ANNUAL REPORT 1999/2000

SALZGITTER AG

Stahl und Technologie

KEY DATA OF THE SALZGITTER GROUP[1)]

		1995/1996[2)]	1996/1997[2)]	1997/1998	1998/1999	1999/2000
Crude steel production	Kt	3,935	4,635	4,928	4,725	5,116
Sales	€ mln	2,629	2,762	3,193	2,696	3,291
Steel Production Division	€ mln	1,015	1,086	1,295	1,129	1,252
Steel Trading Division	€ mln	1,387	1,470	1,697	1,393	1,773
Raw Materials and Services Division	€ mln	227	206	201	174	228
Industrial Shareholdings Division	€ mln	-	-	-	-	38
Flat rolled products	€ mln	1,487	1,582	1,877	1,485	1,901
Sections	€ mln	465	537	563	500	636
Share of exports	%	41	45	46	45	49
Employees						
Personnel expenses	€ mln	500	508	552	554	582
Workforce (annual average)		11,885	11,693	11,536	12,349	13,181
Personnel expenses/employee	K €	42	43	48	45	44
Result from ordinary activities	€ mln	24	73	147	31	97
Net income for the year	€ mln	11	45	76	13	70
Balance sheet total	€ mln	1,591	1,636	1,778	2,208	2,427
Fixed assets	€ mln	668	669	644	1,177	1,226
Current assets	€ mln	923	967	1,134	1,031	1,201
Inventories	€ mln	393	403	491	458	545
Shareholders' equity	€ mln	576	596	640	900	912
Borrowings	€ mln	1,015	1,040	1,138	1,308	1,515
Provisions	€ mln	745	700	762	971	977
Liabilities	€ mln	270	340	376	337	538
thereof due to banks	€ mln	11	8	26	45	207
Investments[3)]	€ mln	147	108	80	150	208
Depreciation and amortization[3)]	€ mln	95	105	110	166	174
Key figures						
Income before interest and tax (EBIT)[4)]	€ mln	47	98	175	37	110
EBIT before depreciation and amortization (EBITDA)[4)]	€ mln	141	203	285	203	284
Return on capital employed (ROCE)[5)]	%	4.2	8.8	14.6	3.8	9.5
Cash flow	€ mln	212	140	73	116	114

1) As of 1998/1999 all balance sheet data were established acc. IAS and are thus only conditionally comparable with prior years.
2) All data have been adjusted to the new Group structure introduced 1997/1998 and to the changed presentation.
3) Without financial assets.
4) Until 1997/1998 EBT plus net interest result, as of 1998/1999 EBT plus interest expense (without interest as part of additions to pension provisions).
5) Until 1997/1998 EBIT in relation to total of shareholders' equity, minority interests in equity, pensions and tax provisions and interest-bearing liabilities;
as of 1998/1999 EBIT in relation to total of shareholders' equity, minority interests in equity, tax provisions (without deferred taxes) and interest-bearing liabilities.

HIGHLIGHTS OF THE FISCAL YEAR 1999/2000

October 28, 1999

Supervisory Board Meeting focusing on the appointment of Dipl.-Betriebswirt Wolfgang Leese as Chairman of the Executive Board of Salzgitter AG.

December 10, 1999

Press release with key data of annual financial statements 1998/1999: "With Profit and Growth into the Upswing".

January 17, 2000

The new production facility for organic coatings of cold rolled sheets (coil coating line) going into operation at the Salzgitter Works.

January 19, 2000

Supervisory Board Meeting focusing on the approval of annual financial statements, appropriation of earnings, approval of investments totaling €209 million.

January 31, 2000

Year-end press conference with presentation of consolidated financial statements 1998/1999: "Salzgitter AG Expecting Significant Improvement after a Difficult Year for Steel."

February 1 and 2, 2000

Analysts' conferences in Frankfurt and London.

February 11, 2000

Salzgitter AG joins the compensation fund of German industry. The Company is thus committing itself to a moral duty in the social community.

February 23, 2000

Ad hoc information concerning results of 1st quarter 1999/2000: "Good Start into New Fiscal Year".

March 15, 2000

Supervisory Board Meeting focusing on acquisition of all shares in Hoesch Spundwand und Profil GmbH, of remaining shares in Europlatinen GmbH and acquisition of a majority shareholding in K.F.Z. Projektmanagement GmbH (now: Salzgitter Automotive Engineering GmbH).

March 15, 2000

Annual Shareholders' Meeting adopting the Supervisory Board's recommendations as to appropriation of earnings, discharges for the fiscal year ended, election of auditor for the fiscal year 1999/2000 and election to fill a vacancy on the Supervisory Board.

March 20–25, 2000

Widely noticed presentation of Salzgitter AG at the Hanover Industrial Fair.

March 23, 2000

B2B-Metals Conference at Morgan Stanley, London. Salzgitter AG presenting its corporate development.

April 4, 2000

Presentation of the water quenching and tempering facility that provides an attractive range of high-strength and abrasion resistant plates from own production.

May 10, 2000

Ad hoc information on first half 1999/2000 result: "Excellent Business Development during First Half 1999/2000."

May 10, 2000

Ad hoc information concerning initial discussions between Salzgitter AG and Mannesmannröhren-Werke AG.

May 10 and 11, 2000

Analysts' conferences in Frankfurt and London.

May 12, 2000

Paper and Steel Seminar, investors' conference at Goldman & Sachs. Salzgitter AG illustrates its current corporate development.

May 30, 2000

Ad hoc information on the agreement with Mannesmann AG regarding the acquisition of 99.3 percent of Mannesmannröhren-Werke AG. This is a major step for Salzgitter AG towards realizing its growth strategy and a new chapter in the development of Salzgitter AG towards an entirely new dimension.

June 9, 2000

Special Supervisory Board Meeting approving the acquisition of the shares of Mannesmannröhren-Werke AG.

June 14, 2000

Press release regarding the acquisition of all shares in Hoesch Spundwand und Profil GmbH and of 74.7 percent in K.F.Z. Projektmanagement GmbH.

July 1, 2000

Dr. Luckan, member of the Executive Board responsible for Finance and Accounting, is retiring on December 31, 2000 at his own request.

Dr. Fuhrmann, member of the Executive Board in charge of the Plate Sector and of Corporate Planning, will be responsible for Finance and Accounting as of January 1, 2001 including his present responsibilities of Corporate Planning, Subsidiaries and Investor Relations. Both Executive Board members shall jointly manage the combined area of responsibility through December 31, 2000.

July 26, 2000

Supervisory Board Meeting focusing on the changeover of the Group structure to a holding structure, spin-off of the pipe mill to become a GmbH, appointment of Dipl.-Volkswirt Michael B. Pfitzner as a member of the Executive Board, effective November 1, 2000, succeeding the Executive Board member Dr. Jürgen Kolb, responsible for Sales, Marketing and Traffic, who will retire on March 31, 2001, at his own request.

August 15, 2000

Ad hoc information on first three quarters of fiscal year 1999/2000: "Excellent Business Development During First Nine Months. Increased Sales – Earnings Tripled".

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PREFACE BY THE EXECUTIVE BOARD

Dear Shareholder:

You are looking at the annual report of your Company, presented in a new and considerably modified layout: a straightforward design without frills – yet unmistakable.

"Steel and Technology" - this is and will be our core business even though the annual report 1999/2000 does not contain any photographs of products or production facilities. It is our particular aim, this time, to present the start-up spirit towards a new visual dimension, rather than to inundate you with words. We hope that the annual report will make good and interesting reading so that you will enjoy it as much as we did preparing it.

Now to the facts and figures: the operative development of the fiscal year 1999/2000 was very satisfactory and was a major step towards implementing our growth strategy conceived during the summer of 1999.

The key data of the consolidated annual financial statements alone – sales increase by 22.1 percent to €3.3 billion, net income before tax according to IAS more than tripled to reach €97.3 million – signals that we made good use of the chances in an improving market environment. Crude steel production of 5.1 million tons sets a new record for the past 25 years. Two extensive fires at our coil coating lines at the Salzgitter Works had a detrimental effect on the development of the fiscal year. A highly efficient project organization prevented major negative effects on our customer relations. We have taken even more extensive precautionary measures to avoid such occurrences in the future.

In February 2000, Salzgitter AG joined the compensation fund of German industry for the benefit of former forced laborers. We recognize the moral duty of the social community and are thus making a substantial amount available to the fund, namely €2.7 million.

Management by objectives is our principle; we reached many goals during the past fiscal year. Personal initiative, motivation and determination of all employees within the Group achieved a great deal in the operative and organizational areas; during 1999/2000, more than 500 individual projects of our Profitability Improvement Program contributed considerably towards a sustained strengthening of our earnings power and led to substantial cost reductions.

Investments of €208 million comprise important projects for the realization of the internal part of our growth strategy. This includes the new coil coating line at the Salzgitter Works, a state-of-the-art facility representing world-class product quality and process operation. The same features can be expected from the hot-dip galvanizing line under construction.

A different challenge was the changeover of our accounting to the International Accounting Standards. This was effected smoothly and on time. Our consolidated financial statements are thus easier to understand and compare for the community of internationally oriented investors.

Initially, stock exchange activities were a continuation of previous years' scenario. Companies of the "old economy", more oriented to financial and corporate stability, seemed to suffer in particular from the mostly speculative concentration on those industries which were attributed the highest growth potential. It was only by the summer of 2000 that we were able to welcome a certain reversal of this much exaggerated trend. In this environment, the price of Salzgitter shares developed considerably better than that of average steel shares. We see this encouraging development as an indication towards a general acceptance of our long-term strategy to raise the Company's worth.

The external part of our growth strategy was already implemented to a large extent during the fiscal year 1999/2000 insofar as several acquisitions of different size were made.

The Salzgitter Group is thus presenting itself as a company concentrating on clearly mapped out activities in the sectors of steel production, steel trading and steel processing into components especially for the automotive and building industries.

Further major Group activities are raw material supply and qualified services. These companies are also supplying and servicing third parties outside the Group, which enhances their competitive position.

The newly acquired Mannesmannröhren-Werke brings the Group into a leading position on the European and world steel pipe markets. There are manifold and interesting synergies with our current activities that will be addressed in the near future. These areas comprise research and application technology, closely linked output chains and personnel development.

The Salzgitter Group still has ambitious plans in line with the Company's tradition, its locations and its subsidiaries. The basis of our strategic activities is the maxim: "To develop and enhance the productivity and the performance of the Salzgitter Group as an independent coporate entity".

This requires an organizational structure meeting the standards and challenges of the new dimension. We are convinced that the separations of typical group functions such as strategy, controlling and personnel development from the operative activities will enable the Company to perform with even more flexibility and customer orientation.

Therefore, we are intending to ask you – our shareholders – for approval of this decisive measure at the Shareholders' Meeting on May 23, 2001.

In the preface of last year's annual report we expressed our conviction that our Company has a bright future. This has been already achieved to a large extent during the fiscal year 1999/2000. The strength of Salzgitter AG opens up new options for us. On behalf of our employees we thank our shareholders, customers and banking organizations for their confidence and support.

Wolfgang Leese

Prof. Dr. Günter Geisler

Dr. Heinz Jörg Fuhrmann

Arnold Jacob

Dr. Jürgen Kolb

Dr. Eberhard Luckan

Michael B. Pfitzner

GROUP STRUCTURE

STEEL PRODUCTION

- **SALZGITTER WORKS** Flat Steel Products
- **PEINE WORKS** Sections
- **ILSENBURG WORKS** Plates

STEEL TRADING

- **SALZGITTER HANDEL** (100%)
- **Steel Trading Germany** 21 Companies
- **Steel Trading Western Europe** 12 Companies
- **International Steel Trading** 11 Companies
- **HÖVELMANN & LUEG** (95%)
- **UNIVERSAL EISEN UND STAHL** (50%)

RAW MATERIALS AND SERVICES

- **PPS** Services (100%)
- **VPS** Railroad Transport (100%)
- **DEUMU** Raw Material 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%)

INDUSTRIAL SHAREHOLDINGS

- **HSP HOESCH SPUNDWAND UND PROFIL** (100%)
- **SALZGITTER BAUELEMENTE** Building Systems (100%)
- **WESCOL GROUP** Steel Construction (26.2%)
- **SALZGITTER EUROPLATINEN** Automotive (100%)
- **SALZGITTER AUTOMOTIVE ENGINEERING** (74.7%)
- **OSWALD HYDROFORMING** Automotive (24.9%)
- **STEEL DYNAMICS** Minimill (12.6%)

IMPLEMENTATION OF GROWTH STRATEGY

The forward growth strategy adopted towards the end of last fiscal year was consistently implemented during the current year – externally by means of acquisitions as well as internally by developing our products and by capital expenditure.

Already during the first quarter of the fiscal year, the acquisition of a 26.2 percent shareholding in the English steel construction company Wescol Group plc contributed towards ensuring further sales of steel sections. Furthermore, we are expecting this acquisition to contribute increasingly to the use of sections in steel construction on the European continent.

Growth strategy was consistently implemented.

Our 24.9 percent participation in Oswald Hydroforming GmbH & Co. KG gives us access to the new technology of hydroforming, a manufacturing technique predominantly applied to automotive parts.

The 100 percent acquisition of HSP Hoesch Spundwand und Profil GmbH, Dortmund, complements our current range of sheet piling and makes us a complete supplier in this important sector of civil engineering and traffic routes construction.

Our 74.7 percent shareholding in K.F.Z. Projektmanagement GmbH, renamed Salzgitter Automotive Engineering GmbH, adds to our activities in the automotive sector by now including a comprehensive service for prototype manufacturing.

The direct and indirect shareholding of altogether 99.3 percent in Mannesmannröhren-Werke AG (MRW) moves the Salzgitter Group into a new dimension. As the takeover was only finalized in October 2000, it did not have any effects on the year-end financial statements at September 30, 2000.

Together with its subsidiaries and shareholdings, MRW covers nearly the entire product range of industrially manufactured pipes.

The MRW acquisition opens up an entirely new dimension.

The 50 percent subsidiary Europipe produces longitudinally and spirally welded large-diameter pipes for pipeline construction – predominantly for natural gas and petroleum. Salzgitter AG, which has its own mill for spirally welded pipes, is thus growing from a marginal supplier to become world market leader for large-diameter pipes.

The subsidiary MHP Mannesmann Präzisrohr GmbH and the 20.9 percent shareholding Vallourec manufacture seamless and welded precision steel tubes, predominantly for the automotive industry, but also for mechanical and plant engineering. This is creating synergy effects with the other Salzgitter automotive and engineering activities.

The 45 percent shareholding Vallourec Mannesmann Tubes SA produces mainly seamless hot rolled tubes for the chemical and petrochemical industries and manufactures all tubing products necessary for petroleum and natural gas exploration and production.

Mannesmann Line Pipe GmbH and the 50 percent shareholding Röhrenwerke Gebr. Fuchs GmbH manufacture medium-size line pipes mainly for the energy sector, for mechanical and plant engineering and increasingly for the water and waste water industries.

MRW covers almost the entire range of industrially manufactured pipes.

Furthermore, the MRW acquisition will strengthen the Salzgitter Trading Division, which will now be in a position to cover part of its current tubing trade from own Group production. Additionally, the Mannesmann Research Institute included in the acquisition enables us to significantly intensify our position concerning technology and development in the metallurgy and tubing sectors.

The acquisition of MRW also means a joint move towards expanding internationalization, an advantage which Salzgitter so far only had in the trading sector, and which now, supported by the Mannesmann name, will be extended to the production sector.

Moreover, there are further acquisition projects being reviewed in the areas of steel service centers, trading and industrial processing – all within the scope of our growth strategy.

The slogan for internal growth is “Quality Leadership” for the flat rolled sector, and “Cost-Effective Leadership” for sections.

In January 2000, the new coil coating line for organic coatings was put into operation. It will run to full capacity early in 2001. This facility will put us in a position to expand our clientele beyond the current industries and also supply the appliance industry. Furthermore, we shall be able to expand our production of organic zinc-containing thin-film coatings for the automotive industry.

The second hot-dip galvanizing line, with its state-of-the-art temperature control conception, will probably go into operation during the second quarter of the fiscal year 2001.

In January 2000, the Supervisory Board of Salzgitter AG approved substantial capital expenditure for the modernization and improvement of the hot strip mill. These investments will be used to build a third furnace and thus increase the heating capacity, to adjust the production techniques in line with higher quality standards required by our customers, and to produce new high-yield and high-strength steel grades. The investment program will probably be completed in 2003 and it should enable us to meet our customers’ demands in the future.

Internal growth supported by substantial investments.

Additionally, the construction of an upsetting press for the hot strip mill in Salzgitter was approved. This will contribute to an increased capacity of the steel works as the number of casting widths of the slabs will be reduced, to be tailor-made later in the upsetting press to meet customer specifications.

Moreover, the Supervisory Board of Salzgitter AG approved the construction of a beam blanking line, a continuous casting facility for near net-shape preliminary sections, at the Peine location. This equipment will reduce the number of passes in the heavy sections mill and thus cut processing costs.

Our present successful acquisitions and the measures to increase internal growth have put us well on track towards the objectives defined last year, namely to raise our sales by at least 25 percent, to strengthen our earnings power and to be less dependent on products with small added value. We shall continue to follow this path consistently during the current fiscal year.

INVESTORS AFFAIRS

Capital markets and price development of the Salzgitter stock

Early in the fiscal year 1999/2000, the situation on the stock exchanges was promising. While the Asian crisis had shaken world financial markets during the prior year and the steel industry had also suffered fundamentally from a drastic deterioration of sales prices and volume, an improvement was becoming evident prior to the turn of the year 1999/2000. A higher capacity utilization together with a marked recovery of sales prices began to be reflected in higher steel industry share prices as of December 1999. After a slow start at €8.00 and a DAX level of 5,124 at the beginning of the fiscal year, Salzgitter stock rose to €9.40 at the end of 1999 when the DAX had simultaneously recovered strongly to a level of 6,958. Even prior to October 1999, the situation on the stock exchanges was marked by strong investor appetite for shares of "new economy" companies. This development created vast price gains on the "Neuer Markt", the segment for young technology companies, but it also brought about price increases for some companies in other segments.

In January 2000, Salzgitter share reaches annual high.

After rapid rises, Salzgitter stock reached its annual high of €10.30 on January 13, 2000. This encouraging price performance could not, however, be maintained. By March 15, 2000, the date of the Annual Shareholders' Meeting, the price had dropped by one euro and after the expected ex-dividend markdown it dropped further to €8.70. During the same period of time, the share prices of the European competitors fell even more sharply – on average more than 20 percent. Meanwhile, in view of the considerable price increases for all steel products on the European market and due to a continued stable world economy and a subsequently rising demand promising excellent earnings for the year 2000, development of steel shares was altogether disappointing. The Company is in constant touch with international steel analysts who attribute this situation to a "technology-multimedia-telecommunications" euphoria on capital markets, which strongly reduced the interest of institutional investors in "old economy" companies backed by temporary material assets. Among these companies is the steel industry, but also automotive and mechanical engineering industries. During the course of the year, we found this assessment repeatedly confirmed by institutional investors.

Disappointing share price development despite excellent results.

In early June, analysts' reports about the tighter situation on the US steel market were putting pressure on European steel stock, as capital markets were fearing a medium-term setback in Europe following price declines in the US. These fears caused further drops of European steel company stock, so that by balance sheet date, the shares had slumped by 20 to 60 percent off their annual high. During the last weeks of the fiscal year, the Salzgitter AG stock performed considerably better than the average of the competition and closed on balance sheet date with €8.10 on the Frankfurt floor and with €8.00 in the computerized XETRA-system.

Development of Salzgitter share beating European steel index.

Stock exchange turnover

More than 13 million Salzgitter shares were traded on the German stock exchanges during the fiscal year 1999/2000, this corresponds to a daily turnover of abt. 52,000 shares. 10.7 million shares (abt. 80%) were traded on the Frankfurt floor and in the computerized XETRA-system. Turnover at the two Frankfurt stock markets nearly doubled compared with the previous year, considering the delisting from official trade on the regional stock exchanges in Berlin, Düsseldorf, Hamburg and Munich effected on December 30, 1999. This is very meaningful, as a major criterion for a company's participation in one of the stock indices DAX, MDAX and SDAX is the turnover achieved on the Frankfurt stock exchange. Salzgitter AG's medium-term objective is participation in the MDAX, the stock index for medium-sized companies.

Turnover of shares on the Frankfurt stock exchange almost doubled.

Stock buyback

In compliance with the authorization given at the Annual Shareholders' Meeting of March 16, 1999, the Company repurchased 3,899,100 of its own shares at an average price of €9.35 per share on the stock exchange during the last fiscal year. They account for €9,967,890 of the share capital (6.2%). The Company has already started using these shares for corporate acquisitions, purchasing shareholdings and gaining new shareholders.

Employee shares

With the aim of increasing employees' identification with the Company and its success, the Company made a second issue after 1998 of 240,357 shares to employees.

Investor Relations

Investor Relations activities were extended again during the fiscal year. The results of the fiscal year 1998/1999 and of the first half of 1999/2000 were presented to financial analysts at well-attended conferences in Frankfurt and in London. Telephone conference calls were made regarding the publication of the quarterly results and on the occasion of the acquisition of Mannesmannröhren-Werke AG. The Company presented itself during two investors conferences in London and during numerous individual discussions with national and international institutional investors. Furthermore, a number of analysts, investors, bankers and journalists paid personal visits to Salzgitter AG. During tours through the works and during intensive personal talks attended by members of the Executive Board, the current economic situation, the excellent competitive positioning and the strategic orientation of the Company were presented and discussed. The successful exchange of information resulted in a number of buying recommendations.

Investor Relations activities intensified.

Regular studies on Salzgitter AG were issued by

ABN AMRO	Morgan Stanley Dean Witter
BHF-Bank AG	NORD/LB
BNP Paribas	Schroders Salomon Smith Barney
Deutsche Bank Research	WestLB Panmure
Dresdner Kleinwort Benson	

Dividend

Executive and Supervisory Boards propose to the Annual Shareholders' Meeting the adoption of a dividend payment of €0.40 per share. Taxpaying shareholders resident in Germany receive an additional tax credit of €0.17 per share. Based on the stock exchange price of Salzgitter shares on September 30, 2000, of €8.00, this will result in a dividend yield of 7.1 percent including tax credit. The proposed distribution on the share capital of about €160 million amounts to €24.96 million. This is an increase of 5.3 percent compared with the previous year. The cash dividend amounts to €0.29 per share after deduction of the withholding tax credit and surtax credit.

Dividend increase on previous year.

Tax calculation	€/Share
Cash dividend	0.29
Withholding tax/surtax credit	0.11
Net dividend	0.40
Corporation tax credit	0.17
Gross dividend	0.57

Information for investors

Share capital:
€159,523,066.93 consisting of 62,400,000 ordinary shares

Class of shares:
Ordinary bearer shares, with no par value

High for the period:
€10.30

Low for the period:
€7.25

Price per share on September 30, 2000:
€8.00

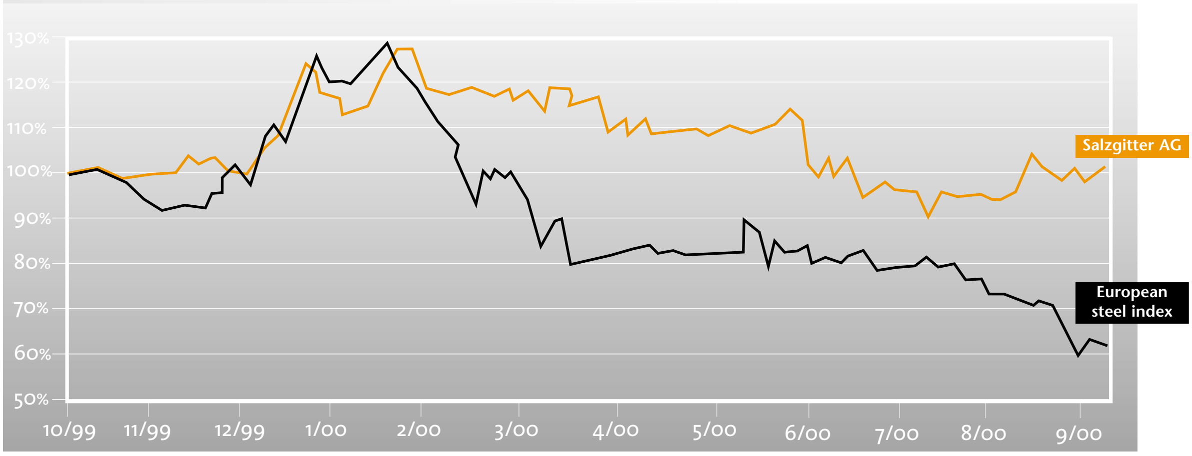
Market capitalization on September 30, 2000:
€499 million

Earnings per share:
€1.15

Cash flow per share:
€1.89

Distribution ratio:
35.6%

Salzgitter AG share price compared with European steel index*
Price performance fiscal year 1999/2000



*Source: Datastream.

GROUP MANAGEMENT REPORT: ECONOMIC SITUATION

Development of the economy

Economic activities during last year were characterized by a very encouraging development. The economic expansion which commenced early in the year accelerated during the period under review. Rapid recovery in the developing countries had quite an impact on the overall demand in the industrialized countries. Increasing consumer confidence coupled with an improving economic climate gave additional support to domestic demand. As early as in summer 1999, the US economy registered the longest economic growth phase for a century and it continued its expansion until the fall of 2000, albeit with diminishing growth rates.

Economic scenario improving.

Overall growth and general economic activities in the euro area and in Western Europe progressed to an extent unseen for nearly a decade. German economic growth also increased vigorously during the first nine months of the fiscal year, thereafter growth rates started slowing. Major boosts came from exports which were stimulated by strong economic activities abroad, and by a devalued euro. Subsequently, the business climate and capacity utilization improved and investments in machinery, equipment and other plants increased substantially.

Continuing worldwide expansion and a drastic oil price increase endangered price stability towards the end of the period under review. The central banks in North America and in Western Europe responded early by increasing interest rates and thus contributed to steadying the overall economic development. Tightening of the monetary reins led to a consolidation in the industrialized countries towards the end of the year 2000.

Development of the steel market

The worldwide economic growth in the industrialized countries and the strong foreign demand for capital goods had a favorable effect on the business activities of the steel-consuming industries in our core markets.

Increasing steel consumption in the EU.

The high capacity utilization of the steel-consuming industries, led by road vehicle manufacturing, triggered a steel consumption increase in Germany and in the EU amounting to more than 4 percent during the year. Crude steel production in Germany is likely to reach 46 million t (EU: abt. 164 million t) during 2000, compared with abt. 42 million t (EU: abt. 155 million t in 1999).

Imports, which had diminished during 1999, started to rise again in view of the economic upswing and their volume even accelerated during the first half of 2000. The pressure decreased in the second half due to the sharp rise of the dollar value and as steel demand was leveling off.

Increased tonnages and higher prices realized.

The economic situation allowed steel producers to realize significant price increases for all products. Coupled with a higher tonnage volume, annual sales of the Steel Production Division and the Steel Trading Division were increased and so were the other Group activities.

Divisions

Steel Production

The continuously improving steel market was the scenario for the positive development of the Steel Production Division, resulting in higher numbers of production, shipments, sales and earnings.

New order bookings of rolled steel products rose substantially at the beginning of the fiscal year. During the second half 2000 incoming orders slacked off to some extent so that the total tonnage volume of 4.19 million t was 0.14 million t (3.2%) below the year-earlier level. The order backlog of rolled steel products thus dropped to 0.97 million t at the end of the fiscal year compared with 1.18 million t at the beginning of the year.

As steel demand was slowing, further price increases for new order bookings at the end of the fiscal year were difficult, except in the plate sector.

Crude steel production at 25-year record high.

Crude steel production reached 5.12 million t; 0.39 million t (8.3%) over last year's level and at the same time a 25-year record high for the Company.

Shipments of rolled steel and processed products amounted to 4.48 million t, 5.8% over last year's level of 4.23 million t, affecting the various products differently. Only large-diameter pipes developed negatively as did surface coated products due to fire damage to the production facilities.

Sales registered a relatively higher increase than shipping volume. About 50 percent each of the sales rise was caused by a larger tonnage shipped and by higher prices for all products respectively. Further notes on the development of sales and earnings can be found under Group analysis.

On the purchasing side, prices for raw materials advanced considerably in view of the excellent worldwide steel market situation, the strong US dollar also contributed substantially to price increases of US dollar-dependent raw materials. The overall purchasing conditions for major raw materials could be kept competitive; Salzgitter AG thus held a top position among its European competitors in respect of pig iron production costs.

Crude steel production

kt per month	World	EU (15)	Germany	Thereof SZAG
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	65,644	12,937	3,505	414
2000	69,233*	13,701*	3,901*	432**

* Jan.–Oct. 2000 ** Jan.–Nov. 2000

Production SZAG

in kt	1999/2000	1998/1999	1997/1998	1996/1997
Large-dia. pipes and trapezoidal profiles	49	114	151	108
Surface coated sheets	739	853	837	784
Sheets	494	367	420	439
Plates	806	753	825	762
Hot rolled coils, steel strip	1,208	1,065	1,183	1,217
Heavy sections	1,298	1,155	1,147	1,072
Crude steel	5,116	4,725	4,928	4,635
Pig iron	3,710	3,489	3,673	3,503

Steel Trading

Steel Trading increased worldwide shipments.

The Steel Trading Division is reporting an improved economic situation, as compared with the previous year, due to positive market developments and thus increasing chances for higher sales prices. Rising demand from major steel-consuming industries allowed price hikes for practically all product groups.

However, increasing demand created more and more difficulties on the supply side. Nearly all steel producers worldwide were temporarily fully booked. Division companies were able, however, to increase the tonnage shipped by 12.7 percent to 4.78 million t compared to 4.25 million t during the year-earlier period. Compared with the prior year, sales rose relatively strongly compared with shipments; further notes thereon can be found under Group analysis.

Towards the end of the fiscal year, all Division companies registered a slowing price development.

After a reorganization of the export department of the Salzgitter Trading Group at the beginning of the fiscal year, a restructuring process of the domestic warehousing trade was initiated with implementation to take place during the course of the new fiscal year. An even stronger customer-oriented sales organization and an “open warehouse” conception, meaning that every customer has access to the entire product range, irrespective of location and at all times, will be meeting market requirements even better.

Raw Materials and Services

The companies of this division provide a very wide scope of services predominantly for other Group companies. Their business development is largely dependent upon the activities of the Steel Production Division.

The divisional companies are also offering their infrastructure and their know-how increasingly to third parties, thus generating additional profits and contributing to better Group results. During the current fiscal year, third-party sales increased by €54 million to €228 million. The share of external sales thus rose to 44.0% (previous year 39.5%).

Industrial Shareholdings

Successful development in the other divisions.

As announced in the last annual report, this division was expanded during the fiscal year. We would like to emphasize the acquisition of all shares in HSP Hoesch Spundwand und Profil GmbH. This company developed positively during the fiscal year. Within the framework of first-time consolidation according to IAS, it will, however, only be included in the financial statements for the period from June 1 to September 30, 2000. As a whole, this division has not yet been able to make a positive contribution to Group results this year.

The importance of this division is not viewed under aspects of short-term returns. Salzgitter AG's commitment in these companies is directed at the development of future-oriented technologies and growth potentials in the areas of steel production and processing. Additional know-how and secure sales markets are long-term benefits. Nevertheless, we are aiming at a reasonable capital payback period and yield.

Sales and earnings

Consolidated financial statements for the fiscal year 1999/2000 were prepared in accordance with the International Accounting Standards (IAS) for the first time. The fiscal year 1998/1999 numbers have also been prepared according to the new accounting standards, so that they are directly comparable.

Significant growth of consolidated sales.

Consolidated sales amounted to €3.3 billion and thus increased by €595 million (22.1%) over the previous year's figure – primarily due to the improved steel market situation.

The Steel Trading Division generated about 54 percent of consolidated sales. In view of a substantial expansion of trading activities, total sales reached €1.8 billion, which is an increase of abt. 27 percent. The Steel Production Division had a 38 percent share of total consolidated sales. Division sales of €1.3 billion were abt. 11 percent over last year's figures. It has to be taken into account that additional supplies worth €0.5 billion purchased by the Steel Production Division went to the Steel Trading Division. The Raw Materials and Services Division increased its sales by €0.2 billion or 31 percent. The sales increase in the Industrial Shareholdings Division came from the first-time consolidation of HSP Hoesch Spundwand und Profil GmbH for the period from June 1, 2000 to September 30, 2000.

Consolidated sales by divisions

€ mln	1999/2000	1998/1999	Change in %
Steel Production	1,252	1,129	10.9
Steel Trading	1,773	1,393	27.3
Raw Materials and Services	228	174	31.0
Industrial Shareholdings	38	-	
Group	**3,291**	**2,696**	**22.1**

About 73 percent of sales were generated in the EU; the EU thus remains the most important target market of the Group. €1.7 billion of sales were made in Germany. Export sales increased to €1.6 billion, a share of 49 percent after 45 percent during the previous year.

Consolidated sales by regions

€ mln	1999/2000	1998/1999	Change in %
Germany	1,690	1,473	14.7
Other EU countries	704	622	13.2
Other European countries	171	101	69.3
America	286	132	116.7
Other regions	440	368	19.6
Group	**3,291**	**2,696**	**22.1**

Consolidated earnings tripled on last year.

The improved steel market situation was also reflected in the development of the results. Earnings from ordinary activities (EBT) amounted to €97 million (prior year €31 million). Nearly all divisions contributed to the positive result, namely Steel Production €57 million (previous year €8 million), Steel Trading €17 million (previous year €13 million), Raw Materials and Services €23 million (previous year €10 million).

The result of the Industrial Shareholdings Division consisted mainly of charges (netted) from the at equity valuation/amortization of the goodwill of the Wescol Group plc, amounting to €3.0 million, and a positive contribution for a proportionate period of time only by HSP Hoesch Spundwand und Profil GmbH, amounting to €0.9 million.

Under commercial law there are tax charges of €27 million (thereof income tax €24.3 million, income tax portion 26%). Under tax law the possible application of loss carryovers for the fiscal year 1999/2000 resulting from the merger between MHP Mannesmann Präzisrohr Holding GmbH (MHP Holding) and Salzgitter AG with economic effect as of October 1, 2000, will lead to tax charges of €8 million.

Consolidated net income for the year increased to abt. €70 million due to the good earnings situation.

Division results and consolidated net income for the year

€ mln	1999/2000	1998/1999	Change in %
Steel Production	57.0	7.7	640.3
Steel Trading	17.5	13.5	29.6
Raw Materials and Services	23.1	9.9	133.3
Industrial Shareholdings	-2.4	-	
Other/consolidation	2.1	0.1	
Division income	**97.3**	**31.2**	**211.9**
Income from ordinary activities	97.3	31.2	211.9
Taxes	27.2	17.7	53.7
Consolidated net income for the year[1)]	**70.1**	**13.5**	**419.3**

[1)] Incl. minor shareholdings.

Employees

The implementation of the growth strategy is also resulting in a change of personnel structure. The overall number of employees of the companies included in the consolidation of the Salzgitter Group (excluding trainees) increased during the fiscal year. The total number of employees of the Salzgitter Group on September 30, 2000 amounted to 13,020 (previous year 12,271). The addition is mainly due to the acquisition of HSP Hoesch Spundwand und Profil GmbH (589 employees).

Development of core workforce in the divisions:

Division	9/30/2000	9/30/1999	Change
Steel Production	7,192	6,935	257
Steel Trading	1,673	1,743	- 70
Raw Materials and Services	3,566	3,593	- 27
Industrial Shareholdings	589	-	589
Group	**13,020**	**12,271**	**749**

More employees through integration of HSP and necessary new employment.

During the fiscal year 1999/2000 a total of 672 employees left the Group, partly with part-time agreements for senior employees allowing early retirement without undue hardship. There were 1,421 additions to the workforce, partly extra employees needed, partly successful trainees taken on.

Target-group-oriented personnel development in line with corporate changes.

A changing environment also changes the work. Executive and management assignments become more ambitious, production and maintenance operations need more than traditional knowledge. Personnel management in the Salzgitter Group is aiming at the compatibility of requirements, qualification and inclination by means of a systematic target-group-oriented development. Topicality and practice are ensured by participation in pilot programs, by transfer of knowledge within the Group, science and general schooling.

You will find further details on personnel development under “Employees” as of page 80.

Investments

Consistent continuation of investment activities.

During the fiscal year, the Salzgitter Group again realized an intensified investment program characterized mainly by the implementation of the internal growth strategy of Salzgitter AG.

Total investments amounted to €239 million (previous year €158 million). Additions to property, plant and equipment were €208 million, €58 million above last year's value. Aside from the capital expenditure for property, plant and equipment, €31 million were spent for financial assets (previous year €8 million) expanding our industrial shareholdings. Total investments thus exceeded depreciation of €174 million.

Investments/Depreciation[1)2)]

€ mln	Investments total	Investments thereof steel production	Depreciation total	Depreciation thereof steel production[4)]
1995/1996[3)]	147	134	95	80
1996/1997[3)]	108	88	105	89
1997/1998	80	65	110	95
1998/1999	150	130	166	148
1999/2000	208	169	174	150
total	**693**	**586**	**650**	**562**

1) Without financial assets.
2) According to IAS regulations as of fiscal year 1998/1999.
3) Considering changes in Consolidation as of 10/1/1997.
4) Fiscal years 1995/1996–1997/1998 including depreciation permissible under tax law included in other operating expenses (corresponding releases of special reserves with an equity portion are offset).

Investments in property, plant and equipment and intangible assets during the fiscal year were €169 million for the Steel Production Division; €5 million for the Steel Trading Division; €23 million for the Raw Materials and Services Division and €11 million for the Industrial Shareholding Division (investments of HSP Hoesch Spundwand und Profil GmbH only).

Investments in property, plant and equipment[1)] by divisions

€ mln	1999/2000	1998/1999	Change in %
Steel Production	169.2	130.0	30.2
Steel Trading	5.4	6.7	-19.4
Raw Materials and Services	23.2	13.3	74.4
Industrial Shareholdings	10.5	-	
Total	**208.3**	**150.0**	**38.9**

1) Incl. intangible assets.

Depreciation on property, plant and equipment[1)] by divisions

€ mln	1999/2000	1998/1999	Change in %
Steel Production	150.2	147.8	1.6
Steel Trading	9.4	9.9	-5.1
Raw Materials and Services	10.4	8.5	22.4
Industrial Shareholdings	3.9	-	
Other/ consolidation	0.2	0.2	-
Total	**174.1**	**166.4**	**4.6**

1) Incl. intangible assets.

In the Steel Production Division, rationalization and replacement investments were made with the objective of further cutting processing costs, enhancing process safety and continuing to upgrade product quality. Some of the capital expenditure in this division is part of the Company's quality offensive in the flat rolled sector.

Outstanding investments within scope of internal growth strategy.

Among the outstanding investments in the product segment flat rolled steel is the hot-dip galvanizing line 2 with a new state-of-the-art heating and cooling conception for producing new steel grades. This facility enables us for the first time to produce our well-known I-steel in a galvanized condition.

Early 2000, the new coil coating line was put into operation on schedule. The facility is now running to its planned qualitative and quantitative capacity. This state-of-the-art and cost-efficient equipment is now in a position to meet all current customer standards.

Furthermore, the large project in the hot rolling mill in Salzgitter, approved by the Supervisory Board during January 2000 as the basis for the quality offensive is well on its way. Five individual projects are under construction, others will follow shortly. The entire project is scheduled for completion during 2002.

An outstanding future-oriented investment is the second new continuous casting plant for heavy sections in Peine, which is being installed in the existing steel plant building while production is continuing. This twin strand casting machine will cast beam blanks – i.e. near net-shape preliminary sections – which will reduce the number of passes and thus contribute to further cost-cutting at the heavy section mill.

A further major investment is the construction of a fully automatic building component manufacturing facility for ready-to-install insulated roof and wall elements. This project will extend our value-added chain of coated sheets and will round off our product range for the building industry. During the fiscal year 2001, this facility will be transferred to our wholly owned subsidiary Salzgitter Bauelemente GmbH.

The investments in the Steel Production Division and those in other divisions, where a multitude of small and medium-sized investments were realized, will contribute to the Company's objectives towards current and future market requirements.

Profitability improvement program

Aside from internal and external growth by means of capital expenditure and pinpointed acquisitions, strengthening the Group's earnings power is a major objective within the scope of securing and enhancing the competitive position of Salzgitter AG. The profitability improvement program (PIP) established in 1996 proved to be a continuously successful instrument. The initial program towards cost reduction, process optimization and increased earnings was successfully completed during the last fiscal year.

The result of the more than 500 single projects amounts to €243 million, about 23 percent over the scheduled goal of €198 million.

Aside from measures towards yield optimization of raw materials, activities focused again on increasing productivity and quality as well as the expansion of the product range into high margin segments.

Product-related measures improved the earnings side by €108 million and savings on raw material, energy and services purchased reduced expenditure by €135 million.

The success of the program is mainly based on the commitment of all participants, on its continuous development and on the institutionalized structures of this permanent management assignment.

This is why we intend a relaunch on a new economic basis during the next fiscal year. The consistent identification of economic and organizational improvement potential in all segments and their implementation, the optimization of technical performance in all core areas and the steady pursuit of all previous improvement projects are leading to the expectation that the relaunch of the program will also be successful.

Strengthening earnings power by pursuit of PIP.

The new PIP will predominantly take up changes made within the Group through acquisitions and investments and it will adjust to new Group structures by means of a decentralized project controlling.

GROUP MANAGEMENT REPORT: ANNUAL FINANCIAL STATEMENTS

First-time consolidated financial statements according to IAS.

Accounting principles

The Salzgitter consolidated financial statements were prepared in accordance with the accounting rules of the International Accounting Standards Committee (IASC) and thus meet the qualifications for the exemption from preparing consolidated financial statements according to German accounting rules (§292 a HGB = sect. 292 a of the German Commercial Code).

The accounts presentation and valuation for the fiscal year 1998/1999 were adjusted accordingly.

The changeover to IAS led to deviations at a number of items in the balance sheet and income statement from the previously applied accounting and valuation methods. The deviations are presented in the notes. They primarily concern depreciation on property, plant and equipment, the accounting of let property, plant and equipment, the valuation of provisions for pensions, the accounting of deferred taxes and of asset-side and liabilities-side differences from capital consolidation.

For an understanding of a few minor changes in the consolidated financial statements, attention is drawn to the first-time consolidation of HSP Hoesch Spundwand und Profil GmbH (HSP) as of June 1, 2000.

Assets and capital structure

Consolidated balance sheet total rose by €219 million (+9.9%) to €2,427 million (previous year €2,208 million). This was caused by increased current assets of the Steel Trading Division as well as by the first-time consolidation of HSP and also by increased fixed assets in connection with the implementation of the growth strategy. Fixed assets changes resulted from investments of €239 million (€31 million thereof in financial assets), depreciation on/disposal of €190 million and the effect of the HSP consolidation.

On the liabilities side, shareholders' equity increased by €12 million and short and long-term debt by €207 million. The increased short-term borrowings resulted from the use of bank financing.

Asset and capital structure (according to IAS)

€ mln	9/30/2000	%	9/30/1999	%
Fixed assets	1,226	50.5	1,177	53.3
Current assets	1,201	49.5	1,031	46.7
Assets	**2,427**	**100.0**	**2,208**	**100.0**
Shareholders' equity	912	37.6	900	40.8
Long-term borrowings	895	36.9	847	38.3
Short-term borrowings	620	25.5	461	20.9
Liabilities	**2,427**	**100.0**	**2,208**	**100.0**

The net amount owed to financial institutions increased on the previous year by €190 million to €185 million.

Credit lines arranged with financial institutions were extended beyond year-end with a practically unchanged volume. They were sufficient at any time to cover short-term liquidity requirements.

Centralized financial management ensures optimum Group financing.

Salzgitter AG conducts the cash and interest management for the Group companies. Firstly, purchasing and sales positions of transactions in US dollars are offset (netting), residual amounts are hedged by forward exchange and option contracts. Other non-euro currencies are rate-hedged.

The balance of short-term asset and liability items (working capital) increased by €133 million to €881 million.

Shareholders' equity of €912 million was slightly above last year's value and covered 38 percent of the balance sheet total.

The provisions for pensions of €686 million (previous year €672 million) were again a major part of corporate financing.

Other provisions diminished slightly to €291 million (previous year €299 million).

Deviating from the consolidated balance sheet prepared in accordance with IAS rules, the following table of Group asset and capital structure under economic aspects shows that we did not deduct the negative balance from the first-time consolidation of €30 million from intangible assets but added it to equity, as this item is to be released as income shortly. Minority interests of €4 million were also added to equity.

Asset and capital structure (economic aspect)

€ mln	9/30/2000	%	9/30/1999	%
Fixed assets	1,256	51.1	1,177	53.3
Current assets	1,201	48.9	1,031	46.7
Assets	**2,457**	**100.0**	**2,208**	**100.0**
Equity[1]	946	38.5	903	40.9
Long-term borrowings	891	36.3	844	38.2
Short-term borrowings	620	25.2	461	20.9
Liabilities	**2,457**	**100.0**	**2,208**	**100.0**

[1] Incl. badwill and minority interests.

Equity thus reached a share of 38.5 percent of the balance sheet total of €2,457 million.

Cash and cash equivalents

Development of cash and cash equivalents was influenced by the implementation of the growth strategy and also by an expansion of the trading activities of the Steel Trading Division.

Current operations resulted in a Group cash flow of €114 million. Outflows for investments were €234 million. The Group received €91 million from financing activities. Cash and cash equivalents at year-end were €22 million. The complete cash flow statement is part of the consolidated financial statements.

€ mln	1999/2000	1998/1999	Change in %
Net cash provided by current operations	113.8	116.5	-2.3
Net cash used for investing activities	233.7	153.0	52.7
Net cash provided by/used for financing activities	91.4	-29.1	
Change in cash and cash equivalents	-28.5	-65.6	56.6
Cash and cash equivalents on balance sheet date	**22.3**	**50.8**	**-56.1**

Value added of the Salzgitter Group

Group operational value added amounted to €729 million (previous year €629 million).

Employees' share of value added application diminished as compared with the prior year to 84.9 percent.

1.8 percent, a higher portion than in the previous year, were allotted to lenders, as the implementation of the growth strategy and the expansion of the trading activities required additional borrowed funds.

Group value added increased with change of corporate structure.

While the tax portion of 3.7 percent reflects the good earnings situation, the tax-effective application of loss carryovers from the merger of MHP Mannesmann Präzisrohr GmbH and Salzgitter AG is not considered therein.

The shareholders (without consideration of treasury shares) shall receive 3.4 percent of the value added for this fiscal year. A portion of 6.2 percent remained in the Group for strengthening the asset value.

	1999/2000		1998/1999	
	€ mln	in %	€ mln	in %
Origin				
Group performance	3,492	100.0	2,751	100.0
Advance payments	2,763	79.1	2,122	77.1
Value added	**729**	**20.9**	**629**	**22.9**
Application				
Employees	619	84.9	592	94.1
Public sector	27	3.7	18	2.9
Lenders	13	1.8	6	0.9
Shareholders	25	3.4	24	3.8
Group	45	6.2	-11	-1.7
Value added	**729**	**100.0**	**629**	**100.0**

Appropriation of earnings

Annual financial statements of Salzgitter AG

The annual financial statements of Salzgitter AG for the fiscal year 1999/2000 were prepared in accordance with the German Commercial Code observing the additional regulations of the German Stock Corporation Act and were given the unqualified audit approval of the auditors, PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover. They will be fully published in the Federal Gazette and deposited with the Commercial Register of the District Court in Peine under HRB 1047.

Balance sheet of Salzgitter AG (short version)

€ mln	9/30/2000	9/30/1999
Fixed assets	**760.8**	**725.1**
Property, plant and equipment[1]	609.3	611.6
Financial assets	151.5	113.5
Current assets	931.4	788.0
Inventories	324.0	287.8
Trade receivables and other assets[2]	597.1	463.7
Assets	**1,692.2**	**1,513.1**

€ mln	9/30/2000	9/30/1999
Shareholders' equity	622.3	604.5
Special items	88.4	123.8
Provisions	562.5	549.9
Liabilities	419.0	234.9
Thereof liabilities to banks	(174.1)	(11.3)
Shareholders' equity and liabilities	**1,692.2**	**1,513.1**

[1] Incl. intangible assets.
[2] Incl. deferred charges and prepaid expenses and special loss account.

Income statement of Salzgitter AG (short version)

€ mln	1999/2000	1998/1999
Sales	1,723.7	1,552.6
Change in inventories/own work capitalized	40.0	-36.3
Cost of materials	952.5	764.6
Personnel expenses	341.1	325.2
Amortization and depreciation	128.9	124.9
Income from shareholdings	11.0	7.9
Write-down of marketable securities	5.4	-
Net interest income	-21.1	-17.0
Other expenses and income	-258.6	-253.6
Result from ordinary activities	**67.1**	**38.9**
Taxes	26.6	14.6
Net income for the year	**40.5**	**24.3**

Net income for the year and appropriation of earnings of Salzgitter AG

Salzgitter AG is stating a net income for the fiscal year 1999/2000 of €40.5 million. Including the non-distributed income brought forward of €1.3 million and an allocation to reserves of €16.5 million this results in a non-distributed income of €25.3 million.

Steady dividend policy.

The Executive and Supervisory Boards propose to the Annual Shareholders' Meeting that €25 million (without considering treasury shares) of the non-distributed income of €25.3 million is used for the distribution of a dividend of €0.40 per share and the remainder of €0.3 million is transferred 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 €0.17 per share.

GROUP MANAGEMENT REPORT: RESEARCH AND DEVELOPMENT

During the fiscal year 1999/2000, the Salzgitter Group has further increased its expenditure on research and development. The Company's position in major market segments was thus strengthened and expanded. The expenditure of Salzgitter AG for internal and government-aided research and development projects during the fiscal year 1999/2000 amounted to €12.6 million. 81 percent of this sum was for internal projects and 19 percent for government-aided ones. Internal research and development focused on steel production and steel application. Projects were carried out in the areas of process control and IT organization, material technology and application, improvements of the blast furnace and steel works processes, of the rolling and surface coating technology as well as environmental protection.

Growing importance of research and development activities.

The following table shows the percentage by field of research.

Process control, process models, data organization	40.9%
Material technology and application	30.2%
Blast furnace and steel works processes	7.1%
Rolling and surface coating technology	8.1%
Environmental protection	2.2%
Other	11.5%

Diverse projects enhance technology expertise.

Examples of the internal projects are the development of Salzgitter-specific steel production and rolling technologies, process optimization and the development of new materials such as abrasion resistant and extra-tough steels for plates, high strength and extra-high strength steel grades for hot rolled coils and high strength isotropic steels for colled rolled strip and surface coated sheets. In the area of surface structure and coating, projects for the development and optimization of PRETEX surface texture and of metallic and organic coatings were carried out. Research further focused on forming behavior, joining techniques and component simulation. Several research projects concentrated on physical and chemical testing methods.

Research and development projects supported by third-party funds included the development of a novel type direct strip casting process, research in respect of surface coating, forming and joining processes, development of material properties, organization of quality data bases, participation in international projects for automotive lightweight construction such as ULSAB (Ultra Light Steel Auto Body) and ULSAC (Ultra Light Steel Auto Closures) and the development of employees' health protection.

Materials are becoming more and more important in all aspects of the product life cycle from raw material exploitation via production and use to recycling (sustainable development). Salzgitter AG has taken up this task and developed a multitude of projects with customers, universities and research institutes. The expansion of the Group and the integration of Mannesmannröhren-Werke AG together with the Mannesmann Research Institute, the shareholding in Oswald Hydroforming GmbH and in Salzgitter Automotive GmbH put us into an even better position to offer R & D projects from one source, from steel production via prototyping to processing.

GROUP MANAGEMENT REPORT: RISK MANAGEMENT

Strong competition, new technologies with increasing complexity and the growing challenges of a global society are molding our economic environment. It is our objective to use all opportunities coming our way. The instruments of our systematic risk management enable us to avoid or control all possible risks as much as possible and to make necessary provisions.

It is essential to identify risks and then keep an active control within the scope of corporate strategy.

An effective and far-sighted risk management has for a good many years been an important and productive part of Salzgitter AG's instruments of corporate management. Proper systems were continuously developed and will be permanently adjusted to changing and future standards. The instruments employed inevitably differ widely depending on the kind of risk.

Risk management by means of reporting and controlling systems.

We are responding to product and environmental risks with a multitude of quality assurance measures, including certification to international standards, continuous improvement and development of our plant and equipment and our products – and with extensive environmental management.

We are responding to a possible unscheduled long-term stoppage of our key plant and equipment with preventive maintenance and permanent plant control, continual modernizations and investments. During the fiscal year 1999/2000, all these measures did not protect us from a stoppage of several weeks of the electrolytic and also the hot-dip galvanizing line due to fire damage. Owing to excellent project organization, repercussions of the breakdowns on our customers were limited. In cooperation with the plant manufacturer, fire experts and our underwriters, an unforeseeable chemical reaction was determined as cause of the fire. The findings obtained were immediately implemented into a comprehensive fire protection conception. A focal support program "fire protection" was initiated for other segments.

Risk limitation by insurance.

We have taken out insurance against this sort of damage and subsequent production stoppage as well as against other possible damage or third-party liability, which will ensure that financial consequences of possible risks will be limited or entirely excluded. The insurance cover is permanently reviewed and will be adjusted, if necessary.

In order to respond to possible risks from manifold tax laws, environmental laws, fair trade laws and other laws and regulations, we observe a strict compliance with laws and regulations and rely on comprehensive advice by our own experts and, as the case may be, by established outside experts. Apparent changes are included in regular strategy discussions and in our planning process at an early stage.

We have detected a possible risk in unreliable supply of major raw materials (iron ore, scrap) and energy (coal, electricity, gas). We are countering this risk with partially long-term master contracts, ensuring the supply of such raw materials from different regions and from various suppliers. Furthermore, we adjust our inventories accordingly.

Our assessment of the supply 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 for requirements beyond our own electricity production.

Another risk may result from severe fluctuations of prices and quantities on sales markets. We counter the risk, which could jeopardize the continued existence of the Company, by having a wide diversification of products, customers and regional markets, by a sound balance sheet and financing structure and by specific measures on purchasing markets and in our own plants.

Latent risks of future development.

Within the framework of the Group risk management system, we emphasize the management of risks from financial positions which we have to take in connection with our business activities. The leading principle is risk limitation, which is warranted by application of proper financial instruments governed by directive rules and targets for the entire Group.

Taking financial and foreign currency risks is only permissible in connection with our typical steel production or trading activities. In principle foreign currency risks from purchasing or sales transactions have to be hedged, 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 trade receivables are limited by credit insurance as far as possible, or by stringent internal exposure control.

Existing risks from pending litigations are provided for in the balance sheet. This includes a dispute with the Commission of the European Union concerning the recognition under European Law of the rights granted to Salzgitter AG by the German authorities to make special depreciations under the law for subsidies for border regions at that time.

Permanent monitoring of economic risks.

Monitoring and controlling the economic risks from current business activities takes place in our planning and control system. Here, risk factors are followed and analyzed meticulously.

Integral to our risk management systems are regulations for the entire Group warranting a uniform handling and communication of risks. Potential risks at all production stages and in all departments are identified and analyzed, procedures, regulations and instruments for their handling are determined.

A Group reporting system ensures appropriate management information. Critical profit determinants are monitored on the basis of general business-specific data, so that undesirable developments are recognized early and proper countermeasures can be introduced in time.

Moreover, the internal audit department of Salzgitter AG, an independent authority not directly involved in the current business activities, audits the adequacy and efficiency of the systems used. In this respect, audits of nine Group companies were conducted during the fiscal year 1999/2000. It was confirmed that, in principle, an efficient risk management system exists and, furthermore, suggestions for its further development were made.

The Executive Board is directly and expertly informed about risk-carrying developments, potential risks and proper measures towards handling and limiting possible risks. The Executive Board is thus in a position to respond early and precisely to possible risk factors.

There were no risks jeopardizing the continued existence of the Company during the fiscal year 1999/2000. Currently, there is no concrete development discernible which might adversely and permanently affect the asset, financial and earnings situation of Salzgitter AG in the future.

GROUP MANAGEMENT REPORT: SPECIAL EVENTS AFTER BALANCE SHEET DATE

Acquisition of Mannesmannröhren-Werke AG

Closing took place on October 9, 2000.

As early as June 2000, the governing bodies of Salzgitter AG and Mannesmann AG approved the agreement covering the acquisition of 99.3 percent of MRW by Salzgitter AG and one of its subsidiaries. After the approval of the cartel authorities and further qualifications were available early in the new fiscal year, the closing took place on October 9, 2000. The shareholding is thus not included in the annual financial statements at September 30, 2000.

Merger of MHP Mannesmann Präzisrohr Holding GmbH and Salzgitter AG

It is a strategic objective of Salzgitter AG to strengthen and expand the automotive sector within our processing activities. Subsidiaries and shareholdings in the automotive sector are held directly by Salzgitter AG.

Optimizing Group structure through merger.

This is why Salzgitter AG acquired 100 percent of the shares in MHP Mannesmann Präzisrohr Holding GmbH (MHP Holding), previously held by MRW, on November 14, 2000. The company will shortly merge with Salzgitter AG. Thereafter, Salzgitter AG will have direct shareholdings in MHP Mannesmann Präzisrohr GmbH, Mannesmann Line Pipe GmbH, Form Tec GmbH Umformtechnik, MHP Mannesmann Presné Trubky and Robur Buizenfabriek B.V.

The merger also provides tax advantages.

Change of fiscal year

Harmonization of fiscal years in the expanded Group.

After the acquisition of Mannesmannröhren-Werke AG, whose fiscal year is the calendar year, it was necessary for the future preparation of the consolidated financial statements of the Salzgitter Group that either Salzgitter AG and its subsidiaries change their fiscal year to the calendar year or that Mannesmann and its subsidiaries change their fiscal year to October 1. As the change at Salzgitter AG will have tax advantages because of lower corporation tax as of January 1, 2001 for fiscal years then commencing, the Executive Board recommended changing the fiscal year of Salzgitter AG and its subsidiaries to the calendar year and having a short fiscal year for the period from October 1 to December 31, 2000.

The change of the fiscal year represents an amendment of the by-laws, needing the approval of the Shareholders' Meeting. This approval was given at the Special Shareholders' Meeting on December 20, 2000.

Structural changes in the Group

In its meetings of July 26 and November 2, 2000, the Supervisory Board of Salzgitter AG approved the recommendation of the Executive Board to change the corporate organization of the Group into a holding structure. The traditional corporate organization of a parent company group with a producing lead company – simultaneously performing holding functions – reaches its limits once it has grown beyond a certain size. This organizational set-up will merge the Steel Production Division with Group management and as a consequence the functionally structured company management will be strongly integrated in operational activities so that individual divisions show a small degree of autonomy.

The structural change is to be presented for approval to the Shareholders' Meeting on May 23, 2001.

Group leadership in a management holding.

The objective of the new organization is the leadership of the Group by a management holding, while the operative duties will be carried out by independent corporate entities with far-reaching decision-making authority.

The structure of the Group shall be subdivided into three levels.

Below Salzgitter AG as a management holding fulfilling strategic, planning and controlling functions, business activities will be divided into five divisions (Steel, Trading, Processing, Services and Pipes). The current grouping into "divisions" corresponds largely, but not exactly, to the future "divisions". The group of Mannesmannröhren-Werke will form the new Pipe Division.

Reorganization of corporate divisions.

In the Steel Division, the product sectors flat rolled steel, sections and plates, which are currently operative sectors of the parent company, will be formed into separate subsidiary companies.

Independent operating companies will be assigned to the divisions, in which the market, product and location-related business activities shall be decentralized with far-reaching freedom of decision and own responsibility.

A clear division of competence and duties leads to increased transparency and faster reaction within the Group together with improved operative and marketing capacity of the individual units.

The conception of a management holding also provides more flexibility for the Group to integrate new value added and corporate sectors without changing the basic principles. The new management structure is par-ticularly compatible to the Company's growth strategy.

GROUP MANAGEMENT REPORT: OUTLOOK

Pace of world economic growth slowing down.

Leading economic research institutes are predicting an optimistic development of the world economy for 2001. Despite a significant cooling off of the economy, they expect a growth of 3 percent in the industrialized and developing countries in 2001 against 4 percent in 2000. It is generally expected that the growth in 2001 will be slower than during 2000. The biggest growth reduction is forecast for the US, and the strongest further growth again for the East Asian countries. Factors with a negative impact will be the increase of oil prices and the monetary policy in the US.

According to those forecasts, the economic growth will diminish in 2001 from 3.3 percent to 2.8 percent in the euro-area, and from 3.0 percent to 2.7 percent in Germany. German economic growth is thus again below the euro-area average.

In general a satisfactory economic climate for the steel industry will continue. All industries in the EU with a high steel consumption expect a continued positive development, although they also reckon with a slight softening compared with the previous year.

After a steel consumption growth of 4 percent in 2000, another increase of 2.5 percent is forecast for the year 2001.

For the further development of major Group activities we are expecting a brief stabilization of market conditions on the level of the end of the fiscal year 1999/2000. A certain weakening during the course of the year 2001 cannot be ruled out.

In order to achieve the corporate objectives within our strategy, we are planning to introduce a number of Group-wide measures. They include the consistent continuation of our Group-wide Profitability Improvement Program and the accelerated application of state-of-the-art information technology for internal and outside (e-business) use. Moreover, the new Group organization will also promote the realization of the qualitative and quantitative corporate objectives.

The Steel Production Division is still expecting a favorable economic climate for 2001 with a possible slow-down later in the year. We anticipate the crude steel production to stabilize at a level of abt. 5 million t.

Steel market partly approaching a turning point.

In some sectors of our flat rolled steel production we are expecting a diminishing shipping volume, while at the same time tonnages for coated sheets should increase in connection with the start of the second coil coating line in the fiscal year 1999/2000. Shipments of sections could be declining, while still remaining on a relatively high level after last year's peak. We expect another increase for quarto plates.

Rolled steel sales prices are likely to soften during the year, plates excepted.

The following aspects could have negative effects; the overheated steel market activities in the US have cooled off and steel prices were also on the decline, while in the EU and particularly in Germany sales prices are still rather stable.

Among other things, this led to a substantially increased import pressure on the European market. This problem intensified as the US tried again to seal off their domestic market.

Nevertheless and all facts considered, this division is expecting further sales increases.

On the purchasing side, however, price increases are becoming evident, particularly for raw materials. Oil prices are still on a high level and utility companies are demanding price increases for electricity.

Costs for the production of a ton of crude steel went up considerably as compared with the year-earlier period because of the successive increase of the US dollar value against the euro. As many raw materials used for steel production are paid for in US dollars or are dependent upon that currency, the development of the US dollar rate of exchange is of major importance to our costing situation.

Predominantly positive market expectations in the individual divisions.

The Steel Trading Division assesses market expectations in the near future quite differently. For the coming year domestic trading assumes moderate rises of shipments and almost steady prices.

Trading business in third countries is facing gradually falling prices for nearly all steel products. Furthermore, the North American market will be characterized by declining tonnages.

This division is expecting falling sales during the coming year emanating from the international trading side.

The companies of the Raw Materials and Services Division will continue focusing their activities on services mainly for the sector steel production but also for other Group companies. Expectations are mainly determined by the business trend of the steel production sector. The individual company performance will lead to another increase in total sales. This will be supported by their activities towards expanding third-party business.

The Industrial Shareholdings Division is also expecting a positive development, mainly supported by the HSP activities.

A turning point has been reached by the new Pipe Division. Steel pipe demand revived significantly during 2000. Major pipe and tube-consuming industries such as mechanical engineering, plant engineering and the automotive industry are very active. Increasing energy consumption and high oil prices are creating an accelerating demand originating mostly from energy exploration and transport as well as energy production.

This positive trend is expected to continue in the future.

The overall outlook as to the tonnage volume of the Pipe Division is positive. As sales price increases seem possible across the board, anticipated earnings should follow the same trend.

The seamless tube sector has already achieved a good result in 2000 and this will be continued during 2001.

After finalization of the current restructuring process in the cold finished tube sector, a slightly positive result can be expected in 2001. A significant improvement during 2001 can be foreseen for the large-diameter pipe sector, so that this operation should also be profitable again.

The medium line pipe sector, already profitable during 2000, is expecting a considerable improvement for the year 2001.

The entire division is anticipating a consolidated profit, which will boost Group results accordingly.

Overall Group earnings to increase yet again.

Outside market expectations and our internal action programs were combined in our Group-wide planning process to establish a Group plan. Based on the information available at the planning point in time, this planning lets us once more expect an even better Group result for a period corresponding to our former fiscal year (October 1–September 30).

DIVISIONS: STEEL PRODUCTION

The Steel Production Division comprises the three locations in Salzgitter, Peine and Ilsenburg. Each location specializes in high quality product groups focusing on development and production of special and brand name steels.

The Salzgitter Works concentrate on the production of flat rolled steel products including the entire process chain: blast furnaces, oxygen steel plant with vacuum treatment and continuous casting equipment, hot strip mill, cold strip mill and surface coating operations with hot-dip galvanizing, electrolytic galvanizing and coil coating. Hot rolled coils and cold rolled sheet products with various surface coatings are produced here. Further processing operations such as a large-diameter pipe mill extend the processing chain.

Locations specializing in high quality product groups.

The Peine location has an efficient electric steel plant, a heavy section mill and a universal medium section mill for the production of the Peine beams of world-wide renown.

The Ilsenburg Works with its modern plant and equipment produces a wide range of high quality plates.

With the realization of comprehensive investments, particularly at the Salzgitter and Peine locations, the strategic objectives of quality and costing leadership are being implemented.

A continuously improving steel market sets the stage for a positive business trend in steel production resulting in higher numbers for production, shipments, sales and earnings.

More new orders at the beginning of the fiscal year.

After inventory reductions at the warehousing trade and consumer levels and the still significantly reduced steel imports into the European Union, new order bookings rose at a sustainable pace early in the fiscal year. Incoming orders developed positively during the first half as compared with the annual average of the previous year. At that point in time, steel traders and the steel-processing industry had built up their inventories considerably. It was not surprising that the rate of new order bookings slowed down during the second half 2000. Consequently, the total volume of incoming orders, namely 4.19 million t were 0.14 million t (3.2%) under the prior year's level. While sections were slightly above previous year's tonnage and reached 1.23 million t, demand for flat rolled steel products dropped by 0.14 million t (4.6%) to 2.96 million t. The activities of the product sector Salzgitter were negatively affected by the two fires in the electrolytic galvanizing and the hot-dip galvanizing lines on March 7 and on May 15, 2000. Surface coated products were mainly affected. Sales had to be restricted leading to a lower tonnage of incoming orders. After the fire, comprehensive crisis management succeeded in ensuring our customers' supply to a high degree.

The turning point on the large-diameter pipe market came after the price increases for oil and gas, which determined a significant upturn of quarto plates activities during the course of the year.

Order backlog for rolled steel products dropped to 0.97 million t at the end of the fiscal year, after it had reached a level of 1.18 million t at the beginning of the year.

Total incoming orders for processed products increased. Booking a large project for large-diameter pipes had its positive effects and will lead to a full capacity utilization of the pipe mill during the new fiscal year.

Crude steel production at 25-year record high.

Crude steel production was 5.12 million t, thus 0.39 million t (+8.3%) over the prior year's level, a new company record tonnage for the last 25 years. The steelmaking plant in Salzgitter worked close to capacity and produced 4.10 million t. The production increase by 0.25 million t (6.6%) was possible because the blast furnace plant was fully working after last year's scheduled repair works. In view of the excellent market conditions, the electric steel plant in Peine was able to increase its production significantly by 0.14 million t (15.6%) to 1.02 million t. Own production could not, however, cover the required crude steel, so that even more slabs had to be purchased than during the previous year.

Total production of rolled steel and processed products for shipment was increased. 4.56 million t (prior year 4.20 million t) of rolled steel including semimaterial for processing were produced. Processed tonnage dropped, however, by 20.1 percent to 0.15 million t (previous year 0.19 million t). There were major product variations, as production of surface coated sheets was limited because of the fire damage.

Significant increase of production and shipping volume.

Shipments of rolled steel and processed products of 4.48 million t (previous year 4.23 million t) increased by 5.8 percent. The volume of the individual products developed differently. There was another marked decline of large-diameter pipes (-61.0%). Galvanized sheets (-11.5%) and electrolytically galvanized sheets (-19.9%) were negatively affected by the above mentioned fires. There was, however, also a shift to coated sheets and the start-up of the second coil coating line made it possible to increase shipments by 82.1 percent. There was also a positive trend for hot rolled coils and steel strip (+16.7%) and an above-average rise of 16.5 percent for sections and plates achieved an increase over the previous year of 4.8 percent.

Higher prices create additional sales.

The division registered a stronger percentage increase in sales than in shipments. Non-consolidated sales rose by 11.0 percent to €1.72 billion (previous year €1.55 billion). Aside from increased tonnages, stronger sales prices were responsible for the sales expansion. The effect was about 50/50 from higher tonnages and from higher prices. The sales portions of the product sectors Salzgitter (56.9%; previous year 59.9%), Peine (26.5%; previous year 22.7%) and Ilsenburg (16.6%; previous year 17.4%) showed a slight shift towards sections. The relative portion of surface coated products diminished slightly (23.4%; previous year 26.8%) because of the above-mentioned events.

Internal sales with consolidated Group companies of the other divisions accounted for abt. 27 percent, unchanged from the prior year, of division sales.

91% (previous year 92%) of sales were in the European Union. Domestic share was 59% (previous year 61%).

Increases in sales due to changes in inventories and own production capitalized led to a total division performance of €1,764 million (previous year €1,514 million).

The higher total performance was in part balanced by a cost of materials increase of €181 million to € 912 million (51.7% of total performance; 48.3% in the previous year). Cost increases stemmed from larger raw material quantities needed for increased production and particularly from higher prices for raw materials (ore, coal, scrap) and for energy (heating oil, natural gas). The increased US dollar value contributed considerably towards rising prices for US dollar-dependent raw materials. Approximately 50 percent of the positive revenue effects on the sales side were eaten up by higher purchasing prices despite countermeasures in respect of optimizing material used. Major costing effects resulted from hiring labor, which was essential because of the fires, and from the increased purchases of slabs.

Personnel expenses rose by €13 million to €327 million (previous year €314 million). They thus amounted to 18.5 percent of total performance (previous year 20.7 percent). Major reasons for the increase were a higher number of employees in connection with the start-up of new facilities, taking over former hired labor, and the collective pay agreement. On the other side, expenditure for old-age pensions diminished.

Other operation expenses increased by €52 million to €421 million (previous year €369 million). The change resulted predominantly from repair works at the galvanizing lines, higher freight costs for outside job processing in connection with the fire damage and a multitude of costs partly compensating each other. Altogether the relative portion of other expenses in total performance dropped to 23.9% (previous year 24.4%).

Income of the Steel Production Division – calculated as income before tax and before income from shareholdings – amounted to €57 million (previous year €8 million). The rise in income compared with the prior year (+€49 million) resulted predominantly from revenue increases (+€100 million) and higher capacity utilization (+€32 million), compared with negative effects from increased purchasing prices (-€67 million), higher personnel expenses (-€13 million), the purchase of slabs (-€11 million) and a number of further influences. The higher income stemmed mainly from the product sectors flat rolled steel in Salzgitter and sections in Peine. Higher quantities as well as price increases contributed to this development. In Salzgitter increased shipments of hot rolled coils were set against declines of sheets, surface coated products and pipes. Increased sales revenues for rolled steel products contributed to a positive result. The product sector Peine also generated a profit benefitting from a higher capacity utilization yet again and from increased revenues, while scrap prices rose considerably. The product sector Ilsenburg suffered a loss on last year's level as the economic recovery affected the plate sector much later. During the final months of last fiscal year the trend turned and positive results were achieved.

Improved result of Steel Production Division.

According to IAS, the Steel Production Division is stating fixed assets (without financial assets) of abt. €983 million in the balance sheet. This is 31 percent of cost, a relatively low value considering the high degree of modernization of plant and equipment. Investments (without financial investments) of €169 million were €39 million above last year's figure.

The core workforce of the steel sector (without trainees) increased by 257 (+3.7%) to 7,192 during the last fiscal year. The rise is mainly due to an increased capacity utilization and to the fact that certain operations, previously carried out by third parties and other Group companies, were now performed by own employees.

Steel Production

		1999/2000	1998/1999	Change
Crude steel production	kt	5,116	4,725	391
LD-steel	kt	4,096	3,843	253
Electric steel	kt	1,020	882	138
Shipments	kt	4,475	4,230	245
Rolled steel	kt	4,326	4,034	292
Processed material	kt	149	196	-47
Sales	€ mln	1,724	1,553	171
EU	€ mln	1,566	1,423	143
Third countries	€ mln	158	130	28
Internal sales	€ mln	472	424	48
External sales	€ mln	1,252	1,129	123
Total operating performance/ other operating income	€ mln	1,893	1,595	298
Cost of materials	€ mln	912	731	181
Personnel expenses	€ mln	327	314	13
Other operating expenses	€ mln	421	369	52
Amortization and depreciation	€ mln	150	148	2
Net interest income	€ mln	-26	-25	-1
Division net income before tax	€ mln	57	8	49
Investments[1]	€ mln	169	130	39
Workforce	at Sep 30	7,222	6,935	287
Core workforce		7,192	6,935	257
Wage labor		5,415	5,215	200
Salaried employees		1,777	1,720	57
Trainees, working students		30	-	30
EBIT	**€ mln**	**66**	**11**	**55**
EBITDA	**€ mln**	**216**	**159**	**57**

[1] Without financial assets.

DIVISIONS: STEEL TRADING

The Steel Trading Division comprises the companies of the Salzgitter Trading Group (Salzgitter Handel GmbH [SHD], Salzgitter International GmbH [SID], Salzgitter Handel B.V., Netherlands [BEN], Salzgitter Trade Inc., Canada [STV]) and Hövelmann & Lueg GmbH & Co KG (HLK). Furthermore, the shareholding (50 percent) in Universal Eisen und Stahl GmbH (UES) is assigned to this division. UES is not included in the consolidation.

A positive market development and subsequent opportunities for price increases enabled the Steel Trading Division to improve its economic situation compared with the year-earlier period. Shipments (excluding UES) increased by 12.7 percent to reach 4.78 million t. Gross sales were up 28.0 percent and amounted to €1.88 billion.

Improved economic situation of Steel Trading Division.

The division generated an income before tax and including income from the UES shareholding of €17.5 million, €4.0 million above previous year's level.

HLK contributed particularly to this profit increase due to higher shipment tonnages and better margins.

EBIT of the division were €30.9 million (previous year €23.2 million).

Division investments amounted to €5.4 million and amortization and depreciation came to €9.4 million.

The number of employees at the end of the fiscal year was 1,673 (previous year 1,743) plus 91 (previous year 100) trainees.

Individual companies:

In view of the improved market conditions as compared with last year, the **Salzgitter Trading Group** exceeded its shipments and sales of the previous year. Total shipments rose from 4.0 million t to 4.6 million t (14.2%). Due to higher prices, sales even increased from €1.4 billion to €1.8 billion (27.6%).

Sales increases in Germany and . . .

Shipments of the domestic trading companies were on last year's level, namely 1.8 million t. Price developments helped to push sales from €0.7 billion to €0.8 billion (7.2%).

In order to meet market requirements even better, the conception "Trade 2000" was initiated for the domestic side during the fiscal year 1999/2000, which entails a new corporate structure. The current Salzgitter Stahlhandel in Gladbeck, Mannheim and Hanover will be legally and organizationally consolidated in Salzgitter Stahlhandel GmbH, Düsseldorf.

Sales and marketing of the new Salzgitter Stahlhandel GmbH in the respective sales regions will no longer be product-oriented but rather customer-related.

Moreover, the conception of "Open Warehouses" will be introduced, meaning that the inventories at all warehouse locations are available to all sales departments in all market regions.

Furthermore, purchasing activities of the domestic steel trading companies will be centrally coordinated for all product groups. Moreover, administrative functions such as accounting, controlling, credit management, personnel and information technology will be centralized in the holding in Düsseldorf.

The Dutch steel trading companies had another very successful year. The healthy economic climate in the Netherlands continued to have its positive effects on the companies' shipment and sales figures. The excellent tonnage of the year-earlier period (232 kt) was yet exceeded by 6 percent and reached 246 kt. Market pricing developments boosted sales from €84 million to €95 million (12.8%).

. . . especially in international steel trading.

The international steel trading sector of the Salzgitter Trading Group benefitted especially from the above-mentioned market scenario. The positive development of international steel markets led to higher shipment and sales volumes. Salzgitter International's shipments were up to 2.29 million t from 1.75 million t (30.9%) a year earlier. Sales jumped to €839 million from €530 million (58.3%) during the previous year, documenting major price increases.

Steel Trading

		1999/2000	1998/1999	Change
Sales	€ mln	1,881	1,470	411
Salzgitter Trading Group	€ mln	1,811	1,419	392
Hövelmann & Lueg	€ mln	70	51	19
Internal sales	€ mln	108	77	31
External sales	€ mln	1,773	1,393	380
Division income before tax	€ mln	17.5	13.5	4.0
Salzgitter Trading Group	€ mln	11.8	11.5	0.3
Hövelmann & Lueg	€ mln	2.9	-0.8	3.7
Non-consolidated companies	€ mln	2.8	2.8	-
Total workforce	at Sep 30	1,764	1,843	-79
Core workforce		1,673	1,743	-70
Salzgitter Trading Group		1,493	1,576	-83
Hövelmann & Lueg		180	167	13
Trainees, working students		91	100	-9
Inventories	€ mln	162	133	29
EBIT	**€ mln**	**30.9**	**23.2**	**7.7**
EBITDA	**€ mln**	**40.3**	**33.0**	**7.3**

Salzgitter Trade Inc., Vancouver, Canada, another international trading company, also participated in the positive market developments during the first three quarters of the fiscal year, also leading to increased shipments and sales. During the second half of the third quarter, however, the company suffered from the slump on the North American market. Total shipments increased from 207 kt in the previous year to 229 kt (10.6%) and sales climbed from €69 million to €91 million (31.9%) during this fiscal year.

The Salzgitter Trading Group generated an income before tax of €11.8 million (previous year €11.5 million).

Hövelmann & Lueg GmbH & Co KG (HLK) operates a steel service center at locations in Schwerte and Salzgitter and conducts steel trading. The company operates 6 cut-to-length lines and various flame cutting facilities producing sheets, plates and blanks.

The range of products comprises cold rolled, hot rolled and surface coated material in thicknesses of 0.4 to 8 mm. Furthermore, packaging material for coils is produced. All production facilities were working to capacity during the fiscal year. The equipment configuration could be further optimized by the installation of a new cutting center for sheets.

Business activities during the fiscal year were characterized by excellent demand and increasing prices for all products and in all market areas.

Excellent income development at HLK.

Total shipments (without job processing) increased by 14.9 percent to 182 kt, processing including job processing rose by 20 percent to 175 kt. Accelerated by the positive price development, sales increased by 37 percent to €69.8 million. Income before tax was €2.9 million (previous year a loss of €0.8 million).

It is expected that processing, shipment and sales will stabilize at the present level and that another good and positive result will be achieved during the new fiscal year.

Our shareholding (50%) **Universal Eisen und Stahl GmbH (UES)** specializes in trading and processing steel plates. During its deviating fiscal year 1999 (December 31) the company still operated in a difficult steel market environment. Only after a marked decrease of import supplies, were the European steel producers able to increase their prices for quarto plates successively in mid 1999. High warehousing inventories prevented a smooth passing on of mill price hikes to the ultimate consumer. A significantly more active demand during the second half led, however, to considerably higher shipments.

Positive profit contribution from UES.

During the fiscal year 1999, consolidated sales of UES diminished as compared with 1998 (€161 million) by €37 million to €124 million. Aside from lower warehouse shipments, this development was primarily caused by considerably reduced prices for warehouse sales. Nevertheless UES generated a result which was only insignificantly below last year's profit. UES contributed €2.3 million towards the division result stemming from at equity valuation under consideration of the profit transferred.

DIVISIONS: RAW MATERIALS AND SERVICES

This division comprises the companies DEUMU Deutsche Erz- und Metall-Union GmbH, PPS Personal-, Produktions- und Servicegesellschaft mbH, Verkehrsbetriebe Peine-Salzgitter GmbH, GESIS Gesellschaft für Informationssysteme mbH, Hansaport Hafenbetriebsgesellschaft mbH (51%), telcat multicom gmbh with its subsidiary telcat Kommunikationstechnik GmbH and "Glückauf" Wohnungsgesellschaft mbH. The division also includes the non-consolidated Peiner Agrar- und Hüttenstoffe GmbH. Furthermore, various non-consolidated minor shareholdings are assigned to this division.

Services for Group companies and increasingly for third parties.

The companies of this division predominantly provide services for Group companies. Plans are afoot to offer their experience and existing infrastructure more and more to third parties as well. Additional profits could thus be generated towards improving Group earnings. PPS has the additional function of carrying out structural personnel realignments without creating social hardships.

The Raw Materials and Services Division (scope of consolidation) achieved gross sales of abt. €518 million (previous year €441 million) during the fiscal year. Sales increases of abt. €77 million were primarily achieved by DEUMU (+€59 million) and particularly by their sectors non-ferrous metals and iron scrap.

Third-party sales rose by €54 million to €228 million. The portion of external sales was thus up to 44.0% (previous year 39.5%).

The division (including the non-consolidated companies) contributed €23.1 million (previous year €9.9 million) towards Group earnings before tax, more than double last year's profit. All companies achieved positive results, the earnings of DEUMU (+€3.5 million) and of VPS (+€4.5 million) should be underlined. EBIT of €25.2 million exceeded last year's €10.9 million.

Contribution towards Group earnings more than doubled.

Division investments amounted to €23.2 million, amortization and depreciation were €10.4 million.

At September 30, 2000, the division had a workforce of 3,566 (previous year 3,593) employees (without trainees). In addition there were 632 (previous year 648) trainees.

The decline of the core workforce in this division is mainly due to restructuring measures at DEUMU and the subsequent personnel realignment.

Raw Materials and Services

		1999/2000	1998/1999	Change
Sales	€ mln	518	441	77
DEUMU	€ mln	244	185	59
PPS	€ mln	107	98	9
telcat Group	€ mln	48	44	4
VPS	€ mln	64	61	3
Other companies	€ mln	55	53	2
Internal sales	€ mln	290	267	23
External sales	€ mln	228	174	54
Division income before tax	€ mln	23.1	9.9	13.2
DEUMU	€ mln	0.7	-2.8	3.5
PPS	€ mln	3.9	0.8	3.1
telcat Group	€ mln	1.8	2.9	-1.1
VPS	€ mln	7.4	2.9	4.5
Other companies incl. non-consolidated companies	€ mln	9.3	6.1	3.2
Total workforce	at Sep 30	4,198	4,241	-43
Core workforce		3,566	3,593	-27
DEUMU		275	327	-52
PPS		1,898	1,881	17
telcat Group		385	387	-2
VPS		761	752	9
Other companies		247	246	1
Trainees, working students		632	648	-16
EBIT	**€ mln**	**25.2**	**10.9**	**14.3**
EBITDA	**€ mln**	**35.6**	**19.4**	**16.2**

Individual companies:

DEUMU has operations at the following locations: Berlin, Eisleben, Karlsruhe, Kassel, Ludwigshafen, Magdeburg, Peine and Salzgitter. The operation in Hamburg was closed at the beginning of the fiscal year. DEUMU's main business activities are trading in and processing of scrap, trading in metals, alloys and second choice steel products, processing of flat rolled steel products and services for industrial demolitions.

DEUMU's scrap trade tonnage volume of almost 1.2 million t was nearly up to last year's level. While direct shipments diminished slightly, warehouse shipments increased at the same time. Sales rose to €101 million because of higher price levels. The portion supplied to Salzgitter AG's Peine and Salzgitter Works decreased from last year's 74 percent to 67 percent this year.

The trade in non-ferrous old metals and alloy scrap increased by 35 percent over last year and reached 24 kt. Higher prices improved sales by 73 percent to €27 million.

Non-ferrous new metals shipment increased by 30 percent to 55 kt. Sales of €85 million were 48 percent above last year's level.

Trade in second choice flat rolled steel products was also brisker, shipments were up 30 percent and reached 21 kt, sales rose by 25 percent to €4 million.

DEUMU increased its total sales by €59 million (31.9 percent) to €244 million (previous year €185 million).

DEUMU's trading activities altogether closed with a positive result. While processing and production operations improved their productivity and thus their earnings situation, the service sector and steel processing were negatively affected by restructuring measures.

Earnings situation much improved.

DEUMU's total income before tax was €0.7 million, an improvement of €3.5 million on last year's -€2.8 million.

The full use of rationalization and earnings potential is consistently pursued. The scrap purchasing activities of Salzgitter AG will be concentrated on DEUMU as of the beginning of the new fiscal year.

PPS provides comprehensive services to Group companies and to third parties in the area of plant technology, occupational medicine, work safety including fire and respiratory protection, education and training and a printing center. Moreover, the company has the function of organizing Group personnel realignments without creating social hardships, e.g. by part-time employment of senior employees. Sales from services to Salzgitter AG, which had previously been provided by third parties, nearly doubled during the fiscal year.

Significant earnings improvement.

More corporate independence after successive reduction of existing personnel and operational integration into Salzgitter AG will lead to a further expansion of third-party activities.

PPS's sales during the year amounted to €107 million (previous year €98 million). Third-party sales thereof were €2 million (previous year €2 million). Income before tax was €3.9 million (previous year €0.8 million).

As one of Germany's largest public railroads, **Verkehrsbetriebe Peine-Salzgitter GmbH (VPS)** provides transport services for third parties and for Group companies and offers all-round logistic solutions. Furthermore, it operates two inland ports in Peine and Salzgitter handling abt. 2 million t of goods. Additionally, the company develops and sells technical products for railroads, e.g. special freight cars for transport of hot goods and locally operated electric points.

Transport volume during the fiscal year 1999/2000 was abt. 34 million t.

Additional increase in profits through extraordinary items.

Respective sales were €64 million (previous year €61 million), profits before tax – including various extraordinary items – were €7.4 million (previous year €2.9 million).

GESIS provides information processing for Salzgitter AG and its Group companies as well as for third parties. The service program of GESIS includes IP-consulting and project processing and the full service of a modern data processing center, which is operated by a shareholding of IBM Deutschland GmbH in conjunction with GESIS and Continental AG. Moreover, GESIS is a consulting partner of SAP AG and acts as the IP-competence center for the R/2 and R/3 products of this software company. Furthermore, GESIS acts as a central PC service provider (IP product planning, IP supply and IP operation including logical network management) for Salzgitter AG.

Demand for IP services continued to be brisk through the fiscal year 1999/2000 both from Group companies and from third parties. Furthermore, the successfully handled projects in connection with the y2k problems should be mentioned.

Earnings improvement through increased sales.

During the fiscal year 1999/2000, sales were increased to €28 million (previous year €26 million). One third of the consulting service included in the sales figure came from third parties.

Profit before tax increased in line with higher sales to €3.9 million and is thus exceeding last year's figure of €3.0 million.

Hansaport Hafenbetriebsgesellschaft mbH (HAN) is owned by Salzgitter AG (51%) and by Hamburger Hafen- und Lagerhaus AG (49%). The company operates modern handling and storage facilities for bulk goods in the port of Hamburg. HAN is predominantly responsibile for a timely and efficient transshipment of the ore and coal tonnages imported by Salzgitter AG but it is also developing third-party business in order to utilize free capacities and to thus improve the earnings situation.

Previous year's income exceeded.

Total tonnage handled during the fiscal year 1999/2000 amounted to 17.7 million t and exceeded prior year's volume by 0.3 million t.

Total sales were €22.2 million, €0.3 million (1.3%) below last year. An income before tax of €4.5 million (previous year €1.8 million) was generated.

In view of the continuing stable sales situation in the steel industry, it is expected that ore transshipments will be steady and coal handling will increase. A new coal storage facility went into operation during April 2000.

The companies of the **telcat Group** plan, install and operate communication technology facilities (telephone systems, DP networks, monitoring and fire alarm systems).

telcat Kommunikationstechnik GmbH primarily provides services for companies located in Salzgitter.

telcat multicom gmbh has 16 branches and some further bases for servicing the entire Federal Republic. More than 90 percent of sales are with third-party companies.

Earnings affected by special events.

Total sales of both companies during the past fiscal year were €48 million (previous year €44 million) and thus continued on their expansion course. Income before tax amounted to €1.8 million (previous year €2.9 million).

"Glückauf" Wohnungsgesellschaft mbH successfully continued its activities of managing company-owned apartments and those owned by Salzgitter AG. The company also looked after commercial properties and apartments owned by third parties. Sales of €5 million generated a profit before tax of €0.2 million.

It is planned to take over the facility management of the office building of Salzgitter AG in the coming fiscal year.

Peiner Agrar- und Hüttenstoffe GmbH (PAH) conducts a direct wholesale trade in fertilizers. Part of this material is obtained in connection with steel production and is sold as phosphatic and calciferous fertilizer. Furthermore, PAH is marketing by-products from the metallurgical plants of Salzgitter AG.

Shipments and sales increased. The earnings situation worsened slightly in comparison with the previous year.

DIVISIONS: INDUSTRIAL SHAREHOLDINGS

Division expansion pressed ahead.

The intention announced in the last annual report to expand this division was realized during the reporting period. After integration into this division early in the fiscal year 1999/2000 of the newly acquired shareholdings in Oswald Hydroforming GmbH & Co. KG (24.9%), the Wescol Group plc (26.2%) and of the wholly owned subsidiary Salzgitter Bauelemente GmbH, agreements were signed in May 2000 covering the acquisition of 74.7 percent in K.F.Z. Projektmanagement GmbH, Wolfsburg, and of 100 percent in HSP Hoesch Spundwand und Profil GmbH, Dortmund, both companies were assigned to this division. Furthermore, Salzgitter Europlatinen GmbH and the shareholding (12.6%) in the American company Steel Dynamics, Inc. still belong to this division.

The significance of this division is not only viewed under short-term aspects of quick returns. With these commitments Salzgitter AG is participating in the development of future technologies and growth areas of steel production and processing. An addition to know-how and ensuring sales prospects are higher motives in the long-term. Nevertheless we are pursuing the objective of arriving at an adequate return on capital or yield respectively.

The division has not yet contributed positively to Group earnings during the fiscal year; moreover, Salzgitter Europlatinen GmbH and Salzgitter Bauelemente GmbH were not yet included in the consolidation.

Industrial Shareholdings

		1999/2000	1998/1999	Change
Sales	€ mln	43	-	43
Hoesch Spundwand und Profil	€ mln	43	-	43
Internal sales	€ mln	5	-	5
External sales	€ mln	38	-	38
Divison income before tax	€ mln	-2.4	-	-2.4
Hoesch Spundwand und Profil	€ mln	0.9	-	0.9
Non-consolidated companies				
Europlatinen Holding	€ mln	-0.3	-	-0.3
Wescol Group	€ mln	-3.0	-	-3.0
Total workforce	at Sep 30	616	-	616
Core workforce		589	-	589
Hoesch Spundwand und Profil		589	-	589
Trainees, working students		27	-	27
EBIT	**€ mln**	**-2.0**	**-**	**-2.0**
EBITDA	**€ mln**	**1.8**	**-**	**1.8**

Individual companies:

Salzgitter AG acquired **HSP Hoesch Spundwand und Profil GmbH (HSP)** as per notarized agreement dated May 30, 2000. Economic effect of the acquisition was October 1, 1999, legal transfer and subsequent change of control took place on June 16, 2000. HSP operates a heavy section rolling mill in Dortmund and produces special sections for sheet piling, mining sections and ship-building. HSP sells its products predominantly on the EU market; total export share is abt. 45 percent.

Top position for sheet piling on EU market.

The acquisition of HSP makes it possible to combine the sheet piling programs of Salzgitter (box sheet piling) and of HSP. The combination of the sheet piling market shares of HSP and Salzgitter results in 34 percent, a top position on the EU market.

During the past fiscal year (October 1, 1999–September 30, 2000), sales were expanded by 6.6 percent to €123 million and a significantly positive result was achieved.

Accounting to IAS, HSP contributed only €43 million towards Group sales and €0.9 million towards profits. This results from the fact that, according to IAS, HSP is only to be included in the consolidated financial statements of Salzgitter AG for 4 months (June to September) during this fiscal year.

During the last two fiscal years, HSP commenced a comprehensive investment program towards modernizing its plant and extending its range of products. A further large investment in the rolling mill, which will give HSP a competitive edge, will finalize this investment program.

The total workforce diminished as compared with the prior year on the basis of a redundancy scheme by 37 to 616 employees on balance sheet date, the number includes 27 trainees.

Salzgitter Bauelemente GmbH (SZBE) commenced operations on April 1, 2000, still being in the start-up phase during the fiscal year. SZBE, a wholly owned subsidiary of Salzgitter AG, was organized with the objective of combining the former product sectors of trapezoidal sheets, cassettes and sandwich elements of Salzgitter AG in this new company and expanding activities in line with market requirements. The expansion of building elements production, comprising capacity increases of trapezoidal sheet production, the construction of a perforating line and the construction of a plant for sandwich elements manufacture, was approved by the Supervisory Board of Salzgitter AG in the last fiscal year. Construction work within this investment project is on schedule. After completion the plant and equipment will be assigned to SZBE within the scope of a transfer of operations.

Full supplier in the building elements segment.

The fiscal year was characterized by brisk demand for roof and wall trapezoidal sections.

During the period of April 1–September 30, 2000, the company generated sales of €13 million.

Wescol plc is a holding for a group of companies operating in engineering, in manufacturing steel constructions and production and marketing of a patented castellated/cellular beam.

Aside from a financial shareholding in this company, there were chances for Salzgitter AG within this partnership to supply beams to Wescol and to develop the industrial processing of its products.

The group generated sales of GBP84 million during the fiscal year 1999/2000 (July 31).

Difficult business year for Wescol.

The fiscal year 1999/2000 did not develop very encouragingly for Wescol in view of strongly subdued market conditions and competitive situations. The at equity valuation in particular resulted in expenditures of €3.0 million for Salzgitter AG. At this point in time there are first indications of an improving situation of the company.

SZEP now operating independently on the tailored blanks market.

Since the dissolution of the joint venture between Salzgitter AG and Voest-Alpine Stahl Linz GmbH as at March 30, 2000, **Salzgitter Europlatinen GmbH (SZEP)** has operated independently in the market for tailored blanks as a wholly owned subsidiary of Salzgitter AG.

SZEP has been producing stamped and welded blanks for the automotive industry since late 1998. Sheets of various thicknesses are processed into tailored blanks by means of laser welding and are then used by car manufacturers for B-pillars or door reinforcements.

Meanwhile SZEP has been integrated into the production chain of German and European car manufacturers and has strengthened its market position. Its European market share for tailored blanks production is presently abt. 5 percent.

In connection with the joint venture dissolution with Voest, a proportional loss of €0.3 million has yet to be taken over.

Oswald developed positively as expected.

Oswald Hydroforming GmbH & Co. KG in Crimmitschau, where Salzgitter AG acquired a shareholding in November 1999 in the course of its external growth strategy, developed positively as expected.

During the year 2000, the company obtained numerous orders for its series manufacturing of hydroformed parts for the automotive and non-automotive industries. The cooperation with renowned car manufacturers in the sector of components/prototyping was intensified.

The company has been operating profitably since its start-up on November 1, 1999. The order structure has been successively improved.

Successful expansion of automotive sector.

In the further course of its implementation of external growth, Salzgitter AG acquired a majority shareholding (74.7%) in **K.F.Z. Projektmanagement GmbH, Wolfsburg**, in May 2000. The company was subsequently renamed **Salzgitter Automotive Engineering GmbH, Wolfsburg (SZAE)**.

The objective of this new acquisition is to obtain a stronger and earlier integration into developments in the automotive sector, a better knowledge of material selection for new models and a faster exchange of information on technical details.

The conception of SZAE is to expand the services provided and to extend the production chain to the assembly of auto bodies.

The fiscal year 2000 was successful; positive results are expected for the new fiscal year.

Steel Dynamics, Inc. (SDI) developed excellently during its fourth year of operation – Salzgitter AG had a shareholding in this company since the fiscal year 1995/1996.

Positive development and further growth.

During the fiscal year 1999 (December 31), steel shipments were increased again and came to 1,870 kt (previous year 1,417 kt). This generated sales of USD619 million (previous year USD515 million) and earnings before tax of USD65 million (previous year USD53 million).

New investments already started are for the production of beams and steel construction components which will direct the company towards further growth.

EMPLOYEES

Growth necessitates qualification. During the fiscal year 1999/2000, personnel policy focused on the preparation of employees for changes in the occupational environment in a changing enterprise. Active participation in the educational programs of PPS underlines the readiness of employees to assume responsibility for their own occupational development. 6,097 participations in 136 programs covering 8 subjects exceeded last year's successful results.

Group-wide personnel development.

The assessment centers taking place since summer 1999 are a major part of Group-wide personnel development. These seminars for junior executive staff centered around the analysis of the leadership potential of the participants and their further qualifications. This career planning is the basis for the first acceptance of executive responsibility and for the subsequent planning in subsidiaries and associated companies.

As a new component of the integrated multi-tier personnel development system of Salzgitter AG, the Salzgitter Management Program (SMP) has been held since 1999. Executives of the upper hierarchy level complete an interdisciplinary qualification and development program towards assuming ambitious management duties within the Group. The focus is on the provision of general management competence. The three year seminar series is held jointly with USW, Universitätsseminar der Wirtschaft (university seminar of industry and trade), Schloss Gracht. External programs, such as the seminars of the Poensgen-Stiftung (Poensgen foundation) and the Baden Badener Unternehmergespräche (discussions of industrialists) and the delegation to the Management Center St. Gallen, are a major supplementary contribution.

Exchange of information and ideas during dialogue-days.

Employees' identification with corporate objectives is not becoming any easier as the enterprise is growing. Information and communication with employees are therefore important preconditions for a personnel policy oriented towards success and achievement. Within our Group, the exchange of ideas amongst executives takes place on the occasion of so-called dialogue-days. On November 25, 1999, the fifth dialogue-day since 1991 was held in Wernigerode. This comprehensive forum of 570 executives, managing directors of subsidiaries and associated companies, the Group Executive Board and the Works Council will be the future platform for deliberations and discussions of business plans, strategic approaches and developments in the Group. The current reason for the dia-logue-day is the Executive Board's growth concept, adopted by the Supervisory Board on July 15, 1999. The dialogue focused on the questions surrounding the strategy of independence. The Executive Board and the managing directors explained the effects resulting from internal and external growth objectives in the areas of market, technology, financing, personnel and social affairs. In all contributions, customer orientation played a key role towards maintaining a competitive position.

In respect of recruitment of junior staff, the Company will react rapidly to the changing environment. The smooth cooperation among industry, trade, federal and state authorities and legislature towards adoption of the new IT jobs is an example of how long-term utilization and exploitation of job-oriented knowledge can be ensured. Presently 724 juniors are trained in 17 approved apprenticeships within the Group.

Pilot programs support the practice.

In order to maintain the adaptability of employees towards new work systems and methods, Salzgitter AG is participating in a pilot program of the State Government of Lower Saxony "Joint training locations for IT and media careers" as managing center for the Brunswick/ Salzgitter/Peine areas. With this decision the growing competence of Salzgitter AG in respect of development, planning and implementation of educational and didactic tasks is being appreciated. The objective of the pilot program is to create new qualified apprenticeships, develop training schemes for vocational schools and support small and medium-size companies of the IT industry. The necessity of economical use of company resources in the area of education is accomplished by combining the various experiences of the participants and avoiding costly specialization.

Active participation in suggestion scheme.

There is a close connection between qualification and the willingness and capability towards innovative thinking and acting. Therefore, personnel work is oriented towards intensifying the identification of employees with their own duties and tasks and thus make use of the creative impulses and potentials of the employees. During the fiscal year 1999/2000, a total of 2,571 suggestions for improvement were submitted in the Group and the previous year's number was thus exceeded by 365 suggestions (+16.6%). Participation in the suggestion scheme created an annual net profit of €2.3 million (previous year €2.1 million).

The fierce competition on steel markets necessitates competitive personnel structures. The significance of organizational development and restructuring is growing. The introduction of a comprehensive system towards health improvement and reduction of absenteeism (GF/AV program) in steel production and at PPS is based on optimization of workflows through improved information, communication within work teams and resulting conduct changes. Meanwhile, the major production operations in Salzgitter and Peine and the central departments of PPS were integrated into this procedure. The sickness and accident hours were reduced by about 2 percentage points since the system was introduced during the fiscal year 1991/1992. The absenteeism in the GF/AV-departments is within target range of 5 percent. An internal comparison shows that the absenteeism in GF/AV departments is 2 percentage points lower than in other departments.

Issue of employee stock promotes company identification.

During the previous year, the issue of employee shares started employees' participation in the Company's success. In summer 2000, further employee stock was offered at a preferential price. 37 percent of the workforce participated in this campaign, which was launched in anticipation of the retirement provision scheme presently being negotiated. Aside from the issue of employee shares, this scheme consists of a company pension scheme, long-term working time accounts and a profit sharing plan based on certain corporate key data. The envisioned participation of employees will stabilize the company pension scheme at the present level and the expenditure for Group companies will be reduced.

Further positive effects are a stronger identification with the Company, better performance and motivation and an encouragement towards economic thinking.

Cooperation between industry and science.

The regional cooperative network of Salzgitter AG, universities, vocational schools and general education schooling was expanded during the fiscal year 1999/2000 by a further initiative. By means of the endowed professorship "Building Conservation and Truss", Salzgitter AG is promoting new applications for beams, plates and, in future, also pipes. Moreover, Lower Saxony as a base for industrial, commercial and scientific activities and the regional technology transfer are receiving commercially usable impulses.

RESEARCH AND DEVELOPMENT

In line with the addition to its company name "Steel and Technology", Salzgitter AG has been engaged in a multitude of research and development projects, partly together with customers, outside research institutions and universities.

Development of products and production processes.

Development, production and application of new steel grades was advanced and promoted by intensive practical consulting with our customers. High demand on material, surface and corrosion protection required production processes adapted to the development of complex products. Further emphasis was on the improvement of product quality and the increase of productivity as well as production methods preserving the resources and protecting the environment.

The integration of Mannesmannröhren-Werke AG into the Salzgitter Group includes the Mannesmann Forschungsinstitut (MFI – Research Institute) as a central research and development unit. MFI possesses a wide potential of material and process technology, particularly in the areas of tube production and processing. The acquisition of further shareholdings such as Oswald Hydroforming GmbH and Salzgitter Automotive Engineering GmbH will enable us to carry out future development projects within the Salzgitter Group from one source, from steel production via prototyping towards processing.

The Steel Production Division was engaged in research and development projects at its Salzgitter, Peine and Ilsenburg sites, the major projects of which are mentioned hereafter:

A second coil coating line was put into operation in Salzgitter. The share of surface coated cold rolled steel sheets was thus significantly increased. In close cooperation with the paint and automotive industries, the second generation of organic coatings is being developed with considerably improved corrosion protection and welding properties. These coatings are the ideal preconditions for new economical manufacturing processes and extended vehicle lifetimes. After a successful market introduction at DaimlerChrysler, these products were also tried out at other car manufacturers.

Significant projects of R & D activities.

Development and market introduction of new steel grades included the application of dual-phase steels all over Europe. Extra-high strength micro-alloyed hot rolled strip steel grades with yield points over 600 Megapascal (MPa) and martensitic steel qualities with tensile strengths over 1,200 MPa were developed in close cooperation with our customers and introduced into the market. There are development projects covering multi-phase steels. In cooperation with customers, Cr-V-alloyed steel grades with abrasion resistant constituents were developed for series production. The European market penetration of cold rolled isotropic steel grades (I-steel) was complemented by I-steel variants with higher minimum yield points.

PRETEX surface texturing was further developed for those customers who need the application of textured surfaces on cold rolled sheets and electrolytically and hot-dip galvanized coils for their processing. This results in distinct advantages for the customer as to processing and paintability. In a development project with a car manufacturer and a producer of precision steel tubes, a special material was developed for the hydroforming process.

The project was supported from prototyping to series introduction in a passenger car. The result was awarded the Steel Innovation Prize 2000 of the Wirtschaftsvereinigung Stahl (Steel Federation).

The production of hot rolled coils by the new Direct Strip Casting Process (DSC) was further developed in a research project with the competent participation of Salzgitter AG. The activities focused on the studies of totally new material concepts with novel material properties, which far exceed the materials being used currently.

Participation in international joint projects.

The participation in the ULSAC (Ultra Light Steel Auto Closures) project, an international joint project of the steel industry, was completed with the presentation of a new concept for a lightweight car door. The prototype made is 30 percent lighter than a conventional door.

Development work in the sector sections at the Peine location was directed towards a continuous improvement of product characteristics, the steady intensification of customer satisfaction and a further increase of economic efficiency during production.

This includes the achievement and the implementation of alloy concepts which permit the reduction of alloy quantities for high strength micro-alloyed structural steels and to simultaneously meet the high demands on the mechanical technology of these materials.

Efforts also focused on the improvement of surface quality. Based on the high benchmarks set for surface properties by the offshore industry, we are now applying the offshore standards to the entire product range in order to continue satisfying our customers.

The activities at the Ilsenburg Works focused on the optimization of mechanical technology and on the evidence of production safety for the high strength steel grades S 550 QL1 to S 960 QL and for the abrasion resistant steels Brinar 400, 400 Cr and 500 Cr. In order to complete the product range, further steel grades were included in this quality segment, which are used in overseas markets.

Emphasis was put on the development of extra-tough steels (SZ steels). These steels provide extremely good toughness properties and thus improve the safety of components. SZ steels were tested jointly with selected customers in order to meet future higher component requirements with this material development.

Extended R & D potential with Mannesmann Research Institute.

The integration of Mannesmannröhren-Werke AG and its Mannesmann Research Institute into Salzgitter AG will allow the use of their R & D results in the future. Further major projects of Europipe, Vallourec & Mannesmann Tubes and Mannesmann Präzisrohr GmbH will be commented on in our next annual report about the short fiscal year 2000.

R & D activities also in other divisions.

In the Industrial Shareholdings Division, projects of Oswald Hydroforming are particularly worth mentioning. Oswald manufactures hydroformed components for vehicle manufacturing and for the building and heating industries. Hollows, predominantly tubes, are hydroformed with this innovative process. Crash elements for vehicle manufacturers were developed and implemented in prototyping. The objectives reached were lightweight components with simultaneously improved safety. Hollows for heat exchangers and drying ovens in the building and heating industries were developed towards series production.

ENVIRONMENTAL PROTECTION

The fiscal year 1999/2000 was substantially determined by increased administrative environmental protection requirements from the areas of water pollution prevention and plant safety. In the course of implementing the amended administrative regulations as to handling water-polluting materials, a register of assessment was started to be established for each of the three steelworks locations Salzgitter, Peine and Ilsenburg covering all plant and equipment in respect of water-polluting materials. The register of assessment includes several hundred facilities from large storage buildings for acids, alkaline solutions or oils to smaller hydraulic equipment or oil-cooled transformers.

In May of last fiscal year, the new accident regulation (Seveso-II regulation) came into effect. The new directive covers the entire operational sector and not just individual plant and equipment. As a consequence, the respective quantity limits are normally always reached and Salzgitter AG is thus facing new and extended obligations such as establishing a register of assessment for materials, a safety report and a concept towards avoiding accidents at the respective locations.

Extended obligations for environmental protection.

The necessary expenditure for waste management also increased in line with the legal requirements of the recycling and waste management act. After the introduction in 1998 of comprehensive annual waste management statements, an additional waste management concept for the period of 2000 to 2004 in accordance with the waste management and statement regulation had to be presented during the current fiscal year as at December 31, 1999 for the first time. This means substantial administrative expenses for the companies involved without a simultaneous and apparent advantage being discernible either for the administration or for the country's future disposal safety. The very experience with the new recycling and waste management act have shown that forecasts for a five-year period are strongly exposed to uncertainties and barely serve as a reliable basis for planning.

During the reporting period, the Steel Production Division again fulfilled the high marketing and recycling quota for metallurgical by-products and waste. Total accumulation for the three steel locations Salzgitter, Peine and Ilsenburg amounted to abt. 2 million t. The recycling portion was abt. 92 percent, so that only 8 percent of the total had to be dumped at the Company's own depositing area. The waste dump portion was reduced by about 40 percent during the last 10 years.

Active environmental protection through waste avoidance.

The reconstruction and recultivating program for the Company-owned dumps and obsolete dumps initiated during the last few years continued on schedule during the fiscal year 1999/2000 and concentrated on the obsolete dump at Berkum. The exploration and planning phase is finalized. The necessary steps in respect of waste management laws were taken, so that the first scheduled measures towards improving the stability of the embankment can be initiated. Surface sealing of the entire dump is planned for the second phase, applying an innovative process using recyclable waste and second-ary raw materials.

The specific costs of environmental protection in steel production amounted to abt. €29/t of crude steel for the fiscal year. The absolute current operating expenses for environmental protection were abt. €151 million and are split as follows: clean air 52%, water protection 28%, waste management 17%, noise abatement 3%.

Environment report documents activities and results.

For the first time, Salzgitter AG prepared an environment report. The documentation entitled "Salzgitter AG – Environment Report 2000" provides a comprehensive overview of Salzgitter AG's activities and results achieved in connection with environmental protection at the three steel locations. Additionally, there is plenty of information on all other aspects of environmental protection in the new steel and technology enterprise. The environment report addresses in particular our customers, shareholders, employees and also our neighbors. It is meant as an offer towards open communication about this important subject.

The reorientation of Salzgitter AG as a consequence of the consistently implemented growth strategy also entails changes in environmental protection. It is the acquisition of the MRW Group in particular and the subsequent expansion of the Salzgitter Group by the "Pipe Division" that is adding new Company-wide responsibilities to the traditional obligations toward environmental protection.

REPORT OF THE SUPERVISORY BOARD

The fiscal year 1999/2000 was shaped by a considerable growth of the Company – featuring the acquisition of more than 99 percent in Mannesmannröhren-Werke AG – and the decision to make further comprehensive investments in state-of-the-art technology for flat rolled steel production during the next few years. The Company's product range was expanded and the high quality level was ensured for the future. Furthermore, the Supervisory Board agreed with the Executive Board to propose to the next Regular Shareholders' Meeting that the Company be managed in the form of a holding structure.

Above all, the Supervisory Board thoroughly discussed these significant basic decisions with the Executive Board. During a total of six Supervisory Board Meetings, the Supervisory Board also discussed further important entrepreneurial measures which require its approval as per law or as laid down in the Company's by-laws. On these occasions, the Supervisory Board approved funds for investments amounting to €235 million. The Presiding Committee of the Supervisory Board met five times and the Committee for Personnel Affairs four times. In two meetings, the Strategic Committee discussed the long-term Company development with the Executive Board. Furthermore, the Supervisory Board was regularly briefed orally and in writing by the Executive Board on the Company's situation and development – including principles of corporate planning – in all divisions.

The annual financial statements and the consolidated financial statements of Salzgitter AG for the fiscal year ending September 30, 2000, and the management report on Salzgitter AG and the Group were audited and were rendered the unqualified audit approval by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, which was elected auditor at the Annual Shareholders' Meeting on March 15, 2000, and appointed by the Supervisory Board.

In accordance with the Act regarding corporate control and transparency, adopted in 1998, the auditors also audited the risk early warning system of Salzgitter AG. The result of the audit was that the existing system is fully meeting its functions.

The annual financial statements and the consolidated financial statements of Salzgitter AG as well as the Group management report, the Executive Board's proposal as to the appropriation of non-distributed income and the audit report were all submitted to the members of the Supervisory Board for review. Auditors' representatives attended the Supervisory Board Meeting on January 18, 2001, during which the annual financial statements were approved, and explained the essential results of their audit. Thereafter, the Supervisory Board adopted the following resolution:

"After their own review of the annual financial statements, the consolidated financial statements and the Group management report of 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 Executive Board's proposal as to the appropriation of the non-distributed income."

During the course of the fiscal year, there were changes on the Executive Board and on the Supervisory Board. On February 1, 2000, Dipl.-Ing. Wolfgang Leese joined the Executive Board and became its Chairman. Dr. Hans Armin Curdt, Siegmar Gabriel and Hans-Joachim Knieps retired from the Supervisory Board at their own request. The Supervisory Board wishes to thank the former members, also on behalf of the Executive Board and the employees, for their many years of commitment and for their constructive cooperation for the benefit of the Company. In their place Prof. Dr. Hans-Jürgen Krupp, Bernd Lange and Dr. Hannes Rehm were elected and/or appointed by the Register Court responsible.

The Supervisory Board would like to express its thanks to the Executive Board and to all employees for their efforts on behalf of the Company during the fiscal year 1999/2000. A good year-end profit was achieved. Further important and promising measures are being implemented towards the further development of the Company.

The Supervisory Board

Dr. Wilfried Lochte
Chairman

BOARDS, PERSONAL DATA

Executive Board

Wolfgang Leese
Chairman
(since February 1, 2000)
a) ▪ Mannesmannröhren-Werke AG
▪ Salzgitter Handel GmbH

Prof. Dr. Günter Geisler
Vice Chairman
Personnel
a) ▪ Mannesmannröhren-Werke AG
▪ PPS Personal-, Produktions- und Servicegesellschaft mbH
▪ Verkehrsbetriebe Peine-Salzgitter GmbH
▪ HSP Hoesch Spundwand und Profil GmbH
b) ▪ "Glückauf" Wohnungsgesellschaft mbH (Advisory Council)

Dr.-Ing. Heinz Jörg Fuhrmann
Technical Management Plates and Corporate Planning, since July 1, 2000, additionally Finance and Accounting jointly with Dr. Eberhard Luckan
a) ▪ Mannesmannröhren-Werke AG
▪ Salzgitter Handel GmbH
▪ PPS Personal-, Produktions- und Servicegesellschaft mbH
▪ Verkehrsbetriebe Peine-Salzgitter GmbH
▪ HSP Hoesch Spundwand und Profil GmbH
b) ▪ DEUMU Deutsche Erz- und Metall-Union GmbH (Supervisory Board)
▪ Hövelmann & Lueg GmbH & Co KG (Advisory Council)
▪ Peiner Agrar- und Hüttenstoffe GmbH (Advisory Council)
▪ Hansaport Hafenbetriebsgesellschaft mbH (Supervisory Board)
▪ Steel Dynamics, Inc. (Board of Directors, alternate member)
▪ Wescol Group plc (Board of Directors)

Arnold Jacob
Technical Management Salzgitter and Peine
a) ▪ PPS Personal-, Produktions- und Servicegesellschaft mbH
▪ Verkehrsbetriebe Peine-Salzgitter GmbH
b) ▪ GESIS Gesellschaft für Informationssysteme mbH (Advisory Council)
▪ Redestillationsgemeinschaft GmbH (Advisory Council)

Dr. Jürgen Kolb
Sales
a) ▪ Mannesmannröhren-Werke AG
▪ Deutsche Steinkohle AG
▪ Salzgitter Handel GmbH
▪ HSP Hoesch Spundwand und Profil GmbH
b) ▪ Steel Dynamics, Inc. (Board of Directors)
▪ Universal Eisen und Stahl GmbH (Advisory Council)
▪ Hövelmann & Lueg GmbH & Co KG (Advisory Council)

Dr. Eberhard Luckan
Finance and Accounting,
since Juli 2000, jointly with Dr. Heinz Jörg Fuhrmann
a) ▪ HSP Hoesch Spundwand und Profil GmbH
b) ▪ DEUMU Deutsche Erz- und Metall-Union GmbH (Supervisory Board)
▪ "Glückauf" Wohnungsgesellschaft mbH (Advisory Council)
▪ Hansaport Hafenbetriebsgesellschaft mbH (Supervisory Board)
▪ GESIS Gesellschaft für Informationssysteme mbH (Advisory Council)
▪ Universal Eisen und Stahl GmbH (Advisory Council)

Michael B. Pfitzner
Sales
(since November 1, 2000)
b) ▪ Universal Eisen und Stahl GmbH (Advisory Council)

a) = Membership in other constitutional Supervisory Boards in compliance with German Stock Corporation Act.
b) = Membership in comparable domestic and foreign governing bodies of commercial enterprises.

Supervisory Board

Dr.-Ing. E. h. Dipl.-Ing. Wilfried Lochte
Chairman of the Executive Board of
MAN Nutzfahrzeuge AG, ret.
Member of the Executive Board of
MAN Aktiengesellschaft, ret.
a) ▪ Knorr-Bremse AG
▪ Knorr-Bremse Systeme für Nutzfahrzeuge GmbH
▪ Zahnradfabrik Friedrichshafen AG
▪ Claas KGaA
▪ Schmitz Cargobull AG
b) ▪ Claas KGaA (Partnership Committee)

Horst Schmitthenner
Vice Chairman
Member of the Executive Board of the
Metal Industry Labor Union
a) ▪ Preussag AG (until November 30, 1999)

Ingeborg Borchers
Vice Chairwoman of the Works Council,
Salzgitter Plant, Chairwoman of the Work Council
▪ No membership in other governing bodies

Dr. Dieter Brunke
Member of the Board of Preussag AG, ret.
a) ▪ MEBEGE Metall-Beteiligung AG
▪ SECO Saxonia Engine Components AG
b) ▪ Johnson Controls Interiors GmbH (Supervisory Board)

Dr. Hans Armin Curdt
(until September 30, 2000)
Member of the Executive Board of Norddeutsche
Landesbank Girozentrale, ret.
a) ▪ Öffentliche Lebensversicherung, Öffentliche Sachversicherung, Braunschweigische Landes-Brandversicherungsanstalt (until June 30, 2000)
▪ GEDYS Internet Products AG
b) ▪ Joh. Berenberg, Gossler & Co. (Administrative Council and Credit Committee) (until March 31, 2000)
▪ Öffentliche Feuer- und Lebensversicherung Sachsen-Anhalt (Administrative Council) (until June 30, 2000)
▪ Braunschweiger Zeitungsverlag GmbH (Supervisory Board)

Dr. Gunter Dunkel
Member of the Executive Board Norddeutsche
Landesbank Girozentrale
a) ▪ CinemaxX AG
▪ MHB Mitteleuropäische Handelsbank AG
▪ Viscardi AG
▪ üstra Intalliance AG
b) ▪ NORD/LB Luxembourg S.A. (Administrative Council)
▪ Skandfinanz AG (Administrative Council)
▪ Pirma Banka (Supervisory Board)

Ulrich Förster
Chairman of the Works Council, Ilsenburg Plant
▪ No membership in other governing bodies

a) = Membership in other constitutional Supervisory Boards in compliance with German Stock Corporation Act.
b) = Membership in comparable domestic and foreign governing bodies of commercial enterprises.

Sigmar Gabriel
(until December 15, 1999)
Minister President of Lower Saxony
a) ▪ Goslarer Wohnstätten GmbH (until December 15, 1999)
b) ▪ Rammelsberger Bergbau Museums GmbH (Supervisory Board) (until December 15, 1999)

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

Kurt van Haaren
Chairman of the German Post Office Labor Union
a) ▪ Deutsche Post AG
b) ▪ Beteiligungsgesellschaft der Gewerkschaften AG (Advisory Council)

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

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
a) ▪ "GEWOBA - Aktiengesellschaft Wohnen und Bauen"
▪ Sächsische Edelstahlwerke Freital GmbH
▪ ALLIANZ AG

Hans-Joachim Knieps
(until March 15, 2000)
Vice Chairman of the Executive Board of Bank für Gemeinwirtschaft AG, ret.

Dr. Gunter Krajewski
Director in the Department of Finance of the State of Lower Saxony
Managing Director of Hannoversche Beteiligungsgesellschaft mbH
a) ▪ Flughafen Hannover-Langenhagen GmbH

Prof. Dr. Hans-Jürgen Krupp
(until March 15, 2000)
President of the State Central Bank of the City of Hamburg, Mecklenburg-West Pomerania and Schleswig-Holstein and Member of the Central Bank Committee of the Deutsche Bundesbank
▪ No membership in other governing bodies

Bernd Lange
(since February 23, 2000)
Member of the European Parliament
▪ No membership in other governing bodies

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

Dr. Arno Morenz
Vice President of DSW Deutsche Schutzvereinigung für Wertpapierbesitz e. V.
a) ▪ alfabet AG
▪ Flossbach & von Storch Vermögensmanagement AG
▪ DOAG Holding AG
b) ▪ Das Wertpapier Verlag GmbH (Supervisory Board)
▪ LURECO Luxembourg European Reinsurance S.A. (Administrative Council)
▪ ERC Management Services, Ltd. (Supervisory Board)
▪ IRECO Irish European Reinsurance Company Ltd. (Supervisory Board)
▪ Fidelity Funds (Administrative Council)
▪ Etoile Commerciale S.A. (Supervisory Board)

Dr. Hannes Rehm
(since October 4, 2000)
Vice Chairman of the Executive Board of Norddeutsche Landesbank Girozentrale
a) ▪ Berlin-Hannoversche Hypothekenbank AG
b) ▪ Fürstenberg Ehemalige Herzoglich Braunschweigische Porzellanmanufaktur Fürstenberg (Supervisory Board)
▪ Niedersächsische Bank GmbH – EXPO BANK – (Supervisory Board)
▪ Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale (Supervisory Board)
▪ EURO Kartensysteme EUROCARD und eurocheque GmbH (Supervisory Board)
▪ Niedersächsische Gesellschaft für öffentliche Finanzierung mbH (Supervisory Board)
▪ NILEG Norddeutsche Gesellschaft für Landesentwicklung mbH, Wohnungsbau und Kommunale Anlagen (Supervisory Board)
▪ Norddeutsche Immobilien-Anlagegesellschaft mbH (Supervisory Board)
▪ Bundesanstalt für vereinigungsbedingte Sonderaufgaben (Administrative Council)

Dr. Rudolf Rupprecht
Chairman of the Executive Board of MAN AG
a) ▪ MAN Nutzfahrzeuge AG
▪ MAN B&W Diesel AG
▪ MAN Roland Druckmaschinen AG
▪ MAN Technologie AG
▪ MAN Gutehoffnungshütte AG (until December 6, 1999)
▪ Ferrostaal AG
▪ RENK AG
▪ SMS AG
▪ Buderus AG
▪ Walter Bau-AG
b) ▪ MAN B&W Diesel A/S (Board of Directors)

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
a) ▪ Robert Bosch Elektronik GmbH

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

Dr. Martin Winterkorn

Member of the Executive Board of Volkswagen AG

a) ▪ SEAT S.A.
 ▪ Sitech
 ▪ Wolfsburg AG
 ▪ GIZ Wolfsburg
 Gründungs- und Innovationszentrum WOB

b) ▪ VW of South Africa (Board of Directors)
 ▪ VW-Comércio e Participacoes, Lda.
 (Conselho Consultivo/Advisory Council)
 ▪ Shanghai-VW Automotive Co. Ltd.
 (Board of Directors, alternate member)
 ▪ Auto Europa Automóveis (Board of Directors)
 ▪ IAV GmbH Ingenieurgesellschaft Auto und
 Verkehr (Administrative Council)
 ▪ Physikalisch-Technische Bundesanstalt
 (Board of Trustees)

Heinz-Hermann Witte

Chairman of the Federation of German Labor Unions,
State of Lower Saxony, Bremen

a) ▪ Braunschweigische Kohlenbergwerke

a) = Membership in other constitutional Supervisory Boards in compliance with German Stock Corporation Act.
b) = Membership in comparable domestic and foreign governing bodies of commercial enterprises.

CONSOLIDATED FINANCIAL STATEMENTS OF SALZGITTER AG

CONSOLIDATED INCOME STATEMENT FOR THE YEAR FROM OCTOBER 1, TO SEPTEMBER 30, 2000

(in thousand Euro)

	Notes	1999/2000	1998/1999
Sales	(1)	3,291,294	2,696,518
Increase or decrease in finished goods and work in progress and other own work capitalized	(2)	+ 67,462	- 35,923
		3,358,756	**2,660,595**
Other operating income	(3)	124,250	77,663
Cost of materials	(4)	2,191,163	1,606,138
Personnel expenses	(5)	581,948	553,974
Amortization and depreciation on intangible and tangible assets	(6)	174,109	166,363
Other operating expenses	(7)	397,809	349,696
Income from shareholdings	(8)	+ 1,536	+ 5,221
Net interest income	(9)	- 42,233	- 35,995
Write-down of long-term financial assets		-	- 151
Net operating income		+ 97,280	+ 31,162
Taxes	(10)	27,155	17,707
Net income/net loss for the year		**70,125**	**13,455**
Net income due to minority shareholders	(11)	1,128	148
Net income due to shareholders of Salzgitter AG		**68,997**	**13,307**

Appropriation of income

	Notes	1999/2000	1998/1999
Net income due to shareholders of Salzgitter AG		68,997	13,307
Non-distributed income brought forward from previous year		3,853	45,165
Transfer to retained earnings		47,525	1,162
Non-distributed income of Salzgitter AG		**25,325**	**57,310**
Earnings per share (in €)	(12)	**1.15**	**0.21**

CONSOLIDATED BALANCE SHEET (AT SEPTEMBER 30, 2000)

(in thousand Euro)

Assets	Notes	9/30/2000	9/30/1999
Fixed assets			
Intangible assets			
Goodwill from capital consolidation	(13)	-29,932	772
Other intangible assets	(14)	16,375	15,711
		-13,557	**16,483**
Tangible assets	(15)	1,149,908	1,092,997
Financial assets	(16)	89,751	67,884
		1,226,102	**1,177,364**
Current assets			
Inventories	(17)	544,954	458,099
Receivables and other assets			
Trade receivables	(18)	548,226	484,122
Other receivables and other assets	(19)	83,752	36,176
Cash and cash equivalents	(20)	22,309	50,767
		1,199,241	**1,029,164**
Prepaid expenses	**(21)**	**1,750**	**1,673**
		2,427,093	**2,208,201**

Shareholders' equity and liabilities	Notes	9/30/2000	9/30/1999
Shareholders' equity	**(22)**		
Subscribed capital	(23)	159,523	159,523
Capital reserves	(24)	287,530	287,530
Retained earnings	(25)	476,205	395,833
Non-distributed income	(26)	25,325	57,310
		948,583	**900,196**
Treasury shares		-36,225	-105
		912,358	**900,091**
Minority interests	**(27)**	**3,846**	**3,061**
Provisions			
Provisions for pensions and similar obligations	(28)	685,980	672,061
Tax provisions and other provisions	(29)	290,799	299,004
		976,779	**971,065**
Liabilities	**(30)**		
Bonds		3,793	3,875
Liabilities to banks		206,961	45,190
Trade payables		211,785	193,895
Other liabilities		109,222	87,992
		531,761	**330,952**
Deferred income	**(31)**	**2,349**	**3,032**
		2,427,093	**2,208,201**

STATEMENT OF CHANGES IN EQUITY

(in thousand Euro)

	Subscribed capital	Capital reserves	Retained earnings	Thereof from currency translation	Treasury shares	Group net income for the year	Shareholders' equity
At 10/1/1998	**159,523**	**287,530**	**398,877**	**-234**	**0**	**85,032**	**930,962**
Net income for the year	0	0	0	0	0	13,307	13,307
Dividends	0	0	0	0	0	-39,867	-39,867
Buyback of treasury shares	0	0	0	0	-104	0	-104
Currency translation	0	0	374	374	0	0	374
Transfer of Salzgitter AG to retained earnings	0	0	12,145	0	0	-12,145	0
Transfer to Salzgitter Group from retained earnings	0	0	-10,983	0	0	10,983	0
Other	0	0	-4,581	0	0	0	-4,581
At 9/30/1999	**159,523**	**287,530**	**395,832**	**140**	**-104**	**57,310**	**900,091**
Net income for the year	0	0	0	0	0	68,997	68,997
Dividends	0	0	0	0	0	-22,738	-22,738
Buyback of own shares	0	0	0	0	-36,121	0	-36,121
Currency translation	0	0	771	771	0	0	771
Transfer of Salzgitter AG to retained earnings	0	0	49,734	0	0	-49,734	0
Transfer to Salzgitter Group from retained earnings	0	0	28,510	0	0	-28,510	0
Other	0	0	1,358	0	0	0	1,358
At 9/30/2000	**159,523**	**287,530**	**476,205**	**911**	**-36,225**	**25,325**	**912,358**

CASH FLOW STATEMENT

(in thousand Euro)

	1999/2000	1998/1999
Net income for the year	68,997	13,307
Depreciation (+)/additions (-) on fixed assets	174,013	166,486
Other non-cash expenses (+)/income (-)	56,942	94,936
Interest expenses	49,473	43,986
Profit (-)/loss (+) from disposal of fixed assets	2,512	3,911
Increase (-)/decrease (+) in inventories	-54,097	45,636
Increase (-)/decrease (+) in trade receivables and in other assets that cannot be allocated to investing or financing activities	-90,462	9,431
Increase (+)/decrease (-) in provisions	-98,820	-160,887
Increase (+)/decrease (-) in trade payables and other liabilities that cannot be allocated to investing or financing activities	5,228	-100,331
Cash flow from operating activities	**113,786**	**116,475**
Payments received from disposals of fixed assets	6,211	1,999
Payments made for investments in intangible and tangible assets	-208,877	-149,370
Payments received from disposals of financial assets	9,366	1,208
Payments made for investments in financial assets	-40,368	-6,863
Cash flow relating to investment	**-233,668**	**-153,026**
Payments made for buyback of own shares	-36,121	-105
Dividend payments	-22,738	-42,750
Payments received from bond issues and amounts borrowed	169,459	20,480
Repayments of bond issues and amounts borrowed	-7,770	-1,095
Interest paid	-11,406	-5,615
Cash flow relating to financial activities	**91,424**	**-29,085**
Cash and cash equivalents at beginning of fiscal year	50,767	116,403
Changes in cash and cash equivalents	-28,458	-65,636
Cash and cash equivalents at end of fiscal year	**22,309**	**50,767**

SEGMENT REPORTING/PRIMARY SEGMENT

		Steel Production		Steel Trading	
		1999/2000	1998/1999	1999/2000	1998/1999
Sales	K €	1,723,722	1,552,562	1,880,908	1,470,331
Sales within own segment	K €	-	-	100,404	71,806
Sales to other segments	K €	471,679	423,839	7,055	5,166
External sales	K €	1,252,043	1,128,723	1,773,449	1,393,359
Income from ordinary activities	K €	56,946	7,672	17,532	13,464
thereof from associated companies	K €	-	-	2,778	2,779
Interest income	K €	11,390	9,444	4,535	4,472
Interest expense	K €	37,037	32,591	16,356	12,896
Segment assets	K €	1,563,124	1,505,197	535,407	485,155
thereof shareholdings in associated companies	K €	-	-	8,113	7,413
thereof inventories	K €	324,026	287,848	163,222	134,784
Segment liabilities	K €	915,557	896,414	477,994	446,168
Investments in intangible and tangible assets	K €	169,179	129,985	5,383	6,687
Depreciation and amortization on intangible and tangible assets	K €	150,249	147,808	9,417	9,841
Non-cash expenses and income	K €	16,846	39,590	7,286	30,461
Employees (annual average)		7,045	6,999	1,774	1,833

[1] First created in 1999/2000 by acquisition of company to be consolidated.

SEGMENT REPORTING BY REGIONS

		Germany		EU (other)	
		1999/2000	1998/1999	1999/2000	1998/1999
External sales by destination of goods/services	K €	1,690,110	1,472,571	704,268	621,864
External sales by domicile of customer	K €	3,111,367	2,548,543	88,918	78,745
Investment in intangible and tangible assets	K €	208,026	148,960	275	1,015
Segment assets	K €	2,358,640	2,133,208	50,747	34,403
Segment liabilities	K €	1,306,401	1,083,473	18,766	27,943
Depreciation and amortization	K €	173,378	165,654	714	699
Employees (annual average)		13,058	12,229	118	115

Raw Materials and Services		Industrial Shareholdings[1]		Consolidation/other		Group	
1999/2000	1998/1999	1999/2000	1998/1999	1999/2000	1998/1999	1999/2000	1998/1999
518,357	441,436	43,296	-	-	-	4,166,283	3,464,329
4,628	4,413	-	-	-	-	105,032	76,219
285,818	262,587	5,405	-	-	-	769,957	691,592
227,911	174,436	37,891	-	-	-	3,291,294	2,696,518
23,108	9,859	-2,390	-	2,084	167	97,280	31,162
-	-	-3,007	-	-	-	-229	2,779
4,051	2,939	81	-	-12,818	-8,864	7,239	7,991
8,512	7,363	385	-	-12,818	-8,864	49,472	43,986
172,837	156,076	162,539	48,774	-	-	2,433,907	2,195,202
-	-	9,807	-	-	-	17,920	7,413
36,202	40,747	26,780	-	-5,276	-5,280	544,954	458,099
206,726	198,002	35,597	-	-291,916	-414,091	1,343,958	1,126,493
23,221	13,314	10,538	-	-	-	208,321	149,986
10,407	8,532	3,855	-	181	182	174,109	166,363
15,995	28,951	13,890	-	2,925	-4,066	56,942	94,936
3,769	3,517	593	-			13,181	12,349

Other Europe		America		Other regions		Group	
1999/2000	1998/1999	1999/2000	1998/1999	1999/2000	1998/1999	1999/2000	1998/1999
170,813	101,528	285,928	132,087	440,175	368,468	3,291,294	2,696,518
-	-	91,009	69,230	-	-	3,291,294	2,696,518
-	-	20	11	-	-	208,321	149,986
-	-	24,520	27,591	-	-	2,433,907	2,195,202
-	-	18,791	15,077	-	-	1,343,958	1,126,493
-	-	17	10	-	-	174,109	166,363
-	-	5	5	-	-	13,181	12,349

CONSOLIDATED FIXED ASSETS
(in thousand Euro)

	Cost of acquisition or manufacturing costs						
	10/1/1999	Currency differences	Change in consolidated group	Additions	Disposals	Transfers	9/30/2000
Intangible assets							
Goodwill from capital consolidation	1,250	0	0	-32,917	0	0	-31,667
Concessions, industrial property and similar rights and assets, and licenses in such rights and assets	51,611	0	1,076	5,846	5,678	662	53,517
Goodwill	72	0	0	0	0	0	72
Prepayments	726	0	0	503	0	-660	569
	53,659	**0**	**1,076**	**-26,568**	**5,678**	**2**	**22,491**
Tangible assets							
Land, similar rights and buildings including buildings on third-party land	643,874	0	1,560	7,978	3,804	2,932	652,540
Technical equipment, plant and machinery	2,642,618	0	25,234	103,032	56,156	41,903	2,756,631
Other equipment, operating and office equipment	136,329	11	851	15,323	13,191	948	140,271
Prepayments and construction in progress	59,151	0	955	75,639	103	-45,785	89,857
	3,481,972	**11**	**28,600**	**201,972**	**73,254**	**-2**	**3,639,299**
Financial assets							
Shares in affiliated companies	4,713	0	0	12,717	0	1,876	19,306
Shares in associated companies	7,413	0	0	13,003	2,496	0	17,920
Shareholdings	50,122	0	0	5,257	6,036	-1,876	47,467
Other loans	6,524	0	10	152	849	0	5,837
	68,772	**0**	**10**	**31,129**	**9,381**	**0**	**90,530**
	3,604,403	**11**	**29,686**	**206,533**	**88,313**	**0**	**3,752,320**

[1] Release of deficits from capital consolidation.

	Allowances						Book values	
	10/1/1999	Currency differences	Additions during fiscal year	Depreciation during fiscal year	Disposals	9/30/2000	9/30/2000	9/30/1999
	478	0	2,394[1)]	181	0	-1,735	-29,932	772
	36,676	0	0	6,743	5,676	37,743	15,774	14,935
	22	0	0	18	0	40	32	50
	0	0	0	0	0	0	569	726
	37,176	**0**	**2,394**	**6,942**	**5,676**	**36,048**	**-13,557**	**16,483**
	353,374	0	0	13,261	2,630	364,005	288,535	290,500
	1,924,715	0	0	140,073	52,728	2,012,060	744,571	717,903
	110,886	8	0	13,833	11,401	113,326	26,945	25,443
	0	0	0	0	0	0	89,857	59,151
	2,388,975	**8**	**0**	**167,167**	**66,759**	**2,489,391**	**1,149,908**	**1,092,997**
	619	0	73	0	0	546	18,760	4,094
	0	0	0	0	0	0	17,920	7,413
	27	0	0	0	0	27	47,440	50,095
	242	0	22	0	14	206	5,631	6,282
	888	**0**	**95**	**0**	**14**	**779**	**89,751**	**67,884**
	2,427,039	**8**	**2,489**	**174,109**	**72,449**	**2,526,218**	**1,226,102**	**1,177,364**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF SALZGITTER AG FOR THE YEAR ENDED SEPTEMBER 30, 2000

Accounting principles

The consolidated financial statements of Salzgitter AG were prepared in accordance with the binding accounting rules of the International Accounting Standards Committee (IASC) applicable at balance sheet date, on the basis of the historical cost principle. The requirements of the Standards and Interpretations (SIC) applied were completely fulfilled and lead to the presentation of a true and fair view of the assets, financial and earnings situation of Salzgitter AG.

The preconditions according to section 292a of the German Commercial Code (HGB) for an exemption of the preparation of consolidated financial statements in accordance with German accounting standards were fulfilled. The assessment of these preconditions is based on The German Accounting Standard No. 1 (DRS 1) published by the German Council for Standardization. In order to ensure the equivalence with consolidated financial statements prepared according to the rules of the Commercial Code, all disclosures and notes to the Commercial Code going beyond the rules of the IASC are presented. The exemption from the duty to prepare consolidated financial statements in accordance with the Commercial Code has thus been met by Salzgitter AG.

Aside from the standards applicable on balance sheet data, the following IAS, already approved but not yet in force on October 1, 1998, are applied voluntarily and ahead of time:

▪ IAS 10 (revised 1999)	Events after the balance sheet date
▪ IAS 16 (revised 1998)	Property, plant and equipment
▪ IAS 17 (revised 1997)	Leases
▪ IAS 19 (revised 1998)	Employee benefits
▪ IAS 22 (revised 1998)	Business combinations
▪ IAS 28 (revised 1998)	Accounting for investments in associates
▪ IAS 35 (1998)	Discontinuing operations
▪ IAS 36 (1998)	Impairment of assets
▪ IAS 37 (1998)	Provisions, contingent liabilities and contingent assets
▪ IAS 38 (1998)	Intangible assets

The first-time accounting and valuation according to the IASC rules is effected as if these rules had always been applied. The effects of this adaption were offset against retained earnings without effect on results. This changeover is breaking the balance sheet identity of valuations at October 1, 1998 with those of the year-end closing in September, 1998, prepared according to the Commercial Code.

The fiscal year of Salzgitter AG and its subsidiaries comprises the period from October 1, 1999 to September 30, 2000. The Company of Salzgitter AG is registered with the Commercial Register of the District Court in Peine and has its seat in Peine. The address of the Executive Board of Salzgitter AG is Eisenhüttenstrasse 99, 38239 Salzgitter.

As of October 1, 1998, the application of the IAS led to the following major deviations from the Commercial Code accounting and valuation methods used previously:

- Capitalization and scheduled amortization with an effect on results according to SIC 8 of goodwill from the acquisition of consolidated subsidiaries during the fiscal years 1996/1997 and 1997/1998

- Valuation of assets acquired free of charge

- Accounting of existing leasing relations under economic aspects according to IAS 17

- Revaluation of general valuation permissible under the Commercial Code into individual valuation

- Retroactive conversion of scheduled depreciation on property, plant and equipment as per acquisition or manufacturing date from the declining balance method used so far, to depreciation on the straight-line method and the simplification method to the pro rata temporis method

- Useful lives largely determined by tax considerations were adjusted to economic situations

- Retroactive elimination of depreciation which was created exclusively because of tax regulations

- Valuation of pension provision using the projected unit credit method according to IAS 19 under consideration of future increases in salaries and pensions and the new mortality tables

- Reporting of provisions only in case of obligations towards third parties

- Reporting of income tax saving from estimated loss carryovers to be realized in the future

In accordance with the application of SIC 8, the adjustments of accounting and valuation methods to IAS rules is effected as of October 1, 1998 with no effects on results in favor of or charged to retained earnings.

The changeover to international accounting standards created the following changes in equity as of October 1, 1998, compared to equity accounting according to the Commercial Code at September 30, 1998:

(in K €)		
Balance sheet equity at 9/30/1998		639,966
Valuation of depreciable intangible assets on the basis of the straight-line method and uniformly applied useful lives within the Group	9,118	
Valuation of depreciable tangible assets on the basis of the straight-line method and uniformly applied useful lives within the Group	356,029	
Elimination of special tax write-offs and similar	161,714	
Effect of finance leasing at lessor	1,566	
Valuation of pension obligations using the projected unit credit method and actuarial assumptions	-134,949	
Elimination of other provisions without obligation to third parties	23,833	
Other accounting and valuation differences	-2,938	
Tax effects on above IAS accounting and valuation differences	-184,192	
Reporting of expected tax advantages from loss carryover and deferred taxes not accountable according to the Commercial Code	46,209	
Total amount of accounting and valuation differences as of October 1, 1998	276,390	276,390
Capitalization of goodwill from acquisitions of consolidated subsidiares since 1995		1,516
Capitalization of negative differences from acquisitions of consolidated subsidiares since 1995		-563
Changes in consolidated group		19,450
Equity according to IAS plus minority interests at October 1, 1998		**936,759**

Principles and methods of consolidation

The consolidated financial statements are based on the financial statements of Salzgitter AG, which were established in accordance with uniform Group-wide accounting and valuation methods and provided with an audit certificate.

The consolidated financial statements include all major companies in which Salzgitter AG was able to directly or indirectly govern the financial and business policies to such an extent that the companies of the Salzgitter Group could benefit from the activities of these companies. These companies are included in the financial statements as of the date the Salzgitter Group obtained control. If and when this possibility should cease, these companies are leaving the consolidation.

Capital consolidation is effected by offsetting costs of acquisition of the shareholding against the revaluated equity at the date of acquisition of the subsidiary. Goodwill arising on acquisition as of October 1, 1995, resulting from this method, capitalized as goodwill and amortized systematically over 10 years with an effect on result. Badwill from capital consolidation is released systematically. Differences from subsidiaries acquired prior to that point in time remain offset against retained earnings. For tax accounting differences from adjustments of accounting and from revaluation of German subsidiaries, deferred taxes are recognized, excluding goodwill at the time of acquisition.

A badwill is released in accordance with the 3-tier concept as per IAS 22.59 ff. The negative difference from anticipated future expenses and losses is thus released with profit and loss effect, mirror-like as these expenses and losses arise, to other operating income. Any further difference remaining is released with profit and loss effect to the extent of existing non-monetary depreciable assets and their average weighted remaining useful lives. If there is yet another difference, this will be directly recognized with profit and loss effects at the time of first consolidation.

In course of ending a consolidation with profit and loss effect, the results generated during the period of consolidation of the subsidiaries will be adjusted to the results of the annual financial statements of the parent company. In case of the disposal of goodwill acquired prior to October 1, 1995 in companies leaving the consolidation, the setoff against retained earnings made in the past is canceled.

Subsidiaries not included in the consolidated financial statements are of minor significance for the presentations of the assets, financial and earning situations, even if combined. Shares in affiliated non-consolidated companies are capitalized to net book value.

In principle, assets and commitments in foreign currency have to be accounted for at cost of acquisition translated with the rate of exchange of the date the process of acquisition was effected. Rate hedging has to be done as a matter of principle.

In accordance with IAS 20, grants must not be accounted for until the necessary qualifications are fulfilled and when it can be expected that the grant will in fact be granted. Asset-related grants are, in principle, stated as a reduction of cost of acquisition/production. If a profit-related grant concerns future fiscal years, it is deferred as it occurs and the portion for future periods is transferred to deferred items.

In the consolidated financial statements, shareholding in companies on which Salzgitter AG has a major influence on financial and business decisions are valued at the equity method.

Determination of points in time for inclusion in or removal from the group of companies valued according to the equity method is made analogous with the principles applying to subsidiaries. If there are significant deviations from the book value method, associated companies are stated on the basis of the revaluation method at the time of acquisition with their respective equity. As a matter of principle, the equity valuation is based on the last audited year-end financial staetments not older than 12 months.

Third-party shares in equities of consolidated companies are shown separately from the equity of Salzgitter AG shareholders.

In accordance with IAS 12 (revised 1996), the calculation of deferred taxes follows the liability method, i.e. tax credits and debits for temporary differences between the book values as per the consolidated financial statements and tax valuations of assets and debts will probably be shown in the future.

Expected tax savings from using loss carryovers assessed as realizable in the future will be capitalized. When valuing capitalized assets for future tax relief, the probability of realizing the future tax advantage and the future distribution method will be considered.

Assets from future tax relief comprise capitalized deferred taxes from temporary differences between the book value as per the consolidated financial statements and tax valuations as well as tax savings from loss carryovers assessed as realizable in the future. Deferred tax claims in a sovereign tax territory are offset against deferred tax obligations of the same territory as long as the time limits are in conformity. Intergroup sales, expenses and income as well as receivables and payables between the companies included are eliminated. Intercompany profits from intergroup supply and services – unless of minor significance – are eliminated with effect on results and under consideration of deferred taxes.

Intercompany supplies and services are rendered in line with market terms and conditions.

A list of share ownerships is deposited with the Commercial Register of the District Court in Peine under HRB 1047.

Group of consolidation

The consolidated financial statements comprise the annual financial statements of the parent company and the annual financial statements with the same balance sheet date of 16 domestic and 4 foreign affiliated companies.

For reasons of meanwhile reviewed resale intentions, one subsidiary, acquired as of October 1, 1997, and with first-time consolidation in the consolidated financial statements according to the German Commercial Code 1998/1999, was already included in the consolidated financial statements according to IAS in 1997/1998.

The first-time inclusion of HSP Hoesch Spundwand und Profil GmbH as of June 1, 2000 (100%) changed the items of the consolidated financial statements only insignificantly. This company was acquired at a purchase price of €14.5 million.

One domestic and two foreign shareholdings, on which Salzgitter AG and a Group company respectively have a major influence, were included in the consolidated financial statements as associated companies.

A total of 18 domestic and 18 foreign companies were not consolidated in view of their even combined insignificance in regard to their assets, financial and earnings situation.

Currency translation

In the individual financial statements of the subsidiaries, business transactions in foreign currencies are valued at the rate of exchange at the date of first-time recording; if hedged forward, at the hedge rate. Exchange losses occuring from the valuation of receivables or payables on balance sheet date are taken into account. Profits or losses from exchange rate fluctuations are recognized as income or expense.

The annual financial statements of foreign subsidiaries are translated according to the functional currency concept. As, from the Salzgitter AG point of view, all companies conduct their financial, economic and organizational activities practically independently, the respective functional currency corresponds to the currency of the country they are registered in. Translation of assets is effected at the rate of exchange prevailing on balance sheet date; the items of the income statement and thus the income for the year stated in the income statement are translated at the annual average rate.

For the translation of equity development of foreign subsidiaries valued using the equity method, the same principles apply. Differences in respect of the previous year s translation are offset against retained earnings with no effect on results. Goodwill is stated as an asset in the accounting currency. Expense and income items are translated at the rate of exchange prevailing at balance sheet date.

The foreign exchange rates for currency translations developed as follows:

(in €)	Rate at balance sheet date	Annual average rate
	9/30/2000	1999/2000
	9/30/1999	1998/1999
1 Canadian dollar	1.32	1.41
	1.56	1.65
1 British pound	0.60	0.62
	0.65	0.67

Accounting and valuation principles

The annual financial statements of the subsidiaries included in the Salzgitter Group are prepared in accordance with uniform accounting and valuation principles and in line with the IASC rules, irrespective of tax regulations.

Sales and other operating income are reported when service ist rendered or goods are supplied and thus the passing of risk takes place.

Dividends are collected upon the emergence of legal entitlement; interest expense and interest income are reported for a proportionate period of time.

Assets are capitalized when all major risks and chances in relation to their usage are due to the Salzgitter Group. The valuation of assets is effected at continued acquisition or manufacturing costs. Financial costs are not capitalized.

Costs of development are capitalized if a newly developed product of process can be clearly identified, is technically feasible and provided for own use or sale. Furthermore, capitalization is made on the assumption that the development costs are most likely covered by future cash provided by financing activities. There were no major development costs in the Salzgitter Group at September 30, 2000 which would have met these preconditions. Costs of research are recognized as expenses.

The true book value of all intangible (including capitalized development costs and goodwill) and tangible assets is examined at the end of each fiscal year. Should the realizable amount of the asset fall below the book value, a non-scheduled depreciation is made. Should the reason for an earlier non-scheduled depreciation be no longer applicable, an appreciation is made.

The participating interests in non-consolidated affiliated companies shown under financial assets and other Group shareholdings are stated at cost of acquisition, in some cases at lower fair values. Should reasons for earlier non-scheduled depreciation no longer exist, additions will be made.

Under the equity method, the investment is initially recorded at cost and the carrying amount is increased or decreased to recognize the investor s share of the profits or losses of the investee after the date of acquisition. Non-interest or low-interest-bearing loans are valued at cash value, other loans are recognized at the nominal value.

Inventories are stated at cost of acquisition or manufacture. Inventory valuation is predominantly made according to LIFO. Costs of manufacture are full costs. They are determined on the basis of standard capacity utilization. Costs of manufacture include the directly attributable costs, appropriate parts of material and manufacturing overheads including production-related depreciation and pension expenses. Costs of long-term borrowings are not capitalized as part of costs of acquisition of manufacture. For inventory risks from a lower realizable value, appropriate value adjustments are made. Lower values at balance sheet date because of lower realizable values are recognized. If the net realizable value for inventories devalued earlier has risen, the resulting increase is stated as a decrease in cost of material.

All identifiable warehousing and inventory risks are met with sufficiently calculated value adjustments.

Work in progress and finished goods and self-made raw materials are valued at Group production costs, which aside from direct costs also include depreciation and appropriate portions of the necessary overheads.

Receivables and other assets are stated at their nominal amounts. Value adjustments are made for identifiable specific risks, the general credit risk is taken into account on the basis of empirical values.

Pension provisions and similar obligations are calculated on the basis of the projected unit credit method. This procedure not only recognizes known pensions and pension rights accrued on balance sheet date but also anticipated increases in salaries and pensions. Current service costs are stated under personnel expenses. The interest cost of additions to pension provisions is included in the net interest result. Also included are actuarial profits or losses resulting from differences between expected risks and those which actually occurred. The provisions for direct pension obligations do not consider the actuarial profits and losses within the IAS 19 limits (+/- 10% of the projected unit credit). Amounts which exceed the 10 percent range are offset pro rata over the remaining service time of the active employees with an effect on results and are transferred to pension provisions.

Provisions are made for contingencies towards third parties, the occurrence of which will probably lead to a future outflow of funds. Considering all identifiable risks, they are stated at the probable settlement amount and not offset against indemnification claims. Provisions are only made if there is a basis for legal or actual commitments towards third parties.

All long-term provisions are stated at their discounted settlement amounts.

Liabilities are carried at the repayable amounts.

Notes to income statement

(1) Sales

Sales revenues are reported when service was rendered and goods or products were supplied.

(in K €)	1999/2000	1998/1999
Breakdown by segments		
Flat rolled products	1,901,079	1,485,147
Sections	636,405	499,668
Other	753,810	711,703
	3,291,294	**2,696,518**
Breakdown by regions		
Germany	1,690,110	1,472,571
Other EU	704,268	621,864
Other Europe	170,813	101,528
America	285,928	132,087
Other	440,175	368,468
	3,291,294	**2,696,518**

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

(in K €)	1999/2000	1998/1999
Increase or decrease in finished good and word in progress	61,267	-40,230
Other own work capitalized	6,195	4,307
	67,462	**-35,923**

(3) Other operating income

(in K €)	1999/2000	1998/1999
Insurance compensation	78,344	1,432
Reversal of provisions and allowances	17,637	26,280
Income from rents, leases and licenses	3,681	4,295
Release of badwill from capital consolidation	2,394	-
Cost allocations	2,153	16,361
Income from disposal of fixed assets	1,353	2,585
Refunds from prior years	1,194	8,999
Other income	17,494	17,711
Other operating income	**124,250**	**77,663**

Insurance compensations include compensations of €77 millon for two fires at Salzgitter AG during the fiscal year.

Prior years cost allocations include an amount of approx. €12 millions which Salzgitter AG received from a non-consolidated subsidiary in connection with the construction of a manufacturing plant for tailore blanks. This is offset by costs of outside services with a similar amount under other operation expenses.

Other operating income includes income relating to other periods amounting to €12 million (previous year €34 million), mainly from releases of provisions, income from disposals of fixed assets and costs refunded from previous years.

(4) Cost of materials

(in K €)	1999/2000	1998/1999
Cost of raw materials, supplies and goods purchased	1,909,411	1,397,770
Cost of services purchased	281,752	208,368
Cost of materials	**2,191,163**	**1,606,138**

The cost of raw materials and supplies includes predominantly cost of operating supplies, spare parts and factory equipment.

Cost of services purchased relates primarily to energy, hired labor and transport costs.

Aside from capacity-related increased material supply, price rises for raw materials and energy in particular had cost-increasing effects. The high US dollar rate of exchange contributed significantly towards price hikes for raw materials dependent on the US dollar. Moreover, additional hired labor in connection with two fires at Salzgitter AG and intensified use of purchased slabs increased costs.

(5) Personnel expenses

(in K €)	1999/2000	1998/1999
Wages and salaries	475,779	449,984
Social security for provisions and welfare	106,169	103,990
thereof for pensions	[9,520]	[13,219]
Personnel expenses	**581,948**	**553,974**

Defined benefit pension obligations consisted mainly of additions to pension provisions of €6.7 million (previous year €10.9 million). Additions to pension provisions include only the current pension costs. Pension expenses do not include accumulated interest for pension provisions which are stated in the net interest result. Personnel expenses include expenses related to other periods amounting to K€824 (previous year €4,6 million). Without changes in Group structure last year's number of employees would have been 671 higher.

Employees (annual average):

	1999/2000	1998/1999
Wage labor	8,942	8,307
Salaried employees	4,239	4,042
Group workforce	**13,181**	**12,349**

6) Depreciation

Depreciation during the fiscal year includes €4.6 million non-scheduled depreciation on machinery and equipment in connection with the scheduled restructuring of an operation within the steel production segment. Remaining depreciation on intangible and tangible assets was offset as scheduled during the fiscal year.

Scheduled depreciation on goodwill from the acquisition of consolidated subsidiaries was effected over a period of 10 years using the straight-line method – this under consideration of the strategic significance of the acquisition and other determinants establishing the useful lives.

(7) Other operating expenses

(in K €)	1999/2000	1998/1999
Outside service incl. setup of provisions	182,666	143,629
Selling expenses	136,721	125,323
Administrative expenses incl. insurance charges, fees, contribution	39,798	34,240
Advertising/information/ travelling expenses	13,501	11,644
Rents and leases	9,807	8,696
Allowances for doubtful accounts	3,580	5,876
Other expenses	11,736	20,288
Other operating expenses	**397,809**	**349,696**

Other operating expenses include expenses for other periods amounting to K€4,774 (previous year K€8,487).

(8) Income from shareholdings

(in K €)	1999/2000	1998/1999
Income from profit transfer agreements	197	366
thereof from affiliated companies	[196]	[365]
Income from shareholdings	1,831	2,076
thereof from affiliated companies	[1,194]	[992]
Income from associated companies	**-229**	**2,779**
Expenses from the transfer of losses to affiliated companies	263	-
Income from shareholdings	**1,536**	**5,221**

(9) Net interest income

(in K €)	1999/2000	1998/1999
Income from loans of financial assets	337	387
Other interest received and similar income	6,902	7,604
thereof to affiliated companies	[647]	[878]
Interest paid and similar expenses	-49,472	-43,986
thereof to affiliated companies	[-149]	[-561]
Net interest income	**-42,233**	**-35,995**

Interest paid includes €36.7 million – practically no change on last year – which is the interest part of additions to pension provisions.

(10) Taxes

(in K €)	1999/2000	1998/1999
Income taxes		
Current tax expenses	34,612	19,440
Deferred tax income	-10,318	-4,351
	24,294	**15,089**
Other taxes	**2,861**	**2,618**
Total	**27,155**	**17,707**

Income taxes relate to the result from ordinary activities after deduction of other taxes. Amortization of goodwill only leads to tax relief to the extent to which the respective goodwill was also reported and amortized for tax purposes in connection with mergers. The German companies of the Salzgitter Group are subject to an average trade tax of abt. 17% of trading income, deductible in the computation of corporation tax. Corporation tax on retained earnings is unchanged at 40%, for distributed income unchanged at 30%, plus a solidarity surtax each of 5.5% of the corporation tax. Deferred taxes are uniformly calculated by Group companies at an average tax rate of 43% – based on the corporation tax rate for distributed income. Based on the tax cuts as of January 1, 2001, provisions for deferred taxes and deferred items respectively were uniformly reduced to 39% at September 30, 2000. The adjustment was effected via the statement of income. Calculation of foreign income tax is based on the laws and regulations in effect in the individual countries.

The following deferred tax assets and liabilities stated in the balance sheet are attributable to accounting and valuation differences of the individual balance sheet items.

(in K €)	9/30/2000		9/30/1999	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	332	2,175	509	5
Tangible assets	15,685	153,954	15,985	160,953
Financial assets	47	8,976	28	9,810
Current assets	1,944	3,252	1,241	1,633
Pension provisions	44,979	290	52,051	444
Other provisions	14,521	8,294	14,676	6,007
Special account with reserve characteristics	-	35,203	263	52,907
Other items	-	5	1,591	520
Total	**77,508**	**212,149**	**86,344**	**232,279**

Breakdown of benefits from loss carryovers:

(in K €)	9/30/2000	9/30/1999
Corporation tax	12,519	1,006
Trade tax	-	63
Loss carryovers	**12,519**	**1,069**

Development of capitalized tax savings from loss carryovers realizable in the future:

(in K €)	1999/2000	1998/1999
Capitalized tax savings October 1	1,069	875
Changes in consolidation and currency adjustments	12,519	-
Use of loss carryovers	-1,069	-
Capitalization of tax savings from loss carryovers	-	194
Capitalized tax savings September 30	**12,519**	**1,069**

Tax savings from future loss carryovers capitalized at September 30, 1999 were fully used during the fiscal year. Expected tax savings of K€12,519 from the use of estimated realizable future loss carryovers of a domestic subsidiary were capitalized.

Conciliation of expected to actual income tax expenses:

(in K €)	1999/2000	1998/1999
Consolidated net income for the year before income tax	94,419	28,544
Expected tax expenses (tax rate 43%)	40,600	12,274
Tax portion for:		
Differences from tax rates (of foreign companies)	-476	-316
Tax-exempt income	-5,923	-269
Non-deductible tax expenses	523	638
Temporary differences and losses for which no deferred taxes were recorded	-290	461
Changes in tax rates	-13,596	-
Tax expenses and income related to other periods	101	1,983
Other deviations	3,355	318
Actual expenditure for income taxes	**24,294**	**15,089**

The actual income tax expense of €24.3 million was €16.3 million lower than the expected income tax expense (€40.6 million), which would arise if the domestic income tax rate were applied to Group net income for the year prior income tax.

(11) Consolidated net income for the year attributable to minority interests

(in K €)	1999/2000	1998/1999
Income due to minority interests	1,128	185
Loss attributable to minority interests	-	-37
Total	**1,128**	**148**

Income for the year attributable to minority interests are for Hansaport Hafenbetriebsgesellschaft mbH, Hamburg, and Hövelmann & Lueg GmbH & Co KG, Schwerte.

(12) Earnings per share

In accordance with IAS 33, undiluted earnings per share are determined as the ratio of the consolidated net income for the year due to shareholders of Salzgitter AG to the weighted average number of ordinary bearer shares with no par value outstanding during the fiscal year.

A dilution of earnings per share occurs when the average number is increased by means of adding the issue of potential shares from the warrants and conversion options issued by Salzgitter AG. In principle, warrants and conversion options have a dilutive effect on earnings, if the preconditions for the conversion rights occur.

The dilution effect of non-exercised warrants would occur on the basis of a subscription price of €12.10 per share. During the fiscal year, the share price was always below the supscription price of €12.10, so that an indication of the dilution effect from conversion rights is not necessary this year.

	Shares issued	Own shares	Shares in circulation
Beginning of the year	62,400,000	12,072	62,387,986
Purchase of own shares		4,127,707	
Sales of own shares		-290,976	
End of the year	62,400,000	3,848,803	58,551,197
Weighted number of shares	62,400,000	2,230,962	60,169,038

Earnings per share (in K €)		**1999/2000**	**1998/1999**
Consolidated net income for the year		70,125	13,455
Minority interests		1,128	148
Portion of shareholders of Salzgitter AG		68,997	13,307
Earnings per share (in €)		**1.15**	**0.21**

Notes to consolidated balance sheet

(13) Goodwill from capital consolidation

Debit differences resulting from capital consolidation for companies acquired before October 1, 1995 are now as before offset against retained earnings as per SIC 8. Goodwill acquired after October 1, 1995 is capitalized and amortized systematically for its economic useful life using the straight-line method and with an effect on results.

Goodwill and badwill are netted under intangible assets. The addition of badwill arose in connection with the acquisition HSP Hoesch Spundwand und Profil GmbH, Dortmund. The release is going to be effected on schedule according to the respective weighted average remaining useful life of identifiable non-monetary depreciable assets over a period of 55 months. Development of goodwill from capital consolidation is as follows:

Development of goodwill:

(in K €)	9/30/2000	9/30/1999
Opening balance historical cost October 1	1,812	1,812
Closing balance historical cost September 30	1,812	1,812
Opening balance amortization October 1	478	297
Amortization during current fiscal year	181	181
Closing balance amortization September 30	659	478
Book value	**1,153**	**1,334**

Development of badwill:

(in K €)	9/30/2000	9/30/1999
Opening balance October 1	562	562
Additions	32,917	-
Reversal	2,394	-
Book value September 30	**31,085**	**562**

(14) Other intangible assets

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

Other purchased intangible assets are valued at their acquisition cost and are subject to scheduled depreciation on a straight-line basis over their anticipated useful lives.

Self-made intangible assets are capitalized if the inflow of a reliably estimable benefit for the Group is likely. The manufacturing costs of self-made intangible assets are determined on the basis of direct costs and appropriate additions for indirect costs and depreciation. The book value of self-made intangible assets – these are exclusively EDP software – on September 30, 2000, is in total €4.0 million (previous year €4.4 million).

Total expenses for research and development in the reporting period were €12.6 million (previous year €13.9 million).

Other intangible assets are depreciated over a maximum of 5 years. Additions are made when the reasons for non-scheduled depreciation in previous years cease to exist.

There are no major restraints on property or disposal.

(15) Tangible assets

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

Breakdown of property, plant and equipment at book values:

(in K €)	9/30/2000	9/30/1999
Land and buildings	288,535	290,500
Technical equipment, plant and machinery	744,571	717,903
Other equipment, operational and office equipment	26,945	25,443
Construction in progress	89,399	59,137
Prepayments	458	14
Tangible assets	**1,149,908**	**1,092,997**

Tangible assets are valued at acquisition or manufacturing costs, less scheduled depreciation and, in individual cases, non-scheduled depreciation. Investment grants received are shown as reductions of acquisition and manufacturing costs. If the reasons for non-scheduled depreciation effected in prior years cease to exist, corresponding write-ups are made.

Manufacturing costs of own work capitalized are determined on the basis of direct costs, and appropriate additions for indirect costs and depreciation. Financing costs for the period of manufacture are not included.

Low-value assets (acquisition or manufacturing costs up to €409.04 [DM800.00]) are written off in full during the year of addition and shown as disposals.

Scheduled depreciation is mainly based an the following useful lines:

Buildings	minimum 40 years
Technical equipment and machinery	10 – 20 years
Vehicle pool	maximum 5 years
Operational and office equipment	maximum 5 years

Expenditure on repairs or maintenance of tangible assets are recognized as expenses. Replacement and maintenance expenses are capitalized as subsequent manufacturing costs if they lead to a significant extension of the useful lives or a substantial improvement or a major change in the use of tangible assets.

Major components of tangible assets which have to be replaced at regular intervals are capitalized as independent assets and depreciated over their useful lives.

There are major restraints on property or disposal.

Historical costs of fully depreciated tangible assets still in use:

(in K €)	9/30/2000
Land and buildings	112,916
Technical equipment, plant and machinery	1,171,492
Other equipment, operational and office equipment	50,327
Historical costs of tangible assets	**1,334,735**

(16) Financial assets

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

Breakdown of financial assets:

(in K €)	9/30/2000	9/30/1999
Shares in affiliated companies	18,760	4,094
Shares in associated companies	17,920	7,413
Shareholdings	47,440	50,095
Other loans	5,631	6,282
Financial assets	**89,751**	**67,884**

The amount stated for associated companies “at equity“ increased by K€10,506 over the previous year. The main reason is the acquisition of a 26.2% shareholding in the Wescol Group plc, Halifax, UK.

Changes in other participating interests (–€2.7 million) are mainly in connection with the termination of a joint venture. During the reporting period, further shares in Steel Dynamics Inc., Butler, USA, were acquired, in total 295,000 shares with a total value of €4.1 million.

The market value of the listed securities of fixed assets (book value €57.3 million; previous year €40.9 million) amounts to €69.6 million on balance sheet date (previous year €85.0 million).

€3.1 million of other loans of €5.6 million refer to the financing of option bonds issued by Salzgitter AG to members of the Executive Board and to other Group executives under the "Long-Term Incentive Plan". The interest rate was reduced from 5.4% p.a. to 5% p.a. during the reporting period. Other loans refer almost exclusively to housing loans to employees.

On May 26, 2000, Salzgitter AG concluded an agreement with Mannesmann AG, Düsseldorf, covering the acquisition of 174,047,590 registered shares with no par value (94.322%) of Mannesmannröhren-Werke AG, Mülheim, with economic effect as of January 1, 2000. At the same time, Salzgitter Fahrzeugteile GmbH, Brunswick, (Salzgitter AG shareholding 94.8%) acquired 9,226,190 shares (5%) in Mannensmannröhren-Werke AG from Mannesmann GmbH & Co. Beteiligungs KG, Eschborn.

The contractual agreements and preconditions were available in early October 2000. Thereupon, the shares were transferred to Salzgitter AG and to Salzgitter Fahrzeugteile GmbH, respectively, as per the agreement of October 9, 2000, and with legal effect of the same date. The inclusion of Mannesmannröhren-Werke AG in the consolidation will be effected during the next fiscal year.

(17) Inventories

(in K €)	9/30/2000	9/30/1999
Raw materials and supplies	128,286	113,926
Work in progress	115,295	102,213
Finished goods and merchandise	278,114	221,080
Prepayments	23,259	20,880
Inventories	**544,954**	**458,099**

Raw materials and supplies as well as merchandise are valued at cost of acquisition or net realizable value.

Work in progress and finished goods are valued at manufacturing costs or net realizable value. Manufacturing costs include cost of material and direct manufacturing expenses, special direct manufacturing expenses and manufacturing-related portions of material, manufacturing overheads and depreciation.

Financing costs for the production period and costs for Group pension plans are not included.

Individual valuation deductions were effected for all inventories if the probable realizable income from their sale or their use would be lower than their book value. The lower values are the probable realizable sales revenues less costs arising prior to the sale. If the reasons leading to a devaluation of inventories no longer exist, a reinstatement of the original values is effected. This led to an addition of €13.7 million during the reporting period.

In principle, the LIFO-method is applied to inventory assets of the same kind. The inventory value according to the LIFO-method is abt. €5.3 million below the valuation on the basis of replacement costs.

The book value of inventories stated at the net realizable value amounts to €3.2 million.

(18) Trade receivables

(in K €)	9/30/2000	9/30/1999
Due from third parties	523,939	465,887
Due from affiliated companies	18,451	16,196
Due from shareholdings	5,836	2,039
Trade receivables	**548,226**	**484,122**

Trade receivables include €4.1 million due after more than 1 year. Appropriate value reductions were made for all identifiable individual risks, general risks, the credit risk supported by empirical values and for the exposure in special countries.

(19) Other receivables and assets

(in K €)	9/30/2000	9/30/1999
Other receivables from affiliated companies	20,025	7,502
thereof from loans	[5,565]	[5,192]
thereof other receivables	[14,460]	[2,310]
Other receivables from shareholdings	315	-
thereof from loans	[190]	-
thereof other receivables	[125]	-
Other receivables	**20,340**	**7,502**
Claims from income tax refunds (incl, other taxes)	13,917	11,776
Deferred interest	77	119
Advance company pension payments	2,808	2,805
Assets for sale	8,531	-
Grants for part-time work of senior employees	5,671	744
Receivables from insurance claims	15,503	614
Other assets	16,905	12,616
Other assets	**63,412**	**28,674**
Other receivables and assets	**83,752**	**36,176**

Other receivables and assets include €1.8 million due after more than 1 year.

Just as last year, there are no material restraints on ownership or disposal for the other receivables and assets stated.

The receivables from finance leasing stated under other receivables are shown in the following table:

(in K €)	Remaining term	Remaining term	9/30/2000	9/30/1999	Remaining term
	< 1 year	1–5 years	total	total	< 1 year
Gross investment in the lease	2,369	3,671	6,040	4,800	1,397
Unearned finance income	328	492	820	584	56
Net investment in the lease	**2,041**	**3,179**	**5,220**	**4,216**	**1,341**

20) Cash and cash equivalents

(in K €)	9/30/2000	9/30/1999
Bank balances	21,961	50,341
Checks, cash-in-hand, Central Bank balance	348	426
Cash and cash equivalents	**22,309**	**50,767**

(21) Prepaid expenses

Prepaid expenses include predominantly deferred expenses for contributions, rates and vehicle taxes.

(22) Shareholders' equity

Development of shareholders equity of Salzgitter AG is presented in the statement of changes in equity. Effects of first-time accounting according to the IASC rules on shareholders equity of the Salzgitter Group as of October 1, 1998 are outlined in the section "Accounting principles".

(23) Subscribed capital

The Company s fully paid subscribed capital was converted as per a proposal adopted at the Shareholders Meeting of March 16, 1999, and in accordance with the conversion rate fixed by the council of the European Union of 1 euro = DM1.95583. Consequently it is €159,523,066.93 or unchanged at DM312 million. It is divided into 62,400,000 bearer shares representing an arithmetical value of €2.56 (= DM5.00) each.

Hannoversche Beteiligungsgesellschaft mbH, a company held by the State of Lower Saxony, holds more than 25 percent of the shares in Salzgitter AG. In accordance with a voluntary information according to sect. 21 subsect. 1 of the WpHG (Securities Trade Act), Norddeutsche Landesbank Girozentrale informed us on September 1, 2000, that a total of 35.289% of the Salzgitter AG shares can be attributed to Nord/LB and its subsidiaries.

By September 30, 2000, the Executive Board had not made use of the authorization given by the Shareholders Meeting to make conditional capital increases.

As per a resolution adopted at the Shareholders' Meeting of April 23, 1998, a conditional capital of up to DM10.0 million was created (€5,112,918.81 after conversion) for the issue of option bonds.

These option bonds consist of a Salzgitter AG loan bearing interest at 5% p.a. (term 1998-2005) and attached option rights, which entitle the bearer to purchase Salzgitter shares.

The bonds subscribed for €3,793,274.47 on balance sheet date consist of 7,419 certificates of €511.30 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. The following benchmarks have to be met:

- the price must be at least DM27.23 (€13.92),
- the price development of the Salzgitter AG share must outperform a comparable index (covering steel industry companies) and
- the employee must be fully employed by a company of the Salzgitter Group.

Furthermore, by a resolution adopted at the Shareholders Meeting on March 16, 1999, the capital stock was conditionally increased by up to €10,225,837.63 by issuing up to 4,000,000 ordinary bearer shares. 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 to be made out to bearer by March 15, 2004, with a total nominal value of up to €50 million, with a maturity of a maximum of ten years, and to grant the bearer of the respective bonds option or conversion rights for new Salzgitter AG shares totaling up to 4,000,000.

(24) Capital reserves

Of the capital reserves (of €287.5 million), €115.2 million are premiums put up on the occasion of a capital increase on October 1, 1970. Further amounts with an aggregate of €111.2 million refer to retained earnings from the times prior to the merger between Ilseder Hütte and Salzgitter Hüttenwerke AG which were put forward to the former Preussag Stahl AG and one other payment of the principal shareholder in 1971/1972. Moreover, a legal possibility was utilized in the course of the merger with the Ilsenburg Works and a reserve according to sect. 27 subsect. 2 DMBilG (German Accounting Act) of €12.0 million was reclassified and transferred to capital reserves.

Within the demerger agreements, Preussag AG sold Salzgitter AG assets of DM1.00 each. In accordance with the IASC rules, these assets were accounted for with their attributable value (€49.1 million) and the differences were transferred to capital reserves.

(25) Retained earnings

Pursuant to Commercial Code reporting requirements, the retained earnings consist of other retained earnings. They include transfers from the current or prior years, differences from currency translations of year-end closings of foreign subsidiaries offset in particular against goodwill from capital consolidations of subsidiaries acquired prior to September 30, 1995. The bylaws of Salzgitter AG do not stipulate any provisions for the formation of reserves.

Retained earnings include differences from foreign currency translations of €0.9 million.

Salzgitter AG holds 3,848,803 treasury shares with a calculated total nominal value of €9,839,308.64 = 6.17 percent of the capital subscribed. During the fiscal year, Salzgitter AG increased its stock portfolio of 12,072 shares at prior years balance sheet date by 4,127,707 shares with a calculated total nominal value of €10,552,463.66 = 6.62 percent of subscribed capital. Purchases were made during the months of February (3,099,100 shares), March (811,000 shares), April (50,000 shares), July (90,000 shares) and August (77,607 shares) at acquisition costs of €38,376,985.82 (average €9.30 per share). 228,607 shares thereof were acquired in order to pass them on to employees of Salzgitter AG and its subsidaries (according to sect. 71 subsect. No. 2 AktG [German Stock Corporation Act]); the remaining shares were used mainly for corporate acquisitions and further employees participation. Salzgitter AG sold a total of 290,976 shares with a total nominal value of €743,868.34 = 2.56 percent of subscribed capital. 147,364 shares thereof were for employees and 92,936 shares for employees of subsidiaries with an average price of €6.44 per share. 48,350 shares were transferred within a shareholding acquisition, taking €8.46 as a basis. The remaining 2,296 shares were used primarily in lieu of cash payments at an average price of €8.02 per share for marketing activities of third parties.

(26) Non-distributed income

In accordance with German Commercial Law, the net income as per the annual financial statements of Salzgitter AG is the authoritative basis for dividend distributions to shareholders of Salzgitter AG. The non-distributed income of the Salzgitter consolidated financial statements is identical to the one stated in the Salzgitter AG financial statements. The reconciliation of Group income for the year to the non-distributed income of Salzgitter AG is outlined in the income statement.

A proposal will be submitted to the Shareholders Meeting, to use a total of K€24,960 of the non-distributed income of Salzgitter AG for distribution and to transfer the remainder to retained earnings.

This corresponds to a dividend of €0.40 per share. Taxpaying shareholders resident in Germany receive an additional tax credit of €0.17 per shares. Based on the stock exchange price of Salzgitter AG shares on September 30, 2000 of €8.00, this will result in a dividend yield of 7.1 percent including tax credit. The cash dividend amounts to €0.29 per share after deduction of the withholding tax and solidarity surcharge.

Tax calculation	Euro/share
Cash dividend	0.29
Withholding tax/solidarity surcharge	0.11
Net dividend	0.40
Corporation tax	0.17
Gross dividend	0.57

(27) Minority interests

Minority interests comprise third-party interests in equity, in general reserves and in profits and losses of Group companies included. Minority interests are mainly attributable to Hansaport Hafenbetriebsgesellschaft mbH, Hamburg and Hövelmann & Lueg GmbH & Co KG, Schwerte.

(28) Provisions for pensions and similar obligations

Germany has a defined contributory and statutory pension scheme covering basic benefits depending on salaries earned and contributions made. After payments of contributions to the public social security administration and to privately administered pension funds, the Company has no further payment obligations. Current contribution payments are recognized as expenses for the respective period. In the fiscal year 1999/2000, the total of all defined contribution expenses in the Salzgitter Group amounted to €41.6 million.

Furthermore, the Salzgitter Group has a company pension scheme based on defined benefit plans covered by provisions. There are no pension obligations financed by funds.

Provisions for pensions and similar obligations:

(in K €)	9/30/2000	9/30/1999
Pension provisions	683,904	670,085
Similar obligations	2,076	1,976
Total	**685,980**	**672,061**

Provision for pensions and similar obligations developed as follows:

(in K €)	Pension provisions	Similar obligations	Total
Opening balance 10/1	670,085	1,976	672,061
Additions from changes in consolidations	10,255	-	10,255
Payments made	-39,820	-98	-39,918
Additions	6,681	198	6,879
Accrued interest	36,703	-	36,703
Closing balance 9/30	**683,904**	**2,076**	**685,980**

The provisions for pension obligations are made on the basis of benefit obligations towards old-age, disability and surviving dependants benefits. Provisions were formed exclusively for defined benefit obligations, under which the Company guarantees a certain benefit level. Provisions for similar obligations cover tide-over payments in case of death. Pension provisions are almost entirely for the benefit obligations of German companies.

Actuarial calculations and assumptions are the basis for valuation of benefit obligations. Defined benefit obligations are calculated under consideration of future remuneration and pension increases according to the international projected unit credit method.

Fundamental actuarial premises applied in the Salzgitter Group:

	9/30/2000	9/30/1999
Discount rate	6.5%	6%
Projected future remuneration increases	2–3%	2–3%
Projected future pension increases	1.33%–1.5%	1.33%–1.5%
Employee turnover rate	1% p.a.	1% p.a.

The biometric probabilities published in November 1998 (Heubeck-Richttafeln 1998 [mortality tables]) were already used for valuation of pension provisions at October 1, 1998 and accounted for without effect on results during the conversion to IASC rules:

(in K €)	9/30/2000	9/30/1999
Defined benefit obligation	648,950	670,085
Difference from adjusted actuarial assumptions	34,954	-
Recognized provisions	**683,904**	**670,085**

There were no differences during the previous year based on changed actuarial assumptions caused by first-time valuation of pension benefits to IASC rules. The difference based on adjusted actuarial assumptions during the current year amounts to €34.9 million and is thus within the 10 percent range in accordance with IAS 19.

(29) Tax provisions and other provisions

Tax provisions include provisions for current and deferred income tax and other taxes. Current income tax provisions – provided they exist in the same tax sovereign territory and are alike in kind and maturity – are offset against the respective tax refund claims. The change in deferred tax provisions is outlined under note 10.

Provisions for typical operating risks are specially made for waste disposal and recultivating obligations.

Provisions for personnel expenses include in essence obligations under social plans, anniversary bonuses and obligations from part-time contracts with senior employees.

The discount rate applied to anniversary bonus obligations stated under personnel sector is basically 5.5% p.a.

The long-term part of provisions for part-time work of senior employees and for social plans was discounted at 6% p.a.

Grants compensation payments and transition assistance according to ECSC agreements for employees retiring under social plans are capitalized as assets amounting to €5.7 million (previous year €4.7 million) and were not offset against provisions.

Provisions for other risks include mainly provisions for risks from litigation and for pricing discounts.

	At 10/1/1999	Additions from change in consoli-dation	Use	Reversal	Addition	Accu-mulated interest	At 9/30/2000
Tax provisions	165,560	-13,637	-12,478	-14,697	19,092		143,840
thereof for current income tax	[17,548]		[-1,389]		[4,174]		[20,333]
thereof for deferred taxes	[145,269]	[-13,637]	[-11,063]	[-14,439]	[14,329]		[120,459]
thereof for other taxes	[2,743]		[-26]	[-258]	[589]		[3,048]
Personnel sector	59,087	8,160	-25,002	-1,819	24,245	2,271	66,942
thereof social plans, part-time senior employees	[25,063]	[5,850]	[-12,087]	[-1,617]	[11,306]	[1,362]	[29,877]
Typical operating risks	25,247		-1,523	-5,648	1,664		19,740
Other provisions	49,110	1,144	-17,965	-6,366	34,354		60,277
thereof discounts/claims	[12,217]	[727]	[-10,458]	[-918]	[22,368]		[23,936]
Total	**299,004**	**-4,333**	**-56,968**	**-28,530**	**79,355**	**2,271**	**290,799**

Maturities of tax and other provisions:

(in K €)	Total 9/30/2000	Remaining term < 1 year	Remaining term > 1 year
Tax provisions	143,840	28,588	115,252
thereof for current income tax	[20,333]	[20,043]	[290]
thereof for deferred taxes	[120,459]	[5,588]	[114,871]
thereof for other taxes	[3,048]	[2,957]	[91]
Personnel sector	66,942	29,802	37,140
thereof social plan/part-time seniors	[29,877]	[13,147]	[16,730]
Typical operating risks	19,740	1,240	18,500
Other provisions	60,277	56,178	4,099
thereof discounts/ claims	[23,936]	[23,936]	-
Total	**290,799**	**115,808**	**174,991**

(30) Liabilities

If the performance-oriented preconditions of the bonds are fulfilled, the bonds can be converted into shares of Salzgitter AG after expiration of a blocking period of three years (earliest as of September 28, 2001) until September 23, 2005. Please also read note 24.

K€15,336 of total liabilities are secured by mortgages.

Residual terms

(in K €)	< 1 year	> 5 years	9/30/2000 Total	9/30/1999 Total	< 1 year
Financial obligations					
Bonds	-	-	3,793	3,875	-
Liabilities to banks	185,812	17,039	206,961	45,190	22,957
	185,812	**17,039**	**210,754**	**49,065**	**22,957**
Trade payables					
To third parties	210,932	-	210,938	191,435	191,435
To affiliated companies	8	-	8	-	-
To shareholdings	839	-	839	2,460	2,460
	211,779	-	**211,785**	**193,895**	**193,895**
Other liabilities					
To affiliated companies	3,022	-	8,089	2,813	2,813
Other liabilities	100,919	124	101,133	85,179	84,941
thereof from taxes	[15,554]	-	[15,554]	[13,963]	[13,963]
thereof for social securities	[16,365]	-	[16,365]	[12,074]	[12,074]
thereof to employees	[37,498]	-	[37,498]	[35,622]	[35,622]
thereof other liabilities	[31,502]	[124]	[31,716]	[23,520]	[23,282]
	103,941	**124**	**109,222**	**87,992**	**87,754**
Total liabilities	**501,532**	**17,163**	**531,761**	**330,952**	**304,606**

(31) Deferred income

The deferred income item results mainly from deferred interest resulting from interest for prepayments made.

Public sector grants for promoting investments (investment grants) are stated under deferred income and are released to income pro rata temporis in line with the useful lives of the respective assets – they amounted to €0.7 million in the fiscal year 1999/2000.

Notes to cash flow statement

The cash flow statement shows the development of the flow of payments separated by cash provided and cash used for current business, investment and financing activities for the fiscal years 1998/1999 and 1999/2000 in accordance with IAS 7. The cash flow statement is deduced from the consolidated annual financial statements of Salzgitter AG by means of the indirect method.

The financial resources used consist of cash on hand, checks and balances in banks. Income from disposals of fixed assets was eliminated under cash flow from operating activities. Income tax paid amounting to €34.0 million (previous year €46.9 million) was attributed to operating activities. Interest income was €7.2 million.

The investments stated under cash flow relating to investment include additions to intangible, tangible and financial assets. Aside from numerous investments for rationalizations and replacements, which are primarily for improvement, renewal and safety of production plants and equipment and information processing systems, some large investments are aiming predominantly at the development of the product quality level and the extension of the value-added chain. €40.4 million were invested in the financial assets of the Salzgitter Group in the last fiscal year for expansion of the industrial shareholdings.

Interest expenses are exclusively attributed to financial activities. Cash flow relating to financial activities includes payment to shareholders for dividend payments in the amount of €22.7 million. Payments received from income of shareholdings were €4.4 million during the fiscal year.

Notes to segment reporting

Segmentation of the Salzgitter Group into four divisions is in line with internal management control and reporting of the Group.

Segments reporting attributes business actvities of the Salzgitter Group in accordance with Group structure to the divisions Steel Production, Steel Trading, Raw Materials/Services and Industrial Shareholdings.

These individual accounts of Salzgitter AG (excluding income from participating interests) are included in the steel production segment. The Steel Production Division comprises the three locations Salzgitter, Peine and Ilsenburg, each specialized in certain product ranges.

The Steel Trading Division consists of the Salzgitter Trading Group and Hövelmann & Lueg GmbH & Co KG. Furthermore, the 50% participating interest in Universal Eisen und Stahl GmbH (not consolidated) is assigned to this division.

The Raw Materials and Services Division comprises the companies DEUMU Deutsche Erz- und Metall-Union GmbH, PPS Personal-, Produktions- und Service-gesellschaft mbH, telcat Group, GESIS Gesellschaft für Informationssysteme GmbH, Hansaport Hafenbetriebs-gesellschaft mbH, "Glückauf" Wohnungsgesellschaft mbH, VPS Verkehrsbetriebe Peine-Salzgitter GmbH, and income from participating interests assigned to this division.

These division companies predominantly provide services for Group companies. It is envisioned that the know-how and the infrastructure will increasingly be made available to third parties. Services comprise information processing, telecommunication services, scrap trading, handling, transshipment and storage of bulk goods, transport services and other services.

The Industrial Shareholdings Divison consists of HSP Hoesch Spundwand und Profil GmbH, acquired during the reporting period. Furthermore, the non-consolidated companies acquired and/or organized during the fiscal year, namely Salzgitter Automotive Engineering GmbH, Salzgitter Fahrzeugteile GmbH, Oswald Hydroforming GmbH & Co. KG and the "at equity" – valued Wescol Group plc are assigned to this division. Furthermore, this division now includes the participating interest of Steel Dynamics Inc., Salzgitter Bauelemente GmbH, Salzgitter Europlatinen GmbH and Europlatinen Holding GmbH, which had so far been assigned to the Steel Production Division.

Division sales are additionally grouped by registered seats of customers. Interdivision sales are, in principle, conducted at market conditions – on the same basis as transactions with third parties.

Depreciation refers to division assets only and does not include amortization on goodwill from the acquisition of consolidated subsidiaries.

Extraordinary write-downs of financial assets arose in the Steel Trading Division, namely €0.2 million, and refer to shareholdings in non-consolidated companies.

Income of companies valued according to the equity method also includes amortization of goodwill in order to accurately present participating income of the divisions in line with internal Group management control.

Segment assets and liabilities comprise assets and liabilities needed for operating activities – without interest-bearing assets and without income tax receivables and payables.

Investments cover additions to tangible and intangible assets, excluding goodwill from acquisition of shareholdings

Contingent liabilities

Contingent liabilities are stated at the maximum amount of possible avails at balance sheet date. The total amount is €58.2 million (previous year €34.1 million), including bill exposure of €26.0 million (previous year €12.4 million).

Guarantees are for commitments for non-consolidated affiliated companies in Asia and Eastern Europe amounting to €12.5 million. Further guarantees are primarily for Salzgitter Europlatinen GmbH and AP Steel Ltd., Scunthorpe, UK.

In connection with the stock flotation in 1997/1998, Salzgitter AG has, under the prospectus liability, given the usual assurances, warranties and releases. The Group s respective liability is limited to 40 percent.

Neither Salzgitter AG nor any of its Group companies are involved in pending or foreseeable litigation or arbitration proceedings which might have a material effect on their economic situation. Moreover, the respective Group companies made appropriate provisions for potential burdens from litigation or arbitration proceedings.

Other financial obligations

Altogether there are order commitments for investments (€106.3 million), commitments for lease agreements over a period of several years (€53.7 million) and other commitments (€8.1 million), totaling €168.1 million.

Other financial obligations have a remaining term of a maximum of 1 year, except for an amount of €44.7 million.

Other financial obligations from long-term rent or lease agreements are as follows:

(in K €)	9/30/2000	9/30/1999
Up to 1 year	13,081	15,430
1 to 5 years	12,628	9,812
Over 5 years	28,008	8,091
Total	**53,717**	**33,333**

Financial instruments

Financial instruments are contractual commercial transactions entailing claims on financial assets. According to IAS 32, financial instruments, include both primary financial instruments, such as trade receivables and payables, investments and financial obligations, and derivative financial instruments which are used to hedge risks from changes in currency and interest rates.

Primary financial instruments are reflected in the balance sheet. Those on the asset side are recognized at nominal value less any necessary write-downs; financial instruments constituting liabilities are carried at nominal or redemption value, whichever is higher.

The fair value of primary financial instruments is the price at which they could be exchanged freely in a current transaction between two parties. The fair value of securities included in fixed assets (market value is €14.9 million above balance sheet value) is derived from their market price. This is almost entirely a shareholding in a listed US corporation. There are no significant discrepancies between book and market values for the remaining primary financial instruments.

Credit risks arise from the possibility of asset impairment occurring because counterparties cannot meet their obligations in transactions involving financial instruments. For part coverage of bad debt risks and for the usage of a special information service, we have an accounts receivable credit insurance for the German market and an export credit insurance with Gerling for customers in certain foreign markets. Furthermore, the bad debt risk for shipments to Scandinavia is covered by a Swedish credit insurance company. The accounts receivable credit insurance does not cover transactions with direct trading companies and the iron and steel industry for which we have comprehensive coverage through the Delkrederestelle Stahl, nor goods credit lines below K€51. About €44.1 million of the total trade receivables were unpaid at mid-November 2000 – €4.7 million thereof due for payment.

Currency risk is the potential decline in the value of financial instruments due to exchange rate fluctuations. Exposure to currency risk arises mainly when receivables and payables are denominated in a currency other than the Company s local currency or will be denominated in such a currency in the planned course of business.

Receivables in foreign currencies not euro-related and not in US dollars are hedged via various banks by forward exchange contracts. The respective receivables are stated at the agreed rates of exchange.

For transactions in US dollars, sales and purchase values are firstly offset (netting) within the Group, remaining amounts are hedged by forward exchange and option contracts.

Derivative financial instruments are used to cover foreign currency risks. These instruments cover only risks from existing and pending underlying transactions. In the past fiscal year, this was done by means of forward exchange and option contracts. The derivative financial instruments are subject to permanent risk controls and are conducted under a strict functional separation of sales, shipping documentation and controlling.

Normally, terms of currency derivates are for a period of up to 12 months.

The nominal amount of forward exchange contracts is the unbalanced total of all purchase and sales contracts, valued at the respective rates of exchange. In principle, the fair values were established on the basis of the situation at year-end closing, namely the values at which the respective derivate transactions were quoted, disregarding any opposite movements of the underlying transactions.

These transactions are only conducted with banks of high credit standing.

(in K €)	Nominal value	Fair value	Nominal value	Fair value
	9/30/2000	9/30/2000	9/30/1999	9/30/1999
Forward exchange contracts				
Purchase				
DKK	459	-1	-	-
GBP	7,193	189	-	-
NOK	591	-	-	-
SEK	110	-	115	1
CAD	3,813	-43	1,632	-88
PLN	-	-	183	1
USD	157,364	12,552	150,047	1,665
Sales				
CHF	780	-14	718	-
DKK	2,634	-6	2,159	-6
GBP	36,907	-834	38,822	-1,022
NOK	2,827	-42	2,260	-10
CAD	4,477	-121	-	-
SEK	7,364	158	6,668	-60
USD	355,116	-30,251	-	-
Options contracts				
USD	20,691	82	-	-

Related party disclosures

In line with information according to sect. 21 WpHG (German Securities Trading Act) and respective documentation received by the Company, Hannoversche Beteiligungsgesellschaft mbH, Hannover – wholly owned by the State of Lower Saxony – holds 25.5 percent of the shares of Salzgitter AG on balance sheet date. In addition, according to a voluntary information in accordance with sect. 21 WpHG, Nord/LB and its subsidiaries hold a total of 35.3 percent of the shares of Salzgitter AG .

During the fiscal year, the Group conducted payment transactions, term money borrowings, term money placed and currency forwards with Nord/LB as well as with other banks. These transactions were based on usual market conditions.

Salzgitter AG conducts business transactions based on underlying supply and service contracts with companies of the Salzgitter Group (including the associated companies), which are settled at usual market conditions. Salzgitter AG employs supply and services of Group companies at usual market conditions also available to third parties.

Passing on of administrative and operation-dependent costs is effected under cost-covering aspects.

During the reporting period, Salzgitter AG covered its requirements for capital goods, raw materials and supplies from Group companies inasmuch as the companies were in a position to supply competitively or at market conditions as to price and quality.

Within the Group clearing transactions, current accounts were settled with interest credits at 2.30% to 4.34% or with interest debits at 2.90% to 5.04%. Salzgitter AG charged the subsidiaries with interest between 2.85% and 5.15% for term money borrowings and credited from 2.47% to 4.60% for term money placed.

Salzgitter AG s total result from these financial transactions were an interest income of €10.0 million and interest expenses of €3.2 million. The conditions were never detrimental to the Company.

At balance sheet date, Salzgitter AG gave the following guarantees to creditors of its subsidiaries:

	(in K €)
Guarantees and letters of comfort providing collateral for long-term credits	10,948
Guarantees for advance payments, lease security deposits, warranties	6,954
Other guarantees	8,243
Borrowing applications for guarantee bonds, letters of credit, overdraft facilities	235,345
thereof used	146,416

These transactions and similar transactions during the fiscal year were conducted free of charge.

Option bonds were issued under the Long-Term Incentive Program to members of Executive Boards and other executives of the Salzgitter Group, details are presented under note 23.

In connection with the Long-Term Incentive Program, executives and Executive Board members were granted loans valued at K€511 on September 30, 2000.

Supervisory and Executive Boards

The members of the Supervisory and the Executive Boards are named seperately. The Executive Board s total emoluments amounted to €2.3 million during the fiscal year. Supervisory Board members received total remuneration of €0.2 million during the fiscal year. Former members of the Executive Board and their dependants received a total of 0.7 million for the fiscal year.

Pension obligations to former members of the Executive Board and their dependants are covered by a provision of €7.9 million.

Salzgitter, December 21, 2000
The Executive Board

Leese
Geisler
Fuhrmann
Jacob
Kolb
Luckan
Pfitzner

AUDIT OPINION

Based on the final result of our edit, we rendered the following unqualified audit opinion on December 22, 2000:

"Auditor´s opinion

We audited the consolidated financial statements of Salzgitter AG, Peine, including balance sheet, income statement, cash flow statement, statement of changes in equity and notes for the fiscal year from October 1, 1999 to September 30, 2000. The Company s Executive Board is responsible for the preparation and the contents of the consolidated financial statements. It is our responsibility to express an opinion, based on our audit, as to whether the consolidated financial statements conform with the International Accounting Standards (IAS).

We conducted our audit of the consolidated financial statements pursuant to German auditing rules and in compliance with the generally accepted auditing principles set down by the Institut der Wirtschaftsprüfer (IDW, German Auditors Institute). Those standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations are recognized which significantly affect the presentation of the assets, liabilities, financial position and results of the Company. The scope of our audit was planned taking into account our understanding of the Group s business operations, its economic and legal environment and any anticipated potential errors. In the course of the audit, the disclosures made in the consolidated financial statements are verified on the basis of spot checks. The audit comprises the assessment of the accounting and consolidation principles applied and significant estimates made by the Executive Board as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements are in compliance with IAS and present a true and fair view of the assets, liabilities, financial position and results of the Group and the flow of payments during the fiscal year.

Our audit, which also covered the Group management report for the fiscal year from October 1, 1999 to September 30, 2000, prepared by the Executive Board, did not give cause to any qualification. In our opinion, the Group management report presents a true and fair view of the situation of the Group and accurately presents the risks arising from future developments. We also confirm that the consolidated financial statements and the Group management report for the fiscal year from October 1, 1999 to September 30, 2000 meet the conditions for an exemption of the Group from the preparation of consolidated financial statements and a Group management report according to German Law."

Hannover, December 22, 2000

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Pille
Wirtschaftsprüfer

ppa. Ries
Wirtschaftsprüfer

MAJOR SHAREHOLDINGS OF SALZGITTER AG

At September 30, 2000

		Nominal capital in EUR/local currency (1,000 units)	Direct and indirect shareholdings (in%)
Steel Trading			
Salzgitter Handel GmbH, Düsseldorf		23,519	100.0
Salzgitter Stahlhandel GmbH, Hannover		2,556	100.0
Stahl-Center Baunatal GmbH, Baunatal		5,113	100.0
Salzgitter Stahlhandel GmbH, Gladbeck		4,093	100.0
Salzgitter Stahlhandel GmbH, Mannheim		6,238	100.0
Salzgitter International GmbH, Düsseldorf		511	100.0
Salzgitter Stahlhandel Ges.mbH, Vienna, Austria	ATS	500	100.0
Salzgitter Trading U.K. Ltd., Harrogate, UK	GBP	5	100.0
Salzgitter Acier S.A., Saint Mandé, France	FRF	500	100.0
Salzgitter Aceros Espana S.A., Madrid, Spain	ESP	10,000	100,0
Salzgitter Acciai Italia S.R.L., Milan, Italy	ITL	99,000	50.5
Salzgitter Handel B.V., Oosterhout, Netherlands	NLG	4,500	100.0
Deltastaal B.V., Oosterhout, Netherlands	NLG	200	100.0
Friesland Staal B.V., Drachten, Netherlands	NLG	100	100.0
A.P. Steel (U.K.) Ltd., Scunthorpe, UK	GBP	1,502	100.0
Salzgitter Trade Inc., Vancouver, BC, Canada	CAD	500	100.0
Hövelmann & Lueg GmbH & Co KG, Schwerte		3,068	95.0
Universal Eisen und Stahl GmbH, Neuss		3,835	50.0
Raw Materials and Services			
Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter		14,112	100.0
DEUMU Deutsche Erz- und Metall-Union GmbH, Peine		4,090	100.0
GESIS Gesellschaft für Informationssysteme mbH, Salzgitter		2,556	100.0
Peiner Agrar- und Hüttenstoffe GmbH, Peine		767	100.0
Hanseatic Agrar- und Baustoffhandel GmbH, Bremen		511	100.0
telcat multicom gmbh, Salzgitter		614	100.0
telcat Kommunikationstechnik GmbH, Salzgitter		358	100.0
PPS Personal-, Produktions- und Service GmbH, Salzgitter		56	100.0
„Glückauf“ Wohnungsgesellschaft mbH, Peine		26	100.0
Hansaport Hafenbetriebsgesellschaft mbH, Hamburg		5,113	51.0
Industrial Shareholdings			
HSP Hoesch Spundwand und Profil GmbH, Dortmund		50	100.0
Europlatinen Holding GmbH, Salzgitter		3,580	100.0
Salzgitter Europlatinen GmbH, Salzgitter		1,023	100.0
Salzgitter Bauelemente GmbH, Salzgitter		5,000	100.0
Salzgitter Fahrzeugteile GmbH, Salzgitter		25	94.8
Salzgitter Automotive Engineering GmbH, Wolfsburg		72	74.7
Steel Dynamics, Inc., Butler, IN, USA	USD	493	12.6
Wescol Group plc, Halifax, UK	GBP	17,327	26.2
Oswald Verwaltungsgesellschaft mbH, Crimmitschau		25	24.6
Oswald Hydroforming GmbH & Co. KG, Crimmitschau		1,532	24.9

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