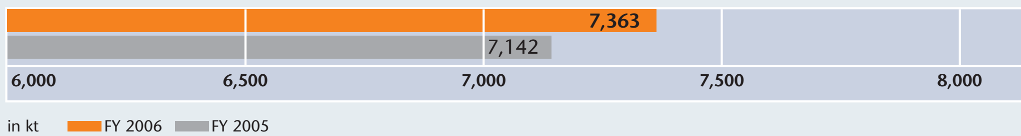
Annual Report 2006

Financial Year from January 1 to December 31, 2006

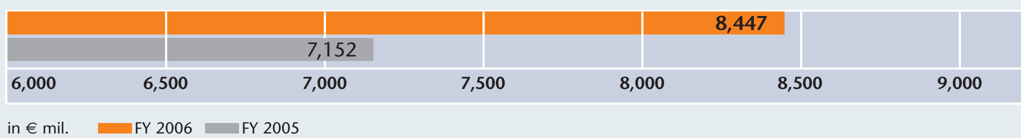
SALZGITTER AG
Steel and Technology

Key Figures for the Financial Year 2006

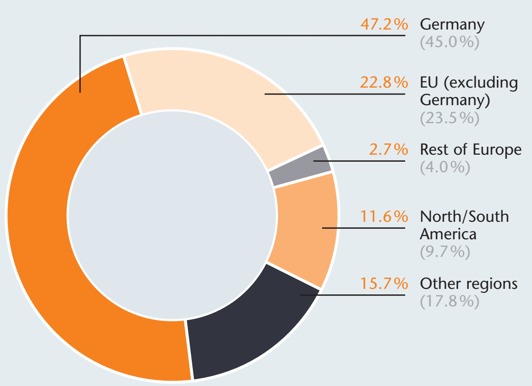
Crude Steel Production



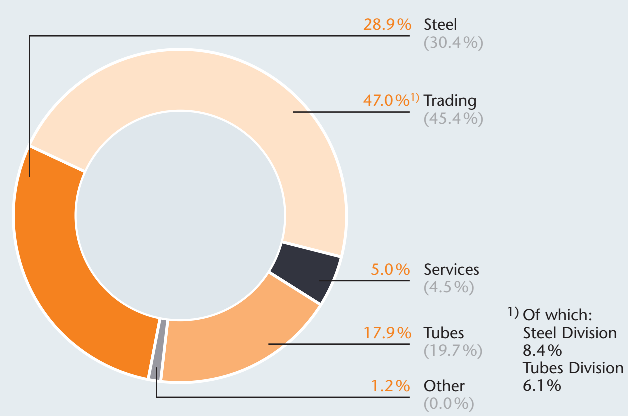
Consolidated Sales



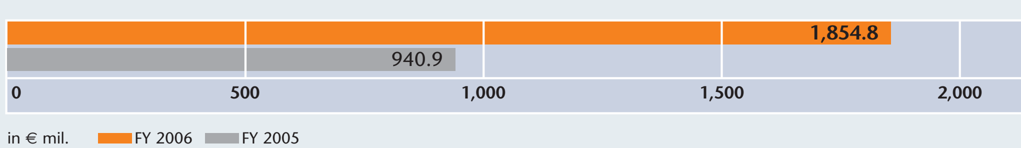
Consolidated Sales 2006 (2005) by Region



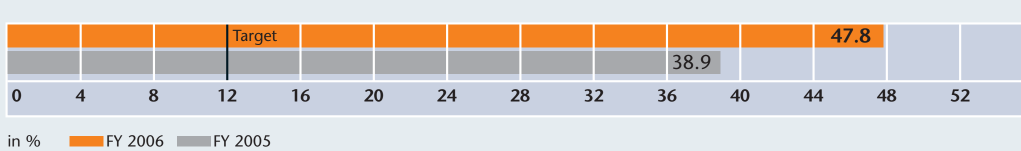
Consolidated Sales 2006 (2005) by Division



Earnings before Tax (EBT)



Return on Capital Employed (ROCE)



		FY 2002	FY 2003	FY 2004[1]	FY 2005	FY 2006
Sales (consolidated)	**€ mil.**	**4,741**	**4,842**	**5,942**	**7,152**	**8,447**
Steel Division	€ mil.	1,430	1,432	1,946	2,177	2,440
Tubes Division	€ mil.	1,121	921	1,016	1,407	1,510
Trading Division	€ mil.	1,729	2,027	2,642	3,244	3,971
Services Division	€ mil.	232	241	338	324	425
Processing Division	€ mil.	229	221	–	–	–
Others/Consolidation	€ mil.	–	–	–	–	101
of which flat rolled products	€ mil.	2,049	2,409	3,013	3,379	3,825
of which sections	€ mil.	809	596	794	793	1,049
of which tubes	€ mil.	1,308	1,236	1,284	1,908	2,401
of which export share	%	54	52	53	55	53
Earnings before tax (EBT)	**€ mil.**	**72**	**42**	**323**	**941**	**1,855**
Net income for the year	**€ mil.**	**66**	**28**	**247**	**842**	**1,510**
Balance sheet total	**€ mil.**	**3,807**	**3,673**	**4,236**	**5,414**	**6,978**
Fixed assets[2]	**€ mil.**	**1,975**	**1,879**	**1,918**	**1,900**	**1,631**
Current assets[3]	**€ mil.**	**1,832**	**1,794**	**2,318**	**3,514**	**5,347**
Inventories	€ mil.	869	919	1,081	1,439	1,653
Shareholder's equity[4]	**€ mil.**	**1,027**	**980**	**1,121**	**2,012**	**3,457**
Debts[5]	**€ mil.**	**2,780**	**2,693**	**3,115**	**3,402**	**3,521**
Long-term liabilities[6]	€ mil.	1,884	1,892	1,902	2,079	2,187
Current liabilities[7]	€ mil.	896	801	1,213	1,323	1,334
of which due to banks	€ mil.	177	196	175	178	140
Investments[8]	**€ mil.**	**251**	**191**	**228**	**262**	**236**
Depreciation and amortization[8]	**€ mil.**	**220**	**248**	**313**	**206**	**201**
Employees						
Personnel expenses	€ mil.	940	935	926	994	1,014
Year-average core workforce[9]	empl.	18,598	17,874	17,352	17,184	16,949
Year-average total workforce[10]	empl.	19,710	19,007	18,498	18,499	18,352
Crude steel production[11]	**kt**	**8,209**	**8,562**	**6,932**	**7,142**	**7,363**
Key figures						
Earnings before interest and tax (EBIT)[12]	€ mil.	93	61	346	970	1,901
EBIT before depreciation and amortization (EBITDA)[13]	€ mil.	313	309	667	1,186	2,102
Return on capital employed (ROCE)[14]	%	7.3	4.6	24.4	38.9	47.8
Cash flow	€ mil.	157	223	352	468	488

1) Values for FY 2004 adjusted to the new Group structure and balance sheet reporting regulations
2) Fixed assets until 2003
3) Current assets until 2003
4) Including minority interests from 2004 onwards
5) Excluding minority interests from 2004 onwards
6) Provisions until 2003
7) Liabilities until 2003
8) Excluding financial investments
9) Excluding trainees and non-active age-related part-time employees
10) Including trainees and non-active age-related part-time employees
11) Since 2002 SZFG, PTG and MRW-/V&M interests in Hüttenwerke Krupp Mannesmann (HKM) and V&M France and V&M do Brasil, from July 2002 also including V&M Star; from 2004 calculated on the basis of the changed shareholdings in HKM and Vallourec
12) EBT plus interest paid (excluding the interest portion of allocations to pension provisions)
13) From 2004 including amortization of financial assets
14) EBIT divided by the sum of shareholders' equity, tax provisions and interest-bearing liabilities (from 2003 excluding deferred tax assets and liabilities; from 2005 including liabilities from financial leasing, forfaiting and asset-backed securitization)

Highlights of the Financial Year 2006

March 13, 2006

Salzgitter AG publishes its key figures for the financial year 2005: buoyed by the persistently upbeat economic environment for rolled steel and tubes, the Group once again raised both business volume and profit in a year-on-year comparison. Sales climbed to € 7.15 billion (2005: € 5.94 billion) and pre-tax profit to € 940.9 million (2005: € 322.8 million). Both figures set new all-time benchmarks.

March 30, 2006

The Annual Report 2005 of the Group is published and presented to the financial press at the annual results press conference. In the days following this event, we continue our dialog with the financial community at well attended analysts' conferences held in Frankfurt and London.

April 11, 2006

The Regional Court of Braunschweig rejects the action to rescind brought by a shareholder against the resolution passed by the General Meeting of Shareholders of Salzgitter AG held on November 17, 2005, on the spin-off and transfer agreement regulating the new organization structure of the Salzgitter Group. The spin-off was registered in the Commercial Register on April 24, 2006, the date from which the new structure of the Group took legal effect.

April 24 – 28, 2006

Together with its subsidiaries, the Salzgitter Group presents itself at leading trade fairs. Highlights at the Hanover Trade Exhibition were the subcontracting and pipeline technology activities. The "Mannesmann" brand name took center stage at the "Tube" in Düsseldorf.

May 12, 2006

Underpinned by a steel market which developed far better than was expected a few months back and a persistently strong demand for tubes, the Salzgitter Group achieved excellent results in the first quarter of the financial year 2006. At € 1.98 billion, consolidated external sales significantly outperformed the figure of the first quarter of 2005 (€ 1.77 billion). The operating profit before tax, net of effects from hedging transactions, rose to € 198.9 million (2005: € 253.5 million).

June 8, 2006

The General Meeting of Shareholders of Salzgitter AG ratifies the proposal of the Executive and Supervisory Boards and approves a dividend of € 0.50 and a special bonus of € 0.50 per share which, based on the year-end 2005 share price, equates to a dividend yield of 2.2%. As in previous years, this yield exceeds the DAX and MDAX averages.

July 1, 2006

Hövelmann & Lueg GmbH (HLG), a subsidiary of Salzgitter AG, purchases the Schwerte-based steel service center Flachform Stahl GmbH (FFS) from Arcelor. One of Germany's most high-performance steel service centers has emerged from this transaction. Whereas HLG mainly operates in the market for sheets and blanks, FFS has several slitting lines producing slitted coils which ideally supplement the product range.

August 8, 2006

Salzgitter AG sells its 17.2 % stake in the share capital of Vallourec S.A., thereby generating a high cash inflow. With this step, the Group has decisively expanded its financial and strategic flexibility.

August 10, 2006

The positive economic trend continues unabated in the first half of 2006 as well. Against the backdrop of an extremely firm rolled steel and tubes market, Salzgitter AG's divisions generated exceptionally high results. Consolidated sales rose to € 4.03 billion (2005: € 3.63 billion) and operating profit before tax, net of effects from hedging transactions, came to € 437.9 million (2005: € 463.4 million).

October 24 – 28, 2006

Together with its subsidiaries, Salzgitter AG presents itself as a specialist for system solutions using the material steel at Euroblech in Hanover under the slogan "Whatever your plans may be".

November 14, 2006

As a result of outstanding business developments in the third quarter as well, the Salzgitter Group sets new benchmarks for a nine-month period. Consolidated external sales grew to € 6.21 billion during this period (2005: € 5.38 billion). The Group's pre-tax profit reached the exceptional level of € 1.57 billion which includes € 907 million in proceeds from the sale of the Vallourec shares. Operating profit before tax stood at € 661.5 million, thereby exceeding the already very high figure of € 595.2 million of the previous year.

December 6, 2006

Salzgitter AG and Vallourec S.A. sign an agreement on the projected purchase of the French company Vallourec Précision Etirage S.A.S. (VPE), a wholly owned subsidiary of Vallourec. The VPE plants are intended to supplement the activities of Salzgitter in the precision tubes segment in which MHP Mannesmann Präzisrohr GmbH and Mannesmann Robur B.V. are active.

In the context of this transaction, the intention is also to purchase the German plant for hot-rolled tubes in Zeithain (Saxony) from Vallourec. The acquisition of the Zeithain mill will make the new precision tubes group, comprising MHP Mannesmann Präzisrohr GmbH, Mannesmann Robur B.V. and Vallourec Précision Etirage S.A.S., largely independent with regard to their needs for seamless hollows as the essential input material.

The planned merger would build a leading European tubes manufacturer for automotive and industry products.

December 17, 2006

The financial transacting of the Vallourec deal won the International Financing Review award for the "European Structured Equity Issue" of the year 2006.

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Preface by the Executive Board

Ladies and Gentlemen,

We have kept all our promises to you in recent years. There is only one case in point where we were a little off the mark: this was when we stated in the preface to our 2005 Annual Report that there would not be a repeat of the exorbitant profit generated in that financial year. Today we are wiser: it was not only repeatable but – even after eliminating proceeds of € 907 million from the sale of the remaining shares in Vallourec and not including the results of V&M Tubes which still contributed in 2005 – also outperformable, by as much as € 145 million. We are certain that you will understand the reason – which stems from our fundamental attitude towards responsibility – for the divergence between our more conservative forecast and this new record profit.

The pre-tax result of € 1.85 billion in the financial year is also a benchmark, as is the 47.8 % return on capital employed, or the equity of your company which has meanwhile grown to € 3.46 billion. You might remember that this figure was less than a third of the current dimension just two years ago, and that we ourselves have generated this increase, without drawing on funds from outside the company.

The situation on the rolled steel and tubes market, still favorable owing to the relationship between demand and supply, helped us to compensate for the effect of the in part substantially higher prices of raw materials. But it was obviously not only tailwind from the markets which lifted our profitability to a level so discernibly above that of most European and overseas competitors. Support came from the consistent implementation of our long-term strategy to produce a comparatively wide range of high quality products with modern facilities and to bring to the end customers, either directly or via our own trading operations. And we have stuck to taking the identification and implementation of measures to improve profitability very seriously, even during a boom phase.

Similarly, just as we pursue the strategy of developing our company on a sustainable basis without compromising, we will retain the fundamental values underlying our business policy and ethics. The entrepreneurial independence of Salzgitter AG is accorded a very high priority in this context, as it is the only way we can guarantee that we remain on the path which has been so successful for both shareholders and stakeholders.

Of course, this does not mean that, while conserving our identity and authenticity, we will not avail ourselves of opportunities which could complement our core business to date. On the contrary: instead of involving ourselves in the wearisome process of expensive bidder battles for steel producers currently valued at an extremely high level, we have, for the time being, decided in favor of purchasing around 80 % of the shares in Klöckner-Werke AG. Even if surprising to the public, this step was carefully considered. Klöckner with its broad-based international business is one of the three global leaders in the less cyclical, high-growth market of beverages filling lines. It rounds off our Group by adding

The Executive Board: (standing, from left to right) Hans Fischer, Wolfgang Eging, Heinz Groschke, Peter-Jürgen Schneider; (sitting, from left to right) Dr. Heinz Jörg Fuhrmann, Wolfgang Leese


Whatever your plans may be.
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a valuable high-tech activity. We are very happy to have this new participation which will create the new Technology Division of our Group.

One thing is certain: Salzgitter AG should and will grow further. To ensure that growth, as in so many cases, does not bring more sales and less profit, we must not allow ourselves to come under pressure to act. We are grateful to have been sent motivating signals by many of our important shareholders. They support us in our efforts only to transact major acquisitions if genuine value added can be achieved.

In the financial year 2006, we were again successful in doubling the price of the Salzgitter share. We thus rank in the top league all performance comparisons.

The proposal to double the dividend keeps pace with the share price trend and raises the payout ratio as against the previous year. In view of the sound balance sheet structure meanwhile attained, we consider this justifiable.

The financial year 2007 got off to a very good start, and the sales markets were in a robust condition. Should this trend hold steady throughout the year, there is a chance of profit being exceptionally good again. Naturally, we will not be able to set a new record every year.

In our Annual Report, we have chosen something special for our “story board”. As in previous annual reports, the light thrown on our company is unusual. This year, however, the photos were taken by people who really know their way around our company: our people themselves.

As a part of an exciting undertaking with the name “Salzgitter AG – That’s us”, our employees in the different divisions all over the world were given single-use cameras for a week. The task was to photograph the everyday life of individual employees of Salzgitter AG. Freely – no instructions and no restrictions.

The result is unique and well worth looking at: colorful, varied, singularly interesting, even refreshingly unconventional. A personal and authentic view of our company which not even the most professional photographer could produce. A look at the pictures is revealing and makes us especially proud: as varied as the photos are, they show you how strongly our employees identify with our company, which is also a major source of our success.

Of course, there is no lack of figures in our Annual Report. But this year we feel we have been particularly successful in showing what is behind all these impressive figures – hard-working people. Our thanks go to all who, behind and in front of the cameras, have helped to make our Annual Report so entertaining and interesting.

And we would like to thank you, as shareholders and business partners of Salzgitter AG, on behalf of our committed employees as well, for the trust that you have vested in our company.

Wolfgang Leese — Wolfgang Eging — Hans Fischer

Dr. Heinz Jörg Fuhrmann — Heinz Groschke — Peter-Jürgen Schneider

Report of the Supervisory Board

Against the background of steady and stable global economic expansion and rising domestic demand, Salzgitter AG again achieved outstanding results in the financial year 2006. The company's concentration on high-quality products tailored to the specific requirements of the customer enabled it to compete as an independent and high performing producer of steel in a consolidating steel market. Salzgitter AG continues to invest selectively in its existing locations with the aim of securing its position and strengthening the organic growth of the corporation on a long-term basis.

Monitoring and Advising the Executive Board in the Exercising of their Management Duties

The Supervisory Board monitored the Executive Board in its management of the company. It kept itself fully informed about course of business and the situation of the company on a regular and timely basis by way of written and verbal reports. The Executive Board reported to the Supervisory Board on the strategic development, the profitability of the company, the risks and corporate planning. The Supervisory Board was informed of the generally very positive divergences between the planned and actual course of business, and the causes thereof were thoroughly explained and discussed. The Supervisory Board was directly involved in all decisions of particular significance for the company. It discussed these decisions in detail and acted in an advisory capacity to the Executive Board.

There were four regular meetings in which the Supervisory Board discussed the situation and the development of the Group on the basis of reports submitted by the Executive Board. The average attendance rate of Supervisory Board members was higher than 90%. One member of the Supervisory Board was excused from attending less than half the meetings of the executive body.

The Presiding Committee of the Supervisory Board convened for two meetings and a number of individual discussions.

Main Focus of the Supervisory Board: Investment Activities

The Supervisory Board held detailed discussions on important transactions submitted by the Executive Board, especially those requiring its approval. Consultation and resolutions mainly concerned substantial investments needed for the expansion and modernization of production facilities as well as to secure the high quality standards.

Particularly noteworthy was the resolution approving the construction of two 105-MW generating units of the power station of Salzgitter Flachstahl GmbH to help reduce the amount of electricity sourced from third parties and, ultimately, to lower production costs. In addition, the higher proportion of the company's own energy supply will serve to secure production capability at the Salzgitter and Peine works.

With a view to enhancing quality assurance and extending the product range, the Supervisory Board also gave its approval to the following projects:

- replacement of the roller straightener in the universal beam mill of Peiner Träger GmbH, Peine,
- the conversion and expansion of the 20-inch tube welding line of Mannesmann Fuchs Rohr GmbH, Hamm, to 24 inches,
- the construction of a new hot strip cut-to-length line at Salzgitter Flachstahl GmbH, Salzgitter, and
- the construction of a new cold plate leveler for the rolling mill of Mannesmannröhren Mülheim GmbH.

Dr. Wilfried Lochte,
Chairman of the
Supervisory Board


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The exceptional gain in value of the 17.2% stake in Vallourec S.A. was realized through the sale of this participation, a factor which ultimately served to boost the outstanding earnings position of the company.

In its meeting on December 19, 2006, the Supervisory Board dealt in detail with the corporate plans, submitted and explained by the Executive Board, including investment, finance and personnel planning for the financial years 2007 to 2009. The Supervisory Board approved the investment planning for the Group and related financing for the financial year 2007.

The Strategy Committee discussed in depth the core issues relating to the strategy of the company in a meeting with the Executive Board. The Personnel Committee of the Supervisory Board did not have to be called upon in the financial year 2006. No further committees were formed by the Supervisory Board.

The Chairman of the Supervisory Board also maintained regular contact with the Chairman of the Executive Board in addition to the Supervisory Board meetings. Many individual discussions were conducted on the position of the company, its development and material transactions.

In its meeting on December 19, 2006, the Supervisory Board ascertained, after having consulted upon the issue, that, in its opinion, this executive body comprises a sufficient number of independent members to ensure its ability to adequately carry out its duties in advising and monitoring the Executive Board.

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 2006.

Annual Financial Statements and Consolidated Financial Statements

In its meeting on March 28, 2007, the Supervisory Board examined the annual financial statements of Salzgitter AG and the consolidated financial statements of the Group, both as of December 31, 2006, as well as the joint management report on the company and the Group for the financial year 2006. Prior to this, the independent auditor PricewaterhouseCoopers Aktiengesellschaft, Hanover, selected by the General Meeting of Shareholders, reviewed both sets of financial statements and issued an unqualified auditor's opinion respectively. The auditor thereby confirmed that the balance sheet accounting, the 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 ascertained that the Executive Board had taken the steps required by the German Stock Corporation Act (AktG) for the early recognition of risks that could endanger the company as a going concern.

The annual financial statements at company level, the consolidated financial statements at Group level, the joint management report on the company and the Group, the Executive Board's proposal for the appropriation of the unappropriated retained earnings as well as the auditor's reports were available to 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 28, 2007, and elaborated upon the most important findings of their audit.

Its own examination of the annual financial statements, the consolidated financial statements and the joint management report did not lead to any objections. The Supervisory Board approved the findings of the auditor's review and ratified the annual 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 unappropriated retained earnings.

In addition, the Supervisory Board examined the report submitted by the Executive Board on the relations of Salzgitter AG with Hannoversche Beteiligungsgesellschaft mbH and its associated companies (Section 312, German Stock Corporation Act [AktG]). The report of the auditor of its review of this report was submitted to each Supervisory Board member. The opinion of the auditor, as set out below, confirms that its audit did not give rise to any reservations:

"On the basis of our due and diligent audit and assessment, we herewith confirm that
1. the information as presented in the report is correct,
2. in relation to the legal transactions listed in the report, the payments made by the company was not unduly high."

The auditor took part in the consultation process of the Supervisory Board concerning the report of the Executive Board and elaborated on the most important findings of the audit. Upon concluding its own review, the Supervisory Board had no objections to the declaration of the Executive Board (see Management Report, page 130) inserted at the end of its report. The Supervisory Board concurred with the findings of the auditor's review of the report.

Composition of the Supervisory Board

Mr. Ernst Schäfer (employee representative), Chairman of the Group's Work Council of Salzgitter AG until April 16, 2006, laid down his mandate on June 20, 2006. In his place, the District Court of Braunschweig appointed Mr. Hasan Cakir, Chairman of the Works Council of Salzgitter Flachstahl GmbH, to the Supervisory Board, effective July 17, 2006.

Dr. Gunther Krajewski (owners' representative), Head of Ministry Department, Department Head of the Ministry of Finance of Lower Saxony until November 30, 2006, laid down his mandate on December 31, 2006. In his place, the District Court of Braunschweig appointed Dr. Lothar Hagebölling, Secretary of State and Head of the State Chancellery of Lower Saxony, to the Supervisory Board, effective January 1, 2007.

The Supervisory Board wishes to thank all former members for their long years of successful cooperation as members of this executive body.

The Supervisory Board would like to thank the Executive Board and all of the Group's employees for their work and their commitment in the financial year 2006.

Salzgitter, March 28, 2007

The Supervisory Board

Dr. Wilfried Lochte
Chairman

Salzgitter Holding | Our thanks go to Michael Brühl, Doreen Fege, Bernd Gersdorff, Jörg Grzella, Peter Lenke, Alexandra Pürstl, Olaf Reinecke and Frank Seinsche for their photographic contributions.


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Corporate Governance Report

Salzgitter AG places great importance on the quality of its corporate governance (management and control of the company). The **German Corporate Governance Code** reflects essential statutory provisions on the management and supervision of listed stock corporations. In addition, it recommends a set of internationally and nationally recognized standards on good and responsible management and supervision of a company. The Corporate Governance Report elaborates on the implementation of corporate governance at Salzgitter AG.

In summary, the management and corporate culture of the Salzgitter Group comply with legislation and, with a few exceptions, with the recommendations of the German Corporate Governance Code.

Corporate Governance at Salzgitter

Salzgitter AG has always been firmly committed to a responsible corporate policy geared towards increasing the value of the company. It regards good corporate governance as an integral part of its success, perceiving it as a standard that encompasses all of the divisions of the company and its activities. Over the past year as well, Salzgitter AG has continued to dedicate much time and effort to developing its corporate governance, thereby securing good company management and control. During this process, it has in particular implemented additional recommendations set down in the German Corporate Governance Code, as documented by the submission of its Declaration of Conformity by the Executive Board and the Supervisory Board on December 19, 2006, pursuant to Section 161 of the German Stock Corporation Act (AktG).

To monitor the observance of the recommendations of the Code, the Executive Board of Salzgitter AG has appointed a coordination unit which reports directly and regularly to the Board.

The Shareholders of Salzgitter AG

The shareholders of Salzgitter AG exercise their rights at the General Meeting of Shareholders which takes place regularly once a year. In particular, they decide on the appropriation of profit, the discharge of the Executive Board and the Supervisory Board, the election of the members of the Supervisory Board, changes to the Articles of Incorporation and significant entrepreneurial measures. Each shareholder of Salzgitter AG is entitled to participate in the General Meeting of Shareholders to address the Meeting about items on the agenda and to ask pertinent questions and 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 adopted annual financial statements of the company as of December 31, 2005, the consolidated financial statements of the Group and the joint management report on the company and the Group, together with the report of the Supervisory Board, were presented at the annual General Meeting of Shareholders of Salzgitter AG held on June 8, 2006. Prior to the General Meeting of Shareholders, the aforementioned documents were posted on the company's website and made available as a printed version after the Supervisory Board's meeting on March 30, 2006. The General Meeting then discussed applications for resolution pertaining to the following items on the agenda:

- appropriation of unappropriated retained earnings (50 cents plus 50 cents special bonus per share),
- discharge of the Executive and the Supervisory Boards,
- selection of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, as auditor for the financial year 2006,
- authorization for the purchase, sale and retraction of shares.

The application for resolutions submitted by the Executive and Supervisory Boards were approved by a large majority.

The new regulations on registration and legitimation of shareholders for participation in the General Meeting of Shareholders, as laid down under the German Stock Corporation Act, were applied for the first time. These regulations were introduced with the German act on Corporate Integrity and Modernization of the Right of Avoidance 2005 (UMAG). Under this act, all persons who, at the start of the 21st day (record date) before the General Meeting of Shareholders, hold shares of Salzgitter in their securities accounts and have registered in good time are permitted to take part in the meeting.

The Executive Board of Salzgitter AG

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

The Supervisory Board has established rules of procedure for the purpose of regulating cooperation in the Executive Board and involving the Supervisory Board in business transactions. The allocation of duties among the members of the Executive Board is set out under a schedule for the allocation of tasks.

The remuneration of the members of the Executive Board is disclosed in the Group Management Report (section I. 2.3.).

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 of fundamental significance for the company. Particular transactions determined in the rules of procedure applicable to the Executive Board of Salzgitter AG require the approval of the Supervisory Board. In addition, the Supervisory Board appoints and dismisses members of the Executive Board. Its scope of influence has been laid down in a set of rules of procedure.

Pursuant to the provisions of the Coal and Steel Industry Codetermination Act of 1951 that applies to the company, in conjunction with Section 7 of the company's Articles of Incorporation, the Supervisory Board consists of 21 members: 10 shareholders' representatives and 10 employee-elected representatives, plus one further member who is proposed by the other 20 shareholders to the General Meeting of Shareholders for election. In order to prepare its decisions, the Supervisory Board of Salzgitter has set up a presiding committee and committees for personnel and strategy issues.

Since the General Meeting of Shareholders of Salzgitter AG, held on June 8, 2006, two members have left the Supervisory Board. In their place the District Court of Braunschweig has appointed two new members. The composition of the Supervisory Board, comprised of expert members with sufficient independency, forms the basis for the Supervisory Board to carry out its tasks effectively in future as well.

The Supervisory Board will provide information on its activities and decisions in the financial year 2006 separately in its report to the General Meeting of Shareholders.

The Supervisory Board did not receive any reports of conflicts of interest, neither from the members of the Executive Board nor from members of the Supervisory Board. Pursuant to Section 7, Item 2 of the Articles of Incorporation of Salzgitter AG, the term of office of the Supervisory Board is expected to end upon conclusion of the General Meeting of Shareholders in 2008.

The remuneration of the members of the Supervisory Board is disclosed in the Group Management Report (section I. 2.3.).

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

In stock corporations established under German law, the executive board and the supervisory board work as separate bodies, each carrying out different tasks. A member of the executive board cannot be a member of the supervisory board at the same time.

In practice, to ensure successful corporate governance at Salzgitter AG, the Executive Board and the Supervisory Board use a set of instruments in performing their management and control duties.

The essential instruments of the Supervisory Board include in particular:

- the obligation of the Executive Board to submit regular, timely and comprehensive reports to the Supervisory Board,
- regular discussion of corporate plans, the business trend and the strategy with the Executive Board,
- definition of business activities and measures of the Executive Board which may only be carried out with Supervisory Board approval,
- the obligation of the Executive Board to submit annual longer-term corporate plans and to report on the execution of such plans,
- agreement on the 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 Executive Board uses a selection of instruments for management and control which includes:

- definition of reporting duties and authorization requirements for individual areas in the Group Guidelines and the articles of incorporation of the Group companies,
- definition of the principles governing the management of the Group in a set of Group Guidelines on management and organization,
- preparation of strategic plans for all divisions and business segments as well as the regular updating and monitoring of their success,
- obligation of all Group companies to prepare annual sales, investment, financial and personnel plans, as well as monitoring their progress,
- regular internal audits and special audits by an internal audit department,
- establishment and continuous improvement of a groupwide monitoring system for early risk detection (risk management),
- agreement on targets and a performance-related component of the remuneration for the managing directors of Group companies and management executives.

In the financial year 2006, the Executive Board developed and optimized the strategy of the Salzgitter Group in particular in trusting cooperation with the Supervisory Board. Proceeding on this basis, the Executive Board initiated and pursued numerous measures for implementing the strategic goals. The development of the various Group companies and holdings was monitored by the Executive Board in a timely fashion on the basis of regular target/performance 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.

Transparency

Salzgitter AG informs its shareholders promptly about the results of the completed financial year in its annual results press conference. In addition to this event, analysts' conferences are held regularly for analysts and institutional investors in Frankfurt am Main and London.

Along with a financial calendar which lists all the important events of the financial year and the most important publications made on a regular basis, Salzgitter AG provides its shareholders with information which is able to influence the share price considerably. This information takes the form of ad-hoc press releases and is promptly made available on the company's website (www.salzgitter-ag.de), together with reports and other notices in German and in English.

In the financial year 2006, the company received the following information on the purchase or sale of shares of Salzgitter AG by members of the Executive or Supervisory Boards of the company or other persons with management tasks who have regular access to insider information on the company and who are authorized to make major entrepreneurial decisions, as well as those who are related closely to such persons:

- June 12, 2006, Wolfgang Leese, sale of 1,200 units,
- August 10, 2006, Wolfgang Eging, sale of 660 units.

No member of the Executive or Supervisory Boards holds, either directly or indirectly, a portion of shares issued which is greater than 1%.

There are currently no stock option programs or similar securities-based incentive systems running in the Salzgitter Group.

Declaration of Conformity 2006

On December 19, 2006, the Executive Board and the Supervisory Board of Salzgitter AG submitted their Declaration of Conformity, pursuant to Section 161 of the German Stock Corporation Act (AktG), as set out below:

"Salzgitter AG complies with all recommendations of the Government Commission on the German Corporate Governance Code in the version of June 12, 2006, and has also complied with all the recommendations laid down by the Code in the period from July 21, 2005, to July 24, 2006, (Code version dated June 2, 2005) and from July 25, 2006, up until the present time (Code version dated June 12, 2006, published on July 24, 2006), apart from the following exceptions:

- Code item 3.8 para. 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 a consequential loss insurance as being necessary for members of the governing bodies (D&O insurance) to compel members of the Executive and Supervisory Boards to practice duty-bound behavior.

- Code item 5.3.2 (establishment of an Audit Committee of the Supervisory Board):
  The Supervisory Board has the overall responsibility for the review of the annual financial statements of the company and the consolidated financial statements of the Group, including the mandating of an independent auditor. As an executive body, in its entirety, it intensively reviews the documents submitted while drawing upon the auditor's findings before they are formally approved in accordance with Section 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 bodies should not be delegated to a committee.

- Code item 5.4.1. (age limit for Supervisory Board members):
  In the opinion of the Executive Board and the Supervisory Board, suitability for being a Supervisory Board member does not depend on a rigid age limit."

Salzgitter, March 28, 2007

The Executive Board

Wolfgang Leese
Chairman

The Supervisory Board

Dr. Wilfried Lochte
Chairman

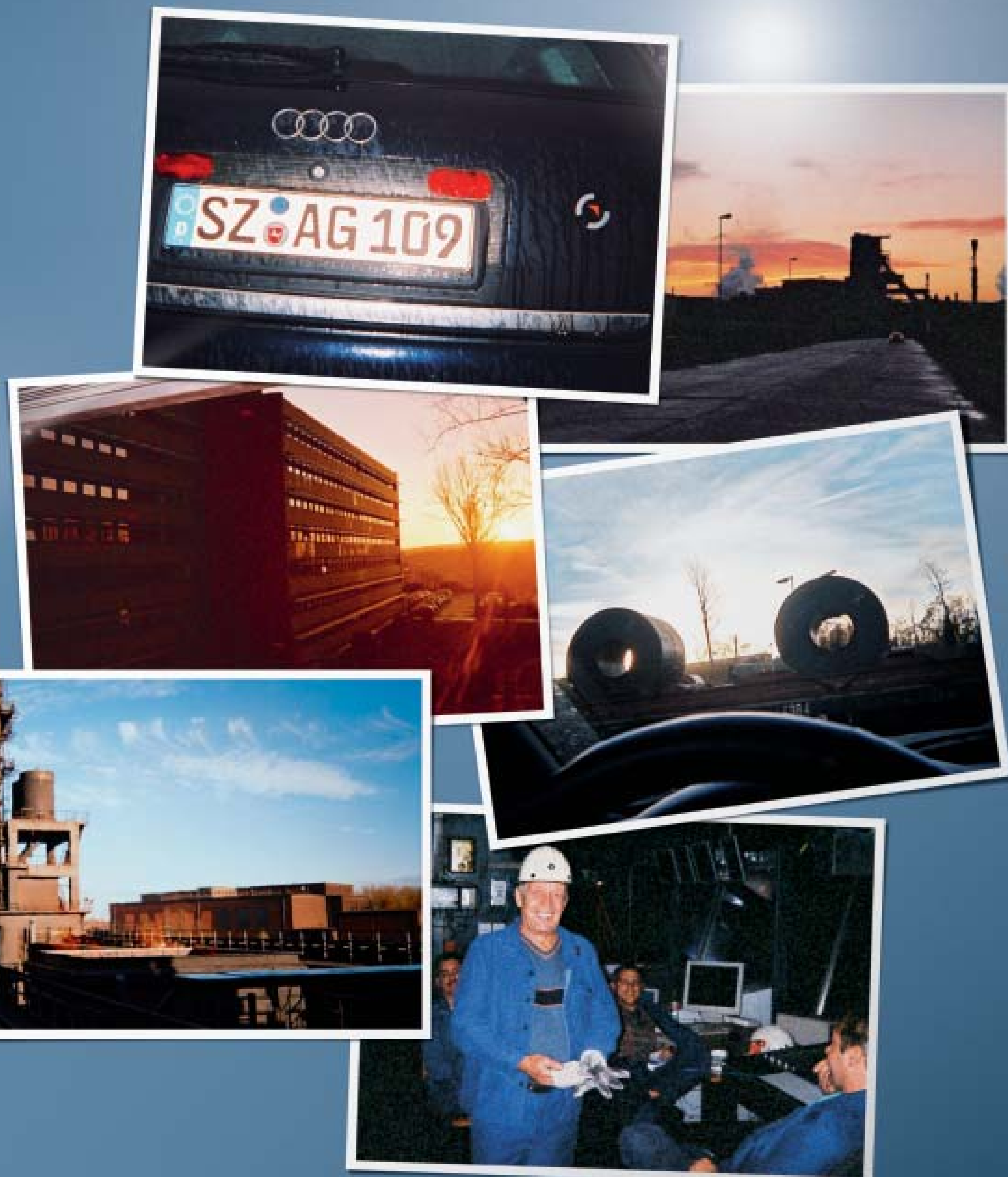
STEEL

Cooking, casting, rolling, pressing,
alloying **and** taking pictures.

The Steel Division.
Captured in photos and showcased
by its people.

Salzgitter Flachstahl | Our thanks go to Claus-Peter Antoine, Klaus Brennecke, Horst Gatzweiler, Mathias Harms, Peter Heine, Wolfgang Jordan, Uwe Kitterer, Torsten Langner, Tim Lolies, Andreas Meyer, Rolf Moews, Eduard Palgan, Dr. Michael Peter, Wolfgang Rietz, Andreas Schmidt and Jörg Unterberg for their photographic contributions.

Salzgitter Flachstahl | Our thanks go to Claus-Peter Antoine, Klaus Brennecke, Horst Gatzweiler, Mathias Harms, Peter Heine, Wolfgang Jordan, Uwe Kitterer, Torsten Langner, Tim Lolies, Andreas Meyer, Rolf Moews, Eduard Palgan, Dr. Michael Peter, Wolfgang Rietz, Andreas Schmidt and Jörg Unterberg for their photographic contributions.


SZ AG 109

I. Business and the Environment

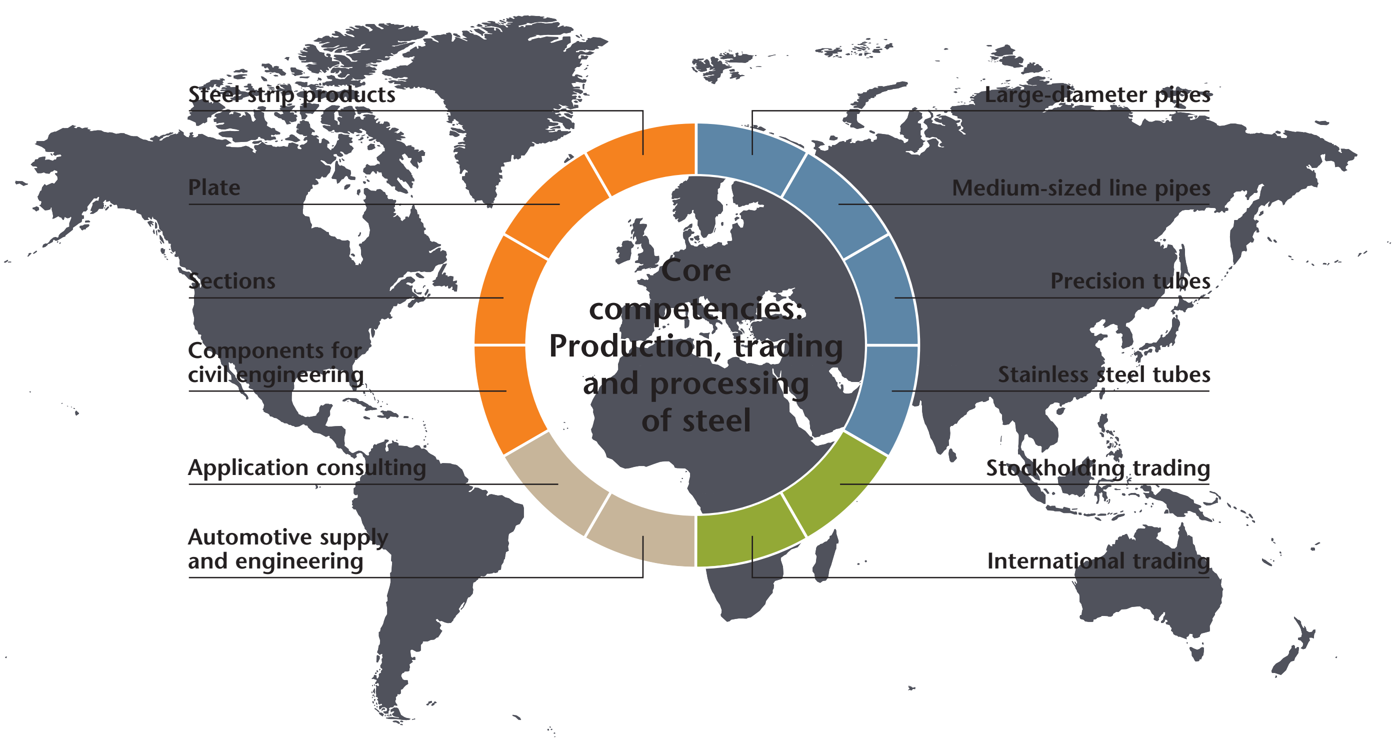
1. Group Structure and Operations

The Salzgitter Group comprises more than 100 national and international subsidiaries and associated companies combined under Salzgitter AG as the holding company.

With external sales in excess of € 8 billion, an annual production of more than 7 million tons of crude steel and a workforce of around 17,000, the Salzgitter Group ranks among Europe's top steel technology groups. In some of its segments the Tubes Division is a global leader, and the Steel Division ranks in Europe's Top 5 league and in the group of the world's 35 leading steel producers.

As a company listed on the MDAX, Salzgitter AG is, on the basis of its placing within the index, one of the top 35 German stock corporations.

Creating Value with Steel



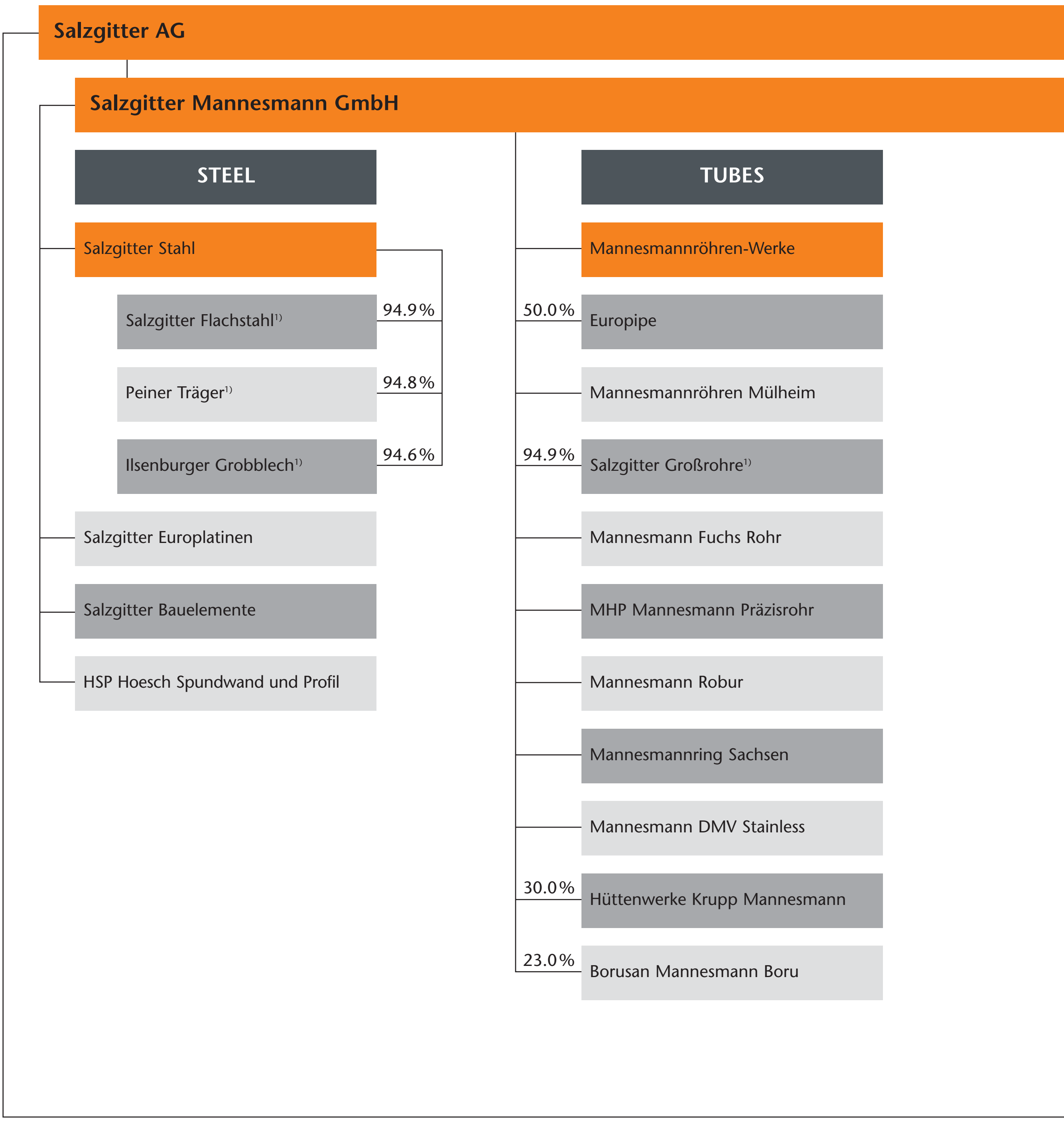
Upon a proposal by the Executive and Supervisory Boards, an extraordinary General Meeting of Shareholders, held on November 17, 2005, resolved that the structure of the Group should be realigned under corporate law for financial reasons. The combination of all the major companies of the Salzgitter Group under Salzgitter Mannesmann GmbH (SMG), an intermediate holding company, enables the utilization of existing tax loss carryforwards and the implementation of an unrestricted centralized financial management for the Group.

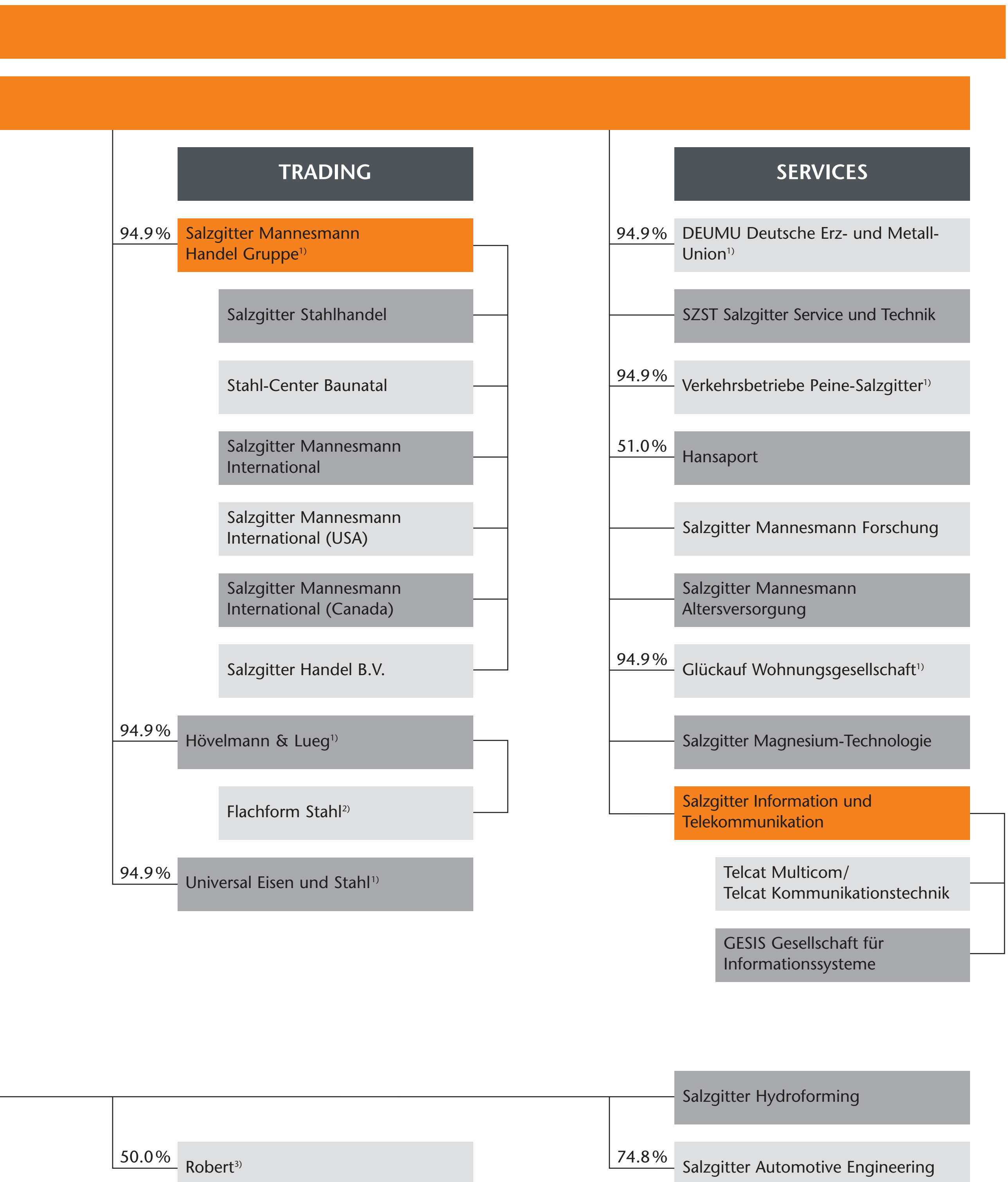
Concerning the action to rescind brought against the resolution passed by the General Meeting of Shareholders of Salzgitter AG on November 17, 2005, pertaining to the spin-off and transfer agreement and the request for acceptance submitted by Salzgitter AG, the Regional Court of Braunschweig ruled on March 6, 2006, that there were no obstacles to registering the spin-off in the Commercial Register. In the meantime, the court decision has become legally valid and Salzgitter AG's holdings in Group companies were hived off accordingly to SMG and the transaction entered into the respective Commercial Register of each company on April 24, 2006. The new Group structure has thus taken retrospective effect as from December 1, 2005.

The management and control of SMG and all associated companies is carried out by Salzgitter AG as the holding company, with the executive body of SMG being identical to the Executive Board of Salzgitter AG. The Group will be monitored and managed, as before, by the executive bodies of Salzgitter AG (Executive Board, Supervisory Board).

As the management holding company, Salzgitter AG coordinates the four divisions Steel, Tubes, Trading and Services. 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.

Divisions


Salzgitter AG
Salzgitter Mannesmann GmbH
STEEL
Salzgitter Stahl
Salzgitter Flachstahl[1)]
94.9%
Peiner Träger[1)]
94.8%
Ilsenburger Grobblech[1)]
94.6%
Salzgitter Europlatinen
Salzgitter Bauelemente
HSP Hoesch Spundwand und Profil
TUBES
Mannesmannröhren-Werke
50.0%
Europipe
Mannesmannröhren Mülheim
94.9%
Salzgitter Großrohre[1)]
Mannesmann Fuchs Rohr
MHP Mannesmann Präzisrohr
Mannesmann Robur
Mannesmannring Sachsen
Mannesmann DMV Stainless
30.0%
Hüttenwerke Krupp Mannesmann
23.0%
Borusan Mannesmann Boru



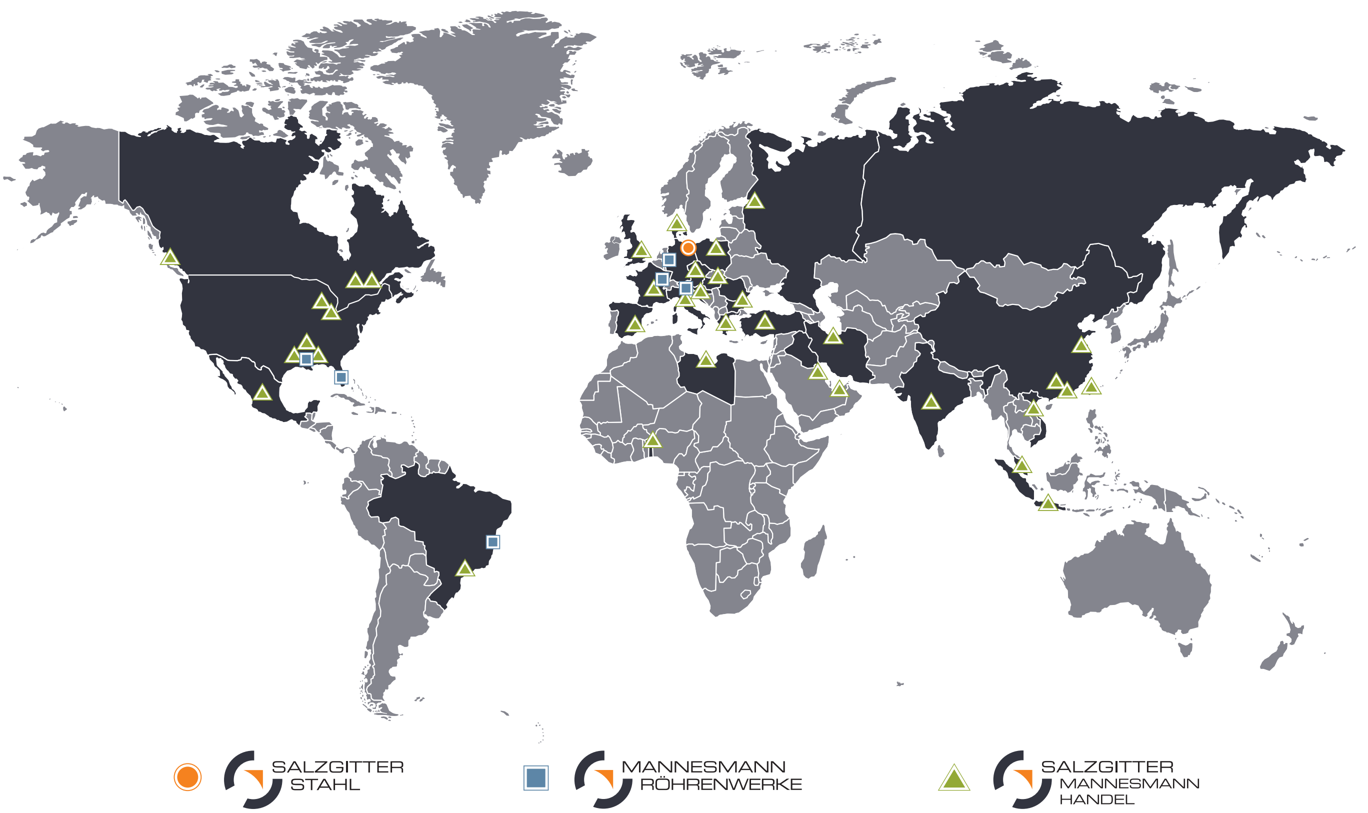
Unless otherwise indicated, the share-holding = 100% as of 31/12/2006

1) Remaining shares held by Salzgitter AG

2) Consolidation 1/7/2006

3) Consolidated until 30/9/2006

Global Presence



The **Steel Division** comprises the operating steel companies Salzgitter Flachstahl GmbH (SZFG), Peiner Träger GmbH (PTG) and Ilsenburger Grobblech GmbH (ILG), all headed by the intermediate holding company Salzgitter Stahl GmbH (SZS), as well as Salzgitter Bauelemente GmbH (SZBE), Salzgitter Europlatinen GmbH (SZEP) and HSP Hoesch Spundwand und Profil GmbH (HSP).

Salzgitter is home to the production facilities of SZFG, SZBE and SZEP. Alongside Salzgitter, ILG produces mainly in Ilsenburg; PTG is based in Peine and HSP in Dortmund.

With their high-quality special and branded steels, these companies make a special contribution to the success of steel. In line with our “Steel and Technology” aspiration, they develop and produce a broad range of steel products (flat steel and profiles, plate, sheet piles, components for roofing and cladding, blanks and tailored blanks) for constantly evolving and new areas of application. Thanks to intensive research and development and strong customer orientation, the potential of steel for new and creative products will continue to be developed in future.

The companies of the **Tubes Division**, headed by the Mannesmannröhren-Werke GmbH, offer their customers a virtually complete range of steel tubes. The Division's product portfolio includes large-diameter pipes (Europipe GmbH [EP], Salzgitter Großrohre GmbH [SZGR]), HFI (high-frequency) welded line pipes (Mannesmann Fuchs Rohr GmbH [MFR]), precision tubes (MHP Mannesmann Präzisrohr GmbH [MHP], Mannesmann Robur B.V. [ROB]) as well as seamless stainless steel tubes (Mannesmann DMV Stainless GmbH [MDS]). The stake in Vallourec S.A. (VLR), a seamless tubes manufacturer, was sold on August 8, 2006 (see pg. 51).

EP has production facilities in Mülheim an der Ruhr, Dunkirk (France), Panama City (USA) and Serra (Brazil); SZGR produces in Salzgitter. MFR manufactures its products in Hamm and Siegen. MHP has mills in Hamm, Brackwede, Holzhausen and Wickede; ROB produces in Helmond (The Netherlands). DMV makes its stainless steel tubes in Remscheid, Costa Volpino (Italy), Montbard (France) and Houston (USA). Mannesmannröhren Mülheim GmbH (MRM) and Hüttenwerke Krupp Mannesmann GmbH (HKM), both suppliers of input materials, are situated in Mülheim an der Ruhr and Duisburg respectively.

With their high-grade products of an internationally recognized quality, these companies generally occupy leading positions in their markets and are global leaders in a number of segments.

The **Trading Division** comprises a dense European sales network, as well as trading companies and agencies worldwide. This combination underpins the successful, extensive market presence of the Salzgitter Group and supports the optimal marketing of its products and services. The company thereby ensures that it reaches not only large-scale consumers but also smaller and medium-sized end customers.

The companies of the Salzgitter Mannesmann Handel Group operating under the management company Salzgitter Mannesmann Handel GmbH (SMHD) and the plate specialist Universal Eisen und Stahl GmbH (UES), as well as the three steel service centers Hövelmann & Lueg GmbH (HLG), Flachform Stahl GmbH (FFS, as from July 1, 2006) and Ets. Robert et Cie S.A.S. (RSA, until September 30, 2006) have been assigned to this division.

The SMHD Group operates 11 steel stockholding companies in Germany, 9 processing centers and 11 warehouses. Steel stockholding and trading in Europe is conducted by 7 companies in 2 locations in The Netherlands (Drachten, Oosterhout) and one in the United Kingdom (Scunthorpe), Poland (Slupca), the Czech Republic (Prague), Hungary (Budapest) and Romania (Bucarest) respectively. Apart from these locations, there are 5 agencies located in the United Kingdom (Harrogate), France (Paris), Spain (Madrid), Italy (Milan) and Sweden (Lulea). International trading is mainly handled by 7 companies (Düsseldorf [Germany], Houston [USA], Vancouver [Canada], Hong Kong [China], Singapore, Tehran [Iran], Mexico City [Mexico]) and 5 representative offices (Moscow [Russia], Sofia [Bulgaria], Bucarest [Romania], Katowice [Poland], Dubai [UAE]).

All in all, the SMHD Group is represented in 65 locations and 30 countries.

The plate specialist UES carries out its trading and processing activities mainly in Germany (Neuss, Hanover, Viersen) but also operates outside of Germany in Europe (Papendrecht [The Netherlands], Lyon [France], Ruda [Poland], Prague [Czech Republic]) and in the USA (Chicago, Houston).

The steel service centers RSA (three companies in two locations [Feyzin, Le Thillay (France)]) and HLG/FFS (Schwerte, Salzgitter) complete the range offered by the Trading Division with their flat rolled steel products made to customer specification.

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. The skills and know-how of the companies 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 materials supplies (DEUMU Deutsche Erz- und Metall Union GmbH [DMU]) and logistics (Hansaport Hafenbetriebsgesellschaft mbH [HAN], Verkehrsbetriebe Peine-Salzgitter [VPS]) and maintenance (SZST Salzgitter Service und Technik GmbH [SZST]) through to materials development (Salzgitter Mannesmann Forschung GmbH [SZMF], Salzgitter Magnesium-Technologie [SZMT]) and complete IT solutions (Salzgitter Information und Telekommunikation [SIT]). The range is supplemented by services (Salzgitter Automotive Engineering GmbH [SZAE]) and products (Salzgitter Hydroforming GmbH [SZHF]) for automotive development and production as well as other service companies ("Glückauf" Wohnungsgesellschaft GmbH [GWG], Salzgitter Mannesmann Altersversorgung Service GmbH [SZMA]).

Depending on their business focus, the companies are located in Salzgitter (DMU, SZST, VPS, SZMF, SZMT, SIT, GES and TMG which, to ensure customer proximity, additionally maintains another 20 locations throughout Germany) and in Peine (DMU, TCG, GWG). In accordance with their functions or the needs of customers, there are also operations in Hamburg (HAN), Mülheim (DMU, SZMA), Duisburg (SZMF), Osnabrück (SZAE) and Crimmitschau (SZHF).

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

2.1 Executive Board

The members of the Executive Board of Salzgitter AG are appointed by the Supervisory Board. The Supervisory Board can rescind such appointment for an important reason.

Changes to the Articles of Incorporation require resolution by the General Meeting of Shareholders approved by a majority of three quarters of the capital represented when the resolution is adopted.

The Executive Board manages the company under its own responsibility. The Supervisory Board has determined certain transactions which may only be carried out subject to its approval. The General Meeting of Shareholders may only decide questions pertaining to the management of the company if the Executive Board requests such a decision.

The Executive Board represents the company.

In the financial year 2006, the Executive Board of Salzgitter AG comprised the following members:

Wolfgang Leese
Chairman
a) ▪ Mannesmannröhren-Werke GmbH (Chairman)
▪ Salzgitter Stahl GmbH (Chairman)
▪ Salzgitter Flachstahl GmbH (Chairman) until January 13, 2006
▪ Salzgitter Mannesmann Handel GmbH (Chairman)
▪ Peiner Träger GmbH (Chairman)
▪ MAN Nutzfahrzeuge AG
b) ▪ Vallourec S.A. (Conseil de Surveillance) until August 31, 2006
▪ HSP Hoesch Spundwand und Profil GmbH (Chairman) until September 25, 2006

Wolfgang Eging
Tubes Division
Chairman of the Executive Board of Mannesmannröhren-Werke GmbH
a) ▪ Hüttenwerke Krupp Mannesmann GmbH (Chairman; in addition, member of the Shareholders' Committee)
▪ Europipe GmbH (Chairman since November 8, 2006; in addition, member of the Shareholders' Committee)
▪ MHP Mannesmann Präzisrohr GmbH (Chairman)
▪ Salzgitter Mannesmann Handel GmbH
▪ Mannesmann Fuchs Rohr GmbH since September 29, 2006 (Chairman since November 30, 2006)
b) ▪ DMV Stainless B.V. (Supervisory Board, Chairman)
▪ Mannesmann DMV Stainless France S.A.S. (Conseil de Surveillance, Chairman until December 31, 2006)
▪ Mannesmannröhren Mülheim GmbH (Supervisory Board, Chairman)
▪ Mannesmann Line Pipe GmbH (Advisory Council, Chairman) until July 14, 2006
▪ Borusan Mannesmann Boru Yatirim Holding A.S. (Board of Directors, Vice Chairman)
▪ Vallourec S.A. (Conseil de Surveillance) until August 31, 2006

Hans Fischer
Steel Division
Chairman of the Executive Board of Salzgitter Stahl GmbH
a) ▪ Salzgitter Flachstahl GmbH since January 24, 2006 (Chairman since March 22, 2006)
▪ Ilsenburger Grobblech GmbH (Chairman)
▪ Peiner Träger GmbH
▪ Hüttenwerke Krupp Mannesmann GmbH

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

Dr.-Ing. Heinz Jörg Fuhrmann

Finance

a) ■ Mannesmannröhren-Werke GmbH
■ Salzgitter Mannesmann Handel GmbH (Vice Chairman)
■ Salzgitter Stahl GmbH
■ Salzgitter Flachstahl GmbH
■ Europipe GmbH (Supervisory Board and Shareholders' Committee)
■ Öffentliche Lebensversicherung Braunschweig
■ Öffentliche Sachversicherung Braunschweig

b) ■ Ets. Robert et Cie S.A.S. (Comité de Surveillance, Chairman)
■ Hansaport Hafenbetriebsgesellschaft mbH (Supervisory Board)
■ HSP Hoesch Spundwand und Profil GmbH (Supervisory Board) until September 25, 2006
■ ThyssenKrupp GfT Bautechnik GmbH (Advisory Council)
■ Vallourec S.A. (Conseil de Surveillance) until August 31, 2006

Heinz Groschke

Trading Division

Chairman of the Executive Board of Salzgitter Mannesmann Handel GmbH

a) ■ Ilsenburger Grobblech GmbH
■ Europipe GmbH
■ Mannesmann Fuchs Rohr GmbH since September 29, 2006

b) ■ Salzgitter Mannesmann International (HK) Ltd. (Board of Administration)
■ Salzgitter Mannesmann International (Asia) Pte. Ltd. (Board of Administration)
■ Salzgitter Mannesmann (Scandinavia) AB (Board of Administration)
■ Salzgitter Mannesmann (Italia) S.r.l. (Board of Administration)
■ Salzgitter Mannesmann (España) S.A. (Board of Administration)
■ Salzgitter Mannesmann International (USA) Inc. (Board of Directors, Chairman)
■ Salzgitter Mannesmann International (Canada) Inc. (Board of Directors, Chairman)
■ Salzgitter Mannesmann International (México) S.A. de C.V. (Board of Directors, Chairman)
■ Salzgitter Mannesmann Trade (Beijing) Co. Ltd. (Board of Directors, Chairman)
■ Salzgitter Mannesmann International (UK) Inc. (Board of Directors, Chairman)
■ Project Metals Ltd. (Board of Directors, Chairman)
■ A.P. Steel U.K. Ltd. (Board of Directors, Chairman)

Peter-Jürgen Schneider

Personnel and Services Division

a) ■ Mannesmannröhren-Werke GmbH
■ Salzgitter Stahl GmbH since June 21, 2006
■ Salzgitter Flachstahl GmbH
■ Peiner Träger GmbH
■ Ilsenburger Grobblech GmbH
■ Verkehrsbetriebe Peine-Salzgitter GmbH (Chairman)
■ SZST Salzgitter Service und Technik GmbH (Chairman)
■ MHP Mannesmann Präzisrohr GmbH

b) ■ HANSAPORT Hafenbetriebsgesellschaft mbH (Supervisory Board, Chairman)
■ Projekt Region Braunschweig GmbH (Supervisory Board)

a) Membership in other statutory Supervisory Boards within the meaning of Section 125 of the German Stock Corporation Act [AktG]

b) Membership in comparable domestic and foreign governing bodies of commercial enterprises

2.2 Supervisory Board

Dr. Wilfried Lochte
Chairman
Chairman of the Executive Board of MAN Nutzfahrzeuge AG, retired
Member of the Executive Board of MAN Aktiengesellschaft, retired
a) ■ KNORR-Bremse AG (Vice Chairman)
■ KNORR-Bremse Systeme für Nutzfahrzeuge GmbH (Vice Chairman)
■ Schmitz Cargobull AG (Honorary Chairman)

Jürgen Peters
Vice Chairman
1st Chairman of IG Metall
a) ■ Volkswagen AG (Vice Chairman)

Hasan Cakir
Since July 17, 2006
Chairman of the Works Council of Salzgitter Flachstahl GmbH since April 18, 2006
a) ■ Salzgitter Stahl GmbH since June 21, 2006
■ Salzgitter Flachstahl GmbH since June 15, 2006

Hannelore Elze
Secretary of the IG Metall – Executive Board
a) ■ V&M DEUTSCHLAND GmbH
■ Hydro Aluminium Deutschland GmbH (Vice Chairwoman)
■ NORSK Hydro Deutschland Verwaltungs-GmbH (Vice Chairwoman)

Hermann Eppers
Member of the Parliament of Lower Saxony
a) ■ ALSTOM-LHB GmbH

Prof. Dr.-Ing. Heinz Haferkamp
Professor at the University of Hanover
b) ■ PZH Produktionstechnisches Zentrum GmbH (Supervisory Board) until June 12, 2006

Dr. Lothar Hagebölling
Since January 1, 2007
Secretary of State, Head of the State Chancellery of Lower Saxony
b) ■ Bremer Landesbank Kreditanstalt Oldenburg-Girozentrale (Advisory Council)
■ Norddeutsche Landesbank (Advisory Council, Public Relations and Administration)

Prof. Dr. Rudolf Hickel
University Professor
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 until October 15, 2006

Dr. Gunther Krajewski
Until December 31, 2006
Head of Ministry Department, Department Head at the Ministry of Finance of Lower Saxony until November 30, 2006
a) ■ Flughafen Hannover-Langenhagen GmbH
■ Öffentliche Lebensversicherung, Braunschweig
■ Öffentliche Sachversicherung, Braunschweig
b) ■ Bremer Landesbank Kreditanstalt Oldenburg-Girozentrale (Supervisory Board)

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

Prof. Dr. Hans-Jürgen Krupp
President of the Landeszentralbank in der Freien und Hansestadt Hamburg, in Mecklenburg-Vorpommern und Schleswig-Holstein, retired
■ No membership in other governing bodies

Dr. Arno Morenz
Vice President of DSW Deutsche Schutz-vereinigung für Wertpapierbesitz e.V.
a) ■ alfabet meta-modelling AG (Chairman)
b) ■ Fidelity Funds, Luxembourg (Board of Administration)

Dr. Hannes Rehm
Chairman of the Board of Directors of Norddeutsche Landesbank Girozentrale
a) ■ Landesbank Berlin Holding AG
b) ■ Bremer Landesbank Kreditanstalt Oldenburg-Girozentrale (Supervisory Board)
■ LBS Norddeutsche Landesbausparkasse Berlin-Hannover (Supervisory Board, Chairman since March 1, 2006)
■ Provinzial Lebensversicherung Hannover (Supervisory Board)
■ DeKaBank Deutsche Girozentrale (Board of Administration)
■ Nord/LB Luxembourg S.A. (Board of Administration, Chairman)
■ BankDnBNord, Kopenhagen (Board of Directors, Vice Chairman) since March 1, 2006
■ ISH Internationale Schule Region Hannover GmbH (Supervisory Board) since June 1, 2006

Dr. Rudolf Rupprecht
Chairman of the Executive Board of MAN AG, retired
a) ■ MAN AG
■ SMS AG (Chairman)
■ KME AG
b) ■ Novelis (Board of Directors)
■ Bayerische Staatsforsten (Supervisory Board)
■ Karl Augustin GmbH, Straßwalchen, (Supervisory Board) since January 1, 2006

Ernst Schäfer
Until June 20, 2006
Chairman of the Group's Work Council of Salzgitter AG until April 16, 2006
Chairman of the Works Council of Salzgitter Flachstahl GmbH until April 16, 2006
a) ■ Salzgitter Flachstahl GmbH until June 15, 2006

Christian Schwandt
Chairman of the Group's Work Council of Salzgitter AG since June 20, 2006
Chairman of the Works Council of SZST Salzgitter Service und Technik GmbH
a) ■ SZST Salzgitter Service und Technik GmbH

Walter Skiba
Chairman of the Works Council of Salzgitter Mannesmann Handel GmbH
a) ■ Salzgitter Mannesmann Handel GmbH

Michael Sommer
Chairman of the DGB (German Federation of Trade Unions)
a) ■ Deutsche Telekom AG
■ Deutsche Postbank AG (Vice Chairman)
■ DGB Rechtschutz GmbH
b) ■ Kreditanstalt für Wiederaufbau (Advisory Council)

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

Dr. Johannes Teyssen

Chairman of the Executive Board
of E.ON Energie AG and
member of the Executive Board of E.ON AG

a) ■ E.ON Bayern AG (Chairman)
■ E.ON Hanse AG (Chairman)

b) ■ E.ON Nordic AB (Board Member)
■ E.ON Sverige AB (Board Member)

Rainer Thieme

Chairman of the Management Board of Wilhelm Karmann GmbH, retired

a) ■ Köster AG
■ Oldenburgische Landesbank AG
■ SCHMITZ Cargobull AG
■ ZF Friedrichshafen AG (Chairman)

b) ■ Leopold Kostal GmbH & Co. KG (Advisory Council) until December 31, 2006

Friedrich-Wilhelm Tölkes

Chairman of the Works Council
of Hüttenwerke Krupp Mannesmann GmbH

a) ■ Mannesmannröhren-Werke GmbH

Hartmut Tölle

Chairman of the DGB – region of
Lower Saxony/Bremen and Saxony-Anhalt

■ No membership in other governing bodies

Prof. Dr. Martin Winterkorn

Chairman of the Executive Board
of Volkswagen AG since January 1, 2007
Chairman of the Executive Board of AUDI AG
until December 31, 2006

a) ■ AUDI AG (Chairman) since January 1, 2007
■ TÜV Süddeutschland Holding AG since January 1, 2007
■ FC Bayern München AG
■ Infineon Technologies AG

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

Prof. Dr. Ulrich Zachert

University Professor
Professor for Labor Law at the University
of Hamburg

■ No membership in other governing bodies

a) Membership in other statutory Supervisory Boards within the meaning of Section 125 of the German Stock Corporation Act [AktG]

b) Membership in comparable domestic and foreign governing bodies of commercial enterprises

Salzgitter Flachstahl | Our thanks go to Claus-Peter Antoine, Klaus Brennecke, Horst Gatzweiler, Mathias Harms, Peter Heine, Wolfgang Jordan, Uwe Kitterer, Torsten Langner, Tim Lolies, Andreas Meyer, Rolf Moews, Eduard Palgan, Dr. Michael Peter, Wolfgang Rietz, Andreas Schmidt and Jörg Unterberg for their photographic contributions.

2.3 Remuneration of Executive Board and Supervisory Board

Remuneration of the Executive Board

The remuneration of the Executive Board members is determined in their contracts of employment.

The individual members of the Executive Board receive remuneration which reflects their tasks, their own individual performance as well as the economic situation and success of the company. This remuneration consists of a basic fixed component and a variable component. The latter is divided into two parts: one which is results-based and calculated according to the return on capital employed (ROCE), the other which depends on the overall performance of the individual Board member. The results-based part is capped, which has the effect of creating a long-term incentive to achieve good, sustainable results.

The members of the Executive Board also receive a pension commitment which is a percentage portion of between 50 and 60% of the fixed remuneration component and therefore does not depend on the variable component. No other payments have been pledged to any Board member in the event that his service to the company should end. The structure of remuneration is regularly reviewed by the Supervisory Board, the last time in 2006.

Remuneration received by the individual members of the Executive Board:

in €	Annual payment 2006			
	Fixed remuneration	Remuneration in kind	Variable remuneration[1]	Total
Wolfgang Leese (Chairman)	504,000	42,810	616,000	1,162,810
Wolfgang Eging	315,000	7,940	385,000	707,940
Hans Fischer	315,000	15,778	385,000	715,778
Dr.-Ing. Heinz Jörg Fuhrmann	415,020	24,496	385,000	824,516
Heinz Groschke	315,000	15,052	385,000	715,052
Peter-Jürgen Schneider	315,000	32,143	385,000	732,143
Total	**2,179,020**	**138,219**	**2,541,000**	**4,858,239**

in €	Annual payment 2005			
	Fixed remuneration	Remuneration in kind	Variable remuneration[2]	Total[3]
Wolfgang Leese (Chairman)	480,000	40,851	480,000	1,000,851
Wolfgang Eging	300,000	7,670	300,000	607,670
Dr.-Ing. Heinz Jörg Fuhrmann	341,675	24,742	300,000	666,417
Peter-Jürgen Schneider	300,000	27,373	300,000	627,373

1) Including amounts provisioned for 2006; determined by way of resolution passed by the Presiding Committee of the Supervisory Board once the annual financial statements have been adopted

2) Provision amounts

3) Board members who discontinued their duties during the reporting year received remuneration of € 1,287,342; since the requisite admission was withheld, individualization of this disclosure is not possible

in €	Pension claim (annual payments)	
	as per 31/12/2006	as per 31/12/2005
Wolfgang Leese (Chairman)	239,285[1)]	239,285[1)]
Wolfgang Eging	102,400[1)]	97,280[1)]
Hans Fischer	36,096	–
Dr.-Ing. Heinz Jörg Fuhrmann	122,400[1)]	115,200[1)]
Heinz Groschke	101,069[1)]	–
Peter-Jürgen Schneider	40,000	40,000

1) Including a pension commitment taken over against compensation by the former employer

Remuneration with long-term incentive was neither granted nor pledged to the individual members of the Executive Board in 2006. Similarly, no benefits relating to their activities as members of the Executive Board were pledged or granted by third parties.

Remuneration of the Supervisory Board

The members of the Supervisory Board receive remuneration which reflects their tasks and the economic situation of the company. This remuneration consists of a basic fixed component and two performance-related components. The performance-related components are based on the dividend paid to the shareholders in the respective year. In this case, remuneration is only granted if the dividend distributed for the respective financial year exceeds € 0.20 per share. The other variable component depends on the average consolidated result (EBT) of the last three financial years and is thus geared to the long-term performance of the company. It is only payable if the result is higher than an average of € 150 million. The Chairman of the Supervisory Board receives double and the Vice Chairman one and a half times the amount resulting from the addition of the respective remuneration components. In addition, compensation is paid for membership of committees of the Supervisory Board as well as attendance fees.

According to a resolution of the General Meeting of Shareholders of November 17, 2005, the members of the Supervisory Board are entitled to remuneration of T€ 2,523 for the 2006 financial year. Due to the one-off and extremely high level of earnings from the sale of shares in Vallourec, the members of the Supervisory Board, during the process of compiling the annual report and accounts, decided to forego a portion of their performance-related remuneration, which means that a total sum of only T€ 1,623 (2005: T€ 1,198) is being disbursed.

Remuneration received by the members of the Supervisory Board in 2006:

in €	Fixed remu-neration	Performance-based remuneration for		Commitee remuneration	Attendance fees	Total
		annual perform-ance[1]	long-term company performance			
Dr. Wilfried Lochte, Chairman	24,000	64,000	53,534	2,000	1,500	145,034
Jürgen Peters, Vice Chairman	18,000	48,000	41,465	1,000	1,500	109,965
Dr. Dieter Brunke	–	–	276	–	–	276
Hasan Cakir (since July 2006)	6,000	16,000	13,200	–	500	35,700
Hannelore Elze	12,000	32,000	26,769	–	1,000	71,769
Hermann Eppers	12,000	32,000	26,769	–	750	71,519
Kurt van Haaren	–	–	240	–	–	240
Prof. Dr. Heinz Haferkamp	12,000	32,000	26,769	–	1,000	71,769
Prof. Dr. Rudolf Hickel	12,000	32,000	26,769	–	1,000	71,769
Dr. Gunther Krajewski	12,000	32,000	26,769	1,000	1,250	73,019
Prof. Dr. Hans-Jürgen Krupp	12,000	32,000	26,769	–	1,000	71,769
Jürgen Ladberg	–	–	246	–	–	246
Bernd Lange	–	–	246	–	–	246
Dr. Arno Morenz	12,000	32,000	26,769	–	1,000	71,769
Dr. Hannes Rehm	12,000	32,000	26,769	1,000	1,250	73,019
Dr. Rudolf Rupprecht	12,000	32,000	26,769	–	750	71,519
Ernst Schäfer (until June 2006)	6,000	16,000	13,569	1,000	750	37,319
Christian Schwandt	12,000	32,000	26,769	1,000	1,000	72,769
Walter Skiba	12,000	32,000	26,523	–	1,000	71,523
Michael Sommer	12,000	32,000	26,523	–	1,000	71,523
Dr. Johannes Teyssen	12,000	32,000	26,523	–	1,000	71,523
Rainer Thieme	12,000	32,000	26,769	–	1,000	71,769
Friedrich-Wilhelm Tölkes	12,000	32,000	26,769	1,000	1,250	73,019
Hartmut Tölle	12,000	32,000	26,769	–	1,000	71,769
Prof. Dr. Martin Winterkorn	12,000	32,000	26,769	–	250	71,019
Prof. Dr. Ulrich Zachert	12,000	32,000	26,523	–	1,000	71,523
Total	**270,000**	**720,000**	**603,634**	**8,000**	**21,750**	**1,623,384**

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

in €	Fixed remu-neration	Performance-based remuneration for		Commitee remuneration	Attendance fees	Total
		annual perform-ance[1]	long-term company performance			
Hasan Cakir (SZS, SZFG) since June 2006	9,667	–	–	–	600	10,267
Ernst Schäfer (SZFG) until June 2006	4,000	–	–	–	100	4,100
Christian Schwandt (SZST)	5,000	–	–	–	400	5,400
Walter Skiba (SMHD)	10,000	–	–	–	300	10,300
Friedrich-Wilhelm Tölkes (MRW)	10,000	–	–	–	300	10,300
Total	**38,667**	**0**	**0**	**0**	**1,700**	**40,367**
Overall total	**308,667**	**720,000**	**603,634**	**8,000**	**23,450**	**1,663,751**

[1] The amounts presuppose that the General Meeting of Shareholders 2007 will approve the dividend proposal by the Executive and Supervisory Boards

Remuneration received by the members of the Supervisory Board in 2005:

in €	Fixed remu-neration	Performance-based remuneration for		Commitee remuneration	Attendance fees	Total[1]
		annual perform-ance	long-term company performance[1]			
Dr. Wilfried Lochte, Chairman	24,000	64,000	16,066	2,000	1,500	107,566
Jürgen Peters, Vice Chairman (since March 2005)	17,000	45,333	10,035	1,000	1,500	74,868
Dr. Dieter Brunke (until Sep. 2005)	9,000	24,000	6,024	–	500	39,524
Hannelore Elze	12,000	32,000	8,031	–	1,250	53,281
Hermann Eppers	12,000	32,000	8,031	–	1,250	53,281
Kurt van Haaren (until July 2005)	7,000	18,667	4,660	–	500	30,827
Prof. Dr. Heinz Haferkamp	12,000	32,000	8,031	–	1,250	53,281
Prof. Dr. Rudolf Hickel	12,000	32,000	8,031	–	1,250	53,281
Dr. Gunther Krajewski	12,000	32,000	8,031	1,000	1,500	54,531
Prof. Dr. Hans-Jürgen Krupp	12,000	32,000	8,031	–	1,250	53,281
Hans-Jürgen Ladberg (until August 2005)	8,000	21,333	5,354	–	500	35,187
Bernd Lange (until August 2005)	8,000	21,333	5,354	–	250	34,937
Dr. Arno Morenz	12,000	32,000	8,031	–	1,250	53,281
Dr. Hannes Rehm	12,000	32,000	8,031	1,000	1,000	54,031
Dr. Rudolf Rupprecht	12,000	32,000	8,031	–	1,250	53,281
Ernst Schäfer	12,000	32,000	8,031	1,000	1,500	54,531
Christian Schwandt	12,000	32,000	8,031	–	1,250	53,281
Walter Skiba (since Sep. 2005)	4,000	10,667	2,677	–	750	18,094
Michael Sommer (since Sep. 2005)	4,000	10,667	2,677	–	750	18,094
Dr. Johannes Teyssen (since Sep. 2005)	4,000	10,667	2,677	–	750	18,094
Rainer Thieme	12,000	32,000	8,031	–	1,000	53,031
Friedrich-Wilhelm Tölkes	12,000	32,000	8,031	1,000	1,500	54,531
Hartmut Tölle	12,000	32,000	8,031	–	1,250	53,281
Prof. Dr. Martin Winterkorn	12,000	32,000	8,031	–	750	52,781
Prof. Dr. Ulrich Zachert (since Sep. 2005)	4,000	10,667	2,677	–	750	18,094
Total	**269,000**	**717,334**	**178,666**	**7,000**	**26,250**	**1,198,250**

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

in €	Fixed remu-neration	Performance-based remuneration for		Commitee remuneration	Attendance fees	Total
		annual perform-ance	long-term company performance			
Jürgen Peters (until May 2005)	7,500	–	–	–	75	7,575
Ernst Schäfer	7,167	–	–	–	300	7,467
Christian Schwandt	5,000	–	–	–	400	5,400
Friedrich-Wilhelm Tölkes	10,833	–	–	–	375	11,208
Walter Skiba (since Sep. 2005)	8,751	–	–	–	250	9,001
Total	**39,251**	**0**	**0**	**0**	**1,400**	**40,651**
Overall total	**308,251**	**717,334**	**178,666**	**7,000**	**27,650**	**1,238,901**[1]

[1] The amounts correspond to the provisions which had been formed in the financial statements of Salzgitter AG on the basis of estimated Group results for 2005, and deviate slightly from the amounts that were applicable after the financial statements had been adopted on March 30, 2006. The differential amounts have been taken into account in the performance-oriented remuneration for 2006.

Ilsenburger Grobblech | Our thanks go to Bernd Dreikluft, Bernd Eisenkrätzer, Ralf Kleppisius, Wolfgang Köhler, Dr. Ulf Neuhof, Rüdiger Pittel, Ortwin Römling, Joachim Rosenthal, Holger Schimming and Jörg Tugendheim for their photographic contributions.


ILSENBURGER
GROBBLECH


Sachkundiger für
Lastaufnahmemittel
Herr Kleinhardt

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

Goals

The trend towards consolidation in the steel industry remained unabated in this year as well, causing competitors to merge and form large conglomerations which operate on a multinational level. The most notable transactions in this context were the takeover of Arcelor by Mittal and Tata's acquisition of the British-Dutch steel group Corus. In the wake of such events, market mechanisms may change. For smaller steel producers this serves to highlight the significance of having expedient corporate goals which make strategic sense, are sustainable and consistently pursued with the ultimate aim of securing profitability and entrepreneurial independency.

Salzgitter AG strives to secure the company in its stand-alone position through selective, profit-oriented growth with a return on capital employed which exceeds the average for the sector. Further objectives are to maintain a sound financial base and a healthy balance sheet structure.

The basis for achieving these objectives are customer orientation and the resulting good position of the company in selected segments in the market, as well as the high qualitative and technological standards of its product range and a service range offered at competitive conditions. We intend to achieve these goals with our qualified workforce. In this process, an important factor is securing jobs with appropriate payment. An essential part of this task continues to be the environmental compatibility of our production in connection with the prudent use of material resources.

In the financial year 2006 as well, the Salzgitter Group forged ahead in its strategic development with concentration on the growth markets of steel, tubes and trading.

Strategy of the Divisions

The **Steel Division** took advantage of exceptionally healthy business in the year 2006 to further strengthen its specific competitive position and raised its production of crude steel to 5.7 million tons. The production of crude steel will, however, be lower in 2007 owing to the planned part relining of Blast Furnace B and in 2008 due to the relining of Blast Furnace C.

Our internal growth strategy for this division is reflected by a number of investments and progress made in processes as well as by the resulting improvements in the quality of our products and service.

SZFG, for instance, reinforced its market position as a manufacturer of high-grade plate by investing in modernization and expanding capacity at various production stages. Particularly noteworthy in the financial year 2006 was the completion of the modernization of the tandem mill and the decision to build a new hot strip cut-to-length line.

During this financial year, **ILG** also continued to realign its portfolio strategy – from commodity steel plate to higher-priced grades. Upon completion of the new accelerated cooling line and the cold plate leveler, the company can concentrate on implementing the planned increase in the production of high-strength and wear-resistant grades and annealed plate, achieving better plate surface quality at the same time.

In 2007, **PTG** starts on the expansion of its steel works production to include large beam blanks in order to reduce the supply of slabs from external sources. Together with the targeted marketing of higher-margin products, our strategy of differentiation is intended to secure the market and competitive position of our long products business on a sustainable basis.

The **Tubes Division** benefited greatly from the healthy global economic environment. Due to the long-term nature of the pipeline project business, we expect the upbeat trend to hold steady in the foreseeable future as well; we will use it to bolster our competitive position. To enhance our market presence in the current growth regions, **Europipe** set up a new large-diameter tube plant together with Vallourec & Mannesmann do Brasil and Interoil Representação in the Brazilian state of Espirito Santo. Tubos Soldados Atlântico S.A. (TSA) started production in the fourth quarter of 2006. In addition, the decision was made to build another production plant for high-grade spiral-welded tubes in the USA. According to plans as they stand, production will start in early 2008.

To further improve efficiency, the production of **EUPEC**, a pipecoating company and a subsidiary of Europipe, was concentrated in Mülheim; all activities abroad were sold.

Mannesmann Line Pipe (MLP) and **Röhrenwerk Gebr. Fuchs (RGF)**, both companies operating in the segment of HFI-welded line pipes, were merged to form **Mannesmann Fuchs Rohr GmbH (MFR)** in the financial year 2006.

The sale of the 17.2% stake in **Vallourec S.A. (VLR)** contributed substantially to streamlining the Tubes Division. This decision was mainly prompted by our rather more skeptical assessment of the medium-term possibility of exercising decisive industrial influence on the business of this company.

Conversely, we signed an agreement with VLR on December 6, 2006, concerning the planned purchase of the French company **Vallourec Précision Etirage (VPE)**, a wholly owned subsidiary of VLR.

VPE maintains five production facilities in France and is specialized in the production of cold drawn precision steel tubes. In 2006, the company generated sales of around € 220 million.

The **VPE** works will supplement the already existing activities in the precision tubes business operated by **MHP** and **ROB**.

As part of this transaction, it is also our intention to acquire the German plant for hot-rolled tubes in Zeithain (Saxony) from Vallourec in order to secure the supply of hollows for the three precision tubes companies.

The envisaged integration of **VPE** into our existing precision tube activities will enhance the future potential of the companies thereby combined. Whereas the customer base of **MHP** in Germany is strong, **VPE** holds an excellent market position in France.

The combined company is set to assume a leading role in the European market. Moreover, the transaction will release considerable industrial and R&D-related synergies.

The strategic realignment of the **Trading Division** has resulted in an exceptional improvement in the results of this division which was further boosted by the extremely healthy demand of the stockholding companies and the international trading companies.

With a view to complementing our steel service center activities, Schwerte-based subsidiary **HLG** took over **FFS**, also located in Schwerte, from the Arcelor Group with effect from July 1, 2006. One of Germany's most efficient steel service centers has emerged from this transaction; besides the existing products of sheets and blanks, customers can now also be supplied with slitted coils.

The core companies of the **Services Division** mainly supply services within the Group on a non-profit basis, with a focus on the steel companies. In addition, **DMU, TMG, HAN** and **VPS** generate substantial sales with external customers. In as much as this is commercially viable, the other companies can also increasingly raise their external sales in future, thereby making a contribution to improving the profit of the Group. **SZMF** has a special position within the Services Division. With its research on and development of materials, products, processes and applications of state-of-the-art technology, it mainly provides support to the companies of the Steel and Tubes Divisions, but also serves our customers and partners to a considerable degree.

With sales totaling more than € 8 billion in the financial year 2006, the Group shows strong growth compared with the situation at the end of the 90's. This growth was achieved externally through acquisitions and internally through investments in plants, equipment and processes. With an expansion of this magnitude we have reached the limits of our organic growth. Additional effective growth can therefore only be generated through acquisitions, especially in the Group's core businesses of steel, tubes and trading.

Consolidated sales 2006 vs. 98/99 in € billion: + 213 %

	2.7 (98/99)	3.3 (99/00)	4.6	4.7	4.8	5.9	7.2	8.4
	Growth strategy	Growth/ acquisition		Integration/ strategy check	**Consolidation/ focusing**			
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
GDP (D)*:	+2.0 %	+3.2 %	+1.2 %	+0.0 %	−0.2 %	+1.2 %	+0.9 %	+2.7 %

*Source: Federal Statistical Office

In tandem with the phase of consolidation and realignment of the divisions, we have also extensively reviewed the options for external growth over the course of the year. Of the different options which we investigated, we are currently involved in implementing a project (VPE/Zeithain) which we expect to have concluded by May 2007.

It is our intention to take advantage of the ongoing global consolidation process as an opportunity to actively shape the developments in the steel, tubes and trading segments which represent our key operations – without being pressured into action and competing in “bidding wars”. The commercial prerequisites for more effectively realizing our corporate objectives, which are preserving our independence and promoting profitability and growth, must, however, be in place for us to follow this course of action.

The Group’s excellent performance in 2006 on the one hand and exceptionally good liquidity position on the other, which resulted from the sale of the Vallourec stake, enable us to pursue our program of internal growth and, at the same time, open up external opportunities for expansion. Nonetheless, the choices made with regard to development options must accord with the aforementioned corporate objectives. This principle is all the more important as the current exceptionally favorable economic situation of the global steel industry has already been factored into the valuation of companies. At the same time, however, there are, we believe, also signs that the steel boom may lose momentum in the medium term. In our understanding, responsible action geared towards achieving the targeted corporate goals always necessitates a careful assessment of the opportunities and risk potential of any growth projects. For this reason, we will adhere to our proven growth policy aligned to the sustainability of strategy and profit in future as well. The goal of this growth policy is to expand our competitive position in our core businesses of steel, tubes and trading and to achieve organic growth and growth through acquisitions in order to secure our independence.

Management and Control Instruments

In the reporting year 2006, we continued to develop our tools for strategic management and control. The “5P” balanced scorecard system, closely aligned with the target levels of the “5P” corporate guidelines, having been methodically implemented in the Group companies, the financial year 2006 saw this methodology systematically introduced at the operational level. In cooperation with our subsidiaries and GESIS, our IT specialist, the Group developed a software solution which allowed the groupwide implementation of this management tool. In the financial year 2007, this tool will enable all Group companies to realize their strategic goals in measurable steps, to monitor progress by using a uniform system, and to incorporate this into the individually agreed goals of the executive and non-tariff employees of the Group.

The thorough and consistent pursuit of clearly defined, quantifiable and sustainable measures as part of the groupwide Profitability Improvement Program is aimed at enhancing our cost and performance structure on a long-term basis. It includes, for instance, plans to reduce products and services from third parties, raising productivity and output, improving energy efficiency as well as investing in reducing the amount of input material sourced outside the Group.

At the same time, there were also a number of internal synergy projects identified within the Group in 2006 which are currently being investigated or realized.

Synergy management supplements and builds on activities for leveraging additional profit potential through the wider use of opportunities for cooperation between the individual divisions and companies of the Salzgitter Group.

Management and Control System applied within the Group

The primary objective of our company remains the preservation of our independence through profitability and growth. As a quantitative, performance-related target, the Group has set itself the goal of achieving a return on capital employed (ROCE) of more than 12% over an economic cycle.

The company's medium-term growth target in the next 5 years is to generate sales worth € 10 billion.

ROCE shows the relationship of **EBIT** to **capital employed** and measures the return on capital employed:

$$\textbf{ROCE}\text{ (in \%)} = \frac{\textbf{EBIT}}{\textbf{Capital employed}} \times 100 = \frac{\text{€ 1,901 mil.}}{\text{€ 3,974 mil.}} \times 100 = 47.8\,\%$$

EBIT (earnings before interest and tax) is the result before tax and interest expenses, adjusted for the interest portion on transfers to pension provisions.

Interest income remains part of EBIT as it is considered to be part of the result of ordinary activities and thus contributes to ROCE.

in € mil.	FY 2006	FY 2005
EBT	1,855	941
+ Interest expenses	+ 116	+ 107
– Interest expense for pension provisions	– 70	– 78
= **EBIT**	= 1,901	= **970**

Capital employed is interest-bearing equity and debt.

This ratio is calculated by deducting pension provisions and non-interest bearing balance sheet items from the balance sheet total:

in € mil.	FY 2006	FY 2005
Balance sheet total	6,978	5,414
– Pension provisions	– 1,715	– 1,725
– Other provisions excluding tax provisions	– 398	– 373
– Liabilities excluding bonds, bank liabilities and bills and notes payable and liabilities arising from finance leasing, forfaiting and asset-backed securitization	– 842	– 731
– Deferred tax claims	– 49	– 89
= Capital employed	**= 3,974**	**= 2,496**

The pension provisions and related interest expenses are eliminated in the calculation of ROCE, as these are components which cannot be influenced by management's measures in the short to medium term.

These ratios are made up from figures from the consolidated financials statements. Figures used for the calculation are always taken from the financial statements as per the reporting date.

As the ROCE target (12%) is to be achieved within the Group as an average over an economic cycle, it is more of a medium- to long-term target.

Strategic objectives are derived from this target for each individual division and each company. These objectives and related measures were approved in the Basic Strategy and taken account of in the medium-term plan in their updated form.

At the end of the last financial year, we had already considerably exceeded the profitability target for the average of the previous four years. Including this year, determined by the outstanding result which, along with the healthy market environment, was also due to improvements in internal performance – we have succeeded in considerably outperforming this target figure, also when adjusted for extraordinary income.

4. Research and Development

Direction of R&D Activities

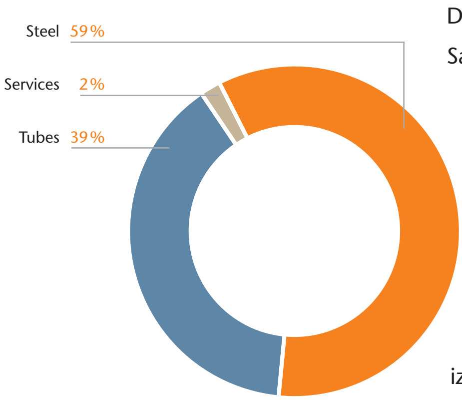
Innovation means paving the way for new ideas and developments to reach the market. Impulses from basic research, changing customer requirements and new general market conditions define the framework of our innovation process. The structure of research and development (R&D) in the Salzgitter Group follows this principle. Salzgitter Mannesmann Forschung GmbH (SZMF) is the central coordinating unit for research and development activities concerned with innovative processes and structures the key contents and project areas. As a consequence of both its base of knowledge and the fact that it performs its own applied research, it functions as both driver and catalyst within the network of the parties engaged in research and development. The operating companies' market approach is being increasingly supplemented by the integration of customer ideas into specific product developments. Cooperation ventures with leading universities, research institutes and technology start-up companies create a platform for a dynamic network of expertise. We prefer research cooperation ventures to the buying in of know-how; accordingly, we had no expenditure on know-how in 2006.

The focus of research and development in the Salzgitter Group is on new products and processes as well as the contribution of research and development to aspects of energy efficiency and ecological compatibility. Product development activities are concentrated on the areas of ultrahigh-strength steel strip, plate and large-diameter tubes, as well as precision steel tubes.

R&D Expenses

In 2006, the Salzgitter Group spent € 67 million on R&D activities and on R&D relevant and related quality management projects including € 9 million for research services rendered by third parties. Of the € 58 million spent by the Group, 59 % were attributable to the Steel Division, 39 % to the Tubes Division and 2 % to the Services Division. Above and beyond this, Salzgitter AG is involved in cooperation projects with other market participants and research institutes with an overall budget of approximately € 40 million.

R&D Expenses by Division

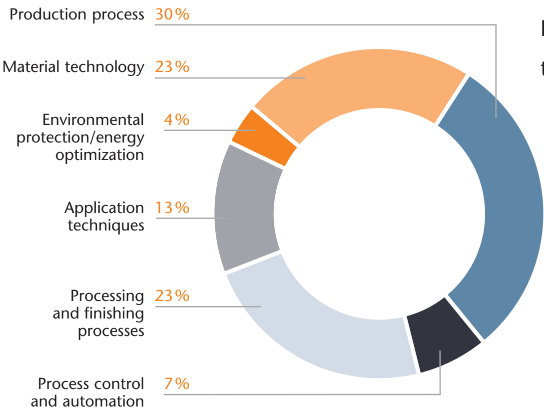


R&D expenses in 2006 were equivalent to 2.0 % of Group value added (2005: 2.9 %). However, it should be noted that value added, including the effect from the sale of shares in Vallourec, rose significantly in 2006 compared with the previous year. There were no research and development expenses capitalized.

Some 688 employees were engaged in R&D activities and R&D-related activities. Of this number, 285 members of staff work in the central SZMF R&D company, with the majority employed in the operating companies. This underscores the market orientation of our development activities.

Salzgitter Europlatinen | Our thanks go to Ralf Erdmann, Christian Haase, Andreas Nestler and Jan Wonneberg for their photographic contributions.

R&D Expenses by Area of Activity



When our steel is cast, it is important that it meets high requirements in terms of quality and purity; however, the characteristics of the final product are largely determined in subsequent processing steps. In order to be able to reproduce in laboratory scale the transformation processes involved in modern production, we have invested in a cold rolling and skin pass rolling simulator for the newly constructed SZMF pilot plant, as well as a high-performance, universal forming press.

The ongoing expansion and modernization of this process chain will be completed in 2007 with the renovation of the hot strip mill. SZMF alone invested € 8 million in R&D facilities and devices.

The Focus of R&D Activities in 2006

Higher strength multi-phase steels: These offer potential for greater safety and weight reduction in the construction of automobiles. The targeted combination of the widely varied types of structural components and their distribution in the matrix opens up a wide spectrum of choices for setting strength and ductility. In close cooperation with customers, we developed a new thermo-mechanically rolled steel with a bainite structure and special requirements with respect to surface and processing characteristics to the stage where it is ready to launch in the market.

High manganese content HSD® steels: We continued to develop high manganese content, HSD® (**H**igh-**S**trength and **D**uctility) steels in cooperation with the CORUS Group. These steels are particularly appropriate for the manufacturing of complex components, while simultaneously offering the highest levels of strength. We have optimized their composition and production routes with an eye to their further processing and final product characteristics. Development is continuing with the creation and testing of prototype components.

Tough tubes for hydraulics cylinders: Large construction vehicles such as mobile cranes are being used in increasingly colder regions. A dialog with a major mobile crane manufacturer has led MHP to initiate a development project, in cooperation with SZMF and DMV, that aims to increase the temperature resistance of tubes for hydraulics cylinders. Following the optimization of the annealing processes between drawing during the manufacturing of the tubes, both the toughness and strength characteristics were so notably improved as to enable a reduction of 25% in the wall thickness of the tubes. Consequently, the lighter and slimmer cylinder tubes offer not only significantly improved safety, in particular in low temperatures, but also provide customers with economic advantages as a result of materials savings.

Hot-rolled strip for tubes: The global rise in demand for energy has brought with it an increasing demand for high-pressure large-diameter pipelines for the transport of large volumes of natural gas. The obvious but expensive option of increasing the wall thickness of tubes can be avoided only by the use of higher strength steel materials. This is why SZFG and SZMF developed a higher strength hot-rolled strip to produce spiral-welded and longitudinally welded pipelines. The first tubes have already been produced successfully using this pre-material.

Future Focus of R&D Activities

Numerical materials modeling, the importance of which has already been established in the past, will gain further significance in the future. In November 2006, we started a multi-lateral project with five additional partners, ranging from the basic research entity through to the automotive manufacturer. This project combines various current modeling methods in a multi-scale simulation that is designed to reproduce the characteristics along the process chain from hot-rolled strip through to the crash component. Salzgitter AG is also helping to promote this innovative multi-scale simulation approach through its commitment to the foundation of the "Interdisciplinary Center for Advanced Materials Simulation – ICAMS". The institute, which, among other things, will bring together the expertise of the Ruhr University in Bochum, the Max Planck Institute for Iron Research and the RWTH Aachen University, intends to commence its work in 2007.

Another focus in coming years will be the research activities concerning the use of lightweight construction elements in automobiles involving high-strength and ultrahigh-strength multi-phase steels. Salzgitter Group companies, together with the automotive manufacturer Wilhelm Karmann GmbH and additional steel users, are developing a scalable car body architecture for the most varied types of vehicle series in the SCALIGHT Project. These shell structures, along with new Salzgitter Group products and materials and the most advanced, leading-edge steel processing technologies, open up new potential for lightweight construction to be accessed.

Salzgitter Group companies have a current stock of over 800 active commercial patents rights as well as almost 900 active commercial brand rights.

The market successes of our product innovations bear testimony to the performance of our research and development activities. Innovative strength and technological competence, as well as our customer-orientation, will continue to comprise the benchmarks by which we contribute to safeguarding the future existence of the Salzgitter Group.

Five-year Overview of R&D

		FY 2006	FY 2005	FY 2004	FY 2003[3]	FY 2002
Research and development expenses	€ mil.	58	58	57	58	47
Research and development employees	empl.	688	706	701	670	400
Research and development ratio[1]	%	0.7	0.8	1.0	1.2	1.0
Research and development intensity[2]	%	2.0	2.9	4.2	5.3	4.2

1) R&D expenses in relation to Group sales

2) R&D expenses in relation to Group value added

3) Reporting of R&D-related expenses at MRW (employees)

Peiner Träger | Our thanks go to Friedhelm Glindemann, Kai-Uwe Himmelstoß, Holger Kaune, Ekrem Kocak, Uwe Lachmann, Dirk Lübbe, Ulrich Natge, Friedrich-Wilhelm Prange and Michael Schmidt for their photographic contributions.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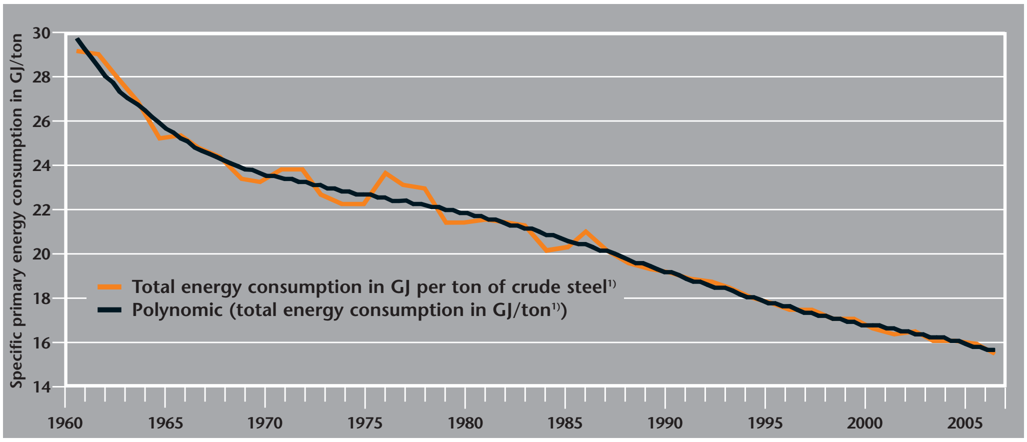
TRÄGER
Besucher
Visitor

5. Environmental Protection

At Salzgitter AG environmental protection forms an integral part of its corporate responsibility and is one of the core tasks of management.

Public discussion is currently focusing on the topics of resource efficiency and, in particular, on energy efficiency. Salzgitter AG proactively entered this debate at an early stage. As the discussion progresses, it is becoming increasingly clear that, seen in an overall context, the product steel and its production form less a part of the problem and more of a future-looking part of the solutions that are being sought. Since the procurement of raw materials such as ore, scrap and coal comprise a significant portion of our cost structure, we have always been faced with the need to make production as efficient as possible in terms of resources and energy. For example, continuous adaptations and optimization of production processes in Germany has allowed the specific energy input per ton of crude steel to be reduced by about 40% since 1960. Of no less importance is the contribution to enhancing our customers' energy efficiency resulting from the development of new steels. Salient examples are the utilization of high-strength and ultrahigh-strength lightweight steels in the automotive industry to lower fuel consumption, and the use of high-temperature-resistant and corrosion-resistant steels in the construction of leading-edge power plants with optimized degrees of efficiency.

Primary Energy Consumption German Steel Industry



[1)] Including procurement of electricity and oxygen rated as primary energy

Classification "Iron making industry": Ore preparation and sinter plants, blast furnaces, oxygen steel plants, electric steel and other steel works, hot- and cold-rolling plants, energy generation plants, live steam boiler houses, others

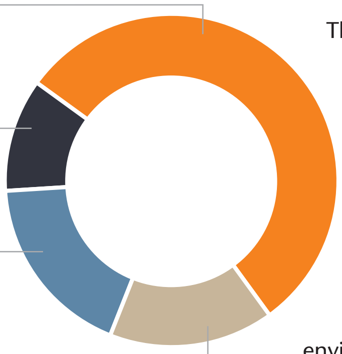
We place particular value on the introduction of certified environmental management systems according to DIN EN ISO 14001, enabling environmental protection to be systematically managed and put into daily practice at all corporate levels. The implementation process continued on schedule at Salzgitter AG companies in 2006. Among others, this included the certification of Salzgitter Flachstahl, Ilsenburger Grobblech, SZST Salzgitter Service und Technik, Verkehrsbetriebe Peine-Salzgitter and MHP Mannesmann Präzisrohr. We intend to consistently pursue this course of environmental certification in the upcoming years.

The 2006 financial year was again characterized by wide-ranging discussions concerning emissions trading. The focus was on the further structuring of the CO_2 certificate allocation system for the 2008 to 2012 period. Following the cabinet resolution adopted at the end of June 2006 by the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) responsible, the EU Commission was notified concerning the Second National Allocation Plan for emissions trading up until 2012. With this as a basis, discussions started concerning the structure of German allocation legislation. Together with the other German steel companies, Salzgitter AG entered these discussion processes at an early stage. It was important for us to refer to the particularities of steel production with CO_2 in mind and ensure that the generally recognized special conditions prevailing in steel production for the allocation of certificates were respected.

Salzgitter AG contributes to environmental and climate protection wherever possible with respect to the sustainability triad of economy, ecology and social aspects. For instance, since November 1, 2006, the second large-scale blast furnace of the Salzgitter works also operates a slag granulation plant, in cooperation with the cement producers Holcim AG and Schwenk ZEMENT KG. The cement clinker utilized in cement production to date can now be replaced by up to 450,000 tons per year of additional granulated blast-furnace slag produced through this process. This measure achieves sustainable savings of raw materials, while reducing CO_2 emissions by up to 800 kg per ton of cement, depending on the cement type.

Following approval by the Supervisory Board, we have also started work on defining the planning framework conditions with regard to environmental legislation for the conversion and enlargement of the power plant which uses the coke oven, blast furnace and steel gases from the steel production process of our Salzgitter works. In future, this power plant will make considerable additional contributions to minimizing CO_2 emissions.

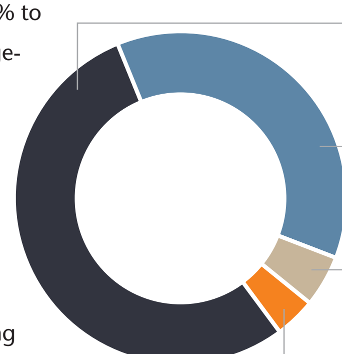
Steel Division environmental expenses data 2006



The total expenditure of the Steel Division on environmental protection came to € 123 million in the 2006 financial year. Of this amount, 55% was attributable to measures related to air quality, 11% to water protection, 18% to recycling and waste management, as well as 16% to protection against noise.

Expenditure relating to environmental protection reached € 12 million for companies from the Tubes Division based in Germany. This expenditure breaks down as follows: air quality measures 4%, water protection 54%, recycling and waste management 37% and protection against noise 5%.

Tubes Division domestic companies environmental expenses data 2006



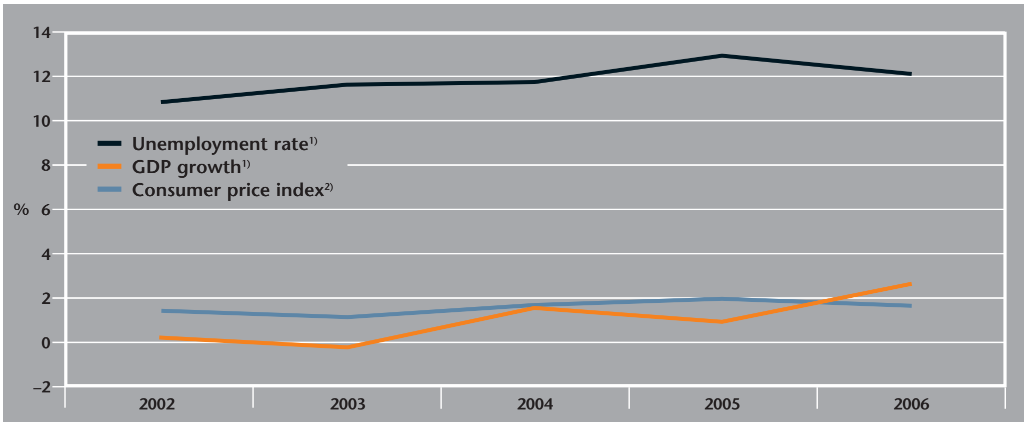
6. Performance Report

6.1 General Business Conditions

In the year 2006, the **global economy** once again expanded by an above-average growth rate of around 5%. Despite reaching new all-time highs, the oil price hikes had little impact on slowing this trend. The economic development of the individual industrialized nations, however, varied greatly. In the United States, where production in the first months of the year in particular had risen by leaps and bounds, economic momentum slowed over the remainder of the year, mainly owing to a slump in residential construction. In the emerging markets, economic activity has remained brisk to date. Although China showed first signs of the impact of the measures passed by the government in the spring to contain the rapid economic development, the gross domestic product (GDP) in this country rose again by a remarkable 10.5%. In the other countries of South East Asia, the economic trend remained robust, but slowed somewhat during the second half of the year.

For the first time since 2000, the **euro zone economy** saw a discernible upswing in 2006. After rapid expansion in the first half of 2006, when real GDP increased at an annual rate of 3.6%, growth rates in the second half of the year fell. Nonetheless, the increase of 2.7% over the year as a whole was remarkable. Domestic demand was the mainstay of economic momentum. Given steadily rising production capacity utilization, capital expenditure in particular was notably on the increase, boosted by higher profits and still favorable financing conditions.

Macroeconomic Indicators in Germany



[1] Source: Federal Statistical Office
[2] Source: Deutsche Bundesbank

The **German economy** experienced a sharp upswing in 2006 the pace of which, in contrast to earlier years, was swifter than in the rest of the euro zone. The driving force behind the boom was still foreign demand, which had risen again owing to the healthy global economy. Germany reaped above-average benefit from the export of goods that are especially in demand in the current global environment

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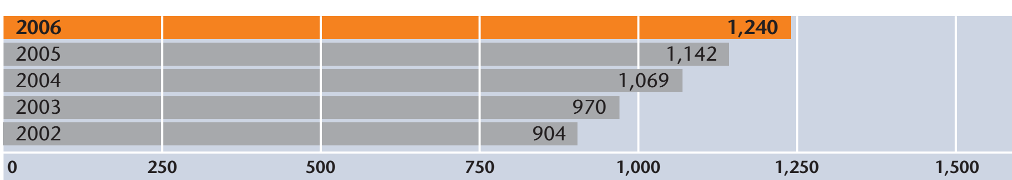
where investment activities are expanding rapidly. In addition and in contrast to 2005, the domestic economy picked up momentum as well. Building and capital expenditure expanded swiftly at growth rates estimated at 2.9% and 7.7% respectively. Whereas, in Germany, the trend of residential construction had depressed overall economic production in the period between 2000 and 2005 to the tune of an average 0.25%, it is likely to have contributed almost 0.2 % to real GDP growth in 2006. All in all, the German economy grew 2.7% in this year.

The **steel markets of the world** were very robust in 2006. With just under 10% (+100 million tons of rolled steel), market volume growth almost doubled in comparison to 2005. Growth momentum was therefore even greater than in the boom years of 2000 and 2004. The production of crude steel climbed 8.5% to a level of 1.24 billion tons. As in preceding years, growth in 2006 was greatly influenced by developments in China. Almost 40% of the increase in market supply was attributable to this country alone. The production of crude steel was some 18% higher than in 2005. For the first time, China was a net exporter of steel with a surplus of 32 million tons. But also the rest of the world expanded, as in 2000 and in 2004, at a very dynamic pace. Almost all steel regions recorded sharp growth in the production of crude steel and market supply in 2006.

World Crude Steel Production



million tons

Source: International Iron & Steel Institute

The **German steel market** was also extremely dynamic in 2006. This is particularly attributable to the swift expansion in the steel processing sectors which grew by more than 5% in this year. Particularly mechanical engineering as well as the tubes industry and steel transforming companies were on a steep growth path. The production of German automotive manufacturers reached a new record level. The building industry proper and steel construction not only staged a turnaround in 2006, but even achieved growth. The crude steel production of steel companies in Germany rose 6.1% to 47.2 million tons, the highest level since the German reunification. Robust demand has, however, lent increasing momentum to imports which, over the course of the year, climbed by just under 15%. By the same token, the increase in exports was also sizeable, with the result that the foreign trade balance rose. Accordingly, stockbuilding in Germany remained generally moderate in contrast to the trend in the 25 countries of **EU** where, despite demand for steel running at a higher level (+4.5%) in 2006, there was a discernible rise in inventories. Market supply grew in a double-digit range, thereby outpacing steel consumption. This is mainly the result of shifts in the foreign trade position: owing to the drastic increase in imports and a downtrend in exports, the net import surplus for rolled steel came to around 6.5 million tons.

All in all, the **steel tubes industry** had a good year in 2006, although the trends in the tubes consuming sectors tubes varied.

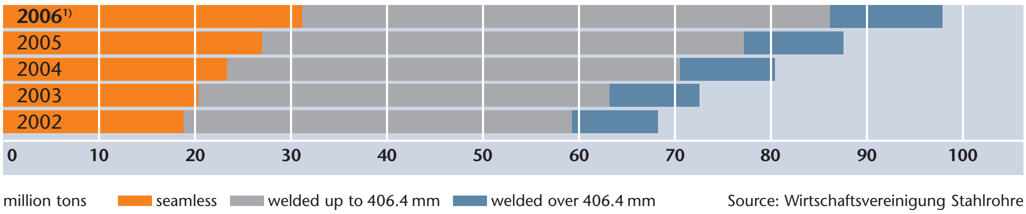
Mechanical engineering posted healthy growth rates in 2006 which were in part even higher than in 2005. All in all, the automotive industry in Western Europe and the USA fell short of the previous year's growth rates. By contrast, Japanese and Chinese manufacturers in the sector outperformed levels reached in 2005. The 30% increase attained by China can be explained on the basis of low inventory levels. In 2006, the chemicals industry remained on its expansion path.

The downswing in the Western European building industry has ended in contrast to that of the USA where the figures of previous year were not matched. Power plant construction in Western Europe recorded brisker activity whereas, in the USA, power facility construction fell below the level of 2005.

The situation in the oil and gas industry was again influenced by the high oil price in 2006 which peaked in August, then subsequently declined, while nonetheless remaining at a persistently high level.

Following on from an extremely good year in 2005 (88 million tons according to updated data), the global steel tubes production reached a new high at around 98 million tons in 2006. All manufacturing processes outperformed year on year, with seamless tubes in the lead (16%). The manufacturing of small-diameter welded tubes rose by 10% and that of large-diameter tubes by 11%.

Steel Tubes Production by Manufacturing Process



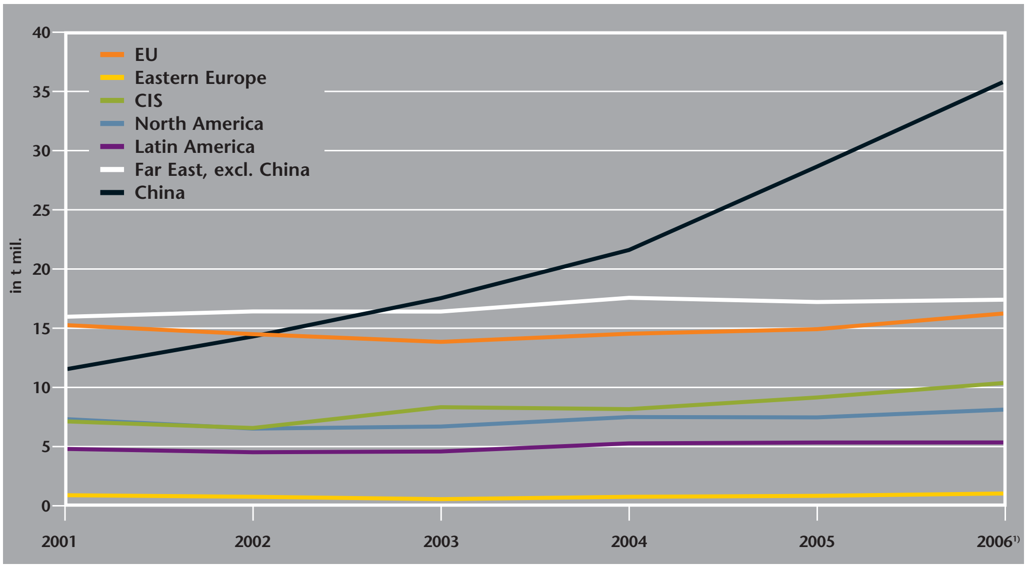
1) Extrapolation

Source: Wirtschaftsvereinigung Stahlrohre

As in 2005, the world steel production rose by approximately 10 million tons (+11%); this is mainly attributable to China, where production soared by 7 million tons (25%) as against the previous year. Seamless tubes posted the largest increase (+3.3 million tons; 29%), followed by small-diameter welded tubes (+3.5 million tons; 22%) and large-diameter welded tubes (+0.2 million tons; 20%).

Other fundamental changes came about in the CIS (+1.2 million tons; 13%) and in the EU (+1.4 million tons; 9%).

Steel Tube Production by Region



1) Extrapolation

The production of steel tubes more or less covered demand, with inventories remaining virtually unchanged in 2006. Warehouses were well stocked but, nonetheless, not in excess of the ongoing current demand.

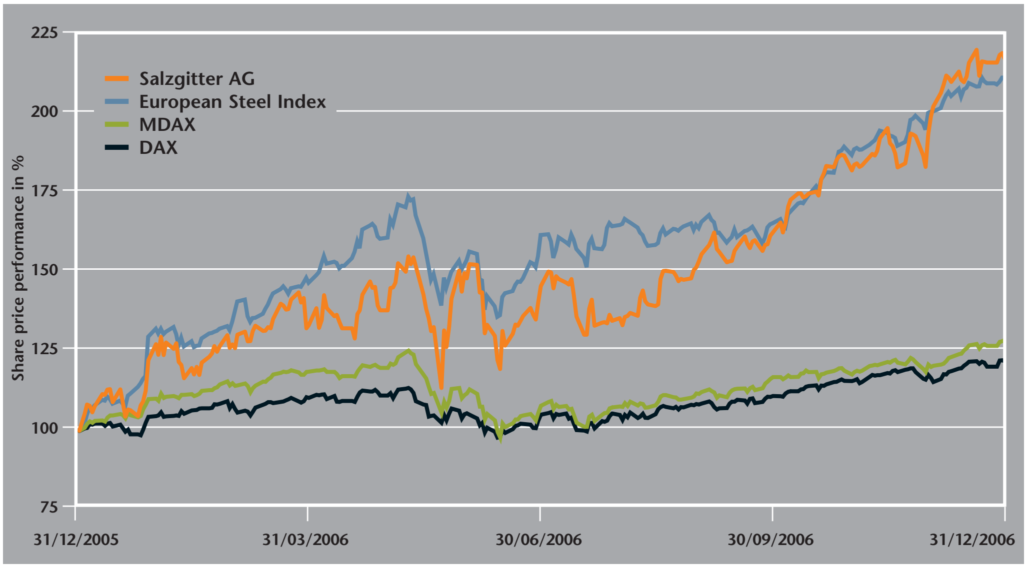
Over the course of the year, prices for input material reached a higher level when compared with 2005. It was, however, possible to pass on most of the increase in costs to customers, thereby generating a compensating effect on the revenues of steel tubes.

6.2 The Salzgitter Share

The Capital Market and Price Performance of the Salzgitter Share

The robust global economy exerted a positive impact on the stock market uptrend at the start of the year 2006. Price gains in the first months were then followed by a consolidation phase with partly strong fluctuations, which resulted primarily in widespread concern about the future development of the US economy. Upbeat economic data from Asia, America, Europe and Germany triggered another sentiment reversal at the end of July 2006. This filtered through to the stock exchanges in the form of an uptrend that held steady until the end of the year and beyond.

Salzgitter AG Share Price Performance vs the European Steel Index, MDAX and DAX in 2006



Source: DBAG XETRA closing prices, Datastream STEELEU

The annual performance of the DAX came to 22% and once again matched the level posted at the end of 2000 – the year of the last stock market boom – at just below 6,600 points on December 31, 2006. The MDAX also rose and, at around 9,400 points at year-end, achieved growth of 29%. Outstanding operating results and a slew of takeover battles again brought the international steel industry to the attention of investors. As a result, the European Steel Index more than doubled, with growth recording at 111%.

The uptrend of the Salzgitter share also held steady in the year 2006. Better-than-expected quarterly results, the sale of the Vallourec participation, which was most positively received by investors, as well as a lively general interest in steel stocks resulted in the course of the year in an all-time high of € 72.85 on May 12 being outperformed a short time later. On December 18, 2006, the € 100 threshold was exceeded for the first time ever and, having peaked at € 100.96, the share price closed the year 2006 at € 99.05. The annual increase of 117% was again higher than the European Steel Index and all DAX and almost all MDAX stocks. In a performance comparison between 80 DAX and MDAX stocks, the Salzgitter share ranked in second place.

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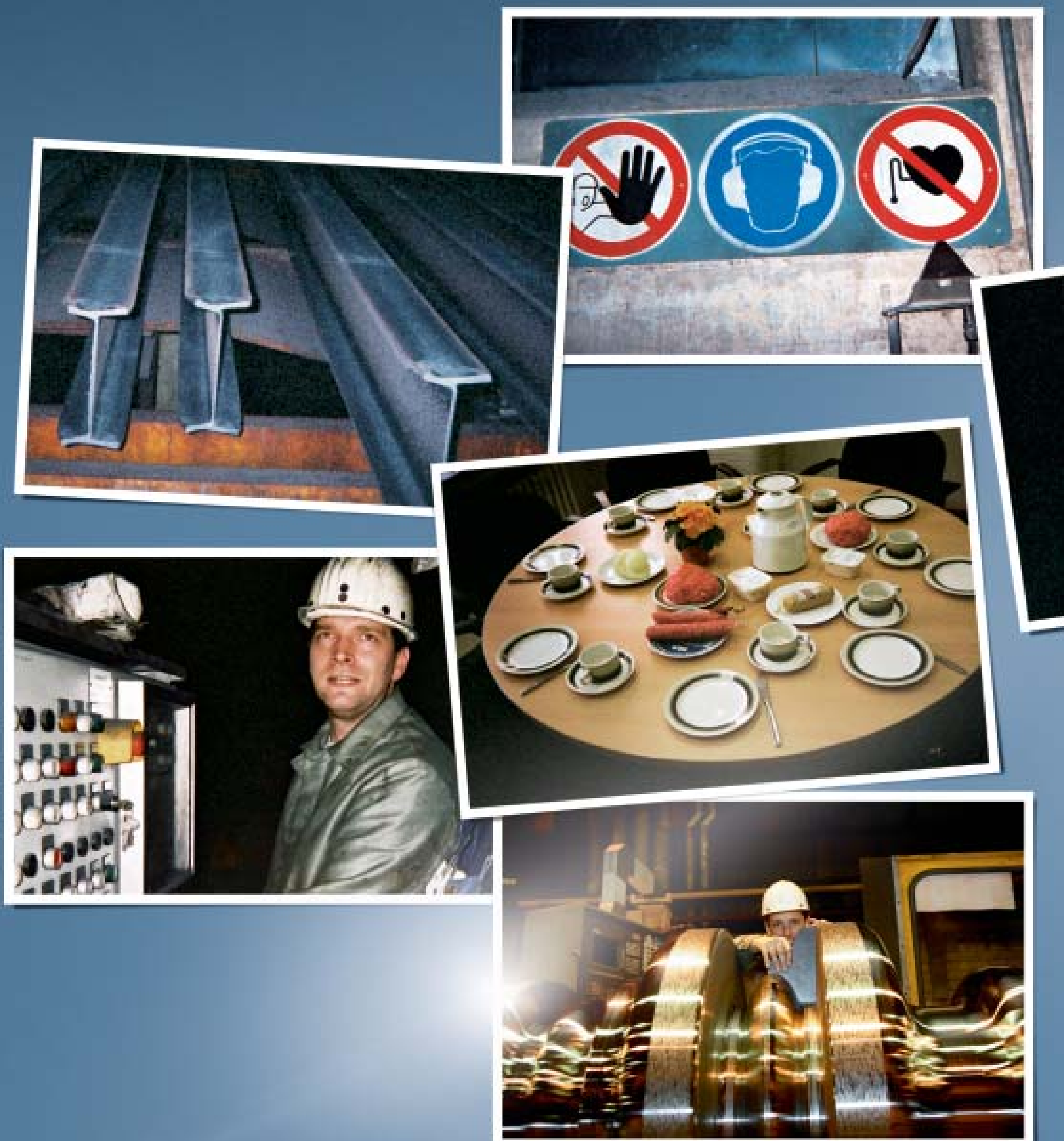
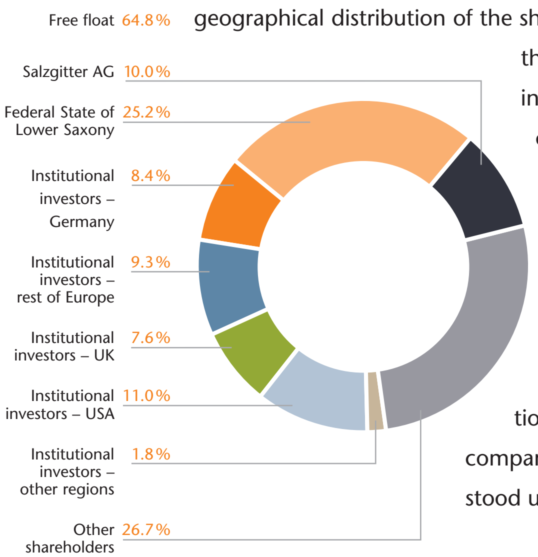


The daily turnover of the Salzgitter share on German stock exchanges came to an average 510,000 units per trading day, which corresponds to an increase of 19% year on year (2005: 421,000 units/day). The total number of shares traded posted around 130 million units (2005: 109 million units) with 97.8% (2005: 94.9%) of the volume accounted for by XETRA electronic trading and the Frankfurt Stock Exchange.

As a result of stronger sales and the sharp rise in the share price, Salzgitter AG's position in the MDAX ranking of Deutsche Börse AG improved once again. With a trading volume which trebled as against 2005 to reach € 8.53 billion in Frankfurt, the company took 3rd place among the 50 companies listed on the MDAX at year-end. In the "MarketCap" category, Salzgitter AG came in at 5th place, with a free float market capitalization of € 3.96 billion on December 31, 2006. This ranking puts Salzgitter in the league of the Top 35 listed companies in Germany, thereby qualifying to rank among the group of DAX's up-and-coming candidates.

Shareholder structure



Status: Oct. 31, 2006

Despite the high trading volume, there were on balance only few to moderate changes in terms of the geographical distribution of the shareholder structure, as shown by an external analysis carried out at the end of October 2006. Shareholders registered in Germany, including the major shareholders of the Federal State of Lower Saxony and Salzgitter AG itself, held a minimum of 43.6% in 2006 (2005: 47.9%). However, the share of domestic and institutional investors included in this portion fell 4.3% to 8.4%, whereas the proportion of foreign investors, above all in the USA, climbed to 29.7% (2005: 28.9%). A total of 26.7% (2005: 23.2%) of investors could not be identified, but are most likely accounted for by private domestic and foreign investors, as well as institutional investors with no reporting requirements, such as insurance companies and trust foundations. The free float of the Salzgitter share stood unchanged at 64.8% as per year-end 2006.

Treasury Shares

The portfolio of treasury shares were recorded at 6,321,277 units on December 31, 2006. In comparison with the portfolio status as per December 31, 2005 (6,321,528 units), there has been a decrease in the number of units of 251 units. In line with the authorization given by the General Meeting of Shareholders held on March 16, 1999, 745 shares at an average price of € 65.97 were used in lieu of payment for the services of third parties during the reporting period. Some 1,786 shares were issued to employees for free or as a bonus. Furthermore, 2,280 shares at an average price of € 58.89 were purchased during the reporting period, on the basis of an authorization granted by the General Meeting of Shareholders of May 26, 2005.

The General Meeting of Shareholders, held on June 8, 2006, again authorized the Executive Board to buy back Salzgitter shares in the period up until December 7, 2007, which make up an amount of the share capital of up to 10%.

The proportion of treasury shares in the share capital (€ 161,615,273.31 or the equivalent of 63,218,400 units) stood at just under 10% at the end of the year, which is almost the permissible volume of treasury shares a company can hold under the law.

Information for Investors		FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Share capital[1]	€ mil.	159.5	159.5	160.9	161.6	161.6
Number of shares[1]	million	62.4	62.4	62.9	63.2	63.2
Number of shares outstanding[1]	million	61.3	61.3	61.8	56.9	56.9
Market capitalization[1][2]	€ mil.	367.0	538.5	880.8	2,595.1	5,635.7
Year-end closing price[1][3]	€	5.99	8.79	14.25	45.61	99.05
Stock market high[3]	€	12.65	9.35	15.76	45.95	100.96
Stock market low[3]	€	5.85	5.88	8.72	14.17	45.21
Earnings per share (EPS)[4]	€	1.05	0.52	3.99	14.09	26.50
Cash flow per share (CPS)[4]	€	2.55	3.64	5.75	7.83	8.65
Dividend per share (DPS)	€	0.32	0.25	0.40	1.00	2.00
Dividend proposal	€ mil.	20.0	15.6	25.2	63.2	126.4

Securities identification no. 620200, ISIN: DE0006202005

1) All figures as of 31/12
2) Calculated on the basis of the respective year-end price multiplied by the number of shares outstanding as per 31/12
3) All data based on prices from XETRA trading
4) Calculated in consideration of the weighted number of the average of shares outstanding

Dividend

The Executive and Supervisory Boards propose that the General Meeting of Shareholders resolves payment of a basic dividend for the financial year 2006 of € 1.00 per share. Furthermore, the proposal has been put forward that, in view of the exceptionally high income from selling the participation in Vallourec S.A., an additional bonus of € 1.00 be paid.

Based on the nominal share capital of € 161.6 million, the proposed payment comes to € 126.4 million.

Tax invoice	€/share
Cash dividend	1.58
Creditable capital gains tax and solidarity surcharge	0.42
Dividend	**2.00**

Investor Relations

The ongoing interest of the capital markets in the steel industry, and specifically in Salzgitter AG, necessitated a high level of investor relations activities in 2006 as well. Apart from analysts' conferences in Frankfurt and London to present the annual report published on the financial year 2005 and the results of the first half of 2006, Salzgitter AG made company presentations at a number of investors' conferences and undertook numerous road shows in Germany and abroad. All in all, more than 130 discussions were held in the past financial year with financial analysts and institutional investors in Germany, Europe and the USA.

The financial press and a large number of private investors obtained information on the performance of Salzgitter AG by contacting the company directly. In order to ensure that information is both timely and easy to obtain, the Investor Relations web pages were brought up to date and supplemented by an on-line interim report. In addition, the work of the "Freundeskreis der Aktionäre der Salzgitter AG" (circle of friends of Salzgitter AG shareholders) received intensive support. In a series of events organized by the "Freundeskreis" many members took the opportunity to inform themselves of the latest developments of the Salzgitter Group. Once again, a considerable number of new members joined the circle in 2006.

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

In 2006, four financial institutions began with their coverage of Salzgitter AG.

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

Bankhaus Lampe	Kepler Equities
BHF Bank	Landesbank Baden-Württemberg
Commerzbank	MM Warburg
Credit Suisse	MainFirst
Deutsche Bank	Metzler
DZ-Bank	NORD/LB
EXANE BNP Paribas	Sal. Oppenheim
Goldman Sachs	Steubing AG
HSBC	WestLB
HypoVereinsbank	

In total, at least 183 company reports or recommendations on Salzgitter AG were made in the financial year 2006 by some 36 banks and financial publications. At year-end, their ratings were: 22 buy/outperform, 8 hold/neutral, 6 sell/underperform.

6.3 Overall Statement by Management on the Performance of the Group

The financial year 2006 reflects the exceptionally successful course of the Salzgitter Group. This assessment is not only valid for year-on-year comparisons but also in relation to the performance forecast for the reporting year.

The individual companies of the Group benefited from the persistent brisk demand for rolled steel and tubes, as well as from an uptrend in selling prices. Accordingly, consolidated sales of the Group rose to € 8,447 million, up € 1,295 million (+18%) from € 7,152 million.

The Salzgitter Group closed the financial year 2006 with a profit before tax of € 1,855 million, thus nearly doubling (€ +914 million; +97%) the excellent result of 2005 (€ 941 million). In this context it should be noted that this figure also includes proceeds from the sale of the Vallourec participation (€ 907 million).

Taking into account the fact that the earnings position of the Group in the financial year 2005 was on balance also boosted by extraordinary income (€ 142 million), operating profit in the reporting year was also higher.

Along with a favorable market environment, the groupwide Profitability Improvement Program designed to enhance profitability was also a contributing factor.

The exceptionally high ROCE of 2005 (38.9%) was exceeded in 2006 with an ROCE of 47.8%. Adjusted for the impact of net cash investments held at banks, ROCE from industrial operations stood at 55.1% (2005: 49.4%).

The price of our share has more than doubled, from € 45.61 at year-end 2005 to € 99.05 at year-end 2006 (+117%).

6.4 Comparison between Actual and Targeted Performance

In last year's annual report, the forecast for 2006 was a profit before tax in the triple-digit million range, notably lower than in 2005 (€ 941 million). In this context we made explicit reference to the fact that the opportunities and risks of the fluctuation potential of the consolidated result from then unforeseeable cost, selling price, capacity utilization and currency trends could also be in the triple-digit million range.

The extremely favorable development in the Salzgitter Group has enabled us to generate a consolidated pre-tax profit totaling € 1,855 million, including € 907 million in proceeds from the sale of the Vallourec participation.

We provided information on this trend, which became evident during the course of the year, by adjusting our forecast figures in the respective quarterly reports.

As against our starting point, the positive divergence from budgeted figures was considerable. As mentioned above, a considerable influence on the consolidated result was exerted by the one-off proceeds from the sale of the Vallourec shares (€ 907 million) which, naturally, were not included in the budget. To complement this, the Steel, Tubes and Trading Divisions delivered figures way above budget, which was also one of the causes of this discrepancy. Instead of cyclical trends, known in the past for their pronounced swings and for the fact that they generally occur with a time lag, the overall market situation in both the steel and tubes segment was excellent in the financial year 2006. The sections business, problematic over extended periods in recent years, also proved to be very stable.

Consolidated sales of € 8.45 billion were considerably above forecast. All divisions contributed to this positive budget variance, with the **Trading, Steel** and **Tubes Divisions** making decisive contributions. The **Services Division**, however, also generated sales which exceeded budget. The greater use of the Group's own trading organization led to higher inter-company sales, which is not reflected in the contribution.

Given the persistently buoyant market environment for steel products and an increase in shipments, accompanied by steadily rising revenues, and despite higher costs of raw materials and energy, the **Steel Division** achieved another outstanding pre-tax profit of € 433.8 million (2005: € 430.7 million) which was way above budget.

The market for steel tubes continued to boom. Higher prices for input material were more than adequately compensated for by higher selling prices. In particular owing to the trend of large-diameter tubes, the **Tubes Division** posted a pre-tax profit of € 262.9 million exceeding the budget, with improved profit in all market segments.

The global economic recovery created exceptionally good general conditions for the development of European stockholding steel traders. As brisk demand made it possible to pass on producer price hikes to the end consumer without delay, the trading margins for the sale of inventories held widened considerably on occasion. The project business of the international trading activities was similarly positively positioned. The pre-tax profit of the **Trading Division** therefore attained a record high of € 200.9 million, thereby considerably outperforming the budget.

Due to the business developments at Salzgitter Automotive Engineering GmbH & Co. KG which is not yet performing as planned, the **Services Division**, though posting a thoroughly satisfactory result, did not quite reach the target figure.

The ROCE objective of 12 %, the average of the economic cycle, was way outstripped with a figure of 47.8 % this year. Upon elimination of the net cash investment held at banks, ROCE from industrial operations comes to as much as 55.1 %.

TUBES

Forming, shaping, welding, cutting, bending, finishing **and** taking pictures.

The Tubes Division.
Captured in photos
and showcased
by its people.

Mannesmannröhren Mülheim | Our thanks go to Jutta Aigner, Detlef Borauke, Detlev-Wilhelm Brock, Dirk Falkenburg, Andreas Gittel, Carsten Groh, Frank Krämer, Uwe Langerbein, Carsten Meyer, Michael Raspel, Rolf Rubbert, Uwe Schumacher and Ralf Schwanewedel for their photographic contributions.

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5P
310.6

II. Profitability, Financial Position and Net Worth

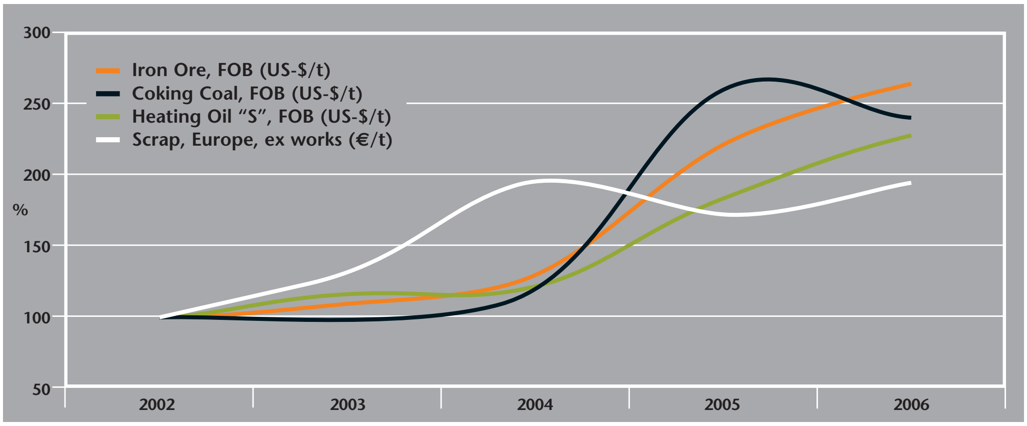
1. Purchasing

The boom of the international procurement markets that has lasted for some six years continued to push raw materials prices to even higher levels in 2006. Above all in the industrializing countries, particularly China and India, demand for raw materials continued unabated in 2006. The economic boom in these regions continued to fuel demand for iron ore and other metallic and energy resources to levels consistently above supply.

In view of the stable world economy and the resultant strong demand for raw materials, prices in many market segments will continue to run at a high level.

Despite significant bottlenecks in most raw materials markets, we succeeded in ensuring supplies to our steel and tubes companies at market prices, although prices in key areas had risen notably over the prior year.

Movement in the Price of selected Raw Materials and Energy Resources



The situation in the international iron ore market remained extremely tight in 2006. The massive increase in demand, particularly from China (about +60 million tons in 2006), fed through to price increases for fine ore and lump ore of 19% fob port of lading. The market for pellets softened slightly, with price adjustments of 4.5% achieved. Costs for SZFG increased by 12% on a delivered basis. The volume of ore purchased in 2006 came to 5.9 million tons.

The situation in the iron ore market will also not change significantly in 2007. Producers were able to push through renewed price increases for fine ore and lump ore of 9.5%, as well as 5.3% for pellets. Analysts are also expecting a firmer market for 2008.

Following the price explosion in 2005, with price hikes exceeding 100%, the market for coking coal settled in 2006, although prices remained at a very high level. We agreed price reductions of 8% fob port of lading with producers. Over the course of the year, the situation on the market eased. This was due to capacity expansions and production increases on the part of important collieries. In the calendar year 2006, the quantity of coking coal purchased totaled 1.5 million tons, of which only a remaining 12% was supplied by German production. From 2007, 100% of requirements will be purchased on the world market.

A further easing of the market is anticipated for the "coal year 2007/2008". Following the first agreements between Australian producers and Japanese iron and steel works, the world market price for coking coal will fall by about 15%. We do not anticipate a renewed rise in the market in the medium term.

The spot sea freight market reached a temporary low in January 2006, with rates for Capesize tonnage on the Tubarao/Rotterdam route at US-$ 11 per ton, a level almost 50% below that in January 2005. Growth took off as from mid-year, lifting rates to over US-$ 18 per ton. Here, a discernible effect emanated from the higher sales volumes of iron ore that were markedly above the level of the figures published previously in April. The positive announcements encouraged many shipowners to enter into speculative period time charters despite not having actual shipments, which pushed up rates further. Bunker oil prices fluctuated around an average of US-$ 60 per ton above the previous year's levels. For the Tubarao/Rotterdam route this implies an additional cost burden of US-$ 0.60 per ton.

With a look ahead to the financial year 2007, we expect an extremely volatile market in conjunction with relatively high price levels.

In 2006, the market trend in ferro-alloys and metals varied greatly depending on the individual groups of materials. As far as metals are concerned, strong price increases were registered for nickel and zinc. While prices for nickel on the London Metal Exchange (LME) traded in a range between US-$ 14,500 and US-$ 15,500 per ton during the first quarter of 2006, prices soared as from April 2006. In December 2006, the monthly average exchange price was US-$ 34,600 per ton. Premiums partially exceeding US-$ 1,000 per ton were required on the spot market. The reason for the high prices include passive purchases by funds, major demand for primary nickel from the stainless steel sector as well as the aviation and electronic industries, combined with extremely low LME stocks. While stocks during the first quarter of 2006 were still at a level of around 35,000 tons, a dramatic decline set in from April on. In December 2006, the average exchange stock level was 6,560 tons.

Developments in the zinc market in 2006 were similar to those of the nickel market. Here too, prices have continued to rise since 2005. After starting 2006 at a level of US-$ 1,912 per ton, prices from March on climbed rapidly, reaching highs of over US-$ 4,600 per ton in November. The reasons for the enormous price rise in this case may also include speculative activity in the market as well as a shortage of the metal due to the enormous level of demand.

Prices for bulk alloys (manganese and silicon carriers) rallied in 2006 after touching lows in 2005. Prices for silico-manganese and ferrosilicon came under additional price pressure following dumping charges against various producer countries in September/November.

In 2006, Salzgitter and Peine purchased 484 ktons and 1,077 ktons of scrap respectively. The average price was about € 190 per ton. This is equivalent to a price increase of 10% compared with 2005.

We expect an average price of € 200 per ton for both plants in the year 2007.

Prices for liquid reducing agents consisting of heating oil “S” and substitute reducing agents (flux oil, marpol oil etc.) for use in the blast furnaces of the Salzgitter plant climbed around 20% over the previous year. The reason for the significantly higher heating oil “S” prices, particularly in the first half of the year, were the higher crude oil prices resulting from political tension in the Near and Middle East, as well as from speculative oil trades. The non-occurrence of major hurricanes and the fact that political conflicts did not escalate led to a turnaround in oil prices in the second half of the year.

All in all, 110 kton of heating oil “S” were used in the financial year 2006. In 2007, prices are expected to rise again slightly.

Price increases of about 20% were also registered in 2005 for liquid substitute reducing agents, as a result of their prices being tied to heating oil “S”. As with heating oil “S”, prices are expected to rise again slightly in 2007.

The overall volume of liquid substitute reducing agents in 2006 was 165 ktons; the increase by 37 ktons (+29%) as against the previous year resulted in considerable cost savings compared with heating oil “S”.

The rise in electricity prices seen since 2002 initially continued in 2006. An announcement was made at the end of April that European power plant operators had emitted less CO_2 than certificates had been issued. The conclusion drawn from this was that there would be an over-allocation in the entire 2005 to 2007 trading phase, which in turn led to a crash in the price of certificates. As a consequence, electricity prices also fell, and since then have been trending sideways with a great deal of volatility. Overall, however, this development led to the cost of electric power rising in 2006 (excluding use of the grid, the Renewable Energies Law, the Cogeneration Law and electricity tax) by about 19% compared with 2005. In 2007, the cost of electricity is expected to a rise by another 10% over 2006.

The costs of procuring natural gas rose by 37% in 2006 compared with the previous year. The reason for this is also the connection of its price with heating oil “S”, which climbed 50% during the reference months and which affects natural gas prices with a time lag.

As a result of this time lag, 56% of incoming monthly prices are already fixed for 2007. Current forecasts envisage an increase of the relevant price for heavy heating oil of about 2% for the remaining 44%. To this extent, we anticipate a merely moderate increase in natural gas prices (+3%) for 2007.

In 2006, price developments in materials purchasing were characterized by developments in input materials costs and capacity bottlenecks at producers.

Materials in which nonferrous metals are being increasingly used, such as electric motors, electronic controls, copper staves for blast furnaces, cables and pipelines, were subject to the development of the corresponding metals on the London Metal Exchange (LME). Copper, for example for windings for electric motors, rose from an initial price of approximately US-$ 4,400 per ton to a record price of US-$ 8,600 per ton in 2006.

The market is expected to ease slightly in 2007.

Lubricants, anticorrosive agents as well as enamels for coating cold-rolled steel also exhibited rising price trends, since the base materials are petrochemical derivatives and, as such, are dependent on the price of crude oil.

Hüttenwerke Krupp Mannesmann GmbH (HKM) in Duisburg is the principal supplier of input material to the companies of the Tubes Division. As the result of various major disruptions, the company delivered only 0.6 million tons of slabs to Group companies for the manufacturing of plate and hot-rolled strip needed in the production of welded tubes, large-diameter pipes, HFI-welded tubes and precision tubes. To compensate for this shortfall, a further 190 ktons of slabs were procured from SZFG and third parties. An additional 170 ktons of hot-rolled strip were purchased from SZFG and third parties to cover the requirements of the Tubes Division's welded tubes plants.

As part of contractual arrangements, HKM supplied 124 ktons of tube rounds to Vallourec & Mannesmann Tubes S.A. which, in turn, supplied the precision tubes segment with 114 ktons of hollows for the production of seamless precision tubes.

Input materials prices invoiced ex-HKM to companies within the Tubes Division appreciated in line with the market price of these materials.

2. Employees

The Group's core workforce (excluding board members, non-active age-related part-time workers, non-active workforce members and trainees) comprised 16,892 employees on December 31, 2006. Compared with the previous year (17,036), the workforce was reduced by 144 (–0.8%). As per December 31, 2006, this total comprised 65.9% wage laborers, 26.5% salaried employees covered by the collective agreement system and 7.6% non-tariff employees.

A breakdown by division shows the following changes:

Steel Division: –204; Tubes Division: –44; Trading Division: +101; Services Division: –2. The number of employees of the holding company increased by 5.

The reduction in personnel within the Steel Division is primarily attributable to cancellation agreements (83) as well as to departures attributable to active period of age-related part-time employment at SZST (144).

The slightly lower headcount within the Tubes Division as of the year-end is attributable to the sale of Eupec PipeCoatings France S.A. with 50 employees.

The increase in the number of personnel within the Trading Division is due, on the one hand, to the creation of 64 new jobs to cater for the higher level of business volume in this division and the first-time reporting of FFS, which was acquired by HLG. On the other hand, RSA, with 22 employees on a 50% quota basis, was deconsolidated as of October 1, 2006.

The slight decline in the number of personnel within the Services Division is primarily the result of the following: 35 departures as part of a social plan, 82 personnel switching to other Group companies, 231 personnel moving on to the non-active phase of age-related part-time employment; offset by 144 employees from the Steel Division commencing the active phase of age-related part-time employment at SZST, and the integration of 168 trainees.

The Core Workforce at the various Divisions developed as follows:

Division	31/12/2006	31/12/2005	Change
Steel	6,830	7,034	–204
Tubes	4,191	4,235	–44
Trade	1,835	1,734	101
Services	3,916	3,918	–2
Holding	120	115	5
Group	**16,892**	**17,036**	**–144**

As of December 31, 2006, the Group employed 1,030 trainees (2005: 1,022). A total of 23 trainees were offered permanent positions upon completion of their training and 217 were offered 12-month contracts in accordance with the terms of the collective agreement, after the expiry of which decisions are made concerning continuing employment.

For the second time in a row, the fluctuation rate within the Group reached a new record low. As a consequence, the average duration of employment within the Group continues to rise, a factor which in principle should be viewed as positive. Accordingly, we must continue to seek ways of adjusting the workforce to secure productivity progress and to ensure the sufficient recruitment of young personnel. For this reason, the Executive Board also made additional financial resources available for age-related part-time employment and cancellation agreements in 2006 to enable a gentler adjustment of the workforce in coming years. The reduction of the core workforce due to current age-related part-time employment schemes is shown by the personnel statistics. During the financial year 2006, 266 employees commenced active part of age-related part-time employment, another 497 employees were in the non-active phase, and 232 age-related part-time employees left the company during the course of the year to enter into retirement.

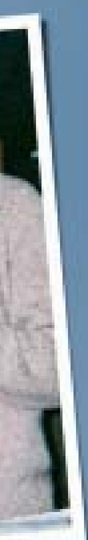
On December 19, 2006, the Executive Board and the Group Works Council of Salzgitter AG concluded a Group operating agreement regarding the employer-funded company pension scheme. This will come into force as from January 1, 2007, for all beneficiary employees of Group companies. For almost the entire Salzgitter Group, it will replace a conglomeration of the most varied and highly complex pension schemes, which have arisen from historical circumstances, with a uniform, contribution-oriented pension commitment. Besides harmonizing and modernizing pension arrangements within the Group, this will also allow us to implement further personnel policy and operating objectives such as increasing employee mobility within the Group, enhancing our attractiveness as an employer, creating transparency for employees and companies, making pension commitments easier to calculate and improving data and process security, while significantly reducing administration time and expense.

If one compares the pension commitments predating the new regulations and includes the related administrative simplification, the introduction of the new Group uniform pension arrangements will lead to long-term savings for the Group in the mid-double digit euro million range.

As far as the Group master agreement concerning the profit-sharing plan for employees is concerned, the companies established qualitative and quantitative targets and examined the extent to which they were achievable on the basis of the 2005 results for both the Group and its subsidiaries.

Given the sound operating results of nearly all companies, 14,700 employees of the Group received a share in the profit. Depending on the earnings of the respective company, the profit share ranged between € 900 and € 1,200 for employees covered by the collective agreement system. Non-tariff employees, executives and general managers also benefited from the good earnings position by way of the performance and profit-related target system.

Mannesmannröhren Mülheim | Our thanks go to Jutta Aigner, Detlef Borauke, Detlev-Wilhelm Brock, Dirk Falkenburg, Andreas Gittel, Carsten Groh, Frank Krämer, Uwe Langerbein, Carsten Meyer, Michael Raspel, Rolf Rubbert, Uwe Schumacher and Ralf Schwanewedel for their photographic contributions.




CIMBOM
Türkisches-Bad

At the collective wage negotiations for the iron and steel industry in North Rhine-Westphalia, Lower Saxony and Bremen, the parties to the collective bargaining arrangements agreed the following on September 21, 2006:

- Collective wage increase of 3.8 % from January 1, 2007 (excluding trainees)
- € 500 lump-sum payment for the months from September to December 2006
- € 750 in a one-off special payment to all employees
- Trainees' teaching materials costs to be assumed by employers
- Conclusion of a collective agreement adjusted and responding to demographic change
- Total duration of the collective agreement until January 31, 2008 (17 months)

A collective agreement adjusted and responding to demographic change is the first of its type in Germany and underscores the relevance of this topic. The associated expectations of operating measures being initiated and supported that contribute to solving the personnel problems anticipated as a consequence of the demographic development is in line with the groupwide "GO – Generationen-Offensive 2025 of Salzgitter AG" project within the Salzgitter Group. This project started in 2005 and is working on comprehensive solutions for six areas of action.

The East-German Steel Industry materially adopted the Collective Agreement West on September 27, 2006. Furthermore, the Collective Agreement concerning age-related part-time employment was extended until December 31, 2009, and the Collective Agreement concerning the Securement of Employment and the introduction of Working Time Accounts was extended until December 31, 2010. We have not yet concluded a collective agreement concerning the adjustment to demographic change. It is envisaged that this topic should be addressed by a commission comprised by an equal number of employer and employee representatives, with consideration given to the specific circumstances applying to eastern Germany.

For SZST Salzgitter Service und Technik GmbH, a collective agreement was concluded between the parties on November 23, 2006, that has adopted key elements of the collective agreement of the German Steel Industry. A major difference is the duration which is two months longer. All participants regard this as a contribution towards the introduction of the Group pension scheme at SZST.

Occupational health and safety arises from our company's care for and responsibility to our employees and the knowledge that security and health-conscious thinking and action makes a decisive contribution to the success of our Group. This is why safety at work is accorded such high priority within the Salzgitter Group and takes equal ranking with our primary corporate objectives of economic efficiency, productivity and quality. We have achieved a 61 % reduction in the frequency of accidents in the last five years. This means that we have drawn a significant step closer to achieving our long-term aim of preventing all accidents as a matter of principle. Both technical and medical occupational health measures are underpinned by multifaceted efforts to maintain and improve the health of employees.

As part of the management development program and following the successful conclusion of the first “Salzgitter Workshop”, the kick-off for the second workshop took place on August 28, 2006. As part of their personal qualification and development, twelve young managers from various Group companies are working for a period of about one year on the topic of “Situation and Suggestions for the Further Development of the Group’s Processing Activities”. The results of this project will be presented to the Executive Board and the managing directors of the companies concerned in July 2007.

The “Top Program” series of seminars started at the end of 2006. This program is aimed at managing directors and the senior management of the Group. The three seminars on strategy, finance and management are offered in courses of three days each. The courses also include contributions from highly qualified external lecturers.

This year’s Group forum was held under the motto of “Securing success – exploiting opportunities”. About 500 managers met in Hanover on May 3 and 4, 2006. Presentations given by members of the Executive Board informed the participants about current topics and objectives within Salzgitter AG; the forums concerning Steel, Tubes and Trading comprised reports about projects from Group companies. A lecture on the anticipated developments of the global steel industry, basing on a prognosis for the International Iron and Steel Institute (IISI), rounded off the Group forum. Outside the program, managers used “get together” for an intensive exchange of ideas.

3. Investments

As in previous years, the focus of the Salzgitter Group investment program in 2006 was on the Steel Division. The following provides a presentation of the most important projects from this division as well as from other corporate divisions.

Additions to assets totaled € 334 million (2005: € 537 million). At € 236 million, the volume of investments in property, plant and equipment, as in the previous year, was above the corresponding level of depreciation of € 201 million.

Due in particular to adjustments in at-equity valuations, additions to financial assets came to € 98 million.

Investments/Depreciation[1]

	Investments		Depreciation	
in € mil.	Total	Of which Steel Div.	Total	Of which Steel Div.
2002	251	127	220	137
2003	191	112	248	135
2004	228	155	313[2]	229[3]
2005	262	190	206[4]	149[4]
2006	236	161	201	145[5]
Total	**1,168**	**745**	**1,188**	**795**

1) Excluding financial assets
2) Of which € 110 m unscheduled write-downs
3) Of which € 88 m unscheduled write-downs
4) Of which € 9 m unscheduled write-downs
5) Of which € 5 m unscheduled write-downs

Of the amounts invested in tangible and intangible assets during this financial year, € 161 million was accounted for by the Steel Division, € 36 million by the Tubes Division and € 14 million by the Trading Division. The Services Division invested € 25 million.

Investments in Fixed Assets[1] by Division

in € mil.	FY 2006	FY 2005
Steel	161.5	190.1
Tubes	36.2	22.9
Trading	13.6	9.1
Services	24.6	40.2
Others/Consolidation	0.4	0.1
Group	**236.3**	**262.4**

1) Including intangible fixed assets

Depreciation and Amortization of Fixed Assets[1)2)] by Division

in € mil.	FY 2006	FY 2005
Steel	145.0	149.2
Tubes	21.9	23.3
Trading	10.9	11.1
Services	21.3	20.7
Others/Consolidation	2.0	2.0
Group	**201.1**	**206.3**

1) Including intangible fixed assets
2) Of which € 5 m unscheduled write-downs (2005: € 9 m)

The investments of the **Steel Division** in 2006 were mainly aimed at securing and further expanding its position as a leading supplier of steel products to the most important and profitable market segments, improving its performance in some areas and maintaining facilities at the latest technological level.

In August, the new turbo-generator at the Salzgitter power station went into operation. Thanks to its advanced technology and higher degrees of efficiency, it will also make a major contribution to cost reduction. It forms part of an overall concept, in the context of which the Supervisory Board's decided in September to renovate and expand the power plant of the Salzgitter works. On completion in 2010, the two new 105 MW generating units will ensure a high level of self sufficiency in the supply of the Salzgitter works with electricity.

In metallurgy, activities focused on preparing for the relining of the Blast Furnace B stack scheduled for spring 2007.

The restructuring measures for securing the performance of the hot strip mill, the water supply and the roll changing of the finishing line were successfully completed in November.

The modernized electrical and automation technology at the cold rolling mill went into operation on schedule and, besides expanding capacity and achieving finer tolerances for the entire gauging area, offers additional opportunities for the development of grades.

The new shuttle coater for the strip coating line has been in production since May. This raises flexibility when changing the coating enamels and enhances the performance of the facilities as a result of the setup time saved.

SZFG's most important project is the construction of a second continuous pickling line with associated hydrochloric acid regeneration which is scheduled to enter operation in the second half of 2007.

Investment activity of SZFG also comprised further projects related to technological advances and improvements in the working environment. These include, among other things, the renewing of the converter information systems, a new hot strip cut-to-length line to produce tempered wide strips and the replacement of the main driving motors for the hot strip rolling mill. Besides this, the replacement of the materials tracking system across the production chain in the Salzgitter works was introduced in 2006.

The focus of investments at PTG was within the heavy section mill, where work was carried out on renewing the supply of electricity to the electrical feeding of the finishing line and the back roller table. After the restructuring that was concluded in August, a higher weight-per-meter and larger rolling lengths can be realized.

The expansion of the continuous casting plant for beam blanks to include larger formats, with the aim of reducing the procurement of slabs from third parties, ran to schedule.

ILG installed an accelerated cooling line behind the four-high rolling stand and a new cold plate leveler at the Ilsenburg plate mill. Both facilities enhance product quality while expanding the production program and optimizing the process.

In addition to the aforementioned large-scale projects, the steel companies also implemented a number of small- and medium-sized projects to further enhance technical plant facilities in a sustained manner, thereby taking account of their customers' product requirements and actively developing their products.

The **Tubes Division** invested in rationalizing and modernizing production, in particular, as well as in enhancing production safety and product quality.

EP, for example, replaced the conventional, film-based x-ray examination by a digital x-ray system without film at the Mülheim location at the end of the year.

At the Dunkirk plant, the integration of an automated tube labeling system for both tube ends has been completed. Eupec in Mülheim also installed an automated tube labeling system. With the conversion of the drying and rewarming of tubes before inner coating from gas furnace heating to induction heating, Eupec was able to not only boost the productivity of the mill, but also the quality of the inner coating.

MRM invested in a cold plate leveler for the plate mill that allows unleveled plate to be corrected. Such deformations arise particularly with ultrahigh strength steel grades as the consequence of the requisite accelerated cooling following the milling heat.

SZGR completed a transportation system for tubes between the interim and the main stockyard, enabling automatic tube transportation between both facilities. The parallel roller table to the inner grid blasting raises the performance of the coating line.

Following an expansion of the production program up to 20.6 mm wall thickness, MFR at the Hamm mill continued its investment in expanding the production program up to 24 inch tube diameter.

Mannesmann DMV Stainless USA | Our thanks go to Dwayne Allen, Robert Holroyd, Ken Nanowsky, Susan Putman, William Roberts, Mike Smith, David Sosa, Robert Turney, Guillie Upstairg, Robert Walters and Tobias Wetzel for their photographic contributions.

The focus was on the transportation of tubes and improving the welding performance. To broaden the spectrum of dimensions in the heavy wall segment, a better annealing line was installed.

The Siegen mill installed a coating facility for corrosion protection.

At the Brackwede plant, MHP put the first capacity expansion step of diesel injection tube manufacturing into operation.

DMV concentrated mainly on forging ahead with the strategic development of specialization within its plants. Besides various investments related to renewals and quality, it focused particularly on investment projects concerned with securing OCTG (oil country tubular goods) manufacturing, as well as on the expansion of the boiler tubes product range.

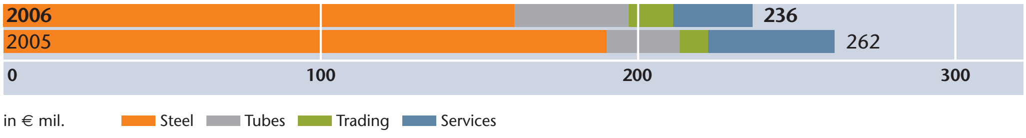
In the **Trading Division**, SMHD widened its Eastern European sales network. In order to better supply the Czech market, the warehousing operation in Lutin, in the east of the country, was expanded and a further hall was created at the warehousing facilities in Fürth (Germany) to supply the west of the Czech Republic and Austria with flat and long products. In order to secure further growth in Poland, the existing stockholding facilities in Slupca were relocated to larger premises in Rogozno. We also intend to build up a new stockholding facility in the south of Poland.

The expansion of the oxygen cutting capacity in Neuss and Hanover will enable UES to expand significantly shipments of processed plate.

The **Services Division** also implemented a number of projects that, besides replacement projects, were designed to expand capacity and improve logistics. The focus was on the purchase of new, higher performance locomotives and goods wagons for VPS.

The summarized investment volume of the divisions is shown in the following chart.

Investment in Fixed Assets by Division

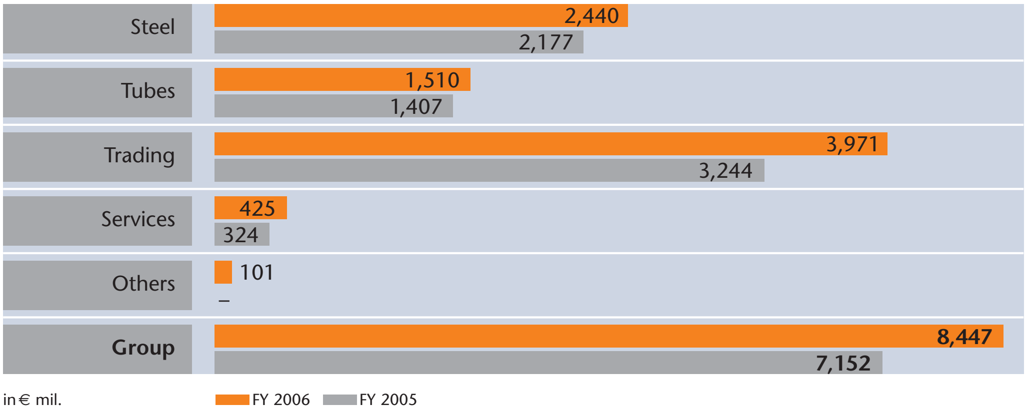


In the year under review, the Salzgitter Group generated sales of € 8,447 million, which exceeded the previous year's figure (€ 7,152 million) by 18%.

All divisions contributed to this growth, although the Trading and Steel segments were the mainstays.

As in the previous year, the Trading Division contributed the major share of 47% (2005: 45%) to the Group's external sales. Sales of this division, which posted € 3,971 million, were some 22% higher than in 2005. With revenues of € 2,440 million (+12%), the Steel Division's share of 29% (2005: 30%) was slightly down in a year-on-year comparison. Of this share, the Steel Division delivered supplies worth € 910 million to other segments, especially to the Trading Division. The Tubes Division also raised its sales revenues to € 1,510 million (+7%), which corresponds to a share of 18% (2005: 20%). With a marked increase in third-party sales (+31%), the share generated by the Services Division remained virtually unchanged at 5%. As part of the implementation of the new Group structure, turnover generated with third parties was for the first time reported in Consolidation and Others (€ 101 million), equivalent to a proportion of 1% of consolidated sales.

Consolidated Sales by Division

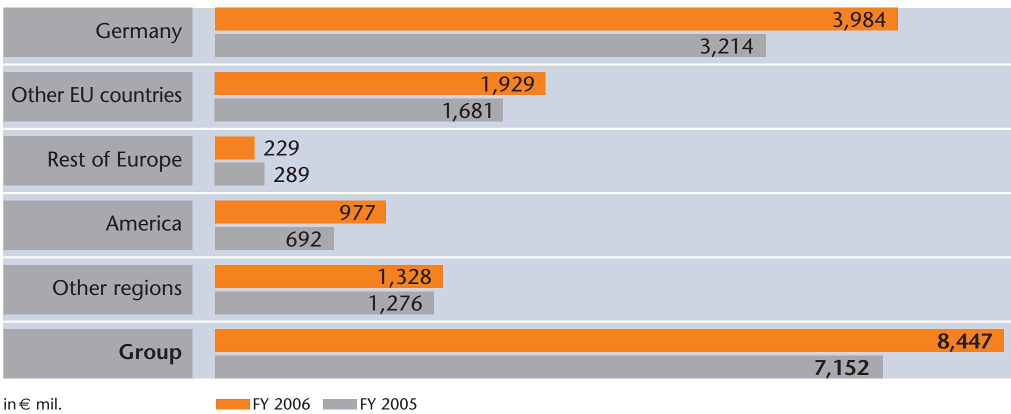


As before, the major portion of sales, which accounted for 70% (2005: 68%), was generated in the EU. Sales in Germany came to € 4.0 billion. Foreign sales posted € 4.5 billion, thus contributing a lower share of 53% to total sales as compared with the previous year (2005: 55%).

Mannesmann DMV Stainless USA | Our thanks go to Dwayne Allen, Robert Holroyd, Ken Nanowsky, Susan Putman, William Roberts, Mike Smith, David Sosa, Robert Turney, Guillie Upstairg, Robert Walters and Tobias Wetzel for their photographic contributions.


DMV

Consolidated Sales by Region



The Salzgitter Group closed the financial year 2006 with a pre-tax profit of € 1,854.8 million. As a result, the Group not only exceeded the extraordinarily good results achieved in 2005 (€ 940.9 million) but also achieved an unprecedented level. The same applies to operating earnings which, excluding proceeds from the sale of shares in Vallourec and relating expenses, came to € 947.9 million and were once again significantly above the level of the previous year's figure, in which € 142 million of special items have been eliminated.

This serves to demonstrate that, instead of cyclicality with a time lag, the market was very buoyant in 2006, not only for the steel but also for the tubes segments. In addition to the favorable market conditions, the groupwide Profitability Improvement Program, which in the meantime comprises 333 measures, also enhanced profitability.

Owing to the persistently excellent market conditions for rolled steel products and despite increased procurement costs for raw materials and energy, the **Steel Division** again generated record earnings of € 433.8 million, following the outstanding results achieved in the previous year of € 430.7 million. This figure reflects an expansion of shipments and steadily advancing selling prices.

The steel tubes market remained upbeat. In the **Tubes Division**, additional price hikes for input materials were overcompensated by rising revenues. The favorable development of large-diameter tubes business was very gratifying and resulted in earnings before tax of € 262.9 million. As a consequence of the disposal of the shares in Vallourec in August 2006, this figure fell short of the previous year (€ 302.3 million).

Higher shipments, as well as growth in specific gross earnings, drove the pre-tax result of the **Trading Division** to a record level of € 200.9 million (2005: € 88.1 million).

The **Services Division** exceeded the previous year's profit of € 9.4 million with an extremely satisfying result of € 15.4 million. This was primarily due to the favorable business development in the scrap segment of DEUMU as well as to the increased volume in shipments of ore and coal at HAN.

Divisional Results and Unappropriated Retained Earnings for the Year

in € mil.	FY 2006	FY 2005
Steel	433.8	430.7
Tubes	262.9	302.3[1)]
Trading	200.9	88.1
Services	15.4	9.4
Others/Consolidation	941.8	110.4[1)]
Earnings before tax	**1,854.8**	**940.9**
Tax	345.2	98.9
Unappropriated retained earnings for the year[2)]	**1,509.6**	**842.0**

1) Earnings contribution of € 138.2 m from the disposal of shares in Vallourec/V&M are disclosed in the item "Others/Consolidation"

2) Including minority interests

Development of Substantive Income Statement Items

Explanations on the consolidated income statement disclosed in the section on "Consolidated Financial Statements/Notes" are as follows:

The change in the item "Increase/decrease in finished work or work in progress/own work capitalized" was mainly due to stocking related to the relining of Blast Furnace A in 2005. The proceeds from the sale of the Vallourec shares raised other operating earnings substantially. The rise in materials expenses this year was attributable to dearer raw materials and energy. Wage increases resulted in greater personnel expenses. Expenses related to the hedging and disposal of the Vallourec shares were the main reason behind the increase in other operating expenses. The disposal of shares in Vallourec also affected earnings from associated companies. Higher cash flow from operations as well as from the sale of the Vallourec participation generated more interest income. Moreover, as a lower interest portion of the transfers to pension provisions was capitalized, interest income improved markedly.

The income tax expense item benefited substantially from two effects: first, 95 % tax relief on proceeds from the sale of shares in Vallourec and, second, the utilization of tax loss carryforwards enabled by the new Group structure.

After deduction of tax, unappropriated retained earnings for the year came to € 1,510 million (2005: € 842 million).

Five-Year Overview of the Earnings Position

in € mil.	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002
EBT	1,854.8	940.9	322.8	42.5	72.5
EBIT I[1]	1,900.5	970.0	345.6	60.8	92.6
EBIT II[2]	1,971.2	1,048.4	427.1	146.5	181.6
EBITDA I[1]	2,101.8	1,186.1	666.6	309.5	314.5
EBITDA II[2]	2,172.5	1,264.5	748.1	395.3	403.5
EBT margin	22.0	13.2	5.4	0.9	1.5
EBIT margin I[1]	22.5	13.6	5.8	1.3	2.0
EBIT margin II[2]	23.3	14.7	7.2	3.0	3.8
EBITDA margin I[1]	24.9	16.6	11.2	6.4	6.6
EBITDA margin II[2]	25.7	17.7	12.6	8.2	8.5
ROCE %	47.8	38.9	24.4	4.6	7.3
ROCE % from industrial business[3]	55.1	49.4	–	–	–

1) Excluding interest expenses, provisions for pensions
2) Including interest expenses, provisions for pensions
3) Adjusted for the net cash position and interest income thereof

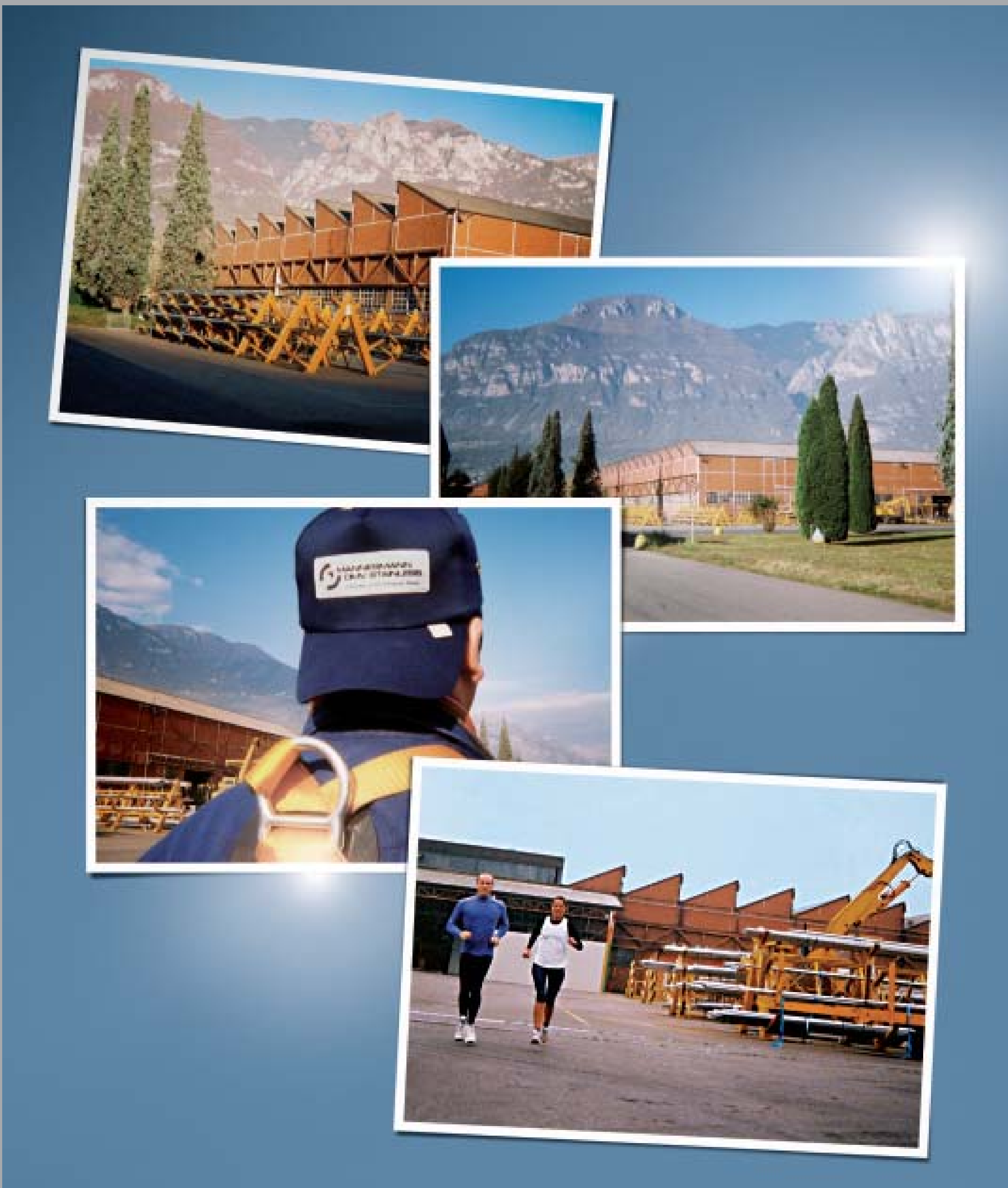
Value Added in the Salzgitter Group

The operational value added of the Group, including the effect from the sale of Vallourec shares, stood at € 2,984 million (€ +943 million, or +46.2 % higher as against 2005). A large portion of the use of value added, which came to 36.3 %, was accounted for by employees (2005: 52.5 %). The tax share rose to 11.6 % (2005: 4.8 %). In this financial year, the shareholders (including treasury shares) will receive 4.2 % (2005: 3.1 %) of the value added in the form of dividend. The portion accounted for by lenders came to 1.5 %, slightly higher than on the previous year's figure of 1.4 %. Another 46.4 % (2005: 38.2 %) is attributable also to shareholders; this will serve to strengthen the equity base and raise the value of the Group.

Value Added

in € mil.	FY 2006	%	FY 2005	%
Sources				
Group outputs	9,951	100.0	7,862	100.0
Inputs	6,967	70.0	5,821	74.0
Value added	**2,984**	**30.0**	**2,041**	**26.0**
Allocation				
Employees	1,085	36.3	1,072	52.5
Public authorities	345	11.6	99	4.8
Shareholders	126	4.2	63	3.1
Lenders	44	1.5	28	1.4
Group	1,384	46.4	779	38.2
Value added	**2,984**	**100.0**	**2,041**	**100.0**

Mannesmann DMV Stainless Italia | Our thanks go to Gabriele Cocchetti, Riccardo Invernici, Tullio Marchesi, Maura Marinoni, Alex Mazzucchelli, Gincomo Rizzi, Egidio Samgalli, Simone Tironi, Claudio Torri and Alberto Zaramella for their photographic contributions.



5. Divisions

As the management holding company, Salzgitter AG heads up the four divisions Steel, Tubes, Trading and Services.

The following section is dedicated to outlining the performance of these divisions in 2006 on the basis of the financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

Steel Division

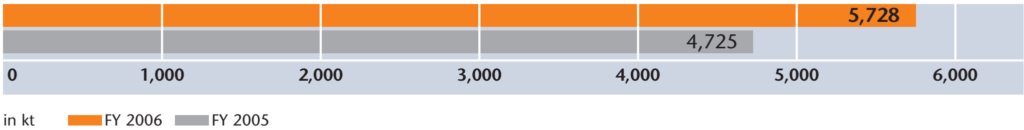
The operating companies Salzgitter Flachstahl GmbH **(SZFG)**, Peiner Träger GmbH **(PTG)** and Ilsenburger Grobblech GmbH **(ILG)** are grouped under the umbrella company Salzgitter Stahl GmbH **(SZS)**. The company functions merely as an intermediate holding company without its own operations. Other companies belonging to the Steel Division are Salzgitter Bauelemente GmbH **(SZBE)**, Salzgitter Europlatinen GmbH **(SZEP)** and HSP Hoesch Spundwand und Profil GmbH **(HSP)**.

As a consequence of the continued global economic upswing and the revitalization of the domestic economy, this division's companies experienced significant growth in steel demand from consumers as well as a high volume of new orders from steel trading. At the beginning of 2006, and given the low to medium levels of inventories, the rising demand on the European steel market largely filtered straight through to production. The discernible increase in orders accompanied by high capacity utilization caused spot market prices and imports to rise. This in turn resulted in moderate inventory-building in the European Union (EU) without, however, incurring marked negative inventory cycle effects.

As a result of these developments, the Steel Division's **order intake** of 5,728 kton significantly exceeded (+1,003 kton, +21%) the previous year's volume (4,725 kton). All steel companies booked higher levels of orders as follows: **SZFG** +736 kton, **PTG** +122 kton and **ILG** +104 kton.

Compared with the previous year (2005: 1,016 kton), **orders on hand** at the end of the year were up 25% to 1,269 kton.

Steel Division Orders received



Crude steel production totaling 5,692 kton exceeded the previous year's tonnage (5,077 kton) by 615 kton (+12%). The LD steelworks of **SZFG** increased its output by 477 kton during the reporting period, particularly as a result of the relining of Blast Furnace A in 2005. However, **PTG**'s electric steel plant also generated 138 kton more output than in the previous year.

Crude Steel Production

in t mil.	World	EU-25	Germany	Of which Steel Division
2002	904.1[1]	180.9	45.0	5.15
2003	970.0[1]	184.5[1]	44.8	5.17
2004	1,068.9[1]	194.2[1]	46.4	5.06
2005	1,141.9[1]	187.3[1]	44.5	5.08
2006	**1,239.9**[2]	**198.7**[2]	**47.2**[2]	**5.69**

1) Adjusted to IISI statistics
2) Data as of February 2007

The production of **rolled steel** rose compared with the previous year from 4,987 kton to 5,540 kton (+11 %). The volume of processed products grew from 212 kton in 2005 to 250 kton (+18 %).

"Rolled steel" in this instance comprises hot-rolled strip, cold-rolled steel and coated products from **SZFG**, sections, beams and mine arches from **PTG**, plate from **ILG** as well as all steel products from **HSP** (sheet piling, mine arches, bulb flats).

The "processed products" category includes sheet piling, pre-processed sections and track systems made by **PTG**, processed and oxygen-cut plate made by **ILG,** elements for roofing and cladding (sandwich elements, cassette and trapezoidal profiles) made by **SZBE** as well as stamped parts, patch-work blanks and tailored blanks made by **SZEP**.

Steel Division Production

in kt	FY 2006	FY 2005
Pig iron	4,277	3,843
Crude steel	5,692	5,077
Hot-rolled steel and steel strip	1,422	1,468
Cold-rolled steel	246	280
Coated steel	1,218	1,106
Sections	1,267	1,025
Plates[1]	926	848
Sheet piling	259	243
Elements for roofing and cladding	34	34
Stamped and tailored blanks	63	60

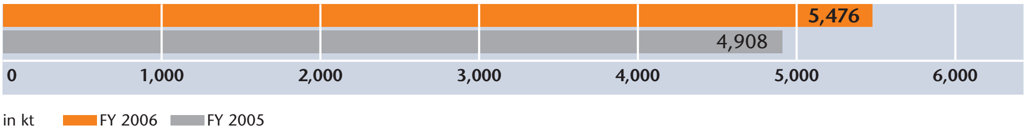
1) Including wide strip

Shipments of rolled steel to external customers and Group companies outside the Steel Division amounted to 5,229 kton, thus exceeding the year-earlier figure of 4,697 kton by 532 kton (+11%).

Shipments of processed products came to 247 kton, which is 36 kton (+17%) up on the previous year's volume (211 kton). Shipments overall rose by 568 kton (+12%), up from 4,908 kton to 5,476 kton.

All steel companies saw shipments rise. The largest absolute contribution to the higher volumes was made by **SZFG** (+281 kton), followed by **PTG** (+251 kton), together accounting for almost half the higher volume of shipments. **ILG** contributed +9 kton, **HSP** +13 kton, **SZBE** +8 kton and **SZEP** +6 kton.

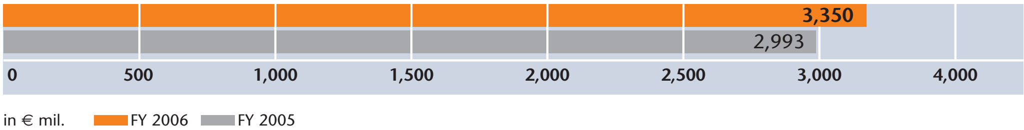
Steel Division Shipments



Sales of rolled steel and processed products to external customers and other Group divisions climbed € 357 million (+12%) to € 3,350 million as compared with the previous year (€ 2,993 million).

The increase in **SZFG**'s sales is attributable, in particular, to higher shipments. While specific selling prices for cold-rolled flat products rose steadily over the course of the year, allowing them to follow on from the record level of the previous year, hot-rolled flat products on average fell back slightly compared with 2005. Total sales expanded 6% to € 1,743 million. Shipments, which grew 25%, and higher average selling prices generated sales of € 684 million (+36%) for **PTG**. With another improvement in selling prices from heavy plate and a marginal increase in shipments, **ILG**'s sales, which came to € 649 million, exceeded the previous year's sales by 7%. **HSP** also raised shipments and prices, reporting sales of € 167 million (+11%). Higher shipments and an improved level of selling prices boosted **SZBE**'s sales by € 47 million (+34%). Brisker demand for tailored blanks lifted **SZEP**'s sales to € 60 million (+9%).

Steel Division Sales



With **earnings before tax** of € 433.8 million, the Steel Division has once again outperformed the outstanding result of the previous year (€ 430.7 million). Besides the excellent market conditions with historic ceiling prices, the consistent exploitation of profitability improvement potentials has contributed to this performance. **PTG** alone contributed +€ 40.6 million to the relatively small positive change in earnings (+€ 3.1 million). A plus of € 9.7 million was attributable to **ILG**, while the companies **HSP** returned gains of € 5.6 million, **SZBE** some € 2.6 million and **SZEP** € 1.0 million respectively. **SZFG**, however, fell € 52.5 million short of its extremely high result in the previous year and reported € 190.4 million for 2006. It should be noted, however, that the result in the previous year was significantly affected by special effects arising from the discontinuation of the Lifo inventory valuation method in 2005 (€ 64.8 million). If this effect is eliminated, there would have been an improvement in earnings attributable primarily to higher shipments and climbing selling prices in the second half of the year.

The rising costs of the key raw materials were a considerable burden which we were able to pass on to the market. Further relief from pressure on the cost side was the discontinuation of purchases of crude steel following the relining of Blast Furnace A in 2005.

PTG reported € 61.6 million of pre-tax profit, posting a new benchmark. The reasons behind this included a very good level of utilization resulting particularly from the revival of the construction sector, which led to both a significant increase in shipments and higher base prices that improved margins.

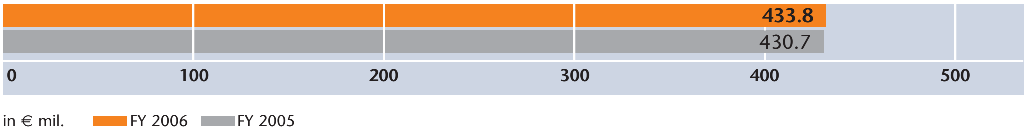
ILG, which generated a pre-tax profit of € 164.7 million, also once again exceeded the level in 2005 (€ 155.0 million) which was its best year to date. The key factor behind this positive development was the further increase in sales prices and full capacity utilization of the production facilities. Earnings were burdened by the persistently high levels of slab and energy prices.

HSP benefited from the favorable market environment for sheet piles, an optimized procurement policy as well as the restructuring successes achieved by the company.

Buoyed by the favorable development of the industrial construction sector, **SZBE** achieved higher pre-tax profit as against the previous year, which, along with the high level of shipments, is attributable to higher selling prices.

Larger shipment volumes along with process optimization also enabled **SZEP** to achieve another improvement in earnings compared with the previous year.

Steel Division EBT



As of December 31, 2006, the **core workforce** at the Steel Division had declined by 204 to a total of 6,830 (2005: 7,034).

As part of this development, all steel companies reported declines in workforce, the main reductions being at **SZFG** (–134), **HSP** (–39) and **PTG** (–22), while **ILG** (–2), **SZEP** (–3) and **SZBE** (–4) registered only minor changes.

The reduction in personnel within the Steel Division is primarily attributable to cancellation agreements (83) as well as to departures attributable to the active part of age-related part-time employment (144) at **SZST**.

The key data of the Steel Division are shown in the following table:

Steel Division		FY 2006	FY 2005
Crude steel production	**kt**	**5,692**	**5,077**
LD steel (SZFG)	kt	4,645	4,168
Electric steel (PTG)	kt	1,047	909
Shipments[1]	**kt**	**5,476**	**4,908**
Rolled steel	kt	5,229	4,697
Processed product	kt	247	211
SZFG	kt	3,063	2,782
PTG	kt	1,274	1,023
ILG	kt	775	766
HSP	kt	256	243
SZEP	kt	44	58
SZBE	kt	64	36
Sales[2]	**€ mil.**	**3,350**	**2,993**
SZFG	€ mil.	1,743	1,640
PTG	€ mil.	684	504
ILG	€ mil.	649	609
HSP	€ mil.	167	150
SZEP	€ mil.	60	55
SZBE	€ mil.	47	35
Internal sales[3]	**€ mil.**	**910**	**816**
External sales[4]	**€ mil.**	**2,440**	**2,177**
Division earnings before tax (EBT)	**€ mil.**	**433.8**	**430.7**
SZFG	€ mil.	190.4	242.9
PTG	€ mil.	61.6	21.0
ILG	€ mil.	164.7	155.0
HSP	€ mil.	6.7	1.1[10]
SZEP	€ mil.	7.5	6.5
SZBE	€ mil.	3.3	0.7
Others/Consolidation	€ mil.	–0.4	3.5
EBIT[5]	**€ mil.**	**461.8**	**465.0**
EBITDA[6]	**€ mil.**	**606.7**	**614.2**
Investments[7]	**€ mil.**	**161**	**190**
Total workforce[8]	**At Dec. 31.**	**6,891**	**7,099**
Core workforce[9]		**6,830**	**7,034**
SZFG		4,365	4,499
PTG		1,156	1,178
ILG		740	742
HSP		419	458
SZEP		86	89
SZBE		64	68
Apprentices, students, trainees		**61**	**65**

1) Excluding inter-company deliveries in the Steel Division
2) Excluding inter-company sales within the Steel Division
3) Sales with other divisions in the Group
4) Contribution to Group external sales
5) Earnings before tax and including interest paid (but excluding the interest portion from transfers to pension provisions and excluding interest paid within the segment)
6) EBIT plus depreciation/amortization (also on financial investments)
7) Excluding financial investments
8) Including trainees and non-active age-related part-time employees
9) Excluding trainees and non-active age-related part-time employees
10) Including € 19 m earnings subsidy SZAG and unscheduled write-downs and restructuring expenses (combined € 20 m)

Tubes Division

The core activities of the Tubes Division are concentrated in the following four product groups with the companies listed below:

■ Large-diameter pipes:	Europipe GmbH (**EP**)
	Mannesmannröhren Mülheim GmbH (**MRM**)
	Salzgitter Großrohre GmbH (**SZGR**)
■ HFI[1)]-welded tubes:	Mannesmann Fuchs Rohr GmbH (**MFR**)
■ Cold-finished tubes:	MHP Mannesmann Präzisrohr GmbH (**MHP**)
	Mannesmann Robur B.V. (**ROB**)
■ Seamless stainless steel tubes:	Mannesmann DMV Stainless GmbH[2)] (**MDS**)

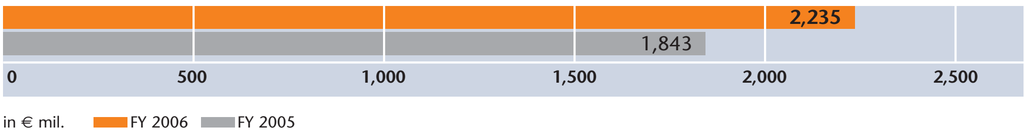
1) High-frequency induction
2) The "Mannesmannröhren-Werke 4. Verwaltungsgesellschaft mbH", Mülheim an der Ruhr, was renamed "Mannesmann DMV Stainless GmbH" through entry in the Commercial Register on 15/02/2006, and since March 2006 has formed part of the management holding company of the DMV Group.

Among others, Hüttenwerke Krupp Mannesmann GmbH **(HKM)** and Borusan Mannesmann Boru Yatirim Holding A.S. **(BMB)** are also important minority holdings belonging to the Tubes Division. As already mentioned, the participating interest in Vallourec S.A. **(VLR)** was sold in August 2006.

In 2006, the companies of the Tubes Division participated in the upbeat development of the market for steel tubes to an extent comparable to 2005. Demand for oil and gas line pipes continued to be extremely strong due to the persistently high level of energy prices. Significant power station investments, above all in China, triggered exceptionally brisk demand for heat exchanger and boiler tubes. Demand for tubes, both in mechanical engineering and plant construction as well as in the automotive industry, ran at a healthy level in 2006.

The consolidated **order intake** of the Tubes Division climbed by a further 21% to € 2,235 million in 2006, above the previous year's already high level (€ 1,843 million). With the exception of **EP**, all companies reported increases in terms of both volume and results. Overall, the large-diameter pipes business also reported a sharp increase (+30%) due particularly to **SZGR** orders (Kinder Morgan order). HFI-welded tubes (+12%), precision tubes (+52%), and seamless stainless steel tubes (+15%) reported greater order intake compared with the previous year, mainly as a result of higher selling prices.

Tubes Division Orders received



By year-end 2006, consolidated **orders on hand** of the Tubes Division had climbed 22% to € 1,568 million as against year-end 2005 (€ 1,285 million). Consequently, capacity utilization is already ensured for a majority of the companies until well into 2007, and for **SZGR** into 2008.

Mannesmann DMV Stainless Italia | Our thanks go to Gabriele Cocchetti, Riccardo Invernici, Tullio Marchesi, Maura Marinoni, Alex Mazzucchelli, Gincomo Rizzi, Egidio Samgalli, Simone Tironi, Claudio Torri and Alberto Zaramella for their photographic contributions.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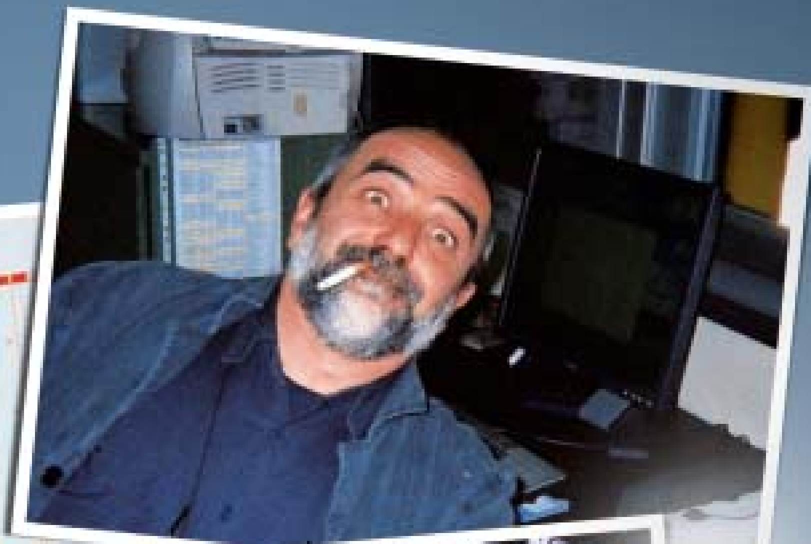
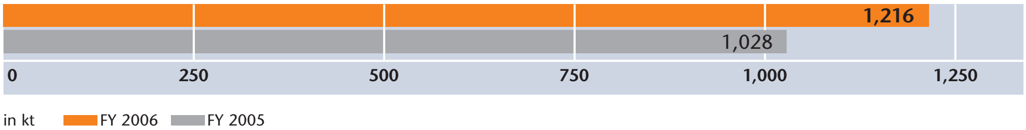


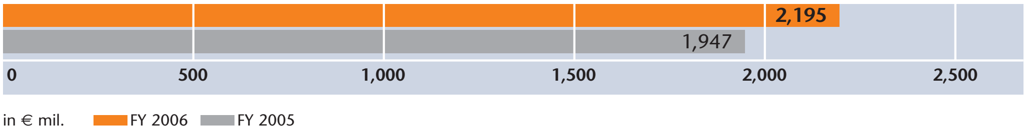
In the year under review, the Tubes Division shipped 1,216 kton, which represents an 188 kton increase in pipes and tubes (+18%) as compared with 2005 (1,028 kton). The major portion of this **increase in shipments** at +142 kton was attributable to the large-diameter pipes companies, of which +113 kton in turn was accounted for by **EP** (on a proportional basis). The other product groups also registered higher shipments: HFI-welded tubes +33 kton, precision tubes +11 kton and seamless stainless steel tubes +2 kton.

Tubes Division Shipments



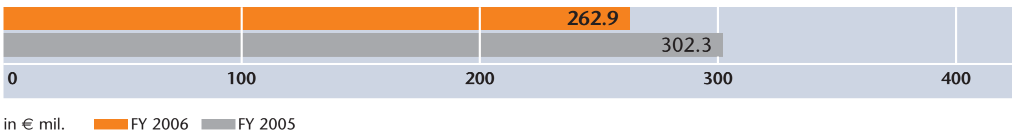
In the 2006 financial year, Tubes Division **sales** advanced to € 2,195 million, up € 248 million (+13%) against 2005, with all product segments registering in part significant increases, particularly as a consequence of larger volumes and marginally higher selling prices. Of this sales growth, € 407 million alone was attributable to the large-diameter pipes companies (including **MRM**), with **EP** and **SZGR** benefiting from the strong increase in shipments accompanied by partly considerably higher selling prices. Driven by volume growth, **MFR** reported an increase of € 30 million. Higher volumes and specific selling prices resulted in a sales growing € 19 million at **MHP**/**ROB**. Apart from a slight rise in volume, it was particularly the higher level of selling prices driven by alloy prices that contributed to lifting sales of the **DMV Group** to € 43 million. A negative effect came from the fact that **SMG** (formerly MRW) was no longer included in the Tubes Division, but had been allocated instead to the Others/Consolidation segment. In 2005, SMG contributed € 251 million of sales.

Tubes Division Sales



Overall, the Tubes Division companies were able to fully pass on further increases in input material costs to customers by raising selling prices. In addition, the ongoing implementation of cost-cutting measures compensated, among other things, for the increase in other costs. Nonetheless, **pre-tax profit** of € 262.9 million in 2006 fell considerably short of the previous year's result of € 302.3 million. This was partly due to the sale of the **stake held in Vallourec** at mid-year, which meant that this company ceased to contribute to earnings in the second half of 2006. Another factor was that the 2005 earnings still comprised the at-equity earnings of both **VLR** and **V&M**. If both years' earnings are adjusted for the contributions accruing from the Vallourec cooperation (2005: € 185.1 million; 2006: € 73 million), the remaining operating profit increased by € 72.7 million to € 189.9 million, up from € 117.2 million, primarily due to the large-diameter pipe segment.

Tubes Division EBT



2005: EBT excluding the earnings contribution from the disposal of shares in V&M und VLR; this is allocated to the item "Others/Consolidation" within the Group

In the **large-diameter pipes** segment, **EP** benefited from lively demand, particularly for high-end pipes, allowing both shipments and specific selling prices to grow. The (proportional) pre-tax profit rose to € 79.1 million (2005: € 24.5 million). **MRM**'s extraordinarily good earnings of € 19.5 million in 2005 saw another increase in 2006 to € 26.5 million. **SZGR** enjoyed stable capacity utilization during the entire year as a result of orders booked as early as 2005 and in the first half of 2006. Both shipments and selling prices rose in comparison with the previous year, enabling pre-tax profit to improve to € 8.3 million (2005: € 4.7 million) despite higher costs.

In the **HFI-welded tubes** segment, **MFR** generated a volume-led increase in sales, with selling prices remaining virtually unchanged. Fully passing on further hikes in the price of input materials to the market was not possible, which meant that gross profit fell compared with the previous year. Along with higher other operating expenses, this is the main reason for the lower earnings of € 24.2 million (2005: € 35.7 million) in the reporting period.

In the **cold-finished tubes** business, higher shipments and the ability to pass on significant increases in costs, in particular those for input materials, via selling prices led to a significant jump in sales at **MHP** and **ROB**. Together with the continued good level of capacity utilization in all mills and ongoing implementation of the cost reduction programs, this result is reflected in a pre-tax profit of € 19.7 million (2005: € 19.0 million).

In the **seamless stainless steel tubes** segment, the **DMV Group** started the 2006 financial year with a high level of orders in hand, which secured the utilization of capacity for practically the entire first half of the year. Lively demand for stainless seamless steel tubes continued throughout the whole year, and a large number of orders was booked for projects, particularly for the energy-generating industry. The greater shipped volumes and profit margins that, despite the partway drastic increase in the price of alloys, remained relatively stable compared with 2005, brought pre-tax profit to € 21.0 million in 2006, which meant that the company almost attained the record result of the previous year (€ 23.0 million).

As of December 31, 2006, the **core workforce** of the Tubes Division stood at 4,191 employees which, compared with the end of 2005 (4,235), represents a small reduction (–44), which was due to the sale of **Eupec** PipeCoatings France S.A. with 50 employees.

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

Tubes Division		FY 2006	FY 2005
Shipments	**kt**	**1,216**	**1,028[8)]**
EP Group (50 %)	kt	576	463
SZGR	kt	120	91
MFR	kt	304	271[8)]
MHP incl. ROB	kt	183	172
DMV Group	kt	33	31
Sales[1)]	**€ mil.**	**2,195**	**1,947[8)]**
EP Group (50 %)	€ mil.	597	366
MRM	€ mil.	550	407
SZGR	€ mil.	112	79
MFR	€ mil.	296	266[8)]
MHP incl. ROB	€ mil.	277	258
DMV Group	€ mil.	363	320
Others	€ mil.	–	251
Internal sales	**€ mil.**	**685**	**540[8)]**
External sales[2)]	**€ mil.**	**1,510**	**1,407[8)]**
Division earnings before tax (EBT)	**€ mil.**	**262.9**	**302.3[9)]**
EP Group (50 %)	€ mil.	79.1	24.5
MRM	€ mil.	26.5	19.5
SZGR	€ mil.	8.3	4.7
MFR	€ mil.	24.2	35.7[8)]
MHP incl. ROB	€ mil.	19.7	19.0
DMV Group	€ mil.	21.0	23.0
Cooperation activities with Vallourec[3)]	€ mil.	73.0	185.1[9)]
Others/Consolidation	€ mil.	11.1	–9.2
EBIT[4)]	**€ mil.**	**276.4**	**315.8[9)]**
EBITDA[5)]	**€ mil.**	**298.3**	**339.1[9)]**
Total workforce[6)]	**At Dec. 31.**	**4,339**	**4,360**
Core workforce[7)]		**4,191**	**4,235**
EP Group (50 %)		597	635
MRM		687	668
SZGR		143	145
MFR		557	562
MHP incl. ROB		1,155	1,187
DMV Group		999	983
MRW		53	55
Apprentices, students, trainees		**92**	**88**

1) Excluding inter-company sales within the DMV Group and the EP Group

2) Contribution to Group external sales

3) Earnings contribution in accordance with consolidation at equity

4) Earnings before tax and including interest paid (but excluding the interest portion from transfers to pension provisions and excluding interest paid within the segment)

5) EBIT plus depreciation/amortization (also on financial assets)

6) Including trainees and non-active age-related part-time employees

7) Excluding trainees and non-active age-related part-time employees

8) Adjusted to MFR (resulting from fusion of RGF and MLP)

9) Excluding the earnings contribution from the disposal of shares in V&M und VLR; this is allocated to the item "Others/Consolidation" within the Group

Trading Division

The Trading Division is made up of the companies of the Salzgitter Mannesmann Handel Group (**SMHD Group**), Universal Eisen und Stahl GmbH (**UES**), Hövelmann & Lueg GmbH (**HLG**), Flachform Stahl GmbH (**FFS**)[1] and Ets. Robert et Cie S.A.S. (**RSA**)[2], which is consolidated proportionately at 50%. The **SMHD Group** in turn comprises Salzgitter Mannesmann Handel GmbH (**SMHD**) as the interim holding company, Salzgitter Stahlhandel GmbH (**SSH**), Stahl-Center Baunatal GmbH (**SCB**), Salzgitter Handel B.V. (**SHN**), Salzgitter Mannesmann International GmbH (**SMID**), Salzgitter Mannesmann International (USA) Inc. (**SMIH**), Salzgitter Mannesmann International (Canada) Inc. (**SMIV**), as well as other non-consolidated subsidiaries.

[1] As subsidiary of HLG, has belonged to the consolidated group of companies under the Trading Division since July 1, 2006

[2] Until September 30, 2006

The aforementioned market conditions had very positive effects on key areas of steel trading, allowing the Trading Division to achieve an all-time record in operating profit. Especially stockholding trading, with its focus on Germany, made a notable contribution. The construction industry, which is particularly important for this segment, was once again able to report good growth rates. Stockholding companies expanded their business volumes significantly on the back of a steadily growing industry, especially in the energy sector.

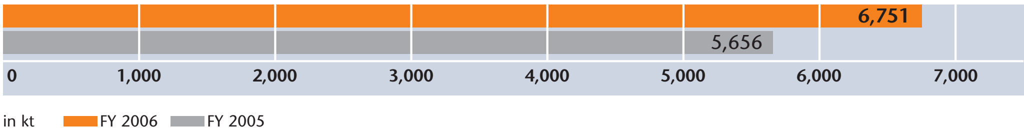
Steel trading benefited from the generally positive global market trend as well. Deceleration in the USA and Japan was offset by the stable growth rates of many newly industrializing countries and the persistent above-average rate of economic expansion in China.

The Trading Division sold a total of 6,751 kton in steel products, 1,095 kton (+19%) more than in the previous year (5,656 kton).

The **increase in shipments** was generated almost exclusively by the **SMHD Group** (+1,038 kton). **HLG** (+41 kton) and **UES** (+24 kton) also boosted shipments. The smaller volumes reported by **RSA** are attributable to the fact that the company was consolidated for only three quarters.

The positive development of shipments at the **SMHD Group** is once again mainly due to international trading (+904 kton), in turn reflecting an expanded business activities in the Middle East. The stockholding companies in **Germany and the Benelux** contributed an increase of +134 kton to shipments.

Trading Division Shipments



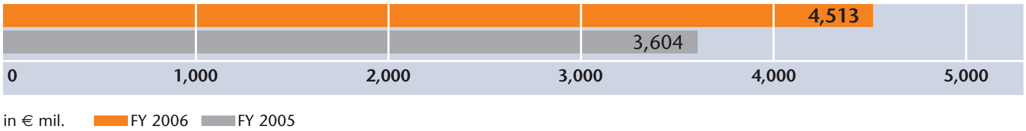
The Trading Division grew **sales** by € 909 million (+25%) to € 4,513 million, reflecting the expansion of shipments and the higher price level.

The greatest portion was contributed by the **SMHD Group** with +€ 838 million (+26%). Positive developments were also reported by **UES** (+€ 55 million), due to volumes and particularly driven by prices, as well as by **HLG** (+€ 18 million) and attributable exclusively to volumes within the first half of the year in connection with the low price levels of existing long-term agreements. **FFS**, which did not form part of the Trading Division in 2005, instead joining it halfway through the 2006 financial year, contributed € 4 million to the increase in sales.

Sales growth at the **SMHD Group** was achieved primarily by the international **trading companies** (+€ 626 million). Here, the very positive development in volumes was also supported by generally higher prices. As a consequence, the sales of this division rose faster than shipments.

Both the **German steel trading companies** as well as the **Benelux companies** generated an increase in sales (€ 212 million) that was to an even greater extent affected by the higher price level compared with the previous year.

Trading Division Sales



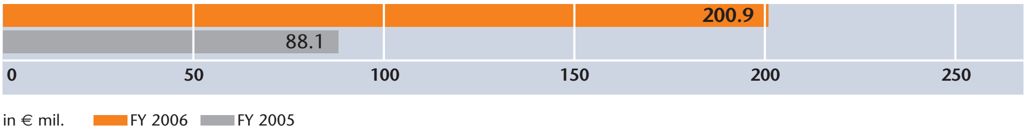
The Trading Division generated a **pre-tax profit** of € 200.9 million, more than doubling (+€ 112.8 million, +128%) the already outstanding level of the previous year (€ 88.1 million) and representing a new all-time record figure.

Compared with the previous year, the **SMHD Group** achieved a result € 101.2 million (+161%) above the previous year's figure. A total of 58% of this growth was attributable to the **German stockholding companies** and 14% to the **stockholding companies in The Netherlands**. The **trading companies** contributed 28%.

UES achieved an equally striking increase in profit (+€ 13.3 million, +61%), reflecting in turn the favorable margin development in the market for plate. As a result of its negative earnings position in the first half of the year, **HLG** reported a decline in its annual profits of € 1.2 million.

The earnings contribution of **RSA** comprises only the period from September 30, and that of **FFS** solely the second half of the 2006 financial year.

Trading Division EBT



As of December 31, 2006, there were 1,835 **core workforce employees** in the Trading Division (December 31, 2005: 1,734). The increase in the number of personnel (+101) is due on the one hand to the creation of 64 new jobs as a result of the higher level of business volume within this division and the first-time reporting of 77 employees at **FFS**, which was acquired by **HLG**. On the other hand, **RSA**, with 22 employees on a 50% quota basis, was deconsolidated as of October 1, 2006.

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

Trading Division		FY 2006	FY 2005
Shipments	**kt**	**6,751**	**5,656**
SMHD Group	kt	6,185	5,147
UES[1]	kt	253	229
HLG	kt	267	226
RSA (50%)[3]	kt	46	54
Sales	**€ mil.**	**4,513**	**3,604**
SMHD Group	€ mil.	4,024	3,186
UES[1]	€ mil.	300	245
HLG	€ mil.	156	138
FFS[2]	€ mil.	4	–
RSA (50%)[3]	€ mil.	29	35
Internal sales[4]	**€ mil.**	**542**	**360**
External sales[5]	**€ mil.**	**3,971**	**3,244**
Division earnings before tax (EBT)	**€ mil.**	**200.9**	**88.1**
SMHD Group	€ mil.	163.9	62.7
UES[1]	€ mil.	35.0	21.7
HLG	€ mil.	1.3	2.5
FFS[2]	€ mil.	0.1	–
RSA (50%)[3]	€ mil.	0.4	1.4
Others	€ mil.	0.2	–0.2
EBIT[6]	**€ mil.**	**222.7**	**103.1**
EBITDA[7]	**€ mil.**	**233.6**	**114.3**
Inventories	**€ mil.**	**531**	**364**
Total workforce[8]	**At Dec. 31.**	**1,992**	**1,877**
Core workforce[9]		**1,835**	**1,734**
SMHD Group		1,250	1,227
UES[1]		317	299
HLG		191	184
FFS[2]		77	–
RSA (50%)[3]		–	24
Apprentices, students, trainees		**152**	**134**

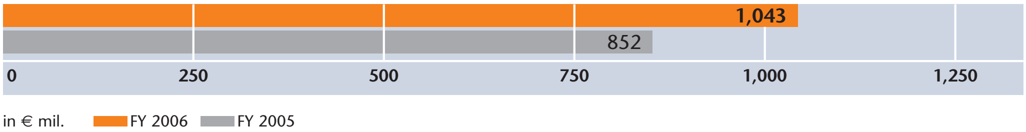
1) Universal Eisen und Stahl GmbH, Neuss
2) Flachform Stahl GmbH (FFS) as of July 1, 2006
3) 50% quota basis; deconsolidated as of October 1, 2006.
4) Sales in own segment and in other divisions in the Group
5) Contribution to Group external sales
6) Earnings before tax and including interest paid (but excluding the interest portion from transfers to pension provisions and excluding interest paid within the segment)
7) EBIT plus depreciation/amortization (also on financial investments)
8) Including trainees and non-active age-related part-time employees
9) Excluding trainees and non-active age-related part-time employees

Services Division

The Services Division comprises the following companies: DEUMU Deutsche Erz- und Metall-Union GmbH (**DMU**), Salzgitter Service und Technik GmbH (**SZST**), Verkehrsbetriebe Peine-Salzgitter GmbH (**VPS**), Telcat Multicom GmbH (**TMG**) with its subsidiary Telcat Kommunikationstechnik GmbH (**TCG**), GESIS Gesellschaft für Informationssysteme mbH (**GES**), Hansaport Hafenbetriebsgesellschaft mbH (**HAN**), Salzgitter Mannesmann Forschung GmbH (**SZMF**), "Glückauf" Wohnungsgesellschaft mbH (**GWG**), Salzgitter Automotive Engineering GmbH & Co. KG (**SZAE**), Salzgitter Hydroforming GmbH & Co. KG (**SZHF**) and Salzgitter Magnesium-Technologie GmbH (**SZMT**). Along with smaller minority holdings, the two last-mentioned companies (**SZHF** and **SZMT**) have not been consolidated.

In the financial year 2006, the Services Division generated sales of € 1,043 million, thus exceeding the previous year's figure (€ 852 million) by € 191 million (+22 %).

Services Division Sales



The sales growth is almost exclusively attributable to **DMU** (+€ 163 million), **VPS** (+€ 16 million) and **SZST** (+€ 6 million).

In the case of **DMU**, all its business lines contributed to boosting sales. The largest, mainly volume- but also price-induced growth resulted from scrap activities (+€ 102 million) and new metals (+€ 37 million) where expansion was exclusively due to selling prices. Recycled metals, steel trading and steel processing contributed +€ 11 million, +€ 7 million and +€ 6 million respectively. Higher transport volumes experienced by the steel companies and regional transport lifted the sales of **VPS**. **SZST**'s sales growth was mainly the result of greater need for technical services as compared with the previous year and the adjusting of tariffs in the services business.

The sales of the remaining companies of the Services Division remained virtually unchanged.

A little more than 80% of division sales were generated by just three companies: **DMU** contributed the lion's share with 61%, followed by **SZST** (13%) and **VPS** (8%).

The portion of sales generated with companies outside of the Group came to 41%, which is an increase as against 2005 (38%).

The Division's **profit before tax** came to € 15.4 million, up € 6.0 million year on year (2005: € 9.4 million).

DMU (+€ 2.7 million), **SZST** (+€ 1.8 million), **HAN** (+€ 2.9 million) were the companies which improved most on their results.

The highest profit increase within the **DMU** was generated by the steel scrap business owing to improved trading margins. However, the steel trading and processing segments also contributed to raising profit.

The overall lower level of loss at **SZST** is primarily due to the positive settlement of invoicing orders of the technical departments.

Brisker third-party business generated a significant increase in the pre-tax result of **HAN**.

Profit at **GES** was boosted mainly by cost optimization, realigning resources in the E-Business product business and the sale of software licenses.

At the operational level, **VPS** remains at break-even, as planned, with the negative variance (–€ 1.8 million) resulting from necessary provisioning.

Services Division EBT

The **core workforce** of the Services Division comprised 3,916 employees as per December 31, 2006, which, in comparison with the previous year's figure (2005: 3,918), is only 2 less.

The marginal decline in personnel is mainly the result of changes in employee status: 35 employees left the division under a social plan, another 82 switched to other Group companies, and 231 employees entered into the non-active period of age-related part-time employment. The decline was more or less offset by employees from the Steel Division (144) entering into the active period of age-related part-time employment at **SZST** and 168 trainees who joined the company.

The key data of the Services Division are shown in the table below:

Services Division		FY 2006	FY 2005
Sales	**€ mil.**	**1,043**	**852**
DMU	€ mil.	632	469
SZST	€ mil.	130	124
VPS	€ mil.	88	72
TELCAT Group	€ mil.	55	55
GES	€ mil.	37	40
HAN	€ mil.	36	33
SZAE/SZAI/SZAB	€ mil.	24	24
SZMF	€ mil.	29	26
GWG	€ mil.	12	9
Internal sales[1]	**€ mil.**	**618**	**528**
External sales[2]	**€ mil.**	**425**	**324**
Division earnings before tax (EBT)	**€ mil.**	**15.4**	**9.4**
DMU	€ mil.	7.1	4.4
SZST	€ mil.	–1.3	–3.1
VPS	€ mil.	–1.8	0.0
TELCAT Group	€ mil.	3.6	3.6
GES	€ mil.	3.5	2.2
HAN	€ mil.	9.4	6.5
SZAE/SZAI/SZAB	€ mil.	–6.5	–7.1
SZMF	€ mil.	0.1	1.3
GWG	€ mil.	0.9	1.1
Others/Consolidation	€ mil.	0.4	0.5
EBIT[3]	**€ mil.**	**19.0**	**13.2**
EBITDA[4]	**€ mil.**	**40.4**	**33.9**
Total workforce[5]	**At Dec. 31.**	**5,076**	**5,062**
Core workforce[6]		**3,916**	**3,918**
DMU		227	219
SZST		1,739	1,753
VPS		759	753
TELCAT Group		379	370
GES		162	148
HAN		104	103
SZAE		263	296
SZMF		263	254
GWG		20	22
Apprentices, students, trainees		**724**	**732**

1) Sales in own segment and with other divisions in the Group
2) Contribution to Group external sales
3) Earnings before tax and including interest paid (but excluding the interest portion from transfers to pension provisions and excluding interest paid within the segment)
4) EBIT plus depreciation/amortization (also on financial investments)
5) Including trainees and non-active age-related part-time employees
6) Excluding trainees and non-active age-related part-time employees

Mannesmann DMV Stainless Deutschland | Our thank go to Detlev Fleer, Mustafa Keles, Georg Klemm, Klaus Pohl, Volker Rothenkirchen, Reinhard Ulrich and Hans-H. Wrobel for their photographic contributions.

6. Profitability Improvement Program

Besides the role played by internal and external growth resulting from investments and targeted acquisitions, the sustained, ongoing strengthening of the Group through internally-generated improvements comprises a key objective in our efforts to safeguard and enhance the competitive position of Salzgitter AG. Our strategic orientation towards independence, profitability and growth requires that all divisions concentrate on exploiting the available optimization potential.

Securing our commercial success both now and in the future means exercising constant discipline in identifying and realizing potential areas for success and through the targeted monitoring of the measures that are implemented. The Profitability Improvement Program 2 (PIP 2) encompasses both the systematic exploitation of opportunities for improvement and efficient monitoring with respect to its contribution to raising profitability.

The very good earnings we again achieved in 2006 were not only the reflection of the upbeat economic environment. They were also the result of our efforts to use PIP to attain a continuous improvement in our processes in all functional areas of our Group companies.

This makes it apparent that measures and projects are being implemented independently of the economic situation and that PIP is regarded as a permanent, ongoing program and task.

By the end of 2006, the sustained annual improvement which we had envisaged in PIP 2, the so-called Full Year Effect (FYE), had been newly fixed at € 178 million.

in € mil.	**FYE**
Increase in sales	+ 116
Savings on expenses	+ 120
Depreciation/interest/investment expenditure	– 58
Full Year Effect (FYE) before tax	**178**

This means that the target we originally set for ourselves of € 170 million has been exceeded, even before the conclusion of PIP 2. There are currently 333 projects under way that are aimed at improving costs and output. Activities focused on the marketing of products with higher value added and the expansion of sales channels to boost sales on a durable basis currently yield an FYE of € 116 million. With the aim of optimizing not only production and administration processes but also the consumption of materials and third-party services, we have identified potential savings in the order of € 120 million.

The cost of implementing these projects, including annual depreciation, interest and materials, amounts to € 58 million.

PIP was established as early as the 1995/1996 financial years and has proved to be a durably successful program over the past years. Following the integration of different company-specific programs, particularly from the Tubes Division, the Basic Strategy, defined in the year 2003 for the Group as a whole, has added new momentum to PIP. As a result of this integrative approach, the Profitability Improvement Program is more than simply a partially or temporarily implemented cost-reduction and quality improvement program; with PIP, the Salzgitter Group has a uniform groupwide management tool for raising earnings performance on a sustainable basis.

Since the observation period for the PIP is generally fixed at four years, the period encompassed under PIP 2 ends after the financial year 2006. However, this should not be regarded as a conclusion; we will continue to identify and implement projects on a permanent, ongoing basis. In financial year 2007, we shall implement a successor program based on the already established PIP structures that will continue to provide successful support to our targeted adaptation to the changing overall environment, our collaborative efforts to contribute to developments on the market side and the permanent process of optimization within both the Group and its companies. To the extent that they satisfy the rigorous PIP criteria, a large number of newly identified ideas and projects are being included. In parallel to the integration of the new projects, the existing portfolio is being reviewed with respect to their sustainability.

The outstanding commitment of all those involved is the decisive basis for the successful implementation of the PIP. It is reflected in the extent to which they are prepared to use the structures and institutions of this program to bring forward their own ideas and suggestions for continuous profitability improvement. In this respect, our decentralized Group structures allow available knowledge to be applied directly, in order to safeguard and increase the competitiveness of Salzgitter AG, both now and in the future. This instrument, as an integral component of corporate management, will continue to be supplemented and utilized in coming years to achieve our objectives.

7. Financial Position

Financial Management

The Salzgitter Group carries out cash and foreign currency management mainly on a centralized basis for Group companies. Joint venture companies are not included. As part of the process of restructuring the Group, SMG, a wholly owned subsidiary of SZAG, took over this task in 2005.

The task of back office operations is in particular to grant Group credit lines in the context of Group financial transactions or, in individual cases, loan guarantee commitments. To cover the financial requirements of foreign Group companies, SZAG also makes selective use of local lending and capital markets, in particular outside the euro region. The surplus liquidity of individual Group companies is also used for financing purposes. Supplies and services within the Group are settled via internal accounts. Central finance management enables capital to be borrowed at favorable conditions, as well as exercising a positive effect on net interest income by reducing the volume of external borrowing and optimizing cash investments. Group liquidity requirements are determined not only by financial planning that incorporates a multi-year planning horizon, but also on the basis of a monthly rolling four-month planning process. Liquidity requirements are ensured through available cash investments combined with having sufficient bank credit lines.

Our international business activities also generate cash flows in a number of currencies. In order to secure against the resulting currency risk, Group guidelines oblige Salzgitter Group companies to hedge foreign currency positions at the time when they arise. Regular checks are made by the Group internal audit department to monitor compliance with these regulations. Currency transactions in US dollars, which make up a significant share of our foreign currency transactions, are initially covered within the Group by netting off sales and purchase items and then hedging any amounts left over through forward exchange transactions and options.

Pension provisions still play a significant role in corporate financing. After recording further actuarial losses (€ 11 million) and in view of the countertrend resulting from the actuarial interest rate being adjusted from to 4.25 % to 4.5 %, pension provisions amounted to € 1,715 million (2005: € 1,725 million).

Cash Flow Statement

The cash flow statement (detailed disclosure in the consolidated financial statements) shows the source and application of funds. The cash and cash equivalents referred to in the cash flow statement correspond to the balance sheet item “Cash and Cash Equivalents”.

The Group again generated a significantly improved cash flow of € 488 million from operating activities, primarily due to higher profit. This was offset by an increase in working capital requirements induced by volume, purchase and selling prices.

Cash and Cash Equivalents

in € mil.	FY 2006	FY 2005
Inflow of funds from current business activities	487.7	468.0
Inflow of funds from investment activities	1,076.8	385.6
Outflow of funds from financing activities	–104.4	–214.5
Change in cash and cash equivalents	**1,460.1**	**639.1**
Cash and cash equivalents on the reporting date	**2,345.0**	**884.9**

A positive cash flow from investments of € 1,077 million resulted from the cash flow accruing from the sale of the shares in Vallourec. We spent € 231 million on investments in tangible and intangible fixed assets. These investments are above the level of the previous year (€ 228 million) and also exceed depreciation.

In 2006, cash flow from financing activities stood at –€ 104 million. We paid out € 57 million or € 0.50 per share, plus a bonus payment of € 0.50 per share to the shareholders of Salzgitter AG for the financial year 2005.

Despite the increase in the funding of working capital, the outstanding earnings trend and the sale of the shares in Vallourec resulted in the net cash position already held at banks on the previous year's reporting date (€ 822 million) climbing to € 2,283 million. Cash investments, including € 2,423 million in securities as of the end of 2006 were offset, due to reporting date factors, by marginally lower liabilities owed to banks of € 140 million (2005: € 178 million).

The liquidity and debt-to-equity ratios improved significantly again in the financial year 2006.

Five-year Overview of the Financial Position

	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002
Solvency I (%)[1]	252	150	100	91	97
Solvency II (%)[2]	365	253	187	187	185
Dynamic debt burden (%)[3]	–95.5	41.3	20.2	12.5	8.3
Gearing (%)[4]	101.9	169.1	278.0	268.7	261.4
Cash flow (€ mil.)	488	468	352	223	157
Net debts to banks (€ mil.)[5]	–2,283	–822	–71	56	66

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

2) $\frac{\text{current assets x 100}}{\text{current debts + dividend proposal}}$

3) $\frac{\text{cash flow from current business operations x 100}}{\text{non-current and current borrowings (including pensions) – investments}}$

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

5) – ≙ cash in bank, + ≙ debts

Profitability, Financial Position & Net Worth

8. Net Worth

[1] Working capital = inventories + trade receivables – trade payables

The total assets of the Group grew significantly to € 6,978 million (+28.9%) compared with year-end 2005 (€ 5,414 million). Decisive factors in this development were not only the higher level of liquid funds generated by operations and the sale of the Vallourec shares, but also the increase in the balance of current assets and liabilities (working capital)[1].

Asset and Capital Structure

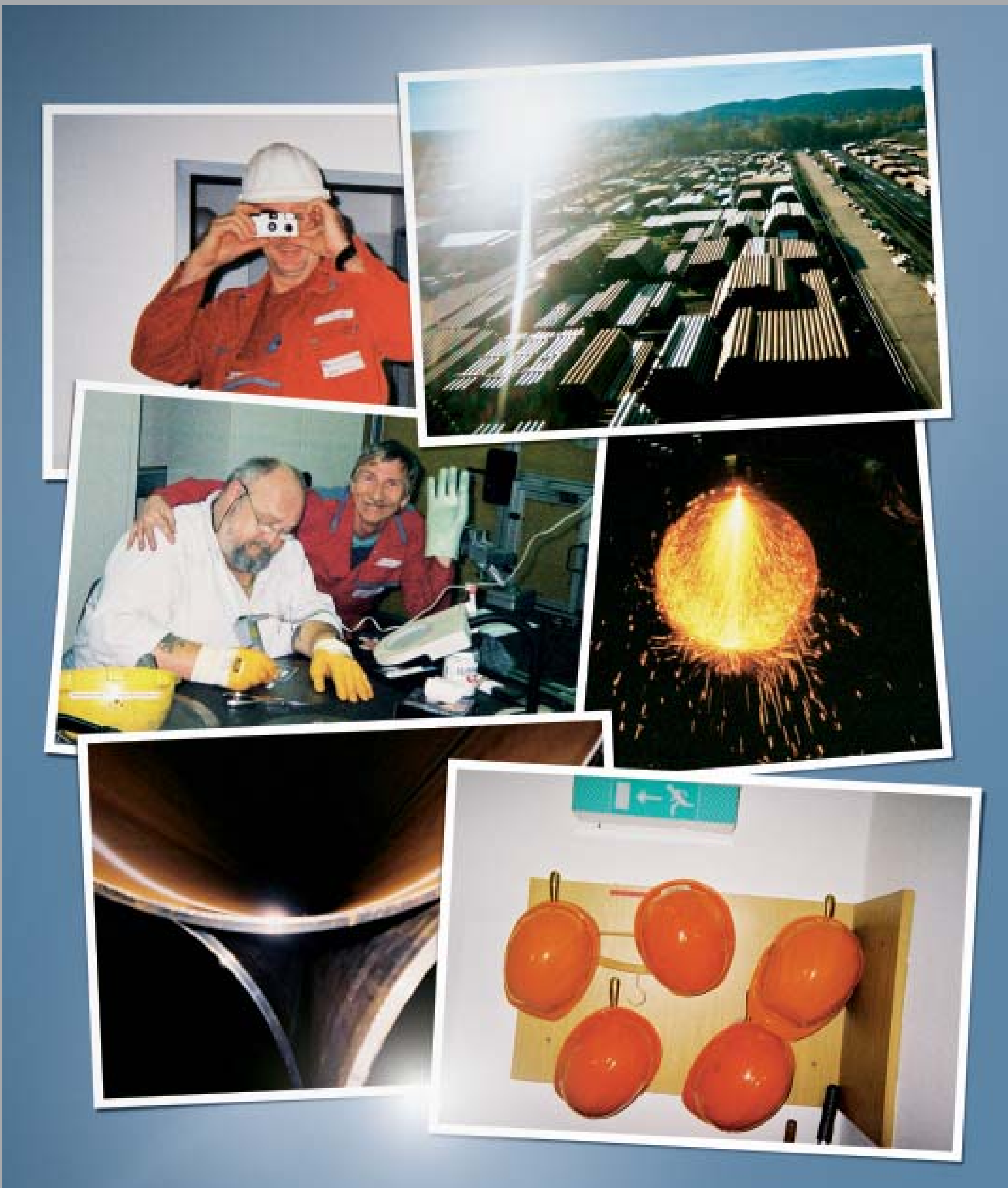
in € mil.	31/12/2006	%	31/12/2005	%
Non-current assets	1,631	23.4	1,900	35.1
Current assets	5,347	76.6	3,514	64.9
Assets	**6,978**	**100.0**	**5,414**	**100.0**
Equity	3,457	49.6	2,012	37.2
Non-current debts	2,187	31.3	2,079	38.4
Current debts	1,334	19.1	1,323	24.4
Equity and liabilities	**6,978**	**100.0**	**5,414**	**100.0**

In the case of fixed (non-current) assets, increases resulting from additions to fixed assets and the proportionate income from Vallourec were offset by the disposal of the Vallourec shares, which to date have been consolidated at equity.

Property, plant and equipment rose as a result of investments of € 236 million which exceeded write-downs of € 201 million.

Current tied-up net worth (working capital) climbed again to € 2,159 million (+19.4%), compared with € 1,809 million in 2005, with higher inventories as well as the selling-price-induced increase in trade receivables as contributing factors.

Mannesmann Fuchs Rohr | Our thanks go to Hans-Ingo Draeck, Norbert Freimark, Michael Freund, Martin Holtmann, Karl-Heinz Krämer, Thomas Kersting, Michael Linde, Manfred Veit, Andreas Witte and Hans-Joachim Wollnik for their photographic contributions.



On the liabilities side, equity rose by € 1,445 million (+71.8%) to € 3,457 million thanks to the exceptionally good performance and the sale of the Vallourec shares. Also in connection with the higher balance sheet total, the equity ratio improved notably to 49.6% (2005: 37.2%). As in 2005, the allocation amounts of € 11 million resulting from the calculation of pension provisions, the so-called actuarial losses, were taken from equity (retained earnings) and recorded under the pension provisions after deferred tax had been deducted with no effect on income. Accordingly, obligations arising from pension commitments were fully included in the balance sheet, as in the previous year.

Five-Year Summary of the Assets Position

	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002
Asset utilization ratio (%)[1)]	23.4	35.1	45.3	51.3	52.1
Inventory ratio (%)[2)]	23.7	26.6	25.5	25.0	22.8
Depreciation/amortization ratio (%)[3)]	13.9	14.5	22.6	16.8	14.3
Debtor days[4)]	47.9	44.9	55.4	47.4	53.3

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

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

3) $\frac{\text{write-downs on tangible and intangible fixed assets x 100}}{\text{tangible fixed assets/intangible assets}}$

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

9. Annual Net Income of Salzgitter AG

The annual financial statements of Salzgitter AG (SZAG) for the financial year 2006 have been drawn up in accordance with the provisions of the German Commercial Code, taking into account the supplementary provisions of the German Stock Corporation Act, and have been approved without qualification by the auditor PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover. The complete text is published in the electronic German Federal Gazette (Bundesanzeiger).

SZAG heads up the divisions as the management holding company. Operations are conducted by the Group companies.

As part of the restructuring of the Group, SZAG has transferred its shares in its material associated companies to its wholly owned subsidiary Salzgitter Mannesmann GmbH (SMG).

The action to rescind this measure having been rejected by the District Court of Braunschweig, the agreement on the spin-off and transfer took legal effect retrospectively on December 1, 2005.

Accordingly, the associated companies and the expenses/income from the profit sharing agreement of the previous year are recorded under SMG in the financial year 2006.

Salzgitter AG Balance Sheet (summarized)

in € mil.	31/12/2006	%	31/12/2005	%
Fixed assets	**60.0**	**4.7**	**471.6**	**31.0**
Property, plant and equipment[1]	24.2	1.9	25.7	1.7
Financial assets	35.8	2.8	445.9	29.3
Current assets	**1,224.5**	**95.3**	**1,047.7**	**69.0**
Trade receivables and other assets[2]	1,224.3	95.3	1,047.5	69.0
Cash and cash equivalents	0.2	0.0	0.2	0.0
Assets	**1,284.5**	**100.0**	**1,519.3**	**100.0**

in € mil.	31/12/2006	%	31/12/2005	%
Shareholders' equity	740.3	57.6	678.3	44.6
Special reserves with an equity portion	3.5	0.3	3.7	0.3
Provisions	518.5	40.4	825.5	54.3
Liabilities	22.2	1.7	11.8	0.8
due to banks	[7.5]		[7.9]	
Shareholders' equity and liabilities	**1,284.5**	**100.0**	**1,519.3**	**100.0**

1) Including intangible assets
2) Including prepaid expenses and treasury shares

The hiving off of the associated companies to SMG has mainly had the effect of reducing the balance sheet amount by € 234.8 million (–15.5 %). In this context, the capitalized receivables from the profit sharing agreements and the corresponding provisions for profit generated on behalf of third parties in the previous year have been reduced.

This was offset by the capitalization of a higher dividend claim against SMG in comparison with 2005.

Salzgitter AG Income Statement (summarized)

in € mil.	FY 2006	FY 2005
Other operating earnings	51.1	142.4
Personnel expenses	75.3	81.2
Depreciation and amortization[1]	1.3	11.0
Other operating expenses	202.2	58.9
Income from shareholdings	321.7	410.6
Net interest result	32.3	5.3
Earnings before tax (EBT)	**126.3**	**407.2**
Tax	–7.4	–5.6
Result generated on behalf of third parties	–	338.7
Net profit for the year	**118.9**	**62.9**

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

In 2005, proceeds of € 94 million from the sale of the shares of Vallourec S.A. were included under other operating earnings.

High personnel expenses, which remained virtually unchanged, are attributable to an adjustment of the actuarial interest rate for pension provisions (from 4 % to 3 %) to cover increases in salary and pensions.

In 2005, write-downs of financial assets were carried out for one of the companies belonging to the Services Division.

The increase in other operating expenses was due to payments in connection with the hedging and the sale of the Vallourec shares.

In 2006, income from shareholdings comprised almost exclusively the earnings contribution from SMG.

The improvement in net interest income is mainly the result of transferring groupwide cash management to SMG.

The tax expenses are impacted by the almost tax-free SMG dividend income.

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

As of December 31, 2006, the subscribed capital of Salzgitter AG amounted to € 161,615,273.31 (2005: € 161,615,273.31) and was composed of 63,218,400 ordinary shares. One share has a notional value of € 2.56 of the capital stock. The rights and obligations connected with the ordinary shares are set out under the Stock Corporation Act (AktG).

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 through the issuing of 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 General Meeting of Shareholders on May 26, 2004. This authorization enables the Executive Board, with the approval of the Supervisory Board, to issue interest-carrying 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 SZAG 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 General Meeting of Shareholders 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).

In accordance with the resolution passed by the General Meeting of Shareholders on June 8, 2006, the Executive Board was authorized to purchase an amount of the Company's own shares equivalent to a proportion of the current capital stock of up to 10% (corresponds to € 16,161,527.33) by December 7, 2007, and to use these shares for all purposes permitted under the law. In particular, this includes sale transactions in connection with the acquisition of companies or investments in companies as well as the retirement of shares.

On April 2, 2002, Hannoversche Beteiligungsgesellschaft mbH, Hanover, (HanBG) disclosed that it held 25.5% of the voting rights in SZAG as of April 2, 2002. Moreover, the Federal State of Lower Saxony, represented by the Finance Ministry of Lower Saxony, Hanover, also announced that it held 25.5% of the voting rights of SZAG. According to Section 22 para. 1 sentence 1 item 1 of the German Securities Trading Act (WpHG), these voting rights are attributable to the Federal State of Lower Saxony as it owns all the shares in HanBG. Due to the slight increase in the number of shares issued as of the reporting date, this proportion is now equivalent to 25.2% of the voting rights.

Regulations regarding the appointment and withdrawal of members of the Executive Board as well as regarding modifications to the Articles of Incorporation are derived from the corresponding regulations of the German Stock Corporation Act (AktG).

Appropriation of the Profit of SZAG

Salzgitter AG reported a net income of € 118.9 million for the financial year 2006. Taking into account the unappropriated profit brought forward (€ 7.6 million), the unappropriated retained earnings come to € 126.5 million.

The Executive Board and the Supervisory Board will propose to the General Meeting of Shareholders that this unappropriated retained earnings (€ 126.5 million) be used to fund payment of a basic dividend of € 1.00 per share, plus a bonus dividend of € 1.00 per share (based on the capital stock of € 161.6 million divided into 63,218,400 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 holding of own shares on the day of the General Meeting of Shareholders, as these shares are not eligible for dividend.

Interdependence Report

Hannoversche Beteiligungsgesellschaft mbH (HanBG) holds 25.2% of the voting rights in Salzgitter AG and, in the last General Meeting of Shareholders, held the majority of voting rights present. At the same time, Group companies carried out a small number of transactions with companies and facilities associated with HanBG. For this reason the Executive Board drew up a report on relations between the company and HanBG and the companies associated with the latter. This report ends with the following declaration: "In conclusion we declare that, bearing in mind the circumstances known to us at the time when the transactions were carried out, or the measures were either performed or not performed, the company received an appropriate remuneration for each transaction, or the company was not disadvantaged by the fact that the measures were either performed or not performed."

10. General Statement on the Economic Situation

The economic situation of the Salzgitter Group was decidedly gratifying in the financial year 2006.

Persistently brisk demand for rolled steel and tubes products, coupled with a general uptrend in selling prices, generated consolidated sales of € 8,447 million, which is an increase of € 1,295 million (+18%) in a year-on-year comparison (2005: € 7,152 million).

Consolidated profit before tax of € 1.855 million (+€ 914 million; +97%) almost doubled in comparison with the previous year's figure (€ 941 million). This figure includes proceeds from the sale of the Vallourec participation (€ 907 million). As the earnings situation of the Group in 2005 was also boosted on balance by extraordinary income (€ 142 million), the operating profit of the reporting year is even better in year-on-year comparison.

The **Trading Division** in particular contributed to these developments: owing to considerably higher shipment volumes and growth in specific gross earnings, profit of € 200.9 million in 2006 was more than double the figure of 2005 (€ 88.1 million).

Despite the as yet unsatisfactory performance of SZAE, the **Services Division** also improved its pre-tax profit (€ 15.4 million) as against the previous year (€ 9.4 million).

Higher shipments in conjunction with the gradual raising of selling prices, which served to compensate for further price hikes in raw materials and energy, delivered good results in all the product segments of the **Steel Division** which, in total (€ 433.8 million), even succeeded in outperforming the excellent result of 2005 (€ 430.7 million).

Ongoing strong demand led to increased selling prices in all the market segments of the **Tubes Division** which generated a pre-tax profit of € 262.9 million in this financial year. The profit figure achieved in 2005 (€ 302.3 million) was not attained, as the sale of the Vallourec participation in the second half of 2006 meant that there was no contribution from this company. If the at-equity results of VLR/V&M are eliminated in the years 2005 (€ 185.1 million) and 2006 (€ 73.0 million), the profit trend of the Tubes Division is positive, up from € 117.2 million (2005) to € 189.9 million (2006).

Along with a favorable market environment, the groupwide Profitability Improvement Program designed to enhance profitability was also a contributing factor, which is reflected in our profitability ratio (ROCE).

ROCE in the financial year came to 47.8%, thus considerably higher year on year (2005: 38.9%). Adjusted for the effect of net cash investments held at banks, ROCE from industrial operations stood at 55.1% (2005: 49.4%).

III. Significant Events after the Reporting Date

Sale of the 50% Stake in Ets. Robert et Cie S.A.S.

As part of realigning the shipment of flat rolled steel products on the French market, Salzgitter AG and the Robert family came to an agreement on January 26, 2007, that Salzgitter AG would sell its 50% stake in Robert S.A.S. and the latter's subsidiaries to the Robert family. At the same time, it was agreed that Salzgitter Flachstahl GmbH will remain a major supplier of steel to this French steel service center.

Investment in Klöckner-Werke AG

Salzgitter AG has signed a contract with WCM Group, Frankfurt am Main, to acquire a 78% stake of Klöckner-Werke AG, Duisburg, on March 8, 2007. As part of the deal, Salzgitter AG will also acquire a 71% stake in RSE Grundbesitz und Beteiligungs-AG, Frankfurt am Main.

Klöckner-Werke AG is an industrial holding with globally operating subsidiaries. The mainstay of its business operations is KHS AG, Dortmund, which produces filling and packaging equipment in Germany, The United States, Brazil, Mexico, India and China. Other activities are in mechanical engineering, robotics and automation technology. In financial year 2006, sales exceeded € 870 million. Klöckner Group has a global workforce of more than 5,000 employees.

With this acquisition, Salzgitter AG is entering a prospering and less cyclical market holding strong future potential and is thereby further increasing the Group's diversification.

The acquisition is subject to the approval of the boards of the parties involved and the respective antitrust authorities.

Talks with Algoma Steel Inc.

Salzgitter AG is currently investigating a potential takeover of the Canadian steel manufacturer Algoma Steel Inc. Negotiations are at present at a very early stage. In particular, no agreement has yet been reached on a possible purchase price. For this reason, there is still uncertainty at the editorial deadline as to whether the transaction will actually take place.

We will provide information about current developments in our quarterly reports in 2007.

Mannesmann Fuchs Rohr | Our thanks go to Hans-Ingo Draeck, Norbert Freimark, Michael Freund, Martin Holtmann, Karl-Heinz Krämer, Thomas Kersting, Michael Linde, Manfred Veit, Andreas Witte and Hans-Joachim Wollnik for their photographic contributions.

IV. Risk Report

1. Opportunities and Risk Management System

Business activity as defined by the Articles of Incorporation makes risk-taking unavoidable in many instances. Assuming risks is frequently the necessary precondition for exploiting opportunities. All risks must, however, be contained and manageable for those in charge. Effective and foresighted risk management is therefore an important and value-creating component among the management functions employed by Salzgitter AG to safeguard the company as a going concern, along with the invested capital and jobs.

In the Salzgitter Group, risk and opportunity management are treated separately as a matter of principle. A separate reporting system maps and tracks risks. By contrast, the identification and communication of opportunities forms an integral part of the management and controlling system that operates between our subsidiaries and associated companies and the holding company. This also includes, for example, measures to profile our strengths and tap strategic growth potential that can be derived on a focused basis from a specially developed strategy atlas, and with whose help we constantly monitor our product and market environment.

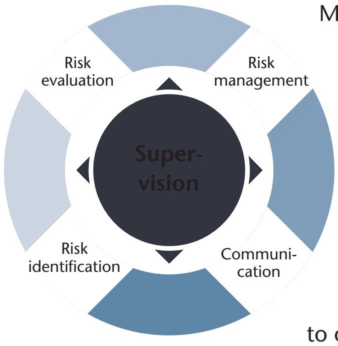
With regard to value-oriented corporate management, we weigh up risk and opportunity aspects.

Risk management incorporates all fully consolidated companies in the Steel, Trading and Services Divisions – including also the non-consolidated Salzgitter Hydroforming GmbH & Co. KG and Telefonbau Marienfeld GmbH & Co. KG. In the Tubes Division, not only the fully consolidated companies, but also the joint venture Europipe GmbH, including Mülheim PIPECOATINGS GmbH, are integrated into the risk management system in accordance with Salzgitter AG's guidelines.

The subsidiaries and associated companies of Salzgitter AG apply the risk management system autonomously. The management holding company specifies guidelines that 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.

In order to improve the informative value of the groupwide risk portfolio, the risk management system is constantly being further developed and refined to meet the prevailing requirements. Based on the contents implemented in the previous financial year, principles for the continuing harmonization of the evaluation of event risks were formulated this year in a more extensive 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 or ad hoc and directly to the Executive Board. Almost all of the companies subject to reporting requirements use a Group database to ensure effective data handling. At Group level, the risks identified 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 augmenting each other.

Risks are considered an integral part of intra-year forecasting, medium-term planning and strategy discussions. To manage these risks, processes, regulations and tools are established. The aim is to avoid potential risks, to control them or to take corresponding preventive measures, while remaining appropriately aware of opportunities that might present themselves.

In terms of the likelihood of their occurrence, a distinction is drawn between improbable and probable risks. Improbable risks are events, which after careful commercial, technical and legal consideration of the circumstances are deemed unlikely to occur and therefore tend not to be 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 traceability 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.

MHP Mannesmann Präzisrohr | Our thanks go to Heiko Dodt, Manfred Engelke, Gerd Hafner, Sven Herzig, Wolfgang Humpert, David Schweda, Petra Steffen and Eddie Wilkin for their photographic contributions.


Umsatzrentabilität
Gewinn x 100
Umsatz
Eigenkapital-
rentabilität
Gewinn x 100
Eigenkapital
Gewinn-
zuschlagssatz
Reingewinn x 100
(EK+Kosten)

2. Individual Risks

Based on macroeconomic changes in the international markets, price developments in the sales and purchase markets, currency exchange rates (in particular the USD/EUR exchange rate) and developments in the price of oil are of key importance for the Salzgitter Group. In order to minimize business risks that result from these, we observe related trends and take these into account in our risk forecasts. This also applies to potential, politically induced restrictions in international business, for example, due to a trade embargo.

In order to counter possible risks arising from the diverse fiscal, environmental, competition-related and other rules and regulations, we ensure strict compliance with the respective laws and stipulations and seek extensive legal advice from our own experts and, on a case-by-case basis, from qualified external specialists. We minimize risks due to changes in the steel sector by having a decentralized Group structure and, as a result, fast decision-making processes that allow us to adapt rapidly to new market conditions.

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

The price trends of important raw materials such as iron ore, coal and scrap during the reporting period remained within the anticipated bandwidths. By way of contrast, the rising prices of alloys continued detectably in 2006, resulting in higher procurement costs compared with our budget. We identified this at an early stage and it is reflected in the profit forecast. In the financial year ended, the higher selling prices of our products compensated for these additional expenses.

We counter the potential risk of insufficient supplies, relative to demand, of important raw materials and energy (electricity, gas) 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. The assessment of our sources of supply gives us the certainty that the availability of these raw materials in the required quantity and quality has been ensured to the best possible extent. This also applies to supplies of coal that were still sourced partly in Germany and partly on the world market in the reporting year. We purchase electricity on a contractually secured basis insofar as our requirements exceed our own generating capacity. In order to counter the risk of continued rises in electricity prices, Salzgitter AG took the decision in 2006 to construct two new 105 MW power generating units at the Salzgitter works, which will mean that SZFG's future requirements will be largely covered.

A typical risk may result from the sharp fluctuations in prices and volumes in our selling markets. We counteract the possible threat to our existence posed by this risk by broadly diversifying our products, customer segments and regional selling markets, by adopting situation-related countermeasures in our operations and by maintaining a sound balance sheet and financing structure. By exploiting the compensatory opportunities offered by the differing economic developments which affect our various divisions (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.

The risk of an unplanned, extended shutdown of our key plant components is counteracted by regular plant checks, a program of preventive maintenance as well as ongoing modernization and investment. To cover possible loss or damage and the associated production stoppages as well as other conceivable 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.

As a matter of principle, entering into financial and currency risks is only permitted if they are connected with our steel production and trade-typical processes, and they are therefore of minor importance in comparison with operating risks.

Currency risks arising from purchase or sales transactions must on principle be secured, either by internal netting within the Group or by external 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 Annual Financial Statements at Company and at Group level.

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. A part of our US dollar currency requirement is hedged using currency options with durations of up to three years.

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 these incur.

In addition, there may be 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.

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.

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.

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 the plants and the development of our products and by comprehensive environmental management.

On January 1, 2005, we began trading in CO_2 emissions certificates. The allocation of emission allowances for the first trading period (2005 to 2007) was sufficient. We do not enter into speculative trading activities with the certificates.

In 2006, we were actively engaged in helping to structure the allocation system for CO_2 certificates for the second trading period (2008 to 2012).

We counter risks arising in the field of information technology by developing and maintaining a Group knowledge base in the form of IT services-oriented subsidiaries. This ensures 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 groupwide IT systems and forms the basis for the economic deployment of the required investment funds. During 2006, we started our back-office project that aims at the technological renewal of the hardware and software resources in the office communications area, in order to safeguard their availability, maintenance and IT security at the highest level. Moreover, we are similarly streamlining historically evolved, heterogeneous structures in the Group.

We limit 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, by way of suitable reporting and consultation structures by participation in supervisory committees and through contractual arrangements. As a consequence, in order to ensure the transparency of the Europipe GmbH 50% joint venture, members of the Salzgitter AG Board are represented on its Supervisory Board.

3. Overall Statement on the Risk Position of the Group

Evaluation of the Risk Position by Management

In the financial year 2006, 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 earnings situation, financial position and net worth of Salzgitter AG.

The auditor has checked the risk early warning system installed at Salzgitter AG in accordance with the German Stock Corporation Act (AktG). This examination verified the fact that the early warning system installed throughout the Group fulfills its functions and fully satisfies all company law requirements.

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

Rating of the Company

No official rating issued by an appropriate rating agency exists for Salzgitter AG. From our perspective, there is also no need for such a rating; this is because, following the growth that we have achieved after three boom years, without the need for a capital increase, we have attained an outstanding financial position that largely precludes the requirement to tap the capital markets.

Our own rating approach performed using the normal quantitative criteria has resulted in values that show hardly any divergence from our own banks' internal ratings, which leads us to assume that an external valuation would place us soundly within the investment grade bracket, despite the high level of our pension obligations.

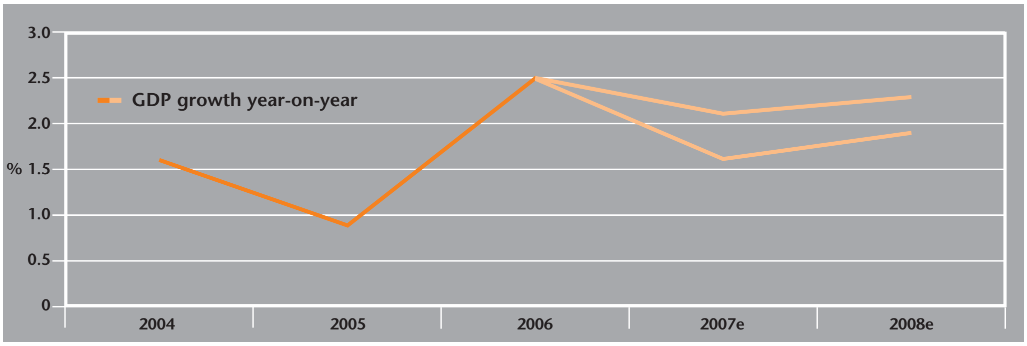
V. Forecast

1. General Market Conditions

According to forecasts available at the start of 2007, the expansion of the **global economy** is expected to weaken initially in the current year before gaining renewed strength in 2008. After an increase of 5.1% in real global economic production in 2006, a moderate reduction to a prospective 4.7% is anticipated for 2007. Global trade, when measured in real terms, is expected to continue to exhibit strong growth in 2007 at a rate of 7.5%, following 8.5% growth in 2006. The key factor for the slight slowdown forecast for 2007 is particularly the development of the USA, which has a follow-on effect on other regions. Growth in the USA had already decelerated markedly in the second half of 2006 due to the tailing off of the real estate boom that had so far buoyed economic developments.

According to the most recent estimates, the economy in **Europe**, and particularly in **Germany**, offers a positive outlook for the forecasting timeframe. In general, the upturn in Europe is credited with a significant degree of self-generated momentum, which in turn is supported by both internal and external economic factors. Negative factors for 2007 include the forecast ebbing in global economic growth, the tendency for the euro to appreciate as well as the restrictive fiscal policies pursued in Germany and Italy. With regard to Germany, although the increase in the rate of value-added tax is expected to act as a brake, the majority of experts does not anticipate that it will lead to a downturn. Forecasts for the EU envisage an increase in gross domestic product (GDP) of 2.4% in 2007, followed by 2.6% in 2008. For Germany, GDP growth rates in the region of 2% for 2007 and 2.3% for 2008 have been estimated. Forecasts from different economic research institutes diverged from one another in terms of absolute level, but exhibit the same tendency within a bandwidth.

GDP Growth Germany: Range of Forecasts



Source: Handelsblatt, 12/1/2007

This means that, from the current perspective, the overall economic conditions for the **steel industry** are favorable and that the prospects for a further rise in steel consumption in 2007 and 2008 are good.

It appears that, in all probability, the economy of the steel-processing sectors of the EU will remain on a growth path in 2007 and 2008. In 2007, growth rates of 2.0% and 3.5% have been forecast for the automotive and mechanical engineering industries respectively. Euroconstruct envisages an increase of 1.7% for the construction industry. As detailed in the next section, the general economic conditions are expected to remain favorable for the tubes market. Given this backdrop, an increase of EU steel demand of 2% in 2007 is possible. Global steel consumption may appreciate by 6.5% over the same period.

In Germany as well, steel demand in 2007 is expected to be 2% higher. However, deliveries to the German steel market in 2007 may be limited by the effects of destocking. In terms of crude steel production, these assumptions imply a plateau at about 47 million tons.

In view of the favorable macroeconomic development in the EU and Germany forecast for 2008, which is expected to be stronger than 2007, we do not anticipate, from today's perspective, a fundamental change in the steel economy in 2008.

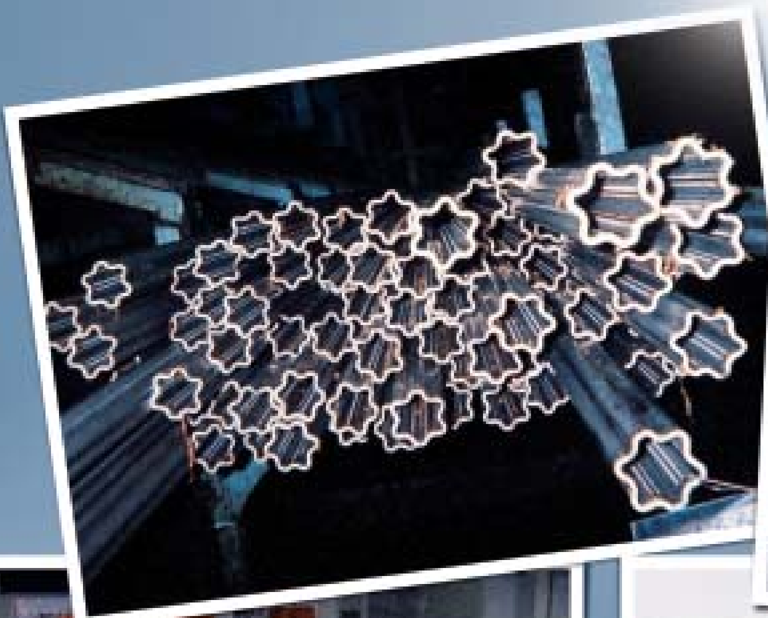
The **market for steel tubes** is expected to remain at a healthy level in 2007 and 2008, although it is not thought that it will repeat the high level of 2006.

The forecasts for the major consuming industries of the steel tubes industry differ for various countries and sectors. In summary, however, the overall situation is positive. For instance, demand from the booming oil and gas sector, which is oriented towards the growing energy requirements in the world, will have a positive influence on the steel tubes market. In Europe alone, an increase of 25% in natural gas consumption is forecast by the year 2020. This scenario is of great significance for the transmission pipelines from the producing countries in Eastern Europe, Central Asia and North Africa. A series of pipelines have already been realized. Numerous further major projects, such as the Nord Stream Pipeline, have already cleared the planning stage. However, it is not only in Europe and the surrounding regions where energy-dependent products are seen to enjoy above-average prospects – the North American market also offers favorable future prospects as a result of the numerous pipeline projects already in development.

However, the threat of fiercer competition is very real. According to forecasts, capacity in 2007 is set to grow by an additional 17 million tons in total. The largest increase is anticipated in seamless tubes, with about 8 million tons. The major activity in this area is in China and Russia. Where Russia is concerned, however, the new capacities are partially expected to replace older facilities. With respect to the production of small welded tubes, a capacity expansion of about 4 million tons is anticipated, also with a focus on Russia and China. An increase of 4.5 million tons is projected for large-diameter tubes, which is also expected to have its main effect in Russia.

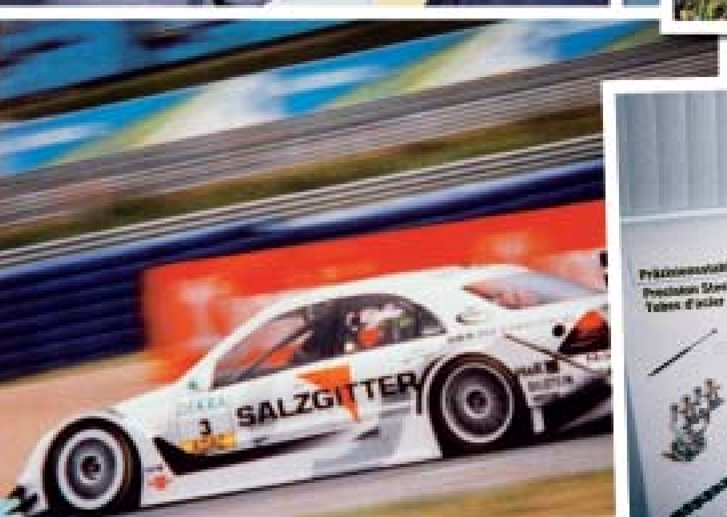
The general conditions and their impact on the SZAG Group are still more or less assessable in 2007. They are nonetheless still subject to swift change as a result of global developments and particularly the development in China. This has also been the experience with numerous forecasts in the past, since individual important events occurring at short notice and upheavals cannot be reflected in such models. It is also very difficult to gauge the effects of emerging megatrends, such as global climate protection. For this reason, the Group's stability in terms of its financial position and strong balance sheet remain a top priority, which is to be underpinned on an ongoing basis by profitability improvement projects.

MHP Mannesmann Präzisrohr | Our thanks go to Heiko Dodt, Manfred Engelke, Gerd Hafner, Sven Herzig, Wolfgang Humpert, David Schweda, Petra Steffen and Eddie Wilkin for their photographic contributions.




Ich bin fur
Arbeitssicherheit
verantwortlich!


MANNESMANN
PRAZISROHR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Forecast

2. Strategic Direction of the Group

The Group strategy is geared towards sustaining its independence and profitability, as well as selective growth, and is designed to deliver continued value added. There are thus no plans to change the business policy of the Group in the years ahead. Organic growth, in particular on the basis of effective, profitable structures with a proven track record, enjoys a higher priority over the currently extremely costly option of external growth through acquisitions.

For this reason, we are focusing particularly on pursuing the Profitability Improvement Program aimed at improving productivity, product qualification and quality assurance.

Initially, the business activities of the companies in the various divisions will fundamentally concentrate on established sales markets. In doing so, there may be a shift in the focus at a regional or sectoral level. The shape that this will take will ultimately depend on short-term responsiveness and the positioning of the companies. Opportunities on markets not frequented to date are being reviewed and exploited if there is commercial or technical potential.

Along with the customer proximity so characteristic of a group of our dimensions, the balanced customer and sector structure is one of our key success factors when compared with other steel companies.

The use of fundamentally new technological processes and techniques has not been planned for the period under review here. However, in order to reinforce their market share as manufacturers of market high-grade rolled steel products and steel tubes, the companies of the Steel and Tubes Divisions intend to invest in modernizing the various production stages. The primary aim, alongside cutting costs, is product qualification and quality enhancement.

To this extent, the portfolio of the Salzgitter Group in the coming two years will comprise numerous “new” products that offer a qualitative step forwards and additional application possibilities through new further developments. In this context, we refer to the section on “Research and Development”.

The Steel Division is prioritizing organic development with the focus on productivity and product quality. Its secondary focus is on external growth. The beams segment envisages a successive expansion of its product spectrum to include special profiles, while the plate mills will progressively focus on higher value products, as it can be assumed that stable demand at attractive prices will continue, especially for these goods.

Besides potential acquisitions, including the current VPE/Zeithain project, the Tubes Division is concentrating on growth through expanding existing business segments as well as raising productivity and quality. In this division, products made of new grades of material for more sophisticated areas of application are expected to enable differentiation as against providers of standard products.

The Trading Area is focusing on regional and product-related expansions, supplemented by selected external growth options.

Finally, in the Services Division, the focus will be on the productivity and competitiveness of the services offered and on the optimization of the customer service.

3. Expected Earnings and Anticipated Developments and Trends

The corporate planning of Salzgitter AG is geared towards strategic goals and comprises its own set of entrepreneurial measures for action embedded in the general economic environment. It forms the basis for a realistic assessment of profit but must, however, at the same time take adequate account of the long-term aspect relating to investments and the securing of a sound balance sheet and financial stability, also in more difficult market environments.

Market expectations prevailing at the time when the plan was drawn up as well as envisaged entrepreneurial measures resulting from a process involving the whole Group, which is concluded before the start of the financial year 2007, have been incorporated into the plan.

The underlying structure of the Group which was, by definition, the status quo at the time may not necessarily accord with the structure of the Group at the end of the planning period. This is attributable to the fact that funds accruing from the sale of VLR and V&M have not yet been invested to promote internal and, in particular, external growth.

None of the acquisition projects currently being reviewed, including the planned purchase of VPE/Zeithain, had reached such a concrete state at the time when planning was concluded at year-end 2006 that it could have been integrated into this planning.

Moreover, in contrast to the economic forecasts of economic research institutes which are regularly updated during a financial year, the planning round of the Group takes place only once a year. Planning is based on conclusions drawn in the fourth quarter of 2006, taking account of orders in the books of the individual companies for 2007.

At this point, it must be emphasized that the certainty of planning for the current year based on order intake, which is high in comparison with previous years, but still far short of the halfway mark of planned sales, is by the nature of the business incomplete.

In the development of the individual companies and of the Group, as set out below, we take this planning as a basis and include new insights on the course of business in the current year. Business up until February 2007 in rolled steel and tubes measured by volume and selling price was decidedly favorable, with the result that the budgeted targets originally set were partly exceeded.

We estimate that, in 2007, the sales of the **Steel Division** are likely to be higher than the previous year's figure. Against the background of a sales volume which generally remained at a high level, agreed price hikes, in particular in respect of long-term contracts for flat steel products, will have a corresponding positive impact. For this reason, the Steel Division expects pre-tax profit in 2007 to be around the level of the previous year, despite the increase in the cost of raw materials.

The **Tubes Division** also anticipates that sales will grow in 2007, boosted by buoyant demand for steel tubes. This expansion will be primarily attributable to large-diameter pipes and stainless tubes; HFI-welded line pipes, however, should also see notable growth. In a historical comparison, the Tubes Division has forecasted a very ambitious pre-tax profit for 2007, albeit somewhat lower than in 2006. Factored into this result is the Vallourec contribution (2006: € 73 million) which, for the first time, will no longer be made in 2007.

Following on from an excellent financial year in 2006, the **Trading Division**, a division highly exposed to quick changes in the market, expects a more or less stable sales volume with, however for the moment, a notable decline in the pre-tax result. This result is nonetheless way above the long-term average. A major reason for this development is the likelihood of lower gross earnings. This is due to the fact that the cost price of inventories carried in the books has reached a high level owing to an increase in replacement costs and because price rises in the sales market are likely to be more severe than in 2006.

Sales anticipated in 2007 in the **Services Division** remain more or less unchanged from last year's figure. The division's pre-tax profit is likely to be higher year on year, which is mainly owing to the planned improvement of SZAE.

On the basis of the sum total of all the individual plans of the subsidiaries and including the holding company and consolidation effects, as well as the current business data available for the first months of 2007, the following is an overall **statement on the performance anticipated for the Group**:

Given sales which remain more or less unchanged, we expect operating profit before tax to again be in the higher triple-digit euro million range in the current financial year 2007. Taking into consideration that we will no longer have the operating contribution of VLR and that trading margins are returning to a normal level, it would, however, appear still too ambitious to set our sights on a repeat of last year's figure of € 948 million.

Express reference is made to the fact that opportunities and risks arising from currently unforeseeable trends in selling prices, input prices and capacity levels as well as currency fluctuations may exert a considerable impact on the course of the financial year 2007. As shown by previous years, the resulting potential range within which the consolidated pre-tax result could fluctuate may be considerable, both in positive and negative terms.

From today's standpoint, no reliably quantifiable outlook can be ascertained for sales and the results of the Salzgitter Group in 2008. If the upbeat economic forecasts should prove to be accurate, we expect our pleasing performance to hold steady, with the corresponding sales and profit.

The amount of dividend will also depend on the future profit trend. The cyclical fluctuations typical of the sector are naturally reflected in the results of the Group, as well as in the share price. A determinant factor for the Group's ability to pay dividend are the financial statements of Salzgitter AG. Salzgitter AG basically pursues a policy of paying dividend on an ongoing basis, contingent on the premise that operations remain profitable and attractive dividends can be paid regularly, which may not necessarily reflect the full extent of the cyclicality of the performance trend. From today's standpoint, the payment of an appropriate dividend financed from operating profit would appear realistic in the financial years 2007 and 2008.

4. Anticipated Financial Position

In the financial year 2007, the Salzgitter Group has planned an investment budget which again exceeds that of the previous year. Of the budgeted amount, around 60% has been attributed to the Steel Division and, in turn, 80% of this amount to SZFG. Targeted investments are aimed at significantly strengthening our earnings. Together with the ongoing investments already approved in previous years, the payment-related portion of the 2007 budget will bring the total investment volume to a level which is significantly higher than in 2006 (€ 236 million). As in the past, these investments will be carried out on a rolling basis in accordance with results and liquidity.

Owing to the greater volume of investments, the funds required for the financial year 2007 will be in excess of the write-downs, with the result that the excess portion will need to be financed as planned from the available funds. These funds will be moderately higher owing to a scheduled increase in operating cash flow. From the viewpoint of company management, this is not an issue as there is enough latitude.

The volume of investment has been assessed and distributed over time to ensure that the Group's cash position generally remains stable and available at any time for strategic options. Financing measures are currently not planned. In connection with acquisition projects, however, such measures may be implemented in due course.

5. Opportunities

An important aspect of corporate planning at the Salzgitter Group is the gathering and validation of information and data that may affect the company's business development. Besides the analyses of general economic indicators and sector indices, our Group companies' specific know-how comprises an important component in these forecasts. Using appropriate early warning indicators, the aim is to identify short-term developments with a sufficient degree of security and to exploit opportunities that may arise from them.

The economic trends to date appear to fulfill, and partly exceed, realistic expectations in Germany as well as abroad. Assuming that the positive aspects of the overall environment continue, we are confident in envisaging additional opportunities for the economic development of the Group. Among other things, this may affect the construction sector, which is important for sales of our beams, profiles and elements. This sector is now showing positive signs once again after years of stagnation.

Brisk demand for energy and a potential uptrend in oil prices could lead to increased exploration and exploitation of oil and gas in the short term, which could boost pipeline construction in the long term. This would give rise to additional opportunities concentrated in the segments of OCTG (oil country tubular goods), medium line pipes and large-diameter pipes.

Capacity bottlenecks resulting not only from the strong demand but also from the trend towards concentration have led to marked price increases in procurement markets worldwide. The sustainability and macroeconomic consequences of these price increases are currently uncertain. The least that can be drawn from the information available to us at the moment is that the responsible management of natural resources will continue to be a key component of our commercial success also in the foreseeable future.

In parallel, the consolidation of the global steel industry will continue to move forward, potentially being characterized by a group of competitors with additional cost advantages, huge capital resources and significant market power. One consequence of these potential developments in coming years may be a continuous rise in competitive pressure, particularly on steel producers, including even those of our dimensions, that do not have a specialized market and niche strategy. Consequently, only the consistent, focused implementation of our independent corporate strategy will allow us to confront this development.

At the same time, the strategy we are pursuing offers a number of opportunities for growth that will enable our Group to further improve its market and competitive position. One way for us to realize such opportunities is through targeted investments and product developments, also with customers. Another approach is strengthening our core activities in the areas of steel, trading and tubes by numerous potential acquisition of companies, even in the prevailing seller market.

As a general rule, however, we will only realize those acquisition projects that increase our level of target attainment.

Deriving additional positive impetus from opportunities which enhance performance and other aspects is, in our opinion, currently more of a speculative nature than a "sound" assessment of their potential to improve the development of the Group.

Contents Consolidated Annual Financial Statements

SERVICES

Loading, inventing, transporting, shipping, researching, developing **and** taking pictures.

The Services Division.
Captured in photos and showcased by its people.

Hansaport Hafenbetriebsgesellschaft | Our thanks go to Andreas Frech, Werner Göllner, Silvio Manzke, Michael Ratz and Jens Rogalski for their photographic contributions.

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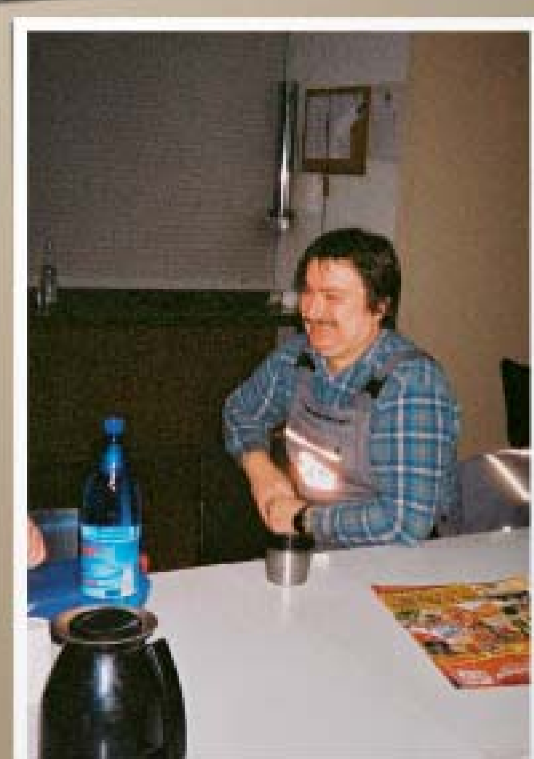


I. Consolidated Income Statement

in T€	Note	FY 2006	FY 2005
Sales	(1)	8,447,213	7,151,579
Increase or decrease in finished goods and work in progress and other own work capitalized	(2)	11,644	159,918
		8,458,857	7,311,497
Other operating earnings	(3)	1,323,763	332,798
Cost of materials	(4)	5,739,038	4,866,193
Personnel expenses	(5)	1,013,812	994,039
Amortization and depreciation	(6)	201,074	206,290
Other operating expenses	(7)	1,026,803	739,798
Income from shareholdings	(8)	2,274	4,189
Income from associated companies	(9)	87,667	185,063
Write-downs of financial assets	(10)	218	9,789
Financing income	(11)	79,547	30,944
Financing expenses	(11)	116,405	107,477
Earnings before tax		**1,854,758**	**940,905**
Income tax	(12)	345,200	85,302
Other taxes		–	13,608
Consolidated net income for the year		**1,509,558**	**841,995**

Appropriation of profit in T€	Note	FY 2006	FY 2005
Consolidated net income for the year		1,509,558	841,995
Profit carried forward from the previous year		64,500	26,400
Minority interests	(13)	1,901	– 93
Dividend payment		– 56,897	– 24,798
Appropriation to other retained earnings		–1,388,760	– 779,190
Unappropriated retained earnings		**126,500**	**64,500**

Undiluted earnings per share (in €)	(14)	**26.50**	**14.09**
Diluted earnings per share (in €)	(14)	**26.50**	**14.09**

II. Consolidated Balance Sheet

Assets in T€	Note	31/12/2006	31/12/2005
Fixed assets			
Intangible assets			
Goodwill	(15)	–	1,224
Other intangible assets	(16)	18,803	22,184
		18,803	23,408
Property, plant and equipment	(17)	1,423,389	1,403,534
Financial assets	(18)	61,904	78,269
Associated companies	(19)	74,208	301,493
Deferred tax assets	(20)	49,101	88,712
Other receivables and other assets	(21)	3,348	4,008
		1,630,753	**1,899,424**
Current assets			
Inventories	(22)	1,653,099	1,439,009
Trade receivables	(23)	1,108,260	880,237
Other receivables and other assets	(24)	176,277	227,595
Income tax assets	(25)	23,950	82,373
Securities		27,691	–
Cash and cash equivalents	(26)	2,344,989	884,897
		5,334,266	**3,514,111**
Non-current assets held for sale	(27)	12,559	–
		5,346,825	**3,514,111**
		6,977,578	**5,413,535**

Equity and liabilities in T€	Note	31/12/2006	31/12/2005
Equity			
Subscribed capital	(28)	161,615	161,615
Capital reserve	(29)	295,343	295,343
Retained earnings	(30)	3,023,931	1,641,221
Unappropriated retained earnings	(31)	126,500	64,500
		3,607,389	2,162,679
Treasury shares		–160,354	–160,283
		3,447,035	2,002,396
Minority interests	(32)	9,666	9,232
		3,456,701	**2,011,628**
Long-term liabilities			
Provisions for pensions and similar obligations	(33)	1,714,837	1,724,589
Deferred tax liabilities	(20)	43,870	40,338
Income tax liabilities	(25)	170,758	68,164
Other provisions	(34)	167,405	149,785
Financial liabilities	(35)	89,649	96,467
		2,186,519	**2,079,343**
Current liabilities			
Other provisions	(34)	237,737	231,744
Financial liabilities	(36)	102,635	132,759
Trade payables	(37)	602,007	510,362
Income tax liabilities	(25)	49,150	98,953
Other liabilities	(38)	342,829	348,746
		1,334,358	**1,322,564**
		6,977,578	**5,413,535**

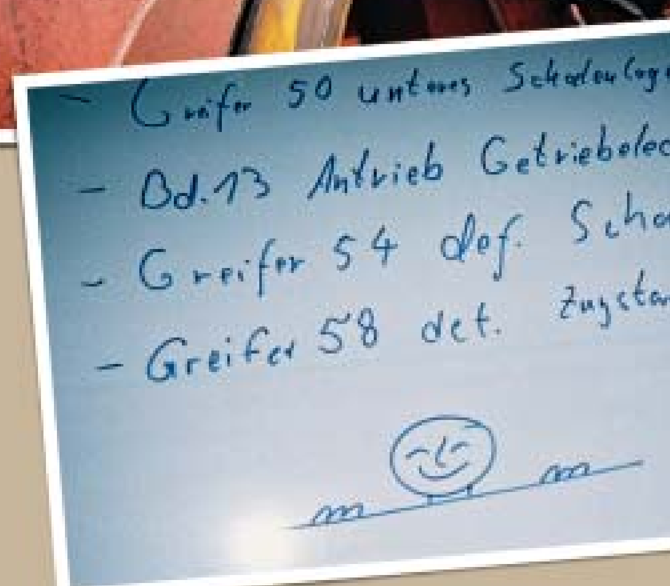
III. Statement of Income and Accumulated Earnings

in T€	FY 2006	FY 2005
Changes recorded directly under equity		
Changes resulting from currency translation	3,580	124,822
Changes in the value of the reserve from hedging transactions		
Changes in current value reported directly under equity	7,862	–2,510
Recognition of settled hedging transactions in the income statement	–6,376	8,886
Changes in the value of financial assets in the available-for-sale assets category		
Changes in current value reported directly under equity	1,196	4,023
Recognition of settled hedging transactions in the income statement	–3,566	–2,654
Actuarial gains and losses	–9,135	–122,315
Deferred tax on changes without effect on income	3,664	44,514
Other changes without effect on income	776	–2,104
	–1,999	**52,662**
Consolidated net income for the year	**1,509,558**	**841,995**
Total profit pursuant to IAS 1.97 in conjunction with IAS 19.93 B	**1,507,559**	**894,657**
Total profit due to Salzgitter AG shareholders	1,505,665	894,930
Total profit due to minority interests	1,894	–273
	1,507,559	**894,657**

(42) Cash Flow Statement

in T€	FY 2006	FY 2005
Earnings before tax (EBT)	1,854,758	940,905
Depreciation, write-downs (+)/write-ups (–) on fixed assets	201,292	215,877
Income tax paid	–170,421	–110,982
Other non-payment-related expenses (+)/income (–)	–56,497	87,965
Interest expenses	116,405	107,477
Profit (–)/loss (+) from the disposal of fixed assets	–934,756	–141,863
Increase (–)/decrease (+) in inventories	–222,782	–261,599
Increase (–)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	–158,565	–173,577
Use of provisions affecting payments, excluding income tax provisions	–205,824	–201,858
Increase (–)/decrease (+) in trade payables and other liabilities not attributable to investment or financing activities	64,087	5,637
Cash flow from operating activities	**487,697**	**467,982**
Cash inflow from the disposal of tangible and intangible non-current assets	23,902	16,572
Cash outflow for investments in intangible and tangible non-current assets	–230,778	–228,275
Cash inflow (+)/outflow (–) for short-term loans against borrower's notes/bonds	50,000	–100,000
Cash inflow from the disposal of financial assets	1,247,064	794,473
Cash outflow for investments in financial assets	–13,393	–97,137
Cash flow from investment activities	**1,076,795**	**385,633**
Cash inflow (+)/outflow (–) as a result of sale and repurchase of treasury shares	–71	–150,830
Cash outflow in payments to company owners and minority shareholders	–56,897	–24,798
Cash inflow (+)/outflow (–) as a result of the issuing of bonds, borrowings and other financial liabilities	–7,027	–13,468
Interest paid	–40,405	–25,493
Cash flow from financing activities	**–104,400**	**–214,589**
Cash and cash equivalents at the start of the period	884,897	245,871
Change in cash and cash equivalents	1,460,092	639,026
Cash and cash equivalents at the end of the period	**2,344,989**	**884,897**

Hansaport Hafenbetriebsgesellschaft | Our thanks go to Andreas Frech, Werner Göllner, Silvio Manzke, Michael Ratz and Jens Rogalski for their photographic contributions.




Halte Ordnung
Liebe sie
es erspart dir Zeit und
Müh !!!
KLAUE DOPPELT
KLAUE EINFACH

V. Notes to the Consolidated Financial Statements of Salzgitter AG

Statement of Changes in Equity

in T€	Subscribed capital	Capital reserve	Purchase/ repurchase of treasury shares	Other retained earnings	Reserve from currency translation
As of December 31, 2004	**160,899**	**292,670**	**–9,453**	**855,696**	**–144,393**
Adjustment IFRS 3 (negative goodwill)	–	–	–	134,540	–
Adjustment IAS 2 abolition Lifo	–	–	–	35,390	–
Adjustment IAS 2 abolition Lifo deferred taxes	–	–	–	–	–
Adjustment of equity valuation	–	–	–	23,419	–
As of January 1, 2005	**160,899**	**292,670**	**–9,453**	**1,049,045**	**–144,393**
Net income for the financial year	–	–	–	–	–
Dividend	–	–	–	–	–
Exercise of warrant-linked bonds	716	2,673	–	–	–
Disposal of own shares	–	–	1,580	–	–
Repurchase of own shares	–	–	–152,410	–	–
Currency translation	–	–	–	–	124,822
Change in value pursuant to IAS 39	–	–	–	–	–
Adjustment in line with actuarial assumptions regarding pension obligations, no effect on income	–	–	–	–	–
Group transfers to retained earnings	–	–	–	779,190	–
Deferred tax on changes without effect on income	–	–	–	–	–
Other	–	–	–	–8,480	–
As of December 31, 2005	**161,615**	**295,343**	**–160,283**	**1,819,755**	**–19,571**
Net income for the financial year	–	–	–	–	–
Dividend	–	–	–	–	–
Disposal of own shares	–	–	63	–	–
Repurchase of own shares	–	–	–134	–	–
Currency translation	–	–	–	–	3,580
Change in value pursuant to IAS 39	–	–	–	–	–
Adjustment in line with actuarial assumptions regarding pension obligations, no effect on income	–	–	–	–	–
Group transfers to retained earnings	–	–	–	1,388,760	–
Deferred tax on changes without effect on income	–	–	–	–	–
Other	–	–	–	–4,051	–
As of December 31, 2006	**161,615**	**295,343**	**–160,354**	**3,204,464**	**–15,991**

Valuation reserve from hedging transactions	Valuation reserve from available-for-sale	Other equity changes without effect on income	Unappropriated retained earnings	Equity (excl. minority interests)	Minority interests	Equity
–4,428	**5,963**	**–74,536**	**26,400**	**1,108,818**	**11,819**	**1,120,637**
–	–	–	–	134,540	–	134,540
–	–	–	–	35,390	–	35,390
–	–	–13,802	–	–13,802	–	–13,802
–	–	–	–	23,419	–	23,419
–4,428	**5,963**	**–88,338**	**26,400**	**1,288,365**	**11,819**	**1,300,184**
–	–	–	842,088	842,088	–93	841,995
–	–	–	–24,798	–24,798	–2,314	–27,112
–	–	–	–	3,389	–	3,389
–	–	19	–	1,599	–	1,599
–	–	–	–	–152,410	–	–152,410
–	–	–	–	124,822	–	124,822
6,376	1,369	–	–	7,745	–	7,745
–	–	–122,315	–	–122,315	–	–122,315
–	–	–	–779,190	–	–	–
–	–	44,514	–	44,514	–	44,514
–	–	–2,123	–	–10,603	–180	–10,783
1,948	**7,332**	**–168,243**	**64,500**	**2,002,396**	**9,232**	**2,011,628**
–	–	–	1,507,657	1,507,657	1,901	1,509,558
–	–	–	–56,897	–56,897	–1,211	–58,108
–	–	–	–	63	–	63
–	–	–	–	–134	–	–134
–	–	–	–	3,580	–	3,580
1,486	–2,370	–	–	–884	–	–884
–	–	–9,135	–	–9,135	–	–9,135
–	–	–	–1,388,760	–	–	–
–	–	3,664	–	3,664	–	3,664
–	–	776	–	–3,275	–256	–3,531
3,434	**4,962**	**–172,938**	**126,500**	**3,447,035**	**9,666**	**3,456,701**

Segment Reporting

(43) Segment Reporting/Primary Segmentation

in T€	Steel		Tubes	
	FY 2006	FY 2005	FY 2006	FY 2005
Sales	3,888,432	3,497,043	2,494,297	2,242,181
Sales in own segment	538,841	503,495	434,672	569,024
Sales to other segments	909,750	816,968	550,064	265,675
External sales	2,439,841	2,176,580	1,509,561	1,407,482
Earnings before tax (by divisions)	433,781	430,696	262,876	302,358
of which from associated companies	[966]	[702]	[86,701]	[184,062]
Profit on the sale of shares in associated companies	–	–	–	–
Earnings before tax	433,781	430,696	262,876	302,358
Interest income	1,426	227	2,095	19,620
Interest expenses	9,026	8,669	9,362	45,852
Segment assets	1,922,231	1,870,293	1,010,995	2,951,514
of which inventories	[648,506]	[641,004]	[386,891]	[381,537]
of which shares in associated companies	[966]	[801]	[73,242]	[297,406]
Segment operating liabilities	1,392,405	1,128,750	806,504	2,253,210
Investments in tangible and intangible fixed assets	161,477	190,058	36,223	22,905
Depreciation/amortization of tangible and intangible fixed assets (excluding value impairments)	139,706	140,151	21,915	23,277
Value impairment expenses for tangible and intangible fixed assets	5,272	9,059	–	–
of which reported in the result for the period	[5,272]	[9,059]	[–]	[–]
Value write-downs for financial assets	–	–	18	–
of which reported in the result for the period	[–]	[–]	[18]	[–]
Expenses and income with no effect on earnings	58,738	170,603	–21,887	–3,614
Employees (annual average)	6,899	7,095	4,200	4,261

(43) Segment Reporting/Secondary Segmentation

in T€	Germany		EU (excluding Germany)		Other Europe	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
External sales by recipients	3,983,919	3,214,496	1,929,467	1,680,663	228,529	289,073
External sales by principal place of business	7,333,540	6,180,711	355,289	365,338	–	–
Investments in tangible and intangible fixed assets	225,490	252,515	7,036	8,355	–	–
Segment assets	6,426,666	4,815,797	231,031	259,119	–	–
Segment operating liabilities	3,037,238	2,944,190	109,341	160,844	–	–
Depreciation/amortization of tangible and intangible fixed assets (excluding value impairments)	188,608	189,780	5,519	5,672	–	–
Employees (annual average)	15,795	15,897	935	1,097	–	–

Trading		Services		Others/Consolidation		Group	
FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
4,513,493	3,604,235	1,043,349	852,171	326,611	–	12,266,182	10,195,630
199,649	94,882	15,509	13,926	–	–	1,188,671	1,181,327
342,797	265,765	602,472	514,316	225,215	–	2,630,298	1,862,724
3,971,047	3,243,588	425,368	323,929	101,396	–	8,447,213	7,151,579
200,899	88,118	15,435	9,387	34,806	–27,822	947,797	802,737
[–]	[299]	[–]	[–]	[–]	[–]	[87,667]	[185,063]
–	–	–	–	906,961	138,168	906,961	138,168
200,899	88,118	15,435	9,387	941,767	110,346	1,854,758	940,905
6,802	4,763	717	777	68,357	5,297	79,397	30,684
16,932	13,387	11,909	12,183	69,176	27,386	116,405	107,477
1,240,782	858,775	548,730	472,832	2,178,893	–914,441	6,901,631	5,238,973
[531,410]	[364,366]	[82,281]	[59,364]	[4,011]	[–7,262]	[1,653,099]	[1,439,009]
[–]	[3,286]	[–]	[–]	[–]	[–]	[74,208]	[301,493]
1,146,888	695,526	497,424	440,175	–586,946	–1,323,850	3,256,275	3,193,811
13,554	9,166	24,642	40,181	436	99	236,332	262,409
10,932	11,126	21,260	20,722	1,989	1,955	195,802	197,231
–	–	–	–	–	–	5,272	9,059
[–]	[–]	[–]	[–]	[–]	[–]	[5,272]	[9,059]
–	78	200	–	–	9,711	218	9,789
[–]	[78]	[200]	[–]	[–]	[9,711]	[218]	[9,789]
24,646	44,217	33,232	40,023	–151,226	–163,264	–56,497	87,965
1,783	1,717	3,947	3,994	120	117	16,949	17,184

North America		South America		Other regions		Group	
FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
911,327	670,782	65,943	20,950	1,328,028	1,275,615	8,447,213	7,151,579
758,384	605,530	–	–	–	–	8,447,213	7,151,579
3,806	1,539	–	–	–	–	236,332	262,409
243,934	164,057	–	–	–	–	6,901,631	5,238,973
109,696	88,777	–	–	–	–	3,256,275	3,193,811
1,675	1,779	–	–	–	–	195,802	197,231
219	190	–	–	–	–	16,949	17,184

Consolidated Fixed Assets 2006

in T€	Acquisition and production costs						
	01/01/2006	Currency differences	Changes in cons. group	Additions	Disposals	Transfers	31/12/2006
Intangible assets							
Goodwill	1,224	–	–	–	1,224	–	–
Concessions, industrial property rights and similar rights and assets, including licenses to such rights and assets	94,524	–113	1,471	2,712	6,831	160	91,923
Payments made on account	252	–	–	277	–	–34	495
	96,000	**–113**	**1,471**	**2,989**	**8,055**	**126**	**92,418**
Property, plant and equipment							
Land, similar rights and buildings, including buildings on land owned by others	974,737	–1,022	10,186	27,613	4,129	2,541	1,009,926
Plant equipment and machinery	4,021,732	–3,600	–7,074	119,564	115,375	27,990	4,043,237
Other equipment, factory and office equipment	235,970	–246	1,236	20,239	19,023	915	239,091
Payments made on account and equipment under construction	51,024	–116	–436	65,927	12	–31,572	84,815
	5,283,463	**–4,984**	**3,912**	**233,343**	**138,539**	**–126**	**5,377,069**
Financial assets							
Shares in affiliated companies	45,368	–	–	562	854	–	45,076
Shareholdings	31,324	–	–296	3,470	8,174	–1,392	24,932
Non-current securities	27,888	–	–	3,261	16,249	1,392	16,292
Other loans	4,705	–	–117	226	3,171	–	1,643
	109,285	**–**	**–413**	**7,519**	**28,448**	**–**	**87,943**
Associated companies							
Shares in associated companies	**301,493**	**–**	**–**	**89,883**	**317,168**	**–**	**74,208**
	5,790,241	**–5,097**	**4,970**	**333,734**	**492,210**	**–**	**5,631,638**

Valuation allowances								Book values	
01/01/2006	Currency differences	Changes in cons. group	Write-ups in the financial year	Write-downs in the financial year[1)]	Disposals	Transfers	31/12/2006	31/12/2006	31/12/2005
–	–	–	–	–	–	–	–	–	1,224
72,592	–113	1,462	–	6,201	6,527	–	73,615	18,308	21,932
–	–	–	–	–	–	–	–	495	252
72,592	**–113**	**1,462**	**–**	**6,201**	**6,527**	**–**	**73,615**	**18,803**	**23,408**
590,448	–479	2,981	–	17,675	1,330	–	609,295	400,631	384,289
3,098,451	–2,833	–4,445	–	154,555	98,714	2,786	3,149,800	893,437	923,281
184,870	–192	1,637	–	19,246	17,742	–	187,819	51,272	51,100
6,160	–	–	–	3,397	5	–2,786	6,766	78,049	44,864
3,879,929	**–3,504**	**173**	**–**	**194,873**	**117,791**	**–**	**3,953,680**	**1,423,389**	**1,403,534**
20,452	–	–	–	–	803	–	19,649	25,427	24,916
8,085	–	–	–	200	1,960	–	6,325	18,607	23,239
–	–	–	–	–	–	–	–	16,292	27,888
2,479	–	–	–	18	2,432	–	65	1,578	2,226
31,016	**–**	**–**	**–**	**218**	**5,195**	**–**	**26,039**	**61,904**	**78,269**
–	–	–	–	–	–	–	–	**74,208**	**301,493**
3,983,537	**–3,617**	**1,635**	**–**	**201,292**	**129,513**	**–**	**4,053,334**	**1,578,304**	**1,806,704**

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

Consolidated Fixed Assets 2005

in T€	Acquisition and production costs					
	01/01/2005	Currency differences	Additions	Disposals	Transfers	31/12/2005
Intangible assets						
Goodwill	– 370,340	–	–	– 371,564	–	1,224
Concessions, industrial property rights and similar rights and assets, including licenses to such rights and assets	89,789	144	7,985	3,539	145	94,524
Payments made on account	127	–	131	–	– 6	252
	– 280,424	**144**	**8,116**	**– 368,025**	**139**	**96,000**
Property, plant and equipment						
Land, similar rights and buildings, including buildings on land owned by others	975,025	1,313	6,502	10,316	2,213	974,737
Plant equipment and machinery	3,879,653	4,592	182,052	73,147	28,582	4,021,732
Other equipment, factory and office equipment	227,420	303	21,080	13,667	834	235,970
Payments made on account and equipment under construction	39,177	15	44,659	1,059	– 31,768	51,024
	5,121,275	**6,223**	**254,293**	**98,189**	**– 139**	**5,283,463**
Financial assets						
Shares in affiliated companies	45,564	–	121	317	–	45,368
Shareholdings	30,898	–	6,825	6,399	–	31,324
Non-current securities	4,215	–	32,443	8,770	–	27,888
Other loans	5,571	–	159	1,025	–	4,705
	86,248	**–**	**39,548**	**16,511**	**–**	**109,285**
Associated companies						
Shares in associated companies	**596,308**	**13,030**	**234,920**	**542,765**	**–**	**301,493**
	5,523,407	**19,397**	**536,877**	**289,440**	**–**	**5,790,241**

Valuation allowances							Book values	
01/01/2005	Currency differences	Write-ups in the financial year	Write-downs in the financial year[1)]	Disposals	Transfers	31/12/2005	31/12/2005	31/12/2004
– 237,024	–	–	–	– 237,024	–	–	1,224	– 133,316
68,097	143	–	7,735	3,383	–	72,592	21,932	21,692
–	–	–	–	–	–	–	252	127
– 168,927	**143**	**–**	**7,735**	**– 233,641**	**–**	**72,592**	**23,408**	**– 111,497**
575,230	581	–	20,711	6,074	–	590,448	384,289	399,795
2,999,609	3,473	198	155,263	62,814	3,118	3,098,451	923,281	880,044
178,206	215	–	18,940	12,491	–	184,870	51,100	49,214
5,637	–	–	3,641	–	– 3,118	6,160	44,864	33,540
3,758,682	**4,269**	**198**	**198,555**	**81,379**	**–**	**3,879,929**	**1,403,534**	**1,362,593**
10,930	–	–	9,789	267	–	20,452	24,916	34,634
8,085	–	–	–	–	–	8,085	23,239	22,813
–	–	–	–	–	–	–	27,888	4,215
2,483	–	4	–		–	2,479	2,226	3,088
21,498	**–**	**4**	**9,789**	**267**	**–**	**31,016**	**78,269**	**64,750**
–	**–**	**–**	**–**	**–**	**–**	**–**	**301,493**	**596,308**
3,611,253	**4,412**	**202**	**216,079**	**– 151,995**	**–**	**3,983,537**	**1,806,704**	**1,912,154**

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

Substantial Shareholdings of Salzgitter AG

Status December 31, 2006	Equity in € or local currency (in 1,000)		Share of capital direct in %	Share of capital indirect in %
Steel Division				
Salzgitter Stahl GmbH, Salzgitter[1)]		240,024		100.00
Salzgitter Flachstahl GmbH, Salzgitter[1)]		176,636	5.05	94.95
Peiner Träger GmbH, Peine[1)]		50,195	5.18	94.82
Ilsenburger Grobblech GmbH, Ilsenburg[1)]		25,875	5.37	94.63
Salzgitter Bauelemente GmbH, Salzgitter[1)]		1,001		100.00
HSP Hoesch Spundwand und Profil GmbH, Dortmund[1)]		16,225		100.00
ThyssenKrupp GfT Bautechnik GmbH, Essen[3)]		1,400		30.00
Salzgitter Europlatinen GmbH, Salzgitter[1)]		10,382		100.00
Trading Division				
Hövelmann & Lueg GmbH, Schwerte[1)]		2,942	5.10	94.90
Flachform Stahl GmbH, Schwerte[1)]		8,271		100.00
Salzgitter Mannesmann Handel GmbH, Düsseldorf[1)]		57,693	5.10	94.90
Salzgitter Mannesmann International GmbH, Düsseldorf[1)]		10,300		100.00
Salzgitter Stahlhandel GmbH, Düsseldorf[1)]		22,729		100.00
Deltastaal B.V., Oosterhout (Netherlands)[1)]		39,543		100.00
Friesland Staal B.V., Drachten (Netherlands)[1)]		8,678		100.00
Stahl-Center Baunatal GmbH, Baunatal[1)]		5,200		100.00
Salzgitter Handel B.V., Oosterhout (Netherlands)[1)]		51,857		100.00
Salzgitter Mannesmann International (Canada) Inc., Vancouver (Canada)[1)]	CAD	18,259		100.00
Ets. Robert et Cie S.A.S., Le Thillay (France)[4)]		19,093	50.00	
Universal Eisen und Stahl GmbH, Neuss[1)]		14,975	5.10	94.90
Salzgitter Mannesmann International (USA) Inc., Houston (USA)[1)]	USD	17,877		100.00
Services Division				
DEUMU Deutsche Erz- und Metall-Union GmbH, Peine[1)]		10,675	5.10	94.90
Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter[1)]		19,599	5.10	94.90
Hansaport Hafenbetriebsgesellschaft mbH, Hamburg[1)]		5,113		51.00
Salzgitter Automotive Engineering Beteiligungs-gesellschaft mbH, Osnabrück[1)]		13,664	74.95	
SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter[1)]		26		100.00
Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück[1)]		–12,388		100.00

Status December 31, 2006	Equity in € or local currency (in 1,000)		Share of capital direct in %	Share of capital indirect in %
Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück[1]		13		94.00
GESIS Gesellschaft für Informationssysteme mbH, Salzgitter[1]		2,600		100.00
TELCAT KOMMUNIKATIONSTECHNIK GmbH, Salzgitter[1]		492		100.00
"Glückauf" Wohnungsgesellschaft mbH, Peine[1]		26	5.20	94.80
SZST Salzgitter Service und Technik GmbH, Salzgitter[1]		60		100.00
Salzgitter Mannesmann Forschung GmbH, Salzgitter[1]		750		100.00
TELCAT MULTICOM GmbH, Salzgitter[1]		2,968		100.00
Tubes Division				
Salzgitter Großrohre GmbH, Salzgitter[1]		6,162	5.10	94.90
Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr[1]		1,000		100.00
Mannesmannröhren Mülheim GmbH, Mülheim an der Ruhr[1]		10,226		100.00
MHP Mannesmann Präzisrohr GmbH, Hamm[1]		25,200		100.00
Mannesmann Robur B.V., Helmond (Netherlands)[1]		6,695		100.00
Europipe GmbH, Mülheim an der Ruhr[2]		169,668		50.00
Europipe France S.A., Grande Synthe (France)[2]		–1,580		100.00
Berg Steel Pipe Corporation, Panama-City, Florida (USA)[2]	USD	57,320		100.00
EB Pipe Coating, Inc., Panama-City, Florida (USA)[2]	USD	7,715		100.00
Mülheim PIPECOATINGS GmbH, Mülheim an der Ruhr[2]		38,168		100.00
Mannesmann Fuchs Rohr GmbH, Siegen-Kaan[1]		19,339		100.00
Mannesmann DMV Stainless GmbH, Mülheim an der Ruhr[1]		15,000		100.00
Hüttenwerke Krupp Mannesmann GmbH, Duisburg[3]		122,725		30.00
Mannesmann DMV Stainless France S.A.S., Montbard (France)[1]		20,565		100.00
Mannesmann DMV Stainless Italia S.R.L., Costa Volpino (Italy)[1]		10,698		100.00
Mannesmann DMV Stainless Deutschland GmbH, Remscheid[1]		8,907		100.00
Mannesmann DMV Stainless USA Inc., Houston (USA)[1]	USD	18,808		100.00
Division: Other				
Salzgitter Mannesmann GmbH, Salzgitter[1]		2,179,536	100.00	

1) Fully consolidated
2) Proportionately consolidated
3) At equity
4) Proportionately consolidated as of September 30, 2006; reported in item "Non-current assets held for sale" as of December 31, 2006

Salzgitter Automotive Engineering | Our thanks go to Michael Kühn, Hanno Mählmann, Klaus Rumker, Jörg Strothmann and Axel Wehling for their photographic contributions.

Accounting Principles

The consolidated financial statements of Salzgitter AG (SZAG) were prepared in accordance with the accounting principles of the International Accounting Standards Board (IASB) that were mandatory on the balance sheet date under EU Regulation No. 1606/2002 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 picture of the Salzgitter Group's net assets, financial position and results of operations.

Impact of new or changed standards:

Standard/Interpretation		Mandatory date	Adoption by EU Commission[1]	Effects
IFRS 6	Exploration and Evaluation of Mineral Resources	01/01/2006	yes	none
IAS 21	The Effects of Changes in Foreign Exchange Rates (Amendment relating to net investment in a foreign operation)	01/01/2006	yes	none
IAS 39	Financial Instruments: Recognition and Measurement (Amendment concerning IFRS 4 insurance agreements – Financial Guarantee Contracts)	01/01/2006	yes	no material effects
IAS 39	Financial Instruments: Recognition and Measurement (Amendment concerning Cashflow Hedge Accounting and Option concerning Valuation and Fair Value Options)	01/01/2006	yes	none
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	01/01/2006	yes	none
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	01/12/2005	yes	no material effects

[1] As of 31/12/2006

New or changed standards that were not applied:

Standard/Interpretation		Mandatory as of	Adoption by EU Commission[1]	Prospective effects
IFRS 7	Financial Instruments: Disclosures	01/01/2007	yes	Notes to the accounts
IFRS 8	Operating segments	01/01/2009	no	Segmental reporting
IAS 1	Presentation of Financial Statements (Amendments re Capital Disclosures)	01/01/2007	yes	Notes to the accounts
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	01/03/2006	yes	none
IFRIC 8	Scope of IFRS 2	01/05/2006	yes	none
IFRIC 9	Reassessment of Embedded Derivatives	01/06/2006	yes	no material effects
IFRIC 10	Interim Financial Reporting and Impairment	01/11/2006	no	not foreseeable
IFRIC 11	Group and Treasury Share Transaction according to IFRS 2	01/03/2007	no	none
IFRIC 12	Service Concession Arrangements	01/01/2008	no	none

[1] As of 31/12/2006

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

The consolidated financial statements are disclosed in the electronic German Federal Gazette (Bundesanzeiger). The Salzgitter AG company, entered in the Commercial Register at Braunschweig District Court under HRB 9207, has its headquarters in Salzgitter. The address of the Executive Board of Salzgitter AG is Eisenhüttenstraße 99, D-38239 Salzgitter.

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

The previous structure of the Salzgitter Group, with SZAG as parent company, meant that profits and losses posted by individual Group companies in intercompany trading and with existing losses carried forward could be offset for tax purposes only to a limited extent, and that the scope for central financial management in the Group was similarly restricted.

To eliminate the disadvantages, the Group reorganized its internal structure under company law in such a way that SZAG brought its shares in its material affiliated companies into its wholly-owned subsidiary Salzgitter Mannesmann GmbH (SMG) by means of a spin-off in accordance with the Reorganization Act (UmwG) either in their entirety (100%) or – where expedient for avoiding tax burdens – in the amount of some 99.8% or 94.9%.

According to this concept, Salzgitter Mannesmann GmbH, Salzgitter, functions without any employees purely as an intermediate holding company in which the results posted by all of the material Group companies are offset against each other for tax purposes and the Group's financial management is organized centrally.

On November 17, 2005, SZAG's Extraordinary Meeting of Shareholders granted its approval to effect a spin-off to the subsidiary Salzgitter Mannesmann GmbH as from December 1, 2005, in accordance with Section 123, para. 3, no. 1, Reorganization Act (UmwG).

An action to rescind this resolution was filed at Braunschweig Regional Court on December 16, 2005. In its ruling of March 6, 2006, Braunschweig Regional Court dismissed this action to rescind. The spin-off to Salzgitter Mannesmann GmbH was included in Salzgitter AG's Commercial Register entry on April 24, 2006. This renders the spin-offs of material affiliated companies in the financial statements for 2006 legally effective, with the result that the shareholdings are now reported for Salzgitter Mannesmann GmbH. The relevant profit and loss transfer agreements have also devolved upon Salzgitter Mannesmann GmbH.

On December 19, 2006, the Executive Board and the Supervisory Board issued the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act [AktG] and made it permanently available to shareholders on the company's website (www.salzgitter-ag.de). The Declaration of Conformity is also printed in the "Corporate Governance Report" chapter in the annual report.

Consolidation Principles and Methods

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

The consolidated financial statements include all of the 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 will be 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 consolidated 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 not revoked.

In accordance with IAS 31, 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 that governs 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 by means of proportionate consolidation.

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

Business combinations are accounted for in accordance with IFRS 3.14 using the purchase method. The acquirer in such cases is the entity which has gained control of the acquired company, with the result that it can derive benefits from that company. The acquisition costs of the business combination determined in accordance with IFRS 3.24 are spread over the acquired assets and assumed liabilities in accordance with IFRS 3.36 f.

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

In the case of assets and liabilities denominated in foreign currency, the acquisition costs must on principle be reported at the exchange rate prevailing at the cut-off date when the acquisition was realized. 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 are eliminated with effect on income, taking deferred taxes into account. Intercompany deliveries and services are subject to customary market terms.

Details of the material 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 disclosed in the electronic German Federal Gazette (Bundesanzeiger).

Consolidated Group

In addition to the annual financial statements of the parent company, the consolidated financial statements include the annual financial statements of 35 (2005: 34) domestic and 9 (2005: 11) foreign affiliated companies.

Two domestic (2005: three) and four foreign (2005: five) joint ventures are included on a proportionate basis in the consolidated financial statements by means of proportionate consolidation. In connection with this, one foreign company that had been included proportionately was taken out of the group of consolidated companies as of September 30, 2006, and classified as “non-current assets held for sale”. The consolidated financial statements therefore include only the proportionate income statements from January 1, 2006, to September 30, 2006. The table below takes account of this reclassification.

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

in T €	FY 2006	FY 2005
Non-current assets	52,311	66,884
Current assets	128,352	140,635
Non-current liabilities	28,100	28,768
Current liabilities	70,705	82,717
Earnings	407,338	354,930
Expenses	431,095	288,315

Two domestic shareholdings (2005: two domestic and three foreign companies) over which Salzgitter AG or another Group company exercises a significant influence are included in the consolidated financial statements using the equity method.

A total of 17 (2005: 23) domestic and 27 (2005: 25) foreign subsidiaries have not been consolidated due to their minor overall significance for the Group’s net assets, financial position and results of operations.

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

	Status 31/12/2005	Additions	Disposals	Status 31/12/2006
Consolidated subsidiaries	**45**	**2**	**3**	**44**
of which domestic	34	2	1	35
of which foreign	11	–	2	9
Joint ventures	**8**	**–**	**3**	**5**
of which domestic	3	–	1	2
of which foreign	5	–	2	3
Associated companies	**5**	**–**	**3**	**2**
of which domestic	2	–	–	2
of which foreign	3	–	3	–

The additions concern two fully consolidated companies. In July, all (100%) of the shares in Flachform Stahl GmbH, Schwerte, were acquired for € 15.5 million. This company manufactures slitted coils. Negative goodwill amounting to € 0.1 million arose from the first-time consolidation of the company. The proportional share of earnings in the reporting year also amounts to € 0.1 million.

The company Mannesmann DMV Stainless GmbH, moreover, was consolidated for the first time as a new holding company in the DMV Group as a result of the DMV Group's restructuring. DMV Stainless B.V., on the other hand, was taken out of the consolidated group and accounted for as of the reporting date as an affiliated, non-consolidated company. When the entire restructuring process has been completed, this company will be liquidated or merged. As part of the restructuring process at DMV, DMV Stainless France S.A.S. was merged into DMV Stainless S.A.S. and then renamed as Mannesmann DMV Stainless France S.A.S.

Furthermore, Mannesmann Line Pipe GmbH was merged into the company Röhrenwerk Gebr. Fuchs GmbH. It was then renamed as Mannesmann Fuchs Rohr GmbH.

With regard to the joint ventures, Eupec PipeCoatings France S.A. was taken out of the group of consolidated companies and has now also been sold. The shares in the company Mannesmannröhren-Werke 1. Verwaltungsgesellschaft mbH were sold to Europipe GmbH and the company was subsequently integrated into Europipe GmbH.

In August, Salzgitter AG disposed of its 17.2% shareholding in Vallourec S.A.'s capital stock. Its result from the first half of 2006 was still reported in the balance sheet as income from associated companies.

In addition to this, the two shareholdings in Le Feuillard S.A.S. and Tolcolor S.A.S. respectively, held by Robert S.A.S., were also no longer valued at equity as of the reporting date due to their intended sale.

As their impact was immaterial, the decision was made not to issue a declaration regarding the impact of the changes on the group of consolidated companies.

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. Currency losses incurred due to the valuation of receivables and/or liabilities up to the reporting date are included. Gains and losses resulting from changes in exchange rates are reported with effect on income.

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

A similar approach is employed when translating equity rollover for foreign companies that are reported using the equity method. Differences from the previous year's translation are offset against retained earnings without effect on income. Goodwill is reported as an asset in the reporting currency. Expenses and earnings are translated at annual average exchange rates, while changes in reserves are translated at the rate prevailing on the reporting date.

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

Foreign currency per 1 €	Rate on reporting date		Average rate	
	31/12/2006	31/12/2005	FY 2006	FY 2005
Canadian dollar	1.5281	1.3725	1.4237	1.5087
US dollar	1.3170	1.1797	1.2556	1.2441

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 material opportunities and risks associated with their respective use. In principle, assets are valued at carrying cost or production cost or current value. Financing costs are not capitalized.

As from January 1, 2006, other taxes are reported under "other operating expenses". Due to their immaterial impact, the decision has been made not to make an adjustment to the comparative period.

Estimates and Assumptions

When the consolidated financial statements were being prepared, estimates and assumptions were made that impacted the amounts and the reporting of the assets and liabilities, the earnings and expenditure and the contingent liabilities that are included in the balance sheet. The estimates and assumptions essentially relate to the uniform groupwide determination of economic useful lives, the accounting and valuation of provisions and the realizability of future tax benefits. The assumptions underlying the respective estimates are explained in the individual items in the income statement and the balance sheet. The actual values can deviate from the assumptions and estimates in individual cases. Deviations of this kind are posted to income as of the time when better knowledge becomes available.

Goodwill/Negative Goodwill from Capital Consolidation

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

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

Intangible Assets

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

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

Intangible assets generated internally 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 costs that are necessary for the creation, production and development of the asset so that it is in good operational condition for the purposes intended for it by the Group's management.

Development costs are capitalized if a newly-developed product or procedure can be clearly defined, is technically feasible and is intended for either the company's own use or marketing. Moreover, capitalization presupposes that development costs will with sufficient probability be covered by future inflows of cash and cash equivalents. As of December 31, 2006, there were no material development costs within the Salzgitter Group that satisfied these prerequisites. Research costs are recognized as expenses.

Property, Plant and Equipment

Property, Plant and equipment are valued at acquisition or production cost less accumulated depreciation and impairment costs. Any investment grants received are shown as a reduction in the acquisition and production costs. The residual book values and the economic useful lives are examined on every reporting date and adjusted if necessary. If the book value of an asset exceeds its estimated recoverable amount, this amount is written down. If the reasons for a write-down in previous years no longer apply, appropriate reversals of write-downs are carried out.

The production costs of property, plant and equipment internally generated are determined on the basis of directly attributable costs and estimated demolition and restoration costs. Financing costs for the production period are not included.

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

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

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

Economic useful lives	Maximum
Buildings	40 years
Plant equipment and machinery	
Locomotives, track systems	30 years
Blast furnaces, steelworks, continuous casting lines, crane systems	20 years
Surface coating plants, rolling mills, coking plants	15 years
Plant equipment, spare parts	10 years
Car pool	5 years
Factory and office equipment	5 years

Leases

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

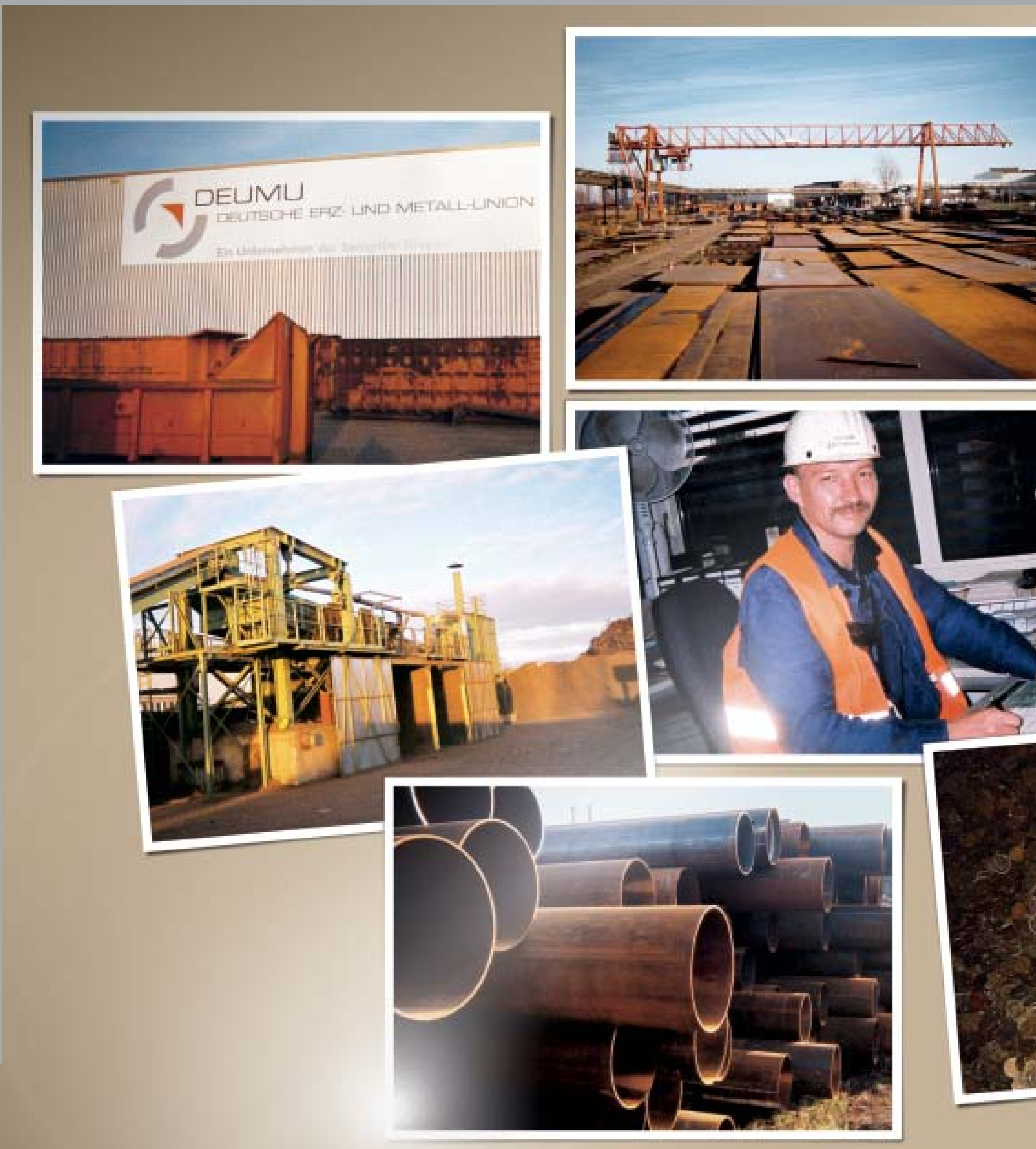
If assets are utilized in a finance lease arrangement, the net present value of the lease payments is reported as a lease receivable. The difference between the gross receivable and the net present value of the receivable is recognized as unrealized financial income. Lease income is reported for the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

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

Financial Assets

Financial assets are divided up into a number of categories; the classification of assets depends on the purpose for which the respective financial assets were acquired. The classification determines how the financial instruments are reported in the balance sheet.

DEUMU Deutsche Erz- und Metallunion | Our thanks go to Helmut Bludau, Cornelius Hoppe, Thorsten Kaevel, Joanna Kappelmann and Harald Laue for their photographic contributions.




4,5to gestauchte Kante

The categories used are as follows:

a) Financial assets at fair value through profit and loss

In the Salzgitter Group, only those financial assets that were classified from the outset as being held for trading purposes are reported in the balance sheet. Derivatives are classified as held for trading purposes if they are not related to documented hedging arrangements for underlying transactions.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. They arise when the Group provides a debtor directly with money, goods or services. Acquired receivables must also be classified under this heading. Loans and receivables are reported in the balance sheet under other receivables and assets.

c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and the ability to hold to maturity.

d) Derivatives with documented hedging arrangements

These financial instruments have no longer been classifiable as "available-for-sale financial assets" since IAS 39 was amended in December 2003, as derivatives from this category are expressly excluded. They therefore systematically constitute an additional category.

e) Available-for-sale financial assets

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

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

In principle, all purchases and sales of financial assets are recognized on the settlement date – i.e. the date on which the asset is delivered to the Group. If the subsequent valuation is carried out at fair value, a change in fair value between the trade date and the settlement date must be recognized promptly as of the trade date.

Financial assets that do not belong to the "financial assets at fair value through profit and loss" category are initially reported at their fair value plus transaction costs.

Financial assets in the "available-for-sale financial assets", "derivatives with documented hedging arrangements" and "financial assets at fair value through profit and loss" categories are reported in the subsequent valuation at fair value. The subsequent valuation of "loans and receivables" and "held-to-maturity investments" is carried out at amortized cost using the effective yield method.

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

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

The other derivatives are valued on the basis of calculations made by the issuing banks.

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

The method used to report gains or losses from derivatives depends on whether the derivative was designated as a hedging instrument and, if this was the case, on the item being hedged. The Group designates particular derivatives either as hedging the fair value of an asset reported in the balance sheet or a liability, or as hedging a transaction that is regarded as highly likely (cash flow hedge).

Fair value hedge

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

Cash flow hedge

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

Derivatives that do not qualify for hedge accounting

Certain derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of such derivatives are recorded immediately in the income statement.

For financial instruments that do not belong to the “at fair value through profit and loss” category, an examination is carried out as of each reporting date on whether there are any objective indications of an impairment of a financial asset or a group of financial assets.

Impairments of financial instruments in the “loans and receivables” and “held-to-maturity investments” categories are posted to income; write-ups are also recorded with effect on income.

In the case of equity instruments that are classified as available-for-sale financial assets, a material or permanent decrease in the fair value is posted to income as an impairment. Impairments of equity instruments that have already been recorded in the income statement are reversed with no effect on income.

Financial instruments are written off when the rights to payments from the investment have lapsed or been transferred and the Group has essentially transferred all of the risks and opportunities associated with their ownership.

Trade Receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective yield method, less impairments. An impairment of trade receivables is reported when there is objective evidence that the Group will not be able to collect all of the amounts due. The amount of the impairment corresponds to the difference between the book value of the receivable and the net present value of the estimated future cash flows from the receivable, discounted at the effective interest rate. The impairment is disclosed in the income statement.

Inventories

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

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

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

Rights to emit CO_2 gases are reported in the balance sheet under inventories (supplies). Initial ownership of emission rights that were acquired gratuitously are recorded at an acquisition cost of € 0. Emission rights acquired against payment are recorded at acquisition cost. Increases in the value of the capitalized emission rights are realized only in the event of a sale. Impairments of the capitalized emission rights are recorded when the market price of the emission rights has fallen below the acquisition cost.

Non-current Assets Held for Sale

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

Pension Provisions

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

The pension obligations are valued on the basis of actuarial assumptions and calculations. The defined benefit obligations are determined using the internationally accepted projected unit credit method. The projected unit credit method takes into account not only pensions and acquired claims that are known on the reporting date, but also the increases in salaries and pensions that may be expected in the future. The current service costs are shown as personnel expenses, the interest component of allocations to provisions as net interest income.

Actuarial gains and losses are recorded in full in the pension provisions.

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

	31/12/2006	31/12/2005
Actuarial rate	4.50 %	4.25 %
Trend in salaries	1.75 % or 2.75 %	1.75 % or 2.75 %
Trend in pensions	1.25 %	1.25 %
Staff turnover	1.00 %	1.00 %

The Heubeck actuarial tables (Richttafeln) 2005 G were used to value the expected mortality of the beneficiaries. An examination of the beneficiaries listed at the Essener Verband (Essen-based association) has shown that the actuarial tables devised by Prof. Heubeck (RT 2005 G) are not suitable for valuing the provisions with regard to the life expectancy of this category of persons. The tables were adjusted accordingly.

In order to harmonize the different defined benefit plans that exist within the Group and further develop the defined contribution obligations, a Group agreement on employer-financed company pensions was adopted on December 19, 2006.

The impact of this had no effect on the income statement and, instead, was included in the actuarial gains and losses.

Income Tax

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

As of December 31, 2006, the deferred tax of domestic corporations was evaluated using an overall tax rate of 39 %.

The German companies are subject to an average trade income tax rate of some 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 surcharge of 5.5 % on corporate income tax.

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

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

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

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

Income tax liabilities are set off against corresponding tax refund claims if they relate to the same area of fiscal jurisdiction and their types and maturities match. The change in deferred tax liabilities is explained under Note 20.

Other Provisions

Provisions are formed for current obligations to third parties whose occurrence would be likely to burden Group assets. They are reported at their likely settlement amount, taking account of all the discernible risks involved, and are not offset against recourse claims. Provisions are formed only if they are based on a legal or de facto obligation to third parties.

Financial Liabilities

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

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

Income and Expense Recognition

Sales and other operating 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 paid and interest income are reported pro rata temporis. When there are changes in the consolidated group, acquired dividend claims are recorded without effect on income as part of the capital consolidation.

IAS 20 stipulates that grants may not be reported in the balance sheet until the necessary claim prerequisites have been fulfilled and it can be anticipated that the grants will actually be paid out. 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.

Impairment of Assets (Impairment Test)

On every balance sheet date, the Group examines the book values of its intangible assets and property, plant and equipment to establish whether there are any signs of impairment. If such signs are discernible, the recoverable amount is estimated in order to determine the cost of the impairment. If the recoverable amount for the individual asset cannot be estimated, the estimate is made at the level of the cash generating unit to which the asset belongs. Special depreciations are carried out if the benefit deriving from the asset is lower than its book value. The benefit deriving from an asset corresponds to the net selling price or the capitalized earnings value, whichever is higher. The capitalized value is

Salzgitter Hydroforming | Our thanks go to Mathias Jäger, Kathrin Möschler, Volker Pleitz, Lars Reumann, Jens Seyfert and Daniel Sommer for their photographic contributions.

determined by the net present value of future cash flows attributable to the asset. If the reason for a previous special depreciation no longer applies, a write-up is carried out.

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

Financial Risk Management

The Group's business activities expose it to a variety of financial risks: the market risk (includes the foreign currency risk, the fair value interest rate risk and the market price risk), the credit risk, the liquidity risk and the cash flow interest risk. The Group's overall risk management program is focused on the unpredictability of developments on the financial markets and seeks to minimize potential adverse effects on the Group's financial position.

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

Currency risk

The Group operates internationally and is therefore exposed to a currency risk based on fluctuations in the exchange rates between various foreign currencies. Currency risks arise from expected future transactions and assets and liabilities reported in the balance sheet. The risk arises when transactions are denominated in a currency that is not the functional currency of the company. The Group companies use forward exchange contracts to hedge against such risks.

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

Credit risk

The Group has no significant potential credit risk clusters. It has trading rules and regulations and an efficient receivables management program which ensure that products are sold only to customers with an appropriate payment history. Contracts involving derivative financial instruments and financial transactions are restricted to financial institutions with prime creditworthiness. The Group's business policy is to limit the amount of credit exposure to any individual financial institution.

Liquidity risk

Prudent liquidity management includes the maintenance of sufficient reserves of cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the existence of unused credit facilities.

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from non-current, interest-bearing liabilities. The liabilities with variable interest rates expose the Group to a cash flow interest rate risk. The fixed-interest liabilities give rise to a fair value interest rate risk.

Notes to the Income Statement

(1) Sales

in T€	FY 2006	FY 2005
Breakdown according to product categories		
Flat rolled products	3,825,144	3,378,866
Sections	1,049,496	793,251
Pipes	2,400,804	1,908,016
Other	1,171,769	1,071,446
	8,447,213	**7,151,579**
Breakdown according to regions		
Domestic	3,983,919	3,214,496
Other EU	1,929,467	1,680,663
Other Europe	228,529	289,073
America	977,270	691,732
Other	1,328,028	1,275,615
	8,447,213	**7,151,579**

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

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

in T€	FY 2006	FY 2005
Changes in the inventory of finished goods and work in progress	7,646	156,558
Own work capitalized	3,998	3,360
	11,644	**159,918**

In contrast to the previous year, finished goods and work in process increased only slightly. This increase is attributable to a rise in both volumes and assortment. In the previous year, roughed slabs had also been deliberately stockpiled in the Steel Division. In the Tubes Division, moreover, transport delays towards the end of 2005 had resulted in a substantial inventory of finished goods.

(3) Other Operating Earnings

in T€	FY 2006	FY 2005
Income from the disposal of fixed assets	1,134,510	172,812
Reversal of provisions and allowances	71,099	59,357
Income from the valuation of financial derivatives and foreign currency positions	25,733	45,460
Income from changes in exchange rates	15,495	4,222
Income from write-downs of receivables	13,498	6,369
Ancillary operating income	11,972	11,348
Insurance compensation	10,195	2,123
Rental, leasing and licensing income	3,915	3,855
Charged-on costs	3,397	1,676
Subsidies	2,478	2,480
Refunds from previous years	403	1,385
Amortization of negative goodwill from capital consolidation	111	–
Other income	30,957	21,711
Other Operating Earnings	**1,323,763**	**332,798**

In the third quarter of 2006, the 17.17% shareholding in Vallourec S.A., Boulogne-Billancourt, was sold. The sale resulted in a book profit of € 1,083 million. Any expenses incurred in connection with the partial hedging and the sale of the shareholding in Vallourec S.A. are shown under other operating expenses.

Other operating earnings include earnings unrelated to the accounting period totaling € 78 million (2005: € 53 million) that consisted mainly of income from the disposal of assets, the reversal of provisions for non-recurring obligations, the collection of written-off receivables, insurance compensation payments and reimbursements of costs for previous years.

(4) Cost of Materials

in T€	FY 2006	FY 2005
Cost of raw materials, consumables, supplies and purchased goods	5,388,653	4,667,384
Cost of purchased services	350,385	198,809
Cost of materials	**5,739,038**	**4,866,193**

The cost of raw materials, consumables and supplies relates primarily to expenses for materials used, consumables and supplies, spare parts, energy supply and plant equipment.

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

The increase can be attributed primarily to the increase in sales.

(5) Personnel Expenses

in T€	FY 2006	FY 2005
Wages and salaries	822,161	809,335
Social security, pension and other benefits	191,651	184,704
of which pension commitments	[92,359]	[85,281]
Personnel Expenses	**1,013,812**	**994,039**

In the financial year 2006, the defined contribution plan payments in the Salzgitter Group totaled € 72.2 million (2005: € 72.8 million). Allocations (after being set off against reversals) to the pension provisions are reported as costs for defined benefit plans. The allocations to provisions consist almost entirely of ongoing pension costs for employees' earned pension expectancies in the reporting year. The costs for retirement pensions do not include the compounding of the pension provisions that are shown in the financial result.

Average number of employees (excl. employees in non-active age-related part-time employment)	FY 2006	FY 2005
Wage labor	11,195	11,414
Salaried employees	5,754	5,770
Group core workforce	**16,949**	**17,184**

(6) Amortization and Depreciation

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

in T€	FY 2006	FY 2005
Intangible assets	1	1
Land, similar rights and buildings, including buildings on land owned by others	–	2,512
Plant equipment and machinery	1,855	2,842
Other equipment, factory and office equipment/ equipment under construction	3,416	3,704
Write-downs	**5,272**	**9,059**

The impairment costs are calculated in accordance with the provisions of IAS 36. They were amortized on the basis of value in use or the higher net selling price.

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

The calculation of the useful life, also for property, plant and equipment, is based on the current plans prepared by the management for the three following years. The premises of the plans are derived from the current state of knowledge. The value in use was calculated using the discounted cash flow method based on an interest rate of 6.5 % p.a. This led to impairment costs of € 5.3 million (2005: € 9.1 million) at a CGU in the Steel Division due to insufficient earnings contributions from the sheet piling product area.

(7) Other Operating Expenses

in T€	FY 2006	FY 2005
Selling expenses	290,723	226,495
External services including provisioning	286,938	253,328
Expenses from optional structures	174,869	–
Administrative expenses including insurance costs, fees, charges	78,774	67,507
Expenses from the valuation of financial derivatives and foreign currency positions	32,081	46,018
Advertising/information and travel expenses	23,616	22,708
Rents and leases	20,190	18,368
EDP costs	16,192	12,448
Allowances for doubtful accounts	16,129	8,534
Financial/monetary transfer expenses	15,951	7,097
Other welfare-related personnel and non-personnel expenses	13,650	11,027
Exchange losses	11,136	7,968
Loss on the disposal of current assets	8,229	30,948
Other taxes[1)]	6,975	–
Loss on the disposal of current assets	6,935	198
Other expenses	24,415	27,154
Other operating expenses	**1,026,803**	**739,798**

1) Reported under "Taxes" in the previous year

Expenses from optional structures mainly arose in connection with rate hedging transactions for part hedging the stake in Vallourec S.A., Boulogne-Billancourt, as well as from the issuing of a mandatory convertible bond for the sale of the investment.

Other operating expenses include expenses unrelated to the accounting period totaling € 41.2 million (2005: € 15.3 million) which resulted from, among other things, waste disposal obligations.

(8) Income from Shareholdings

in T€	FY 2006	FY 2005
Earnings from profit transfer agreements	921	418
of which affiliated companies	[921]	[418]
Earnings from shareholdings	1,610	4,618
of which affiliated companies	[–]	[55]
Expenses from the transfer of losses	257	847
of which affiliated companies	[43]	[563]
Income from shareholdings	**2,274**	**4,189**

(9) Income from Associated Companies

in T€	FY 2006	FY 2005
Income from associated companies	87,667	185,063

The income from associated companies essentially derives from Vallourec S.A., Boulogne-Billancourt, and Hüttenwerke Krupp Mannesmann GmbH, Duisburg. The shares in Vallourec S.A., Boulogne-Billancourt, were sold in August 2006. The income from associated companies contains this company's pro rata semi-annual result.

(10) Write-downs of Financial Assets

in T€	FY 2006	FY 2005
Write-downs of financial assets	218	9,789

The write-downs on financial assets in the financial year under review result nearly solely from the fair values of shareholdings (2005: € 9.8 million on shares in affiliated companies).

(11) Financing Income/Financing Expenses

in T€	FY 2006	FY 2005
Income from loans from financial assets	150	260
Other interest earned and similar income	79,397	30,684
of which affiliated companies	[1,022]	[521]
Financing income	**79,547**	**30,944**

The increase in interest income corresponds to the sharp increase in cash and cash equivalents over the previous year.

in T€	FY 2006	FY 2005
Interest and similar expenses	116,405	107,477
of which affiliated companies	[750]	[584]
Financing expenses	**116,405**	**107,477**

The interest component included as part of the allocations to pension provisions is reported at € 70.6 million (2005: € 78.4 million) under interest paid.

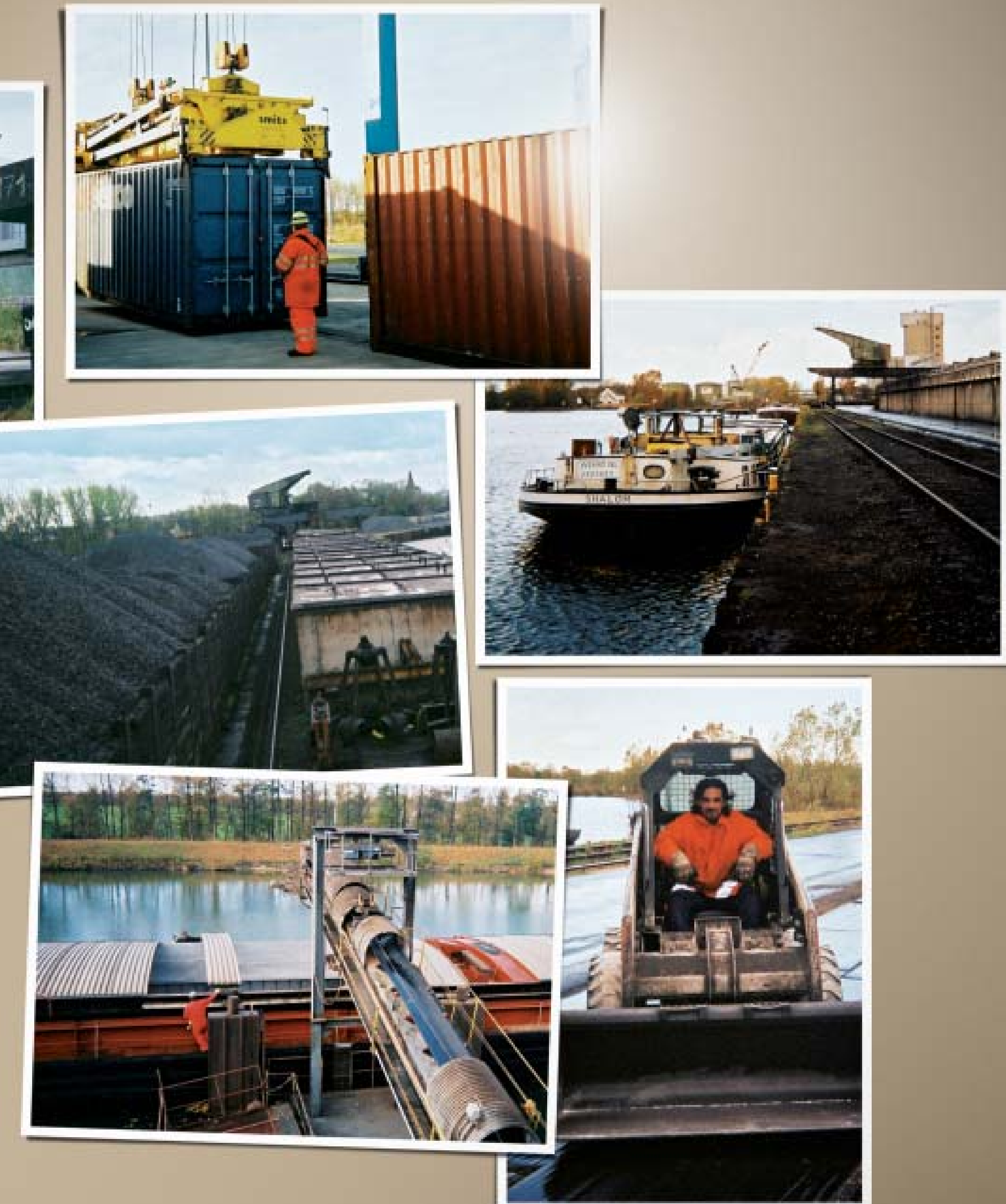
(12) Tax

in T€	FY 2006	FY 2005
Income tax		
current tax expense/tax income (+/–)	301,008	143,453
deferred tax expense/tax income (+/–)	44,192	–58,151
	345,200	**85,302**
of which unrelated to the accounting period	[–4,285]	[–4,110]
Other tax	–	**13,608**
Total	**345,200**	**98,910**

Income tax amounting to € 345.2 million affect the earnings before tax. In the reporting year, in contrast to the previous year, other taxes (€ 7.0 million) are shown under other operating expenses. The income tax unrelated to the accounting period mainly concern deferred tax income for previous years.

Due to results, but also in consideration of the "minimum taxation" applicable to profit earned within Germany, current income tax expenses increased to € 301.0 million. Domestic income tax accounted for € 277.0 million of this sum. The year-on-year increase in deferred tax to € 44.2 million resulted mainly from the utilization of previously capitalized loss carryforwards.

Verkehrsbetriebe Peine-Salzgitter | Our thanks go to Nadine Fischer, Sven Gietz, Bernd Krause, Norbert Rosner and Christian Wittig for their photographic contributions.



Future dividend payments have no consequences for tax on income. Deferred tax amounting to € 85.7 million (2005: € 82.1 million) was recorded for business transactions that had a direct impact on equity in the financial year.

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€	31/12/2006		31/12/2005	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	7,208	234	7,165	30
Property, plant and equipment	5,426	174,644	3,257	178,454
Financial investments	3,843	1,408	6,908	1,864
Current assets	23,327	104,454	5,739	74,360
Pension provisions	150,678	526	164,817	90
Other provisions	59,298	18,367	32,617	12,594
Special item including reserves	–	9,423	–	10,845
Liabilities	20,596	248	31,092	1,135
Other items	1,048	66	671	2
Total	**271,424**	**309,370**	**252,266**	**279,374**

Summary of the tax benefits from loss carryforwards:

in T€	31/12/2006	31/12/2005
Corporate income tax	42,323	73,829
Trade tax	854	1,653
Capitalized tax savings	**43,177**	**75,482**

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

in T€	FY 2006	FY 2005
Capitalized tax savings January 1	75,482	20,199
Changes to the consolidated group	–1,125	–
Capitalization of tax savings from losses carried forward	35,260	212,304
Use of losses carried forward	–65,777	–87,041
Value adjustments from losses carried forward	–663	–69,980
Capitalized tax savings December 31	**43,177**	**75,482**

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

The change in the capitalized tax savings on tax loss carryforwards amounted to –€ 32.3 million. In the process, tax savings amounting to € 35.3 million which in previous years were not regarded as utilizable were capitalized and used for the first time.

The potential tax savings for the tax loss carryforwards amounting to € 87.4 million, which had already existed as of December 31, 2005, or had emerged for the first time during the financial year, were not recorded in the balance sheet because the possibility of their utilization appears improbable at present. At a foreign Group company, no income tax claims were capitalized for loss carryforwards amounting to € 5.5 million; € 1.5 million of this amount threatens to lapse as of December 31, 2007, and € 4.0 million as of December 31, 2008.

Transition from anticipated to actual income tax expenses:

in T€	FY 2006	FY 2005
Consolidated net income for the year before income tax	**1,854,758**	**927,297**
Expected income tax expenditure (tax rate 39.0%)	723,356	361,646
Tax share for:		
differences between tax rates	–4,393	–326
tax-free income	–466,684	–134,205
non-deductible tax expenditures and other permanent differences	135,897	26,852
temporary differences excluding deferred taxes	2,552	4,902
effects of temporary differences and losses		
adjustment in the value of capitalized benefits	663	9,260
application of benefits not previously capitalized	–35,013	–3,254
capitalization of previously unreported advantages from losses carried forward	–	–179,988
and temporary differences	–4,285	–4,110
other deviations	–6,893	4,525
Actual income tax expenses	**345,200**	**85,302**

The actual income tax expenses of € 345.2 million diverge by € 378.2 million from the expected income tax expenses of € 723.4 million. This results primarily from the effects of tax-free earnings, non-deductible expenses connected with these and loss carryforwards that were assessed as valuable for the first time.

(13) Minority Interests

in T€	FY 2006	FY 2005
Minority interests	1,901	–93

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

- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg,
- Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Osnabrück (including its subsidiaries),
- Hövelmann & Lueg GmbH, Schwerte.

(14) Earnings per Share

The undiluted earnings per share are determined in accordance with IAS 33 as the ratio between the Group net income for the financial year to which the shareholders of Salzgitter AG are entitled and the weighted average number of no-par bearer shares in circulation during the financial year. Earnings per share according to IAS 33 amount to € 26.50.

The earnings per share would be diluted if the average number of shares were increased by adding the issue of potential shares from option and conversion rights. There were no such rights as of the reporting date, however. For that reason, the diluted earnings per share also amount to € 26.50.

	Shares issued	Own shares	Shares in circulation
Beginning of financial year	63,218,400	6,321,528	56,896,872
Release of own shares	–	–251	–
End of financial year	63,218,400	6,321,277	56,897,123
Weighted number of shares	**63,218,400**	**6,321,457**	**56,896,943**

Earnings per share		GJ 2006	GJ 2005
Consolidated net income for the year	in T€	1,509,558	841,995
Minority interests	in T€	1,901	–93
Consolidated net income due to Salzgitter AG shareholders	in T€	1,507,657	842,088
Earnings per share	**in €**	**26.50**	**14.09**

Notes to the Consolidated Balance Sheet

Fixed Assets

(15) Goodwill

The residual book value of the negative goodwill as of December 31, 2004, was reposted to retained earnings without effect on income as of January 1, 2005, in accordance with IFRS 3.

The entire disposal of the goodwill amounting to € 1.2 million relates to a French joint venture. This shareholding is reported as of December 31, 2006, in the balance sheet item "non-current assets held for sale".

(16) Other Intangible Assets

The development of the individual items under other intangible assets is shown in the fixed asset movement schedule.

As of December 31, 2006, the book value of the capitalized internally generated intangible assets – which relate exclusively to computer software – amounted to € 0.1 million (2005: € 0.1 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 € 67.0 million (2005: € 57.5 million) including € 8.7 million for external services.

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

(17) Property, Plant and Equipment

The development of the individual items under property, plant and equipment is shown in the fixed asset movement schedule.

Breakdown of property, plant and equipment at their book values:

in T€	31/12/2006	31/12/2005
Land and buildings	400,631	384,289
Plant equipment and machinery	893,437	923,281
Other equipment, factory and office equipment	51,272	51,100
Equipment under construction/payments made on account	78,049	44,864
Property, plant and equipment	**1,423,389**	**1,403,534**

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

in T€	31/12/2006	31/12/2005
Buildings	2,640	5,529
Plant equipment and machinery	30,636	33,214
Other equipment, factory and office equipment	1,731	2,843
Assets capitalized as finance leases	**35,007**	**41,586**

The amount of the reported impairment charges is shown under Note 6.

Restraints on the right of ownership or disposal amounted to € 38.2 million (2005: € 31.1 million) as of the reporting date.

The historical acquisition costs of the property, plant and equipment that have been fully depreciated but are still in use amount to € 2,635.0 million (2005: € 2,545.4 million).

(18) Financial Assets

The development of the individual items under financial assets is shown in the fixed asset movement schedule.

Breakdown of financial assets:

in T€	31/12/2006	31/12/2005
Shares in affiliated companies	25,427	24,916
Shareholdings	18,607	23,239
Non-current securities	16,292	27,888
Other loans	1,578	2,226
Financial assets	**61,904**	**78,269**

The decrease in shareholdings results primarily from the sale of the shares in the companies Steel Dynamics Holding Inc. (SDI) and Burwitz Feuerungsbau GmbH.

The decrease in non-current securities results from the disposal of securities.

The other loans are accounted for almost entirely by interest-bearing housing loans to employees.

(19) Associated Companies

in T€	31/12/2006	31/12/2005
Opening inventory, January 1	301,493	596,308
Profit of current financial year	87,667	185,063
Additions	–	50,265
Disposals	–317,168	–542,765
Currency translation differences	10,426	13,030
Other changes in equity	–8,210	–408
Book value December 31	**74,208**	**301,493**

The figure reported for at-equity shares in associated companies decreased by € 227.3 million compared with the previous financial year. This was accounted for primarily by the sale of the shares in Vallourec S.A., Boulogne-Billancourt. This is offset by the positive results for the year posted by the associated companies and the change in the currency translation differences.

The Group's shareholdings in its significant associated companies are as follows:

2006 in T€	Assets	Debt	Earnings	Profit	Proportion (%)
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	842,806	598,664	1,962,067	45,669	30.00

2005 in T€	Assets	Debt	Earnings	Profit	Proportion (%)
Vallourec S.A., Boulogne-Billancourt (France)	3,584,274	2,081,178	4,479,229	632,389	17.17
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	757,541	562,924	1,948,527	2,547	30.00
	4,341,815	**2,644,102**	**6,427,756**	**634,936**	

(20) Deferred Tax Assets

If it is likely that tax benefits will be realized, they must be capitalized. Clearing is possible only if the deferred tax assets and liabilities relate to the same tax authority. Deferred tax assets amounting to € 159.3 million (2005: € 239.0 million) were set off in the financial year 2006.

in T€	31/12/2006	31/12/2005
Deferred tax receivables	**49,101**	**88,712**
Realization after more than 12 months	43,263	59,411
Realization within 12 months	5,838	29,301
Deferred tax liabilities	**43,870**	**40,338**
Realization after more than 12 months	2,467	2,615
Realization within 12 months	41,403	37,723
Balance of deferred tax receivables and deferred tax liabilities	**5,231**	**48,374**

(21) Other Receivables and Other Assets

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

in T€	31/12/2006	31/12/2005
Total gross investment	3,679	4,401
Unearned finance income	331	399
Book value	**3,348**	**4,002**

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

Current Assets

(22) Inventories

in T€	31/12/2006	31/12/2005
Raw materials, consumables and supplies	509,174	482,873
Unfinished products	304,437	292,704
Unfinished goods or services	11,895	6,343
Finished products and goods	784,745	639,613
Advance payments made on account	42,848	17,476
Inventories	**1,653,099**	**1,439,009**

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

If the reasons for writing down the inventories no longer apply, a reversal of the write-down is carried out. In the reporting period this led to a write-up of € 2.6 million (2005: € 0.5 million).

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

The book value of the inventories reported at fair value less selling expenses amounted to € 193.9 million in the reporting year (2005: € 357.0 million).

Impairments of inventories amounting to € 23.3 million (2005: € 9.2 million) were posted to expenses.

The inventories disclosed were subject to restrictions on ownership or disposal amounting to € 14.3 million. In the previous year there had been no material restrictions on the ownership or disposal of the inventories.

Salzgitter Service und Technik | Our thanks go to Harald Brandes, Sabrina Dyl, Barbara Fricke, Thorsten Genglas, Ludwig Hüser, Klaus Janke, Martin Jänsch, Susanne Küster, Sven Peters, Michael Sander, Eduard Schwartz, Axel Singer, Sascha Sukopp and Bernd Vasterling for their photographic contributions.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(23) Trade Receivables

in T€	31/12/2006	31/12/2005
Receivables due from third parties	1,061,062	840,512
Receivables due from affiliated companies	14,359	9,640
Receivables due from enterprises in which a participating interest is held	32,839	30,085
Trade receivables	**1,108,260**	**880,237**

Valuation impairments performed on trade receivables amounting to € 5.7 million (2005: € 4.0 million) have been made for all discernible individual risks, the credit risk assessed on the basis of empirical values as well as for specific country risks.

Restrictions on the ownership or disposal of trade receivables amount to € 134.5 million (2005: € 126.7 million). These are accounted for exclusively by the forfaiting of receivables and an asset-backed securitization program. For further details, please see Note 38 “Other Liabilities”.

(24) Other Receivables and Other Assets

in T€	31/12/2006	31/12/2005
Other receivables due from affiliated companies	15,262	5,722
of which loans	[5,446]	[3,586]
of which other receivables	[9,816]	[2,136]
Other receivables due from participating interests	10,010	15,090
of which loans	[2,907]	[12,753]
of which other receivables	[7,103]	[2,337]
Loans against borrower's notes/bond	50,000	100,000
Tax refund claims (VAT)	20,093	18,764
Derivatives	15,096	18,456
Age-related part-time employment subsidies	8,832	7,717
Assets available for sale	4,816	1,776
Insurance claims	3,984	237
Advances on company pensions	3,425	3,846
Prepaid expenses and deferred charges	2,896	2,253
Finance lease agreements	2,410	2,648
Sundry assets	39,453	51,086
Other receivables and sundry assets	**176,277**	**227,595**

Other receivables and other assets include the sum of € 8.8 million (2005: € 7.7 million) that did not become legally effective until after the reporting date.

The cash generated by the sale of the shares in Vallourec & Mannesmann Tubes S.A. was invested partly in the form of a bond. Its term is less than one year.

The current receivables from finance leases consist of the following:

in T€	31/12/2006	31/12/2005
Total gross investment	2,755	3,047
Unearned finance income	345	399
Book value	**2,410**	**2,648**

Rental earnings are reported under other operational earnings.

(25) Income Tax Assets

The income tax assets of € 23.9 million that existed as of December 31, 2006, (2005: € 82.4 million) are accounted for mainly by income tax overpayments by two domestic Group companies. These are offset by non-current income tax liabilities of € 170.7 million (2005: € 68.2 million) and current income tax liabilities of € 49.1 million (2005: € 98.9 million).

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

(26) Cash and Cash Equivalents

in T€	31/12/2006	31/12/2005
Cash at banks	2,184,962	592,644
Current investments	147,089	290,548
Checks, cash in hand	12,938	1,705
Cash and cash equivalents	**2,344,989**	**884,897**

Current investments include money market funds.

For further details, please see Note 42.

(27) Non-current Assets held for Sale

The non-current asset held for sale amounting to € 12.6 million as of December 31, 2006, results entirely from the reclassification of the shareholding in the French company Robert S.A.S., which in the previous year had still been consolidated proportionately. The shareholding in Robert S.A.S. was reported as held for disposal following a management resolution of November 2006. The sale was concluded at the end of January 2007 in line with expectations. No assets had been reported in this balance sheet item as of December 31, 2005.

(28) Subscribed Capital

In the financial year 2006 the subscribed capital (capital stock) amounted to € 161,615,273.31. The 63,218,400 no par value shares have a notional par value of € 2.56 each.

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 through the issuing of 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 General Meeting of Shareholders on May 26, 2004. This authorization enables 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 General Meeting of Shareholders 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).

(29) Capital Reserve

Under the capital reserve (€ 295.3 million), the sum of € 115.2 million is accounted for by a premium lodged on the occasion of a capital increase on October 1, 1970. 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 fair values (€ 49.1 million) and the differences posted to the capital reserve.

The exercise of option rights from a stock option program resulted in an increase of the capital reserve of € 7.8 million.

(30) Retained Earnings

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

The retained earnings include differences from currency translation amounting to –€ 16.0 million (2005: –€ 19.6 million). The decrease of € 3.6 million compared with the previous year results mainly from the sale of the Vallourec shares in the financial year 2006. This was offset by the effects of the development of the US dollar and the Canadian dollar on the fully consolidated foreign subsidiaries.

According to the new regulations in IAS 19 "Employee Benefits", all pension commitments are reported in the balance sheet and the actuarial gains and losses are posted immediately to equity. As of the reporting date, actuarial losses of € 260.3 million, after deduction of deferred taxes, were posted immediately to equity (including the actuarial losses posted by associated companies that were not reported in the pension provisions).

Transition of the actuarial losses:

in T€	31/12/2006
Actuarial losses of consolidated companies	257,102
Actuarial losses of associated companies	3,194
Actuarial losses	**260,296**

Salzgitter AG holds 6,321,277 (2005: 6,321,528) of its own no par value shares with a notional total value of € 16,160,088.05, equating to 9.9991 % of the subscribed capital (2005: € 16,160,729.72 = 9.9995 %).

In June of the reporting year, 2,280 shares with a notional total value of € 5,828.72 (= 0.004 % of the subscribed capital) were purchased for a price of € 58.88 for further acquisitions.

Of the 6,321,277 shares acquired pursuant to Section 71 para. 1 no. 8 of the German Stock Corporation Act (AktG), 323,336 were acquired under the authorization granted by the General Meeting of Shareholders on March 16, 1999, 462,924 as authorized by the General Meeting of Shareholders on June 19, 2002, 153,400 as authorized by the General Meeting of Shareholders on May 28, 2003, 5,379,337 as authorized by the General Meeting of Shareholders on May 26, 2004, and 2,280 as authorized by the General Meeting of Shareholders on May 26, 2005.

Of the 325,825 treasury shares held at the beginning of the financial year and acquired under the authorization granted on March 16, 1999, the company disposed of 745 shares with a nominal total par value of € 1,904.56 to third parties at an average price of € 65.97. The shares, which were used as a cash equivalent for marketing activities, were sold in order to increase the number of shareholders. Furthermore, 1,744 shares with a nominal total par value of € 4,458.47 and 42 shares with a nominal total par value of € 107.37 were issued free to employees and persons related to the Group to reward improvement suggestions (authorization of May 28, 2003).

The treasury shares were deducted immediately from equity in the amount of € 160.4 million (2005: € 160.3 million) as of the reporting date.

(31) Unappropriated Retained Earnings

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

The proposal will be made to the General Meeting of the Shareholders of Salzgitter AG that a dividend for the financial year 2006 of € 1.00 per share plus a bonus dividend of € 1.00 per share (equal to € 126.4 million based on the nominal capital stock of some € 161.6 million) be paid from Salzgitter AG's unappropriated retained earnings and that the remaining amount be brought forward to new account.

Based on the closing price of € 99.05 for the Salzgitter share in XETRA trading on December 29, 2006, the dividend yield amounts to 2.0% (2005: 2.2%).

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

(32) Minority Interests

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

- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg,
- Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Osnabrück (including its subsidiaries).

In the income statement, the result is reported proportionately under "Minority interests".

Long-Term Liabilities

(33) 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 to this, the Salzgitter Group operates a company pension scheme based on defined benefit plans that are covered by provisions. The Group also has some immaterial fund-financed pension commitments.

The pension provisions are accounted for mostly by pension commitments undertaken by German companies and contain the entire present value of the defined benefit obligations.

Provisions for pensions and similar obligations:

in T€	31/12/2006	31/12/2005
Pension provisions	1,712,000	1,721,946
Similar obligations	2,837	2,643
Total	**1,714,837**	**1,724,589**

The provisions for similar obligations take account of bridging payments in the event of death.

The actuarial gains (–) and losses (+) developed as follows:

in T€	FY 2006	FY 2005
As of January 1 of financial year	246,185	128,846
Change in current financial year	10,917	117,339
As of December 31 of financial year	**257,102**	**246,185**

The differences between the anticipated and actual development (experience adjustment) amounted to –€ 13.6 million in the reporting year (2005: € 4.2 million).

The transition to the actuarial gains and losses recorded in equity is shown in Note 30 “Retained Earnings”.

The expenses incurred for defined benefit plans in the result for the period were as follows:

in T€	FY 2006	FY 2005
Personnel expenses		
current service costs	20,102	12,457
Financing expenses (interest paid)	70,625	78,405
	90,727	**90,862**

The amount of provisions in the balance sheet is calculated as follows:

in T€	31/12/2006	31/12/2005
Net present value of fund-financed obligations	5,358	6,941
Fair value of planned assets	–4,266	–3,938
	1,092	**3,003**
Net present value of non-fund-financed obligations	1,710,908	1,718,943
Balance sheet provision for pensions	**1,712,000**	**1,721,946**

The provisions for pensions and similar obligations developed as follows:

FY 2006 in T€	Pension provisions	Similar obligations	Total
Opening balance, Jan. 1	**1,721,946**	**2,643**	**1,724,589**
Transfer to other account	217	–	217
Changes in the consolidated group	2,665	–	2,665
Used	–114,472	–171	–114,643
Reversal	–591	–27	–618
Adjustment in line with actuarial assumptions, no effect on income	10,917	–	10,917
Additions	20,693	392	21,085
Interest added	70,625	–	70,625
Closing balance, Dec. 31	**1,712,000**	**2,837**	**1,714,837**

FY 2005 in T€	Pension provisions	Similar obligations	Total
Opening balance, Jan. 1	**1,625,039**	**2,749**	**1,627,788**
Transfer to other account	3,282	–	3,282
Transfer	–73	–	–73
Used	–114,209	–156	–114,365
Reversal	–331	–34	–365
Adjustment in line with actuarial assumptions, no effect on income	117,339	–	117,339
Additions	12,494	84	12,578
Interest added	78,405	–	78,405
Closing balance, Dec. 31	**1,721,946**	**2,643**	**1,724,589**

(34) Other Provisions

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

FY 2006 in T€	Status 1/1	Currency differences	Addition/Disposals from changes in consolidated group	Transfer
Other taxes	**8,454**	**–42**	**–**	**14**
Personnel	**138,194**	**–**	**295**	**–5**
of which anniversary provisions	[35,957]	[–]	[51]	[2]
of which for the social plan/age-related part-time employment	[65,766]	[–]	[301]	[–]
Operating risks	**76,244**	**–**	**–**	**–**
Other provisions	**158,637**	**–188**	**–423**	**–**
of which markdowns/complaints	[49,498]	[–85]	[–]	[–]
Total	**381,529**	**–230**	**–128**	**9**

The comparative figures for the previous year were as follows:

FY 2005 in T€	Status 1/1	Currency differences	Addition/Disposals from changes in consolidated group	Transfer
Other taxes	**4,404**	**23**	**–**	**–**
Personnel	**129,300**	**–**	**–**	**289**
of which anniversary provisions	[32,932]	[–]	[–]	[33]
of which for the social plan/age-related part-time employment	[62,201]	[–]	[–]	[61]
Operating risks	**56,617**	**–**	**–**	**–**
Other provisions	**141,178**	**462**	**–**	**–111**
of which markdowns/complaints	[37,656]	[97]	[–]	[–]
Total	**331,499**	**485**	**–**	**178**

Transfer to other account	Used	Reversal	Allocations	Interest added	Status 31/12
–	–2,299	–21	634	800	7,540
–211	–44,411	–13,319	36,029	365	116,937
[–]	[–1,981]	[–110]	[1,583]	[–]	[35,502]
[–217]	[–24,665]	[–8,025]	[21,335]	[–]	[54,495]
–110	–4,332	–5,419	38,520	–850	104,053
153	–32,990	–37,199	88,354	268	176,612
[–]	[–15,623]	[–17,227]	[33,733]	[–]	[50,296]
–168	–84,032	–55,958	163,537	583	405,142

Transfer to other account	Used	Reversal	Allocations	Interest added	Status 31/12
–	–951	–359	5,337	–	8,454
–1,534	–34,867	–5,101	49,614	493	138,194
[–]	[–2,096]	[–517]	[5,600]	[5]	[35,957]
[–1,539]	[–23,231]	[–1,574]	[29,880]	[–32]	[65,766]
–	–4,069	–830	24,411	115	76,244
–1,914	–29,766	–39,696	87,981	503	158,637
[–]	[–15,254]	[–9,222]	[36,221]	[–]	[49,498]
–3,448	–69,653	–45,986	167,343	1,111	381,529

The provisions reported in the personnel area were valued on the basis of an assumed actuarial interest rate of 4.25 % per annum (2005: 4.25 % per annum).

The allowances for employees leaving the company under the terms of age-related part-time employment contracts are capitalized as an asset worth € 8.8 million (2005: € 7.7 million) and not offset against provisions.

Provisions for typical operational risks are formed for, in particular, waste disposal and recultivation obligations.

The provisions for other risks primarily comprise provisions for price concessions/complaints, litigation risks, warranties, environmental risks and pending transaction risks.

Maturities of the other provisions:

FY 2006 in T€	Total 31/12/	Short-term	Long-term
Other tax	7,540	7,540	–
Personnel	116,937	40,967	75,970
of which anniversary provisions	[35,502]	[–]	[35,502]
of which for the social plan/age-related part-time employment	[54,495]	[27,704]	[26,791]
Operating risks	104,053	12,618	91,435
Other provisions	176,612	176,612	–
of which markdowns/complaints	[50,296]	[50,296]	[–]
Total	405,142	237,737	167,405

FY 2005 in T€	Total 31/12/	Short-term	Long-term
Other tax	8,454	8,454	–
Personnel	138,194	56,452	81,742
of which anniversary provisions	[35,957]	[–]	[35,957]
of which for the social plan/age-related part-time employment	[65,766]	[32,875]	[32,891]
Operating risks	76,244	8,201	68,043
Other provisions	158,637	158,637	–
of which markdowns/complaints	[49,498]	[49,498]	[–]
Total	381,529	231,744	149,785

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(35) Long-Term Financial Liabilities

in T€	31/12/2006	31/12/2005
Liabilities to banks	56,922	57,575
Liabilities from financial lease agreements	32,701	38,576
Other borrowings	26	316
Financial liabilities	**89,649**	**96,467**

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

in T€	Residual time to maturity 1–5 years	Residual time to maturity > 5 years	31/12/2006 Total
Minimum lease payments	16,771	27,000	43,771
Financing costs	5,819	5,251	11,070
Present value of minimum lease payments	**10,952**	**21,749**	**32,701**

in T€	Residual time to maturity 1–5 years	Residual time to maturity > 5 years	31/12/2005 Total
Minimum lease payments	22,899	31,124	54,023
Financing costs	8,366	7,081	15,447
Present value of minimum lease payments	**14,533**	**24,043**	**38,576**

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

Current Liabilities

(36) Current Financial Liabilities

in T€	31/12/2006	31/12/2005
Liabilities to banks	82,896	120,799
Liabilities		
to affiliated companies	1,067	2,282
to participating interests	1,100	–
Liabilities from financial lease agreements	3,250	3,573
Other financial liabilities	14,322	6,105
Short-term financial liabilities	**102,635**	**132,759**

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

in T€	31/12/2006	31/12/2005
Minimum lease payments	5,071	4,535
Financing costs	1,821	962
Present value of minimum lease payments	**3,250**	**3,573**

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

(37) Trade Payables

in T€	31/12/2006	31/12/2005
Liabilities		
to third parties	588,909	493,373
to participating interests	10,891	16,163
to affiliated companies	2,207	826
Trade payables	**602,007**	**510,362**

(38) Other Liabilities

in T€	31/12/2006 Total	31/12/2005 Total
Other liabilities		
to affiliated companies	12,028	9,144
to participating interests	225	1,473
Other liabilities	330,576	338,129
of which from forfaiting and asset-back securitization programs	[116,246]	[126,695]
of which to employees	[74,190]	[68,856]
of which tax	[50,139]	[39,107]
of which social security contributions	[17,402]	[27,414]
of which received payments made on account	[23,303]	[20,263]
of which derivatives	[10,580]	[10,514]
of which bills payable	[2,663]	[9,362]
of which other liabilities	[36,053]	[35,918]
Other liabilities (short-term)	**342,829**	**348,746**

Of the sum total of liabilities, some € 167.4 million (2005: € 153.7 million) is secured by liens and similar rights.

Other liabilities totaling € 116.2 million (2005: € 126.7 million) constitute liabilities resulting from forfaiting and asset-backed securitization 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 securitization 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; in the process, Salzgitter Mannesmann International GmbH, Düsseldorf, sold receivables worth € 8.3 million (2005: € 12.0 million) as of December 31, 2006. 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 € 75.0 million. In addition, Salzgitter Mannesmann International GmbH, Düsseldorf, – for amounts up to a maximum of US-$ 25.5 million – has sold export receivables worth the equivalent of € 8.1 million (2005: € 5.4 million) and secured by bank guaranties. Furthermore, Salzgitter Mannesmann International (USA) Inc., Houston, has sold receivables equivalent to € 19.6 million (2005: € 30.0 million) as of December 31, 2006, and reported the funds received as liabilities.

(39) Contingencies

Contingencies are potential liabilities not shown on the balance sheet which are disclosed in the amount of their utilization on the reporting date. Their total amounts to € 47.6 million (2005: € 59.3 million).

The contingencies include guaranties of € 42.1 million (2005: € 41.2 million) and bill commitments totaling € 1.6 million (2005: € 1.0 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 their commercial situation. Moreover, adequate provisions have been made at the respective Group companies to cover potential financial burdens arising from legal proceedings or arbitration.

(40) Other Financial Obligations

In overall terms, the Group has obligations from investment commitments amounting to € 207.2 million (2005: € 127.6 million), obligations from rental agreements with terms lasting several years amounting to € 163.6 million (2005: € 161.2 million) and other obligations totaling € 855.2 million (2005: € 687.9 million).

In the Steel Division, long-term purchasing commitments to safeguard the procurement of input 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.

Apart from a sum of € 650.2 million (2005: € 577.9 million), the other financial obligations have a residual time to maturity of up to one year.

The other financial obligations arising from long-term rental and lease agreements consist of the following:

Future rental and lease obligations in T€	31/12/2006	31/12/2005
Up to 1 year	18,443	20,206
1 to 5 years	36,840	35,789
Over 5 years	108,334	105,243
Total	**163,617**	**161,238**

(41) Financial Instruments

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

in T€	31/12/2006		31/12/2005	
	Assets	Borrowings	Assets	Borrowings
Trade receivables	1,108,260	–	880,237	–
Loans	1,578	–	2,226	–
Other receivables	132,357	–	181,629	–
Shares in affiliated companies (non-consolidated)	25,427	–	24,916	–
Shareholdings	18,607	–	23,239	–
Securities	43,983	–	27,888	–
Cash and cash equivalents	2,344,989	–	884,897	–
Trade payables	–	602,007	–	510,362
Liabilities to banks	–	139,818	–	178,373
Other liabilities	–	257,006	–	259,494
Forward exchange contracts	4,708	782	5,323	3,105
Currency options	8,394	–	12,972	–
Interest rate derivatives	45	9,798	–	7,224
Forward commodity contracts	44	–	–	–
Other derivatives	1,906	–	–	23
Total	**3,690,298**	**1,009,411**	**2,043,327**	**958,581**

The contractual terms to maturity of the financial assets and liabilities in the reporting year were as follows:

FY 2006	Time to maturity (months)	
	from	to
Trade receivables	1	4
Other receivables	1	48
Originated loans	12	240
Trade payables	1	3
Other liabilities	1	6
Bank loans, short-term	1	4
Bank loans, long-term	42	447
Forward exchange contracts	1	20
Currency options	10	37
Interest rate derivatives	36	36
Other derivatives	1	60

The contractual terms to maturity of the financial assets and liabilities in the previous year were as follows:

FY 2005	Time to maturity (months)	
	from	to
Trade receivables	1	3
Other receivables	1	60
Originated loans	48	240
Trade payables	1	3
Other liabilities	1	31
Bank loans, short-term	1	2
Bank loans, long-term	35	447
Forward exchange contracts	1	36
Currency options	8	36
Interest rate derivatives	11	36
Other derivatives	12	18

These financial instruments can be categorized as follows as of the reporting date:

31/12/2006 in T€	Positive market values	Negative market values
Financial assets held for trading	38,844	10,450
Loans and receivables originated by the company	1,242,195	–
Derivatives with documented hedging arrangement	3,944	130
Available-for-sale financial assets	2,405,315	–
Financial liabilities carried at historical cost	–	998,831
Total	**3,690,298**	**1,009,411**

For the previous year they can be categorized as follows:

31/12/2005 in T€	Positive market values	Negative market values
Financial assets held for trading	13,133	8,549
Loans and receivables originated by the company	1,064,092	–
Derivatives with documented hedging arrangement	5,323	1,964
Available-for-sale financial assets	960,940	–
Financial liabilities carried at amortized historical costs	–	948,229
Total	**2,043,488**	**958,742**

Of the "financial assets held for trading", € 27.7 million are accounted for by securities (no position held in the prior year). In addition, derivative financial instruments are reported with a positive market value of € 11.1 million (2005: € 13.1 million) and a negative market value of € 10.4 million (2005: € 8.5 million).

In the reporting year, the Salzgitter Group recorded impairments of assets categorized as "loans and receivables originated by the company" in the amount of € 16.1 million (2005: € 8.7 million) and reversals of write-downs in the amount of € 5.7 million (2005: € 6.4 million).

The changes in the value of hedging transactions used to secure future cash flows are posted to equity with no effect on income. As of the end of the reporting year, a total amount of € 3.4 million (2005: € 1.9 million) resulting from changes in the value of the hedging transactions with no effect on income was reported under equity.

In the reporting year, the valuation of securities without effect on income led to the posting under equity of € 1.2 million as additions, € 3.4 million as disposals and € 0.1 million as impairments (2005: disposals of € 2.7 million and write-ups of € 4.0 million). This position essentially concerns the shares in an Indian tube manufacturing company; the fair value of this financial investment is some € 2.9 million (2005: € 3.0 million) higher than its historical acquisition cost.

In the reporting year, profits amounting to € 36.4 million (2005: € 3.4 million) and losses of € 2.1 million (2005: no loss) were made from the sale of "available-for-sale financial assets". For the assets in this category recorded as of the reporting date, valuation allowances amounting to € 0.2 million (2005: € 9.8 million) with effect on income were posted in the reporting year.

The interest on fixed-term deposits in euros was between 2.25% and 3.66% p.a. with a maximum term of 2 months (2005: 1.91 to 2.36% p.a. with a maximum term of 2 months). The interest on fixed-term deposits in currencies other than the euro was between 4.16% and 5.24% p.a. with a term of up to 3 days (2005: 2.18 to 4.25% p.a. with a term of up to 5 days). Interest rates on term money borrowings in euro ranged from 2.92% to 3.70% p.a. with a maximum term of one month (2005: 2.36 to 2.90% p.a. with a maximum term of 2 months). Interest rates on short-term capital market instruments ranged from 2.20% to 2.32% p.a. with an investment period of one month (2005: 2.20 to 2.32% p.a. with an investment period of 1 to 2 months). Interest on loans extended by the company is up to 6.0% with a maximum residual term of 20 years, as in the previous year. Interest on bank loans received by the company ranged from 1.25% to 6.40% p.a. with a residual term of 3 to 48 months (2005: interest rates from 3.00 to 4.78% with a residual term of 9 to 60 months).

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 cover sales to dealers or companies in the iron and steel industry, 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€	31/12/2006		31/12/2005	
	Maximum default risk	Secured default risk	Maximum default risk	Secured default risk
Trade receivables	1,108,260	696,585	880,237	568,410
Other receivables	132,357	1,081	181,629	2,510
Loans	1,578	408	2,226	151
Securities, shares in funds	43,983	1,038	118,436	25
Total	**1,286,178**	**699,112**	**1,182,528**	**571,096**

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

The nominal volume of the derivatives comprises the unnetted total of all purchases and sales amounts, valued at the respective settlement rates. Market values were, on principle, 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 current value of the derivatives to be reported derives from the valuation of the hedged foreign currency amount with the difference between the rate applying when the forward contract was entered into and the forward rate on the reporting date; this amount is discounted to the reporting date at the euro interest rate in line with the residual term to maturity.

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

Maturity	EUR interest rate in %		USD interest rate in %	
	31/12/2006	31/12/2005	31/12/2006	31/12/2005
Overnight	3.5600	2.3450	5.3150	4.1850
1-week	3.5900	2.2750	5.2600	4.2700
2-week	3.5750	2.2800	5.2750	4.2700
1-month	3.6100	2.3850	5.2700	4.3300
2-month	3.6300	2.4000	5.2800	4.4350
3-month	3.7000	2.4600	5.3100	4.4800
6-month	3.8300	2.6050	5.3350	4.6300
9-month	3.9100	2.6750	5.2900	4.7200
1-year	4.0150	2.7600	5.3050	4.8050
2-year	4.1160	3.0090	5.1735	4.8070

The derivatives' structure as of the end of the reporting year and the previous year was as follows:

FY 2006 in T€	Market volume 31/12/2006	Positive market values 31/12/2006	Negative market values 31/12/2006
Forward exchange contracts			
Purchase			
USD	511,918	–	–7,778
GBP	12,668	31	–
SEK	3,992	–	–8
CAD	235	–	–4
PLN	115	–	–1
Other currencies	26	–	–
Sale			
USD	378,088	12,516	–
GBP	62,658	–	–650
SEK	13,944	–	–205
CAD	1,606	28	–
PLN	831	–	–3
Other currencies	14	–	–
Currency options			
Purchases USD	259,607	8,394	–
Sales USD	–	–	–
Interest rate instruments	**50,000**	**45**	**–9,798**
Forward commodity contracts	**5,088**	**44**	**–**
Other derivatives	**15,944**	**1,906**	**–**
Total	**–**	**22,964**	**–18,447**

FY 2005 in T€	Market volume 31/12/2005	Positive market values 31/12/2005	Negative market values 31/12/2005
Forward exchange contracts			
Purchase			
USD	287,782	7,252	–
GBP	4,137	–	–13
CAD	457	–	–2
SEK	333	7	–
PLN	21	–	–
Other currencies	735	1	–
Sale			
USD	270,261	–	–5,011
GBP	37,380	201	–
SEK	24,267	–	–149
CAD	2,377	–	–50
PLN	648	–	–16
Other currencies	367	–	–2
Currency options			
Purchases USD	101,912	11,633	–
Sales USD	33,595	1,339	–
Interest rate instruments	**170,000**	–	**–7,224**
Other derivatives	**8,698**	–	**–23**
Total	–	**20,433**	**–12,490**

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(42) Notes to the Cash Flow Statement

In accordance with IAS 7, the cash flow statement depicts the development in cash flows for the financial years 2006 and 2005, broken down into inflows and outflows of funds from current operating, investment and financing activities. The cash flow statement is derived from the consolidated financial statements of Salzgitter AG using the indirect method.

The cash and cash equivalents used comprise cash in hand, checks, near-money funds, securities and cash at banks. The cash and cash equivalents include cash equivalents of € 147 million (2005: € 291 million) reported in the balance sheet under "cash and cash equivalents". The cash and cash equivalents increased by € 1.7 million (2005: € 0.6 million) due to changes in the values of near-money funds.

In the cash flow from operating activities, profit from fixed asset disposals has been eliminated. Interest income amounted to € 62.4 million (2005: € 19.7 million).

The investments reported under the cash flow for investment activities comprise the additions to intangible assets, property, plant and equipment and 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 broadening the product spectrum. The payments made on investments in financial assets relate particularly to the foundation of a company to establish a spiral-welded pipe mill in the USA (€ 3.5 million) and the acquisition of Flachform Stahl GmbH, Schwerte (€ 5.4 million). The overall purchase price amounted to € 15.5 million, from which there was an inflow of funds of € 10.1 million from the cash holdings of the company acquired.

The cash flow from the disposal of financial assets relates primarily to the sale of the shareholding in Vallourec S.A., Boulogne-Billancourt. The proceeds from this transaction amounted to € 1,396.8 million. This was offset by hedging transaction amounting to € 174.8 million. The sale of the shares in Steel Dynamics International Inc. and Burwitz Feuerungsbau GmbH and of the companies in the Europipe Group also contributed to the inflow of cash and cash equivalents in the investible funds.

Interest paid is attributed solely to financing activities.

The payments for current loans against promissory notes/bonds result from the sale of a loan against a promissory note.

Receipts from shareholdings during the financial year amounted to € 16.2 million (2005: € 21.7 million).

Of the payments for investment in financial fixed assets, € 5.4 million were accounted for by the acquisition of the company Flachform Stahl GmbH, Schwerte, in the financial year 2006. The company was included in the consolidated group. The fair values of the acquired company's assets and liabilities were as follows:

in € mil.	**FY 2006**
Fixed assets	11
Receivables	9
Cash and cash equivalents	10
Liabilities	15
Sum of the proportionally acquired net assets	**15**
Costs related to the acquisition of the company	15
Minus cash and cash equivalents	10
Outflow of funds minus cash acquired	**5**

The Group sold the company Eupec PipeCoatings France S.A. and removed it from the group of consolidated companies in the financial year 2006. The fair values of the assets and liabilities sold were as follows:

in € mil.	**FY 2006**
Fixed assets	4
Inventories	1
Receivables	10
Cash and cash equivalents	1
Liabilities	13
Sum of the proportionally sold net assets	**3**
Proceeds from the disposal of the company	11
Minus cash and cash equivalents	1
Inflow of funds minus cash and cash equivalents sold	**10**

(43) Notes on Segment Reporting

Primary Segmentation

The segmentation of the Salzgitter Group into four divisions accords with the Group's internal controlling and reporting functions.

In the segment report, the business activities of the Salzgitter Group are assigned to the Steel, Tubes, Trading and Services Divisions in accordance with the Group structure. Salzgitter AG as the holding company is included under the heading Others/Consolidation. Salzgitter Mannesmann GmbH is being reported in this segment for the first time. The previous year's figures were not adjusted.

The operating steel companies Salzgitter Flachstahl GmbH, Peiner Träger GmbH and Ilsenburger Grobblech GmbH belong to the Steel Division via the intermediate holding company Salzgitter Stahl GmbH. HSP Hoesch Spundwand und Profil GmbH, Salzgitter Bauelemente GmbH, Salzgitter Europlatinen GmbH and ThyssenKrupp GfT Bautechnik GmbH, which is valued at equity, continue to be assigned to this division.

The Tubes Division includes the fully consolidated units Mannesmannröhren-Werke GmbH, Mannesmannröhren Mülheim GmbH, MHP Mannesmann Präzisrohr GmbH, Mannesmann Robur B.V., Mannesmann Fuchs Rohr GmbH (which resulted from the merger of Mannesmann Line Pipe GmbH and Röhrenwerk Fuchs GmbH), Salzgitter Großrohre GmbH and the DMV Group.

This Division also includes the joint venture Europipe GmbH (including the subsidiaries Europipe France S.A., EB Pipe Coating, Inc., Berg Steel Pipe Corporation and Mülheim PIPECOATINGS GmbH), which is included proportionately in the consolidated financial statements. Hüttenwerke Krupp Mannesmann GmbH is assigned to this business segment as an associated company using the equity method. In 2005, the shares in Vallourec S.A., Boulogne-Billancourt, that were sold in August 2006 were still included in this segment.

The Trading Division consists of four domestic and five foreign companies in the Salzgitter Mannesmann Handel Group, Universal Eisen und Stahl GmbH and Hövelmann & Lueg GmbH. Flachform Stahl GmbH, acquired in 2006, was fully consolidated for the first time; Robert S.A.S., a joint venture previously integrated proportionately in this segment, was taken out of the group of consolidated companies as of 1 October, 2006, by being sold.

This segment also includes the non-consolidated companies in the Salzgitter Mannesmann Handel Group and the Universal Handel Group.

The Services Division includes DEUMU Deutsche Erz- und Metall-Union GmbH, SZST Salzgitter Service und Technik GmbH, SIT Salzgitter Information und Telekommunikation GmbH, the Telcat Group, GESIS Gesellschaft für Informationssysteme mbH, Hansaport Hafenbetriebsgesellschaft mbH, "Glückauf" Wohnungsgesellschaft mbH, Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter Mannesmann Forschung GmbH, Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Salzgitter Automotive Engineering GmbH & Co. KG and Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, as well as the net income from shareholdings assigned to this segment. This segment also includes the non-consolidated companies Salzgitter Magnesium-Technologie GmbH and Salzgitter Hydroforming GmbH & Co. KG (formerly Oswald Hydroforming GmbH & Co. KG).

The companies in this Division are engaged primarily in providing services to the Group. Their applied expertise and the existing infrastructure, however, will increasingly be offered to companies outside of the Group. The services provided include data processing, telecommunications services, scrap metal dealing, the handling and storage of bulk cargo, transportation and other services. The companies Salzgitter Magnesium-Technologie GmbH, Salzgitter Hydroforming GmbH & Co. KG and Salzgitter Automotive Engineering Beteiligungsgesellschaft (including subsidiaries) mainly provide services and products for the automotive industry.

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.

Segmental operating assets and liabilities comprise the assets and debts that are required for operational purposes – excluding both interest-bearing claims and income tax receivables and liabilities.

The investments constitute additions to property, plant and equipment and intangible assets, excluding goodwill resulting from the acquisition of shares.

Secondary Segmentation

Secondary segmentation subdivides the commercial activities by region. In external sales classified by performance recipient, Group sales to non-Group entities are subdivided according to the customer's principal place of business. Group external sales are also subdivided according to the consolidated supplier company's principal place of business.

The transitions of the segmental assets to Group assets and the total segmental liabilities to the Group's balance sheet total are shown in the following overview:

in T€	31/12/2006	31/12/2005
Segment operating assets	**6,901,631**	**5,238,973**
Goodwill	–	1,224
Income tax refund claims	23,950	82,373
Deferred income tax claims	49,101	88,712
Deferred expenses	2,896	2,253
Balance sheet total	**6,977,578**	**5,413,535**
Segment operating liabilities	3,256,275	3,193,811
Tax liabilities	263,778	207,455
Group equity	3,456,701	2,011,628
Deferred income	824	641
Balance sheet total	**6,977,578**	**5,413,535**

(44) Related Party Disclosures

In addition to business relationships with companies that are consolidated fully and proportionately in the consolidated financial statements, relationships also exist with associated companies and shareholdings that must be designated as related companies in accordance with IAS 24.

On April 2, 2002, Hannoversche Beteiligungsgesellschaft mbH, Hanover, disclosed that it held 25.5% of the voting rights in SZAG as of April 2, 2002. The Federal State of Lower Saxony, represented by the Finance Ministry of Lower Saxony, Hanover, also announced that it held 25.5% of the voting rights of Salzgitter AG. According to § 22 para. 1 clause 1 no. 1 of the Securities Trading Act (WpHG) these voting rights are attributable to the Federal State of Lower Saxony, since the shares in Hannoversche Beteiligungsgesellschaft mbH are fully owned by the Federal State of Lower Saxony.

Delivery and service relationships between companies in the consolidated group and companies related to the Salzgitter Group are depicted in the following table:

in T € Related companies	Sale of goods and services		Purchase of goods and services	
	FY 2006	FY 2005	FY 2006	FY 2005
ThyssenKrupp GfT Bautechnik GmbH, Essen	160,904	143,102	–	–
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	26,387	27,834	416,339	379,157

Outstanding items from deliveries and services arising from the purchase or sale of goods and services between companies in the consolidated group and companies related to the Salzgitter Group are as follows:

in T € Related companies	Trade receivables		Trade payables	
	31/12/2006	31/12/2005	31/12/2006	31/12/2005
ThyssenKrupp GfT Bautechnik GmbH, Essen	17,503	17,061	–	–
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	2,398	3,805	10,860	15,921

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

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

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

There are contingencies totalling € 1.0 million (2005: € 0.8 million) vis-à-vis non-consolidated affiliated companies.

Remuneration paid to members of the management in key positions:

in T€	FY 2006	FY 2005
Salaries and other current payments	8,494	6,637
Payments after termination of the employment relationship	542	636
Payments resulting from the termination of employment relationships	–	1,034
Total	**9,036**	**8,307**

(45) Fees for the Auditor of the Consolidated Financial Statements that were reported as Expenses in the Financial Year in Accordance with Section 314, Para. 9 of the German Commercial Code (HGB)

in T€	FY 2006	FY 2005
Audits	1,505	1,487
Other certification or assessment services	67	24
Tax consulting services	16	14
Other services	120	123

(46) Significant Events occurring after the Reporting Date

Significant events occurring after the reporting date are explained in the Management Report.

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

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

- Salzgitter Mannesmann GmbH, Salzgitter
- Salzgitter Stahl GmbH, Salzgitter
- Salzgitter Flachstahl GmbH, Salzgitter
- Peiner Träger GmbH, Peine
- Ilsenburger Grobblech GmbH, Ilsenburg
- "Glückauf" Wohnungsgesellschaft mbH, Peine
- Hövelmann & Lueg GmbH, Schwerte
- SZST Salzgitter Service und Technik GmbH, Salzgitter
- Salzgitter Großrohre GmbH, Salzgitter
- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg
- SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter
- GESIS Gesellschaft für Informationssysteme mbH, Salzgitter
- TELCAT MULTICOM GmbH, Salzgitter
- TELCAT KOMMUNIKATIONSTECHNIK GmbH, Salzgitter
- DEUMU Deutsche Erz- und Metall-Union GmbH, Peine
- Salzgitter Mannesmann Handel GmbH, Düsseldorf
- Salzgitter Mannesmann International GmbH, Düsseldorf
- Salzgitter Stahlhandel GmbH, Düsseldorf
- Stahl-Center Baunatal GmbH, Baunatal
- Mannesmann Fuchs Rohr GmbH, Siegen-Kaan
- MHP Mannesmann Präzisrohr GmbH, Hamm
- Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter
- Universal Eisen und Stahl GmbH, Neuss
- Salzgitter Europlatinen GmbH, Salzgitter
- Salzgitter Mannesmann Forschung GmbH, Duisburg
- Salzgitter Bauelemente GmbH, Salzgitter
- Mannesmannröhren Mülheim GmbH, Mülheim
- Mannesmann DMV Stainless GmbH, Mülheim
- Mannesmann DMV Stainless Deutschland GmbH, Remscheid
- Mannesmannröhren-Werke GmbH, Mülheim
- Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück
- Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück

(48) Supervisory Board and Executive Board

For the discharge of their duties, the members of the Executive Board received the sum of € 4.9 million (2005: € 4.2 million) in the financial year. Of this total, € 2.5 million (2005: € 1.4 million) was accounted for by performance-related remuneration components.

Provisions for pension obligations to members of the Executive Board amounted to € 6.9 million (2005: € 5.2 million). Former members of the Executive Board and their surviving dependants received a total of € 1.5 million for the financial year (2005: € 1.6 million). Pension provisions totalling € 20.3 million (2005: € 20.8 million) have been set aside to cover obligations to former Executive Board members and their surviving dependants.

Supervisory Board members received a total of € 1.6 million for the financial year (2005: € 1.2 million).

The remuneration paid to the individual members of the Executive and Supervisory Boards of Salzgitter AG is disclosed in the Group Mangement Report and Management Report on Salzgitter AG in Section I. 2.3 “Remuneration of the Executive Board and the Supervisory Board”.

Salzgitter, March 12, 2007

The Executive Board

Leese Eging Fischer

Fuhrmann Groschke Schneider

VI. 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 – consisting of balance sheet, income statement, statement of recognised income and expense, cash flow statements as well as notes – and the group management report of the Salzgitter AG, Salzgitter, for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report according to IFRS, as adopted by the EU, and the additional provisions stated in § 315a para. 1 HGB are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German 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 such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the results of our audit the consolidated financial statements are in compliance with the IFRS, as adopted by the EU, and the additional provisions stated in § 315 a para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The group management report is in accordance with the consolidated financial statements and provides on the whole a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development."

Hannover, March 12, 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed	signed
Lukasch	ppa. Menking
Wirtschaftsprüfer	Wirtschaftsprüfer

TRADING

Storing, selling, presenting, negotiating,
analyzing **and** taking pictures.

The Trading Division.
Captured in photos and showcased
by its people.

Hövelmann & Lueg | Our thanks go to Katrin Bauer, Christian Biskup, Berti Brauner, Ünal Durmuş, Herbert Gehde, Hans-Peter Koch, Roman Konopka, Andreas Mark and Mirsad Smajlović for their photographic contributions.

Universal Eisen und Stahl | Our thanks go to Jörg Böckendorf, Gabriele Geßmann, Peter Hofmann, Olaf Jund and Volker Spangenberger for their photographic contributions.


Einbahnstraße
ACHTUNG!
KRANBETRIEB
Kran hat Vorfahrt
Bitte Motor abstellen

I. List of Company Abbreviations

SZAG	Salzgitter AG (Holding)
SMG	Salzgitter Mannesmann GmbH (Intermediate Holding)

	Steel Division
HSP	HSP Hoesch Spundwand und Profil GmbH
ILG	Ilsenburger Grobblech GmbH
PTG	Peiner Träger GmbH
SZBE	Salzgitter Bauelemente GmbH
SZEP	Salzgitter Europlatinen GmbH
SZFG	Salzgitter Flachstahl GmbH
SZS	Salzgitter Stahl GmbH

	Tubes Division
BMB	Borusan Mannesmann Boru Yatirim Holding A.S.
DMV	DMV Group
EP	Europipe GmbH
HKM	Hüttenwerke Krupp Mannesmann GmbH
MDS	Mannesmann DMV Stainless GmbH
MFR	Mannesmann Fuchs Rohr GmbH
MHP	MHP Mannesmann Präzisrohr GmbH
MLP	Mannesmann Line Pipe GmbH
MRM	Mannesmannröhren Mülheim GmbH
MRW	Mannesmannröhren-Werke GmbH
RGF	Röhrenwerk Gebr. Fuchs GmbH
ROB	Mannesmann Robur B.V.
SZGR	Salzgitter Großrohre GmbH
VLR	Vallourec S.A.

	Trading Division
FFS	Flachform Stahl GmbH
HLG	Hövelmann & Lueg GmbH
RSA	Ets. Robert et Cie S.A.S.
SCB	Stahl-Center Baunatal GmbH
SHN	Salzgitter Handel B.V.
SMHD	Salzgitter Mannesmann Handel GmbH
SMID	Salzgitter Mannesmann International GmbH
SMIH	Salzgitter Mannesmann International (USA) Inc.
SMIV	Salzgitter Mannesmann International (Canada) Inc.
SSH	Salzgitter Stahlhandel GmbH
UES	Universal Eisen und Stahl GmbH

	Services Division
DMU	DEUMU Deutsche Erz- und Metall-Union GmbH
GES	GESIS Gesellschaft für Informationssysteme mbH
GWG	"Glückauf" Wohnungsgesellschaft mbH
HAN	Hansaport Hafenbetriebsgesellschaft mbH
SIT	SIT Salzgitter Information und Telekommunikation GmbH
SZAB	Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH
SZAE	Salzgitter Automotive Engineering GmbH & Co. KG
SZAI	Salzgitter Automotive Engineering Immobilien GmbH & Co. KG
SZHF	Salzgitter Hydroforming GmbH & Co. KG
SZMA	Salzgitter Mannesmann Altersversorgung Service GmbH
SZMF	Salzgitter Mannesmann Forschung GmbH
SZMT	Salzgitter Magnesium-Technologie GmbH
SZST	SZST Salzgitter Service und Technik GmbH
TCG	TELCAT Kommunikationstechnik GmbH
TMG	TELCAT Multicom GmbH
VPS	Verkehrsbetriebe Peine-Salzgitter GmbH

Salzgitter Mannesmann Handel | Our thanks go to Florent Birklé, Hardo Borchmann, Jürgen Fastabend, Norbert Gärtner, Kai Hartge, Gunnar Jansen, Robert Karolczak, Klaus Kösling, Ivonne Krüger, Peter Krüger, Mike Ljungqvist, Jürgen Meyer, Peter Meyer, Heribert Modler and Jelle van der Veen for their photographic contributions.

II. Glossary

Business and Financial Terms

A

Asset-backed securitization (ABS)

Selling receivables with securitization on the capital market.

At equity

Method of capital consolidation with which an affiliated company's proportionate equity is valued.

C

Capital Employed

The sum total of equity, provisions for tax (excluding deferred tax) and interest-bearing liabilities. Minority interests are reported under equity.

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 improving 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. Current assets include, for example, inventories and trade receivables.

D

Declaration of Conformity

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

Deferred tax

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 and Tax)

Earnings before interest and tax payments (excluding the interest component in appropriation to provisions for pensions).

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

Earnings before interest and tax payments (excluding the interest component in appropriations to provisions for pensions) and depreciation and amortization (also of financial assets).

EBT (Earnings before Tax)

Earnings before deduction of tax.

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

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 (non-current) assets**
  Land and buildings, technical plant and machinery etc.
- **Intangible fixed (non-current) assets**
  Goodwill/negative goodwill, patents, licenses, development costs etc.
- **Financial assets**
  Shares in affiliated and associated companies, other shareholdings, long-term securities etc.

Forfaiting

Sale of export receivables without recourse to previous owners of the receivables (supplier), usually to a bank.

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 sequence 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

Provisions formed to cover retirement, invalidity and surviving dependents' pension and benefit commitments. Pension obligations are calculated using the projected unit credit method (IFRS) or the going-concern value method (HGB) and valued 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

Result from ordinary activities

The result from ordinary activities is synonymous with **EBT** (Earnings before Tax).

ROCE (Return on Capital Employed).

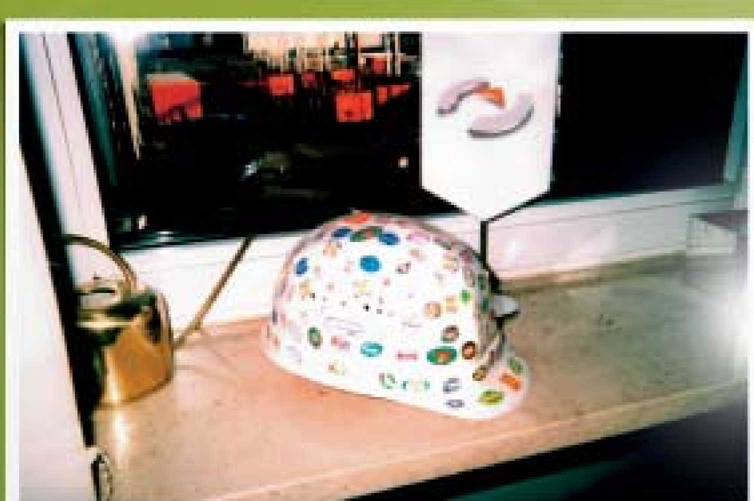
Interest yield on capital invested. Ratio of EBIT to capital employed.

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.

Salzgitter Mannesmann Handel | Our thanks go to Florent Birklé, Hardo Borchmann, Jürgen Fastabend, Norbert Gärtner, Kai Hartge, Gunnar Jansen, Robert Karolczak, Klaus Kösling, Ivonne Krüger, Peter Krüger, Mike Ljungqvist, Jürgen Meyer, Peter Meyer, Heribert Modler and Jelle van der Veen for their photographic contributions.




Erfolgsdreieck
Fachwissen
Mut
Motivation
Verkaufsbefähigung
Salzgitter

Technical Terms

B

Blanks

Stampings punched out of (mainly) surface-coated sheet for the automobile industry.

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.

Elements for roofing and cladding

Components produced from profiled surface-coated steel sheet which are used in the construction industry as wall and ceiling elements and for exterior cladding.

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 **L**inz-**D**onawitz 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.

Pickling

Hot strip oxidized (covered in scale) by the hot rolling process is passed through a bath of hydrochloric or sulfuric acid. This can either be a continuous (continuous pickling) or discontinuous (push-pull pickling) process.

Plate

Sheet steel of 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

Tailored Blanks

Bonded blanks composed of sheet steel of varying shapes, qualities and properties which are welded together by laser beam. Automobile manufacturers use tailored blanks to produce press parts for vehicle construction.

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.

III. Financial Calendar of Salzgitter AG for 2007

March 8, 2007	Key data for financial year 2006
March 28, 2007	Publication of consolidated financial statements for 2006 Annual results press conference
March 29, 2007	Analysts' conference in Frankfurt/Main
March 30, 2007	Analysts' conference in London
May 15, 2007	Interim report for the first quarter of the 2007 financial year
May 23, 2007	General Meeting of Shareholders for 2007
August 9, 2007	Interim report for the first half of the financial year 2007 Analysts' conference in Frankfurt/Main
August 10, 2007	Analysts' conference in London
November 14, 2007	Interim report for the first nine months of the financial year 2007

Salzgitter Mannesmann Handel | Our thanks go to Florent Birklé, Hardo Borchmann, Jürgen Fastabend, Norbert Gärtner, Kai Hartge, Gunnar Jansen, Robert Karolczak, Klaus Kösling, Ivonne Krüger, Peter Krüger, Mike Ljungqvist, Jürgen Meyer, Peter Meyer, Heribert Modler and Jelle van der Veen for their photographic contributions.

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