



Annual Report 2004

Financial Year from January 1 to December 31, 2004



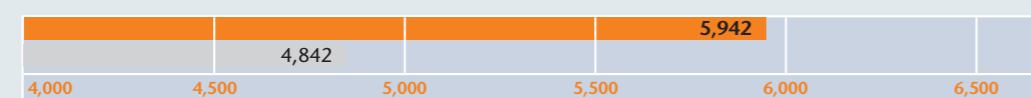
Key Figures for the Financial Year 2004

Crude Steel Production



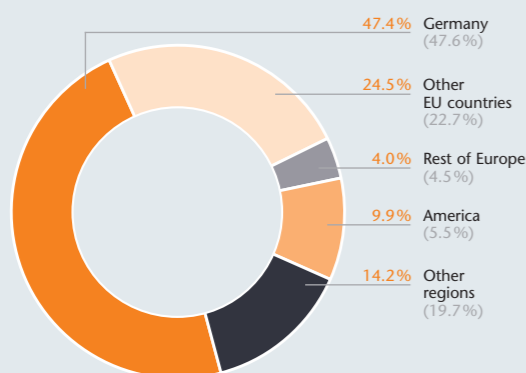
in kt

Consolidated Sales

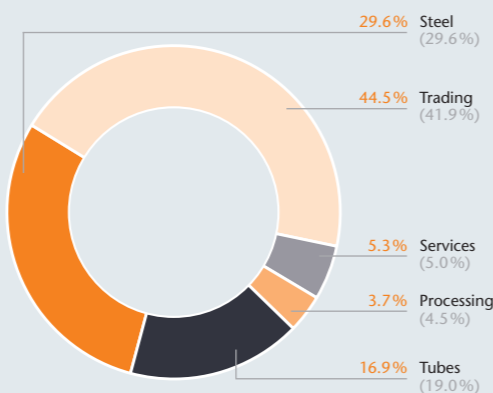


in € mil.

External Sales by Regions 2004 (2003)



External Sales by Divisions 2004 (2003)



Earnings before Taxes (EBT)



in € mil.

Return on Capital Employed (ROCE)



in %

Salzgitter Group in Figures

| | | FY 99/00 | SFY 2000 ¹⁾ | FY 2001 | FY 2002 | FY 2003 | FY 2004 |
|-----------------------------|--------|----------|------------------------|---------|---------|---------|---------|
| Sales (consolidated) | € mil. | 3,291 | 1,018 | 4,593 | 4,741 | 4,842 | 5,942 |
| Steel Division | € mil. | 1,252 | 340 | 1,397 | 1,430 | 1,432 | 1,759 |
| Trading Division | € mil. | 1,773 | 423 | 1,877 | 1,729 | 2,027 | 2,642 |
| Services Division | € mil. | 228 | 57 | 216 | 232 | 241 | 313 |
| Processing Division | € mil. | 38 | 27 | 118 | 229 | 221 | 223 |
| Tubes Division | € mil. | - | 171 | 985 | 1,121 | 921 | 1,005 |

| | | | | | | | |
|------------------------------|--------|-------|-----|-------|-------|-------|-------|
| Thereof flat rolled products | € mil. | 1,901 | 503 | 1,948 | 2,049 | 2,409 | 3,013 |
| Thereof sections | € mil. | 636 | 159 | 909 | 809 | 596 | 794 |
| Thereof tubes | € mil. | 39 | 213 | 1,227 | 1,308 | 1,236 | 1,284 |
| Thereof export share | % | 49 | 49 | 54 | 54 | 52 | 53 |

| | | | | | | | |
|--|--------|----|----|-----|----|----|-----|
| Income from ordinary operations | € mil. | 97 | 34 | 160 | 72 | 42 | 323 |
| Net income for the year | € mil. | 70 | 13 | 144 | 66 | 28 | 247 |

| | | | | | | | |
|---|--------|-------|-------|-------|-------|-------|-------|
| Balance sheet total | € mil. | 2,427 | 3,398 | 3,809 | 3,807 | 3,673 | 4,236 |
| Fixed assets | € mil. | 1,226 | 1,508 | 1,843 | 1,975 | 1,879 | 1,912 |
| Current assets | € mil. | 1,201 | 1,890 | 1,966 | 1,832 | 1,794 | 2,324 |
| Inventories | € mil. | 545 | 756 | 879 | 869 | 919 | 1,081 |
| Shareholders' equity | € mil. | 912 | 911 | 1,085 | 1,027 | 980 | 1,109 |
| Borrowings | € mil. | 1,515 | 2,487 | 2,724 | 2,780 | 2,693 | 3,127 |
| Provisions | € mil. | 977 | 1,953 | 1,947 | 1,884 | 1,892 | 2,055 |
| Liabilities | € mil. | 538 | 534 | 777 | 896 | 801 | 1,072 |
| Thereof due to banks | € mil. | 207 | 82 | 178 | 177 | 196 | 175 |
| Capital expenditures²⁾ | € mil. | 208 | 49 | 285 | 251 | 191 | 228 |
| Depreciation and amortization³⁾ | € mil. | 174 | 50 | 210 | 220 | 248 | 313 |

Employees

| | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|
| Personnel expenses | € mil. | 582 | 212 | 843 | 940 | 935 | 926 |
| Workforce (annual average) | | 13,181 | 17,085 | 17,664 | 18,872 | 18,154 | 17,625 |
| Personnel expenses per employee | T € | 44 | 12 | 48 | 50 | 51 | 53 |
| Crude steel production³⁾ | kt | 5,116 | 1,272 | 8,151 | 8,209 | 8,562 | 8,687 |

Key figures

| | | | | | | | |
|---|--------|-----|------|------|-----|-----|------|
| Earnings before interest and taxes (EBIT) ⁴⁾ | € mil. | 110 | 39 | 179 | 93 | 61 | 346 |
| EBIT before depreciation and amortization (EBITDA) | € mil. | 284 | 89 | 389 | 313 | 309 | 667 |
| Return on capital employed (ROCE) ⁵⁾ | % | 9.5 | 15.3 | 13.6 | 7.3 | 4.6 | 24.4 |
| Cash flow | € mil. | 114 | -5 | 117 | 157 | 223 | 352 |

¹⁾ SFY: Short financial year from October 1 to December 31

²⁾ Excluding financial assets

³⁾ Up to SFY 2000, SZFG and PTG; from 2001 incl. MRW/V&M share in Hüttenwerke Krupp Mannesmann, V&M France and V&M do Brasil; from July 2002 also incl. 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 (from 2003 excluding asset- and liability-side deferred taxes)

Highlights of the Financial Year 2004

January 20 to 23, 2004

The Salzgitter Group participates in the Budma international exhibition of building materials and technologies in Poznan, Poland, as a high-performance partner to the building industry serving Eastern European markets.

March 11, 2004

Salzgitter AG publishes figures for the financial year 2003: The Group ended the year with a still satisfactory overall result, achieving a pre-tax profit of € 42.5 million on sales of € 4.8 billion, in spite of the difficult economic conditions.

March 29 to April 2, 2004

The Salzgitter Group presents a full range of products at the Tube trade fair in Düsseldorf, with the spotlight on the presentation of the Mannesmann brand.

March 31, 2004

Salzgitter Stahlhandel introduces the new central tubes warehouse to customers at a Customer Day in Mülheim. With the concentration of warehouse stocks previously held at a variety of locations, the steel trading specialist is now repositioning itself in this product segment.

April 15 to 19, 2004

The Group publishes its Annual Report for 2003 and reports on its results to the financial press at its balance sheet press conference. The dialogue with the financial community continued at well-attended analysts' conferences in Frankfurt and London.

April 19 to 24, 2004

At the Hanover Trade Exhibition Industry the Salzgitter Group presents a range of products and services for the automobile manufacturing industry among other applications, and illustrates value chains in this sector. An example of Group-wide cooperation is the Atlas Spaceframe Project which demonstrates potential for the use of steel in lightweight automotive design and construction.

May 14, 2004

The Salzgitter Group reports on pleasing developments in the first quarter of 2004: At € 1.3 billion, consolidated external sales were up by 3% in comparison with same period in the year before, while Group pre-tax profits at € 26.2 million were well ahead of the previous year (€ 6.2 million).

May 26, 2004

The General Meeting of Shareholders of Salzgitter AG approves the proposal by the Executive and Supervisory Boards and declares a dividend of € 0.25 per share. Based on the year-end share price for 2003, this equates to a dividend yield of 2.8%. As in previous years, this figure is above the DAX and MDAX average.

July 28, 2004

Salzgitter AG announces that it is to acquire the remaining 0.7% stake in Mannesmannröhren-Werke GmbH still held by ThyssenKrupp AG.

At the same time, Mannesmannröhren-Werke GmbH strengthened its activities in the field of welded steel tubes and acquired the 50% capital share in Röhrenwerk Gebr. Fuchs GmbH previously in the possession of ThyssenKrupp Stahl AG.

August 12, 2004

The company reports that brisk worldwide demand for rolled steel products and tubes has enabled the Salzgitter Group to substantially extend its business activities in the first half of the year. External Group sales rose by 10% in comparison with the first half of 2003 to a total of € 2.8 billion. Consolidated pre-tax profits at € 81.7 million were well up on the same period in the previous year (€ 16.6 million).

September 30, 2004

Salzgitter Flachstahl GmbH holds an inauguration ceremony to present its fully modernized hot strip mill to major clients from all over Europe. The investment valued at € 146 million has not only increased capacity but also substantially upgraded the production facilities. With the outstanding manufacturing technology now available, the company is even better placed to satisfy the constantly increasing quality requirements expressed by sophisticated customers. The modernization of this plant represents an important step forward by Salzgitter AG in the implementation of its internal growth strategy.

October 26 to 30, 2004

Seven subsidiaries of Salzgitter AG display their materials and processing skills at the Euroblech trade fair in Hanover. Their products and services are particularly aimed at the motor vehicle and domestic appliance manufacturing sectors.

November 12, 2004

In its report on the third quarter, the Salzgitter Group announces that the positive trend in business has continued in Q3. Consolidated external sales rose to € 1.5 billion, while on a long-term comparative basis the pre-tax result of € 75.5 million set a new record. At the end of the first nine months the company had recorded sales of € 4.3 billion with pre-tax profits of € 157.2 million.

November 22, 2004

With the commissioning of Blast Furnace C and the third continuous casting line, Salzgitter Flachstahl GmbH raises its crude steel capacity by 500 kton/year and extends the quality range. These investments will largely dispense with the need to buy in slabs from external suppliers and will contribute significantly to internal growth within the Group.

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Portrait, People, Philosophy

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Management Report on Salzgitter AG

3 Consolidated Annual Financial
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1.1 Corporate Portrait and Group Structure

The Group headed by Salzgitter AG as holding company consists of over 80 national and international subsidiaries and associated companies.

With external sales approaching € 6 billion, an annual production of more than 8 million tons of crude steel and a workforce of around 18,000, it ranks as one of Europe's leading steel technology groups. In the flat rolled products and section segments, the company numbers among the top 5 in Europe. In the tubes sector, it occupies a leading global position.

Listed on the MDAX, Salzgitter AG is one of the top 80 German stock corporations.

Our objective is to safeguard and develop this overall position for the future.

As the management holding company, Salzgitter AG coordinates the five divisions Steel, Trading, Services, Processing and Tubes. In turn these divisions are composed of independent operating companies, which enjoy a high degree of decentralized decision-making freedom and are able to develop market-, location- and product-related business activities on their own responsibility.

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

In pursuit of our aspiration to combine "Steel and Technology" these companies develop and manufacture a broad range of high-quality special and branded steels (flat carbon steel, sections, plates and spiral-welded large-diameter pipes) for an expanding field of applications. Thanks to intensive research and development and a strong customer orientation, the potential of steel as a material for new and creative product developments will continue to be used in the future.

The Trading Division comprises a dense European sales network as well as trading companies and agencies worldwide. This combination underpins the successful presence of the Salzgitter Group and supports the optimum marketing of products and services.

With effect from January 1, 2005, the brand name "Mannesmann" and the international sales and distribution of the Tubes Division products have been integrated into the Trading Division and interlinked with its worldwide trading activities. The trading company Salzgitter Handel GmbH has now become Salzgitter Mannesmann Handel GmbH. Under the auspices of this company, around 20 trading companies and agencies worldwide are changing their names and adopting the "Mannesmann" brand. In Europe the steel stockholding companies operating in Poland, Hungary, Romania and the Czech Republic are being renamed.

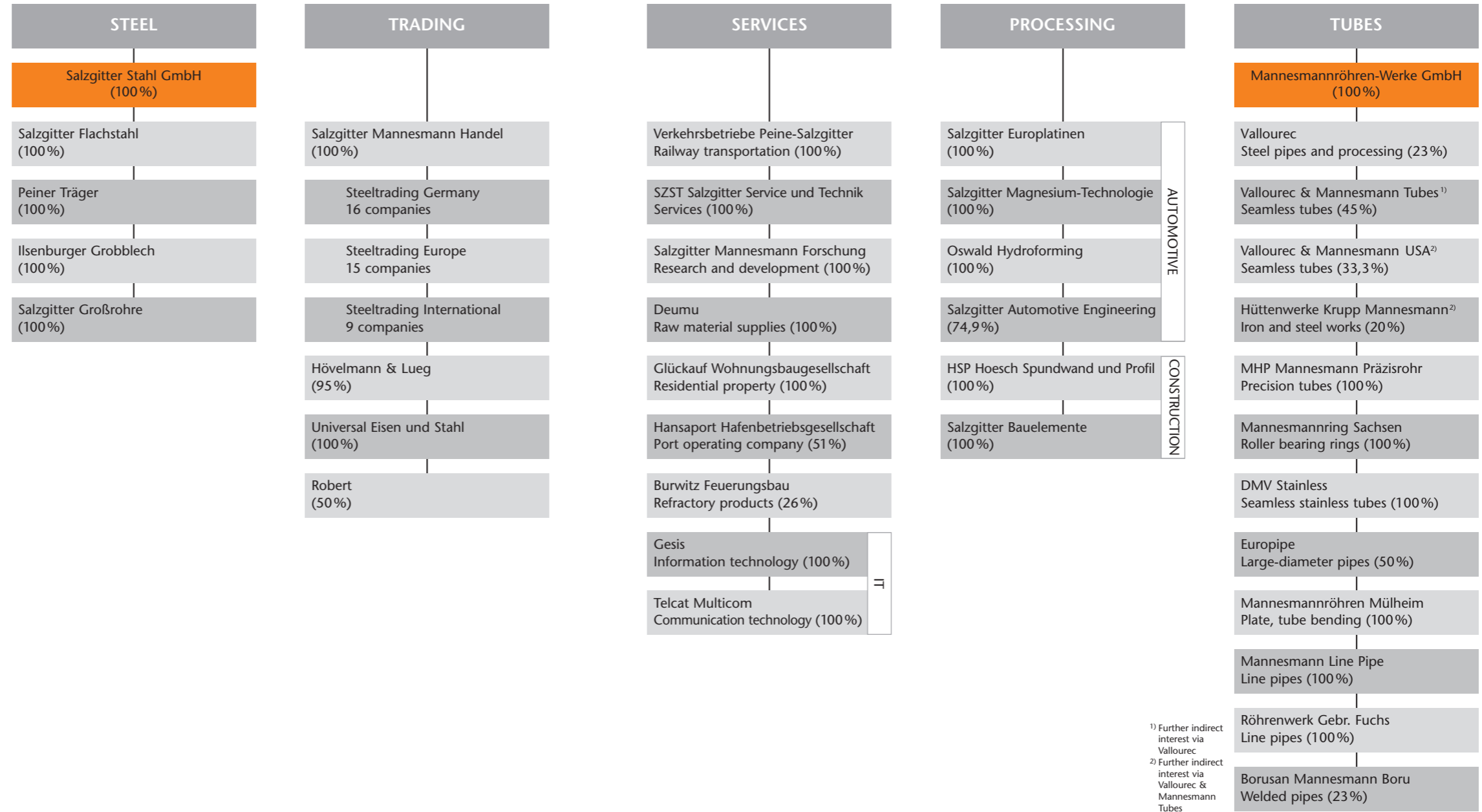
The activities of the Services Division are primarily focused on requirements within the Group. Beyond that, the services of the companies of this division are also offered to external customers, to generate an additional source of profit for the Group. Their skills and know-how are constantly measured against the requirements of the market and consistently refined. On this basis they are able to create and realize a wide range of attractive services extending from raw material supplies and logistics via plant and systems engineering through to complete IT solutions. In financial year 2004, the Salzgitter Mannesmann Forschung GmbH research unit was assigned to this division.

The companies of the Processing Division are engaged in extending our vertical range of manufacture and value creation in the construction and automotive sectors. Leading edge technologies, coupled with the close integration of our partners, form the basis for efficient development and implementation of future-oriented product ideas.

The companies of the Tubes Division, grouped under the intermediate holding company Mannesmannröhren-Werke GmbH (formerly Mannesmannröhren-Werke AG), offer their customers a virtually complete range of steel tubes. The division's product portfolio includes, in particular, seamless tubes, large-diameter pipes and precision tubes, along with medium line pipes. With their international reputation for recognized quality, the companies of this division generally occupy leading positions and rank as world market leaders in a number of segments.

The structure of the Group has proven itself to date, both in terms of the management process and competition. Besides enhancing the ability of the divisions to operate in a market-oriented manner, by promoting decentralized competence and responsibility, this structure also fosters the development of each individual company. In addition, this management concept is especially compatible with our corporate growth strategy, as new links in the value chain or new divisions can be integrated into the Group with relative ease.

Divisions



1.2 Preface by the Executive Board

Dear Shareholders,

Things often come as a surprise – and is not what we expect either! This admittedly rather banal statement is symptomatic of how the international raw materials markets developed in general over the past year and the steel market in particular. Although, seen in retrospect, the years 2002 and 2003 had already given a few hints as to the likelihood of an emerging imbalance in supply and demand of raw materials, sources of energy, shipping capacities and steel products, almost all experts and associations followed the principle of considering forecast and trend extrapolation as being synonymous.

But, instead, the markets, including those affecting Salzgitter AG, experienced a trend break. Steel and tube products and the pre-materials necessary for their manufacturing became scarce resources. The cause of this was the economic growth impetus, not only in China but also in North America and other parts of the world. Whereas Europe, and Germany in particular, were still waiting for the upswing, elsewhere this had set in some time ago and the respective economies were moving towards a boom period.

Salzgitter AG and its shareholders have reaped substantial benefit: a pre-tax profit of € 322.8 million in the financial year 2004 and a 62% increase in the share price, despite the payment of an again above-average dividend, speak for themselves. We have kept the promise we gave you in the Preface to last year's annual report, namely to be able to "utilize the opportunities which present themselves and keep the risks within bounds".

In this context, we would like to emphasize the importance we place on the fact that, irrespective of what indeed turned out to be favorable conditions in the environment, we forged ahead with our Profitability Improvement Program with dedicated persistence and with success.

An expressly procyclical approach is not "our thing", even if it is something which may be easier to communicate at times. Real value added can be created more by adopting an anticyclical approach.

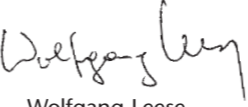
This is also applicable to the deployment of the proceeds from the intended sale of the 45% stake in the seamless tube joint venture of Vallorec & Mannesmann Tubes S.A.; the transaction was instrumental in streamlining the complex and ponderous structure of this segment. Giving in to the pressure of repeated, impatient enquiries by investing in expensive projects close to the peak of the cycle would be to the cost of our shareholders, and therefore wrong. In the past, we have proven that we have a good sense of timing – in 2000, for instance, with the swift purchase of the Mannesmannröhren-Werke. Therefore, we would like to ask you to place your confidence and trust in us once again.

The proposed measure of increasing dividend by 60% can hold its own against competition, especially considering that we paid dividends for the financial year 2002 by dipping deep into the reserves of our holding company. The law of sustaining a going concern necessitates replacing the original funds used.

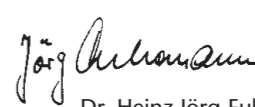
Whereas the macro economic environment remained uneven, the rolled steel and tubes markets were generally upbeat. India is another potential major consumer of basic materials such as steel and is raring to go. Of course, this does not exclude the possibility of short-term cyclical overlays. Therefore, Salzgitter AG is taking a confident view of the current financial year, without losing sight of any risks, such as those arising from currency trends.


Steel is indispensable, not only for the major industrial applications but also for life's more carefree and relaxing moments. This has been visualized in the picture story of our annual report, which we have once again infused with an understated but, at the same time, unmistakable visual flair.

Our thanks go to you as our shareholders and business partners, also on behalf of our committed men and women, for your positive support over the past financial year. We look forward to continuing our successful partnership.



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 GmbH (Chairman)
 - Salzgitter Stahl GmbH (Chairman)
 - MAN Nutzfahrzeuge AG
 - Peiner Träger GmbH (Chairman)
 - Vallourec S.A. (Conseil de Surveillance)

Wolfgang Eging

Tubes Division

Chairman of the Executive Board of Mannesmannröhren-Werke GmbH

- a) ■ Hüttenwerke Krupp Mannesmann GmbH (Vice Chairman)
 - Europipe GmbH
 - MHP Mannesmann Präzisionsrohr GmbH (Chairman) since April 1, 2004
 - Salzgitter Mannesmann Handel GmbH since April 7, 2004
- b) ■ VALLOUREC & MANNESMANN TUBES S.A. (Conseil d'Administration)
 - Robur Buizenfabriek B.V. (Supervisory Board, Chairman) until December 31, 2004
 - 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, Chairman) since April 1, 2004
 - Borusan Mannesmann Boru Yatirim Holding A.S. (Board of Directors, Vice Chairman)
 - Borusan Mannesmann Vobarno Tubi SpA (Board of Directors, Vice Chairman) until December 31, 2004

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

- Mannesmann Altersversorgung Service GmbH (Advisory Council, Chairman) from January 1 until July 5, 2004
- Röhrenwerk Gebr. Fuchs GmbH (Supervisory Board, Vice Chairman) from April 2, 2004, until December 31, 2004

Dr.-Ing. Heinz Jörg Fuhrmann

Finance

- a) ■ Mannesmannröhren-Werke GmbH
 - Salzgitter Mannesmann Handel GmbH (Vice Chairman)
 - Salzgitter Stahl GmbH
 - Salzgitter Flachstahl GmbH
 - Öffentliche Versicherung Braunschweig
- b) ■ VALLOUREC & MANNESMANN TUBES S.A. (Conseil d'Administration) since April 1, 2004
 - Ets. Robert et Cie S.A.S. (Comité de Surveillance)
 - HANSAPORT Hafenbetriebsgesellschaft mbH (Supervisory Board)

Michael B. Pfitzner

Trading Division

Member of the Executive Board of Salzgitter Stahl GmbH

- a) ■ Peiner Träger GmbH
 - Salzgitter Mannesmann Handel GmbH (Chairman)
 - Europipe GmbH
- b) ■ HSP Hoesch Spundwand und Profil GmbH
 - Ets. Robert et Cie S.A.S. (Comité de Surveillance, Chairman)
 - ThyssenKrupp GfT Bautechnik GmbH (Advisory Council)
 - Borusan Mannesmann Boru Yatirim Holding A.S. (Board of Directors)

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



1.4 Strategic Orientation of the Company

Peter-Jürgen Schneider

Personnel and Services Division

- a) ■ Ilsenburger Grobblech GmbH
 - Verkehrsbetriebe Peine-Salzgitter GmbH (Chairman)
 - SZST Salzgitter Service und Technik GmbH (Chairman)
 - MHP Mannesmann Präzisrohr GmbH since July 1, 2004
- b) ■ HANSAPORT Hafenbetriebsgesellschaft mbH (Supervisory Board, Chairman)

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

- a) ■ Salzgitter Flachstahl GmbH (Chairman)
 - Ilsenburger Grobblech GmbH (Chairman)
- b) ■ HSP Hoesch Spundwand und Profil GmbH (Chairman)
 - MPI Max-Planck-Institut für Eisenforschung GmbH (Administrative Board)

The strategic course which has been charted in recent years – specifically, the decision to concentrate and focus on the three most important divisions Steel, Trading and Tubes – has again proven to be correct in financial year 2004 in particular. These divisions have made a major contribution to our corporate success and will this year once again provide the principal foundation for internal growth within the Group.

The companies of the Processing Division have intensively pursued the requisite improvements in results as defined in the targets set for each of them. For example, their internal business processes and size of the workforce have been adapted in line with their order situation. However, the unfavorable economic situation, especially in the construction and automotive industries, has placed a restriction on short-term success.

The alignment of the Services Division has proven its worth. The opportunities for growth in this division continue to mirror the expansion objectives of the Group, which is its major consumer.

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

Over the past four years we have achieved this goal on average. We have done so not only thanks to the gratifying economic situation in this sector, but also through the consistent implementation of our profitability improvement program. The targets set as part of our Basic Strategy have been followed up in their entirety with concrete actions. Some improvements in profitability have already been achieved through ongoing cost reductions and revenue optimization resulting from new, high-quality products. These have contributed to our success in 2004 and serve to consolidate the competitiveness of our company. We will continue to pursue this program in future with new ideas and activities.

The change in corporate structure from a parent company into a divisionally organized group was primarily intended to separate holding company functions from operational decisions and responsibilities and to transfer the latter to the individual entities active in the market. This process of change, which was accompanied by the introduction of Salzgitter's 5P Corporate Guidelines comprising the five elements of Profit, Partners, Personnel, Processes and Products, is essentially complete. However, the Group's external growth has resulted in management cultures emerging within the organization that differ to some extent. Harmonizing these structures promotes mutual understanding and simplifies the exploitation of synergies. Therefore, on the basis of the values and structure of our 5P Corporate Guidelines, we have developed a tool entitled "5P Management" with which we carry forward these ideas and objectives. The Group-wide introduction of this management tool commenced in 2004. Experience to date indicates that this tool has been well received on the part of the operating companies. Therefore its implementation is being consistently pursued.

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

In pursuit of our targets in the past year we have primarily been engaged in optimizing our profitability and strengthening our finances and our balance sheet. On this basis, we have also been able to realize internal growth.

The most important projects of the Steel Division were the commissioning of Blast Furnace C and a third continuous casting line in November 2004. Following an investment of some € 100 million, crude steel capacity has been increased by 500 kton/year and the range of available grades has been substantially extended. In addition to the significant cost benefits in comparison with the purchase of slabs from third parties, the Group is now less dependent on external supplies of crude steel.

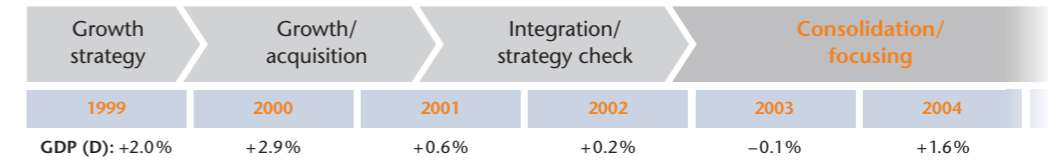
At the Tubes Division we were able to achieve realignments of the corporate structure. Salzgitter AG has taken over the remaining 0.7% shares of Mannesmannröhren-Werke GmbH from ThyssenKrupp AG and now holds 100% of the shares.

In addition, Mannesmannröhren-Werke GmbH acquired the outstanding 50% stake in Röhrenwerk Gebr. Fuchs GmbH, Siegen, from ThyssenKrupp Stahl AG, at the beginning of July 2004.

Fuchs is an SME that for many years has been successfully active in the international market for welded medium line pipes. Last year the company generated sales in excess of € 100 million with a workforce of around 330 employees.

The investment by Hövelmann & Lueg GmbH – as part of the Trading Division – in a multi-blanking line has brought the company to the top of the European steel service center league. This innovative new facility has enhanced the variety of blanks the company is able to offer. In addition to the product range to date consisting of cold-rolled and coated strip, stainless steel and aluminum can now also be processed.

The Services Division company Hansaport Hafenbetriebsgesellschaft mbH has invested in a new coal storage area and a fourth discharge crane in order to increase its handling capacity. This will enable the company to expand its coal import business with external customers.



Source: Statistisches Bundesamt

Following a period of consolidation and realignment at some divisions, the intention now is also to investigate opportunities for external growth. The process of consolidation, evident worldwide in our principal areas of interest, namely steel, trading and tubes, holds the potential for active participation. We will exploit this potential, provided that the appropriate conditions are met and we are consequently better able to realize our corporate objectives of independence, profitability and growth.

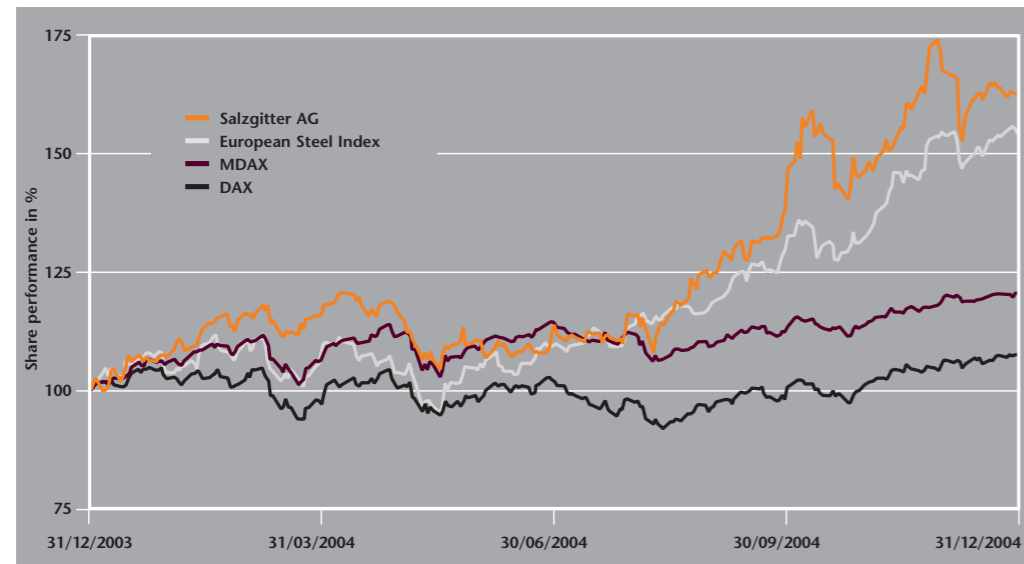
1.5 Salzgitter Share/Investor Relations

The Capital Market and the Performance of Salzgitter Share

2004 was a year of uncertainty and vacillation on many stock markets – albeit with a positive conclusion:

The favorable developments on the US, Japanese and European stock markets already evident in 2003, initially continued at the beginning of 2004. However, the terrorist attacks in Madrid on March 11, 2004, signaled the start of a period of uncertainty and consolidation. From then until the end of October, inconsistent economic data and sharply rising energy and raw material prices caused many investors to doubt the future development of the global economy. Their mood was evident in the erratic short-term trends followed by the major indices. However, strong economic data from the USA coupled with forecasts of stable global economic growth in 2005 saw share prices heading upwards once again in November and December, as a result of which the leading stock markets ended the year 2004 on a fairly positive note.

Salzgitter AG Share Price vs. the European Steel Index, MDAX and DAX in 2004



Source: DBAG Xetra closing prices, Datastream STEELEU

Whereas the DAX index of German blue chips gained only 7% in the course of the year, second-tier stocks performed much better in 2004. The MDAX rose 20% and the SDAX even added 22%. In the case of steel stocks, the current steel boom triggered a steep upward trend: In the second half of 2004 the European Steel Index climbed sharply, recording a growth of 53%.

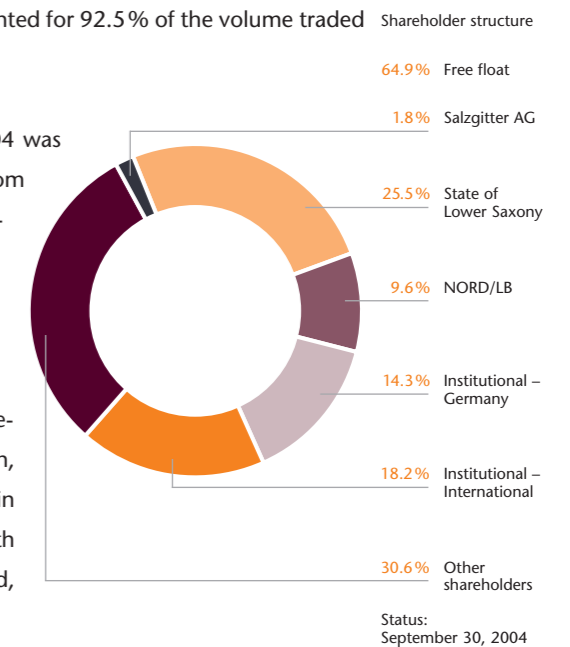
In the first half the Salzgitter share price put on a positive performance, moving largely in line with the MDAX and the European Steel Index. The rapid increase in the second half is mainly attributable to the gratifying first-half and nine-month figures and the accompanying rise in the profit forecast

for 2004 which came as a positive surprise to investors. An additional factor was the increase in the amount of stock in free float as published at the end of September and the associated improvement in liquidity. On November 29, the Salzgitter stock reached a new high of € 15.76 (intraday) since secondary public offering in 1998. The stock ended the financial and stock market year 2004 at a closing price of € 14.25. Based on the year-end price in 2003 (€ 8.79) this equated to a rise of 62%, which with the addition of the dividend (€ 0.25) represented a highly satisfactory overall performance of 65%.

The volume of Salzgitter stock traded daily on German stock markets rose from quarter to quarter, reaching an average of 193,000 shares per trading day (2003: 87,000 per day). Overall, some 49.6 million shares were traded in 2004, more than twice as many as in 2003 (21.9 million). XETRA computer trading and the Frankfurt stock exchange accounted for 92.5% of the volume traded (2003: 94.2%).

The most significant change in the shareholder structure in 2004 was the reduction in the stake in Salzgitter AG held by NORD/LB from 20.7% at the start of the year to under 10% as the year progressed. Consequently the proportion of Salzgitter stock in free float rose to 64.9%.

Salzgitter AG's MDAX ranking improved as a result of the increase in the volume of stock in free float, as well as the positive movement in the share price. With a trading volume of € 537 million, the company was placed 29th among the 50 MDAX stocks in the "Turnover" category. Under the "MarketCap" heading, with a free float market capitalization of € 576 million at year-end, Salzgitter AG was ranked in 30th place.



During October 2004 the shareholder structure as of September 30, 2004, was analyzed by an external institution. The new survey revealed a discernible increase in international investors, mainly in Great Britain and the USA, the proportion of whom rose to 18.2% (2003: 9.3%), possibly due to our intensified investor relations activities outside of Germany. At least 51.2% of the stock (2003: 67%) including own shares held by the company were in the possession of investors in Germany. Some 30.6% of investors could not be identified; these are likely to be German and international private investors as well as institutional investors not subject to a disclosure requirement, for example, insurers and foundations.

Options/Own Shares

At the end of the financial year 2004, Group employees held rights to subscribe to some 280,000 individual shares in Salzgitter AG. These were issued as part of the 1998 share option program for management. The conditions for the exercise of these options were for the first time fulfilled during the period from November 30 to December 8, 2004, and some 538,400 subscription rights were duly converted by the holders into new shares. As a result, the number of Salzgitter shares issued rose from 62,400,000 to 62,938,400 and subscribed capital increased accordingly from € 159,523,066.93 to € 160,899,464.67.

As of December 31, 2004, the company held 1,129,497 own shares. A comparison with December 31, 2003, (1,134,317 shares) reveals a decline of 4,820. During the reporting period in accordance with the authority granted by the General Meeting of Shareholders in Salzgitter AG, some 4,805 shares, at an average price of € 10.21, were applied in lieu of payment for services rendered by third parties. Some 15 shares were issued to members of the workforce by way of gratuity.

Information for Capital Investors

| | | FY 2001 | FY 2002 | FY 2003 | FY 2004 |
|--|---------|---------|---------|---------|---------|
| Nominal capital ¹⁾ | € mil. | 159.5 | 159.5 | 159.5 | 160.9 |
| Number of shares ¹⁾ | million | 62.4 | 62.4 | 62.4 | 62.9 |
| Market capitalization ¹⁾ | € mil. | 595.9 | 373.8 | 548.5 | 896.9 |
| Year-end closing price ¹⁾²⁾ | € | 9.55 | 5.99 | 8.79 | 14.25 |
| Stock market high ²⁾ | € | 10.83 | 12.65 | 9.35 | 15.76 |
| Stock market low ²⁾ | € | 7.00 | 5.85 | 5.88 | 8.72 |
| Earnings per share (EPS) ³⁾ | € | 2.28 | 1.05 | 0.52 | 3.99 |
| Cash flow per share (CPS) | € | 1.93 | 2.55 | 3.64 | 5.60 |
| Dividend per share (DPS) | € | 0.42 | 0.32 | 0.25 | 0.40 |
| Total dividends | € mil. | 26.2 | 20.0 | 15.6 | 25.2 |

Securities Identification Number: 620200, ISIN: DE0006202005

Dividend

The Executive and Supervisory Boards propose that the General Meeting of Shareholders resolves to pay a dividend for the financial year 2004 in the amount of € 0.40 per share.

Based on the nominal capital stock of € 160.9 million, the proposed payment amounts to € 25.2 million, without taking into account the own shares held by the company on the day of the General Meeting.

| Tax invoice | €/share |
|---|-------------|
| Cash dividend | 0.32 |
| Creditable capital gains tax and solidarity surcharge | 0.08 |
| Dividend | 0.40 |

1) All figures as of 31.12.
2) Data for the financial year 2001 are based on prices in Frankfurt floor trading; all subsequent prices are based on XETRA trading
3) Calculated in consideration of the weighted number of outstanding shares on average

Investor Relations

In the 2004 financial year Salzgitter AG once again engaged in diversified and intensive investor relations activities.

In addition to analysts' conferences held in Frankfurt and London upon publication of the company's results for the financial year 2003 and the first half of 2004, Salzgitter AG also made presentations at several leading investor conferences in Germany. In order to promote interest in Salzgitter AG, the company significantly expanded its roadshows. During 2004, over 70 discussions took place with institutional investors in Germany as well as other countries of Europe and the USA.

Taking account of the increasing demand for information on the part of private investors and the financial press, the company also made a number of direct contacts with interested parties and gave a presentation at the regional investors conference "2. Niedersächsisches Aktienforum" in Hanover.

As in previous years, guided tours of the plants of the Steel and Tubes Division and an intensive exchange of views with members of the Executive Board helped to give analysts and investors a detailed, lively impression of the structures, processes, products and potential of the Salzgitter Group.

A further emphasis of our investor relations work was the systematic extension of the coverage of Salzgitter. At this time, the following institutions are regularly reporting on Salzgitter AG:

| | |
|-----------------|------------------------------|
| Bankhaus Lampe | JP Morgan |
| BHF-Bank | Landesbank Baden-Württemberg |
| BW Bank | Landesbank Rheinland-Pfalz |
| CA Cheuvreux | Merck Finck & Co |
| Deutsche Bank | NORD/LB |
| DZ-Bank | Sal. Oppenheim |
| HSBC | Steubing |
| HypoVereinsbank | WestLB |

In total, at least 157 studies or recommendations regarding Salzgitter AG were made in financial year 2004 by some 46 banks and financial publications. The current ratings are: 37 Buy/Outperform, 8 Hold/Neutral, 1 Sell/Underperform.

Since June 2004 a newly designed investor relations website (www.salzgitter-ag.de/ir) has been available to all interested parties with an extended array of information. Facts and figures and their context within the Group are now even more transparent, more detailed and more rapidly accessible.

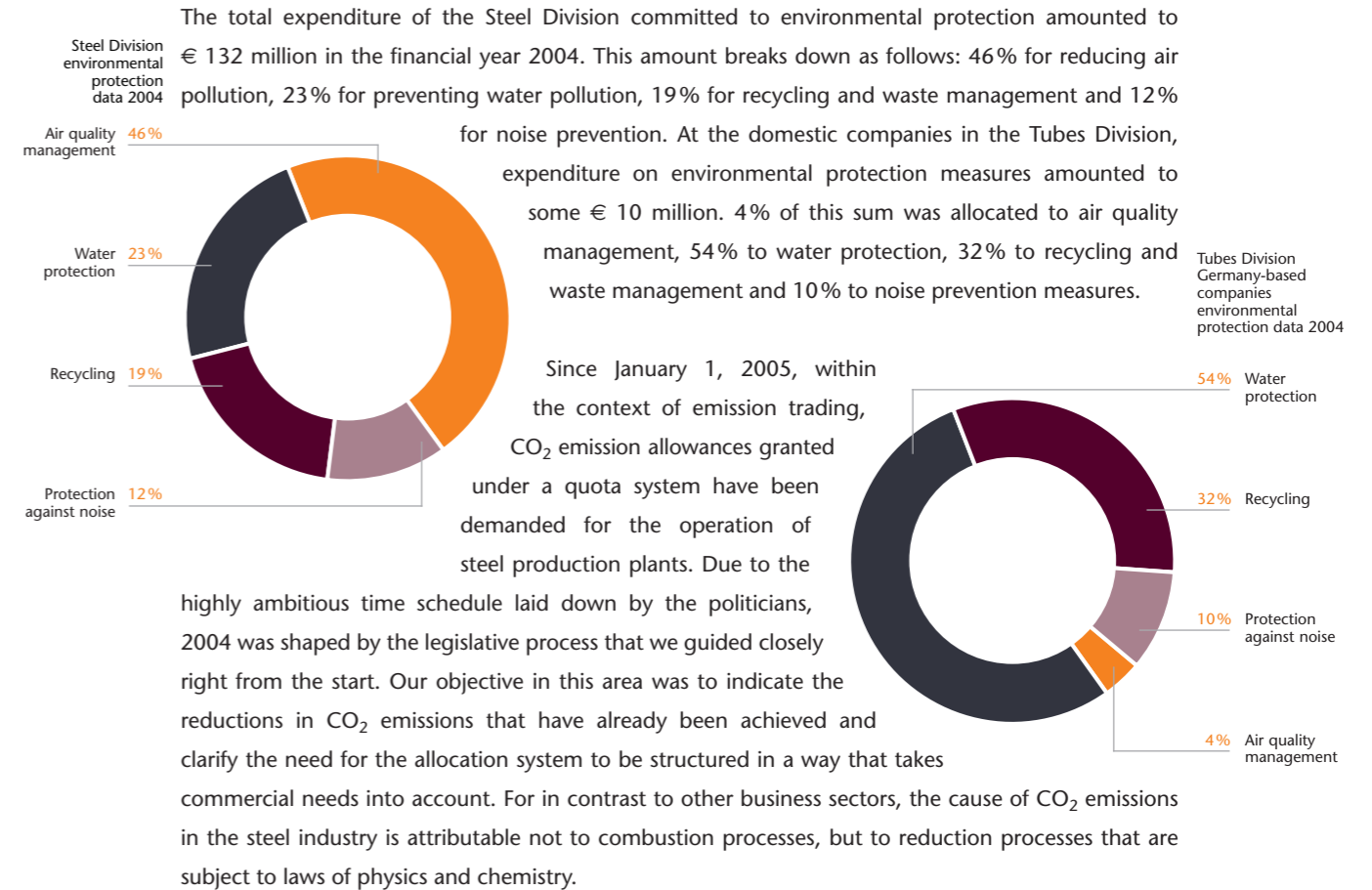
1.6 Environmental Protection

Our corporate strategy is geared towards continuous profit generation and value enhancement, and therefore sustainability. We also attach great importance to sustainability when pursuing our extensive activities in the environmental protection area. We feel committed to the goal of making our production processes as prudent in their utilization of resources and as safe as possible; we pursue this objective by optimizing and enhancing our processes and organizational structures on a continuous basis. Our achievements are also our incentive to keep on improving. We are aware, however, that improvements inevitably cost money. With regard to the specific expenses involved in environmental protection, we occupy, along with other German steel companies, a leading position worldwide. In the long term, though, we can achieve our objectives only if environmental protection standards are not abandoned at the factory gates or national borders. The most recent debates on the introduction of emissions trading have again shown that production with the highest possible environmental protection standards can be guaranteed in the long term only if profitability and the preservation of jobs are safeguarded. Global themes, such as climate protection in particular, necessitate a global framework that facilitates the active and purposeful structuring of commercial tasks, now and in the future.

2004 was another year marked by extensive activities and successes in the implementation and certification of environmental management systems. Following the successful certification of most of the domestic companies in the Tubes Division in 2003, in 2004 three pilot plants (coking plant, sintering plant, strip coating line II) of the integrated iron and steel works in Salzgitter received their first certification as planned. Full certification is scheduled for 2006. It is important that these activities go beyond mere measures and instructions. We want to integrate all levels of our workforce into the process and have the importance of environmental protection firmly anchored in their consciousness. Each year, key figures and targets are set on the basis of the environmental management systems and compliance monitored. All of these measures are also intended to help conserve resources and reduce costs. Our consistent implementation shows that ecological and economic aspects can indeed go hand in hand.

Measures to reduce emissions constitute one of the focal points of our activities. Peiner Träger GmbH, for example, implemented extensive noise prevention measures when building its new beam blank plant, which manufactures near net shape casted semis. In this way, we made another contribution to improving the situation in the city of Peine.

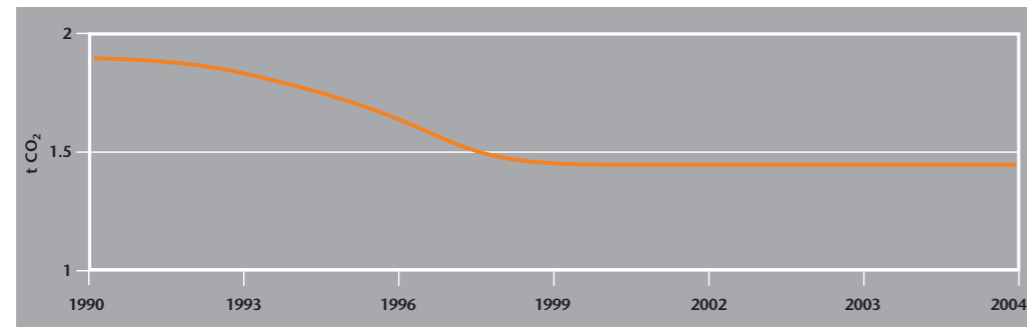
As part of the authorization procedure for the commissioning of Blast Furnace C in Salzgitter (November 2004), an expert forecast on air pollution was drawn up to ascertain any possible future increases. This forecast and the intensive measurements of previous pollution all produced results that were comfortably below the "TA Luft" air pollution norms. Adherence to these precautionary levels ensures that no detriments or environmental annoyance will result from the operations of the new blast furnace.



In steel production, there is a naturally predetermined minimum level of carbon consumption, leading to CO₂ emissions. Our crude steel production processes have been optimized so stringently that we are operating at the limit of what technology allows. The Steel Division of our Group made an exceptional contribution to the CO₂ reductions that have already been achieved in Germany: it has reduced its specific CO₂ emissions by some 25% since 1990.

1.7 Supervisory Board

Specific CO₂ emissions¹⁾ per ton of crude steel at Salzgitter Stahl GmbH



¹⁾ The CO₂ emissions resulting from electricity sourced from third parties is evaluated by specific RWI values

Following the completion of the statutory application procedure for the receipt of free emission allowances for the period 2005 to 2007, we received the allotment notifications from the Federal authority in mid-December 2004. The most important elements of our applications had been complied with.

The debates on the so-called Integrated Product Policy (IPP) continued at European level in 2004. The goal of IPP is to consider the consumption of resources and the environmental effects of products over their entire life cycles, "from the cradle to the grave". This approach to the issue encompasses every aspect, from product conception, through production, trading and use to recycling or disposal. Regulations and incentives are designed to ensure that, on the demand side, products are as environmentally friendly as possible. Salzgitter AG regards Integrated Product Policy as an opportunity. Today, a substantial proportion of steel production uses recycled scrap. More than 90% of steel used for automobiles, for instance, is currently recycled. With its recyclability and innovative power, steel is one of the most future-proof and eco-friendly of materials.

Dr. Wilfried Lochte

Chairman

Chairman of the Executive Board of

MAN Nutzfahrzeuge AG, retired

Member of the Executive Board of

MAN Aktiengesellschaft, retired

a) ■ 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 until December 31, 2004

Representative of the IG Metall Executive Board, Societal Movements Communications Office

a) ■ Salzgitter Stahl GmbH (Vice Chairman) until December 31, 2004

Jürgen Peters

since January 1, 2005

Vice Chairman since March 30, 2005

1st Chairman of IG Metall

a) ■ Volkswagen AG (Vice Chairman)

■ Mannesmannröhren-Werke GmbH

(Vice Chairman) until March 11, 2005

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

until November 13, 2004

Member of the Executive Board of Norddeutsche Landesbank Girozentrale

a) ■ Vattenfall Europe Mining AG

■ Viscardi AG

b) ■ LHI Leasing GmbH (Supervisory Board) since July 15, 2004

■ AB Bankas NORD/LB Lietuva (Supervisory Board, Chairman)

■ NORD/LB Bank Polska, S.A. (Supervisory Board, Chairman)

■ NORD/LB Latvija plc (Supervisory Board, Chairman)

■ Niedersächsische Lottostiftung (Administrative Board)

■ NORD/LB Luxembourg S.A. (Administrative Board)

■ Skandifinanz AG (Administrative Board)

Hannelore Elze

Secretary of IG Metall labor union – Executive Board

a) ■ V&M DEUTSCHLAND GmbH

■ Hydro Aluminium Deutschland GmbH (Vice Chair)

b) ■ NORSK Hydro Deutschland Verwaltungs-GmbH (Vice Chair)

Hermann Eppers

since November 14, 2004

Member of the Lower Saxony Land Parliament

a) ■ ALSTOM-LHB GmbH

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

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)

Kurt van Haaren

Chairman of the German Post Office Labor Union, retired

no membership of other governing bodies

Prof. Dr.-Ing. Heinz Haferkamp

Professor at the University of Hanover

- a) ■ ALSTOM-LHB GmbH
- b) ■ Laser Zentrum Hannover (Executive Board)
 - PZH 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
 - Öffentliche Sachversicherung, Braunschweig

Prof. Dr. Hans-Jürgen Krupp

President of the state central bank 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

until July 2004

Management Executive since August 2004

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) ■ Fidelity Funds, Luxembourg (Administrative Council)

Dr. Hannes Rehm

Chairman of the Executive Board of Norddeutsche Landesbank Girozentrale

- a) ■ Bankgesellschaft Berlin AG since July 2, 2004
 - Berlin-Hannoversche Hypothekenbank AG
 - Niedersächsisches Staatstheater Hannover GmbH

- b) ■ Bremer Landesbank Kreditanstalt Oldenburg-Girozentrale (Supervisory Board)
 - LBS Norddeutsche Landesbausparkasse Berlin-Hannover (Supervisory Board)
 - NILEG Norddeutsche Immobiliengesellschaft mbH
 - Provinzial Lebensversicherung Hannover (Supervisory Board) since September 6, 2004
 - DeKaBank Deutsche Girozentrale (Administrative Council) since August 1, 2004
 - Nord/LB Luxembourg S.A. (Administrative Council, Chairman) since July 1, 2004

Dr. Rudolf Rupprecht

Chairman of the Executive Board of MAN AG until January 12, 2005

- 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

Christian Schwandt

Chairman of the Works Council at

SZST Salzgitter Service und Technik GmbH

- a) ■ SZST Salzgitter Service und Technik GmbH

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
 (Chairman since October 27, 2004)
 - b) ■ Leopold Kostal GmbH & Co. KG
- (Advisory Board)

Friedrich-Wilhelm Tölkes

Chairman of the Works Council at Hüttenwerke Krupp Mannesmann GmbH

- a) ■ Mannesmannröhren-Werke GmbH

Hartmut Tölle

Chairman of the German Federation of Trade Unions (DGB) area Lower Saxony/Bremen and Saxony-Anhalt

no membership of other governing bodies

Prof. 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
- b) ■ SEAT S.A.
 - Lamborghini Holding S.p.A.

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

1.8 Report of the Supervisory Board

The financial year 2004 was shaped by, at times, dynamic growth in the global economy and rapidly changing framework conditions in the steel industry. The persistently buoyant demand for rolled steel products and tubes led to the highly positive development of the Salzgitter Group's business activities in the year ended. Even in this pleasing situation, Salzgitter AG continued to pursue its strategic goals rigorously and implemented extensive measures geared to optimizing products and processes, as well as reducing costs, with the objective of improving the earnings trend in all of its divisions.

Monitoring Management and Advising the Executive Board

In 2004, the Supervisory Board monitored the Executive Board's activities and performed an advisory and guiding role in its management of the company. It kept itself informed about the course of business and the situation of the company on a regular, timely and comprehensive basis by means of written and verbal reports. The reports from the Executive Board encompassed all of the important information on the development of business and the position of the company, including corporate planning, further strategic development, the profitability of the company, the risk situation and risk management. The Supervisory Board was involved in all of the decisions that were of particular strategic significance for the company. Transactions requiring the agreement of the Supervisory Board were examined and handled in cooperation with the Executive Board.

In the financial year 2004, there were four Supervisory Board meetings in which the Supervisory Board dealt with and discussed important business operations in detail on the basis of Executive Board reports. The most important matters to be discussed and approved were as follows:

- the "construction of new turbo-generator" investment project at Salzgitter Flachstahl GmbH,
- the "modernization of continuous casting line 1" investment project at Peiner Träger GmbH,
- the sale of residential accommodation in Lengede from the real estate holdings of "Glückauf" Wohnungsgesellschaft mbH,
- the status of the profitability improvement program,
- risk management in the Group.

In its meeting on December 16, 2004, the Supervisory Board dealt in detail with the corporate plans submitted by the Executive Board for financial years 2005 to 2007. Finance, investment and personnel planning in particular were discussed and the investment planning for the financial year 2005 was approved.

The presiding committee of the Supervisory Board met once to prepare decisions on Executive Board matters.

Dr. Wilfried Lochte,
Chairman of the
Supervisory Board.



The presiding committee of the Supervisory Board also held one meeting with the strategic committee that it constituted. On this occasion, key issues relating to the company's strategic orientation were discussed in detail before being debated in a full session of the Supervisory Board.

The personnel committee of the Supervisory Board did not have to be called upon in the financial year 2004. No further committees were formed by the Supervisory Board.

One member of the Supervisory Board attended fewer than half of the body's meetings in the financial year under review.

The Chairman of the Supervisory Board also held many individual discussions on an ongoing basis concerning the position of the company and its further development outside of the Supervisory Board's meetings and those of its presiding committee.

The Supervisory Board received no reports of conflicts of interest from any member of the Executive Board or the Supervisory Board in the financial year 2004.

Corporate Governance

On December 16, 2004, the Executive Board and the Supervisory Board provided an updated Declaration of Compliance in accordance with § 161 of the German Stock Corporation Act (AktG) and made it available to the general public on the company's website on a permanent basis. Sub-paragraph 3.10 of the Code stipulates that corporate governance be reported separately in the annual report.

Annual Financial Statements and Consolidated Financial Statements as of December 31, 2004

In its meeting on March 30, 2005, the Supervisory Board dealt in detail with the annual financial statements of Salzgitter AG and the consolidated financial statements as of December 31, 2004, as well as the joint management report for the company and the Group for the financial year 2004. The documents from the annual financial statements and the auditors' reports were submitted punctually to the members of the Supervisory Board. Prior to this, the auditor PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, selected by the General Meeting of Shareholders on May 26, 2004, reviewed both financial statements and granted them the unqualified auditors' certificate. The auditor thereby confirmed that the balance sheet accounting, valuation and consolidation carried out in the consolidated financial statements, complied with the International Financial Reporting Standards (IFRS). As part of its assessment of the risk management system, the auditor also established that the Executive Board had taken the steps demanded by §91, paragraph 2, German Stock Corporation Act (AktG) for the early recognition of risks that endanger the continued existence of the company. When commissioning the auditors, the Supervisory Board determined a number of areas on which the auditors were to focus. The audit was carried out according to these instructions.

The annual financial statements, the consolidated financial statements, the joint management report for the company and the Group and the Executive Board proposal on appropriation of the balance sheet profit, as well as the auditor's reports, were available to all of the members of the Supervisory Board for examination. Representatives of the auditor took part in the discussions of the annual financial statements and the consolidated financial statements at the Supervisory Board meeting on March 30, 2005, 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 associated management reports, which did not lead to any objections, the Supervisory Board approved the findings of the auditor's review and approved the annual financial statements and the consolidated financial statements. The financial statements were 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 Supervisory Board

Dr. Gunter Dunkel and Horst Schmitthenner laid down their mandates as members of the Supervisory Board as of November 13, 2004, and December 31, 2004, respectively. The Supervisory Board wishes to thank both gentlemen for their constructive contributions throughout long years of cooperation.

On October 26, 2004, Braunschweig Local Court appointed Mr. Hermann Eppers, member of the Land Parliament of Lower Saxony, as a member of the Supervisory Board in place of Dr. Gunter Dunkel as of November 14, 2004.

On November 14, 2004, Dr. Hannes Rehm succeeded Dr. Gunter Dunkel as a member of the presiding committee and the strategy committee.

The Group Works Council of Salzgitter AG, on the suggestion of its central organization and following prior discussion with the labor unions represented in the plants, has decided to propose Mr. Jürgen Peters, Chairman of IG Metall, as the successor to Mr. Horst Schmitthenner. On December 9, 2004, Braunschweig Local Court appointed him as a member of the Supervisory Board as of January 1, 2005.

At the Supervisory Board meeting on March 30, 2005, Mr. Jürgen Peters was elected as Vice Chairman of this body and appointed to its presiding, strategy and personnel committees.

The Supervisory Board would like to thank the Executive Board and all of the Group employees for their commitment over the past financial year.

Salzgitter, March 30, 2005

The Supervisory Board



Dr. Wilfried Lochte
Chairman

1.9 Corporate Governance

Salzgitter AG has always firmly supported a responsible corporate policy geared towards increasing the value of the company. It regards modern corporate governance as an essential component of its success, perceiving it as a standard that encompasses all areas of the company and its activities.

The German Corporate Governance Code comprises essential legal provisions for the management and supervision of German listed companies and contains internationally and nationally acknowledged standards of good and responsible corporate leadership. In conjunction with the authoritative German legislation governing stock corporations, it defines essential functions, rights and obligations of the General Meeting of Shareholders, the Executive Board and the Supervisory Board of the company. Other provisions affect the cooperation between the Executive and Supervisory Boards and the demands made on transparency, accounting and the auditing of financial statements. The corporate management and corporate culture of the Salzgitter Group largely comply with the recommendations of the German Corporate Governance Code.

To deal with questions of corporate governance, the Executive Board of Salzgitter AG has appointed a coordinating unit that reports to it directly and regularly.

The shareholders of Salzgitter AG

Salzgitter AG's shareholders basically exercise their rights at the annual General Meeting of Shareholders. In particular, they decide on the appropriation of profits, the discharge of the Executive Board and the Supervisory Board, the election of shareholder representatives in the Supervisory Board, changes in the articles of incorporation and significant commercial steps. Every shareholder in Salzgitter AG is entitled to participate in the General Meeting of Shareholders, to address the Meeting about items on the agenda, to ask pertinent questions and to submit relevant motions. Salzgitter AG facilitates the process of its shareholders exercising their rights personally. By the participation of a proxy at hand during the General Meeting of Shareholders, it enables the shareholders to have their voting rights exercised in accordance with their instructions.

The company reports to its shareholders on the development of business and the financial and earnings position four times during the financial year in accordance with a published financial calendar. In addition, information that has the potential to influence the share price significantly is published immediately in the form of ad hoc reports. The reports and ad hoc information are simultaneously made available on Salzgitter AG's website (www.salzgitter-ag.de).

The Executive Board of Salzgitter AG

The Executive Board manages the company on its own responsibility. In doing so, it is bound by the interests of the company and obliged to increase its value of the company. It strives to achieve the highest possible return on the capital employed within the scope of the corporate purpose. The tasks of the Executive Board include the strategic orientation and further development of the company, including the Group companies, in coordination with the Supervisory Board. The Executive Board of Salzgitter AG consists of six members, in part with functional and in part with divisional competence. The members of the Executive Board are liable to the company for any dereliction of duties.

The remuneration granted to the members of the Executive Board is reported in the notes to the consolidated annual financial statements. The terms for the appointment of members of the Executive Board of Salzgitter AG are regulated in contracts of employment of identical structure and basically identical content. The remuneration comprises basic monthly remuneration and a variable component. The variable component is divided into a performance-related part, calculated in accordance with the ROCE (return on capital employed) and a qualitative part that is determined in relation to the overall performance of the respective Executive Board member.

The Supervisory Board of Salzgitter AG

The task of the Supervisory Board is to advise and supervise the Executive Board in the management of the company. It is involved in decisions that are of fundamental significance for the company. Particular transactions that are defined in detail in the rules of procedure for the Executive Board of Salzgitter AG require the approval of the Supervisory Board. In addition, the Supervisory Board appoints and dismisses the members of 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 election. In order to prepare for its decisions, the Supervisory Board of Salzgitter AG has constituted a presiding committee and committees for personnel and strategy issues. It regularly examines the efficiency of its activities.

The annual remuneration of the members is shown individually in the notes to the consolidated financial statements.

The members of the Supervisory Board do not receive performance-related remuneration components.

The Supervisory Board received no reports from members of either the Executive Board or the Supervisory Board with regard to conflicts of interest.

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 Salzgitter AG's articles of incorporation, on conclusion of the General Meeting of Shareholders in 2008.

The Supervisory Board will provide information about its activities and its decisions in the financial year 2004 separately in its report to the General Meeting of Shareholders.

Cooperation between the Executive Board and the Supervisory Board at Salzgitter AG

In German stock corporations, the executive board and management board work as separate bodies with different tasks. A member of the executive board cannot simultaneously be a member of the supervisory board.

In practice, to ensure successful corporate governance at Salzgitter AG, the Supervisory Board and the Executive Board avail themselves of a set of instruments for performing their management and control responsibilities.

The essential instruments of the Supervisory Board include:

- the obligation of the Executive Board to submit regular, timely and comprehensive reports to the Supervisory Board,
- regular discussion of the corporate plans, the business trend and the strategy with the Executive Board,
- definition of business activities and measures of the Executive Board that may be carried out only with Supervisory Board approval,
- the obligation of the Executive Board to submit annual long-term corporate plans and to report on the execution of such plans,
- agreement on variable components when determining the remuneration of the members of the Executive Board, oriented towards the commercial success of the company and the overall performance of the respective Executive Board member.

The instrument for management and control used by the Executive Board comprises the following:

- definition of reporting obligations and authorization requirements in Group guidelines and statutes of the Group companies for individual areas,
- definition of the principles for the management of the Group in a Group guideline for management and organization,
- preparation of strategic plans for all divisions and fields of business, their regular updating and the monitoring of their success,

- obligation of all Group companies to prepare annual sales, investments, financial and personnel plans as well monitoring their progress,
- regular internal audits and special audits by an internal auditing department,
- establishment and continuous updating of a Group-wide monitoring system for early risk detection (risk management),
- agreement on targets and a performance-related component of remuneration for the managing directors of Group companies and management executives.

In the financial year 2004, the Executive Board developed and optimized the strategic orientation, in particular, of the Salzgitter Group in trusting cooperation with the Supervisory Board. Proceeding on this basis, the Executive Board initiated and carried through numerous measures to implement the strategic goals. 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 discussions with the management of the Group companies on a quarterly basis and corrected if necessary.

Declaration of Compliance with the German Corporate Governance Code

In respect of the recommendations of the Government Commission on the German Corporate Governance Code¹⁾, the Executive Board and the Supervisory Board stated on December 16, 2004, 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 (disclosure of individual remuneration of members of the Executive Board),
- 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 available permanently on the company's website since December 16, 2004.

The Executive Board and the Supervisory Board 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 (disclosure of individual remuneration of members of the Executive Board):

The Executive Board is of the opinion that disclosing the individual remuneration of every individual member of the Executive Board does not provide a suitable basis for assessing the appropriateness of the remuneration for the management of the affairs of the company, which is incumbent on the Executive Board as a collective responsibility.

- 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, 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):

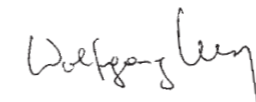
The Executive Board and the Supervisory Board believe that in view of the Supervisory Board's legally desired function as an independent supervisory organ and the necessary neutrality of interests that this involves, remuneration linked to the performance of the company would not be beneficial. Any extra remuneration for chairmanship and membership of committees is not regarded as necessary.

- Subclause 7.1.2 (public availability of consolidated statements within 90 days):

In the calendar year 2004, the 90-day period was not observed due to a necessary and extremely complex conversion of the SAP software to a new system generation as of the turn of the year 2003/2004. For the financial year 2004, this period will be observed.

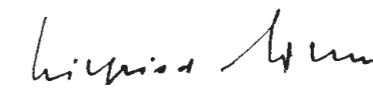
Salzgitter, March 30, 2005

The Executive Board



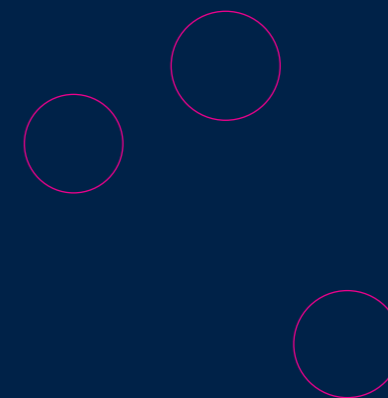
Wolfgang Leese
Chairman


The Supervisory Board



Dr. Wilfried Lochte
Chairman

SALZGITTER PILES ON THE SPEED.





It's not unusual nowadays for theme park roller coaster rides to reach speeds in excess of 150 km/h. Their breathtaking loops, corkscrews and plummeting dives from heights of 100 m or more pump passengers' adrenaline levels to new highs.

Each ride is higher, faster and more gravity-defying than the last.

There are Megacoasters, Gigacoasters, Inverted Coasters in fixed and mobile versions, with passengers both seated and standing. The one thing that all these new rides setting height and speed records have in common, is steel.

Only steel stanchions, steel rails and steel axles have the extreme flexural and torsional strength to handle the stresses and deliver the reliability that makes these ever more extravagant structures feasible.

2.1 Economic Situation

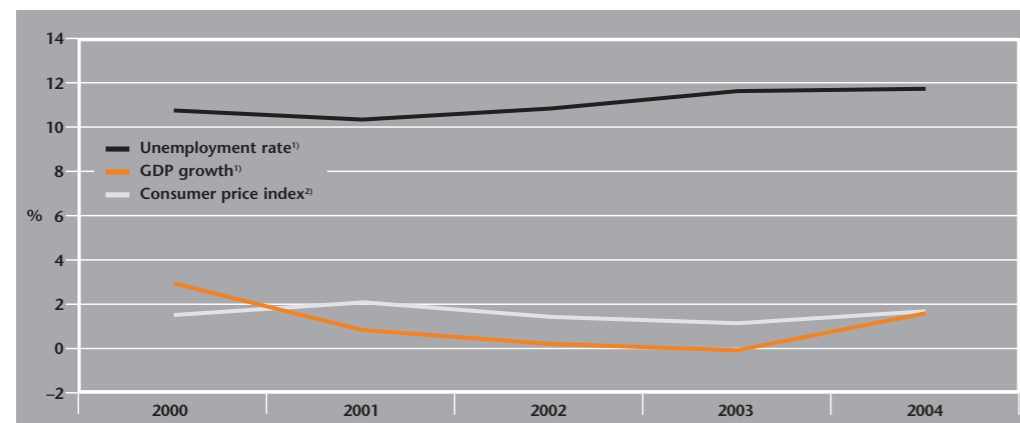
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Development in the Economy, Steel and Tubes Market

As a result of the partially highly dynamic development in the global economy – especially in the growth centers of the USA and China – the European Union (EU) began the year 2004 with considerable momentum.

Economic expansion in Europe during the course of the year was mainly buoyed by the new EU member countries and Great Britain. In the wake of the global economic upturn, the German economy also showed some noticeable gains. Foreign demand for German industrial products rose very strongly, especially in the first half of the year. Nevertheless, viewed over the year as a whole, both the pace and the extent of the recovery remained moderate in comparison with previous upward phases. In contrast with the substantial rise in exports, the revival in domestic demand in the EU was generally modest. Despite the favorable outlook for sales in foreign markets, the pace of investment was sluggish. Indeed, Germany actually recorded a decline in investment in the first half of 2004.

Macroeconomic Indicators in Germany



¹⁾ Source: Statistisches Bundesamt

²⁾ Source: Deutsche Bundesbank

From the middle of the year onwards, the global upturn began to lose its previous vigor due, in particular, to the depressive effect of exceptionally high oil prices on the pace of economic activity in many industrialized and newly industrializing countries. The situation was compounded by the transition in the countries, which had led the upswing to less expansionary economic policies. The government in China, for example, faced with bottlenecks in some sectors, attempted to calm the economic expansion. In the USA, the impetus generated by financial policy lost pace. Overall, the global economy grew by around 5% in 2004.

On the right track: Steel rails provide maximum load strength and maximum safety for modern roller coasters.

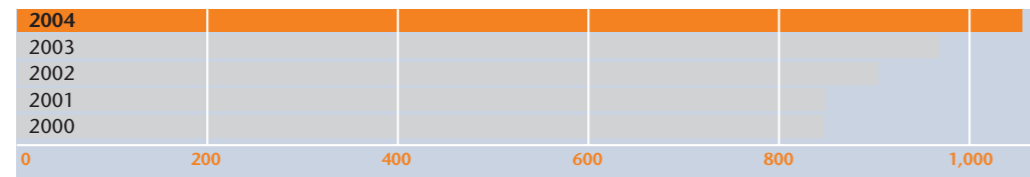
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The economy in the euro zone – and especially here in Germany – lost momentum during the second half as a result of weaker exports. Growth rates in real gross domestic product (GDP) for the year as a whole reached 1.8% in the euro zone and 1.6% in Germany. The latter figure represents something of a welcome revival, given that Germany had recorded a rate of -0.1% in 2003.

In the course of the worldwide economic upturn, the steel industry in 2004 experienced its strongest boom in the past fifteen years. For the first time, world production of crude steel passed the billion ton mark (1,055 million t). Rolled steel production also set a new record of over 900 million t.

World Crude Steel Production



million tons Source: International Iron & Steel Institute

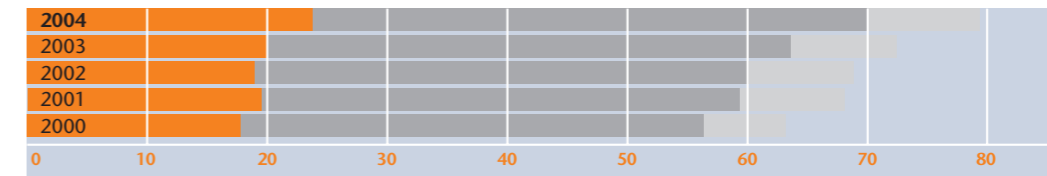
Developments in China were at the heart of the steel boom. Crude steel production rose there by more than 50 million t to 272 million t, still with only a small effect on the demand for imports. The 40 million t of rolled steel imported into China in 2003 were followed in 2004 by a further 30 million t. However, China was not the only industrial growth center to develop a strong demand for steel. Last year the demand for steel rose by 11.5% in the NAFTA area, by 3.8% in the 25-member EU and by 3.7% in the rest of Asia. Likewise in the CIS – and especially in Russia – steel consumption was substantially higher in 2004. Naturally, the increase in world demand for steel was paralleled by a similar demand for raw materials. There were shortfalls in the supply of ore, coal, coke and scrap resulting in exceptional price increases: Calculated on a US dollar basis the price of raw materials essential for the production of steel rose in 2004 by an average of 35% in comparison with the year before. As a result of the high demand for steel coupled with the short supply of raw materials, steel became scarce on the world markets. Prices for rolled steel climbed to record highs in the course of the year. By the end of 2004 prices in the EU matched those in the USA, which had thus far been the highest in the world.

Steel consumption in the EU in 2004 was up by almost 4% over the year before. The year was marked by favorable developments at most steel processors: above all mechanical engineering companies, tube manufacturers, shipyards and road vehicle manufacturers, especially in commercial vehicles. In some EU countries (Spain, Great Britain) they profited from high domestic demand; elsewhere – as in Germany – they were buoyed up by strong orders from abroad. By contrast, the overall picture in the construction industry in the EU was marred by the poor situation in Germany in particular. In the

second half of the year, even the traditionally dynamic Spanish and British construction sectors lost momentum. Especially the sale of section was particularly hard hit by the weakness on the part of the European construction industry. On the other hand, European manufacturers of flat carbon steel and plate had full order books in 2004 and on average their capacity was better utilized than in the year before. That is reflected in the increase in crude steel production (+5.0% in the 25-member EU, +3.5% in Germany).

The steel tubes sector is one of the most export-intensive industries in Europe – around 76% of German production alone is sold abroad. Consequently, the industry was able to derive particular benefit from the mainly investment-driven upturn in the international economic situation. Not even the sharp rise in the cost of pre-material was able to dampen the upturn in this sector, which took off at the start of 2004, bolstered by the very high oil and gas prices. In addition to projects postponed due to the conflict in Iraq, the major oil companies undertook an increasing number of field development projects, which even a few months previously had appeared uneconomic. This contributed to a sustained stabilization in the demand for tubes in the exploration and pipelines segment. Manufacturers of steel tubes also profited from substantial Chinese investment in power stations and the associated demand for heat exchanger and boiler tubes. Likewise in the mechanical engineering and plant construction segment, the demand for tubes mirrored the rise in investment volume. And while manufacturing output in the automotive industry remained roughly constant, the demand for tubes rose here as well due to the introduction of numerous new models with a higher proportion of steel tube components. The downside for the steel tubes industry resulting from soaring pre-material costs – hot-rolled strip rose in price by more than EUR 200/t during the year to reach a level of around EUR 500/t – as well as from the continuing massive fall in the value of the US dollar which fell by 7% to 1.36 USD/EUR, was largely made up by price increases.

World Steel Tube Production



million tons seamless welded up to 16" welded over 16" Source: Wirtschaftsvereinigung Stahlröhre

World production of steel tubes in 2004 climbed to 79.5 million t, a rise of 9% over the year before, but with changes once again in the regional balance of production. The strongest growth was recorded in China where production rose by +20% to 21.2 million t. All major western countries again posted strong growth rates in 2004, with output in the USA up by +15% to 4.8 million t ahead

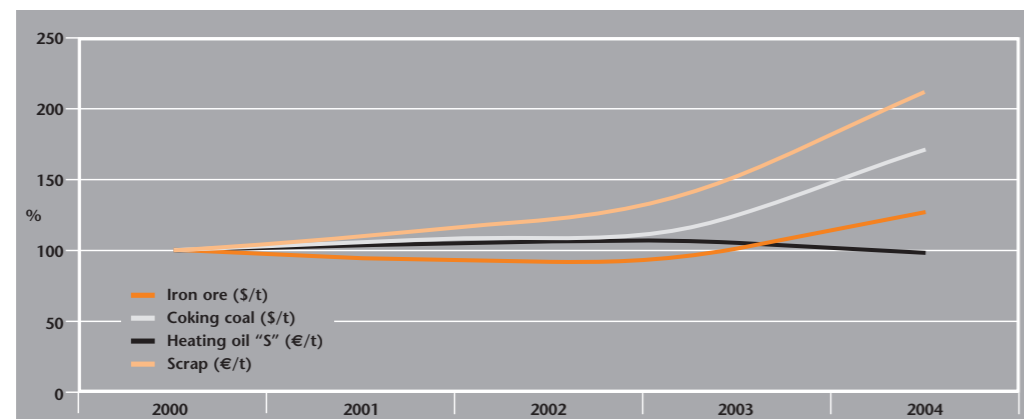
of Germany +11% to 3.5 million t, France +9% to 1.4 million t and Japan +7% to 8.7 million t. Steel tube production in Brazil rose by +3% to 1.8 million t. Among the leaders in steel manufacturing, only Russia failed to follow the worldwide trend, dropping –1% to 6.1 million t.

In the field of seamless tubes, global output increased by +16% to 23.9 million t. Welded tubes up to 406 mm external diameter were up by +6% at 46.2 million t, while production of large-diameter pipes, which had suffered stagnation in 2003, also climbed by +6% in 2004 to 9.4 million t.

Purchasing

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

Movement in the price of selected raw materials and energy resources



The tremendous demand for raw materials in China continued to have a profound effect on the markets for both materials and freight in 2004. Despite some significant shortfalls in important raw material markets, full supplies were at all times assured, even though price increases compared with the previous year were unavoidable.

The high demand for ore, for example, forced Salzgitter Flachstahl GmbH (SZFG) to accept price hikes on a US dollar basis of 20% fob port of lading. In total, SZFG purchased some 5.7 million t of ore in 2004 which – dependent on type – was sourced from Sweden, Canada, Venezuela, Brazil and South Africa.

Since the demand for ore will remain at a high level in 2005, the market is expected to be very tight this year as well, in particular with regard to the supply of pellets and lump ore. For this reason, further substantial ore price rises are anticipated for 2005.

In 2004 the world market for coking coal was very tight. As a result of high demand, fob prices in USD for long-term contracts in "coal year 2004/2005" (April 1, 2004 – March 31, 2005) rose by 20% over the year before. The world market situation was made all the more difficult by extraction and supply problems suffered by some major suppliers. These factors together meant that high-quality coking coal was available only on a small scale on the spot market and at sharply increased prices. In the calendar year 2004, SZFG sourced a total of 1.9 million t of coking coal from Germany, Australia, Canada, the USA and Poland.

With regard to the "coal year 2005/2006", following the conclusion of initial contracts at the end of 2004, we anticipate severe price increases in excess of 100% on an fob basis. The drastic rise in the price of coking coal is a product of the current market situation and it may be expected that demand in 2005 will far outstrip supply. It is likely to be 2 or 3 years before the announced intention on the part of some producers to up their production volumes and extend port capacities can take effect.

The hikes in ocean freight rates for iron ore and coking coal in the first quarter of 2004 exceeded all past experience. Freight rates on almost all routes rose to historic highs. This extraordinary state of affairs was also triggered by the sustained boom in demand from China, coupled with long waiting times in various ports of lading. Following a period of relative respite in mid-year, prices again rose sharply in the fourth quarter and by the end of the year they had returned almost to the record levels on which the year had started. Since our freight capacity requirements for ore and coal in 2004 were largely covered by more favorable long-term contracts, the negative impact on costs was kept within bounds.

With a look to 2005, it is to be expected that freight rates in the first half at least will remain firm. To counter this trend, SZFG has once again entered into long-term freight contracts for financial year 2005, which are markedly below current freight rate levels.

The huge demand from the Chinese market continued to drive coke prices to a high of almost USD 500 fob port of lading in the first half of the calendar year 2004 for spot market purchases in China. In the second half, however, the coke market eased significantly. This led to a decline in prices and greater availability on the world market. For SZFG, the price of third-party coke on average more than doubled in comparison with the year before.

We expect further price rises in 2005, which will naturally follow on from the hike in coking coal prices. In volume terms, our requirements for financial year 2005 are largely secured by long-term contracts.

Despite the 35% rise in oil prices, the cost of heavy heating oil for use as a reducing agent in SZFG's blast furnaces fell by 8% in 2004 in comparison with the year before. This was due to the mild winter and the consequent relative weakness in demand. We anticipate further moderate price increases in financial year 2005.

The cost of gas for the Steel Division in calendar year 2004 was some 9% lower than the year before, due to the relatively low price of heavy heating oil in the reference months of relevance for the billing of gas supplies. Prices for calendar year 2005 are expected to remain relatively constant in line with the year just ended.

Rising electricity prices continued on an upward trend in 2004. At the Steel Division this meant that the cost of buying in electric power rose by 7% over the year before. In 2005, electricity costs are set to increase by a further 21%.

The development in prices for ferro alloys followed a pattern of massive increases until the third quarter of the year under review. In some cases we were forced to accept price hikes in excess of 100% – the cost of ferromolybdenum actually rose by 340% over its level at the start of the year. Investment funds exerted a strong influence over the metals exchange in 2004. At the beginning of 2004, nickel was being traded at prices above USD 17,000 per ton. After a short respite in mid-year, prices on the exchange were back at a level of between USD 13,000 and USD 15,000 per ton by the end of 2004. The price of zinc behaved similarly. However, long-term hedging at relatively favorable prices resulted in significant savings on part of our requirements. In the year 2005 we expect prices to fall slightly.

The exorbitant rises in raw material costs were to some extent offset by the weakness of the US dollar.

Due to the high degree of capacity utilization in the steel industry worldwide and the associated high demand for steel scrap, the prices paid by SZFG (+65%) and PTG (+50%) were well above the previous year's figures. The amount of scrap sourced by SZFG amounted to 0.4 million t in 2004, while PTG bought in some 1.0 million t. We expect the average price of scrap to rise by a further 20% in 2005.

Hüttenwerke Krupp Mannesmann GmbH (HKM) in Duisburg is the principal supplier of pre-material to the companies of the Tubes Division. In financial year 2004, HKM delivered 0.8 million t of slabs for the manufacture of plate and hot-rolled strip for the production of welded tubes including large-diameter pipes, medium line pipes and precision tubes. HKM is also the leading provider (1.0 million tons) of tube rounds for the manufacture of seamless tubes by our associated company Vallourec & Mannesmann Tubes S.A. (V&M). In turn, the latter supplies the precision tube makers with hollows for

Steel is the key: Thanks to this material's fine tolerances and extreme resilience, designers are able to conjure up the wildest rides.



the manufacture of seamless precision tubes. In addition, Tubes Division companies engaged in the manufacture of welded tubes, purchased hot-rolled strip from other Salzgitter Group companies.

As a result of the increased prices of ore, coal, scrap and alloying elements, the pre-material prices billed for tube rounds and slabs ex HKM, as well as for hot-rolled strip rose significantly.

The cost of buying in electric power in 2004 was 9% up on the year before, while gas costs were down by 7%.

The prices paid for services and other materials were essentially maintained at a stable level.

Personnel

In financial year 2004, the core workforce declined by 248 (1.4%) from 17,825 to 17,577 employees. This total comprised 11,634 wage laborers (66.2%) and 5,943 salaried employees (33.8%).

A breakdown by divisions reveals the following changes:

Steel –386, Trading –94, Services +466, Processing –76 and Tubes –162 employees. Excluding the 100% consolidation of Röhrenwerk Gebr. Fuchs GmbH (previously included on a pro rata basis at 50%) with an additional 148 employees, there were 310 fewer persons employed in the Tubes Division and consequently 396 fewer at the Salzgitter Group than at the beginning of the year 2004.

The increase at the Services Division is primarily attributable to the inclusion of the newly-formed Salzgitter Mannesmann Forschung GmbH whose employees derive from the former Mannesmann Forschungsinstitut GmbH (Tubes Division, 165 employees) and the research department of Salzgitter Flachstahl GmbH (Steel Division, 86 employees). Further additions were accounted for by the employment of former trainees and the transfer of 271 employees under age-related part-time employment arrangements from the Steel Division to SZST Salzgitter Service und Technik GmbH.

In addition to the above, the reduction in personnel was also attributable to the expiry of fixed-term contracts, to social plans and the retirement of age-related part-time workers.

The core workforce at the various divisions developed as follows:

| Division | 31/12/2004 | 31/12/2003 | Change |
|-----------------|---------------|---------------|-------------|
| Steel | 6,655 | 7,041 | –386 |
| Trading | 1,733 | 1,827 | –94 |
| Services | 3,979 | 3,513 | 466 |
| Processing | 969 | 1,045 | –76 |
| Tubes | 4,122 | 4,284 | –162 |
| Holding company | 119 | 115 | 4 |
| Group | 17,577 | 17,825 | –248 |

As of December 31, 2004, the Group employed 983 trainees (previous year 940). A total of 14 trainees were offered permanent positions upon completion of their training. A further 207 received 6- or 12-month contracts in accordance with the terms of the collective agreement.

During the period under review only 100 employees left the Group of their own volition. This low level of fluctuation reflects the changed economic climate and restricts the potential scope of personnel policy-making.

We are now more than two thirds of the way towards realizing the target announced in autumn 2002 of reducing the core workforce by 1,500 employees within three years. The full target should be reached by the end of the year 2005.

The effects of measures introduced to reduce accidents are reflected in a continuous reduction in the "H" rate of reportable accidents per million hours worked. This figure fell sharply from 20.1 in financial year 2003 to 15.0 in 2004. The Steel Division in particular developed positively with an "H" rate of 6.3.

The sickness rate likewise declined in comparison with the year before among both wage labor and salaried employees as a result of the Health and Attendance Improvement Program (GFAV).

The rate of overtime being worked within the Group fell consistently in almost companies, the steepest decline being recorded at the Processing Division.

In order to strengthen the lines of communication between Executive Board members, General Managers and management executives, Salzgitter AG has been operating a three-stage system of information dialog groups since January 2004.

Some 20 selected General Managers of Group companies now participate in expanded Executive Board meetings.

Twice a year, all General Managers and selected managing executives are invited to a management conference.

Once a year, the Executive Board hosts a Group-wide forum attended by some 500 managers. Following the theme of "1+1>2", a part of the forum held on May 4 and 5, 2004 was especially dedicated to the exchange of ideas and experience, in addition to the communication of the latest information on the Group.

The period under review saw the start of a system of human resources development conferences, which in future will be held once per year for each Group company. These conferences are aimed at safeguarding the uniformity of human resources policy within the Group and supporting the development of human resources at supra-company level.

During 2004, the range of options available for the development of junior managers, management staff and specialists staff within the Group was placed on a systematic basis. Target groups comprising university graduates and young professionals have access via all Group companies to our regional new

entrant programs, the “Salzgitter Förderkreis” and the “MRW-Basisprogramm”. These programs have the particular advantage of developing networks among participants at company and divisional level. The next stage of development, the “Management-Kolleg” program for young managers with high potential and the “Experten-Kolleg” program for designated specialists, provides basic training in the principles of general management, including skills and competences specific to Salzgitter.

Works agreements were signed at virtually all Group companies in 2004 regulating the profit-share plans for salaried employees and wage labor. This brings us an important step closer to our objective of installing a consistent profit- and target-related income component not only for Executive Board members, General Managers and management executives, but also for non-tariff employees, salaried employees and wage laborers.

The following significant collective agreements were entered into in financial year 2004: Among the results of negotiations announced on June 7, 2003, regarding the staged introduction of the 35 hour week in the East German steel industry, the parties undertook to negotiate forthwith on the conclusion of a collective agreement aimed at safeguarding employment and the introduction of working hours accounts. The agreement reached on March 24, 2004, is notable in particular for the introduction of working hours accounts with a time band of ± 192 hours and a maximum settlement period of 24 months. In this way, some extensive scope has been created for companies to increase the flexibility of working hours. Moreover, for the purpose of avoiding redundancies, the regular working week can be shortened by up to 6 hours with a commensurate reduction in wages and salaries.

In addition, on October 25, 2004, the employers and the union IG Metall reached agreement on a modified procedure for the staged introduction of the 35 hour week. With effect from October 1, 2005, the working week will initially be 37 hours; from October 1, 2007, it will be 36 hours and from October 1, 2009, 35 hours. In order to take account of the differing economic situations of the companies concerned in East Germany, it was also agreed that during 2005 differing deadlines for the first stage would be set for some companies.

At SZST, with effect from July 1, 2004, the company collective agreement on age-related part-time employment was adjusted in line with the changes to the relevant legislation affecting terms and conditions. The agreement has been extended until December 31, 2009, with a reduction in the pension insurance contribution top-up to 90%. At the same time, the collective agreement on job security was re-signed. In line with the collective agreement for the steel industry, trainees will now be offered 12-month contracts. This is intended to take account of the fact that some trainees will be unable to remain with the company on a permanent basis; however, they will, over the extended period, enjoy greater social security and thereafter be better placed in the employment market.

There are no limits:
Steel columns
turn imagination
into reality.



On December 20, 2004, the parties to the collective bargaining agreement for the steel industry in North Rhine-Westphalia reached agreement on the extension of flexible working hours. In an amendment to the existing collective agreement on job security and the introduction of working hours accounts with a time band of ±192, hours can now also be amassed in the area covered by the West German steel industry agreement. The maximum settlement period is 36 months. At the same time, the collective agreement on age-related part-time employment signed on June 20, 2000, was extended until December 31, 2009.

Investments

The main focus of the Salzgitter Group investment program in 2004 was once again on the Steel Division and in particular on the commissioning of Blast Furnace C and the third continuous casting line.

Total additions to fixed assets amounted to € 329 million (previous year € 273 million). As in 2003, but in contrast to preceding years, the volume of investments in tangible fixed assets at € 228 million fell short of corresponding depreciation which totaled € 313 million. This latter figure does however include some € 110 million in write-downs, predominantly at the Steel, Processing and Tubes Divisions.

Due in particular to adjustments in at equity valuations, additions to financial assets amounted to € 101 million.

Investments/Depreciation¹⁾

| in € mil. | Investments | | Depreciation | |
|--------------|-------------|---------------------|-------------------------|-------------------------|
| | Total | of which Steel Div. | Total | of which Steel Div. |
| 2001 | 285 | 197 | 210 | 142 |
| 2002 | 251 | 127 | 220 | 137 |
| 2003 | 191 | 112 | 248 | 135 |
| 2004 | 228 | 146 | 313²⁾ | 168³⁾ |
| Total | 955 | 582 | 991 | 582 |

¹⁾ Excluding financial assets

²⁾ Thereof € 110 million write-downs

³⁾ Thereof € 38.5 million write-downs

Of the sums invested in tangible and intangible assets during this financial year, the Steel Division accounted for € 146 million, the Trading Division for € 13 million and the Services Division for € 34 million. The Processing Division invested some € 10 million, while the Tubes Division made investments totaling € 25 million.

Investments in Fixed Assets¹⁾ by Divisions

| in € mil. | FY 2004 | FY 2003 |
|----------------------|--------------|--------------|
| Steel | 145.8 | 111.8 |
| Trading | 12.6 | 14.1 |
| Services | 34.4 | 16.2 |
| Processing | 10.4 | 18.4 |
| Tubes | 24.4 | 30.3 |
| Others/Consolidation | 0.3 | 0.4 |
| Group | 227.9 | 191.2 |

¹⁾ Incl. intangible fixed assets

Depreciation and Amortization of Fixed Assets¹⁾²⁾ by Divisions

| in € mil. | FY 2004 | FY 2003 |
|----------------------|--------------|--------------|
| Steel | 168.1 | 135.0 |
| Trading | 11.5 | 10.8 |
| Services | 17.5 | 17.8 |
| Processing | 66.9 | 42.3 |
| Tubes | 45.3 | 39.4 |
| Others/Consolidation | 3.5 | 2.7 |
| Group | 312.8 | 248.0 |

¹⁾ Incl. intangible fixed assets
²⁾ Incl. € 110 million write-downs

Investment activities at the Steel Division in financial year 2004 were primarily aimed at continuing to close the crude steel gap within the Group and to ensure a less dependent supply of slabs. Existing projects in pursuit of these aims were implemented and new ones initiated mainly at SZFG. In May 2004, for example, after just 29 days the company successfully completed the relining of the lower furnace of Blast Furnace B, thereby further safeguarding capacity.

Blast Furnace C and the third continuous casting line were commissioned in November 2004 as planned. The results produced by the new continuous casting line are in keeping with our high expectations. The plant geometry and technical design satisfy the requirements for the reliable production for the most demanding quality segments of the market.

All projects started in 2004 for the purpose of safeguarding capacity and enhancing results, such as the installation of the new turbogenerator to increase the economic efficiency of the power station, the relining of Blast Furnace A with a corresponding extension of the hearth diameter and the installation of an additional shuttle coater for the strip coating line are proceeding on schedule. Blast Furnace A

and the shuttle coater are expected to be commissioned in 2005, followed by the power station turbogenerator in 2006.

At Peiner Träger GmbH the emphasis of investment was on the expansion of the Klein-Ilse sub-station and other measures initially begun in 2002 for the purpose of ensuring a redundant power supply for the Peine plant. Following the successful commissioning of the overall installation, the power supply is now designed and executed in such a way that production can be continued at the flick of a switch in the event of an interruption.

Similarly, the project launched in 2004 to modernize the continuous bloom casting line is proceeding according to plan. The necessary shutdown for several days to allow the conversion followed by recommissioning are scheduled for 2005. Among the future benefits of the modernization will be an increase in casting speeds which will, in turn, increase output in the lower size range.

Investments at the Ilsenburg plate mill were concentrated on the construction of a new logistics building with three CNC-cutting machines for plates. Once the technical equipment has been installed, commissioning is planned for the first quarter of 2005. This investment will yield substantial improvements in dispatch logistics and further enhance customer satisfaction. The modern handling and oxygen cutting equipment takes account of the heightened dimensional accuracy and quality requirements for the finishing of plate.

In addition to scheduled large-scale projects, the steel companies also implemented a number of small and medium projects to enhance technical plant facilities and so accommodate their customers' requirements in order to actively develop their products.

The Tubes Division made particular use of the resources invested in 2004 to optimize operating processes and improve product quality. The program was rounded off by investments in replacement equipment to safeguard operational availability.

Mannesmann Präzisionsrohr GmbH commissioned another high-speed saw for the production of short lengths at its Holzhausen plant, thus combining reliable compliance with rising quality requirements for automotive products with a significant reduction in processing costs. Meanwhile, at the Hamm plant, a new 10-roll leveler has replaced the old line to meet the increasing demand for product straightness.

DMV Stainless B.V. continued the investment strategy initiated in 2002 aimed at the specialization of production at each plant. At Costa Volpino (Italy) the cold pilger mill for very small diameter tubes was equipped with a new feeding system that increases performance as well as enhancing quality. Work

that commenced in the fourth quarter of 2003 to install a new finishing line for long tubes up to 30 m in small diameters was finished in Q2 2004, thus completing the focus of production in Costa Volpino on small-diameter tubes.

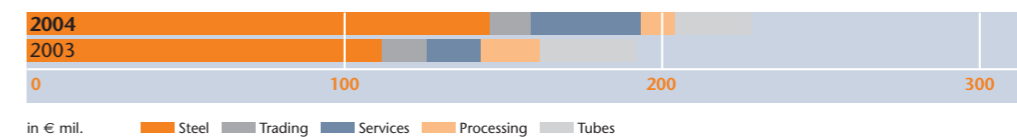
Mannesmann Line Pipe GmbH has installed a new multi-cutter to complement its welding line, thus completing the process chain for thick-walled tubes.

At the start of the year 2004, Röhrenwerk Gebr. Fuchs GmbH commissioned a new storage facility with a portal crane, which has delivered substantial logistics improvements.

A significant proportion of investments at Europipe GmbH in 2004 were devoted to rationalize production. As part of the automation concept developed for the Mülheim plant, a number of work stations have been centralized and automated.

The remaining divisions likewise implemented a large number of investment projects, the extent of which has already been alluded to in figures and is illustrated in the following graph.

Investments in Fixed Assets by Divisions



The Salzgitter Group planned an investment budget of € 230 million for the financial year 2005. Around 60% of this total is accounted for by the Steel Division, of which some 65% relates to SZFG. Together with the ongoing investments already approved in previous years, the total investment volume will exceed that of 2004 (€ 228 million).

As in the past, these investments will be implemented on a rolling basis in accordance with developments in results and liquidity.

Divisions

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

Steel Division

The operating companies Salzgitter Flachstahl GmbH (SZFG), Peiner Träger GmbH (PTG) and Ilsenburger Grobblech GmbH (ILG) together form the Steel Division under the umbrella of the intermediate holding company Salzgitter Stahl GmbH (SZS). Also assigned to this division is Salzgitter Großrohre GmbH (SZGR).

Against the backdrop of a global economic upturn, demand for steel took off strongly and surpassed supply in the case of flat rolled products and plate. All in all, the volume of new orders for rolled steel products and processed products of 4,870 kton remained virtually unchanged at the previous-year level (4,894 kton), despite declining demand in the sections market. Orders received at the end of the financial year at 1,205 kton were 17% down on the year before (1,446 kton).

Crude steel production totaled 5,059 kton, slightly below the previous year's high figure (5,167 kton). As a result of the partial relining of Blast Furnace B, the LD steelworks operated by SZFG did not manage to achieve the same output as in 2003. However, production at PTG's electric steel plant remained virtually on a par with the year before.

Crude Steel Production

| in t mil. | World | EU-25 | Germany | Thereof Steel Division |
|-------------|-----------------------------|---------------------------|--------------------------|---------------------------|
| 1998 | 777.3 | 182.4 | 44.0 | 4.73 |
| 1999 | 788.9 | 175.9 | 42.1 | 4.97 |
| 2000 | 847.6 | 186.7 | 46.4 | 5.15 |
| 2001 | 850.3 | 180.5 | 44.8 | 5.08 |
| 2002 | 903.8 ¹⁾ | 180.9 | 45.0 | 5.15 |
| 2003 | 969.3 ¹⁾ | 184.2 | 44.8 | 5.17 |
| 2004 | 1,055.0²⁾ | 193.4²⁾ | 46.4²⁾ | 5.06 |

¹⁾ Adjusted to IISI data
²⁾ Provisional figures
(as of February 2005)

Go straight for steel: Vertical drops make huge demands on axles, brakes and rails.



The high order intake led to a sustained period of positive capacity utilization at SZFG and ILG, and production of rolled steel rose to an overall total of 5,051 kton (+5%). Hot-rolled strip, surface-treated cold-rolled steel and plate were the predominant contributors to this trend.

Steel Division Production

| in kt | FY 2004 | FY 2003 |
|----------------------------------|---------|---------|
| Pig iron | 3,743 | 3,854 |
| Crude steel | 5,059 | 5,167 |
| Hot-rolled steel and steel strip | 1,376 | 1,307 |
| Cold-rolled steel | 246 | 254 |
| Coated steel | 1,357 | 1,200 |
| Sections | 1,132 | 1,208 |
| Plates ¹⁾ | 869 | 808 |
| Large-diameter pipes | 67 | 81 |

¹⁾Incl. wide strip

Shipments of rolled steel to external customers and Group companies outside of the Steel Division amounted to some 5,000 kton, up by 9% on the figure of 4,584 kton for the previous year. Both SZFG and ILG increased their shipments, while PTG reported a decline in sales volume. Shipments of processed products at 160 kton were also down on the year before, as SZGR in particular was forced to accommodate a downturn in its volume of sales.

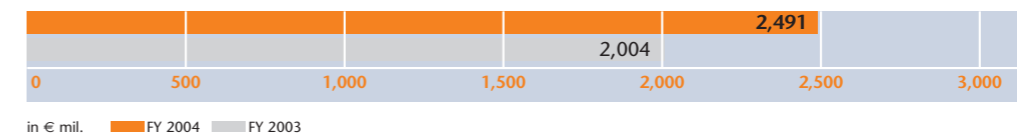
In consequence of the drastic rises in the cost of raw materials, energy and sea freight, increases in selling prices were progressively implemented for short-term orders for flat rolled products and plate. In the section business, as in most EU markets, speculative demand from traders had an initial positive impact on sales and prices – in spite of the sustained recession in the construction industry.

A notable decline in demand was recorded in the fourth quarter of the financial year. The significant increases in the cost of scrap were largely passed on to consumers via the scrap surcharge, which has established itself successfully in the core markets of the EU. Other substantial cost increases, for example for alloys and energy, were to some extent compensated for by gradual rises in basic prices. Moreover, our strategy of considering “price before volume” enabled improvements in revenues and portfolio optimization.

As a result of the significant price increases, average net revenues for rolled steel products were substantially higher than in the year before. At SZFG in the course of the year the improved revenues for hot- and cold-rolled strip as well as coated steel came to an average above the previous year's figures. However, the relatively low rise in prices for these products is due to the fact that a substantial proportion of sales at SZFG are accounted for by long-term contracts with fixed prices. Accordingly, price increases for these volumes are inevitably subject to time delays. PTG managed to implement

a notable average year on year increase in its prices, more than half of which was accounted for by the scrap surcharge. ILG also topped its year-earlier figure. However, SZGR was only able to pass on the increased cost of pre-materials to its customers to a limited extent.

Steel Division Sales



The value of rolled steel and processed product sales to external customers and other Group divisions rose to € 2,491 million, up by 24% over the year before (€ 2,004 million). On an individual basis, increasing rolled steel revenues at SZFG combined with a 14% increase in shipments to boost sales by 25% to € 1,513 million. Despite volumes remaining virtually constant, PTG recorded a positive movement in the values of its sales (+31%) which rose to € 532 million thanks to increased revenues. ILG enjoyed significantly improved revenues and higher shipment volumes in 2004 and recorded sales of € 402 million, up 23% on the previous year. On the other hand, due mainly to declining shipments, SZGR saw its sales slide by 29% to € 44 million.

The Steel Division recorded a historic high with pre-tax profits coming in at € 164.0 million. This figure was some € 117.1 million higher than the year before (€ 46.9 million), with SZFG alone contributing € 110.9 million.

SZFG posted profits of € 152.6 million, following on from € 41.7 in the previous year. This improvement was predominantly due to increased sales volumes and higher product revenues. The higher purchase prices, especially for pre-materials and fuel, consequently had an adverse effect.

The first-time application of a different method of valuing inventory stocks in accordance with IFRS (see Notes) produced an additional positive effect on results (€ 25.7 million).

PTG – excluding special items – improved pre-tax result to a profit of € 2.6 million. The scrap surcharge, which has been implemented to a great extent, coupled with market-induced increases in revenues was more than sufficient to compensate for the rising cost of scrap. However, this profit was negated by € 38.5 million in write-downs compared with a positive benefit of just € 1.7 million resulting from the change in the inventory valuation method (see above), leading once again to a loss of € 34.2 million. Thus the end result at PTG was € 9.2 million worse than in 2003.

Profits at ILG at € 38.8 million were up by € 22.7 million in comparison with the year before (€ 16.1 million) as a result of improved revenues for finished products. This was adequate to accommodate the permanent rise in pre-material costs. However, the reported result includes a positive effect (€ 6.8 million) which came about from adopting another stock valuation method (see above).

Steel Division EBT



As a result of lower shipment volumes and higher pre-material costs, SZGR ended the financial year 2004 with a loss of € 3.4 million (previous year profit of € 2.3 million). This figure similarly includes € 0.8 million deriving from the aforementioned change of valuation method.

The core workforce at the Steel Division as of December 31, 2004, had declined to a total of 6,655 (previous year 7,041). The reasons for this fall in the number of employees included the transfer of workers to age-related part-time status with SZST and the reassignment of 86 staff from the materials center at SZFG to Services Division company SZMF.

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

| Steel Division | | FY 2004 | FY 2003 |
|---|-------------|---------------------------|--------------|
| Crude steel production | kt | 5,059 | 5,167 |
| LD steel (SZFG) | kt | 4,062 | 4,163 |
| Electric steel (PTG) | kt | 997 | 1,004 |
| Shipments | kt | 5,160 | 4,774 |
| Rolled steel | kt | 5,000 | 4,584 |
| Processed product | kt | 160 | 190 |
| SZFG | kt | 3,164 | 2,767 |
| PTG | kt | 1,176 | 1,179 |
| ILG | kt | 753 | 735 |
| SZGR | kt | 67 | 93 |
| Sales | € mil. | 2,491 | 2,004 |
| SZFG | € mil. | 1,513 | 1,208 |
| PTG | € mil. | 532 | 407 |
| ILG | € mil. | 402 | 327 |
| SZGR | € mil. | 44 | 62 |
| Internal sales¹⁾ | € mil. | 732 | 572 |
| External sales²⁾ | € mil. | 1,759 | 1,432 |
| Division income before taxes (EBT) | € mil. | 164.0⁶⁾ | 46.9 |
| SZFG | € mil. | 152.6 | 41.7 |
| PTG | € mil. | -34.2 ⁷⁾ | -25.0 |
| ILG | € mil. | 38.8 | 16.1 |
| SZGR | € mil. | -3.4 | 2.3 |
| Other/Consolidation | € mil. | 10.2 | 11.8 |
| EBIT³⁾ | € mil. | 201.5 | 87.5 |
| EBITDA⁴⁾ | € mil. | 369.6 | 222.6 |
| Investments⁵⁾ | € mil. | 146 | 112 |
| Total workforce | At Dec. 31. | 6,686 | 7,060 |
| Core workforce | | 6,655 | 7,041 |
| SZFG | | 4,559 | 4,841 |
| PTG | | 1,209 | 1,302 |
| ILG | | 742 | 756 |
| SZGR | | 145 | 142 |
| Apprentices, students, trainees | | 31 | 19 |

¹⁾ Sales to other Group business units
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 (incl. financial assets)
⁵⁾ Excluding financial assets
⁶⁾ Including +€ 35.0 million effect from change of valuation method
⁷⁾ Including write-downs of € 38.5 million

Trading Division

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

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

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

In the climate of the global economic developments already outlined above, the growing demand from China in particular for both pre-materials and steel led to worldwide bottlenecks in supply, as well as substantial increases in the price of raw materials, freight and steel products. The steel industry worldwide was marked by a virtual explosion in producer prices.

However, developments in the international steel markets followed differing patterns. Fuelled by considerably stronger demand, the largest price increases were to be found in North America. Likewise, inadequate supplies led to sharply rising prices in Western Europe. By contrast, in spite of high demand on the Asian markets, above all from China, prices were virtually stagnant with effect from the spring. This resulted in an increasing strengthening of the regional price differences between North America, Western Europe and Asia.

The sluggish improvement in Germany's economic situation produced no substantial increase in demand for steel in financial year 2004. In particular, the enduring weakness in the construction industry which is of major importance to steel traders once again exerted a negative effect. In view of limited domestic supply, however, it was possible to pass on the substantial rises in procurement costs and scrap prices to customers. This applies in principle not only to Germany, but to steel trading in Western Europe as a whole.

The domestic companies of the SHD Group recorded sales of 1,378 kton. In reflection of the predominant situation in the market, this figure was marginally short of the previous year's total (1,391 kton). However, as a result of the movement in prices, the value of sales (SSH and SCB) rose sharply over the year before (€ 654 million), climbing 34% to € 876 million.

Stahl-Center Baunatal continued its ten-year tradition of just-in-time supplies to the VW plant in Kassel.

With the economic climate remaining stagnant in the Benelux countries, the Dutch steel trading companies found themselves in a similar situation to Germany. The volume of sales at 213 kton lagged behind the year before (236 kton), whereas the value of goods sold at € 130 million was well up on 2003 (€ 98 million) due to the high prices.

The international trading business of Salzgitter Mannesmann International GmbH based in Düsseldorf recorded a sales volume of 2,213 kton, some 4% lower than in the previous year (2,308 kton). However, the value of sales rose by 13% from € 955 million to € 1,081 million. Here as well, the contrast between the volume and value of sales reflects the general rise in steel price levels.

With a progressive improvement in demand and an easing of the import situation (following the repeal of Section 201), Salzgitter Mannesmann International Inc., Houston, managed an above-average increase in business activities vis-à-vis the year before. It was not until the second half of the year that business really took off. Nevertheless, the figures for 2004 show tonnages rising by 80% from 452 kton to 815 kton, with the value of sales soaring 149% from € 135 million to € 336 million.

Demand in the Canadian market saw an upturn in the second half of the year. The volume traded by Salzgitter Trade Inc., Vancouver, rose by an overall 89% to 102 kton (2003: 54 kton). The value of sales worth € 55 million exceeded the low level of 2003 (€ 21 million) by some 162%.

The total volume of goods sold by the consolidated companies in the SHD Group rose by 6%, from 4,441 kton in 2003 to a total of 4,720 kton in 2004. Due to the considerably higher level of prices, the value of sales was increased by 33% from € 1,863 million in 2003 to € 2,478 million. Pre-tax profits posted by the Salzgitter Handel Group amounted to € 65.5 million (2003: € 14.4 million).

Hövelmann & Lueg GmbH increased its overall volume of sales in 2004 by 11% to 212 kton. A shortfall in trading volumes resulting from the shortage of secondary grade materials was more than compensated for by increased sales of slit coils and output from the new multi-blanking line. Moreover, as a result of the sharp rise in selling prices, the value of sales grew by a strong 47% from € 76 million to € 112 million. Pre-tax profits amounted to € 4.2 million (previous year € 0.2 million).

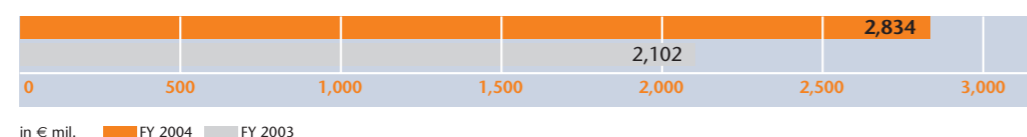
Universal Eisen und Stahl GmbH succeeded in increasing its sales in 2004 by 19% to 253 kton, due mainly to exports and ship- and bridge-building projects. By contrast, demand from German industry remained weak. As a result of the substantial improvement in revenues, the value of sales outstripped the rise in volume, climbing 53% to € 208 million. Consequently, the company was able to post a highly satisfactory pre-tax profit of € 24.3 million, in comparison with the previous year's loss of € 2.6 million.

The four steel service centers operated by the Robert Group (100% reporting) profited from the strong demand in the French market. The figure of 184 kton for 2004 plainly reflects a further increase in shipments by these companies. With the exception of the automobile industry with long-term contracts, the sharp rise in pre-material prices were passed on promptly to customers. With pre-tax profits of almost € 10 million (previous year € 2.2 million) on sales of € 103 million (previous year € 74 million), the Group achieved an outstanding result.

The pro rata contribution by RSA, in which Salzgitter holds a 50% share, to the Trading Division amounted to € 4.9 million (previous year € 1.1 million).

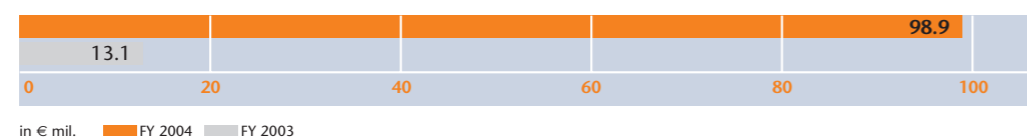
Overall, the companies of the Trading Division sold 5,252 kton of steel products in the year 2004, a rise of 7% over the year before (4,910 kton). However, as a result of the movement in product revenues, the gross value of sales at € 2,834 million was 35% higher than in 2003 (€ 2,102 million).

Trading Division Sales



The Trading Division generated pre-tax profits of € 98.9 million, representing a substantial increase over the previous year (€ 13.1 million). The major improvement in results came from the SHD Group, where profits rose by € 51.1 million. Two thirds of this figure was accounted for by Germany-based stockholding companies (including the holding company itself). Likewise, the plate specialist UES also saw its profits rise by a significant € 26.9 million.

Trading Division EBT



As of December 31, 2004, the Division had a core workforce of 1,733 (December 31, 2003: 1,827), with an additional 128 trainees (previous year 117). The bulk of the decline of 94 was accounted for by the SHD Group which shed 61 jobs, due mainly to restructuring measures at the stockholding companies in Germany.

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

| Trading Division | | FY 2004 | FY 2003 |
|---|--------------------|--------------|--------------|
| Shipments | kt | 5,252 | 4,910 |
| SHD Group | kt | 4,720 | 4,441 |
| HLG | kt | 212 | 191 |
| UES ¹⁾ | kt | 253 | 223 |
| RSA ²⁾ | kt | 67 | 55 |
| Sales | € mil. | 2,834 | 2,102 |
| SHD Group | € mil. | 2,478 | 1,863 |
| HLG | € mil. | 112 | 76 |
| UES ¹⁾ | € mil. | 208 | 136 |
| RSA ²⁾ | € mil. | 36 | 27 |
| Internal sales³⁾ | € mil. | 192 | 75 |
| External sales⁴⁾ | € mil. | 2,642 | 2,027 |
| Division income before taxes (EBT) | € mil. | 98.9 | 13.1 |
| SHD Group | € mil. | 65.5 | 14.4 |
| HLG | € mil. | 4.2 | 0.2 |
| UES ¹⁾ | € mil. | 24.3 | -2.6 |
| RSA ²⁾⁵⁾ | € mil. | 4.9 | 1.1 |
| EBIT⁶⁾ | € mil. | 112.0 | 24.2 |
| EBITDA⁷⁾ | € mil. | 127.8 | 35.0 |
| Inventories | € mil. | 306 | 259 |
| Total workforce | At Dec. 31. | 1,861 | 1,944 |
| Core workforce | | 1,733 | 1,827 |
| SHD Group | | 1,235 | 1,296 |
| HLG | | 181 | 176 |
| UES ¹⁾ | | 293 | 306 |
| RSA ²⁾ | | 24 | 49 |
| Apprentices, students, trainees | | 128 | 117 |

¹⁾ Universal Eisen und Stahl GmbH, Neuss, and Universal Ocel, Prague, 2004: excl. Universal Ocel, Prague

²⁾ Included on a pro rata basis (50%)

³⁾ Sales in own segment and to other corporate divisions

⁴⁾ Contribution to Group external sales

⁵⁾ Incl. the results for associated companies

⁶⁾ Earnings before taxes plus interest paid (excluding interest element in allocations to pension provisions)

⁷⁾ EBIT plus depreciation (incl. financial assets)

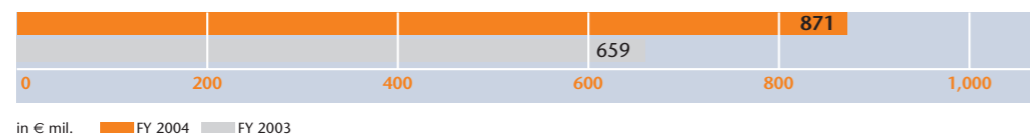
Services Division

The companies which comprise the Services Division are SZST Salzgitter Service und Technik GmbH (SZST, formerly PPS), Salzgitter Mannesmann Forschung GmbH (SZMF, formerly MFI), GESIS Gesellschaft für Informationssysteme mbH (GES), TELCAT multicom GmbH (TMG) with its subsidiary TELCAT Kommunikationstechnik GmbH (TCG), DEUMU Deutsche Erz- und Metall-Union GmbH (DMU), Verkehrsbetriebe Peine-Salzgitter GmbH (VPS), Hansaport Hafenbetriebsgesellschaft mbH (HAN, 51% interest) and "Glückauf" Wohnungsgesellschaft mbH (GWG). Various non-consolidated minority interests are also assigned to this Division.

The companies of this Division offer a variety of different services. They are primarily engaged in providing service functions for the Group in general, with an emphasis on the Steel Division. However, in order to generate additional revenues and enhance Group results, they also make their infrastructure and know-how available to external customers.

In the financial year 2004, the Services Division achieved sales valued at € 871 million, some € 212 million more (+32%) than in the previous year (€ 659 million).

Services Division Sales



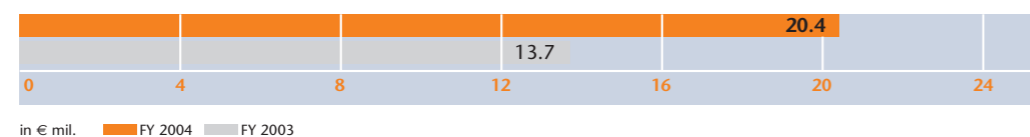
This was predominantly due to increases in sales recorded by DMU (+€ 157 million, principally as a result of higher scrap prices), GES (+€ 25 million, due to increased project billing, especially for the migration from SAP R/2 to R/3 at the steel companies) and the first-time inclusion of SZMF (+€ 24 million) in this Division.

Around 80% of divisional sales were accounted for by three companies. The sales structure was dominated by DMU which accounted for 59% share, followed by SZST (13%) and VPS (8%). The proportion of sales to companies outside of the Group amounted to 36% and as such was comparable with the year before.

Unimaginable: Thanks to steel, gradients have already been achieved in excess 80 degrees.



Services Division EBT



At € 20.4 million, the pre-tax profit recorded by the Division was some € 6.7 million higher than in the year before (€ 13.7 million). All of the companies made a positive contribution to the divisional result, with the bulk of the additional € 6.7 million coming from DMU (+€ 2.4 million), the TELCAT Group (+€ 1.7 million) and HAN (+€ 1.3 million). The assignment of SZMF to this Division resulted in an extra € 1.6 million.

DMU profited from the huge rise in scrap prices, as well as from higher sales volumes and especially from higher revenues deriving from trading in second-grade rolled steel products.

TELCAT boosted profits by expanding its "teleNet" business and undertaking additional projects for external customers, while HAN posted a new record result which was mainly attributable to further expansion of its coal handling activities for non-Group clients.

The core workforce employed by the Services Division as of December 31, 2004, amounted to 3,979 (previous year 3,513), with an additional 685 (previous year 657) trainees. The increase in the workforce in comparison with the year before amounted to an extra 466 employees. This was primarily the result of the assignment of SZMF (+253) to this Division and to developments at SZST (+197) which took on staff from the steel companies who were switching to age-related part-time employment.

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

| Services Division | | FY 2004 | FY 2003 |
|---|--------------------|--------------|--------------|
| Sales | € mil. | 871 | 659 |
| DMU | € mil. | 511 | 354 |
| SZST | € mil. | 117 | 117 |
| TELCAT Group | € mil. | 52 | 51 |
| VPS | € mil. | 71 | 67 |
| GES | € mil. | 55 | 30 |
| HAN | € mil. | 32 | 31 |
| GWG | € mil. | 9 | 9 |
| SZMF ¹⁾ | € mil. | 24 | – |
| Internal sales²⁾ | € mil. | 558 | 418 |
| External sales³⁾ | € mil. | 313 | 241 |
| Division income before taxes (EBT) | € mil. | 20.4 | 13.7 |
| DMU | € mil. | 3.5 | 1.1 |
| SZST | € mil. | 0.4 | 0.2 |
| TELCAT Group | € mil. | 3.1 | 1.4 |
| VPS | € mil. | 0.9 | 1.9 |
| GES | € mil. | 1.8 | 1.1 |
| HAN | € mil. | 8.4 | 7.1 |
| GWG | € mil. | 0.9 | 1.0 |
| SZMF | € mil. | 1.6 | – |
| Other/Consolidation | € mil. | –0.2 | –0.1 |
| EBIT⁴⁾ | € mil. | 22.9 | 15.3 |
| EBITDA⁵⁾ | € mil. | 40.3 | 33.1 |
| Total workforce | At Dec. 31. | 4,664 | 4,170 |
| Core workforce | | 3,979 | 3,513 |
| DMU | | 221 | 221 |
| SZST | | 2,121 | 1,924 |
| TELCAT Group | | 355 | 366 |
| VPS | | 754 | 741 |
| GES | | 144 | 135 |
| HAN | | 109 | 108 |
| GWG | | 22 | 18 |
| SZMF | | 253 | – |
| Apprentices, students, trainees | | 685 | 657 |

¹⁾ Effective January 1, 2004, allocated to the Services Division. Financial year 2003 excluding SZMF (as MFI, part of the Tubes Division)

²⁾ Sales in own segment and to other corporate divisions

³⁾ Contribution to Group external sales

⁴⁾ Earnings before taxes plus interest paid (excluding interest element in allocations to pension provisions)

⁵⁾ EBIT plus depreciation (incl. financial assets)

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 focused on automotive applications.

The two small companies SZMT and OHC are not consolidated.

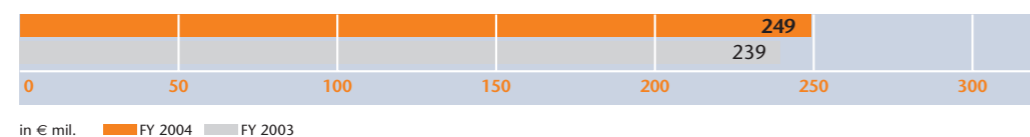
At the close of the year 2004 the Processing Division almost broke even on a pre-tax basis (€ -0.2 million). The marginal loss was to a large extent the product of exceptional items. On the one hand, these included write-downs totaling € 52 million, of which HSP accounted for € 39.7 million, SZBE for € 10 million and SZAE for € 2.3 million. In addition, SZAG as shareholder took steps to counter the negative earnings position resulting from unfavorable market conditions by debt forgiveness. These waivers totaled some € 80.5 million, of which € 60 million was attributable to HSP, € 16 million to SZBE and € 4.5 million to SZAE.

The previous year's result at the Processing Division also incorporated special measures – albeit to a lesser extent – with the result that a direct comparison of the results data contained in the following table of key figures does not reflect the actual development in business operations. After eliminating the special measures taken in both years, however, it is evident that the Processing Division's losses were somewhat reduced in 2004. Moreover, the operating results showed an improvement as the year progressed.

In the building products segment, the situation at HSP Hoesch Spundwand und Profil GmbH and Salzgitter Bauelemente GmbH remained difficult as a result of ongoing weakness of the construction industry in most Western European countries.

In the automotive segment, the market situation deteriorated further in comparison with the year before, leading to even more intense competition on prices and volumes, which put a further strain on the Processing Division companies.

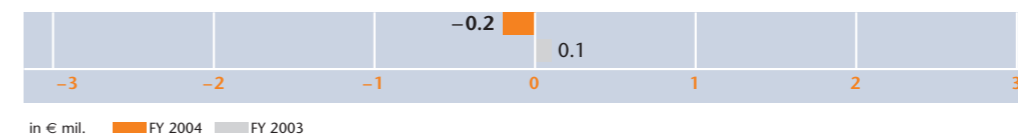
Processing Division Sales



in € mil. ■ FY 2004 ■ FY 2003

The Division as a whole generated sales of € 249 million in 2004, up by € 10 million on the year before (€ 239 million). In addition to growth at SZBE and SZEP, an additional € 15 million in sales was accounted for by HSP which benefited partly from a rise in volumes in comparison with the previous year and partly from the improving price situation in the second half of the year. On the other hand, in consequence of the profound weakness in demand from the automotive industry, SZAE saw its sales drop by € 11 million.

Processing Division EBT



in € mil. ■ FY 2004 ■ FY 2003

Excluding special interventionary measures, HSP posted a sharply negative result, in spite of the noticeable improvement in prices in the latter months of the year. This was attributable to the drastic increase in pre-material prices since the beginning of 2004. Nevertheless the company succeeded in trimming its losses by € 4.5 million in comparison with the year before. After adjusting for the effect of special items, SZBE likewise managed to reduce its losses by € 6.5 million. On the other hand, the sharp drop in orders at SZAE in the year 2004 led to an € 8 million increase in losses. SZEP performed well and returned a profit which was € 3.4 million higher than the year before.

After taking account of special items (see above), the result for the Division as a whole (€ -0.2 million) was on a par with the previous year's level (€ 0.1 million).

Besides supporting the earnings situation, the precautionary steps which have been taken should also create a basis for more stable development in the future and allow greater scope for the exercise of strategic options.

As of December 31, 2004, the Processing Division employed a core workforce of 969, some 76 fewer than on the qualifying date in the preceding year (1,045). In adapting to developments in the market, SZAE alone shed 65 employees.



Steel can stand it: Supports for a spiral roller coaster.

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

| Processing Division | | FY 2004 | FY 2003 |
|---|-------------|--------------------|--------------------|
| Sales | € mil. | 249 | 239 |
| HSP | € mil. | 144 | 129 |
| SZBE | € mil. | 29 | 27 |
| SZEP | € mil. | 50 | 46 |
| SZAE/SZAI | € mil. | 26 | 37 |
| Internal sales¹⁾ | € mil. | 26 | 18 |
| External sales²⁾ | € mil. | 223 | 221 |
| Division income before taxes (EBT) | € mil. | -0.2 | 0.1 |
| HSP | € mil. | 6.0 ³⁾ | -7.6 ³⁾ |
| SZBE | € mil. | 1.0 ⁶⁾ | 7.5 ⁴⁾ |
| SZEP | € mil. | 5.2 | 1.8 |
| SZAE/SZAI | € mil. | -7.1 ⁷⁾ | -1.3 |
| Other/Consolidation | € mil. | -5.3 | -0.3 |
| EBIT⁸⁾ | € mil. | 5.5 | 8.1 |
| EBITDA⁹⁾ | € mil. | 72.4 | 50.4 |
| Total workforce | At Dec. 31. | 1,016 | 1,105 |
| Core workforce | | 969 | 1,045 |
| HSP | | 464 | 469 |
| SZBE | | 59 | 63 |
| SZEP | | 86 | 88 |
| SZAE | | 360 | 425 |
| Apprentices, students, trainees | | 47 | 60 |

¹⁾ Sales to other Group divisions
²⁾ Contribution to Group external sales
³⁾ Incl. € 31.3 million in debt forgiveness by Salzgitter AG and € 20 million in write-downs on fixed assets
⁴⁾ Incl. € 24 million in debt forgiveness by Salzgitter AG and € 5 million in write-downs on fixed assets
⁵⁾ Incl. € 60 million in debt forgiveness by Salzgitter AG and € 39.7 million in write-downs on fixed assets
⁶⁾ Incl. € 16 million in debt forgiveness by Salzgitter AG and € 10 million in write-downs on fixed assets
⁷⁾ Incl. € 4.5 million in debt forgiveness by Salzgitter AG and € 2.3 million in write-downs on fixed assets
⁸⁾ Earnings before taxes plus interest paid (excluding interest element in allocations to pension provisions)
⁹⁾ EBIT plus depreciation (incl. financial assets)

Tubes Division

The companies of the Tubes Division offer a broad range of seamless and welded steel tubes intended predominantly for 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:

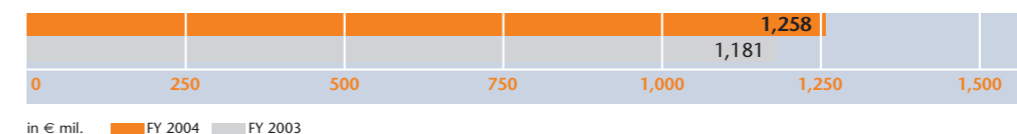
- Seamless tubes: Vallourec & Mannesmann Tubes S.A. (V&M)
Vallourec S.A. (VLR)
- Cold-finished tubes: MHP Mannesmann Präzisrohr GmbH (MHP)
Robur Buizenfabriek B.V. (ROB)
DMV Stainless B.V. (DMV)
- Medium line pipes: Mannesmann Line Pipe GmbH (MLP)
Röhrenwerk Gebr. Fuchs GmbH (RGF)
- Large-diameter pipes: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

In 2004, the Tubes Division companies were able to participate to a significant extent in the sound development in the steel tubes market. They profited from the increase in demand for oil and gas line pipes prompted by high energy prices, from the demand for heat exchanger and boiler tubes resulting from significant investments in power stations in China and from an increase in orders for tubes for mechanical engineering and plant construction applications. Similarly, as a result of the introduction of numerous new car models with a higher proportion of steel tube components, demand for tubes also rose in automotive industry.

In 2004, the consolidated order intake at the Tubes Division climbed by 39% year on year to € 1,554 million. Around one third of this growth was accounted for by a large plate order booked by MRM. The remaining rise was attributable to a lesser extent to an increase in sales volumes; rather it was primarily the result of the steep rise in tube product revenues, which, in the face of strong demand, was prevalent in all areas.

It was essentially due to the high order intake resulting from high prices that the consolidated order book of the Tubes Division as of December 31, 2004, rose to € 971 million, more than double the figure of 2003 (€ 452 million). Of this increase, some € 15 million was attributable to the 100% integration at the end of 2004 of the company RGF which had been included only at a rate of 50% in the previous year.

Tubes Division Sales



The value of Tubes Division sales in the year 2004 rose by 7% over 2003 to stand at € 1,258 million. All companies reported increases due in particular to high product revenues.

At the Tubes Division earnings before taxes (EBT) reached € 120.5 million in 2004, representing a significant increase over the previous year's profit (€ 2.6 million). All of the companies in the Division showed a marked improvement in their results.

Following the inconsistent trend in the previous year, the at equity consolidated company V&M succeeded in booking substantial orders for hot-rolled seamless tubes and oil and gas pipes.

Shipments by V&M in 2004 were 21% up on the year before at 2.7 million t. In addition to the rise in volumes, the product price hikes triggered especially in the second half by rising pre-material costs prompted an increase in sales which were up 32% year on year to € 2,475 million.

V&M benefited from the favorable climate in the energy-related sector, and to a large extent also in non-energy-dependent fields. Huge increases in pre-material prices, rising volumes and, in particular, the higher returns effected in the second half-year meant that the company was able to more than double its contribution to results to € 93.6 million in 2004.

The market for seamless and precision welded steel tubes in 2004 continued to develop positively in Germany and the EU.

The Precision Tubes Group – comprising MHP and ROB – recorded shipments of 170 kton, representing a 9% rise compared with 2003. Sales revenues at € 214 million were 15% higher, and earnings before taxes climbed to € 5.9 million. As a result of the drive towards reducing costs and improving earnings, as well as the high level of capacity utilization in all the plants, 2004 showed a marked positive improvement over the previous year.

In consequence of the weak order intake at the end of 2003, shipments recorded by DMV at 27 kton lingered at the previous year's level. However, the sharp increase in product revenues meant that the value of consolidated sales by the DMV companies came in 27% up on 2003 at € 218 million.

Thanks to the recovery in the stainless tubes market and the positive effects of the restructuring and cost reduction program, DMV returned to the profitability zone after a loss of € 5.2 million in the previous year. The company bore € 5.8 million in write-downs, which were, however, partially offset by debt forgiveness totaling € 5.0 million.

The positive development in demand for medium line pipes in 2004 allowed MLP to increase its shipments by 2% over the year before to 160 kton. Sales revenues in comparison with 2003 rose by 17% to € 108 million. RGF reported a healthy volume of business in 2004 with shipments of 134 kton and sales of € 103 million.

In spite of the limited availability of pre-materials, MLP and RGF ended the financial year 2004 with higher earnings than in 2003. MLP achieved a profit of € 6.0 million, with RGF posting a (pro rata) contribution to results of € 3.7 million.

The major Ormen-Lange project booked by Europipe at the end of 2003 provided a sound basis for capacity utilization in 2004 and additional projects were added in the course of the year. The limited plate supply meant that capacity utilization fell below the normal two-shift level of operation.

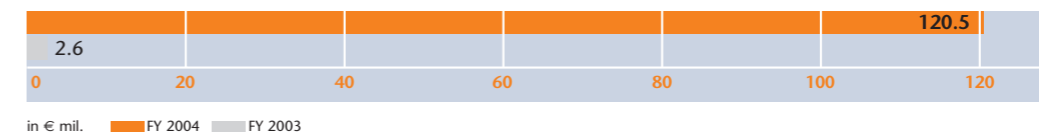
Nevertheless shipments of uncoated large-diameter pipes reached 883 kton, representing a rise of 22% over the year before. The order portfolio was the reason for sales revenues of € 606 million at EP in 2004 being a mere 6% up on the previous year.

Once again in 2004, in particular with major projects, EP faced fierce competition. Likewise, the unfavorable EUR/USD exchange rate remained a significant factor for EP.

Consistent optimizations and cost reductions ensured that the company was able to report a small profit (pro rata € 0.5 million) for 2004, following large losses in 2003. This includes certain exceptional items resulting in particular from write-downs of receivables and the carrying amount of a subsidiary of Eupec.

MRM was able to improve its results in 2004 thanks to higher capacity utilization and a good performance by the plate mill. The loss of € 11.3 million posted by the company, which is approximately on a par with the year before, was exclusively due to write-downs on fixed assets.

Tubes Division EBT



The Tubes Division companies were able to pass on the sharp rise in pre-material costs only after certain delays in time. In some cases the full increase has yet to be passed on to customers. Nevertheless, high returns coupled with an increase in shipment volumes and consistent cost reductions allowed the Tubes Division to once again post a substantial contribution of € 120.5 million to Group results.

As of the end of December 2004 the Division employed a total of 4,208 staff, 75% of whom were employed in Germany and 25% abroad. The core workforce on the reporting date came to 4,122, down by 162 on the year before (4,284). This was due in particular to the closure of the large-diameter pipe works in Joeuf in 2003. A further 165 employees were transferred with SZMF to the Services Division with effect from January 1, 2004. However, this was countered by the 100% integration of RGF effective as of December 31, 2004, which added 148 employees to the total.

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

| Tubes Division | | FY 2004 | FY 2003 |
|---|--------------------|---------------------------|--------------|
| Shipments | | | |
| V&M | kt | [2,685] | [2,209] |
| MHP (incl. ROB) | kt | 170 | 156 |
| DMV | kt | 27 | 27 |
| MLP | kt | 160 | 157 |
| RGF (50%) | kt | 67 | 69 |
| EP (50%) | kt | 442 | 362 |
| Sales¹⁾ | € mil. | 1,258 | 1,181 |
| V&M | € mil. | [2,475] | [1,875] |
| MHP (incl. ROB) | € mil. | 214 | 186 |
| DMV | € mil. | 218 | 172 |
| MLP | € mil. | 108 | 92 |
| RGF (50%) | € mil. | 52 | 50 |
| EP (50%) | € mil. | 303 | 286 |
| MRM | € mil. | 228 | 214 |
| Other | € mil. | 135 | 181 |
| Internal sales | € mil. | 253 | 260 |
| External sales²⁾ | € mil. | 1,005 | 921 |
| Division income before taxes (EBT) | € mil. | 120.5⁶⁾ | 2.6 |
| V&M ³⁾ | € mil. | 93.6 | 35.8 |
| MHP (incl. ROB) | € mil. | 5.9 | 0.9 |
| DMV | € mil. | 5.2 | -11.7 |
| MLP | € mil. | 6.0 | 2.9 |
| RGF (50%) | € mil. | 3.7 | 2.0 |
| EP (50%) | € mil. | 0.5 | -29.4 |
| MRM | € mil. | -11.3 | -10.1 |
| Other/Consolidation | € mil. | 16.9 | 12.2 |
| EBIT⁴⁾ | € mil. | 126.6 | 9.8 |
| EBITDA⁵⁾ | € mil. | 175.9 | 49.3 |
| Total workforce | At Dec. 31. | 4,208 | 4,365 |
| Core workforce | | 4,122 | 4,284 |
| Apprentices, students, trainees | | 86 | 81 |

¹⁾ Excluding intra-company sales in the DMV Group and the EP Group (previous year adjusted)

²⁾ Contribution to Group external sales

³⁾ Profit after taxes based on consolidation at equity

⁴⁾ Earnings before taxes plus interest paid (excluding interest element in allocations to pension provisions)

⁵⁾ EBIT plus depreciation (incl. financial assets)

⁶⁾ Including € 17.9 million in special write-downs

Always on the job: Both fixed and mobile roller coasters are using more and more steel to withstand the maximum stresses of daily use.



Profitability Improvement Program

Our strategic goals of independence, growth and profitability allow the individual divisions to exploit every potential for optimization. This includes the targeted adaptation to changing conditions, the active participation in market trends, as well as the continuous improvement of the Group and its companies.

We keep ourselves fit for the future by exercising sustained discipline in the nurturing of success potential with the help of the targeted monitoring of action programs and projects. By fully integrating our most important resource, which is our people, we continue to systematically reap the benefits of our second-generation profitability improvement program (PIP 2).

The PIP was initiated in financial year 1995/96. Relunched as PIP 2 in 2001, it has in recent years proven to be a continuously successful and effective instrument. In the course of the integration of Mannesmannröhren-Werke GmbH, a variety of plant- and company-specific programs have been incorporated into the PIP.

The Basic Strategy defined in the year 2003 for the Group as a whole has added new momentum to the PIP. Company-specific targets developed throughout the Group have been formulated as action plans and integrated into PIP 2, provided always that they meet the program's strict criteria. As part of the updating process, all projects have again been subjected to close inspection. Thus PIP 2 now provides Salzgitter AG with a uniform Group-wide management tool.

By the end of the year the sustained annual improvement which we had targeted for PIP 2, the so-called full year effect (FYE) amounting to a net € 166 million, had been achieved. In comparison with the preceding year, this represented a significant increase in the FYE of € 28 million.

| in € mil. | FYE |
|--|-------------|
| Total earnings | +141 |
| Savings on expenses | +97 |
| Depreciation/interest/investment expenditure | -72 |
| Effect-induced result before tax | +166 |

There are currently 297 projects under way which are aimed at improving sales and costs. Activities focused on the marketing of products with higher value added and the expansion of sales channels in order to boost sales currently yield an annual contribution of € 141 million. In the course of optimizing production and administration processes and reducing the consumption of materials and third-party services, we anticipate potential cost savings in the order of € 97 million. The cost of the

implementation of these projects, including annual depreciation for investments, interest and materials, amount to € 72 million.

The decisive factor behind the success of PIP is the whole-hearted commitment of our people. There has been a great willingness on the part of our workforce to make use of the institutions and structures of this program as a means by which to contribute their own ideas and suggestions on how to continuously improve results. Our decentralized Group structures allow available knowledge to be applied directly and thereby increase the competitiveness of Salzgitter AG, now and in the future.

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

2.2 Significant Events after the Reporting Date

Below we refer to two material transactions that occurred after the end of the financial year.

Shareholdings

On January 20, 2005, Salzgitter AG and Vallourec S.A. signed a non-binding Memorandum of Understanding for restructuring their seamless pipes operations. The Declaration of Intent provides for the sale of the 45% shareholding in V&M Tubes S.A. (V&M) previously held by Mannesmannröhren-Werke GmbH (MRW) to the French joint venture partner Vallourec S.A. at a purchase price of € 545 million.

With the full amalgamation of the V&M shares in Vallourec's ownership, the negotiating parties aim to streamline the at present highly complex corporate legal structure, as well as the decision-making processes within the Vallourec Group. This will enable the company to react more directly and efficiently to future challenges posed by global competition.

Salzgitter AG, which currently holds around 23% of the Vallourec stock, intends to remain a major shareholder in Vallourec, thereby participating in a planned increase in capital on a pro rata basis.

As part of this transaction, MRW will increase its current 20% stake in the steel producer Hüttenwerke Krupp Mannesmann GmbH (HKM) in Duisburg to 30% by purchasing 10% of the HKM shares held by V&M. In this way, the Salzgitter Group will strengthen its position within this important German steel producer.

At the moment the final contracts are being negotiated and the applications to the competent antitrust authorities are being prepared. The transaction is scheduled for completion no later than July 31, 2005.

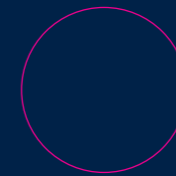
The revenue from the sale of the V&M shares will significantly enhance Salzgitter AG's financial scope for the strategic development of the Group.


Shareholder Structure

Norddeutsche Landesbank/Girozentrale, once the largest shareholder Salzgitter AG, after the secondary public offering in 1998, fell below the threshold of 5% of the voting shares on January 18, 2005. The remaining 4.96% of the shares will, according to the disclosure in the Börsen-Zeitung on January 26, 2005, henceforth be classified as free float in compliance with the relevant definitions of Deutsche Börse AG.

Over the past few years, NORD/LB had already reduced its shareholding in a manner that minimized the impact on the market and the stock price. Following this step, the percentage of Salzgitter shares in free float came to 74.7% in January. The federal state of Lower Saxony holds 25.3% of the shares.

SALZGITTER MAKES HEARTS BEAT FASTER.





Railway stations are not just a symbol of urban mobility. They are also the scene of deep emotions. Partings and reunions, tears of joy and eye-bright sadness: the station is a stage-set for real life.

Nowhere more so than at the Lehrter Bahnhof, the latest addition to the Berlin travel scene where thousands jostle daily on no less than five levels.

Salzgitter AG supplied a large proportion of the 85,000 tons of steel which were used to build what is Europe's largest central station: from the sheet piles which protected the gigantic site from flooding, via injection piles which were vibrated to a depth of 30 meters to prevent the tunnels beneath from "floating", to the beams and sections which support the station's imposing 320 m long glass roof.

2.3 Consolidated Annual Financial Statements

Accounting Principles

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

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

As a result of the acquisition of the remaining shares in Röhrenwerke Gebr. Fuchs GmbH, this company was fully consolidated with its assets and debts for the first time effective from December 31, 2004.

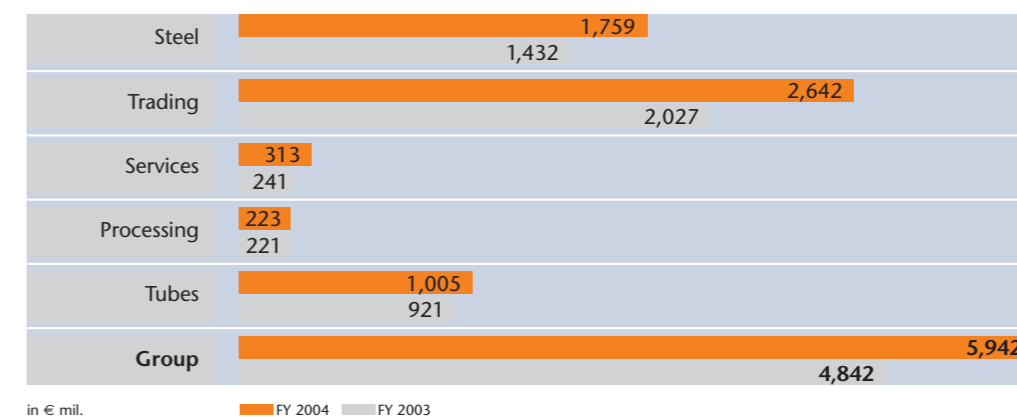
The companies Universal Ocel spol. s.r.o., Prague, and Eupec Pipeline Services GmbH, Mülheim an der Ruhr, were excluded from the consolidated group on grounds of insignificance.

Sales and Results

In the financial year 2004, sales in the Salzgitter Group totaled € 5.942 billion, up 23% on last year's figure (€ 4.842 billion). Apart from the Processing Division, where sales were almost unchanged from last year, the other divisions benefited from the increase in the price of rolled steel and steel tube products resulting from the partly sharp rise in the cost of raw materials and energy.

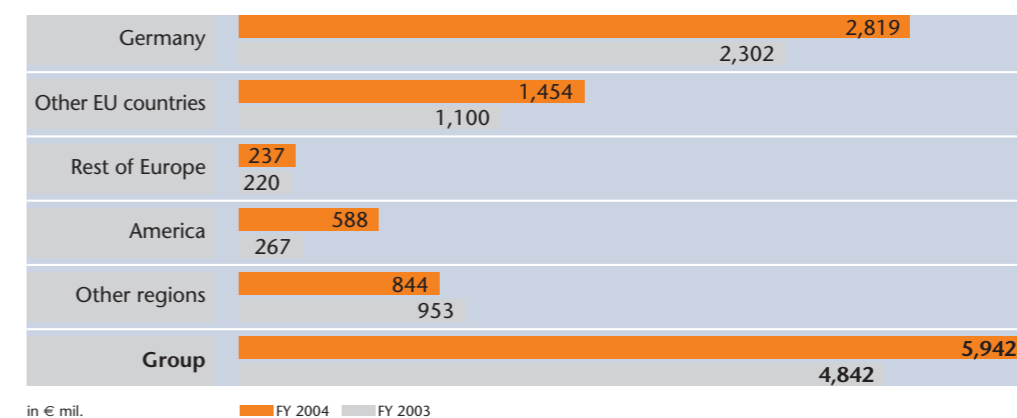
As in the previous year, the Trading Division accounted for the largest proportion of sales at 44% (2003: 42%). At € 2.642 billion, its sales exceeded the previous year's level by around 30%. With revenues of € 1.759 billion (+23%), the Steel Division raised its proportion of the Group's external sales slightly to 30%. In addition, the Steel Division supplied additional products worth € 732 million to other divisions, in particular to Trading. Although the Services Division's proportion of 5% remained virtually unchanged from the previous year, there was a sharp upturn in external sales (+30%). With only a marginal increase in sales (+1%), the Processing Division saw its share of Group sales fall to 4%. The Tubes Division recorded sales of € 1.005 billion (+9%), representing a share of 17% (2003: 19%).

Consolidated Sales by Divisions



As before, the major portion of sales was concentrated in the EU, which accounted for 72% (2003: 70%). Sales of € 2.8 billion were generated in Germany. Foreign sales totaled € 3.1 billion, accounting for a virtually unchanged 53% of total sales.

Consolidated Sales by Regions



The Salzgitter Group closed the financial year 2004 with a pre-tax profit of € 322.8 million. In 2003, profit stood at € 42.5 million. The most significant factors contributing to the sharp increase in pre-tax profits were the buoyant global demand for rolled steel products and a considerable recovery in the tubes segment.

Thanks to gratifying earnings figures, primarily for flat carbon steel and plate, as well as improvements in the sections business, the Steel Division raised its earnings by € 117.1 million, thus making the largest contribution of € 164.0 million to Group earnings. In the aforementioned product segments, the partly dramatic increases in the cost of raw materials and energy, which came about despite the improved USD/EUR exchange rate, were countered compensated successfully by gradually introducing higher selling prices for steel. In consideration of the revision of IAS 2 (inventories) that took effect on January 1, 2005, the Lifo method for the valuation of work in process and finished products was no longer applied in the Steel Division. This resulted in a positive contribution to profit. This was more or less fully offset by write-downs in the sections segment. This step was taken in response to the weak demand in the construction sector.

Earnings include proceeds of € 8.7 million from the sale of shares in the US steel company Steel Dynamics (SDI), as well as charges on a similar scale arising from the partial relining of Blast Furnace B.

The stockholding trading companies at SHD and UES benefited from rising prices and made a significant contribution to increase the Trading Division's pre-tax profits to € 98.9 million (2003: € 13.1 million).

The Services Division posted a pre-tax profit of € 20.4 million, which was significantly higher than the previous year's figure (€ 13.7 million). This increase was mainly due to improved results in the steel scrap segment at DMU, another increase in coal handling activities for external customers at Hansaport, and the allocation of SZMF to this division.

In the construction segment of the Processing Division, it has not yet been possible to compensate for higher pre-material prices. In addition, SZAE in the automotive segment recorded a slump in demand from the automobile industry.

Due to the difficult market conditions, the three companies made write-downs on their fixed assets which were offset by debt forgiveness by the Salzgitter AG of almost the same amount. Furthermore, other receivables have been waived in favor of these three companies in order to bolster equity.

With its excellent pre-tax result of € 120.5 million, the Tubes Division generated a significant year-on-year increase (€ 2.6 million), with all product segments, especially the seamless tubes segment, contributing to the upbeat performance with the backing of the improved employment and revenue situation.

All around:
Wherever you
look, steel
columns and
sections ensure
that Berlin's
new central
station is both
elegant and
secure.



The "minimum taxation", applicable in Germany since January 1, 2004, led to a limited offsetting of corporation tax and trade tax loss carryforwards, particularly at SZAG. In addition, tax expenses of € 76.1 million also comprise deferred taxes within the scope of application of the IFRS accounting rules. After deduction of taxes, consolidated net income for the year came to € 246.7 million.

Divisional Results and Consolidated Net Income for the Year

| in € mil. | FY 2004 | FY 2003 |
|--|--------------|-------------|
| Steel | 164.0 | 46.9 |
| Trading | 98.9 | 13.1 |
| Services | 20.4 | 13.7 |
| Processing | -0.2 | 0.1 |
| Tubes | 120.5 | 2.6 |
| Other/Consolidation | -80.8 | -33.9 |
| Income from ordinary activities | 322.8 | 42.5 |
| Taxes | 76.1 | 14.4 |
| Consolidated net income for the year¹⁾ | 246.7 | 28.1 |

¹⁾Incl. minor shareholdings

Asset and Capital Structure

The Group balance sheet total of € 4,236 million rose sharply as against year-end 2003 (€ 3,673 million; +15.3%). On the assets side, fixed assets increased to € 1,912 million, thus accounting for 45.1% (2003: year 51.2%) of the increased balance sheet total. Although investments (€ 228 million) were up on the previous year, tangible fixed assets decreased by € 93 million, mainly as a result of write-downs (€ 110 million). The release of negative goodwill and the adjustment of the shareholdings reported at equity had a countervailing effect.

The increase in inventories resulted from the strained situation on important raw materials markets and the relining of Blast Furnace A in 2005. This, combined with higher trade receivables and cash and cash equivalents on the reporting date, pushed current assets up 29.5% to € 2,324 million.

Shareholders' equity increased by € 129 million (+13.2%) to € 1,109 million, thereby accounting for 26.2% of the stretched balance sheet total and down slightly on the previous year (26.7%). Long and short-term debt worth € 3,127 million (2003: € 2,693 million; +16.1%) was used to finance committed assets.

In 2004, the pension provisions rose by € 128.8 million compared with the year-earlier figure. This amount resulted from adopting new regulations in IAS 19. Until 2003, the gains and losses of actuarial assumptions of pension provisions were reported as an off-balance sheet item. This adaptation to IFRS standards, which involved the reduction of the retained earnings after deducting deferred taxes without effect on income, means that Salzgitter AG now shows the entire obligation arising from pension commitments in the balance sheet.

Asset and Capital Structure (in accordance with IFRS)

| in € mil. | 31/12/2004 | % | 31/12/2003 | % |
|-----------------------|--------------|--------------|--------------|--------------|
| Fixed assets | 1,912 | 45.1 | 1,879 | 51.2 |
| Current assets | 2,324 | 54.9 | 1,794 | 48.8 |
| Assets | 4,236 | 100.0 | 3,673 | 100.0 |
| Shareholders' equity | 1,109 | 26.2 | 980 | 26.7 |
| Long-term borrowings | 1,957 | 46.2 | 1,758 | 47.9 |
| Short-term borrowings | 1,170 | 27.6 | 935 | 25.4 |
| Liabilities | 4,236 | 100.0 | 3,673 | 100.0 |

Despite the increase in working capital to be financed, the earnings uptrend resulted in net deposits at banks (€ 71 million) instead of the net debts at banks (€ 56 million) posted in the previous year.

Salzgitter AG carries out cash and interest-rate management on a primarily centralized 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 selective 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, 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 cash flows are in a variety of currencies. In order to cover the resulting currency risk, Group guidelines oblige all Salzgitter Group companies to hedge foreign currency positions at the time when 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 resulting residual amounts are hedged using forward exchange transactions and options.

Short-term working capital within the Group rose sharply by 21.1% to € 1,479 million year on year (€ 1,222 million).

Pension provisions came to € 1,628 million (2003: € 1,508 million), actuarial losses (€ 129 million) having been recorded for the first time, thereby remaining a major element of corporate financing.

Other provisions were disclosed at € 427 million, representing an increase of € 43 million on the year-earlier figure (€ 384 million).

In the following representation of the asset, liabilities and capital structure of our company, and by way of departure from the consolidated financial statements prepared in accordance with IFRS provisions, we have not deducted the negative difference of € 133 million (negative goodwill) incurred as a result of the initial consolidation from intangible assets, but assigned it instead to capital resources since, on the basis of the new IFRS regulations, this item accrues to equity tax-free in the following year. Minority interests in the amount of € 12 million have likewise been assigned to capital resources.

Clear skies over Berlin: Thanks to the unbeatable combination of glass and steel, travellers passing through the new Lehrter Bahnhof are flooded with light.



Asset and Capital Structure (business point of view)

| in € mil. | 31/12/2004 | % | 31/12/2003 | % |
|------------------------------------|--------------|--------------|--------------|--------------|
| Fixed assets | 2,045 | 46.8 | 2,068 | 53.5 |
| Current assets | 2,324 | 53.2 | 1,794 | 46.5 |
| Assets | 4,369 | 100.0 | 3,862 | 100.0 |
| Shareholders' equity ¹⁾ | 1,254 | 28.7 | 1,185 | 30.7 |
| Long-term borrowings | 1,945 | 44.5 | 1,742 | 45.1 |
| Short-term borrowings | 1,170 | 26.8 | 935 | 24.2 |
| Liabilities | 4,369 | 100.0 | 3,862 | 100.0 |

¹⁾ Including negative goodwill and minority interests

Capital resources thus accounted for a slightly lower proportion of 28.7% of the balance sheet total of € 4.369 billion in comparison with the previous year (30.7%).

Cash and Cash Equivalents

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

The Group generated a significantly improved cash flow from current activities of € 352 million which, as in 2003, exceeded the outflow of investments (€ 175 million). Total investment disbursements in the amount of € 222 million were offset by receipts of € 47 million from asset disposals. Following dividend payments and further disbursements arising from financing activities, there remained increased funds in hand in the amount of € 246 million at the end of the financial year. The complete cash flow statement forms part of the consolidated financial statements.

Cash and Cash Equivalents

| in € mil. | FY 2004 | FY 2003 |
|--|--------------|--------------|
| Net cash provided by current operations | 352.4 | 223.1 |
| Net cash used for investing activities | -175.3 | -152.0 |
| Net cash from financial activities | -71.2 | -42.4 |
| Change in cash and cash equivalents | 105.9 | 28.7 |
| Cash and cash equivalents on closing date | 245.8 | 139.9 |

Value Added within the Salzgitter Group

At € 1,353 million, the Group's operational value added came to € 270 million (+24.9%), up on the previous year.

At 74.4%, the major portion of the value added utilized was accounted for by employees (2003: 94.3%).

The tax proportion increased from 1.3% to 5.6% due to the introduction of the minimum tax rate.

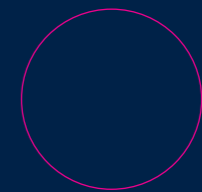
Shareholders (including own shares) will receive 1.9% (2003: 1.5%) of the value added for this financial year.

Lenders accounted for 1.7%, virtually unchanged from the previous year's figure.

Value Added

| in € mil. | FY 2004 | % | FY 2003 | % |
|--------------------|--------------|--------------|--------------|--------------|
| Sources | | | | |
| Group outputs | 6,334 | 100.0 | 5,068 | 100.0 |
| Inputs | 4,981 | 78.6 | 3,985 | 78.6 |
| Value Added | 1,353 | 21.4 | 1,083 | 21.4 |
| Allocation | | | | |
| Employees | 1,007 | 74.4 | 1,021 | 94.3 |
| Public authorities | 76 | 5.6 | 14 | 1.3 |
| Shareholders | 25 | 1.9 | 16 | 1.5 |
| Lenders | 23 | 1.7 | 18 | 1.6 |
| Group | 222 | 16.4 | 14 | 1.3 |
| Value Added | 1,353 | 100.0 | 1,083 | 100.0 |

SALZGITTER EXPANDS HORIZONS.





Skyscrapers are more than just a combination of imagination and engineering. They are a manifestation of power, faith in the future and technical achievement.

The world's tallest office tower, the 508 m tall Taipei 101, is an especially impressive symbol of human endeavor and took no less than 60,000 tons of steel to build. Steel for the piles anchored 80 meters deep in the ground, steel for the fire-resistant side columns and more steel for the façade. Steel which can withstand the 200 or more earthquakes which strike this geologically high-risk area each year, and hurricanes with wind speeds up to 250 km/h.

Only steel can do that. Because only steel has the load capacity, rigidity, elasticity, endurance and versatility to ensure the safety and economic efficiency of skyscrapers in the 21st century.

2.4 Annual Financial Statements for Salzgitter AG

The Salzgitter AG (SZAG) annual financial statements for the financial year 2004 have been prepared in accordance with the provisions of the German Commercial Code, with due regard to 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, Hanover. 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 companies themselves, and therefore the result achieved by Salzgitter AG is determined by the income from its shareholdings.

Salzgitter AG Balance Sheet (short version)

| in € mil. | 31/12/2004 | % | 31/12/2003 | % |
|--|-------------------|--------------|-------------------|--------------|
| Fixed assets | 467.7 | 27.3 | 497.4 | 29.5 |
| Tangible assets ¹⁾ | 27.1 | 1.6 | 29.4 | 1.8 |
| Financial assets | 440.6 | 25.7 | 468.0 | 27.7 |
| Current assets | 1,244.1 | 72.7 | 1,189.6 | 70.5 |
| Trade receivables and other assets ²⁾ | 1,015.2 | 59.3 | 1,069.8 | 63.4 |
| Cash and cash equivalents | 228.9 | 13.4 | 119.8 | 7.1 |
| Assets | 1,711.8 | 100.0 | 1,687.0 | 100.0 |
| in € mil. | 31/12/2004 | % | 31/12/2003 | % |
| Shareholders' equity | 636.8 | 37.2 | 600.7 | 35.6 |
| Special reserves with an equity portion | 3.9 | 0.2 | 4.1 | 0.2 |
| Provisions | 449.0 | 26.2 | 409.2 | 24.3 |
| Liabilities | 622.1 | 36.4 | 673.0 | 39.9 |
| due to banks | [8.2] | | [48.6] | |
| Liabilities | 1,711.8 | 100.0 | 1,687.0 | 100.0 |

¹⁾ Including intangible assets

²⁾ Including prepaid expenses

Own funds amounted to some 37.2% of the balance sheet total (2003: 35.6%). In accordance with a resolution of the General Meeting of Shareholders of April 23, 1998, provision was made for contingent capital of up to € 5.1 million to cover the issuing of warrant-linked bonds. These warrant-linked bonds include a Salzgitter AG bond bearing interest of 5% (term: 1998 to 2005), with option rights which entitle the holder to subscribe to Salzgitter AG stock when certain conditions are fulfilled. In the financial year 2004, this occurred on a number of occasions. Accordingly, option rights to subscribe to 538,400 shares were exercised by those entitled. As a result of the exercising of these options, the bond was repaid in an amount of € 1.5 million, and subscribed capital rose by € 1.4 million.

Losing weight: Progressively lighter steel structures with greater load capacities make it possible to build office blocks which soar to previously unimagined heights.



The significant improvement in the performance of the subsidiaries generated an increase in cash and cash equivalents at Salzgitter AG, despite the company having reduced amounts due to banks.

Salzgitter AG Income Statement (short version)

| in € mil. | FY 2004 | FY 2003 |
|---|-------------|-------------|
| Other operating income | 10.5 | 16.2 |
| Personnel expenses | 14.8 | 19.3 |
| Depreciation and amortization ¹⁾ | 27.7 | 1.5 |
| Other operating expenses | 135.0 | 81.6 |
| Income from shareholdings | 253.9 | 102.5 |
| Net interest result | -3.7 | 0.6 |
| Loss/profit on ordinary activities | 83.2 | 16.9 |
| Taxes | -38.3 | -0.5 |
| Net profit/loss for the year | 44.9 | 16.4 |

¹⁾ Incl. write-downs on financial assets and short-term investments

The results 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 positive development of the Tubes Division's results will impact on the Salzgitter AG result only after a certain time lag.

Pre-tax earnings were burdened by provisioning for four companies in the Processing Division.

Appropriation of Earnings at Salzgitter AG

For the financial year 2004, Salzgitter AG reported net income of € 44.9 million. Taking into account the unappropriated profit brought forward (€ 1.5 million) and the allocation to reserves (€ 20.0 million), the profit shown on the balance sheet amounted to € 26.4 million.

The Executive and Supervisory Boards will propose to the General Meeting of Shareholders that this profit of € 26.4 million be used to fund payment of a dividend of € 0.40 per share (based on the capital stock of € 160.9 million divided into 62,938,400 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.

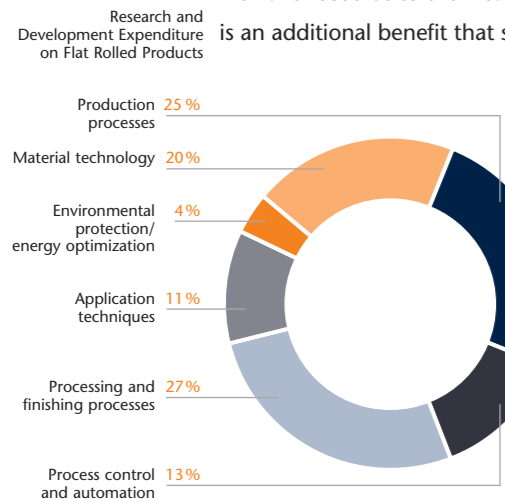
Eyecatcher: It is the combination of size and elegance that makes skyscrapers so attractive to companies, visitors – and photographers.



2.5 Research and Development

Innovations are essential to growth and provide an opportunity to actively shape the future. The close co-operation between companies operating on the market and our central research and development company brings together market success and technical innovation for the development of new materials and products. The streamlining of our research and development units to form Salzgitter Mannesmann Forschung GmbH (SZMF) will strengthen this organization further.

SZMF now combines the R&D units from the Steel and Tubes Divisions. The transferring of the objective of “concentrating on the key development areas” to the new company was accompanied by a streamlining of the structure. The intensive exchange of knowledge under one roof created significant synergies in the first year. When developing new materials for flat rolled products, for example, we have recourse to the wealth of experience gained in the development of tubes, and vice versa. This is an additional benefit that sets us apart from our competitors.



In the year 2004, the Salzgitter Group spent approximately € 57 million on R&D activities and R&D-related quality management and employed 701 staff to perform these tasks.

Maintaining close links with a powerful network of leading university colleges, public research institutes and partner companies is the basis of cost- and time-effective technological developments. One of the ways in which we maintain this network is to actively participate in the development of academic organizations. Accordingly, SZMF holds a stake in the Produktions-technisches Zentrum Hannover GmbH (Hanover Center for Production Technologies, PZH) of the University of Hanover. The PZH is a public-private partnership that brings researchers from the large Hanover-based mechanical engineering institute and representatives from industry together.

The “Institute of Structural Maintenance and Supporting Structures” was established in 2003 at the Technische Universität Braunschweig with the aid of a chair endowed by Salzgitter AG. Employees of the Institute and of the Salzgitter Group collaborate closely on joint research projects on new developments and trends for the “Use of Steel in the Construction Industry”. These include problems such as adhesive bonding in steel construction, innovative building products or building in existing fabric.

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We enjoy a very close collaboration with the Technische Universität Clausthal on the development of direct strip casting (DSC) and the new class of steels which is produced through this process; these new steel grades represent a huge step forward compared with conventional steels.

Another example is the awarding of a scholarship within the framework of the International Max Planck Research School. Working in the key research area of “Surface and Interface Engineering in Advanced Materials”, we sponsor research students who use the state-of-the-art nanostructuring of

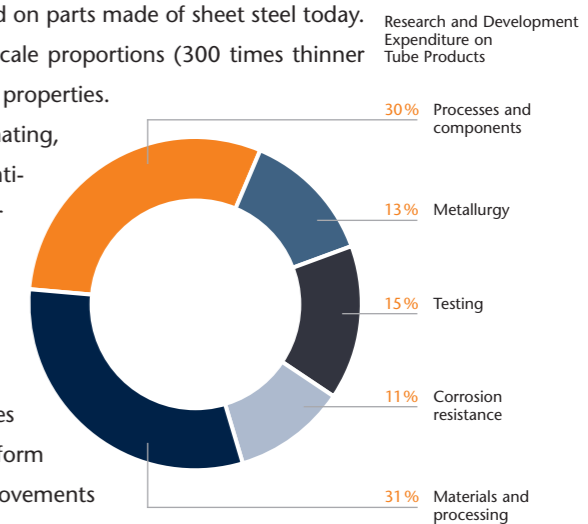
customized surfaces to help connect up fundamental scientific questions with engineering-science approaches to problem-solving.

μPhos® micro-phosphating functional surface treatment, a trademark of the Salzgitter Group, is an example of the way in which we realize our claim to developing application-oriented, marketable solutions that are both time- and cost-effective. For our automotive customers in particular, this paves the way for the economic realization of the great demands placed on parts made of sheet steel today. The amorphous μPhos® coating with a layer thickness of nano-scale proportions (300 times thinner than a human hair) sets new standards in the field of forming properties. It offers the advantages of conventional, much thicker phosphating, even with multi-stage forming processes. Combined with its anti-corrosive properties, μPhos® thereby represents a milestone for our automotive customers.

With new material variants for high-pressure tubes in diesel engines, MHP Mannesmann Präzisionsrohr GmbH plays an important part in improving the efficiency of these engines. These tubes withstand operating pressures of up to 1,800 bar and outperform their predecessor products by about 10%. Corresponding improvements in the efficiency of combustion engines meet market requirements for more economical and lightweight vehicles with reduced CO₂ emissions. The quick release of the material by car builders confirms our very positive predictions for the market prospects of these precision tubes.

Furthermore, new, high-strength, galvanized dual-phase steels for use in automotive construction have been developed and successfully launched on the market. The distinctive feature of the steels is that, despite their strength, they nevertheless demonstrate very good forming properties and are therefore also suitable for components with complex shapes. These properties enable our customers from the automotive industry to attain the required component strengths at a reduced weight, thus making it possible to fulfill today’s requirements for both lightweight construction and driving properties.

Innovative coated steel strips for use in home appliances are developed in a consortium comprising four partners ranging from the equipment manufacturers, one of our steel service centers, the manufacturer of the steel strip through to the R&D company. During production at Salzgitter Flachstahl GmbH the steel strips are fully coated. The coating has a distinctive look and high gloss. Its anti-corrosive properties and surface quality even exceed current standards in the automotive industry. Our product is already used in high-quality kitchen equipment.

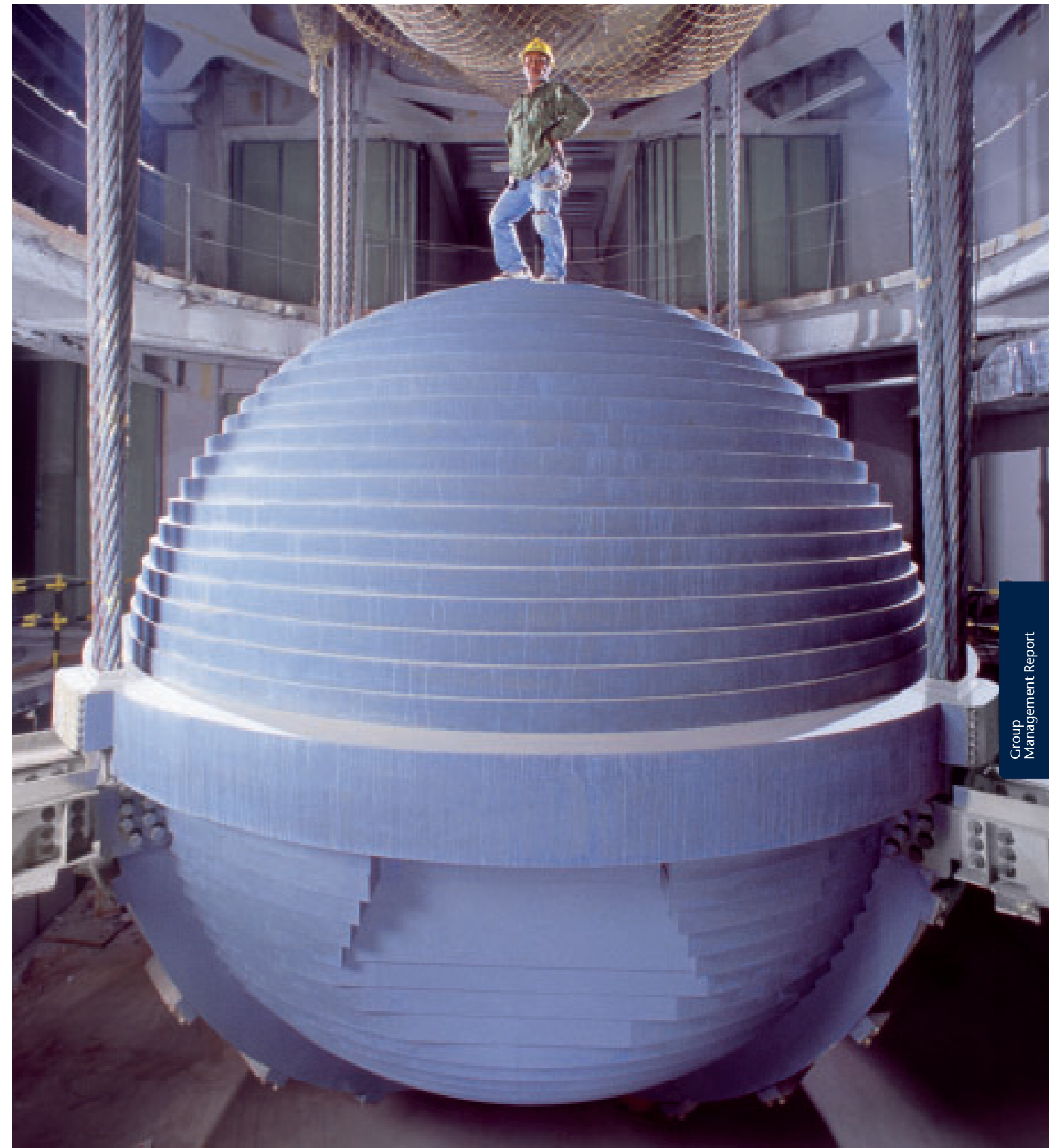


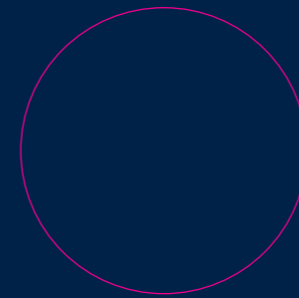
In the pipes area, innovative production methods of longitudinal-welded pipes result in greatly improved properties for deep-sea installation.

This is particularly useful for the deep-sea transport of crude oil and natural gas that is growing at a fast rate, partly in view of the development of new deposits at ever greater water depths. The high requirements placed on the material relate to their deformation during installation of the pipes in conjunction with the simultaneous effect of the hydrostatic external pressure of the water. In addition to numerical studies, SZMF also carries out experiments in its collapse test unit, which was commissioned in 2004 and is the largest of its kind in the world, in order to test and optimize the pressure resistance and efficiency of the pipes.

The success of our product innovations on the market bears witness to the performance of our own R&D work. Customer orientation, innovative ability and technological competence continue to play a significant role in safeguarding the future of the Salzgitter Group.

The Taipei 101 pendulum:
A 660 ton steel sphere supported by 16 steel cables each as thick as a man's arm absorbs vibrations in the building caused by high winds and earthquakes.





SALZGITTER MAKES THE GRADE
WITH THE TUAREGS.



When rally cars career down the track, their path is lined with enthusiastic spectators.

Whatever their expression, they all share an amazement at the ease with which these 4X4s plough their way through gravel, mud and snow, taking river crossings and desert sands in their stride.

Every event is an extreme test of the reliability and sheer toughness of these vehicles.

To survive the test they turn to steel: Steel for unitary bodies and for spaceframes capable of absorbing huge tensile stresses. Steel for axles and suspensions and countless other high-stress applications.

2.6 Risk Management



More driving, less mending: The highly stressed cockpit sections of rally cars rely on steel components for uncompromising reliability.

Business activity as defined by the Articles of Incorporation makes risk-taking unavoidable. These risks must, however, be manageable and controllable for the company. Effective and foresighted risk management is therefore an important and value-creating component among the management instruments employed by Salzgitter AG.

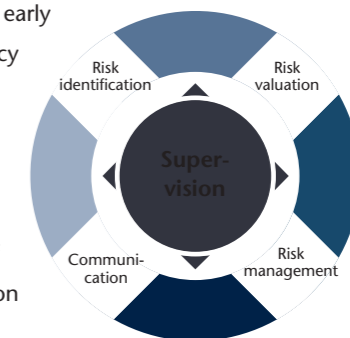
The risk management incorporates all fully consolidated companies in the Steel, Trading, Processing Divisions – also including the non-consolidated Oswald Hydroforming GmbH & Co. KG – and the Services Division. In the Tubes Division, not only the fully consolidated Mannesmannröhren-Werke companies, but also the joint venture Europipe GmbH, including Eupec PipeCoatings GmbH, are integrated into the risk management system in accordance with Salzgitter AG's guidelines.

The subsidiaries of Salzgitter AG apply the risk management system autonomously. The management holding company specifies guidelines which constitute the 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.

The risk management system is constantly being developed and refined to meet the prevailing requirements. For example, in order to improve the informative value of the Group-wide risk portfolio in the current financial year more extensive requirements for optimized systematization and streamlining were formulated in set of guidelines.

A reporting system used by the entire Group ensures that management is provided with complete and timely information. Group companies report on the risk situation in monthly controlling reports and, if necessary, by way of ad hoc reports made directly to the Executive Board. Almost all of the companies subject to reporting requirements use a Group database to ensure unbureaucratic data handling. At Group level, the identified risks are analyzed, evaluated and meticulously tracked.

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 complementing 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 an integral part of intra-year forecasting, medium-term planning and strategy discussions. Our highest priority is to limit risks while giving appropriate consideration to opportunities.

In terms of the likelihood of their occurrence, a distinction is drawn between probable and improbable risks. Improbable risks are events which, after careful commercial, technical and legal consideration of the circumstances, are deemed unlikely to occur and are thus not expected. The conditions that must be fulfilled for this judgment 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. The definition of probable risk means that loss or damage to the company resulting from an undesirable event can no longer be ruled out. In the interest 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 involving loss or damage of less than € 25 million. Risks must be recorded within 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 ongoing modernization of our plants and the development of our products, and by comprehensive environmental management. With regard to the emissions trading that commenced on January 1, 2005, the applications for the allocation of emission allotments for the first trading period (2005–2007) were submitted punctually.

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 suppliers, in part by way of long-term framework contracts. We also operate an appropriate warehousing 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.

Risks arising from the prices of iron ore, coal, scrap and alloying agents, which have risen sharply on the procurement markets since the beginning of 2004, were identified at an early stage and taken into account in the earnings forecast. In the financial year ended, increases in the sales of our products and the favorable USD/EUR exchange rate largely compensated for these additional expenses.

The risk of an unplanned, extended shutdown of our 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 stoppages, as well as other possible compensation and liabilities claims, we have concluded insurance policies which guarantee that the financial consequences of potential risks are kept within bounds, if not indeed fully excluded. The scope 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 our selling markets. We counteract the possible threat to our existence this risk may represent by broadly diversifying our products, customers and regional selling markets, by adopting situation-related countermeasures in our operations and by maintaining a solid balance sheet and financing structure. By exploiting the compensatory opportunities offered by the differing economic developments which affect our various divisions offer (for example, the influence of the oil price on the automobile industry and the tube and pipe business), we are able to achieve a more balanced risk portfolio across the entire Group.

Salzgitter AG actively competes on the market to attract qualified specialists and managers. The company counters the risk of fluctuation and the loss of knowledge involved with broad-based measures for developing its personnel.

The introduction of specialist career paths has laid the foundation for creating adequate career prospects for our specialists.

As a matter of principle, engaging in financial and currency risks is only permissible in conjunction with processes which are customary to our steel production and trading operations. Currency risks arising from purchase or sales transactions must on principle be secured, either by internal netting within the Group or by hedging. Provision is made for hedging interest rate exposure by means of suitable instruments. In this regard, we refer to the information provided in the Notes to the Annual Financial Statements and the Consolidated Financial Statements.

In the international trading business, open positions or financing arrangements that involve risks are not permitted. Receivables risks are limited as far as possible by providing security for loans and by having set in place a stringent system for exposure management. At the end of the year under review, US dollar requirements were covered partly by currency options with 3-year terms.

The parent company monitors the liquidity situation within the Group by operating a central cash and interest management system for all of the companies that are financially integrated into the Group. This involves defining internal credit lines for the subsidiaries. Companies with their own credit lines assume responsibility for minimizing the risks that these incur.

In addition, there are risks arising from necessary capital and liquidity measures and from associated companies which have not performed well over time. We counter this risk through a rolling financial planning process.

Risks arising in the context of joint ventures in which we do not hold a majority stake 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. To improve transparency, for example, another member of the Executive Board of Salzgitter AG joined the Supervisory Board of the 50% joint venture Europipe GmbH as from 2004. The same applies to the shareholding in Vallourec & Mannesmann Tubes S.A., where an additional Executive Board member was appointed to the Board.

In order to cater for possible risks arising from the many fiscal, environmental, competition-related 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.

The recording and documenting of fiscal risks is carried out by the companies integrated into the pooling of fiscal interests, in close cooperation with the holding company's tax department. The controlling enterprise ensures that provisioning is done to take account, for instance, of the risks arising from tax audits. Companies with independent tax liability, on the other hand, are responsible for their own provisioning.

In connection with the former border area assistance, the EU Commission is demanding subsequent interest and tax payments from Salzgitter AG. The European Court of Justice decided in favor of our company in the first instance. The EU Commission, however, appealed against the judgment before the European Court of Justice. Appropriate provisioning has been carried out for the inherent risk.

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. The appropriate authority granted to the Group IT management in matters of general policy in this area ensures the ongoing development of our Group-wide IT systems and forms the basis for deploying the required investment funds.

The desert comes alive: It takes powerful engines and tough steel to overcome the treacherous desert sands.



2.7 Outlook

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 further development.

In the financial year 2004 there were no risks which posed a threat to 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 and earnings situation 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 installed throughout the Group fulfills its tasks and fully satisfies all company law requirements.

In the year 2005 it is likely that both aggregate economic development as well as production in the industrialized countries will continue to expand, albeit at lesser rates than in 2004. The economic momentum in the USA can be expected to slow, while trends in China point to less stormy growth in manufacturing output and demand. Chinese demand for imports may increase at a lesser pace, but it will still add noticeable impetus to the global economy. Overall, the forces driving the economic upturn would appear to be so well established that despite the increase in oil prices and the declining stimulus provided by monetary and financial policies, a downward slide is not to be anticipated.

In 2005 the global economy is likely to grow in actual terms by 3.2%, in the wake of a hefty 4.8% rise in the year now ended.

In the European Union likewise, the economic expansion in 2005 may be expected to flatten. Growth rates, above all in Great Britain and in the new members states, are expected to slacken perceptibly.

The determining factor in the German economy, namely the momentum provided by foreign trade, will weaken in line with the weakening global upturn, especially in the powerhouses of the USA and China. However, the revival in domestic demand, which began in 2004, would not appear strong enough to compensate for lower growth in exports. All in all, according to expert opinion real gross domestic product is likely to rise by around just 1%, against growth of 1.6% last year.

The future development of the global steel markets will be influenced in particular by the course of economic developments in China. As a result of continuing industrialization, the burgeoning purchasing power of the population and the necessary expansion of the country's infrastructure, further sustained growth in Chinese demand for steel is to be expected in 2005. Other populous countries such as India and Russia, for example, are also likely to stimulate the world market supply for steel. Even if the rates of growth in crude steel production and the volume of steel coming onto the market are likely to slacken in 2005, growth in absolute terms should still be substantial. The International Iron and Steel Institute (IISI) expects market supplies worldwide to grow by just under 5%, with high rates forecast for China (9.8%) as well as for Central and South America (5.5%) and India (6.8%). Crude steel production worldwide is slated to rise by around 4%. Steel consumption in the EU is also expected to increase once again in 2005. However, the anticipated rise of 2.5% lags behind the figure for 2004 (4%). The principal reason for this lies in the moderate growth in business on the part of most European steel processors as a result of declining demand from abroad.

Given this estimate of the development in the world market for steel, the raw materials situation can also be expected to remain strained.

Prices for iron ore, coal, coke, scrap and the remaining additions for steel production are likely to remain high or even rise further. In the short term there is no relaxation in sight.

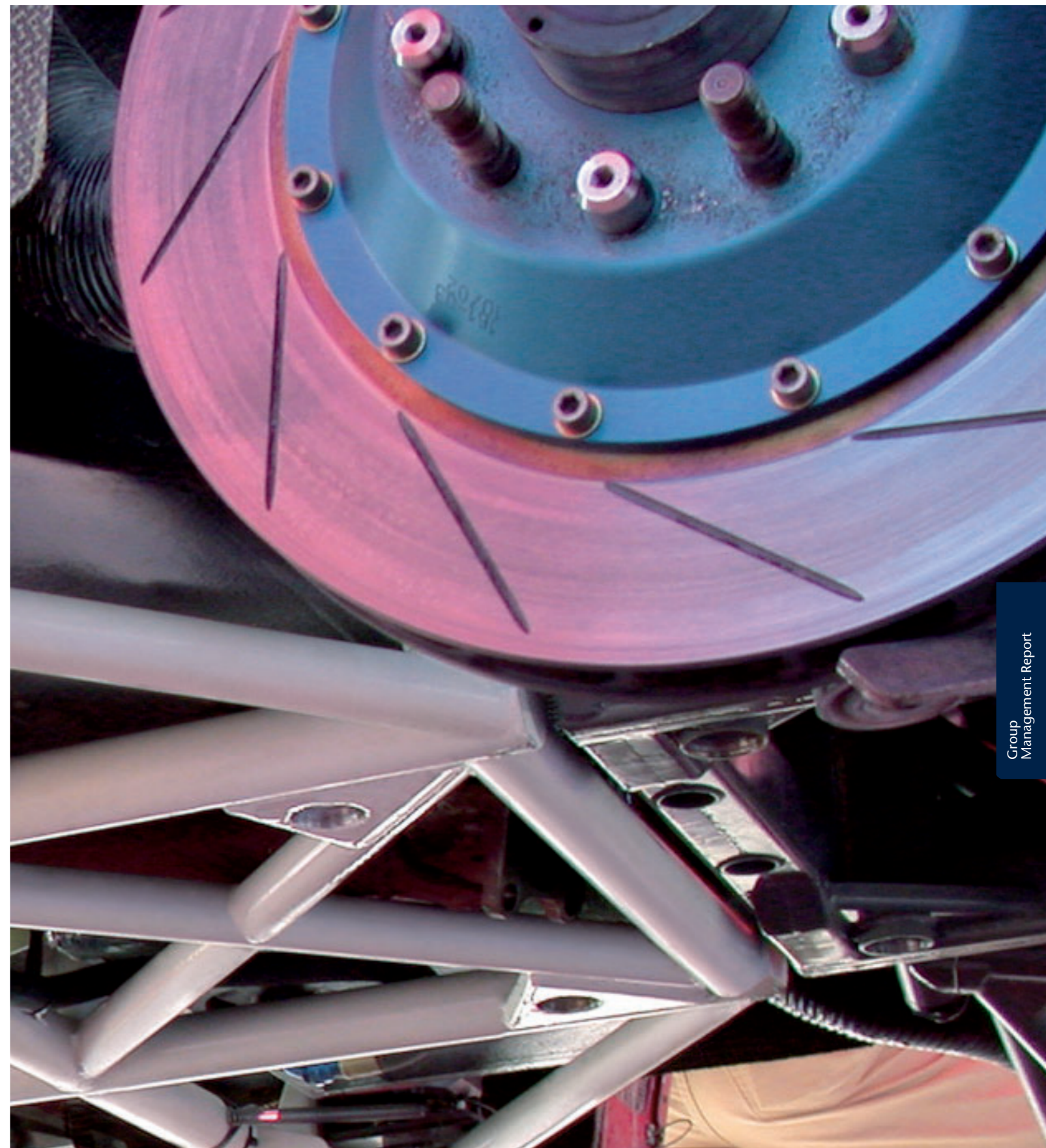
Business in the steel tubes industries should also remain strong in 2005, with all indicators pointing to a sustained period of high demand. In particular the level of orders on hand reached at the start of the year guarantees high utilization of the mills in the coming months accompanied by satisfactory sales prices levels. This forms the basis for an optimistic outlook in the current year. However, the expectation that the business cycles in both flat rolled products and tubes will again run in parallel in 2005, means that pre-materials will remain in limited supply. Therefore, the availability of tubes produced from hot strip and plate should be restricted.

The continuing development of the steel tubes market in 2005 will remain closely linked to the global economic situation. Demand for steel tubes for energy-related applications should continue to benefit from investment programs currently being undertaken by the major oil companies that are expanding their exploitation and transportation systems. In addition, many energy suppliers are engaged in modernizing and extending their power station infrastructure. In the field of mechanical engineering and plant construction, the increase in investment activities should ensure a continuing stable demand for tubes. The marked rise in car orders at the end of 2004 might also herald the start of an upward trend in automobile production in 2005, and therefore demand for tubes emanating from the automotive industry is expected to remain as strong as last year.

In this scenario the European steel tubes industry can be expected to record positive development in 2005 at a level at least comparable to that in 2004.

A main challenge to the exports of Europe's steel tubes manufacturers in 2005 is the continuing weakness of the US dollar in relation to the euro. It remains to be seen to what extent Japan and other Asian countries will continue to prevent their currencies from rising in value against the dollar.

Steel as far as the eye can see: These vehicles rely exclusively on super-strong materials like steel for body shells and space-frames, axles, suspensions and prop shafts.



We expect that the individual Salzgitter Group divisions will develop in 2005 as following.

For the current financial year the Steel Division is anticipating profits at around the same level as in 2004. The principal contributors will be SZFG and ILG, with PTG and SZGR each expecting profits in the single-digit million range.

The planned performance by SZFG is the product of more positive sales price expectations, increased purchases of slabs and the more extensive maintenance work related to the blast furnace relining. Rising sea freight rates and marked price increases for dollar-dependent raw materials contrast with a positive influence from the EUR/USD exchange rates and effects of numerous PIP projects.

Eliminating the € 38.5 million in write-downs from the 2004 figure, PTG posted a slightly positive result, which should be in the same order in 2005. The company expects the somewhat weaker level of capacity utilization to be compensated for by improved margins.

Anticipated profits in the mid double-digit million range at ILG will come from a high level of utilization and improved sales prices, offset by a sharp rise in pre-material costs.

SZGR anticipates a positive result for 2005 showing a further improvement over last year.

The Trading Division expects margins in its stockholding business to normalize in 2005. With steel prices stabilizing at a comfortable level, the strong impact felt in 2004 from selling stocks bought in at low cost is likely to tail off significantly.

Nevertheless, the SHD Group anticipates profits in the double-digit million range, significantly lower than in 2004, but still impressive by the standards of past years, with the main contributions coming from SSH, SCB and SID.

While specialist plate stockholder UES expects results to develop along similar lines to those at SSH, leading to profits in the single-digit millions, the 2005 result at steel service center HLG is likely to be on a par with last year. As a result of valuation effects, RSA anticipates tightening margins with profits down on the year 2004.

The contribution to results made by the Services Division in the year 2005 is expected to lag slightly behind the previous year. One of the essential reasons for this lies in the allocation of earnings between some service companies and their principal Group customers, namely the companies of the Steel Division.

In the new financial year there will be a reduction in the result posted by VPS, as the planned relining of Blast Furnace A will reduce transport volumes and increases in costs cannot be passed on to Group customers by way of price rises.

Profits at DMU likewise are expected to decline as margins narrow in scrap trading.

The remaining Service Division companies anticipate relatively constant positive results.

Following a virtually break-even result in financial year 2004 – supported by extensive interventionary measures – the Processing Division will post a further operating loss in 2005, albeit at distinctly reduced level.

With the market for sheet piles still strained and pre-material prices at a high level, HSP is planning for another negative result, but with a reduced operating loss by comparison with 2004.

Thanks to increased volumes and stable margins in 2005, SZBE expects to halve its losses in comparison with last year (before debt forgiveness and write-downs).

And while SZEP again expects a result that is positive, if somewhat lower than in 2004, SZAE should, in view of increased sales and better utilization of its reduced capacities, end 2005 at nearly the break-even point.

We expect highly satisfactory profits from the Tubes Division in 2005, albeit somewhat lower than last year, but still at the upper end of the double-digit million range. This forecast is based on the existing corporate structure: Allowance is not made here for effects resulting from the anticipated sale of the 45% stake in V&M Tubes S.A. (V&M).

The expected earnings incorporated from the seamless tubes segment (V&M and Vallourec) lie somewhat below the figures for the year 2004. With strong demand, above all for oil and gas pipes and boiler tubes for power stations, results will be affected by increases in raw material costs, stable sales prices, as well as foreign exchange rates. In addition, production will be diminished as a result of the implementation of investments.

In view of volume demand, which ranges from satisfactory to strong, coupled with the stable margins in this sector, cold-rolled tubes manufacturers MHP and DMV expect their results to remain at least at the same positive level.

The medium line pipes business should develop along the same lines. Both MLP and RGF expect comfortable profits somewhat above the results posted for the year 2004, with earnings at RGF being consolidated in full for the first time in 2005.

With production capacities on the whole being well utilized, the large-diameter pipes segment (Europipe and MRM) anticipates markedly higher profits in comparison with 2004 (before write-downs amounting to € 12.1 million at MRM).



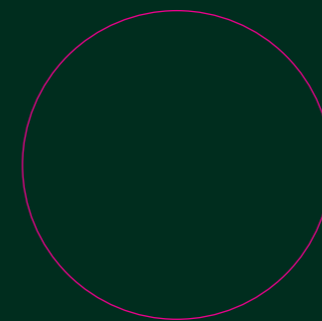
Steel is fun: From frozen wastelands to desert sands, rally cars delight both drivers and spectators with their performance.

Together with various other underlying conditions and planned internal measures, the market expectations illustrated in this outlook for the current financial year 2005 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 again anticipate earnings before taxes in the triple-digit million range for the current financial year, albeit at a lower level than in the previous year.

We expressly point out that opportunities and risks resulting from at present unforeseeable variations in product revenues, pre-material prices and capacity utilization, as well as exchange rate fluctuations may have a significant effect on developments in the financial year 2005, especially in the second half. Other positive or negative effects may derive from the valuation of inventories in accordance with modified IFRS standards or from the application of the latter. The resulting fluctuation margin in consolidated pre-tax earnings likewise falls within a triple-digit million spread.

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. Overall, from a present perspective, it would appear realistic to anticipate a reasonable dividend distribution derived from operating profits for the year 2005.

SALZGITTER HAS FANS BY THE THOUSAND.





Say farewell to the good old-fashioned football stadium.

Its place is being taken by the new,
high-tech arenas. This is an entertainment venue
which combines functionality with
aesthetic appeal, offering visitors far more
than the unadorned and draughty
football terraces of the past.

Sport events and rock concerts nowadays attract
tens of thousands to these multi-function arenas.

Salzgitter steel has a double role to play here.

On the one hand it has the strength to support
the packed tiers of seats, thereby guaranteeing the safety
of spectators. While on the other it satisfies the high demand
for architectural flair, not least through its masterly ability
to support overhanging or automatic self-closing roofs.

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Kickoff: Countless modern sports arenas have been built in Germany in recent years – and all of them rely on steel.



3.1 Consolidated Income Statement

| in T€ | Note | FY 2004 | FY 2003 |
|--|------|------------------|------------------|
| Sales | (1) | 5,941,522 | 4,841,560 |
| Increase or decrease in finished goods and work in progress and other own work capitalized | (2) | 41,558 | – 35,969 |
| | | 5,983,080 | 4,805,591 |
| Other operating earnings | (3) | 204,628 | 194,547 |
| Costs of materials | (4) | 4,006,543 | 3,138,907 |
| Personnel expenses | (5) | 925,934 | 934,926 |
| Amortization and depreciation | (6) | 312,783 | 248,006 |
| Other operating expenses | (7) | 652,917 | 598,366 |
| Income from shareholdings | (8) | 5,453 | 3,758 |
| Income from associated companies | (9) | 124,317 | 49,225 |
| Write-downs on financial assets | (10) | 8,206 | 767 |
| Net interest income | (11) | – 88,323 | – 89,660 |
| Profit on ordinary activities | | 322,772 | 42,489 |
| Taxes on profits | (12) | 64,823 | 4,911 |
| Other taxes | (12) | 11,214 | 9,524 |
| Consolidated net income for the year | | 246,735 | 28,054 |
| Minority interests | (13) | 2,235 | – 3,760 |
| Consolidated net income accruing to Salzgitter AG shareholders | | 244,500 | 31,814 |
| Application of profits in T€ | | | |
| | Note | FY 2004 | FY 2003 |
| Consolidated net income accruing to Salzgitter AG shareholders | | 244,500 | 31,814 |
| Profit carried forward from previous year | | 16,780 | 20,000 |
| Dividend payment | | – 15,317 | – 19,604 |
| Appropriation to other retained earnings | | – 219,563 | – 15,430 |
| Profit shown on the balance sheet after appropriation to or transfer from reserves | | 26,400 | 16,780 |
| Undiluted earnings per share (in €) | (14) | 3.99 | 0.52 |
| Diluted earnings per share (in €) | (14) | 3.99 | 0.52 |

3.2 Consolidated Balance Sheet

| Assets in T€ | Note | 31/12/2004 | 31/12/2003 | 31/12/2003 adjusted ¹⁾ |
|--|------|------------------|------------------|-----------------------------------|
| Fixed assets | | | | |
| Intangible fixed assets | | | | |
| Goodwill/negative goodwill from capital consolidation | (15) | –133,316 | –189,387 | –189,387 |
| Other intangible assets | (16) | 21,819 | 19,946 | 19,946 |
| | | –111,497 | –169,441 | –169,441 |
| Tangible fixed assets | (17) | 1,362,593 | 1,457,682 | 1,457,682 |
| Financial assets | (18) | 64,750 | 78,279 | 78,279 |
| Associated companies | (19) | 596,308 | 512,594 | 512,594 |
| | | 1,912,154 | 1,879,114 | 1,879,114 |
| Current assets | | | | |
| Inventories | (20) | 1,080,998 | 918,553 | 918,553 |
| Receivables and other assets | | | | |
| Trade receivables | (21) | 901,965 | 628,283 | 628,283 |
| Other receivables and sundry assets | (22) | 87,811 | 103,706 | 103,706 |
| Current securities | | 3,679 | 54 | 54 |
| Cash and cash equivalents | (23) | 245,871 | 139,964 | 139,964 |
| | | 2,320,324 | 1,790,560 | 1,790,560 |
| Capitalized deferred taxes | (24) | 996 | 1,295 | 1,295 |
| Prepaid expenses | (25) | 2,131 | 2,156 | 2,156 |
| | | 4,235,605 | 3,673,125 | 3,673,125 |
| Equity and liabilities in T€ | | | | |
| Equity | (26) | | | |
| Subscribed capital | (27) | 160,899 | 159,523 | 159,523 |
| Capital reserve | (28) | 292,670 | 287,530 | 287,530 |
| Retained earnings | (29) | 638,302 | 525,907 | 468,043 |
| Profit shown on the balance sheet after appropriation to or transfer from reserves | (30) | 26,400 | 16,780 | 16,780 |
| | | 1,118,271 | 989,740 | 931,876 |
| Own shares | | –9,453 | –9,494 | –9,494 |
| | | 1,108,818 | 980,246 | 922,382 |
| Minority interests | (31) | 11,819 | 16,168 | 16,168 |
| Provisions | | | | |
| Provisions for pensions and similar obligations | (32) | 1,627,788 | 1,507,699 | 1,602,559 |
| Tax provisions | (33) | 100,116 | 96,443 | 59,447 |
| Other provisions | (33) | 327,095 | 287,832 | 287,832 |
| | | 2,054,999 | 1,891,974 | 1,949,838 |
| Liabilities | (34) | | | |
| Bonds | | 716 | 2,171 | 2,171 |
| Liabilities to banks | | 174,838 | 196,237 | 196,237 |
| Trade payables | | 503,903 | 325,286 | 325,286 |
| Other liabilities | | 379,157 | 260,131 | 260,131 |
| | | 1,058,614 | 783,825 | 783,825 |
| Thereof long-term interest-bearing financial liabilities | | [68,440] | [58,820] | [58,820] |
| Deferred income | (35) | 1,355 | 912 | 912 |
| | | 4,235,605 | 3,673,125 | 3,673,125 |

¹⁾ Balance sheet adjusted for comparison purposes in premature application of IAS 19

3.3 Statement of Changes in Equity¹⁾

| in T€ | Subscribed capital | Capital reserve | Retained earnings | Thereof deriving from currency conversion | 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 |
|---|--------------------|-----------------|-------------------|---|---|--------------------------|---|--|-------------------------|----------------------|
| Status December 31, 2002 | 159,523 | 287,530 | 535,468 | -89,140 | 3,303 | -6,802 | 18,017 | 12,965 | 20,000 | 1,026,701 |
| Net income for the year | - | - | - | - | - | - | - | - | 31,814 | 31,814 |
| Dividend | - | - | - | - | - | - | - | - | -19,604 | -19,604 |
| Disposal of own shares | - | - | - | - | - | 41 | - | - | - | 41 |
| Repurchase of own shares | - | - | - | - | - | -33 | - | - | - | -33 |
| Currency conversions | - | - | -39,582 | -39,582 | - | - | - | - | - | -39,582 |
| Change in value IAS 39 investments | - | - | - | - | - | - | - | -2,881 | - | -2,881 |
| Hedging transaction valuation changes as per IAS 39 | - | - | - | - | - | - | -13,559 | - | - | -13,559 |
| Group transfers to retained earnings | - | - | 15,430 | - | - | - | - | - | -15,430 | - |
| Deferred taxes on changes without effect on income | - | - | -2,651 | - | -2,651 | - | - | - | - | -2,651 |
| Others | - | - | 2,700 | - | 2,649 | -2,700 | - | - | - | - |
| Status December 31, 2003 | 159,523 | 287,530 | 511,365 | -128,722 | 3,301 | -9,494 | 4,458 | 10,084 | 16,780 | 980,246 |
| Net income for the year | - | - | - | - | - | - | - | - | 244,500 | 244,500 |
| Dividend | - | - | - | - | - | - | - | - | -15,317 | -15,317 |
| Exercise of warrant-linked bonds | 1,376 | 5,140 | - | - | - | - | - | - | - | 6,516 |
| Adjustment in line with actuarial assumptions regarding pension commitments, does not affect result | - | - | -128,846 | - | -128,846 | - | - | - | - | -128,846 |
| Disposal of own shares | - | - | 9 | - | 9 | 41 | - | - | - | 50 |
| Currency conversions | - | - | -15,671 | -15,671 | - | - | - | - | - | -15,671 |
| Change in value IAS 39 investments | - | - | - | - | - | - | -8,886 | -4,121 | - | -13,007 |
| Group transfers to retained earnings | - | - | 219,563 | - | - | - | - | - | -219,563 | - |
| Deferred taxes on changes without effect on income | - | - | 51,916 | - | 51,916 | - | - | - | - | 51,916 |
| Others | - | - | -1,569 | - | -916 | - | - | - | - | -1,569 |
| Status December 31, 2004 | 160,899 | 292,670 | 636,767 | -144,393 | -74,536 | -9,453 | -4,428 | 5,963 | 26,400 | 1,108,818 |

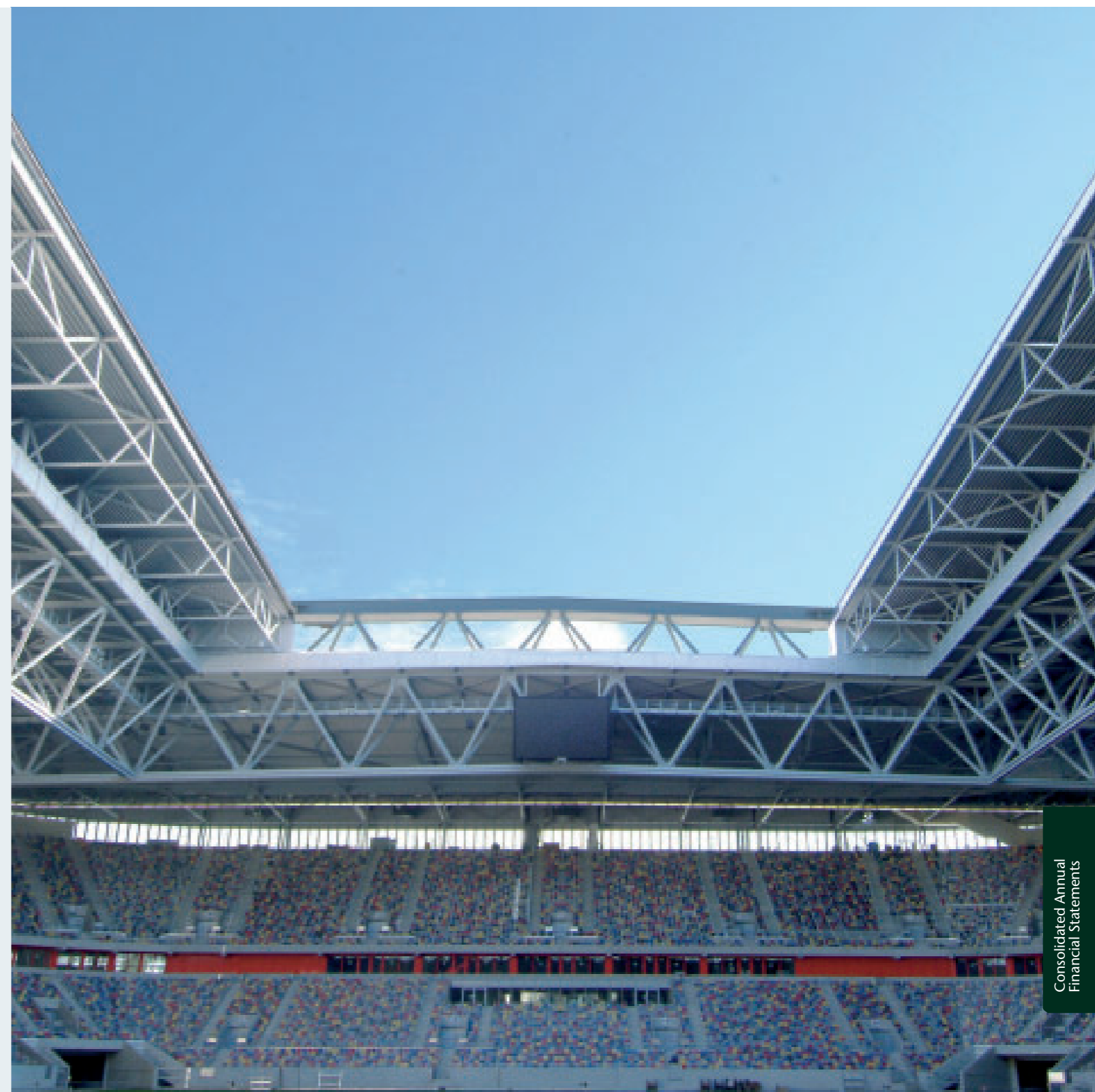
¹⁾ The effects of the premature application of IAS 19 are explained in the Notes under (29) Retained Earnings.

3.4 Cash Flow Statement

(36) Cash Flow Statement

| in T€ | FY 2004 | FY 2003 |
|--|-----------------|-----------------|
| Consolidated net income for the year | 244,500 | 31,814 |
| Depreciations, write-downs (+)/write-ups (-) on fixed assets | 320,368 | 245,649 |
| Other non-payment-related expenses (+)/income (-) | 30,662 | 41,106 |
| Interest expenses | 104,290 | 104,023 |
| Profit (-)/loss (+) on the disposal of fixed assets | -7,899 | -11,378 |
| Increase (-)/decrease (+) in inventories | -157,965 | -37,930 |
| Increase (-)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities | -268,547 | 142,436 |
| Payment-related increase (+)/decrease (-) in provisions | -191,381 | -201,302 |
| Increase (+)/decrease (-) in trade payables and other liabilities not attributable to investment or financing activities | 278,368 | -91,293 |
| Cash flow from operating activities | 352,396 | 223,125 |
| Payments received from the disposal of fixed assets | 25,214 | 4,271 |
| Payments made on investments in intangible and tangible fixed assets | -218,419 | -181,718 |
| Payments received from the disposal of financial assets | 21,222 | 48,308 |
| Payments made on investments in financial assets | -3,350 | -22,857 |
| Cash flow from investment activities | -175,333 | -151,996 |
| Payments received (+)/made (-) as a result of sales and repurchases of own shares | 40 | 8 |
| Dividend payments | -15,317 | -19,604 |
| Payments received (+)/made (-) as a result of the issue of bonds, take-up of loans and other financial liabilities | -33,711 | -10,612 |
| Interests paid | -22,168 | -12,194 |
| Cash flow from financing activities | -71,156 | -42,402 |
| Cash and cash equivalents available at the beginning of the period | 139,964 | 111,237 |
| Variation in cash and cash equivalents | 105,907 | 28,727 |
| Cash and cash equivalents available at the end of the period | 245,871 | 139,964 |

Open wide:
Steel roofs are
a boon for "fair
weather fans".



3.5 Segment Reporting

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(37) Segment reporting/Primary Segment

| in T€ | Steel | | Trading | | Services | | Processing | | Tubes | | Others/Consolidation | | Group | |
|--|-----------|-----------|-----------|-----------|----------|---------|------------|---------|-----------|-----------|----------------------|----------|-----------|-----------|
| | FY 2004 | FY 2003 | FY 2004 | FY 2003 | FY 2004 | FY 2003 | FY 2004 | FY 2003 | FY 2004 | FY 2003 | FY 2004 | FY 2003 | FY 2004 | FY 2003 |
| Sales | 2,855,368 | 2,316,327 | 2,834,422 | 2,101,771 | 870,828 | 658,632 | 248,855 | 239,539 | 1,467,349 | 1,339,879 | - | - | 8,276,822 | 6,656,148 |
| Sales in own segment | 364,005 | 312,394 | 126,350 | 61,564 | 10,205 | 11,753 | 1,122 | - | 373,042 | 313,927 | - | - | 874,724 | 699,638 |
| Sales to other segments | 731,959 | 571,897 | 66,245 | 13,508 | 547,529 | 405,844 | 25,303 | 18,240 | 89,540 | 105,461 | - | - | 1,460,576 | 1,114,950 |
| External sales | 1,759,404 | 1,432,036 | 2,641,827 | 2,026,699 | 313,094 | 241,035 | 222,430 | 221,299 | 1,004,767 | 920,491 | - | - | 5,941,522 | 4,841,560 |
| Income from ordinary activities | 164,020 | 46,907 | 98,877 | 13,078 | 20,396 | 13,708 | -228 | 137 | 120,478 | 2,619 | -80,771 | -33,960 | 322,772 | 42,489 |
| Thereof from associated companies | - | - | 1,079 | 433 | - | - | -5,330 | -232 | 128,568 | 49,024 | - | - | 124,317 | 49,225 |
| Interest income | 110 | 318 | 7,504 | 5,469 | 857 | 6,499 | 15 | 80 | 2,261 | 28,558 | 4,947 | -28,699 | 15,694 | 12,225 |
| Interest expenditure | 6,695 | 46,869 | 12,369 | 14,433 | 10,340 | 10,340 | 1,999 | 8,813 | 44,674 | 51,149 | 28,213 | -27,581 | 104,290 | 104,023 |
| Segment assets | 1,666,472 | 1,588,885 | 842,203 | 638,750 | 389,917 | 338,476 | 150,639 | 193,439 | 1,558,604 | 1,488,344 | -252,261 | -401,037 | 4,355,574 | 3,846,857 |
| Thereof shares in associated companies | - | - | 3,494 | 2,848 | - | - | 362 | 5,774 | 592,452 | 503,972 | - | - | 596,308 | 512,594 |
| Thereof inventories | 460,626 | 415,999 | 306,302 | 259,224 | 61,804 | 66,580 | 65,509 | 41,084 | 204,210 | 161,593 | -17,453 | -25,927 | 1,080,998 | 918,553 |
| Segmental operating liabilities | 1,037,481 | 945,733 | 721,031 | 539,905 | 356,970 | 298,871 | 100,151 | 142,219 | 1,145,418 | 1,137,138 | -358,708 | -497,003 | 3,002,343 | 2,566,863 |
| Adjusted segmental operating liabilities ¹⁾ | 1,037,481 | 961,153 | 721,031 | 543,990 | 356,970 | 311,718 | 100,151 | 145,722 | 1,145,418 | 1,184,598 | -358,708 | -485,458 | 3,002,343 | 2,661,723 |
| Investments in tangible and intangible fixed assets | 145,763 | 111,825 | 12,571 | 14,060 | 34,432 | 16,211 | 10,409 | 18,432 | 24,458 | 30,305 | 259 | 370 | 227,892 | 191,203 |
| Depreciation on tangible and intangible fixed assets | 168,068 | 135,027 | 11,467 | 10,778 | 17,451 | 17,781 | 66,918 | 42,309 | 45,348 | 39,426 | 3,531 | 2,685 | 312,783 | 248,006 |
| Non-payment-related expenses and earnings | 47,257 | 17,444 | 19,491 | -558 | 41,704 | 13,075 | 15,155 | 3,715 | -87,047 | 45,824 | -5,898 | -38,394 | 30,662 | 41,106 |
| Employees (annual average) | 6,723 | 6,978 | 1,741 | 1,853 | 3,976 | 3,686 | 1,005 | 1,085 | 4,062 | 4,438 | 118 | 114 | 17,625 | 18,154 |

(37) Segment reporting by regions

| in T€ | Germany | | EU (excluding Germany) | | Rest of Europe | | North America | | South America | | Other regions | | Group | |
|--|-----------|-----------|------------------------|-----------|----------------|---------|---------------|---------|---------------|---------|---------------|---------|-----------|-----------|
| | FY 2004 | FY 2003 | FY 2004 | FY 2003 | FY 2004 | FY 2003 | FY 2004 | FY 2003 | FY 2004 | FY 2003 | FY 2004 | FY 2003 | FY 2004 | FY 2003 |
| External sales by geographical location of customers | 2,819,171 | 2,302,088 | 1,454,141 | 1,100,233 | 236,433 | 219,799 | 477,804 | 164,126 | 110,089 | 102,580 | 843,884 | 952,734 | 5,941,522 | 4,841,560 |
| External sales by company headquarters | 5,175,355 | 4,363,304 | 303,663 | 275,550 | - | - | 462,504 | 202,706 | - | - | - | - | 5,941,522 | 4,841,560 |
| Investments in tangible and intangible assets | 223,165 | 181,260 | 4,113 | 8,854 | - | - | 614 | 1,089 | - | - | - | - | 227,892 | 191,203 |
| Segment assets | 3,983,579 | 3,571,708 | 226,215 | 187,838 | - | - | 145,780 | 87,311 | - | - | - | - | 4,355,574 | 3,846,857 |
| Segmental operating liabilities | 2,789,227 | 2,394,702 | 124,743 | 122,298 | - | - | 88,373 | 49,863 | - | - | - | - | 3,002,343 | 2,566,863 |
| Adjusted segmental operating liabilities ¹⁾ | 2,789,227 | 2,489,314 | 124,743 | 122,546 | - | - | 88,373 | 49,863 | - | - | - | - | 3,002,343 | 2,661,723 |
| Depreciation on tangible and intangible fixed assets | 297,554 | 225,635 | 12,609 | 18,847 | - | - | 2,620 | 3,524 | - | - | - | - | 312,783 | 248,006 |
| Employees (annual average) | 16,336 | 16,721 | 1,103 | 1,260 | - | - | 186 | 173 | - | - | - | - | 17,625 | 18,154 |

¹⁾ Effects of the premature application of IAS 19

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3.6 Analysis of Fixed Assets

| in T€ | Acquisition and production costs | | | | | | | Valuation allowances | | | | | | | Book values | | |
|---|----------------------------------|----------------------|------------------------|----------------|----------------|-------------|------------------|----------------------|----------------------|------------------------|---------------------------------|---|----------------|-----------|------------------|------------------|------------------|
| | 1/1/2004 | Currency differences | Changes to cons. Group | Additions | Disposals | Transfers | 31/12/2004 | 1/1/2004 | Currency differences | Changes to cons. Group | Write-ups in the financial year | Write-downs in the financial year ¹⁾ | Disposals | Transfers | 31/12/2004 | 31/12/2004 | 31/12/2003 |
| Intangible fixed assets | | | | | | | | | | | | | | | | | |
| Goodwill/negative goodwill from capital consolidation | -367,043 | - | -3,297 | - | - | - | -370,340 | -177,656 | - | - | 60,429 ²⁾ | 1,061 | - | - | -237,024 | -133,316 | -189,387 |
| Concessions, industrial property rights and similar rights and assets, including licenses on such rights and assets | 79,483 | -73 | 235 | 9,360 | 3,071 | 3,630 | 89,564 | 62,931 | -74 | 132 | - | 7,732 | 2,800 | -5 | 67,916 | 21,648 | 16,552 |
| Goodwill | 225 | - | - | - | - | - | 225 | 145 | - | - | - | 36 | - | - | 181 | 44 | 80 |
| Payments made on account | 3,314 | - | - | 49 | - | -3,236 | 127 | - | - | - | - | - | - | - | - | 127 | 3,314 |
| | -284,021 | -73 | -3,062 | 9,409 | 3,071 | 394 | -280,424 | -114,580 | -74 | 132 | 60,429 | 8,829 | 2,800 | -5 | -168,927 | -111,497 | -169,441 |
| Tangible fixed assets | | | | | | | | | | | | | | | | | |
| Land, land rights and buildings, including buildings on land owned by others | 960,932 | -660 | 10,620 | 12,701 | 10,426 | 1,858 | 975,025 | 560,511 | -292 | 2,750 | - | 21,972 | 9,716 | 5 | 575,230 | 399,795 | 400,421 |
| Technical plant and machinery | 3,783,881 | -2,336 | 21,469 | 149,650 | 120,078 | 47,067 | 3,879,653 | 2,829,096 | -1,826 | 13,778 | 613 | 255,389 | 96,204 | -11 | 2,999,609 | 880,044 | 954,785 |
| Other equipment, operating and office equipment | 222,877 | -141 | 3,275 | 20,282 | 20,845 | 1,972 | 227,420 | 174,692 | -107 | 1,982 | - | 20,956 | 19,328 | 11 | 178,206 | 49,214 | 48,185 |
| Payments made on account and assets in course of construction | 54,291 | -42 | 526 | 35,850 | 157 | -51,291 | 39,177 | - | - | - | - | 5,637 | - | - | 5,637 | 33,540 | 54,291 |
| | 5,021,981 | -3,179 | 35,890 | 218,483 | 151,506 | -394 | 5,121,275 | 3,564,299 | -2,225 | 18,510 | 613 | 303,954 | 125,248 | 5 | 3,758,682 | 1,362,593 | 1,457,682 |
| Financial assets | | | | | | | | | | | | | | | | | |
| Shares in affiliated companies | 45,092 | - | 2,473 | 649 | 2,650 | - | 45,564 | 12,678 | - | - | - | 125 | 1,873 | - | 10,930 | 34,634 | 32,414 |
| Shareholdings | 44,012 | - | 25 | 1,572 | 14,711 | - | 30,898 | 5,065 | - | - | - | 8,081 | 5,061 | - | 8,085 | 22,813 | 38,947 |
| Loans to associated companies | 562 | - | - | - | 562 | - | - | 562 | - | - | - | - | 562 | - | - | - | - |
| Non-current securities | 2,255 | - | 105 | 2,036 | 181 | - | 4,215 | - | - | - | - | - | - | - | - | 4,215 | 2,255 |
| Other loans | 7,157 | - | - | 195 | 1,781 | - | 5,571 | 2,494 | - | - | 8 | - | 3 | - | 2,483 | 3,088 | 4,663 |
| | 99,078 | - | 2,603 | 4,452 | 19,885 | - | 86,248 | 20,799 | - | - | 8 | 8,206 | 7,499 | - | 21,498 | 64,750 | 78,279 |
| Associated companies | | | | | | | | | | | | | | | | | |
| Shares in associated companies | 512,594 | -12,939 | - | 96,653 | - | - | 596,308 | - | - | - | - | - | - | - | - | 596,308 | 512,594 |
| | 5,349,632 | -16,191 | 35,431 | 328,997 | 174,462 | - | 5,523,407 | 3,470,518 | -2,299 | 18,642 | 61,050 | 320,989 | 135,547 | - | 3,611,253 | 1,912,154 | 1,879,114 |

1) Summary of the write-downs (non-scheduled depreciation) included herein is given under Note 6.

2) Reversal of negative goodwill.

3.7 Notes to the Consolidated Financial Statements of Salzgitter AG

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 reporting 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 (§292 a 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 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 German 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 income statement and disclosed separately in the Notes. The annual financial statements were prepared in euro.

As of December 31, 2004, the application of IFRS 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 amortization 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 as defined by 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 under 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 the straight-line depreciation method.
- Largely fiscal useful lives were adjusted to the prevailing commercial 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 income statement oriented method according to the German Commercial Code (HGB), IAS 12 is based on a balance sheet oriented approach.

On December 16, 2004 the Executive Board and the Supervisory Board issued a Declaration of Compliance 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 Compliance 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 integrated subsidiaries prepared in accordance with the accounting and valuation methods applied in a uniform manner throughout the Group and certified by independent auditors.

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

The result posted by 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 the assets, less the debts at the time of the sale, is included in the Group income statement. In the event that the subsidiaries being excluded from the consolidated group were 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, 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 commercial 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 ventures 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 decisive influence over financial and business policy decisions are valued in the consolidated financial statements using the

equity method. The dates 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. The 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 is more than twelve months old.

Minority interests in the consolidated companies are reported separately from SZAG equity.

In the case of assets and obligations denominated in foreign currency, the acquisition costs must on principle be reported at the exchange rate prevailing at the cutoff date when the acquisition was effected. Exchange 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 the reference HRB 9207.

Consolidated Group

In addition to the annual financial statements of the parent company, the consolidated financial statement also includes the annual financial statements of the 34 (previous year 33) domestic and 11 (previous year 12) foreign affiliated companies that were prepared for the same reporting date. One foreign company was taken out of the group of consolidated companies on grounds of insignificance.

Three domestic and five foreign joint ventures are included on a proportionate basis in the consolidated financial statements in accordance with proportionate consolidation. One previously consolidated domestic joint venture was taken out of the consolidated group on grounds of insignificance. In December of the financial year, the remaining 50% of Röhrenwerke Gebr. Fuchs GmbH, which had previously been consolidated proportionately, was acquired. This company is now included in the consolidated financial statements as an affiliated company. The attributable current values of the acquired assets and debts are shown in summarized form in item No. 36.

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 2004 | FY 2003 |
|----------------|---------|---------|
| Fixed assets | 49,485 | 70,174 |
| Current assets | 79,329 | 113,875 |
| Provisions | 37,607 | 49,259 |
| Liabilities | 53,005 | 82,925 |
| Earnings | 356,251 | 321,431 |
| Expenses | 287,385 | 310,572 |

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 23 (previous year 24) domestic and 25 (previous year 25) foreign subsidiaries have not been consolidated due to their minor overall significance for the assets, 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 31/12/2003 | Additions | Disposals | Status as of 31/12/2004 |
|----------------------------------|----------------------------|-----------|-----------|----------------------------|
| Consolidated subsidiaries | 45 | 1 | 1 | 45 |
| Thereof domestic | 33 | 1 | – | 34 |
| Thereof foreign | 12 | – | 1 | 11 |
| Joint ventures | 10 | – | 2 | 8 |
| Thereof domestic | 5 | – | 2 | 3 |
| Thereof foreign | 5 | – | – | 5 |
| Associated companies | 7 | – | – | 7 |
| Thereof domestic | 2 | – | – | 2 |
| Thereof foreign | 5 | – | – | 5 |

Currency Translation

In the individual annual financial statements of the companies, business transactions in foreign currencies are valued 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 reporting 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 at the rate prevailing on the reporting date; the positions of the statement of income 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 disclosed as an asset in the reporting currency. Expenses and earnings are converted at annual average exchange rates, while changes in reserves are converted at the rate prevailing on the reporting date.

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

| Foreign currency per € 1 | Reporting date | | Annual average rate | |
|--------------------------|----------------|------------|---------------------|---------|
| | 31/12/2004 | 31/12/2003 | FY 2004 | FY 2003 |
| Canadian dollar | 1.6416 | 1.6234 | 1.6167 | 1.5817 |
| US dollar | 1.3621 | 1.2630 | 1.2439 | 1.1312 |
| Czech crown | 30.4640 | 32.4100 | 31.8910 | 31.8460 |
| Brazilian real | 3.6162 | 3.6439 | 3.6311 | 3.4781 |

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 amortized cost or production cost or current value. Financing costs are not capitalized.

From the financial year 2005 onwards, there will be a number of changes in IFRS. In respect of this, Salzgitter AG has already made use of changes in the IAS 19 area. From 2006 onwards, IAS 19 will provide for another method of treating actuarial profits and losses. The actual obligation will subsequently be reported under pension provisions. The contrary effect is shown without effect on income under equity with deferred taxes being taken into consideration.

In the Steel Division, Salzgitter AG, exercising its existing right to choose, has already valued its finished and unfinished products at their sliding average in accordance with IAS 2. From 2005 onwards, IAS 2 will no longer provide for valuation according to the Lifo method. As there is no possibility of determining the previous year's figures, Salzgitter AG is dispensing with the adjustment of those figures. The adjustment of this valuation method was recorded with effect on income using the alternative permissible method in accordance with IAS 8.

Goodwill/Negative Goodwill from Capital Consolidation

The capitalized goodwill for companies acquired before October 1, 1995, that results from the capital consolidation continues to be offset against retained earnings. Goodwill acquired since October 1, 1995, is capitalized and amortized with effect on income 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. Then, as the negative difference from anticipated 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.

Negative differences that existed before March 31, 2004, will be offset against the retained earnings in the amount of the residual book value as of January 1, 2005.

Negative goodwill that arises after March 31, 2004, must be recognized immediately with effect on income in accordance with IFRS 3. In future, any positive difference that arises will not be amortized regularly as before, but subjected to a value test as defined by IAS 36 at least once a year.

Intangible Assets

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

Internally generated intangible assets are capitalized if it is probable that their usefulness for the Group is reliable and their acquisition and/or production costs 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, 2004, 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. The residual book values and the economic useful lives are examined on every reporting date and adjusted if necessary. If the book value of an asset exceeds its estimated obtainable amount, this amount is written down. If the reasons for a write-down in previous years no longer apply, appropriate reversals of write-downs are carried out.

The production costs of internally generated tangible fixed assets are determined on the basis of direct costs and appropriate markups for overhead costs and depreciation. Financing costs 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 reported 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 depreciated over the course of their economic useful lives.

Leasing

The Group operates as both a lessee and a lessor. 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 payment obligations are discounted as liabilities.

Lease arrangements in which a substantial part of the benefit and the risk inherent in ownership of the leased object remains with the lessor are classified as operating leases. The lease installments to be paid under these lease arrangements are recorded in the income statement for the duration of the lease arrangement using the straight-line method.

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 disclosed at their proportionate equity plus goodwill.

Financial Assets

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

Financial instruments are reported in the accounts from the settlement date.

Subsequent to their initial reporting, securities and material shareholdings are thereafter disclosed 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.

Say farewell to cold concrete: The innovative use of steel and other materials gives modern stadiums a new feeling of warmth and elegance.



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

Changes in the fair value of derivative financial instruments that were documented for hedging against cash flow risks and classified as effective 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 financial instruments that do not fulfill the criteria for the balance sheet reporting of hedging transactions affect 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 realizable value. Inventories in the Steel (raw materials and supplies) and Trading Divisions are valued mainly in accordance with the last in, first out principle, while in the other divisions average costs are generally applied. Production costs are determined on the basis of normal activity. Specifically, the production costs include not only direct costs, but also product-related material and production overhead costs including production-related depreciation and retirement pension expenses. Borrowing costs are not capitalized under acquisition or production costs. Lower values on the reporting 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 which affect the expected net realizable value have been accounted for through the suitable application of value adjustments.

The finished and unfinished products, as well as internally generated raw materials, are valued at Group production cost which, in addition to direct costs, also includes variable and fixed overhead costs that are calculated on a systematic basis or attributed.

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 a specific scope of provision. 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 assumptions and calculations. 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, but also the increases in salaries and pensions that may be expected in the future. The current service costs are shown as personnel expenses, and the interest component of allocations to provisions is shown as net interest income.

In contrast to the previous years, the new regulations in IAS 19 are applied so that the actuarial profits and losses are recorded in full in the provisions for pension obligations.

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

| | 31/12/2004 | 31/12/2003 |
|----------------------------|---------------------|---------------------|
| Actuarial rate of interest | 5.00 % | 5.25 % |
| Trend in salaries | 1.75 % resp. 2.75 % | 1.75 % resp. 2.75 % |
| Trend in pensions | 1.25 % | 1.25 % |
| 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 at both reporting 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 future are reported for temporary differences between the book values shown in the consolidated financial statements and the values attributed to assets and liabilities for tax purposes.

As of December 31, 2004, the deferred taxes of domestic companies were evaluated with an overall tax rate of 39%.

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

The calculation of foreign income taxes is based on 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 expected 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 reporting date. An interest rate of 5.0% 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 scope of the changes in the consolidated group, acquired dividend claims are entered without effect on income as part of the capital consolidation.

In accordance with 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 acquisition 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 reporting 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 of an asset 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 exists, a write-up is carried out.

Notes to the Income Statement

(1) Sales

| in T€ | FY 2004 | FY 2003 |
|--|------------------|------------------|
| Breakdown according to product categories | | |
| Flat rolled products | 3,012,553 | 2,409,333 |
| Sections | 794,175 | 595,612 |
| Pipes | 1,283,921 | 1,236,471 |
| Other | 850,873 | 600,144 |
| | 5,941,522 | 4,841,560 |
| Breakdown according to regions | | |
| Domestic | 2,819,171 | 2,302,088 |
| Other EU | 1,454,141 | 1,100,233 |
| Other Europe | 236,433 | 219,799 |
| America | 587,893 | 266,706 |
| Other | 843,884 | 952,734 |
| | 5,941,522 | 4,841,560 |

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

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

| in T€ | FY 2004 | FY 2003 |
|--|---------------|----------------|
| Changes in inventory of finished and unfinished products | 37,501 | -39,792 |
| Own work capitalized | 4,057 | 3,823 |
| | 41,558 | -35,969 |

(3) Other Operating Earnings

| in T€ | FY 2004 | FY 2003 |
|---|----------------|----------------|
| Amortization of differences resulting from capital consolidation | 60,429 | 56,060 |
| Reversal of provisions and allowances | 30,108 | 36,502 |
| Income from the valuation of financial derivatives and foreign currency positions | 26,766 | 17,568 |
| Income from disposal of fixed assets | 16,747 | 21,210 |
| Income from amortized receivables | 9,226 | 3,166 |
| Ancillary operating income | 8,802 | 8,717 |
| Insurance compensation | 7,878 | 1,481 |
| Income from changes of exchange rates | 5,515 | 4,697 |
| Distributed costs | 3,925 | 2,470 |
| Rental, leasing and licensing income | 3,656 | 4,511 |
| Subsidies | 2,299 | 3,401 |
| Reimbursement of previous years | 2,077 | 1,332 |
| Other income | 27,200 | 33,432 |
| Other operating earnings | 204,628 | 194,547 |

Other operating earnings include earnings unrelated to the accounting period totaling € 51 million (previous year € 46 million), derived essentially from liquidation of provisions for non-recurring obligations, income from the disposal of assets, insurance compensation payments and reimbursements of costs for previous years. Income from the disposal of assets includes a book profit of € 9.6 million (previous year € 16.6 million) from the sale of shares in a listed company domiciled in the USA.

(4) Costs of Materials

| in T€ | FY 2004 | FY 2003 |
|---|------------------|------------------|
| Costs of raw materials, consumables, supplies and purchased goods | 3,745,181 | 2,863,683 |
| Costs of purchased services | 261,362 | 275,224 |
| Costs of materials | 4,006,543 | 3,138,907 |

The cost of raw materials, consumables and supplies refers primarily to expenses 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 for raw materials, consumables and supplies were shaped by substantial price increases in 2004, particularly for scrap metal and sea freight.

(5) Personnel Expenses

| in T€ | FY 2004 | FY 2003 |
|---|----------------|----------------|
| Wages and salaries | 745,704 | 748,567 |
| Social security and costs for pension commitments and support | 180,230 | 186,359 |
| Thereof pension commitments | [78,810] | [83,915] |
| Personnel expenses | 925,934 | 934,926 |

In the financial year 2004, the defined contribution plan payments in the Salzgitter Group totaled € 68.4 million (previous year € 70.3 million). Allocations to the pension provisions amounting to € 10.4 million (previous year € 13.6 million) are reported as costs for defined benefit plans. The allocations to provisions include only ongoing pension costs for employees' earned pension expectancies in the reporting year. The costs for retirement pensions do not include the compounding of the pension provisions that are shown under net interest income. In the previous year, the personnel expenses included € 11.9 million in costs for restructuring measures unrelated to the accounting period. In the financial year 2004 there were no expenses unrelated to the accounting period.

| Average annual number of employees | FY 2004 | FY 2003 |
|------------------------------------|---------------|---------------|
| Wage labor | 11,691 | 12,104 |
| Salaried employees | 5,934 | 6,050 |
| Group core workforce | 17,625 | 18,154 |

Given the same Group structure, there would have been a slightly lower 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 2004 | FY 2003 |
|--|----------------|---------------|
| Capitalized difference | – | 271 |
| Intangible assets | 407 | 296 |
| Real estate and equivalent titles including buildings on third-party real estate | 3,695 | 1,973 |
| Technical plants and machinery | 97,869 | 32,721 |
| Other operating and office equipment | 8,026 | 185 |
| Write-downs | 109,997 | 35,446 |

Depreciation and amortization costs were calculated in accordance with the provisions of IAS 36. Write-downs were carried out on the basis of the value in use or the net realizable price, which ever was higher.

In the process, the unit under company law was defined as the cash and cash equivalent-generating unit. The value in use was calculated in accordance with the discounted cash flow method on the basis of an interest rate ranging from 6.6% to 8.0% p.a. which resulted in expenses for value diminution amounting to T € 108,396.

Essentially, the expenses for value diminution affect companies that depend on the business climate in the construction industry. The companies' current plans and expectations of a perpetual annuity flowed into the calculation of value in use. The valuation depends primarily on the expectation of the construction industry remaining restrained.

(7) Other Operating Expenses

| in T€ | FY 2004 | FY 2003 |
|---|----------------|----------------|
| Expenses for distribution | 220,261 | 211,538 |
| External services including provisioning | 216,534 | 176,544 |
| Administrative expenses including cost of insurance, fees, charges | 70,071 | 66,769 |
| Income from the valuation of financial derivatives and foreign currency positions | 25,581 | 15,078 |
| Allowances for doubtful accounts | 21,646 | 9,955 |
| Advertising/information and travel expenses | 21,492 | 19,369 |
| Rents and leases | 21,145 | 24,312 |
| EDP costs | 13,035 | 15,114 |
| Other welfare-related personnel and non-personnel expenses | 11,308 | 8,498 |
| Loss from disposal of assets | 8,351 | 8,953 |
| Loss on the disposal of current assets | 7,030 | 5,728 |
| Financial/monetary transfer expenses | 5,733 | 5,903 |
| Other costs | 10,730 | 30,605 |
| Other operating expenses | 652,917 | 598,366 |

Other operating expenses include expenses unrelated to the accounting period totaling € 51.9 million (previous year € 27.1 million).

(8) Income from Shareholdings

| in T€ | FY 2004 | FY 2003 |
|--|--------------|--------------|
| Earnings from profit transfer agreements | 602 | 827 |
| Thereof affiliated companies | [546] | [827] |
| Income from shareholdings | 4,851 | 2,931 |
| Thereof affiliated companies | [1] | [646] |
| Income from shareholdings | 5,453 | 3,758 |

(9) Income from Associated Companies

| in T€ | FY 2004 | FY 2003 |
|----------------------------------|---------|---------|
| Income from associated companies | 124,317 | 49,225 |

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

(10) Write-downs on Financial Assets

| in T€ | FY 2004 | FY 2003 |
|---------------------------------|---------|---------|
| Write-downs on financial assets | 8,206 | 767 |

A total of € 8.1 million of the write-downs on financial assets is attributable to write-downs on the fair value of shareholdings in the financial year. Some € 0.1 million (previous year € 0.8 million) was attributable to write-downs on the attributable fair value of shares in affiliated companies in the financial year.

(11) Net Interest Income

| in T€ | FY 2004 | FY 2003 |
|---|----------------|----------------|
| Income from long-term financial investments | 273 | 2,138 |
| Other interest earned and similar income | 15,694 | 12,225 |
| Thereof affiliated companies | [892] | [1,183] |
| Interest and similar expenses | -104,290 | -104,023 |
| Thereof affiliated companies | [-400] | [-453] |
| Net interest income | -88,323 | -89,660 |

The interest component included as part of the additions to the pension provisions is reported at € 81.4 million (previous year € 85.7 million) under interest expenses.

(12) Taxes

| in T€ | FY 2004 | FY 2003 |
|--|---------------|---------------|
| Taxes on income and profits | | |
| Current tax expense/tax income (+/-) | 48,449 | 6,657 |
| Deferred tax expense/tax income (+/-) | 16,374 | -1,746 |
| | 64,823 | 4,911 |
| Thereof unrelated to the accounting period | [3,952] | [116] |
| Other taxes | 11,214 | 9,524 |
| Total | 76,037 | 14,435 |

Income taxes affect the profit on ordinary activities after deduction of other taxes. The income taxes unrelated to the accounting period mainly concern subsequent tax payments for previous years. Other taxes essentially comprise the costs of real property taxes in Germany and abroad and property acquisition tax in Germany.

Future dividend payments have no consequences for taxes on income. Deferred taxes amounting to € 51.4 million (previous year € 2.6 million) were recorded for business transactions that have had a direct impact on equity. The increase compared with the previous year is attributable to the early application of the altered IAS 19.

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

| in T€ | 31/12/2004 | | 31/12/2003 | |
|---------------------------------|----------------|----------------|---------------|----------------|
| | Assets | Liabilities | Assets | Liabilities |
| Intangible assets | 7,188 | 93 | 7,338 | 237 |
| Tangible assets | 3,039 | 157,469 | 2,494 | 175,389 |
| Financial assets | 77 | 65 | 263 | 76 |
| Current assets | 4,483 | 31,576 | 2,364 | 9,091 |
| Pension provisions | 98,838 | – | 47,749 | 834 |
| Other provisions | 19,156 | 2,886 | 20,115 | 2,216 |
| Special item including reserves | – | 11,361 | – | 12,409 |
| Liabilities | 10,791 | 12 | 8,291 | 1 |
| Other items | 796 | 1,594 | 2,028 | 213 |
| Total | 144,368 | 205,056 | 90,642 | 200,466 |

In the previous year, the early application of IAS 19 would have led to deferred tax assets from pension provisions amounting to T€ 84,745. Altogether, deferred tax assets would have totaled T€ 127,638.

Summary of the tax benefits from losses carried forward:

| in T€ | 31/12/2004 | 31/12/2003 |
|--------------------------------|---------------|---------------|
| Corporate income tax | 17,413 | 29,582 |
| Trade tax | 2,786 | 6,663 |
| Capitalized tax savings | 20,199 | 36,245 |

Development of the capitalized tax saving from losses carried forward that may be realized in the future:

| in T€ | FY 2004 | FY 2003 |
|--|---------------|---------------|
| Capitalized tax savings January 1 | 36,245 | 40,160 |
| Changes to the group of companies being consolidated | –221 | 196 |
| Capitalization of tax savings from loss carryovers | 36,272 | 35,869 |
| Use of losses brought forward from previous account | –42,879 | –7,826 |
| Value adjustments from loss carryovers | –9,218 | –32,154 |
| Capitalized tax savings December 31 | 20,199 | 36,245 |

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

By making use of loss carryforwards, deferred tax expenses amounting to € 42.9 million were incurred in the financial year, contrasting with deferred tax income of € 27.1 million from the capitalization and value adjustment of loss carryforwards. As of December 31, 2004, a total of € 20.2 million was shown for future realizable loss carryforwards. The capitalization of potential tax savings for loss carryforwards (a middle triple digit € amount in millions) existing at several companies as of December 31, 2004, was dispensed with, since the possibility of using these loss carryforwards appears improbable at present. The capitalization of deferred taxes for temporary differences (a digit € amount in millions) was also dispensed with.

Transition from anticipated to actual income tax expenses:

| in T€ | FY 2004 | FY 2003 |
|--|----------------|---------------|
| Consolidated net income for the year before income tax | 311,557 | 32,965 |
| Expected income tax expenditure (tax rate 39.0%) (tax rate previous year 40.2%) | 121,507 | 13,252 |
| Tax share for: | | |
| Differences between tax rates | –530 | 259 |
| Tax-free income | –52,943 | –28,820 |
| Reversal of neg. goodwill/amortization on goodwill | –23,154 | –22,297 |
| Non-deductible tax expenditures and other permanent differences | 3,214 | 1,073 |
| Temporary differences without deferred taxes | 18,946 | 14,194 |
| Effects of temporary differences and losses | | |
| Adjustment in the value of capitalized benefits | 12,760 | 27,020 |
| Application of benefits not previously capitalized | –20,701 | – |
| Tax rate modifications | –207 | 392 |
| Tax expenses and income unrelated to the accounting period | 3,952 | –116 |
| Other deviations | 1,979 | –46 |
| Actual income tax expenses | 64,823 | 4,911 |

The actual income tax expenses of € 64.8 million deviate by a total of € 56.7 million from the expected income tax expenses of € 121.5 million. This results primarily from the effects of tax-free earnings and the reversal of negative goodwill with no tax effects and the utilization of previously non-capitalized loss carryforwards, countered primarily by temporary differences without deferred taxes being formed.

(13) Minority Interests

| in T€ | FY 2004 | FY 2003 |
|---|---------|---------|
| Minority interests in net income for the year | 2,235 | -3,760 |

The minority interests in the net income for the year are accounted for by the following companies:

- Hansaport Hafentreibgesellschaft mbH, Hamburg,
- Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr (including subsidiaries),
- Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Wolfsburg (including subsidiaries),
- Salzgitter Beteiligungsgesellschaft mbH, Braunschweig,
- Hövelmann & Lueg GmbH, Schwerte,
- Eupec 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 share certificates 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 average share price was below the purchase price of € 12.10 in the reporting year, the diluted earnings per share correspond to the undiluted earnings of € 3.99 per share when reported in accordance with IAS 35.

| | Shares issued | Own shares | Shares in circulation |
|---|-------------------|------------------|-----------------------|
| Beginning of financial year | 62,400,000 | 1,134,317 | 61,265,683 |
| Purchase of own shares | | -4,820 | |
| Issue of own shares | 538,400 | | |
| End of financial year | 62,938,400 | 1,129,497 | 61,808,903 |
| Weighted number of shares | 62,444,867 | 1,131,538 | 61,313,329 |
| Earnings per share | | FY 2004 | FY 2003 |
| Consolidated net income for the year | in T€ | 246,735 | 28,054 |
| Minority interests | in T€ | 2,235 | -3,760 |
| Consolidated net income to accruing of Salzgitter AG shareholders | in T€ | 244,500 | 31,814 |
| Earnings per share | in € | 3.99 | 0.52 |

Profit on Ordinary Activities

The company's pre-tax profit amounted to € 322.8 million in the financial year 2004. The earnings in the financial year include income and expenses items that, according to the provisions of IAS 8, must be explained separately.

For example, write-downs totaling € 108 million had to be carried out in connection with an impairment test. The conversion of the valuation of the products in the Steel Division to the sliding average method resulted in a positive effect amounting to € 35 million.

In the financial year 2004, a profit of € 9.6 million was generated with further sales of shares in the US steel company Steel Dynamics.

Notes to 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 relates to the acquisition of the remaining shares in Röhrenwerk Gebr. Fuchs GmbH, Siegen, Mannesmannröhren-Werke GmbH (entry into the Register of Companies as a company with limited liability [German "GmbH"] on January 3, 2005), Mülheim an der Ruhr, and Eupec PipeCoatings GmbH, Mülheim an der Ruhr. The negative goodwill that already existed before March 31, 2004, was reversed as scheduled before the end of the year and in accordance with the remaining weighted average useful lives of existing non-monetary depreciable assets, originally between five and seven years. The negative goodwill that resulted from the acquisition of the remaining shares in Röhrenwerk Gebr. Fuchs, Mannesmannröhren-Werke and Eupec PipeCoating is recorded immediately with effect on income in accordance with the new regulations of IFRS 3.

From 2005 onwards, capitalized goodwill will not be amortized regularly as before, but subjected to an impairment test at least once a year. The residual book value of the negative goodwill is posted to equity without effect on income as of January 1, 2005.

The goodwill/negative goodwill from capital consolidation developed as follows:

| Development of goodwill in T€ | 31/12/2004 | 31/12/2003 |
|---|-------------------|-------------------|
| Opening balance hist. acquisition costs January 1 | 12,863 | 12,592 |
| Addition | – | 271 |
| Closing balance hist. acquisition costs December 31 | 12,863 | 12,863 |
| Opening balance valuation allowances January 1 | 10,578 | 9,983 |
| Amortization current financial year | 1,061 | 595 |
| Closing balance valuation allowances December 31 | 11,639 | 10,578 |
| Book value December 31 | 1,224 | 2,285 |

| Development of negative goodwill in T€ | 31/12/2004 | 31/12/2003 |
|---|-------------------|-------------------|
| Opening balance hist. acquisition costs January 1 | 379,906 | 376,745 |
| Addition | 3,297 | 3,161 |
| Closing balance hist. acquisition costs December 31 | 383,203 | 379,906 |
| Opening balance reversals January 1 | 188,234 | 132,174 |
| Reversal current financial year | 60,429 | 56,060 |
| Closing balance reversals as of December 31 | 248,663 | 188,234 |
| Book value December 31 | 134,540 | 191,672 |

(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, 2004, the book value of the capitalized internally generated intangible assets – which relates exclusively to computer software – amounted to € 0.1 million (2003: € 0.2 million).

As in the previous year, there was no capitalization of research and development expenses. Total research and development expenses in the reporting period amounted to € 57.4 million (2003: € 57.5 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€ | 31/12/2004 | 31/12/2003 |
|---|-------------------|-------------------|
| Land and buildings | 399,795 | 400,421 |
| Plant equipment and machinery | 880,044 | 954,785 |
| Other equipment, operating and office equipment | 49,214 | 48,185 |
| Equipment under construction | 30,280 | 50,914 |
| Payments made | 3,260 | 3,377 |
| Tangible fixed assets | 1,362,593 | 1,457,682 |

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

| in T€ | 31/12/2004 | 31/12/2003 |
|---|--------------|--------------|
| Buildings | 5,468 | 2,716 |
| Plant equipment and machinery | 393 | 347 |
| Other equipment, operating and office equipment | 4,041 | 4,250 |
| | 9,902 | 7,313 |

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 |

The amount of the write-downs is shown under No. 6.

Restraints on the right of ownership or disposal on the reporting date amounted to € 35.8 million (2003: € 38.7 million).

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

| in T€ | 31/12/2004 |
|--|------------------|
| Land and buildings | 248,302 |
| Plant equipment and machinery | 2,036,494 |
| Other equipment, operating and office equipment | 138,664 |
| Historical acquisition costs of tangible assets | 2,423,460 |

Indispensable:
Both technically
and economi-
cally, steel is
unsurpassed in
today's multi-
function arenas.



(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€ | 31/12/2004 | 31/12/2003 |
|--------------------------------|---------------|---------------|
| Shares in affiliated companies | 34,634 | 32,414 |
| Shareholdings | 22,813 | 38,947 |
| Non-current securities | 4,215 | 2,255 |
| Other loans | 3,088 | 4,663 |
| Financial assets | 64,750 | 78,279 |

The increase in shares in affiliated companies (€ +2.2 million) is connected primarily with the exclusion of Universal Ocel spol. s. r. o. Prague/Czech Republic from the consolidated group.

The change in shareholdings (€ –16.1 million) results mainly from the sale of shares in Steel Dynamics Holding Inc., Butler/USA, which accounted for € –9.6 million. Apart from that, this decrease is connected with write-downs of shareholdings.

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

Of the other loans of € 3.1 million (2003: € 4.7 million), € 0.4 million (2003: € 1.5 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 loans, which carry interest at 5.0% p.a., are used solely to finance the acquisition of Salzgitter AG warrant-linked bonds and are due for repayment no later than 2005. The other loans are almost entirely accounted for by housing loans extended to employees.

(19) Associated Companies

| in T€ | 31/12/2004 | 31/12/2003 |
|--------------------------------|------------|------------|
| Shares in associated companies | 596,308 | 512,594 |

The figure reported for at-equity shares in associated companies increased by T € 83,714 year on year. This was mainly attributable to the positive results for the year generated by the associated companies. Dividend payments and the US dollar trend, which led to equity losses but did not affect income, had a countervailing effect.

(20) Inventories

| in T€ | 31/12/2004 | 31/12/2003 |
|------------------------------|------------------|----------------|
| Raw materials and supplies | 345,023 | 250,093 |
| Unfinished products | 216,507 | 192,254 |
| Unfinished goods or services | 7,413 | 9,079 |
| Finished products and goods | 499,475 | 438,452 |
| Advance payments made | 12,580 | 28,675 |
| Inventories | 1,080,998 | 918,553 |

Individual markdowns were made in the valuations of all of the inventories whenever the revenues realized through their sale or use were likely to be lower than their book values. The anticipated realizable sale proceeds less costs incurred up to the time of sale are reported as net sale proceeds. Where the reasons for devaluing inventories no longer apply, a reversal of the write-down is carried out. Accordingly, during the reporting period, there was a write-up of € 7.0 million (2003: € 8.6 million).

For raw materials and supplies in the Steel Division and merchandise in the Trading Division, the Lifo method is applied as a matter of principle. In the financial year 2004, the average method was applied instead of the Lifo method for finished goods and work in process in the Steel Division. This led to an increase of € 35.0 million in the reported value of the finished goods and work in process. The value of the inventories reported in accordance with the Lifo method is some € 51.3 million (2003: € 10.3 million) lower than the lower replacement cost or net realizable value.

The book value of the inventories reported at net realizable value amounted to € 214.1 million in the reporting year (2003: € 262.9 million).

In respect of the inventories reported, significant restrictions on ownership or disposal existed in the amount of € 10.5 million (2003: € 3.8 million).

(21) Trade Receivables

| in T€ | 31/12/2004 | 31/12/2003 |
|--|----------------|----------------|
| Due from third parties | 853,632 | 589,735 |
| Due from affiliated companies | 13,732 | 13,897 |
| Due from enterprises in which a participating interest is held | 34,601 | 24,651 |
| Trade receivables | 901,965 | 628,283 |

Of the trade receivables, € 5.5 million have a time to maturity of more than one year. Appropriate valuation markdowns 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€ | 31/12/2004 | 31/12/2003 |
|--|---------------|----------------|
| Other receivables due from affiliated companies | 6,409 | 13,019 |
| Thereof loans | [2,569] | [6,802] |
| Thereof other receivables | [3,840] | [6,217] |
| Other receivables due from participating interests | 3,439 | 7,197 |
| Thereof loans | [3,061] | [5,724] |
| Thereof other receivables | [378] | [1,473] |
| Tax refund claims (incl. other taxes) | 20,150 | 22,419 |
| Derivatives | 12,900 | 7,135 |
| Age-related part-time employment subsidies | 9,784 | 7,200 |
| Finance leasing agreements | 7,013 | 7,369 |
| Advances on company pensions | 4,175 | 5,547 |
| Assets available for sale | 1,667 | 1,778 |
| Insurance claims | 297 | 4,237 |
| Loans | 83 | 1,226 |
| Other assets | 21,894 | 26,579 |
| Other receivables and assets | 87,811 | 103,706 |

The other receivables and sundry assets include the sum of € 4.6 million (2003: € 6.1 million) with a time to maturity of more than one year.

The other receivables and sundry assets also include the sum of € 9.8 million (2003: € 7.2 million) that will become legally effective only after the reporting date.

In respect of the other receivables and sundry assets reported, there were significant restrictions on ownership or disposal amounting to € 173.2 million (2003: € 79.5 million). € 165.8 million (2003: € 73.9 million) of that sum was accounted for by the forfeiting of receivables and asset-backed-securitisation programs. For further details, please see No. 34, "Liabilities".

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 | 31/12/2004 Total | 31/12/2003 Total | Residual time to maturity < 1 year |
|-----------------------------|------------------------------------|-------------------------------------|------------------|------------------|------------------------------------|
| Total gross investment | 3,096 | 4,766 | 7,862 | 8,303 | 3,058 |
| Unrealized financial income | 421 | 428 | 849 | 934 | 442 |
| Book value | 2,675 | 4,338 | 7,013 | 7,369 | 2,616 |

Receivables relate primarily to the leasing of communication equipment to third parties. Rental income is reported under other operational earnings.

(23) Cash and Cash Equivalents

| in T€ | 31/12/2004 | 31/12/2003 |
|----------------------------------|----------------|----------------|
| Cash at banks | 245,466 | 138,197 |
| Checks, cash in hand | 405 | 1,767 |
| Cash and cash equivalents | 245,871 | 139,964 |

(24) Capitalized Deferred Taxes

If it is likely that tax benefits will be realized, they must be capitalized. The clearing of deferred taxes is possible only in cases where the deferred tax assets and liabilities fall within the jurisdiction of the same tax authority. In the financial year 2004, deferred tax claims amounting to € 163.6 million (2003: € 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

Prepaid expenses relate primarily to accrued expenses for contributions, real property charges and motor vehicle taxes.

(26) Equity

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

(27) Subscribed Capital

In the financial year 2004, the subscribed capital (capital stock) increased to € 160,899,464.67 as a result of the issuance of 538,400 shares from the contingent capital for servicing the Salzgitter stock option plan. The 62,938,400 no par value shares have an arithmetical par value of € 2.56 each.

In accordance with the resolution passed by the Shareholders' Meeting on April 23, 1998, provision was made for contingent capital of up to € 5.1 million to cover the issue of warrant-linked bonds. These warrant-linked bonds comprise a 5% Salzgitter AG bond (with a term from 1998 to 2005) combined with option rights that entitle the holder to subscribe to Salzgitter AG shares when certain conditions are fulfilled. In the financial year 2004, this occurred on a number of occasions and, accordingly, option rights for subscription to 538,400 shares were exercised by those entitled. The exercising of these options raised subscribed capital by € 1,376,397.74 million and the capital reserve by € 5,139,469.21 million. At the same time, the bond was repaid in the amount of € 1,455,647.93, bringing it to € 715,808.69. On the reporting date, the subscription to the bond came to € 715,808.69 divided into 1,400 units each of € 511.30 and carrying 200 warrants. Subscription is limited to Salzgitter Group management staff. The option can be exercised up to September 30, 2005, subject to certain conditions being fulfilled.

In accordance with the resolution passed by the General Meeting of Shareholders on May 26, 2004, the capital stock was increased by up to € 15,952,306.69 by issuing up to 6,240,000 new no par value bearer shares (Contingent Capital 2004). 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 Shareholders' Meeting on May 26, 2004. 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 May 25, 2009 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 and option or conversion rights to a maximum of 6,240,000 new Salzgitter AG shares (corresponds to 10% of the capital stock prior to the capital increase).

In addition, the Executive Board, in accordance with the resolution passed by the Shareholders' Meeting on May 26, 2004, was authorized to increase the capital stock with the approval of the Supervisory Board by up to a nominal amount of € 55,833,073.42 (= 35% of the capital stock) on or before May 25, 2009, by issuing up to 21,840,000 new no par value bearer shares against payment in cash or kind (Authorized Capital 2004).

(28) Capital Reserve

Within the capital reserve (€ 292.7 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.

The exercise of option rights from the stock option program led to an increase of € 5.1 million in 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 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 € –144.4 million resulting from currency conversions (2003: € –128.7 million). The changes are due to the weakness of the US dollar and relate largely to the Vallourec Group, which is included at equity in the consolidated financial statements.

Salzgitter AG holds 1,129,497 (2003: 1,134,317) of its own shares with a notional total value of € 2,887,513.23, equating to 1.79% of the subscribed capital (2003: € 2,899,835.36 = 1.82%).

Of the 1,129,497 shares acquired pursuant to § 71 Para. 1 No. 8 of the German Stock Corporation Act (AktG), 513,112 were acquired under the authorization granted by the Shareholders' Meeting on March 16, 1999, 462,924 as authorized by the Shareholders' Meeting on June 19, 2002, and 153,461 as authorized by the Shareholders' Meeting on May 28, 2003.

Of the 517,917 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 4,805 shares with a total par value of € 12,283.79 to third parties at an average price of € 10.21. The shares were sold in lieu of payment for marketing activities. To reward improvement suggestions, 15 shares with a total par value of € 38.35 were issued free to employees and persons belonging to the Group.

In the reporting year, the difference of € 128.8 million that resulted from changed actuarial assumptions relating to pension provisions was removed from equity (retained earnings) without effect on income – after deducting deferred taxes amounting to € 50.2 million – in accordance with the new regulations in IAS 19 and recorded under pension provisions or deferred tax provisions. Following the deduction of deferred taxes, equity decreased by € 78.6 million.

Through the premature application of IAS 19, there would have been following changes in the statement of equity.

| in T€ | Retained earnings | Equity |
|--|-------------------|------------------|
| Status December 31, 2002 | 535,468 | 1,026,701 |
| Adjustment as a result of IAS 19 | -53,983 | -53,983 |
| Status December 31, 2002 (adjusted) | 481,485 | 972,718 |
| Change in actuarial profits and losses | -3,881 | -3,881 |
| Other changes | -24,103 | -46,455 |
| Status December 31, 2003 (adjusted) | 453,501 | 922,382 |
| Change in actuarial profits and losses | -20,731 | -20,731 |
| Other changes | 203,997 | 207,167 |
| Status December 31, 2004 | 636,767 | 1,108,818 |

(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 German 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 surplus 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 Shareholders' Meeting of Salzgitter AG deduct a dividend for the financial year 2004 of € 0.40 per share (equal to € 25.2 million based on the nominal capital stock of some € 160.9 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 closing price of € 14.25 for the Salzgitter share in XETRA trading on December 30, 2004, the dividend yield amounts to 2.8% (2003: 2.8%).

If the company holds own shares on the day of the Shareholders' Meeting, 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 Hafentreibgesellschaft mbH, Hamburg, 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, Schwerte, and Salzgitter Beteiligungsgesellschaft mbH, Braunschweig. The remaining shares in Mannesmannröhren-Werke GmbH and the Eupec Group were acquired in the financial year 2004, 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 in Group net income for the year".

(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.

In the reporting year, the difference of € 128.8 million that resulted from changed actuarial assumptions was removed from equity (retained earnings) with no effect on earnings in accordance with the new regulations in IAS 19 that were applied early and recorded under pension provisions. The pension provisions are accounted for mostly by pension commitments undertaken by German companies.

Provisions for pensions and similar obligations:

| in T€ | 31/12/2004 | 31/12/2003 |
|---------------------|------------------|------------------|
| Pension provisions | 1,625,039 | 1,504,722 |
| Similar obligations | 2,749 | 2,977 |
| Total | 1,627,788 | 1,507,699 |

The provisions for similar obligations take account of bridging payments in the event of death. The provisions for pensions and similar obligations include provisions amounting to € 121 million (2003: € 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 | 1,504,722 | 2,977 | 1,507,699 |
| Adjustment as a result of IAS 19 | 94,860 | – | 94,860 |
| Opening balance Jan. 1 (adjusted) | 1,599,582 | 2,977 | 1,602,559 |
| Changes in the group of consolidated companies | 3,003 | – | 3,003 |
| Transfer to other account | 2,639 | –466 | 2,173 |
| Transfer | 272 | –11 | 261 |
| Used | 115,045 | 110 | 115,155 |
| Reversal | 84 | 42 | 126 |
| Adjustment in line with actuarial assumptions, does not affect result | 33,986 | – | 33,986 |
| Additions | 19,266 | 401 | 19,667 |
| Accrued invest | 81,420 | – | 81,420 |
| Closing balance Dec. 31 | 1,625,039 | 2,749 | 1,627,788 |

Transition from the present value of the defined benefit obligations to balance sheet provisions for pension commitments:

| in T€ | 31/12/2004 | 31/12/2003 |
|--|------------------|------------------|
| Present value of the defined benefit obligations | 1,625,791 | 1,600,643 |
| Less market value of assets held by external funds | –752 | –1,061 |
| Differences as a result of actuarial adjustments | – | –94,860 |
| Balance sheet provisions | 1,625,039 | 1,504,722 |

(33) Tax and Other Provisions

| in T€ | Status 1/1/2004 | Currency differ- ences | Addition due to consolida- tion changes | Transfer | Transfer to other account | Used | Liquidate | Appro- priations | Interest added | Status 31/12/2004 |
|--|--------------------|------------------------------|---|-------------|---------------------------------|----------------|----------------|---------------------|-------------------|----------------------|
| Tax provisions | 96,443 | -191 | 3,540 | - | - | -4,603 | -60,239 | 61,166 | 4,000 | 100,116 |
| Thereof for current income taxes | [18,451] | [-34] | [1,075] | [-] | [-53] | [-1,095] | [-446] | [32,328] | [4,000] | [54,226] |
| Thereof for deferred taxes | [74,874] | [-154] | [2,465] | [-] | [-] | [-2,016] | [-59,726] | [26,043] | [-] | [41,486] |
| Thereof for other taxes | [3,118] | [-3] | [-] | [-] | [53] | [-1,492] | [-67] | [2,795] | [-] | [4,404] |
| Personnel sector | 134,955 | - | 1,055 | -168 | -2,173 | -41,338 | -3,663 | 40,365 | 267 | 129,300 |
| Thereof anniversary awards | [32,892] | [-] | [181] | [-24] | [155] | [-2,105] | [-791] | [2,624] | [-] | [32,932] |
| Thereof for the social scheme/age-related part-time work | [70,766] | [-] | [564] | [-186] | [-2,442] | [-27,218] | [-2,259] | [22,976] | [-] | [62,201] |
| Typical operating risks | 36,361 | - | - | - | -3,332 | -3,513 | -589 | 26,970 | 720 | 56,617 |
| Other provisions | 116,516 | -60 | 509 | 4 | 3,332 | -26,772 | -16,651 | 63,935 | 365 | 141,178 |
| Thereof markdowns/complaints | [26,117] | [-] | [299] | [-] | [514] | [-11,745] | [-4,411] | [26,882] | [-] | [37,656] |
| Total | 384,275 | -251 | 5,104 | -164 | -2,173 | -76,226 | -81,142 | 192,436 | 5,352 | 427,211 |

In the line "Thereof for deferred taxes", a sum of T€ 50,251 is included in the "Liquidate" column; this sum resulted from the early application of IAS 19. This sum was cleared under equity without effect on the income.

The tax provisions include provisions for current and deferred income taxes and other taxes. Income tax provisions – subject to being in the same area of fiscal jurisdiction and of similar natures and maturity – are netted 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 employment contracts.

The provisions reported in the personnel area were valued on the basis of an assumed interest rate of 5% p.a.

Subsidies for employees leaving the company under the terms of age-related part-time employment contracts are capitalized as an asset worth € 9.8 million (2003: € 7.2 million) and not cleared against provisions.

The provisions for other risks primarily include provisions for litigation risks, environmental risks and price discounts/complaints.

Maturities of tax and other provisions:

| in T€ | Total 31/12/2004 | Residual time to maturity < 1 year | Residual time to maturity > 1 year |
|--|---------------------|---|---|
| Tax provisions | 100,116 | 31,050 | 69,066 |
| Thereof for current income taxes | [54,226] | [27,330] | [26,896] |
| Thereof for deferred taxes | [41,486] | [-] | [41,486] |
| Thereof for other taxes | [4,404] | [3,720] | [684] |
| Personnel sector | 129,300 | 41,907 | 87,393 |
| Thereof anniversary awards | [32,932] | [1,981] | [30,951] |
| Thereof for the social scheme/age-related part-time work | [62,201] | [26,134] | [36,067] |
| Typical operating risks | 56,617 | 8,195 | 48,422 |
| Other provisions | 141,178 | 98,240 | 42,938 |
| Thereof markdowns/complaints | [37,656] | [35,370] | [2,286] |
| Total | 427,211 | 179,392 | 247,819 |

| 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 anniversary awards | [32,892] | [1,797] | [31,095] |
| 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 |



Steel won't get carried away: Even when the excitement boils on the crowded terraces, steel beams keep their cool.

(34) Liabilities

| in T€ | Residual time to maturity < 1 year | Residual time to maturity > 5 years | 31/12/2004 Total | 31/12/2003 Total | Residual time to maturity < 1 year |
|---------------------------------------|------------------------------------|-------------------------------------|---------------------|---------------------|------------------------------------|
| Financial obligations | | | | | |
| Liabilities to banks | 115,882 | 15,848 | 174,838 | 196,237 | 154,175 |
| Bonds | 716 | – | 716 | 2,171 | 2,171 |
| | 116,598 | 15,848 | 175,554 | 198,408 | 156,346 |
| Trade payables | | | | | |
| To external third parties | 462,227 | – | 462,243 | 296,620 | 296,518 |
| To shareholdings | 41,195 | – | 41,195 | 28,306 | 28,306 |
| To affiliated companies | 465 | – | 465 | 360 | 360 |
| | 503,887 | – | 503,903 | 325,286 | 325,184 |
| Other liabilities | | | | | |
| To affiliated companies | 10,844 | 33 | 10,877 | 8,707 | 8,676 |
| To shareholdings | 788 | – | 788 | 6,177 | 6,177 |
| Other liabilities | 357,014 | 4,945 | 367,492 | 245,247 | 236,491 |
| Thereof financing activities | [167,873] | [–] | [167,873] | [82,531] | [82,057] |
| Thereof to employees | [40,862] | [801] | [41,696] | [32,369] | [32,327] |
| Thereof taxes | [41,505] | [–] | [41,505] | [30,515] | [30,515] |
| Thereof social security contributions | [25,252] | [84] | [25,336] | [25,274] | [25,274] |
| Thereof received payments on account | [17,358] | [–] | [17,358] | [10,336] | [10,336] |
| Thereof bills payable | [11,920] | [–] | [11,920] | [9,581] | [9,581] |
| Thereof finance leasing agreements | [1,805] | [2,992] | [9,889] | [7,799] | [1,551] |
| Thereof derivatives | [9,292] | [–] | [9,292] | [4,391] | [–] |
| Thereof other liabilities | [41,147] | [1,068] | [42,623] | [42,451] | [44,850] |
| | 368,646 | 4,978 | 379,157 | 260,131 | 251,344 |
| Total liabilities | 989,131 | 20,826 | 1,058,614 | 783,825 | 732,874 |

For an explanation of the bonds, we refer to No. 27. 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. Since these terms were fulfilled on a number of occasions in the financial year 2004, the conversion right was exercised in the amount of T€ 1,455.

Of the total liabilities, some € 229.3 million (2003: € 125.3 million) is secured by liens and similar rights. The increase is connected with the rise in obligations arising from forfaiting and asset-backed-securitisation programs.

The other liabilities arising from financing activities, which total € 167.9 million, include € 165.8 million (2003: € 73.9 million) in debts resulting from forfaiting and asset-backed-securitisation programs. Salzgitter Stahlhandel GmbH, Düsseldorf, and Salzgitter Mannesmann International GmbH, Düsseldorf, are carrying out revolving sales of short-term domestic trade receivables on the basis of an asset-backed-securitisation agreement. The sale of receivables is limited to an amount (purchase price) of € 80.0 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 Mannesmann 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 Mannesmann Handel GmbH, Düsseldorf, Salzgitter Mannesmann International GmbH, Düsseldorf, made other non-Group external financing arrangements, and Salzgitter Mannesmann International GmbH, Düsseldorf, also sold receivables with a value equivalent to € 40.9 million (2003: € 32.9 million) as of December 31, 2004. In accordance with the framework contracts, Salzgitter Mannesmann International GmbH, Düsseldorf, carries out revolving sales of export receivables insured against default for amounts of up to a maximum of € 65.0 million. In addition, Salzgitter Mannesmann International GmbH, Düsseldorf, – for amounts up to a maximum of USD 16.0 million or USD 4.0 million – has sold export receivables worth the equivalent of € 9.3 million and insured with bank guarantees. Furthermore, Salzgitter Mannesmann International (USA) Inc., Houston, has sold receivables and inventories equivalent to € 35.4 million and € 2.1 million respectively as of December 31, 2004, and reported the funds received as liabilities.

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 | 31/12/2004 Total |
|---|---|--|--|---------------------|
| Minimum leasing payments | 2,523 | 6,851 | 3,781 | 13,155 |
| Financing costs | 707 | 1,753 | 806 | 3,266 |
| Cash value of minimum leasing payments | 1,816 | 5,098 | 2,975 | 9,889 |

| 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 |

The leasing liabilities essentially relate to the rental of buildings, plant and factory and office equipment.

(35) Deferred Income

The deferred income items essentially concern reimbursements that are recorded pro rata temporis.

Contingencies

Contingencies are potential liabilities not shown on the balance sheet which are disclosed in the amount of their utilization on the reporting date. The total amounts to € 80.5 million (2003: € 93.5 million).

Included among the contingent liabilities are guarantees of € 64.7 million (2003: € 74.0 million) and bill commitments totaling € 2.5 million (2003: € 14.4 million).

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 arbitration.

Other Financial Obligations

In overall terms, the Group has obligations from investment commitments of € 74.7 million (2003: € 72.9 million), and from rental agreements with terms lasting several years of € 162.0 million (2003: € 169.1 million) as well as other obligations of € 46.5 million (2003: € 65.1 million).

The remaining financial obligations essentially comprise the commitments arising from forward exchange dealings (purchases and sales) and commitments to procure pre-material.

Apart from a sum of € 149.4 million (2003: € 55.6 million), the other financial obligations have a residual time to maturity of up to one year.

In the Steel Division, long-term purchasing commitments to safeguard the procurement of pre-material for raw materials and sea freight, which due to the current market situation are relevant for assessing the financial position, are also reported under other financial obligations for the first time. These amounted to € 569.4 million in the financial year 2004 (of which € 212.0 million have residual times to maturity of < 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€ | 31/12/2004 | 31/12/2003 |
|---|----------------|----------------|
| Up to 1 year | 15,348 | 13,551 |
| Over 1 year | 146,616 | 155,590 |
| Total | 161,964 | 169,141 |

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. The standard IAS 39 also deals with the balance sheet reporting of shareholdings not already dealt with by other standards (including IAS 27, IAS 28, IAS 31). On the other hand, this heading also covers derivative financial instruments.

As of the reporting date, the following groups of financial instruments existed in the Salzgitter Group:

| in T€ | 31/12/2004 | | 31/12/2003 | |
|---|------------------|-----------------------|----------------|-----------------------|
| | Assets | Financial liabilities | Assets | Financial liabilities |
| Trade receivables | 901,965 | – | 628,283 | – |
| Loans | 3,088 | – | 4,663 | – |
| Other receivables | 43,573 | – | 61,237 | – |
| Shares in affiliated companies (non-consolidated) | 34,634 | – | 32,414 | – |
| Shareholdings | 22,813 | – | 38,947 | – |
| Securities | 7,894 | – | 2,309 | – |
| Commercial Paper | 36,986 | – | – | – |
| Cash and cash equivalents | 208,885 | – | 139,964 | – |
| Bonds | – | 716 | – | 2,171 |
| Trade payables | – | 503,868 | – | 325,233 |
| Liabilities to banks | – | 174,838 | – | 196,237 |
| Other liabilities | – | 275,777 | – | 181,816 |
| Forward exchange contracts | 12,900 | 9,292 | 7,135 | 4,391 |
| Total | 1,272,738 | 964,491 | 914,952 | 709,848 |

In accordance with IAS 39, financial instruments are first recognized at acquisition costs, which correspond to the fair values at the time of addition. Financial assets are then subsequently valued either at amortized cost or at 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, calculations by financial institutions 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. The information about the standardized terms was in turn derived from a conventional market information system. The difference established between the contractually agreed foreign currency amount at the contract forward rate and at the reporting date forward rate is discounted to the reporting date at the corresponding euro interest rate for the 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 of the items to the following categories: the "Loans and receivables originated by the enterprise" are valued at amortized cost; "Financial assets held for trading" and "Financial assets available for sale" are measured at fair value. With the exception of liabilities held for trading purposes and derivatives with a negative market value, financial liabilities are subsequently valued at amortized cost.

The breakdown of financial instruments as of the reporting date in comparison with the previous year was as follows:

| in T€ | 31/12/2004 | 31/12/2003 |
|--|----------------|----------------|
| Financial assets held for trading | 1,095 | 719 |
| Loans and receivables originated by the enterprise | 168,265 | 184,963 |
| Financial assets available for sale | 138,887 | 19,422 |
| Total | 308,247 | 205,104 |

The "Financial assets held for trading" amounting to € 1.1 million (2003: € 0.7 million) relate to ineffective hedging transactions.

In the reporting year the Salzgitter Group recorded write-downs on assets categorized as "Loans and receivables originated by the enterprise" in the amount of € 28.6 million (2003: € 9.9 million) and reversals of write-downs in the amount of € 6.0 million (2003: € 3.0 million).

The contractual terms of the financial instruments in the reporting year were as follows:

| Financial instrument | Time to maturity (months) | |
|----------------------|---------------------------|-----|
| | from | to |
| Trade receivables | 1 | 3 |
| Other receivables | 1 | 36 |
| Extended loans | 1 | 240 |
| Trade payables | 1 | 4 |
| Other liabilities | 1 | 12 |
| Liabilities to banks | 1 | 120 |

The changes in the value of the hedging transactions concluded to secure future payment flows are posted to equity with no effect on income. As of the end of the reporting year, a total amount of

€ –4.4 million (2003: € 4.4 million) resulting from changes in the value of the hedging transactions was reported under equity without effect on income.

In the reporting year, the valuation of shareholdings without effect on income led to the posting under equity of € 7.3 million as disposals and € 3.3 million as additions/write-ups. (In the previous year there were disposals of € 9.1 million and value diminutions of € 6.1 million.) This essentially concerns the shareholding in SDI; the fair value of this shareholding was some € 5.1 million (2003: € 10.0 million) higher than its historical acquisition costs.

In the reporting year, profits amounting to € 10.1 million (2003: € 16.9 million, losses € 3.2 million) were made from the sale of "financial assets available for sale". During the reporting year, valuation allowances with effect on income amounting to € 8.2 million (2003: € 0.8 million) were reported for assets in this category that were reported on the reporting date.

The interest on fixed-term deposits in euro was between 1.76% and 2.70% p.a. with a maximum term of 5 days. The interest on fixed-term deposits in currencies other than the euro was between 0.89% and 3.97% p.a. with a term of up to one month. Interest rates on term money borrowings ranged from 0.93% to 2.65% p.a. with a maximum term of 2 months. Interest rates on short-term capital market instruments ranged from 2.09% to 2.63% p.a. with an investment period of up to 2 months. Interest on loans extended by the company ranges from 2.3% to 6.0% p.a. with a maximum residual term of 10 months to 15 years. Interest on loans received by the company ranges from 2.6% to 5.5% p.a. with a maximum residual term of up to 42 months.

The Salzgitter Group is not exposed to any significant **interest rate risks**.

The **credit 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 cover significant elements of the default risk and to afford access to a special information service, credit insurance cover has been arranged at the individual Group companies. For the companies in the Steel Division, the credit insurance does not extend to sales to dealers or companies in the iron and steel industry enterprises, for which global securities are arranged via the steel del credere office.

The default risk pertaining to financial instruments as of the reporting date compared with the previous year was as follows:

| in T€ | 31/12/2004 | | 31/12/2003 | |
|----------------------------|----------------------|----------------|----------------------|----------------|
| | Maximum default risk | Secured risk | Maximum default risk | Secured risk |
| Trade accounts receivables | 901,965 | 584,982 | 628,283 | 397,501 |
| Other receivables | 43,573 | 1,550 | 61,236 | 1,115 |
| Extended loans | 3,088 | 217 | 4,663 | 235 |
| Securities | 7,894 | 25 | 2,309 | – |
| Total | 956,520 | 586,774 | 696,491 | 398,851 |

Currency risks, in other words potential diminutions in the value of financial instruments due to variations in exchange rates, apply particularly in cases where receivables or liabilities denominated in currencies 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 predominantly by means of forward exchange contracts. The 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 forward exchange contracts extend to periods of one to 11 months. As of the reporting date, currency options with contractual terms of up to 35 months were reported. Interest rate option transactions with a contractual term of 13 months were concluded to hedge the interest rate of a five-year bullet loan.

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 the derivative hedging transactions 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 reporting 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 the derivatives to be reported derives from the valuation of the hedged foreign currency amount as the difference between the rate applying

when the forward contract was entered into and the forward rate on the reporting date; this amount is discounted at the euro interest rate to the reporting date in line with the residual time to maturity.

| in T€ | Par value | Market value | Par value | Market value |
|--------------------------------------|------------|--------------|------------|--------------|
| | 31/12/2004 | 31/12/2004 | 31/12/2003 | 31/12/2003 |
| Forward exchange transactions | | | | |
| Purchases | | | | |
| CHF | – | – | 449 | –34 |
| PLN | 47 | 1 | – | – |
| CAD | 53 | –1 | – | – |
| SEK | 756 | –3 | – | – |
| GBP | 1,941 | –22 | 2,048 | –29 |
| USD | 459,265 | –21,713 | 149,256 | –11,049 |
| Others | 3,314 | 59 | – | – |
| Sales | | | | |
| USD | 264,549 | 18,529 | 184,144 | 13,539 |
| GBP | 37,065 | 748 | 40,244 | 222 |
| CAD | 13,864 | 44 | – | – |
| SEK | 21,025 | 17 | 9,042 | 57 |
| PLN | 455 | –18 | 1,422 | 9 |
| CHF | – | – | 685 | – |
| NOK | – | – | 3,218 | 78 |
| Currency options | | | | |
| Sales USD | 101,970 | 3,512 | – | – |
| Interest rate instruments | | | | |
| Sales | 120,000 | 2,455 | 2,584 | –49 |
| Total | – | 3,608 | – | 2,744 |

Transactions are concluded only with banks whose creditworthiness is beyond reproach.

The results from the settlement of the forward contracts are reported as they mature under other operational income and other operational expenditure respectively.

(36) Notes to the Cash Flow Statement

In accordance with IAS 7, the cash flow statement depicts the development in cash flows for the financial years 2004 and 2003, broken down into inflows and outflows of funds from current business, investment and financing activities. The 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 activities, income from the disposal of assets has been eliminated. During the financial year, income taxes amounting to € 7.1 million were paid. In the same period, refunds totaling € 1.5 million were paid to Salzgitter AG. The income taxes paid and refunded have been assigned to current business operations. For the financial year 2003, Salzgitter AG paid some € 11.7 million in income taxes and in the same period received refunds amounting to € 9.3 million. These figures were also assigned to current business operations. Interest receipts amounted to € 11.7 million (2003: € 8.8 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 € 1.1 million (2003: 0.8 million) relates to the acquisition of the cash and cash equivalents arising from changes in the consolidated group, as part of the payments made on investments in financial assets. The bulk of the investment in financial assets relates to the investments made via conversion of remuneration and the capital increase at Siple France S.A.

Interest expenses are assigned solely to financing activities.

Receipts from shareholdings during the financial year amounted to € 32.0 million (2003: € 63.4 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 | 18 |
| Inventories | 6 |
| Receivables | 8 |
| Cash and cash equivalents | 2 |
| Liabilities | 23 |
| Total of net assets acquired pro rata | 11 |
| Acquisition costs for corporate acquisitions | 8 |
| Negative goodwill | 3 |

(37) Notes to the Segment Reporting**Primary Segmentation**

The segmentation of the Salzgitter Group into 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 Ilseburger Grobblech GmbH, belong to the Steel Division under the intermediate holding company Salzgitter Stahl GmbH. Salzgitter Großrohre GmbH, the non-consolidated subsidiary Ilseburger Stahl und Logistik GmbH and the shareholding in Steel Dynamics Holding Inc. (SDI) are also assigned to this division.

The Trading Division consists of four domestic and five foreign companies in the Salzgitter Handel Group, Universal Eisen und Stahl GmbH, Universal Ocel spol. s.r.o. and Hövelmann & Lueg GmbH; Robert S.A.S., as a proportionately integrated joint venture, is assigned to the Trading Division. At the beginning of the reporting year, Universal Ocel spol. s.r.o., Prague, was taken out of the group of consolidated companies.

The companies Le Feuillard S.A.S. and Tolcolor S.A.S., 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. From this reporting year onwards, Salzgitter Mannesmann Forschung GmbH will be reported in this division, having been assigned to the Tubes Division in the previous year.

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 customers outside of the Group. The services offered include data processing, telecommunications services, scrap metal trading, the handling and storage of bulk cargo, transport and other services.

The Processing Division comprises HSP Hoesch Spundwand und Profil GmbH, Salzgitter Bauelemente GmbH, Salzgitter Europlatinen GmbH, Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Salzgitter Automotive Engineering GmbH & Co. KG, Salzgitter Automotive Engineering Immobilien GmbH & Co. KG and Salzgitter Beteiligungsgesellschaft mbH. Also assigned to this segment are the non-consolidated companies Salzgitter Magnesium-Technologie GmbH and Oswald Hydroforming GmbH & Co. KG, 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 GmbH, Mannesmannröhren Mülheim GmbH, MHP Mannesmann Präzisionsrohr GmbH, Mannesmann Line Pipe GmbH, Robur Buizenfabriek B.V., Röhrenwerk Gebr. Fuchs GmbH and the DMV Group. In addition, the Group includes the joint venture Europipe GmbH (including the subsidiaries Europipe France S.A., EB Pipe Coatings, Inc., Berg Steel Pipe Corporation, Eupec PipeCoatings GmbH and Eupec PipeCoatings France S.A.) and Mannesmannröhren-Werke 1. Verwaltungsgesellschaft mbH, which are also included proportionately in the consolidated financial statements. Vallourec S.A., Vallourec & Mannesmann Tubes S.A., Vallourec & Mannesmann Tubes Corporation and Hüttenwerke Krupp Mannesmann GmbH are likewise assigned to this business segment as associated companies in accordance with the equity method.

Eupec Pipeline Services GmbH, Mülheim an der Ruhr, was taken out of the group of consolidated companies as of January 1, 2004.

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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 relate 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 comprise the assets and external funds required for operational purposes – excluding both interest-bearing debt and income tax receivables and liabilities.

The investments relate 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 with non-Group entities according to customers' principal place of business. Group external sales are also subdivided according to the principal place of business of the consolidated supplier company.

The transition 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€ | 31/12/2004 | 31/12/2003 |
|--|------------------|------------------|
| Segmental operating assets | 4,355,574 | 3,846,857 |
| Differences resulting from capital consolidation | -131,338 | -188,269 |
| Effective income tax claims | 8,242 | 11,086 |
| Deferred income tax claims | 996 | 1,295 |
| Deferred expenses | 2,131 | 2,156 |
| Balance sheet total | 4,235,605 | 3,673,125 |
| Segmental operating liabilities | 3,002,343 | 2,566,863 |
| Income tax provisions | 95,712 | 93,325 |
| Income tax liabilities | 5,669 | 7,812 |
| Financial leasing liabilities | 9,889 | 7,799 |
| Group equity | 1,108,818 | 980,246 |
| Minority interests | 11,819 | 16,168 |
| Deferred income | 1,355 | 912 |
| Balance sheet total | 4,235,605 | 3,673,125 |

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 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 2004 | FY 2003 | FY 2004 | FY 2003 |
| ThyssenKrupp GfT Bautechnik GmbH, Essen | 113 | 34 | – | – |
| V&M Deutschland GmbH, Düsseldorf | 50 | 50 | 54 | 47 |
| Hüttenwerke Krupp Mannesmann GmbH, Duisburg | 13 | 9 | 236 | 268 |

All business transactions with related companies are conducted on terms that also customarily apply among third parties.

Deliveries and services provided to related companies concern crude steel products supplied for processing and primarily deliveries of sheet piling and mine arches to ThyssenKrupp GfT Bautechnik GmbH for resale.

The deliveries and services received essentially comprise deliveries of pre-material for the manufacture of large-diameter pipes and precision tubes.

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 contracts were conducted with NORD/LB, and also with other banks, during the reporting period. The transactions were conducted on terms customary on the market. Nord/LB has notified us that it fell below the threshold of 5 % of the voting rights in Salzgitter AG as of January 18, 2005.

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 6.00% p.a. In the case of term money borrowings, the subsidiaries were charged interest at rates of between 2.69% and 6.00% p.a.; Salzgitter AG paid interest at between 1.76% and 6.00% p.a. on term money deposits. Overall, these financial transactions generated interest income for Salzgitter AG in the amount of € 54.0 million (2003: € 60.0 million) and interest expenses of € 35.4 million (2003: € 36.5 million). In no case were the terms disadvantageous to the company.

As of the reporting date, Salzgitter AG provided collateral to the creditors of its subsidiaries in various forms:

| in T€ | 31/12/2004 |
|---|------------|
| Guarantees and letters of comfort to secure long-term loans | 3,598 |
| Guarantees and letters of comfort for downpayments, rent security deposits and warranties | 39,093 |
| Other guarantees | 7,873 |
| Borrowing requests for guarantee bonds, letters of credit, overdraft facilities and long-term loans | 248,399 |

No costs were charged for these and similar legal 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) had not been received by Salzgitter AG as of December 31, 2004. As of December 31, 2004, the total of shares held by all Executive and Supervisory Board members amounted to less than 1 % of the shares issued by the company.

Waiver of Disclosure in Accordance with §264, Para. 3 or §264b of the German Commercial Code (HGB)

The following fully consolidated domestic subsidiaries have fulfilled the conditions required under §264, Para. 3 or §264b of the German Commercial Code (HGB) and are therefore exempted from disclosure of their financial statements:

| | |
|---|---|
| Salzgitter Stahl GmbH, Salzgitter | TELCAT Kommunikationstechnik GmbH, Salzgitter |
| Salzgitter Flachstahl GmbH, Salzgitter | DEUMU Deutsche Erz- und Metall-Union GmbH, Peine |
| Peiner Träger GmbH, Peine | Salzgitter Mannesmann Handel GmbH, Düsseldorf |
| Ilseburger Grobblech GmbH, Ilseburg | Salzgitter Mannesmann International GmbH, Düsseldorf |
| "Glückauf" Wohnungsgesellschaft mbH, Peine | Salzgitter Stahlhandel GmbH, Düsseldorf |
| Hövelmann & Lueg GmbH, Schwerte | Stahl-Center Baunatal GmbH, Baunatal |
| SZST Salzgitter Service und Technik GmbH, Salzgitter | Mannesmann Line Pipe GmbH, Hamm |
| Salzgitter Großrohre GmbH, Salzgitter | MHP Mannesmann Präzisionsrohr GmbH, Hamm |
| Hansaport Hafenerbetriebsgesellschaft mbH, Hamburg | Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter |
| SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter | Universal Eisen und Stahl GmbH, Neuss |
| GESIS Gesellschaft für Informationssysteme mbH, Salzgitter | Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück |
| TELCAT Multicom GmbH, Salzgitter | Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück |

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% p.a. The contractual provisions provide for redemption payments commencing on June 30, 2004, with early redemption also being possible. T€ 50 of the T€ 150 had been redeemed by December 31, 2004.






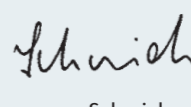
The members of the Supervisory Board and the Executive Board are stated separately. For the discharge of their duties, the members of the Executive Board received the sum of € 3.8 million (2003: € 3.4 million) in the financial year under review. Of this total, € 1.9 million (2003: € 1.2 million) was accounted for during the reporting year by performance-related remuneration components. Provisions for pension obligations to members of the Executive Board amounted to € 5.0 million (2003: € 5.6 million). Former members of the Executive Board and their surviving dependants received a total of € 1.6 million for the financial year (2003: € 1.2 million). Pension provisions totaling € 19.6 million (2003: € 17.3 million) have been set aside to cover commitments to former Executive Board members and their surviving dependants.

The remuneration of the Supervisory Board is shown in the following table:

| in € | FY 2004 |
|---|----------------|
| Dr. Wilfried Lochte, Chairman | 40,900 |
| Horst Schmitthenner, Vice Chairman (until December, 2004) | 30,900 |
| Dr. Dieter Brunke | 20,600 |
| Dr. Gunter Dunkel (until November, 2004) | 18,783 |
| Hannelore Elze | 20,600 |
| Hermann Eppers (since November, 2004) | 3,483 |
| Hans-Michael Gallenkamp (until January, 2004) | 1,667 |
| Kurt van Haaren | 20,450 |
| Prof. Dr.-Ing. Heinz Haferkamp | 20,600 |
| Prof. Dr. Rudolf Hickel | 20,450 |
| Dr. Gunther Krajewski | 20,750 |
| Prof. Dr. Hans-Jürgen Krupp | 20,450 |
| Hans-Jürgen Ladberg | 20,750 |
| Bernd Lange | 20,450 |
| Dr. Arno Morenz | 20,600 |
| Dr. Hannes Rehm | 20,750 |
| Dr. Rudolf Rupprecht | 20,600 |
| Ernst Schäfer | 20,900 |
| Christian Schwandt | 20,600 |
| Rainer Thieme (since January, 2004) | 20,600 |
| Friedrich-Wilhelm Tölkes | 20,600 |
| Hartmut Tölle | 20,600 |
| Prof. Dr. Martin Winterkorn | 20,150 |
| Total | 466,233 |

In 2003 Supervisory Board members received a total of € 0.5 million.

Salzgitter, March 11, 2005


 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 income statement, the balance sheet and the statement of changes in equity and cash flows as well as the notes to the consolidated financial statements for the business year from January 1 to December 31, 2004. 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 in Deutschland e.V. (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 in accordance with IFRS.

Our audit, which also extends to the group management report prepared by the Executive Board for the business year from January 1 to December 31, 2004, has not led to any reservations. In our opinion, on the whole the group 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 group management report for the business year from January 1 to December 31, 2004, 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 11, 2005

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed

Lukasch
Wirtschaftsprüfer

signed

ppa. Menking
Wirtschaftsprüfer

3.9 Substantial Shareholdings of Salzgitter AG

| Status December 31, 2004 | 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 |
| Ilseburger Grobblech GmbH, Ilseburg | 25,875 | 100.00 |
| Salzgitter Großrohre GmbH, Salzgitter | 6,162 | 100.00 |
| Trading Division | | |
| Hövelmann & Lueg GmbH, Schwerte | 2,942 | 95.07 |
| Salzgitter Mannesmann Handel GmbH, Düsseldorf | 57,693 | 100.00 |
| Salzgitter Mannesmann International GmbH, Düsseldorf | 10,300 | 100.00 |
| Salzgitter Stahlhandel GmbH, Düsseldorf | 22,729 | 100.00 |
| Deltastaal B.V., Oosterhout (Netherlands) | 23,313 | 100.00 |
| Friesland Staal B.V., Drachten (Netherlands) | 5,234 | 100.00 |
| Stahl-Center Baunatal GmbH, Baunatal | 5,200 | 100.00 |
| Salzgitter Handel B.V., Oosterhout (Netherlands) | 31,130 | 100.00 |
| Salzgitter Trade Inc., Vancouver (Canada) | CAD 8,219 | 100.00 |
| Ets. Robert et Cie S.A.S., Le Thillay (France) | 16,203 | 50.00 |
| Le Feuillard S.A.S., Le Thillay (France) | 3,828 | 100.00 |
| Tolcolor S.A.S., Le Thillay (France) | 3,170 | 100.00 |
| Universal Eisen und Stahl GmbH, Neuss | 14,975 | 100.00 |
| Salzgitter Mannesmann International Inc., Houston (USA) | USD 8,621 | 100.00 |
| Services Division | | |
| DEUMU Deutsche Erz- und Metall-Union GmbH, Peine | 10,675 | 100.00 |
| Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter | 19,599 | 100.00 |
| Hansaport Hafenbetriebsgesellschaft mbH, Hamburg | 5,113 | 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 |
| SZST Salzgitter Service und Technik GmbH, Salzgitter | 60 | 100.00 |
| Salzgitter Mannesmann Forschung GmbH, Salzgitter | 750 | 100.00 |
| TELCAT Multicom GmbH, Salzgitter | 2,968 | 100.00 |

| Status December 31, 2004 | Equity in € resp. national currency (in 1,000s) | Direct and indirect share of capital in % |
|--|---|---|
| Processing Division | | |
| Salzgitter Bauelemente GmbH, Salzgitter | 1,924 | 100.00 |
| HSP Hoesch Spundwand und Profil GmbH, Dortmund | 17,395 | 100.00 |
| Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Wolfsburg | 14,061 | 74.95 |
| Salzgitter Beteiligungsgesellschaft mbH, Braunschweig | 32 | 90.00 |
| Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück | 1,313 | 100.00 |
| Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück | 49 | 94.00 |
| ThyssenKrupp GfT Bautechnik GmbH, Essen | 500 | 30.00 |
| Salzgitter Europlatinen GmbH, Salzgitter | 10,263 | 100.00 |
| Tubes Division | | |
| Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr | 202,976 | 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 |
| Robur Buizenfabriek B.V., Helmond (Netherlands) | 3,352 | 100.00 |
| Europipe GmbH, Ratingen | 59,419 | 50.00 |
| Europipe France S.A., Dunkerque (France) | -5,772 | 100.00 |
| Berg Steel Pipe Corporation, Panama-City, Florida (USA) | USD 29,934 | 100.00 |
| EB Pipe Coating, Inc., Panama-City, Florida (USA) | USD 7,558 | 100.00 |
| Eupec PipeCoatings GmbH, Mülheim an der Ruhr | 10,559 | 100.00 |
| Eupec PipeCoatings France S.A., Joeuf (France) | 4,080 | 100.00 |
| Röhrenwerk Gebr. Fuchs GmbH, Siegen-Kaan | 7,839 | 100.00 |
| Mannesmannröhren-Werke 1. Verwaltungsgesellschaft mbH, Mülheim an der Ruhr | 18 | 50.00 |
| Hüttenwerke Krupp Mannesmann GmbH, Duisburg | 122,755 | 20.00 |
| DMV Stainless S.A.S., Paris (France) | 23,994 | 100.00 |
| DMV Stainless Italia S.R.L., Costa Volpino (Italy) | 7,349 | 100.00 |
| DMV Stainless Deutschland GmbH, Remscheid | 6,477 | 100.00 |
| DMV Stainless France S.A., Montbard (France) | 13,415 | 100.00 |
| DMV Stainless USA Inc., Houston (USA) | USD 11,078 | 100.00 |
| DMV Stainless B.V., Helmond (Netherlands) | 26,717 | 100.00 |
| Vallourec S.A., Boulogne-Billancourt (France) | 499,235 | 22.65 ¹⁾ |
| VALLOUREC & MANNESMANN TUBES S.A., Boulogne-Billancourt (France) | 695,396 | 45.00 |
| VALLOUREC & MANNESMANN TUBES CORPORATION, Houston (USA) | USD 25,376 | 33.30 |

¹⁾ The voting right percentage is 32.53%

If you aim to be the best, you must stand comparison with the best there are. The German Touring Car Championship is a prime example. Europe's top touring car race series makes maximum demands on materials and machines. This is a fight in which no quarter is asked or given and the drivers press on till the body panels fly.

The fact that the championship has an almost unequalled safety record is due to the strength of the high-tech materials that are used. Like steel. Steel for the tubular cages, roofs and side panels which keep the drivers safe even at speeds of 290 km/h. Steel which carries them to victory. Provided their team has the right drive.



4.1 List of Company Abbreviations

Salzgitter AG (Holding)**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 Mannesmann Handel GmbH | SHD |
| Salzgitter Stahlhandel GmbH | SSH |
| Stahl-Center Baunatal GmbH | SCB |
| Salzgitter Handel B.V., Oosterhout | SHN |
| Salzgitter Mannesmann International GmbH | SID |
| Salzgitter Trade Inc., Vancouver | STV |
| Salzgitter Mannesmann International Inc., Houston | SIH |
| Hövelmann & Lueg GmbH | HLG |
| Universal Eisen und Stahl GmbH | UES |
| Ets. Robert et Cie S.A.S. | RSA |

Services Division

| | |
|---|------|
| SZST Salzgitter Service und Technik GmbH | SZST |
| DEUMU Deutsche Erz- und Metall-Union GmbH | DMU |
| SIT Salzgitter Information und Telekommunikation GmbH | SIT |
| TELCAT Multicom GmbH | TMG |
| TELCAT Kommunikationstechnik GmbH | TCC |
| GESIS Gesellschaft für Informationssysteme mbH | GES |
| Hansaport Hafenbetriebsgesellschaft mbH | HAN |
| Verkehrsbetriebe Peine-Salzgitter GmbH | VPS |
| “Glückauf” Wohnungsgesellschaft mbH | GWG |
| Salzgitter Mannesmann Forschung GmbH | SZMF |

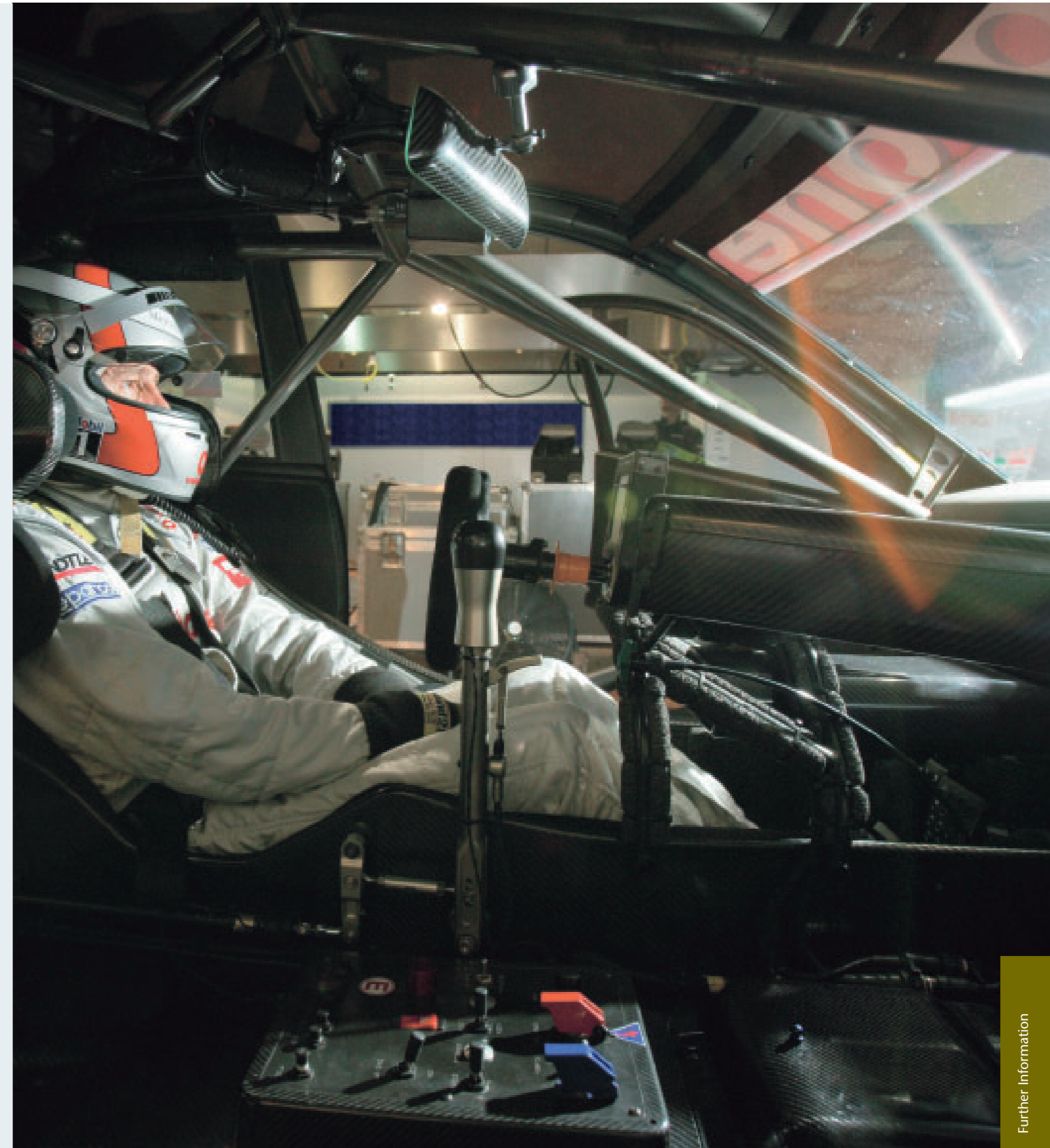
SZAG**Processing Division**

| | |
|--|------|
| HSP Hoesch Spundwand und Profil GmbH | HSP |
| Salzgitter Bauelemente GmbH | SZBE |
| Salzgitter Europlatinen GmbH | SZEP |
| Salzgitter Automotive Engineering GmbH & Co. KG | SZAE |
| Salzgitter Automotive Engineering Immobilien GmbH & Co. KG | SZAI |
| Oswald Hydroforming GmbH & Co. KG | OHC |
| Salzgitter Magnesium-Technologie GmbH | SZMT |

Tubes Division

| | |
|------------------------------------|-----|
| Mannesmannröhren-Werke GmbH | MRW |
| Vallourec & Mannesmann Tubes S.A. | V&M |
| MHP Mannesmann Präzisionsrohr 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 |

Steel yourself:
Combining
maximum safety
with minimum
weight, Mercedes
has fitted its
DTM cars with
high-strength
steel spaceframes.



4.2 Glossary

Business and Financial Terms

C

Capital employed

The sum total of equity including minority interests, tax provisions (excluding deferred taxes) and interest-bearing liabilities.

Cash flow

■ from operating activities

Increase/decrease of liquid funds not dependent on the acquisition or disposal of investments or financing activities.

■ from investment activities

Increase/decrease of liquid funds as a result of the acquisition/disposal of investments.

■ from financing activities

Increase/decrease of liquid funds as a result of financing activities: Issue/redemption of bonds, raising/redemption of loans, issue/repurchase of shares etc.

Corporate Governance

The term used to describe responsible corporate management and control. In the interests of improving corporate management, in the year 2001 the German Federal Minister of Justice set up the Government Commission on the German Code of Corporate Governance which is tasked with making the rules of corporate management and supervision applicable in Germany more transparent and improve the corporate structure of German corporations. The capital markets attach an increasing importance to good corporate governance.

Current assets

Assets not intended to remain within the long-term operations of a business enterprise. For example, inventory stocks, trade receivables and securities are included among current assets.

D

Declaration of Compliance

Declaration by the Executive and Supervisory Boards pursuant to §161 of the German Stock Corporation Act (AktG) regarding implementation of the recommendation by the Government Commission on the German Code of Corporate Governance.

Deferred taxes

Tax charges and reliefs likely to arise at a future date as a result of temporary differences between the book values applied in the consolidated financial statements and the tax valuations of assets and liabilities.

E

EBIT (Earnings before Interest, Taxes)

Earnings before taxes and interest payments (excluding the interest component in appropriation to pension provisions).

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization)

Earnings before taxes and interest payments (excluding the interest component in appropriation to pension provisions) and depreciation and amortization (incl. on financial assets).

EBT (Earnings before Taxes)

Earnings before deduction of taxes.

Equity

Funds made available to a company by its owners as a cash payment and/or capital investment, as well as retained earnings.

External funds

Minority interests, provisions, liabilities and deferred income.

External sales

The proportion of total sales accounted for by transactions with companies outside of the consolidated Salzgitter Group.

F

Fixed assets

Assets intended to remain in the long-term operations of a business enterprise. A distinction is drawn between:

■ Tangible fixed assets

Land and buildings, technical plant and machinery etc.

■ Intangible fixed assets

Goodwill/negative goodwill, patents, licenses, development costs etc.

■ Financial assets

Shares in affiliated and associated companies, other shareholdings, long-term securities etc.

Free float

That part of a company's capital stock which is freely traded on the stock market.

I**IAS/IFRS**

International Accounting Standards/International Financial Reporting Standards: Standards intended to guarantee international comparability in the preparation of accounts.

Internal sales

The proportion of total sales accounted for by transactions between companies within the consolidated Salzgitter Group.

J**Joint venture**

A business venture undertaken in cooperation between and under the joint control of at least two companies which remain independent of one another.

L**Lifo**

Last in, first out: Method of valuing inventories based on their assumed order of consumption.

M**Market capitalization** (stock market capitalization)

Current (stock) market capitalization of a quoted company. The market capitalization is a product of the share price and the number of shares. Deutsche Börse AG calculates market capitalization for index weighting purposes based on the product of share price and free float.

Material costs

Expenditure on raw materials and supplies, goods, items kept in reserve, tooling and outsourced supplies and services such as energy, contract processing and internal transport costs.

P**Pension provisions**

Reserves formed to cover retirement, invalidity and surviving dependants' pension and benefit commitments. Potential obligations are calculated by the present value method and on the basis of actuarial assumptions and calculations.

Personnel expenses

Expenditure on wages and salaries as well as social security, pension and other benefits. These expenditures do not include the interest element in allocations to pension provisions which is reported as part of the financial result.

R**ROCE** (Return on Capital Employed)

The ratio of EBIT to capital employed.

S**Scrap surcharge**

A surcharge on sectional steel products based on the movement in scrap prices.

U**Unappropriated retained earnings**

Profit after appropriation to or transfer from reserves as shown in the annual financial statements of Salzgitter AG calculated in accordance with German Commercial Code. It is this result which principally determines the dividend paid to shareholders.

Technical Terms**B****Blast furnace**

A shaft furnace lined with heat-resistant (refractory) bricks and used by integrated steelworks to smelt pig iron from iron ore.

Bloom

An intermediate product manufactured from crude steel by the continuous casting process and used as pre-material for the production of sections.

C**Coating**

The application of a coat of zinc, organic material, paint or foil, primarily to improve the resistance of steel sheet to corrosion.

Coke

A reduction agent required in the blast furnace for smelting pig iron out of iron ore. Coke is manufactured by heating specific types of coal (coking coal) in a coke oven plant under exclusion of air.

Cold-rolled steel

Non-surface-coated sheet produced by cold rolling.

Cold rolling

Forming process at room temperature. Cold rolling is used for example to turn hot-rolled strip into sheet steel.

Continuous casting

A semi-continuous process for the manufacture of slabs, blooms and tube rounds from molten steel.

E**Electric steel**

Steel produced by smelting scrap in an electric arc furnace.

F**Flat rolled steel/Flat carbon steel**

Flat rolled steel products are manufactured by the hot- and cold-rolling of slabs, including other work stages as necessary. The term specifically refers to sheet steel with a thickness of less than 30 mm, used mainly for automobiles and home appliances.

H**Hollows**

Seamless tubes used as pre-material for the manufacture of seamless precision tubes.

Hot-rolled (wide) strip

Hot-rolled and coiled steel strip used as feedstock for cold rolling or sold as an intermediate product (e.g. as wide strip).

Hot rolling

Forming process carried out at high temperatures. Different types of rolling mills are used to convert semi-finished material into hot-rolled strip, plate, sections or seamless tubes.

L**LD steel**

Oxygen steel produced out of pig iron by the Linz-Donawitz process (top blowing process).

P**Pellets**

Small spheres manufactured from fine-grain iron ore with the addition of water and binding agents, hardened in an oven. Pellets are used in the blast furnace along with lump ore and sinter as a source of iron.

Plate

Sheet steel with 30 mm or more in thickness. Plate is required mainly in the construction industry, for mechanical engineering and equipment manufacturing, shipbuilding and large-diameter pipes.

Precision tubes

Seamless or welded steel tubes utilized in mechanical engineering and the automobile industry.

R**Reduction agent**

Sources of carbon such as coke, coal or heating oil used in the blast furnace process to convert iron ore (iron oxide) into pig iron.

Relining

Cladding the blast furnace with refractory material, a process repeated in intervals from ten to fifteen years.

Rolled steel

The sum total of all end products to emerge from rolling mills.

S**Sections**

Long products such as beams and sheet piles, used primarily in building construction and civil engineering.

Semi-finished goods

A general term for pre-material made from crude steel for use in rolling mills (slabs, blooms, tube rounds).

Shuttle coater

Technical facility for covering galvanized thin sheet with various coatings.

Slab

An intermediate product manufactured from crude steel by the continuous casting process and used as pre-material for the production of flat rolled steel.

Surface-coated steel products

Products which by special processes are provided with a metallic or organic surface coating, for example by galvanizing or paint-coating.

T**Tube rounds**

An intermediate product manufactured from crude steel by the continuous casting process and used as pre-material for the production of seamless tubes.

Tubes**■ Welded tubes**

Tubes made by welding plate or hot-rolled strip. A distinction is drawn between longitudinally welded tubes (where the weld seam runs along the axis of the tube) and spiral-welded tubes (where the weld seam spirals around the circumference of the tube).

■ Seamless tubes

Tubes made from tube rounds. After heating, by a variety of processes (including pilgering) a hollow body is first created which is then rolled and if necessary drawn to its final dimensions.

4.3 Financial Calendar of Salzgitter AG for 2005

| | |
|-------------------|---|
| March 9, 2005 | Key data for financial year 2004 |
| March 31, 2005 | Publication of consolidated financial statements for 2004 Annual press conference |
| April 4, 2005 | Analysts' conference in Frankfurt/Main |
| April 5, 2005 | Analysts' conference in London |
| May 13, 2005 | Interim report for the first quarter of the 2005 financial year |
| May 26, 2005 | Ordinary Shareholders' Meeting for 2005 |
| August 12, 2005 | Interim report for the first half of the 2005 financial year Analysts' conference in Frankfurt /Main |
| August 15, 2005 | Analysts' conference in London |
| November 14, 2005 | Interim report for the first nine months of the 2005 financial year |

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4.4 Imprint and Contact

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Interactive Annual Report:

www.salzgitter-ag.de/gb2004

Editor:

SALZGITTER AG

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BUTTER. Agentur für Werbung,
Düsseldorf

Photography:

Marcus Pietrek, Düsseldorf
Photographs pages 106/107, 109, 115:
Louie Psihoyos, USA

Lithography:

Weß+Lüer GmbH, Willich

Translation:

Baker & Harrison Translations,
München

Printed by:

Meinke GmbH, Neuss

Production:

BUTTER. Agentur für Werbung,
Düsseldorf