Annual Report 2003

Salzgitter Group in Figures

		99/00	SFY 2000 [1]	FY 2001	FY 2002	FY 2003
Sales (consolidated)	**€ mil.**	**3,291**	**1,018**	**4,593**	**4,741**	**4,842**
Steel Division	€ mil.	1,252	340	1,397	1,430	1,432
Trading Division	€ mil.	1,773	423	1,877	1,729	2,027
Services Division	€ mil.	228	57	216	232	241
Processing Division	€ mil.	38	27	118	229	221
Tubes Division	€ mil.	–	171	985	1,121	921
Thereof flat rolled products	€ mil.	1,901	503	1,948	2,049	2,409
Thereof sections	€ mil.	636	159	909	809	596
Thereof tubes	€ mil.	39	213	1,227	1,308	1,236
Thereof export share	%	49	49	54	54	52
Income from ordinary operations	**€ mil.**	**97**	**34**	**160**	**72**	**42**
Net income for the year	**€ mil.**	**70**	**13**	**144**	**66**	**28**
Balance sheet total	**€ mil.**	**2,427**	**3,398**	**3,809**	**3,807**	**3,673**
Fixed assets	**€ mil.**	**1,226**	**1,508**	**1,843**	**1,975**	**1,879**
Current assets	**€ mil.**	**1,201**	**1,890**	**1,966**	**1,832**	**1,794**
Inventories	€ mil.	545	756	879	869	919
Shareholders' equity	**€ mil.**	**912**	**911**	**1,085**	**1,027**	**980**
Borrowings	**€ mil.**	**1,515**	**2,487**	**2,724**	**2,780**	**2,693**
Provisions	€ mil.	977	1,953	1,947	1,884	1,892
Liabilities	€ mil.	538	534	777	896	801
Thereof due to banks	€ mil.	207	82	178	177	196
Capital expenditures [2]	**€ mil.**	**208**	**49**	**285**	**251**	**191**
Depreciation and amortization [2]	**€ mil.**	**174**	**50**	**210**	**220**	**248**
Employees						
Personnel expenses	€ mil.	582	212	843	940	935
Workforce (annual average)		13,181	17,085	17,664	18,872	18,154
Personnel expenses per employee	T €	44	12	48	50	51
Crude steel production [3]	**kt**	**5,116**	**1,272**	**8,151**	**8,209**	**8,562**
Key figures						
Earnings before interest and taxes (EBIT) [4]	€ mil.	110	39	179	93	61
EBIT before depreciation and amortization (EBITDA)	€ mil.	284	89	389	313	309
Return on capital employed (ROCE) [5]	%	9.5	15.3	13.6	7.3	4.6
Cash flow	€ mil.	114	–5	117	157	223

[1] SFY: Short financial year from October 1 to December 31
[2] Excluding financial assets
[3] Up to SFY 2000, Salzgitter and Peine works; since 2001 inc. MRW/V&M share in Hüttenwerke Krupp Mannesmann, V&M France and V&M do Brasil; since July 2002 also inc. V&M Star
[4] EBT plus interest paid (excluding interest element in allocations to pension provisions)
[5] EBIT in relation to the total of shareholders' equity, minority equity interests, tax provisions and interest-bearing liabilities (since 2003 excluding accrued and deferred taxes)

Highlights of the Financial Year 2003

February 26, 2003

Salzgitter Flachstahl GmbH and the South Korean company POSCO, one of the world's largest steel producers, sign a technology cooperation framework agreement. The partners will work jointly on the development and processing of steels for automobile manufacturing.

March 13, 2003

Salzgitter AG publishes the key figures for the financial year 2002: in spite of adverse economic conditions, the financial year closes with sales of € 4.7 billion and a total pre-tax profit of € 72.5 million.

March 31, 2003

Salzgitter Magnesium-Technologie GmbH works at full stretch on the market launch of a new ultra-light building material. The recently founded subsidiary of Salzgitter AG focuses on the development, production and sale of high-grade magnesium flat rolled products and occupies a leading international position in this segment.

April 1, 2003

Peter-Jürgen Schneider joins the Executive Board of Salzgitter AG as Personnel Director and is responsible for the Personnel Department and the Services Division since October 1, 2003. Prof. Dr. Günter Geisler, who performed these functions in addition to the vice chairmanship, retires from the Executive Board on September 30, 2003.

April 3, 2003

The Supervisory Board of Salzgitter AG appoints Dipl.-Betriebswirt Wolfgang Eging as a member of the Executive Board of Salzgitter AG effective as of October 1, 2003. On January 1, 2004, he assumes responsibility for the Tubes Division and the chairmanship of the Executive Board of Mannesmannröhren-Werke AG. His predecessor, Dipl.-Kfm. Helmut F. Koch, steps down from these positions as of December 31, 2003, on completion of his 63rd year, but continues to hold seats on bodies of the Group and industry federations.

April 7 – 12, 2003

The Hanover Trade Exhibition Industry offers Salzgitter AG an excellent communication platform for dialoging with customers, suppliers and media representatives.

April 8, 2003

Effective commercially as of July 1, 2003, HSP Hoesch Spundwand und Profil GmbH, Dortmund, and ThyssenKrupp GfT Gesellschaft für Technik mbH, Essen, consolidate the sale and installation of sheet piling within ThyssenKrupp GfT Bautechnik GmbH, Essen, in which HSP holds a 30 % share.

April 15 – 17, 2003

The Group's Annual Report 2002 is published and presented to the financial press at the annual press conference. The company fosters dialog with the financial community at the well-attended analysts' conferences in Frankfurt and London.

May 15, 2003

The Salzgitter Group announces that the first quarter of 2003 closed with a pre-tax profit of € 6.2 million in spite of the unsatisfactory overall economic situation.

May 27, 2003

Thanks to the commitment of Salzgitter AG, a chair in structural maintenance and supporting structures is established at the Technical University of Braunschweig as of June 1, 2003.

May 28, 2003

The General Meeting of Shareholders of Salzgitter AG re-elects the company's Supervisory Board in rotation on May 28, 2003. At its meeting on the same day, the Supervisory Board elects Dr. Wilfried Lochte for a further five-year term as Chairman of that body.

July 9, 2003

At the "Capital Investor Relations Awards", Salzgitter AG took third place among the 50 MDAX companies.

August 14, 2003

The Salzgitter Group gives notification that its earnings position in the second quarter of 2003 was stabilized with a pre-tax profit of € 10.4 million – in spite of the poor general economic situation.

November 14, 2003

It is announced that in the third quarter of 2003, the Salzgitter Group again increased its pre-tax earnings – to € 16.3 million – compared with the previous quarters.

December 3, 2003

Europipe GmbH receives an order to supply the major share of tubes for the longest underwater pipeline in the world, which connects the "Ormen Lange" gas field off central Norway with the east coast of England.

December 18, 2003

Mannesmannröhren-Werke AG acquires the 33 1/3 % shareholding in DMV Stainless B.V., Helmond, from the Vallourec subsidiary Valtubes S.A. and now holds 100 % of the company.

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1.1 Corporate Portrait and Group Structure

Salzgitter AG consists of a group of more than 80 domestic and international subsidiaries and associated companies. With external sales of just under € 5 billion, more than 8 million tons of annual crude steel production and around 18,000 employees, it ranks as one of Europe's leading steel technology groups.

In the flat rolled products and sections segments, the Group is one of Europe's top five, and occupies a leading global position in the tubes segment.

Salzgitter AG is listed on the MDAX index, which places it among the top 80 German stock corporations.

As the management holding company, Salzgitter AG guides and steers the five divisions Steel, Trading, Services, Processing and Tubes. Operationally independent companies are assigned to these divisions. The individual companies enjoy extensive scope in their decision making and the realization of location, product and market related businesses activities that are conducted decentrally and independently.

The operating companies Salzgitter Flachstahl GmbH, Peiner Träger GmbH and Ilsenburger Grobblech GmbH form the Steel Division under the umbrella of the intermediate holding company Salzgitter Stahl GmbH. Salzgitter Großrohre GmbH is also assigned to this division.

With their high-grade special and branded steels, these companies are especially indicative of this innovative material's success. The potential of steel, now and in future, is undergoing consistent, further development on the basis of in-depth research and development as well as a strong customer orientation.

The Trading Division comprises a dense European sales network that is interlinked with companies and sales offices positioned worldwide. This combination ensures the internationally successful presence of the Salzgitter Group and the optimum marketing of its products and services.

The activities of the Services Division are focused primarily on requirements within the Group. Beyond that, the services of the companies in this division are also offered to external customers to generate an additional profit contribution for the Group. With this purpose in mind, the division's services and know-how are continuously measured against market requirements and developed accordingly.

The Processing Division's Construction and Automotive business segments are the areas in which Salzgitter AG develops technologies for the future. In the course of this development process, the value creation chain of Salzgitter products is moved further towards specific customer requirements. Modern technologies and close cooperation with all of the division's partners form the basis for individual solutions.

In the Tubes Division, the Salzgitter Group offers its customers a virtually complete range of steel tubes. With their high-quality products, the companies in this division generally occupy leading positions and rank as world market leaders in a number of segments. Mannesmannröhren-Werke AG operates here as intermediate holding and management company.

With its decentralized areas of competence and responsibility, this structure fosters the development of the individual companies and provides the organizational basis for the further growth of the Group.

Divisions

STEEL

- Salzgitter Stahl GmbH (100 %)
  - Salzgitter Flachstahl (100 %)
  - Peiner Träger (100 %)
  - Ilsenburger Grobblech (100 %)
  - Salzgitter Großrohre (100 %)

TRADING

- Salzgitter Handel (100 %)
  - Steeltrading Germany 16 companies
  - Steeltrading Europe 16 companies
  - Steeltrading International 9 companies
- Hövelmann & Lueg (95 %)
- Universal Eisen und Stahl (100 %)
- Robert (50 %)

SERVICES

- Verkehrsbetriebe Peine-Salzgitter
  Railway transportation (100 %)
- PPS Personal-, Produktions- u. Serviceg.
  Services (100 %)
- Deumu
  Raw material supplies (100 %)
- Glückauf
  Residential property (100 %)
- Hansaport
  Port operating company (51 %)
- Burwitz
  Refractory products (26 %)

IT

- Gesis
  Information technology (100 %)
- Telcat Multicom
  Communication technology (100 %)

PROCESSING

AUTOMOTIVE

- Salzgitter Europlatinen
  (100 %)
- Salzgitter Magnesium-Technologie
  (100 %)
- Oswald Hydroforming
  (100 %)
- Salzgitter Automotive Engineering
  (74.9 %)

CONSTRUCTION

- HSP Hoesch Spundwand und Profil
  (100 %)
- Salzgitter Bauelemente
  (100 %)

TUBES

Mannesmannröhren-Werke AG
(99.3 %)

- Vallourec
  Steel pipes and processing (22.7 %)
- Vallourec & Mannesmann Tubes [1]
  Seamless tubes (45 %)
- Vallourec & Mannesmann USA [2]
  Seamless tubes (33.3 %)
- Hüttenwerke Krupp Mannesmann [2]
  Iron and steel works (20 %)
- MHP Mannesmann Präzisrohr
  Precision tubes (100 %)
- Mannesmannring Sachsen
  Roller bearing rings (100 %)
- DMV Stainless
  Seamless stainless tubes (100 %)
- Europipe
  Large-diameter pipes (50 %)
- Mannesmannröhren Mülheim
  Plate, tube bending (100 %)
- Mannesmann Line Pipe
  Line pipes (100 %)
- Röhrenwerk Gebr. Fuchs
  Line pipes (50 %)
- Borusan Mannesmann Boru
  Welded pipes (23 %)
- Salzgitter Mannesmann Forschung
  Research and development (100 %)

1) Further indirect interest via Vallourec
2) Further indirect interest via Vallourec & Mannesmann Tubes

1.2 Preface by the Executive Board

Dear Shareholders,

The year 2003 was marked by weighty differences in the economic and social developments in the relevant regions. While the boom in China not only uplifted that country's economy, but also generated positive momentum reaching as far as export-oriented industries in Germany, the European economy struggled to gather pace. Macroeconomic factors, such as debt-laden public sector finances that are discouraging investment and the high level of unemployment, are incurring lasting effects. In spite of this, the fact that the German stock market in particular has staged a relatively strong recovery since reaching the lowest point in March 2003 is an indicator of the value perceived and the confidence felt by both domestic and international investors.

Salzgitter AG also experienced this trend, with the price of our stock rising by almost fifty percent, exceeding even the remarkable development in the DAX. Moreover, Salzgitter shareholders have participated in the performance of their company not only through the development in the share price, but also – as in previous years – by way of an above-average dividend.

Nevertheless, we have no wish to conceal the fact that the € 42.5 million pre-tax profit for the financial year 2003 does not correspond with our aims and objectives for the Group. When we qualify the result as "still satisfactory in general terms", we do so as Salzgitter AG has once again succeeded in remaining in the black during the third year in which our principal European markets have stagnated. Moreover, the annual financial statements for 2003 include some significant non-recurrent expenses, both for the closure of a loss-making Europipe plant in France and in the form of the exceptional depreciation of fixed assets at two processing companies which have suffered under the desolation of the German construction sector. These measures will strengthen the present and future operational profitability of the Group and make it easier for us to exercise strategic options addressing persisting problematic activities, as required.

In comparison with 2003, the current year has started on a more promising note. Despite various administrative obstacles to entrepreneurial action, not just in Germany, the somewhat reticent upturn here and on European markets is gaining strength. On the other hand, the remarkable strength of the euro against practically all relevant foreign currencies favors neither the earnings position of the Salzgitter Group, nor the profitability of many of our manufacturing customers based in the euro zone.

While the macroeconomic picture remains mixed, in recent months the situation in the specific markets served by the Salzgitter Group has, almost without exception, developed along positive lines. Some steel products have come close to becoming scare commodities, though the same may also be said for raw materials, energy resources and sea freight capacities. This is a situation that we have not encountered in recent decades. We are confident – not least in view of the broad portfolio of products and services delivered by the Salzgitter Group – that we will be able to utilize the opportunities which present themselves and keep the risks within bounds.

We regard the consistent implementation of the Group-wide profitability improvement program as a long-term corporate duty. Likewise, in times of economic recovery, a disciplined approach to costs and financial stability will safeguard the necessary scope for action.

The world needs steel! This is the story told by the pictures that illustrate this report – and the present mood of the market underscores the accuracy of this assertion. With a discretely understated use of optical effects, these illustrations reveal the breadth of applications and – working backwards from the product itself – also outline the stages in the process of manufacturing steel.

In our own name and on behalf of the committed men and women who comprise our workforce, we would like to thank you, our shareholders and business partners, for your confidence in our company.

Wolfgang Leese | Wolfgang Eging | Dr. Heinz Jörg Fuhrmann

Michael B. Pfitzner | Peter-Jürgen Schneider | Dr. Volker P.H. Schwich

1.3 Executive Board

Wolfgang Leese

Chairman

a) ■ Mannesmannröhren-Werke AG (Chairman)
■ Salzgitter Stahl GmbH (Chairman)
■ MAN Nutzfahrzeuge AG
■ Peiner Träger GmbH (Chairman) since December 10, 2003
■ Vallourec S.A. (Conseil de Surveillance)

Prof. Dr. Günter Geisler

Vice Chairman until September 30, 2003
Personnel and Services Division until September 30, 2003

a) ■ Mannesmannröhren-Werke AG
■ Salzgitter Stahl GmbH
■ Ilsenburger Grobblech GmbH until May 15, 2003
■ PPS Personal-, Produktions- und Servicegesellschaft mbH (Chairman) until December 31, 2003
■ Verkehrsbetriebe Peine-Salzgitter GmbH (Vice Chairman) until December 31, 2003

b) ■ HANSAPORT Hafenbetriebsgesellschaft mbH (Supervisory Board, Chairman) until December 31, 2003

Wolfgang Eging

Executive Board member since October 1, 2003
Tubes Division since January 1, 2004
Chairman of the Executive Board of Mannesmannröhren-Werke AG since January 1, 2004

a) ■ VALLOUREC & MANNESMANN TUBES S.A. (Conseil d'Administration)
■ Hüttenwerke Krupp Mannesmann GmbH (Supervisory Board, second Vice Chairman) since January 1, 2004
■ Europipe GmbH (Supervisory Board)
■ MHP Mannesmann Präzisrohr GmbH (Supervisory Board, Chairman) since April 1, 2004

b) ■ Hüttenwerke Krupp Mannesmann GmbH (Shareholders' Committee) since Jan. 1, 2004
■ Europipe GmbH (Shareholders' Committee)
■ Robur Buizenfabriek B.V. (Supervisory Board, Chairman)
■ DMV STAINLESS B.V. (Supervisory Board, Chairman)
■ DMV STAINLESS S.A.S. (Conseil de Surveillance, Chairman)
■ Mannesmannröhren Mülheim GmbH (Supervisory Board, Chairman)
■ Mannesmann Line Pipe GmbH (Advisory Council) since April 1, 2004
■ Borusan Mannesmann Boru Yatirim Holding A.S. (Board of Directors, Vice Chairman)
■ Borusan Birlesik Boru Fabrikalari A.S. (Board of Directors, Vice Chairman)
■ Mannesmann Boru Endüstrisi T.A.S. (Board of Directors, Vice Chairman)
■ Borusan Mannesmann Vobarno Tubi SpA (Board of Directors, Vice Chairman)
■ Mannesmann Altersversorgung Service GmbH (Advisory Council, Chairman) since Jan. 1, 2004
■ Salzgitter Mannesmann Forschung GmbH (Steering Committee) since March 2, 2004
■ Röhrenwerk Gebr. Fuchs GmbH (Supervisory Board, Vice Chairman) since April 2, 2004

Dr.-Ing. Heinz Jörg Fuhrmann

Finance

a) ■ Mannesmannröhren-Werke AG
■ Salzgitter Handel GmbH (Vice Chairman)
■ Salzgitter Stahl GmbH
■ Salzgitter Flachstahl GmbH
■ Öffentliche Versicherung Braunschweig (Supervisory Board)

b) ■ UNIVERSAL Eisen und Stahl GmbH (Advisory Council) until April 4, 2003
■ Ets. Robert et Cie S.A.S. (Comité de Surveillance)
■ HANSAPORT Hafenbetriebsgesellschaft mbH (Supervisory Board)

a) Membership in other statutory Supervisory Boards within the meaning of § 125 of the German Stock Corporation Act [AktG]
b) Membership in comparable domestic and foreign governing bodies of commercial enterprises

The Executive Board (from left): Wolfgang Eging, Michael B. Pfitzner, Wolfgang Leese, Dr. Heinz Jörg Fuhrmann, Dr. Volker P.H. Schwich, Peter-Jürgen Schneider.

Helmut F. Koch

Tubes Division until December 31, 2003
Chairman of the Executive Board of Mannesmannröhren-Werke AG until December 31, 2003

a) ■ MHP Mannesmann Präzisrohr GmbH (Chairman) until March 31, 2004
■ Hüttenwerke Krupp Mannesmann GmbH (Vice Chairman) until December 31, 2003
■ Europipe GmbH (Chairman) until October 21, 2003
■ Salzgitter Stahl GmbH

b) ■ Vallourec S.A. (Conseil de Surveillance, Vice Chairman)
■ VALLOUREC & MANNESMANN TUBES S.A. (Conseil d'Administration) until June 30, 2003
■ V&M do Brasil S.A. (Conselho Consultivo)
■ Hüttenwerke Krupp Mannesmann GmbH (Shareholders' Committee) until December 31, 2003
■ Europipe GmbH (Shareholders' Committee) until December 31, 2003
■ Mannesmann Line Pipe GmbH (Advisory Council, Chairman) until March 31, 2004
■ Salzgitter Mannesmann Forschung GmbH (Advisory Council, Chairman) until December 31, 2003
■ Mannesmann Altersversorgung Service GmbH (Advisory Council, Chairman) until December 31, 2003
■ Röhrenwerk Gebr. Fuchs GmbH (Supervisory Board, Vice Chairman) until April 1, 2004

Michael B. Pfitzner

Trading Division
Member of the Executive Board of Salzgitter Stahl GmbH

a) ■ Peiner Träger GmbH
■ Salzgitter Handel GmbH (Chairman)
■ HSP Hoesch Spundwand und Profil GmbH

b) ■ UNIVERSAL Eisen und Stahl GmbH (Advisory Council, Chairman) until April 4, 2003
■ Ets. Robert et Cie S.A.S. (Comité de Surveillance, Chairman)
■ ThyssenKrupp GfT Bautechnik GmbH (Advisory Council) since June 18, 2003
■ Borusan Mannesmann Boru Yatirim Holding A.S. (Board of Directors) since October 7, 2003

Peter-Jürgen Schneider

Member of the Executive Board since April 1, 2003
Personnel and Services Division since October 1, 2003

a) ■ Ilsenburger Grobblech GmbH since June 13, 2003
■ Verkehrsbetriebe Peine-Salzgitter GmbH (Chairman) since June 18, 2003
■ PPS Personal-, Produktions- und Servicegesellschaft mbH since January 1, 2004

b) ■ HANSAPORT Hafenbetriebsgesellschaft mbH (Supervisory Board) since January 1, 2004

Dr.-Ing. Volker P.H. Schwich

Steel and Processing Divisions
Member of the Executive Board of Salzgitter Stahl GmbH
Chairman of the Management Board of Peiner Träger GmbH since December 10, 2003

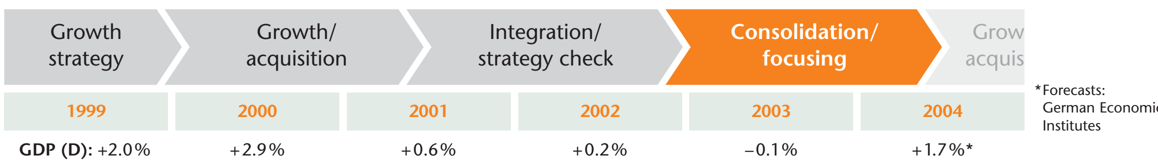
a) ■ Salzgitter Flachstahl GmbH (Chairman)
■ Peiner Träger GmbH (Chairman) until December 8, 2003
■ Ilsenburger Grobblech GmbH (Chairman)
■ HSP Hoesch Spundwand und Profil GmbH (Chairman)

b) ■ MPI Max-Planck-Institut für Eisenforschung GmbH (Administrative Board)

a) Membership in other statutory Supervisory Boards within the meaning of § 125 of the German Stock Corporation Act [AktG]
b) Membership in comparable domestic and foreign governing bodies of commercial enterprises

1.4 Strategic Orientation of the Company

The corporate strategy that was further developed in the financial year 2002 to reflect the expansion of the Group, was continued with activities geared to generating internal and selective external growth. In this context, the general economic situation had an impact on the implementation of the corporate strategy and necessitated a phase of consolidation and focusing.



Growth momentum continued to be mainly concentrated on those segments that are already the company's mainstays: the Steel, Trading and Tubes Divisions. The Services Division's growth will depend on its success in selling additional services either to external customers with substantial profit contributions or to Group customers – also at market prices. This will reduce the level of external services used and safeguard jobs in the Group. The growth of the Processing Division is also subject to limits that arise from, among other things, basic diverging objectives in the field of sales policy. Even within these limits, however, moderate expansion is conceivable if the division helps to promote sales for the Steel or Tubes Divisions with innovative products.

Our company's principal objective remains the preservation of its independence. The prerequisite of this objective is an above-average earnings performance compared with the sector as a whole. In this respect, a return on capital employed (ROCE) of 12% for the duration of an economic cycle remains our key profitability-related target.

In 2003 we gave high priority to the optimization of earnings power in conjunction with the maintenance of financial and balance sheet stability and solid liquidity.

Accordingly, one of the primary objectives of our activities in 2003 was to increase our profitability. The Group-wide profitability improvement program encompasses concrete steps that involve not only lasting cost reductions, but also revenue optimization as a result of new, higher-quality products. In conjunction with selective investments, these steps will contribute to the internal strengthening of the Salzgitter Group and promote the conditions for growth – also external – in the core Steel, Trading and Tubes divisions.

An important contribution to the Group's growth and the improvement of its performance is also being made by the reorganization of the internal Group organizational and management structures, which takes the increased demands being made on all members of staff into account. Consequently, the restructuring of the company from a parent company into a divisional group structure was accompanied by the introduction of corporate guidelines. The process of implementing these guidelines and embedding them firmly in all of the Group companies, which had begun in 2001, was completed successfully in 2003. Numerous projects have been embarked on, some of which have already been concluded in the meantime. The next step will consist of the further development of these Salzgitter specific guidelines to form a Group-wide management instrument. The implementation of these guidelines started this year and is being pursued in a consistent manner.

In the following we concentrate on a number of strategically significant activities at the individual divisions.

As in the previous year, the Steel Division developed further on the basis of internal growth. Salzgitter Flachstahl GmbH successfully concluded its extensive modernization of its hot strip mill in the middle of 2003. The investments are showing the expected progress with regard to process safety, product improvement and the expansion of the product range with even higher-strength steel grades, as demanded by our customers. In addition, two new investment projects were initiated: the commissioning of an additional blast furnace (C) and the erection of a third continuous casting line. These projects serve to adjust crude steel capacity to Group demand and help to compensate for the scheduled shut-downs in the metallurgy area due to the relining of the blast furnaces A and B. Beyond that, the new continuous casting line will improve slab quality for the most sophisticated steel grades and therefore the profitability of the rolled products.

In the Tubes Division, numerous individual measures were implemented to optimize operational processes and improve quality, in part in connection with replacement investments.

Realignment and consolidation activities were carried out at the associated companies. In December 2003, for example, Mannesmannröhren-Werke AG acquired the remaining 33 1/3 % share in DMV Stainless B.V., Helmond, from the Vallourec subsidiary Valtubes S.A., and now holds all of the shares in that company. DMV is one of the world’s leading producers of seamless stainless steel tubes made from alloyed steels and special materials.

In the fourth quarter of 2003, Europipe shut down the spirally welded pipe and coating plant in Joeuf (France); in the past this plant had posted losses as a result of structural, location-related disadvantages. This step was taken in the interest of securing Europipe’s future competitiveness.

A further adjustment operations had an impact on the Processing Division. In January 2003, Salzgitter AG acquired the outstanding shares in Oswald Hydroforming GmbH & Co. KG (OHC), increasing the 24.9 % interest it had held since 1999 to 100 %. OHC produces hydroformed components for renowned automobile manufacturers and suppliers to the automotive industry.

In June 2003 Salzgitter AG and OHC sold their entire interest in Salzgitter Antriebstechnik GmbH & Co. KG to Linamar GmbH, Frankfurt, a subsidiary of the Canadian automobile parts supplier Linamar Corporation, Guelph (Ontario). The substantial and discernibly increasing demand for capital to finance the necessary growth was the decisive reason for selling this company, which was outside of the company's mainstream business.

In the Trading Division, Hövelmann & Lueg GmbH & Co. KG (HLK) is being developed into a comprehensive service center for high-quality products. In this context, investments were committed to a universal cutting (stamping) line that is intended to open up new sales possibilities for HLK and extend the Group's value creation chain.

The Services Division also offers opportunities for growth. Hansaport Hafenbetriebsgesellschaft mbH (HAN) intends to expand its external customer business with imported coal by setting up another coal storage area and a fourth discharge crane.

In compliance with the overall economic situation, we reduced our pace of growth in the last financial year and entered a phase of consolidation. We will re-examine our growth opportunities when a sustained brightening of the general economic situation sets in.

1.5 The Salzgitter Share/Investor Relations

The Capital Market and the Performance of the Salzgitter Share

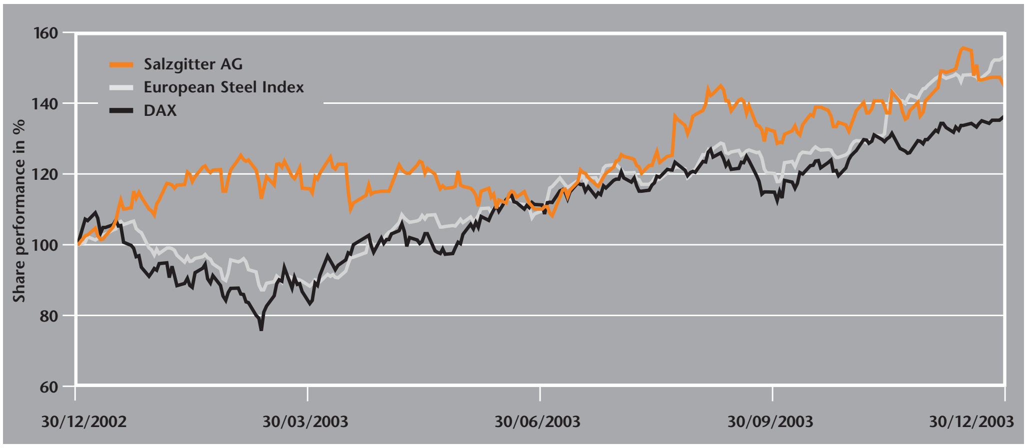
After three years of falling share prices, 2003 heralded the turnaround on the global capital markets.

The beginning of the stock market year was not particularly satisfactory. Influenced by the culminating political crisis in the Middle East, coupled with persistent global recessionary tendencies, the German share index, having started the year at 2,899 points, fell to 2,189 points – its lowest level since November 1995 – by March 12, 2003.

Starting from this low point, the stock markets revived continuously, receiving particular support from economic optimism that emerged in the USA and, from mid-year onwards, was underpinned and confirmed by a positive trend in the growth indicators. Based on the expectations that these conditions would also generate renewed economic growth for Europe, the DAX rose to a closing level of 3,965 points at the end of the financial year 2003.

At the beginning of the year, the Salzgitter share succeeded in largely decoupling itself from the adverse trend. From an opening price of € 6.00 in XETRA trading, the share underwent a strong phase of recovery that took it to € 7.60 during the course of the first quarter. In view of the failure of economic growth to materialize by that point, the company's report on the first quarter contained a cautious outlook for 2003 as a whole. This led to a temporary fall in the price after April 15, 2003. With the share subsequently recovering to a level around € 7.30, the payment of the dividends in May led to a price markdown as expected. At the beginning of July, confidence-building news from the general economic front was accompanied by an upward trend, with the result that the dividend markdown was compensated for by mid-July. A re-emergence of doubt concerning the lasting nature of the global economic recovery led at the beginning of September to a temporary consolidation on the market as a whole, which the Salzgitter share was also unable to evade. Soon afterwards, confidence returned and a positive market trend prevailed. On December 15, the share reached its annual high of

Salzgitter AG share price vs. European Steel Index and DAX in 2003



Source: DBAG Xetra closing prices, Datastream STEELEU

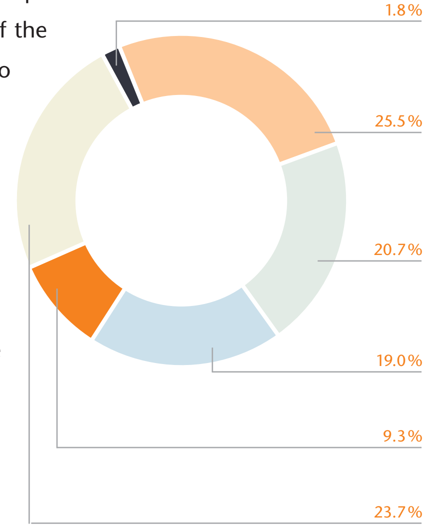
€ 9.35 in XETRA trading after a gratifying incoming order in the Tubes Division was announced. The Salzgitter share closed the financial and stock market year 2003 at € 8.79. This represented an increase of 47% over the previous year's closing price, or an aggregate return of 52% if the dividend is added. The DAX rose by 37% in the same period. The European Steel Index performed slightly better, rising by 54% by year-end after the Salzgitter share had outpaced the index for most of the year.

Some 21.9 million Salzgitter shares were traded on the German stock markets during the course of the year (2002: 20.6 million), of which 94.2% were traded on the floor at Frankfurt and in XETRA computer trading (2002: 93.8%).

The shareholder structure remained practically unchanged last year. With the help of an analysis that was carried out in August, supplemented by the Investor Relations department's own information, it was possible to identify almost 80% of the shareholders. In addition to the unchanged holdings of the two major shareholders, 19% of the shares were held by German institutional investors at that point. This means that if the company's holdings of its own shares are included, at least 67% of the identified shares were held by investors in Germany. A further 9.3% were found to be in the hands of international investors. The 23.7% of shares that remained unidentified are likely to be held predominantly by domestic and foreign private investors.

A total of 53.8% of the issued shares in Salzgitter AG are in portfolio investments or float freely.

Shareholder structure:



Options/Own Shares

At the end of the financial year 2003, corporate officers and employees held 861,400 subscription rights for a respective share of Salzgitter AG. These rights were issued as part of the 1998 stock option scheme for management staff.

As of December 31, 2003, the company's own shares totaled 1,134,317. This represents a decrease of 1,865 compared with the figure for December 31, 2002 (1,136,182). In the course of the financial year under review, the company acquired 5,000 of its own shares on the stock exchange at an average price of € 6.52 in accordance with the authorization given by the General Meeting of Shareholders of Salzgitter AG for repurchasing the company's own shares from June 19, 2002. A total of 6,844 shares were used, in accordance with the authorization of the General Meeting of Shareholders of Salzgitter AG, at an average price of € 7.45 as equivalent payment for services rendered by third parties in the period under review. Moreover, 21 shares were issued to staff members as a bonus.

Information for Investors

		2002	2003
Nominal capital	€ mil.	159.5	159.5
Number of shares	million	62.4	62.4
Market capitalization as of December 31, 2003	€ mil.	373.7	548.5
Total dividends	€ mil.	20.0	15.6
Price as of December 31, 2003[1)]	€	5.99	8.79
Stock market high[1)]	€	12.65	9.35
Stock market low[1)]	€	5.85	5.88
Earnings per share (EPS)	€	1.05	0.52
Cash flow per share (CPS)	€	2.51	3.58
Dividend per share (DPS)	€	0.32	0.25

1) Information based on XETRA trading prices in Frankfurt.

Dividends

The Executive Board and the Supervisory Board propose that the General Meeting of Shareholders resolve to pay a dividend for financial year 2003 in the amount of € 0.25 for each share.

Based on the nominal capital stock of € 159.5 million, the proposed payment amounts to € 15.6 million.

Tax invoice	**€/share**
Cash dividend	0.20
Creditable capital gains tax and solidarity surcharge	0.05
Dividend	**0.25**

Investor Relations

Salzgitter AG's investor relations work was intensified further in the financial year 2003.

In addition to analysts' conferences in Frankfurt and London on the occasion of the publication of the results of the financial year 2002, and the half-year results of the financial year 2003, Salzgitter AG held numerous events for the capital markets in the course of the last year. In addition to presentations at investors' conferences, these included road shows in Germany and abroad. The company also conducted numerous discussions with analysts and bankers, as well as institutional and private investors. Other features of the track proven information program were guided tours of plants of the Steel and Tubes Divisions, which contributed as much as the intensive exchange of ideas with members of the Executive Board to communicate a comprehensive and lively picture of the structures, products, processes and potentials of the Salzgitter Group. The interest in Salzgitter AG shown by capital market participants in Germany and abroad remained high, although the financial services sector continued to undergo structural changes in 2003 as a result of the persistent downhill slide on the stock markets. These changes were felt particularly in the field of share research, with the result that the financial analysts' observation of the steel sector lost some of its intensity.

A special highlight was the award won by Salzgitter AG's capital market communication at the "Capital Investor Relations Award" event held by the business magazine "Capital" and the "German Association for Financial Analysis and Asset Management" (DVFA) on July 9, 2003. In the MDAX category, the company achieved a gratifying third place behind two well-known consumer goods companies. While the company had already marked up good rankings in the previous years, this award represents the best rating to date with regard to investors' and analysts' appraisal of the company's investor relations work.

1.6 Environmental Protection

Achieving a balance between the economic, ecological and social needs of modern societies without impairing the development opportunities of future generations: this is the central idea to which Salzgitter AG feels committed as the sustainability debate gains increasing significance. In committing ourselves to these issues, we are taking account of such significant aspects as the prudent utilization of resources, the sustainability of commercial activities, social commitment and, above all, future viability. An increasing density of regulations and the resulting interconnections between external environmental and energy policy influences and entrepreneurial necessities, in addition to an increasing public interest, constitute the framework of action for our decision-making processes. Salzgitter AG is convinced that steel is one of the materials holding the greatest future potential. Its outstanding recyclability sets it apart from other materials and lends steel a central role in the sustainability debate.

Environmental protection has also been firmly anchored in our 5P corporate guidelines as a key forward looking objective. Consideration of environmental protection aspects is established as an essential component of quality policy and production processes. We regard environmental protection and the sustainable treatment of all resources as investments in our future. We have put these high standards into practice in a Group environmental protection guideline.

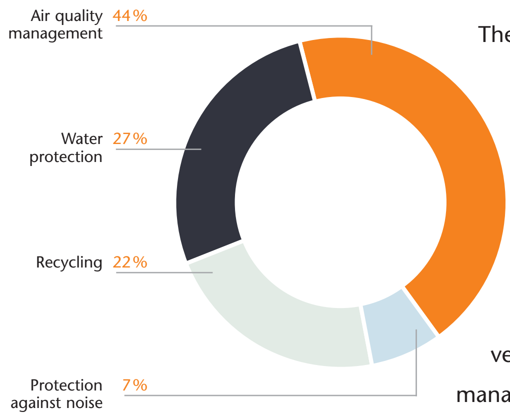
One of the primary concerns of Salzgitter AG's environmental protection activities is the use of leading edge recycling technologies, with solutions to problems being sought across corporate and sector boundaries and, increasingly, developed jointly with other parties. In 2003, for example, a pilot project for a new technical solution in the field of automobile recycling was tackled in cooperation with Volkswagen AG. In future, this process will enable the recycling and reuse of shredded non-ferrous light fraction of automobiles that was previously disposed of. The plan is to process around 70,000 tons of shredded non-ferrous residues per year. The resulting 20,000 tons of shredded granulates will be processed for further use in the blast furnace. This joint effort will ensure compliance with the standards laid down in the end of life vehicle directive. Taking a broader view, the plant can also be utilized to recycle other materials.

The continuous optimization of the safe handling of materials flows required for production was and remains a challenge. At Vallourec & Mannesmann Deutschland GmbH, a central hazardous materials management system was set up for supervisory purposes. At the integrated iron and steel works in Salzgitter, a comprehensive system for the continuous monitoring of incoming and outgoing loads of dangerous goods has already been implemented at the plant gates. This increases transportation safety throughout the works premises by preventive means.

Air pollution control measures were another central topic for Salzgitter AG in 2003. The emission of nitric oxide from the Ilsenburg plate rolling mill, for example, was again continuously reduced in spite of higher output.

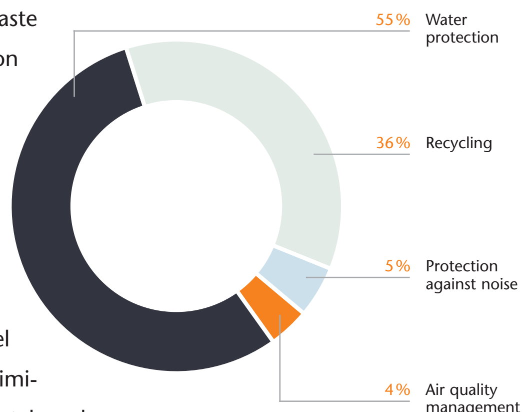
In future, the certification of environmental management systems in accordance with DIN EN ISO 14001 will be gaining increasing significance. Salzgitter AG is acknowledging and responding to this challenge. In the Tubes Division, for example, the sites at Zeithain, Rath and Reisholz and the Hüttenwerke Krupp Mannesmann GmbH iron and steel works in Duisburg were certified in 2003. The required steps for three pilot operations were initiated at our integrated iron and steel works in Salzgitter and it will consequently receive initial certification in mid-2004.

Steel Division environmental protection data 2003



The Steel Division's total expenditure on environmental protection amounted to € 130 million. Some 44% of this sum went towards reducing air pollution, 27% towards preventing water pollution, 22% towards recycling and waste management and 7% towards noise prevention. At the Germany-based companies in the Tubes Division, the expenditure on environmental protection amounted to some € 10 million. This aggregate sum was apportioned as follows: measures to reduce air pollution 4%, prevention of water pollution 55%, waste management 36% and noise prevention measures 5%.

Tubes Division Germany-based companies environmental protection data 2003



2003 was marked by significant changes in the general environmental and energy policy conditions that also impacted steel producers. EU efforts to implement a policy on chemicals, for example, will influence industrial processes from registration to authorization, and also restrictions if applicable. In this area, the steel and steel processing industry has already done a great deal of preliminary work that has to be taken into account when the system takes shape. Salzgitter AG's objective in this field is to become a part of the policy shaping process by its strong commitment and anticipation of expected developments.

Recognition under the hardship case clause of the Renewable Energy Law (EEG) was achieved for the sections plant in Peine. This led to a reduction of around € 2 million per year in energy procurement costs. All in all, however, substantial burdens from taxes and contributions remain that the government justifies on ecological grounds. The costs incurred by the steel plants at Salzgitter and Peine as a result of the Renewable Energy Law, Cogeneration Law and Ecology Tax will continue to total around € 6 million.

The EU directive on emission trading came into force in October 2003. It will soon be integrated into national legislation and the trading with CO_2 emission authorizations is scheduled to commence on

January 1, 2005. In cooperation with the other German steelmaking companies, Salzgitter AG has already made early interventions in the debate on emission trading. We have pointed out the reductions in CO_2 emissions that have already been achieved, for example, and intend to exert a pro-active influence on establishing an economy compatible organization of the trading system. Irrespective of the upcoming introduction of emission trading, the German steel industry has committed itself to a 22% reduction in specific CO_2 emissions, compared with their 1990 level, by 2012. The Steel Division of Salzgitter AG has made an exceptionally large contribution to the CO_2 reductions that have already been attained. In order to prepare the company in a targeted manner for upcoming emission trading, an interdisciplinary team was set up at the Salzgitter Group in 2003 to systematically record the issues relating to emission trading and prepare the necessary steps.

1.7 Social and Cultural Commitments

Salzgitter AG also engages in various social and cultural assignments at its industrial locations.

For example, the company cooperates with citizens, small and medium-sized companies and other industrial enterprises in supporting the Salzgitter Citizens' Foundation ("Bürgerstiftung Salzgitter"). The Foundation was established and endowed with a starting capital of almost € 700,000. This sum provides the basis for using capital income and donations to initiate charitable projects that promote the municipality of Salzgitter and the surrounding area in the fields of education, youth, culture, social issues, sport and the environment. The Foundation responds to ideas, problems and concerns of citizens and institutions in order to devise and implement solutions in cooperation with partners. In the year under review, the Foundation devoted a great deal of attention to the establishment of "Salzgitter Children's University", whose activities in the fields of energy, mobility and the environment are now attracting hundreds of children.

As other groups in the steel industry, Salzgitter AG endeavors to improve the cooperation between schools and business by way of its network of school partnerships. With the support of experts from within the Group, the Gymnasium CJD Jugenddorf Christophorusschule (high school) in Braunschweig became the first general education school in Germany to obtain certification in accordance with DIN EN ISO 9001:2000 from Lloyd's Register Quality Assurance.

A foundation chair "Structural Maintenance and Supporting Structures" at the Technical University of Braunschweig was established as of June 1, 2003. This chair in the civil engineering faculty, limited initially to seven years, was made possible by the commitment of Salzgitter AG. The partners, the university, the federal state and the Group intend to use the cooperation to sharpen the university's profile, enhance the curriculum and the attractiveness of TU Braunschweig for the ascending generation of engineers, as well as highlighting the entire region as such. On top of that, the mutual transfer of knowledge will help future users and decision-makers in gaining better understanding of the potential of steel and enable them to develop new products and processes. The objective is to advance the development of steel as a modern and highly versatile material in terms of its utilization and thereby extend its application areas.

Mannesmannröhren-Werke AG reported a special event in the cultural area. The "Männerchor 1878 der Mannesmannröhren-Werke AG e.V." (men's choir) celebrated its 125th birthday, thereby providing an object lesson in how working life and cultural activities can be successfully linked.

1.8 Supervisory Board

Dr. Wilfried Lochte

Chairman

Chairman of the Executive Board of MAN Nutzfahrzeuge AG, retired

Member of the Executive Board of MAN Aktiengesellschaft, retired

a) ■ SCHMITZ Cargobull AG (Chairman) until December 16, 2003
■ KNORR-Bremse AG (Vice Chairman)
■ KNORR-Bremse Systeme für Nutzfahrzeuge GmbH (Vice Chairman)
■ CLAAS KGaA until January 12, 2004

b) ■ CLAAS KGaA (Shareholders' Committee) until January 12, 2004

Horst Schmitthenner

Vice Chairman

Managing Member of the Executive Board of IG Metall until August 2003

a) ■ Salzgitter Stahl GmbH (Vice Chairman)

Dr. Dieter Brunke

Member of the Executive Board of Preussag AG, retired

b) ■ JC INSITU Beteiligungsgesellschaft mbH (Supervisory Board)
■ Solyp Informatik GmbH (Advisory Council, Chairman)

Dr. Gunter Dunkel

Member of the Executive Board of Norddeutsche Landesbank Girozentrale

a) ■ Viscardi AG
■ üstra Intalliance AG
■ Vattenfall Europe Mining AG

b) ■ NORD/LB Luxembourg S.A. (Administrative Council)
■ Skandifinanz und Bank AG (Administrative Council)
■ A/S NORD/LB Latvija plc (Supervisory Board, Chairman)
■ NORD/LB Bank Polska, S.A. (Supervisory Board, Vice Chairman)
■ AB Bankas NORD/LB Lietuva (Supervisory Board, Chairman)

Hannelore Elze

Since April 1, 2003

Secretary of IG Metall labor union – Executive Board

a) ■ V&M DEUTSCHLAND GmbH since March 1, 2003
■ Hydro Aluminium Deutschland GmbH (Vice Chair) since May 2003
■ Babcock Borsig AG until May 2003

b) ■ NORSK Hydro Deutschland Verwaltungsrat GmbH (Vice Chair) since May 2003

Hans-Michael Gallenkamp

Until January 15, 2004

Chairman of the Managing Board of Felix Schoeller Holding GmbH & Co. KG

a) ■ Krombacher Brauerei Bernhard Schadeberg GmbH & Co. KG

b) ■ Jacob Jürgensen GmbH (Advisory Council)

a) Membership in other statutory Supervisory Boards within the meaning of § 125 of the German Stock Corporation Act [AktG]
b) Membership in comparable domestic and foreign governing bodies of commercial enterprises

Kurt van Haaren
Chairman of the German Post Office Labor Union, retired
no membership of other governing bodies

Prof. Dr. Heinz Haferkamp
Professor at the University of Hanover
a) ■ ALSTOM LHB GmbH
■ Produktionstechnisches Zentrum GmbH

Prof. Dr. Rudolf Hickel
Professor of Economics, specializing in Finance, at the Economics Faculty of the University of Bremen
a) ■ "GEWOBA – Aktiengesellschaft Wohnen und Bauen"
■ Howaldtswerke-Deutsche Werft AG
■ ALLIANZ AG

Dr. Gunther Krajewski
Head of Ministry Department, Department Head at Lower Saxony Ministry of Finance
a) ■ Flughafen Hannover-Langenhagen GmbH
■ Öffentliche Lebensversicherung, Braunschweig since April 1, 2003
■ Öffentliche Sachversicherung, Braunschweig since April 1, 2003

Prof. Dr. Hans-Jürgen Krupp
President of the state central banks in the Freie und Hansestadt Hamburg, Mecklenburg-Vorpommern and Schleswig-Holstein, retired
no membership of other governing bodies

Hans-Jürgen Ladberg
Chairman of the Central Works Council at V&M DEUTSCHLAND GmbH
Vice Chairman of the Group Works Council at Salzgitter AG
a) ■ V&M DEUTSCHLAND GmbH

Bernd Lange
Member of the European Parliament
no membership of other governing bodies

Dr. Arno Morenz
Vice President of DSW Deutsche Schutzvereinigung für Wertpapierbesitz e.V.
a) ■ alfabet meta-modeling AG (Chairman)
■ Flossbach & von Storch Vermögensmanagement AG (Vice Chairman)
b) ■ GE Management Services (Board of Directors), Dublin
■ Fidelity Funds (Administrative Board), Luxembourg

Dr. Hannes Rehm

Vice Chairman of the Executive Board of Norddeutsche Landesbank Girozentrale

a) ■ Berlin-Hannoversche Hypothekenbank AG
■ Niedersächsisches Staatstheater Hannover GmbH

b) ■ Fürstenberg Ehemalige Herzoglich Braunschweigische Porzellanmanufaktur Fürstenberg (Supervisory Board, Chairman)
■ Bremer Landesbank Kreditanstalt Oldenburg-Girozentrale (Supervisory Board)
■ LBS Norddeutsche Landesbausparkasse Berlin-Hannover (Supervisory Board)
■ Niedersächsische Gesellschaft für öffentliche Finanzierung mbH (Supervisory Board)
■ NILEG Norddeutsche Gesellschaft für Landesentwicklung mbH, Wohnungsbau und Kommunale Anlagen (Supervisory Board)

Dr. Rudolf Rupprecht

Chairman of the Executive Board of MAN AG

a) ■ MAN Nutzfahrzeuge AG (Chairman)
■ MAN B&W Diesel AG (Chairman)
■ MAN Roland Druckmaschinen AG (Chairman)
■ MAN Technologie AG (Chairman)
■ Ferrostaal AG (Chairman)
■ RENK AG (Chairman)
■ SMS AG (Chairman)
■ Buderus AG
■ Walter Bau-AG

b) ■ MAN B&W Diesel A/S (Board of Directors)

Ernst Schäfer

Chairman of the Group Works Council at Salzgitter AG
Chairman of the Works Council at Salzgitter Flachstahl GmbH

a) ■ Salzgitter Flachstahl GmbH

Rainer Schmidt

Until March 31, 2003
Member of the Management Board of V&M Deutschland GmbH since April 1, 2003

a) ■ Vodafone AG until March 31, 2003
■ Vodafone Deutschland GmbH until March 31, 2003
■ Gröditzer Stahlwerke GmbH i. L. until September 30, 2003
■ V&M DEUTSCHLAND GmbH until February 26, 2003

Christian Schwandt

Chairman of the Works Council at PPS Personal-, Produktions- und Servicegesellschaft mbH

a) ■ PPS Personal-, Produktions- und Servicegesellschaft mbH

Rainer Thieme

Since January 29, 2004
Chairman of the Management Board of Wilhelm Karmann GmbH, retired

a) ■ Köster AG
■ Oldenburgische Landesbank AG
■ PHOENIX AG
■ SCHMITZ Cargobull AG
■ ZF Friedrichshafen AG

b) ■ Leopold Kostal GmbH & Co. KG (Advisory Council)

a) Membership in other statutory Supervisory Boards within the meaning of § 125 of the German Stock Corporation Act [AktG]
b) Membership in comparable domestic and foreign governing bodies of commercial enterprises

Friedrich-Wilhelm Tölkes

Chairman of the Works Council at Hüttenwerke Krupp Mannesmann GmbH

a) ■ Mannesmannröhren-Werke AG

Hartmut Tölle

Chairman of the DGB area Lower Saxony/ Bremen and Saxony-Anhalt

no membership of other governing bodies

Dr. Martin Winterkorn

Chairman of the Executive Board of Audi AG

Member of the Executive Board of Volkswagen AG

a) ■ FC Bayern München AG
■ Infineon Technologies AG
■ TÜV Süddeutschland Holding AG

b) ■ SEAT S.A.
■ Automobili Lamborghini S.p.A.

1.9 Report of the Supervisory Board

In the light of economic stagnation in Germany and restrained growth – at best – in the majority of other European markets, the overall results generated by Salzgitter AG in the financial year 2003 were satisfactory. Extraordinary efforts had to be made in the business segments especially affected by the difficult business environment – such as construction industry steel products. The company continued to work consistently towards attaining its strategic goals, by committing further investments to strengthen its core areas of competence, but also with disinvestments geared to shaping and securing the company's future.

Monitoring Management and Advising the Executive Board

The Supervisory Board provided regular advice to the Executive Board in the management of the company and monitored its activities. The Supervisory Board was kept informed through the written and verbal reports of the Executive Board on a regular, timely and comprehensive basis with regard to the intended business policy, including corporate planning and further strategic development, the profitability of the company, the course of business and the situation of the company, including any existing risks. Deviations in the course of business from the plans and goals as well as their respective causes were examined and discussed.

In four Supervisory Board meetings the Supervisory Board dealt with the current situation and development of the Group on the basis of Executive Board reporting. It discussed in detail those particularly important business operations submitted by the Executive Board that require the approval of the Supervisory Board. The most important matters to be discussed and approved were as follows:

- the planned investment for the commissioning of Blast Furnace C, including the extension of the continuous casting line 3 project at Salzgitter Flachstahl GmbH,
- the planned investment in the acquisition of the company grounds and buildings of Salzgitter Automotive Engineering GmbH & Co. KG,
- the planned investment in an additional coal storage area and a fourth discharge crane at Hansaport Hafenbetriebsgesellschaft mbH,
- the cooperation of Salzgitter AG and its subsidiary DEUMU Deutsche Erz- und Metall-Union GmbH with Volkswagen AG in the processing of shredder residues,
- the sale of Salzgitter Antriebstechnik GmbH & Co. KG,
- risk management in the Group,
- the development of management staff in the Group and
- the status of the profitability improvement program.

In its meeting on December 18, 2003, the Supervisory Board dealt in detail with the corporate planning submitted by the Executive Board for the financial years 2004 to 2006. Finance, investment and personnel planning were discussed in particular and the investment planning for the financial year 2004 was approved.

Dr. Wilfried Lochte,
Chairman of the
Supervisory Board.

In addition, the strategy committee formed by the Supervisory Board met once and held intensive discussions with the Executive Board on the updating of the company's strategic orientation that new findings and experience had necessitated. The results of these discussions were subsequently presented to the Supervisory Board plenum, where they were discussed in detail.

The members of the presiding committee of the Supervisory Board met once to discuss the preparation of decisions on Executive Board matters.

The personnel committee of the Supervisory Board, which is authorized to approve certain personnel procedures for the latter, did not have to be called upon. No further committees were formed by the Supervisory Board.

The Supervisory Board received no reports from any Executive Board member with regard to conflicts of interest in the financial year 2003 and none of the members of the Supervisory Board communicated any conflicts of interest to the Supervisory Board.

Annual Financial Statements and Consolidated Financial Statements as of December 31, 2003

The principal subject of the Supervisory Board meeting on April 7, 2004, involved the annual financial statements and the consolidated financial statements of Salzgitter AG as of December 31, 2003, which were both submitted by the Executive Board, as well as the joint management report for the company and the Group for financial year 2003. Prior to this, the auditor PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hannover, selected by the General Meeting of Shareholders on May 28, 2003, reviewed both financial statements on behalf of the Supervisory Board and provided them with an unqualified auditors' certificate. The auditor thereby confirmed that the balance sheet accounting, valuation and consolidation carried out in the consolidated financial statements complied with International Accounting Standards (IAS). The auditors also reviewed the early warning system installed at Salzgitter AG and verified that the entire system meets all legal requirements. When commissioning the auditor, the Supervisory Board waived the right to determine the focus of the auditor's review of the aforementioned financial statements.

The annual financial statements, the consolidated financial statements, the joint management report for the company and the Group, the Executive Board proposal on appropriation of the balance sheet profit and the auditor's reports were available to all members of the Supervisory Board 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 April 7, 2004, and elaborated upon the most important findings of their audit.

On the basis of its own examination of the annual financial statements, the consolidated financial statements and the joint management report, the Supervisory Board approved the findings of the auditor's review. It made no objections to the final result of the audit. The Supervisory Board approved the annual financial statements and the consolidated financial statements. The financial statements are thereby adopted. The Supervisory Board agreed with the proposal made by the Executive Board on the appropriation of the balance sheet profit.

Changes to the Executive and Supervisory Boards

Supervisory Board

The Supervisory Board was re-elected in rotation at the company's General Meeting of Shareholders on May 28, 2003. The following members were elected:

10 representatives of the shareholders, namely

- Dr. Dieter Brunke, Goslar, Member of the Executive Board of Preussag AG, retired
- Dr. Gunter Dunkel, Hannover, Member of the Executive Board of Norddeutsche Landesbank Girozentrale
- Hans-Michael Gallenkamp, Osnabrück, Chairman of the Management Board of Felix Schoeller Holding GmbH & Co. KG
- Prof. Dr. Heinz Haferkamp, Garbsen, Professor at the University of Hanover
- Dr. Gunther Krajewski, Hemmingen, Head of Ministry Department, Department Head at Lower Saxony Ministry of Finance
- Dr. Wilfried Lochte, Groß Schwülper, Chairman of the Executive Board of MAN Nutzfahrzeuge AG, retired, Member of the Executive Board of MAN Aktiengesellschaft, retired
- Dr. Arno Morenz, Aachen, Vice President of DSW Deutsche Schutzvereinigung für Wertpapierbesitz e.V.
- Dr. Hannes Rehm, Hannover, Vice Chairman of the Executive Board of Norddeutsche Landesbank Girozentrale
- Dr. Rudolf Rupprecht, Augsburg, Chairman of the Executive Board of MAN AG
- Dr. Martin Winterkorn, Lenting, Chairman of the Executive Board of Audi AG

10 employee representatives, namely

- Hannelore Elze, Schwelm, Secretary of IG Metall labor union – Executive Board
- Kurt van Haaren, Delmenhorst, Chairman of the German Post Office Labor Union, retired
- Prof. Dr. Rudolf Hickel, Bremen, Professor of Economics, specializing in Finance, at the Economics Faculty of the University of Bremen
- Hans-Jürgen Ladberg, Düsseldorf, Chairman of the Central Works Council at V&M DEUTSCHLAND GmbH
- Bernd Lange, Burgdorf, Member of the European Parliament

- Ernst Schäfer, Burgdorf/Berel, Chairman of the Group Works Council at Salzgitter AG, Chairman of the Works Council at Salzgitter Flachstahl GmbH
- Horst Schmitthenner, Niedernhausen, Managing Member of the Executive Board of IG Metall
- Christian Schwandt, Wolfenbüttel, Chairman of the Works Council at PPS Personal-, Produktions- und Servicegesellschaft mbH
- Friedrich-Wilhelm Tölkes, Duisburg, Chairman of the Works Council at Hüttenwerke Krupp Mannesmann GmbH
- Hartmut Tölle, Hannover, Chairman of the DGB area Lower Saxony/Bremen and Saxony-Anhalt

and

- as a further (so-called neutral) member, Prof. Dr. Hans-Jürgen Krupp, Darmstadt, President of the state central banks in the Freie und Hansestadt Hamburg, Mecklenburg-Vorpommern and Schleswig-Holstein, retired

At its 132nd meeting on May 28, 2003, the Supervisory Board elected Dr. Lochte as Chairman and Mr. Schmitthenner as Vice Chairman of the Supervisory Board.

Mr. Hans-Michael Gallenkamp laid down his mandate as a member of the Supervisory Board effective as of January 15, 2004. The Supervisory Board thanks Mr. Gallenkamp for his constructive contributions. On January 29, 2004, Braunschweig Local Court appointed Mr. Rainer Thieme, Chairman of the Management Board of Wilhelm Karmann GmbH, retired, as a member of the Supervisory Board in his stead.

Executive Board

Prof. Dr. Günter Geisler (Personnel and Services Division) retired from the Executive Board of Salzgitter AG as of September 30, 2003, Mr. Helmut F. Koch (Tubes Division) as of December 31, 2003. The Supervisory Board thanks Prof. Dr. Geisler – a member of the Executive Board of the company since 1979 – and Mr. Koch – a member of the Executive Board of Salzgitter AG since 2000 and Chairman of the Executive Board of Mannesmannröhren-Werke AG since June 1, 1999 – for their commitment to the good of the company.

Effective as of April 1, 2003, the Supervisory Board appointed Mr. Peter-Jürgen Schneider as Personnel Director and member of the Executive Board, responsible since October 1, 2003, for Personnel and the Services Division. In addition, Mr. Wolfgang Eging was appointed effective as of October 1, 2003, for a five-year period as member of the Executive Board of Salzgitter AG, responsible since January 1, 2004, for the Tubes Division.

The Supervisory Board thanks the Executive Board and all of the Group employees for their commitment in the financial year 2003.

Salzgitter, April 7, 2004

The Supervisory Board

Dr. Wilfried Lochte
Chairman

1.10 Corporate Governance

Structure

In accordance with the relevant German corporate laws that apply to the company, corporate governance (management and control) in the Salzgitter Group is practiced by the governing bodies at Salzgitter AG; these bodies are the

- Executive Board,
- Supervisory Board and
- General Meeting of Shareholders.

The **Executive Board** manages the Group. It consists of six members (at present there are temporarily seven members due to a succession regulation), in part with functional and in part with divisional competence, and aims to achieve the greatest possible return on the capital invested within the scope of the corporate purpose. The tasks of the Executive Board consist, in particular, in strategic alignment and further development of the company, determination of the use of financial resources as well as monitoring the management of the companies in the various divisions that largely act on their sole responsibility as a result of the decentralized corporate structure. The Executive Board is responsible for preparing the annual financial statements and the consolidated financial statements. The members of the Executive Board are liable to the company for any dereliction of duties.

The **Supervisory Board** monitors and advises the Executive Board. Pursuant to the provisions of the Coal and Steel Industry Codetermination Act of 1951 that applies to the company, it consists of 21 members: 10 shareholders' representatives and 10 employee-elected representatives plus one further member who is proposed by the other 20 members to the General Meeting of Shareholders for appointment. Its members exercise their functions as secondary occupations. The Supervisory Board's sphere of responsibility includes the appointment of the members of the Executive Board and review of the annual financial statements and the consolidated financial statements. The Supervisory Board is required to comment on the results of the legally prescribed review of these financial statements by an independent auditor. Particularly important Executive Board decisions are subject to its approval. The members of the Supervisory Board are liable to the company for any dereliction of duties.

The **General Meeting of Shareholders** is responsible for fundamental decisions. It decides on the use of the balance sheet profit, the discharge of the Executive Board and the Supervisory Board as well as appointment of an auditor on an annual basis. The General Meeting of Shareholders elects the Supervisory Board every five financial years and decides on changes to the articles of incorporation and measures involving the procurement of capital. In accordance with the law, contracts with far-reaching consequences and other particularly important measures require the approval of the General Meeting of Shareholders. A qualified majority is required for certain resolutions of the General Meeting of Shareholders. Each share entitles the bearer to one vote.

Instruments

On the basis of this legally regulated structure, the Supervisory Board and the Executive Board avail themselves of a set of instruments in order to fulfill their management and control responsibilities.

The essential instruments of the Supervisory Board include
- the obligation of the Executive Board to practice regular, timely reporting,
- regular discussion of the business trend, planning and strategy with the Executive Board,
- determining the departments of the members of the Board,
- definition of the business activities and measures of the Executive Board which may be carried out only with Supervisory Board approval,
- the obligation of the Executive Board to submit annual long-term business plans and to report on the execution of such prior plans,
- the reporting of the auditor on the annual financial statements and the consolidated financial statements,
- agreement on a performance-related component as remuneration for the members of the Executive Board (measured by the return on capital employed – ROCE).

The instruments for management and control employed by the Executive Board comprise the following:
- definition of the principles for management of the Group in a Group guideline for management and organization,
- definition of reporting obligations and authorization requirements in Group guidelines for individual areas,
- preparation of strategic plans for all divisions and fields of business as well as their regular update and checks on progress,
- obligation of all Group companies to prepare annual sales, investment, financial and personnel planning as well as regular checks on the progress of same,
- quarterly controlling meetings between the Executive Board and the Group companies,
- establishment of a monitoring system for early risk detection (risk management),
- regular internal audits and special audits,
- agreement on targets and a performance-related component as remuneration of the business managers of Group companies and managerial employees.

Management and Controlling in the Financial Year 2003

In financial year 2003 the **shareholders** exercised their rights at the General Meeting in Braunschweig on May 28, 2003. A total of 60.68% of all voting rights were represented. The most important decisions concerned the following issues:
- appropriation of the balance sheet profit of financial year 2002 (dividend of € 0.32 per share, remaining unappropriated earnings brought forward),

- discharge of Executive Board and Supervisory Board (approval granted),
- selection of the auditors for financial year 2003 (PwC Deutsche Revision),
- re-election of the Supervisory Board (elected in accordance with nomination),
- changes to the articles of incorporation with regard to changes in the German Stock Corporation Act (AktG) and other laws affecting committees of the Supervisory Board, the obligation of the Supervisory Board to approve certain measures of the Executive Board, remuneration of the Supervisory Board and announcements by the company (approval granted),
- authorization to increase the capital ("Authorized Capital 2003"; approval granted),
- authorization to issue convertible bonds/bonds with warrants ("Contingent Capital 2003"; approval granted),
- authorization to purchase and sell the company's own shares (approval granted) and
- approval of a controlling and profit transfer agreement (approval granted).

All of the resolutions proposed by the Executive Board and the Supervisory Board were approved with a large majority.

In 2003 the **Executive Board** developed, in particular, the strategic orientation of the company in the light of new findings and experiences and redefined it after consulting with the strategy committee of the Supervisory Board. Proceeding on this basis, the Executive Board introduced measures to implement the strategic goals of the company, initiated projects and arranged for concrete investments and disinvestments. The development of the various Group companies was monitored in a timely fashion through regular budgeted/actual comparisons of their key data, then dealt with in controlling meetings with the management staff on a quarterly basis and corrected if necessary. In this respect, special emphasis was given to the Steel, Tubes and Processing Divisions. Processed steel products for structural and civil engineering had to hold their position in a very difficult market environment. The Executive Board provides a detailed report on risk management in the Group management report. Moreover, the Executive Board prepared corporate planning for the Group for the financial years 2004 to 2006 and concluded agreements on the targets for the Group companies with their respective management staff. It ensured that compliance with the management and control recommendations of the German Corporate Governance Code was monitored continuously.

The remuneration granted to the members of the Executive Board is detailed in the Notes to the Consolidated Financial Statements.

The terms governing the appointment of the members of the Executive Board of Salzgitter AG are regulated in employment contracts of identical structure and basically identical content.

The remuneration consists of a basic monthly component and a variable component. The variable component is divided into a performance-related part calculated by the return on capital employed (ROCE) and a qualitative part calculated on the basis of the overall performance of the respective individual member of the Executive Board.

In its report to the General Meeting of Shareholders, the **Supervisory Board** provides separate information on the details of its monitoring activity in the financial year 2002 and its decisions on the successors for retiring members of the Executive Board. In particular, the Supervisory Board was informed through the written and verbal reports of the Executive Board on a regular and comprehensive basis with regard to the intended business policy including corporate planning, the profitability of the company, the risk situation, the course of business activities and the general situation of the company, as well as a number of important individual business matters. Deviations between the current business trend and the prepared plans and targets were discussed. Together with the Executive Board, the Supervisory Board deliberated and reached decisions concerning those business matters whose transaction and implementation require the prior approval of the latter in accordance with the rules of internal procedure.

The annual remuneration for the Supervisory Board was last determined by the General Meeting of Shareholders on May 23, 2001, as follows:

- Chairman € 40,000,
- Vice Chairman € 30,000,
- Other members € 20,000.

The members of the Supervisory Board do not receive performance-related remuneration components. The Supervisory Board received no reports from the members of either the Executive Board or the Supervisory Board with regard to conflicts of interests.

In order to prepare for its decisions, the Supervisory Board constituted committees for personnel and strategy issues and a Presiding Committee. It regularly examines the efficiency of its activities.

The Supervisory Board was last re-elected at the General Meeting of Shareholders on May 28, 2003. Its term of office is expected to end, pursuant to § 7 Clause 2 of the company's articles of incorporation, with the conclusion of the General Meeting of Shareholders in 2008.

Information and Transparency

The Executive Board provided shareholders, financial analysts and other participants in the capital market as well as the public with regular, detailed and prompt information concerning the current situation and development of the company in the course of financial year 2003, in particular by means of

- publication of the key data from the consolidated financial statements for the financial year 2002 on March 13, 2003,
- publication of the annual financial statements and consolidated financial statements for 2002 together with the management report on April 15, 2003, including detailed explanations with regard to the individual balance sheet items and income statement items including segment reporting and

numerous other data in accordance with the German Commercial Code (HGB) and International Accounting Standards,

- explanation of the annual financial statements and the consolidated financial statements for 2002 and comments on the development of the company in the first months of 2003 at the annual press conference on April 15, 2003,
- the report on the first three months of the financial year 2003 from May 15, 2003,
- the management report at the General Meeting of Shareholders on May 28, 2003,
- the report on the first six months of the financial year 2003 from August 14, 2003,
- the report on the first nine months of the financial year 2003 from November 14, 2003,
- a series of press releases – some of them distributed immediately as ad-hoc reports – about current operations and changes over the course of the year.

All of these reports and notifications were accessible to the public at the same time on the company's website (www.salzgitter-ag.de).

Declaration of Correspondence with the German Corporate Governance Code

In respect of the recommendations of the Government Commission on the German Corporate Governance Code[1)], the Executive Board and the Supervisory Board stated on December 18, 2003, in accordance with their obligation under § 161 of the German Stock Corporation Act (AktG) that these recommendations, with the following exceptions, are complied with at Salzgitter AG:

- Subclause 3.8 Paragraph 2 (deductible for D&O insurance),
- Subclauses 4.2.4 and 5.4.5 Paragraph 3 (disclosure of individual remuneration of members of the Executive and Supervisory Boards),
- Subclause 5.3.2 (establishment of a review committee – audit committee – of the Supervisory Board),
- Subclause 5.4.1 (age limit for Supervisory Board members),
- Subclause 5.4.5 Paragraphs 1 and 2 (Supervisory Board remuneration),
- Subclause 7.1.2 (public availability of consolidated financial statements within 90 days).

The declaration has been permanently accessible to shareholders since December 18, 2003, on the company's website (www.salzgitter-ag.de).

We justify the exceptions as follows:

Subclause 3.8 Paragraph 2 (deductible for D&O insurance):

The Executive Board and the Supervisory Board do not regard the agreement on a deductible within the scope of consequential loss insurance as being necessary for members of the governing bodies (D&O insurance) in order to compel members of the Executive Board and Supervisory Board to practice duty bound behavior.

[1)] Last published in the official part of the electronic Federal Official Gazette (Bundesanzeiger) on June 30, 2003, in the May 21, 2003, version; available on the Internet at www.corporate-governance-code.de

Subclauses 4.2.4 and 5.4.5 Paragraph 3 (disclosure of individual remuneration of members of the Executive and Supervisory Boards):
The Executive Board and the Supervisory Board do not regard the disclosure of the individual remuneration of each and every member of the Executive Board or the Supervisory Board as a suitable basis for assessing the appropriateness of the remuneration of the management of the company incumbent on the Executive Board on the basis of joint responsibility, or the supervision of the management incumbent on the Supervisory Board as overall supervisory body.

Subclause 5.3.2 (establishment of a review committee – audit committee – of the Supervisory Board):
The Supervisory Board has sole responsibility for the review of the annual financial statements and the consolidated financial statements and the commissioning of an auditor. As overriding committee it intensively reviews the submitted documents while drawing upon the auditor's findings before they are formally approved in accordance with § 171 of the German Stock Corporation Act (AktG). In the opinion of the Executive Board and the Supervisory Board of Salzgitter AG this central obligation of the governing body should not be transferred to a committee.

Subclause 5.4.1 (age limit for Supervisory Board members):
In the opinion of the Executive Board and the Supervisory Board, suitability to be a Supervisory Board member does not depend on a rigid limit to biological age.

Subclause 5.4.5 Paragraphs 1 and 2 (Supervisory Board remuneration):
In the opinion of both the Executive Board and the Supervisory Board, any remuneration of Supervisory Board members that is linked to corporate success would not be beneficial in light of the legally required function of the Supervisory Board as an independent, and therefore neutral, monitoring body in terms of company interests, and any extra remuneration for chairmanship and membership committees would be unnecessary.

Subclause 7.1.2 (public availability of consolidated statements within 90 days):
The 90-day deadline could not be achieved in 2004 due to a necessary and extremely complex conversion of the SAP software to a new system generation in the first quarter of 2004, but the company expects to keep to this deadline in the future.

Salzgitter, April 7, 2004

The Executive Board	The Supervisory Board
Wolfgang Leese	Dr. Wilfried Lochte
Chairman	Chairman

2.1 Economic Situation

Salzgitter moves you.

Our lives are defined by mobility. People the world over are captivated by modern means of transportation. Every new automobile casts a spell of its own. As differences in quality are progressively smoothed out, the choice of model is increasingly driven by emotion. All the more important that Salzgitter steel not only strengthens a car's defenses, but also satisfies the desire for fascinating forms.

Development in the Economy, Steel and Tubes Market

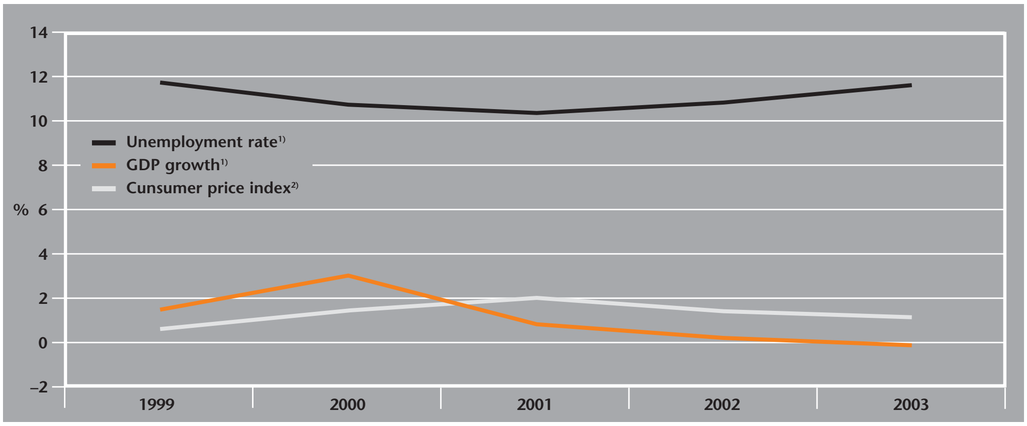
The year 2003 was marked by differing degrees of development in the **global economy** in the two halves of the year. In the first half, the industrialized nations continued to experience the weakness that had marred the preceding two years and even suffered a further short-term deterioration as a result of the crisis in Iraq. It was only the newly industrializing countries of Central and Eastern Europe and South East Asia, in particular China, that succeeded in recording sustained positive development.

Then, however, in the second half, an emergent economic recovery began to spread outwards from the United States, with the result that the global economy actually achieved growth in the order of 2 %.

In the **euro zone** too, having stagnated at the beginning of the year, business activity in general picked up once again in the second half. However, this development was dampened by a sharp upturn in the euro-dollar exchange rate which had a negative impact on exports from euro zone countries. Overall, the euro zone recorded slight positive growth of 0.4 %.

The dogged economic stagnation in **Germany** persisted in 2003 and could not be overcome. Private consumption remained very weak and expenditure on plant and equipment actually shrank by 3.4 %. The downturn in investment was attributable both to restrained domestic demand and to the retarded development in exports. Demand from other European countries failed to materialize due to the lack of economic impetus in the euro zone, whereas exports of German products to the USA declined in particular as a result of the sharp rise in the value of the euro. On the other hand, the development in exports was boosted by the increase in shipments to the countries of Central and Eastern Europe and South East Asia.

Macroeconomic Indicators in Germany



[1] Source: Statistisches Bundesamt
[2] Source: Deutsche Bundesbank


-PANORAMA
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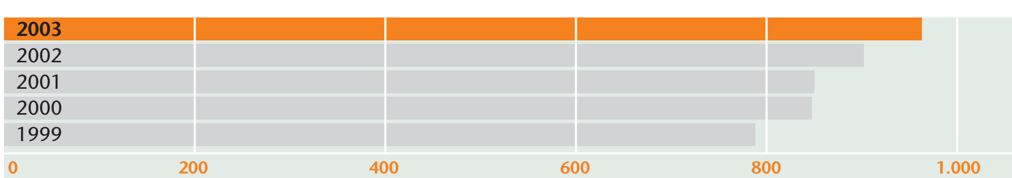
All sectors of the German economy were adversely affected – if indeed to differing degrees – by the overall economic situation. Automobile production lingered at the previous year's level, while Germany's construction industry continued its long decline through 2003, even though a deceleration in the downward trend was finally discernible. The decline in demand for industrial construction was particularly drastic. This circumstance, coupled with the lack of infrastructure projects resulting from the strain on public sector finances, likewise had an impact on the demand for beams.

As in the previous year, the mechanical engineering sector continued to suffer from weak domestic demand in 2003, a situation which could not be entirely compensated for despite a revival in international business in the second half of the year. It was not until the end of 2003 that companies began to overcome their reluctance to invest, with the result that both orders and sales increased perceptibly.

Overall, Germany's gross domestic product (GDP) fell by 0.1 % in comparison with the preceding year.

Against this difficult economic background, the **steel markets** stood up well in 2003. Worldwide, both steel consumption and crude steel production rose to new record highs. Production of crude steel was in the order of 964 million tons. The increase over the previous year was almost entirely attributable to South East Asia and to China in particular, while production in the industrialized countries of the West stagnated.

World Crude Steel Production



million tons

Source: International Iron & Steel Institute

The manufacturers in the European Union (EU) began the year with a satisfactory level of orders on hand for the first few months. However, as the year progressed the economic situation had a significant effect on their order books. By the summer the demand for steel in the EU had reached a low point which resulted in production being curbed in order to restore a balance in the market. It was not until orders for steel began to recover in the second half of the year that steel production once again began to rise. In the end, the crude steel production figures of around 45 million tons for Germany and 160 million tons for the EU were approximately on a par with the previous year. 2002 had already seen a fall in steel consumption in the EU, and in 2003 there was a further drop of just under 2 %. Some substantial declines were recorded by Europe's tube works as well as by manufacturers of home appliances. However, the situation was to a certain extent counterbalanced by strong export opportunities in association with international energy projects and by rapidly rising demand from China. The main products to benefit were plate and flat steel.

Foreign sales of steel, especially exports to China, showed a significant increase. Indeed, this was largely sufficient to compensate for the decline in trade with the USA which resulted primarily from the protective tariffs imposed by America and not repealed until December 2003.

Market prices in the EU followed an upward trend until the middle of the year, supported by the moderate level of supply which was matched to the demand. Thereafter, prices for flat rolled products remained roughly constant in Northern Europe, but dipped slightly in Southern Europe. The prices for plate improved further in a series of small stages, whereas the average revenues for beams lingered at a low level over the year.

It was not until late in the year 2003 that the negative development in the European **steel tubes industry** bottomed out. Uncertainties emanating from the conflict in Iraq caused a delay in major energy exploration, exploitation and transportation projects to be delayed until well into the second half of the year. By the end of the year the US dollar had fallen in value by some 20% against the euro, with a consequent negative effect on revenues from transactions quoted for on a dollar basis.

Nevertheless the upturn in the international tubes industry also extended to European suppliers. Business in the oil and gas segment recovered in the second half of the year as energy companies once again began to place some substantial project orders.

The developments in the individual tube product areas are examined in greater detail in the section devoted to the Tubes Division.

World Steel Tube Production

Source: Wirtschaftsvereinigung Stahlrohre

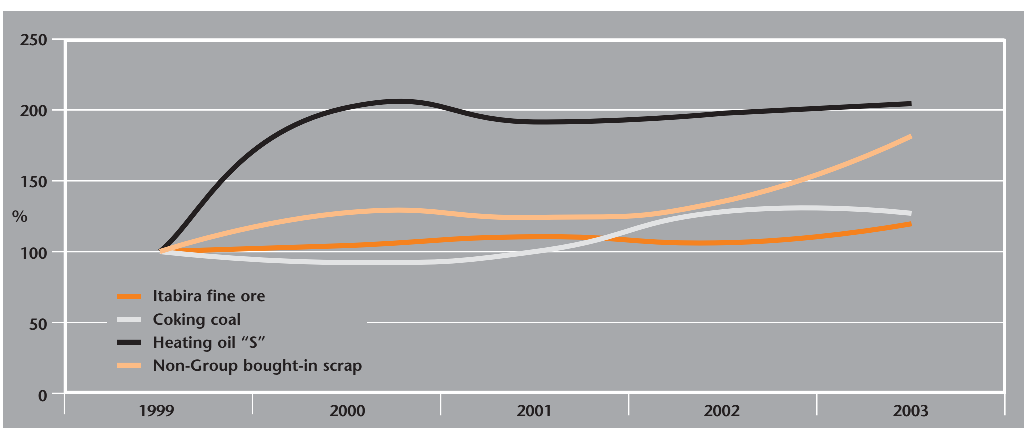
World steel tube production overall in 2003 rose by 4% in comparison with the year before to 70 million tons, however, there were some changes in emphasis to be observed. Following China, the CIS states recorded the greatest increases, whereas the major countries of the western world were forced to accommodate a decline. This trend was evident in both seamless and welded tubes.

Purchasing

The purchasing activities of the Group are focused mainly on raw materials and energies for the production of steel, as well as semi-finished goods for tube production. Purchases of steel products by the trading companies is more an aspect of the sale of Group steel and tube products and is not considered here.

Developments were to some extent turbulent in the international raw material markets in 2003, leading to significant price increases in a number of areas. However, their effects on the Group were restricted on one hand by the movement in the EUR/USD exchange rate and on the other by interventionary action.

Movement in the price of selected raw materials and energy resources



The enormous increase in crude iron and crude steel production in China had a major impact on the raw material markets. As a result of China's high demand for ore, in the course of price negotiations in 2003, ore consumers were forced to accept increases of 9% fob port of loading. At Salzgitter Flachstahl GmbH (SZFG), this price rise was countered by changes of emphasis in the range of products and the increased value of the euro. The quantity of iron ore sourced for SZFG in 2003 amounted to 5.2 million tons.
Given that for the year 2004 the world market demand for ore exceeds supply, we expect very tight conditions in the marketplace. Increases in ore prices in the order of 18–25% fob port of loading must be anticipated, as evidenced by some initial reference contracts.

The world market for coking coal remained indifferent in calendar year 2003. The annual contract prices for the coal year 2003/04 fell by 5% worldwide in comparison with the year before. In the second half in particular, however, the market was noticeably firmer with the result that spot prices moved up sharply. In the calendar year 2003, SZFG sourced a total of 2.1 million tons of coking coal from Germany, Australia, Canada, the USA and Poland. Increased sourcing on the basis of long-term contracts coupled with the stronger euro led to a reduction of 6% in the average free works price. On the basis of contracts already signed in 2004, we are expecting price increases of at least 20% fob port of loading.

The hikes in ocean freight rates for iron ore and coking coal in course of the year 2003 exceeded all past experience. Historic highs were seen to double in the period from October to December 2003. The origins of this remarkable development lay in China, where producers have boosted their ore and coal imports on a scale that could not have been foreseen. Since ore and coal shipments in 2003 were largely covered by favorable long-term freight contracts, the development of the market had no significant effect on sourcing costs at SZFG. However, the same will not continue to apply in the year 2004.

The high level of crude iron production in Salzgitter resulted in 2003 in a continuous demand for bought-in coke. Initial purchases were made at the end of 2002 at moderate prices, but as 2003 progressed, coke supplies were depleted by rising demand and prices rose substantially. The average price in 2003 free works Salzgitter was around 16% higher than in 2002. Further price hikes are likely in 2004.

The prices for heavy heating oil used as a reducing agent in the blast furnaces at the Salzgitter plant rose by 2% in comparison with the financial year 2002. This was essentially due to speculation in association with the war in Iraq in the first half of the year. No further price increases are expected in 2004.

The price of electricity has risen continuously since the beginning of 2002. In Salzgitter and Peine, during 2003 this trend resulted in an increase in external electricity costs of 11% in comparison with 2002. This has put prices back above the level at which they stood prior to the deregulation of the electricity market. The negative trend continues, and will lead to a further 11% rise in the electricity prices paid for Salzgitter and Peine in 2004.

Ilsenburg managed to keep its electricity prices virtually unchanged in comparison with 2002, however, the level can be expected to rise in 2004.

The purchase prices for natural gas incurred by Salzgitter, Peine and Ilsenburg in 2003 were up by 23% in comparison with 2002. This sharp increase follows the development in prices for heavy heating oil. Looking ahead to 2004, we anticipate that prices will remain nearly constant.

The level of prices for alloys and metals which pertained at the end of 2002 was – with some short-term swings – maintained through 2003. However, from November 2003 on, there was evidence of price increases across a broad front. Purchases were therefore accelerated in order to counter this development. On the metals exchange there were some very sharp variations in prices. In the course of 2003, nickel rose by 130 %, while zinc put in a more moderate increase of around 33 %.

Some 1.3 million tons of scrap were sourced by the Salzgitter and Peine works. Due to high demand, the scrap price climbed by € 21 per ton in comparison with the preceding financial year. We expect scrap prices continue to rise in 2004.

Hüttenwerke Krupp Mannesmann GmbH (HKM), Duisburg, supplied 0.9 million tons of slabs in 2003 for the production of plate and hot-rolled strip destined for the making of welded tubes, including large-diameter, medium line pipes and precision tubes. As such, HKM is the leading supplier of input material to the Tubes Division companies. HKM is also the leading provider (with a further 0.9 million tons in 2003) of cast rounds to the associated company Vallourec & Mannesmann Tubes S.A. for the manufacture of seamless tubes. In turn, the latter supplies the precision tube makers with hollows for the production of seamless precision tubes.

The transfer prices within the Tubes Division rose by around 4 % compared to the previous year based on reference products. The higher prices of scrap and other raw materials could only be partially offset by the change in EUR/USD parity. The cost of electricity rose by 5 % against the previous year, while natural gas costs were up by 22 %.

The purchase prices for materials and services were essentially held at a stable level, with reductions being achieved in some areas. The general supply situation was secured at all times.

Personnel

In view of the developing business situation, a comprehensive package of measures to reduce personnel costs was introduced within the Group in April 2003.

Where possible, expiring fixed-term contracts were not renewed, overtime quotas reduced with lasting effect and age-related part-time working suspended. In addition, wherever possible, no new staff were to be taken on and vacancies covered by internal personnel and organizational measures. To provide the necessary support, a personnel clearing was established at Group level which was tasked with meeting personnel needs at the various companies from among the existing Group workforce. External appointments were significantly reduced.

Likewise the unrestricted employment of staff upon completion of training and the appointment of junior staff with academic degrees was subject to strict restraints.

As a result, the regular Group workforce declined in the course of the financial year 2003 by 563 (3.1 %) from 18,388 to 17,825 employees.

Freshly galvanized: Steel coils for the automotive industry.

The reduction in staffing at the various divisions was as follows: Services –250, Tubes –221, Processing –101 and Trading –63. Whereas the reduction at the Services Division was primarily achieved by transferring operational departments from PPS to the steel companies and as a result of members of staff entering retirement via age-related part-time employment, the decline at the Tubes Division stemmed mainly from the expiry of fixed-term contracts and staff leaving via the social scheme. Terminations on the part of both employees and employers, as well as cancellation agreements and departures via the social scheme at HSP in particular both accounted for the bulk of the downsizing at the Processing Division. The reduction in the number of employees at the Trading Division resulted from restructuring at SSH and SID.

The increase of 70 staff at the Steel Division is almost exclusively due to the above-mentioned transfer of operational departments from PPS. Without this, the division would have recorded a reduction of 90 workforce members.

The core workforce at the various divisions developed as follows:

Division	31/12/2003	31/12/2002	Change
Steel	7,041	6,971	70
Trading	1,827	1,890	–63
Services	3,513	3,763	–250
Processing	1,045	1,146	–101
Tubes	4,284	4,505	–221
Holding company	115	113	2
Group	**17,825**	**18,388**	**–563**

The number of trainees employed by the Group as of December 31, 2003, amounted to 940 (previous year 930). A total of 26 trainees in the Group were offered permanent positions upon completion of their training. A further 190 received 6 or 12 month contracts in accordance with the terms of the collective agreement.

In addition to the broad range of occupations for which training is offered and the large number of training places, once again in 2003 young people were given varied opportunities to acquire an insight into companies right across the Group, in particular through internships, practical experience semesters and final year thesis projects. The Group’s commitment is integral to the long-term assurance of new-generation talent.

The annual Salzgitter AG Group forum was held on April 28 and 29, 2003, in Hannover. The event was attended by members of the Executive Board and General Managers drawn from the holding company, subsidiaries and associated companies, as well as all management executives and non-tarif staff.

The main focus of the conference was on the current situation of the Group and the various divisions, including an illustration of future prospects and the strategically necessary decisions.

A further item on the agenda concerned the results and conclusions from the management survey in which all management and exempt executives took part. The replies and suggestions in response to the survey topics of Restructuring, Image, Cooperation and Future produced a clear vote in favor of the changes which have been initiated. The vast majority of the respondents declared their support for the Group's future and made it clear that they wished to play an active role in shaping future developments.

As part of the event, tribute was paid to the services of employees who have come forward with outstanding ideas and suggestions on how to implement the 5P corporate guidelines, and prizes were awarded.

The first Salzgitter AG Group-wide management development program is directed at management staff at all Group companies, in particular senior executives, management and specialist non-tarif staff, as well as junior managers. The "Salzgitter Seminar" for all newly appointed juniors provides information on Group divisions and important current topics affecting the course of business activities and the environment in which the Group operates. With a specific orientation towards the development prospects and requirements at the Steel and Tubes divisions, this target group receives valuable support through the basic programs. To complete the facilities offered, the Group also provides seminars concentrating on requirement-oriented training.

Through the "Management-Kolleg" program, high-potential management staff receive a sound training in general management keyed to the needs associated with group management positions. In addition, subject-specific seminars are also available to foster and promote individual competences. A support program and individual targeted seminar events are available for senior managers which are again keyed to the needs of management positions.

The first phase of the project "Human Resources Management – HRM Plus: People, Processes, Results" aimed at mobilizing contributions to results from the personnel departments at Group companies as well as at Group level has been completed. The working group recommendations for the next phase have been accepted by the steering committee, which is comprised of the employee relations directors of Group companies. Each working group now has a set program for the coming months involving concept development and action planning. It is intended that the resulting solutions should be oriented towards current benchmarks or best-practice procedures. Phase two is scheduled for completion in early Summer 2004, after which the plans will be put into action.

There was a gratifying development in the accident frequency rate "H" (representing the number of reportable occupational accidents per million hours worked) by Group wage earners. Employee involvement in devising and determining accident avoidance measures has been continuously extended and safety policies formulated by company management are consistently implemented by managers. Together with two complementary pilot projects at Salzgitter Flachstahl GmbH, this has contributed to a marked fall in the accident frequency rate "H" throughout the Group from 27.8 to 20.1.

The reduction of absences was once again one of the main focuses of personnel work. This year the coaching/auditing of management staff in the interests of increasing effectiveness and efficiency was modified in the form of a sampling procedure (the health and attendance promotion audit). In parallel with this, all interested employees are being offered counseling sessions at their place of employment. They are offered suggestions, support and individual advice within the framework of the health and attendance promotion program and are able to express their own comments, ideas and opinions on matters of health promotion.

Several important collective-bargaining agreements were concluded in financial year 2003.

According to an agreement reached in June 2003, the steel industry in east Germany, and therefore also Ilsenburger Grobblech GmbH, will introduce a 35-hour working time per week in stages between April 1, 2005, and April 1, 2009.

Following difficult negotiations, a collective-bargaining agreement covering the iron and steel industry was reached on October 21, 2003. The content of the agreement, which will last for 19 months, was as follows:

Wages, salaries and trainee payments are to rise by 1.7% from January 1, 2004, and by a further 1.1% from November 1, 2004. For the months from September to December, 2003, employees received a special payment of € 140, while trainees received € 40.

Furthermore, steel companies are to make additional training places available for each of the training years 2004 and 2005. For SZAG this means that the companies based in the Salzgitter region will create eight new training places; MRW and HKM will each create three additional places.

The agreement as outlined above was adopted on November 3, 2003, as part of the wage negotiations for the industry in the east of Germany. It differs only in terms of trainees, namely that no additional training places would be created.

At PPS, which has its own company agreement, employees received a lump-sum payment totaling € 160 for the period from September to December 2003, with trainees receiving € 45 and staff in age-related part-time employment € 135. With effect from January 1, 2004, standard wages are to rise by 1.5%, followed by a further increase of 1.6% effective November 1, 2004, for a total period of 22 months.

The final stage:
Loading coils
onto special cars
belonging to Group
member company
"Verkehrsbetriebe
Peine-Salzgitter".

At the end of the year, changes to the statutory pension scheme were introduced at short notice and the revised version of the age-related part-time employment scheme (the "Hartz III" draft bill) was launched. As a result of the changes to the pension scheme, the minimum pensionable retirement age will be increased in stages from 60 to 63, while under the revised age-related part-time employment scheme, the terms under which this option is promoted will become less favorable. This will have a direct impact on the early retirement schemes which have so far been available within the Group, and their modification will be required. Age-related part-time employment contracts concluded with the employer before December 31, 2003, are subject to protection of confidence. Consequently, the employees concerned will still be able to take early retirement at age 60. Due to the necessary personnel adjustments in the upcoming years the Salzgitter Group took the maximum possible advantage of the opportunity to reduce its workforce by way of early retirement schemes in the spirit of the social contract in 2003. As a consequence of the general demographic trend, and as a result of the legislative changes described above, the average age of the workforce will increase in the coming years. The effect of these developments will be to impose sustained demands on an age-oriented personnel and social policy. Plans are already in hand to develop appropriate concepts.

Investments

The Salzgitter Group investment program in 2003 was once again focused primarily on implementing our internal growth strategy, in particular at the Steel Division.

Total additions to fixed assets amounted to € 273 million (previous year € 417 million). In contrast to previous years, the volume of investments in tangible fixed assets at € 191 million fell short of corresponding depreciation which totaled € 248 million. This latter figure does, however, include some € 35 million in non-scheduled write-downs at the Processing and Tubes Divisions (resulting from the closure of the Joeuf plant in France).
Additions to financial assets amounted to € 82 million, due primarily to adjustments in at equity valuations. The loan of € 67.5 million granted in the previous year to Vallourec & Mannesmann Tubes to part-finance the acquisition of the steel tubes activities of the North Star Steel Company, USA, was – as anticipated – converted into equity in 2003.

Investments/Depreciation[1]

in € mil.	Investments Total	Investments of which Steel Div.	Depreciation Total	Depreciation of which Steel Div.
SFY 2000	49	32	50	37
2001	285	197	210	142
2002	251	127	220	137
2003	**191**	**112**	**248**	**135**
Total	**776**	**468**	**728**	**451**

[1] Excluding financial assets/ associated companies

Of the sums invested in tangible and intangible assets during the reporting period, the Steel Division accounted for € 112 million, the Trading Division for € 14 million and the Services Division for € 16 million. The Processing Division invested some € 18 million, while the Tubes Division made investments totaling € 30 million.

Investments in Fixed Assets[1] by Divisions

in € mil.	FY 2003	FY 2002
Steel	111.8	127.1
Trading	14.1	10.8
Services	16.2	35.4
Processing	18.4	36.8
Tubes	30.3	40.5
Others/Consolidation	0.4	0.6
Group	**191.2**	**251.2**

[1] Inc. intangible fixed assets

Depreciation and Amortization of Fixed Assets[1] by Divisions

in € mil.	FY 2003	FY 2002
Steel	135.0	137.1
Trading	10.8	10.7
Services	17.8	12.3
Processing	42.3	16.7
Tubes	39.4	33.5
Others/Consolidation	2.7	9.3
Group	**248.0**	**219.6**

[1] Inc. intangible fixed assets

The Steel Division continued to direct its investment activities at consolidating and expanding its competitive position.

During May, in a shut-down period which lasted just 17 days, the roughing stand of SZFG's hot strip mill was completely dismantled and replaced with a new unit. This stand is now equipped with the latest thickness and width control systems, enabling it to roll input stock to the extremely tight geometrical tolerances which are a prerequisite for the downstream 7-stand finishing train. At the same time, stands 2 to 5 of the finishing train were converted to CVC systems (bottle-neck rolls with bending and displacement facilities), with the result that there are now 6 finishing stands harnessing this technology. These systems enable specific, extremely tight tolerances across the entire width and length of the strip. In combination with those elements of the hot-rolled flat products strategy which are already in operation, such as the third slab heating furnace, sizing press, hot strip cropping shear and the new automated facilities with their sophisticated technological control systems, SZFG is now able to meet high customer demands for dimensional accuracy and quality. In future we will be able to set new standards and press ahead with the development of new material qualities.

The new two-stand skin-pass train successfully entered operation as scheduled at SZFG's cold mill. Following commissioning of this so far unique plant, we are now in a position to offer superb strip flatness characteristics across the entire extended range of qualities and hardnesses featuring the Pretex textured surfaces developed in Salzgitter. The new skin-pass mill concept fulfills customer requirements in terms of technological characteristics, tightly controlled roughness and improved strip flatness and allows us to broach new product segments.

The steel projects initiated in 2003 to commission Blast Furnace C and to construct a third continuous casting line are directly connected. These investments will provide us with a supply of slabs, make us less dependent on bought-in slabs, and will largely close the crude steel structural gap at the Steel Division and in the Group as a whole. The optimized plant geometry and the modern technical design of the continuous casting line (featuring vertical bending, soft reduction, dynamic cooling) will fulfill the technical conditions necessary to safeguard the reliable production of material qualities suitable for the more sophisticated product segments. Consequently, our excellent performance will be further enhanced. Both facilities are scheduled to commence operation by the end of the year 2004.

Investment activities at SZFG remain consistently oriented towards achieving and maintaining quality leadership in the principal segments of the market for flat rolled products.

The main focus of investments at PTG was on extending the Klein-Ilsede transforming substation. This investment is necessary to safeguard the power supply to the Peine works. The project is expected to be completed by mid-2004 and will thereafter ensure a reliable redundant power supply.

At the Ilsenburg plate mill the modernization of the mill stands and further optimization of the automated systems has stabilized and improved both thickness accuracy and flatness. At the plate finishing line in Salzgitter, the heat treatment units were optimized. In May, the carrier system at annealing furnace 4 was updated, extending the potential product range up to the new maximum thickness. While in the autumn, the heating and control system at the walking beam furnace was converted to support heat treatment in the tempering temperature range. The start-up phase for the principal product range has already successfully completed.

The investments committed by the Tubes Division in 2003 were directed to the optimization of production processes and quality improvements. There were also investments in replacement equipment needed to safeguard operational availability.

In the third quarter of 2003, Mannesmann Präzisrohr GmbH commissioned a finishing line for as-welded tubes at its works in Hamm, thereby eliminating the capacity bottleneck in welded tubes with a < 60.0 mm external diameter. In addition, a high-speed saw for the production of short lengths has now been installed to meet the rising demand from the automotive industry, especially for axle and drive shafts. The investment in the 10-roll leveler ensures that production now meets the increased requirements of the automotive industry for straightness.

The DMV Stainless Group continued to implement the investment strategy begun in 2002 that is geared to specialization at the different mills. At the Remscheid plant, work on modernizing and rationalizing the press proceeded with the object of manufacturing smaller hollows and hot-finished tubes. The investment in a new small cold pilger mill at the Costa Volpino works in Italy has expanded the production range of cold-finished tubes to include small dimensional sizes. In order to ensure adequate finishing capacity for these small-size products, work began in the fourth quarter of 2003 on installing a new line intended in particular for long, small-diameter tubes. With the commissioning in the first quarter of 2004 of a new welding and coiling line for umbilical tubes, DMV is entering in a growing new market segment with strong margins.

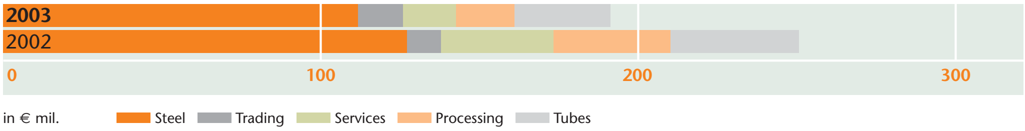
Mannesmann Line Pipe GmbH has commissioned a new strip edge grinder for its welding line. Following the replacement of the welding bench and the installation of the new strip feed in 2002, this investment represented an important milestone in expanding the product range to include tubes up to 20 mm wall thickness.

At the end of the year, the new storage facility with a portal crane entered service at Röhrenwerk Gebr. Fuchs GmbH. This will afford some substantial logistics improvements by allowing the company to dispense with its previous storage areas located at some considerable distance from the plant site.

Mannesmannröhren Mülheim GmbH has completed the second expansion stage of the new 25 kV switchgear center. This investment in replacement equipment spread out over a two-year period was necessary in order to safeguard the power supply to the Mülheim works. At the plate mill, work on replacing the horizontal tube systems at the walking beam furnace was finished in January 2003. This investment will help to reduce gas consumption and enhance the quality of the manufactured plate.

The remaining divisions likewise undertook a series of investment projects, the overall extent of which has already been referred to and is illustrated in the following graph.

Investments in Fixed Assets by Divisions



An increased investment budget in excess of € 250 million has been planned for the financial year 2004. Some 70 % is accounted for the Steel Division, from which again 70 % is allocated to SZFG. These investments will be implemented on a rolling basis in accordance with developments in the cash position and results.

Roll on:
Transporting a
hot-rolled coil
weighing in at
around 24 tons.

Divisions

As the management holding company, Salzgitter AG guides and steers the five divisions Steel, Trading, Services, Processing and Tubes. In the following, the economic developments at these divisions are presented on the basis of financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

Steel Division

The operating companies Salzgitter Flachstahl GmbH (SZFG), Peiner Träger GmbH (PTG) and Ilsenburger Grobblech GmbH (ILG) are bundled under the umbrella of the intermediate holding company Salzgitter Stahl GmbH (SZS). Together with Salzgitter Großrohre GmbH (SZGR), they form the Steel Division.

In line with the persistently difficult economic climate and the stagnating European steel market, orders received for rolled steel products and processed products declined to 4,894 kton, down 3% on the previous year (5,025 kton). Nevertheless, by the end of financial year 2003, the tonnage of orders booked had increased by 5% to 1,446 kton (FY 2002: 1,381 kton).

Crude steel production at the LD steelworks in Salzgitter and the electric steel plant in Peine totaled 5,167 kton, slightly up the already high production recorded in the previous year (5,151 kton). The reduced demand for crude steel resulting from the market situation was offset by lower volumes of bought-in slabs. While production figures in Germany and the EU remained largely unchanged, crude steel production worldwide was up by 61 million tons (7%) to 964 million tons, due in particular to the increasing quantities manufactured in China.

Crude Steel Production

in t mil.	World	EU	Germany	Thereof Steel Division
1997	798.9	159.9	45.0	4.69
1998	777.3	159.9	44.0	4.73
1999	788.9	155.2	42.1	4.97
2000	847.6	163.4	46.4	5.15
2001	850.3	158.5	44.8	5.08
2002	903.1	158.7	45.0	5.15
2003	**964.2**[1]	**159.7**[1]	**44.8**[1]	**5.17**

[1] Provisional figures (as of Feb. 2004)

The production of rolled steel and processed products at the Steel Division declined due to the economic situation. Reductions were recorded in the output of hot-rolled strip and long products (–4%), cold rolled and coated steel (–3%) and in particular large-diameter pipes (–26%).

Shipments of rolled steel and processed products amounted to 4,774 kton, some 2% down on the previous year's figure of 4,890 kton. At 190 kton, processed products were down 7% on the year before (205 kton), while shipments of rolled steel slipped by 101 kton to 4,584 kton.

Steel Division Production

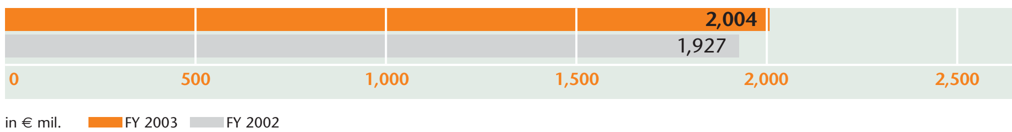
in kt	FY 2003	FY 2002
Large-diameter pipes	81	110
Coated steel	1,200	1,239
Cold-rolled steel	254	263
Plates[1)]	808	805
Hot-rolled steel and steel strip	1,307	1,362
Sections	1,208	1,252
Crude steel	5,167	5,151
Pig iron	3,854	3,806

1) Inc. wide strip

While the general economic situation remained strained, signs of improvement on the market of flat rolled products were seen first in autumn 2003. SZFG succeeded in raising its rolled steel product prices in the course of the financial year, both for hot-rolled strip as well as cold-rolled and coated products. Business with plate products remained stable throughout the year. However, the situation for long products was marked by difficulties in the core markets of Europe, as well as price increases in scrap – the most important raw material. The market for flat products and sections was largely stabilized by pursuing a "price before quantity" strategy. The temporary adjustments in capacity were eased at SZFG by the refurbishing of the hot strip mill. SZGR achieved lower revenues as a result of the higher proportion of uncoated tubes.

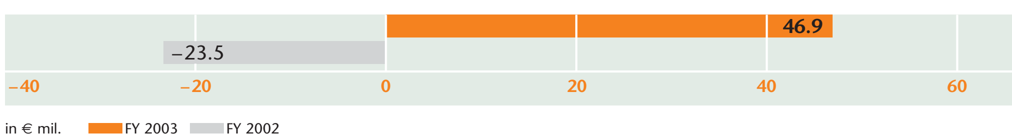
Despite the lower volume of shipments, sales to third parties and other Group divisions were increased by 4% to € 2.00 billion (previous year € 1.93 billion). Sales of both flat rolled products and plate rose in value (SZFG: +8% to € 1,208 million; ILG: +9% to € 327 million); however, sales of long products and large-diameter tubes were down by value (PTG: –5% to € 407 million; SZGR: –22% to € 62 million).

Steel Division Sales



The pre-tax profit at the Steel Division (including the positive € 13.7 million result posted by SZS following the sale of SDI shares) amounted to € 46.9 million, representing an improvement of more than € 70 million over 2002. The operating companies of the Steel Division were able to more than offset the negative effects of lower volumes by generating higher revenues for rolled steel products and implementing cost-cutting programs. The sharp rise in scrap prices had a particular impact on the results. Especially in the sections area, the material cost situation was substantially strained.

Steel Division EBT



Investments (excluding financial investments) during the reporting period amounted to € 112 million, against € 127 million in the previous year. These compared with depreciation of € 135 million (previous year € 137 million).

The core workforce employed by the division as of December 31, 2003, had risen to a total of 7,041 (previous year 6,971). This slight increase is largely attributable to the transfer of the operating departments of PPS from the Services Division to the Steel Division companies. Without this effect, the core workforce would have declined by 90 employees in comparison with the year before.

The key data for the Steel Division are presented in the following table:

Steel Division		FY 2003	FY 2002
Crude steel production	**kt**	**5,167**	**5,151**
LD steel (SZFG)	kt	4,163	4,152
Electric steel (PTG)	kt	1,004	999
Shipments	**kt**	**4,774**	**4,890**
Rolled steel	kt	4,584	4,685
Processed product	kt	190	205
SZFG	kt	2,767	2,835
PTG	kt	1,179	1,251
ILG	kt	735	692
SZGR	kt	93	111
Sales	**€ mil.**	**2,004**	**1,927**
SZFG	€ mil.	1,208	1,118
PTG	€ mil.	407	429
ILG	€ mil.	327	300
SZGR	€ mil.	62	80
Internal sales[1]	**€ mil.**	**572**	**497**
External sales[2]	**€ mil.**	**1,432**	**1,430**
Division income before taxes	**€ mil.**	**46.9**	**–23.5**
Thereof SZFG	€ mil.	41.7	–16.6
Thereof PTG	€ mil.	–25.0	–12.0
Thereof ILG	€ mil.	16.1	–2.4
Thereof SZGR	€ mil.	2.3	9.0
Investments[3]	**€ mil.**	**112**	**127**
Total workforce	**At Dec. 31.**	**7,060**	**6,990**
Core workforce		**7,041**	**6,971**
Wage labor		5,297	5,262
Salaried employees		1,744	1,709
Apprentices, students, trainees		**19**	**19**
EBIT[4]	**€ mil.**	**88**	**18**
EBITDA[5]	**€ mil.**	**223**	**155**

[1] Sales to other Group business units
[2] Contribution to Group external sales
[3] Excluding financial assets
[4] Earnings before taxes plus interest paid (excluding interest element in allocations to pension provisions)
[5] EBIT plus depreciation

In the following, the development of the individual companies of the Steel Division is considered in greater detail.

Salzgitter Flachstahl GmbH

Despite the stagnating economic situation in the European Union – the main market for Salzgitter Flachstahl GmbH – business at the beginning of the year was most satisfactory, due mainly to the continuing strength of automobile production. Urgently needed price increases for flat rolled steel products were successfully achieved in the first and the second quarter.

However, at the end of the first half of 2003 the demand for flat rolled products declined. While deliveries remained relatively stable, the intake of new orders showed a downward trend, as a result of worsening export prospects and rising imports from outside the EU caused our customers to reduce their purchases. The usual summer holiday shutdowns by large steel consumers especially in Southern Europe coupled with lower volumes being called forward by various automobile manufacturers led to a further weakening in demand.

Nevertheless, flat rolled product revenues in Central Europe remained virtually constant, while plant shutdowns led to a reduction in supply. Imports coming into Europe remained on a low level due to the strong demand from China, tighter steel prices in the USA and the continuation of EU anti-dumping measures. All this had a positive effect on price stability. Under difficult conditions SZFG succeeded in maintaining its selling prices for flat rolled products at an adequate level. By the end of the financial year, as the first signs of an economic recovery began to emerge, the company recorded a marked improvement in orders received.

At the end of the year the order books stood at 1,049 kton, up by +7% on the previous year's strong figure of 977 kton, whereas the order intake at 2,842 kton was down by 96 kton (–3%).

Crude steel production at SZFG remained nearly unchanged at 4,163 kton (previous year 4,152 kton). In addition to supplying the company's own mills, slabs were delivered to ILG, PTG and for the first time also to HSP. Both SZGR and Europipe sourced unpickled hot-rolled wide strip from SZFG for the purpose of manufacturing spiral-welded large-diameter tubes.

The production of rolled steel for shipment to customers (excluding supplies of rolled steel within the Steel Division) fell from 2,846 kton in the previous year to 2,747 kton. Besides the reduction in demand, this was also attributable to the 17-day shutdown of the hot strip mill for refurbishing in early May that entailed some significant production losses.

Shipments declined by 3% in comparison with the previous year (2,835 kton), slipping to 2,767 kton. Despite this, thanks to the marked increase in revenues, the value of sales was increased by 8% from € 1,118 million to € 1,208 million. The development in pre-tax profits was likewise positive. The company completed its turnaround during the reporting period, returning a profit on ordinary activities of € 41.7 million (previous year –€ 16.6 million).

Peiner Träger GmbH

Over the entire year, the market for sections produced by Peiner Träger GmbH proved hard, as neither the construction industry nor the capital goods sector showed any improvement. In the construction industry in particular there was no sign of recovery. The production in the construction sector of the German market fell by a further 4%, bringing the decline in this industry over the past three years to 15%. Orders placed by the construction industry in Central Europe also remained reticent.

Against this persistently difficult economic background, the company was able to achieve a certain degree of price stability by moderating its production volumes in due time. It was necessary, however, to interpose an increased number of shutdown shifts. In comparison above all with the explosion in scrap prices and rising energy costs, the entirely unsatisfactory level of revenues was inadequate to cover costs. Further extensive packages of measures were targeted at countering this developing situation. In addition, the "scrap surcharge" introduced in the market at the end of 2003 is intended to provide a prompt and transparent means of passing on the huge fluctuations in the purchase price of the most important raw material scrap to the customer.

Orders received amounted to a total of 1,216 kton against 1,285 kton in the previous year, while orders received at the end of the financial year totaled 188 kton (previous year 179 kton).

Supported by an increase in technical performance, the volume of sales was maintained at an acceptable level in a very weak market. Volumes were down by 6 % to 1,179 ktons (previous year 1,251 ktons), while sales revenues dropped perceptibly to € 407 million compared with € 429 million in the previous year (–5%). The overall effect of the price increases implemented during the financial year coupled with the cost reduction programs were only able to reduce the deficit. The company reported a pre-tax result of –€ 25.0 million (previous year –€ 12.0 million).

Ilsenburger Grobblech GmbH

As a result of increasing demand from some important plate consumer sectors, at the beginning of the financial year especially ILG recorded a rise in orders received and a growing level of orders on hand. Initially the strength of demand was concentrated mainly on higher material qualities, but after the first few months of the year the focus broadened to include all other plate specifications.

Despite the weak economic situation, the demand for plate continued to harden as the year progressed. This trend was supported in Germany by the fact that traders had continued to run down inventory stocks, while imports from non-EU countries remained low. Trade with third countries which had initially been very slow also picked up with effect from the middle of the year. Europe's plate producers generally profited from a satisfactory level of orders from the wind energy sector, shipbuilding and mechanical engineering, as well as from pipe manufacturers.

Orders received at 751 kton were up by 6% on the previous year's high total of 711 kton. Orders on hand as of December 31, 2003, amounted to 177 kton (previous year 188 kton), thereby ensuring a good level of capacity utilization in the early months of the new financial year.

ILG succeeded in achieving improvements in its revenues in all segments. Besides the low level of imports, production bottlenecks on the part of many competitors also helped to keep up the level of sales. Plate-making capacities were very well utilized throughout the whole of the financial year. Production was up from 709 kton in the preceding year to 728 kton (+3%).

Shipments rose by 43 kton to 735 kton (+6%), while the value of sales to third parties and other Group divisions climbed 9% to € 327 million. Accordingly, the results situation developed in a most gratifying manner, with pre-tax profits rising substantially to € 16.1 million (previous year –€ 2.4 million).

Salzgitter Großrohre GmbH

The economic conditions pertaining in the energy sector in the past financial year led to a temporary downturn in business activities at Salzgitter Großrohre GmbH. The original expectations for 2003 that envisaged the steel tubes market experiencing a more far-reaching recovery remained unfulfilled in the course of the year. Investment activities were further dampened by the crises afflicting the Near and Middle East.

Even in the second half of the year, the European market for large-diameter tubes suffered under reduced orders from the gas and oil pipeline sector. The few projects available were fiercely contested. Nevertheless, in spite of the significant competitive disadvantage resulting from the weakness of the

US dollar against the euro, SZGR still managed a satisfactory level of business in 2003. The company booked orders amounting to 85 kton, against 92 kton in the preceding year, and ended the financial year with orders on hand totaling 31 kton (previous year 37 kton). Shipments slipped to 93 kton, down by 18 kton in comparison with the year before. The value of sales at € 62 million was markedly lower (– 22 %) than the excellent figure of € 80 million recorded in the previous year, however the company still succeeded in posting a positive pre-tax result of € 2.3 million (previous year € 9.0 million).

Trading Division

The Trading Division comprises a dense sales network throughout Europe interlinked with companies and sales offices positioned worldwide. This combination provides the foundation of the the successful international presence that the Salzgitter Group enjoys, and supports the optimum marketing of products and services.

In addition to the Salzgitter Handel Group (SHD Group), the Division also includes Hövelmann & Lueg GmbH & Co. KG (HLK), Universal Eisen und Stahl GmbH (UES), Universal Ocel spol. s.r.o. (UOC) and Salzgitter's consolidated 50 % stake in Ets. Robert et Cie S.A.S. (RSA).

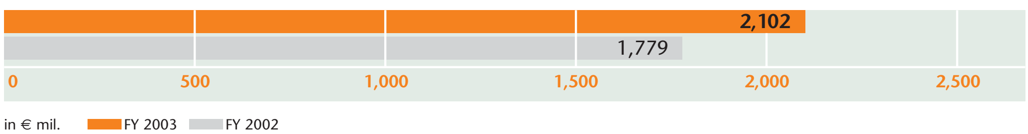
The SHD Group in turn comprises the intermediate holding company Salzgitter Handel GmbH (SHD), Salzgitter Stahlhandel GmbH (SSH), Stahl-Center Baunatal GmbH (SCB), Salzgitter International GmbH (SID), Salzgitter Handel B.V., Oosterhout (SHN) including two subsidiaries, Salzgitter Trade Inc., Vancouver (STV), Salzgitter International Inc., Houston (SIH), and other non-consolidated subsidiaries.

As stated above, the global economy failed to stage a sustained recovery in 2003, and it was not until the second half of the year that positive trends began to emerge. With some few exceptions, steel trading derived no appreciable impetus from either the USA, Asia or Europe. The economic stagnation in Western Europe especially was reflected in weak demand, while the continuing rise in value of the euro in the course of the year had an increasingly detrimental effect on exports from the euro zone. In Germany too, unfavorable developments in the steel processing and construction industries led to restrained demand.

In addition, the rising cost of manufacturing steel products meant that procurement costs followed an upward trend. However, as a result of weak demand and fierce competition, especially in Germany the higher sourcing costs could only be passed on to customers in limited stages.

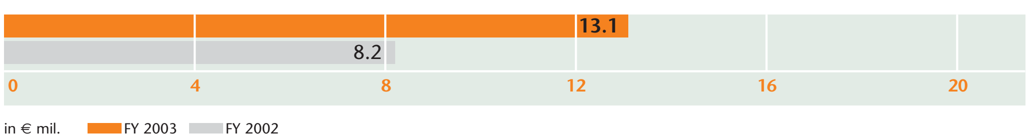
Against this background, the Trading Division performed well. In total, in the financial year 2003 the companies in this division sold some 4,910 kton of steel products (including the 452 kton sold by SIH which was consolidated for the first time), thus exceeding the previous year's figure (4,472 kton) by 9.8 % (excluding SIH: –0.3 %). Gross sales revenues at € 2,102 million (of which SIH contributed € 135 million) were up 18.2 % (excluding SIH: +10.6 %) on the year before (€ 1,779 million).

Trading Division Sales



The Trading Division generated a pre-tax profit of € 13.1 million, representing a significant increase over the year before (€ 8.2 million). The differing developments at the individual companies is considered in greater detail in the following.

Trading Division EBT



As of December 31, 2003, the Trading Division employed 1,827 staff (December 31, 2002: 1,890), in addition to 117 trainees (previous year 114).

The reduction of 63 employees in the core workforce was mainly attributable to restructuring measure at the SHD Group.

The key data for the Trading Division are presented in the following table:

Trading Division		FY 2003	FY 2002
Shipments	**kt**	**4,910**	**4,472**
Salzgitter-Handel-Gruppe	kt	4,441	4,008
Hövelmann & Lueg	kt	191	199
Universal[1]	kt	223	199
Robert S.A.S.[2]	kt	55	66
Sales	**€ mil.**	**2,102**	**1,779**
Salzgitter-Handel-Gruppe	€ mil.	1,863	1,559
Hövelmann & Lueg	€ mil.	76	69
Universal[1]	€ mil.	136	126
Robert S.A.S.[2]	€ mil.	27	25
Internal sales[3]	**€ mil.**	**75**	**50**
External sales[4]	**€ mil.**	**2,027**	**1,729**
Division income before taxes	**€ mil.**	**13.1**	**8.2**
Salzgitter-Handel-Gruppe	€ mil.	14.4	9.5
Hövelmann & Lueg	€ mil.	0.2	0.2
Universal[1]	€ mil.	–2.6	–3.4
Robert S.A.S.[2][5]	€ mil.	1.1	1.9
Total workforce	**At Dec. 31.**	**1,944**	**2,004**
Core workforce		**1,827**	**1,890**
Salzgitter-Handel-Gruppe		1,296	1,348
Hövelmann & Lueg		176	179
Universal[1]		306	316
Robert S.A.S.[2]		49	47
Apprentices, students, trainees		**117**	**114**
Inventories	**€ mil.**	**259**	**211**
EBIT[6]	**€ mil.**	**24.2**	**23.9**
EBITDA[7]	**€ mil.**	**35.0**	**34.6**

[1] Universal Eisen und Stahl GmbH, Neuss, and Universal Ocel, Prague
[2] Included on a pro rata basis (50%) (previous year: shipments 50% of the Group)
[3] Sales in own segment and to other corporate divisions
[4] Contribution to Group external sales
[5] Inc. the results for associated companies
[6] Earnings before taxes plus interest paid (excluding interest element in allocations to pension provisions)
[7] EBIT plus depreciation

As the intermediate holding company, **Salzgitter Handel GmbH (SHD)** coordinates the business activities of more than 40 steel trading companies worldwide.

Building on a sales volume of 4,008 kton and revenues of € 1,559 million in the year before, the SHD Group – with SIH being consolidated for the first time – lifted its volumes by 11% (excluding SIH [452 kton] –1%) to 4,441 kton and boosted turnover by 20% (excluding SIH [€ 135 million] +11%) to € 1,863 million.

The sales volume of the companies based in Germany (SSH and SCB) amouting 1,391 kton fell slightly short of the the previous year's total (–4%), while sales revenues rose marginally from € 649 million to € 654 million (+0.8%). Stahl-Center Baunatal continued with its successful just-in-time supplies to the VW plant in Kassel during 2003.

The steel trading companies based in the Netherlands maintained sales volumes and revenues of 236 kton and € 98 million respectively, virtually unchanged from the previous year's levels. A downturn in volumes in the Netherlands was compensated by rising volumes on the Belgian market.

SID increased its trading volume by 3% from 2,234 kton to 2,308 kton, while sales revenues rose by 23% from € 779 million to € 955 million. This development is explained primarily by a number of major projects (including the order to supply pipes for the Baku-Ceyhan pipeline), as well as by strong demand from certain individual markets in Asia and the Middle East. The relatively sharper rise in the value of sales is attributable to the variation in product mix and the higher average returns in comparison with the preceding year.

The cost-cutting measures and more selective approach to orders embodied in the restructuring program initiated by SID in the financial year 2002 and continued during the period under review yielded a further appreciable improvement in results.

STV, which is also engaged in international trading, encountered inadequate demand on the North American market, along with import restrictions and fierce competition among American suppliers. This resulted in a partial isolation of the market in North America.

Consequently, the volume of sales at 54 kton was some 35% down on the previous year (83 kton), a situation which was mirrored in the development in sales revenues which came in at € 21 million, down 32% on the year before (€ 31 million).

High tech: Computers control the storage of hundreds of steel coils in predefined locations.

SIH was consolidated for the first time in the financial year 2003. This company was able to continue to develop its business in comparison with the preceding year despite the market conditions in the USA. As a supplement to its core business of importing steel products, SIH was above all successful in expanding its exports from the USA to third countries. The sales volume was increased by 34% from 337 kton to 452 kton, while sales revenues rose from € 128 million to € 135 million, up 5%. The lower percentage increase in the value of sales essentially resulted from the conversion from US dollar to euro currency.

Overall, the SHD Group achieved a pre-tax profit of € 14.4 million (previous year € 9.5 million).

Hövelmann & Lueg GmbH & Co. KG (HLK) is a steel service center (SSC) with branches in Schwerte and Salzgitter. The company produces sheets and blanks with extremely tight dimensional and flatness tolerances for a variety of industries.

HLK had previous been involved only in the smaller, stagnant market for cut-to-length products. However, with effect from April 2003 the company moved into the market for slit steel products (slit coils) in cooperation with Flachform Stahl GmbH, Schwerte, a member of the Arcelor Group. This brings HLK closer to its objective of becoming a supplier to high-volume customers and in particular to the automotive industry.

Work has commenced on the construction of an innovative, versatile cutting line to produce automobile body panel blanks. This equipment will enter service in the second quarter of 2004. Once this investment project is completed, HLK will be able to offer a wider range of services than any other German SSC.

HLK increased its volume of sales by 2% to 176 kton. Sales lost outside of the EU and in Southern Europe due to the shortage of secondary grade material were more than compensated for by new activities in higher-price market segments in Germany. Prices and margins are fiercely contested in the SSC business. Nevertheless HLK succeeded in developing new major customers, even though the marked increase in the price of input stock could only slowly be passed on. HLK achieved total sales of 191 kton.

Overall, sales were up by 10% to € 76 million. As in the previous year, the company posted a pre-tax profit of € 0.2 million.

Universal Eisen und Stahl GmbH (UES) specializes in the trading and pre-processing of plate products to meet the needs of direct customers. UES has subsidiaries, branches and warehouses in Germany and Europe, as well as in the USA and South Africa. In addition, the company supplies customers worldwide on a back-to-back basis.

The situation facing trading companies in Germany was difficult insofar as the manufacturers trimmed their supplies to match the market and the concomitant increases in price contrasted with weak demand. UES was unable to avoid being sandwiched in this squeeze, which resulted in falling margins.

Overall, UES in Neuss and UES Ocel in Prague sold 223 kton of plate, up 12% on the year before (199 kton), and generated 8% higher revenues totaling € 136 million (previous year € 126 million).

The increase in the volume of sales was insufficient to offset the decline in margins. In the wake of a substantial cost-cutting effort, the pre-tax result at –€ 2.6 million remains negative, but shows an improvement compared to the year before (–€ 3.4 million). One-off devaluations influenced the corporate result.

In order to increase efficiency **Ets. Robert et Cie S.A.S. (RSA)** concentrated its steel service center activities in Northern France in 2003 at its central location in Le Thillay in the north of Paris. RSA and its two subsidiaries Le Feuillard S.A.S. (LFS) and Tolcolor S.A.S. (TOS) optimized their plant and equipment in newly erected premises in order to respond even faster to intensifying customer requirements. In order to supply customers in Southern France, the Robert Group operates a fourth steel service center in Feyzin in the Lyon area.

Despite the economy which remained weak in France, and the restructuring, the Robert Group hiked its sales by 10% to 145 kton. The bulk of this growth was achieved with increased deliveries to the French automotive industry. In a market characterized by low prices and intense competition, Robert S.A.S. (100%) increased its sales by € 4 million to € 54 million and returned, including their at equity consolidated subsidiaries, a pre-tax profit of € 2.2 million (previous year € 3.9 million).

The proportional contribution to the Trading Division result amounted to € 1.1 million (previous year € 1.9 million).

Services Division

The companies comprising this division are primarily engaged in providing services for the Group, mainly for the Steel Division. Their services are constantly measured against the requirements of the market and consistently refined. This approach forms the basis on which these services are marketed to third parties, thereby generating additional contributions to Group results.

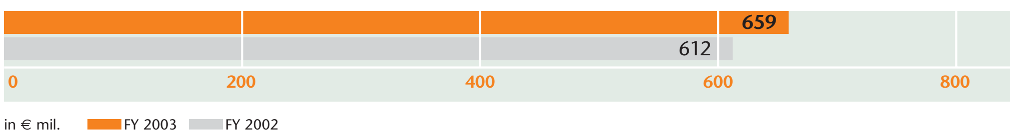
The Services Division includes DEUMU Deutsche Erz- und Metall-Union GmbH (DMU), PPS Personal-, Produktions- und Servicegesellschaft mbH (PPS), Verkehrsbetriebe Peine-Salzgitter GmbH (VPS), GESIS Gesellschaft für Informationssysteme mbH (GES), Hansaport Hafenbetriebsgesellschaft mbH (HAN, 51% shareholding), TELCAT Multicom GmbH (TMG) with its subsidiary TELCAT Kommunikationstechnik GmbH (TCG) and "Glückauf" Wohnungsgesellschaft mbH (GWG).

In addition, various non-consolidated subsidiary companies and minority shareholdings are also assigned to this division.

In the financial year 2003 the Services Division achieved sales of € 659 million, representing additional revenues of € 47 million in comparison with the previous year (€ 612 million). The bulk of this income was generated by DMU. Indeed, DMU dominated the divisional sales structure of which it accounted for 54 %, followed by PPS (18 %) and VPS (10 %).

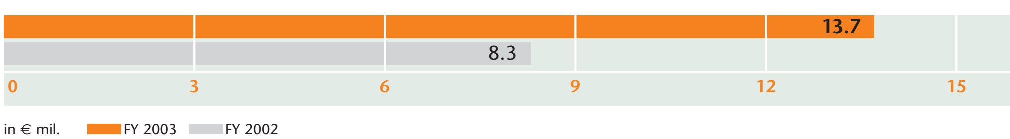
The proportion of sales to non-Group companies amounted to 37 % and was thereby approximately on a par with the preceding year (38 %).

Services Division Sales



The division posted a pre-tax result of € 13.7 million, well up on the year before (€ 8.3 million). All of the divisional companies reported profits.

Services Division EBT



As of December 31, 2003, the Services Division accounted for a total of 3,513 employees (previous year 3,763). In addition, there were 657 trainees (previous year 661). The decline in the core workforce was essentially attributable to PPS, departments of which were transferred to companies of the Steel Division.

The key data for the Services Division are presented in the following table:

Services Division		FY 2003	FY 2002
Sales	**€ mil.**	**659**	**612**
DMU	€ mil.	354	316
PPS	€ mil.	117	116
TELCAT group	€ mil.	51	46
VPS	€ mil.	67	66
Other companies	€ mil.	70	68
Internal sales[1]	**€ mil.**	**418**	**380**
External sales[2]	**€ mil.**	**241**	**232**
Division income before taxes	**€ mil.**	**13.7**	**8.3**
DMU	€ mil.	1.1	0.7
PPS	€ mil.	0.2	–6.8
TELCAT group	€ mil.	1.4	1.5
VPS	€ mil.	1.9	3.0
Other companies inc. non-consolidated companies	€ mil.	9.1	9.9
Total workforce	**At Dec. 31.**	**4,170**	**4,424**
Core workforce		**3,513**	**3,763**
DMU		221	232
PPS		1,924	2,158
TELCAT group		366	370
VPS		741	745
Other companies		261	258
Apprentices, students, trainees		**657**	**661**
EBIT[3]	**€ mil.**	**15.3**	**9.6**
EBITDA[4]	**€ mil.**	**33.1**	**21.9**

1) Sales in own segment and to other corporate divisions
2) Contribution to Group external sales
3) Earnings before taxes plus interest paid (excluding interest element in allocations to pension provisions)
4) EBIT plus depreciation

The individual companies developed as follows:

DEUMU Deutsche Erz- und Metall-Union GmbH (DMU) is the core supplier of scrap to the Steel Division. Other operating activities include trading with alloy materials and non-ferrous metals, the manufacturing of blanks made from heavy plate as well as the marketing and sale of IIa rolled steel products.

In financial year 2003, DMU concluded an agreement with Volkswagen AG, Wolfsburg, on a joint venture aimed to car-recycling in implementation of the EU end of life vehicles directive.

Two thirds of sales at DMU were accounted for by steel scrap trading. Despite a slight downturn in the sales volume in 2003 which slipped 2% to 1.8 million tons, sales revenues climbed 17% to € 221 million thanks to the soaring price of scrap. In terms of volume some 78% of scrap was supplied to Group companies (previous year 75%), while 3% was exported.

Taking all areas of business into account, DMU generated sales revenues of € 354 million, up 12% on the year before (€ 316 million) and posted a pre-tax profit of € 1.1 million (previous year € 0.7 million).

PPS Personal-, Produktions- und Servicegesellschaft mbH (PPS) is engaged in the fields of technology and service activities, providing a wide range of services primarily for Group clients. In the "Industrial Services and Technology" segment, the company essentially carries out maintenance and repair work for the Steel Divison. Meanwhile, in addition to its business with Group companies, the "Service" segment comprising industrial medicine, fire and respiratory protection, printing center and security services as well as education, training and consulting has already established a substantial external business which is being expanded step by step.

In the period under review, PPS increased its sales to € 117 million (previous year € 116 million), despite the fact that some operational elements were transferred to other Group companies in the middle of the year. By improving the utilization of capacities in the technical field, the company boosted its pre-tax result to € 0.2 million, representing a significant improvement over the year before (–€ 6.8 million).

Verkehrsbetriebe Peine-Salzgitter GmbH (VPS) is a provider of logistics services aimed primarily at the Steel Division companies. The company handles internal and inter-plant railway operations, transporting raw materials, semi-finished and finished products and carrying some outwards shipments on behalf of SZFG and PTG. In addition, VPS also provides transport services for third parties. As a result of structural reforms to Germany's railways, the company is increasingly involved in sharing traffic with DB-Cargo and is also acquiring customers of its own. In addition, VPS operates two inland ports in Peine and Salzgitter, as well as workshops undertaking the maintenance of both its own and external rail-mounted vehicles and railway infrastructure.

After the bath: Freshly galvanized steel strip hangs in loops.

In spite of the fact that the level of crude steel production at SZFG remained virtually unchanged, the rail transport service in Salzgitter achieved increases in the volumes carried and in the value of sales. In Peine, transport volumes and sales declined due to structural reasons, in spite of a rise in production.

Logistics services in the shipping halls proceeded on schedule, as did the workshop services undertaken for third parties.

Overall, the port facilities generated increases in both performance and sales. However, the upturn in Salzgitter contrasted with a downturn in handling volumes and revenues at the port in Peine.

VPS increased its sales in the period under review to a total of € 67 million (previous year € 66 million) and returned a pre-tax profit of € 1.9 million (previous year € 3.0 million) in spite of further rises in maintenance and diesel fuel costs.

Hansaport Hafenbetriebsgesellschaft mbH (HAN) in Hamburg operates Germany's largest port facility handling the transshipment and storage of bulk materials. The company's main objective is the cost efficient and on schedule transshipment of ore and coal imported for the Steel Division. Beyond this, efforts are being made to expand the level of business with third parties and so generate additional earnings. The transshipment and storage of coal imported for German power station operators has become an established segment of the company's operations.

In the financial year 2003, HAN handled a total volume of 24.1 million tons, its highest level of capacity utilization to date and some 1.4 million tons (6%) up on the year before. This figure included 12.6 million tons incoming (previous year 11.7 million tons) and 11.5 million tons outgoing (previous year 11.0 million tons).

The proportion of the incoming tonnage handled for SZFG rose from 6.2 million tons (53.0%) in the preceding year to 7.1 million tons (56%) in 2003.

Sales in the financial year amounted to € 31 million, some € 1 million up on the figure for 2002. Overall, HAN achieved a pre-tax profit of € 7.1 million (previous year € 6.4 million).

In order to achieve a further improvement in utilization of the existing plant facilities and allow a further increase in coal and ore tonnages, it is planned to construct another coal storage area and a fourth discharge crane at an investment cost of some € 16.6 million. Commissioning of the new installations is scheduled for early 2005.

GESIS Gesellschaft für Informationssysteme mbH (GES) is a software and consulting company acting as central IT service provider to the Salzgitter Group, as well as offering its services to external customers. The company's principal objective is ensuring that the Group companies are provided with IT services fully meeting their technical and economic requirements. In addition to technological expertise, the GES service package includes sector-specific knowledge of the relevant business areas with an industrial bias. The company also offers the full service to be expected from a state of the art computing center (comprising mainframe and server systems). Apart from its activities as SAP consulting partner, GES also functions as an IT competence center for R/2 and R/3 products.

In the period under review, as a major priority, GES devoted considerable effort to the development of an e-business platform, the migration from SAP R/2 to R/3 and the introduction of a Business Warehouse for the Salzgitter Group.

During the financial year 2003 all of the company's resources were subject to a high level of utilization in all areas of business, both within the Group and externally.

Sales totaled € 30 million (previous year € 30 million), with a pre-tax profit of € 1.1 million. The lower earnings figure in comparison with the previous year (€ 3.3 million) was essentially attributable to the front-end costs for the e-business platform.

The TELCAT Group of companies operate in the information and communications technology market. The companies are engaged in planning, installing and operating communications equipment systems (telephone systems, computer networks and security technology) and rank among the principal resellers of network services in Germany.

TELCAT Multicom GmbH (TMG) and its subsidiaries function as vendor independent system suppliers throughout the Federal Republic of Germany. The company operates from a total of 24 locations and is predominantly engaged in business with non-Group clients.

The lack of any improvement in the economic environment was felt equally in the information and communications technology sector. Nevertheless, the TELCAT Group generated sales of € 51 million (previous year € 46 million) and posted a result of € 1.4 million, which virtually equalled the preceding year's figure (€ 1.5 million).

"Glückauf" Wohnungsgesellschaft mbH (GWG) manages its own residential properties and those belonging to Salzgitter AG, as well as attending to other third party housing units. In addition, GWG also provides facility management support for the Group administrative buildings in the Salzgitter and Peine areas, as well as the training center in Peine and some third party properties.

In financial year 2003 GWG generated sales totaling € 9 million (previous year € 9 million) and recorded a pre-tax profit of € 1.0 million (previous year € 0.5 million).

Processing Division

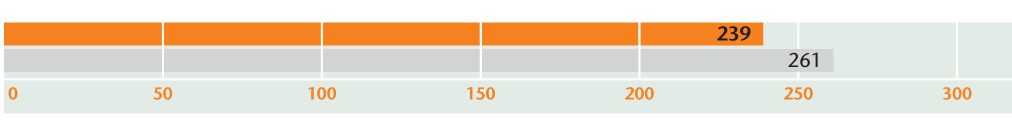
The Processing Division is comprised of companies oriented towards the construction and automotive sectors. HSP Hoesch Spundwand und Profil GmbH (HSP) and Salzgitter Bauelemente GmbH (SZBE) are both engaged in the manufacture of products for the construction industry. Salzgitter Europlatinen GmbH (SZEP), Salzgitter Automotive Engineering GmbH & Co. KG (SZAE), Salzgitter Magnesium-Technologie GmbH (SZMT) and Oswald Hydroforming GmbH & Co. KG (OHC) are all geared towards automotive applications.

The two small companies SZMT and OHC are not consolidated.

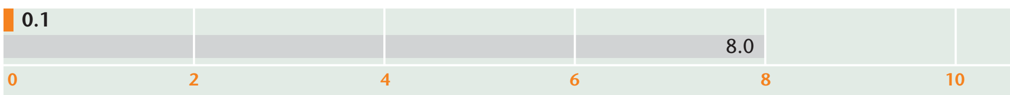
The Processing Division companies also act as development and technology partners, supplying their customers with a wide range of innovative solutions. Examples include extra-wide sheet piles designed for flood protection, fire-retardant sandwich elements, laser-welded tailored blanks and spot-welded patchwork panels, hydroformed exhaust system components and magnesium flat products. In the automotive field in particular, the objective is to combine innovative manufacturing technologies in order to extend the value creation chain and bring it closer to customers. Competencies in manufacturing technologies suitable for medium and mass production are so far advanced that a substantial proportion of the processes involved in the manufacture of motor vehicle components can be implemented within the Group. It is now not only possible to present customers with development ideas, but also provide concrete examples (ATLAS project) of new and extended applications for our products, from hot-rolled strip through to surface-coated cold strip and tubes.

Following interventionary measures, the Processing Division ended the financial year 2003 on a balanced note (€ 0.1 million pre-tax profit). The sharply negative result at HSP, which includes a debt forgiveness by the stockholder, is largely attributable to the weak revenues deriving from sheet pile products. At SZBE, too, the negative earnings situation resulting from entirely inadequate returns on sales and the low level of production capacity utilization was shored up by debt forgiveness, thereby enabling the company to record a profit. The negative result posted by SZAE was due to the sharp downturn in received orders, especially in the first half of the year. Despite intensified competition, SZEP ended the financial year 2003 on a profitable note.

Processing Division Sales



Processing Division EBT



in € mil. FY 2003 FY 2002

The key data for the Processing Division are presented in the following table:

Processing Division		FY 2003	FY 2002
Sales	**€ mil.**	**239**	**261**
Hoesch Spundwand und Profil	€ mil.	129	129
Salzgitter Bauelemente	€ mil.	27	37
Salzgitter Europlatinen	€ mil.	46	41
Salzgitter Automotive Engineering	€ mil.	37	54
Internal sales[1]	**€ mil.**	**18**	**32**
External sales[2]	**€ mil.**	**221**	**229**
Division income before taxes	**€ mil.**	**0.1**	**8.0**
Hoesch Spundwand und Profil	€ mil.	–7.6[3]	–14.5
Salzgitter Bauelemente	€ mil.	7.5[5]	–4.2[4]
Salzgitter Europlatinen	€ mil.	1.8	1.8
Salzgitter Automotive Engineering	€ mil.	–1.3	2.5
Other companies	€ mil.	–0.3	22.4
Total workforce	**At Dec. 31.**	**1,105**	**1,203**
Core workforce		**1,045**	**1,146**
Hoesch Spundwand und Profil		469	552
Salzgitter Bauelemente		63	67
Salzgitter Europlatinen		88	97
Salzgitter Automotive Engineering		425	430
Apprentices, students, trainees		**60**	**57**
EBIT[6]	**€ mil.**	**8.1**	**13.8**
EBITDA[7]	**€ mil.**	**50.4**	**30.5**

[1] Sales to other Group divisions
[2] Contribution to Group external sales
[3] Inc. € 31.3 million debt forgiveness by Salzgitter AG and € 20 million in adjustments to fixed asset valuations
[4] Inc. € 10 million subsidy from Salzgitter AG
[5] Inc. € 24 million debt forgiveness by Salzgitter AG and € 5 million in adjustments to fixed asset valuations
[6] Earnings before taxes plus interest paid (excluding interest element in allocations to pension provisions)
[7] EBIT plus depreciation

The developments at the individual companies are outlined in the following.

HSP Hoesch Spundwand und Profil GmbH (HSP) in Dortmund is principally engaged in the manufacture of sheet piles for the construction of waterways and transport infrastructure and other civil engineering works. In addition, the company also produces bulb flats for use in shipbuilding and mine arches for coal mining.

Against the background of the persistently poor situation afflicting the construction sector, the restructuring program initiated at the end of 2002 was carried forward in 2003. In addition, an associated company entitled ThyssenKrupp GfT Bautechnik GmbH (TKBT) was established in cooperation with ThyssenKrupp GfT Gesellschaft für Technik mbH. With effect from mid-2003, TKBT took over the worldwide sales and marketing of HSP's sheet piles and mine arches and PTG's box pile sections on an exclusive basis. The objective is to significantly improve market penetration in Germany and abroad and achieve a far stronger competitive position by offering a combined package including mechanical installation. Despite the trough in which the construction industry finds itself and the weak demand emanating from the public sector, by the end of the year the new sales structure was beginning to show some initial positive benefits. However, the increase in orders received and quantities shipped was not reflected in a corresponding rise in sales revenues. The cause for this lies in the extreme deterioration in prices for sheet piles, especially in Germany.

Action has meanwhile been taken to ensure that in terms of technical performance, HSP now holds a strong position in comparison with its competitors. Processing costs have been reduced to a competitive level. In addressing the increasingly important topic of flood protection, the Salzgitter Group is now able to offer innovative, cost efficient solutions from a single source. One example is the "Combined Wall" (comprising extra-wide sheet piles from HSP combined with box pile sections from PTG).

Sales in 2003, as in the preceding year, amounted to € 129 million, while earnings before tax came in at –€ 7.6 million (previous year –€ 14.5 million). As a result of changes in market conditions, non-scheduled adjustments (€ 20 million) were made to fixed asset valuations. The stockholder supported the restructuring of the company by debt forgiveness in the amount of € 31.3 million.

As a full service supplier of industrial steel building elements, **Salzgitter Bauelemente GmbH (SZBE)** produces surface-improved trapezoidal and cartridge profiles as well as sandwich elements. These versatile products are ideal as wall and roof linings which, in combination with insulating materials, offer additional protection against excess temperatures and noise.

Due to the sustained weakness in demand resulting from the desolate situation in the German construction sector, SZBE was forced to accept drastic reductions in volumes. Increased cooperation with Salzgitter Stahlhandel and higher exports to other European countries were insufficient to compensate for this negative development.

Upcoiling: Pickled hot strip is wound into a coil.

Accordingly, non-scheduled writedowns were made on fixed assets (€ 5 million). Following the debt forgiveness by the stockholder (€ 24 million), the company made a pre-tax profit of € 7.5 million.

Salzgitter Europlatinen GmbH (SZEP) manufactures and sells tailored blanks and complements the automobile industry-oriented activities of Salzgitter Flachstahl, thereby completing the Group's foothold in a major segment of the market. Following progressive expansion, SZEP now operates four fully- and semi-automatic laser welding lines, in addition to a blanking press.

The volume of sales in financial year 2003 was on a par with the preceding year.

SZEP generated sales revenues of € 46 million (previous year € 41 million) and recorded a pre-tax profit of € 1.8 million (previous year € 1.8 million).

The activities of **Salzgitter Automotive Engineering GmbH & Co. KG (SZAE)** extend from the development and manufacture of tools, parts and components for concept and prototype construction through to small-batch production and on to series-production tooling for car body panels.

After steady expansion over recent years, the demand for prototype construction fell back drastically in 2003. Projects under negotiation were put back by the automotive industry, and fierce price competition for the few orders actually placed reached an unprecedented degree. Consequently, the order intake was sharply reduced. With sales at € 37 million lagging behind the previous year, the company returned a negative result of –€ 1.3 million.

Salzgitter Magnesium-Technologie GmbH (SZMT) is the only supplier producing high-quality magnesium sheet on an industrial scale in Europe. SZMT acts as a technology partner to various prominent clients in the development, manufacture, testing and mass production application of magnesium sheet components. Some initial successes have already been achieved with the introduction of this innovative lightweight material on the markets. Magnesium sheet blanks produced by SZMT are currently being tested by almost all European automobile manufacturers. In 2003, a German car manufacturer awarded SZMT the first order for batch production of magnesium sheets.

The principal business in which **Oswald Hydroforming GmbH & Co. KG (OHC)** is engaged comprises the development and production of hydroformed components. In addition to the manufacture of exhaust system components, one major area of emphasis in 2003 was the production of hydroformed blanks for lightweight camshafts. In order to further expand its position in the market by adding upstream and downstream process stages, Oswald Hydroforming is increasingly meeting the demands of the automotive industry for a greater vertical range of production and the manufacture of complete modules.

The company generated € 7 million in sales and returned an approximately balanced result.

Tubes Division

The companies of the Tubes Division offer a virtually complete range of seamless and welded steel tubes geared predominantly to sophisticated applications. With their high-quality products, these companies generally occupy leading positions and rank as world market leaders in a number of segments. The activities of the Tubes Division are bundled in four product areas:

■ Seamless tubes:	Vallourec & Mannesmann Tubes S.A. (V&M)
■ Cold-finished tubes:	MHP Mannesmann Präzisrohr GmbH (MHP)
	Robur Buizenfabriek B.V. (ROB)
	DMV Stainless B.V. (DMV)
■ Medium line pipes:	Mannesmann Line Pipe GmbH (MLP)
	Röhrenwerk Gebr. Fuchs GmbH (RGF)
■ Large-diameter pipes:	Europipe GmbH (EP)
	Mannesmannröhren Mülheim GmbH (MRM)

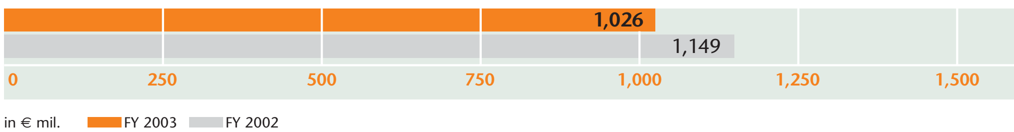
The continuing delay in the ecomomic upswing – especially in Europe – coupled with the adverse effects of the EUR/USD exchange rate on exports meant that the excellent results in the previous years could not be repeated. Overall, the Tubes Division ended the financial year 2003 with a small pre-tax profit (€ 2.6 million).

The consolidated order intake at the Tubes Division in 2003 climbed by 14% over the year before to reach € 1,121 million. This was essentially attributable to the large-diameter pipes segment, in which a large project order was booked in December involving some 630 kton for Norway. Orders booked in the medium line pipe and stainless steel tubes segments were below the previous year's level, while precision tubes showed a slight increase.

Due in particular to the success in winning the new order mentioned above, the consolidated divisional order book at the end of the year had expanded to € 452 million, representing an increase of 25% over the level at the beginning of the year (€ 361 million).

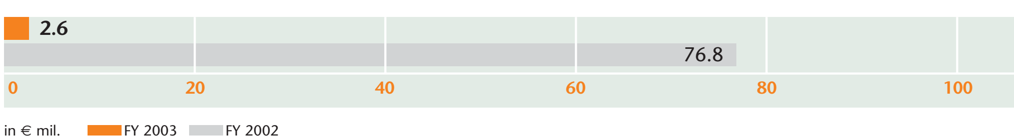
Sales to third parties and other Group divisions in financial year 2003 fell back by 11% in comparison with 2002 to € 1,026 million. Whereas sales of large-diameter pipes and stainless tubes were down, a notable increase was achieved in the precision tubes segment – especially welded precision tubes for the automotive industry.

Tubes Division Sales



In 2003, the pre-tax profit at the Tubes Division fell to € 2.6 million, well short of the previous year's highly satisfactory figure (€ 76.8 million). There were substantial declines in results generated by seamless and stainless tubes and large-diameter pipes, due primarily to the demand situation and to exchange rates. Nevertheless, in spite of the equally unfavorable situation in the energy-dependent and indeed in large parts of the non-energy-dependent sectors, V&M achieved a respectable profit. Apart from the unsatisfactory volume of business, the level of losses at Europipe was impacted by the substantial one-off expenses resulting from the closure of the Joeuf works. DMV posted a negative result due to the lack of any recovery of stainless tubes market and the ongoing expenditure associated with the restructuring and cost reduction program. Profits in the medium line pipe sector were on a par with the preceding year, with MLP showing a slight improvement and RGF a slight downturn. In the precision tubes segment MHP, which had managed a balanced result in the year before following the successful completion of its restructuring, ended this year in profit. ROB also managed to improve its earnings situation, but still did not reach break-even point in 2003.

Tubes Division EBT



As of the end of December the Division employed a total of 4,365 staff (inc. 81 trainees), 73% of whom were employed in Germany and 27% abroad. The core workforce numbered 4,284 staff. In comparison with the figure at the end of 2002 (4,505), this represented a decline of 221 employees, due essentially to the closure of the special steel facility and cost-cutting measures at the plate mill at MRM.

The key data for the Tubes Division are presented in the following table.

The shipments and sales revenues for the individual product areas are shown at 100 % irrespective of the level of Group shareholdings.

Tubes Division		FY 2003	FY 2002
Shipments			
Seamless tubes	kt	2,209	2,087
Precision tubes	kt	156	135
Stainless tubes	kt	27	31
Medium line pipes	kt	295	288
Large-diameter pipes	kt	724	921
Sales	**€ mil.**	**1,026**	**1,149**
Internal sales[1]	**€ mil.**	**105**	**28**
External sales[2]	**€ mil.**	**921**	**1,121**
Sales by product areas			
Seamless tubes	€ mil.	1,875	2,035
Precision tubes	€ mil.	186	163
Stainless tubes	€ mil.	172	194
Medium line pipes	€ mil.	193	182
Large-diameter pipes	€ mil.	572	856
Division income before taxes	**€ mil.**	**2.6**	**76.8**
Thereof seamless tubes[3]	€ mil.	35.8	68.9
Thereof precision tubes	€ mil.	0.9	–1.1
Thereof stainless tubes	€ mil.	–11.7	–1.6
Thereof medium line pipes[4]	€ mil.	4.8	4.9
Thereof large-diameter pipes[4]	€ mil.	–39.5	–15.6
Total workforce	**At Dec. 31.**	**4,365**	**4,578**
Core workforce		4,284	4,505
Wage labor		2,864	3,061
Salaried employees		1,420	1,444
Apprentices, students, trainees		**81**	**73**
EBIT[5]	**€ mil.**	**9.8**	**86.6**
EBITDA[6]	**€ mil.**	**49.3**	**120.1**

1) Sales to other Group divisions
2) Contribution to Group external sales
3) Profit based on consolidation at equity
4) Pro rata contribution to Group results
5) Earnings before taxes plus interest paid (excluding interest element in allocations to pension provisions)
6) EBIT plus depreciation

Turning now to developments in individual product areas:

Seamless tubes

There was a discernible rise in demand for seamless tubes in 2003, however, Vallourec & Mannesmann Tubes S.A. (V&M), the associated company specializing in hot-rolled seamless tubes and oil and gas pipes, was unable to derive any great benefit as the center of growth was not in Europe or North America, but in China. Developments in the field of hot-rolled tubes were mixed. The demand from the mechanical engineering and trading sectors remained unsatisfactory throughout the year. Structural tubes were in consistently high demand, while the market for boiler tubes suffered from the lack of orders from the USA. The American OCTG (oil country tubular goods) market recovered significantly in 2003. The number of active drilling rigs rose to over 1,100 in comparison with a total of less than 900 at the end of 2002. However, the increase mainly involved onshore drilling and shallow water operations, with the result that V&M Star, as a producer of high-quality seamless tubes, was unable to participate to any large extent.

In the course of the year the new government in Brazil succeeded in improving the economic climate. V&M do Brasil, which supplies some two third of its output to the domestic market, was heavily involved and ended 2003 with an excellent result.

Total shipments by V&M Tubes in 2003 amounted to 2.2 million tons, up 6% on the year before. However, this figure includes V&M Star in the second half year only. After adjusting for this effect, shipments were down by 4%. Sales in 2003 reached € 1.9 billion, some 8% less than in the year before, or 13% excluding V&M Star.

Cold-finished tubes

Despite the weakness in the global economy in the course of the year, there was a positive development in the market for seamless and welded precision steel tubes in 2003, both in Germany and in the EU. This was largely attributable to increased demand from the automobile industry. A series of new models launched during the year all featured precision steel tubes in replacement of other design elements on a larger scale than in the past. By contrast, the mechanical engineering sector showed a marked disinclination to invest. In Germany in particular, plant and equipment manufacturers postponed major investments and the construction industry reduced over-capacity in response to weak order books. The market for precision tubes remains overshadowed by severe pressure on margins and fierce competition. The situation was tightened by the development of new capacities in both Western and Eastern Europe that will be forcing their way into the German market over the short or long term. The precision tubes group comprising MHP and ROB increased shipments to 156 kton, up 16% on the previous year. Sales revenues at € 186 million were 14% up on the year before. MHP benefited in 2003 from the launch of various new car models and from the replenishment of trading stocks, and succeeded in increasing its share of the German market at the expense of its competitors.

White-hot pre-strip passes through the finishing train of the hot strip mill.

ROB was successful in 2003 in implementing a two brand strategy (seamless precision tubes and ASTM tubes) with a differentiated pricing structure. Consequently the situation improved significantly in comparison with the poor preceding year.

Following the acquisition by Mannesmannröhren-Werke in December 2001 of the 33 1/3 % stake in DMV Stainless B.V., Helmond (Netherlands), held by Dalmine SpA, at the end of 2003 a further 33 1/3 % shareholding was acquired from Valtubes S.A., with the result that DMV is now a 100%-owned Group subsidiary.

The market for stainless steel tubes had cooled significantly towards the end of 2002 and showed no recovery in 2003. Moreover, the progressive weakness of the US dollar in the course of the year put the DMV companies at a disadvantage in the face of competition from suppliers in the Far East. As a consequence of the negative effects, capacities were unutilized for large parts of the year and shipments were down on the year before at 27 kton (–13%). Consolidated sales by the DMV companies amounted to € 172 million, some 11% down on the year before. The restructurings largely implemented in 2002 and the further action taken in 2003 as part of the cost reduction program were only partially able to compensate for the weakness of the market.

Medium line pipes

In the year 2003 the medium line pipes market was affected by the difficult conditions, both economic and political, under which the world was suffering. Sharp falls in the value of the US dollar, and indeed also of the Japanese yen and the British pound, placed EU producers at a competitive disadvantage and had a substantially adverse effect on exports of line pipes and oil field pipes. An increasing number of new competitors with origins in China, India and Turkey made an appearance on the world markets.

Despite a further consolidation of repeat business in pipes and tubes for trading and structural applications, the development in orders received by MLP was generally unsatisfactory, due in particular to the declining US business in the field of uncoated line pipes and oil field pipes. Thanks to substantial volume of orders on hand at the beginning of the year, shipments reached 157 kton and were thus on a par with the year before. Sales revenues were slightly up on the previous year at € 92 million. With the exception of OCTG tubes, average returns on all other types of pipe and tube were successfully increased.

At RGF, as demand in the company's core markets of Central Europe stagnated, the volumes of gas and oil line pipes declined, ending the year some 15% down on 2002. By contrast, the volume of water pipe sales was increased by almost half and pipes for community heating systems were up by 15%. Shipments in 2003 totaling 138 kton were down on the previous year (–2%). Under the influence of a higher value product mix, average product revenues rose by 4% and sales rose to € 101 million (+3%).

Large-diameter pipes

2003 was an extremely difficult year for Europipe. This can be traced back to three causes: rises in the cost of input material, developments in the US dollar exchange rate and the economically unavoidable closure of the Joeuf plant.

By the second half of 2002 the developing difficulties in the market for large-diameter pipes were already being reflected in a perceptible decline in orders received.

In spite of its unfavorable competitive position in view of the exchange rate, in December 2003 Europipe succeeded in booking the second largest individual order in the company's history – the "Ormen Lange" project in Norway. This order encompassing a total of 632 kton lifted the end-of-year order book to 945 kton (+143%), thereby providing a firm basis for the utilization of production capacities in 2004 and 2005.

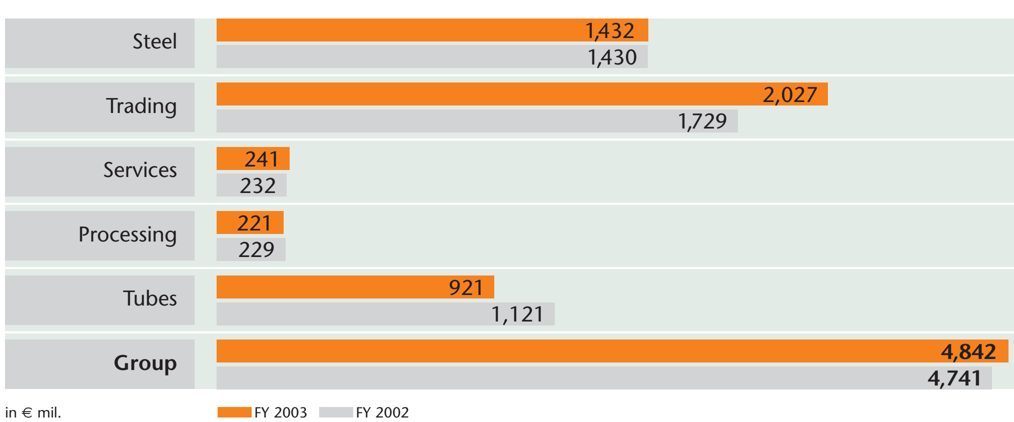
In financial year 2003 the company shipped 724 kton of uncoated large-diameter pipes, representing a downturn of 21% in comparison with the year before. Sales in 2003 declined by 33% to just € 572 million.

In order to safeguard Europipe's long-term ability to compete, far-reaching action was resolved and implemented in 2003. In view of the structural disadvantage affecting the plant and the resulting losses in recent years, the spiral tube and coating works in Joeuf, France, were closed in the second half of 2003. The closure costs contained in the pro rata pre-tax result for 2003 amounted to some € 24 million.

Sales and Results

In financial year 2003 the Salzgitter Group recorded sales of € 4.8 billion, up by 2.1 % on the previous year (€ 4.7 billion). While sales at the Steel, Services and Processing Divisions remained virtually unchanged, Trading, in particular at international level and as a result of the implementation of the Baku Ceyhan project, achieved substantial increases. By contrast, due to the adverse developments in the markets for large-diameter pipes and stainless tubes, tightened by the weakness of the dollar, the Tubes Division fell short of its previous year's performance. This situation led to a change in the proportional distribution of Group external sales in favor of the Trading Division which accounted for the – significantly increased – largest share (42 %; previous year 36 %). This figure of € 2.0 billion was some 17 % up on the year before. The Steel Division reported sales almost unchanged from the previous year (€ 1.4 billion) and accounted for 30 % of external Group sales. It should be noted that the Steel Division additionally supplied products valued at some € 0.6 billion to the Trading Division. Thanks to moderate growth in sales to third parties (+ 4 %) the Services Division maintained its share of 5 %, as in the preceding year. The Processing Division reported slightly lower sales revenues (– 3 %) and saw its share of Group sales fall to 4 % (previous year 5 %). The Tubes Division – excluding its substantially increased deliveries to the Trading Division – recorded sales of € 0.9 billion (– 18 %), representing a proportion of 19 % of the total (previous year 24 %).

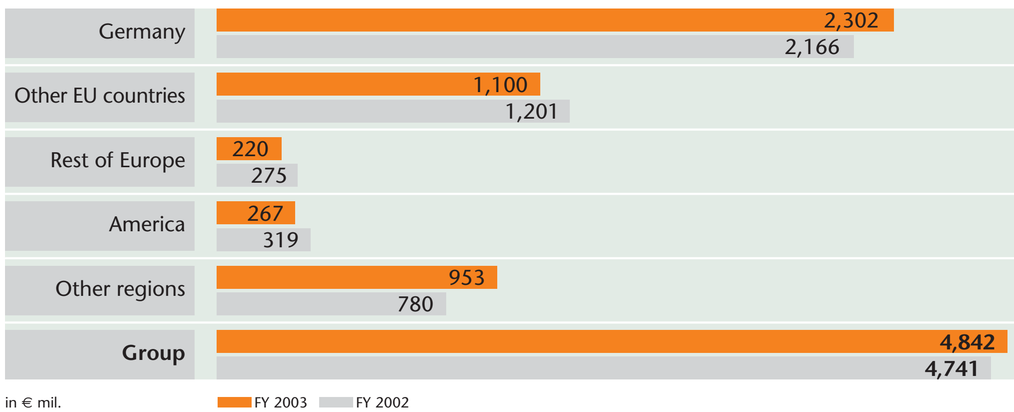
Consolidated Sales by Divisions



The bulk of sales were once again concentrated in the EU which accounted for 70 % of turnover (previous year 71 %). Sales of € 2.3 billion were recorded in Germany. Foreign sales amounted to € 2.5 billion, equating to a slightly lower proportion of 52 % in comparison with the previous year.

Vastly dominant: Blast furnaces in Salzgitter.

Consolidated Sales by Regions



The Salzgitter Group ended the financial year 2003 with a profit of € 42.5 million before taxes. In the preceding year, the profit returned had stood at € 72.5 million. This decline in earnings before taxes is primarily attributable to developments at the Tubes Division resulting mainly from the external forces acting on the markets for large-diameter pipes and stainless tubes and aggravated by the weakness of the dollar and the one-off costs of structural measures.

Thanks to a significant improvement in the returns on flat rolled products and welcome movement in the plate market, the Steel Division boosted its results by € 70.4 million and made the largest contribution to Group profits in the amount of € 46.9 million. The sale of further shares in the American steel company Steel Dynamics Inc. (SDI) contributed a positive effect. The divisional result was, however, dampened mainly by market-induced downturns in volumes and revenues, as well as an exceptional increase in the price of scrap, the most important raw material for the production of sections.

Despite the decline in its domestic activities, the Trading Division lifted its pre-tax profits to € 13.1 million (previous year € 8.2 million). The division's newly positioned international trading activities and the shipment of a major tube order were crucial to this development.

Meanwhile the Services Division posted a pre-tax profit of € 13.7 million which notably exceeded its previous year's performance (€ 8.3 million), due essentially to an improvement in capacity utilization in the technology segment at PPS.

The Processing Division was faced with weak construction sector demand over the previous year and hard-fought competition for sheet piling projects (HSP). Following debt forgiveness by the stockholder at SZBE and HSP, the Division still succeeded in returning a positive result.

As a consequence of the changed market conditions, non-scheduled write-offs were made to both companies' fixed assets. The result for the previous year had included profits from the sale of shares in the American steel company Steel Dynamics Inc.

The Tubes Division was prevented by adverse conditions in the markets for large-diameter pipes and stainless tubes from repeating its strong result for the previous year and consequently ended the year with a minimal profit. Despite the rising value of the euro, satisfactory results were still achieved in the field of seamless tubes.

In accordance with the application of IFRS accounting principles, the tax charge of € 14.4 million also includes deferred taxes. The residual consolidated net income for the year amounted to € 28.1 million.

Divisional Results and Consolidated Net Income for the Year

in € mil.	FY 2003	FY 2002
Steel	46.9	–23.5
Trading	13.1	8.2
Services	13.7	8.3
Processing	0.1	8.0
Tubes	2.6	76.8
Other/Consolidation	–33.9	–5.3
Income from ordinary activities	**42.5**	**72.5**
Taxes	14.4	6.6
Consolidated net income for the year[1]	**28.1**	**65.9**

[1] Inc. minor shareholdings

Profitability Improvement Program

In addition to the achievement of internal and external growth by means of investments and targeted acquisitions, one of our major goals is to secure and advance the competitiveness of Salzgitter AG through the ongoing improvement of our value added processes. In recent years the profitability improvement program has proven to be a consistently successful tool.

The second-generation profitability improvement program (PIP 2) initiated in January 2001 as the successor to PIP 1 (originally launched in 1996) was consistently carried forward during the reporting period. Moreover, the basic strategy approved by the Executive Board has to a large extent been integrated into PIP 2. Having measured the tenets of the basic strategy against the criteria contained in PIP 2 – in particular their sustainability – these have now been implemented in defined form in the new profitability improvement program. The number of companies participating in this program has been extended to also include smaller Group companies. In parallel with the integration of new projects, the current relevance of existing measures has been investigated. Where no additional effects were to be anticipated from individual projects, these have been terminated.

By the end of the financial year 2003, EVP 2 comprised some 272 projects. The sustained improvement we have been aiming for, the so-called "Full Year Effect", is currently yielding an annual improvement in pre-tax profits of € 138 million. The measures entailed in PIP 2 have the effect of increasing sales through the introduction of new products, the expansion of marketing channels and the improvement of production quality. There are also concomitant improvements in efficiency, and thereby also reductions in the costs of materials, personnel and outsourced services. Product-related measures have boosted earnings by a total of € 117 million, while the burden of expenses has been eased by some € 91 million. These figures compare with an essential total of € 70 million in depreciation, interest and investment expenditure associated with the implementation of these measures.

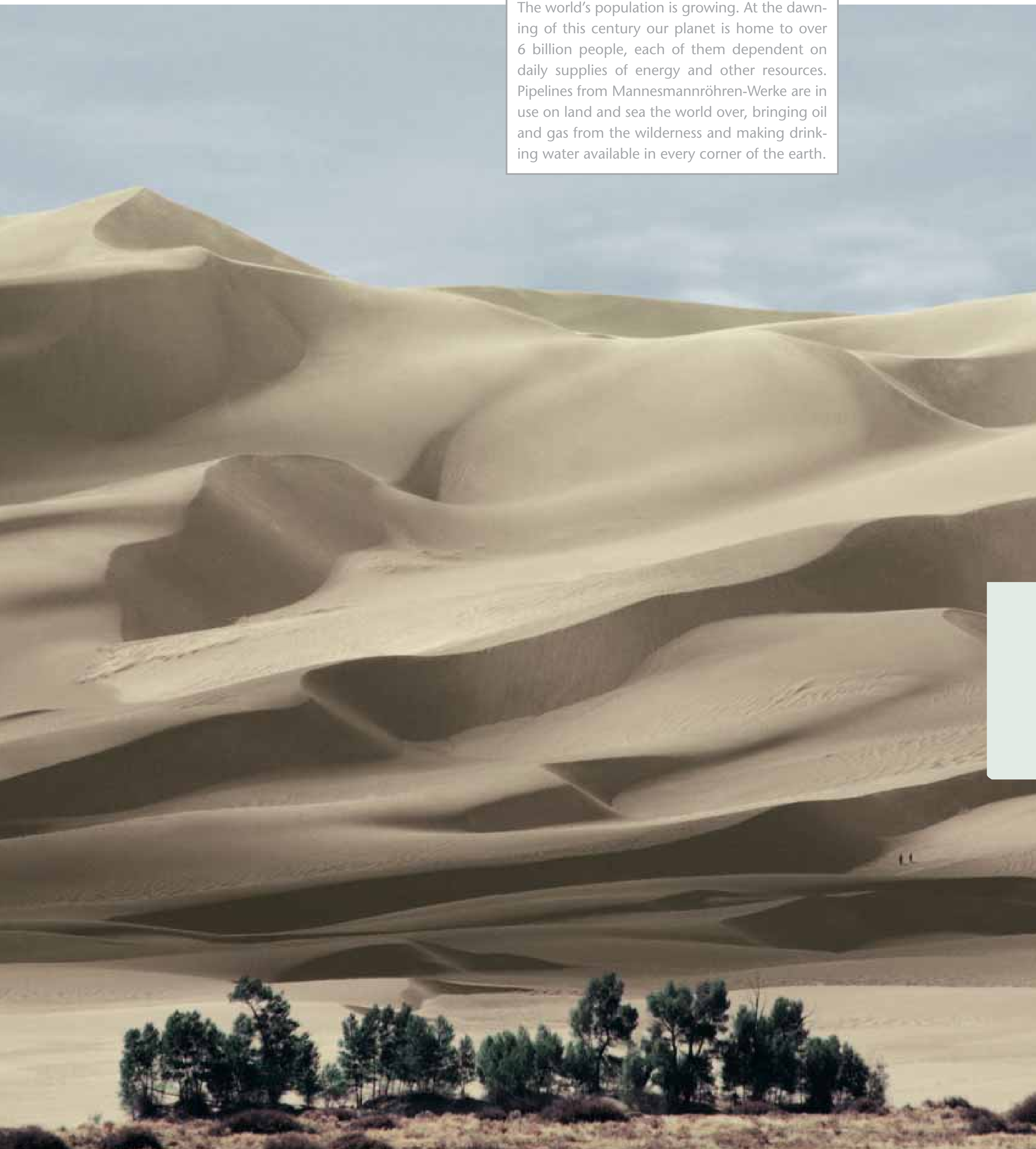
Thanks to the commitment of all concerned, the PIP 2 program has been successfully implemented and the basic strategy put into effect. There is a great willingness throughout the Group to make use of the structures and institutions of this program as a means by which to contribute ideas and suggestions on how to continuously improve results. Our decentralized Group structures allow knowledge available within the Group to be applied directly to increasing the competitiveness of Salzgitter AG, now and in the future.

The PIP program is an established element of corporate management within the Salzgitter Group and will be carried forward and supplemented on a goal-directed basis in the next financial year.

2.2 Consolidated Annual Financial Statements

Pipes – a Salzgitter Group speciality.

The world's population is growing. At the dawning of this century our planet is home to over 6 billion people, each of them dependent on daily supplies of energy and other resources. Pipelines from Mannesmannröhren-Werke are in use on land and sea the world over, bringing oil and gas from the wilderness and making drinking water available in every corner of the earth.



Accounting Principles

The consolidated financial statements were again prepared in accordance with the accounting principles defined by the International Accounting Standards Board (IASB).

The statements satisfy the prerequisites for exemption from the requirement to prepare a consolidated financial statement in accordance with German accounting principles (§ 292 a of the German Commercial Code [HGB]). Balance sheet accounting and valuation were carried out in consideration of the principles and provisions specified in the notes.

The following changes were made to the consolidated group in comparison with the preceding year:

The companies Salzgitter International Inc., Houston, (Trading Division) and Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück, (Processing Division) were fully consolidated for the first time with effect from January 1, 2003. Similarly Mannesmannröhren Werke 1. Verwaltungsgesellschaft mbH, Mülheim an der Ruhr, (Tubes Division) was first consolidated on a pro rata basis with effect from the same date.

Mannesmannröhren Service GmbH, Mülheim an der Ruhr, ceased to be included in the consolidated group as the operational business was sold. The remaining assets and liabilities were transferred to Mannesmannröhren-Werke AG, Mülheim an der Ruhr, by way of merger.

Eupec Pipe Logistics GmbH, Mülheim an der Ruhr, was folded into Eupec PipeCoatings GmbH, also in Mülheim an der Ruhr.

Asset and Capital Structure

The Group balance sheet total of € 3.67 billion was slightly down on the figure for the financial year 2002 (€ 3.81 billion; –3.5 %). On the assets side, fixed assets declined to € 1.88 billion (previous year € 1.97 billion). Investments which fell short of depreciation and amortization, the reduction in financial assets resulting from the merger of inactive tube companies and the offsetting of V&M/VLR dividend payments against the value assigned to associated companies all contributed to this development despite the reversal of badwill. Fixed assets thus accounted for 51.2 % of the reduced balance sheet total (previous year 51.9 %).

Despite higher inventories, especially at the Trading Division, and an increase in cash and cash equivalents as of the balance sheet date, the significant drop in receivables following the completion of a major tubes order and the reduction in other assets (among other reasons, due to lower values assigned to financial instruments) caused current assets to drop by 2.1 % to € 1.79 billion.

On the liabilities side, due in particular to a further currency-related adjustment for an American tube company which did not affect income and value adjustments as per IAS 39, equity capital declined by € 47 million (–4.6%) to € 0.98 billion, thus equating to 26.7% (previous year 27.0%) of the reduced balance sheet total. Long- and short-term external funds valued at € 2.69 billion (previous year € 2.78 billion; –3.2%) were employed in order to finance tied assets.

Asset and Capital Structure (in accordance with IFRS)

in € mil.	31/12/2003	%	31/12/2002	%
Fixed assets	1,879	51.2	1,975	51.9
Current assets	1,794	48.8	1,832	48.1
Assets	**3,673**	**100.0**	**3,807**	**100.0**
Shareholders' equity	980	26.7	1,027	27.0
Long-term borrowings	1,758	47.9	1,851	48.6
Short-term borrowings	935	25.4	929	24.4
Liabilities	**3,673**	**100.0**	**3,807**	**100.0**

As a result of lower investments, net bank borrowings declined to € 56 million (previous year € 66 million).

Salzgitter AG carries out cash and interest-rate management on a primarily central basis for Group companies. This in particular takes the form of the provision of funds via Group financial transactions or in individual cases via loan guarantee commitments. To cover the financial requirements of foreign Group companies, the company also made use of local lending and capital markets. Liquidity surpluses at individual Group companies are also used for financing purposes. Supplies and services within the Group are processed via internal accounts. Central financing facilitates the procurement of borrowed capital at economic cost, as well as exercising a positive effect on net interest income by reducing the volume of external borrowing and optimizing cash investments. Adequate bank credit lines are available to secure short-term liquidity requirements and cover supply and foreign currency transactions.

The orientation of our business activities is such that payment flows are in a variety of currencies. In order to cover the resulting currency risk, Group guidelines oblige all Salzgitter Group companies to secure foreign currency positions at the time these arise. Regular checks are made by the Group auditing department to monitor compliance with these regulations. Currency transactions in US dollars are covered first within the Group by netting sales and purchase items, while the resulting residual amounts are hedged by forward exchange transactions and options.

Stacking up: Pipes and tubes in store at Mannesmannröhren-Werke.

Short-term working capital within the Group rose marginally to € 1,222 million (+0.5%) in comparison with the previous year (€ 1,215 million).

Pension reserves amounted to € 1,508 million (previous year € 1,507 million) and thus remained a major element of corporate financing.

There were no major changes in other reserves in comparison with the year before (€ 384 million; previous year € 378 million).

In the following representation of the assets, liabilities and capital structure of our company and by way of departure from the consolidated financial statement prepared in accordance with IFRS provisions, we have not deducted the negative difference of € 189 million (badwill) incurred as a result of initial consolidation from intangible assets, but assigned it instead to capital resources since this item is to be appropriated as income over a relatively short period of time and accrued to equity tax-free. Minority interests in the amount of € 16 million have likewise been assigned to capital resources.

Asset and Capital Structure (business point of view)

in € mil.	31/12/2003	%	31/12/2002	%
Fixed assets	2,068	53.5	2,217	54.8
Current assets	1,794	46.5	1,832	45.2
Assets	**3,862**	**100.0**	**4,049**	**100.0**
Shareholders' equity[1]	1,185	30.7	1,295	32.0
Long-term borrowings	1,742	45.1	1,825	45.1
Short-term borrowings	935	24.2	929	22.9
Liabilities	**3,862**	**100.0**	**4,049**	**100.0**

[1] Including badwill and minority interests

Capital resources thus accounted for a slightly lower proportion (30.7%) of the reduced balance sheet total of € 3,862 million in comparison with the previous year (32%).

Cash and Cash Equivalents

The cash flow statement shows the origin and application of cash flows. The resources referred to in the cash flow statement correspond to the balance sheet item "Cash and cash equivalents".

Following a negative movement in cash and cash equivalents in the previous year as a result of the implementation of an ambitious investment program, the financial situation subsequently stabilized given the lower volume of investments in the period under review.

Ship ahoy: Loading pipes onto a general cargo vessel in Bremen.

The Group generated a significantly improved cash flow from current activities amounting to € 223 million, which exceeded the outflow of investments (€ 152 million). Total investment disbursements in the amount of € 205 million were offset by receipts of € 53 million from asset disposals. Following dividend payments and further disbursements arising from financing activities, at the end of the financial year there remained increased funds in hand in the amount of € 139.9 million. The complete cash flow statement forms part of the consolidated financial statement.

Cash and Cash Equivalents

in € mil.	FY 2003	FY 2002
Net cash provided by current operations	223.1	157.1
Net cash used for investing activities	–152.0	–270.4
Net cash from financial activities	–42.4	–2.1
Change in cash and cash equivalents	28.7	–115.4
Cash and cash equivalents on closing date	**139.9**	**111.2**

Value Added within the Salzgitter Group

At € 1,083 million the Group's operational value added fell some € 37 million (3.3 %) short of the previous year.

Coming in at 94.3 %, the proportion of value utilization accounted for by staff was again distinctly higher than in the preceding year (91.9 %).

Shareholders (including own shares) will receive 1.5 % of the value added for this financial year. Lenders accounted for 1.6 %, virtually unchanged from the previous year's figure.

The tax share increased to 1.3 %. This low figure is attributable to tax loss carryovers.

Value Added

in € mil.	FY 2003	%	FY 2002	%
Sources				
Group outputs	5,068	100.0	5,078	100.0
Inputs	3,985	78.6	3,958	77.9
Value Added	**1,083**	**21.4**	**1,120**	**22.1**
Allocation				
Employees	1,021	94.3	1,029	91.9
Lenders	18	1.6	16	1.4
Shareholders	16	1.5	20	1.8
Public authorities	14	1.3	7	0.6
Group	14	1.3	48	4.3
Value Added	**1,083**	**100.0**	**1,120**	**100.0**

2.3 Annual Financial Statements for Salzgitter AG

Going the distance with Salzgitter.

Research vessels must battle their way through to reach their remote destinations. To ensure their crews can work in safety when open sea gives way to pack ice, Salzgitter supplies rugged steel plate that shrugs off even the hardest ice flow. Even in Antarctic waters.

The Salzgitter AG annual financial statements for financial year 2003 have been prepared in accordance with the provisions of the German Commercial Code with due regard for the supplementary regulations of the German Stock Corporation Act and have been awarded an unqualified auditors' certificate by the auditors PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hannover. The complete text is published in the Federal Official Gazette (Bundesanzeiger) and deposited as HRB 9207 with the Commercial Register of the Local Court of Braunschweig.

Salzgitter AG heads the various divisions as the management holding company. Operational business is conducted by the Group member companies, and therefore the result achieved by Salzgitter AG is determined by the income from its shareholdings.

Salzgitter AG Balance Sheet (short version)

in € mil.	31/12/2003	%	31/12/2002	%
Fixed assets	**497.4**	**29.5**	**497.1**	**28.9**
Tangible assets[1]	29.4	1.8	31.1	1.8
Financial assets	468.0	27.7	466.0	27.1
Current assets	**1,189.6**	**70.5**	**1,224.5**	**71.1**
Trade receivables and other assets[2]	1,069.8	63.4	1,142.1	66.3
Cash and cash equivalents	119.8	7.1	82.4	4.8
Assets	**1,687.0**	**100.0**	**1,721.6**	**100.0**

in € mil.	31/12/2003	%	31/12/2002	%
Shareholders' equity	600.7	35.6	603.9	35.1
Special reserves with an equity portion	4.1	0.2	4.3	0.2
Provisions	409.2	24.3	414.3	24.1
Liabilities	673.0	39.9	699.1	40.6
due to banks	[48.6]		[52.2]	
Liabilities	**1,687.0**	**100.0**	**1,721.6**	**100.0**

1) Including intangible assets
2) Including prepaid expenses

Own funds amounted to some 35.6 % (previous year 35.1 %) of the reduced balance sheet total.

The cash and cash equivalents held by Salzgitter AG were increased as a result of the generally lower investment programs at the subsidiary companies in comparison with the year before.

Salzgitter AG Income Statement (short version)

in € mil.	FY 2003	FY 2002
Other operating income	16.2	48.3
Personnel expenses	19.3	16.3
Depreciation and amortization[1]	1.5	13.3
Other operating expenses	81.6	56.8
Income from shareholdings	102.5	9.2
Net interest result	0.6	0.4
Loss/profit on ordinary activities	**16.9**	**–28.5**
Taxes	–0.5	–0.5
Net profit/loss for the year	**16.4**	**–29.0**

[1] Inc. write-downs on financial assets

The result reported by the management holding company SZAG is shaped primarily by the income from its shareholdings in the companies of the Steel, Trading and Services Divisions. The development in results at the Tubes Division will impact on the Salzgitter AG result only after a certain time lag. An appreciable dividend was for the first time received from Mannesmannröhren-Werke AG.

Earnings before taxes were burdened by precautionary allowances for two Processing Division companies. However, income received via a profit transfer agreement from the sale of additional SDI shares provided a counter effect.

Appropriation of earnings at Salzgitter AG

For the financial year 2003, Salzgitter AG reported a net income of € 16.4 million. Taking into account the unappropriated profit brought forward (€ 0.4 million), the profit shown on the balance sheet amounted to € 16.8 million.

The Executive and Supervisory Boards will propose to the General Meeting of Shareholders that this profit (€ 16.8 million) be used to fund payment of a dividend of € 0.25 per share (€ 15.6 million in relation to the capital stock of approximately € 159.5 million divided into 62,400,000 shares) and that the remaining amount be carried forward to new account.

The proposed appropriation of earnings will be adapted accordingly in line with the company's holdings of own shares on the day of the General Meeting, as these holdings in own shares are not eligible for dividends.

Steel by the meter: Stacks of plate for shipbuilding and other applications.

2.4 Research and Development

The capability to innovate creates competitive advantages and is therefore a central element in consolidating profitability and safeguarding the future economic success of the Salzgitter Group. Target oriented research and development (R&D) work performed by highly motivated, qualified personnel is fundamental to securing and expanding sales. In the application of the latest procedures and technologies, our existing products, processes and services are constantly refined and new solutions developed jointly with customers and suppliers.

The Salzgitter Group has restructured its central research and development activities in order to create innovative solutions for its customers and thereby leverage synergy potentials. The merger of the two R&D units, namely the former Tubes Division and Steel Division R&D units to form Salzgitter Mannesmann Forschung GmbH (SZMF) marks the beginning of a new chapter.

The widening of the knowledge base, the enhanced exchange of complementary expertise and skills will create solutions that were not conceivable under the previous organization. At the new SZMF the continuous efforts to achieve improvements, as well as the ongoing exchange of experience and the initiation of inter-location and inter-company projects will ensure that both our subsidiaries and our customers benefit from the competitive advantages they require. A specific product and client-oriented approach helps to safeguard proximity to customers and enables short, direct R&D paths. This flexibility is one of the essential factors which set us apart from our competitors.

The concentration of R&D activities allows us to meet increasing customer demands, above all from the technology-intensive automotive industry, for integrated solutions from a single source. The Salzgitter Group is unique in its ability to offer the joint development of precision tubes based on high-quality flat rolled products.

In the year 2003, the Salzgitter Group expended some € 57.5 million on R&D activities and R&D-related quality management, and employed almost 670 staff in the performance of these tasks. These figures are not comparable with the previous year, but are based upon a newly defined demarcation of R&D activities within the entire Group.

Joint R&D projects play an important role in supplementing and extending our knowledge base. We therefore attach great significance to sustained cooperation on the part of our research and other company units with external partners in the fields of science and industry. One example is the work carried out in cooperation with South Korea's POSCO, one of the world's largest steel manufacturers which maintains a powerful, well equipped R&D department. We anticipate that these partnerships will reduce the development times for new materials. Salzgitter Flachstahl GmbH, together with POSCO and a university partner, is currently engaged in the development of a new group of multi-phase steels with outstanding bake-hardening characteristics.

Lay it flat and let it go: Loading plates at the Ilsenburg works.

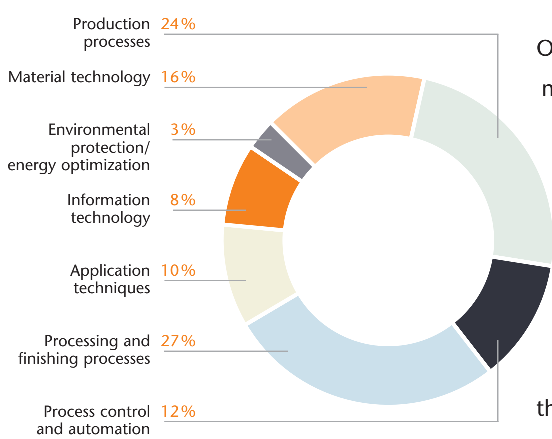

29 460kg
20.0t
DB CE D
100 90,5t 90,5t

Other important cooperation partners include Welser, for example, Europe's leading manufacturer of cold-rolled profiles, and specialist automobile maker Wilhelm Karmann GmbH. The latter is working together with us in the area of new steel spaceframe structures.

Moreover, bilateral cooperative ventures, as well as publicly funded projects with universities and extra-mural research institutions, yield additional knowledge and resources which in turn help us to develop our product portfolio. A prime example is the Institute of Structural Maintenance and Supporting Structures at the Technical University of Braunschweig which was established with the aid of a chair endowed by SZAG. This by now successfully functioning Institute not only focuses student training more strongly on the application of steel, but is also setting trends in research which have led directly to new products. One such example is the development of a new enclosed beam section which offers major advantages in the construction of lattice towers for wind energy installations. In cooperation with Peiner Träger GmbH, double-angle hollow sections are being developed, based on broad-flanged beams which allow for greater hub heights and thereby directly address a developing market trend.

In this way, we are covering the entire product development process, from materials all the way through to marketable products in cooperation with highly efficient and effective partners.

Research and Development Outlay for Flat Rolled Products



One project which has opened doors for our products in the automotive field was the joint "ATLAS" project (Advanced Technologies for Lightweight Autobodies in Steel) undertaken by Salzgitter AG and Wilhelm Karmann GmbH. The outcome of this outstanding inter-company cooperation – the new ATLAS steel spaceframe structure which offers a 30% reduction in weight over comparable vehicle designs while at the same time improving crash behavior – has met with considerable interest on the part of our customers. Users were impressed by the performance as well as by the consistent deployment of the latest steel materials, semi-finished tubes and technologies. In this project, the option of end-to-end solutions extending from flat rolled products via precision tubes through to hydroformed components proved the key to success. In the coming years many of the ATLAS innovations will be entering mass production.

Mill stand in Ilsenburg: Heated slabs are individually rolled to order.

Salzgitter Flachstahl GmbH, which played a leading role in the ATLAS project on behalf of the Group, was primarily focused on the development and market introduction of ultra high-strength hot-rolled steels with excellent cold forming properties. In addition to micro-alloyed steels, these also include complex-phase and martensitic steels with hardnesses up to 1,200 MPa. These sophisticated hot strip materials, a specialty of SZFG, are produced in the hot wide strip mill which in recent years has been upgraded to embody the absolute state of the art. We are also intensively engaged in developing heat-treatable steels and high-strength, high-ductility steels for lightweight construction purposes which promise to yield tremdendous advantages. Besides extreme hardnesses, this group of materials designated HSD steels (high strength and ductility) are capable of exceptional breaking elongation with a simultaneous reduction in density of up to 5%.

R&D activities at the Processing Division were concentrated on improving the innovative production processes already in use. For example, at Salzgitter Europlatinen GmbH this included the refinement of spot welding techniques for reinforcing panels, investigations into the non-linear welding of tailored blanks and the use of computer-aided image processing systems for the process-integrated evaluation of weld seams.

Salzgitter Automotive Engineering GmbH & Co. KG has further increased its use of DMU (digital mock up) technology. The company is employing these tools to develop virtual prototype bodyshells for its customers in the automotive industry in parallel with actual vehicle design and construction. Intensive effort is also being applied to aspects of the potential automation of prototype and small-batch processes.

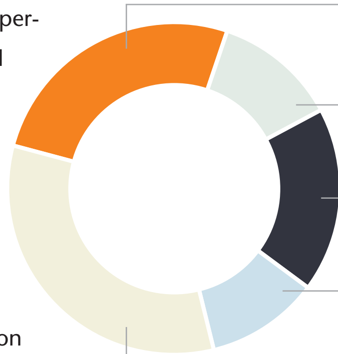
Salzgitter Magnesium-Technologie GmbH has succeeded in positioning itself as the first European company to manufacture magnesium sheet on an industrial scale. The rolling mill has already produced the first 1,850 mm wide by 1.2 mm thick sheets. This brilliant technological achievement makes SZMT the international leader in this ultra-lightweight material.

By specifically tuning the bending, hydroforming, cutting and heat treatment stages in its production process, Oswald Hydroforming GmbH & Co. KG has achieved crucial quality improvements.

In addition to the ongoing development of wider sheet piles, Hoesch Spundwand und Profil GmbH have also been working intensively on elaborating sheet pile systems which offer the customer direct value added benefits. Examples include new sealing materials for the Hoesch Sealing System, improved seals for use in the combined wall (HSP's sheet piles with PTG's box piles), the creation of a comprehensive sections database and new sheet pile construction systems and components.

MHP Mannesmann Präzisrohr GmbH has significantly improved the product characteristics of stabilizer tubes by minimizing surface decarburization. Field trials have also been conducted with newly developed hydraulic and pneumatic cylinder tubes manufactured using higher strength material with greater low-temperature endurance. Various customers have already given their approval for initial bulk production batches. A Cr VI-free high-performance passivating process has been developed for galvanized tubes (for example precision tubes hydraulic lines) which satisfies both environmental protection standards and conventional anti-corrosion requirements.

Research and Development Outlay for Tube Products



The emphasis at Mannesmann Line Pipe GmbH was on the development of continuous, non-destructive testing procedures for high-frequency induction-welded tubes. Work has continued on refining material concepts and coatings for pipe applications subject to extreme requirements as in offshore installations, for example. R&D activities have been concentrated on expanding the production range to include tubes with wall thicknesses up to 20 mm. Efforts to satisfy customer demands emanating from the crane building sector for an octagonal MSH profile have progressed as far as the trial production stage.

With the aid of discreet wavelet transformation, Mannesmannröhren Mülheim GmbH has achieved some extensive improvements in the ultrasonic testing of plate. This in turn leads to enhanced process reliability and makes an important contribution to high product quality. By employing a modified micro-alloying concept and an intelligent rolling/cooling strategy, tube input stock has been optimized and additional costs savings achieved. One particular emphasis was on methods of producing API X80 quality material for heavy plate on the basis of a micro-alloying concept using boron. As a result it is possible to attain high hardnesses, excellent toughness and adequate BDWTT values at low testing temperatures, while improving welding characteristics at the same time.

This selection of subject areas and associated projects documents the variety and creativity of our R&D endeavors in the development of application-oriented solutions. Our R&D activities play a significant role in safeguarding the future development of the Salzgitter Group.

2.5 Risk Management

Transforming ideas to reality – with a little help from Salzgitter.

Imposing structures have always been rewarded with looks of wonder and amazement. Airports flooded with light, houses of strikingly asymmetrical proportions – visionary designs have a magical fascination for us. Already we are building vast terminals and mile-long bridges. It won't be long before far bolder ideas begin to take shape. These will be borne and supported by sections and structural tubes from the Salzgitter Group.

Effective and foresighted risk management represents an important and value-creating component among the management instruments employed by Salzgitter AG.

The risk management system is constantly being expanded and refined to meet specific needs. All fully consolidated companies in the Steel, Trading, Processing and Services Divisions have meanwhile been integrated into the risk management system.

At the Tubes Division, in addition to the fully consolidated Mannesmannröhren-Werke companies, the joint venture companies Europipe GmbH including Eupec PipeCoatings GmbH and Röhrenwerk Gebr. Fuchs GmbH have also been integrated into the risk management system in accordance with Salzgitter AG guidelines.

At the Processing Division, the integration of the non-consolidated Oswald Hydroforming GmbH & Co. KG has also been concluded in the meantime.

The subsidiaries of Salzgitter AG enjoy a degree of autonomy in their application of the risk management system. The management holding company specifies guidelines which constitute a basis on which to ensure adequate and uniform consideration and communication of risks within the Group. Beyond this, the system of risk management deployed by Salzgitter AG is also documented in a risk manual. A reporting system that embraces the entire Group ensures that management is provided with complete and timely information. Group companies report on the risk situation via monthly controlling reports and if necessary by way of ad-hoc reports made directly to the Executive Board. The individual risks are evaluated at Group level. As they are identified, each risk is analyzed, evaluated and accurately tracked.

To support unbureaucratic data handling, an extended data processing system was introduced initially at the Tubes Division in financial year 2002. Starting in the period under review, this system has also been deployed at the fully consolidated companies of the Steel and Processing Divisions. All other companies with reporting duties will in future be consistently integrated according to importance and complexity.

Measures to cope with and delimit risks can be introduced at an early stage and in a targeted manner as a result of the transparency gained with respect to risk-inherent developments and potential risks. At Salzgitter AG there is a clear demarcation between risk management and controlling, which are nevertheless geared to complement each other. Actual risks can therefore be handled either through the medium of controlling (for example by way of provisioning), or via the risk management system (by taking action to overcome the risk), or via both approaches in concert.

Risks are considered as an integral part of intra-year forecasting, medium-term planning and strategy discussions. Our highest priority is to give adequate consideration to every opportunity for the limitation of risk.

In terms of the likelihood of their occurrence, a distinction is drawn between probable and improbable risks. In the case of improbable risks, on the basis of prudent commercial, technical and legal judgement, there must be no likelihood of loss or damage occurring. The conditions to be fulfilled for this judgement to stand are documented, periodically examined and if necessary updated. Consideration of the sustained validity of the conditions set is an aspect of controlling and auditing at Salzgitter AG. Where a probable risk exists, loss or damage can no longer be ruled out, for example as a consequence of the occurrence of certain events. In the interests of reproducibility and controllability, the quantitative extent of the calculated loss or damage is documented in the light of the relevant influencing factors.

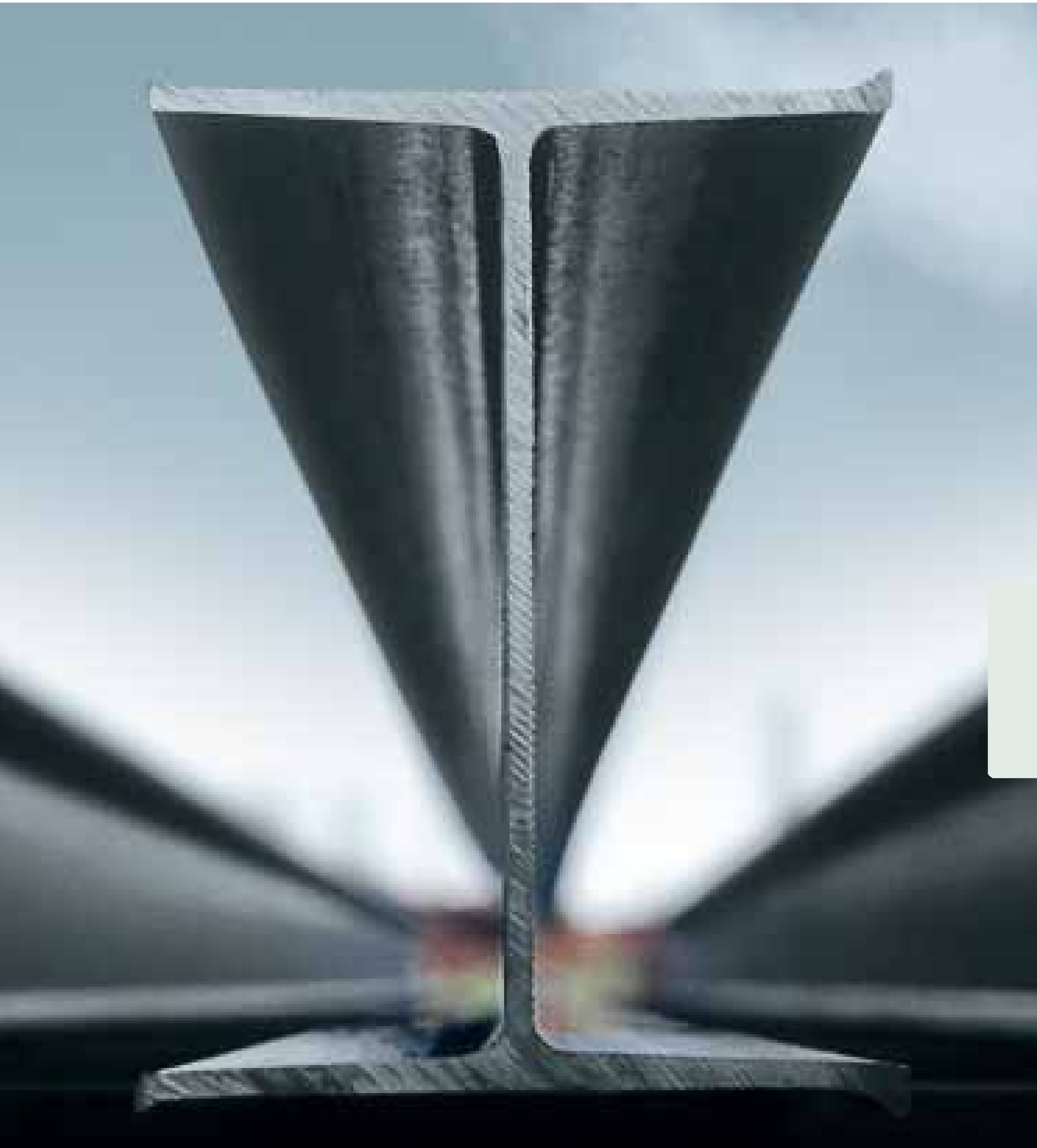
With regard to the extent of loss or damage, a distinction is drawn between major risks in excess of € 25 million and other risks where the extent of loss or damage is less than € 25 million. Risks must be integrated into the internal planning and controlling systems of the respective companies and communicated to Group management in accordance with the specific company reporting thresholds.

To overcome these risks, procedures, rules and instruments have been defined; the aim being to avoid or control possible risks, or to take appropriate precautions in consideration of the opportunities which present themselves.

We deal with product and environmental protection risks by adopting a variety of quality assurance measures including, for example, certification in accordance with international standards, the constant improvement and ongoing development of our plants and products, and by comprehensive environmental management.

We perceive a possible risk aspect in terms of the requisite supply of important raw materials (iron ore, scrap) and energy resources (coal, electricity, gas). We counter this risk by safeguarding the procurement of such raw materials from various regions and various suppliers, in part by way of long-term contract frameworks. We also pursue an appropriate stock-holding policy. On the basis of our assessment of our sources of supply, we regard the availability of these raw materials in the required quantities and qualities as largely guaranteed. This likewise applies to supplies of coal which are sourced partly in Germany and partly on the world market. We purchase electricity on a contractually secured basis insofar as our requirements exceed our own generating capacity.

Pillar of strength:
Peiner box pile.



The risk of the unplanned, extended shutdown of key plant components is counteracted by a program of preventive maintenance including continuous plant checks, ongoing modernization and investment. To cover possible loss or damage and the associated production failures, as well as other possible claims and liabilities, we have arranged insurance which guarantees that the financial consequences of potential risks are kept within bounds, if not indeed fully excluded. The extent of this insurance cover is kept under constant review and adjusted as required.

A typical risk may result from the wide fluctuations in prices and volumes in the markets into which we sell. We counteract the risk of finding ourselves in a situation which might threaten the existence of the company by broadly diversifying our products, customers and regional sales markets, by maintaining a solid balance sheet and financing structure and by adopting countermeasures defined by the situation in our procurement markets and in terms of operations. By exploiting the compensatory opportunities offered by the differing economic developments which affect our various divisions, we are able to balance the risk portfolio across the Group as a whole.

As a matter of principle, engaging in financial and foreign exchange risks is only permissible in conjunction with processes which are customary to our steel production and trading operations. Foreign exchange risks deriving from purchase or sales transactions must on principle be secured either by internal netting within the group or by forward exchange cover. Provision is made for hedging interest rate exposure by means of suitable instruments. In the international trading business, risk-inherent open positions or financing arrangements are not permissible. Risks pertaining to receivables are limited as far as possible through secured credit arrangements and in other respects by means of tight internal liability management.

In addition there are risks arising from necessary capital and liquidity measures at subsidiaries and associated companies where the development in business has followed a sustained unsatisfactory trend. We counter this risk through a rolling financial planning process and by providing subsidiaries with internal credit lines in conjunction with a national euro cash pooling system.

Risks arising in the context of joint ventures in which we do not hold majority ownership and which are therefore not under our full control are limited by way of suitable reporting and consultation structures, by participation in supervisory committees and through contractual arrangements.

In order to cater for the possible risks arising from the host of fiscal, environmental, competition and other rules and regulations, we ensure strict observance of the respective laws and stipulations and seek extensive legal advice from our own experts and on a case by case basis from qualified external specialists.

We counter risks arising in the field of information technology by developing a Group knowledge base in the form of IT services-oriented subsidiaries. This guarantees that we remain at the forefront of technological progress.

As an independent authority, the Salzgitter AG auditing department examines the systems used throughout the Group in terms of adequacy, security, safety and efficiency and provides impetus for their ongoing development.

In financial year 2003 there were no risks which endangered the continued existence of Salzgitter AG. Nor are there currently any concrete developments discernible which might be capable in future of having a lasting and substantially negative impact on the net worth, financial position or earnings of Salzgitter AG.

The competent auditor has reviewed the early warning system in place at Salzgitter AG as required by the German Stock Corporation Act. This examination verified the fact that the early warning system deployed at Salzgitter AG fulfills its appointed tasks and, in its entirety, satisfies all company law requirements.

2.6 Outlook

In the wake of economic growth in the USA and Asia, the global economy began to gather speed once more in the second half of 2003, and from today's perspective it seems likely that the economic recovery will continue worldwide across a broadening front. Economic growth in the USA is expected to show an increase over 2003. Latin America can look forward to flourishing exports thanks to the favorable real and peso exchange rates and an associated improvement in the economic situation. The Russian and Chinese economies are expected to continue their high rate of expansion. Assuming that growth forecasts for the USA and Latin America are fulfilled and the positive economic development in Russia and China is sustained, economic institutes in Germany are predicting full-year global economic growth region of 3% for 2004.

Such a scenario would not only stimulate exports from Germany and the EU: the improvement in expected sales and earnings should also strengthen companies' willingness to invest. However, factors such as the continuing appreciation of the euro and the ongoing strain on public sector finances are still capable and dampening economic development in the euro zone. Against this background it must be expected that neither the German nor the euro zone economies will exhibit strong dynamics in 2004. Forecasts at the beginning of the year predict a rise in GDP of 1.7% (2003: –0.1%) in Germany and likewise 1.7% (2003: 0.4%) in the euro zone.

The **rolled steel market** began the year 2004 on a more promising note than in the preceding year. A revival in international trade is likely to be accompanied by an expansion in worldwide sales of steel. The ability of the Asian markets to absorb supplies should generally continue to rise; China in this context is both a ray of hope and a potential risk. It is reasonable to expect that in the current year steel consumption in the EU will once again develop along more favorable lines. According to initial forecasts, the anticipated revival in investment activities in the EU and the expansion of production by important steel processors (the tubes industry, mechanical engineering) will lead to a rise in consumption of 2% or more. On the other hand due to the difficult raw material situation, growth in the production of crude steel in Germany will probably be limited.

Imports from non-EU countries are unlikely to greatly exceed their scope to date. High US dollar prices in other regions have the potential to limit the attraction of European markets. The extent to which exports of rolled steel from the EU are capable of growing is questionable given the current exchange rate situation. The strong market in Asia and the hale condition of the US economy, as well as detectable signs of firming demand emanating from India, Russia and South America, are all likely to provide positive impulses. On the other hand, in some sectors in Germany at least, there is no discernible potential for a sustained upturn.

Business is beaming: Loading Peine beams ready for shipment.

Similarly, the development in the **steel tubes market** in 2004 will also be closely intertwined with movements in the global economic situation. The oil and gas segment will effectively be dependent on the extent to which the major oil companies choose to invest in their production, transport and handling systems. A breakthrough in the backlog of projects was already becoming apparent in the second half of 2003.

There is also likely to be a revival in power station construction, and the European mechanical engineering and plant construction sectors expect investments to pick up in line with rising economic growth. The automotive industry anticipates to reach production of at least the same level as in 2003. However, here too the strong euro gives cause for concern as it impairs the international competitiveness of both European steel tube manufacturers and their customers who are based in the euro zone. Nevertheless the European steel tube industry should still develop more positively in 2004 than in the year before. This will, however, hinge on the continuing substantial efforts to remain competitive at an international level.

We expect that the individual Salzgitter Group companies will develop along the following lines in 2004.

With the regard to the current financial year the **Steel Division** anticipates a profit around the level achieved in 2003. This will include a mid-range, double digit million profit on the part of SZFG, clearly positive results at ILG and SZGR, and a significantly lower loss at PTG.

Factors determining the scheduled developments at SZFG include positive progress on revenues, increased purchases of slabs and more extensive maintenance works in association with the relining of the blast furnace. Rising sea freight costs and price increases for US dollar-dependent materials and resources contrast with positive benefits from the improved value of the euro against the US dollar and the positive effects of numerous PIP projects.

Higher product revenues – including the passing on of fluctuations in the scrap price through the “scrap surcharge” – as well as better capacity utilization, further workforce downsizing and PIP projects, should contribute to improved results at PTG.

Normalization of shipment volumes and a rise in input material prices are expected to account for a lower profit at ILG in comparison with 2003.

SZGR expects its result for the year 2004 to be virtually unchanged from the previous year.

Beam blanks are being rolled down in the heavy section mill in Peine.

The trend in results at the **Trading Division** is once again headed upwards in financial year 2004.

With its expected profit, the SHD group should emulate the previous year's figures. Changes in sales structures and an extensive cost reduction program will enable SSH to improve its result. SCB and SHN anticipate a slight downturn in earnings. With slight sales growth hampered by sourcing bottlenecks and higher freight costs, SID is planning for a reduction in returns and a somewhat lower but nevertheless satisfactory profit. STV and SIH are striving to increase their earnings in an improved market environment.

HLK expects the new slit coils and blanks products to deliver increased profits.

Results at UES should benefit from higher processing margins and stronger export sales. In the face of continuing intense competition, RSA anticipates a somewhat lower profit.

The contribution to results made by the **Services Division** in the year 2004 is expected to match the previous year's level. The main reason for this development lies in a change of philosophy with regard to the allocation of earnings between some of the service companies and their main Group customers, the companies of the Steel Division. In the new financial year there will be a reduction in the result generated by VPS, as the relining of the blast furnace will reduce transportation volume and increases in costs cannot be passed on to Group customers by way of price rises.

Profits at DMU are likely to rise due primarily to an increase in the utilization of shredder capacity for steel scrap. Thanks to an improvement in its technology segment resulting from higher attendance rates and further cost reductions, PPS is expecting to once again return an approximately break-even result.

While GES plans to maintain profits at a relatively constant level and the TELCAT group aims to increase external sales and thereby further boost its net income, HAN expects to see profits decline as a result of various increases in costs which cannot be compensated for by higher volumes, as its existing handling capacity is already being fully utilized.

Following a break-even result in financial year 2003 – supported by extensive interventionary measures – the **Processing Division** will post an operating loss in 2004, albeit at distinctly reduced level.

Due to the continuing difficult market situation in the sheet piling business, HSP anticipates a further negative result, though on a lower scale than in 2003. By increasing its sales volume and simultaneously improving net revenues in 2004, SZBE is looking to halve the loss made in 2003 (prior to the waiver of claims). SZEP intends to increase its profit slightly, while SZAE, primarily due to the low level of orders received, does not expect to see any marked improvement in the earnings position, despite further cost reductions.

At the **Tubes Division**, an improvement is expected in 2004 in comparison with the year before. Substantial factors in this upturn will be the non-recurrence of one-time expenses, ambitious PIP projects and increased sales volumes in large-diameter pipes and cold-rolled tubes.

With demand for gas and oil field pipes increasing compared to 2003 and consumption of structural tubes remains strong. Nevertheless, due to exchange rate pressures the results in the seamless tubes segment (V&M Tubes) are anticipated to be emulating the previous year's level.

Cold-finished tubes are expected to see a positive improvement in results. While MHP is forecasting that better volumes and returns will deliver significant gains in results, DMV is planning to increase shipments, enhancing its costs situation and expects to reduce its losses in 2004.

Medium line pipes are expected to yield a positive contribution to results on a par with last year. MLP is looking to increase its sales of uncoated line pipes and oil field pipes. With overall shipments remaining at a constant level, RGF anticipates a further shift away from oil and gas pipes in favor of water pipes and structural tubes.

The major "Ormen Lange" project already provides a firm base, and Europipe forecasts demand for its large-diameter pipes to fill its order book and utilize capacity.

With the cost of shutting down the Joeuf plant and its negative impact on results no longer featuring on the balance sheet and additional potential savings being realized, the substantial loss in 2003 should be followed by a break-even result for 2004.

Taking into account a current assessment of the risks arising from the economy, currency parities and the development in the raw material markets which could result in wide fluctuation margins, from a present perspective we expect the Tubes Division to return in the low tens of millions.

The market expectations illustrated in this outlook for the current financial year 2004 together with various other underlying conditions and planned internal measures were combined prior to the start of the year as part of the Group-wide planning process to arrive at an overall plan for the Group. Based on the current status of this information, we anticipate that earnings before taxes will show an improvement over 2003 and will return a double digit million result for the current financial year.

The consolidated result comprises the sum of the individual planned results for each subsidiary company, taking into account also the holding company and certain consolidation effects. On the other hand, the capacity of the Group to pay a dividend is subject to the individual annual financial statements for Salzgitter AG to be prepared in accordance with the German Commercial Code (HGB). A decisive factor here is the consideration that only a part of the subsidiaries contribute directly and contemporaneously to the dividend-eligible result reported by SZAG. Due in particular to the much reduced MRW dividend to be expected in 2004 and to further possible provisioning measures which may be necessitated by the loss situation at its HSP and SZBE subsidiaries, the annual net income of SZAG is unlikely to hold the potential for more than a slight increase over 2003. This will also apply under the aspect that additional tax burdens may arise due to possible new fiscal regulations. Nevertheless, from today's perspective it would appear possible to pay an appropriate dividend for the financial year 2004 out of operating profits.

Continuous casting in Peine: Steel is being poured into a preformed beam mould.

Contents Consolidated Annual Financial Statements

3.1 Consolidated Income Statement for the period January 1 to December 31, 2003

in T€	Note	FY 2003	FY 2002
Sales	(1)	4,841,560	4,741,321
Increase or decrease in finished goods and work in progress and other own work capitalized	(2)	– 35,969	+ 7,294
		4,805,591	4,748,615
Other operating earnings	(3)	194,547	229,902
Costs of materials	(4)	3,138,907	3,111,485
Personnel expenses	(5)	934,926	939,907
Amortization and depreciation	(6)	248,006	219,612
Other operating expenses	(7)	598,366	627,143
Income from shareholdings	(8)	+ 3,758	+ 5,659
Income from associated companies	(9)	+ 49,225	+ 84,309
Write-downs on financial assets	(10)	767	2,232
Net interest income	(11)	– 89,660	– 95,642
Profit on ordinary activities		**+ 42,489**	**+ 72,464**
Taxes on profits	(12)	4,911	– 2,133
Other taxes	(12)	9,524	8,734
Consolidated net income for the year		**28,054**	**65,863**
Minority interests	(13)	– 3,760	+ 1,473
Consolidated net income accruing to Salzgitter AG shareholders		**31,814**	**64,390**

Application of profits in T€	Note	FY 2003	FY 2002
Consolidated net income accruing to Salzgitter AG shareholders		31,814	64,390
Profit carried forward from previous year		20,000	28,014
Dividend payment		– 19,604	– 25,918
Appropriation to other retained earnings		– 15,430	– 46,486
Profit shown on the balance sheet after appropriation to or transfer from reserves		**16,780**	**20,000**

Undiluted earnings per share (in €)	**(14)**	**0.52**	**1.05**
Diluted earnings per share (in €)	**(14)**	**0.52**	**1.05**

3.2 Consolidated Balance Sheet (as of December 31, 2003)

Assets in T€	Note	31/12/2003	31/12/2002
Fixed assets			
Intangible fixed assets			
Goodwill/negative goodwill from capital consolidation	(15)	–189,387	–241,962
Other intangible assets	(16)	19,946	23,241
		–169,441	–218,721
Tangible fixed assets	(17)	1,457,682	1,509,626
Financial assets	(18)	78,279	195,711
Associated companies	(19)	512,594	488,159
		1,879,114	**1,974,775**
Current assets			
Inventories	(20)	918,553	868,512
Receivables and other assets			
Trade receivables	(21)	628,283	691,958
Other receivables and sundry assets	(22)	103,706	152,710
Current securities		54	392
Cash and cash equivalents	(23)	139,964	111,237
		1,790,560	**1,824,809**
Capitalized deferred taxes	**(24)**	**1,295**	**4,545**
Prepaid expenses	**(25)**	**2,156**	**2,496**
		3,673,125	**3,806,625**

Equity and liabilities in T€	Note	31/12/2003	31/12/2002
Equity	**(26)**		
Subscribed capital	(27)	159,523	159,523
Capital reserve	(28)	287,530	287,530
Retained earnings	(29)	525,907	566,450
Profit shown on the balance sheet after appropriation to or transfer from reserves	(30)	16,780	20,000
		989,740	1,033,503
Own shares		–9,494	–6,802
		980,246	**1,026,701**
Minority interests	**(31)**	**16,168**	**26,312**
Provisions			
Provisions for pensions and similar obligations	(32)	1,507,699	1,506,536
Tax provisions	(33)	96,443	99,534
Other provisions	(33)	287,832	278,020
		1,891,974	**1,884,090**
Liabilities	**(34)**		
Bonds		2,171	2,263
Liabilities to banks		196,237	177,497
Trade payables		325,286	345,447
Other liabilities		260,131	343,143
		783,825	**868,350**
Thereof long-term interest-bearing financial liabilities		[58,820]	[98,969]
Deferred income	**(35)**	**912**	**1,172**
		3,673,125	**3,806,625**

3.3 Statement of Changes in Equity

in T€	Subscribed capital	Capital reserve	Retained earnings	Thereof deriving from currency conversion
Status December 31, 2001	**159,523**	**287,530**	**572,201**	**–16,410**
Net income for the year	–	–	–	–
Dividend	–	–	–	–
Disposal of own shares	–	–	–	–
Repurchase of own shares	–	–	–	–
Change in value of own share	–	–	3	–
Currency conversions	–	–	–72,730	–72,730
Change in value IAS 39 investments	–	–	–	–
Change in value IAS 39 from hedging relationships	–	–	–	–
Withdrawals by Salzgitter AG from retained earnings	–	–	–46,899	–
Group transfers to retained earnings	–	–	93,385	–
Changes to the group consolidated	–	–	–12,266	–
Deferred taxes on changes without effect on income	–	–	1,627	–
Others	–	–	147	–
Status December 31, 2002	**159,523**	**287,530**	**535,468**	**–89,140**
Net income for the year	–	–	–	–
Dividend	–	–	–	–
Disposal of own shares	–	–	–	–
Repurchase of own shares	–	–	–	–
Currency conversions	–	–	–39,582	–39,582
Change in value IAS 39 investments	–	–	–	–
Change in value IAS 39 from hedging relationships	–	–	–	–
Group transfers to retained earnings	–	–	15,430	–
Deferred taxes on changes without effect on income	–	–	–2,651	–
Others	–	–	2,700	–
Status December 31, 2003	**159,523**	**287,530**	**511,365**	**–128,722**

Thereof other equity changes without effect on income	Repurchase of own shares	Valuation reserve IAS 39 from hedging relationships	Valuation reserve IAS 39 from available for sale	Consolidated net income	Shareholders' equity
1,673	**–6,225**	**–4,574**	**48,780**	**28,014**	**1,085,249**
–	–	–	–	64,390	64,390
–	–	–	–	–25,918	–25,918
–	47	–	–	–	47
–	–3,340	–	–	–	–3,340
3	2,716	–	–	–	2,719
–	–	–	–	–	–72,730
–	–	–	–35,815	–	–35,815
–	–	22,591	–	–	22,591
–	–	–	–	46,899	–
–	–	–	–	–93,385	–
–	–	–	–	–	–12,266
1,627	–	–	–	–	1,627
–	–	–	–	–	147
3,303	**–6,802**	**18,017**	**12,965**	**20,000**	**1,026,701**
–	–	–	–	31,814	31,814
–	–	–	–	–19,604	–19,604
–	41	–	–	–	41
–	–33	–	–	–	–33
–	–	–	–	–	–39,582
–	–	–	–2,881	–	–2,881
–	–	–13,559	–	–	–13,559
–	–	–	–	–15,430	–
–2,651	–	–	–	–	–2,651
2,649	–2,700	–	–	–	–
3,301	**–9,494**	**4,458**	**10,084**	**16,780**	**980,246**

3.4 Cash Flow Statement

(36) Cash Flow Statement

in T€	FY 2003	FY 2002
Consolidated net income for the year	31,814	64,390
Depreciations, write-downs (+)/write-ups (–) on fixed assets	245,649	221,193
Other non-payment-related expenses (+)/income (–)	41,106	–28,922
Interest expenses	104,023	109,181
Profit (–)/loss (+) on the disposal of fixed assets	–11,378	–14,612
Increase (–)/decrease (+) in inventories	–37,930	24,885
Increase (–)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	142,436	–20,592
Payment-related increase (+)/decrease (–) in provisions	–201,302	–237,038
Increase (+)/decrease (-) in trade payables and other liabilities not attributable to investment or financing activities	–91,293	38,653
Cash flow from operating activities	**223,125**	**157,138**
Payments received from the disposal of fixed assets	4,271	11,320
Payments made on investments in intangible and tangible fixed assets	–181,718	–252,880
Payments received from the disposal of financial assets	48,308	48,848
Payments made on investments in financial assets	–22,857	–77,781
Cash flow from investment activities	**–151,996**	**–270,493**
Payments received (+)/made (–) as a result of sales and repurchases of own shares	8	–574
Dividend payments	–19,604	–25,918
Payments received (+)/made (–) as a result of the issue of bonds, take-up of loans and other financial liabilities	–10,612	40,046
Interests paid	–12,194	–15,631
Cash flow from financing activities	**–42,402**	**–2,077**
Cash and cash equivalents available at the beginning of the period	111,237	226,669
Variation in cash and cash equivalents	28,727	–115,432
Cash and cash equivalents available at the end of the period	**139,964**	**111,237**

3.5 Segment Reporting

(37) Segment reporting/Primary Segment

in T€	Steel		Trading		Services	
	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002
Sales	2,316,327	2,243,579	2,101,771	1,779,070	658,632	612,256
Sales in own segment	312,394	316,604	61,564	31,241	11,753	13,115
Sales to other segments	571,897	496,334	13,508	18,472	405,844	367,270
External sales	1,432,036	1,430,641	2,026,699	1,729,357	241,035	231,871
Income from ordinary activities	46,907	–23,521	13,078	8,197	13,708	8,275
Thereof from associated companies	–	–	433	438	–	–
Interest income	318	605	5,469	5,765	6,499	5,539
Interest expenditure	46,869	47,280	14,433	19,103	10,340	9,181
Segment assets	1,588,885	1,665,342	638,750	629,591	338,476	310,087
Thereof shares in associated companies	–	–	2,848	5,129	–	–
Thereof inventories	415,999	417,684	259,224	210,783	66,580	37,965
Segment liabilities	945,733	1,049,223	539,905	519,209	298,871	270,954
Investments in tangible and intangible fixed assets	111,825	127,136	14,060	10,752	16,211	35,354
Depreciation on tangible and intangible fixed assets	135,027	137,086	10,778	10,764	17,781	12,270
Non-payment-related expenses and earnings	17,444	31,443	–558	9,358	13,075	23,376
Employees (annual average)	6,978	6,990	1,853	1,945	3,686	3,797

(37) Segment reporting by regions

in T€	Germany		EU (excluding Germany)		Rest of Europe	
	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002
External sales by geographical location of customers	2,302,088	2,165,532	1,100,233	1,200,780	219,799	275,271
External sales by company headquarters	4,363,304	4,271,610	270,687	311,328	4,863	4,888
Investments in tangible and intangible assets	181,260	229,869	8,843	15,006	11	3
Segment assets	3,571,708	3,743,221	184,233	203,112	3,605	4,285
Segment liabilities	2,394,702	2,476,047	121,461	148,123	837	253
Depreciation	225,635	204,332	18,810	11,418	37	55
Employees (annual average)	16,721	17,406	1,244	1,213	16	18

Processing		Tubes		Others/Consolidation		Group	
FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002
239,539	260,821	1,339,879	1,343,108	–	–	6,656,148	6,238,834
–	–	313,927	194,223	–	–	699,638	555,183
18,240	32,081	105,461	28,173	–	–	1,114,950	942,330
221,299	228,740	920,491	1,120,712	–	–	4,841,560	4,741,321
137	7,972	2,619	76,799	–33,960	-5,258	42,489	72,464
–232	–	49,024	83,871	–	–	49,225	84,309
80	126	28,558	30,144	–28,699	–30,905	12,225	11,274
8,813	6,566	51,149	56,125	-27,581	–29,074	104,023	109,181
193,439	204,849	1,488,344	1,609,220	–401,037	–396,693	3,846,857	4,022,396
5,774	–	503,972	483,030	–	–	512,594	488,159
41,084	39,136	161,593	162,944	–25,927	–	918,553	868,512
142,219	158,907	1,137,138	1,202,876	–497,003	–543,871	2,566,863	2,657,298
18,432	36,847	30,305	40,548	370	603	191,203	251,240
42,309	16,701	39,426	33,500	2,685	9,291	248,006	219,612
3,715	9,195	45,824	–69,756	-38,394	–32,537	41,106	–28,921
1,085	1,139	4,438	4,891	114	110	18,154	18,872

North America		South America		Other regions		Group	
FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002	FY 2003	FY 2002
164,126	254,081	102,580	65,207	952,734	780,450	4,841,560	4,741,321
202,706	153,495	–	–	–	–	4,841,560	4,741,321
1,089	6,362	–	–	–	–	191,203	251,240
87,311	71,778	–	–	–	–	3,846,857	4,022,396
49,863	32,875	–	–	–	–	2,566,863	2,657,298
3,524	3,807	–	–	–	–	248,006	219,612
173	235	–	–	–	–	18,154	18,872

3.6 Analysis of Fixed Assets (as of December 31, 2003)

in T€	Acquisition and production costs						
	1/1/2003	Currency differences	Changes to cons. Group	Additions	Disposals	Transfers	31/12/2003
Intangible fixed assets							
Goodwill/negative goodwill from capital consolidation	–364,153	–	–2,890	–	–	–	–367,043
Concessions, industrial property rights and similar rights and assets, including licenses on such rights and assets	76.941	–193	125	3.953	1.606	263	79.483
Goodwill	225	–	–	–	–	–	225
Payments made on account	1,807	–	–	1,785	15	–263	3,314
	–285,180	**–193**	**–2,765**	**5,738**	**1,621**	**–**	**–284,021**
Tangible fixed assets							
Land, land rights and buildings, including buildings on land owned by others	950,808	–1,846	15,052	9,005	17,429	5,342	960,932
Technical plant and machinery	3,680,215	–6,404	–	107,700	84,327	86,697	3,783,881
Other equipment, operating and office equipment	218,116	–484	1,014	20,862	18,702	2,071	222,877
Payments made on account and assets in course of construction	100,952	224	–	47,898	673	–94,110	54,291
	4,950,091	**–8,510**	**16,066**	**185,465**	**121,131**	**–**	**5,021,981**
Financial assets							
Shares in affiliated companies	107,405	–	–7,336	15,631	74,238	3,630	45,092
Shareholdings	63,806	–	–	37	18,627	–1,204	44,012
Loans to associated companies	68,062	–	–	–	67,500	–	562
Non-current securities	504	–	–	1,753	2	–	2,255
Other loans	19,443	–	5	287	12,578	–	7,157
	259,220	**–**	**–7,331**	**17,708**	**172,945**	**2,426**	**99,078**
Associated companies							
Shares in associated companies	**488,159**	**–37,698**	**–**	**64,559**	**–**	**–2,426**	**512,594**
	5,412,290	**–46,401**	**5,970**	**273,470**	**295,697**	**–**	**5,349,632**

1) A summary of the write-downs (non-scheduled depreciation) included herein is given under Note 6.
2) Reversal of negative goodwill.

Valuation allowances							Book values	
1/1/2003	Currency differences	Changes to cons. Group	Write-ups in the financial year	Write-downs in the financial year[1)]	Disposals	31/12/2003	31/12/2003	31/12/2002
−122,191	–	–	56.060[2)]	595	–	−177.656	−189.387	−241.962
55.624	−162	–	–	9.044	1.575	62.931	16.552	21.317
108	–	–	–	37	–	145	80	117
–	–	–	–	–	–	–	3,314	1,807
−66,459	**−162**	**–**	**56,060**	**9,676**	**1,575**	**−114,580**	**−169,441**	**−218,721**
552,070	−742	2,381	–	21,149	14,347	560,511	400,421	398,738
2,716,932	−4,428	13	2,431	197,941	78,931	2,829,096	954,785	963,283
171,463	−320	305	–	19,240	15,996	174,692	48,185	46,653
–	–	–	–	–	–	–	54,291	100,952
3,440,465	**−5,490**	**2,699**	**2,431**	**238,330**	**109,274**	**3,564,299**	**1,457,682**	**1,509,626**
47,183	–	–	–	767	35,272	12,678	32,414	60,222
5,065	–	–	–	–	–	5,065	38,947	58,741
562	–	–	–	–	–	562	–	67,500
–	–	–	–	–	–	–	2,255	504
10,699	–	4	693	–	7,516	2,494	4,663	8,744
63,509	**–**	**4**	**693**	**767**	**42,788**	**20,799**	**78,279**	**195,711**
–	–	–	–	–	–	–	**512,594**	**488,159**
3,437,515	**−5,652**	**2,703**	**59,184**	**248,773**	**153,637**	**3,470,518**	**1,879,114**	**1,974,775**

3.7 Notes to the Consolidated Financial Statements of Salzgitter AG for the Financial Year 2003

Accounting Principles

The consolidated financial statements of Salzgitter AG were prepared in accordance with the accounting principles of the International Accounting Standards Board (IASB) applicable on the balance sheet date and are based on the principle of historical acquisition cost. The requirements of the applied standards and interpretations (SIC/IFRIC) were satisfied without exception and convey a true and fair view of the assets, financial position and earnings situation of the Salzgitter Group.

The prerequisites for exemption from the requirement that consolidated financial statements be prepared in accordance with German accounting principles (§ 292a of the German Commercial Code [HGB]) have been fulfilled. The assessment of these prerequisites is based on German Accounting Standard No. 1 (DRS 1) published by the German Accounting Standards Committee. Any data and/or explanations that extend beyond IASB regulations are also presented in order to achieve equivalence with consolidated financial statements prepared in accordance with the provisions of commercial law. Salzgitter AG thereby satisfies the conditions for exemption from the obligation to prepare consolidated financial statements in accordance with German commercial law.

The consolidated financial statements shall be disclosed and deposited with the Commercial Register at Braunschweig Local Court under HRB 9207. The Salzgitter AG company entered in the Commercial Register at Braunschweig Local Court has its headquarters in Salzgitter. The address of the Executive Board of Salzgitter AG is Eisenhüttenstraße 99, 38239 Salzgitter.

The financial year of Salzgitter AG and its subsidiaries included in the consolidated financial statements corresponds to the calendar year.

In order to make the presentation more comprehensible, individual items have been grouped in the balance sheet and in the statement of income and shown separately in the Notes. The annual financial statements were prepared in euro.

As of December 31, 2003, the application of IAS has resulted in the following substantial deviations from the balance sheet and valuation methods used in preparing consolidated financial statements in accordance with German commercial law:

- Capitalization and depreciation with effect on income of reportable goodwill arising from the acquisition of consolidated subsidiaries in the financial years starting from January 1, 1995.

- Reporting of existing leasing arrangements in accordance with an economic approach within the meaning of IAS 17.

- Reporting of certain financial instruments at fair value in accordance with IAS 39.

- Revaluation as individual values in accordance with the standard valuation of assets as permitted by German commercial law.

- Retroactive conversion of the scheduled depreciation of tangible fixed assets as of the time of acquisition or production from the declining-balance method of depreciation previously applied to straight-line method of depreciation and from the simplification method to the pro-rata-temporis method.

- Largely fiscal useful lives were adapted to the relevant economic circumstances.

- Retroactive elimination of amortization and depreciation that was carried out solely due to tax regulations.

- Valuation of pension provisions in accordance with the projected unit credit method as specified in IAS 19, while taking future salary and pension increases into consideration.

- Reporting of provisions only insofar as obligations vis-à-vis third parties are involved.

- Reporting of estimated future savings on income tax from losses carried forward. In contrast to the timing concept under the German Commercial Code, IAS 12 is based on a balance sheet-oriented approach.

On December 18, 2003, the Executive Board and the Supervisory Board issued a Declaration of Correspondence in accordance with § 161 of the German Stock Corporation Act (AktG) and made it permanently available to shareholders on the company's website. The Declaration of Correspondence is also printed in the annual report in the chapter on Corporate Governance.

Consolidation Principles and Methods

The consolidated financial statements are based on the financial statements of Salzgitter AG and the subsidiaries included therein 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 of the material companies whose financial and business policy 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 those 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 possibility is no longer given, 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 capital at the time when the subsidiary was purchased.

The result of a subsidiary that has been sold must be included in the consolidated financial statements up to the time of the sale. This is the time when the control of the subsidiary by the parent company ends. The difference between the proceeds from the sale of the subsidiary and the book values of assets, less the debts at the time of the sale, are included in the Group income statement. In the event that the subsidiaries being excluded from the consolidated group are allocated goodwill that was acquired prior to October 1, 1995, any past offsetting against retained earnings without effect on income is revoked.

Subsidiaries not included in the consolidated financial statements are of immaterial significance for the presentation of the assets situation, financial position and earnings situation, even if summarized. In principle, shares in affiliated, non-consolidated companies are shown in the consolidated balance sheet at fair value.

In accordance with IAS 31.2, a joint venture exists if two or more partners are engaged in conducting a business activity under joint control. Control in this case constitutes the possibility of determining the business and financial policy governing the business activity in order to derive a benefit from that activity. Joint control is defined as the contractually agreed sharing of control over a business activity. According to the benchmark method, joint venture companies are included in the consolidated financial statements pursuant to IAS 31.25 by means of proportionate consolidation.

Shareholdings in companies in which the Salzgitter Group is able to exercise a definitive influence over financial and business policy decisions are valued in the consolidated financial statements using the equity method. The times of admission into and departure from the group of companies valued using the equity method are determined by applying the same principles that are used for subsidiaries. Associated companies are reported using the revaluation method with their proportionate equity at the time of acquisition. In principle, each equity valuation is based on the latest audited annual financial statements, none of which are more than twelve months old.

Minority interests in the consolidated companies are shown separately from the Salzgitter AG shareholders' equity.

In the case of assets and obligations denominated in foreign currency, the acquisition costs must on principle be reported at the exchange rate at the cutoff date when the acquisition was made. Rates are hedged as a matter of principle.

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

Intercompany profits deriving from intercompany deliveries and services – where not of subordinate significance – are eliminated with effect on income taking deferred taxes into account. Intercompany deliveries and services are subject to customary market terms.

Details of the principal direct and indirect subsidiaries and shareholdings of Salzgitter AG are listed in a separate appendix to the Notes. The complete schedule of investment holdings is filed with Braunschweig Local Court under HRB 9207.

Consolidated Group

In addition to the annual financial statements of the parent company, the consolidated financial statements also include the annual financial statements of the 33 (previous year 33) domestic and 12 (previous year 11) foreign affiliated companies that were prepared for the same balance sheet date.

Five domestic and five foreign joint ventures are included on a proportionate basis in the consolidated financial statements in accordance with the proportionate consolidation. One previously consolidated domestic joint venture was merged with the parent company. A newly established joint venture was included in the consolidated group for the first time.

The following assets, debts and expenses and earnings items (excluding income from shareholdings, net interest income and taxes) are attributable to the Group on the basis of its proportionate shares in the respective joint ventures:

in € mil.	FY 2003	FY 2002
Fixed assets	70	83
Current assets	113	119
Provisions	49	39
Liabilities	82	74
Earnings	321	501
Expenses	311	400

Two domestic and five foreign shareholdings over which Salzgitter AG or another Group company exercises a significant influence are also included in the consolidated financial statements using the equity method.

A total of 24 (previous year 29) domestic and 25 (previous year 25) foreign subsidiaries have not been consolidated due to their overall minory significance to the assets situation, financial position and earnings situation of the Group.

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

	Status as of 31/12/2002	Additions	Disposals	Status as of 31/12/2003
Consolidated subsidiaries	**44**	**2**	**1**	**45**
Thereof domestic	33	1	1	33
Thereof foreign	11	1	–	12
Joint ventures	**10**	**1**	**1**	**10**
Thereof domestic	5	1	1	5
Thereof foreign	5	–	–	5
Associated companies	**8**	**1**	**2**	**7**
Thereof domestic	1	1	–	2
Thereof foreign	7	–	2	5

Additions to the consolidated group took place in the Processing Division with one domestic subsidiary and the Trading Division with one foreign subsidiary. Due to their commercial development, these companies are no longer of subordinate significance for the Salzgitter Group.

Mannesmannröhren Service GmbH, Mülheim an der Ruhr, was merged with Mannesmannröhren-Werke AG, Mülheim an der Ruhr, and was therefore removed from the consolidated group.

Currency Translation

In the individual financial statements of the companies, business transactions are valued in foreign currency at the exchange rate prevailing at the time when they were initially recorded. Exchange losses incurred due to the valuation of receivables and/or liabilities up to the balance sheet date are taken into consideration. Profits and losses resulting from changes in exchange rates are reported with effect on income.

The annual financial statements of the foreign subsidiaries are converted into euro in accordance with the concept of functional currency. Since, from the point of view of Salzgitter AG, all of these companies are generally independent in the execution of their business in financial, economic and organizational terms, the respective functional currency corresponds to the currency of the country in which these companies are incorporated. Assets and debts are converted with the exchange rate at the balance sheet date; the positions of the income statement and thus the results for the year posted in the income statement are converted at the annual average exchange rate. The resulting differences are reported without effect on income until such time as the subsidiary is sold.

A corresponding approach is employed when converting equity rollover for foreign companies that are reported using the equity method. Differences from the previous year's conversion are offset against retained earnings without effect on income. Goodwill is reported as assets in the reporting currency. Expenses and earnings are converted at annual average exchange rates, while changes in reserves are converted with the exchange rate at the balance sheet date.

The exchange rates that serve as the basis for currency conversion have developed as follows:

Foreign currency per € 1	Balance sheet date		Annual average rate	
	31/12/2003	31/12/2002	FY 2003	FY 2002
Canadian dollar	1.6234	1.6550	1.5817	1.4838
US dollar	1.2630	1.0487	1.1312	0.9456
Czech crown	32.4100	31.5770	31.8460	30.8040
Brazilian real	3.6439	3.7112	3.4781	2.8709

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 provisions of the IASB.

Assets are capitalized if the Salzgitter Group is entitled to all of the significant opportunities and risks associated with their respective use. In principle, assets are valued at acquisition or production cost or current value. Financing costs are not capitalized.

Goodwill/Negative Goodwill

The resulting capitalized goodwill for companies acquired before October 1, 1995, continues to be offset against retained earnings. Goodwill acquired since October 1, 1995, is capitalized and amortized over the scheduled respective economic useful life using the straight-line method. In principle, the amortization of goodwill from the acquisition of consolidated subsidiaries is effected using the straight-line method over a period of 10 years, taking the strategic significance of the respective company acquisition into consideration as well as other factors that influence the useful life.

Any resulting negative goodwill difference is absorbed in accordance with the 3-step concept as specified in IAS 22.59 ff. As the anticipated negative difference from future expenses and losses arises, an equivalent sum is posted to income as other operating income. The difference that then remains is posted to income in the amount of existing non-monetary depreciable assets over the period of their average weighted remaining useful lives. If a difference still remains, it will be reported with effect on income directly at the time of initial consolidation.

Intangible Assets

Other intangible assets acquired against payment are reported at their acquisition cost and are amortized on a straight-line basis over the period of their prospective economic useful lives.

Internally generated intangible assets are capitalized if it is probable that their usefulness for the Group is reliable and if the acquisition or production can be assessed reliably. The production costs of internally generated intangible assets are determined on the basis of directly attributable direct costs and appropriate markups for overhead costs and amortization. Development costs are capitalized if a newly developed product or procedure can be clearly defined, is technically feasible and either the company's own use or marketing is intended. Moreover, capitalization presupposes that development costs will, with sufficient probability, be covered by future inflows of cash and cash equivalents. As of December 31, 2003, there were no substantial development costs within the Salzgitter Group that satisfied these prerequisites. Research costs are recognized as expenses.

Tangible Fixed Assets

Tangible fixed assets are valued at acquisition or production cost less accumulated depreciation. Any investment grants received are shown as a reduction in the acquisition and production costs. If the reasons for a write-down in previous years no longer apply, appropriate reversal of write-downs are carried out.

The production costs of internally generated tangible fixed assets are determined on the basis of direct costs and appropriate markups for overhead costs and depreciation. Financing expenses for the production period are not included.

Low-cost assets (acquisition or production costs of up to € 410.00) are depreciated fully in the year of acquisition and shown as disposals.

The costs of maintenance and repair for tangible fixed assets are recognized as expenses. Renewal and maintenance expenses are capitalized as subsequent production costs if they result in a substantial extension of the useful life or a substantial improvement or an important change in the use of the tangible fixed assets.

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

When leased tangible fixed assets are used, the prerequisites of financial leasing in accordance with IAS 17 are fulfilled if all substantial risks and opportunities associated with ownership were transferred to the respective Group company. In these cases the respective tangible fixed assets are capitalized at acquisition or production cost or at the lower cash value of the minimum leasing payments and are depreciated using the straight-line method over their economic useful lives, or the shorter term of the leasing agreement. Future leasing payments are discounted as liabilities.

Where companies have entered into operating leases as the lessee, lease installments or rental payments are recorded directly as expenses in the income statement.

Financial Investments/Associated Companies

The shares in non-consolidated affiliated companies shown under the financial assets and the other shareholdings held by the Group are reported at fair value. The shares of associated companies reported in accordance with the equity method are reported at their proportionate equity plus goodwill.

Financial Assets

In accordance with IAS 39, financial assets are first recorded at acquisition cost.

The financial instruments are reported in the accounts from the settlement date.

Subsequent to their initial reporting, securities and material shareholdings are thereafter shown at fair value. Changes in fair value are reported directly under equity.

Internally generated receivables are reported at amortized cost.

Other loans are shown at amortized cost. This also applies to interest-free or low interest loans.

Derivative financial instruments are reported on addition at acquisition cost and valued on the subsequent balance sheet dates at fair value.

Changes in the fair value of derivative financial instruments that were documented and classified as effective to hedge against cash flow risks are allocated directly to equity. The amounts reported under equity are reported in the period in the income statement in which the hedged transactions have an impact on income.

Changes in derivative financing instruments that do not fulfill the criteria for hedging instruments affect the income in the period in which they occur.

Valuation allowances are carried out for discernible individual risks, and the existing credit risk is given due consideration on the basis of empirical values.

Inventories

Inventories are shown at acquisition or production cost or the lower net selling value. Inventories in the Trading and Steel divisions are mainly valued in accordance with the last in, first out principle, while in the other divisions average costs are mainly applied. Production costs are determined on the basis of normal activity. In detail, the manufacturing costs include not only direct costs, but also product-related material and manufacturing overhead costs including production-related depreciation and old-age pension expenses. Borrowing costs are not capitalized under acquisition or production costs. Inventory risks that result from diminished usability are taken into account with appropriate value allowances. Lower values on the balance sheet date resulting from a decrease in net selling values are reported. If the net selling value has increased in the case of previously devalued inventories, the resultant reversal of write-downs is shown as a reduction in material costs.

All discernible storage and inventory risks are taken into account by the suitable application of value adjustments.

The finished and unfinished products as well as self-generated raw materials are valued at Group production cost which, in addition to direct costs, also includes depreciation and proportionate shares of the necessary overhead costs.

Provisions for Pensions

The provisions for pension obligations are formed as a result of commitments to retirement and invalidity pensions and provisions for surviving dependants. These provisions are formed exclusively for defined benefit plans under which the company guarantees that employees will receive specific provisions. The provisions for similar obligations take account of bridging payments in the event of death.

The pension commitments are valued on the basis of actuarial calculations and assumptions. The defined benefit obligations are determined using the internationally accepted projected unit credit method. The projected unit credit method takes into account not only pensions and acquired claims that are known on the balance sheet date, but also the increases in salaries and pensions that may be expected in the future. The current service costs are shown as personnel costs, and the interest element of allocations to provisions is shown as net interest income. Provisioning for specific pension obligations does not take account of the actuarial profits and losses within the limits determined by IAS 19 (±10% of present value of the defined benefit obligations). Amounts which exceed the 10% range are calculated proportionately over the residual length of service of the active workforce and accordingly allocated to provisions for pension commitments.

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

	31/12/2003	31/12/2002
Actuarial rate of interest	5.25 %	5.5 %
Trend in salaries	1.75 % resp. 2.75 %	2 % resp. 3 %
Trend in pensions	1.25 %	1.33 % resp. 1.5 %
Staff turnover	1 % p.a.	1 % p.a.

The Heubeck actuarial tables (Richttafeln) from 1998 were applied in valuing the expected mortality of the beneficiaries on both balance sheet dates.

Deferred Taxes

In accordance with IAS 12, deferred taxes are calculated using the balance sheet-oriented liability method. With this method, tax relief and charges that are likely to arise in the 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.

The German corporate income tax rate was increased to 26.5 % (plus solidarity surcharge of 5.5 % on the corporate income tax) due to the Flood Victim Solidarity Law for 2003 that came into effect on September 21, 2002 (from 2004 onwards the corporate income tax rate will return to 25 % again). For that reason, the deferred taxes whose liquidation was expected within one year were valued with a tax rate of 40.2 % (including trade tax) when the deferred taxes for Germany-based corporations as of December 31, 2002, were determined.

As of December 31, 2003, the deferred taxes for the German corporations in the Salzgitter Group are calculated with a tax rate of 39 %.

German companies are subject to an average trade tax on earnings of approximately 17 %, which is deductible when the corporate income tax is determined. The corporate income tax rate amounts to a uniform 25 % plus solidarity surcharge of 5.5 % on the corporate income tax.

Foreign income taxes are calculated on the basis of the laws and regulations that are valid in the individual countries.

The anticipated tax savings resulting from the utilization of losses carried forward whose realization is anticipated in the future are capitalized. When capitalized assets are valued for the purpose of future tax relief, consideration is given to the probability of the expected tax benefit.

Assets deriving from future tax relief include capitalized deferred taxes arising from temporary differences between book values stated in the consolidated balance sheet and values attributed for tax purposes, as well as tax savings resulting from losses carried forward 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, insofar as the maturity patterns correspond.

Sundry provisions

Provisions are formed for current obligations vis-à-vis third parties, the occurrence of which would be likely to burden Group assets. They are reported at the prospective amount of performance, taking all of the resultant discernible risks into consideration, and are not offset against recourse claims. Provisions are formed only if they are based on a legal or de facto obligation vis-à-vis third parties.

All long-term provisions are reported at their discounted performance amount as of the balance sheet date. An interest rate of 5.25 % is applied.

Liabilities

Liabilities arising from financial leasing contracts are shown at the cash value of the leasing installments.

Financial liabilities, with the exception of liabilities held for trading purposes, and derivative liabilities are valued at amortized cost using the effective interest method.

Income and expense recognition

Sales and other operating earnings are recorded when performance has been rendered or assets have been furnished, and thus when the risk has already been passed.

Dividends are collected when the claim has been legally accrued; interest expenses and interest earnings are reported pro rata temporis. Within the framework of changes to the consolidated group, acquired dividend claims are entered without effect on income as part of the capital consolidation.

According to IAS 20, grants may not be reported in the balance sheet until the necessary prerequisites have been fulfilled and it can be anticipated that the grants will actually be paid out. In principle, grants related to assets are reported as deductions from the acquisition and/or production costs. Insofar as a grant related to income refers to future financial years, it is reported using the accrual method and the component for future periods is transferred to an accrued item.

Diminutions in Value of Assets (Impairment Test)

On every balance sheet date, the Group examines the book values of its intangible and tangible fixed assets to establish whether there are any signs of a diminution in value. If such signs are discernible, the recoverable amount is estimated to determine the cost of the diminution in value. If the obtainable 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.

Write-downs are carried out if the recoverable amount of the asset is lower than its book value. The recoverable amount corresponds to the net selling price or the value in use, whichever is higher. The value in use is determined by the cash value of future cash flows attributable to the asset. If the reason for a previous write-down no longer applies, a write-up is carried out.

Notes to the Income Statement

(1) Sales

in T€	FY 2003	FY 2002
Breakdown according to product categories		
Flat rolled products	2,409,333	2,048,611
Sections	595,612	808,780
Pipes	1,236,471	1,308,087
Other	600,144	575,843
	4,841,560	**4,741,321**
Breakdown according to regions		
Domestic	2,302,088	2,165,532
Other EU	1,100,233	1,200,780
Other Europe	219,799	275,271
America	266,706	319,288
Other	952,734	780,450
	4,841,560	**4,741,321**

The breakdown of sales is an additional presentation by product categories which does not correspond to the reporting by segment reporting.

(2) Increase or Decrease in Finished Goods and Work in Progress and Other own Work Capitalized

in T€	FY 2003	FY 2002
Changes in inventory of finished and unfinished products	–39,792	–560
Own work capitalized	3,823	7,854
	–35,969	**7,294**

(3) Other Operating Earnings

in T€	FY 2003	FY 2002
Amortization of differences resulting from capital consolidation	56,060	63,499
Reversal of provisions and allowances	36,502	36,921
Income from disposal of fixed assets	21,210	29,355
Change in value of financial instruments	17,568	37,817
Ancillary operating income	8,717	7,527
Income from changes of exchange rates	4,697	1,503
Rental, leasing and licensing income	4,511	4,090
Subsidies	3,401	2,152
Income from amortized receivables	3,166	1,586
Distributed costs	2,470	3,548
Insurance compensation	1,481	2,868
Reimbursement of previous years	1,332	1,025
Other income	33,432	38,011
Other operating earnings	**194,547**	**229,902**

Other operational earnings includes earnings unrelated to the accounting period totaling € 46 million (previous year € 55 million), derived essentially from the liquidation of provisions for non-recurring obligations, income from the disposal of assets, insurance compensations and reimbursements of costs for previous years. Income from the disposal of assets includes a book profit of € 16.6 million (previous year € 25.7 million) from the sale of shares in a listed subsidiary domiciled in the USA.

(4) Costs of Materials

in T€	FY 2003	FY 2002
Costs of raw materials, consumables, supplies and purchased goods	2,863,683	2,687,654
Costs of purchased services	275,224	423,831
Costs of materials	**3,138,907**	**3,111,485**

The cost of raw materials, consumables and supplies refers primarily to expenditures for materials used, consumables and supplies, spare parts and plant devices.

The cost of purchased services refers essentially to energy, sales-related contract processing and intra-company transport costs.

The procurement markets were not uniform; there were substantial price increases in several segments, particularly scrap metal.

(5) Personnel Expenses

in T€	FY 2003	FY 2002
Wages and salaries	748,567	757,845
Social security and costs for pension commitments and support	186,359	182,062
Thereof pension commitments	[83,915]	[78,671]
Personnel expenses	**934,926**	**939,907**

In the financial year 2003 the defined contribution plan payments in the Salzgitter Group totaled € 70.3 million (previous year € 65.4 million). Allocations to the pension provisions amounting to € 13.6 million (previous year € 13.3 million) are reported as costs for defined benefit plans. The allocations to provisions include only ongoing pension costs for employee performance in the reporting year. The costs for retirement pensions do not include the compounding of the pension provisions that are shown under net interest income. The personnel expenses include € 11.9 million (previous year € 10.8 million) in costs for restructuring measures unrelated to the accounting period.

Average annual number of employees	FY 2003	FY 2002
Wage labor	12,104	12,751
Salaried employees	6,050	6,121
Group core workforce	**18,154**	**18,872**

Given the same Group structure, there would have been a slightly higher number of employees in the previous year.

(6) Amortization and Depreciation

The amortization and depreciation of intangible and tangible fixed assets respectively was carried out according to schedule in the reporting year and is shown in the analysis of fixed assets. In addition, the following expenses resulting from diminution in value (write-downs) were taken into account:

in T€	FY 2003	FY 2002
Capitalized difference	271	4,525
Intangible assets	296	8
Real estate and equivalent titles including buildings on third-party real estate	1,973	74
Technical plants and machinery	32,721	–
Other operating and office equipment	185	42
Write-downs	**35,446**	**4,649**

(7) Other Operating Expenses

in T€	FY 2003	FY 2002
Expenses for distribution	211,538	208,050
External services including provisioning	176,544	191,743
Administrative expenses including cost of insurance, fees, charges	66,769	66,676
Rents and leases	24,312	23,409
Advertising/information and travel expenses	19,369	23,275
EDP costs	15,114	12,142
Value change financial instruments	15,078	40,758
Allowances for doubtful accounts	9,955	19,277
Loss from disposal of assets	8,953	14,356
Other welfare-related personnel and non-personnel costs	8,498	7,812
Financial/monetary transfer expenses	5,903	5,010
Loss on the disposal of current assets	5,728	105
Other costs	30,605	14,530
Other operating expenses	**598,366**	**627,143**

The other operational expenses include expenses unrelated to the accounting period amounting to € 27.1 million (previous year € 13.1 million).

(8) Income from Shareholdings

in T€	FY 2003	FY 2002
Earnings from profit transfer agreements	827	1,955
Thereof affiliated companies	[827]	[1,955]
Income from shareholdings	2,931	4,505
Thereof affiliated companies	[646]	[2,253]
Expenditures from loss transfers in affiliated companies	–	801
Income from shareholdings	**3,758**	**5,659**

(9) Income from Associated Companies

in T€	FY 2003	FY 2002
Income from associated companies	49,225	84,309

The income from associated companies essentially derives from Vallourec & Mannesmann Tubes S.A., Boulogne-Billancourt, and Vallourec S.A., also in Boulogne-Billancourt. The income from Vallourec & Mannesmann Tubes S.A. and Vallourec S.A. is reported on the basis of French GAAP. Adjustments to IFRS were made in the area of provisions.

(10) Write-downs on Financial Assets

in T€	FY 2003	FY 2002
Write-downs on financial assets	767	2,232

A total of € 0.8 million (previous year € 2.0 million) of the write-downs on financial assets are attributable to write-downs on the fair value of shares in affiliated companies.

(11) Net Interest Income

in T€	FY 2003	FY 2002
Income from long-term financial investments	2,138	2,265
Other interest earned and similar income	12,225	11,274
Thereof affiliated companies	[1,183]	[1,168]
Interest and similar expenses	–104,023	–109,181
Thereof affiliated companies	[–453]	[–4,095]
Net interest income	**–89,660**	**–95,642**

The interest component included as part of the additions to the pension provisions is reported at € 85.7 million (previous year € 89.0 million) under interest expenses.

(12) Taxes

in T€	FY 2003	FY 2002
Taxes on income and profits		
Current tax expense/tax income (+/–)	6,657	8,969
Deferred tax expense/tax income (+/–)	–1,746	–11,102
	4,911	–2,133
Thereof unrelated to the accounting period	[116]	[244]
Other taxes	9,524	8,734
Total	**14,435**	**6,601**

Income taxes are related to the profit on ordinary activities after deduction of other taxes. Other taxes essentially include the costs for real property taxes in Germany and abroad.

The German corporate income tax rate was increased to 26.5 % (plus a solidarity surcharge of 5.5 % on the corporate income tax) due to the Flood Victim Solidarity Law for 2003 which came into effect on September 21, 2002. This gave rise to additional corporate income tax expenses of T€ 115 when current income taxes were determined.

Future dividend payments have no consequences for taxes on income. Deferred taxes amounting to € 2.6 million (previous year € 1.9 million) were recorded for business transactions that have had a direct impact on equity.

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

in T€	31/12/2003		31/12/2002	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	7,338	237	692	474
Tangible assets	2,494	175,389	2,654	164,556
Financial assets	263	76	338	109
Current assets	2,364	9,091	2,492	10,038
Pension reserves	47,749	834	47,473	528
Other provisions	20,115	2,216	10,084	10,456
Special item including reserves	–	12,409	–	15,711
Liabilities	8,291	1	24,757	885
Other items	2,028	213	1,501	69
Total	**90,642**	**200,466**	**89,991**	**202,826**

Summary of the tax benefits from loss carryforwards:

in T€	31/12/2003	31/12/2002
Corporate income tax	29,582	30,487
Trade tax	6,663	9,673
Capitalized tax savings	**36,245**	**40,160**

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

in T€	FY 2003	FY 2002
Capitalized tax savings January 1	40,160	40,447
Changes to the group of companies being consolidated	196	2,306
Use of losses brought forward from previous account	–7,826	–722
Capitalization of tax savings from loss carryovers	35,869	14,811
Value adjustments from loss carryovers	–32,154	–16,682
Capitalized tax savings December 31	**36,245**	**40,160**

Through the use of loss carryforwards, deferred tax expenses amounting to € 7.8 million were incurred in the financial year, contrasting with deferred tax income of € 3.7 million from the capitalization of new loss carryforwards. As of December 31, 2003, a total of € 36.2 million was shown for future realizable loss carryforwards. The capitalization of potential tax savings for loss carryforwards (a triple digit € amount in millions) at several companies as of December 31, 2003, was dispensed with, since the possibility of using these loss carryforwards appears improbable. The capitalization of deferred taxes for temporary differences (a double digit € amount in millions) was also dispensed with.

Adjustment from anticipated to actual income tax expenditure:

in T€	FY 2003	FY 2002
Consolidated net income for the year before income tax	**32,965**	**63,730**
Expected income tax expenditure (tax rate 40.2%) (tax rate previous year 39.0%)	13,252	24,855
Tax share for:		
Differences between tax rates	259	–4
Tax-free income	–28,820	–43,948
Goodwill/reversal of negative goodwill	–22,297	–20,436
Non-deductible tax expenditures and other permanent differences	1,073	7,702
Temporary differences without deferred taxes	14,194	19,471
Losses for which no deferred taxes were recorded	27,020	10,293
Tax rate modifications	392	–120
Tax expenses and income unrelated to the accounting period	–116	244
Other deviations	–46	–190
Actual income tax expenses (previous year earnings)	**4,911**	**–2,133**

The actual income tax expenses of € 4.9 million deviate by a total of € 8.4 million from the expected income tax expenses of € 13.3 million. This resulted in particular from tax-free earnings and the reversal of badwill, countered primarily by loss carryforwards estimated to be unusable and non-deductible expenses.

(13) Minority Interests

in T€	FY 2003	FY 2002
Minority interests in net income for the year	–3,760	1,473

The minority interests in the net income for the year are accounted for by Hansaport Hafenbetriebsgesellschaft mbH, Hamburg, Mannesmannröhren-Werke AG, Mülheim an der Ruhr (including subsidiaries), Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Wolfsburg (including Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück, and Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück), Salzgitter Beteiligungsgesellschaft mbH, Braunschweig, and Hövelmann & Lueg GmbH & Co. KG, Schwerte, as well as the Eupec Group and the companies in the DMV Stainless Group.

(14) Earnings per Share

The undiluted earnings per share are determined in accordance with IAS 33 as the quotient of the Group net profit to which shareholders of Salzgitter AG are entitled and the weighted average number of individual bearer shares in circulation during the financial year.

Dilution of the earnings per share occurs if the average number of shares is increased by adding the issue of potential shares from the options and conversion rights granted by Salzgitter AG. Options and conversion rights have a diluting effect on earnings if the prerequisites for conversion have been realized.

The dilution effect of option rights that have not been exercised would occur on the basis of a purchase price of € 12.10 per share. Since the share price was constantly below the purchase price of € 12.10 in the reporting year, the diluted earnings per share correspond to the undiluted earnings of € 0.52 per share.

	Shares issued	Own shares	Shares in circulation
Beginning of financial year	62,400,000	1,136,182	61,263,818
Purchase of own shares		5,000	
Issue of own shares		–6,865	
End of financial year	62,400,000	1,134,317	61,265,683
Weighted number of shares	**62,400,000**	**1,135,902**	**61,264,098**

Earnings per share		**FY 2003**	**FY 2002**
Consolidated net income for the year	in T€	28,054	65,863
Minority interests	in T€	–3,760	1,473
Consolidated net income to accruing of Salzgitter AG shareholders	in T€	31,814	64,390
Earnings per share	**in €**	**0.52**	**1.05**

Profit on Ordinary Activities

The profit on ordinary activities amounted to € 42.5 million in the financial year 2003. The earnings in the financial year include income and expenses items that, according to the provisions of IAS 8, must be explained separately.

Expenses totaling € 24 million, for example, were incurred through the closure of a spiral-welded tube works in France. In addition, fixed assets amounting to some € 25 million were written down following an impairment test of their value.

On the other hand, profits were earned from the sale of a proportion of the shareholding in the US steel company Steel Dynamics Inc. (€ 17 million) and from the reversal of provisions according to the latest estimate (€ 13 million).

Notes on the Consolidated Balance Sheet

(15) Goodwill/Negative Goodwill from Capital Consolidation

The goodwill and negative goodwill are offset under intangible assets. The addition of the capitalized goodwill refers to the acquisition of Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück; the addition of the negative goodwill is connected with the acquisition of the outstanding shares in DMV Stainless B.V., Helmond/Netherlands. The negative goodwill continues to be reversed as scheduled and in accordance with the weighted average remaining useful lives of existing non-monetary depreciable assets, originally between five and seven years. Due to the strong fluctuations in the business cycle in this sector, the negative goodwill that arose from the acquisition of the final shareholding in DMV Stainless B.V. will be reserved for anticipated future losses and reversed accordingly.

The goodwill/negative goodwill developed as follows:

Development of goodwill in T€	**31/12/2003**	**31/12/2002**
Opening balance hist. acquisition costs January 1	12,592	8,051
Addition	271	4,541
Closing balance hist. acquisition costs December 31	12,863	12,592
Opening balance valuation allowances January 1	9,983	4,191
Additions within the scope of changes to consolidated companies	–	203
Amortization current financial year	595	5,589
Closing balance valuation allowances December 31	10,578	9,983
Book value December 31	**2,285**	**2,609**

Development of negative goodwill in T€	**31/12/2003**	**31/12/2002**
Opening balance hist. acquisition costs January 1	376,745	384,059
Addition	3,161	–
Disposal	–	7,314
Closing balance hist. acquisition costs December 31	379,906	376,745
Opening balance reversals January 1	132,174	73,453
Reversal current financial year	56,060	63,499
Disposal	–	4,778
Closing balance reversals as of December 31	188,234	132,174
Book value December 31	**191,672**	**244,571**

(16) Other Intangible Assets

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

As of December 31, 2003, the book value of the capitalized internally generated intangible assets – which refers exclusively to computer software – totaled € 0.2 million (previous year € 2.4 million).

Total research and development expenses in the reporting period amounted to € 57.5 million. This figure cannot be compared to that of the previous year because it is based on a newly defined delimitation of research and development activities in the Group as a whole. Total research and development expenses in the previous year – before the definition was adjusted – amounted to € 47.0 million.

Other intangible assets are amortized over a maximum period of five years.

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

(17) Tangible Fixed Assets

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

Breakdown of tangible fixed assets at book values:

in T€	31/12/2003	31/12/2002
Land and buildings	400,421	398,738
Plant equipment and machinery	954,785	963,283
Other equipment, operating and office equipment	48,185	46,653
Equipment under construction	50,914	95,631
Payments made	3,377	5,321
Tangible fixed assets	**1,457,682**	**1,509,626**

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

in T€	**31/12/2003**	**31/12/2002**
Buildings	2,716	3,388
Plant equipment and machinery	347	1,197
Other equipment, operating and office equipment	4,250	367
	7,313	**4,952**

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

Buildings	maximum 40 years
Plant equipment and machinery	
Locomotives, track systems	maximum 30 years
Blast furnaces, steelworks, continuous casting equipment, crane systems	maximum 20 years
Surface coating plants, rolling mills, coking plants	maximum 15 years
Plant equipment, spare parts	maximum 10 years
Car pool	maximum 5 years
Office and plant equipment	maximum 5 years

Restraints on the right of ownership or disposal on the balance sheet date amounted to € 38.7 million (previous year € 28.7 million).

Historical acquisition costs of the tangible fixed assets that have been fully depreciated but are still in use:

in T€	**31/12/2003**
Land and buildings	254,066
Plant equipment and machinery	1,940,500
Other equipment, operating and office equipment	127,890
Historical acquisition costs of tangible assets	**2,322,456**

(18) Financial Assets

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

Breakdown of financial assets:

in T€	31/12/2003	31/12/2002
Shares in affiliated companies	32,414	60,222
Shareholdings	38,947	58,741
Loans to associated companies	–	67,500
Non-current securities	2,255	504
Other loans	4,663	8,744
Financial assets	**78,279**	**195,711**

The decrease in shares held in affiliated companies basically results from the first-time consolidation of Salzgitter International Inc., Houston/USA and the merger of several non-consolidated companies with a consolidated company in the Tubes Division.

The changes in shareholdings (€ –19.8 million) result almost exclusively from the sale of shares in Steel Dynamics Holding Inc., Butler/USA.

The shareholder loan that was granted to Vallourec & Mannesmann Tubes S.A. in the previous year for the purpose of part-financing the purchase price for the “seamless tubes” activities of the North Star Steel Company, Houston/USA and reported under loans to associated companies was converted into equity interests in Vallourec & Mannesmann Tubes S.A.

The increase in non-current securities refers to the fund assets held at an investment company in connection with conversions of remuneration.

Of the other loans in the amount of € 4.7 million (previous year € 8.7 million), € 1.5 million (previous year € 1.7 million) was accounted for by the financing of warrant-linked bonds issued by Salzgitter AG to members of the Executive Board and Group management staff as part of the “Long-Term Incentive Plan”. These credits, which carry interest at 5.0% per annum, are used solely to finance the acquisition of Salzgitter AG warrant-linked bonds and are due for repayment no later than 2005.

The remaining loans consist almost entirely of housing loans to members of staff. The decrease in other loans resulted essentially from the premature repayment of housing loans in the reporting year.

(19) Associated Companies

in T€	31/12/2003	31/12/2002
Shares in associated companies	512,594	488,159

The figure reported for at-equity shares in associated companies increased by T € 24,435 in comparison with the previous year. The main reasons for this were the positive annual results achieved by the associated companies and the conversion of the loan to Vallourec & Mannesmann Tubes S.A. into equity. Dividend payments and the trend of US dollar, which led to equity losses but did not affect income, had the opposite effect.

(20) Inventories

in T€	31/12/2003	31/12/2002
Raw materials and supplies	250,093	237,907
Unfinished products	192,254	224,469
Unfinished goods or services	9,079	6,581
Finished products and goods	438,452	384,288
Advance payments made	28,675	15,267
Inventories	**918,553**	**868,512**

Individual reductions are made in the valuations of all inventories where there is a likelihood that the revenues realized through their sale or use may be lower than the book value of the inventories. The anticipated achievable sale proceeds less costs incurred up to the time of sale are reported as the net sale proceeds. Where the reasons for devaluing inventories no longer apply, a reversal of write-down is carried out. During the reporting period this led to a write-up of € 8.6 million (previous year € 1.2 million).

For similar inventories the last-in, first-out (lifo) method is applied as a matter of principle. The assigned value of inventories reported in accordance with the lifo method is some € 10.3 million (previous year € 5.9 million) lower than their valuation on a replacement cost basis.

The book value of inventories reported at net selling value amounted to € 262.9 million for the reporting year (previous year € 305.0 million). The change results from the valuation of inventory assets in accordance with IAS 2.6 as a result of falling market prices.

In respect of the inventories reported, significant restrictions on ownership or disposals existed in the amount of € 3.8 million (previous year € 7.7 million).

(21) Trade Receivables

in T€	31/12/2003	31/12/2002
Due from third parties	589,735	651,463
Due from affiliated companies	13,897	24,102
Due from enterprises in which a participating interest is held	24,651	16,393
Trade receivables	**628,283**	**691,958**

Of the trade receivables, T€ 377 have a time to maturity of more than one year. Appropriate reductions in value have been made for all discernible individual risks, the credit risk assessed on the basis of empirical values and specific country risks.

(22) Other Receivables and Sundry Assets

in T€	31/12/2003	31/12/2002
Other receivables due from affiliated companies	13,019	31,786
Thereof loans	[6,802]	[7,753]
Thereof other receivables	[6,217]	[24,033]
Other receivables due from participating interests	7,197	3,341
Thereof loans	[5,724]	[505]
Thereof other receivables	[1,473]	[2,836]
Other receivables	**20,216**	**35,127**
Tax refund claims (inc. other taxes)	22,419	43,253
Finance leasing agreements	7,369	6,944
Age-related part-time employment subsidies	7,200	5,694
Derivatives	7,135	18,018
Advances on company pensions	5,547	5,141
Insurance claims	4,237	8,717
Assets available for sale	1,778	629
Loans	1,226	769
Other assets	26,579	28,418
Other assets	**83,490**	**117,583**
Other receivables and assets	**103,706**	**152,710**

The other receivables and sundry assets include the sum of € 6.1 million (previous year € 4.6 million) with a time to maturity of more than one year.

The other receivables and sundry assets also include the sum of € 7.2 million (previous year € 5.7 million) that will become legally effective only after the balance sheet date.

In respect of the other receivables and sundry assets reported, significant restrictions on ownership or disposal existed in the amount of € 5.6 million (previous year € 4.9 million).

The receivables from financial leasing reported under other receivables consist of the following:

in T€	Residual time to maturity < 1 year	Residual time to maturity 1–5 years	31/12/2003 Total	31/12/2002 Total	Residual time to maturity < 1 year
Total gross investment	3,058	5,245	8,303	7,814	3,181
Unrealized financial income	442	492	934	870	437
Book value	**2,616**	**4,753**	**7,369**	**6,944**	**2,744**

The receivables refer primarily to the leasing of communications equipment to third parties. The rental earnings are reported under other operational earnings.

(23) Cash and Cash Equivalents

in T€	31/12/2003	31/12/2002
Cash at banks	138,197	104,781
Checks, cash in hand	1,767	6,456
Cash and cash equivalents	**139,964**	**111,237**

(24) Capitalized Deferred Taxes

If it is likely that tax benefits will be realized, they must be capitalized. Deferred taxes may be offset only in cases where the deferred tax assets and liabilities relate to the same tax authority. In the financial year 2003, deferred tax claims amounting to € 125.6 million (previous year € 125.6 million) were offset.

The development in losses carried forward on both the assets and liabilities sides is explained under No. 12.

(25) Prepaid Expenses

The capitalized prepaid expenses refer primarily to accrued expenses for contributions, real property charges and motor vehicle taxes.

(26) Equity

The development in equity at the Salzgitter Group is depicted in the statement of changes in equity.

(27) Subscribed Capital

The fully paid-up nominal capital of the company still amounts to € 159,523,066.93 and is divided into 62,400,000 bearer shares, each with a par value of € 2.56.

By a resolution passed by the General Meeting of Shareholders on April 23, 1998, provision was made for contingent capital of up to € 5,112,918.81 to cover the issue of warrant-linked bonds. As of December 31, 2003, no use had been made of the authorization granted by the General Meeting of Shareholders for such contingent increases in capital.

The warrant-linked bonds comprise a 5% Salzgitter AG bond (with a term from 1998 to 2005) coupled with option rights that entitle the holder to subscribe to Salzgitter AG shares upon exercising the option.

As of the balance sheet date, the subscription to the bond amounted to € 2,171,456.62 divided into 4,247 units each of € 511.30 and each carrying 200 warrants; subscription is limited to Salzgitter Group management staff.

Subject to certain defined conditions being fulfilled, the option rights may be exercised following the expiry of a blocking period of 36 months. The following target parameters must be achieved:

- the share price must be at least € 13.92,
- the development in the Salzgitter AG share price must exceed that of a comparable index (composed of companies from the same sector) and
- the member of staff may not be under notice to leave his/her employment at a Salzgitter Group company.

By a resolution passed by the General Meeting of Shareholders on May 28, 2003, the validity of the increase of up to € 10,225,837.62 in contingent capital (Contingent Capital II) resolved on March 16, 1999 was revoked. As a result of this resolution, the nominal capital was conditionally increased by up to € 15,952,306.69 through the issue of up to 6,240,000 new no par value bearer shares (Contingent Capital 2003). The purpose of this contingent increase in capital is to facilitate the granting of option and conversion rights, in accordance with the option and convertible bond terms, to the holders of the options and/or convertible bonds issued on the basis of the authorization granted by the General

Meeting of Shareholders on May 28, 2003. This authorization entitles the Executive Board, with the approval of the Supervisory Board, to issue interest-bearing bearer warrant-linked bonds and/or convertible bonds on one or more occasions on or before to May 27, 2008 up to a total nominal value of € 90,000,000 with a maximum term of ten years and to grant the holders of the equally privileged bonds, option and conversion rights to a maximum of 6,240,000 new Salzgitter AG shares (corresponding to 10% of the nominal capital prior to the capital increase).

In addition, the Executive Board, in accordance with the resolution passed by the General Meeting of Shareholders on May 28, 2003, was authorized to increase the nominal capital with the approval of the Supervisory Board by up to a nominal amount of € 39,880,766.73 (= 25% of the nominal capital) on or before May 27, 2008 by issuing up to 15,600,000 new no par value bearer shares against payment in cash or kind (authorized capital 2003).

(28) Capital Reserve

Within the capital reserve (€ 287.5 million), the sum of € 115.2 million is accounted for by a premium lodged on the occasion of an increase in capital on October 1, 1970. Other amounts totaling € 111.2 million relate to reserves predating the merger of Ilseder Hütte with Salzgitter Hüttenwerke AG and lodged with the former Preussag Stahl AG, as well as a sundry contribution by the then principal shareholder dating from 1971/72.

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 attributable values (€ 49.1 million) and the differences posted to the capital reserve.

(29) Retained Earnings

The retained earnings qualify as 'other retained earnings' as defined by commercial law. They include allocations deriving from the results of the financial year or from previous years and differences resulting from the currency conversion – without any effect on income – of the accounts of foreign subsidiaries against which, in particular, the capitalized goodwill of subsidiaries acquired up to September 30, 1995 has been offset. The articles of incorporation of Salzgitter AG do not contain specified regulations for the formation of reserves.

The retained earnings include differences amounting to – € 128.7 million resulting from currency conversions (previous year – € 89.1 million). The changes are due to the fall in the value of the US dollar and relate largely to the Vallourec Group, which is included at equity in the consolidated financial statements.

As of the balance sheet date, Salzgitter AG held 1,134,317 (previous year 1,136,182) own shares with a notional total value of € 2,899,835.36, equating to 1.82% of subscribed capital (previous year € 2,904,603.16 = 1.82%).

Of the 1,134,317 shares acquired pursuant to § 71, Para. 1, No. 8 of the German Stock Corporation Act [AktG], 517,917 were acquired under the authorization granted by the General Meeting of Shareholders on March 16, 1999, 462,924 as authorized by the General Meeting of Shareholders on June 19, 2002 and 153,476 as authorized by the General Meeting of Shareholders on May 28, 2003. Of the 524,761 own shares held at the beginning of the financial year and acquired under the authorization granted on March 16, 1999, the company disposed of some 6,844 shares with a total par value of € 17,496.41 to third parties at an average price of € 7.17. The shares were sold in lieu of payment for marketing activities. In April of the reporting year, the company acquired another 5,000 shares with a total par value of € 12,782.30 at an acquisition cost of € 32,622.11 (€ 6.52 per share) on the basis of the authorization granted by the General Meeting of Shareholders on June 19, 2002.

In accordance with the resolution passed by the General Meeting of Shareholders on May 28, 2003, to authorize the purchase of own shares pursuant to § 71, Para. 1, No. 8 of the German Stock Corporation Act (AktG), the 153,497 shares that were acquired in previous periods pursuant to § 71, Para. 1, No. 2 AktG for passing on to staff members, but were not yet passed on by the beginning of the year, are offset against the authorization from May 28, 2003. To reward suggestions for improvement by the staff, 21 shares with a total par value of € 53.69 € were issued free to staff members and persons belonging to the Group.

(30) Profit shown on the Balance Sheet after Appropriation to or Transfer from Reserves

Under German commercial law, dividend payments to shareholders in Salzgitter AG are dependent on the year-end result reported under commercial law by Salzgitter AG. The profit shown on the balance sheet after appropriation to or transfer from reserves is shown at the same level in both the consolidated financial statements of the Salzgitter Group and the financial statements of Salzgitter AG. The transition from the consolidated net income for the year to Salzgitter AG's profit shown on the balance sheet after appropriation to or transfer from reserves is shown in the income statement.

It is proposed that the General Meeting of Shareholders of Salzgitter AG endorse payment of a dividend for the financial year 2003 of € 0.25 per share (equal to € 15.6 million based on the nominal capital of some € 159.5 million) from Salzgitter AG's profit shown on the balance sheet after appropriation to or transfer from reserves and bring the remaining amount forward to new account.

Based on the Salzgitter share's closing price of € 8.79 in XETRA trading on December 30, 2003, the dividend yield amounts to 2.8% (previous year 5.3%).

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

(31) Minority interests

Included among the balancing items are minority interests in equity, general reserves and profits and losses of Group companies. Minority interests in equity relate primarily to Hansaport Hafenbetriebsgesellschaft mbH, Hamburg, Mannesmannröhren-Werke AG, Mülheim an der Ruhr (including subsidiaries), and Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Wolfsburg (including Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück, and Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück). In addition, a proportion is accounted for by Hövelmann & Lueg GmbH & Co. KG, Schwerte, Salzgitter Beteiligungsgesellschaft mbH, Braunschweig and the Eupec Group. The remaining one-third interest in DMV Stainless B.V., Helmond was acquired at the end of last year, with the result that no minority interest was carried as a liability in the balance sheet. In the income statement the result continued to be reported proportionately under 'minority interests'.

(32) Provisions for Pensions and Similar Obligations

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

In addition, the Salzgitter Group operates a company pension scheme based on performance-related commitments that are covered by provisions. The Group also has some insignificant fund-financed pension commitments.

Provisions for pensions and similar obligations:

in T€	31/12/2003	31/12/2002
Pension provisions	1,504,722	1,503,958
Similar obligations	2,977	2,578
Total	**1,507,699**	**1,506,536**

The provisions for similar obligations take account of bridging payments in cases of death. These provisions include provisions amounting to € 122 million with times to maturity of less than one year.

The provisions for pensions and similar obligations developed as follows:

in T€	Pension provisions	Similar obligations	Total
Opening balance Jan. 1	1,503,958	2,578	1,506,536
Transfers	27,877	99	27,976
Used	122,311	124	122,435
Reversal	4,107	33	4,140
Additions	13,579	437	14,016
Accrued invest	85,726	20	85,746
Closing balance Dec. 31	**1,504,722**	**2,977**	**1,507,699**

The provisions for pensions are accounted for almost exclusively by pension commitments undertaken by German companies. The transfers are essentially the result of the merger of several non-consolidated companies with a consolidated company in the Tubes Division.

Transition from the present value of the defined benefit obligations to balance sheet provisions for pension commitments:

in T€	31/12/2003	31/12/2002
Present value of the defined benefit obligations	1,600,643	1,593,598
Less market value of assets held by external funds	–1,061	–1,143
Differences as a result of actuarial adjustments	–94,860	–88,497
Balance sheet provisions	**1,504,722**	**1,503,958**

In the current financial year the difference resulting from actuarial adjustments amounts to –€ 94.9 million and therefore lies within the 10% range according to IAS 19.

(33) Tax and Other Provisions

in T€	Status 1/1/2003	Addition due to consolidation changes	Transfers	Used	Liquidate	Appropriations	Interest added	Status 31/12/2003
Tax provisions	**99,534**	**340**	**34**	**–8,846**	**–12,279**	**17,056**	**604**	**96,443**
Thereof for current income taxes	[13,014]	[30]	[6,555]	[–4,027]	[–153]	[2,474]	[558]	[18,451]
Thereof for deferred taxes	[77,221]	[283]	[435]	[–4,353]	[–11,850]	[13,138]	[–]	[74,874]
Thereof for other taxes	[9,299]	[27]	[–6,956]	[–466]	[–276]	[1,444]	[46]	[3,118]
Personnel sector	**125,529**	**–**	**2,769**	**–37,282**	**–3,183**	**46,656**	**466**	**134,955**
Thereof for the social scheme/age-related part-time work	[61,837]	[–]	[2,106]	[–22,563]	[–2,190]	[31,576]	[–]	[70,766]
Typical operating risks	**38,321**	**–**	**871**	**–3,402**	**–4,578**	**4,910**	**239**	**36,361**
Other provisions	**114,170**	**5**	**1,461**	**–30,266**	**–18,736**	**49,472**	**410**	**116,516**
Thereof markdowns/ complaints	[25,252]	[–]	[1,346]	[–13,320]	[–7,015]	[19,854]	[–]	[26,117]
Total	**377,554**	**345**	**5,135**	**–79,796**	**–38,776**	**118,094**	**1,719**	**384,275**

The tax provisions include provisions for current and deferred income taxes and other taxes. Current income tax provisions – provided that they are in the same area of fiscal jurisdiction and of similar natures and maturities – are offset against corresponding tax refund claims. The change in provisions for deferred taxes is explained under No. 12.

Provisions for typical operational risks are formed in particular for waste disposal and recultivation obligations.

The provisions for personnel expenses basically comprise social compensation plan obligations, anniversary gifts and obligations arising from age-related part-time work contracts.

The provisions reported in the personnel area were valued on the basis of an assumed interest rate of 5.25 % per annum.

Subsidies for employees leaving the company under the terms of age-related part-time work contracts are capitalized as an asset worth € 7.2 million (previous year € 5.7 million) and not offset against the provisions.

The provisions for other risks primarily include provisions for litigation risks, environmental risks and price markdowns/complaints.

Maturities of tax and other provisions:

in T€	Total 31/12/2003	Residual time to maturity < 1 year	Residual time to maturity > 1 year
Tax provisions	**96,443**	**44,727**	**51,716**
Thereof for current income taxes	[18,451]	[18,451]	[–]
Thereof for deferred taxes	[74,874]	[24,718]	[50,156]
Thereof for other taxes	[3,118]	[1,558]	[1,560]
Personnel sector	**134,955**	**46,480**	**88,475**
Thereof for the social scheme/age-related part-time work	[70,766]	[33,750]	[37,016]
Typical operating risks	**36,361**	**15,896**	**20,465**
Other provisions	**116,516**	**94,158**	**22,358**
Thereof markdowns/complaints	[26,117]	[24,118]	[1,999]
Total	**384,275**	**201,261**	**183,014**

in T€	Total 31/12/2002	Residual time to maturity < 1 year	Residual time to maturity > 1 year
Tax provisions	**99,534**	**43,004**	**56,530**
Thereof for current income taxes	[13,014]	[12,710]	[304]
Thereof for deferred taxes	[77,221]	[28,853]	[48,368]
Thereof for other taxes	[9,299]	[1,441]	[7,858]
Personnel sector	**125,529**	**39,903**	**85,626**
Thereof for the social scheme/age-related part-time work	[61,837]	[23,258]	[38,579]
Typical operating risks	**38,321**	**15,104**	**23,217**
Other provisions	**114,170**	**65,508**	**48,662**
Thereof markdowns/complaints	[25,252]	[23,569]	[1,683]
Total	**377,554**	**163,519**	**214,035**

(34) Liabilities

in T€	Residual time to maturity < 1 year	Residual time to maturity > 5 years	31/12/2003 Total	31/12/2002 Total	Residual time to maturity < 1 year
Financial obligations					
Liabilities to banks	154,175	14,682	196,237	177,497	83,961
Bonds	2,171	–	2,171	2,263	–
	156,346	**14,682**	**198,408**	**179,760**	**83,961**
Trade payables					
To external third parties	296,518	–	296,620	311,125	311,016
To shareholdings	28,306	–	28,306	34,088	34,088
To affiliated companies	360	–	360	234	234
	325,184	**–**	**325,286**	**345,447**	**345,338**
Other liabilities					
To affiliated companies	8,676	31	8,707	68,131	68,131
To shareholdings	6,177	–	6,177	526	526
Other liabilities	236,491	2,688	245,247	274,486	265,898
Thereof financing activities	[82,057]	[158]	[82,531]	[82,574]	[81,941]
Thereof to employees	[32,327]	[42]	[32,369]	[29,221]	[28,756]
Thereof taxes	[30,515]	[–]	[30,515]	[32,776]	[32,776]
Thereof social security contributions	[25,274]	[–]	[25,274]	[22,763]	[22,763]
Thereof received payments on account	[10,336]	[–]	[10,336]	[31,149]	[31,149]
Thereof bills payable	[9,581]	[–]	[9,581]	[11,313]	[11,313]
Thereof finance leasing agreements	[1,551]	[1,336]	[7,799]	[4,414]	[1,244]
Thereof other liabilities	[44,850]	[1,152]	[46,842]	[60,276]	[55,956]
	251,344	**2,719**	**260,131**	**343,143**	**334,555**
Total liabilities	**732,874**	**17,401**	**783,825**	**868,350**	**763,854**

Provided that the performance-related conditions defined in the bond terms are fulfilled, bonds may be converted into Salzgitter AG shares on or before September 23, 2005, after a qualifying period of three years expires (as of September 28, 2001 at the earliest). In addition, please note the details listed under No. 27.

Of the total liabilities, some € 125.3 million (previous year € 45.1 million) are secured by liens and similar rights.

The other liabilities with regard to financing activities include € 73.9 million (previous year € 75.5 million) of debts resulting from forfaiting and asset-backed securities programs. Salzgitter Stahlhandel

GmbH, Düsseldorf and Salzgitter International GmbH, Düsseldorf are carrying out revolving sales of short-term domestic trade receivables on the basis of an asset-backed securities agreement. The sale of receivables is limited to an amount (purchase price) of € 56.25 million. The purchase price comprises the nominal value of the receivables less a del credere markdown relating to the default rate over the past twelve months, a verity markdown and a markdown for refinancing, insurance and administrative costs. Since Salzgitter Stahlhandel GmbH, Düsseldorf and Salzgitter International GmbH, Düsseldorf bear the commercial risks inherent in the receivables, they report the sold receivables in the accounts accurately as own receivables and report the funds received for them as liabilities arising from the sale of receivables. With the support of Salzgitter Stahlhandel GmbH, Düsseldorf, Salzgitter International GmbH, Düsseldorf made other non-Group external financing arrangements, and Salzgitter International GmbH, Düsseldorf also sold receivables with a value equivalent to € 32.9 million (previous year € 40.3 million) as of December 31, 2003. In accordance with the framework contracts, Salzgitter International GmbH, Düsseldorf carries out revolving sales of export receivables insured against default for amounts up to a maximum of € 65.0 million. In addition, Salzgitter International GmbH, Düsseldorf sells export receivables insured with bank guaranties for amounts up to a maximum of USD 5.0 million or USD 2.0 million. Salzgitter Stahlhandel GmbH, Düsseldorf is jointly and severally liable for the liabilities of Salzgitter International GmbH, Düsseldorf amounting to € 6.7 million as of the end of 2003.

The liabilities with regard to financial leasing reported under other liabilities consist of the following:

in T€	Residual time to maturity < 1 year	Residual time to maturity 1–5 years	Residual time to maturity > 5 years	31/12/2003 Total
Minimum leasing payments	1,982	5,939	1,571	9,492
Financing costs	435	1,023	235	1,693
Cash value of minimum leasing payments	**1,547**	**4,916**	**1,336**	**7,799**

in T€	Residual time to maturity < 1 year	Residual time to maturity 1–5 years	Residual time to maturity > 5 years	31/12/2002 Total
Minimum leasing payments	1,475	2,259	2,018	5,752
Financing costs	231	741	366	1,338
Cash value of minimum leasing payments	**1,244**	**1,518**	**1,652**	**4,414**

The leasing liabilities essentially relate to the rental of buildings, plant and factory and office equipment.

(35) Deferred Income

The deferred income items mainly concern expenses-related public subsidies (investment subsidies). These are allocated to deferred income and posted to income pro rata temporis in line with the useful life of the relevant assets – in the financial year 2003 the amount in question was € 0.5 million (previous year € 0.5 million).

Contingencies

Contingencies are potential liabilities not shown on the balance sheet that are disclosed in the amount of their use on the balance sheet date. Their total amounts to € 93.5 million (previous year € 72.8 million).

Included among the contingent liabilities are guaranties of € 74.0 million (previous year € 38.2 million) and bill commitments totaling € 14.4 million (previous year € 24.1 million).

When it placed shares on the stock market in 1997/1998, Salzgitter AG gave the usual assurances, guarantees and declarations of exemption within the scope of its liability for statements made in the issuing prospectus. The company's resultant liability is limited to 40%.

Neither Salzgitter AG nor any of its Group companies is engaged in current or foreseeable legal or arbitration proceedings that might have a significant effect on its economic situation. Moreover, adequate provisions have been made at the respective Group companies to cover potential financial burdens arising from legal proceedings or arbitrations.

Other Financial Obligations

In overall terms, the Group has obligations from investment commitments (€ 72.9 million; previous year € 66.5 million) and from rental agreements with terms lasting several years (€ 169.1 million; previous year € 70.7 million) as well as other obligations (€ 65.1 million; previous year € 123.1 million); their combined total is € 307.1 million (previous year € 260.3 million).

The remaining financial obligations essentially comprise commitments arising from forward exchange contracts (purchases and sales) and commitments to procure input material.

Apart from a sum of € 165.6 million (previous year € 55.6 million), the other financial obligations have residual times to maturity of up to one year.

The other financial obligations arising from long-term rental and leasing agreements consist of the following:

Future rental and leasing obligations in T€	31/12/2003	31/12/2002
Up to 1 year	13,551	19,023
Over 1 year	155,590	51,673
Total	**169,141**	**70,696**

Financial Instruments

Financial instruments are bilateral agreements between enterprises that result in a financial asset for one enterprise and a financial liability or equity instrument for the other. In accordance with IAS 32 and IAS 39, these include non-derivative financial instruments such as trade receivables and payables, and also financial receivables and debts. In particular, IAS 39 also deals with the balance sheet reporting of shareholdings not already dealt with by other standards (inc. IAS 27, IAS 28, IAS 31). On the other hand, this heading also covers derivative financial instruments.

As of the balance sheet date, the following groups of financial instruments existed at the Salzgitter Group:

in T€	31/12/2003		31/12/2002	
	Assets	Financial liabilities	Assets	Financial liabilities
Trade receivables	628,283	–	691,958	–
Loans	4,663	–	76,244	–
Other receivables	61,237	–	79,353	–
Shares in affiliated companies (non-consolidated)	32,414	–	60,222	–
Shareholdings and non-consolidated joint ventures	38,947	–	59,253	–
Securities	2,309	–	885	–
Fixed-interest securities	–	–	10	–
Cash and cash equivalents	139,964	–	111,237	–
Trade payables	–	325,233	–	345,377
Liabilities to banks	–	196,237	–	177,497
Other liabilities	–	183,987	–	277,332
Forward exchange contracts (market values)	7,135	4,391	18,019	3,049
Total	**914,952**	**709,848**	**1,097,181**	**803,255**

In accordance with IAS 39, financial instruments are first recognized at acquisition cost. Financial assets are subsequently measured at either their amortized cost or their fair value.

The fair value of a financial instrument is the amount at which an asset might be traded or a liability settled between mutually independent business associates who possess the requisite knowledge and willingness to conduct such a transaction.

Publicly quoted stock market prices and own calculations have been applied for the assessment of fair value. These own calculations concern forward exchange contracts calculated precisely to a particular date. The outright rates have been ascertained on the basis of the ECB reference rates for the currency pairs in question and the interest discrepancies for the respective terms of the forward exchange contracts. Using standardized maturities as a starting point, the interest discrepancies for the actual maturities were arrived at by interpolation. Data and information on standardized maturities were in turn derived from a conventional market information system. The differences between the contractually agreed foreign currency amounts at the contract forward rate and those at the balance sheet date contract forward rate were discounted to the balance sheet date at the corresponding euro interest rates for the contracts' residual time to maturity. The calculations were made with standardized treasury software.

Amortized cost corresponds to the assigned value first reported in the balance sheet, less redemptions and write-downs, taking account of differences between par values and amounts repayable.

The subsequent assignment of value to financial assets is based on the assignment of all items to one of four categories: "held-to-maturity investments" and "loans and receivables originated by the company" are valued at amortized cost; "financial assets held for trading" and "financial assets available for sale" are reported at fair value. With the exception of liabilities held for trading and derivatives with a negative market value, financial liabilities are subsequently valued at amortized cost.

The breakdown of financial instruments as of the balance sheet date in comparison with the previous year was as follows:

in T€	**31/12/2003**	**31/12/2002**
Financial assets held for trading	719	1,327
Held-to-maturity investments	–	10
Originated loans and receivables	184,963	224,846
Financial assets available for sale	19,422	67,743
Total	**205,104**	**293,926**

The "financial assets held for trading" amounting to € 0.7 million (previous year € 1.3 million) refer to ineffective hedging transactions.

In the reporting year the Salzgitter Group recorded write-downs on assets categorized as “loans and receivables originated by the company” in the amount of € 9.9 million (previous year € 19.3 million) and reversals of write-down in the amount of € 3.0 million (previous year € 4.0 million). The terms to maturity of the trade receivables were between one and six months in the reporting year, while the terms to maturity of trade payables were between one and four months.

The changes in the value of “financial assets available for sale” are posted to equity with no effect on income. As of the end of the reporting period a total figure of € 4.4 million (previous year € 18.0 million) resulting from changes in the value of derivatives was reported under equity without impact on income.

In the reporting year the valuation of shareholdings without effect on income led to the posting under equity of € 9.1 million as disposals and € 6.1 million as write-ups. (In the previous year disposals of € 24.7 million and value diminutions of € 10.8 million.) This essentially concerns the shareholding in SDI; the fair value of this shareholding was some € 10.0 million (previous year € 13.0 million) higher than its historic acquisition costs.

In the reporting year, profits amounting to € 16.9 million (previous year € 26.0 million) and losses amounting to € 3.2 million (previous year € 5.2 million) were made on the sale of “financial assets available for sale”. During the year, valuation adjustments totaling € 0.8 million were reported for assets in this category reported as of the balance sheet date.

The interest on overnight money and fixed-term deposits was between 1.73 and 3.6% p.a. with a maximum term of one month. Interest rates on short-term capital market instruments ranged from 2.13 to 2.315% p.a. with an investment period of one to two months. Interest on loans extended by the company ranges from 2.2 to 6.5% with a maximum term of 10 years.

The Salzgitter Group is not exposed to any significant **interest rate risks**.

The **credit worthiness or default risk** arises from the danger that contracting parties in transactions involving a financial instrument may be unable to fulfill their obligations, resulting in losses of assets. In order to provide partial cover for the risk of default and to afford access to a special information service, insurance cover has been arranged to include trade credit insurance for domestic sales and export credit insurance for customers in specific foreign countries. The trade credit insurance covers neither sales to dealers or companies in the iron and steel industry, for which global securities are arranged via the steel del credere office, nor trade credit arrangements of less than T€ 51.

The default risk pertaining to financial instruments as of the balance sheet date compared with the previous year was as follows:

in T€	31/12/2003		31/12/2002	
	Maximum default risk	Secured risk	Maximum default risk	Secured risk
Trade accounts receivable	628,283	397,501	691,958	444,256
Other receivables	61,236	1,115	79,353	1,249
Extended loans	4,663	235	76,244	3,861
Securities	2,309	–	896	–
Total	**696,491**	**398,851**	**848,451**	**449,366**

Currency risks, in other words potential reductions in the value of financial instruments due to variations in exchange rates, apply particularly in cases where receivables or liabilities denominated in other than the internal currency of the company concerned either already exist or will arise during the course of scheduled business activities.

Derivative financial instruments are used to hedge against currency risks. These instruments hedge only against currency risks that arise from existing and pending underlying transactions. In the past financial year, these risks were hedged against by means of forward exchange contracts. These derivative financial transactions are subject to ongoing risk control and strict functional distinctions are maintained between trading, processing, documentation and control.

The terms of these currency derivatives generally extend to periods of up to 12 months.

In the case of foreign currency receivables, rate hedging cover is provided by entering into forward exchange contracts with various banks. In each case, the relevant claims are reported at the agreed rate.

The nominal volume of forward exchange contracts comprises the unnetted total of all purchases and sales amounts, valued at the respective settlement rates. Market values were basically determined on the basis of conditions that prevailed on the balance sheet date, using the values at which the relevant derivatives were traded or listed, without considering contrary movements in value deriving from the underlying transactions. The market value of forward exchange contracts to be reported derives from the valuation of the hedged foreign currency amount as the difference between the rate applying when the forward exchange contract was entered into and the forward rate on the balance sheet date; this amount is discounted at the euro interest rate to the balance sheet date in line with the residual time to maturity.

in T€	Par value 31/12/2003	Market value 31/12/2003	Par value 31/12/2002	Market value 31/12/2002
Forward exchange transactions				
Purchases				
DKK	–	–	5	–1
GBP	2,048	–29	1,376	–19
CHF	449	–34	–	–
USD	149,256	–11,049	150,875	–6,520
Sales				
CHF	685	–	187	–1
DKK	–	–	1,574	1
GBP	40,244	222	39,090	608
NOK	3,218	78	2,188	–23
SEK	9,042	57	6,147	21
USD	184,144	13,539	381,702	21,037
PLN	1,422	9	2,978	–12
Interest rate instruments				
Sales	–	–	3,338	–102
Purchases	2,584	–49	–	–
Other derivatives				
Sales	–	–	1,021	–20
Total	–	**2,744**	–	**14,969**

Transactions are concluded only with banks whose creditworthiness is beyond reproach.

The results from the settlement of these forward contracts are reported as they mature under other operational income respective other operational expenses.

(36) Notes on the Cash Flow Statement

In accordance with IAS 7, the cash flow statement depicts the development in cash flows for the financial years 2003 and 2002, broken down into inflows and outflows of funds from current business, 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 comprise cash in hand, checks and cash at banks.

Within the inflow of funds from current business operations, earnings from the disposal of assets have been eliminated. During the financial year, income taxes amounting to € 11.7 million were paid, while over the same period refunds totaling € 9.3 million were made to Salzgitter AG. The income taxes paid and refunded have been assigned to current business operations. For the financial year 2002 Salzgitter AG paid some € 11.3 million in income taxes and in the same period received refunds amounting to € 0.4 million. These figures were also assigned to current business operations. Interest receipts amounted to € 8.8 million (previous year € 9.6 million).

The investments reported under the outflow of funds for investment activities contain the additions to intangible and tangible assets and to financial investments. In addition to numerous investments in rationalization and replacements aimed primarily at improving, renewing and safeguarding production plant and data processing systems, various large-scale investments were made, principally for the purpose of enhancing product quality and extending the value chain. Some € 0.8 million (previous year € 1.2 million) relates to the cash and cash equivalents held by companies newly integrated into the consolidated financial statements, as a part of the payments made on investments in financial assets. The bulk of the investment in financial assets relates to the acquisition of shares in Oswald Hydroforming GmbH & Co. KG, Crimmitschau and ThyssenKrupp GfT Bautechnik GmbH, Essen.

Interest expenses are assigned solely to financing activities. Receipts from shareholdings during the financial year amounted to € 63.4 million (previous year € 16.8 million).

The Group made several acquisitions during the reporting period. The fair values of the assets and liabilities thus acquired were as follows:

in € mil.	
Fixed assets	13
Inventories	12
Receivables	45
Cash and cash equivalents	1
Liabilities	66
Total of net assets acquired pro rata	**5**
Acquisition costs for corporate acquisitions	5
Capitalized differences resulting from capital consolidation	–

(37) Notes on Segment Reporting

Primary segmentation

The segmentation of the Salzgitter Group in five corporate divisions accords with the Group's internal controlling and reporting functions.

In the segment reporting, the business activities of the Salzgitter Group are assigned to the divisions Steel, Trading, Services, Processing and Tubes in accordance with the overall corporate structure. Salzgitter AG as the holding company is included under the heading Other/Consolidation.

The operating steel companies, Salzgitter Flachstahl GmbH, Peiner Träger GmbH and Ilsenburger Grobblech GmbH, belong to the Steel Division under the intermediate holding company Salzgitter Stahl GmbH. Salzgitter Großrohre GmbH and the shareholding in Steel Dynamics Holding Inc. (SDI) are also assigned to this division. In the reporting year the non-consolidated subsidiary Ilsenburger Stahl and Logistik GmbH were incorporated and likewise assigned to this segment.

The Trading Division consists of the companies of the Salzgitter Handel Group, Universal Eisen und Stahl GmbH, Universal Ocel spol. s.r.o. and Hövelmann & Lueg GmbH & Co. KG. As of January 1, 2003, the subsidiary Salzgitter International Inc., Houston, which organizationally is assigned to the Salzgitter Handel Group, was consolidated for the first time.

As a jointly owned enterprise, Ets. Robert et Cie S.A.S. is also assigned to the Trading segment and included proportionately in the consolidated accounts.

The companies Le Feuillard S.A. and Tolcolor S.A., which belong to the Robert Group, are assigned to the Trading Division as associated companies in accordance with the equity method. This segment also includes the non-consolidated companies in the Salzgitter Handel Group and the Universal Handel Group.

The Services Division includes DEUMU Deutsche Erz- und Metall-Union GmbH, PPS Personal-, Produktions- und Servicegesellschaft mbH, SIT Salzgitter Information und Telekommunikation GmbH, the TELCAT Group, GESIS Gesellschaft für Informationssysteme mbH, Hansaport Hafenbetriebsgesellschaft mbH, “Glückauf” Wohnungsgesellschaft mbH, VPS Verkehrsbetriebe Peine-Salzgitter GmbH and also the net income from shareholdings assigned to this segment.

The companies in this division are primarily engaged in providing services to the Group. It is intended, however, that their expertise and existing infrastructure should be made increasingly available to companies outside of the Group. The services offered include data processing, telecommunications services, scrap metal dealing, the handling and storage of bulk cargo, transport and other services.

The Processing Division comprises HSP Hoesch Spundwand und Profil GmbH, Salzgitter Europlatinen GmbH, Salzgitter Bauelemente GmbH, Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Salzgitter Automotive Engineering GmbH & Co. KG, Salzgitter Beteiligungsgesellschaft mbH and Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, with the latter being consolidated for the first time on January 1, 2003. Also assigned to this segment are the non-consolidated companies Salzgitter Magnesium-Technologie GmbH, Oswald Hydroforming GmbH & Co. KG and Salzgitter Bouwprodukten Benelux BV, as well as ThyssenKrupp GfT Bautechnik GmbH which was valued at equity.

The Tubes Division includes the fully consolidated units of the Mannesmannröhren-Werke Group: Mannesmannröhren-Werke AG, Salzgitter Mannesmann Forschung GmbH, Mannesmannröhren Mülheim GmbH, MHP Mannesmann Präzisrohr GmbH, Mannesmann Line Pipe GmbH, Robur Buizenfabriek B.V. and the DMV Group. In addition, the Group includes the joint ventures Europipe GmbH (including the subsidiaries Europipe France S.A., EB Pipe Coating Corporation and Berg Steel Pipe Corporation as well as the Eupec Group), Röhrenwerk Gebr. Fuchs GmbH and the newly consolidated Mannesmannröhren 1. Verwaltungsgesellschaft mbH, which are integrated proportionately into the consolidated financial statements. Vallourec S.A., Vallourec & Mannesmann Tubes S.A., Vallourec & Mannesmann Tubes Corporation and Hüttenwerk Krupp Mannesmann GmbH are likewise assigned to this business segment as associated companies in accordance with the equity method.

Sales in the various segments are additionally subdivided according to the customers' principal place of business. Inter-segment sales are basically conducted on standard market terms such as also apply to transactions with third parties.

Depreciation and amortization refer solely to the fixed assets of the respective segments.

The earnings reported for companies valued using the equity method also encompass amortization of goodwill and income from the reversal of negative goodwill at these companies.

Segmental operating assets and liabilities are composed of the assets and external funds required for operational purposes – excluding both interest-bearing debt and income tax receivables and liabilities.

The investments refer to additions to tangible fixed assets and intangible assets, excluding goodwill resulting from the acquisition of shares.

Secondary segmentation

Secondary segmentation subdivides the commercial activity by region. External sales by performance recipient subdivides Group sales generated with non-Group entities according to the customers' principal place of business. Group external sales are also subdivided according to the principal place of business of the consolidated supplier company.

The rollover of the segmental assets to Group assets and the sum total of the segmental debts to Group debts are shown in the following overview:

in T€	31/12/2003	31/12/2002
Segmental operating assets	3,846,857	4,022,396
Differences resulting from capital consolidation	–188,269	–241,962
Effective income tax claims	11,086	19,149
Deferred income tax claims	1,295	4,546
Deferred expenses	2,156	2,496
Balance sheet total	**3,673,125**	**3,806,625**
Segmental operating liabilities	2,566,863	2,657,298
Income tax provisions	93,325	90,235
Income tax and financial leasing liabilities	15,611	4,907
Group equity	980,246	1,026,701
Minority interests	16,168	26,312
Deferred income	912	1,172
Balance sheet total	**3,673,125**	**3,806,625**

Related Party Disclosures

In addition to business relationships with companies consolidated fully and proportionately in the consolidated financial statements, relationships also exist with affiliated, non-consolidated companies and associated companies that must be characterized as related companies in accordance with IAS 24.

Most of the relationships involving delivery and service relationships between companies in the consolidated Group and companies related to the Salzgitter Group are depicted in the following table:

in € mil. Related companies	Supplies and services rendered		Supplies and services received	
	FY 2003	FY 2002	FY 2003	FY 2002
V&M Deutschland GmbH, Düsseldorf	50	51	47	43
ThyssenKrupp GfT Bautechnik GmbH, Essen	34	–	–	–
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	9	14	268	207
Salzgitter Stahlhandel s.r.o., Prague	7	2	–	–
Salzgitter Acélkereskedelmi Kft., Budapest	7	2	–	–
Salzgitter Stahlhandel sp.z.o.o., Slupca	6	5	–	–
Le Feuillard S.A.S., Senlis	6	2	–	–
Burwitz Feuerungsbau GmbH, Peine	–	–	5	–
Eupec PipeCoatings Azerbaijan Ltd., Baku	–	–	5	–

All business transactions with related companies are conducted on terms that also customarily apply among external third parties.

Deliveries and services provided to related companies primarily concern deliveries of crude steel products to associated companies for processing, sheet piling and pit prop sections supplied for resale to ThyssenKrupp GfT Bautechnik GmbH and products likewise supplied to trading companies for resale.

The deliveries and services received essentially comprise deliveries of input stock for the manufacture of large-diameter pipes and precision steel tubes.

During the financial year 2003, the shareholder loan extended to Vallourec & Mannesmann Tubes S.A. for the purpose of part-financing the purchase price – in connection with the acquisition of the "seamless tubes" division of the North Star Steel Company, Houston/USA – was converted into equity. Until the time of conversion, interest of 3.5% was levied on the loan.

The receivables and liabilities resulting from transactions with related companies are specified in the notes to the consolidated financial statements under the explanation of the corresponding asset and liability items.

Payment transactions, term money borrowings and deposits as well as forward exchange transactions were conducted with NORD/LB, and also with other banks, during the reporting period. In general, the transactions were conducted on terms customary on the market.

Administrative costs and operating expenses were charged on with a view to covering costs.

Within the context of internal clearing transactions, demand deposits were basically charged at 6%. In the case of term money borrowings, the subsidiaries were charged interest at rates of between 2.54% and 6.00% p.a.; Salzgitter AG paid interest at between 1.73% and 6.00% p.a. on term money deposits. Overall, these financial transactions generated interest income for Salzgitter AG in the amount of € 60.0 million (previous year € 61.2 million) and interest expenses of € 36.5 million (previous year € 38.8 million). In no case were the terms disadvantageous to the company.

As of the balance sheet date, Salzgitter AG provided collateral to creditors of its subsidiaries in various forms:

in T€	31/12/2003
Guarantees and letters of comfort to secure long-term loans	3,125
Guarantees and letters of comfort for downpayments, rent security deposits and warranties	46,242
Other guaranties	10,198
Borrowing requests for guarantee bonds, letters of credit, overdraft facilities and long-term loans	262,458
Thereof used	[108,765]

No costs were charged for these and similar transactions conducted in the reporting year.

For members of the Executive Board and management staff of the Salzgitter Group, a warrant-linked bond was issued as part of the Long-Term Incentive Plan; details are given under No. 27.

Notifications in accordance with § 15a of the German Securities Trading Act (directors' dealings) were not received by Salzgitter AG as of December 31, 2003. The total of shares held by all Executive and Supervisory Board members as of December 31, 2003, amounted to less than 1% of the shares issued by the company.

Waiver of Disclosure in Accordance with § 264, Para. 3 of the German Commercial Code (HGB)

The following domestic subsidiaries having the legal form of a corporation have fulfilled the conditions required under § 264, Para. 3 of the German Commercial Code [HGB] and are therefore exempted from disclosure of their financial statements:

Salzgitter Stahl GmbH, Salzgitter
Salzgitter Flachstahl GmbH, Salzgitter
Peiner Träger GmbH, Peine
Ilsenburger Grobblech GmbH, Ilsenburg
Salzgitter Großrohre GmbH, Salzgitter
Salzgitter Stahlhandel GmbH, Düsseldorf
Salzgitter Handel GmbH, Düsseldorf
Stahl-Center Baunatal GmbH, Baunatal
DEUMU Deutsche Erz- und Metall-Union GmbH, Peine
GESIS Gesellschaft für Informationssysteme mbH, Salzgitter
TELCAT Kommunikationstechnik GmbH, Salzgitter

TELCAT multicom GmbH, Salzgitter
SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter
Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter
Universal Eisen und Stahl GmbH, Neuss
PPS Personal-, Produktions- und Service GmbH, Salzgitter
"Glückauf" Wohnungsgesellschaft mbH, Peine
Salzgitter International GmbH, Düsseldorf
Mannesmann Line Pipe GmbH, Hamm
Mannesmann Präzisrohr GmbH, Hamm

Supervisory Board and Executive Board

One member of the Executive Board was granted a loan amounting to T€ 150 with a term up to June 30, 2006. The interest rate is 5.5 %. The contractual provisions provide for redemption payments commencing on June 30, 2004, with early redemption also being possible. No amounts were repaid in the financial year 2003.

The members of the Supervisory Board and the Executive Board are stated separately. For the discharge of their duties, the members of the Executive Board received the sum of € 3.4 million in the financial year under review (previous year € 2.9 million). Of this total, € 1.2 million (previous year € 0.8 million) was accounted for during the reporting year by performance-related remuneration components. Provisions for pension obligations to members of the Executive Board amounted to € 5.6 million (previous year € 6.4 million). Supervisory Board members received a total of € 0.5 million (previous year € 0.5 million) in the reporting year. Former members of the Executive Board and their surviving dependants received a total of € 1.2 million for the financial year (previous year € 1.2 million). Pension provisions totaling € 17.3 million (previous year € 13.3 million) have been set aside to cover commitments to former Executive Board members and their surviving dependants.

Salzgitter, March 22, 2004

Leese Eging Fuhrmann

Pfitzner Schneider Schwich

3.8 Independent Auditor's Report

This report was originally prepared in German language. In case of ambiguities the German version shall prevail:

Independent Auditor's Report

We have audited the consolidated financial statements of Salzgitter AG, Salzgitter, consisting of the balance sheet, the income statement and the statement of cash flows and changes in equity as well as the notes to the consolidated financial statements for the business year from January 1 to December 31, 2003. The preparation and the content of the consolidated financial statements according to the International Financial Reporting Standards of the IASB (IFRS) are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion, based on our audit, whether the consolidated financial statements are in accordance with IFRS.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year 2003 in accordance with IFRS.

Our audit, which also extends to the group management report, combined with the management report of the Company, prepared by the Executive Board for the business year from January 1 to December 31, 2003, has not led to any reservations. In our opinion, on the whole the combined management report together with the other information of the consolidated financial statements provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the combined management report for the business year from January 1 to December 31, 2003, satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German accounting law.

Hannover, March 22, 2004

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed	signed
Lukasch	ppa. Menking
Wirtschaftsprüfer	Wirtschaftsprüfer

3.9 Substantial Shareholdings of Salzgitter AG

Status December 31, 2003		Equity in € resp. national currency (in 1,000s)	Direct and indirect share of capital in %
Steel Division			
Salzgitter Stahl GmbH, Salzgitter		240,024	100.00
Salzgitter Flachstahl GmbH, Salzgitter		176,636	100.00
Peiner Träger GmbH, Peine		50,195	100.00
Ilsenburger Grobblech GmbH, Ilsenburg		25,875	100.00
Salzgitter Großrohre GmbH, Salzgitter		6,162	100.00
Trading Division			
Hövelmann & Lueg GmbH & Co. KG, Schwerte		2,895	95.00
Salzgitter Handel GmbH, Düsseldorf		57,693	100.00
Salzgitter International GmbH, Düsseldorf		10,300	100.00
Salzgitter Stahlhandel GmbH, Düsseldorf		22,729	100.00
Stahl-Center Baunatal GmbH, Baunatal		5,200	100.00
Universal Eisen und Stahl GmbH, Neuss		14,975	100.00
Deltastaal B.V., Oosterhout (Netherlands)		14,403	100.00
Friesland Staal B.V., Drachten (Netherlands)		3,023	100.00
Salzgitter Handel B.V., Oosterhout (Netherlands)		19,526	100.00
Salzgitter Trade Inc., Vancouver (Canada)	CAD	6,114	100.00
UNIVERSAL OCEL spol. s.r.o., Prague (Czech Republic)	CZK	73,009	100.00
Salzgitter International Inc., Houston (USA)	USD	5,569	100.00
Ets. Robert et Cie S.A.S., Le Thillay (France)		13,108	50.00
Le Feuillard S.A.S., Senlis (France)		2,790	100.00
Tolcolor S.A.S., Le Thillay (France)		2,916	100.00
Services Division			
DEUMU Deutsche Erz- und Metall-Union GmbH, Peine		10,674	100.00
Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter		19,599	100.00
Hansaport Hafenbetriebsgesellschaft mbH, Hamburg		8,860	51.00
SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter		26	100.00
GESIS Gesellschaft für Informationssysteme mbH, Salzgitter		2,600	100.00
TELCAT Kommunikationstechnik GmbH, Salzgitter		492	100.00
"Glückauf" Wohnungsgesellschaft mbH, Peine		26	100.00
PPS Personal-, Produktions- und Service GmbH, Salzgitter		60	100.00
TELCAT Multicom GmbH, Salzgitter		2,968	100.00

Status December 31, 2003		Equity in € resp. national currency (in 1,000s)	Direct and indirect share of capital in %
Processing Division			
Salzgitter Bauelemente GmbH, Salzgitter		965	100.00
HSP Hoesch Spundwand und Profil GmbH, Dortmund		16,212	100.00
Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Wolfsburg		12,623	74.95
Salzgitter Beteiligungsgesellschaft mbH, Braunschweig		3,148	90.00
Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück		4,063	100.00
Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück		63	94.00
Salzgitter Europlatinen GmbH, Salzgitter		6,502	100.00
ThyssenKrupp GfT Bautechnik GmbH, Essen		26	30.00
Tubes Division			
Mannesmannröhren-Werke AG, Mülheim an der Ruhr		239,800	99.30
Salzgitter Mannesmann Forschung GmbH, Duisburg		750	100.00
Mannesmannröhren Mülheim GmbH, Mülheim an der Ruhr		10,226	100.00
MHP Mannesmann Präzisrohr GmbH, Hamm		25,200	100.00
Mannesmann Line Pipe GmbH, Hamm		11,500	100.00
DMV Stainless Deutschland GmbH, Remscheid		516	100.00
Robur Buizenfabriek BV, Helmond (Netherlands)		2,228	100.00
DMV Stainless S.A.S., Paris (France)		19,287	100.00
DMV Stainless Italia S.R.L., Costa Volpino (Italy)		7,205	100.00
DMV Stainless France S.A., Montbard (France)		13,263	100.00
DMV Stainless USA Inc., Houston (USA)	USD	9,770	100.00
DMV Stainless B.V., Helmond (Netherlands)		24,592	100.00
Europipe GmbH, Ratingen		59,137	50.00
Eupec PipeCoatings GmbH, Mülheim an der Ruhr		12,694	65.00
Röhrenwerk Gebr. Fuchs GmbH, Siegen-Kaan		7,839	50.00
Europipe France S.A., Dunkerque (France)		–30,362	100.00
Berg Steel Pipe Corporation, Panama-City, Florida (USA)	USD	34,398	100.00
EB Pipe Coating, Inc., Panama-City, Florida (USA)	USD	7,859	100.00
Eupec PipeCoatings France S.A., Joeuf (France)		6,321	100.00
Hüttenwerke Krupp Mannesmann GmbH, Duisburg		122,741	20.00
Vallourec S.A., Boulogne-Billancourt (France)		536,072	22.72[1)]
VALLOUREC & MANNESMANN TUBES S.A., Boulogne-Billancourt (France)		666,403	45.00
VALLOUREC & MANNESMANN TUBES CORPORATION, Houston (USA)	USD	16,233	33.30

1) The voting right percentage is 33.2%

4.1 List of Company Abbreviations

Salzgitter AG (Holding)	SZAG

Steel Division	
Salzgitter Stahl GmbH	SZS
Salzgitter Flachstahl GmbH	SZFG
Peiner Träger GmbH	PTG
Ilsenburger Grobblech GmbH	ILG
Salzgitter Großrohre GmbH	SZGR

Trading Division	
Salzgitter Handel GmbH	SHD
Salzgitter Stahlhandel GmbH	SSH
Stahl-Center Baunatal	SCB
Salzgitter Handel B.V., Oosterhout	SHN
Salzgitter International GmbH	SID
Salzgitter Trade Inc., Vancouver	STV
Salzgitter International Inc., Houston	SIH
Hövelmann & Lueg GmbH & Co. KG	HLK
Universal Eisen und Stahl GmbH	UES
Universal Ocel spol. s.r.o.	UOC
Ets. Robert et Cie S.A.S.	RSA

Services Division	
PPS Personal-, Produktions- und Servicegesellschaft mbH	PPS
DEUMU Deutsche Erz- und Metall-Union GmbH	DMU
SIT Salzgitter Information und Telekommunikation GmbH	SIT
TELCAT Multicom GmbH	TMG
TELCAT Kommunikationstechnik GmbH	TCG
GESIS Gesellschaft für Informationssysteme mbH	GES
Hansaport Hafenbetriebsgesellschaft mbH	HAN
Verkehrsbetriebe Peine-Salzgitter GmbH	VPS
"Glückauf" Wohnungsgesellschaft mbH	GWG

Processing Division	
HSP Hoesch Spundwand und Profil GmbH	HSP
Salzgitter Bauelemente GmbH	SZBE
Salzgitter Europlatinen GmbH	SZEP
Salzgitter Automotive Engineering GmbH & Co. KG	SZAE
Oswald Hydroforming GmbH & Co. KG	OHC
Salzgitter Antriebstechnik GmbH & Co. KG	SZAT
Salzgitter Magnesium-Technologie GmbH	SZMT

Tubes Division	
Mannesmannröhren-Werke AG	MRW
Vallourec & Mannesmann Tubes S.A.	V&M
MHP Mannesmann Präzisrohr GmbH	MHP
Robur Buizenfabriek B.V.	ROB
DMV Stainless B.V.	DMV
Mannesmann Line Pipe GmbH	MLP
Röhrenwerk Gebr. Fuchs GmbH	RGF
Europipe GmbH	EP
Mannesmannröhren Mülheim GmbH	MRM
Salzgitter Mannesmann Forschung GmbH	SZMF

4.2 Financial Calendar of Salzgitter AG for 2004

March 11, 2004	Key data for financial year 2003
April 15, 2004	Publication of consolidated financial statements for 2003 Annual press conference
April 16, 2004	Analysts' conference in Frankfurt/Main
April 19, 2004	Analysts' conference in London
May 14, 2004	Interim report for the first quarter of the 2004 financial year
May 26, 2004	Ordinary Shareholders' Meeting for 2004
August 12, 2004	Interim report for the first half of the 2004 financial year Analysts' conference in Frankfurt /Main
August 13, 2004	Analysts' conference in London
November 12, 2004	Interim report for the first nine months of the 2004 financial year

4.3 Imprint and Contact

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Interactive Annual Report:
www.salzgitter-ag.de/gb2003

Editor:
SALZGITTER AG

Concept and Design:
BUTTER. Agentur für Werbung,
Düsseldorf

Photography:
Marcus Pietrek, Düsseldorf
Uwe Brodmann, Braunschweig
Peter Lenke, Salzgitter
Stefan Müller-Naumann,
München

Lithography:
Weß+Lüer GmbH, Willich

Translation:
Baker & Harrison Translations,
München

Printed by:
Meinke GmbH, Neuss

Production:
BUTTER. Agentur für Werbung,
Düsseldorf