltd., Wuxi	DRIM	CNY		100.00	11,155	5,327	
2. Non-consolidated group companies **a) Domestic**							
SESTA Stahl GmbH, Düsseldorf	SSG	EUR		100.00	51	0	P&L A., financial year to 2011/09/30, financial statement not subject to an audit review
SBH Stahlblechhandel GmbH, Neuss	SBH	EUR		100.00	38	1	Financial year to 2011/12/31, financial statement not subject to audit review
Stahl-Metall-Service Gesellschaft für Bandverarbeitung mbH, Karlsruhe	SMS	EUR		100.00	1,612	115	P&L A., change of legal form in the financial year, financial year to 2011/12/31
SMS Immobilie Rheinhafen Verwaltungs-GmbH, Karlsruhe	SMSIV	EUR		100.00	25	3	Financial year to 2011/12/31
Hildesheimer Stahlhandel GmbH & Co. KG, Hildesheim	HSH	EUR		100.00	352	10	Financial year to 2011/12/31
Stahlhandel GmbH, Hildesheim	STI	EUR		100.00	34	3	Financial year to 2011/12/31
Mannesmannröhren-Werke Qualifizierungsgesellschaft mbH, Mülheim an der Ruhr	MQG	EUR		100.00	26	0	P&L A., financial year to 2011/12/31
RSE Projektentwicklungs-GmbH, Frankfurt am Main	RSEPE	EUR		100.00	25	0	P&L A.
SEITZ ENZINGER Noll GmbH, Bad Kreuznach	SEN	EUR		100.00	27	0	Financial year to 2012/09/30, financial statement not subject to audit review
Holstein und Kappert GmbH, Dortmund	KD	EUR		100.00	24	0	Financial year to 2012/09/30, financial statement not subject to audit review

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/ loss for the financial year in 1,000	Comments
Phoenix Immobilienverwaltungsgesellschaft mbH & Co. KG, Frankfurt am Main	PHOI	EUR		100.00	– 24,793	– 1,927	Financial year to 2011/12/31
RSE Phoenix Holding GmbH, Frankfurt am Main	PHOH	EUR		100.00	33	– 5	Financial year to 2011/12/31
Phoenix Office Garden GmbH, Frankfurt am Main	PHOG	EUR		100.00	31	3	Financial year to 2011/12/31
Gewerbepark Am Borsigturm GmbH, Berlin	GAB	EUR		100.00	– 2,718	67	Financial year to 2011/12/31
RSE Falkenhagen GmbH, Frankfurt am Main	RSEFH	EUR		100.00	513	9	Financial year to 2011/12/31
RSE Borsiggelände GmbH, Frankfurt am Main	RSEBG	EUR		100.00	301	– 16	Financial year to 2011/12/31
RSE Projektmanagement Holding-Verwaltungs-GmbH, Frankfurt am Main	RSEGG	EUR		94.00	26	1	Financial year to 2011/12/31
RSE Projektmanagement Holding GmbH & Co. KG, Frankfurt am Main	RSEPM	EUR		100.00	9	– 2	Financial year to 2011/12/31
RSE Projektmanagement GmbH, Frankfurt am Main	RSEPA	EUR		100.00	– 14,440	– 571	Financial year to 2011/12/31
Klöckner PET International GmbH, Salzgitter	PETIG	EUR		100.00	22	– 1	Financial year to 2011/12/31
RSE Grundstücksverwaltungs-GmbH, Frankfurt am Main	RSEGV	EUR		100.00	26	– 1	Financial year to 2011/12/31
VPS Infrastruktur GmbH, Salzgitter	VPSI	EUR		100.00	25	0	P&L A., financial year to 2011/12/31
BSH Braunschweiger Schrotthandel GmbH, Braunschweig	BSH	EUR		100.00	– 26	39	Financial year to 2011/12/31
Salzgitter Hydroforming Verwaltungs GmbH, Crimmitschau	SZHV	EUR	100.00		55	3	Financial year to 2011/12/31
Salzgitter Magnesium-Technologie GmbH, Salzgitter	SZMT	EUR		100.00	9,253	481	Financial year to 2011/12/31

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Comments
Salzgitter Automotive Engineering Verwaltungsgesellschaft mbH, Osnabrück	SZAW	EUR		100.00	46	11	Financial year to 2011/12/31
Salzgitter Automotive Engineering Immobilien Verwaltungsgesellschaft mbH, Osnabrück	SZEV	EUR		100.00	44	2	Financial year to 2011/12/31
Salzgitter Mannesmann Personalservice GmbH, Mülheim an der Ruhr	SZMP	EUR		100.00	1,049	0	P&L A., financial year to 2011/12/31
betterCALL GmbH, Salzgitter	BCG	EUR		100.00	350	45	Financial year to 2011/12/31
TELEFONBAU MARIENFELD GmbH & Co. KG, Essen	TBM	EUR		100.00	5,995	497	Financial year to 2011/12/31
NorthStar Telecom GmbH, Salzgitter	NST	EUR		100.00	311	24	Financial year to 2011/12/31
Salzgitter Mannesmann Dritte Verwaltungsgesellschaft mbH, Salzgitter	SMDV	EUR		100.00	26	0	P&L A., financial year to 2011/12/31
GVG Grundbesitz- und Vermögensverwaltungs-gesellschaft mbH, Salzgitter	GVGG	EUR		100.00	105	3	Financial year to 2011/12/31
Salzgitter Mannesmann Technik GmbH, Salzgitter	SMTG	EUR		100.00	27	1	Financial year to 2011/12/31
KHS Corpoplast Verwaltungsgesellschaft mbH, Hamburg	CVG	EUR		100.00	26	0	Financial year to 2011/12/31
b) Abroad							
Salzgitter Mannesmann (Scandinavia) AB, Lulea	SMSC	SEK		100.00	1,768	–3,959	Financial year to 2011/12/31
Salzgitter Mannesmann International (México) S.A. de C.V., Mexico D.F.	SMIM	MXN		100.00	10,049	2,482	Financial year to 2011/12/31
UNIVERSAL STEEL HOLLAND B.V., SK Papendrecht	USN	EUR		100.00	10,469	932	Financial statements not subject to audit review
UNIVERSAL Aciers Sarl, Couzon au Mont d'Or	UAC	EUR		100.00	2,365	294	Financial year to 2011/12/31
UNIVERSAL OCEL spol. s.r.o., Prague	UOC	CZK		100.00	154,824	6,896	Financial year to 2011/12/31
UNIVERSAL Stal Sp. z o.o., Ruda Slaska	USP	PLN		100.00	38,782	4,220	

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Comments
Salzgitter Mannesmann (Italia) S.R.L., Milan	SMIT	EUR		100.00	1,183	149	Financial year to 2011/12/31, financial statement not subject to audit review
Salzgitter Mannesmann (France) S.A.R.L., Saint Mandé	SMFR	EUR		100.00	1,059	–329	Financial year to 2011/12/31
Salzgitter Mannesmann (UK) Ltd., Harrogate	SMUK	GBP		100.00	932	813	Financial year to 2011/12/31
Salzgitter Mannesmann (Espana) S.A., Madrid	SMSP	EUR		100.00	56	–146	Financial year to 2011/12/31, financial statement not subject to audit review
Salzgitter Mannesmann International (Asia) Pte. Ltd., Singapore	SMSG	USD		100.00	5,122	277	Financial year to 2011/12/31
Salzgitter Mannesmann Trade (Beijing) Co., Ltd., Beijing	SMCN	CNY		100.00	–1	–8	Financial year to 2011/12/31
Salzgitter Mannesmann International (HK) Ltd., Hong Kong	SMHK	EUR		100.00	9,183	946	Financial year to 2011/12/31
Salzgitter Mannesmann International Tehran (Private Joint Stock Company), Tehran	SMIR	IRR		100.00	–119,900	–113,000	Financial year to 2011/12/31
Salzgitter Mannesmann Distributie S.R.L., Bukarest	SMRO	RON		100.00	4,769	–2,329	Financial year to 2011/12/31
Salzgitter Mannesmann Pentasteel International (India) Pvt. Ltd., Mumbai	SMPI	INR		51.00	70,113	21,022	Financial year to 2012/03/31
Salzgitter Mannesmann International do Brasil Ltda., São Paulo	SMBR	BRL		85.00	1,007	–493	Financial year to 2011/12/31
Salzgitter Mannesmann Stahlhandel Austria GmbH, Gratkorn	SMSA			100.00			Establishment or acquisition in financial year, short financial year June–December 2012
KHS UK Ltd., Solihull	KHSGB	GBP		100.00	774	243	
KHS Machine & Equipment (Qinhuangdao) Co., Ltd., Quinhuangdao	KHSC	CNY		100.00	3,824	613	
KHS Machines Nigeria Limited, Lagos	KHSNI	NGN		100.00	157,868	41,337	IFRS annual financial statement, financial year to 2011/12/31
Klöckner Holstein Seitz S.A., Sant Cugat del Valles	KHSSP	EUR		100.00	484	50	Financial statements not subject to audit review
KHS Skandinavien ApS, Albertslund	KHSDK	DKK		100.00	304	–276	

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Comments
KHS Benelux B.V., Breda	KHSNL	EUR		100.00	229	108	
KHS S.A.R.L., Torcy	KHSFR	EUR		100.00	356	–97	Financial statements not subject to audit review
KHS s.r.o., Ceské Budejovice	KHSTS	CZK		100.00	4,561	699	IFRS annual financial statements, financial statement is not subject to audit review
KHS GmbH, Wolfwil	KHSCH	CHF		100.00	962	193	IFRS annual financial statements, financial statement is not subject to audit review
KHS Austria GmbH, Wiener Neudorf	KHSÖS	EUR		100.00	583	304	Financial statements not subject to audit review
KHS Makine Sanayi VE Ticaret Limited Sirket, Istanbul	KHSTK	TRY		99.90	84	–72	Financial statements not subject to audit review
KHS Italia S.r.l., Pero	KHSIT	EUR		100.00	25	–78	Financial year to 2011/12/31, financial statement not subject to audit review
KHS Ukraine OOO, Kiev	KHSUK	UAH		100.00	3,711	2,344	IFRS annual financial statements, financial statement is not subject to audit review
KHS Sibiu S.R.L., Sibiu	KHSRO	RON		100.00	447	108	IFRS annual financial statements, financial statement is not subject to audit review
KHS VIETNAM COMPANY LIMITED, Ho Chi Minh City	KHSVN	VND		100.00	–737,631	–87,453	IFRS annual financial statements, financial year to 2010/12/31, financial statement is not subject to audit review
KHS Andes S. A. S., Bogotá	KHSCO	COP		100.00	336,847	378,481	IFRS annual financial statements, financial statement is not subject to audit review
Kisters Limited, Solihull	KIGB	GBP		100.00	254	0	IFRS annual financial statements, financial statement is not subject to audit review
DESMA Machinery & Engineering Co. Ltd., Guangzhou	KDSM	CNY		100.00	685	–1,675	Financial year to 2011/12/31

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/ loss for the financial year in 1,000	Comments
KHS Argentinia S.A., Buenos Aires	KHSAR	ARS		95.00	432	89	Financial year to 2010/12/31
KHS Korea Co. Ltd., Seoul	KHSSK	KRW		100.00	534,529	– 254,473	Change of name in the financial year, financial year to 2010/12/31, financial statement not subject to audit review
KHS Corpoplast Argentina S.A., Buenos Aires	BEVAR	ARS		100.00	492	– 392	Financial year to 2010/12/31
KHS Corpoplast Trading (Shanghai) Co., Ltd., Shanghai	BEVCN	CNY		100.00	29,551	14,489	Financial year to 2011/12/31
KHS Corpoplast (UK) Ltd., Houghton Le Spring	BEVUK	GBP		100.00	157	4	Financial year to 2010/12/31
KHS Corpoplast España SL, Sant Cugat del Valles	BEVSP	EUR		100.00	124	– 170	Financial year to 2011/12/31
KHS Corpoplast North America Inc., Flemington	BEVUS	USD		100.00	5,698	519	Financial year to 2011/12/31
Corpoplast Beverages Equipment (Suzhou) Co. Ltd., Suzhou	CBE			100.00			Establishment or acquisition in financial year
Salzgitter Hydroforming s.r.o., Chomutov	HFCZ	CZK		100.00	1,336	386	Financial year to 2011/12/31
3. Proportionately consolidated joint ventures							
a) Domestic							
EUROPIPE GmbH, Mülheim an der Ruhr	EP	EUR		50.00	231,138	21,116	
Mülheim PIPECOATINGS GmbH, Mülheim an der Ruhr	MPC	EUR		100.00	14,229	– 5,562	
b) Abroad							
EUROPIPE France S.A., Grande Synthe	EPF	EUR		100.00	7,724	954	
Berg Steel Pipe Corporation, Wilmington	BSPC	USD		100.00	100,644	169	
Berg Spiral Pipe Corporation, Wilmington	BSPM	USD		100.00	40,328	– 6,706	
BERG EUROPIPE Holding Corp., New York	BEHC	USD		100.00	176,696	– 6,577	

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Comments
4. Associated companies							
a) Domestic							
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	HKM	EUR		30.00	290,440	33	
Aurubis AG, Hamburg	NAAG	EUR		25.00	1,129,436	121,582	Financial year to 2012/09/30
5. Other shareholdings							
a) Domestic							
ERZKONTOR RUHR GMBH, Essen	ERE	EUR		33.33	107	0	Financial year to 2011/09/30
Beck & Co. Industriebedarf GmbH & Co. KG, Mönchengladbach	BIG	EUR		51.25	103	91	Financial year to 2012/09/30
Bahners GmbH, Mönchengladbach	BGN	EUR		50.00	39	2	Financial year to 2012/09/30
EUROPIPE 1. Verwaltungsgesellschaft mbH, Mülheim an der Ruhr	EPV	EUR		100.00	32	–1	Financial year to 2011/12/31, financial statement not subject to audit review
EUROPIPE Projekt GmbH, Mülheim an der Ruhr	EPP	EUR		100.00	27	–1	Financial year to 2011/12/31, financial statement not subject to audit review
Klöckner Mercator Versicherungsvermittlung GmbH & Co. KG, Dortmund	KMVV	EUR		50.00	91	201	Financial year to 2011/12/31
DEUTRANS Rohstoff- und Recycling-Logistik GmbH, Braunschweig	DRRL	EUR		50.00	37	2	Financial year to 2011/12/31
GVZ Entwicklungsgesellschaft Salzgitter mbH, Salzgitter	GVZ	EUR		21.43	41	0	In liquidation, financial year to 2011/12/31
Wohnungsbaugesellschaft mit beschränkter Haftung Salzgitter, Salzgitter	WBG	EUR		25.05	46,239	2,580	Financial year to 2011/12/31
WBV Wohnbau Betreuungs & Verwaltungs GmbH, Salzgitter	WBV	EUR		100.00	26	0	P&L A., financial year to 2011/12/31

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/ loss for the financial year in 1,000	Comments
b) Abroad							
TAPIOMETALL Müszaki Kereskedelm Kft., Tápiószele	TMK	HUF		29.40	190,139	– 18,497	Financial year to 2010/12/31, financial statement not subject to audit review
Salzgitter (West Africa) Ltd., Lagos	SWA	NGN		40.00	49	0	No business activity, financial year through to 1993/09/30; financial statement not subject to audit review
Borusan Mannesmann Boru Yatirim Holding A.S., Istanbul	BMB	TRY		23.00	97,680	23,290	Financial year to 2012/03/31
Berg Europipe Corp., Wilmington	BEC	USD		100.00	354	– 20	
KHS Zagora AD, Stara Zagora	KHSBU	BGN		50.00	1,228	643	Financial year to 2011/12/31, financial statement not subject to audit review
Impuls AD, Gabrovo	I98	BGN		15.15	2,914	– 104	Financial year to 2009/12/31
KHS AG (Thailand) Ltd., Bangkok	BEVTH	THB		49.00	49,117	1,310	Financial year to 2011/12/31

Accounting Principles

The consolidated financial statements of Salzgitter AG (SZAG) were prepared in accordance with the accounting principles stipulated by the International Accounting Standards Board (IASB) that were rendered mandatory on the reporting date by EU Directive No.1606/2002 and are based on the principle of historical acquisition cost, with the exception of certain financial instruments that are shown at fair value. The requirements of the applied standards and interpretations (SIC/IFRIC) were satisfied without exception and convey a true and fair view of the Salzgitter Group's net assets, financial position and results of operations.

Effects of new or amended standards:

Standards/Interpretation		Mandatory date	Adoption by EU Commission[1]	Likely effects
IFRS 7	Financial Instruments: Disclosures: Transfer of Financial Assets	2011/07/01	yes	Notes to the consolidated financial statements

[1] on 2012/12/31

Standards not applied early:

Standards/Interpretation		Mandatory date	Adoption by EU Commission[1]	Likely effects
IAS 1	Presentation of Items of Other Comprehensive Income – Amendments	2012/07/01	yes	none
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters – Amendments	2013/01/01	yes	none
IFRS 7	Disclosure: Offsetting of Financial Assets and Financial Liabilities	2013/01/01	yes	Notes to the consolidated financial statements
IFRS 13	Fair Value Measurement	2013/01/01	yes	Notes to the consolidated financial statements
IAS 12	Deferred taxes: Recovery of Underlying Assets – Amendments	2013/01/01	yes	none
IAS 19	Employee Benefits – Amendments	2013/01/01	yes	Notes to the consolidated financial statements
	Annual Improvements IFRS 2009 – 2011	2013/01/01	no	no material effects[3]
IFRS 1	First-time Adoption of the International Financial Reporting Standards – Government Loans	2013/01/01	no	none
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	2013/01/01	yes	none
IFRS 10	Consolidated Financial Statements, incl. Transition Guidance	2014/01/01	yes	no material effects
IFRS 11	Joint Arrangements, incl. Transition Guidance	2014/01/01	yes	Income statement, balance sheet[2]
IFRS 12	Disclosure of Interests in other Entities, incl. Transition Guidance	2014/01/01	yes	Notes to the consolidated financial statements
IAS 27	Separate Financial Statements	2014/01/01	yes	none
IAS 28	Investments in Associates and Joint Ventures	2014/01/01	yes	not foreseeable
IAS 32	Amendment: Offsetting of Financial Assets and Financial Liabilities	2014/01/01	yes	not foreseeable
IFRS 9	Financial Instruments: Classification and Measurement	2015/01/01	no	not foreseeable

[1] On 2012/12/31

[2] Valuation using the equity method instead of proportionate consolidation of the EP Group

[3] Slight changes to many standards (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) and the resultant changes.

As a listed parent company of a group, Salzgitter AG is obliged pursuant to Section 315a, German Commercial Code (HGB) to prepare consolidated financial statements in compliance with international accounting standards and regulations.

The consolidated financial statements are disclosed in the electronic German Federal Gazette (Bundesanzeiger). The company Salzgitter AG, entered in the Commercial Register at Braunschweig Local Court under HRB 9207, has its headquarters in Salzgitter. The address of the Salzgitter AG Executive Board is Eisenhüttenstraße 99, 38239 Salzgitter. The consolidated financial statements and the Group Management Report were approved by the Executive Board on February 26, 2013, for submission to the Supervisory Board.

The financial year of Salzgitter AG and its subsidiaries included in the consolidated financial statements generally corresponds to the calendar year. Two subsidiaries with divergent balance sheet dates prepare interim financial statements as of the Group's balance sheet date. The consolidated financial statements were prepared in euros. Unless otherwise indicated, the amounts are stated in millions of euros (€ m). There may be deviations from the unrounded amounts.

On December 18, 2012, 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.

Consolidation Principles and Methods

The consolidated financial statements are based on the financial statements of Salzgitter AG and the integrated subsidiaries prepared in accordance with the accounting and valuation methods applied in a uniform manner throughout the Group and certified by independent auditors.

The consolidated financial statements include all companies whose financial and business policies Salzgitter AG is capable of determining directly or indirectly in such a way that the companies in the Salzgitter Group derive benefit from the activities of these companies. These companies are included in the consolidated financial statements as of the time when the Salzgitter Group becomes capable of controlling them. If this potential for control ceases, these companies are 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.

The results generated by a subsidiary that was disposed of must be included in the consolidated financial statements until the date of its disposal. This is the date on which the control of the subsidiary by the parent company comes to an end. The difference between the proceeds from the sale of the subsidiary and the book values of the assets, less the debts at the time of the sale, is recognized in the consolidated income statement. If the subsidiaries being excluded from the consolidated group were allocated goodwill that was acquired prior to October 1, 1995, the past offsetting against retained earnings without effect on income is not annulled.

IAS 31 defines a joint venture as an arrangement where two or more partners carry out a commercial activity under joint management. Joint management is defined as the contractually agreed participation in the management of a commercial activity. Under IAS 31, joint ventures are included in the consolidated financial statements in accordance with the benchmark method by means of proportionate consolidation.

Shareholdings in companies in which the Salzgitter Group is able to exercise a decisive influence over financial and business policy decisions are valued in the consolidated financial statements using the equity method. If the Group is unable to exercise a decisive influence, the shares in the companies are included in the consolidated financial statements in accordance with IAS 39. The dates of admission into and departure from the group of consolidated companies valued 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.

Business combinations are accounted for in accordance with IFRS 3.4 using the purchase method. The acquirer in such cases is the entity that has gained control of the acquired company, with the result that it can derive benefits from that company. Consideration in return for an acquisition must be determined from the total fair values of the assets acquired as of the time when they changed hands, the liabilities entered into or acquired, and the equity instruments issued by the Group in exchange for the control of the acquired company. In the case of acquisitions that are less than 100 %, there is an option to disclose the goodwill fully from an acquisition in accordance with the full goodwill method, i.e. also in the amount of the proportion attributable to the minority interests. Any costs incurred in connection with the business combination must be recorded in full with effect on income when they are incurred. Subsequent changes in fair values must be adjusted against the acquisition costs, provided that the adjustments are within the valuation period. All other changes in the fair value of a conditional consideration classified as an asset or a liability must be recorded in accordance with the respective IFRS rules. Changes in the fair value of a conditional consideration that is classified as equity are not recorded. In the case of a business combination achieved in stages, the equity interest in the acquired company previously held by the Group must be redetermined at the fair value that is valid at the time of acquisition (i.e. at the point when control was gained) and any resulting profit or loss must be reported as appropriate under profit or loss. The identifiable assets, liabilities and contingencies that are acquired must – if they satisfy the requirements for reporting under IFRS 3 – be accounted for at their fair values as of the time of acquisition. The valuation period is the period from the time of acquisition to the time when the Group has received all the information about the facts and circumstances prevailing as of the time of acquisition, but no later than one year after the acquisition date.

Minority interests in the consolidated companies are reported separately within equity.

In the case of assets and liabilities denominated in foreign currency, the acquisition costs must always be reported at the exchange rate prevailing on the cut-off date when the acquisition was realized. Exchange rates are hedged as a matter of principle.

Intercompany sales, expenses and income, as well as receivables and liabilities between the companies included in the financial statements are eliminated.

Intercompany profits deriving from intercompany deliveries and services are eliminated with effect on income, taking deferred taxes into account. Intercompany deliveries and services are conducted on generally accepted market terms.

Consolidated Group

In addition to the annual financial statements of the parent company, the consolidated financial statements include the annual financial statements of 45 (previous year: 46) domestic and 27 (previous year: 26) foreign affiliated companies, all prepared as of the same reporting date.

Two domestic (previous year: two) and four foreign (previous year: five) joint ventures are included on a pro rata basis in the consolidated financial statements by means of proportionate consolidation.

The following assets, liabilities and expenses and income items (excluding income from shareholdings, net interest income and tax) are attributable to the Group on the basis of their shares in the respective joint ventures:

In € m	2012	2011
Non-current assets	100.6	94.2
Current assets	167.8	130.1
Non-current liabilities	45.4	41.1
Current liabilities	49.3	33.4
Income	287.6	460.2
Expenses	319.3	392.7

In the reporting year, two domestic shareholdings (previous year: two) over which Salzgitter AG or another Group company exercises a decisive influence are also included in the consolidated financial statements using the equity method.

A total of 35 (previous year: 38) domestic and 45 (previous year: 47) foreign subsidiaries have not been consolidated due to their minor overall significance for the Group's net assets, financial position and results of operations.

The composition and development of the consolidated group (excluding Salzgitter AG) and the group of companies valued using the equity method is as follows:

	As of 2011/12/31	Additions	Disposals	As of 2012/12/31
Consolidated subsidiaries	**72**	**3**	**3**	**72**
of which domestic	46	–	1	45
of which foreign	26	3	2	27
Joint ventures	**7**	**–**	**1**	**6**
of which domestic	2	–	–	2
of which foreign	5	–	1	4
Associated companies	**2**	**–**	**–**	**2**
of which domestic	2	–	–	2
of which foreign	–	–	–	–

The additions relate to companies in the Tubes and Technology divisions that had previously not been consolidated. The disposals relate to one company in the Other/Consolidation division segment, two in the Trading Division and one joint venture in the Tubes Division, in each case by way of business combination.

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 losses incurred due to the valuation of receivables and/or liabilities up to the reporting date are taken into consideration. Gains and losses resulting from exchange rate fluctuations are reported with effect on income.

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 Salzgitter AG, 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. At one company, the functional currency is not that of the country where it is incorporated; instead, the company conducts its business in euros. Assets and liabilities are translated at the exchange rates prevailing on the reporting date; the positions in the income statement, and therefore the result for the year posted in the income statement, are translated at the annual average exchange rate. The resulting differences are reported 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 reported using the equity method. Differences from the previous year's translation are offset against retained earnings without effect on income. Goodwill is reported as an asset in the reporting currency. Income and expenses are translated at annual average exchange rates, while changes in reserves are translated at the rate prevailing on the reporting date.

The most important exchange rates that serve as the basis for currency translation have developed as follows:

	Exchange rate on reporting date		Average exchange rate	
Foreign currency per € 1	2012/12/31	2011/12/31	2012	2011
Australian dollar	1.2712	1.2723	1.2407	1.3484
Brazilian real	2.7036	2.4159	2.5084	2.3265
Indian rupee	72.5600	68.7130	68.5973	64.8859
Japanese yen	113.6100	100.2000	102.4900	110.9600
Canadian dollar	1.3137	1.3215	1.2842	1.3761
Mexican peso	17.1845	18.0512	16.9029	17.2877
Polish zloty	4.0740	4.4580	4.1847	4.1206
Russian ruble	40.3295	41.7650	39.9262	40.8846
South African rand	11.1727	10.4830	10.5511	10.0970
Czech koruna	25.1510	25.7870	25.1490	24.5900
Hungarian forint	292.3000	314.5800	289.2500	279.3700
US dollar	1.3194	1.2939	1.2848	1.3920

Accounting and Valuation Principles

The annual financial statements of the subsidiaries included in the Salzgitter Group are prepared in accordance with uniform accounting and valuation principles in compliance with the standards defined by the IASB.

Assets are capitalized if the Salzgitter Group is entitled to all of the material opportunities and risks associated with their respective use. Assets are always valued at amortized cost or production cost or at fair value.

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 posted to income as of the time when better knowledge becomes available.

Financial accounting of acquisitions

Goodwill is reported in the Group's balance sheet as a possible consequence of acquisitions. When an acquisition is consolidated for the first time, all identifiable assets, liabilities and contingent liabilities are reported at their respective fair values as of the acquisition date. One of the most crucial estimates made in this context relates to the determination of the fair values of these assets and liabilities as of the acquisition date. Land, buildings and office equipment are usually valued on the basis of independent expert opinions; marketable securities are reported at their market prices. If intangible assets are identified, either recourse is taken to an independent expert appraisal by an external valuation specialist or, depending on the type of intangible asset and the complexity of determining its fair value, the fair value is ascertained internally by applying an internationally recognized valuation method that is generally based on the forecast of the aggregate anticipated future cash flow. These valuations are closely related to the assumptions that the management has made with regard to the future development of the respective assets' values and the assumed changes in the applicable discount rate.

Goodwill

The Group examines annually, and also additionally if there are any indications that justify such action, whether there has been impairment of any goodwill reported in the balance sheet. Should this be the case, the cash generating unit's recoverable amount (net selling price) must be estimated. This is either the fair value less selling costs or the value in use, whichever is higher. To determine the value in use, adjustments and estimates regarding the forecasting and discounting of the future cash flows are made. In the Salzgitter Group, the cash generating unit is generally the individual legal entity. In individual cases, legal entities are combined to form a group. Management is confident that the assumptions used for calculating recoverable amounts are appropriate. Any changes in these assumptions could lead to impairment that could adversely affect the Group's net assets, financial position and results of operations.

Intrinsic value of the assets

As of every balance sheet date the Group must estimate whether there is any concrete indication that the carrying amount of a tangible fixed asset, investment property or an intangible asset 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 contains fundamental assumptions concerning, for example, future selling prices and selling volumes, costs and discount rates. Although management is confident that the estimates of the relevant useful lives, the assumptions regarding the general economic framework, the development of the sectors of industry in which the Group operates and the estimates of the discounted future cash flows are appropriate, a change in the assumptions or in the prevailing circumstances could necessitate a change in the analysis. This could result in additional impairments or reversals of write-downs in the future if the trends identified by management go into reverse or if the assumptions and estimates prove to be incorrect.

Recognition of sales in the case of customized contract production

Certain Group companies in the Technology Division conduct a proportion of their transactions as customized contract production, reported using the percentage-of-completion method under which sales must be shown in accordance with progress made in completing the order. This method necessitates a precise estimate of the percentage of completion. Depending on the method of determining the degree of completion, the material estimates encompass the total costs of the order, the costs still to be incurred before completion, total revenues from the order, the risks incurred by the order and other assessments. The management of the operating units continuously checks all of the estimates that are necessary within the scope of production orders and adjusts them if necessary.

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. Management is assuming that it has made a sensible assessment of fiscal imponderables. Under some circumstances, there can be no assurance that the outcome of such fiscal imponderables will correspond to the estimate. Any differences could have an impact on the tax liabilities and the deferred taxes in the period when the matter is finally decided upon.

As of every balance sheet date, the Group 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. The deferred tax assets reported can decrease if the estimates of planned taxable income and the tax benefits attainable using the available tax strategies are reduced or if changes to current tax laws restrict the time framework or the scope of realizability of future tax benefits.

Employee benefits

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 factors encompass, among other things, actuarial assumptions such as the discount rate, the expected capital yield from plan assets, expected salary increases and mortality rates. These actuarial assumptions can diverge significantly from actual developments as a result of changed market and competitive conditions and can therefore lead to a substantial change in the pensions and similar obligations and in the future expenses associated with them.

Intangible assets

Goodwill/negative goodwill from capital consolidation

The capitalized goodwill for companies acquired before October 1, 1995 that results from the capital consolidation continues to be offset against retained earnings. Goodwill acquired since October 1, 1995 is capitalized, examined annually for impairment and, if necessary, amortized.

Any negative goodwill arising will, in accordance with IFRS 3, be recognized immediately with effect on income after the net assets acquired have been revalued.

Any surplus of the acquisition cost of an associated company over the Group's share of the net fair values of the assets, liabilities and contingent liabilities of that associated company as of the acquisition date must be accounted for as goodwill. Goodwill is a component of the shareholding's book value and is not examined separately for possible impairment. Instead, the entire book value of the shareholding is examined for impairment.

Other intangible assets

Other 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 3 and 5 years.

Other 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 5 and 19 years using the straight-line method.

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.

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 likewise directly attributable parts of the development-related overheads. They are amortized from the start of production onwards on a straight-line basis over the likely economic useful life of the developed asset models.

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. If the book value of an asset exceeds its estimated recoverable amount, this amount is written down. If the reasons for a write-down in previous years no longer apply, appropriate reversals of write-downs are carried out.

The production costs of internally generated property, plant and equipment are determined on the basis of directly attributable costs and estimated demolition and restoration 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 a material extension of the useful life or a substantial improvement or an important 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
Plant equipment and machinery	5 to 30 years
Plant and office equipment	3 to 25 years

Cost of debt

Borrowing costs that are directly connected with the acquisition, construction or manufacturing of qualified assets (assets that require a considerable period of time to bring them up to usable or salable condition) are added to the production costs of these assets up until such time as the assets are essentially available for the use intended or for sale. Income generated by the temporary investment of specially borrowed funds is deducted from the capitalizable borrowing costs until they are spent on qualifying assets.

All other borrowing costs are recorded in the period when they are incurred with effect on income.

Leasing

The Group operates as both a lessee and a lessor. When leased property, plant and equipment are used, the prerequisites of finance leases in accordance with IAS 17 are fulfilled if all substantial risks and opportunities associated with ownership were transferred to the respective Group company. If a contract consisting of several components is applicable, a lease arrangement is then assumed, in accordance with IFRIC 4, if the fulfillment of the contract depends on the utilization of a particular asset and the contract regulates the transfer of this utilization right. In these cases the respective property, plant and equipment are capitalized at acquisition or production cost or at the lower net present value of the minimum lease payments and are depreciated using the straight-line method over their economic useful lives, or the shorter term of the lease agreement. Payment obligations resulting from future lease installments are discounted as liabilities.

If assets are utilized in a finance lease agreement, the net present value of the lease payments is reported as a lease receivable. The difference between the gross receivable and the net present value of the receivable is recognized as unrealized financial income. Lease income is reported for the duration of the lease arrangement using the annuity method, which results in a constant interest rate on the lease receivable.

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. The lease installments to be paid under these lease arrangements are recorded in the income statement for the duration of the lease arrangement using the straight-line method.

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 ("cost model"). Depreciable investment properties are depreciated over a period of 10 to 50 years using the straight-line method.

The properties are valued at cost, taking account of unscheduled depreciation. Transaction costs are included in the initial valuation. The Notes to the Consolidated Financial Statements indicate the fair value of these properties, which is ascertained using internationally acknowledged valuation methods such as the DCF method or, if current market prices of comparable properties are available, is derived from those prices. A substantial part of the property portfolio is valued regularly by independent experts (max. every 5 years).

Financial assets – categorization

Financial assets held for trading

In the Salzgitter Group, only financial assets that were classified from the outset as "Held for trading" are measured at fair value with effect on income. 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. They arise when the Group provides a debtor directly with money, goods or services. Acquired receivables must also be classified under this heading. Loans and receivables are reported in the balance sheet under receivables and other assets.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and the ability to hold to maturity. In the financial year 2012, no use was made of this category in the Salzgitter Group.

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. They therefore systematically constitute an additional 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 – measurement

The financial instruments are attributed to non-current assets if management does not intend to sell them within 12 months of the reporting date.

All purchases and sales of financial assets made on customary market terms are recognized as of the settlement date in the Salzgitter Group. This is the date when the asset is delivered to or by the Group.

Financial assets are initially recognized at their fair value. 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” and “Held-to-maturity investments” 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 ascertained reliably.

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.

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.

Financial assets – value adjustment and writing off

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.

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.

Financial assets – 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 that are 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 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. Movements in the reserve for cash flow hedges in equity are disclosed in the statement of changes in equity and the statement of total comprehensive income.

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. In the case of a qualified asset, borrowing costs are capitalized as part of acquisition or production costs. 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.

All discernible storage and inventory risks that impact the expected net selling value are taken into account by applying properly calculated value adjustments.

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.

Rights to emit CO_2 gases are reported in the balance sheet under inventories (consumables and supplies). 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. Impairments of the paid-for emission rights are reported if the market price of the emission rights falls below their acquisition cost.

Trade receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective yield method, less impairments. An impairment of trade receivables is carried out when there is objective evidence that the Group will not be able to collect all of the amounts due. Examples of objective indications are considerable financial difficulties of a debtor or a high probability of insolvency proceedings being brought against the debtor. The amount of the impairment corresponds to the difference between the book value of the receivable and the net present value of the estimated future cash flows from the receivable, discounted at the effective interest rate. The impairments disclosed in the income statement.

Customized 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, only revenues in the amount of the contract costs incurred are recorded.

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.

Non-current assets held for sale

Non-current assets (or groups of assets and liabilities) are classified as held for sale and are valued at the book value or lower fair value, less selling costs, if their book value will essentially be generated by a sale rather than through continued operational use.

Pension provisions

The provisions for pension 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. This procedure takes into account not only pensions and acquired claims that are known on the reporting date, but also the increases in salaries and pensions that may be expected in the future. The current service costs are shown as personnel expenses, the interest component of allocations to provisions as net interest income.

Actuarial gains and losses are recorded in the pension provisions with no effect whatsoever on income in the year in which they are incurred.

The material actuarial premises applied at the Salzgitter Group are as follows:

	2012/12/31	2011/12/31
Actuarial rate	3.00%	4.25%
Salary trend	2.75%	2.75%
Pension trend	1.75%	1.75%
Staff turnover	1.00%	1.00%

As the leading rating agencies have in the meantime become far more stringent with their bond valuations, the “iBoxx € Corporate AA 10+” index that has so far been used to determine the actuarial rate contained only eight bonds from six different issuers as of the reporting date on December 31, 2012. On this restricted data basis, a valid estimate of the return generated by high-quality corporate bonds no longer seems possible. Against this backdrop, the company decided to use the more broadly-based Bloomberg Index to determine the actuarial rate. This index takes account of all bonds with a minimum term of ten years that have received an AA rating at minimum from at least one of the leading rating agencies. The actuarial rate calculated on the basis of these data was 3.00%.

If the method used to derive the actuarial interest rate in the financial year 2011 (return generated by the bonds included in the “iBoxx € Corporate AA 10+” after elimination of all those bonds whose returns diverge by more than one and a half times the standard divergence from the weighted average return generated by the bonds included in the index) had again been applied, commercial rounding would have resulted in an actuarial interest rate of 2.50%. The pension provisions reported would have been some € 150 million higher if this actuarial rate had applied. Due to the offsetting of actuarial gains and losses with no effect on income, the actuarial losses would have been reduced by the same amount and equity would have decreased accordingly. If an actuarial rate of 2.5% had been applied, the interest expenses for the financial year 2013 would have been reduced by around € 7 million.

The Heubeck actuarial tables (Richttafeln) 2005 G were used to value the expected mortality of the beneficiaries. As in the previous year, the actuarial tables devised by Prof. Heubeck (RT 2005 G) were adjusted to the beneficiaries listed at the Essener Verband (Essen-based association) for valuing the provisions with regard to life expectancy because this provides a more realistic valuation of the obligations for this category of persons.

Income tax

In accordance with IAS 12, deferred tax is calculated using the accounting-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, 2012, the deferred taxes of domestic corporate entities were evaluated with an overall tax rate of 30.6% (previous year: 30.2%). This tax rate comprises the 14.8% trade tax rate that applies to the Group as a whole (previous year: 14.4%) and the 15.8% corporate income tax rate (including 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. The change in deferred income tax liabilities is explained under Note (20).

Other provisions

Provisions are formed for current 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. Provisions are formed only if they are based on a legal or de facto obligation to third parties.

Financial liabilities

There are two valuation categories for financial liabilities.

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 only contains derivatives that are not shown in the hedge accounting.

Financial liabilities measured at amortized cost

When they are recognized for the first time, financial liabilities 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.

Financial liabilities are classified as current liabilities if the liability is going to be settled within 12 months of the reporting date.

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 estimated reliably. 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.

In the case of customized construction contracts, sales are realized in accordance with the percentage-of-completion method.

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.

IAS 20 stipulates that grants may not be 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. Insofar as a grant relating to income pertains to future financial years, it is reported using the accrual method, and the component for future periods is transferred to an accrued item.

Impairment of assets (impairment test)

On every balance sheet date, 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 estimated in order to determine the scope of the impairment. If the recoverable amount for the individual asset cannot be estimated, the estimate is made at the level of the cash generating unit to which the asset belongs. Unscheduled depreciation is carried out if the benefit deriving from the asset is lower than its book value. The benefit deriving from an asset corresponds to the net selling price or the capitalized earnings value, whichever is higher. The capitalized value is determined by the net present value of future cash flows attributable to the asset. If the reason for a previous unscheduled depreciation no longer applies, a reversal is carried out.

Non-current assets that are classified as held for sale are reported at the book value or fair value, whichever is lower, less disposal costs.

Financial risk management

The Group is exposed to a variety of financial risks as a result of its business activities: the market risk (including currency, interest rate and price risks), credit risk and liquidity risk. The Group's overarching risk management aims to minimize 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 Group is examined at the start of the hedging relationship and continuously thereafter.

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.

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.

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. Further information about Salzgitter AG's risk management is provided in the risk report.

Capital risk management

The Group manages its capital with the objective of maximizing the earnings from its shareholdings by optimizing the relationship between equity and debt. This also serves the objective of reducing the cost of capital procurement. 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.

Further explanations can be found in the Group Management Report under Section IV.2. "Financial Position and Net Assets".

Notes to the Income Statement

(1) Sales

In € m	2012	2011
Breakdown by product category		
Flat rolled products	4,167.4	4,379.3
Sections	1,031.9	922.6
Pipes	2,452.1	2,291.2
Filling and packaging machinery	1,005.1	860.8
Other	1,740.8	1,385.6
	10,397.2	**9,839.5**
Breakdown by region		
Domestic	4,342.5	4,938.8
Other EU	1,956.5	1,895.6
Rest of Europe	364.4	503.7
America	1,207.8	1,031.9
Asia	1,615.4	710.6
Africa	886.2	744.5
Australia/Oceania	24.4	14.4
	10,397.2	**9,839.5**

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

Sales include revenues amounting to € 587.4 million (previous year: € 445.4 million) recorded using the percentage-of-completion method.

(2) Increase or decrease in finished goods and work in process and other own work capitalized

In € m	2012	2011
Changes in the inventory of unfinished and finished goods	17.2	248.6
Other own work capitalized	6.5	9.0
	23.7	**257.6**

Compared with the previous year, the inventories of finished and unfinished goods have hardly changed. The lower inventory of goods in the Tubes Division is slightly overcompensated for by a moderate inventory increase in the Steel Division.

(3) Other operating income

In € m	2012	2011
Reversal of provisions and allowances	112.7	133.8
Income from exchange rate fluctuations	21.8	36.4
Income from the valuation of financial derivatives and foreign currency positions	18.7	38.3
Ancillary operating income	12.8	12.9
Reimbursements from Bundesanstalt für Arbeit	11.5	18.8
Income from rights	9.4	9.6
Reversal of impairment of tangible and intangible assets	8.1	–
Insurance compensation	8.0	10.7
Rental, lease and licensing income	7.7	7.5
Income from write-downs of receivables	7.3	14.1
Charged-on costs	5.9	4.8
Subsidies	4.8	6.4
Income from the disposal of non-current assets	3.9	2.4
Refund from previous years	1.4	2.0
Income from the sale of marketable securities	0.3	0.1
Income from disposal of investments in associated companies	–	13.6
Miscellaneous income	25.9	45.8
Other operating income	**260.2**	**357.2**

Miscellaneous income comprises a large number of small amounts relating to individual items at consolidated companies.

(4) Cost of materials

In € m	2012	2011
Cost of raw materials, consumables, supplies and goods purchased	7,316.1	6,953.5
Cost of services purchased	396.7	397.0
Cost of materials	**7,712.8**	**7,350.5**

The cost of raw materials, consumables, supplies and goods purchased primarily comprises costs incurred for feedstock materials, consumables and supplies, spare parts, energy and plant equipment.

The cost of purchased services refers essentially to sales-related wage labor and order-related transportation services.

The increase in the cost of materials is primarily attributable to the increase in sales.

(5) Personnel expenses

In € m	2012	2011
Wages and salaries	1,233.2	1,210.6
Social security, pensions and other benefits	273.2	260.5
of which pension plans and retirement benefits	[127.0]	[121.8]
Personnel expenses	**1,506.4**	**1,471.1**

In the financial year 2012, the defined contribution plan payments in the Salzgitter Group totaled € 106.8 million (previous year: € 103.3 million). Allocations to pension provisions are shown as costs of defined benefit pension plans. The allocations to provisions consist almost entirely of ongoing pension costs for employees' earned pension expectancies in the reporting year. The costs for retirement pensions do not include the compounding of the pension provisions that is shown in the finance expenses.

Average number of employees (excl. employees in non-active age-related part-time employment)	2012	2011
Wage labor	14,682	14,545
Salaried employees	8,750	8,930
Group core workforce	**23,432**	**23,475**

Of the Group core workforce, 649 (previous year: 652) are accounted for by joint ventures.

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

The amortization of intangible assets and the depreciation of property, plant and equipment were carried out according to schedule in the reporting year and are shown in the analysis of fixed assets. The following impairment losses and reversals of impairment were also taken into account:

In € m	2012	2011
Plant equipment and machinery	15.0	20.4
Other equipment, plant and office equipment/equipment under construction	–	0.2
Impairment losses	**15.0**	**20.6**

In € m	2012	2011
Land, similar rights	2.5	–
Plant equipment and machinery	5.6	–
Reversal of impairment	**8.1**	**–**

The impairment losses are calculated in accordance with the standards set out under IAS 36. They were amortized on the basis of value in use or the net selling price, whichever was higher.

An impairment test is carried out at least once a year for goodwill and intangible assets with indeterminate useful lives. In the case of other intangible assets with limited useful lives, with property, plant and equipment and investment property such a test is carried out only on specific grounds. In the Salzgitter Group, the value of goodwill and intangible assets with indeterminate useful lives is basically determined by their net realizable value.

The calculation of net realizable value is based on the current plans prepared by management for the three following years. 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. The net realizable value was calculated using the discounted cash flow method based on an interest rate of 6.23% (previous year: 6.32%) for the Technology Division and 6.49% p.a. (previous year: 7.67% p.a.) for the other divisions.

A reduction or increase of 1% in the interest rate applied to the calculation of impairment for intangible assets and tangible fixed assets leads to a reduction of € 12.6 million (previous year: € 17.3 million) or, respectively, an increase of € 11.6 million (previous year: € 17.2 million) in total impairment.

(7) Other operating expenses

In € m	2012	2011
Selling expenses	346.1	323.7
External services and provisioning	300.9	298.2
Administrative expenses including insurance costs, fees, charges and consulting costs	98.0	103.2
Advertising/information and travel expenses	58.2	63.5
Exchange losses	46.3	42.6
Rent and leases	35.8	36.6
Expenses from the valuation of financial derivatives and foreign currency positions	35.1	14.4
Other taxes	21.5	14.7
Valuation allowances for doubtful accounts	19.9	27.8
EDP costs	19.8	20.0
Welfare-related personnel and non-personnel expenses	17.5	16.5
Financial/monetary transfer expenses	9.1	16.1
Loss on the disposal of non-current assets	8.9	13.1
Financing risks	–	13.5
Miscellaneous expenses	54.9	45.9
Other operating expenses	**1,072.0**	**1,049.8**

The "Administrative expenses including insurance costs, fees, charges and consulting costs" item includes insurance costs of € 34.0 million (previous year: € 31.7 million), expenses for fees, charges and appraisals amounting to € 11.9 million (previous year: € 13.8 million) and consulting costs of € 14.3 million (previous year: € 17.4 million). This item, like the "Miscellaneous expenses" item, also includes a large number of individual transactions involving minor amounts at consolidated companies. In contrast to the previous year, the write-downs on marketable securities are reported under "Other interest and similar expenses".

(8) Income from shareholdings

In € m	2012	2011
Income from profit transfer agreements	0.4	0.4
of which affiliated companies	[0.1]	[0.4]
Income from shareholdings	21.0	6.1
of which affiliated companies	[18.4]	[4.6]
Expenses from the assumption of losses	3.8	0.1
of which affiliated companies	[3.8]	[0.1]
Income from shareholdings	**17.6**	**6.4**

The income from shareholdings includes an extraordinary effect of € 9.0 million which can be attributed to a repatriation of capital by an associated company.

(9) Income from associated companies

In € m	2012	2011
Income from associated companies	54.5	77.5

The income from associated companies originates from Aurubis AG, Hamburg, and Hüttenwerke Krupp Mannesmann GmbH, Duisburg.

(10) Impairment losses on financial assets

In € m	2012	2011
Impairment losses on financial assets	6.5	3.1

The impairment losses on financial assets in the financial year under review result primarily from the fair value of shares in six non-consolidated companies. The calculation of the useful life is based on the current plans prepared by management for the three following years. The premises of the plans are derived from the current state of knowledge. The value in use was calculated using the discounted cash flow method based on a country- and risk-specific interest rate.

(11) Finance income/finance expenses

In € m	2012	2011
Income from loans	0.3	0.3
Other interest and similar income	45.5	39.3
of which affiliated companies	[2.1]	[1.6]
Finance income	**45.8**	**39.6**

In € m	2012	2011
Interest component from allocation to pension provisions	77.9	79.4
Other interest and similar expenses	94.5	63.1
of which affiliated companies	[1.6]	[1.5]
Finance expenses	**172.4**	**142.5**

The increase in other interest results in particular from the lower discount rate applied to non-current liabilities..

(12) Income tax

In € m	2012	2011
Income tax		
current tax expenses/tax income (+/–)	23.1	40.8
deferred tax expenses/tax income (+/–)	47.3	–75.2
	70.4	**–34.4**
of which unrelated to the reporting period	[–10.2]	[–8.3]
Total	**70.4**	**–34.4**

Income taxes amounting to € 70.4 million relate to the result from ordinary activities. The income taxes unrelated to the reporting period comprise deferred and actual tax income for previous years.

The decrease in current income taxes results primarily from changed tax assessment bases. As a result, domestic income tax amounted to € 9.1 million. The increase in deferred tax expenses to € 47.3 million resulted mainly from the reassessment of the intrinsic value of deferred tax assets on loss carryforwards.

Thanks to the utilization of tax loss carryforwards that had previously not been taken into consideration, actual tax expenses were reduced by € 0.5 million (previous year: € 2.3 million).

Future dividend payments will not incur any consequences as far as income tax is concerned. Claims amounting to € 0.8 million (previous year: € 1.0 million) are reported in the balance sheet for German companies' corporate income tax reduction credits.

Deferred taxes amounting to € 139.1 million (previous year: € 72.6 million) were recorded for business transactions that influenced equity directly. The change in deferred taxes with no effect on income affects actuarial gains and losses in the amount of € 67.9 million (previous year: € –56.0 million).

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

In € m	2012/12/31		2011/12/31	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	11.2	11.1	13.5	10.8
Property, plant and equipment	38.8	176.4	44.6	174.7
Financial assets	0.5	1.1	0.7	0.2
Current assets	16.1	113.2	26.0	141.5
Pension provisions	165.1	–	95.7	–
Other provisions	81.7	8.7	70.9	2.7
Special reserve with equity portion	–	4.3	–	4.7
Liabilities	24.4	2.1	30.4	3.4
Other items	63.5	1.0	63.0	7.7
Total	**401.3**	**317.9**	**344.8**	**345.7**

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

In € m	2012/12/31	2011/12/31
Corporate income tax	59.7	93.7
Trade tax	50.5	81.5
Capitalized tax savings	**110.2**	**175.2**

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

In € m	2012	2011
Capitalized tax savings, 01/01	175.2	17.3
Changes in the consolidated group	1.3	–
Capitalization of tax savings from losses carried forward	4.1	169.0
Valuation allowances from losses carried forward	–62.3	–11.1
Use of losses carried forward	–8.1	–
Capitalized tax savings, 12/31	**110.2**	**175.2**

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 capitalized for trade tax loss carryforwards amounting to € 1,437.5 million (previous year: € 1,370.1 million) and corporate income tax loss carryforwards amounting to € 1,959.7 million (previous year: € 1,974.1 million), as the possibility of their use can be regarded as unlikely from a current standpoint.

Likewise, no deferred tax assets were formed for foreign loss carryforwards without intrinsic value amounting to € 131.9 million (previous year: € 137.5 million). Of this amount, € 128.6 million (previous year: € 123.3 million) can be utilized for an unlimited period, € 2.6 million (previous year: € 2.3 million) for a period limited to the next 5 years, and € 0.7 million (previous year: € 11.9 million) for a period limited to the next 20 years. In addition, no deferred tax assets were formed for deductible temporary differences amounting to € 86.6 million (previous year: € 74.5 million) for domestic and foreign companies.

Deferred tax assets amounting to € 188.3 million (previous year: € 164.7 million) were capitalized as of December 31, 2012, on the grounds of expected future taxable income at Group companies that incurred tax losses in the financial year under review or the previous financial year.

Reconciliation of expected and actual income tax expenses (+) and income (–):

In € m	2012	2011
Consolidated net loss/income before taxes	**–29.4**	**201.6**
Expected income tax income/expenses (tax rate 30.6%/30.2%)	–9.0	60.9
Tax share for:		
differences between tax rates	–0.6	–0.8
effects of changes in statutory tax rates	–0.5	0.2
tax credits	–0.6	–0.2
tax-free income	–20.2	–61.9
non-deductible tax expenses and other permanent differences	32.4	31.0
effects of temporary differences and losses		
without capitalization of deferred tax	17.7	68.0
adjustments in the value of capitalization benefits	62.3	–122.6
utilization of benefits not previously capitalized	–0.5	–2.3
tax expenses and income unrelated to the reporting period	–10.2	–8.3
other deviations	–0.4	1.6
Actual income tax	**70.4**	**–34.4**

The actual income tax income of € 70.4 million deviates by a total of € 79.4 million from the expected income tax expenses of € –9.0 million. This results primarily from effects arising from the adjustment of the intrinsic value of deferred tax assets on tax loss carryforwards and from additions of non-deductible expenses. This is counterbalanced by effects from tax-exempt income and tax income unrelated to the reporting period.

(13) Minority interests in consolidated net income for the year

In € m	2012	2011
Minority interests in consolidated net income for the year	2.2	3.0

The proportion of the net result for the financial year due to minority interests is accounted for by the following companies:

- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg,
- KHS Machinery Pvt. Ltd., Ahmedabad,
- KHS RUS OOO, Moscow, and
- DESMA Slovakia s.r.o., Povazska Bystrica.

(14) 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 Salzgitter AG are entitled to the weighted average number of no-par bearer shares in circulation during the financial year. Earnings as per IAS 33 therefore amounted to € –1.89 (previous year: € 4.31) per share.

A dilution would occur if the earnings per share were reduced by issuing potential shares from option and conversion rights and/or the loss per share for the period were to increase. As of the balance sheet date, such rights existed in a convertible bond. If these are taken into account, however, the loss per share from continuing operations decreases, as a result of which those option and conversion rights do not lead to any dilution. The diluted earnings per share therefore also amount to € –1.89 (previous year: € 4.22).

	Shares issued	Treasury shares	Shares in circulation	Potential diluting shares
Beginning of financial year	60,097,000	6,009,700	54,087,300	3,550,457
Acquisition of treasury shares	–	–	–	–
Disposal of treasury shares	–	–	–	–
End of financial year	60,097,000	6,009,700	54,087,300	3,550,457
Weighted number of shares	**60,097,000**	**6,009,700**	**54,087,300**	**3,550,457**

Earnings per share		2012	2011
Consolidated net income/loss for the financial year	in € m	–99.8	236.0
Minority interests	in € m	2.2	3.0
Amount due to Salzgitter AG shareholders	in € m	–102.0	233.0
Earnings per share – basic	(in €)	–1.89	4.31
Diluted result	in € m	–91.4	243.1
Earnings per share – diluted	**(in €)**	**–1.89**	**4.22**

Notes to the Consolidated Balance Sheet

Non-current Assets

(15) Intangible assets

The development of the individual items under intangible assets is shown in the analysis of fixed assets.

Of the entire capitalized development costs, € 0.1 million was subjected to scheduled amortization (previous year: € 0.2 million). Total research and development costs in the reporting year amounted to € 96.1 million (previous year: € 93.6 million), including € 14.4 million (previous year: € 14.7 million) for external services.

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

(16) Property, plant and equipment

The development of the individual items under property, plant and equipment is shown in the analysis of fixed assets.

The additions to plant equipment and machinery result primarily from the Steel Division's investment program.

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

In € m	2012/12/31	2011/12/31
Buildings	–	1.2
Plant equipment and machinery	58.9	65.2
Other equipment, plant and office equipment	–	0.6
Assets capitalized as finance leases	**58.9**	**67.0**

The amount of the reported impairment expenses is shown in Note (6).

Restraints on the right of ownership or disposal as of the balance sheet date amounted to € 7.6 million (previous year: € 8.2 million).

Government grants amounting to € 7.4 million (previous year € 7.1 million) were deducted from the acquisition costs of property, plant and equipments

(17) 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.

The properties consist of the following:

In € m	2012/12/31	2011/12/31
Salzgitter Klöckner-Werke GmbH	19.7	19.6
RSE Grundbesitz und Beteiligungs-AG	1.8	2.1
Klöckner Mercator Maschinenbau GmbH	–	2.3
Klöckner DESMA Schuhmaschinen GmbH	1.2	–
Investment property	**22.8**	**24.0**

Rental income amounted to € 6.0 million (previous year: € 5.7 million) in the reporting period. The direct operating expenses for the investment property totaled € 3.6 million (previous year: € 4.4 million) and were basically incurred for properties that generated rental earnings in the reporting year.

As of the reporting date there were no significant obligations to carry out repairs, maintenance, improvements etc.

The fair value of the Group’s investment properties is calculated using the gross rental method, the discounted cash flow method and comparisons with current market values of comparable properties. The fair values of the investment properties are assessed at regular intervals by independent experts.

As of December 31, 2012, the fair value of the investment properties was € 34.0 million (previous year: € 24.0 million).

(18) Financial assets

The development of the individual items in financial investments is shown in the analysis of fixed assets.

Breakdown of financial assets:

In € m	2012/12/31	2011/12/31
Investments in affiliated companies	45.7	44.6
Shareholdings	9.3	9.3
Non-current securities	33.7	26.5
Other loans	103.4	55.7
Financial assets	**192.1**	**136.1**

The addition to shares in affiliated companies relates to the acquisition of financial assets in non-consolidated companies.

Other loans relate largely to loans extended to participating interests.

(19) Associated companies

In € m	2012	2011
Opening balance, 01/01	600.9	488.4
Result of current financial year	54.5	77.5
Capital increase	18.0	6.0
Value adjustment in connection with the equity method (Aurubis)	33.8	–
Additions	–	38.8
Disposals	–	–1.4
Dividends	–13.5	–11.7
Other changes in equity	–13.4	3.3
Book value, 31/12	**680.3**	**600.9**

The figure reported for shares in associated companies measured using the equity method increased by € 79.4 million compared with the previous financial year. This resulted primarily from the companies' positive results for the year. The fair value of Aurubis AG as of December 31, 2012, totaled € 605.2 million (previous year: € 463.1 million).

The German Federal Financial Supervisory Authority (BaFin) has established that the consolidated financial statements of the associated company Aurubis for the period to September 30, 2010, are erroneous because, instead of being measured in accordance with the first-in, first-out method or the average method, parts of the assets included under unfinished products were accounted for on the basis of their acquisition costs from 2004. As a result, the balance sheet items "Inventories" and "Group equity" were reported at below their actual levels in the Aurubis consolidated financial statements.

In its consolidated financial statements for the period to December 31, 2011 (and prior to that), Salzgitter AG had carried out the adjustment of equity value assessed on the basis of the Aurubis data which have now been found to be inaccurate (reported profit too low and/or reported loss too high). The change in the valuation methods at Aurubis which was necessitated by the BaFin findings referred to above is shown in the Salzgitter AG consolidated financial statements as a change in accounting policy with an impact on the book value of the Aurubis equity. As there is insufficient information to adjust the previous year's figures, including the previous year's income statement, the cumulative effect of the change in accounting policy, insofar as it concerns periods before January 1, 2012, is recorded under equity in the amount of € 33.8 million without effect on income in the opening balance sheet as of January 1, 2012. The comparative figures from the previous year can consequently not be adjusted. The equity valuation for the reporting year is carried out using the changed valuation method. For further details, please see the Aurubis consolidated financial statements at http://www.Aurubis.com/en/investor-relations.

The Group's shares in associated companies are as follows:

2012 in € m	Assets	Debt	Income	Profit	Share (%)
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	1,373.9	1,002.5	2,782.6	– 3.2	30.0
Aurubis AG, Hamburg	4,755.7	2,541.6	14,090.1	236.4	25.0

2011 in € m	Assets	Debt	Income	Profit	Share (%)
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	1,270.1	904.8	3,116.3	– 10.2	30.0
Aurubis AG, Hamburg	4,537.7	2,667.8	13,897.4	361.0	25.0

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

If it is likely that tax benefits will be realized, they must be capitalized. Clearing 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 2012 are as follows:

In € m	2012/12/31	2011/12/31
Deferred income tax assets	**260.4**	**256.1**
Realization within 12 months	11.2	13.3
Realization after more than 12 months	249.2	242.8
Deferred income tax liabilities	**66.8**	**81.8**
Realization within 12 months	62.4	75.1
Realization after more than 12 months	4.4	6.7
Balance of deferred tax assets and deferred tax liabilities	**193.6**	**174.3**

(21) Other receivables and other assets

The long-term receivables consist mainly of receivables from finance leases, which were as follows:

In € m	2012/12/31	2011/12/31
Total gross investment	5.1	4.2
Unrealized finance income	0.4	0.4
Book value	**4.7**	**3.8**

This position also includes the transactions from the finance leases for telecommunications equipment at two subsidiaries in the Services Division. All of the transactions have a residual term of less than five years.

Current Assets

(22) Inventories

In € m	2012/12/31	2011/12/31
Raw materials, consumables and supplies	664.3	710.8
Unfinished products	536.8	526.0
Unfinished goods or services	10.2	9.8
Finished products and goods	830.0	836.8
Payments on account	26.7	22.4
Inventories	**2,068.0**	**2,105.8**

Individual markdowns were made in the valuations of all the inventories where it is likely that the revenues realized through their sale or use will be lower than their book values. The anticipated realizable sale proceeds, less costs incurred up to the time of sale, are reported as the net realizable value.

If the reasons for writing down the inventories no longer apply, the write-down is reversed. In the reporting year this led to a write-up of € 23.2 million (previous year: € 22.1 million).

In accordance with IAS 2, inventories are valued individually or the average method is applied.

The book value of the inventories reported at fair value less selling expenses amounted to € 412.9 million in the reporting year (previous year: € 441.5 million).

The inventories recorded at fair value in the previous period were consumed almost in their entirety in the reporting year.

Impairments of inventories amounting to € 85.9 million (previous year: € 58.8 million) were posted to expenses.

There are restrictions on ownership or disposal amounting to € 8.7 million (previous year € 18.1 million) for the reported inventories.

(23) Trade receivables

In € m	2012/12/31	2011/12/31
Receivables from third parties	1,522.4	1,426.5
Receivables from affiliated companies	22.0	19.8
Receivables from companies in which the company holds a participating interest	0.4	1.0
Trade receivables	**1,544.8**	**1,447.3**

Impairments on trade receivables amounting to € 19.9 million (previous year: € 24.8 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 are subject to restrictions on ownership or disposal amounting to € 13.7 million (previous year: € 10.4 million). These are largely accounted for by the forfaiting of receivables. For further details, please refer to Note (35), “Non-current financial liabilities” and Note (36), “Current financial liabilities”.

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

In € m	2012/12/31	2011/12/31
Production costs, including result from construction contracts	300.4	277.5
Payments received on account	–174.7	–148.3
Receivables from construction contracts	**125.7**	**129.2**

Receivables from construction contracts include those customized construction contracts with an asset-side balance whose production costs, taking account of profit shares and loss-free valuation, exceed the payments received on account.

(24) Other receivables and other assets

In € m	2012/12/31	2011/12/31
Other receivables from affiliated companies	100.7	91.1
of which other receivables	[15.8]	[91.0]
of which loan receivables	[84.9]	[0.1]
Other receivables from participating interests	3.0	2.0
of which other receivables	[3.0]	[2.0]
of which loan receivables	[–]	[–]
Borrower's note	99.5	179.2
Forward contracts	99.5	–
Other tax assets	48.1	51.2
Deferred expenses	11.9	7.1
Derivatives	11.6	16.5
Advances on company pensions	8.6	8.5
Subsidies for age-related part-time employment	8.4	12.7
Assets available for sale	7.3	8.4
Other assets	83.8	100.6
Other receivables and other assets	**482.4**	**477.3**

The other receivables and other assets include the sum of € 8.4 million (previous year: € 12.7 million) that did not become legally effective until after the reporting date.

Other receivables are subject to restrictions on ownership or disposal amounting to € 0.1 million (previous year: € 0.1 million).

The current receivables from finance leases consist of the following:

In € m	2012/12/31	2011/12/31
Total gross investment	1.8	1.9
Unrealized finance income	0.4	0.3
Book value	**1.4**	**1.6**

The rental earnings are reported under other operating income.

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	2012/12/31	2011/12/31
up to 1 year	4.8	4.3
1 to 5 years	6.0	6.3
over 5 years	1.3	1.5
Total	**12.1**	**12.1**

In the income for the reporting year, € 1.0 million (previous year: € 0.7 million) was reported as conditional rental income.

(25) Income tax assets and income tax liabilities

The income tax refund claims of € 31.1 million (previous year: € 71.1 million) that existed as of December 31, 2012, relate essentially to capital yield withholding tax claims by three domestic Group companies. This is offset by non-current income tax liabilities of € 193.5 million (previous year: € 207.4 million) and current income tax liabilities of € 57.5 million (previous year: € 40.6 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.

(26) Securities

Shares are reported under securities as current financial investments, short-term time deposits and funds with an aggregate amount of € 132.5 million (previous year: € 77.0 million). The funds invested shown here have terms of more than three and less than twelve months.

(27) Cash and cash equivalents

The cash and cash equivalents consist of the following:

In € m	2012/12/31	2011/12/31
Cash at banks	492.9	544.4
Term deposits	385.0	400.0
Checks, cash in hand	0.7	1.8
Cash and cash equivalents	**878.6**	**946.2**

The term deposits shown here have a term of less than three months.

Equity

(28) Subscribed capital

The subscribed capital (share capital) remained unchanged at € 161,615,273.31. The 60,097,000 no par value shares have a notional par value of € 2.69 each.

All of the shares were acquired in accordance with section 71 para. 1 item 8 of the German Stock Corporation Act (AktG), on the basis of an authorization given by the General Meeting of Shareholders (2,487,355 shares authorized on May 26, 2004; 462,970 shares authorized on June 8, 2006; 2,809,312 shares authorized on May 21, 2008 and 35,600 shares authorized on May 27, 2009; 214,463 shares authorized on June 8, 2010), so that they can be used for, in particular, future acquisitions, the fulfillment of option or conversion rights from warrant-linked bonds or convertible bonds, or for issuing to employees of the company or an affiliate company.

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 June 7, 2015, 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 2010). The shareholders' subscription rights can be precluded up to a total nominal amount of bonds with which conversion rights to up to 2,459,243 shares are combined. 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 27, 2009. By the reporting date there had been no shares issued from the Authorized Capital since May 27, 2009.

The nominal value of the convertible bond issued by the company totaled € 296,450,000 as of the reporting date. They certify an interest entitlement of 1.125% p.a. and a right of conversion into shares in the company at a price of € 83.4963 per share that can be exercised up until September 27, 2016. The Executive Board can also issue up to 3,550,457 new shares if the holders of the convertible bonds that the Company issued on October 6, 2009, make use of their conversion right that can be exercised up to September 27, 2016.

In addition, the Executive Board is authorized by a resolution of the General Meeting of Shareholders from June 8, 2010, to acquire treasury shares up to a maximum of 10% of the share capital in the period up to June 7, 2015. Partial use was made of this authorization in the financial year 2010.

(29) Capital reserve

Of the capital reserve, which remained unchanged at € 238.6 million, the sum of € 115.2 million is accounted for by a premium lodged on the occasion of a capital increase on October 1, 1970. Another € 54.4 million is connected with a convertible bond issued in the financial year 2009.

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.

(30) Retained earnings

Retained earnings include allocations deriving from the results in the financial year or from previous years and differences resulting from the currency translation without effect on income of the financial statements of foreign subsidiaries against which, in particular, the capitalized goodwill from the capital consolidation of subsidiaries acquired up to September 30, 1995, has been offset. The retained earnings also include further components that were immediately posted to equity in accordance with the IASB regulations. Salzgitter AG's articles of incorporation do not contain any stipulations on the formation of reserves.

The retained earnings include differences from currency translation amounting to € –15.8 million (previous year: € –15.0 million). The revaluation reserve from the financial assets/financial instruments amounts to € –9.9 million (previous year: € –12.9 million). This change results primarily from the increased market value of the securities from deferred compensation.

According to the regulations under IAS 19 "Employee Benefits", all pension commitments are reported in the balance sheet and the actuarial gains and losses are recorded directly under equity. As of the reporting date, actuarial losses of € 731.0 million (previous year: € 415.4 million), after deduction of deferred taxes, were recorded directly under other changes in equity without effect on income.

From the associated companies there have been changes in equity not measured through profit or loss amounting to € 7.3 million (previous year: € –8.3 million).

As of the balance sheet date, Salzgitter AG continued to hold 6,009,700 treasury shares. These account for an unchanged € 16,161,527.33 € (= 10.00%) of the share capital.

The treasury shares were deducted directly from equity in the unchanged amount of € 369.7 million.

(31) 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 under the HGB. The unappropriated retained earnings are shown at the same level in both the consolidated financial statements of the Salzgitter Group and 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 2012 of € 0.25 per share (= € 15.1 million based on the nominal share capital of some € 161.6 million) be paid from Salzgitter AG's unappropriated retained earnings and that the remaining amount be brought forward to new account.

Based on the Salzgitter share's closing XETRA price of € 39.43 on December 31, 2012, the dividend yield amounts to 0.6% (previous year: 1.2%).

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

(32) Minority interests

This item comprises the minority interests in the subscribed capital, the general reserves and the profits and losses of the Group companies reported. The minority interests in equity pertain to:

- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg,
- KHS Machinery Pvt. Ltd., Ahmedabad
- KHS RUS OOO, Moscow, and
- DESMA Slovakia s.r.o., Povazska Bystrica.

In the income statement, the result is reported proportionately under "Minority interests in consolidated net loss/income for the year".

Non-current Liabilities

(33) Provisions for pensions and similar obligations

In Germany there is a contribution-based statutory employee pension scheme under which pension payments are made on the basis of income and the contributions paid. Once the company has paid the relevant contributions to the state-run social insurance authority and to pension funds constituted under private law, it has no obligation to pay any further benefits. The ongoing contribution payments are reported as expenses in the relevant period.

In the Salzgitter Group there are also defined benefit pension commitments, of which a small proportion is fund-financed. The Group's plan assets in this area consist mainly of life insurance and reinsurance policies.

With regard to the non-fund-financed pension commitments, there are collective and individual commitments within Germany. The employees of the Salzgitter Group's German-based companies receive retirement pensions (collective commitment) that are essentially based on a collective Group agreement concluded in December 2006. Within the scope of the pension commitment guaranteed in this agreement, the employer pays an annual contribution into a 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. There are transitional rules regulating the claims to pension payments (defined benefit pension commitments) established before the collective Group agreement came into effect.

For executives of the Salzgitter Group companies there are individual pension commitments based essentially on the pension tables drawn up by the Essener Verband.

Pension commitments exist only to an immaterial extent in the Salzgitter Group's foreign companies.

The actuarial gains (–) and losses (+) developed as follows:

In € m	2012	2011
As of 01/01	415.4	421.3
Adjustments	–0.1	–
Change in financial year	315.7	–5.9
As of 12/31	**731.0**	**415.4**

The differences between the expected and actual trend (experience adjustment) are as follows (gains +/ losses –):

In € m	2012	2011	2010	2009	2008
As of 12/31	**–6.0**	**6.4**	**6.5**	**0.3**	**–8.0**

The expenses incurred for defined benefit plans in the result for the period were as follows:

In € m	2012	2011
Current service costs (personnel expenses)	20.2	18.5
Financing expenses (interest paid)	77.9	79.4
	98.1	**97.9**

Allocations to the provisions for pensions are shown as costs of defined benefit pension plans.

The amount of provisions in the balance sheet is calculated as follows:

In € m	2012/12/31	2011/12/31	2010/12/31	2009/12/31	2008/12/31
Present value of fund-financed obligations	14.6	10.6	9.8	7.9	6.7
Fair value of plan assets	– 10.6	– 7.8	– 7.6	– 6.1	– 5.4
	4.0	**2.8**	**2.2**	**1.8**	**1.3**
Present value of non-fund-financed obligations	2,178.2	1,890.4	1,924.1	1,855.8	1,785.7
Reported pension provisions	**2,182.2**	**1,893.2**	**1,926.3**	**1,857.6**	**1,787.0**

The plan assets have developed as follows:

In € m	2012	2011
Opening balance, 01/01	7.8	7.6
Expected return	0.2	0.2
Actuarial gains/losses	1.9	– 0.1
Employer's contribution	0.7	0.5
Use/refunds	–	– 0.4
Closing balance, 12/31	**10.6**	**7.8**

The projected benefit obligations have developed as follows:

In € m	2012	2011
Opening balance, 01/01	**1,901.0**	**1,933.9**
Transfers to other accounts	– 0.3	0.2
Transfers to other accounts	0.7	–
Changes in the consolidated group	–	0.7
Used	– 124.5	– 125.9
Actuarial gains/losses	317.6	– 6.0
Allocations	20.2	18.5
Compound interest	78.1	79.6
Closing balance, 12/31	**2,192.8**	**1,901.0**

The pension provisions encompass the entire projected value of the entitlements.

The actual income from plan assets amounts to € 2.1 million (previous year: € 0.1 million).

The increase in actuarial gains/losses results primarily from the change in the underlying actuarial rate of 4.25% in the previous year to 3.00% in the current financial year. Pension payments of approximately € 125 million can be anticipated in the following year.

(34) Other provisions

The development of the other current and other non-current provisions is shown in the following table.

In € m	As per 2012/01/01	Currency translation differences	Addition/disposal from changes in consolidated group	Transfer	Transfer to other accounts	Used	Reversal	Allocation	Compound interest	As of 2012/12/31
Other taxes	**9.2**	**–0.1**	**–**	**–**	**–**	**–0.4**	**–3.0**	**4.7**	**0.8**	**11.2**
Personnel	**164.9**	**–0.2**	**0.1**	**–0.5**	**–0.7**	**–54.9**	**–4.6**	**43.0**	**11.8**	**158.9**
of which anniversary provisions	[47.8]	[–]	[–]	[–]	[–]	[–3.3]	[–0.7]	[1.5]	[4.5]	[49.8]
of which for the social compensation plan/age-related part-time employment/demographics fund	[67.3]	[0.1]	[–]	[0.2]	[–0.8]	[–37.6]	[–1.7]	[27.8]	[4.4]	[59.7]
Operating risks	**162.8**	**–0.1**	**–**	**–**	**–2.6**	**–6.7**	**–11.1**	**8.6**	**18.2**	**169.1**
Other risks	**275.0**	**–1.3**	**0.2**	**–**	**2.6**	**–78.9**	**–65.3**	**150.1**	**–**	**282.4**
of which price reductions/complaints	[102.7]	[–0.3]	[0.2]	[–]	[–4.2]	[–34.1]	[–29.7]	[81.8]	[–]	[116.4]
of which risks from pending transactions	[22.1]	[–]	[–]	[–]	[1.3]	[–1.6]	[–13.0]	[19.1]	[–]	[27.9]
Total	**611.9**	**–1.7**	**0.3**	**–0.5**	**–0.7**	**–140.9**	**–84.0**	**206.4**	**30.8**	**621.6**

The comparative figures for the previous year are as follows:

In € m	As of 2011/01/01	Currency translation differences	Addition/disposal from changes in consolidated group	Transfer	Transfer to other accounts	Used	Reversal	Allocation	Compound interest	As of 2011/12/31
Other taxes	**12.4**	**–**	**–**	**–**	**0.6**	**–3.7**	**–1.1**	**1.0**	**–**	**9.2**
Personnel	**185.5**	**–0.1**	**–**	**0.1**	**–**	**–59.0**	**–10.5**	**47.0**	**1.9**	**164.9**
of which anniversary provisions	[49.9]	[–]	[–]	[–]	[–]	[–3.4]	[–0.7]	[1.6]	[0.4]	[47.8]
of which for the social compensation plan/age-related part-time employment/demographics fund	[89.8]	[–0.1]	[–]	[0.2]	[–]	[–41.7]	[–8.7]	[26.8]	[1.0]	[67.3]
Operating risks	**159.9**	**–0.2**	**–**	**–**	**–**	**–5.4**	**–2.1**	**9.2**	**1.4**	**162.8**
Other risks	**360.5**	**–0.7**	**1.8**	**–**	**–1.1**	**–80.7**	**–121.2**	**116.4**	**0.0**	**275.0**
of which price reductions/complaints	[105.2]	[–0.3]	[0.2]	[–]	[–]	[–32.8]	[–34.9]	[65.3]	[–]	[102.7]
of which risks from pending transactions	[69.5]	[–]	[–]	[–]	[–]	[–17.6]	[–37.0]	[7.2]	[–]	[22.1]
Total	**718.3**	**–1.0**	**1.8**	**0.1**	**–0.5**	**–148.8**	**–134.9**	**173.6**	**3.3**	**611.9**

The restructuring expenses incurred during the year totaled € 10.8 million, of which € 4.5 million can be attributed to an increase in the provision for social compensation plans while € 1.6 million was reported as current expenses from restructuring. In addition, € 4.7 million was allocated to the restructuring provisions. The reversals from restructuring provisions totaled € 1.1 million in 2012.

The non-current other provisions were generally discounted at a rate of 2.75% p.a. (previous year: 4.5%).

The allowances for employees leaving the company under the terms of semi-retirement employment contracts are capitalized as an asset worth € 8.4 million (previous year: € 12.7 million) and not offset against provisions.

Provisions for typical operational risks are formed for, in particular, waste disposal and recultivation obligations.

The provisions for other risks primarily comprise provisions for discounts/complaints, litigation risks, warranties and risks from pending transactions.

Maturities of the other provisions:

In € m	Total 2012/12/31	Short-term	Long-term
Other taxes	**11.2**	**11.2**	**–**
Personnel	**158.9**	**36.1**	**122.8**
of which anniversary provisions	[49.8]	[–]	[49.8]
of which for the social compensation plan/age related part-time employment/demographics fund	[59.7]	[20.7]	[39.0]
Operating risks	**169.1**	**7.5**	**161.6**
Other risks	**282.4**	**282.4**	**–**
of which price reductions/complaints	[116.4]	[116.4]	[–]
of which risks from pending transactions	[27.9]	[27.9]	[–]
Total	**621.6**	**337.2**	**284.4**

In € m	Total 31/12/2011	Short-term	Long-term
Other taxes	**9.2**	**9.2**	**–**
Personnel	**164.9**	**54.0**	**110.9**
of which anniversary provisions	[47.8]	[–]	[47.8]
of which for the social compensation plan/age related part-time employment/demographics fund	[67.3]	[33.9]	[33.4]
Operating risks	**162.8**	**14.1**	**148.7**
Other risks	**275.0**	**275.0**	**–**
of which price reductions/complaints	[102.7]	[102.7]	[–]
of which risks from pending transactions	[22.1]	[22.1]	[–]
Total	**611.9**	**352.3**	**259.6**

(35) Non-current financial liabilities

In € m	2012/12/31	2011/12/31
Bonds	550.5	532.5
Liabilities from finance lease agreements	57.2	63.6
Liabilities to banks	3.9	5.3
Liabilites from forfaiting	0.5	–
Financial liabilities	**612.1**	**601.4**

The liabilities from forfaiting were reported under other liabilities in the previous year.

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	2012/12/31 Total
Minimum lease payments	33.6	39.2	72.8
Finance costs	9.7	5.9	15.6
Present value of minimum lease payments	**23.9**	**33.3**	**57.2**

In € m	Residual term 1–5 years	Residual term > 5 years	2011/12/31 Total
Minimum lease payments	35.1	47.3	82.4
Finance costs	11.0	7.8	18.8
Present value of minimum lease payments	**24.1**	**39.5**	**63.6**

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

Current Liabilities

(36) Current financial liabilities

In € m	2012/12/31	2011/12/31
Liabilities to banks	117.9	97.4
Liabilities		
to affiliated companies	23.6	41.5
to participating interests	0.6	0.5
Liabilites from forfaiting	9.2	–
Liabilities from finance lease agreements	6.3	6.6
Other borrowings	0.6	0.5
Current financial liabilities	**158.2**	**146.5**

The liabilities from forfaiting were reported under other liabilities in the previous year.

With the support of Salzgitter Mannesmann Handel GmbH, Düsseldorf, Salzgitter Mannesmann International GmbH, Düsseldorf, made other non-Group external financing arrangements worth the equivalent of € 8.8 million that continue to be reported in the company's balance sheet. Klöckner DESMA Elastomertechnik GmbH, Fridingen, sold trade receivables totaling € 0.4 million which are still reported in the company's accounts. The receivables were assigned. The default risk continues to be borne by the companies. The funds received are reported as liabilities. Due to their short terms, the book value of the receivables and liabilities correspond to the fair value.

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

In € m	2012/12/31	2011/12/31
Minimum lease payments	9.5	10.2
Finance costs	3.2	3.6
Present value of minimum lease payments	**6.3**	**6.6**

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

(37) Trade payables

In € m	2012/12/31	2011/12/31
Liabilities		
to third parties	876.2	725.5
to affiliated companies	8.2	9.1
to participating interests	34.2	65.9
Trade payables	**918.6**	**800.5**

Trade payables include the following payables from construction contracts recognized using the percentage-of-completion method:

In € m	2012/12/31	2011/12/31
Payments received on account	111.7	101.4
Less production costs including result from construction contracts	– 74.7	– 59.6
Payables from construction contracts	**37.0**	**41.8**

The payables from construction contracts include contracts with liability-side balances for which the payments received on account exceed the production costs, including shares in profit and loss.

(38) Other liabilities

In € m	2012/12/31	2011/12/31
Other liabilities		
to affiliated companies	3.1	6.3
to participating interests	–	0.2
Other liabilities	472.6	410.4
of which payments received on account	[183.8]	[129.3]
of which to employees	[85.6]	[84.9]
of which derivatives	[81.1]	[65.2]
of which tax	[42.5]	[36.0]
of which social security contributions	[15.4]	[16.1]
of which from forfaiting	[–]	[14.8]
of which customer credit	[3.2]	[9.8]
of which interest	[1.7]	[1.7]
of which other liabilities	[59.3]	[52.6]
Other liabilities (current)	**475.7**	**416.9**

Of the sum total of liabilities, some € 11.9 million (previous year: € 89.7 million) is secured by liens and similar rights.

The liabilities from forfaiting were reclassified under non-current and current financial liabilities in the current financial year.

(39) 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 € 193.2 million (previous year: € 128.4 million).

The contingencies include sureties and guarantees totaling € 160.2 million (previous year: € 82.5 million). Based on past experience, the probability of their being utilized can be regarded as low.

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. Adequate provisions have been formed at the respective Group companies to cover potential financial burdens arising from legal proceedings or arbitration.

(40) Other financial obligations

In € m	2012/12/31		
	up to 1 year	**1 to 5 years**	**over 5 years**
Purchase commitments	113.7	46.7	–
Obligations from long-term rental agreements	34.8	73.2	123.8
Other financial obligations	671.8	386.6	80.9
Total	**820.3**	**506.5**	**204.7**

In € m	2011/12/31		
	up to 1 year	**1 to 5 years**	**over 5 years**
Purchase commitments	186.6	63.2	–
Obligations from long-term rental agreements	42.5	94.6	177.6
Other financial obligations	582.2	380.9	46.7
Total	**811.3**	**538.7**	**224.3**

The other financial obligations primarily concern long-term purchasing commitments of the companies in the Steel Division whose purpose is to safeguard the procurement of input material for raw materials and sea freight. In view of the current market situation, these disclosures are relevant for assessing the financial position.

(41) Financial instruments

As of the balance sheet date December 31, 2012, the transition of the balance sheet items to the various categories of financial instruments was as follows:

2012 in € m	Book value			Valuation according to IAS 39			Valuation according to IAS 17	Fair value
	2012/12/31	Loans and receivables originated by the company	Financial assets available for sale	Financial instruments held for trading	Derivates with documented hedging arrangements	Financial liabilities measured at amortized cost		
Assets								
Financial assets	192.1	103.4	88.7	–	–	–	–	211.8
Other non-current receivables and assets	4.7	–	–	–	–	–	4.7	4.2
Trade receivables	1,544.8	1,544.8	–	–	–	–	–	1,544.8
Other receivables and other assets (€ 482.4m acc. to balance sheet); of which financial instruments	313.3	293.0	7.3	11.4	0.2	–	1.4	314.4
Securities	132.5	50.3	23.6	58.6	–	–	–	132.5
Cash and cash equivalents	878.6	–	878.6	–	–	–	–	878.6
Assets financial instruments		**1,991.5**	**998.2**	**70.0**	**0.2**	**–**	**6.1**	
Equity and liabilities								
Non-current financial liabilities	612.1	–	–	–	–	554.9	57.2	654.1
Current financial liabilities	158.2	–	–	–	–	151.9	6.3	158.2
Trade payables	918.6	–	–	–	–	918.6	–	918.6
Other liabilities (€ 475.7m acc. to balance sheet); of which financial intruments	134.0	–	–	80.7	0.4	52.9	–	134.0
Equity and liabilities financial instruments		**–**	**–**	**80.7**	**0.4**	**1,678.3**	**63.5**	

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.

As of the balance sheet date December 31, 2011, the transition of the balance sheet items to the various categories of financial instruments was as follows:

2011 in € m	Book value			Valuation according to IAS 39			Valuation according to IAS 17	Fair value
	2011/12/31	Loans and receivables originated by the company	Financial assets available for sale	Financial instruments held for trading	Derivates with documented hedging arrangements	Financial liabilities measured at amortized cost		
Assets								
Financial assets	136.1	55.7	80.4	–	–	–	–	144.0
Other non-current receivables and assets (€ 3.8m acc. to balance sheet); of which financial instruments	3.8	–	–	–	–	–	3.8	3.6
Trade receivables	1,447.3	1,447.3	–	–	–	–	–	1,447.3
Other receivables and other assets (€ 477.3m acc. to balance sheet); of which financial instruments	156.1	129.6	8.4	15.3	1.2	–	1.6	156.7
Securities	77.0	–	47.9	29.1	–	–	–	77.0
Cash and cash equivalents	946.2	–	946.2	–	–	–	–	946.2
Assets financial instruments		**1,632.6**	**1,082.9**	**44.4**	**1.2**	**–**	**5.4**	
Equity and liabilities								
Non-current financial liabilities	601.4	–	–	–	–	537.9	63.5	612.1
Current financial liabilities	146.5	–	–	–	–	139.9	6.6	146.5
Trade payables	800.5	–	–	–	–	800.5	–	800.5
Other liabilities (€ 417.0m acc. to balance sheet); of which financial instruments	129.0	–	–	65.1	0.1	63.8	–	129.0
Equity and liabilities financial instruments		**–**	**–**	**65.1**	**0.1**	**1,542.1**	**70.1**	

The market values of the non-current receivables are determined by discounting the future payment flows using the market interest rates determined as of the reporting date. 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. The fair value of the other receivables corresponds to the cash value of the cash flows associated with the assets. In the process, the interest rate parameters of the yield curve are taken into account. The securities are listed and are measured on the basis of the stock market price prevailing on the reporting date. The same procedure is applied to listed shares under financial assets.

Trade payables and other liabilities regularly have short residual terms, and as a result their reported values correspond to their fair values. The fair values of non-current and current financial liabilities are determined as cash values of the payments associated with the liabilities on the basis of the yield curve and the Salzgitter AG credit spread. The book value of the derivative financial instruments corresponds to their market value.

The proximity to the market of the data included in the calculation of fair values is shown in the following tables. Level 1 means that there is a stock-exchange or market price for the financial instrument in question. The condition for categorization in Level 2 is that there is a stock-exchange or market price for a similar financial instrument, and/or that the calculation parameters are based on data from observable markets. If valuation methods whose significant input parameters do not result from observable markets are used, the ascertainment of these data is assigned to Level 3.

The category "Financial assets available for sale" comprises financial assets totaling € 88.7 million (previous year: € 81.3 million) that are not listed on the market and for which no reliable fair value can be ascertained. In this category there are also cash and cash equivalents totaling € 878.6 million (previous year: € 946.2 million).

Fair value calculation – assets:

In € m	2012/12/31			
	Financial assets available for sale	**Financial instruments held for trading**	**Derivatives with documented hedging arrangements**	**Total**
Level 1	30.9	58.6	–	89.5
Level 2	–	11.4	0.2	11.6
Level 3	–	–	–	–
Total	**30.9**	**70.0**	**0.2**	**101.1**

In € m	2011/12/31			
	Financial assets available for sale	**Financial instruments held for trading**	**Derivatives with documented hedging arrangements**	**Total**
Level 1	56.3	29.1	–	85.4
Level 2	–	15.3	1.2	16.5
Level 3	–	–	–	–
Total	**56.3**	**44.4**	**1.2**	**101.9**

Fair value calculation – equity and liabilities:

In € m	2012/12/31		
	Financial instruments held for trading	Derivatives with documented hedging arrangements	Total
Level 1	–	–	–
Level 2	80.7	0.4	81.1
Level 3	–	–	–
Total	**80.7**	**0.4**	**81.1**

In € m	2011/12/31		
	Financial instruments held for trading	Derivatives with documented hedging arrangements	Total
Level 1	–	–	–
Level 2	65.1	0.1	65.2
Level 3	–	–	–
Total	**65.1**	**0.1**	**65.2**

To cover significant elements of the default risk and to afford access to a special information service, credit insurance cover has been arranged at the individual Group companies. For the companies in the Steel Division, the credit insurance does not extend to sales to dealers or companies in the iron and steel industry enterprises, for which global collateral is arranged via the steel del credere office.

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

In € m	2012/12/31		2011/12/31	
	Maximum default risk	Hedged default risk	Maximum default risk	Hedged default risk
Trade receivables	1,544.8	968.7	1,447.3	866.9
Other receivables	293.0	8.4	129.6	6.9
Financial assets	103.4	–	55.7	2.6
Securities	50.3	–	–	–
Total	**1,991.5**	**977.1**	**1,632.6**	**876.4**

There are also default risks in respect of financial assets held for trading 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.

The analysis of the ages of the financial instruments in the amount of € 229.3 million (previous year: € 209.5 million) that are overdue as of the reporting date, but not impaired, produced the following result.

2012/12/31 in € m	overdue for				
	< 30 days	31–60 days	61–90 days	91–180 days	> 180 days
Loans and receivables originated by the company	152.0	30.0	14.9	19.1	13.3

2011/12/31 in € m	overdue for				
	< 30 days	31–60 days	61–90 days	91–180 days	> 180 days
Loans and receivables originated by the company	135.8	35.5	9.8	14.7	13.7

A sum of € 93.9 million (previous year: € 87.4 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.

In the reporting year, the Salzgitter Group recorded impairments of assets categorized as “Loans and receivables originated by the company” in the amount of € 19.9 million (previous year: € 27.8 million) and reversals of impairment and allowances in the amount of € 11.3 million (previous year: € 8.9 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	2012	2011
Assets/liabilities held for trading	–22.5	–0.8
Loans and receivables originated by the company	7.3	9.5
Financial assets available for sale	13.9	17.8
Financial liabilities measured at amortized cost	–36.1	–35.4
Total	**–37.4**	**–8.9**

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, current securities and forward exchange contracts. The "Loans and receivables originated by the company" and "Financial assets available for sale" categories include interest income amounting to € 34.9 million (previous year € 34.0 million). Interest expenses amounting to € 33.7 million (previous year: € 31.8 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. Nor were there any losses from their disposal in the financial year 2012 (previous year: € 2.1 million). Valuation allowances of € 4.9 million (previous year: € 3.1 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 € 9.1 million (previous year: € 16.1 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	2012	2011
As of 01/01	–14.0	–6.1
Write-up without effect on income	4.5	–
Disposal	0.2	1.0
Write-down without effect on income	–	6.9
As of 12/31	**–9.7**	**–14.0**

The change in value of € 4.3 million in the financial year 2012 relates primarily to the shares in an Indian manufacturing company in the tubes industry and to securities held in connection with the deferred compensation.

In the financial year 2012, the Salzgitter Group applied hedge accounting in accordance with IAS 39 only for forward exchange contracts. In the process, it hedged the currency risks using cash flow hedges. The respective market values were as follows:

Positive market value in € m	2012/12/31	2011/12/31
Forward exchange contracts – cash flow hedges	0.2	1.2

Negative market values in € m	2012/12/31	2011/12/31
Forward exchange contracts – cash flow hedges	0.4	0.1

The underlying transactions that were secured using cash flow hedges will generally affect income within 12 months of the reporting date.

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

In € m	2012	2011
As of 01/01	1.1	–0.3
Addition	–	1.4
Decrease in value	–0.2	–
Realization	–1.1	–
As of 12/31	**–0.2**	**1.1**

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, slight ineffectivities arose from cash flow hedges.

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 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 (%)	
	2012/12/31	2011/12/31	2012/12/31	2011/12/31	2012/12/31	2011/12/31
1 month	0.1090	1.0240	0.4931	0.7702	0.2087	0.2953
3 months	0.1870	1.3560	0.5150	1.0801	0.3060	0.5810
6 months	0.3200	1.6170	0.6669	1.3758	0.5083	0.8085
1 year	0.5420	1.9470	1.0138	1.8707	0.8435	1.1281
2 years	0.3830	1.3120	0.7300	1.3230	0.3840	0.7360
4 years	0.6120	1.5470	0.8720	1.4350	0.6290	1.0300
10 years	1.5690	2.3830	1.8630	2.2600	1.7850	2.0440

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

2012/12/31 in € m	up to 1 year	1 to 5 years	over 5 years
Trade payables	918.6	–	–
Financial liabilities	162.7	586.8	1.0
Lease liabilities	9.5	33.6	39.2
Other liabilities	53.2	–	–

2011/12/31 in € m	up to 1 year	1 to 5 years	over 5 years
Trade payables	800.5	–	–
Financial liabilities	151.6	615.7	2.2
Lease liabilities	10.2	35.1	47.3
Other liabilities	64.1	–	–

As of December 31, 2012, disbursements from derivatives amounting to € 874.4 million (previous year: € 647.2 million) are offset by payment contributions amounting to € 869.9 million (previous year: € 643.5 million). Derivatives have terms of less than one year.

Sensitivity Analysis

IFRS 7 stipulates that in order to ensure a systematic presentation of the market risks to which the company in question is exposed as of the reporting date, a sensitivity analysis must be prepared.

The objective of this sensitivity analysis is to determine the impact of hypothetical changes in relevant risk variables on the company's result and equity. To determine the impact of these risk variables on the financial instruments, the effects of hypothetical changes in the risk variables on the market values and cash flows of the financial instruments in question must be determined as of the reporting date.

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.

2012/12/31 in € m	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	–31.9	–2.5	–34.4	60.8	3.0	63.8
GBP	0.6	0.4	1.0	–0.8	–0.5	–1.3
Other currencies	–	–1.1	–1.1	–0.4	1.1	0.7
Currency sensitivities	**–31.3**	**–3.2**	**–34.5**	**59.6**	**3.6**	**63.2**
Degree of sensitivity	+100 bp	+100 bp	+100 bp	–100 bp	–100 bp	–100 bp
Interest rate sensitivities	**–6.8**	**–**	**–6.8**	**6.3**	**–**	**6.3**
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
Other price sensitivities	**–28.4**	**–**	**–28.4**	**25.4**	**–**	**25.4**

2011/12/31 in € m	recog-nized in profit and loss	affecting equity	Total	recog-nized in profit and loss	affecting equity	Total
Degree of sensitivity	+10%	+10%	+10%	– 10%	– 10%	– 10%
USD	– 14.6	– 1.4	– 16.0	16.9	1.7	18.6
GBP	0.5	–	0.5	– 0.6	–	– 0.6
Other currencies	0.3	– 1.3	– 1.0	– 0.7	1.3	0.6
Currency sensitivities	**– 13.8**	**– 2.7**	**– 16.5**	**15.6**	**3.0**	**18.6**
Degree of sensitivity	+100 bp	+100 bp	+100 bp	– 100 bp	– 100 bp	– 100 bp
Interest rate sensitivities	**– 5.0**	**–**	**– 5.0**	**5.3**	**–**	**5.3**
Degree of sensitivity	+10%	+10%	+10%	– 10%	– 10%	– 10%
Other price sensitivities	**– 9.4**	**–**	**– 9.4**	**7.7**	**–**	**7.7**

(42) 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 2012 and 2011, 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 € 32.4 million (previous year: € 27.2 million). Income received from shareholdings during the financial year 2012 amounted to € 31.0 million (previous year: € 16.6 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 investments in financial assets relate primarily to a loan, a capital increase at HKM GmbH and the foundation of new companies in the Trading and Technology divisions.

The cash inflows and outflows from/for financial investments comprise bond funds, futures contracts, borrower's notes and term deposits (term of more than three months). The cash inflows in the financial year 2012 amounted to € 104.7 million (previous year: € 300.0 million), while the cash outflows totaled € 150.3 million (previous year: € 195.3 million).

Interest paid is attributed solely to financing activities. In the financial year ended, non-current financial liabilities amounting to € 9.1 million were redeemed (previous year: redeemed: € 20.0 million, borrowed: € 0.3 million).

(43) Notes on segment reporting

The segmentation of the Salzgitter Group into five divisions accords with the Group's internal controlling and reporting functions.

In the segment report, the business activities of the Salzgitter Group are assigned to the Steel, Trading, Tubes, Services and Technology divisions in accordance with the Group structure in line with different products and services. Salzgitter AG as the management holding company, the intermediate holding companies Salzgitter Mannesmann GmbH and Salzgitter Klöckner-Werke GmbH, Salzgitter Finance B.V. and Aurubis AG are not assigned to any division.

The Steel Division manufactures high-quality branded steel and special steels. Its main products are hot-rolled strip and cold-rolled steel, sections and sheet piling, heavy plate, elements for roofing and cladding, blanks and tailored blanks.

The Tubes Division is concerned primarily with the manufacture of line pipes, HFI-welded pipes, precision tubes and stainless steel tubes.

The Trading Division 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 companies in the Services Division do most of their work for the Group. The range of services they provide includes data processing, telecommunications services, scrap dealing, the handling and storage of bulk cargo, transportation, another services for, among others, the automotive industry.

The Technology Division operates mainly in the filling and packaging technology segment.

Sales between segments are always conducted on standard market terms of the kind that also constitute the basis of transactions with third parties (arm's length).

Segmental operating assets and liabilities comprise the assets and debts that are required for operational purposes – excluding interest-bearing claims and income tax receivables and liabilities.

The sales are allocated geographically in accordance with the domicile of the invoice recipient.

Of the non-current assets, € 2,554.6 million (previous year: € 2,804.7 million) is accounted for by Germany and € 214.6 million (previous year: € 194.9 million) by non-EU countries. A further € 762.7 million (previous year: € 419.7 million) relates to consolidated units not assigned to a segment.

In the financial year 2012, as in the previous year, no single customer accounted for more than 10% of the Salzgitter Group's sales.

The transition of total segmental assets and segmental liabilities to the Group's balance sheet total, and the transition of total segment sales and segment results to, respectively, consolidated sales and the consolidated result from ordinary activities are shown in the following overviews:

In € m	2012	2011
Total sales of the segments	13,045.9	12,285.7
Other sales	30.2	85.3
Elimination of sales with other segments	–2,671.8	–2,525.3
Elimination of the sales with Group companies not assigned to a segment	–7.0	–6.2
Sales	**10,397.2**	**9,839.5**

In € m	2012	2011
Total results of the segments for the period	–66.0	94.2
Other results for the period	36.7	107.4
Earnings before taxes (EBT)	**–29.4**	**201.6**

In € m	2012/12/31	2011/12/31
Segment operating assets	7,110.3	7,046.1
Other assets	1,515.9	1,419.6
Income tax assets	31.1	71.1
Deferred income tax assets	260.4	256.1
Deferred expenses	11.9	7.1
Statement of financial position – total	**8,929.7**	**8,800.0**

In € m	2012/12/31	2011/12/31
Segment operating liabilities	5,922.0	6,366.4
Other liabilities	–963.7	–1,907.8
Tax liabilities	317.8	329.8
Group equity	3,643.5	3,999.8
Deferred expenses	10.1	11.8
Statement of financial position – total	**8,929.7**	**8,800.0**

The remaining sales, results for the period under review, assets and liabilities are accounted for by the companies Salzgitter AG, Salzgitter Mannesmann GmbH, Salzgitter Klöckner-Werke GmbH and Salzgitter Finance B.V., which cannot be assigned to any operating segment.

The other assets largely comprise cash and cash equivalents. The holding companies' pension provisions are reported under other liabilities.

(44) Related party disclosures

In addition to business relationships with companies that are consolidated fully and proportionately in the consolidated financial statements, relationships also exist with associated companies and shareholdings that must be designated as related companies in accordance with IAS 24.

Material delivery and service relationships between companies in the consolidated group and companies related to the Salzgitter Group are depicted in the following table:

In € m	Sale of goods and services		Purchase of goods and services	
	2012	2011	2012	2011
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	22.4	35.3	554.0	613.0

Outstanding items 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 are as follows:

In € m	Trade receivables		Trade payables	
	2012/12/31	2011/12/31	2012/12/31	2011/12/31
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	2.7	0.2	34.2	65.2

The Group has an outstanding long-term loan to Hüttenwerke Krupp Mannesmann GmbH, Duisburg, in the amount of € 80.0 million (previous year: € 40.0 million).

The deliveries and services received essentially comprise deliveries of input material for the Tubes Division.

There are contingencies in relation to non-consolidated associated companies totaling € 32.0 million (previous year: € 60.2 million).

Remuneration paid to members of the management in key positions:

In € m	2012	2011
Salary and other current payments	8.6	10.0
Payments after termination of the employment relationship	1.4	1.0
Total	**10.0**	**11.0**

In addition, the employee representatives on the Supervisory Board who are employed in the Salzgitter Group received remuneration within the scope of their employment contracts. The amounts in question corresponded to appropriate remuneration for comparable functions and tasks in the Group.

(45) Fees for the Auditor of the Consolidated Financial Statements that were reported as Expenses in the Financial Year in Accordance with Section 314, Item 9 of the German Commercial Code (HGB)

In € m	2012	2011
Audit services	2.0	2.0
Other certification or assessment services	0.1	0.1
Tax consulting services	0.1	–
Other services	1.0	–

In addition, expenses relating to other auditors were incurred in the amount of € 0.4 million (previous year: € 0.5 million) for the auditing of the annual financial statements of consolidated German-based companies and minor expenses of under € 0.1 million (previous year: € 0 million) for tax consulting and other consulting services rendered for German-based Group companies.

(46) Significant Events Occurring after the Reporting Date

Significant events occurring after the reporting date are explained in the Management Report.

(47) Waiver of Disclosure and Preparation of a Management Report in Accordance with Section 264 para. 3 or Section 264 b, German Commercial Code (HGB)

The following fully consolidated domestic subsidiaries have fulfilled the conditions required under Section 264 para.3 or Section 264 b, German Commercial Code (HGB), and are therefore exempted from disclosure of their financial statements and from the obligation to prepare a management report:

- Salzgitter Mannesmann GmbH, Salzgitter
- Salzgitter Klöckner-Werke GmbH, Salzgitter
- Salzgitter Stahl GmbH, Salzgitter
- Salzgitter Flachstahl GmbH, Salzgitter
- Peiner Träger GmbH, Peine
- Ilsenburger Grobblech GmbH, Ilsenburg
- HSP Hoesch Spundwand und Profil GmbH, Dortmund
- Salzgitter Europlatinen GmbH, Salzgitter
- Salzgitter Bauelemente GmbH, Salzgitter
- Glückauf Immobilien GmbH, Peine
- SZST Salzgitter Service und Technik GmbH, Salzgitter
- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg
- SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter
- GESIS Gesellschaft für Informationssysteme mbH, Salzgitter
- telcat multicom GmbH, Salzgitter
- telcat Kommunikationstechnik GmbH, Salzgitter
- DEUMU Deutsche Erz- und Metall-Union GmbH, Peine
- Salzgitter Mannesmann Forschung GmbH, Salzgitter
- Salzgitter Mannesmann Handel GmbH, Düsseldorf
- Hövelmann & Lueg GmbH, Schwerte
- Salzgitter Mannesmann International GmbH, Düsseldorf
- Salzgitter Mannesmann Stahlhandel GmbH, Düsseldorf
- Stahl-Center Baunatal GmbH, Baunatal
- Universal Eisen und Stahl GmbH, Neuss
- Mannesmannröhren-Werke GmbH, Mülheim
- Salzgitter Mannesmann Großrohr GmbH, Salzgitter
- Salzgitter Mannesmann Line Pipe GmbH, Siegen
- Salzgitter Mannesmann Rohr Sachsen GmbH, Zeithain
- Salzgitter Mannesmann Präzisrohr GmbH, Hamm
- Salzgitter Mannesmann Precision GmbH, Mülheim
- Salzgitter Mannesmann Grobblech GmbH, Mülheim
- Salzgitter Mannesmann Stainless Tubes GmbH, Mülheim
- Salzgitter Mannesmann Stainless Tubes Deutschland GmbH, Remscheid
- KHS GmbH, Dortmund
- Klöckner PET-Technologie GmbH, Salzgitter
- Klöckner DESMA Elastomertechnik GmbH, Fridingen
- Klöckner DESMA Schuhmaschinen GmbH, Achim
- KHS Corpoplast GmbH, Hamburg
- KHS Plasmax GmbH, Hamburg
- Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Osnabrück
- Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück
- Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück
- Salzgitter Hydroforming GmbH & Co. KG, Crimmitschau

(48) Supervisory Board and Executive Board

For the discharge of their duties, the members of the Executive Board received the sum of € 5.4 million (previous year: € 6.4 million) in the financial year. Of this total, € 2.0 million (previous year: € 3.1 million) was accounted for by performance-related remuneration components.

Provisions for pension obligations to members of the Executive Board amounted to € 24.3 million (previous year: € 18.3 million) in the financial year. Former members of the Executive Board and their surviving dependents received a total of € 1.8 million for the financial year (previous year: € 1.8 million). Pension provisions totaling € 29.8 million (previous year: € 26.5 million) have been set aside to cover obligations to former Executive Board members and their surviving dependents.

Supervisory Board members received a total of € 1.1 million (previous year: € 1.2 million) for the financial year.

The remuneration of the individual members of the Executive and Supervisory Boards of Salzgitter AG is disclosed in the "Group Management Report and Management Report on Salzgitter AG" in Section I.2 "Management and Control".

(49) 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, February 26, 2013

The Executive Board

Fuhrmann Becker Eging

Groschke Kieckbusch

VII. Auditor's Report

Independent Auditor's Report

"We have audited the consolidated financial statements – 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, 2012. 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 has not led 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 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 28, 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed	signed
Thomas Stieve Wirtschaftsprüfer (German Public Auditor)	Prof. Dr. Mathias Schellhorn Wirtschaftsprüfer (German Public Auditor)

I. Glossary

Business and Financial Terms

A

Acquisition
Purchase of a company or parts thereof.

At equity
Method of capital consolidation with which an affiliated company's proportionate equity is valued.

C

Capital employed
Sum total of equity, tax provisions (excluding deferred tax) and interest-bearing liabilities. Equity also comprises minority interests.

Cash flow

- **from operating activities**
  Outflow/inflow of liquid funds provided not influenced by investment, disinvestments or financing activities.
- **from investment activities**
  Outflow/inflow of liquid funds from investment/disinvestment activities.
- **from financing activities**
  Outflow/inflow of liquid funds from financing activities: issuance/redemption of bonds, borrowing/repayment of loans, issuance/repurchase of shares etc.

Consolidation
The term for companies that are to be included in the consolidated financial statements.

Convertible bond
Security that entitles the holder to exchange it for a specified number of shares in the issuing stock corporation within a defined period.

Corporate compliance
Compliance with statutory provisions and rules and regulations applicable within the company.

Corporate Governance
The term used to describe responsible corporate management and control. In the interests of improving corporate management, the German Federal Ministry of Justice set up the Government Commission on the German Code of Corporate Governance in 2001. The Commission is tasked with enhancing the transparency of the rules of corporate management and supervision applicable in Germany and with improving the corporate charters of German stock corporations.

Cost of materials
Expenses incurred by raw materials and supplies, merchandise, spare parts, tooling and services outsourced such as energy, contract processing and internal transport costs.

Current assets
Assets that are not intended to serve the business on a permanent basis. Current assets include, for instance, inventories as well as trade receivables.

D

Debt
Provisions, liabilities and deferred income.

Declaration of Conformity
Declaration by the Executive and the Supervisory boards pursuant to Section 161 of the German Stock Corporation Act (AktG) regarding the implementation of the recommendations of the Government Commission on the German Code of Corporate Governance.

Deferred taxes
Tax charges and reliefs likely to arise at a future date as a result of temporary differences between the book value applied to the consolidated financial statements and the tax valuations of assets and liabilities.

E

EBIT (Earnings before Interest and Taxes)
Earnings before taxes, adjusted for net interest.

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization)
Earnings before taxes, adjusted for net interest and depreciation and amortization.

EBT (Earnings before Taxes)
Earnings before deduction of taxes.

Equity
Funds made available to the company by its owners as a cash payment and/or capital investment as well as from retained earnings.

Exposure
Volume exposed to a (specific) risk.

Exposure management
Management of all a company’s payment obligations.

External sales
The proportion of total sales accounted for by transactions with companies outside the consolidated group of Salzgitter AG.

F

Forfaiting

Sale of export receivables without recourse to the previous owners of the receivables (suppliers), generally to a bank.

Free float

That part of the company's capital stock that is freely traded on the stock market.

H

Holding

Company that holds shares in another company and does not conduct any operational business itself.

I

IAS/IFRS

"International Accounting Standards"/"International Financial Reporting Standards": Standards to ensure international comparability in the preparation of accounts

Impairment

Unscheduled depreciation and amortization of assets, such as property, plant and equipment and intangible assets, in the amount by which amortized costs exceed the recoverable amount in the market.

J

Joint venture

A business venture undertaken in cooperation between, and under the joint control of, at least two companies that remain independent of one another.

M

Market capitalization

Current market value of a listed company. Market capitalization is calculated by multiplying the share price by the number of shares. Deutsche Börse AG calculates market capitalization for index weighting purposes based on the results of share price and free float.

N

Natural hedging

Term taken from business management to denote companies relocating production capacities in foreign sales markets (countries) in order to avoid currency fluctuations.

Non-current assets
Assets that are intended for use in the long-term operations of the business enterprise. A distinction is made between:

- **Property, plant and equipment**
  Land and buildings, technical equipment and machinery etc.
- **Intangible assets**
  Goodwill/badwill, patents, licenses, development costs etc.
- **Financial assets**
  Shares in affiliated and associated companies, participating interests, securities held as fixed assets etc.

P

Pension provisions
Provisions formed to cover retirement, invalidity and surviving dependents' pension and benefit commitments. Pension obligations are calculated using the present value of the defined benefit obligations (IFRS) or the going-concern value method (German Commercial Code [HGB]) and valued on the basis of actuarial assumptions and calculations.

Personnel expenses
Expenses incurred by wages and salaries as well as social security, pensions and other benefits. These expenses do not include the interest component in transfers to pension provisions, which is reported as part of the financial result.

Profit and loss transfer agreement (P&L A.)
A company agreement is defined as a profit and loss transfer agreement if one company undertakes to transfer its entire profit to another company (Section 291 I of the German Stock Corporation Act [AktG]). The other contractual partner is required to compensate any net loss for the year arising during the term of the contract (loss absorption pursuant to Section 302 I of the German Stock Corporation Act).

R

ROCE
Return on Capital Employed. Ratio of EBIT to capital employed.

S

Segment sales
Share of overall sales resulting from transactions between companies within the consolidated group of Salzgitter AG.

Stakeholders
Shareholders, employees and other groups with connections to the company.

U

Unappropriated retained earnings (also: profit shown on the balance sheet after appropriation to or transfer from reserves)
Profit as shown in the annual financial statements of Salzgitter AG, calculated in accordance with the German Commercial Code (HGB). Dividend paid to shareholders is determined by this result.

V

Volatility
Scope of the fluctuations of an underlying asset (e.g. share price).

Technical Terms

B

Bainite (bainitic material)
Microstructure formed by the special heat treatment of steel.

Belt Casting Technology (BCT)
Process for continuous casting.

Blast furnace
A shaft furnace lined with heat-resistant (refractory) bricks and used by integrated steelworks to smelt pig iron from iron ore.

C

Coating
The application of the coat of zinc, organic material, paint or foil, primarily to improve the resistance of steel sheet to corrosion.

Coke
A reduction agent required in the blast furnace to smelt pig iron out of iron ore. Coke is produced by heating specific types of coal (coking coal) in a coke oven plant under exclusion of air.

Cold rolling
Forming process at room temperature. Cold rolling is used, for example, to turn hot-rolled strip into sheet steel.

Continuous casting
A semi-continuous process for the manufacturing of slabs, blooms and tube rounds from molten steel.

E

Electric arc furnace
Unit in which steel scrap is melted using electricity producing so-called electric steel.

Elements for roofing and cladding
Components produced from profiled surface-coated sheet steel that are used in the construction industry as wall and ceiling elements and for exterior cladding.

F

Flat rolled products

Flat rolled steel products are manufactured by the hot-and cold-rolling of slabs, including other work stages, as necessary. The term refers specifically to sheet steel with a thickness of less than 30 mm used mainly for the automotive and household appliance industries.

H

HFI-welding

Process for creating welds on the basis of electro-magnetic induction.

Hot-rolled (wide) strip

Hot-rolled and coiled steel strip used as feedstock for cold rolling or sold as an intermediate product (e.g. as wide strip).

Hot rolling

Forming process carried out at high temperatures. Different types of rolling mills are used to convert semi-finished material into hot-rolled strip, plates, sections or seamless tubes.

I

Induction heating/annealing

The term induction heating/annealing denotes the process of passing steel plate continuously through several successive inductor coils to heat them to a temperature of 1,200 °C.

P

Plate

- **Steel sheet**
  Uncoated sheet steel less than 3 mm thick generally produced through cold rolling.
- **Heavy plate**
  Sheet steel of at least 3 mm in thickness. This heavy plate is required mainly for mechanical engineering and equipment manufacturing, in the construction industry, ship building and for large-diameter pipes.

Precision tubes

Seamless or welded steel tubes used predominantly in mechanical engineering and the automotive industry.

R

Reduction agent

Sources of carbon such as coke, coal or fuel oil used in the blast furnace process to convert iron ore (iron oxide) into pig iron.

Rolled steel

The sum total of all end products to emerge from rolling mills.

S

Sandwich elements

Ready-to-fit roof and wall elements consisting of double-skin metal faced panels bonded together with an insulated core.

Sections

Long products, such as beams and sheet piles, used primarily in building construction and civil engineering.

Semi-finished goods/semis

A general term for input material made from crude steel for use in rolling mills (slabs, blooms, tube rounds).

Sheet piling

Steel sections used to secure and seal excavation pits.

Sinter plant

It is the function of the sinter plant to process fine grain raw material into coarse grained iron ore sinter for charging the blast furnaces. To begin with, meticulously prepared mixtures are created consisting of fine ore, concentrates, extras and undersizes arising from screening lumpy burden components at the blast furnace. Ferriferous fine grain discharges from the production chain of the entire steel works are also put into the mixture. By igniting suitable fuel, iron ore sinter is produced by a down draft process. Normally, coke breeze from screening lump coke at the blast furnace is used as fuel.

Slabs

An intermediate product produced from crude steel by the continuous casting process and used as an input material for the production of flat rolled steel.

Surface-coated steel products

Products provided with a metallic or organic surface coating by special processes, for example by galvanizing or paint-coating.

T

Tailored blanks

Bonded blanks composed of sheet steel of varying shapes, qualities and properties that are welded together by laser beam. Automobile manufacturers use tailored blanks to produce pressed parts for vehicle construction.

Top gas

Combustible process gas which is a by-product in the production of primary materials.

Tray

Packaging solution containing a number of individual packages. Beverage cans, for instance, are bundled together in one single packaging unit.

Tubes

- **Welded tubes**

  Tubes made by welding plate or hot-rolled strip. A distinction is made between longitudinally welded tubes (where the weld seam runs along the axis of the tube) and spiral-welded tubes (where the weld seam spirals around the circumference of the tube).

- **Seamless tubes**

  Tubes made from tube rounds. After heating, a hollow body is first created by a variety of processes (including pilgering), which is then rolled and, if necessary, drawn to its final dimensions.

Tube rounds

An intermediate product produced from crude steel by the continuous casting process and used as an input in material for the production of seamless tubes.

U

Umbilicals

Supply lines that supply required consumables to an apparatus. Umbilical cables consist of a combination of thermoplastic hoses, steel tubes, armored shields and carbon rods.

Further information can be accessed under the website: www.stahl-online.de/english/

II. Financial Calendar of Salzgitter AG for 2013

February 27, 2013	Key data for the financial year 2012
March 22, 2013	Publication of the consolidated financial statements for 2012 Annual Results Press Conference
March 25, 2013	Analysts' Conference in Frankfurt am Main
March 26, 2013	Analysts' Conference in London
May 15, 2013	Interim report on the first quarter of the financial year 2013
May 23, 2013	General Meeting of Shareholders in 2013
August 14, 2013	Interim report on the first half of the financial year 2013 Analysts' Conference in Frankfurt am Main
August 15, 2013	Analysts' Conference in London
November 14, 2013	Interim report on the first nine months of the financial year 2013
December 31, 2013	End of the financial year 2013

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

The Annual Report of Salzgitter AG is also available in German. In the event of any discrepancies, the German version shall prevail.

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