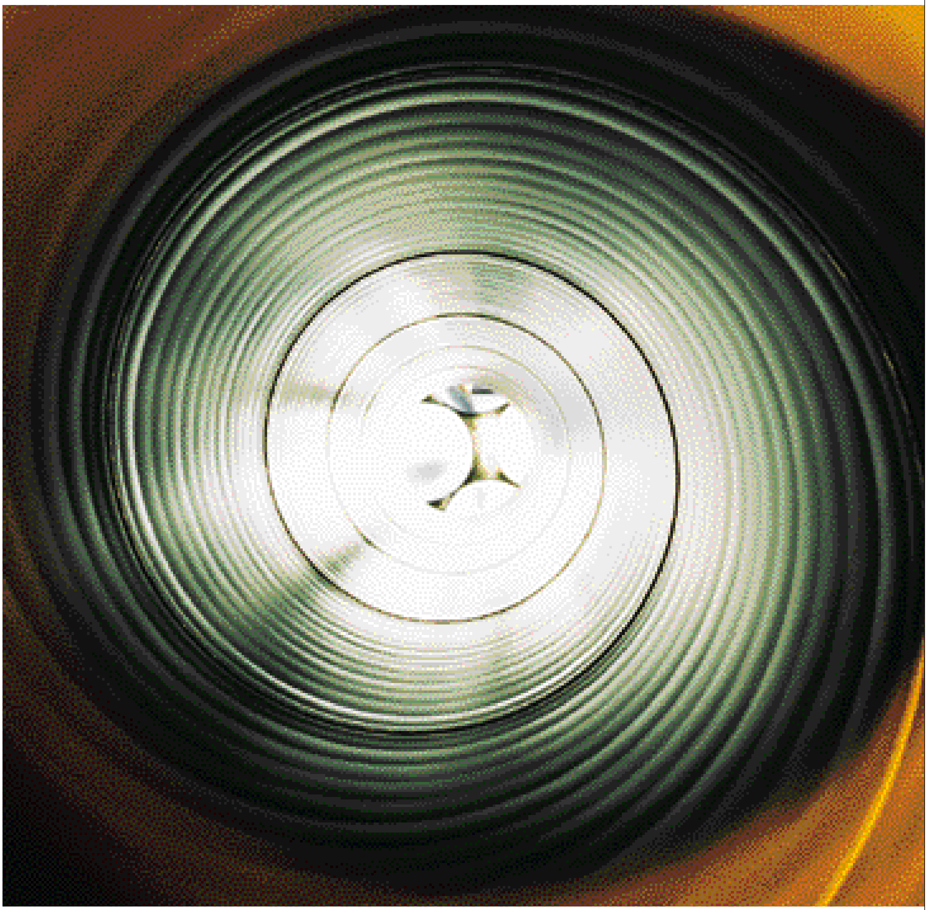
Annual Report 1998/99



SALZGITTER AG
Stahl und Technologie

Key Data of the Salzgitter Group

		1995/96[1]	1996/97[1]	1997/98	1998/99
Crude steel production	**1,000t**	**3,935**	**4,635**	**4,928**	**4,725**
Sales	**DM million**	**5,141**	**5,402**	**6,245**	**5,272**
Steel Production Division	DM million	1,985	2,124	2,532	2,208
Steel Trading Division	DM million	2,712	2,876	3,319	2,725
Raw Materials and Services Division	DM million	444	402	394	339
Flat rolled products	DM million	2,909	3,094	3,672	2,905
Sections	DM million	910	1,050	1,101	977
Share of exports	%	41	45	46	45
Employees					
Personnel expenses	DM million	977	994	1,079	1,104
Workforce (annual average)		11,885	11,693	11,536	12,349
Personnel expenses/employee	KDM	82	85	94	89
Result from ordinary operations	**DM million**	**47**	**142**	**287**	**97**
Net income for the year	**DM million**	**21**	**88**	**148**	**50**
Balance sheet total	**DM million**	**3,111**	**3,199**	**3,477**	**3,310**
Fixed assets	**DM million**	**1,306**	**1,309**	**1,260**	**1,324**
Current assets	**DM million**	**1,805**	**1,890**	**2,217**	**1,986**
Inventories	DM million	768	789	961	884
Shareholders' equity	**DM million**	**1,127**	**1,165**	**1,252**	**1,260**
Borrowings	**DM million**	**1,984**	**2,034**	**2,225**	**2,050**
Special reserves with an equity portion	DM million	-	-	-	7
Provisions	DM million	1,457	1,370	1,491	1,544
Liabilities	DM million	527	664	734	499
thereof due to banks	DM million	21	15	50	88
Investments3)	**DM million**	**288**	**211**	**156**	**216**
Depreciation3)	**DM million**	**185**	**206**	**216**	**210**
Key figures					
Income before interest and tax (EBIT)	DM million	91	191	342	151
EBIT before depreciation (EBITDA)	DM million	276	397	558	362
Return on capital employed (ROCE)2)	%	4.2	8.8	14.6	6.1
Cash earnings to DVFA/SG	DM million	-	-	392	289

1) All data have been adjusted to the new Group structure introduced 1997/98 and to the changed presentation

2) EBIT in relation to balance sheet total less other provisions (without tax) and liabilities (without loans and liabilities to banks)

3) Without financial assets

Highlights of the Fiscal Year 1998/99

October 1, 1998
SZAG was awarded the “Formula Q”-Prize for excellence in quality, reliability, and mutual cooperation by Vokswagen AG.

October 15, 1998
109th Supervisory Board Meeting focusing on approval of investments totaling DM 50 million and on discussion of corporate planning.

November 9/December 14, 1998
Ad hoc information with key data of annual financial statements 1997/98.

January 21, 1999
110th Supervisory Board Meeting with the focus on balance sheet approval and on the approval of additional purchases of further SDI-shares.

January 25, 1999
Year-end press conference in Salzgitter.

January 26/27, 1999
Analysts conferences in Frankfurt and London.

March 11, 1999
Ad hoc information on first quarter results 1998/99.

March 15, 1999
111th Supervisory Board Meeting focusing on the resignation of Professor Dr. Selenz as Chairman and member of the Executive Board. Approval of the investment “Extension of building elements production” totaling DM 58 million.

March 16, 1999
Annual Shareholders’ Meeting focusing on: election of Supervisory Board of Salzgitter AG; changeover of corporate byelaws to euro; authorization of Executive Board to issue bonds subject to Supervisory Board approval; creation of a contingent captial (II) for servicing option and conversion rights exercised; authorization of Executive Board to purchase and sell own shares subject to Supervisory Board approval.

March 16, 1999
Constituent Meeting of the Supervisory Board electing Dr. Wilfried Lochte as its Chairman.

April 19-24, 1999
Presentation of Salzgitter AG at the Hanover Fair.

April 26, 1999
Presentation of Salzgitter AG as participant in the new SMAX stock exchange segment in Frankfurt.

May 5, 1999
Ad hoc information on first half results.

May 5/6, 1999
Analysts conference on first half results in Frankfurt (DVFA) and London.

May 10, 1999
Ad hoc information on the conclusion of talks with ARBED S.A. After looking into the advantages, feasibility, and consequences of various concepts towards a full or part integration of Salzgitter AG into the ARBED-Group, it was decided in coordination with the Company's major shareholders not to continue the talks.

June 2, 1999
Opening of the tailored-blanks production of Salzgitter Europlatinen GmbH at the Salzgitter location.

June 17, 1999
Start of a series of technical information events with Salzgitter AG demonstrating its competence and innovative strength as a steel and technology partner for the automotive industry. Start-up meeting with Volkswagen AG.

June 28/29, 1999
Roadshows in Toronto, Montreal, and New York. Salzgitter AG and Morgan Stanley introduced the Company to investors and analysts.

July 7, 1999
Presentation of Salzgitter AG during the Investors Congress EUROPLACE, organized by Banque Nationale de Paris (BNP) in Paris.

July 15, 1999
112th Supervisory Board Meeting focusing on the election of Mr. Horst Schmitthenner as Vice Chairman of the Supervisory Board, the adoption of the growth strategy of Salzgitter AG, the approval of investments totaling DM 64 million, and the approval of acquiring a participation in Oswald Hydroforming GmbH & Co. KG.

July 19, 1999
Press conference on Salzgitter AG's strategy which is essentially characterized by its concept of independence and growth oriented planning on the basis of an investment and acquisition program totaling DM 1.2 billion.

August 12, 1999
Roadshow in Great Britain together with Morgan Stanley.

August 27, 1999
Release of third quarter 1998/99 results.

September 28/29, 1999
Presentation of Salzgitter AG at the investors conference "Metals and Mining" in New York, organized by Morgan Stanley.

Group Structure

DIVISIONS

STEEL PRODUCTION

SALZGITTER WORKS
Flat steel products

PEINE WORKS
Sections

ILSENBURG WORKS
Plates

RAW MATERIALS AND SERVICES

PPS
Services (100%)

VPS
Railroad Transport (100%)

DEUMU
Raw Materials Supply (100%)

GESIS
Information Technology (100%)

TELCAT
Communication Technology (100%)

PEINER AGRAR- & HÜTTENSTOFFE
Secondary Material Trading (100%)

»GLÜCKAUF«
Housing Property Management (100%)

HANSAPORT
Port Operation (51%)

BURWITZ
Firing Construction (26%)

STEEL TRADING

SALZGITTER HANDEL
(100%)

Steel Trading Germany
21 companies

Steel Trading Western Europe
13 companies

International Steel Trading
10 companies

HÖVELMANN & LUEG
(95%)

UNIVERSAL EISEN U. STAHL
(50%)

INDUSTRIAL INVESTMENTS

EUROPLATINEN HOLDING
Automotive (50%)

SalzgitterEuroplatinen (1%) — 99%

Voest Alpine Europlatinen — 99%

WESCOL GROUP, PLC.
Steel Construction (26.2%)

OSWALD HYDROFORMING
Automotive (24.9%)

STEEL DYNAMICS, INC.
Minimill (12.05%)

The Salzgitter Group is braced for future challenges: efficient plant and equipment, excellent market positioning, qualified and motivated employees are our strategic basis.

Preface by the Executive Board

Dear Shareholder:

The fiscal year 1998/99 was altogether satisfactory for the Salzgitter Group. The major outcomes of the fiscal year were the positive income before tax of DM 97 million and a corporate strategy mutually supported by the Boards and the major shareholders of the Company towards future oriented perspectives for the benefit of shareholders and employees alike.

At the opening of the fiscal year, circumstances were extremely difficult. The steel market slumped severely during the past fiscal year because of the worldwide economic scenario. Demand for steel products fell substantially and prices deteriorated so fast and so drastically as never seen before. The Salzgitter Group could not evade these influences. Production, trading volumes, sales, and income dropped significantly compared with the previous peak year. The wide product range and the long-standing successful relations with major customers helped us to use the market opportunities optimally. We succeeded in limiting redundancies. We also used the chances on raw material and energy markets to cut the costs of essential goods. Finally, we continued our earnings inprovement program consistently and developed earnings potentials in the cost and performance sectors of practically all Group companies. These joint efforts led to a year-end result which made the payment of an adequate dividend possible.

It became known at the turn of the year 1998/99 that the Luxembourg Steel Group ARBED S.A. was pressing for a majority shareholding in Salzgitter AG. The different assessments of various interested groupings as to the advantages of Salzgitter AG's integration into the ARBED Group led to fierce discussions inside and outside of the Company. The Strategic Committee of the Supervisory Board directed the Executive Board to sound out the corporate concept of ARBED from various perspectives in respect of the advantages for the Salzgitter Group. After a series of intensive but amicable talks with ARBED's top executives and after careful deliberations with the Strategic Committee (which includes representatives of the major shareholders), it was decided mid May to no longer pursue the ARBED take-over bid.

Dr. Heinz Jörg Fuhrmann,Dr. Eberhard Luckan,Prof.Dr. Günter Geisler, Dr. Jürgen Kolb,Arnold Jacob.

The Supervisory Board, newly elected on March 16, 1999 at the Annual Shareholders' Meeting, directed the Executive Board to develop a conclusive and logical strategy for Salzgitter AG's independent course of action. A detailed planning and deliberation process resulted in a strategic concept featuring a controlled growth of sales and earnings based on internal investments and outside acquisitions together with organizational restructuring. The necessary financial resources of DM 1.2 billion would be available from cash flow (DM 0.7 billion) and from credit lines (DM 0.5 billion) unused so far. After thorough discussions with the Supervisory Board, the growth strategy of SZAG was adopted in July 1999. It is thus supported by the major shareholders, the employees, and the Executive Board alike. Detailed outlines of the corporate strategy can be found in the following section of this annual report.

The Company made every effort to improve its position on the capital markets and to thus contribute to the positive performance of its stock. Salzgitter AG organized numerous conferences for its presentation to analysts and investors in Germany and abroad. Major corporate developments and the growth stratetgy were explained to the press and to the lending banks. As a participant in the SMAX stock exchange segment, the Company publishes quarterly reports enabling investors, analysts, and banks to remain up-to-date with major corporate key data during the year. Our efforts, the transparent presentation of current corporate events and the company's future perspectives together with the published data and planning were reflected during the second half of the fiscal year in various positive research reports of renowned investment bankers - nearly all gave clear buying signals.

At the end of the fiscal year, the positive presentation of the Company was not yet fully reflected in the share price. There may be reasons, unrelated to Salzgitter AG, for general investor restraint towards steel shares (steel industry image, cyclical steel markets). There is an added complication for the Salzgitter AG share, namely the presently relatively small number of free float stock leading to a low liquidity of the share. This problem, affecting other SMAX participants as well, limits the number of institutional investors willing to buy. The Executive Board will continue to improve the scenario for stock prices through convincing corporate performance and an active investor relations policy.

More information on the SZAG share is in the section "Investors Affairs".

At the end of the fiscal year looking forward to the coming years, we are convinced that our Company is well braced for the challenges of the future. Our plant and equipment are efficient and are continually being added to by future oriented investments particularly in the processing sectors. The product range meets our customers' high standards. The association with our current and future subsidiaries and participations offers synergies on the markets and in production. The company's financial and balance sheet situation is strong and provides it with the latitude for more positive developments. Our well-trained and committed employees are among our vital resources. Our strategy has clearly defined the future course of Salzgitter AG.

We are convinced that our Company is on the right path towards a successful future and are looking forward to the shareholders, customers and banking organizations continuing to support our adopted course. We are most appreciative of the confidence this expresses in our Company.

Prof. Dr. Geisler　　Dr. Fuhrmann　　Jacob

Dr. Kolb　　Dr. Luckan

Salzgitter Group on track for growth:
The Group starts growth offensive based
on corporate independence.

Strategy

The strategy of Salzgitter AG is based on the following fundamental guidelines:

- The main objects of our entrepreneurial duties are the sustained capital growth of the Company and generating an adequate equity yield. We are convinced that these objectives can be achieved all the better if not only shareholder interest but also employees, customers, lending banks, public sector corporations, and the environment are kept in mind. The viability of the company is beyond question.

- Our core qualifications are the production of and the trading in steel and steel products. Development is focusing on an extension of the output chain, the production of components, and of complete systems. The major markets for our products are in Europe; our trading activities operate worldwide. Our steel production know-how and the available infrastructure are employed for qualified service within the Group and in third markets.

- The Company is well prepared to achieve its goals under its own steam and under its own decision-making powers in close cooperation with the responsible bodies provided for in the byelaws. Cooperation with other companies particularly in special areas are, in principle, possible, provided Group interests are adequately represented.

- The size of our company is not a decisive disadvantage compared with larger competitors. We have to meet certain economies of scale by developing other advantages such as flat hierarchies, short decision-making channels, greater flexibiliy, distinct direct customer relations, smaller expenditure for coordination and administration, medium-sized business philosophy on all corporate levels. Controlled growth is part of our corporate strategy.

- Cyclical steel markets, which may lead to fast and erratic fluctuations of capacity utilization and earnings, are unavoidable and thus a normal feature of our industy. Our Company is prepared for this. We achieve this by concentrating on a wide program structure, a far-sighted sales policy coordinated with our clientele and our trading subsidiaries, greater flexibility of normally typical fixed cost areas, anticyclical planning of investments and large repair projects, a vigorous risk management and conservative financing and balance sheet policy. Altogether, our corporate policy is not targeted for individual years but for long-term periods.

■ Employee training is a precondition for the successful growth of our Company. A core assignment of our personnel development is the comprehensive initial training of school leavers, the ongoing training of employees on all levels and in all sectors, and the preparation of staff for managerial positions within the Group. Executive positions are mostly filled from own junior staff, hiring external executives is also a necessity in order to introduce new ideas and experience into the Company.

■ High quality products and low costs of production are indispensable conditions for survival in competing for customers and markets. It is the predominant objective of our investment policy and of our entrepreneurial daily operations to achieve and maintain these preconditions. Implementing and maintaining the Group earnings improvement program, introduced in 1996, is a crucial assignment. In the research and development sector our financial resources will be supplemented by own high quality R & D activities, by close cooperation with customers, other companies and external research institutions, as well as rapid adaption of new developments.

■ It is our entrepreneurial duty to gear our production to the highest possible environmental compatibility and to economical consumption of raw materials, energy, and land.

On the basis of these guidelines, Salzgitter AG has formulated a Group strategy which was discussed with the Supervisory Board mid 1999 and subsequently put into operation. The major elements of this strategy are:

■ The quantitative Group target specified is a cyclical return on capital employed (ROCE) of 12% - defined as EBIT (earnings before interest and taxes) as a percentage of interest earning capital employed. The Steel Productions Division has a sub-target of 10% EBITDA-margin (Division income before interest, depreciation, and taxes as a percentage of gross sales).

■ During the coming years, the Company will pursue a growth strategy. This covers a qualitative growth in higher qualities and in value added processing in connection with the current program as well as the development of new program segments or sales channels. By means of both growth directions it is planned within the next three to four years to achieve a sales increase of at least 25% together with an improved earnings power and a lower dependence on products with lower output.

■ It is planned to realize this growth internally by investing in Group companies and externally by acquisitions or participations. The growth focuses are concentrating on the automotive industry, the building industry, and trading.

■ The Company will employ about DM 1.2 billion over the next three to four years to finance this growth stratey. DM 0.7 billion will be used for internal growth and DM 0.5 billion for acquisitions.

■ Approximately DM 0.7 billion will be financed from our own cash flow with the rest being raised by regulated borrowings of long-term external capital on the capital market. Regulated in this connection means not endangering an above-average financing stability, which is essentail in view of the cyclical steel markets.

■ Capital expenditure for the implementation of internal growth has already been finalized to a small extent, the larger part is in the course of being carried out:

- The strategic focus in the section sector is on utilizing the existing state-of-the-art plant and equipment to gain cost leadership; the existing and growing trading organization will provide a major contribution to this effect.

- In the plate sector we shall continue our course to double the share of higher qualities to 40%.

- Comprehensive investments in the hot rolled flat steel sector will secure and increase the performance of our hot strip mill - the central production unit for flat rolled products.

- In the cold rolled flat steel sector we are aiming at increasing the portion of coated and processed products to 85% and to thus set our mark as a provider of quality. Investment projects already initiated (new hot-dip galvanizing line, extension of the electro-zinc coating line, new coil-coating line) will supplement the existing facilities. Expanding the building elements production (roof and wall panels, sandwich elements) which was consolidated in the newly-founded subsidiary Salzgitter Bauelemente GmbH, Salzgitter AG will become a full supplier in this market segment. Tailored blanks production of Salzgitter Europlatinen GmbH will be enlarged by a new welding line.

■ The strategy provides financial means of DM 0.5 billion for the acquisition of companies or participations. Besides generating an adequate yield, we have set other goods for these acquisitions: to secure sales of our products or extension of our output chain in the trading sector on the one hand, and entry into new, technically sophisticated steel processing fields on the other. During the first quarter of the new fiscal year the following acquisitions were already made:

- The acquisition of a 26.2% shareholding in the English steel construction company Wescol Group, plc is aimed at securing sales and expanding the processing chain in the section sector.

- The shareholding in Oswald Hydroforming GmbH & Co. KG gives us an entry into the high technology of hydroforming. We are also having talks with other companies. The selection of suitable acquisition projects (outside of the trading sector) is basically made under the aspect of completing the process chain from steel producer to the supplier of components for the automotive and building industries step by step.

■ The strategy of Salzgitter AG is not only concerned with the internal and external growth envisaged through investments. It comprises a multitude of moves complementing the growth process. Here are some typical steps of special importance: stronger focusing on process-oriented procedures within the Company, extending the use of information processing, consistent implementation of the earnings improvement program, intensifying the technical marketing, greater employee share participation, adjusting the accounting to international standards.

It is our objective to implement this strategy within the next few years. We are convinced we are chartering the correct course for Salzgitter AG.

Salzgitter AG is a participant in the quality stock exchange segment SMAX of Deutsche Börse AG and included in the SDAX share index. The Salzgitter stock has been appraised increasingly positive by analysts during the fiscal year.

Investors Affairs

Capital markets and price development of the Salzgitter stock

At the beginning of the fiscal year 1998/99, international capital markets were under the influence of the crisis in South East Asia and the related worldwide turbulence. The German share price index DAX dropped below the 4,000 mark early October 1998. European steel company shares came also off their highs of mid 1998 and quickly dropped more than 40 percentage points through October 1998. As steel imports into Europe increased significantly, sales prices of the domestic producers came under pressure and capital markets expected considerably lower corporate earnings already at that time.

Salzgitter shares were also affected by these global developments and started with a price of 9.30 euro into the fiscal year.

The DAX recovered during the first quarter of the fiscal year to close the calender year 1998 at a steady 5,000 points. At first, European steel company shares did not follow this trend. After the turn of the year 1998/99, a reluctant recovery of steel shares was registered, as import pressure decreased. Anti-dumping suits had been filed and respective measures by the European Union were expected, which would lead to improved sales and prices. First of all, the Salzgitter shares followed this general market trend. While various steel shares achieved strong price gains, the Salzgitter share lost additional ground after the dividend markdown following the Annual Meeting. One apparent reason were the discussions about the Company earlier in the year, also held in public, which led to uncertainties on capital markets as to the future strategy of Salzgitter AG and its major shareholders. The relatively low liquidity of the stock is likely to also have had a negative effect. The share recovered from an interim low of 7.10 euro in May to reach 9.00 euro in July, at the announcement about the growth strategy, to then drop again to a level of 8.00 euro. At the end of the fiscal year, the stock closed in Frankfurt at 8.03 euro. This results in a market capitalization of approx. 500 million euro on balance sheet date. The DAX closed on September 30, 1999 at 5,150 points.

In spite of often-repeated optimism for the Y2K-economy, capital markets were generally characterized by a certain lack of orientation during the second half of the year, resulting in volatile prices and low turnovers. As a consequence of the uncertain atmosphere on capital markets, institutional investors focused on stock with high liquidity and market capitalization, neglecting small and medium sized companies. The reasons for this trend mainly emanated from the US, where after years of steady economic growth a certain dread of inflation was spreading, anticipating interest rate hikes.

Between October 1, 1998 and September 30, 1999, 9.277 million SZAG-shares were traded on the stock exchanges in Frankfurt, Hanover, Berlin, Bremen, Düsseldorf, Hamburg, Munich, Stuttgart, and in computer-trading (XETRA) of Deutsche Börse AG. Daily turnovers varied between 5,000 and 170,000 shares (in Frankfurt between 1,300 and 104,000 shares).

As of April 26, 1999, Salzgitter AG is a participant in the SMAX quality segment of Deutsche Börse AG. The SMAX market segment - placed below the DAX and the MDAX - was designed for small and medium sized companies, which are prepared to extended reporting beyond legal regulations. The greater transparency thus achieved is supposed to lead to a greater appeal of shares of participating companies for the benefit of private and institutional investors. On June 21, 1999, the SDAX index was introduced for the 100 largest companies of the SMAX. Salzgitter AG now belongs to the SDAX.

Investor Relations activities were further extended during the past fiscal year. We presented the Company's results for fiscal 1997/98 and the biannual results 1998/99 to financial analysts during well-attended conferences in Frankfurt and London. On the occasion of publishing the first quarterly results for the third quarter 1998/99, a telephone conference call was set up. Existing contacts to national und international institutional investors were maintained and extended by means of roadshows in Frankfurt, London, New York, Montreal, and Toronto and investor conferences in New York, Paris, and Salzburg. We also welcomed several analysts, investors, bankers, and journalists to our offices. During tours of our works and during thorough talks we discussed the current economic situation and presented the competitive positioning and the strategic direction of our Company. A positive assessment by financial analysts was the result of this information work. Ten out of eleven research reports published since mid-May commented positively on the Salzgitter stock, nine gave clear buying signals.

According to our observation, institutional investors hold about 7 to 10% of our stock.

Dividend

Executive and Supervisory Boards propose to the Annual Shareholders Meeting a dividend payment of DM 0.75 per share. Tax payers resident in Germany receive an additional tax credit of DM 0.32 per share. Based on the stock exchange price of the Salzgitter share of 8.03 euro (DM 15.71) this will result in a dividend yield of 6.8% including tax credit. The proposed distribution on the share capital of DM 312 million amounts to DM 46.8 million (previous year DM 78 million). The cash dividend amounts to DM 0.55/share after deduction of the withholding tax credit and surtax credit.

Tax calculation

	DM/share
Cash dividend	**0.55**
Withholding tax credit	0.19
Surtax credit	0.01
Net dividend	**0.75**
Corporation tax credit	0.32
Gross dividend	**1.07**

Information for investors

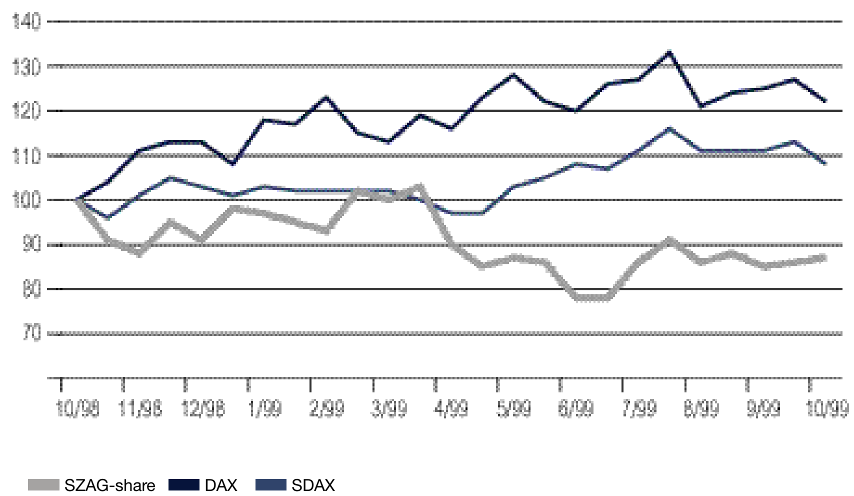
Share capital:
DM 312,000,000 (159,523,066.93 euro)
consisting of 62,400,000 common shares

Class of shares:
Common shares to be made out to bearer

High for the period:	euro	9.00
Low for the period:	euro	7.10
Cash price per share 9.30.1999:	euro	8.03
Market capitalization 9.30.1999:	million euro	501
Earnings before income tax/share:*	euro	0.75
Cash earnings/share:	euro	2.37
Book value/share:*	euro	10.28
Distribution ratio:	%	93.1

*excl.income due to minority shareholders

SZAG stock price



In spite of extremely difficult steel market conditions the Company achieved a significant positive result: DM 97 million before tax.

Management Report of the Salzgitter Group and of Salzgitter AG
Business Activities

Market situation

The intensification of the economic and financial crises in Asia, South America, and Russia, which first hit the news during the second half of 1998, led to a considerable deterioration of the situation on the steel markets during the fiscal year. Crude steel production, vital indicator for steel business activities, decreased significantly worldwide as compared with the first half (-6%). Crude steel production was even more reduced in the European Union (-13%) and in Germany (-13%). Dwindling sales in the crisis regions and the intensified efforts to find alternative sales markets led to drastic changes of worldwide steel supply routes. Massive imports pushed into the EU-market, particularly from South East Asia and Eastern Europe. This led subsequently to much fiercer competition, resulting in tonnage and price reductions for practically all products. Prices for new orders dropped to record lows by summer 1999. The bad market situation not only impaired prices and shipments of the steel producers, it also had a negative effect on tonnages and trading margins of the warehousing industries and international steel trading.

Commencing spring 1999, a gradual stabilization of the general market situation became evident. The worldwide economic scenario improved. The ongoing economic upswing in the United States proved sustainable, and the Asian countries - except Japan - showed marked signs of an end to the crisis. In consequence of anti-dumping and anti-subsidizing measures by the European Union, of the low price level, and of the rising US dollar, import pressure on the steel markets of the European Union eased. Inventory reductions at steel warehouses and steel users and anticipated price hikes led to increased order bookings and subsequently to an increasing crude steel production in the countries of the European Union.

During the summer months, the business situation for the steel companies continued to improve. Rising foreign demand, partly caused by a stronger US dollar, and strengthening domestic business activities in Germany and in the EU stimulated demand for products of the mechanical engineering and electrical engineering industries, the building and construction sector, and other steel consuming industries. Demand from the automotive industry remained on a high level. Pipe manufacturers experienced a different and negative trend; the lack of large oil and gas exploration projects led to a market collapse in respect of tonnages and prices. In response to the improved order book situation of the steel companies, crude steel production in Germany and in the EU rose again, so that the annualized production of fiscal 1998/99 was able to partly compensate the production losses of the first half.

Crude steel production

in 1,000t/month	worldwide	EU (15)	Germany	thereofSZAG
1994	60,445	12,641	3,403	377
1995	62,696	12,980	3,504	378
1996	62,510	12,217	3,316	343
1997	66,581	13,316	3,751	391
1998	64,696	13,326	3,671	394
1999	64,975 *	12,922 *	3,495 *	412**

*)Jan.-Oct.99
**)Jan.-Nov. 99

SZAG production

in 1,000 t	98/99	97/98	96/97	95/96
Large dia.pipes and trapezoidal sheets	114	151	108	113
Surface coated sheets	853	837	784	723
Sheets	367	420	439	401
Plates	753	825	762	630
Hot rolled wide strip,steel strip	1,065	1,183	1,217	1,109
Heavy sections	1,155	1,147	1,072	865
Crude steel	4,725	4,928	4,635	3,935
Pig iron	3,489	3,673	3,503	3,304

Order situation

The decline of the steel market which began during the summer of 1998 also had its effect on the business situation of Salzgitter AG. New order bookings which were below the level of shipments led to a diminished order backlog for rolled steel products of approx. 0.8 million t at the beginning of the new fiscal year. At the same time new order bookings increased again and continued to improve significantly from January through September 1999. New orders booked for rolled steel reached a level of 4.33 million t (previous year 3.77 million t). Consequently the order backlog rose continually to 1.18 million t at year-end.

Price development for new orders was in line with the market trend: during the first half, prices for almost all products disintegrated progressively. The price descent was first stopped for sections and subsequently for hot rolled coils. During the early summer period the trend was reversed into noticeable price increases. The price decline for other products - particularly cold rolled sheets, hot-dip galvanized sheets, and plates - continued and could not be stopped prior to the fiscal year-end. At the beginning of the new fiscal year, the price situation for those products - except for plates - improved significantly. On average, all products and markets suffered from a reduction in price level by more than DM 100 per t during the fiscal year.

The order situation of our trading subsidiaries developed similarly. Particularly the direct trading sector was affected by the deteriorated steel market situation caused by the international economic crises. Tonnage and price pressure on the market caused steel users to puchase only reluctantly through the second half of the fiscal year.

At the beginning of the fourth fiscal quarter, demand increased and prices stabilized simultaneously.

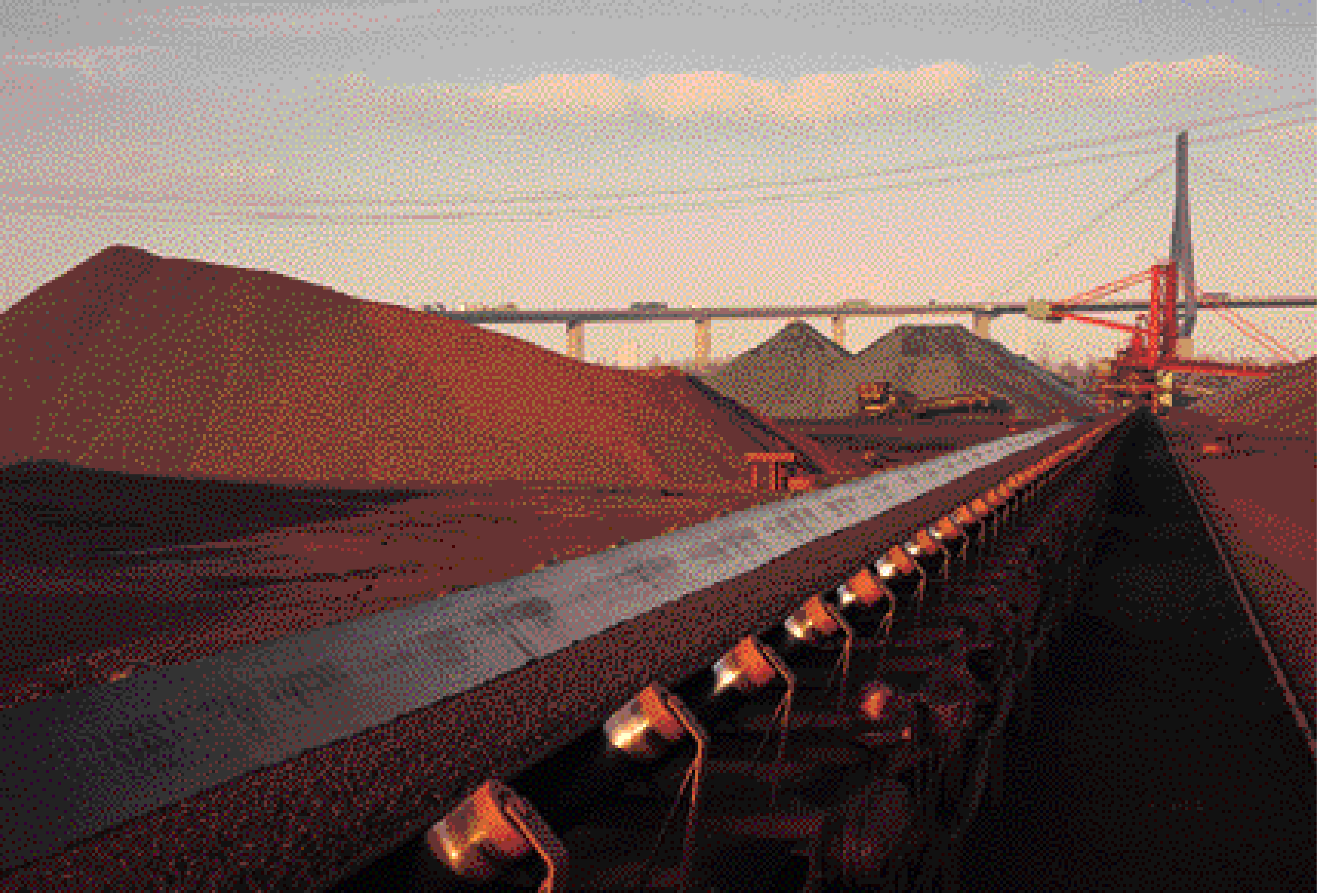
Inflow of orders at the companies of the Raw Materials and Services Division differed according to dependence on steel production.

Purchasing

Raw material markets were very lucrative during the entire year. There were substantial price reductions worldwide which we could benefit from.

Our ore receipts amounted to 4.8 million t (previous year 5.4 million t). Ore prices fob port of loading diminished by approx. 15% on dollar basis in our favor, partly market induced, partly through change of grades. In order to protect our long-term ore supply, we purposely purchased our ores from different suppliers in different regions.

Since February 1, 1999 - following the mutually agreed termination of the contract between the coal and coke purchasing steel companies and Ruhrkohle AG - we have been buying about 50% of our coking coal (approx. 750,000 t/p.a.) from German production at world market prices. Our contract with RAG Verkauf GmbH in Essen is to run for five years. Simultaneously we have increased the share of imported coal from Canada, Australia, and Poland by about 30%. Favorable world market prices, the new purchasing structure, and the process continued in close cooperation with the technicians, to optimize the coal mixture for coke production in qualitative and pricing respects, led to an average reduction of the cost of coal purchased by about 20%. At the same time, the coke quality was improved. In a comparison across Europe, we hold an excellent position in respect of coke costs.



Due to the competitive conditions for line-supplied energy, beginning after the introduction of the energy law amendment, we were able to immediately negotiate with our suppliers on market-oriented price reductions. Our purchasing prices for natural gas declined by about 11% compared with the previous year.

The changing raw materials and energy prices were a major contribution towards compensating for the deterioration of steel prices.

The tonnage of scrap purchased came to a total of 1.2 million t (previous year 1.25 million t). Prices remained on a low level during the entire year and were relatively stable. Compared with the previous year, there was an average price reduction of about 30%. The required supply to our Peine and Salzgitter Works was assured at all times. Our 100%-subsidiary DEUMU Deutsche Erz- und Metall-Union GmbH, one of the largest German group-owned scrap trading companies, contributed to this effect supplying 60% of the SZAG requirements.

In the capital goods sector the largest single order placed was for the hot-dip galvanizing line. In the sector steel production total orders placed were for about DM 278 million.

Production and shipments

The steel market scenario described was also reflected in the production conditions at our three locations in Lower Saxony and Saxony-Anhalt. After a decline of crude steel production to 1.00 million t during the first fiscal quarter - partly influenced by planned blast furnace repairs - it normalized during the following quarters and reached 1.24 million t/quarter meeting the average level of 1.23 million t/quarter of the previous year.

Altogether crude steel production went up to 4.73 million t; it was thus only 0.20 million t or 4.1% below last year's figure, quite a reasonable production performance considering the difficult market situation. 3.85 million t (previous year 4.02 million t) of crude steel production came from the Salzgitter steel-making plant and 0.88 million t (previous year 0.90 million t) from the electric steel plant in Peine. During the fiscal year 1998/99 rolled steel production diminished by 0.25 million t to 4.22 million t, 5.7% less than during the previous year.

Shipments of rolled steel and processed products reached 4.23 million t (previous year 4.38 million t) 3.4% below last year. Sections and section products remained stable at 1.14 million t, close to last year's level of 1.15 million t. Shipments of cold rolled sheets and surface coated products increased slightly, while the tonnage shipped of plates and hot rolled coils dropped considerably.

The Companies in the Salzgitter Trading Group sold approx. 4.1 million t of steel products, a decline of 5% compared with last year. The reduction came predominantly from the international trading side. The Dutch and Canadian companies, however, were able to increase their shipments.

Balance sheet, income statement, finance

Consolidated Group

For a better understanding of mostly negligible changes in the balance sheet and in the income statement it should be pointed out, that Verkehrsbetriebe Peine-Salzgitter GmbH (VPS) were included in the consolidation for the first time during the fiscal year. As the company has mostly internal sales with Salzgitter AG and profits were distributed during last year, the consolidation does not have a great influence on sales and earnings.

Group balance sheet total of DM 3,310 million was DM 167 million below previous year (DM 3,477 million). Fixed assets increased by DM 64 million as opposed to a reduction of tied-up current assets of DM 231 million. Fixed assets changes resulted from investments of DM 232 million (DM 16 million thereof in financial assets) and depreciation/disposals of DM 215 million as well as the consolidation of VPS. Book value of property, plant, and equipment corresponded to approx. 18% of cost of acquisition. A reduced tie-up of inventories and receivables and lower liquid funds (reduced by DM 128 million to DM 99 million) caused the lower value under current assets. The shrinking of liquid funds is in connection with a significant cut of short-term liabilities after expiration of financing by bills of exchange for Group accounts payable. Accounts payable hardly changed (DM 306 million), other short-term liabilities were reduced by DM 290 million. Working Capital - defined as difference between short-term assets and short-term debt (incl. other provisions) - increased by DM 99 million to DM 1,056 million.

Shareholders' equity (before distribution of dividends) amounted to DM 1,260 million and was almost unchanged; due to a lower balance sheet total the percentage share increased to 38% (previous year 36%). 95% (previous year 99%) of fixed assets were covered by shareholders' equity. Under provisions the provisions for pensions increased to DM 1,061 million (previous year DM 951 million), mainly because of the first consolidation of VPS (DM 80 million) and the consideration of the new mortality tables; they are thus a major support of corporate financing. Other provisions diminished to DM 483 million (previous year DM 540 million); the reduction was related to the Steel Production Division only and was mainly caused by the use of major provisons (eg taxes, blast furnace repairs).

Assets and financing structure

DM million	9.30.99	%	9.30.98	%
Property, plant, and equipment and intangible assets	1,191	36	1,141	33
Financial assets	133	4	119	3
Inventories	884	27	961	28
Other current assets	1,102	33	1,256	36
Total assets	**3,310**	**100**	**3,477**	**100**
Shareholders' equity	1,260	38	1,252	36
Pension provisions, other long-term liabilities	1,121	34	964	28
Short-term liabilities	929	28	1,261	36
Total equity	**3,310**	**100**	**3,477**	**100**

The statement of income showed sales of 5,272 million, a strong decline of 15.5% compared with the previous year (DM 6,245 million). Sales reduction applied to all divisions and product groups. The non-consolidated sales of the individual Divisions developed as follows: Steel Production DM 3,037 million (-DM 589 million), Steel Trading DM 2,876 million (-DM 693 million), Raw Materials and Services DM 861 million (-DM 3 million). Last year's sales of VPS, not included in these figures, amounted to DM 123 million. The reduction in sales was, in part, due to lower tonnages, but mostly due to lower prices (cf Division comments). Approximately 78% of sales were made in the EU; the EU thus remains the Group's major market. A significant contribution towards earnings improvements originated from lower prices for material purchased essential for steel production (ore, coal, electricity, scrap) and from lower cost prices in the steel trading sector. The foregoing and lower tonnages caused the cost of materials to drop by 23% to DM 3,209 million. Personnel expenses increased slightly (+2% to DM 1,104 million). The consolidation of VPS accounted for DM 70 million of the increase with the rest resulting from salary negotiations. Depreciation of DM 210 million on property, plant, and equipment were DM 22 million below total investments. Net interest result (-DM 54 million) includes the interest share of additions to pension provisions of DM 59 million.

Income from ordinary operations (EBT) was DM 97 million (previous year DM 287 million). All divisions contributed to the positive result. Steel Production DM 57 million (previous year DM 234 million), Steel Trading DM 24 million (previous year DM 33 million), Raw Materials and Services DM 17 million (previous year DM 18 million). After taxes (tax rate 45%) the net profit for the year was DM 50 million. Considering the income brought forward from the previous year (DM 88 million), minority interests (DM 0.6 million), and the scheduled additions to reserves of DM 26 million, this resulted in a non-distributed income of DM 112 million.

Sales by to product groups

DM million	1998/99	%	1997/98	%
Flat rolled products	2,905	55	3,672	59
Sections	977	19	1,101	18
Other	1,390	26	1,472	23
Total sales	**5,272**	**100**	**6,245**	**100**

Credit lines arranged with credit institutions were extended beyond year-end with a practically unchanged volume. They were sufficient at any time to cover short-term liquidity requirements. Group liabilities to banks were DM 88 million at year-end. There were DM 99 million of liquid funds against credits used. Salzgitter AG conducts the cash and interest management for Group companies. Currency transactions in US dollars are hedged by firstly setting off sales and purchases (netting) and then by rate-hedging the residual amounts. In principle, non-euro currencies are also rate-hedged.

EBT by Division

DM million	1998/99	1997/98
Steel Production	57	234
Steel Trading	24	33
Raw Material/Services	17	18
Other/Consolidation	-1	2
	97	**287**

After the Salzgitter Group has adopted its growth oriented strategy, the Company will develop an adequate volume of long-term outside funds. In cooperation with a financial institution, a strategic corporate model was developed in anticipation, allowing a simulation of the effect of various financing strategies on pertinent structural key data.

Cash earnings

DM million	1998/99	1997/98
Net income for the year	50	148
Amortization and depreciation of fixed assets	211	216
Increase of pension provisions	32	25
Change of special reserves with an equity portion	7	-
Non-cash expenses	5	4
Non-cash income	-16	-1
	289	**392**

Changes in financial position

DM million	1998/99	1997/98
Increase in cash from current operations	348	142
Cash used for investing activities	-220	-156
Cash used for financing activities	-46	-56
Change in liquid funds with cash effect	82	-70
Change in liquid funds through change in consolidation	89	455

Group gross cash flow (cash earnings according to DVFA/SG) was DM 289 million (previous year DM 392 million). Cash from current operations as net balance of cash earnings and a number of partly offsetting changes in inventories, accounts receivable, liabilities, and provisions amounted to DM 348 million, up DM 206 million on last year. Considering the increased cash used for investing activities (-DM 220 million) and the cash used for financing activities (-DM 46 million, thereof -DM 84 million payments to shareholders), this resulted in short-term liquid funds of DM 95 million at year-end (previous year -DM 76 million). The detailed calculation of changes in the financial position is presented in the notes.

Value added amounted to DM 1.27 billion (previous year DM 1.44 billion). Employees' share of value added application increased to 91% (previous year 78%).

Value added of the Salzgitter Group

Origin DM million	1998/1999	1997/1998	Application DM million	1998/1999	%	1997/1998	%
Sales	5,272	6,245					
Other income	116	258					
Company performance	**5,388**	**6,503**	Shareholders	47	4	78	5
Cost of materials	3,209	4,168	Employees	1,163	91	1,132	78
Amortization and depreciation	211	216	Public sector	47	4	139	10
Other expenses	698	676	Lender	9	1	24	2
Advance payments	**4,118**	**5,060**	Companies	4	0	70	5
Value added	**1,270**	**1,443**	**Value added**	**1,270**	**100**	**1,443**	**100**

Salzgitter AG

As in the previous year, the Salzgitter AG balance sheet shows as deviation from the consolidated balance sheet insofar as the special reserve with an equity portion was not balanced with fixed assets.

The balance sheet total diminished as compared with the previous year by DM 163 million (-5.2%) to DM 2,959 million.

Investments of DM 197 million and depreciation/disposals of DM 251 million resulted in a reduction of fixed assets by DM 54 million to DM 1,418 million. Fixed assets include a slightly higher share (48%) of tied-up assets. The net worth (equity plus 57% of special reserve and excluding dividend) of DM 1,270 million covered almost 90% of fixed assets. Its share in tied-up assets was 43% (previous year 42%).

Current assets diminished by DM 110 million, DM 100 million thereof applied to inventories.

The reduction of liquid funds by DM 125 million and the increase of accounts receivable and other assets (including amounts due from affiliated companies) by DM 116 million have to be viewed in connection with the financing by bills of exchange of Group accounts payable no longer practiced during the second half of the fiscal year.

Year-end Financial Statement of SALZGITTER AG (short version)

(DM thousand)

Balance sheet

	9.30.1999	9.30.1998
Fixed assets		
Intangible assets	18,588	20,980
Property, plant, and equipment	1,177,549	1,245,207
Financial assets	221,952	205,626
	1,418,089	1,471,813
Current assets		
Inventories	562,982	663,015
Accounts receivable and other assets	898,314	782,593
Liquid funds	71,457	196,672
	1,532,753	1,642,280
Deferred charges and prepaid expenses*	8,532	8,632
Total assets	2,959,374	3,122,725
Shareholders' equity		
Capital subscribed	312,000	312,000
Reserves	758,215	734,462
Non-distributed income	112,088	166,308
	1,182,303	1,212,770
Special items	242,171	306,820
Provisions	1,075,558	1,178,506
Liabilities	459,342	424,629
including liabilities to banks	22,152	8,552
Total shareholders' equity and liabilities	2,959,374	3,122,725

Income statement

	1998/99	1997/98
Sales	3,036,547	3,625,623
Change in inventories	-71,029	+104,707
Cost of materials	1,495,378	1,996,075
Personnel expenses	636,076	682,015
Depreciation	244,260	272,115
Income from shareholdings	+15,503	+25,192
Net interest result	-33,161	-37,629
Other expenses and income	-496,094	-508,151
Result from ordinary operations	+76,052	+259,537
Taxes	28,546	121,785
Net income for the year	47,506	137,752
Non-distributed income brought forward from prior year	88,335	28,556
Transfers to other retained earnings	23,753	-
Non-distributed income	112,088	166,308

* incl. special loss account

Sales of DM 3,036 million (previous year DM 3,626 million) showed a significant decline, (-16.3%) mainly due to prices. Reduction of total operating performance to DM 2,965 million was worsened by negative changes in inventories (-20.5%).

Lower prices for major goods purchased for steel production relieved the result; together with measures of the earnings improvement program they led to a reduction of cost of materials of DM 501 million (-25.1%).

Mainly due to further transfers of employees to PPS Personal-, Produktions- und Servicegesellschaft mbH (PPS) within an agreement for part-time senior employees, personnel expenses were reduced by DM 46 million (-6.7%) despite counteracting salary increases and the new mortality tables. In contrast to lower personnel expenses higher costs for services were purchased from PPS under other operating expenses.

The asset items for tailored blanks production maintained under current assets by SZAG were transferred to Salzgitter Europlatinen GmbH during the fiscal year. The disposal (DM 23 million) was charged to other expenses; it was set off by an almost equal income under other income.

Depreciation diminished by DM 28 million to DM 244 million due to lower investments during the last two years. Income from shareholdings was DM 15 million (previous year DM 25 million) due to lower earnings of the subsidiaries; payments by foreign subsidiaries of the Steel Trading Division are not included.

The result from ordinary operations declined to about DM 76 million (previous year DM 260 million). After deduction of taxes, a net income for the year of DM 48 million remained, which after adding the non-distributed income from the previous year of DM 88 million and the transfers to retained earnings of DM 24 million, led to the non-distributed profit of DM 112 million.

Employees

At the end of the fiscal year 1998/99 the Group had 12,271 employees (without trainees) in all consolidated companies (previous year 11,535 employees). The increase over last year mainly resulted from including Verkehrsbetriebe Peine-Salzgitter GmbH in the consolidation. Altogether 1,519 employees were added to the payroll against a reduction of 783. Normal fluctuation and a part-time agreement with senior employees are helping the Company to make structural personnel adjustments. By year-end, a total of 407 part-time agreements with senior employees were concluded. The first participants in this agreement will retire early in the fiscal year 1999/2000.

Personnel development focuses in particular on corporate primary training, on qualifying measures for employees, on industrial safety, and on absenteeism. The number of trainees in the Group was 748 (incl. VPS) compared with 668 (without PPS) at the end of last fiscal year. PPS is mainly responsible for primary training.
Our particular attention is on security and fostering junior executive staff. Newly employed junior staff first enter a training program and are, thereafter, prepared in special training courses to take up jobs including managerial positions. VPS provides a comprehensive education program for all Group employees.

We refer to section “Employees” on page 65 in this report for further details of personnel development.

Earnings improvement program

Internal rationalizations, restructuring, and market-related developments within the Earnings Improvement Program (EIP) made a major contribution towards corporate results during the fiscal year. Measures of the EIP towards increasing production and productivity, product qualification, and quality improvement go beyond a simple cost-cutting program; its results are reflected in all items of the income statement. The program, which was initiated in 1996, achieved economic benefits worth DM 390 million from more than 500 projects during fiscal 1998/1999. Subsidiaries contributed about DM 33 million. The budgeted DM 318 million by year-end were thus exceeded.

The following projects were particularly successful:

- Optimization of homogenized ore burden in the blast furnace plant,
- Reduced consumption of energy, alloying elements, electrodes, and refractory material, as well as productivity improvements in the steel plants in Salzgitter and Peine,
- Extending operational readiness of plant and equipment in the cold rolling mill and surface coating operations,
- Increase of productivity of the section rolling mills in Peine,
- Reduction of flowtime by optimizing logistic processes,
- Moving into high-quality program-segments for plates.

The earnings improvement program has grown into an established part of company management in the Salzgitter Group, the program will be consistently complemented and continued during the coming fiscal year.

Investments

During the fiscal year the Salzgitter Group executed an extensive investment program, partly within the framework of the adopted growth strategy. With total investments of DM 232 million - depreciation being DM 211 million - the Company was further directed to the challenges of the future. Investments in property, plant, and equipment and in tangible assets of DM 216 million were broken up in DM 173 million for the Steel Production Division, DM 13 million for the Steel Trading Division, and DM 30 million for the Raw Materials and Services Divisions.

Investments/Depreciation[1)]

	Investments		Depreciation	
DM million	total	thereof steel production	total	thereof steel production [3)]
95/96[2)]	288	263	185	156
96/97[2)]	211	173	206	175
97/98	156	127	216	186
98/99	216	173	210	174
Total	**871**	**736**	**817**	**691**

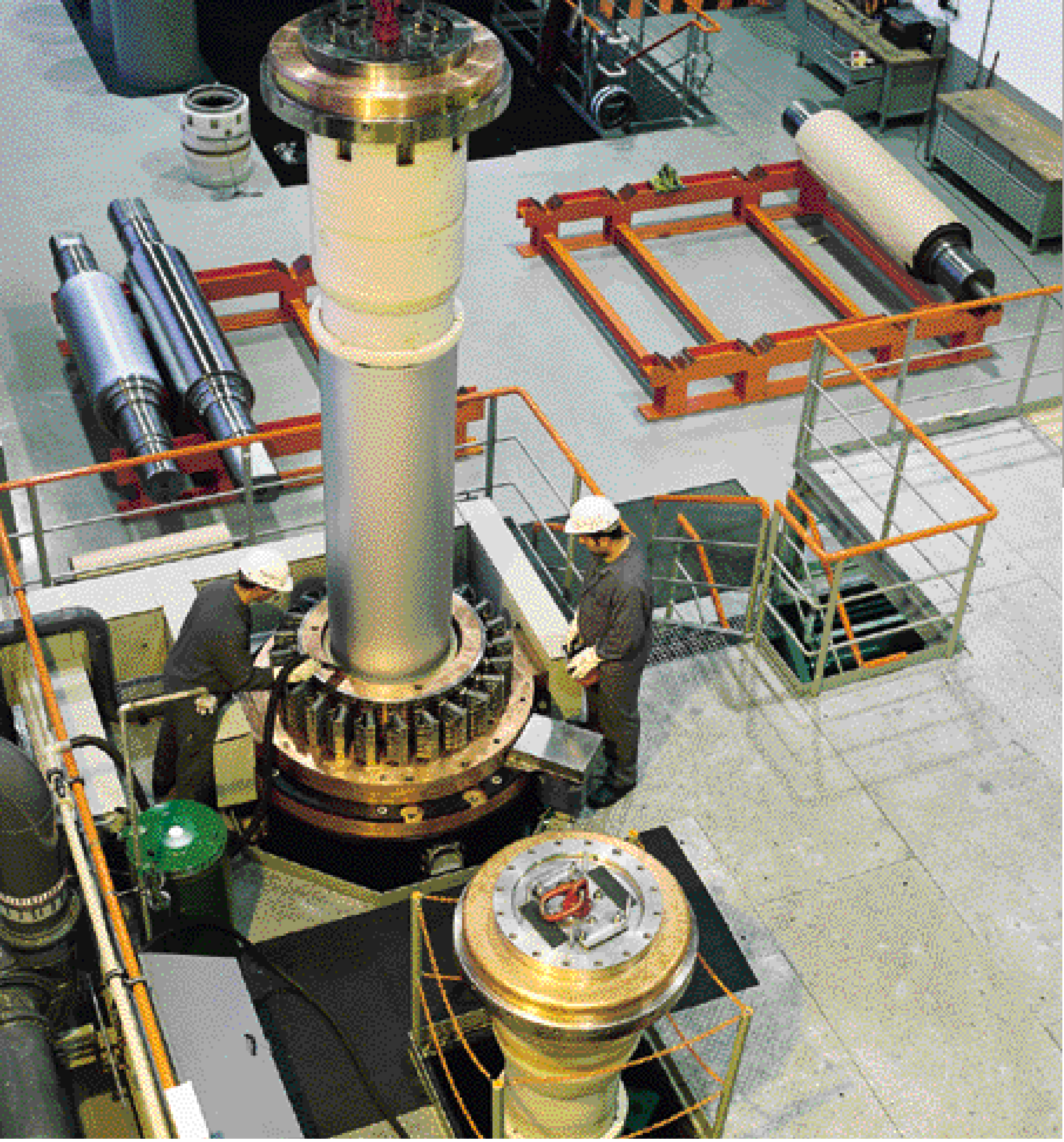
1) without financial assets
2) considering change of consolidation as of 10.1.1997
3) including depreciation permissible under tax law (corresponding releases of special reserves with an equity portion are offset) included in other operating expenses

A significant number of investments are for rationalization and replacement measures which aim predominantly at improvement, renewal, and securing of our production plants and equipment and information processing systems. Several large investments are mainly targeted at the development of the quality level of our products and at extending the value added chain. The major individual investments are for the construction of a high-performance coil-coating line (start-up early 2000) and a new hot-dip galvanizing line under construction (start-up scheduled for early 2001). After completion of both lines, Salzgitter AG plans to increase the share of coated material in the cold rolled sheet sector to 85% and thus achieve an essential objective of corporate strategy towards extending the process chain in the cold rolled sector. Moreover, both lines will contribute towards reaching the goal of introducing new and high-quality products to the manufacturing program of Salzgitter AG.

Investments in the product sector plates during the last fiscal year were focused again on expanding the quality range. In April 1999, the water tempering line for plates went into operation and we are now in a position to supply high abrasion resistant steels and high strength weldable fine grain structural steels for sophisticated applications.

Investments in the Steel Trading Division and in the Raw Materials and Services Division are for a multitude of smaller projects. The largest individual project is the expansion of the transshipment and storage facilities for imported coal at Hansaport Hafenbetriebsgesellschaft in Hamburg. It is intended to tranship a large part of the expected increased import coal tonnage at Hansaport. Reaching completion, this DM 20 million project will underline the importance of the largest and most efficient transshipping port for bulk goods on the German North Sea and Baltic Sea coasts.

During last year, DM 12 million was invested in financial assets of the Salzgitter Group intended for the extension of our industrial investments.



Innovative developments and their marketing realization stand for the high quality standards of our products.

Management Report
Research and Development

As part of our intensified technical marketing and in cooperation with steel users, engineering companies, plant manufacturing companies, and research institutions we are conducting a variety of R & D projects.

We have been focusing on improving productivity and quality, energy saving, and completing material cycles in our production facilities. Furthermore, development, production, and market introduction of new steel grades have been intensified and customer servicing and consulting in steel processing stepped up.

In **Salzgitter,** surface inspection equipment was brought into operation at the exit section of the continuous pickling line with the intention of further improving coil surface quality and to optimize the upstream and downstream process stages. The high quality standard was able to be further improved by establishing a classification table for earliest possible recognition of production surface defects.

The technology of hot rolled coil production in accordance with the direct strip casting process was further developed on the testing equipment of the Technical University of Clausthal and the Swedish research institute MEFOS with major participation of Salzgitter AG. This technology promises substantial cost savings and innovative perspectives for the production of new grades with improved material characteristics.

In steelmaking technology several hot rolled coil grades, eg dual-phases-steel DP 600, were released for series production. Furthermore, we were able to successfully demonstrate and present the processing properties of high tensile micro-alloyed hot rolled coil grades and the high tensile martensite steels by means of forming tests. Aside from the isotropic steels (I-Stahl®), successfully introduced to the market some years ago, further high tensile cold rolled steels were tested in cooperation with our customers and a lightweight construction potential for the current series production of up to 15% was proven. The above average share of surface coated products of Salzgitter AG was increased further. Particularly the application of high strength galvanized steel qualities combined with new corrosion protection coatings offers promising opportunities in vehicle manufacturing and other industries. Production technologies as well as application properties of this product group were developed and optimized to customers' standards.

In addition, Salzgitter AG has further intensified its activities towards customer support by continually attending development processes of new products through to the finished part. In the area of construction and process simulation CAD and FEM (Finite Elements Method) systems employed were extended for maximum compatibility of systems with our customers. The test benches of Salzgitter AG for determining forming and component characteristics were enlarged and equipped with state-of-the-art control and evaluation software.

New processing technologies in connection with the coil-coating process of prepainted sheets, eg bonding, seaming, and mechanical joining, were adjusted to the standards of large scale series production. As an alternative to welding, mechanical joining processes and bonding have gained importance during the past years. This is due among others to the increasing use of material combinations and the possibilities of production automation.

The ULSAB (Ultra-Light-Steel-Automotive-Body) project, a joint project of the steel industry, was successfully completed and presented to our clientele. Salzgitter AG provides technical cooperation and special SZAG alloys for the follow-up project ULSAC (Ultra-Light-Steel-Automotive-Closures). The target is to demonstrate a possible lightweight construction potential for mounted body parts such as doors and to implement the prototype parts.

In view of continually rising consumer standards, product development in the quality department of the **Peine** Works focused on improving high tensile and toughness characteristics with simultaneous upholding of good welding properties of our rolled steel sections. This applies to our standard sections and sheet piling program as well as to our newly developed special sections which represent a particular challenge as to material technology. Tailor-made alloy and rolling concepts were developed for new lightweight sections and heavy bearing piles. These improvements were implemented without cost increases, in part even with cost reduction effects.

The production program of the **Ilsenburg** Works focused on the commissioning of the water-tempering plant at the Salzgitter location. With this modem plant the production of high quality abrasion resistant and high strength steel grades was taken up. We have introduced a product range for abrasion resistant steels comprising the classic successful types plus alloyed grades with longer operating lifes and the same excellent workability.

The previously produced abrasion resistant steel grades of Salzgitter AG (PS 180h, PS 265h, 51Mn7, and X120Mn12) were thus complimented by the high quality steels (Brinar® 400, Brinar® 400 Cr, and Brinar® 500 Cr). This complete product range provides optimal wear-and-tear protection for the most varying demands.

Material developments concentrated on the production of high tensile steels with guaranteed yield points of 960 MPa, which are predominantly used for mobile crane construction, and on the production of steel for pipe manufacturing in the qualities X80 and X100.

Aside from the abrasion resistant and high tensile steel grades, thermomechanically rolled extra-tough steels, which were analytically developed during last fiscal year, contributed to shift the product range towards high quality products.

The Company's risk management is an integral part of corporate management.

Management Report
Risk Management System

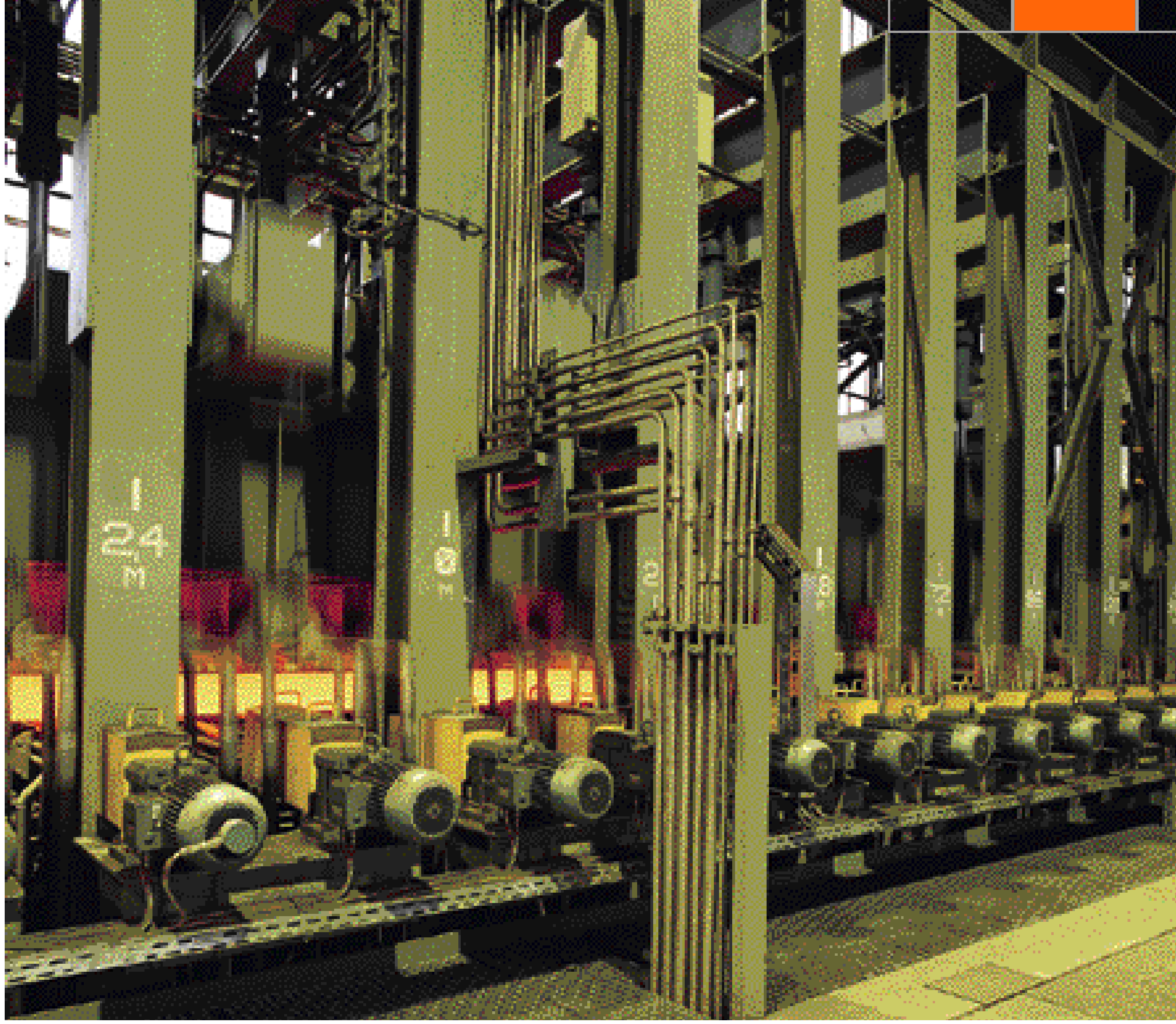
The steel industry is exposed to strong cyclical fluctuations and always reacts sensitively to changes of the general economic scenario. This is a fact which is neither new nor, in principle, threatening, if corporate action is oriented accordingly. The globalization of financial and commodity markets and the intensification of competition arising from the emergence of new production capacities in practically all world regions, from market openings, from progress in worldwide transport activities, and from global data processing, leads nowadays to stronger and shorter-term fluctuation of the economic cycle of the steel market. The growing challenges to people and industrial equipment - as to product quality, delivery performance, and competitiveness - result in a strong dependence on fixed cost structures, which cannot be adjusted in the short term. This is often the main reason for over proportional earnings fluctuations caused by changes of tonnages and prices on the sales and purchasing side.

Consequently, Salzgitter AG realizes the risks it is confronted with, risks which are an integral part of our entrepreneurial activities aside from the chances presented in our industry with all its particular characteristics. It is our basic principle to only incur such risks in connection with our business transactions and only if there is an adequate chance to generate surplus value for the Company. Therefore, risk management does not necessarily mean avoiding risks altogether, but identifying them, assessing them, and keeping them under control to such an extent, that there is a balanced relation of chances and risks on the one hand and that risks occurring do not endanger the existence of the Company or materially affect its earnings power on the other hand.

Salzgitter AG understands efficient and far-sighted risk management to be an important and productive instrument in company management. Suitable procedures and control systems were and are being developed and also adjusted to new findings. This is why we see the requirements laid down by the KonTraG - German legislation on corporate control and transparency forcing companies to establish and document a closed, early warning surveillance system against developments likely to endanger the survival of the company - as simply a legal formality codifying that which we regard as an essential condition for successful business practise.

The requirement to evidence a closed risk management system has made us take stock this year of all in-house rules for risk control and to establish a summary of all possible perilous risks. We have determined in a systematized process which conditions must be fulfilled to keep the likelihood of great risks as small as possible. The joint Executive Board will be kept informed in writing about individual great risks or the accumulation of small risks endangering the continued existence of the Company. In this respect the Supervisory Board will also be informed by the Executive Board.

In agreement with the Executive Board, the Supervisory Board has instructed the Auditors to carry out a voluntary audit of the fiscal year 1998/99 of Salzgitter AG prior to the expiration of the temporary legal regulations and to already apply the rules of the KonTraG. The new regulations of the AktG (German Stock Corporation Act) and of the HGB (Commercial Code) directed at the risk management system were to be implemented early for the year under review.



The major risks of entrepreneurial activities for a steel producer include in particular the supply of essential raw materials (iron ore, scrap) and energies (coal, electricity, gas) not in line with market requirements. We are countering the raw material risk with partially long-term master contracts, ensuring the supply of such raw materials from different regions and from various suppliers. Furthermore, we always have sufficient stock. Our assessment of the supplying sources ensures the availability of these raw materials in sufficient tonnages and in the qualities required. This also applies to coal supplies, which are partly from domestic production, partly from the world market. We purchase electricity on a contractually secured basis as far as our requirements are beyond our own electricity production.

Another major large risk may result from severe fluctuations of prices and quantities on sales markets. We can counter the risk of landing in difficult financial situations by having a wide diversification of products, customers and regional markets, by having a sound balance sheet and financing structure, and by dealing with specific counteractive measures on the markets and internally. Nevertheless, we consider short-term and large market induced earnings fluctuations as a normal feature in our industry.

In the process chain of steel production there are various production plants whose unscheduled and long-lasting stoppage could cause significant damage. We are minimizing that risk by thorough and partly preventive maintenance, by continuing equipment control, and by a program of permanent modernization and reinvestment.

We try to counter possible risks as to our operations and economic efficiency, which may originate from changes of legal regulations or political targets, by participating in political decision-making (eg via associations) in the interest of the Company, or by early adjustments.The observance of laws and regulations is covered by comprehensive legal advice from our own experts or occasionally from external specialists. Existing risks from litigation (eg with the European Union in respect of recognition of the special depreciation according to the law for subsidies for border regions used by Salzgitter AG at one time) are provided for in the balance sheet.

We guard against possible product and environmental risks through a multitude of measures for quality assurance and extensive environmental management. Should there by any damage irrespective of all efforts, the financial consequences of such risks are either limited or completely precluded by insurance cover.

Incurring financial and foreign currency risks is only permissible in connection with our typical steel production or trading activities. This is governed by rules and regulations in the entire Group. Foreign currency risks from purchasing or sales transactions have to be hedged in principle, either by internal netting or by rate hedging. Proper instruments are provided for hedging interest rate exposures. Risk carrying open commitments or financing in the international trading business are not permitted. Risks from accounts receivable are limited by credit insurance, if possible, or by stringent internal exposure control.

Monitoring and controlling the economic risks from current business activities takes place in a planning and control system for the entire Group. Here, possible consequences for the Company's performance emanating from the risk factors are determined and passed on. This ensures that also smaller likely and quantifiable risks, which may occur at various places within the Group and which may jeopardize the existence of our Company only by their cumulative effect, are recognized well in time.

Moreover, the internal audit-department of Salzgitter AG, an independent authority not directly involved in the current business activities, is continuously monitoring the compliance with the risk managment system in the entire Group, the efficiency of the system, and is probing into sensible system extensions.

There were no risks endangering the existence of Salzgitter AG during the fiscal year 1998/99. There are presently no tangible risks recognizable, which might adversely and permanently affect the assets, the financial or earnings situation of Salzgitter AG or its existence.

Scheduled dividend distribution achieving higher-than-average yield.

Management Report
Appropriation of Earnings, Legal Relations

■ Proposal on the appropriation of earnings

The Executive and Supervisory Boards intend to propose to the Annual Shareholders' Meeting to use DM 46.8 million of the non-distributed income of DM 112.088 million for the distribution of a dividend of DM 0.75 per share and to transfer an amount of DM 65.0 million to free reserves and the remaining DM 0.288 million to retained earnings. The tax credit (corporation tax deductible) to our domestic shareholders attached to the dividend distribution corresponds to the distribution tax charge and thus amounts to DM 0.32 per share.

■ Report on relations with affiliated companies

In accordance with §.312 AktG (German Stock Corporation Act), the Executive Board submitted the report on the existing participatory relations. In its conclusion, this report states that our Company has received adequate consideration for any legal transactions with an affiliated company and that it has never been at a disadvantage in respect of any other measures taken or not taken, on behalf or in the interest of associated companies.

In accordance with §.313 AktG, the dependency report was audited by PwC Deutsche Revison Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover. It was given the unqualified audit opinion.

■ Legal relations with affiliated companies

During the fiscal year Salzgitter AG had controlling and profit transfer agreements with the following subsidiaries:

- Salzgitter Handel GmbH, Düsseldorf
- DEUMU Deutsche Erz- und Metall-Union GmbH, Peine
- GESIS Gesellschaft für Informationssysteme mbH, Salzgitter
- “Glückauf” Wohnungsgesellschaft mbH, Peine
- Peiner Agrar- und Hüttenstoffe GmbH, Peine
- PPS Personal-, Produktions- und Servicegesellschaft mbH, Salzgitter
- telcat multicom gmbh, Salzgitter

Mutual trade and services between Salzgitter AG and its subsidiaries and affiliated companies are, in principle, based on prevailing market conditions.

The Salzgitter Group will benefit from the expected positive development of steel markets and will improve its earnings situation.

Management Report
Outlook

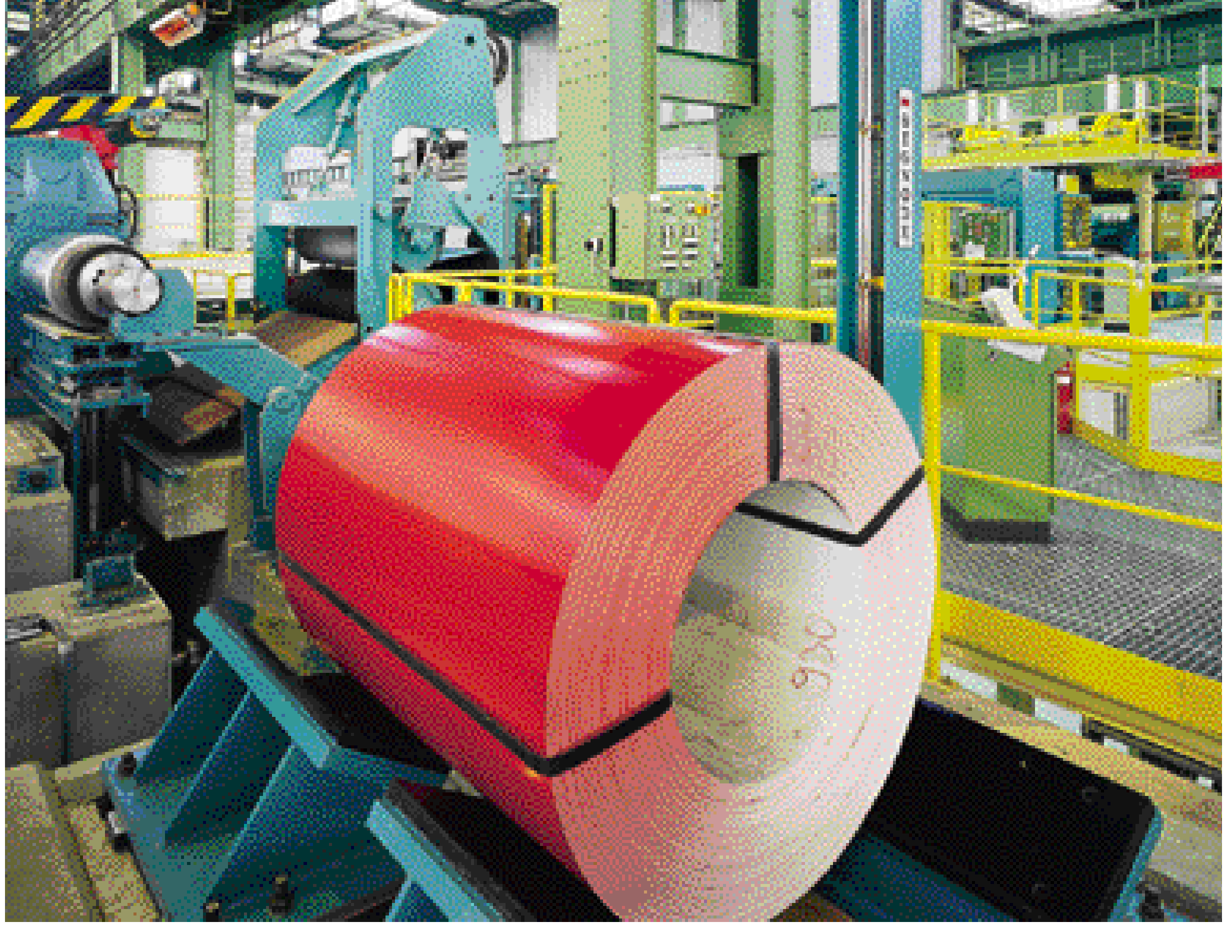
Based on our own assessments and on the current prognoses of national and international steel industry associations we can expect quite a positive development of the steel markets for the current fiscal year.

As global economic development already stabilized markedly during fall of 1999, the economic trend in Germany - meanwhile with strengthening domestic demand - is following the classic pattern of an export induced upward movement. Available forecasts predict positive impulses from a brisker world economy for German export activities in the year 2000. Moreover, the continued strengths of dollar and pound are favoring exports to countries outside the euro-area. The relatively stable prices and the comparatively low interest rates will stimulate investment and private consumption. The economy in Germany and in Europe will thus continue to gain momentum. Presently, a real gross domestic product of 2.5% to 3% is expected for the calendar year 2000.

Following the trend of the overall economic development, production of steel consuming industries will increase in the year 2000. There will be a significantly increased demand for products of the mechanical and electric engineering industries. The building trade will also register a strong production increase. As to road vehicle manufacturing, production and shipments will tend to weaken after the boom of the past years, but will continue on a high level. Steel construction can also expect a stronger expansion compared to 1999. The situation at the pipe mills is still relatively unstable, although an increasing demand seems possible in this sector. Altogether, steel consumption growth of 3% is forecast for the European Union in 2000.

Worldwide steel consumption will also develop positively. Medium-term estimates of the Iron and Steel Institute assume steel consumption of 719 million t during 2000 (+3% over 1999). During the following years, consumption is estimated to reach 763 million t in 2005. These assessments expect an above average increase of steel consumption in Asia and South America.

The improved worldwide economic scenario after mid 1999 and new order bookings on a high level brought Salzgitter AG's order backlog of rolled steel to 1.18 million t (0.82 million t on September 30, 1998), and this in spite of large tonnage shipped. This created a sound capacity utilization for the start of the new fiscal year. During the first



months of the current fiscal year the encouraging order situation continued for practically all products; there was, however, a fundamentally weak market for large diameter pipes. We are assuming that the activities will remain on a high level for the rest of the current year and thus lead to a full crude steel capacity utilization (+4% over 1998/99).

The improved steel market situation will also have a positive effect on prices. Prices for hot rolled coils and sections had already increased during last year, market prices for sheets, hot-dip galvanized sheets and plates stabilized towards the end of last fiscal year. At the beginning of the new fiscal year, there were noticeable price increases for all products - except plates - on almost all markets though to various extent. Some customers were in the market for longer-term contract negotiations. After the totally unsatisfactory revenue level during fiscal 1998/99, we expect sustaining price improvements which will, however, not entirely make up for the revenue losses incurred. Structural changes of our sales program towards an extended processing chain to add more depth will additionally improve the average revenue level. We have prepared the conditions with suitable investments and forward market developments.

Price advantages on the purchasing side achieved last year will not always continue. Price increases, however, will not be in the offing, unless of course the US dollar strengthens significantly.

Aside from the strategic investments we shall consistently continue with the earnings improvement program in all major Group companies and concentrate on further steps and new projects. A new focus will be on rationalization of our administrative processes and on intensified use of information processing. Emphasis will be put on improving internal logistics and on the introduction of efficient systems for production planning and controlling.

The Steel Trading Division should develop positively in line with the general steel market trend. We also plan fundamental structural changes for the warehousing trade; changes in the warehousing, logistics, and shipping processes will entail rationalization effects. International steel trading will again be in a position to step up its volume.

The scenario for the Raw Materials and Services Division is also improving. The Division companies are planning to increase their efforts towards expanding their business activities outside the Group, aside from also continuing their rationalization and earnings improvement measures.

The premises and focal points for the short-term future outlined in this outlook section have been incorporated together with a multitude of further items prior to the beginning of the current fiscal year in Group planning. Based on current information and forecasts for fiscal 1999/2000, we expect a substantially improved Group result.

A wide-ranging program structure provides scope for acceleration and imaginative market approach.

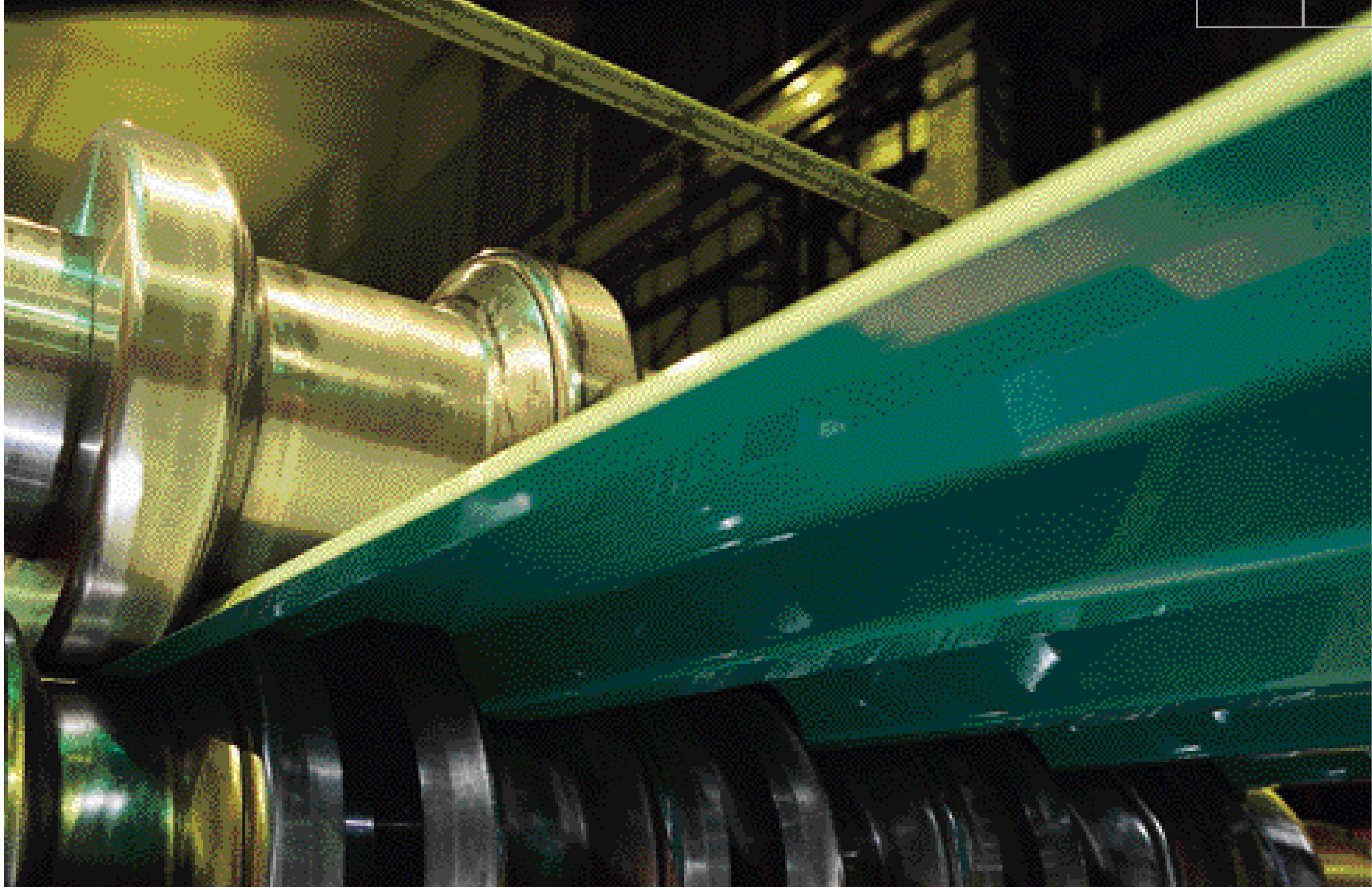
Divisions
Steel Production

The Steel Production Division comprises three locations: Salzgitter, Peine, and Ilsenburg, each specialized in certain products. Energy production (power plant, coking plant), metallurgy (blast furnaces, steel making plant), flat rolled steel production (hot wide strip mill, cold rolling mill), surface coating (hot-dip galvanizing, electro-zinc coating, coil-coating line), processing operations (large diameter pipe production, profiling, cassettes production), and the foundry are concentrated in the Salzgitter Works. The Peine Works house an electric steel plant, two section mills, and section processing. Plate production is located at the Ilsenburg Works. There is a close association between the three locations, focusing on marketing, crude steel and energy supply, and traffic and administrative services.

In contrast to many steel producers which have specialized in certain program segments, Salgitter AG produces and distributes a wide program range of long and flat products including this material in processed form. We are convinced that this program structure puts our Company in a favorable market position. We have a number of options to optimize our plant and equipment according to market requirements. It is a known fact that not all products are sumultaneously affected by steel cycles with the same fluctuation and the same intensity, so that an imaginative market approach provides entrepreneurial scope for acceleration. This is something we were able to demonstrate last year. As sections and hot rolled coils already recovered tonnage and pricewise as from mid-year, we were able to counteract market situation for cold rolled sheets and for plates.

The difficult steel market situation, characterized by reduced tonnages and declining prices also had its negative effect on the activities of the Steel Production Division. Output, shipments, sales, and result were significantly lower than in the previous year.

Crude steel production reached 4.73 million t; it was thus slightly below last year's output (-0.20 million t or -4.1%). The steel making plant in Salzgitter, however, worked close to its capacity producing 3.85 million t (-4.4%). The main reasons for the output decline were scheduled blast furnace repair works affecting the operations of the steel making plant. Market induced crude steel adjustments were controlled by reducing additional purchases of slabs. The electric steel plant in Peine was also operating on a high level (0.88 million t, -3.0%) due to a relatively strong sections market. These conditions helped to further improve the cost situation in comparison with the previous year.



Market induced production adjustments for rolled steel and processing led to a more significant decline of shipments (-6.3%). Total output was 4.32 million t (previous year 4.62 million t). The respective product mix varied considerably.

Production was supported by ever increasing new orders during the course of the entire year, reaching a total of 4.32 million t of rolled steel. Compared with the previous year this is an increase of 14.9%. Sections (+22% to 1.22 million t) and flat products (+12% to 3.11 million t) alike benefitted from the more favorable order situation. Order backlog, which had reached its low of 0.76 million t in November 1998 rose to 1.18 million t at fiscal year-end. Incoming orders for processed products varied. Large diameter pipes suffered from a drastic deterioration of the order situation, making a considerable adjustment of operations necessary at the beginning of the new fiscal year.

Total shipments of rolled steel and processed products declined by 3.4% to 4.23 million t (previous year 4.38 million t) and varied considerably according to product. Large diameter pipes (-34%), plates (-7.6%), colled rolled coils (-6.9%), and hot rolled coils/strip (-4.0%) were mostly affected. Shipments of sections (-0.7%) and of surface-coated products (+7.3%) developed more favorably.

The Division's percentage decline of sales was even more pronounced. Total sales (non-consolidated) dropped by 16.2% to DM 3.04 billion (previous year DM 3.63 billion). The revenue decline reflects the drastic fall of prices. About 25% of the decrease in sales was caused by diminished shipments, about 75% by lower prices for all products. The revenue shares of product sectors Salzgitter (59.9% - previous year 57.5%), Peine (22.7% - previous year 22.8%), and Ilsenburg (17.4% - previous year 19.7%) hardly changed. It is remarkable that the relative portion of surface-coated products increased again (28.5%, previous year 24.0%). Included in the Division's total revenue were internal sales to consolidated companies of the other Divisions, namely about 27% (previous year 30%). 92% (previous year 88%) of sales were achieved in the European Union, 67% thereof in Germany.

The Division posted a total operating performance of DM 2,966 million (previous year DM 3,730 million) including negative inventory changes - mainly resulting from a reduction of slab inventories stored in the previous year to ensure production during scheduled blast furnace repair works - and other own production capitalized (total - DM 71 million).

The lower operating performance was compensated in part by diminished cost of materials of DM 1,495 million (-DM 501 million). Cost of materials was 50.4% (53.5% in the previous year) of operating performance. Aside from cost-cutting material savings, due to reduced operations and consumption, lower prices for raw materials (ore, coal, scrap) and energy (electricity, natural gas) had cost-reducing effects. About 50% of the negative revenue influences on the sales side could be compensated by lower purchasing prices. There was a considerable saving from the restricted use of purchased slabs.

Personnel expenses went down by DM 54 million to DM 628 million (previous year DM 682 million), thus amounting to 21.1% (previous year 18.3%) of operating performance. One of the main reasons for the reduced expenses is the further transfer of employees to PPS, particularly in connection with more employees making use of the part-time agreement for senior employees; resulting in higher costs for services purchased from PPS (+DM 15 million) under other operating expenses against lower personnel expenses. Smaller additions to personnel related provisions also contributed to lower personnel expenses.

Other operating expenses increased by DM 26 million to DM 740 million (previous year DM 714 million). The change resulted from the PPS-effect mentioned and from a multitude of mutually compensating cost items. One special item has to be pointed out: the assets of the tailored blanks production kept under the SZAG current assets were transferred to Salzgitter Europlatinen GmbH during the fiscal year. The disposal (DM 23 million) was charged to other expenses; it was opposed by an almost equal income under other income. Altogether the relative portion of other expenses in relation to operating performance increased to 22.7% (previous year 19.2%).

The shifts occured during the fiscal year between percentage portions of cost items in relation to operating performance reflect the responsiveness of cost items to price and tonnage changes.

The result of the Steel Production Division - calculated as income before taxes and before income from shareholdings - amounted to DM 57 million (previous year DM 234 million). Income decline compared with last year (-DM 177 million) resulted predominantly from negative revenue changes (-DM 430 million) operational changes (-DM 45 million) and positive, partly aperiodical influences on purchasing prices (+DM 220 million), personnel expenses (+DM 40 million), depreciation (+DM 28 million) and other mostly mutually compensating income and expense items. The deteriorated result affected all product sectors. The cumulative effect of above average tonnage and price falls led to a loss in the product sector Ilsenburg, which was a profitable product sector only last year. The product sector Peine achieved an encouragingly positive result which was supported by high capacity utilzation and favorable scrap prices. The product sector Salzgitter posted a profit.

The Steel Production Division records fixed assets (net of financial assets) of about DM 1,196 million in the balance sheet. From an economic viewpoint, it has to be reduced by special reserves with an equity portion on the liabilities side (DM 222 million). This would result in adjusted fixed assets of DM 974 million and thus correspond to approx.17% of acquisition cost, a low value considering the high degree of modernization. Investments (net of financial investments) of DM 173 million almost equalled depreciation adjusted by the released portion of special reserves.

The core steel workforce (without trainees) decreased during the past fiscal year by 231 (-3.2%) to 6,935 employees. Most of the employees leaving were transferred to PPS and remained employed under the part-time agreement for senior employees.

Steel production

		1998/99	1997/98	Change
Crude steel production	1,000t	4,725	4,928	-203
LD-steel	1,000t	3,843	4,018	-175
Electric steel	1,000t	882	910	-28
Shipments	1,000t	4,230	4,376	-146
Rolled steel	1,000t	4,034	4,145	-111
Processed material	1,000t	196	231	-35
Sales	DM million	3,037	3,626	-589
EU	DM million	2,783	3,172	-389
Other countries	DM million	254	454	-200
Internal sales	DM million	829	1,094	-265
External sales	DM million	2,208	2,532	-324
Total operating performance/ Other operating income	DM million	3,127	3,850	-723
Cost of materials	DM million	1,495	1,996	-501
Personnel expenses	DM million	628	682	-54
Other operating expenses	DM million	740	714	26
Depreciation	DM million	174	186	-12
Net interest result	DM million	-33	-38	5
Division net income before tax	DM million	57	234	177
Investments	DM million	173	127	46
Workforce (without trainees)	at 9.30.	6,935	7,166	-231
Wage labor		5,215	5,400	-185
Salaried employees		1,720	1,766	-46
EBIT	DM million	90	272	-182
EBITDA	DM million	264	457	-193
EBITDA-margin	%	8.7	12.6	

Major markets for the products of the
Salzgitter Group are in Europe,
Steel Trading activities are worldwide.

Divisions
Steel Trading

The Steel Trading Divison comprises the companies of the Salzgitter-Handel-Gruppe (Salzgitter Trading Group), namely, Salzgitter Handel GmbH, Salzgitter International GmbH, Salzgitter Handel B.V., Netherlands, Salzgitter Trade Inc., Canada, as well as Hövelmann & Lueg GmbH & Co. KG. Furthermore, the 50%-shareholding in Universal Eisen und Stahl GmbH (UES) is assigned to this Division. It is, however, not included in the consolidation. As the UES fiscal year deviates (December 31), calendar year shipment and sales data are stated for informational purposes only. The profit transferred to SZAG is attributed to the Division in the income statement.

The activities of the Steel Trading Division were also negatively affected by the recessionary developments on steel markets, in existence since the end of last year, particularly by accelerating previous declines for all products and on all markets during the course of the fiscal year. Total shipments of the consolidated companies dropped by 5.1% to 4.25 million t. Gross sales declined by DM 693 million (-19.4%) to DM 2.88 billion.

Including the income from shareholdings in UES from fiscal 1998/99, the Division contributed DM 24 million (previous year DM 33 million) to Group results. About 50% each of the smaller profit contribution came from the Salzgitter Trading Group and from the other companies. The Division EBIT of DM 39 million (previous year DM 47 million) improved the EBIT-margin to 1.4% (previous year 1.3%).

Division investments were DM 13 million (without UES); depreciation amounted to DM 19 million. On September 30, 1999, the Division had 1,743 (previous year 1,797) employees, plus 100 (previous year 93) trainees.

Individual Companies:

The **Salzgitter Trading Group** was unable to again achieve the good shipment and sales figures of the past year because of the difficult market situation. Total shipments fell from 4.31 million to 4.09 million t (-5.3%). The German steel trading companies shipped 1.85 million t (45.2%), export trading 1.80 million t (44.0%), and the foreign companies 0.44 million t (10.8%). In spite of the general trend, the foreign companies were able to even increase shipments by 11.4%; shipments of the Canadian company rose even higher than average. The Salzgitter Trading Group purchased 1.2 million t, about 30% of total volume, from the Steel Production Division.

In view of the drastic price declines during the entire year for practically all products, sales diminished by 19.6% to DM 2.78 billion. The reduction of DM 0.68 billion originates from reduced tonnage (27%) and from the low price level (73%). Lost revenue could be compensated by lower purchasing prices so that the average gross profit margin was almost unchanged. The domestic companies contributed DM 1.49 billion (-20.2% compared with the previous year) and export trading DM 1.0 billion (-23.4% compared with the previous year) to total sales. Sales of the Dutch and Canadian companies developed comparatively positive and reached previous year's level of DM 0.30 billion.

The Salzgitter Trading Group achieved earnings of DM 21 million (previous year DM 25 million), the foreign companies contributed almost two-thirds.

The Salzgitter Trading Group reacted to the crises-ridden steel market situation in Germany by consistently implementing adjustments within the earnings improvement program. Emphasis was placed on logistics and warehousing. The presence on the important North American market was strengthened. A new office was opened in Tupelo, Mississippi, to support the activities of the existing sales offices in Houston and Chicago. Effective October 1, 1999 the export sector was transferred to the 100%-subsidiary Salzgitter International GmbH.

The number of employees went down to 1,576 compared with 1,635 in the previous year. The number of trainees increased to 98 from 91 during last year.

Our subsidiary **Hövelmann & Lueg GmbH & Co KG** conducts a steel service center at locations in Schwerte and Salzgitter. The company has a workforce of 167 (previous year 162) and employs 2 trainees. The service center produces cut-to-length sheets and blanks on its sheeting lines, cutting and stamping equipment, and shears. The processing program comprises cold rolled, surface coated, and hot rolled flat products in thicknesses from 0.4 - 8.0 mm.

During the period under review the company started with the production of packaging material for coils and also set up a further sheeting line with an electrostatic oiler.

Total shipments (without job-processing) were 158,000 t, unchanged from last year. Owing to the steep price decline, sales diminished by 14.5% to DM 100 million. Sales in Germany amounted to 59% of business, 31% of sales was conducted in other EU countries with 10% in third countries. The year-end result, a loss of DM 1.8 million, was unsatisfactory. This situation was caused by the fall in prices and the consequential inventory devaluation. Improving demand and rising prices at the end of the fiscal year raise expectations for a clearly positive result in fiscal year 1999/2000.

The affiliated company **Universal Eisen und Stahl GmbH (UES)** was able to maintain its market position during the (deviating) fiscal year. Activities abroad were expanded, the trading company in Prague developed well. UES, specializing in direct trading with and processing of plates, was not yet fully affected by the weak steel market and particularly by the poor situation in the plates sector during its fiscal year. UES-Group sales declined to DM 315 million (-5.6%) compared with the previous year; approx. DM 51 million of the reduction was due to the sale of shareholdings. UES contributed DM 5.0 million to the Division result, consisting of the profit transferred to SZAG and a surplus from equity valuation of the company.

Steel Trading

		1998/99	1997/98	change
Sales	DM million	2,876	3,569	-693
Salzgitter Trading Group	DM million	2,776	3,452	-676
Hövelmann & Lueg	DM million	100	117	-17
Internal sales	DM million	151	250	-99
External sales	DM million	2,725	3,319	-594
Division income prior tax	DM million	24	33	-9
Salzgitter Trading Group	DM million	21	25	-4
Hövelmann & Lueg	DM million	-2	1	-3
non-consolidated companies	DM million	5	7	-2
Employees (excl. trainees)	at 9.30.	1,743	1,797	-54
Salzgitter Trading Group		1,576	1,635	-59
Hövelmann & Lueg		167	162	5
Inventories	DM million	261	255	6
EBIT	DM million	39	47	-8
EBIT- margin	%	1.4	1.3	
EBITDA	DM million	58	67	-9

Division companies increase supply of qualified services to third parties.

Divisions
Raw Materials and Services

This Division includes the following companies: DEUMU Deutsche Erz- und Metall-Union GmbH, GESIS Gesellschaft für Informationssysteme mbH, “Glückauf” Wohnungsgesellschaft mbH, Hansaport Hafenbetriebsgesellschaft mbH (51%), PPS Personal-, Produktions- und Servicegesellschaft mbH, and telcat multicom GmbH with its subsidiary telcat Kommunikationstechnik GmbH. Furthermore, Verkehrbetriebe Peine-Salzgitter GmbH (VPS) are also included and were consolidated for the first time in this fiscal year. Peiner Agrar- und Hüttenstoffe GmbH is a further, non-consolitadated Division company. The Division has also a number of non-consolidated minority shareholdings.

The Division companies predominantly supply services to the Group. Plans are afoot to offer their experience, know-how, and existing infrastructure more and more to third parties as well. An additional profit contribution can thus be generated towards improving Group earnings. In addition to supplying such services, PPS supports certain Group personnel realignments.

During the current fiscal year, the Raw Materials and Services Division (consolidated) achieved gross sales of about DM 861 million (previous year DM 864 million). The comparatively negligible decline originates from first-time consolidation of VPS with sales of DM 119 million (previous year DM 123 million). If made comparable, the Division lost sales of DM 126 million, DEUMU’s sales decline alone amounted to DM 150 million. Non-Group sales diminished by DM 55 million to DM 339 million; VPS contributed DM 32 million to third-party sales. Altogether the portion of internal sales increased to 60.6% (previous year 54.4%).

Including the non-consolidated companies, the Division contributed DM 17 million (previous year DM 18 million) towards Group profit prior tax. With the exception of DEUMU, all companies posted positive results. EBIT of DM 23 million exceeded last year’s level; the EBIT-margin thus increased to 2.7%. Gross fixed assets of the Group were valued at about DM 122 million, investments amounted to DM 30 million with depreciation being valued at DM 21 million.

On September 30, 1999, the Division had 3,593 (previous year 2,572) employees (without trainees). The increase of 1,021 employees was mainly due to the inclusion of the 752 VPS-staff and 245 new PPS-employees. In addition, the Division employs 648 trainees (previous year 595) 610 thereof with PPS (previous year 568).

Individual companies:

DEUMU's main business activities are trading with and processing of scrap, trading with metals, alloys, and second choice steel products; processing of flat rolled steel products; services for industrial demolition.

DEUMU's sales amounted to DM 362 million (previous year DM 512 million). The sales slump of approx. 29% came mainly from scrap business. Although the scrap trading volume diminished only negligibly to 1.22 million t (previous year 1.27 million t) - supported by a good capacity utilization of the electric steel plant in Peine - the price collapse on the scrap market led to drastic sales declines and noticeable cuts in profit margins.

There were only few or no impulses at all from the other product sectors of DEUMU, which might have counteracted the dismal scrap business situation. Although positive results could be generated in metals and alloys trading, even in industrial demolition services in spite of slow business, second choice steel trading and low-capacity steel processing weighed heavily on the results due to the difficult steel market and to a low-priced and low-volume order situation.

The accumulation of negative effects resulted in a loss for DEUMU for the first time in many years of DM 5.9 million (previous year + DM 0.3 million). Although the general scenario for DEUMU's major sectors improved towards the end of the fiscal year, the earnings improvement program was continued and further structural alignments were introduced towards eliminating weak spots in the company's program. The company is thus again expecting clearly improved results from current business activities.

The balance sheet total was DM 74 million. At the end of the fiscal year, DEUMU had 327 (previous year 329) employees and 11 (previous year 11) trainees.

GESIS provides services in information processing for Group companies and for third parties. The service program of GESIS includes IP-consultancy and project processing - focusing on the products of SAP AG as consultancy partner - and the full service of a state-of-the-art data processing center, which is conducted as a joint venture with IBM Deutschland GmbH and Continental AG.

During the fiscal year 1998/99, the market for IP-services was characterized by brisk demand, beyond current projects such as euro-changeover and Y2K-adjustments of IP-systems. This led to full utilization of the personnel capacity of GESIS. A scheduled capacity increase was not feasible in the short term, lacking IP-specialists on the labor market. The staff level was maintained. At year-end GESIS had 126 (previous year 125) employees plus 1 trainee (previous year 4).

GESIS posted sales of DM 50 million (previous year DM 48 million). The major portion came from Group sales; third-party sales increased to DM 9 million (previous year DM 7 million).

Income before tax was DM 5.5 million, close to last year's level of DM 6.0 million.

"Glückauf" Wohnungsgesellschaft manages Group housing properties, commercial properties, and third-party property. The company has 12 employees. Revenues amounted to approx. DM 10 million and earnings before tax were KDM 229.

Hansaport Hafenbetriebsgesellschaft owned by Salzgitter AG (51%) and Hamburger Hafen- und Lagerhaus AG (49%) operates mainly transshipments and storage facilities for bulk goods (ore, coal) in the port of Hamburg. The company operated at a high capacity level during the fiscal year 1998/99. Total transshipment volume (incoming and outgoing) was 17.4 million t (previous year 17.6 million t) consisted of about 66% ore and 28% coal, the balance being other goods such as building materials. The company is investing more than DM 20 million for expansion of its transshipment and storage facilities for coal, making use of the favorable location for increasing coal imports.

Hansaport's revenues of DM 44 million were only slightly (-2.5%) below last year's level. Earnings before tax were DM 4.7 million (previous year DM 4.9 million). On September 30, 1999, Hansaport had 108 (previous year 97) employees.

Raw materials and services

		1998/99	1997/98	change
Sales	DM million	861	864	-3
DEUMU	DM million	362	512	-150
PPS	DM million	191	175	16
telcat-Group	DM million	85	74	11
VPS	DM million	119		119
Other companies	DM million	104	103	1
Internal sales	DM million	522	470	52
External sales	DM million	339	394	-55
Division income before tax	DM million	17	18	-1
DEUMU	DM million	-6	0	-6
PPS	DM million	2	2	0
telcat-Group	DM million	3	2	1
VPS	DM million	5		5
Other companies incl. non-consolidated companies	DM million	13	14	-1
Employees (excl. trainees)	at 9.30.	3,593	2,572	1,021
DEUMU		327	329	-2
PPS		1,881	1,636	245
telcat-Group		387	374	13
VPS		752		752
Other companies		246	233	13
EBIT	DM million	23	21	2
EBIT-margin	%	2.7	2.4	
EBITDA	DM million	45	33	12

PPS renders a wide range of production and services. They mostly center around the core activity of steel production. They include workshop and finishing shop engineering, services in the areas of work safety, occupational medicine, education, and training. PPS employs all trainees for the Steel Production Division. Furthermore, the company handles the personnel restructuring measures. The existing personnel and factual interdependence between steel production and PPS continued to be reduced in order to promote the expansion of the company's third-party business in industrial services by more corporate independence. Services, hitherto supplied by third parties, were increased. Substantial investments (4.3 million) were made towards expanding the service range.

At fiscal year-end, PPS had 1,881 (previous year 1,636) employees, not including 610 trainees (previous year 568). Sales were DM 191 million (previous year DM 175 million). DM 4 million thereof were sales to third parties. The profit before tax amounted to DM 2.0 million (previous year DM 1.5 million).

The companies of the **telcat-Group** supply telecommunication services. telcat Kommunikationstechnik GmbH mainly provides services for the companies located in Salzgitter gmbh, telcat multicom GmbH operates all over Germany and conducts 90% of its sales with third parties.

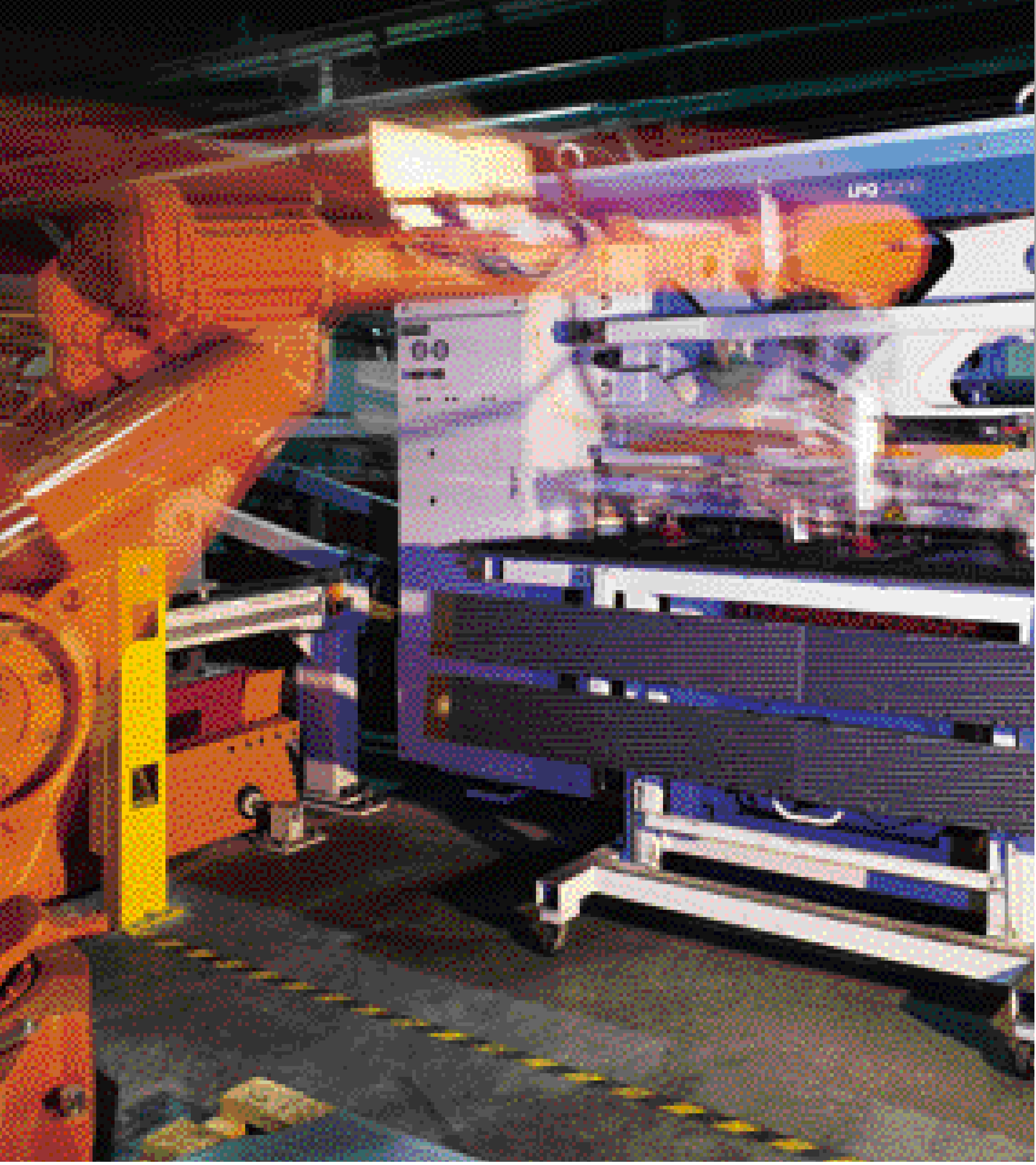
Joint sales of both companies were DM 85 million, representing an increase of DM 11 million (15%) over the previous year. Sales to third parties were up 7% on last year.

Income before tax was DM 3.2 million, exceeding last year's result of DM 2.3 million. The companies of the telcat-Group had 387 employees at year-end, plus 17 trainees (previous year 12). The number of employees thus increased by 13 compared with the previous year. The companies continue their course of growth.

VPS, as licensed public railroad, provides transport services for Group companies and third parties alike. The company operates inland ports in Salzgitter and Peine with transshipments of about 2 million t handled last year. Transport volume of railroad operations reached 33 million t. Furthermore, VPS sells self-developed technical products and services.

Employees at year-end were 752 (previous year 771) plus 9 trainees (previous year 8). Sales volume was DM 119 million (previous year DM 123 million) and the pre-tax profit was DM 4.5 million (previous year DM 3 million). Fixed assets of DM 52 million and current assets of DM 101 million made up a gross balance sheet total of DM 153 million; equity portion was 26%.

The company will be aiming at an expansion of its third-party business during fiscal 1999/2000. Further cooperations are scheduled with DB Cargo, also leasing of locomotives, and construction and operation of a materials handling systems for combined cargo traffic at the goods traffic center in Salzgitter.



Steady expansion of international presence

for additional production and process know-how.

Divisions
Industrial Investments

During the fiscal year 1998/99 Salzgitter AG's shareholdings in the US corporation Steel Dynamics, Inc. (12.05%) and in Salzgitter Europlatinen GmbH (subsidiary of Europlatinen Holding GmbH) were consolidated in this Division. This Division is going to be expanded. At the beginning of the fiscal year 1999/2000 the following new shareholdings were added: Oswald Hydroforming GmbH & Co. KG (24.9%), Wescol Group, plc (26.2%) - a steel construction and processing operation - and the 100%-subsidiary Salzgitter Bauelemente GmbH.

Salzgitter AG's investments in these companies underline the accelerated endeavors to directly and indirectly support the development of technologies of the future and growth areas of steel production and processing. The significance of this Division must not be viewed from short-term yield aspects. Accruing product know-how and securing of sales potentials are long-term superior viewpoints. Nevertheless, we are convinced that all shareholdings can achieve adequate payback periods or yields. No profits were collected during the fiscal year.

Steel Dynamics, Inc. (SDI), in which Salzgitter AG has been holding a participation since fiscal 1995/96, developed positively. SDI meanwhile produces hot rolled, cold rolled, and hot-dip galvanized sheets on an electric steel basis. Newly established subsidiaries will produce scrap substitutes from direct reduced iron as well as steel construction products in the future. The construction of a minimill for the production of beams was resolved.

SDI is on a brisk growth path: in the fiscal year 1998, SDI shipped 1.417 million t of rolled steel with sales revenues of USD 515 million and pre-tax earnings of USD 53 million. On December 31, 1998, SDI had a workforce of 591. Shipments, sales, and the number of employees will presumably increase further during 1999 and a good result is expected.

Salzgitter Europlatinen GmbH was founded as a subsidiary of Europlatinen Holding GmbH (50% each held by Salzgitter AG and Voest-Alpine Stahl Linz GmbH). The company operates development, prodution, and distribution of stamped and welded blanks (tailored blanks). The application of laser-welded blanks in the automotive industry enables substantial weight reduction and simultaneously increased component rigidity as compared with conventional production methods. From a viewpoint of economic efficiency and safety, tailored blanks have to be rated as a growth product in the automotive industry.

The production plant of Salzgitter Europlatinen GmbH went into operation, as scheduled, on November 30, 1998. In the first stage, Salzgitter Europlatinen GmbH operates a high performance stamping line and a fully automated laser-welding line for the production of tailored blanks. The production plant was officially put on stream during an opening ceremony on June 2, 1999. Since then, the company has been supplying high-quality tailored blanks to the automotive industry and provided job processing for other part-suppliers.

After the successful joint start into production and distribution of laser-welded blanks, Voest-Alpine Stahl Linz GmbH and Salzgitter AG decided in summer 1999 to organize future developments cooperatively but with separate corporate entities. Consequently, Salzgitter Europlatinen GmbH will be doing business as a 100%-subsidiary of Salzgitter AG. In order to meet the expected demand, a second welding line was ordered.

Salzgitter has taken a first step towards implementing its external growth strategy during the first quarter of fiscal 1999/2000 by acquiring a 24.9% shareholding in **Oswald Hydroforming GmbH & Co. KG.** Oswald was founded mid 1998 and started production in July 1999 in Crimmitschau, Saxony, close to the Volkswagen plant in Mosel.

Oswald specializes in hydroforming technology. Steel tubes are formed into the shape of the adjacent tool using high fluid pressure. Just as laser-welded blanks, hydroformed tubes are a product gaining further importance in the growing market for lightweight components in the automotive industry, particularly in the areas of exhaust gas, chassis, and autobody. There are further applications in heating, ventilation, airconditioning, medical, space, and aviation technologies.

The hydroforming know-how of Oswald and the steel material expertise of Salzgitter AG open up excellent perspectives for a cooperation between both companies.

Another step during the first quarter of 1999/2000 was Salzgitter AG's acquisition of a 26.2% shareholding in the English **Wescol Group, plc.** Wescol Group is the holding of a number of companies whose main activities are engineering, manufacturing and erection of steel constructions, and the production and distribution of a patented castellated beams. Sales during the fiscal year 1998/99 (July 31) amounted to GBP 72 million. The average workforce was 545. Wescol is an outstanding dynamic and technology-oriented group of companies with modern manufacturing facilities and great industrial engineering know-how.

This cooperation opens chances for Salzgitter AG to supply sections and to join in the expansion of industrial processing of its products.

During the first quarter of fiscal 1999/2000 the Supervisory Board of Salzgitter AG approved the organization of its 100%-subsidiary **Salzgitter Bauelemente GmbH.** This company will include the product sectors trapezoidal sheets, cassettes, and sandwich elements. The expansion of building elements production with investments of DM 52.5 million was approved by the Supervisory Board in fiscal 1998/99. Included in these investments are the capacity increase of trapezoidal sheet production, the construction of a perforating unit and equipment for the production of panels and sandwich elements. The production of perforated trapezoidal sheets and cassettes as well as sandwich elements will make Salzgitter AG a full supplier in the building elements sector. The integration of the entire production and sales activities into an individual and independently operating company was effected in view of the special nature of this market segment.

Our well-trained and efficient employees are among the major resources for a successful future of the Salzgitter Group.

Employees

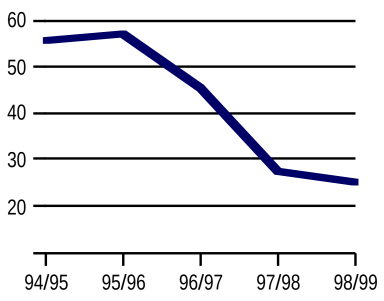
Our personnel development focuses on training and education of our employees. We provide a comprehensive in-house training scheme for all employees.

Emphasis is put on basic training of school-leavers. Now as before the Salzgitter Group provides in-house training for most commercial and industrial junior staff. PPS has comprehensive training capacity for all Group companies located in Salzgitter. There is a choice of ten occupations. PPS is also increasingly offering its training service to third parties. On September 30, 1999, Salzgitter AG had 705 trainees, 563 thereof with PPS. 151 trained junior staff finished their basic training in the Group successfully, 106 thereof with PPS, most of them were subsequently employed.

We are also focusing on the training of our junior executive staff. Junior staff employed for subsequent management or executive positions is firstly participating in a one-year trainee-program in preparation for assuming responsible jobs.

Furthermore, an 18-month Group trainee program focuses on marketing and sales. After some practical work in production or administration, successful participants join a “promotion circle” program in preparation of management or executive responsibilities. The focal point is the acquisition of practical and personal skills necessary to manage corporate divisions, the training of staff in personnel management and the improvement of management skills through personality projection and development. Moreover, the achievement of better standards of working techniques and the improvement of internal and company-wide exchange of experiences are vital subjects. The “promotion circles” also serve the purpose of becoming mutually more acquainted and thus create an informal company-wide network.

SZAG accident frequency rate
(notified accidents per
1 million workers' hours)



SZAG sickness rate
(paid and unpaid sickness hours
incl. preventative health treatment
in % of total regular hours)

A further promotion level, the "Salzgitter Management Program", prepares staff for higher management positions by providing additional management know-how in selected areas and supporting the optimization of executive qualifications. We have been very successful filling managerial positions from our own ranks. Although we shall continue presenting career advances to our own promising young employees, we shall, nevertheless, also provide chances to outside personnel for key positions, as a sound mixture is the best personnel policy for the benefit of the Company.

The Group-wide training program of PPS provided 151 individual arrangements covering eight qualifying fields. The largest individual training sector was information processing, followed by self-management and the improvement of internal cooperation. The focus of training activities was on those objectives which had previously been discussed among superiors, employees, and staff representatives. All training facilities were open to the entire Group workforce, and 6,088 (previous year 4,850) participants made frequent use of them.

Personnel development also concentrated on the continued reduction of absenteeism - particularly of plant personnel. After the "Health Promotion/Absenteeism Reduction Program" had been introduced in five pilot operations and was well accepted by personnel, the project-phase was finalized and the program was transferred to the entire works. Our subsidiary PPS also implemented the "Health Promotion/Absenteeism Reduction Program" successfully a year ago in the main workshop, in crane maintenance, in the spare parts department, and in the printing center. Shop agreements were made within PPS and SZAG to ensure a continued good working climate in spite of consistent efforts to reduce absenteeism. The absenteeism rate of the departments included in the "Health Promotion/Absenteeism Reduction Program" dropped by about two percentage points compared with other departments.

The reduction of the absenteeism rate is also a major contribution towards safety of work processes. Another focal point is a continued sensitizing of workforce, management, and executives towards the significance of meeting safety precautions. Part of this is timely accident research as a condition for implementing future preventive measures by regular controlling, which includes assessments of endangerment and burdens as a methodical basis for the elimination of critical accident points. We have introduced an internal benchmarking documenting work safety standards within the entire Group with a view to enhance in-house competitiveness in this respect. After the successful reduction of the accident frequency rate (notified accidents per 1 million working hours) already achieved during the fiscal year 1997/98 to 27.4 (fiscal 1996/97 45.3), this rate was further reduced to 25.0.

The suggestion scheme, involving motivated employees, can contribute significantly to corporate earnings improvements. During the fiscal year 1998/99 we had 2,206 suggestions for improvements in the entire Group, which were rewarded with a total of KDM 806. Most suggestions, namely 1,843, came from steel production. The rewards paid out for these suggestions increased to KDM 709 (previous year KDM 632). The annual net profit as an indicator for the quality of the suggestions made was DM 3.6 million in the fiscal year 1998/99. The highest single reward amounted to KDM 120. This is the highest reward ever paid during the existence of the suggestion scheme.

The permanent necessity to exhaust all possibilities towards rationalization requires solutions without undue hardships on the one hand yet which are operatively sensible on the other hand. Personnel adjustments are, therefore, a further focal point of personnel management. Partial retirement through part-time agreement for senior employees does not cause undue hardships and has further advantages. The active phase under this agreement is passed with PPS. Therefore, there are chances for employing fully qualified trainees with PPS at the ratio of 2:1 and thus ensure the know-how transfer and the initial period of instruction until full retirement of the senior employees.

Since the effective date of these legally authorized opportunities for early retirement, 407 employees have made a suitable agreement with the Company by fiscal year-end. During the fiscal year 1999/2000 53 employees will probably leave the Company, after having made part-time agreements for senior employees in previous years.

Salzgitter AG prematurely well below limits set by German industry towards reduction of CO_2-emissions.

Environmental Proctection

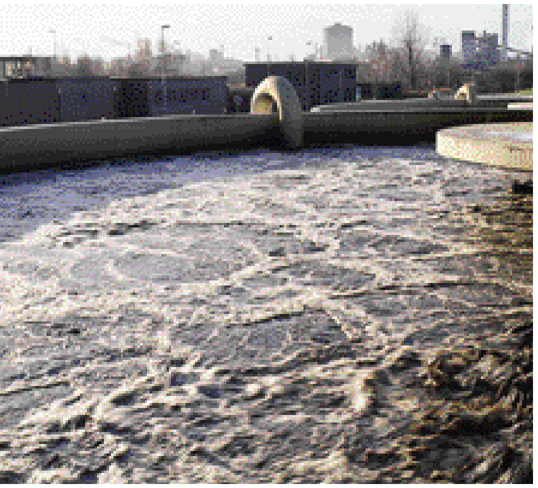
Environmental protection is a major part of Salzgitter AG's entrepreneurial responsibility. We are trying to preserve the natural resources not only by complying with environmental regulations but also by responsible conduct towards environmental protection. The Company has implemented a variety of measures to this effect.

During the fiscal year 1995/96, we started with an innovative emission measuring program examining the efficiency of the waste gas treatment of the electric arc furnace in Peine, in cooperation with the Federal Environmental Protection Agency, the State Agency for Ecology of Lower Saxony, and the Industrial Inspection Board, Brunswick. Necessary emission tests, carried out by an approved testing laboratory, were completed by the end of the fiscal year. Salzgitter AG will present the final report to the public during the current fiscal year 1999/2000. Already now, the results prove that the targets for minimizing emission were reached. A major condition of safeguarding the innercity location of the electric steel plant - namely environmentally friendly steel production in a residential neighborhood - was thus met.

Salzgitter AG also made its positive contributions towards the CO_2-reduction program of the steel industry. In 1996, the German industry agreed to a self-imposed commitment on the protection of the atmosphere to reduce emissions of the greenhouse gas CO_2 by the year 2005 by 17% - on the basis of 1990. Restructuring and exhausting savings potentials enabled Salzgitter AG to reduce CO_2 emissions in the same reference period by 29.4%, thus clearly surpassing the target.

Salgitter AG's total volume of by-products and waste amounted to 2 million t in fiscal 1998/99. The largest portion, namely 77%, was slag from the blast furnaces and the steel making plant which was used internally or sold as building material. About 8% resulted from dust and sludge arising from air pollution control measures. Further 11% consisted of refractory materials and processing residues. The remaining 4% are by-products from steel pickling and other substances.

Altogether the recovery rate of typical steel works by-products and waste increased during fiscal year. We are presently dumping less than 10% of residues, this portion was reduced from 50 kgs/t to under 30 kgs/t crude steel during the last ten years.



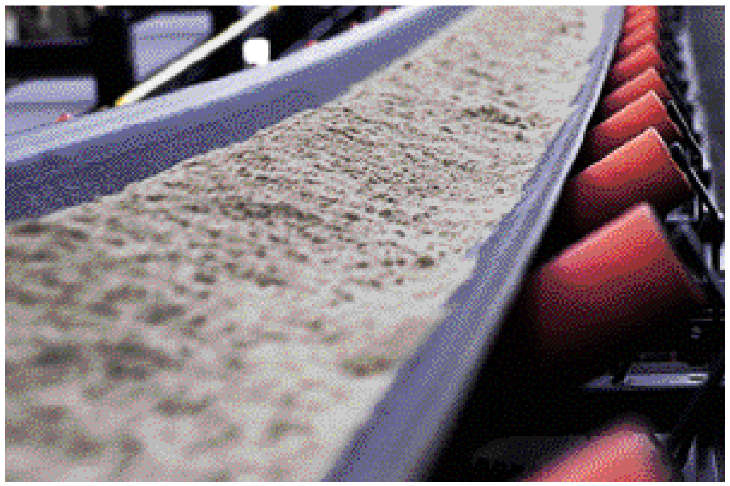
Recording its waste-specific disposal costs, Salzgitter AG is in a position to directly identify changes in these costs as in the arising volume. This makes it possible to reduce expenses for special and industrial waste significantly.

The reconstruction and recultivating operations initiated during the last few years were continued at the Company-owned dumps and obsolete dumps as scheduled. A recultivating scheme was approved for the obsolete location Handorf in the Peine District (residues dump of the former Ilseder Hütte) and subsequently recultivation was started. Alternative sealing concepts, which are equivalent to the official waste standards, are presently being tested at the Berkum waste disposal site, also located in the Peine District.

During the last fiscal year, legal commitments made Salzgitter AG implement emission remote control of its plant and equipment for continuous measurements according to the Federal Immission Protection Law. The respective emission data is recorded on Salzgitter AG's central emission computer and transmitted directly online to the supervisory agency.

After the existing internal environment management system of Salzgitter AG was reviewed and documented, the Company is planning to participate in the environmental management system according to DIN EN ISO 14001. This is a voluntary certifying system which is gaining significance in Europe and internationally. The participation in this environmental management system enables us to meet the increasing interest of our customers in a certification of our environmental policy and to maintain our respective position among the European competition. We are planning a gradual introduction of the environmental management system starting with close-to-the-customer product sectors.

Salzgitter AG's specific costs for environmental protection were DM 59/t crude steel during the past fiscal year, slightly over last year's level. Total current operating costs for environmental protection were DM 281.5 million during the fiscal year. 51% thereof were for clean air, 27% for preventing water pollution, 17% for residues and waste management, and 5% against noise pollution.



The Supervisory Board supports the Company's strategy of independence and growth.

Report of the Supervisory Board

The Supervisory Board supported Salzgitter AG during a difficult year. Its function focused not only on the deteriorated market situation with its considerable effects on the Company's sales and earnings but predominantly on major decisions towards strategic reorientation. The pivotal question the Supervisory Board had to deal with was, could the Company better fulfill the standards set by customers, employees, and shareholders in association with other steel producers or independently.

On the strength of the existing bases - safe positioning on the European market, efficient plant and equipment, sound financial and balance sheet position, qualified and motivated employees - and after comprehensive discussions, the Supervisory Board supported the Executive Board's suggested strategy of independence and growth, which is aimed at sensible future strategic alliances as long as the Company's management control and independence are maintained. Efficiency and further development potentials of Salzgitter AG underline these corporate policy objectives.

Altogether, the Supervisory Board held five meetings, including its Constituent Meeting of the newly-elected Supervisory Board on March 16, 1999. Aside from the basic strategic decision, which had to made in connection with the negotiations with ARBED S.A. in respect of a majority shareholding, the Supervisory Board discussed in detail with the Executive Board major business transactions and imminent decisions, which, in compliance with the law or the Company's bye-laws, are subject to its approval. Within this responsibility the Supervisory Board also approved investments covering a total of DM 196 million during the fiscal year 1998/99.

Furthermore, the Supervisory Board was regularly briefed verbally and in writing by the Executive Board on the Company's situation and development. This included principle questions of corporate planning, mainly of financial, investment, personnel, and profit planning, as well as major developments of the Steel Trading Division and the Raw Materials and Services Division.

The Supervisory Board was newly elected at the regular Annual Shareholders' Meeting on March 16, 1999. It subsequently established again a Presiding Committee, a Strategic Committee, and a Committee for Personnel Affairs. The Committee for Personnel Affairs had two meetings, the Presiding Committee met six times. The Strategic Committee jointly discussed the procedures towards a long-term support and backing of the Company with the Executive Board.

The financial statements and the consolidated financial statements of Salzgitter AG for the fiscal year ended September 30, 1999 and the joint management report on Salzgitter AG and the Group were audited and were rendered the unqualified audit opinion by Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, which was elected auditors at the Annual Shareholders' Meeting on March 16, 1999 and appointed by the Supervisory Board. The auditing assignment to the auditors also included the law towards corporate controlling and transparency requiring a risk management system. Upon request of Salzgitter AG, this audit had already been performed prior to the dates determined by law, during the annual audit of 1998/99. The audit showed that the risk early warning system of Salzgitter AG met legal requirements.

The annual financial statements and the consolidated financial statements of Salzgitter AG as well as the joint management report on Salzgitter AG and the Group, the Executive Board's proposal as to the appropriation of the non-distributed income, and the audit report were all submitted to the Supervisory Board members for review. Auditors' representatives attended the Supervisory Board Meeting regarding the year-end closing on January 19, 2000 and reported on the major findings of their audit. Thereafter, the Supervisory Board adopted the following resolution:

"After own review of the annual financial statements, the consolidated financial statements, and the joint management report by the Executive Board, the Supervisory Board approves the result of the audit by the auditors. After the final results of their audit, no objections are to be raised. The Supervisory Board approves the annual financial statements as prepared by the Executive Board. The Supervisory Board concurs with the proposal by the Executive Board as to the appropriations of the non-distributed income."

The auditors also examined the report by the Executive Board into relations to affiliated companies which had to be prepared because of a possible company dependence on Norddeutsche Landesbank. No objections were raised. The auditors attended the discussion of the report during the Supervisory Board meeting.

The auditors rendered the following unqualified audit opinion:

"After our due examination and assessment, we confirm that

1. the actual statements of the report are correct,

2. the Company's performance in the legal transactions mentioned in the report was not disporportionately high,

3. there is no reason for a substantially different assessment of the measures mentioned than that of the Executive Board."

After their own review, the Supervisory Board did not raise any objections against the report, including the final statement by the Executive Board and the result of the audit by the auditors.

There was a change in the chairmanship of the Executive Board. Mid March, Professor Dr. Selenz resigned as Chairman and member of the Executive Board. The Supervisory Board transferred the vacant responsibilities to incumbent members of the Executive Board until the appointment of a new chairman - this was made on October 28, 1999 by the nomination of Mr. Wolfgang Leese as of February 1, 2000.

During the fiscal year 1998/99 there were a number of changes in the Supervisory Board, particularly as a result of the new election of the Supervisory Board members at the Annual Shareholders' Meeting on March 16, 1999. Messrs. Peter Adams, Gerhard Glogowski, Dr. Joachim von Harbou, and Dr. Erich Mager resigned from the Supervisory Board. The Supervisory Board wishes to thank, also on behalf of the Executive Board and the employees, the former members for their commitment and for the constructive cooperation for the benefit of the Company.

The new members of the Supervisory Board are Dr. Dieter Brunke, Dr. Wilfried Lochte, Dr. Arno Morenz, and Dr. Martin Winterkorn. Mr Sigmar Gabriel, who had been on the Supervisory Board since Februar 24, 1999, resigned from the Supervisory Board on December 15, 1999 with immediate effect, because of his election as Prime Minister of the State of Lower Saxony. The Supervisory Board elected Dr. Wilfried Lochte as its Chairman at the meeting on March 16, 1999, Mr. Horst Schmitthenner was elected as Vice Chairman at the Supervisory Board meeting on July 15, 1999. After a new election on May 6, 1999, the Presiding Committee now consists of Dr. Gunter Dunkel, Dr. Wilfried Lochte, Mr. Ernst Schäfer, and Mr. Horst Schmitthenner.

The Supervisory Board would like to express its thanks to the Executive Board and all employees for their performance during the fiscal year 1998/99. In spite of a difficult environment, we succeeded in close cooperation with Supervisory Board, Executive Board, and all employees to end the year not only with a presentable result but also with distinct future-oriented perspectives.

The Supervisory Board

Dr. Wilfried Lochte

Chairman

Boards, personal data

(At October 1, 1999)

Executive Board

Prof. Dr. Günter Geisler
Vice Chairman
Personnel, Communication
- PPS Personal-, Produktions- und Servicegesellschaft mbH (Chairman of the Supervisory Board)*
- Verkehrsbetriebe Peine-Salzgitter GmbH (Vice Chairman of the Supervisory Board)
- "Glückauf" Wohnungsgesellschaft mbH (Chairman of the Advisory Council)

Dr. Heinz Jörg Fuhrmann
Product Sector Plates, Corporate Planning, Subsidiaries, Investor Relations, Purchasing and Material Management
- Salzgitter Handel GmbH (Vice Chairman of the Supervisory Board)*
- DEUMU Deutsche Erz- und Metall-Union GmbH (Vice Chairman of the Supervisory Board)
- Hövelmann & Lueg GmbH & Co. KG (Vice Chairman of the Advisory Council)
- Europlatinen Holding GmbH (Chairman of the Advisory Council)
- Peiner Agrar- und Hüttenstoffe GmbH (Chairman of the Advisory Council)
- Hansaport Hafenbetriebsgesellschaft mbH (Supervisory Board)
- PPS Personal-, Produktions- und Servicegesellschaft mbH (Supervisory Board)*
- Verkehrbetriebe Peine-Salzgitter GmbH (Supervisory Board)*
- Steel Dynamics, Inc. (Alternate Member of the Board of Directors)

Arnold Jacob
Technical Management Salzgitter and Peine Works, Environmental Protection, Patents and Licenses
- PPS Personal-, Produktions- und Servicegesellschaft mbH (Supervisory Board)*
- Verkehrsbetriebe Peine-Salzgitter GmbH (Chairman of the Supervisory Board)*
- Redestillationsgemeinschaft GmbH (Chairman of the Advisory Council)
- GESIS Gesellschaft für Informationssysteme mbH (Vice Chairman of the Advisory Council)

Dr. Jürgen Kolb
Sales, Marketing, Transport Management
- Salzgitter Handel GmbH (Chairman of the Supervisory Board)*
- Steel Dynamics, Inc. (Member of the Board of Directors)
- Universal Eisen und Stahl GmbH (Chairman of the Advisory Council)
- Hövelmann & Lueg GmbH (Chairman of the Advisory Council)
- Europlatinen Holding GmbH (Advisory Council)
- Deutsche Steinkohle AG (Supervisory Board)*

Dr. Eberhard Luckan
Finance and Accounting,
Information Processing, Legal Affairs, Internal Audit
- Salzgitter Handel GmbH (Supervisory Board)*
- DEUMU Deutsche Erz- und Metallunion GmbH (Chairman of the Supervisory Board)
- "Glückauf" Wohnungsgesellschaft mbH (Vice Chairman of the Advisory Council)
- Hansaport Hafenbetriebsgesellschaft mbH (Chairman of the Supervisory Board)
- GESIS Gesellschaft für Informationssysteme mbH (Chairman of the Advisory Council)
- Universal Eisen und Stahl GmbH (Advisory Council)

Prof. Dr. Hans-Joachim Selenz
(Chairman and Member of the Executive Board until 3. 15. 1999)
Member of the Executive Board of EDAG Engineering + Design Aktiengesellschaft
- MAN Nutzfahrzeuge AG (Supervisory Board)*
- Braunschweiger Zeitungsverlag GmbH (Supervisory Board)
- Stiftung NORD/LB/Öffentliche (Advisory Council)
- Alape Betriebs-GmbH (Advisory Council)
- Betriebsforschungsinstitut VDeH Institut für angewandte Forschung GmbH (Advisory Council)

* Constitution of Supervisory Board in compliance with German or local law

Supervisory Board

Dr.-Ing. E.h. Dipl.-Ing. Wilfried Lochte
Chairman
(since 3.16.1999)
Chairman of the Executice Board of MAN Nutzfahrzeuge AG, ret.
Member of the Executive Board of MAN Aktiengesellschaft, ret.
- Knorr-Bremse AG (Supervisory Board)*
- Knorr-Bremse Systeme für Nutzfahrzeuge GmbH (Vice Chairman of the Supervisory Board)*
- Zahnradfabrik Friedrichshafen (Supervisory Board)*
- Claas KGaA (Supervisory Board*/Partnership Committee)
- Schmitz Cargobull AG (Chairman of the Supervisory Board)*
- Braunschweiger Verkehrs AG (Supervisory Board)*
- Braunschweiger Versorgungs AG (Supervisory Board)*

Horst Schmitthenner
Vice Chairman
Member of the Executive Board of the Metal Industry Labor Union
- Preussag AG (Vice Chairman of the Supervisory Board)*

Dipl.-Ing. Peter Adams
(Chairman and Member of the Supervisory Board until 3.16.1999)
Chairman of the Executive Board of Benteler AG, ret.
- Benteler AG (Supervisory Board)*
- Deutscher Eisenhandel AG (Supervisory Board)*
- Bergrohr GmbH (Advisory Council)

Ingeborg Borchers
Vice Chairwoman of the Works Council, Salzgitter plant, Chairwoman of the Works Council
- no membership in other governing bodies

Dr. Dieter Brunke
(since 3.16.1999)
Managing Partner of Neue Harzer Werke GmbH
- Johnson Controls Interiors GmbH (Supervisory Board)

Dr. Hans Armin Curdt
Member of the Executive Board of Norddeutsche Landesbank Girozentrale
- Joh. Berenberg, Gossler & Co. (Administrative Council and Chairman of the Credit Committee)*
- Öffentliche Lebensversicherung, Öffentliche Sachversicherung, Braunschweigische Landesbrandversicherungsanstalt (Chairman of the Supervisory Board and of the Advisory Council)*
- Öffentliche Feuer- und Lebensversicherung Sachsen-Anhalt (Administrative Council)*
- Braunschweiger Zeitungsverlag GmbH (Chairman of the Supervisory Board)
- GEDYS Internet Products AG (Vice Chairman of the Supervisory Board)*

Dr. Gunter Dunkel
Member of the Executive Board of Norddeutsche Landesbank Girozentrale
- CinemaxX AG (Supervisory Board)*
- MHB Mitteleuropäische Handelsbank AG (Supervisory Board)*
- NORD/LB Luxembourg S.A. (Administrative Council)
- Skandifinanz AG (Administrative Council)

Ulrich Förster
Chairman of the Works Council, Ilsenburg plant
- no membership in other governing bodies

Sigmar Gabriel
(since 2.24.1999; resigned on 12.15.1999)
Member of the State Parliament of Lower Saxony (Chairman of the SPD-Group)
- Goslarer Wohnstätten GmbH (Supervisory Board)*
- Rammelsberger Bergbau Museums GmbH (Supervisory Board)

Hans-Michael Gallenkamp
Chairman of the Managing Board of Felix Schoeller Holding GmbH & Co. KG
- Stone Europa Carton AG (Supervisory Board)*
- Stone Container GmbH (Supervisory Board)*
- Jacob Jürgensen GmbH (Advisory Council)

Gerhard Glogowski
(until 2.23.1999)
Prime Minister of the State of Lower Saxony
- Braunschweigische Kohlenbergwerke (Supervisory Board)*
- Norddeutsche Landesbank Girozentrale (Supervisory Board)*
- Stadtwerke Braunschweig (Supervisory Board)*
- Volkswagen AG (Supervisory Board)*
- EXPO 2000 Hannover GmbH (Supervisory Board)*
- PreussenElektra (Supervisory Board)*

Kurt van Haaren
Chairman of the German Post Office Labor Union
- Deutsche Post AG (Supervisory Board)*
- Beteiligungsgesellschaft der Gewerkschaften AG (Advisory Council)

Prof. Dr.-Ing. Dr.-Ing. E.h. mult. Heinz Haferkamp
Director of the Institute for Materials Science at the University of Hanover
Member of the Executive Board of Laser Zentrum Hannover e.V.
- Deutsche Gesellschaft zum Bau und Betrieb von Endlagern für Abfallstoffe mbH (DBE) (Chairman of the Supervisory Board)*
- Preussag Noell GmbH (Supervisory Board)*

* Constitution of Supervisory Board in compliance with German or local law

Dr. Joachim von Harbou
(until 3.16.1999)
Member of the Executive Board of Dresdner Bank AG
- Advance Bank AG (Chairman of the Supervisory Board)*1)
- Blohm + Voss Holding AG (Supervisory Board)*
- DEGI Deutsche Gesellschaft für Immobilienfonds mbH (Vice Chairman of the Supervisory Board)*1)
- Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH (Supervisory Board)*1)
- Dresdner Bank Luxembourg S.A. (Administrative Council)*1)
- Dresdner Bank (Schweiz) AG (President of the Administrative Council)*1)
- Dresdner Bauspar AG (Chairman of the Supervisory Board)*1)
- Dresdner Capital International Kapitalanlagegesellschaft mbH (Supervisory Board)*1)
- dresdnerbank asset management S.A., Luxemburg (Vice Chairman of the Administrative Council)*1)
- dresdnerbank investment management Kapitalanlagegesellschaft mbH (Supervisory Board)*1)
- ERGO Versicherungsgruppe AG (Supervisory Board)*
- Hamburger Hafen- und Lagerhaus AG (Supervisory Board)*
- Klöckner-Werke AG (Supervisory Board)*
- Kommanditgesellschaft Allgemeine Leasing GmbH & Co. (Administrative Council)1)
- Rheinmetall AG (Supervisory Board)*
- Rütgers AG (Supervisory Board)*
- RWE-DEA Aktiengesellschaft für Mineralöl und Chemie (Supervisory Board)*
- ThyssenKrupp Materials & Services GmbH (Supervisory Board)*

1) = Group mandates

Reinhard Heuer
Vice Chairman of the Works Council, Peine plant
- no membership in other governing bodies

Prof. Dr. Rudolf Hickel
Professor for Economics at the University of Bremen
- "GEWOBA - Aktiengesellscht Wohnen und Bauen" (Supervisory Board)*
- Sächsische Edelstahlwerke Freital GmbH (Supervisory Board)*
- ALLIANZ Aktiengesellschaft (Munich)(Supervisory Board)*

Hans-Joachim Knieps
Vice Chairman of the Executive Board of Bank für Gemeinwirtschaft AG, ret.
- no membership in other governing bodies

Dr. Gunther Krajewski
Director in the Department of Finance for the State of Lower Saxony
Managing Director of Hannoversche Beteiligungsgesellschaft mbH
- Flughafen Hannover-Langenhagen GmbH (Supervisory Board)*

Dr. Erich Mager
(until 3.16.1999)
Vice Chairman of the Executive Board of Benteler AG, ret.
- RC Ritzenhoff Cristal GmbH (Supervisory Board)*
- Benteler AG (Supervisory Board)*

Dr. Arno Morenz
(since 3.16.1999)
Member of the Executive Board of ERC Frankona Aachener Rückversicherungsgesellschaft AG
Vice President of DSW Deutsche Schutzvereinigung für Wertpapierbesitz e.V.
- mip Holding AG (Chairman of the Supervisory Board)*
- Flossbach & von Storch Vermögensmanagement AG (Vice Chairman of the Supervisory Board)*
- DOAG Holding AG (Supervisory Board)*
- Fidelity Funds, Luxemburg (Administrative Council)*

Dr. Rudolf Rupprecht
Chairman of the Executive Board of MAN AG
- MAN Nutzfahrzeuge AG (Chairman of the Supervisory Board)*
- MAN B&W Diesel AG (Chairman of the Supervisory Board)*
- MAN Roland Druckmaschinen AG (Chairman of the Supervisory Board)*
- MAN Technologie AG (Chairman of the Supervisory Board)*
- MAN Gutehoffnungshütte AG (Chairman of the Supervisory Board)*
- Ferrostaal AG (Chairman of the Supervisory Board)*
- RENK AG (Chairman of the Supervisory Board)*
- SMS AG (Chairman of the Supervisory Board)*
- Buderus AG (Supervisory Board)*
- Walter Bau-AG (Supervisory Board)*
- Chairman of the Board of Directors of MAN B&W Diesel A/S, Copenhagen

Ernst Schäfer
Chairman of the Works Council, Salzgitter plant/
Vice Chairman of the Works Council/
Chairman of Group Works Council
- no membership in other governing bodies

Helga Schwitzer
Secretary of the Metal Industry Labor Union, District of Hanover
- Robert Bosch Elektronik GmbH (Vice Chairwoman of the Supervisory Board)*

Dr. Martin Winterkorn
(since 10.5.1998)
Member of the Executive Board of Volkswagen AG
- IAV GmbH Ingenieurgesellschaft Auto und Verkehr (Chairman of the Administrative Council* and of the Partnership Delegation)
- Gründungs- und Innovationszentrum Wolfsburg AG (Supervisory Board)*
- Sitech S.A. (Supervisory Board)*
- VW of South Africa (Member of the Board of Directors)*
- Shanghai-VW Automotive Co. Ltd. (Member of the Board of Directors)*
- AutoEuropa Automóveis (Member of the Board of Directors)*
- SEAT, S.A. (Member of the Administrative Council of Seat, S.A.)*

Heinz-Hermann Witte
Chairman of the Federation of German Labor Unions, State of Lower Saxony/Bremen
- Braunschweigische Kohlenbergwerke (Supervisory Board)*

* Constitution of Supervisory Board in compliance with German or local law

Consolidated annual financial statements of Salzgitter AG

Consolidated balance sheet of Salzgitter AG for the year ending September 30, 1999
(DM thousand)

Assets

	Notes	9.30.1999	9.30.1998
FIXED ASSETS	(1)		
Intangible assets	(2)	16,252	15,336
Property, plant, and equipment	(3)	1,174,280	1,125,011
Financial assets	(4)	132,769	119.267
		1,323,301	**1,259,614**
CURRENT ASSETS			
Inventories	(5)	884,460	961,349
Accounts receivable and other assets	(6)		
Accounts receivable , trade		902,180	923,976
Amounts due from affiliated companies		46,350	45,970
Other receivables and other assets		50,815	55,820
Securities	(7)	188	-
Cash in hand and in Federal Bank and in postal giro accounts, and cash in banks	(8)	99,292	227,596
		1,983,285	**2,214,711**
DEFERRED CHARGES AND PREPAID EXPENSES	(9)	**3,110**	**3,044**
		3,309,696	**3,477,369**

Shareholders' equity and liabilities

	Notes	9.30.1999	9.30.1998
SHAREHOLDERS' EQUITY	(10)		
Capital subscribed	(11)	312,000	312,000
Capital reserves	(12)	466,185	466,185
Retained earnings	(13)	363,965	296,486
Non-distributed income	(14)	112,088	166,308
Minority interests		5,633	10,685
		1,259,871	**1,251,664**
SPECIAL RESERVES WITH AN EQUITY PORTION	(15)	**7,106**	**-**
PROVISIONS			
Provisions for pensions and similar obligations		1,061,387	951,052
Other provisions	(16)	482,793	539,920
		1,544,180	**1,490,972**
LIABILITIES	(17)		
Bonds		7,579	7,579
Accounts payable, trade		306,394	291,263
Notes payable		-	210,500
Amounts due to affiliated companies		5,502	94,073
Other liabilities		178,176	131,093
		497,651	**734,508**
DEFERRED ITEMS		**888**	**225**
		3,309,696	**3,477,369**

Consolidated income statement of Salzgitter AG for the year ending September 30, 1999
(DM thousand))

	Notes	1998/99	1997/98
SALES	(18)	**5,271,956**	**6,244,890**
Change in inventories and own production capitalized	(19)	- 67,846	+99,390
		5,204,110	**6,344,280**
Other operationg income	(20)	159,508	123,691
Cost of materials	(21)	3,209,344	4,167,867
Personnel expenses	(22)	1,104,315	1,078,752
Amortization and depreciation on intangible assets, plant, property, and equipment		210,278	216,056
Other operation expenses	(23)	698,259	675,693
Income from shareholdings	(24)	+10,211	+12,508
Net interest result	(25)	-54,395	-55,239
Depreciation of financial assets		294	-
RESULT FROM ORDINARY OPERATIONS		**+96,944**	**+286,872**
Taxes	(26)	46,688	139,069
NET INCOME FOR THE YEAR		**50,256**	**147,803**
Non-distributed income brought forward from previous year		88,335	28,556
Income due to minority shareholders		-586	-755
Transfer to retained earnings	(10)	25,917	9,296
Non-distributed income		**112,088**	**166,308**

Consolidated fixed assets of Salzgitter AG

(DM thousand)

	At cost						Value adjustment						Net book values	
	10.1.1998	Changes in consolidation	Additions	Disposals	Transfers	9.30.1999	10.1.1998	Changes in consolidation	Appreciations during fiscal year	Depreciations during fiscal year	Disposals	9.30.1999	9.30.1999	9.30.1998
Intangible assets														
Franchises, trademarks, patents,licenses,and similar rights and licenses	74,928	3,099	7,356	1,947	899	84,335	60,731	2,815	–	7,990	1,936	69,600	14,735	14,197
Goodwill	140	–	–	–	–	140	9	–	–	35	–	44	96	131
Advance payments	1,008	–	1,312	–	-899	1,421	–	–	–	–	–	–	1,421	1,008
	76,076	**3,099**	**8,668**	**1,947**	–	**85,896**	**60,740**	**2,815**	–	**8,025**	**1,936**	**69,644**	**16,252**	**15,336**
Property, plant,and equipment														
Land, leasehold rights and buildings,including buildings on non-owned land	1,195,462	9,745	11,542	16,333	6,315	1,206,731	822,202	6,936	–	22,942	15,988	836,092	370,639	373,260
Technical equipment, plant and machinery	4,693,270	191,398	69,493	87,707	19,139	4,885,593	4,023,642	151,325	–	152,850	87,210	4,240,607	644,986	669,628
Other equipment, operational and office equipment	275,728	8,103	26,615	26,616	281	284,111	233,494	6,698	–	26,461	25,508	241,145	42,966	42,234
Advance payments and construction in progress	39,889	1,771	99,773	9	-25,735	115,689	–	–	–	–	–	–	115,689	39,889
	6,204,349	**211,017**	**207,423**	**130,665**	**–**	**6,492,124**	**5,079,338**	**164,959**	–	**202,253**	**128,706**	**5,317,844**	**1,174,280**	**1,125,011**
Financial assets														
Shares in affiliated companies	8,386	–	831	–	–	9,217	942	–	–	268	–	1,210	8,007	7,444
Shares in associated companies	12,272	–	2,226	–	–	14,498	–	–	–	–	–	–	14,498	12,272
Investments in participations	86,631	5	12,290	896	–	98,030	128	–	–	–	76	52	97,978	86,503
Other loans	13,669	460	268	1,638	–	12,759	621	7	54	26	127	473	12,286	13,048
	120,958	**465**	**15,615**	**2,534**	–	**134,504**	**1,691**	**7**	**54**	**294**	**203**	**1,735**	**132,769**	**119,267**
	6,401,383	**214,581**	**231,706**	**135,146**	–	**6,712,524**	**5,141,769**	**167,781**	**54**	**210,572**	**130,845**	**5,389,223**	**1,323,301**	**1,259,614**

Cash Flow Statement

DM million	1998/99	1997/98
Net income	50	148
Amortization and depreciation on fixed assets	211	216
Changes in long-term provisions (pension obligations)	32	25
Changes in special reserves with an equity portion	7	0
Non-cash expenses and income	-11	3
Cash earnings according to DVFA/SG	**289**	**392**
Result from disposals of fixed assets	-1	-12
Changes in inventories,trade receivables, and other assets	129	-255
Changes in short-term provisions	-80	96
Changes in trade payables and other liabilities	11	-79
Increase in cash from current operations	**348**	**142**
Inflows/outflows from disposals of fixed assets	5	22
Outflows for investments	-225	-178
Cash used for investing activities	**-220**	**-156**
Inflows from bond issues	0	8
Inflows from borrowings	40	0
Outflows from repayment of loans	-2	-1
Outflows from payments to shareholders	-84	-63
Cash used for financing activities	**-46**	**-56**
Change in liquid funds with cash effect	82	-70
Change in liquid funds through change in consolidation	89	455
Liquid funds at beginning of year	-76	-461
Liquid funds at end of year	**95**	**-76**
thereof amounts due from affiliated companies	46	46
amounts due to affiliated companies	-5	-94
short-term liabilities due to banks	-45	-45
notes payable	0	-211
liquid funds	99	228

Notes to the consolidated financial statements of Salzgitter AG for the year ending September 30, 1999.

PRINCIPLES AND METHODS

General information

The consolidated financial statements of Salzgitter AG are prepared in accordance with the German Commercial Code - observing the regulations of the German Stock Corporation Act. The report on the situation of the parent company and the Group are combined in a management report. The annual financial statements and the consolidated financial statements of SZAG are presented separately. Individual items of the balance sheet and of the income statement are combined to create more clarity; they are, however, presented and explained individually in the notes. The consolidated financial statements and the annual financial statements of the parent company are deposited with the Commercial Register of the District Court in Peine under HRB 1047.

Consolidated companies

The consolidated financial statements comprise the annual financial statements of the parent company and annual financial statements of 15 domestic and 4 foreign affiliated companies with the same balance sheet date.
Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter (VPS) were included in the consolidation for the first time. The previous year's figures of pension obligations were thus increased by 8% and other provisions by 4%, previous year's amounts due to affiliated companies are practically all in connection with VPS. The comparability of the other items was not significantly affected by the change in consolidation.
One domestic and one foreign participation on which Salzgitter AG and one other Group company respectively exercise substantial influence are included in the consolidated financial statements as associated companies, equity valuation of a further company was waived in accordance with § 311 Sect. 2 HGB (German Commercial Code).
15 domestic and 18 foreign subsidiaries were not consolidated in view of their overall insignificance for assets, liabilities, financial, and income position.
The list of shareholdings is deposited with the Commercial Register of the District Court of Peine under HRB 1047.

Principles of consolidation

The consolidated financial statements are, in principle, based on the individual financial statements of SZAG and the subsidiaries included, which are prepared in accordance with uniform accounting and valuation principles applied by the Group and certified by indenpendent auditors. Deviating from this, the option to account for provisions in accordance with § 249 Sect. 2 HGB (German Commercial Code) and to appropriate earnings to tax-free reserves according to § 6b EStG (income tax law) within the preparation of the consolidated financial statements according to § 300 Sect. 2 HGB (German Commercial Code) were newly exercised.

Capital consolidation is effected at the date of the first inclusion in the consolidation and by applying the book value method. The value of the shares belonging to the respective parent company is offset against the proportionate value of the equity of the companies included in the consolidated financial statements. Differences are offset against retained earnings not affecting the operating result. The shares belonging to other companies are calculated on the basis of capital and result of the individual companies (if necessary after revaluation and translation into DM).
The associated companies are, in principle, shown by applying the book value method on acquisition date with their prorated equity (equity method).
Interim profits, expenses, and income as well as receivables and liabilities between the companies included are eliminated. Consolidation transactions which are affecting the operating result are subject to deferred taxes. Deferred tax liabilities from consolidation transactions are netted with deferred tax assets from individual transactions, however not stated in the balance sheet.

Foreign currency translation

Receivables and payables in the individual financial statements are valued at the exchange rate of the transaction date or at the less favorable rate on the balance sheet date; hedged items are valued at the hedged rate.
Translation of the balance sheet items of foreign subsidiaries, namely fixed assets, capital, and reserves is made at exchange rates prevailing at the date of acquisition or production or the first-time inclusion of the company in the consolidated financial statements (historical exchange rates). All other assets, liabilities, and non-distributed income are translated at the medium rate of exchange prevailing on the balance sheet date. In the income statement amortization and depreciation are calculated according to the procedure applied to fixed assets. Other operating expenses and revenues are translated at the average exchange rate for the fiscal year, the net income for the year and changes to reserves are translated at the medium exchange rate prevailing on the balance sheet date. Any differences resulting from currency translations are posted to retained earnings as far as balance sheet items are concerned and to other operating expenses for income statement items.
The difference of KDM 49 between net income for the year at average exchange rates and at the record rate date as shown in the balance sheet and in the income statement is stated under other operating expenses. The exchange rates for foreign currency translations developed as follows:

	DM-medium rate on balance sheet date		DM-annual average rate	
Currency	9.30.1999	9.30.1998	1998/99	1997/98
CAD 1	1.2510	1.1007	1.1858	1.2313
NLG 100	88.7516	88.6750	88.7390	88.7257

ACCOUNTING AND VALUATION PRINCIPLES

The accounting and valuation principles applied during the previous fiscal year were retained except for the following changes. Certain accounting options were newly exercised within the preparation of the consolidated financial statements. Furthermore, depreciation according to special tax allowances only namely in accordance with § 3 ZonenRFG (subsidies for border regions), § 4 FördergebietsG (development areas), § 6b EStG (income tax), § 14 Berlin FG (Berlin promotion), and § 7d EStG is not stated on the liabilities side under special reserves with an equity portion, but deducted directly from property, plant, and equipment. Applying tax related valuation principles, the net income for the year will be increased by DM 65.3 million (previous year DM 88.5 million).
In future, tax related effects are spread over longer periods due to the extended depreciation period.

Fixed assets

Intangible assets acquired are capitalized at acquisition costs and, where applicable, depreciated over a scheduled useful life of 3-5 years according to the straight-line method. Property, plant, and equipment are valued at cost of acquisition or manufacture and are depreciated according to their expected useful life. Manufacturing costs of self-made equipment comprise the directly applicable material and manufacturing costs and appropriate portions of the necessary overhead expenses and depreciation. Interest for borrowed funds is not included in the manufacturing costs.
Scheduled depreciation on additions up to and including 1986/87 is predominantly effected according to the straight-line method, on additions thereafter in principle in accordance with the declining balance method and, if higher depreciation is permissible under tax law, according to the straight-line method.
The period of depreciation corresponds to the useful lives, standard for the industry and permissible under tax law. Consequently, it is 40 years for office and factory buildings, 8-20 years for technical equipment and machinery, and 3-5 years for other equipment, fixtures, furniture, and office equipment. Any fixed assets item, for which a lower value is permanently expected, is subject to non-scheduled depreciation amounting to the reduction in value.
Any additions of movable items to property, plant, and equipment during the first half of the fiscal year, are depreciated at the full annual rate, during the second half, at half the annual rate. Minor-value assets are written off in full during the year of acquisition.
Unscheduled depreciation was offset against investment subsidies until fiscal 1996/97, as from fiscal 1997/98 they were deducted from the acquisition costs at the time received.

Spare parts of more than DM 400, factory equipment, and railroad tracks have fixed rates of 40% of the respective acquisition or manufacturing costs. Salzgitter AG introduced a modified recording during the fiscal year with resulting improved transparency and calculated, for the first time, a fixed value for spare parts to be repaired; the result was thus positively affected by DM 6.6 million.
Shares in affiliated companies and participations are accounted for at acquisition costs or at the lower appropriate value.
Interest-free or low-interest loans are discounted at their cash values, other loans are stated at their nominal value.

Current assets

Valuation of inventories is mainly carried out according to the LIFO-method observing the lower of cost or market principle and the no-loss valuation. The difference between LIFO and costs of acquisition valuation amounts to 4% of the inventories valued according to the LIFO-method during the fiscal year. The requirement to reinstate original values according to § 6 Sect. 1 No. 2 EStG (income tax law) within the tax relief law 1999/2000/2002 resulted in appreciations according to § 280 Sect. 1 HGB (German Commercial Code); the transitional provision according § 52 Sect. 16 EStG (income tax law) was made use of.
All identifiable warehousing and inventory risks are recognized by adequate value adjustments.
Unfinished and finished products as well as company-produced raw materials are valued at Group manufacturing costs which include unit costs, depreciation, and appropriate portions of the applicable overheads. Accounts receivable and other assets are accounted for at their nominal value. Allowances are made for identifiable individual risks, lump-sum allowances are made for the general credit risk.

Provisions and liabilities

Pension provisions are calculated according to § 6a EStG (income tax law) at their discounted value on the basis of actuarial principles and additional calculations at an interest rate of 6% p.a. The effect of applying the 1998 mortality tables of Prof. Dr. Klaus Heubeck was considered on balance sheet date with one-third of the total charge including the lump-sum rate amounting to DM 10 million established during the previous year by Salzgitter AG. Major changes occurring between valuation date and balance sheet date are also considered assessing the provisions.
The interest part of additions to pension provisions is stated in the net interest result, furthermore, additions to and releases from pension obligations are netted.

The calculation of provisions for anniversaries is calculated with an interest rate of 5.5% p.a.
Tax related and other provisions consider all recognizable risks and uncertain commitments under careful commercial assessment. Other provisions also include an amount of DM 15 million, which, exercising an optional valuation, is based entirely on Commercial Code principles.
Liabilities are stated at the amount repayable.
Valuation of contingent liabilities correspond to the actual liability amount on balance sheet date.

Changes in financial position

The statement of financial position was prepared according to the joint opinion of Hauptfachausschuss der Wirtschaftsprüfer and Schmalenbach-Gesellschaft - Deutsche Gesellschaft für Betriebswirtschaft e.V. (SG) (Auditors Association and Association for Business Administration). It lists the flow of funds of the Salzgitter Group, broken down into operating, investing, and financing segments.
Within the section - increase in cash from current operations - cash earnings to DVFA/SG are shown separately as a subtotal. The means of financing include liquid funds, amounts due from and amounts due to affiliated companies, marketable short-term security investments, and short-term liabilities due to banks.

NOTES TO THE CONSOLIDATED BALANCE SHEET

Assets

(1) Fixed assets

Breakdown and development of the individual items are shown in the analysis of fixed assets.

(2) Intangible assets

The intangible assets consist mainly of software, licenses, and trademarks.

(3) Property, plant, and equipment

The additions are presented under investments in the management report.
The respective disposals refer to the sale of land and the sale and scrapping of obsolete plant and equipment. Included in property, plant,and equipment are fixed values for spare parts (DM 114 million), factory equipment (DM 56 million), and railroad track (DM 18 million).

(4) Financial assets

Other loans include housing loans to employees, mainly loans under the long-term employee incentive plan for members of the Executive Board (KDM 1,000) and other Group executives. These loans bear interest at 5.4% p.a. and are exclusively for financing the purchase of convertible bonds of SZAG and are due for repayment during 2005.

(5) Inventories

Inventories consist of:

KDM	9.30.1999	9.30.1998
Raw materials and supplies	222,727	236,446
Unfinished goods	199,911	239,731
Finished goods and merchandise	431,975	485,992
Advance payments made	40,839	4,771
Advance payments received	-10,992	-5,591
	884,460	**961,349**

(6) Accounts receivable and other assets

KDM	9.30.1999	9.30.1998
Accounts receivable, trade	902,180	923,976
Amounts due from affiliated companies	46,350	45,970
Amounts due from participations	3,987	8,130
Other assets	46,828	47,690
(thereof with maturity exceeding one year)	(84)	(62)
	999,345	**1,025,766**

The allowances for doubtful accounts are DM 32.2 million (previous year DM 31.4 million)

Amounts due from affiliated companies include KDM 31,677 of trade receivables. Amounts due from participations consist predominantly of trade receivables.

Other assets include claims for tax refunds of KDM 10,927, legally due after the balance sheet date.

(7) Securities

Securities include 12,014 own shares corresponding to a nominal value of DM 60,070 = 0.02% of capital subscribed. During December 1998 a total of 260,300 own shares (=0.42% of capital subscribed) were purchased at DM 16.89/share for employees' participation, 248,286 shares thereof (total value DM 1,241,430 = 0.40% of capital subscribed) were distributed among Group employees as bonus payments. The respective legal reserve for the balance sheet value of own shares was set up.

(8) Liquid funds

This item consists mainly of bank credit balances.

(9) Deferred charges and prepaid expenses

The item includes discounts of KDM 5 and is predominantly for periodic expenditures of taxes, contributions, and fees.

Shareholders' Equity and Liabilities

(10) Equity development

KDM	Capital subscribed	Capital reserves	Reserve for own shares	Other retained earnings	Non-distributed income	Minority interests	Total
Balance on October 1,1998	312,000	466,185		296,486	166,308	10,685	1,251,664
Dividends for previous year*)					-77,973		-77,973
Reclassification of reserves for own shares			188	-188			
Group net income 1998/99					49,670	586	50,256
Transfer to retained earnings				25,917	-25,917		
Clearing of differences from first-time consolidation				38,040			38,040
Other changes						-5,638	-5,638
Clearing of all other consolidation items				3,522			3,522
Balance on September 30, 1999	**312,000**	**466,185**	**188**	**363,777**	**112,088**	**5,633**	**1,259,871**

*) on the capital entitled to dividends

(11) Capital subscribed

The capital subscribed (capital stock) was changed into euro in accordance with a resolution passed during the Annual Shareholders' Meeting on March 16, 1999, it is thus 159,523,066.93 euro. The total of 62,400,000 ordinary shares with no par value have a calculated nominal value of 2.56 euro each. Hannoversche Beteiligungsgesellschaft mbH, Hanover, wholly owned by the State of Lower Saxony owns more than 25% of the Salgitter AG shares. According to information received (§ 21 WpHG = German Securities Trading Act), Nord/LB and its subsidiaries are holding between 25% and 50% of Salzgitter AG shares on balance sheet date.

As per resolution of the Annual Shareholders' Meeting on April 23, 1998, a conditional capital of up to DM 10 million (after conversion 5,112,918.81 euro) was created for the issuance of option bonds. These option bonds consist of a Salzgitter AG loan bearing interest at 5% p.a. (maturity 1998-2005) and attached option rights, which entitle the bearer to purchase Salzgitter shares.
On balance sheet date the bonds subscribed for DM 7,579,000 consist of 7,579 certificates of DM 1,000 each, having 200 warrants each, the purchase is limited to Group executives only. The option rights can be exercised after a minimum period of 36 months and after fulfilment of the conditions laid down.
Furthermore, by a resolution adopted at the Annual Shareholders' Meeting on March 16, 1999, the capital stock was conditionally increased by up to 10,225,837.62 euro by issuing up to 4,000,000 ordinary bearer shares (conditional capital II). The conditional capital increase is for option and conversion rights, respectively and may only be exercised, as the option and conversion rights are used.
Subject to the approval of the Supervisory Board, the Executive Board is authorized to launch a one-off or multiple issue of interest bearing option and/or convertible bonds by March 15, 2004, with a maturity of maximum ten years, and to grant the bearer of the respective bonds option or conversion rights for new SZAG shares totalling up to 4,000,000.

(12) Capital reserves

The capital reserves consist of premiums in accordance with § 272 Sect. 2 No. 1 HGB (German Commercial Code) of KDM 225,300 in connection with a capital increase, of other additional payments according to § 272 Sect. 2 No. 4 HGB (German Commercial Code) amounting to KDM 217,506, and of an amount of KDM 23,379 which was transferred in accordance with § 27 Sect. 2 DMBilG (German balance sheet act).

(13) Retained earnings

These reserves consist of reserves for own shares (KDM 188), other retained earnings (KDM 351,842), and a reserve in accordance with § 17 Sect. 4 DMBilG (German balance sheet act) amounting to KDM 11,935.

(14) Non-distributed income

The non-distributed income shown is the non-distributed income of the parent company. Income effects from consolidation measures and from the non-distributed income of the subsidiaries were netted with retained earnings.

(15) Special reserves with an equity portion

The special reserves with an equity portion included a tax-free reserve in accordance with § 52 Sect. 16 EStG (income tax law) amounting to four-fifths of the profit made in the first year by applying § 6 Sect. 1 No. 2 EStG (income tax law). During the following four fiscal years, this reserve has to be released by one-fourth each and transferred to income.

(16) Other reserves and accrued liabilities

KDM	9.30.1999	9.30.1998
Tax provisions	61,487	85,421
Pension provisions	184,644	199,109
Provisions for environmental protection measures	47,100	65,596
Other	189,562	189,794
	482,793	**539,920**

Other provisions are primarily for risks arising from commercial and operational transactions for supply and services not yet invoiced, for risks relating to postponed repair and maintenance.

(17) Liabilities

	Total	Remaining term		Total	Remaining term
KDM	9.30.1999	up to 1year	up to 5years	9.30.1998	up to 1year
Bonds (convertible)	7,579	–	–	7,579	–
Liabilities					
Accounts payable, trade	306,394	306,384	–	291,263	291,255
Notes payable				210,500	210,500
Amounts due to affiliated companies	5,502	5,502	–	94,073	94,073
Amounts due to banks	88,385	44,876	35,349	50,471	45,178
Amounts due to participations	4,811	4,811	–	2,420	2,420
Other	84,980	84,516	308	78,202	77,666
(thereof due to employees)	(1,282)			(6,378)	
(thereof from taxes)	(25,170)			(19,631)	
(thereof relating to social security)	(23,614)			(21,883)	
	497,651	**446,089**	**35,657**	**734,508**	**721,092**

The bonds relate to option bonds of Salzgitter AG bearing 5% interest, for which a conditional capital of up to DM 10 million was created.
KDM 30,389 of the total are secured by mortgages. The amounts due to participations are mostly from trade payables.

Contingent liabilities

KDM	9.30.1999	9.30.1998
Liabilities from negotiation and transfer of notes payable	24,216	46,569
from guarantees	42,422	23,080
	66,638	**69,649**

In connection with the share offering at the stock exchange Salzgitter AG has, under the prospectus liability, given the usual assurances as well as warranties and releases. The Company's respective liability is limited to 40%.

Other financial obligations

As a result of lease agreements over a period of several years KDM 31,179 will fall due in the coming fiscal year. Furthermore, there are order commitments for investments and other obligations covering a total of KDM 238,797 (KDM 100 towards affiliated companies).

Derivate financial instruments

Derivate financial instruments are used to safeguard against currency risks. These instruments are used only for hedging against currency risks from existing and pending transactions. During last fiscal year, hedging took place by forward exchange contracts only. Derivate financial transactions are subject to constant risk controlling and are carried out under strictly separate responsibility as to trading, processing, documentation, and control.
The terms of currency derivates are normally up to 12 months.
The nominal volume of forward exchange contracts is the unbalanced total of all purchase and sales contracts, valued at the respective exchange rate at payment date. The market values were, in principle, determined on the basis of the balance sheet date situation, and that at which the respective derivate financial contract was concluded or quoted, not considering contrary value changes of the basic transaction.

KDM	9.30.1999	9.30.1998
Forward exchange contracts		
Nominal volume	390,416	513,400
Market value	941	12,900

The contracts are concluded exclusively with renowned prime banks.

Notes to consolidated income statement

(18) Sales

DM million	1998/99	1997/98
Sales by products		
Flat rolled steel	2,905	3,672
Steel sections	977	1,101
Other	1,390	1,472
	5,272	**6,245**
Sales by regions		
Germany	2,878	3,352
Other European Union	1,216	1,453
Other Europe	199	298
America	258	471
Other regions	721	671
	5,272	**6,245**

(19) Change in inventories and own production capitalized

KDM	1998/99	1997/98
Change in inventory of finished goods and work in progress	-74,891	+95,019
Productions for own plant and equipment capitalized	7,045	4,371
	-67,846	**+99,390**

(20) Other operating income

KDM	1998/99	1997/98
Release of provisions and allowances	58,992	45,536
Cost allocations	32,038	6,492
Refunds from prior years	17,599	2,094
Income from rents,leases, and licenses	8,385	7,175
Income from disposals of fixed assets	5,132	15,638
Insurance refunds	2,759	4,527
Other operating income	34,603	42,229
	159,508	**123,691**

Cost allocations include DM 24 million, which Salzgitter AG received from Salzgitter Europlatinen GmbH in connection with the construction of a blanks production plant, which is offset by a similar amount for cost of services purchased under other operating expenses.

Other operating income includes income relating to other periods amounting to KDM 67,026 (previous year KDM 64,039), mainly from releases of provisions and costs refunded from previous years.

(21) Cost of materials

KDM	1998/99	1997/98
Cost of raw materials,supplies, and merchandise purchased	2,801,810	3,611,946
Cost of services purchased	407,534	555,921
	3,209,344	**4,167,867**

The cost of raw materials and supplies include predominantly cost for operating supplies, supplies, spare parts, and factory equipment.
Cost of services purchased relate primarily to energy, purchased labor, and transport costs.
The reduction of cost of materials was mainly caused by price declines on the relevant raw material markets. Furthermore, new long-term supply contracts and other agreements led to price discounts of DM 16.7 million, which became effective with receipt of payment.
Cost of material includes consumer tax of KDM 4,111.

(22) Personnel expenses/employees

KDM	1998/99	1997/98
Wages and salaries	880,935	849,446
Social security and expenses for pensions and welfare	223,380	229,306
(thereof for pensions)	(42,703)	(54,459)
	1,104,315	**1,078,752**

Pension expenses do not include accumulated interest for pension provisions of KDM 59,407 (previous year KDM 53,370), which is stated in the net interest result.
Personnel expenses include expenses related to other periods amounting to KDM 8,884.

Average number of employees	1998/99	1997/98
Wage labor	8,307	7,855
Salaried employees	4,042	3,681
	12,349	**11,536**

Without changes in Group structure, last year's number of employees would have been 787 more.

(23) Other operating expenses

KDM	1998/99	1997/98
Transfer to special reserves with an equity portion	7,106	–
Selling expenses	245,110	264,255
Outside service incl. set-up of provisions	295,190	224,017
Administrative expenses incl. insurance, charges, fees, contributions	66,967	68,427
Advertising/information	23,361	18,805
Rents and leases	17,009	19,007
Allowances for doubtful accounts and waiver of receivables	11,492	7,221
Other operating expenses	32,024	73,961
	698,259	**675,693**

Other operating expenses include expenses for other periods amounting to KDM 16,589 (previous year KDM 22,783).

(24) Income from shareholdings

KDM	1998/99	1997/98
Income		
from profit transfer agreements	715	1,952
(thereof from affiliated companies)	(713)	(1,950)
from participations	4,060	3,223
(thereof from affiliated companies)	(1,941)	(260)
Income from associated companies	5,436	7,726
Expenses from loss absorptions (to affiliated companies)	–	-393
	10,211	**12,508**

(25) Net interest result

KDM	1998/99	1997/98
Income from loans of financial assets	756	436
Other interest received and similar income	13,744	21,427
(thereof from affiliated companies)	(1,716)	(1,212)
Interest paid and similar expenses	-68,895	-77,102
(thereof from affiliated companies)	(-1,097)	(-2,504)
(thereof interest as part of additions to pension provisions)	(-59,407)	(-53,370)
	-54,395	**-55,239**

(26) Taxes

KDM	1998/99	1997/98
Income taxes		
Own taxes	41,650	134,086
Reimbursements from affiliated companies	-83	-117
	41,567	**133,969**
Other taxes	5,121	5,100
	46,688	**139,069**

The taxes include expenses for other periods amounting to KDM 5,506 (previous year KDM 10,000) and income for other periods in the amount of KDM 1,514 (previous year KDM 297).

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Divisions - Key Data

Divisions - financial data

	Steel Production		Steel Trading		Raw Materials/ Services		Consolidation/ Other		Group	
DM million	98/99	97/98	98/99	97/98	98/99	97/98	98/99	97/98	98/99	97/98
Sales	3,037	3,626	2,876	3,569	861	864			6,774	8,059
Sales within own Division			141	232	9	4			150	236
Sales to other Divisions	829	1,094	10	18	513	466			1,352	1,578
External sales	2,208	2,532	2,725	3,319	339	394			5,272	6,245
Result from ordinary operations	57	234	24	33	17	18	-1	2	97	287
thereof from associated companies			5	8					5	8
Interest income	18	15	12	14	5	3			35	32
Interest expense	51	53	27	28	11	6			89	87
Division assets	2,953	3,116	1,030	1,063	450	262	-1,123	-964	3,310	3,477
thereof shareholdings in associated companies			14	12					14	12
thereof inventories	563	663	261	255	72	46	-12	-3	884	961
Division liabilities	1,535	1,603	865	895	359	205	-717	-478	2,042	2,225
Investments in property, plant,and equipment	173	127	13	13	30	16			216	156
Depreciation*	174	186	19	20	21	13	-4	-3	210	216
Non-cash expenses and income	-4	3							-4	3
Employees (annual average)	6,999	7,292	1,833	1,807	3,517	2,437			12,349	11,536

* without financial assets

Divisions - regional sales

DM million	Steel Production		Steel Trading		Raw Materials/ Services		Total	
External sales	1998/99	1997/98	1998/99	1997/98	1998/99	1997/98	1998/99	1997/98
Germany	1,303	1,418	1,288	1,631	287	303	2,878	3,352
Other EU countries	787	933	382	435	47	85	1,216	1,453
Other European countries	75	111	121	185	3	2	199	298
America	14	8	244	463	0	0	258	471
Other	29	62	690	605	2	4	721	671
Total	**2,208**	**2,532**	**2,725**	**3,319**	**339**	**394**	**5,272**	**6,245**

Notes to Divisions

The Steel Production Division includes the individual financial statement of Salzgitter AG (without income from shareholdings). The Salzgitter Trading Group and Hövelmann & Lueg GmbH & Co. KG, including the results of associated companies, form the Steel Trading Division. The Raw Materials and Services Division comprises the following companies: DEUMU Deutsche Erz- und Metall-Union GmbH, PPS Personal-, Produktions- und Servicegesellschaft mbH, telcat-Group, GESIS Gesellschaft für Informationssysteme GmbH, Hansaport Hafenbetriebsgesellschaft mbH, “Glückauf” Wohnungsgesellschaft mbH, VPS Verkehrsbetriebe Peine-Salzgitter GmbH, and income from shareholdings to be allocated to the Division.
Allocations to the Divisions are in line with internal reporting within the Salzgitter Group.

Notes to Division data

Division sales are also broken down according to customers’ registered office. Group internal sales are made at market prices.
Division assets comprise fixed assets, current assets, and the asset-side deferred charges and prepaid expenses.
Division liabilities include the provisions and liabilities.
Value-oriented corporate management employs various key-data for controlling and assessment purposes of which this annual report relies primarily on EBITDA and EBIT-margin and return on capital employed (ROCE).

Other information

The Supervisory Board received a remuneration of KDM 475 for its services.

The Executive Board’s total emoluments amounted to KDM 4,436 from SZAG and KDM 117 from subsidiaries.

Former members of the Executive Board and their surviving dependants received a total of KDM 4,867 for the fiscal year. Pension obligations for former members of the Executive Board and their surviving dependants are covered by a provision of total KDM 12,650.

The members of the Supervisory Board and of the Executive Board are listed separately.

Salzgitter, December 16, 1999

The Executive Board

Geisler   Fuhrmann   Jacob

Kolb   Luckan

Audit Opinion

As a result of our audit, we render the following unqualified audit opinion.

Auditors' opinion

We audited the consolidated financial statements and the Group management report of Salzgitter AG, Peine for the fiscal year from October 1, 1998 to September 30, 1999. The Company's Executive Board is responsible for the preparation of the consolidated financial statements and the Group management report in compliance with German commercial law. It is our responsibility to express an opinion, based on our audit, on the consolidated financial statements and the Group management report.

We conducted our audit of the consolidated financial statements pursuant to § 317 HGB (German Commercial Code) and in compliance with the generally accepted auditing principles laid down by the Institute der Wirtschaftsprüfer (IDW = Auditors' Association). These standards require that we plan and perform the audit to obtain reasonable assurances that inaccuracies and violations are identified which significantly affect the presentation of the assets, liabilities, financial position, and results of the Company as conveyed by the consolidated financial statements and the Group management report. The scope of the audit was planned taking into account our understanding of Group business operations, of its economic and legal environment, and any potential errors anticipated.

In the course of the audit, the disclosures made in the consolidated financial statements and the management report were verified, mainly on the basis of spot checks. The audit comprises the assessment of the annual financial statements included in the consolidated financial statements, the cut-off of the consolidation scope, the accounting and consolidation principles, and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the management report.

Our audit did not give cause to any qualification.

In our opinion, the consolidated financial statements are in compliance with generally accepted accounting principles and present a true and fair view of the assets, liabilities, financial position, and the result of the Group. In all material respects, the management report accurately presents the situation of the Group and the risks arising from future developments.

Hanover, December 21, 1999

PwC DEUTSCHE REVISION
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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Wirtschaftsprüfer	Wirtschaftsprüfer

Consolidated balance sheet of Salzgitter AG
for the year ending September 30, 1999 - in EURO
(Euro thousand)

Assets

	9.30.1999	9.30.1998
FIXED ASSETS		
Intangible assets	8,310	7,841
Property, plant, and equipment	600,400	575,209
Financial assets	67,884	60,980
	676,594	**644,030**
CURRENT ASSETS		
Inventories	452,217	491,530
Accounts receivable and other assets		
Accounts receivable , trade	461,277	472,421
Amounts due from affiliated companies	23,698	23,504
Other receivables and other assets	25,981	28,540
Securities	96	-
Cash in hand and in Federal Bank and in postal giro accounts, and cash in banks	50,767	116,368
	1,014,036	**1,132,363**
DEFERRED CHARGES AND PREPAID EXPENSES	**1,590**	**1,557**
	1,692,220	**1,777,950**

Shareholders' equity and liabilities

SHAREHOLDERS' EQUITY		
Capital subscribed	159,523	159,523
Capital reserves	238,357	238,357
Retained earnings	186,092	151,592
Non-distributed income	57,310	85,031
Minority interests	2,880	5,463
	644,162	**639,966**
SPECIAL RESERVES WITH AN EQUITY PORTION	**3,633**	**-**
PROVISIONS		
Provisions for pensions and similar obligations	542,679	486,265
Other provisions	246,848	276,057
	789,527	**762,322**
LIABILITIES		
Bonds	3,875	3,875
Accounts payable, trade	156,657	148,920
Notes payable	-	107,627
Amounts due to affiliated companies	2,813	48,099
Other liabilities	91,100	67,026
	254,445	**375,547**
DEFERRED ITEMS	**453**	**115**
	1,692,220	**1,777,950**

Consolidated income statement of Salzgitter AG
for the year ending September 30, 1999in EURO
(Euro thousand)

	1998/99	1997/98
SALES	**2,695,508**	**3,192,962**
Change in inventories and own production capitalized	-34,689	+50,817
	2,660,819	**3,243,779**
Other operationg income	81,555	63,242
Cost of materials	1,640,912	2,130,997
Personnel expenses	564,627	551,557
Amortization and depreciation on intangible assets, plant, property, and equipment	107,513	110,468
Other operation expenses	357,014	345,476
Income from shareholdings	+5,221	+6,395
Net interest result	-27,812	-28,243
Depreciation of financial assets	150	-
RESULT FROM ORDINARY OPERATIONS	**+49,567**	**+146,675**
Taxes	23,871	71,105
NET INCOME FOR THE YEAR	**25,696**	**75,570**
Non-distributed income brought forward from prior year	45,165	14,600
Income due to minority shareholders	-300	-386
Transfer to retained earnings	13,251	4,753
Non-distributed income	**57,310**	**85,031**

Major shareholdings of Salzgitter AG

At September 30,1999		Nominal capital in DM/ local currency (1,000 units)	Direct and indirect shareholdings in %
Steel Trading			
Salzgitter Handel GmbH, Düsseldorf		46,000	100
Salzgitter Stahlhandel GmbH, Hanover		5,000	100
Stahl-Center Baunatal GmbH,Baunatal		10,000	100
Salzgitter Stahlhandel GmbH, Gladbeck		8,005	100
Salzgitter Stahlhandel GmbH, Mannheim		12,200	100
Salzgitter International GmbH, Düsseldorf		1,000	100
Salzgitter Stahlhandel Ges.mbH,Vienna,Austria	ATS	500	100
Salzgitter Trading U.K. Ltd., Harrogate, UK	GBP	5	100
Salzgitter Acier S.A., Saint Mandé,France	FRF	500	100
Salzgitter Aceros Espana S.A., Madrid, Spain	ESP	10,000	100
Salzgitter Acciai Italia S.R.L., Milan, Italy	ITL	99,000	50.5
Salzgitter Handel B.V., Oosterhout, Netherlands	NLG	4,500	100
Deltastaal B.V., Oosterhout, Netherlands	NLG	200	100
Friesland Staal B.V., Drachten, Netherlands	NLG	100	100
A.P. Steel (U.K.) Ltd.,Scunthorpe, UK	GBP	1,502	100
Salzgitter Trade Inc., Vancouver, Canada	CAD	500	100
Hövelmann & Lueg GmbH & Co KG,Schwerte		6,000	95
Universal Eisen und Stahl GmbH, Neuss		7,500	50
Raw Materials and Services			
Verkehrsbetriebe Peine-Salzgitter GmbH,Salzgitter		27,600	100
DEUMU Deutsche Erz-und Metall-Union GmbH,Peine		8,000	100
GESIS Gesellschaft für Informationssysteme mbH, Salzgitter		5,000	100
Peiner Agrar-und Hüttenstoffe GmbH, Peine		1,500	100
Hanseatic Agrar- und Baustoffhandel GmbH, Bremen		1,000	100
telcat multicom GmbH,Salzgitter		1,200	100
Telcat Kommunikationstechnik GmbH, Salzgitter		700	100
PPS Personal-, Produktions-und Service GmbH,Salzgitter		110	100
“Glückauf” Wohnungsgesellschaft mbH, Peine		50	100
Hansaport Hafenbetriebsgesellschaft mbH, Hamburg		10,000	51
Industrial Investments			
Europlatinen Holding GmbH,Munich		7,000	50
Salzgitter Europlatinen GmbH, Salzgitter		2,000	50.5
Voest Alpine Europlatinen GmbH, Linz,Austria	ATS	500	49.5
Steel Dynamics, Inc., Butler, IN, USA	USD	492	12.1

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Editior:	SALZGITTER AG
Design:	Albrecht & Schoeller GmbH, Hamburg
Photography:	Uwe Brodmann, Brunswick
	Caspar v. Baudissin, Hamburg, (pp.11,18)
	H. Breloer (p.16)
	H. Lohmann (p.34)
	H. Lenke (p.58)
Lithography/print:	Druckhaus Arns, Remscheid