ANNUAL REPORT 2002

FOR THE FINANCIAL YEAR

FROM JANUARY 1 TO DECEMBER 31, 2002

SALZGITTER AG

Stahl und Technologie

SALZGITTER GROUP IN FIGURES[1]

		1998/1999	1999/2000	SFY 2000[2]	FY 2001	FY 2002
Sales (consolidated)	€ mil.	2,696	3,291	1,018	4,593	4,741
Steel Division	€ mil.	1,129	1,252	340	1,397	1,430
Trading Division	€ mil.	1,393	1,773	423	1,877	1,729
Services Division	€ mil.	174	228	57	216	232
Processing Division	€ mil.	–	38	27	118	229
Tubes Division	€ mil.	–	–	171	985	1,121
Thereof flat-rolled products	€ mil.	1,485	1,901	503	1,948	2,049
Thereof sections	€ mil.	500	636	159	909	809
Thereof tubes	€ mil.	[3]	39	213	1,227	1,308
Thereof shares of exports	%	45	49	49	54	54
Income from ordinary operations	€ mil.	31	97	34	160	72
Net income for the year	€ mil.	13	70	13	144	66
Balance sheet total	€ mil.	2,208	2,427	3,398	3,809	3,807
Fixed assets	€ mil.	1,177	1,226	1,508	1,843	1,975
Current assets	€ mil.	1,031	1,201	1,890	1,966	1,832
Inventories	€ mil.	458	545	756	879	869
Shareholders' equity	€ mil.	900	912	911	1,085	1,027
Borrowings	€ mil.	1,308	1,515	2,487	2,724	2,780
Provisions	€ mil.	971	977	1,953	1,947	1,884
Liabilities	€ mil.	337	538	534	777	896
Thereof due to banks	€ mil.	45	207	82	178	177
Capital expenditure[4]	€ mil.	150	208	49	285	251
Depreciation and amortization[4]	€ mil.	166	174	50	210	220
Employees						
Personnel expenses	€ mil.	554	582	212	843	940
Workforce (annual average)		12,349	13,181	17,085	17,664	18,872
Personnel expenses per employee	T€	45	44	12	48	50
Crude steel production[5]	kt	4,725	5,116	1,272	8,151	8,209
Key figures						
Earnings before interest and taxes (EBIT)[6]	€ mil.	37	110	39	179	93
EBIT before depreciation and amortization (EBITDA)[6]	€ mil.	203	284	89	389	313
Return on capital employed (ROCE)[7]	%	3.8	9.5	15.3	13.6	7.3
Cash flow	€ mil.	116	114	–5	117	157

1) All key balance sheet data have been determined in accordance with IAS
2) SFY: Short financial year from October 1 to December 31
3) Not separately reported
4) Excluding financial assets
5) Up to SFY 2000, Salzgitter and Peine works; from 2001 inc. MRW/V&M share in Hüttenwerke Krupp Mannesmann, V&M France and V&M do Brasil; from July 2002 also inc. V&M Star
6) EBT plus interest paid (excluding interest element in allocations to pension provisions)
7) EBIT in relation to the total of shareholders' equity, minority equity interests, tax provisions (excluding deferred taxes) and interest-bearing liabilities

HIGHLIGHTS OF THE FINANCIAL YEAR 2002

January 15–18

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

February 21

The second Salzgitter AG corporate forum is held in Düsseldorf with 750 participants under the motto "With Us." The topics include, among others, the new corporate structure as well as further internal and external steps promoting growth.

March 13

Salzgitter AG publishes figures for the result of financial year 2001 – the best result in eleven years. With consolidated sales of € 4.6 billion, the company achieved a total pre-tax profit of € 160.3 million.

April 8–12

The Salzgitter Group showcases its expertise as an end-to-end supplier in the pipes product segment at the Tube trade exhibition in Düsseldorf.

April 15–20

The entire Salzgitter Group presents itself at the Hannover trade exhibition Industry 2002, the world's largest industrial trade fair. At the fair a major emphasis is on discussing products and services with customers, suppliers, industry professionals and the general public.

April 29–May 1

The business press focuses on Salzgitter AG after the press conference on the company's financial statements which is devoted to the publication and discussion of the annual business report for financial year 2001. This dialogue with the financial community is cultivated at well-visited analysts' conferences in Frankfurt and London.

May 29

Thanks to its balanced portfolios, the Salzgitter Group is able to show a quite respectable result with € 20.1 million before taxes for the first quarter of financial year 2002 despite a difficult business environment.

June 19

The ordinary General Meeting of Shareholders approves the recommendations of the Executive and Supervisory Boards and, among other things, declares a dividend of € 0.42 per share.

July 1

The Salzgitter Group carries out an important step via its subsidiary Mannesmannröhren-Werke AG in order to consolidate its competitive position and earnings power. Vallourec & Mannesmann Tubes S.A. acquired the steel tube business of the American North Star Steel Company with manufacturing plants in Youngstown and Houston.
V&M Tubes is a joint undertaking of Mannesmannröhren-Werke AG and the French company Vallourec S.A.

August 28

The Salzgitter Group announces a solid profit for the first half of the financial year. With consolidated sales amounting to € 2.4 billion, pre-tax profit comes in at € 50 million.

According to the business magazine Capital and the German Association for Financial Analysis and Asset Management, Salzgitter AG ranks as one of the shareholder-friendliest companies. Salzgitter AG is rated in fourth place among seventy MDAX companies.

November 20

Despite the generally unsatisfactory economic trend the Salzgitter Group is able to generate a satisfying profit also in the third quarter of financial year 2002. With consolidated sales of € 3.5 billion in the first three quarters, pre-tax profit increased by € 18 million to a nine month total of € 68 million.

December 12

The Supervisory Board appoints Peter-Jürgen Schneider as a member of the Executive Board and as Personnel Director, effective on April 1, 2003. Prof. Dr. Günter Geisler will retire from the Executive Board in the course of 2003.

December 12

The Executive Board and the Supervisory Board of Salzgitter AG declare that, with few exceptions, the company complies with the recommendations of the Government Commission German Corporate Governance Code.

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PREFACE BY THE EXECUTIVE BOARD

Dear Shareholders,

The present economic and political situation both in Germany and abroad is marked by a far greater degree of uncertainty than has been experienced in previous low growth periods. Critical topics such as public-sector debt in and beyond Germany, declining confidence in the capital markets and the management and supervision of large corporate enterprise are attracting public attention faster than the search for answers to these long-posed questions. At times it seems difficult to sustain a healthy degree of confidence without, however, losing sight of the reality.

In applying this to our own company, Salzgitter AG, we can state that, following on the heels of a record result in the financial year 2001, we have achieved a pre-tax profit of € 72.5 million in 2002, a result that is consistent with the average for the past ten financial years. In view of the fact that expectations of an upswing in the world's leading economic areas have been consistently frustrated since the autumn of 2001, we can be satisfied that we have succeeded in remaining firmly established in the profit zone. This applies not only to the financial year 2002 as a whole, but also to the individual quarters.

An assessment of the Salzgitter share price performance justifies a similar view. In an increasingly disoriented stock market, the official price of Salzgitter stock in 2002 declined less than the DAX index, and the first months of the present year have seen a perceptible improvement in our share price. Moreover, Salzgitter shareholders have participated in the company's performance not only by way of the share price but also year for year via above-average dividends.

We intend that 2003 should be no exception and will therefore propose to our shareholders that they once again ratify an attractive distribution. This is entirely consistent with sustainable business practices based on sound judgement. We see the present phase of macroeconomic stagnation as a chance – an opportunity to decidedly realize the fruits of our profit improvement program. But we are averse to embark on rash excursions that are likely to destroy more future potential than they create.

We intend to act in concert with our shareholders, customers and partner banks in order to ensure that Salzgitter AG emerges with even greater strength from a potentially more difficult financial year 2003. Our company too is part of a challenging environment and it is not entirely possible for us to set ourselves off from these events and processes. However, we will take care to maintain our ability to act and, for the time being, are attaching particular priority to cost discipline and stability, without losing sight of our growth targets.

We are supported in this approach by our broad and balanced portfolio of products and services embracing all aspects of rolled steel and tubes, as well as by the regional diversification of our activities and the creativity of our qualified staff.

The images presented in this annual report are designed to be a pictorial description of Salzgitter. It has given us great pleasure to once again prepare this understated, yet visually unmistakable presentation for you. The content of the report has been expanded to include comments on corporate governance, a practice that has been intensively pursued at our highest company level long before the arrival of the current Code. Of all the processes that pertain in and around a listed company, none are more significant or have greater effect than the sense of ethics, responsibility and confidence displayed by the groups and individuals involved in the business.

We stand by our achievements and commitment, and would like to thank you for the confidence you continue to show in our enterprise.

Wolfgang Leese | Prof. Dr. Günter Geisler | Dr. Heinz Jörg Fuhrmann

Helmut F. Koch | Michael B. Pfitzner | Dr. Volker P.H. Schwich

GROUP STRUCTURE

DIVISIONS

STEEL

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

TRADING

- Salzgitter Handel (100%)
  - Steeltrading Germany 16 companies
  - Steeltrading Europe 16 companies
  - Steeltrading International 8 companies
- Hövelmann & Lueg (95%)
- Universal Eisen und Stahl (100%)
- Robert (50%)

SERVICES

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

IT

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

PROCESSING

AUTOMOTIVE

- Salzgitter Europlatinen
  (100%)
- Salzgitter Magnesium-Technologie
  (100%)
- Salzgitter Automotive Engineering
  (74.9%)
- Salzgitter Antriebstechnik
  (50.8%)
- Oswald Hydroforming
  (24.9%)

CONSTRUCTION

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

TUBES

Mannesmannröhren-Werke AG
(99.3%)

- Vallourec
  Steel pipes (22.2%)
- Vallourec & Mannesmann Tubes[1]
  Seamless tubes (45%)
- Vallourec & Mannesmann USA[2]
  Seamless tubes (33.3%)
- Hüttenwerke Krupp Mannesmann[2]
  Slabs & round concast products (20%)
- MHP Mannesmann Präzisrohr
  Precision tubes (100%)
- Mannesmannring Sachsen
  Roller bearing rings (100%)
- DMV Stainless[1]
  Stainless tubes (66.7%)
- Europipe
  Large-diameter pipes (50%)
- Mannesmannröhren Mülheim
  Plates, tube bends (100%)
- Mannesmann Line Pipe
  Line pipes (100%)
- Röhrenwerke Gebr. Fuchs
  Line pipes (50%)
- Borusan Mannesmann Boru
  Welded pipes (23%)
- Mannesmann Forschungsinstitut
  Research and development (100%)

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

GROWTH STRATEGY

The growth strategy that was adopted in the summer of the year 1999, and since then implemented with great success, was expanded on in the first half of the year 2002 and adapted to the requirements and opportunities which were presented to the now larger Group, in particular by the takeover of Mannesmannröhren-Werke AG. The Steel, Tubes and Trading divisions were confirmed as the company's core businesses. The company's sales and performance targets are to be concentrated in these divisions through both internal and selective external growth. The Services division will be supporting the steel manufacturing companies in particular, while the Processing division will focus on selected products and services in order to expand the value chain.

Our company's principal objective is to preserve its independence by increasing both growth and performance. In this regard, a return on capital employed (ROCE) of 12 % throughout the business cycle remains the essential objective.

In order to achieve our company goals, new potential for improving Group performance was identified for each individual Group company. This potential is derived not only from cost reductions, but also results from increases in sales, capital expenditures and other measures. These measures have been defined up to the spring of the year 2003 and rendered transparent, thereby enabling them to be subjected to efficient controlling as part of the system underpinning the existing profitablity improvement program.

These combined measures form the basic strategy that will be implemented in the next three years. Successful execution of this "internal fitness program" represents an essential precondition in achieving our ambitious growth and performance targets.

The realization of other prerequisites was already embarked upon in the year 2001 and consistently advanced in the year 2002. We were able to further optimize the restructuring of the company from a parent company into a divisional group structure led by a management holding. In particular, the new internal relations pertaining to deliveries of goods and provision of services have been organized in the meantime, enabling substantially higher cost and performance transparency. The new management structures have also been established and are facilitating both overall management and enhancing the focus of the entire Group.

The process of introducing corporate culture guidelines (a "Leitbild") that are specific to Salzgitter commenced in the year 2001 and was successfully continued in 2002. In the meantime, nearly all Group companies have been included. Where necessary, internal and general corporate processes are analyzed and improved within the scope of numerous projects. Parallel to this, we are using these guidelines to enhance corporate culture as well as creating and strengthening a feeling of community and shared purpose throughout the Salzgitter Group. These measures advance and support the ongoing Group reorganization and facilitate the integration of acquired companies. In this way they contribute to our overall corporate success.

In the year 2002 the focus of external growth was on the Tubes division.
The takeover of the seamless tubes division of the American North Star Steel Company from Cargill, Inc. by Vallourec & Mannesmann Tubes S.A. (80.5% share) – a joint venture of Vallourec S.A. and Mannesmannröhren-Werke AG – and Sumitomo (19.5% share), underlines the company's worldwide leading position in the seamless tubes segment. The newly established company V&M Star manufactures high-quality seamless tubes in dimensions ranging from 5 to 10 3/4 inches and primarily targets the oil and gas industries. In financial year 2001 V&M Star employed 560 staff at its Youngstown (Ohio) and Houston (Texas) production sites with an annual manufacturing capacity of 500,000 tons, generating USD 328 million in sales and a pre-tax profit of USD 70 million. With the takeover of this leading supplier of high-quality seamless steel pipes, Vallourec & Mannesmann Tubes has substantially bolstered its worldwide market and competitive position.

In the Steel division the emphasis was on internal growth through capital expenditures. The major "Modernization of the Hot Strip Mill" project was resolutely advanced at Salzgitter Flachstahl GmbH.
The new plants, walking beam furnace and slab sizing press have been tried and proven in operation and are fully meeting the expectations made on them in terms of quality and increased volume.
The provisional last step in modernizing the hot strip mill will be carried out in the upcoming weeks. Thanks to the upgrading of the roll stands to leading edge rolling technology, combined with further developments in measuring technology and process automation, it is now possible to fully meet clients' increasingly stringent quality demands, also with regard to higher strength steel grades.

The new beam blank caster started up production at Peiner Träger GmbH. Thanks to further changes in the rolling plants more and more bloom formats can be replaced with cost efficient beam blanks (preformed steel ingots).

In June 2002 Salzgitter, ThyssenKrupp and Arcelor announced that the bidding group will abandon its efforts to acquire four Polish steelworks (Huta Katowice S.A., Huta im. T. Sendzimira S.A., Huta Cedler S.A. and Huta Florian S.A.). At the beginning of October 2001, the group submitted an offer to the Polish government that failed to receive official response. Salzgitter AG decided not to reenter into negotiations.

In August 2002, the Trade division established Salzgitter Handel Skandinavia AB, headquartered in Stockholm. This company took over the share of business activities and the staff associated with INEXA AB that had been assigned with the sale of Salzgitter Group products to date.

Ets. Robert et Cie S.A.S., a 50% shareholding, commissioned a new coil slitting line at the Le Thillay production site in the summer of 2002. This line doubles the production capacity in the slit strip segment, enabling the company to supply customers with higher volume requirements, especially in the automotive sector.

In the Processing division, two new roll stands were successfully put into operation at HSP Hoesch Spundwand und Profil GmbH in Dortmund. With these facilities in place, additional and above all broader steel sheet piles – only produced in Europe by one other competitor – will start in 2003.

In the 2002 business year a large number of studies was once again conducted concerning further purchases of interests in the steel processing industry. The greater portion of these projects was abandoned due to the insufficient sustainability of the results of the respective companies.

On January 15, 2003 Salzgitter AG purchased the remaining shares of Oswald Hydroforming GmbH & Co. KG (OHC), Crimmitschau, in which it has held a 24.9 % interest since the year 1999. With a total of 55 staff and 6 million € in sales in financial year 2002, this company focuses essentially on serving clients in the automotive industry with parts produced by hydroforming (IHU).

All of these investments and acquisitions are commensurate with the framework of the company's expanded and newly focused strategic structure and are geared to realizing the outlined growth and yield targets.

INVESTORS AFFAIRS

The Capital Market and the Performance of the Salzgitter Share

After the very satisfying price trends of the year 2001, the 2002 business year held some pronounced highs and lows in store for the Salzgitter share. Following the turbulences on world markets in autumn of the previous year, the Salzgitter AG share price returned to an appropriate level by the beginning of the current year. The closing price of the first trading day on January 2, 2002 was € 9.84 in XETRA trading, while the DAX closed with 5,168 points. The favorable price trend continued in the initial weeks. This was attributable to the already foreseeable outstanding result of financial year 2001 on the one hand, and on the other hand to the expectation of an upswing of the world economy in the second half of 2002 that was favorable to early cycle shares. With a day's high of € 12.65 on January 25, 2002 the Salzgitter share reached the second highest value since the public offering.

Announcement of the concrete measures restricting the imports of steel products that had already been indicated by the United States government in the previous year led to a decline in the share price in February, as the financial world anticipated a considerable impact of these trade restrictions on European steel manufacturers. It was immediately clarified, however, that the trade restrictions would only marginally affect Salzgitter; consequently the Salzgitter share remained at a price level of more than € 11.00 up to the General Meeting of Shareholders on June 19, 2002. This price trend clearly exceeded the German share indexes in the first half of the year 2002.

As of midyear new accounting scandals in the USA and in Europe shook the confidence of international capital investors – at times to the very utmost. In addition, increasing doubts arose on the stock exchanges with regard to the speed and sustainability of the expected upswing of the world economy. At times, it was feared that a so-called "double dip," i.e. a renewed recessional phase, might even be in store for the second half of the year instead of a boost to growth. Moreover, the increasing intensity of the conflicts in the Near and Middle East in the course of the year resulted in additional restraint on the part of capital investors and put new selling pressure on shares as other investment forms are usually preferred in imminent crisis situations. In the fourth quarter the negative sentiment on the stock exchanges was reflected in the new lows of the share indexes. On October 9, 2002, for example, the DAX closed at the lowest level since September of 1996 at 2,598 points. The Salzgitter share finished the same day at € 6.54 after suffering equivalent price losses in line with the German share indexes in the weeks before.

After a brief movement towards recovery, the correction of the earnings forecast for the full year – published in November and presented together with the third quarter results – as well as a nervous capital market initially led to improperly assessed publications concerning Salzgitter AG, thereby putting renewed pressure on the share price. Although these issues were dispelled within the shortest amount of time, the portfolio adjustments that were apparently pushed towards the end of the year among institutional investors caused unusually high stock exchange sales volumes at low prices in the last weeks of the year.
The Salzgitter share closed on December 30, 2002 in XETRA trading at a price of € 5.99 (–39% compared to the beginning of the year), the DAX ended the trading year with 2,893 points (–44% compared to the beginning of the year). A total of 20.6 million Salzgitter shares was traded on the German stock exchanges in financial year 2002 (2001: 13.2 million), 93.5% of these shares were traded on the Frankfurt stock exchange and in XETRA electronic trading. While the DAX continued to give way in the first weeks of the year 2003, the Salzgitter share price showed noticeable recovery.

After the Fourth Financial Market Promotion Act came into effect on July 1, 2002, Deutsche Börse AG decided to divide the stock market on the Frankfurt stock exchange into new segments. This resulted in two new segments for listing shares, namely the "Domestic Standard" and the "Prime Standard." While the legal minimum requirements apply to the first standard, international transparency requirements are mandatory in the "Prime Standard" segment. A new share index concept is based exclusively on the "Prime Standard." Below the DAX, which remains unchanged, a distinction is made according to classic industries and technology companies. The MDAX, which has been reduced from 70 to 50 companies, is calculated for the classic industries. The new stock exchange regulations of the Frankfurt stock exchange came into effect as of January 1, 2003, while the new index was launched on March 24, 2003.

Salzgitter AG applied for admission to the "Prime Standard" segment as early as December 2002, as it already fulfilled the stipulated conditions, and was subsequently admitted on January 15, 2003. The company will continue to be a member of the smaller MDAX share index.

Investor Relations

Our successful investor relations work continued to chart its course, also under the less than favorable conditions during financial year 2002. The number of personnel employed in the IR department was increased in the course of the year in order to meet the constantly growing information requirements of the capital markets. In addition to the regular analysts' conferences in Frankfurt and London, the Salzgitter Group was presented at numerous investor meetings and road shows for institutional and private shareholders. Furthermore, plant visits for analysts, investors and bank representatives were carried out at the production sites of the steel companies and Mannesmannröhren-Werke AG. These activities, including informative discussions with members of the Managing Board, provided a more complete and dynamic view of the productive capacities and potential of the Salzgitter Group.
The positive response these measures generated and the company's solid perfomance were also reflected by a large number of buy recommendations in 2002.

The ongoing restructuring trends in the international banking industry, caused by a continuing decline in prices on the stock markets, have already led to a noticeable reduction of the number of financial analysts who closely follow Salzgitter AG last year. Apart from the implementation of the recommendations of the Corporate Governance Commission, the key challenges for investor relations work in financial year 2003 will consist in establishing new contacts and liasing directly with investors.

Options/Own Shares

At the end of financial year 2002, corporate officers and employees held 885,400 subscription rights for a respective share of Salzgitter AG. These shares were issued as part of the 1998 stock option scheme for management and the Executive Board.

As of December 31, 2002, the company's own shares amounted a total of 1,136,182. This is equivalent to an increase of 452,761 over the figure for December 31, 2001 (683,421). In the course of the financial year under review 457,924 shares were acquired via the stock exchange at an average price of € 7.28 in accordance with the authorization given by the General Meeting of Shareholders of Salzgitter AG for repurchasing the company's own shares from June 19, 2002. A total of 27 shares were issued to staff members in the form of a bonus, while a further 5,136 shares were used at an average price of € 9.39 as equivalent payment for services rendered by third parties in the period under review (in accordance with the authorization of the General Meeting of Shareholders of Salzgitter AG for the repurchase and use of the company's own shares from March 16, 1999).

Dividends

The Executive Board and the Supervisory Board propose that the General Meeting of Shareholders resolve to pay a dividend for financial year 2002 in the amount of € 0.32 for each share.

Based on the nominal capital stock of € 160 million, the suggested payment amounts to € 20 million. As a result of the changes in the Law on Tax Reduction, the half income tax procedure applies to dividends paid since financial year 2001.

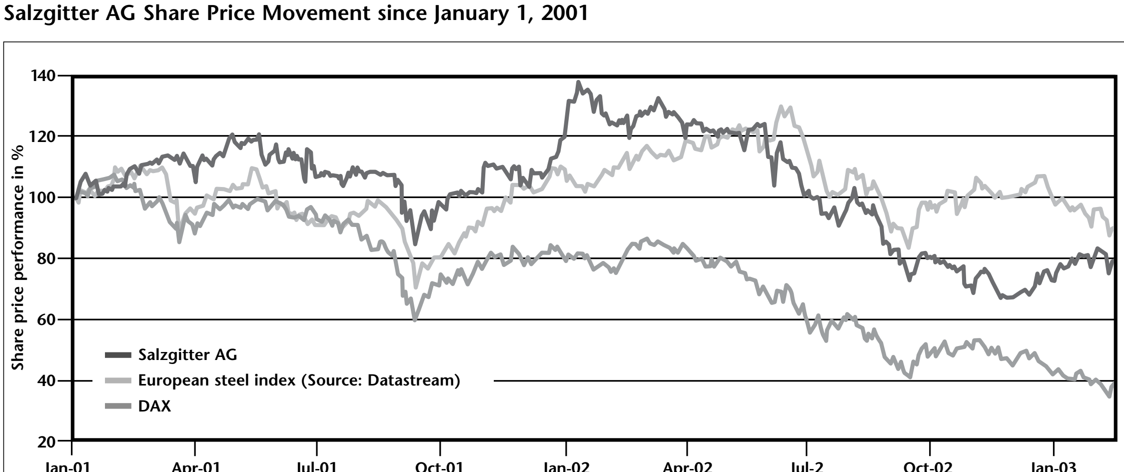
Tax invoice:	per share
Cash dividend	€ 0.25
Creditable capital gains tax and solidarity surcharge	€ 0.07
Dividend	€ 0.32

Information for Investors:

Nominal capital:	€ 159,523,066.93 divided into 62,400,000 shares
Class of shares:	bearer stock
Stock market high[1]:	€ 12.65
Stock market low[1]:	€ 5.85
Price as of December 30, 2002[1]:	€ 5.99
Market capitalization as of December 31, 2002:	€ 374 million
Earnings per share:	€ 1.05
Cash flow per share:	€ 2.51

1) Information based on XETRA trading prices in Frankfurt.

Salzgitter AG Share Price Movement since January 1, 2001



SOCIAL AND CULTURAL COMMITMENTS

Within appropriate economic bounds, Salzgitter AG engages in various social and cultural commitments that are reflected by a host of diverse activities.

The company's specific location concept focuses on activities benefiting youth, senior citizens and the socially disadvantaged. This concept underlines the company's social responsibility for citizens, company employees and their families.

The "Action Program n-21: Schools in Lower Saxony Online," a public-private partnership, is geared to supporting Lower Saxony's schools and educational facilities in becoming part of the information society through investments in their IT equipment.

Around 3,000 children and young people took part in the first Salzgitter Cup for ball sports in the summer months of the year 2002, an event initiated and sponsored by Salzgitter AG.

The company's participation in establishing a video conference system between the hospitals located in Salzgitter and the company health center represents a substantial enhancement of the medical care and services infrastructure.

A significant signal in the fine arts is also reflected in the support provided to the project "European Sculpture Parks and Gardens." This project enriches the cultural landscape through the works of renowned artists. The promotion of ongoing musical events is yet another enhancement for the region's cultural life and its population.

Salzgitter AG understands its corporate engagement in these activities as an ongoing and long-term commitment and plans to systematically further this concept through various individual, complementary measures.

GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT ON SALZGITTER AG

ECONOMIC SITUATION

Development in the Economy, Steel and Tubes Market

Contrary to original expectations, the worldwide markets showed virtually no signs of recovery in the year 2002. Although there were some indications of a slight upswing in the spring, a solid recovery failed to take shape in the further course of the year. Developments since then have been very uneven since investors and consumers, disconcerted by a string of spectacular corporate collapses in the United States, the recent decline of share prices and the Iraq conflict, have curbed their spending. In 2002, investment activity in particular has yet to recover from the recessive tendency of the previous year. Therefore, virtually all of the major industrial nations experienced contracting markets on an annual average.

Nevertheless, there were differences in how the worldwide crisis of confidence impacted the various regions. The business trend in the USA failed to develop dynamically in the course of the year. The US economy probably grew by 2.5 %, while overall economic activity continued to look up in the developing countries of Southeast Asia. China, in particular, was once again the growth and economic engine in Asia and provided stabilizing impulses for the worldwide capital goods industry. By international comparison, Russia and other national economies of the CIS (Commonwealth of Independent States) were also able to achieve above average overall economic growth rates for the year 2002.
By contrast, the **European** economy was characterized by near stagnation. Up to the end of the year there was no significant stimulation of overall economic performance discernible throughout the Euro zone. Average annual growth was recorded at a mere 0.8 %. Neither private consumption nor exports triggered sufficient dynamic power to put a halt to nearly two years of constantly declining investments in equipment. The interest rate reductions by the European Central Bank also failed to revive investment activity.

Development of the **German** economy also continued to be sluggish. Contrary to widespread expectations, there was no upswing in the second half of the year following stabilizing tendencies in the spring. In particular, investment activity – in terms of equipment and building – remained depressed, while private consumption showed virtually no tendencies toward recovery.
On the one hand, the sluggish recovery on the most important sales markets in Europe and the USA contributed decisively to the weak economic situation. This is reflected in the only very reserved expansion of exports in the year 2002, whereby German goods exports were also burdened by the strong upward revaluation of the Euro in relation to the dollar. On the other hand, domestic demand has not picked up in years. Real equipment investments declined by 7.5 % in the year 2002 and thereby even more strongly than in the year before. Private consumption was in a pronounced weak phase last year and provided only slight domestic economic impulses to investment demand.
Gross domestic product (GNP) rose only 0.2 % on an annual average, after having shown virtually no increase in 2001 (0.6 %). The situation on the job market noticeably deteriorated against this backdrop and the number of unemployed persons exceeded the four million mark.

At the beginning of the year 2002 **steel demand** and the production of the steel processing plants in the EU had reached a seasonally adjusted low in economic activity, with stocks on hand dropping to a low level. In the following, a very hesitant stimulation of industrial production set in that was occasionally accompanied by a moderate rise in steel use. The incoming orders booked by steel manufacturers continued to increase during the course of this process. Nevertheless, the overall view of the year 2002 shows that steel use remained 2% behind the previous year as a result of weak investment activity. The level of business activity of important steel processing industries did not match the previous year's volume. The European automobile market suffered from weak private consumption and the limited willingness on the part of companies to make investments, followed by an ensuing clear weakening in the demand for both passenger cars and commercial vehicles. Mechanical engineering and plant construction in the EU was also impacted by subdued domestic demand. The long downswing of the construction industry, in Germany in particular, did not come to a halt in 2002 either. Spain was the only European Union country that was able to report an expansion of construction investments.

Steel companies based in the EU reacted to this moderate demand stimulation in the course of the year 2002 with an increase in raw steel production. While steel production in the first quarter of 2002 was still 5% below the value of the same period in the previous year, it subsequently increased up to the summer. The figure in the EU over the entire year reached 158.5 million tons (–0.1% compared to the previous year) and 45.0 million tons in Germany (+0.5% compared to the previous year). A new worldwide record quantity of 903 million tons (+6.3%) was probably melted. The main growth regions here were China, Latin America and Africa. The capacity utilization of German manufacturers, that was under 85% for raw steel in the first quarter of 2002 and below 80% for rolled steel, amounted to 86% and 83% respectively at the end of the year.

Imports from third countries into the EU in the year 2002 remained 11% behind the value of the previous year. This was primarily caused by the rerouting of deliveries to Asia (in particular China) and the USA. There was a sharp increase in prices in the United States after the imposition of protective duties on steel imports in March 2002 due to the abrupt scarcity in supply. In spite of the tariffs this market remained attractive for imported steel. At the same time, as a countermeasure in conformance with the World Trade Organization, the EU ordered the imposition of steel import quotas into the EU in response to the prohibitive imposition of protective duties, thereby establishing an administrative hurdle which, apart from the comparatively low price level in the EU, at least reduced the attractiveness of imports.

Seen in terms of the quantity, the year 2002 in its entirety was a satisfying year for the steel industry in the EU. Together with this clearly reduced import pressure the supply policy of the European Union steel manufacturers, which was adjusted to general economic circumstances, also resulted in continuously increasing prices for flat steel products in the EU as of the second quarter of 2002. Starting from the price level low in the first quarter of the year, the market prices for flat steel rose in the EU by an average of € 80/t.

The **steel tubes and pipes market** also suffered a setback in 2002 after the outstanding 2001 business year.
Initially, the relevant market indicators for the steel tubes and pipes industry had suggested a successful 2002. Consequently, the decision made by the International Trade Commission at the end of 2001 to not impose measures on seamless tubes and oil field pipes in accordance with Section 201 provided clear relief to the industry. The oil price rose

from just under USD 18/bbl to occasionally more than USD 31/bbl at the beginning of the year and reached an annual average of USD 25/bbl. However, in view of a supply surplus of 1.5 million barrels per day in 2002 this high price was not justified on the market in technical terms, but was attributable to an average risk markup of USD 3–5/bbl due to fears of a war in Iraq. This led to a USD 200 billion drain on purchasing power worldwide, putting a further damper on an already weakened global economy. The US dollar lost 14 US cent on the Euro over the entire course of the year, incurring a negative impact on the revenues from project business offered on the basis of the dollar. An overall downturn became apparent in the steel tube industry in the course of financial year 2002. In the second half of the year there was a noticeable slowdown in the oil and gas pipes segment which had still been very stabile at the beginning of the year as energy companies – triggered by the ENRON balance sheet scandal – increasingly used these high revenues in order to reduce their indebtedness instead of investing. In addition, the cyclically lower power requirement contributed to postponement of planned investments.

Compared to the previous year, world steel tube production remained almost constant with 67 million tons in 2002, although there were also shifts in production. The CIS countries showed the largest drop in output with an 11% decline to 6 million tons, followed by the USA with a 7% decline to 5 million tons. China, on the other hand, was the only country to post a clear increase in production with a 12% rise to 12 million tons. The EU countries and Japan were able to keep their production at an almost constant level. Production in the seamless tubes segment declined by 2% worldwide to 19 million tons. Here, western countries showed substantial volume losses, while China recorded an increase. Welded tubes with an external diameter of up to 406 mm remained at the level of the previous year with a total production of 39 million tons. The EU countries were able to expand their quantities the most, while the CIS countries suffered the greatest fall in terms of quantity. The production of large-diameter tubes was increased by a further 2% to 9 million tons after a substantial rise in the year 2001, with Japan making the greatest contribution in this regard. In contrast, the EU countries were only able to slightly expand their production, while production shrank in the USA. The CIS countries suffered a volume decline after a very good year 2001, while China continues to play a subordinate role on this market.

Divisions

As management holding company Salzgitter AG leads and controls the five divisions Steel, Trading, Services, Processing and Tubes. In the following, the business development of the divisions will be outlined.

Steel Division

The operating companies Salzgitter Flachstahl GmbH (SZFG), Peiner Träger GmbH (PTG) and Ilsenburger Grobblech GmbH (ILG) together form the Steel Division under the umbrella of the intermediate holding company Salzgitter Stahl GmbH (SZS). Salzgitter Großrohre GmbH (SZGR) is also assigned to this Division.
Contrary to the general market trend, orders received for rolled steel products and processed products rose by 14% to 5,025 kton (previous year 4,402 kton), while orders on hand at the end of the financial year at 1,381 kton were 16% higher than the year before (1,192 kton).
Production of crude steel at SZFG and PTG totaled 5,151 kton, representing a further increase on the already high level of 5,080 kton recorded in the previous year. Production in Germany and indeed in the EU was overall stagnant. The Division's total output of rolled steel and processed products also showed a further increase. As in the previous year, the shortfall in crude steel was covered by the purchase of slabs.

Crude Steel Production

in kt[1]/month	World	EU	Germany	Thereof Steel Division
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	69,134	13,588	3,865	429
2001	70,801	13,220	3,734	423
2002	75,250[2]	13,204[2]	3,750[2]	429

[1] Thousand tons per month
[2] Provisional figures (as of Feb. 2003)

Steel Division Production

in kt	FY 2002	FY 2001	SFY 2000	1999/2000
Large-diameter pipes	110	145	29	31
Surface-coated sheets	1,239	949	249	739
Sheets	263	330	76	494
Plates[1]	805	801	210	806
Hot-rolled coils and steel strip	1,362	1,219	249	1,208
Sections	1,252	1,225	309	1,298
Crude steel	5,151	5,080	1,272	5,116
Pig iron	3,806	3,737	941	3,710

[1] Inc. broad strip

Shipments of rolled steel and processed products amounted to 4,890 kton, representing a rise of 8% over the preceding year (4,507 kton). This increase is attributable exclusively to the rise in shipments of rolled steel, whereas shipments of processed products were not quite up to the previous year's level.

The lack of economic impetus was particularly apparent in the development of prices in the various markets. The downturn in prices for flat rolled products which had begun in the preceding year continued into the first half of 2002, and it was not until early summer that SZFG was able to achieve higher prices and an associated improvement in its results. Prices for sectional products were also down in comparison with the year before. While the decline was not as marked as in the case of flat-rolled products, no recovery was staged and indeed there was a further decline in the last quarter. In the course of the year the prices of plates fluctuated within the normal market range. In comparison with the previous year, however, the three product segments yielded lower average returns running at –5% for the rolled steel business as a whole.

Sales to third parties and other Group divisions advanced to € 1,927 million (previous year € 1,864 million), solely as a result of increased shipments. The breakdown in sales between the individual companies was as follows: SZFG € 1,118 million (previous year € 994 million), PTG € 429 million (previous year € 433 million), ILG € 300 million (previous year € 345 million), and SZGR € 80 million (previous year € 92 million).

The pre-tax result returned by the Steel Division at –€ 23.5 million lagged well behind the previous year's figure of € 30.1 million. The principal causes for this lay in the dramatic drop in prices for flat steel products and the downturn in prices achieved for sectional products. The result was further impaired by the rising cost of energy as well as increases in the cost of purchased slabs and scrap. The generally weaker US dollar had the effect of enhancing the result, in that it led to a slight fall in purchasing costs in some cases. All four companies in the Division reported a downturn. Negative results were posted by SZFG at –€ 16.6 million (previous year € 6.2 million), also PTG with –€ 12.0 million (previous year € 20.3 million) and ILG with –€ 2.4 million (previous year € 5.7 million), while SZGR recorded a profit of € 9.0 million (previous year € 9.8 million).

Capital expenditures (excluding financial investments) during the financial year amounted to € 127 million, down by € 70 million on the year before (€ 197 million). These contrasted with depreciation in the amount of € 137 million, against € 142 million in the previous year.

The regular workforce employed by the Division as of December 31, 2002, had declined to 6,971 (December 31, 2001: 7,022).

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

Steel Division		FY 2002	FY 2001
Crude steel production	kt	5,151	5,080
LD steel (SZFG)	kt	4,152	4,092
Electric steel (PTG)	kt	999	988
Shipments	kt	4,890	4,507
Rolled steel	kt	4,685	4,287
Processed material	kt	205	220
SZFG	kt	2,835	2,320
PTG	kt	1,251	1,244
ILG	kt	692	806
SZGR	kt	111	137
Sales	€ mil.	1,927	1,864
SZFG	€ mil.	1,118	994
PTG	€ mil.	429	433
ILG	€ mil.	300	345
SZGR	€ mil.	80	92
Internal sales[1)]	€ mil.	497	467
External sales[2)]	€ mil.	1,430	1,397
Division income before taxes	€ mil.	–23.5	30.1
Thereof SZFG	€ mil.	–16.6	6.2
Thereof PTG	€ mil.	–12.0	20.3
Thereof ILG	€ mil.	–2.4	5.7
Thereof SZGR	€ mil.	9.0	9.8
Investments[3)]	€ mil.	127	197
Total workforce	At Dec. 31	6,990	7,033
Core workforce		6,971	7,022
Wage labor		5,262	5,338
Salaried employees		1,709	1,684
Apprentices, students, trainees		19	11
EBIT	**€ mil.**	**18**	**65**
EBITDA	**€ mil.**	**155**	**207**

1) Sales to other Group business units
2) Contribution to Group external sales
3) Excluding financial assets

In the following, a more detailed account of business developments at the individual companies will be provided:

Salzgitter Flachstahl GmbH

At its plant in Salzgitter, Salzgitter Flachstahl GmbH (SZFG) operates an integrated steel works covering the entire value chain from blast furnaces and steel-making to continuous casting lines, hot mill, cold mill, hot-dip and electrolytic galvanizing and strip coating lines. The product range includes hot-rolled coil and strip, cold sheet and surface-treated products in various specifications. The company's flat rolled products are used in automobile manufacturing, by suppliers to the automotive industry, and as input material for the construction industry.

Despite the absence of the expected upturn in the economy, SZFG was successful in further expanding its business. Orders received amounted to 2,938 kton (including 102 kton of broad strip included here for the first time and previously attributed to ILG), representing an increase of 29% over the previous year (2,278 kton). Production plant capacities, including the two hot-dip galvanizing lines, were consequently well utilized. Besides an increase in the order volume for surface-treated sheet, the hot-rolled products business also underwent an expansion. Orders on hand at the end of the year at 977 kton (inc. 35 kton broad strip) exceeded the previous year's figure (821 kton) by a gratifying measure.

Production of crude steel at SZFG amounted to 4,152 kton, up slightly on the year before (4,092 kton). As in the previous year, in addition to supplying SZFG's own rolling mills, slabs were also supplied to ILG and PTG. To satisfy overall demand for crude steel at SZFG, ILG and PTG, SZFG bought in additional steel in the form of slabs. Hot-rolled wide strip was sourced from SZFG by both SZGR and Europipe for the purpose of manufacturing spiral-welded large-diameter tubes.

Production of rolled steel for shipment to customers (excluding deliveries of rolled steel within the Steel Division) rose in 2002 from 2,339 kton to 2,846 kton (including 99 kton broad strip). This was essentially the result of the successful commissioning of new plant installations for both hot and cold-rolled products. In addition to the primary aim of enhancing quality, these new facilities have also afforded moderate capacity increases. Following the successful startup of the second hot-dip galvanizing line that became fully operational for the first time in 2002, a further increase in the proportion of hot-dip galvanized sheet among cold-rolled products was recorded.
Similarly, shipments of rolled steel products (inc. 102 kton broad strip) to third parties and Group companies outside of the Steel Division rose by 22% to 2,835 kton. The proportion of total deliveries accounted for by surface-treated sheet rose to 42% (previous year 39%). The continuing decline in revenues deriving from flat-rolled products in the course of the 2001 financial year persisted in early 2002, reaching a low point at the end of the first quarter.
Thereafter through to the end of the year, the moderate revival in the business activities of steel processors first experienced at the beginning of the second quarter enabled the introduction of incremental price increases for all flat-rolled products. Implementing these increases in the EU was somewhat facilitated by the low level of third-country imports. As a result of the high proportion of longer term supply agreements, however, it was only after several months' delay that these price increases began to filter through into SZFG's business. In the course of the second half a sustained improvement in revenues set in.

SZFG sales to companies outside of the Steel Division and third parties amounted to € 1,118 million in financial year 2002, representing an increase of 12% in comparison with the previous year (€ 994 million). Of this figure, sales in Germany accounted for € 733 million, while sales to EU countries contributed € 334 million and sales to other countries € 51 million.

At € 964 million the company's external sales delivered 67% of total turnover. In addition to the traditional business relationships with PTG and ILG (slabs), as well as SZGR (hot-rolled wide strip), the Group's own trading companies accounted for the bulk of sales to associated undertakings.

Sales revenues during the reporting period suffered under the sustained impact of price factors that were generally negative compared with the year before. Despite considerable efforts to control and reduce costs, the effect on results was only mildly ameliorated. This must be viewed against a background of rising energy prices and the increasing cost of buying in scrap and slabs.
Consequently, the company achieved a pre-tax result for financial year 2002 of –€ 16.6 million (previous year € 6.2 million).

At the end of the year 2002, SZFG employed a regular workforce of 4,780 employees (previous year 4,835). This total included 3,573 wage earners (previous year 3,642) and 1,207 salaried staff (previous year 1,193). The reduction in the workforce was essentially the result of transfers to age-related part-time employment.

Peiner Träger GmbH

In the ultra-modern electric arc furnace melt shop at Peiner Träger GmbH (PTG), scrap is melted and cast into bloom and beam blanks via continuous casting lines. The resulting input material is then rolled in the universal section mill and heavy section mill – two of the most modern, high-performance mills of their kind in the world – to produce Peiner beams, IPE beams, sheet piling and other long products.

Contrary to expectations, the economic recovery anticipated at the beginning of the year in PTG's principal core markets in the EU failed to materialize. Its absence was particularly apparent in the construction sector which is of major importance for the beams business.

Exports were helped by the fact that accusations of dumping beams in the US market were rejected as unjustified. Nonetheless, the economic situation in the USA and the associated effect on prices – especially for beams – were not such as to encourage larger deliveries. In Eastern Europe, Poland began to introduce protectionist measures in the course of 2002, one of the aims being to set volume quotas for imports of beams into the Polish market.
Despite these restrictions, orders received at 1,285 kton showed an increase on the year before (1,261 kton). Orders on hand at the end of the year amounted to 179 kton (previous year 141 kton).
The steel works produced some 999 kton of electric steel, representing a slight increase on the year before (988 kton). The universal section mill produced some 788 kton, likewise up on the previous year (769 kton), whereas the heavy section mill with an output of 463 kton lagged behind last year's figures (471 kton).

The overall volume of deliveries at 1,251 kton was on a par with the year before (1,244 kton) although there were variations in the breakdown between markets. Demand in Germany, the EU's weakest market, fell sharply, however compensating volumes were sold elsewhere in the EU.

The downturn in prices which began early in the year 2002 was halted, and prices in the EU stabilized with effect from the middle of the year. However, the situation in the marketplace renders it impossible to pass on the full extent of cost increases in the form of higher prices.
Despite the almost identical volume of deliveries, as a result of lower average revenues in comparison with the year before, the value of sales to Group companies outside of the Steel Division and third parties fell by € 4 million to € 429 million.

At the same time, the year 2002 saw cost increases in some very important areas. The sharp increase in scrap prices is noteworthy, this being the company's most important raw material. In comparison with the preceding year, price increases alone accounted for a 16% rise in expenditure on materials. Similar price hikes for bought-in semifinished products (slabs and blooms) had also to be accommodated, in addition to which there were also rises in energy prices. The ensuing effects on results could not be compensated by cost control measures. In conjunction with the lower returns on both core products such as sections and wide-flange beams as well as processing products, the company returned a negative pre-tax result of – € 12.0 million (previous year € 20.3 million).

At the end of the financial year PTG employed a regular workforce of 1,330 employees, including 1,044 wage earners and 286 salaried staff. The increase of 5 employees in comparison with the year before was essentially due to the reintegration of outsourced services that had not proved cost efficient.

Ilsenburger Grobblech GmbH

Ilsenburger Grobblech GmbH (ILG) produces high-quality plates in thicknesses ranging from 5 to 120 mm for structural and mechanical engineering applications, tank and container construction, as well as for the offshore, tubes, shipbuilding and automotive industries. State of the art plant and equipment enable the company to manufacture a wide range of products which includes water-quenched and stainless plates as well as cut-to-size plate blanks. The range is further supplemented by processing services such as edge preparation, bending and primer coating.

The marked absence of expected dynamic developments in the economic situation likewise affected the demand for plate. In Germany the construction industry, structural steelwork, mechanical engineering and tank and container manufacturing were especially impacted. Steel stockholders suffered from excessively tight margins and high inventories towards the middle of the year. From autumn onwards, however, the situation normalized once more. On the other hand, throughout the year there was a positive impetus felt both from German tube makers and from the European wind turbine industry. Outside of the EU, shipbuilding demand in Asia in particular exercised a stabilizing effect.
Despite the difficult climate, the company succeeded within the first quarter in halting the deterioration in revenues which had commenced in the preceding year. Market prices were stabilized and gradually became firmer as the year progressed, especially in transactions with stockholders. In the consumer and projects business, adequate prices were

above all achieved in circumstances where the company's comprehensive range of high-quality products could be properly marketed.

Overall, ILG looks back on a difficult year. However, by building on the broad market basis developed in recent years and the excellent position provided by the company's product range that is constantly being adapted to the needs of the marketplace, it was a year in which ILG was able to safeguard production levels.
The order intake of 711 kton was 3% up on the strong figure recorded in the previous year. Orders on hand as of December 31, 2002 amounted to 188 kton (previous year 177 kton) and extended well into the first quarter of 2003.

Plate production in financial year 2002 amounted to some 709 kton, representing an increase of 19 kton over the preceding year. This rise in production volume was achieved despite the temporary restrictions on capacity imposed by the expansion and modernization of some of the main plant components during the summer shutdown. In line with the development of new and high-quality grades and product ranges with greater processing depth, the proportion of rejections fell markedly in comparison with the year before. Consequently, the positive trend in performance is continuing.

Shipments of plate during the reporting period amounted to 692 kton, virtually equaling the figure for the year before (excluding broad strip). On the other hand, the average sales revenues fell short of the previous year.
Sales to non-Steel Division companies and third parties amounted to € 300 million, corresponding a shortfall of € 45 million in comparison with the year before (€ 345 million). The principal reason for this lay in the transfer of the broad strip business (squared hot-rolled strip) to SZFG.
ILG reported a pre-tax result of –€ 2.4 million (previous year € 5.7 million) for the financial year 2002.

At the end of the financial year ILG employed a regular workforce of 719 employees, including 537 wage earners and 182 salaried staff. This represented an increase of 5 in comparison with the year before (total 714).

Salzgitter Großrohre GmbH

Salzgitter Großrohre GmbH (SZGR) manufactures spiral-welded large-diameter tubes. With its two-stage welding process, SZGR sets new quality standards and satisfies the highest requirements for national and international pipeline projects. Using a variety of coating systems, these large-diameter tubes can be treated ready for installation according to the individual preferences of customers in the oil and gas industry.

Despite rising oil and gas prices, there was no immediate indication of a revival in pipeline projects. SZGR was nevertheless well occupied thanks to advance pipeline orders booked for European energy companies as well as orders destined for non-European markets not affected by various crises. Orders received by SZGR amounted to 92 kton (previous year 73 kton), with orders for 37 kton on hand at the end of the reporting period (previous year 54 kton).
During the financial year 2002 some 108 kton of tubes were manufactured (previous year 145 kton). Shipments amounted to 111 kton (previous year 137 kton) of which 22 kton was accounted for by the German market, 32 kton by other European countries (France, Spain, Switzerland) and 57 kton by exports to third countries (Mozambique, Cameroon).

Sales during the reporting period amounted to € 80 million (previous year € 92 million). SZGR achieved a pre-tax profit of € 9.0 million (previous year € 9.8 million).

As of December 31, 2002, SZGR employed a regular workforce of 142 employees (inc. 108 wage earners and 34 salaried staff). In comparison with the year before (total 148), the workforce had declined by 6 employees.

Trading Division

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

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

In addition to the intermediate holding company Salzgitter Handel GmbH (SHD), the SHD Group in turn comprises Salzgitter Stahlhandel GmbH (SSH), Stahl-Center Baunatal GmbH (SCB), Salzgitter International GmbH (SID), Salzgitter Handel B.V., Oosterhout (SHN), Salzgitter Trade Inc., Vancouver (STV), Salzgitter International Inc., Houston (SIH), which had not yet been consolidated during the reporting period, and other non-consolidated subsidiaries.

Given the global economic situation, the trading companies overall were relatively successful, even though demand emanating from the important markets of the USA, Asia (with the exception of China) and Europe during the year was minimal. The weak Euro-Dollar exchange rate in the first three quarters created a comparatively favorable climate for Euro zone exports. Here too, however, growth rates steadily declined as the year progressed.

Steel stockholders in Germany in particular found themselves suffering from excessive competition, the effects of which became critical as the continued decline in the construction sector led to inadequate revenues and overstretched trading margins.

Despite this difficult environment the companies of the Trading Division achieved a total volume of 4,472 kton in financial year 2002, falling just 0.5% short of the previous year (4,494 kton).
Due to price pressure, gross sales fell by 6.9% to € 1,779 million (previous year € 1,910 million).

The Division achieved a pre-tax result of € 8.2 million which fell considerably short of the year before (€ 18.5 million). A wide range of deviations were, however, reported by individual companies.

The Trading Division as a whole invested a total of € 11 million (previous year € 9 million); depreciation likewise totaled € 11 million (previous year € 11 million).

As of December 31, 2002, the Trading Division employed 1,890 staff (December 31, 2001: 2,011), in addition to 114 trainees (previous year 116). The reduction of the regular workforce by 121 employees was essentially attributable to restructuring within the SHD Group (SSH, SID).

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

Trading Division		FY 2002	FY 2001
Shipments	kt	4,472	4,494
Salzgitter-Handel-Gruppe	kt	4,008	3,982
Hövelmann & Lueg	kt	199	173
Universal[1]	kt	199	274
Robert S.A.S.[2]	kt	66	65
Sales	€ mil.	1,779	1,910
Salzgitter-Handel-Gruppe	€ mil.	1,559	1,640
Hövelmann & Lueg	€ mil.	69	64
Universal[1]	€ mil.	126	180
Robert S.A.S.[2]	€ mil.	25	26
Internal sales[3]	€ mil.	50	33
External sales[4]	€ mil.	1,729	1,877
Division income before taxes	€ mil.	8.2	18.5
Salzgitter-Handel-Gruppe	€ mil.	9.5	9.6
Hövelmann & Lueg	€ mil.	0.2	0.2
Universal[1]	€ mil.	−3.4	7.1
Robert S.A.S.[2][5]	€ mil.	1.9	1.6
Total workforce	At Dec. 31	2,004	2,127
Core workforce		1,890	2,011
Salzgitter-Handel-Gruppe		1,348	1,462
Hövelmann & Lueg		179	177
Universal[1]		316	326
Robert S.A.S.[2]		47	46
Apprentices, students, trainees		114	116
Inventories	€ mil.	211	211
EBIT	**€ mil.**	**23.9**	**38.6**
EBITDA	**€ mil.**	**34.6**	**49.9**

1) Universal Eisen und Stahl GmbH, Neuss, and Universal Ocel, Prag
2) Considered ad a quota (50%)
3) Sales in own segment and to other corporate divisions
4) Contribution to Group external sales
5) Inc. the results for associated companies

The individual companies in this Division recorded differing developments in their businesses in financial year 2002.
The intermediate holding company at the head of the SHD Group, **Salzgitter Handel GmbH (SHD)**, coordinates the strategic orientation and activities of more than 40 steel trading companies worldwide.
In the field of stockholding in the EU, SSH's branches offer a full range of products, with sheet processing just one of the services available. SCB is a steel service center and warehouse that supplies the VW plant in Kassel on a just-in-time basis. The Dutch-based companies are mainly active in steel sections trading.
SID, STV and SIH are engaged in trading steel products internationally, the latter two companies being focused mainly on the North American market.

In spite of the deterioration in market conditions in comparison with the preceding year, the SHD Group succeeded in maintaining its overall volume in the order of 4.0 million t. Due to the negative trend in prices, sales at € 1,559 million lagged behind the previous year's figures (€ 1,640 million).
The companies based in Germany (SSH and SCB) achieved a sales volume of 1.4 million t, compared with 1.5 million t in the preceding year (– 5 %). In parallel with the development in volumes, the value of sales declined from € 698 million to € 649 million (– 7 %).
The Stahl-Center Baunatal has supplied the VW plant in Kassel on a just-in-time basis for some ten years now and continued to do so in 2002.
Despite the difficult economic situation in Europe, the steel trading companies in the Netherlands sold 242 kton and turned over € 98 million, thereby matching their performance in the preceding year (240 kton and € 97 million).
SID increased its trading volume from 2.1 million t to 2.2 million t (5 %), however the value of sales declined from € 811 million to € 779 million (– 4 %). The negative movement in turnover reflects the downturn in prices.
During the financial year 2002 a restructuring program was implemented at SID that was geared to ensuring an adequate contribution to results. Steps taken included cost reduction measures, a more selective approach to orders and a significant reduction in the requirement for financial resources. This program was carried out successfully and has led to a considerable improvement in results.
STV is active in North America where it found itself confronted with a difficult situation in the marketplace. Besides the weakness in demand, the restrictions on imports into the USA and import deterrents undertaken by US plants, coupled with strong competition among American suppliers, resulted in a partial isolation of the North American market. Nevertheless the volume of sales at 83 kton matched the previous year's level (81 kton), but still lagged far behind previous typical figures. The negative development in turnover due to price factors meant that the 2002 figure of € 31 million fell some 6 % short of the previous year's sales (€ 33 million).

Salzgitter International Inc., Houston (SIH), was established in 2001 in order to strengthen the Group's presence in the North American market. The company coordinates activities in the USA and is making a positive contribution to results in the meantime.

Despite the adverse economic conditions and weak demand, the SHD Group achieved an overall profit before taxes of € 9.5 million (previous year € 9.6 million).

Hövelmann & Lueg GmbH & Co. KG (HLK) is a steel service center with branches in Schwerte and Salzgitter. With five cut-to-length lines, two cutting centers and several squaring shears, the company prepares high-quality square-cut and cut-to-size products to tight dimensional and flatness tolerances for various industries. A high performance cutting line for sheet products with superior surface qualities, including colour-coated sheets, is under construction. HLK has intensified its activities in the market for slit steel products by entering into various cooperative arrangements.

The weakness in the economy as a whole affected demand for high-quality sheets and cut-to-size products. While satisfactory demand in the world market from the second quarter onwards allowed steel manufacturers to steadily improve their selling prices, competition was so fierce that the SSCs were only partially able to pass on their higher restocking costs to end customers, and even then only with an appreciable time lag.

As a result of considerable efforts, including the exploration of new markets and market segments, sales volumes again rose by 26 kton to a total of 199 kton (15 %). The lesser increase in the value of sales which rose by 8.1% to € 69 million reflects the disappointing trend in prices.
As in the preceding year, the result before taxes amounted to € 0.2 million.

At Universal Eisen und Stahl GmbH (UES) the focus is on trading in plate products to meet the needs of direct customers, with a growing level of importance now attaching to pre-processing.
The company's main distribution organization is concentrated on Europe, however, international activities in areas such as the USA and South Africa are increasingly under development.

In the first half of 2002, UES recorded adequate volumes and satisfactory earnings. However, the decline in volume later in the year was accompanied by a marked deterioration in both prices and margins, with the effect that the negative result in the second half exceeded the profit earned in the first six months. Internal restructuring and the difficult situation in the Czech Republic further exacerbated the situation.

In the reporting period UES, Neuss, together with UES Ocel, Prague, sold some 199 kton of plate (previous year 274 kton). Sales of € 126 million were also down on the year before (€ 180 million), resulting in a loss of – € 3.4 million which is reflected in the results of the Trading Division. In the previous year UES had returned an overall contribution of € 7.1 million, which was, however, not directly comparable as it comprised the results of two particularly good preceding financial years.

Salzgitter holds a 50 % stake in the French company **Ets. Robert et Cie S.A.S. (RSA)** which, with its two subsidiaries **Le Feuillard S.A.S. (LFS)** and **Tolcolor S.A.S. (TOS)**, operates four steel service centers in the Paris area and Lyon, making it one of the major steel service companies in France. In the summer of 2002 a new sheet slitting line was commissioned at the site in Le Thillay, an investment which has allowed the company to more than double its output of slit steel and – in cooperation with SZFG – substantially expand its commitment to the French automotive industry. The line will reach full capacity in financial year 2003.

Contrary to the weak economic trend, the Robert Group succeeded in advancing volumes by 3% to 132 kton, with all of the company's branches contributing to this growth. Under market pressure the sales declined to € 49 million (previous year € 52 million). Nevertheless, the pre-tax result rose to € 3.9 million (previous year € 2.5 million) (respectively stated at 100%), and the proportionate contribution to the result of the Trading Division therefore amounted to € 1.9 million (previous year € 1.6 million).

The Services Division

The functions of the Services division are oriented in particular toward the Group companies involved in the steel business and are intended to provide cost-optimized and competitive services for these companies.
The competitive situation vis-à-vis other suppliers also serves as the decisive factor in the business with external customers to whom the individual companies offer their technical expertise and their specific product experience. On the one hand, the emphasis is on generating additional value and earnings contributions, while successfully measuring up against external suppliers, on the other.

This division includes DEUMU Deutsche Erz- und Metall-Union GmbH (DMU), PPS Personal-, Produktions- und Service-gesellschaft mbH (PPS), Verkehrsbetriebe Peine-Salzgitter GmbH (VPS), GESIS Gesellschaft für Informationssysteme mbH (GES), Hansaport Hafenbetriebsgesellschaft mbH (HAN, 51% interest), TELCAT Multicom GmbH (TMG) with its subsidiary TELCAT Kommunikationstechnik GmbH (TCG) and "Glückauf" Wohnungsgesellschaft mbH (GWG).
In addition, various non-consolidated subsidiary companies and minority interests are included here.

In the course of concentration on promising business fields, the business activities of Peiner Hüttenstoffe GmbH, Peine, which was involved in trading with agrarian and materials for iron and steel works, were discontinued as of February 28, 2002. At the same time, its subsidiary, Hanseatic Agrar- und Baustoffhandel GmbH in Bremen was divested.

In financial year 2002 the Services division generated € 612 million in sales (€ 547 million in the previous year). The sales structure is clearly dominated by DMU with a 52% share, followed by PPS with 19% and VPS with 11%. The share of sales for parties outside the Group amounted to 38%, thereby roughly matching the previous year's level.

The earnings of the division before taxes amounted to € 8.3 million and could not measure up to the previous year's result (€ 12.8 million). This negative deviation is primarily due to the lower capacity utilization at the individual PPS operations.

The segment as a whole invested € 35 million (previous year: € 21 million), while the depreciation amounted to € 12 million (previous year: € 12 million).

A total of 3,763 employees (previous year: 3,709) were employed in the Services division by the end of the year. In addition, there were 661 apprenticeships (previous year: 639).

The increase in permanent staff in this segment is essentially attributable to PPS, as well as takeovers within the scope of part-time work for elderly staff in the steel companies.

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

Services Division		FY 2002	FY 2001
Sales	€ mil.	612	547
DMU	€ mil.	316	268
PPS	€ mil.	116	113
TELCAT group	€ mil.	46	41
VPS	€ mil.	66	61
Other companies	€ mil.	68	64
Internal sales[1)]	€ mil.	380	331
External sales[2)]	€ mil.	232	216
Division income before taxes	€ mil.	8.3	12.8
DMU	€ mil.	0.7	0.3
PPS	€ mil.	–6.8	–1.1
TELCAT group	€ mil.	1.5	1.3
VPS	€ mil.	3.0	3.6
Other companies inc. non-consolidated companies	€ mil.	9.9	8.7
Total workforce	At Dec. 31	4,424	4,348
Core workforce		3,763	3,709
DMU		232	244
PPS		2,158	2,094
TELCAT group		370	361
VPS		745	756
Other companies		258	254
Apprentices, students, trainees		661	639
EBIT	**€ mil.**	**9.6**	**15.6**
EBITDA	**€ mil.**	**21.9**	**27.6**

1) Sales in own segment and to other corporate divisions
2) Contribution to Group external sales

The individual companies developed as follows:

DEUMU Deutsche Erz- und Metall-Union GmbH (DMU) is responsible, in particular, for the scrap iron supply of the Steel division. Furthermore, its operational activities include trading with alloy materials, aluminum and magnesium, the manufacturing of blanks made from heavy plate as well as the marketing of IIa rolling mill products.

In the financial year just elapsed, DMU, apart from scrap iron procurement for SZFG and PTG, continued to successfully establish itself within the Group with regard to all other steel scrap activities. This is documented by organization of the flow of scrap arising at the Ilsenburg, Salzgitter and Peine locations, as well as by the marketing of discarded scrap not used within in the Group, that is generating the greatest possible value creation for the delivering plants.

The company increased its sales in steel scrap trading and achieved a 20% increase in its volume of business with 1.9 million tons. Strengthened by the clearly higher price level, € 189 million in sales were achieved. This translates into an increase of 40%. The delivery ratio within the Group remained unchanged at 75% of the entire steel scrap quantity.

The development of scrap iron logistics projects for Group customers remains a standing task that has to be solved. A new priority project will comprise the development of innovative, process-integrated recycling concepts in cooperation with the steel and automobile industries as a result of the implementation of the European Union Guideline on End of Life Vehicles.

DMU was able to generate € 316 million in sales (previous year € 268 million) with € 0.7 million in pre-tax profits (previous year € 0.3 million).

PPS Personal-, Produktions- und Servicegesellschaft mbH (PPS) provides the Group and external customers with comprehensive services in eight fields of business. The service segments of education, training and consulting, industrial medicine, industrial safety, security services and the printing center have positioned themselves well on the market for external services. The combination of outstanding technical equipment and the high staff qualification standards provide favorable prerequisites for acquiring external orders.

Internal service relations with associated companies is determined in particular by the Industrial Service and Technology divisions. PPS's competence as a provider of technical services for all steel-related maintenance and repair activities is of particular importance.

Although PPS increased its sales to € 115.6 million (previous year € 113.2 million) in the financial year under review, it nevertheless suffered a loss of € 6.8 million (previous year – € 1.1 million). The sharp decline in the company's performance compared with the previous year was primarily due to serious capacity utilization problems in the company's technology business.

Verkehrsbetriebe Peine-Salzgitter GmbH (VPS) operates as a logistics service provider primarily for the Steel division companies. As one of the largest German public railways, VPS furnishes transportation services for Group and outside companies while operating two inland ports in Peine and Salzgitter, as well as workshops whose activities are aimed at the maintenance of both its own and external rail-mounted vehicles and rail infrastructures.

In pursuing its aim of providing complete logistic solutions, VPS invested in a combined loading traffic plant (investment volume approximately € 7 million) and in the construction of two shipping halls for SZFG sheet metals (investment volume approximately € 18 million). Both projects went into operation according to plan in 2002.

VPS carried 36 million tons (previous year 35 million tons) via railway and generated total sales of € 65.5 million (previous year € 60.8 million). The company's pre-tax profit amounted to € 3.0 million (previous year € 3.6 million).

The sales increase was essentially attributable to first time revenues earned from logistics and primarily good capacity utilization in all of the company's operating divisions, as well as to an unusually high number of orders in the maintenance and repair segment. Nevertheless, the company reported a lower result due to general cost increases and reduction of tariffs in internal works' traffic.

Hansaport Hafenbetriebsgesellschaft mbH (HAN) carries out transshipment and storage of mass bulk materials at the port in Hamburg. The company's primary aim lies in cost efficient and on schedule transshipment of ore and coal quantities imported for the Group's Steel division. The company is endeavoring to expand its business volume in order to generate additional earnings contributions, whereas an increasing share of all transshipments was again generated for external customers in the course of this financial year.

With a total transshipment quantity of 22.7 million tons, HAN showed a very high capacity utilization rate and thereby exceeded its performance for the previous year by 1.9 million tons (9.1%). The total quantities received amounted to 11.7 million tons (previous year 10.8 million tons), while the company's output quantities totaled 11.0 million tons (previous year 10.0 million tons). Of particular note is the clear year-on-year increase of 0.8 million tons or 22.4% in coal transshipment.
The share of the total quantity transshipped for Salzgitter in terms of total quantities received amounted to 6.2 million tons (53%) compared with 6.3 million tons (58%) in the previous year.

Sales reached € 29.4 million in this financial year and were thus, particularly as a result of the positive development in coal transshipment, € 2.7 million (10.5%) higher than the value for the year 2001 (€ 26.7 million).
With a total of € 6.4 million, the company's pre-tax profit clearly exceeded last year's performance (€ 4.0 million).

GESIS Gesellschaft für Informationssysteme GmbH (GES) operates as the central IT service provider for both the Group companies and external customers. The company's principal objective is ensuring that the associated companies are provided with IT services fully meeting their technical and economic requirements.
Apart from IT consulting and project completion, the products and services range provided by GES also includes the full service range of a modern computing center.
Furthermore, GES is a SAP consulting partner and functions as an IT competence center for the company's R/2- and R/3 projects.

In financial year 2002, GES concentrated its efforts in particular on the establishment of an e-Business platform, the bundling of mySAP.com licenses, migration from SAP R/2 to R/3 as well as the introduction of a business warehouse.

A GES subsidiary was established in Mülheim in order to handle the expected IT services required by the Tubes division.

The financial year was characterized by very good utilization of all GES resources in every business field, both internally and externally. The company achieved € 30.3 million in sales (previous year € 28 million) and € 3.3 million in pre-tax profit (previous year € 3.5 million).

The **companies in the TELCAT Group** operate on the information and communications technology (ITK) market. They plan, set up and operate telephone systems, data processing networks, fire alarm systems and work as resellers of network services.

TELCAT Multicom GmbH (TMG) is the Group's head company and operates its business throughout Germany with 16 subsidiaries and additional service and distribution bases by 90% with companies outside of the Group. Its subsidiary TELCAT Kommunikationstechnik GmbH (TCG) primarily provides support to Group companies with their principal place of business in Salzgitter.
Since the beginning of the financial year Telefonbau Marienfeld GmbH & Co. KG, with subsidiaries in Essen and Erfurt, has become part of the Group as a further subsidiary of TMG, but was not consolidated.

In spite of the unfavorable market environment that also impacted the information and communications technology segment the Group companies developed positively in terms of their sales and results. Altogether, the Group achieved sales of € 46 million (excluding Telefonbau Marienfeld) and exceeded the sales of the previous year (€ 41 million) by 12%.

The Group result before taxes amounted to € 1.5 million and exceeded the profit of the previous year (€ 1.3 million).

Close cooperation between GES and TMG is planned in view of the constantly increasing convergence of the data processing and information and communications technology areas.
SIT Salzgitter Information and Telekommunikation GmbH (SIT) was established for this purpose. SIT acts as a holding company for GES and TMG and will coordinate the activities of these companies by providing for more efficient use of the respective resources as well as by ensuring more effective market orientation.

“Glückauf” Wohnungsgesellschaft mbH (GWG) manages its own housing properties as well as those belonging to Salzgitter AG, while providing facility management support for the Group administrative buildings in the Salzgitter area as well as the continuing and further education center in Peine.

All in all, a total of € 9.2 million in sales were generated through leasing and management of the company’s own housing property and housing belonging to SZAG, facility management and the management of third-party dwellings. Pre-tax earnings came in at € 0.5 million.

Processing Division

The companies in the Processing division exercise their core activities for the “Construction” and “Automotive” industrial segments. Along with HSP Hoesch Spundwand und Profil GmbH (HSP), Salzgitter Bauelemente GmbH (SZBE) focuses on the construction sector. The automotive division is composed of the five companies Salzgitter Europlatinen GmbH (SZEP), Salzgitter Automotive Engineering GmbH & Co. KG (SZAE), Salzgitter Magnesium-Technologie GmbH (SZMT), Oswald Hydroforming GmbH & Co. KG (OHC) and Salzgitter Antriebstechnik GmbH & Co. KG (SZAT).
SZMT, OHC and SZAT do not belong to the companies included in the consolidation.

The objectives pursued by the Processing and the Automotive division are particularly geared to the early integration into the customer’s development process with the aim of optimizing the material and production technology selection in terms of the respective applications. In line with this orientation, fire-retardant mineral wool sandwich elements that are ready for installation are manufactured for the building industry. Spot-welded patchwork boards, hydroformed lightweight camshafts, magnesium flat products and virtual prototypes are examples of the Automotive division’s innovative products and services. Moreover, the vertical range of manufacture and value creation are enhanced and extended towards the customer. In addition, these activities secure and promote sales segments for Salzgitter AG companies.

The division concluded the financial year 2002 with an overall profit of € 8 million. The profits at SZEP and SZAE were only able to compensate for the negative results at HSP and SZBE to a relatively small extent. Profit from the shares sale of Steel Dynamics Inc., Butler (USA), provided for a substantial positive effect. Moreover, the earnings contribution includes on-balance precautionary measures for the startup expenses of SZAT.

The key data of the Processing division are shown in the following table:

Processing Division		FY 2002	FY 2001
Sales	€ mil.	261	132
Hoesch Spundwand und Profil	€ mil.	129	132
Salzgitter Bauelemente	€ mil.	37	–
Salzgitter Europlatinen	€ mil.	41	–
Salzgitter Automotive Engineering	€ mil.	54	–
Internal sales[1)]	€ mil.	32	14
External sales[2)]	€ mil.	229	118
Division income before taxes	€ mil.	8.0	–2.3
Hoesch Spundwand und Profil	€ mil.	–14.5	0.7
Salzgitter Bauelemente	€ mil.	–4.2	–
Salzgitter Europlatinen	€ mil.	1.8	–
Salzgitter Automotive Engineering	€ mil.	2.5	–
non-consolidated companies			
Wescol Group	€ mil.	–	–3.0
Other companies	€ mil.	22.4	–
Total workforce	At Dec. 31	1,203	575
Core workforce		1,146	551
Hoesch Spundwand und Profil		552	551
Salzgitter Bauelemente		67	–
Salzgitter Europlatinen		97	–
Salzgitter Automotive Engineering		430	–
Apprentices, students, trainees		57	24
EBIT	**€ mil.**	**13.8**	**–0.5**
EBITDA	**€ mil.**	**30.5**	**10.1**

1) Sales in own segment and to other corporate divisions
2) Contribution to Group external sales

The developments of the individual companies will be outlined in the following:

HSP Hoesch Spundwand und Profil GmbH (HSP) in Dortmund produces special profiles for sheet piling, shipbuilding and mining on a heavy section mill. In addition, HSP markets the box piling sections produced by PTG.

The continued restraint by public authorities with regard to the awarding of domestic building contracts led to a further volume decline on the sheet piling market. Orders could only be placed through aggressive price competition in which Eastern European competitors were substantially involved. Moreover, the remaining markets were characterized by the

increasing predatory competition of suppliers who aim to consolidate and secure their respective position at a low price level and declining market volume.
With a decline in revenues, the sales volumes for mining sections matched the previous year's level. The product division for shipbuilding profiles also developed negatively for market-related reasons.
The newly founded subsidiary company Salzgitter Scandinavia AB took over the sales operations and the technical personnel for international sales of shipbuilding profiles from INEXA Trade AB in the second half of financial year 2002.

The strained market situation led to a decline in the result in the financial year 2002, necessitating extensive restructuring measures.
In addition to the investments that were already begun in the preceding financial year with the intention of attaining a top technological position in new profile variants manufacture, measures were introduced to implement a new sales strategy aiming for stronger market presence. The reorganization of company operations was accompanied by further substantial personnel reductions for which provisions for reporting purposes were made in the financial year under review.

Sales in the reporting period amounted to € 129 million (previous year € 132 million). Earnings before taxes totaled – € 14.5 million (previous year € 0.7 million), whereby one-time restructuring expenditures are included in this amount.

Salzgitter Bauelemente GmbH (SZBE) is a full service supplier for innovative steel building elements. Surface-improved trapezoidal and cartridge profiles, as well as sandwich elements represent versatile roof and wall linings which, in combination with insulating materials, offer additional protection against excess temperatures and noise.

In financial year 2002, SZBE expanded its position on the relevant steel building elements market.
Startup of the trapezoid line, building approval by supervisory authorities for sandwich elements in the company's most important sales markets and stabilization of feedstock supplies essentially contributed to this development.
In contrast to the negative trend of the sales market for steel building elements, above all in Germany, SZBE was able to increase its sales volume to more than 5.5 million m^2 and achieved sales of € 37 million.

However, the company result was strongly affected by price increases in feedstock that could not be adequately passed on to the market. Despite a one-time shareholder subsidy, a loss of € 4.2 million remained.

As a result of extraordinarily fierce competition during financial year 2000/2001 (as of July 31), **Wescol Group plc** found itself in an increasingly strained financial and earnings situation. Initially, it appeared that the company had managed a positive business trend turnaround as a result of the restructuring measures it had introduced. Consequently, the company was able to reduce its losses compared with the previous year by increasing sales by GBP 15.6 million to GBP 48.4 million (previous year GBP 32.8 million) in the first-half (as of January 31, 2002). Customers' bad payment behavior, the high volume of outstanding accounts as well as a substantially clouded business climate had such a negative impact on liquidity that at the beginning of September 2002, the company was no longer in a position to meet its payment obligations, leading to a declaration of bankruptcy.

The insolvency proceedings had not yet been finalized at the end of 2002. Due to appropriate provisioning measures in the previous financial year, the insolvency was only reflected in the Steel division with € 1.6 million in financial year 2002.

In the four years since starting production, **Salzgitter Europlatinen GmbH (SZEP)** has successfully established itself as a partner to automobile manufacturers. While maintaining a 5% market share in Europe for the supply of stamped and welded tailored blanks, the company was able to participate in market growth.
This was driven by the quantitative increase of existing orders and by new acquisitions. Consequently, high capacity utilization in both already existing plants, as well as in newly established plants was ensured in the current year.
Production in the new market segment of spot-welded reinforcement parts commenced at the beginning of the year 2002.

Sales in financial year 2002 amounted to 6.7 million units of punched and welded boards.
SZEP achieved € 41 million in sales and € 1.8 million in pre-tax profit.

The market environment for prototype construction was difficult in the first full financial year after the acquisition of the shareholding in **Salzgitter Automotive Engineering GmbH & Co. KG (SZAE)**. As a result of the general economic situation car manufacturers temporarily postponed budget releases for new vehicle model development. The competition and price pressure continued to increase due to overcapacities. Despite this development, SZAE was able to show a very satisfying € 54 million in incoming orders in the year 2002. Compared to the previous year, sales amounted to € 54 million. Here the turnover ratio of the prototype building division shifted to the series division from 80% to 20% in 2001 to 70% to 30% in financial year 2002. With a total of € 2.5 million, SZAE was able to report a positive result.

Salzgitter Magnesium-Technologie GmbH (SZMT) concluded construction of a leading edge manufacturing plant for magnesium sheets at the Salzgitter site. With this facility the company is setting a milestone in the development of this ultra-light high-tech material and is advancing market introduction in a very committed manner. Apart from high-quality magnesium flat products, the company offers competitive technology and materials partnerships for developing, manufacturing, testing and series application of building components made of magnesium sheets.

Apart from mass production, business development at **Oswald Hydroforming GmbH & Co. KG (OHC)** was characterized by sample and prototype line production. The manufacture of hydroformed tubes for lightweight camshafts was taken up as a further field of business.

Investment activity was therefore characterized by development of the manufacturing line for IHU camshafts. Investments in machinery for upstream and downstream manufacturing processes were carried out in order to increase the vertical range of manufacturing and extend the value creation chain.
The company posted a profit on sales of € 6 million.

In January 2003 Salzgitter AG acquired the remaining company shares and is now the 100% shareholder.

In financial year 2002, **Salzgitter Antriebstechnik GmbH & Co. KG (SZAT)** carried out extensive development work and prototype line supplies of interior high-pressure formed and mechanically finished lightweight camshafts. An intensive supply relationship with Oswald Hydroforming was established. As expected, the expenditures in advance of series supplies resulted in a loss for this financial year.

Within the scope of strategic considerations with regard to the Salzgitter AG portfolio, the company's participation portfolio in **Steel Dynamics Inc. (SDI)** was reclassified and a gradual decrease within economically justifiable bounds seen as appropriate. As of July 2002, a total of 3,166,250 shares were sold in several steps so that the company's participation still amounted to 6.4% as of December 31, 2002.

Tubes Division

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

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

The positive market situation in the first half of 2002, especially in the energy-dependent sector, coupled with the restructuring measures implemented at individual companies in the course of the year, once again resulted in the Tubes Division delivering an outstanding contribution to Group results.

The consolidated order intake at the Tubes Division in 2002 climbed by 9% over the previous year before to reach € 983 million. However, after adjusting for the effect of the first-time consolidation of DMV, orders booked were some 11% below the comparable figure for the preceding year. An increase in orders for medium line pipes and precision tubes was offset by a downturn in orders received for large-diameter pipes.

Consolidated orders on hand at the Division at the end of the year amounted to € 361 million, some € 110 million below the figure of € 470 million at the commencement of the reporting period. The decline was almost exclusively accounted for by large-diameter pipes.

Consolidated sales revenues in financial year 2002 at € 1,149 million were 14% up on the year before. However, after adjusting for DMV, sales were in fact down by 5%. This decline was mainly accounted for by precision tubes and large-diameter pipes.

The Tubes Division reported a pre-tax profit of € 77 million, representing a downturn by comparison with the previous year's figure (€ 102 million). The principal source of earnings lay in the seamless segment where business continued to develop well over long periods of the year. Likewise the contribution from companies producing medium line pipes was also gratifying. In the large-diameter pipes segment the low level of business in the second half, accompanied by increased expenditure due to manufacturing problems and restructuring at the supplier mill, led to a pronounced negative result. Turning to precision tubes, despite the unfavorable economic climate, MHP achieved a balanced result thanks to the restructuring program successfully completed in the preceding year. Robur, however, returned a negative result due to weakness in the company's specific markets, as did DMV due to the effects of one-off costs arising from the restructuring and cost reduction program.

As of the end of December 2002, the Division employed a total workforce of 4,578 employees (inc. 73 trainees), 73% of whom were employed in Germany and 27% abroad. The regular workforce of 4,505 staff (previous year 4,240) for the first time includes staff at DMV (total 989). After making a corresponding adjustment, however, the workforce fell in 2002 by 724 employees. This was essentially attributable to adjustments in staffing levels at the Europipe Group in line with the order situation, downsizing at MRM and MHP as part of their restructuring programs and the dissolution of Mannesmannröhren Service GmbH.

The key data for the Tubes Division are presented in the following table, including the consolidated figures for MRW. The figures for the individual product areas are shown at 100%.

Tubes Division		FY 2002	FY 2001
Shipments			
Seamless tubes	kt	2,087	2,087
Precision tubes	kt	135	149
Stainless tubes	kt	31	29
Medium line pipes	kt	288	289
Large-diameter pipes	kt	921	1,102
Sales	€ mil.	1,149	1,006
Internal sales[1]	€ mil.	28	21
External sales[2]	€ mil.	1,121	985
Sales			
Seamless tubes	€ mil.	2,035	1,935
Precision tubes	€ mil.	163	191
Stainless tubes	€ mil.	194	189
Medium line pipes	€ mil.	182	183
Large-diameter pipes	€ mil.	856	869
Division income before taxes	€ mil.	76.8	101.9
Thereof seamless tubes[3]	€ mil.	68.9	80.6
Thereof precision tubes	€ mil.	–1.1	–8.6
Thereof stainless tubes[4]	€ mil.	–1.6	–5.6
Thereof medium line pipes[5]	€ mil.	4.9	5.4
Thereof large-diameter pipes[5]	€ mil.	–15.6	29.6
Total workforce	At Dec. 31	4,578	4,314
Core workforce		4,505	4,240
Wage labor		3,061	2,988
Salaried employees		1,444	1,252
Apprentices, students, trainees		73	74
EBIT	**€ mil.**	**86.6**	**113.4**
EBITDA	**€ mil.**	**120.1**	**146.6**

1) Sales to other Group divisions
2) Contribution to Group external sales
3) Profit based on consolidation at equity
4) Full consolidation as of December 31, 2001, Earnings contribution for financial year 2001.
5) Contribution to profit

Developments in individual product areas will be outlined in the following:

The non-consolidated company Vallourec & Mannesmann Tubes S.A., a joint venture manufacturing seamless tubes and oilfield pipes, profited at the beginning of the reporting period from the stable situation in the energy-dependent sector. However, in the course of the second half of the year demand for oil and gas pipes weakened substantially. In addition to an oversupply of oil and gas, this was also attributable to the preference on the part of oil and gas companies to use the speculatively high oil price to reduce debt levels rather than to fund investments. Moves by the banking community to tighten up on lending practices, made all the more poignant by the ENRON scandal, also began to take effect. Non-energy-related pipes had already begun to suffer under the effects of the weakening economy in the second half of 2001, and no particular momentum was in evidence in 2002.
In Brazil, after a good start to the year, the progressively weakening economy steadily depressed business at V&M do Brasil. However, thanks to the depreciation of the Real, the fall in domestic orders was compensated for by rising exports. Similarly, the V&M Star company founded on July 1, 2002, as a vehicle for the purchase of the steel tubes activities of the US North Star Steel Company, suffered during the second half under the weak demand for seamless tubes for the oil and gas industry in the USA.

Shipments by Vallourec & Mannesmann Tubes S.A. in 2002 totaled 2.1 million t, on a par with the level of the previous year, albeit with the inclusion of V&M Star in the second half. Sales of € 2.0 billion also matched last year's performance.

As the year 2002 progressed the market for seamless and welded precision steel tubes in Germany and the EU became generally weaker. The precision tubes market remains subject to intense competition between Western and Eastern European producers. Shipments by the precision tubes group fell by 9% in comparison with the year before to 135 kton. However, 5 percentage points were accounted for by the sale in 2002 of the Czech company MHP Mannesmann Presné Trubky s.r.o. to Noel-Plus s.r.o. At € 163 million sales revenues were 15% below the previous year's level (10% after adjustment for the company disposed of). As a result of the reduced order intake consequent upon the downturn in important markets, MHP recorded a weak start to the financial year 2002. Demand from shareholders lingered at a very low level until well into the year as orders from end customers declined and stocks were run down. The reduced level of orders on hand at the end of 2001 meant that plant utilization was disappointing in the first quarter of 2002 and in some cases short-time working had to be introduced. Capacity utilization improved during the year, but did not reach satisfactory levels at all locations. Sales at € 150 million were 9% lower than the year before. At Robur the demand for seamless tubes for industry and trading had already begun to weaken in 2001 and this trend continued in 2002 with the effect that plant utilization was poor throughout almost the entire financial year. Volumes were down 11% on the year before, due exclusively to the drop-off in higher-priced precision tubes. There was in fact a slight rise in ASTM tubes. In parallel with this unfavorable scenario, specific revenues also fell, with the result that sales at € 13 million lagged some 18% behind the year before.

The positive development in the market for stainless tubes that had begun in 2001 initially continued in the early part of 2002, but subsequently cooled off once more as the year advanced.
The price of nickel which is a significant factor affecting sales and profitability of stainless tubes proved volatile, albeit with an underlying upward trend. Consolidated sales recorded by the DMV Stainless companies amounted to € 194 million, up 3% on the year before. The restructuring and associated cost reduction program initiated in 2001 was largely completed in 2002.

The market for medium line pipes was depressed throughout the year, however, the advent of new projects added a little momentum in the second half. For Mannesmann Line Pipe GmbH the year 2002 was marked by an expansion in its trading and structural tubes business with some major projects for customers in the USA and Thailand. Orders were also booked in the second half for an oil pipeline in Algeria. At 158 kton shipments were on a par with the year before. The gradual increase in the price of hot-rolled wide strip lessened the price pressure in the pipeline tubes business and led to an increase in revenues. As a result, sales were up 3% on the year before at € 90 million. Röhrenwerke Gebr. Fuchs GmbH more than compensated for stagnating demand and depressed margins in some of its core markets in Central and Southern Europe by continuing its sales push, first begun in 2001, into Central Asia and making its first delivery of a large order for North Africa. In addition the company again dispatched large quantities of pipes for community heating systems and the continuing increase in the volume of water pipes and structural tubes ensured that all areas of the company were kept generally busy. All in all shipments totaled 142 kton, up 8% on the previous year which was itself bolstered by some major energy pipeline projects. The company recorded sales valued at € 98 million.

For Europipe GmbH, 2001 was the best year in the company's history, even though there was evidently a turning point in the demand for large-diameter pipes towards the end of the year. This reversal was confirmed in the course of 2002. The minimal growth in the world economy and the attendant insignificant increase in energy consumption, combined with political uncertainties over a possible war in Iraq, led to the deferment of many planned investments in pipeline systems and energy exploration. Competition for the projects available for placement in 2002 was increasingly fierce and Europipe's competitive position in the face of major international rivalry worsened as the Euro rose in value. Although plants manufacturing longitudinally welded pipe remained well utilized until the second quarter, the order intake declined steadily from the beginning of the year onwards. Despite adjusting the capacities of all production lines and thereby eking out orders on hand, it was impossible to avoid shutdowns and short-time working in the fourth quarter. Shipments of large-diameter pipes totaling 921 kton were, however, only 16% lower than the year before due to the strong first half.

The Europipe Group, which includes both the production companies in Germany, France and the USA as well as the coating businesses belonging to Eupec PipeCoatings GmbH, recorded sales of € 856 million, down by 1.5% on the previous year.

Purchasing

The purchasing activities of the Group are focused mainly on raw materials and energy sources for the production of steel, as well as semifinished goods for tube production. The procurement of steel products by the trading companies is more an aspect of the sale of Group steel and tube products rather than purchasing in the strictest sense.
From a purchasing perspective there was a marked lack of uniformity in the relevant markets. While the supply situation was generally good, there were substantial price increases in some areas.

In financial year 2002 some 5.6 million t of ore were sourced worldwide for SZFG. As a result of the strong Euro coupled with reductions in ore prices and a change in the consumption volume structure, there was a fall in the cost of ore free works Salzgitter by comparison with the year before.
In view of the strong global demand for ore, we do not expect the market to allow further price reductions in 2003.

The world market for coking coal remained firm in calendar year 2002. Contract prices for the coal year 2002/03 (cut-off date April 1) rose worldwide by a further 5 to 10% over the year before. In financial year 2002 SZFG sourced a total of 1.7 million t of coking coal from Germany, Australia, Canada, the USA and Poland. An optimized mix of long-term and spot contracts, combined with the strengthening value of the Euro over the year to peg the increase in the average price free works Salzgitter at just 2%. The forecast for the calendar year 2003 is cautiously optimistic. Some initial volumes for 2003 have been contracted for on markedly more favorable terms.

From the beginning of the year 2002 the ocean freight market followed a sharply declining trend. The opportunity afforded by falling freight rates was seized in order to conclude favorable contracts for the shipment of both ore and coking coal. From September onwards, however, freight rates rebounded, and in 2003 we expect rates to harden at an elevated level.

The prices for heavy heating oil for use in the blast furnaces operated by SZFG rose slightly. There was a price increase of 4% in comparison with financial year 2001. However, by using alternative reducing agents we were able to trim costs by 8%. The volume of substitutes was increased over the previous year, and a further rise is planned for 2003.
With a certain time lag, the development in price of heavy heating oil in 2002 was offset by a reduction in cost of natural gas. However, given the current high level of heating oil prices, a rise in the cost of gas must be expected in 2003.

The prices for metals and alloys also rose in 2002. Especially in the second half, we were forced to accept significant rises in the prices for a large number of ferro-alloys. We anticipate the market hardening further in 2003.

Scrap purchases by SZFG and PTG together totaled 1.29 million t. In comparison with the previous year the scrap price rose by more than € 10/t. The reasons for this price rise lay in the excellent opportunities for scrap exports, high demand in Germany and a marked reduction in the availability of this raw material. Likewise in 2003 we expect scrap prices to remain high.

The deregulation of the electricity market initially resulted in some extremely low prices in 2000 and 2001. In 2002, however, the large electricity generators implemented some substantial price rises as a first step towards restoring pre-deregulation price levels. For SZFG and PTG, this meant an increase in the cost of buying in electric power. It was not possible to avert a further increase in electricity prices for the current financial year.
ILG (based in Sachsen-Anhalt) reduced its electricity costs in 2002 by changing suppliers, and a limit has been placed on the increase anticipated for 2003. However, the differing grid structures and state-imposed requirements do not allow a direct comparison between terms and conditions in the former East and West Germany.

Hüttenwerke Krupp Mannesmann GmbH (HKM), Duisburg, supplied 0.8 million t of slabs in 2002 for the manufacture of plate and hot-rolled wide strip destined for the production of welded tubes. As such, HKM is the leading supplier of input material to the Tubes Division companies. HKM is also the leading supplier (1.1 million t) of tube rounds to the non-consolidated Vallourec & Mannesmann Tubes S.A. In turn, the latter supplies the precision tube makers with loops for the manufacture of seamless precision tubes.
The prices of input stock declined slightly in comparison with the previous year. The depreciation of the US dollar somewhat offset the rise in scrap prices.

With the supply situation generally good, prices for materials and spare parts remained essentially stable. In some areas this was not least the result of the excellent cooperation between purchasing departments at Group level.

The situation in the capital goods market in 2002 was dominated by the generally reticent development in the economy as a whole. In the field of steel making, this trend in Europe was reinforced by the adverse results suffered by all European steel producers. There were few new projects placed.

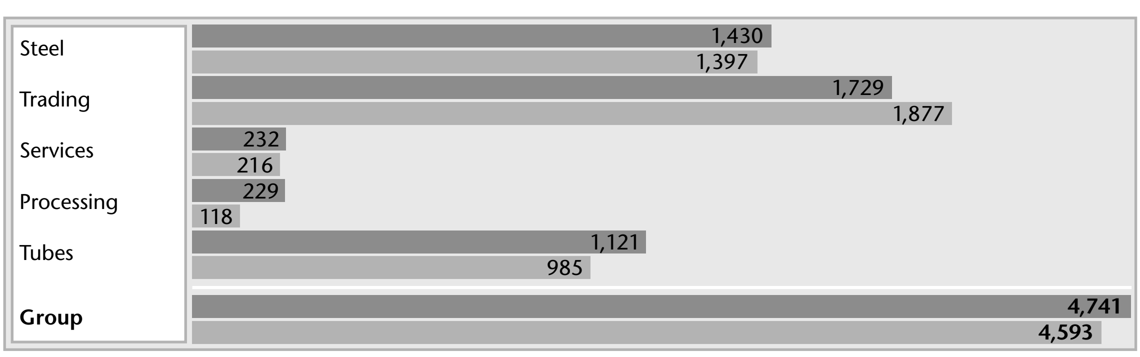
Services are primarily affected by the trend in collective wage agreements. Following the reorientation of individual services, savings were achieved in some areas by putting services up for tender.

Sales and Results

In financial year 2002 the Salzgitter Group recorded sales of € 4.7 billion, up by 3% on the previous year's figure of € 4.6 billion. As a result of the weakness in the steel economy, revenues at the Trading Division fell short of the previous year. This was countered by the first-time integration of DMV Stainless Group sales within the Tubes Division, along with the inclusion of three mid-sized Processing Division companies.

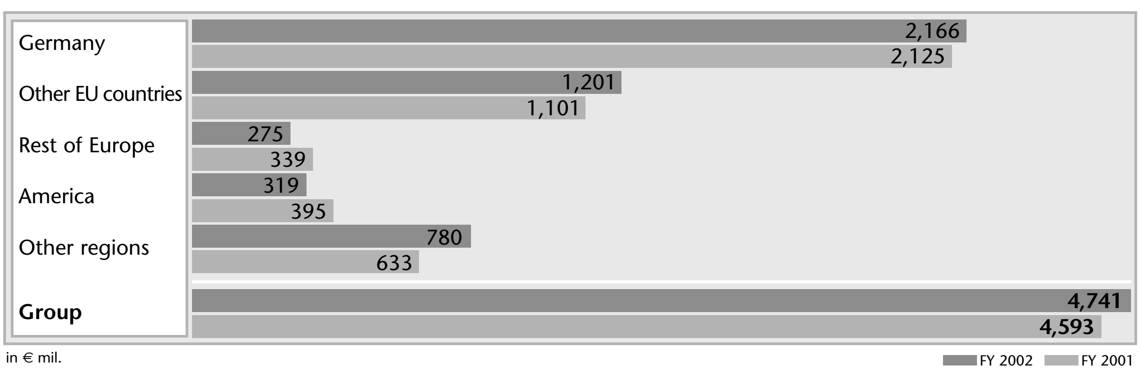
This development again, as in the preceding year, led to a shift in the distribution of sales in favor of the Tubes Division. Nevertheless the Trading Division still accounted for the largest – albeit perceptibly reduced – proportion with just under 36% (previous year 41%). Trading recorded sales of € 1.7 billion, down by 8% on the year before. By comparison, Steel Division sales rose slightly to € 1.4 billion (2.4%) and, as in the preceding year, accounted for 30% of external Group sales. It should be noted that the Steel Division additionally supplied products valued at some € 0.5 billion to the Trading Division. A notable increase in external sales (7%) was recorded by the Services Division, which nevertheless accounted for a virtually unchanged proportion of 5%. With the first-time consolidation of Salzgitter Automotive Engineering GmbH & Co. KG, Salzgitter Bauelemente GmbH and Salzgitter Europlatinen GmbH within the Processing Division, sales at this division rose 94% to € 0.2 billion, corresponding to 5% of the consolidated total (previous year 3%). The Tubes Division in which the DMV Group was consolidated for the first time recorded sales of € 1.1 billion which represented a share of 24% (previous year 21%).

Consolidated Sales by Divisions



The bulk of sales continued to be concentrated on the EU which accounted for 71% (previous year 70%). Sales of € 2.2 billion were recorded in Germany. Foreign sales amounted to € 2.5 billion, equating to 54% of the total, unchanged from the previous year.

Consolidated Sales by Regions



The Salzgitter Group ended the financial year 2002 with a profit of € 72.5 million before taxes. In the preceding year, the profit had been € 160.3 million. The reduction in the pre-tax result was essentially due to developments at the Steel, Processing (before special measures) and Tubes Divisions emanating from external influences acting on the markets for flat-rolled products on the one hand, sheet piling and large-diameter tubes, and on the procurement of scrap on the other.

Against the background of an unsatisfactory first half marked by extremely low market prices for flat rolled products, the Steel Division succeeded in recording slightly positive results in the third and fourth quarters, but still posted an overall deficit of € 23.5 million. The Trading Division, despite suffering under protectionist measures and a declining domestic market, nevertheless succeeded in generating a pre-tax profit of € 8.2 million (previous year € 18.5 million). In making a comparison between the two financial years, it should be borne in mind that in 2001, contributions to results by the UES Group deriving from the year 2000 were additionally taken into account. On the other hand, the effects of the strategic reorientation of international trading activities proved most gratifying in 2002.

The Services Division ended the year with a clear-cut, positive pre-tax profit of € 8.3 million, but was unable to match the previous year's figure (€ 12.8 million) due primarily to unsatisfactory capacity utilization at PPS in the field of technology.

The pre-tax result at the Processing Division amounted to € 8.0 million, a figure which bears little comparison with the loss of € 2.3 million posted for the previous year. Included in the accounts for 2002 are the costs of structural measures taken at HSP Hoesch Spundwand und Profil GmbH, along with the start-up costs incurred by two young companies (Salzgitter Bauelemente GmbH and Salzgitter Antriebstechnik GmbH & Co. KG) totaling in excess of € 20 million; these in turn were offset by profits of a similar magnitude derived from reducing the stake in the US company Steel Dynamics Inc. Positive contributions to the result came from Salzgitter Automotive Engineering GmbH & Co. KG and Salzgitter Europlatinen GmbH, both consolidated for the first time.

The Tubes Division was unable to repeat the exceptional result of the preceding year (€ 101.9 million), however, with a profit of € 76.8 million, this division was once again the dominant source of consolidated results. The principal contribution came from the seamless tubes sector.

The tax charge of € 7 million takes account of deferred taxes in application of IAS balance sheet reporting regulations. The low tax ratio is essentially explained by the comparatively high proportion of tax-free income from writedowns on bad will, as well as tax-paid at equity adjustments. The residual consolidated net income for the year amounted to € 66 million.

Divisional Results and Consolidated Net Income for the Year

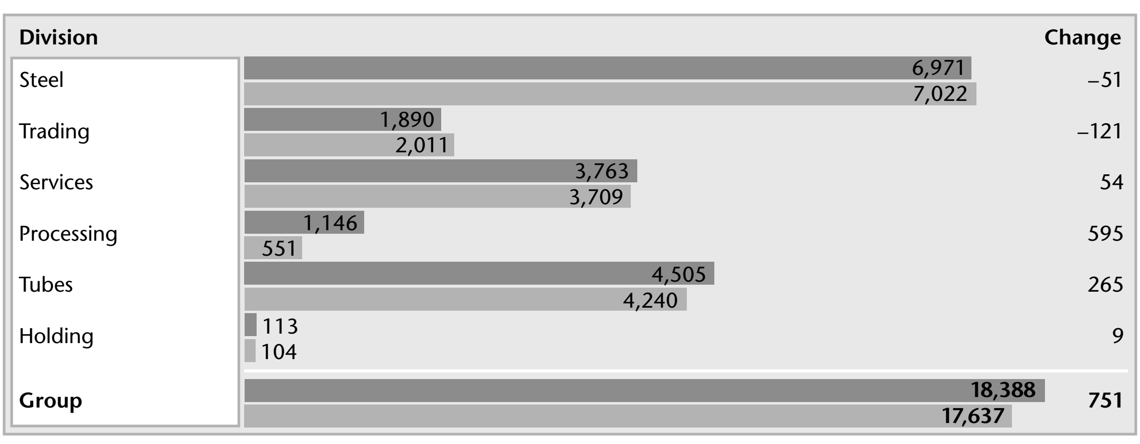
(in € mil.)	FY 2002	FY 2001
Steel	−23.5	30.1
Trading	8.2	18.5
Services	8.3	12.8
Processing	8.0	−2.3
Tubes	76.8	101.9
Others/Consolidation	−5.3	−0.7
Income from ordinary activities	**72.5**	**160.3**
Taxes	6.6	16.0
Consolidated net income for the year [1]	**65.9**	**144.3**

[1] Inc. minor shareholdings

Personnel

At the end of the financial year 2002 the Group employed a regular workforce of 18,388 staff, representing an increase of 751 employees or 4.3% over the figure at the end of the preceding year. This increase is in part due to the inclusion of the workforce at DMV Stainless GmbH (total 989) following the acquisition of further shares in this company which took Salzgitter's holding to 66.7%. The consolidation of SZAE (430 employees), SZEP (97 employees) and SZBE (67 employees) within the Processing Division added a further 594 to the total.
Without these additions, the Salzgitter Group would have recorded a reduction of 832 employees in its workforce. Of this figure, 724 employees were accounted for by the Tubes Division following adjustments in staffing levels at the Europipe Group, downsizing at MRM and MHP as part of their restructuring programs and the dissolution of Mannesmannröhren Service GmbH.
The number of trainees employed by the Group amounted to 930 members of staff (previous year 871 employees).

The regular workforce at the various divisions developed as follows:



As part of the updated profitability improvement program, it is intended to reduce the present Group workforce by between 1,000 and 1,500 employees over the course of the next three years.
It is anticipated that this objective will be achieved in a socially acceptable manner through the non-replacement of retiring staff and – to a limited extent – by age-related part-time employment arrangements. In order to maintain the required skills and know-how levels, these plans will neither impact the employment of former trainees nor the recruitment of graduate entrants for management positions.

The second management staff conference to be held by the Salzgitter Group took place in Düsseldorf on February 20 and 21, 2002. Whereas the year before this forum was mainly addressing the subject of Group reorganization, the emphasis of this year's conference was on local determination of shared objectives, information on current change processes and the principal elements of Group strategy. It was evident that involving management staff on a broad front and at an early stage in the development of growth strategy had proven worthwhile. Indeed our managers, each from their own position of responsibility, shared enthusiastically in the pursuit of mutual aims. It also became clear that the establishment of the Group among the ranks of Germany's leading quoted companies and the achievement of strong annual results had done much to consolidate managers' pride both in their own companies and in the Group.

This high level of commitment is closely linked with the Group-wide dissemination of the 5P image program. The workshops held throughout the Group have triggered a discussion process between workers and management which in turn has led to a large number of improvement projects. The effect on the way staff see themselves as members of the Salzgitter Group has been positive in the extreme.

At the end of May the first Salzgitter seminar was held for 19 junior management staff from various Group subsidiaries, all of whom have been in their present employment for around one year. The seminar is one of the principal modules in the SZAG personal development program for managers, providing basic information for newcomers to the profession and trainees in direct encounter sessions with members of the Executive Board and heads of important specialist departments.

Following the approval of outline agreements on employee participation, the Group companies have begun to put their own works agreements on employee-financed pensions in place. The requests received from employees for information point to a high level of interest in this method of closing the retirement pensions gap. As of December 31, 2002, some 857 remuneration conversion agreements had been entered into on the basis of the Salzgitter AG model. This currently involves an annual contribution volume of € 1.5 million to be invested in funds operated by Münchner Kapitalanlage AG. It is to be expected that as employees become more accustomed to scope of freedom available to them in terms of the application of their income, they will be increasingly willing to convert portions of their remuneration into pension contributions.

Another employee participation project involves the implementation of company-financed works pension schemes. Several Group companies located in and around Salzgitter (DMU, PTG, SZAG, SZFG, SZGR, VPS) have closed their previous pension schemes with the intention of agreeing follow-on arrangements based on the new modular pensions concept.

An important step towards maintaining competitiveness through sustainable cost reductions is contained in the health and attendance promotion program. The system currently covers some 9,300 Group employees. Between the commencement of the program in the financial year 1990/91 and December 2002, the annual average sickness rate in the steel business fell from 9.4% to 5.3%. Elements of the program are now firmly established as part of our quality management system and the mandatory health and attendance reports have so far generated 900 suggestions for workplace- and process-related improvements.

The intensive efforts by subsidiaries and associated companies to improve accident rates have led to a further reduction in the frequency of such events. The accident frequency rate "H" representing the number of reportable occupational accidents per million hours worked by Group wage earners fell in comparison with the financial year 2001 from 29.0 to 27.0. The clear and rapid reduction in the accident rate, especially in the steel business, is the result of specific action to

increase safety awareness among the workforce and the consistent expectation that managers will themselves take steps to safeguard the health and safety of their employees.
Close cooperation with the works medical service serves to increase the efficiency of the health and safety system. The medical specialists have developed a specific diagnosis program, the results of which are designed to appeal to each employee's sense of personal responsibility.

An improvement program has been initiated under the title of HRM Plus "People, Processes, Results" with participants from all subsidiaries and associated companies. The aim is to mobilize contributions to results at individual companies, as well as at Group level. The effects on results achieved through organizational measures and broaching new areas of responsibility will be measured against current benchmarks and best practice solutions in order to assess their effectiveness. The first phase, which was completed in mid February 2003, comprised an appraisal of the current situation, including an analysis of critical points and an outline of specific actions.

With effect from July 1, 2002, standard wages at the steel companies including PPS were increased by 3.6%. Employees and trainees entitled to pay or training allowances, continued payment of regular earnings, short-time allowances, sick pay or maternity allowance for the month of June 2002 received a lump-sum payment of € 50 gross. The standard wage agreement runs until August 31, 2003.
The contractually agreed wages and salaries payable in the steel trading section of the Group were increased correspondingly with effect from August 1, 2002, in line with agreements reached by the the Federation of Wholesale and Foreign Trade [Groß- und Außenhandelsverband] and the service-sector trade union ver.di. The agreement runs for a period of 12 months.
Increases in standard wages and salaries at the remaining Group companies were based on the relevant collective agreements, or where no commitment to a collective agreement exists, on the economic situation of the company concerned.

Investments

The Salzgitter Group investment program in the financial year 2002 was centered on implementing our internal growth strategy, in particular at the Steel Division, and on participating in a major acquisition in the tubes sector.

The total investment volume amounted to € 417 million (previous year € 425 million). The net variation in fixed assets as a result of enterprises consolidated for the first time additionally amounted to € 43 million.
After adjusting for this consolidation effect, the volume of investments in tangible fixed assets totaled € 251 million, thereby exceeding corresponding depreciation and amortization at € 220 million.
Due in particular to adjustments in at equity valuations and a loan granted to Vallourec & Mannesmann Tubes, additions to financial assets amounted to € 166 million. The purpose of the loan in the amount of € 67.5 million was to part-finance the acquisiton of steel tubes activities of the North Star Steel Company in the USA. In 2003 a declaration was made to the borrower of the intent to convert the loan into equity.
The first-time consolidation of the four Processing Division companies along with currency differentials which were not reflected in income led to a reduction of € 94 million in financial assets.

Investments/Depreciation[1]

	Investments		Depreciation	
(in € mil.)	Total	Thereof Steel Div.	Total	Thereof Steel Div.
1999/2000	208	169	174	150
SFY 2000	49	32	50	37
2001	285	197	210	142
2002	251	127	220	137
Total	**793**	**525**	**654**	**466**

[1] Excluding financial assets

Of the total amount invested in tangible and intangible assets during the reporting period, the Steel Division accounted for € 127 million; the Trading Division for € 11 million and the Services Division for € 35 million. The Processing Division (including the four companies consolidated for the first time) invested € 37 million. The volume of investments at the Tubes Division amounted to € 41 million.

Investments in Property, Plant and Equipment[1] by Divisions

(in € mil.)	FY 2002	FY 2001
Steel	127.1	196.5
Trading	10.8	8.9
Services	35.4	21.0
Processing	36.8	18.1
Tubes	40.5	39.9
Other	0.6	0.3
Group	**251.2**	**284.7**

[1] Inc. intangible fixed assets

Depreciation and Amortization of Fixed Assets[1] by Divisions

(in € mil.)	FY 2002	FY 2001
Steel	137.1	141.6
Trading	10.7	11.3
Services	12.3	12.0
Processing	16.7	10.6
Tubes	33.5	33.3
Others/Consolidation	9.3	1.6
Group	**219.6**	**210.4**

[1] Inc. intangible fixed assets

As in previous years the investments at the Steel Division were once again aimed at consolidating and expanding the competitive position of Division companies.

The equipment and facilities commissioned during 2001 such as the walking beam furnace, slab sizing press and cropping shear at the hot strip mill, the second hot-dip galvanizing line with its innovative heat-treatment concept and a new process for galvanizing isotropic steel grades developed in Salzgitter are fulfilling our expectations and allowing us to exploit fresh development potential in the area of flat-rolled steel products.

The extensive program of modernizing the hot wide strip mill train was carried forward with determination. To ensure the success of the project, rolling trials to facilitate implementation of new technical regulations and models have been intensified and a shutdown scheduled in 2003 to allow installation of the new roughing stand.

Construction of the new two-stand skin-pass mill has advanced on schedule. When this plant is commissioned in 2003, we will be in a position to offer superb strip flatness characteristics across the entire range of qualities and hardnesses, including the Pretex textured surface sheet products developed in Salzgitter.

Future investment planning at Salzgitter Flachstahl GmbH remains consistently oriented towards achieving and maintaining quality leadership in flat-rolled products in the principal segments of the market. In order to increase our own production of crude steel for supply to the Steel Division and reduce the volume of bought-in slabs, the intention is to commission Blast Furnace C and invest in a third continuous casting line.

The new beam blank continuous casting line at Peiner Träger GmbH has reached its anticipated production capacity. Both casting output and quality are fully up to expectations, and processing costs have been reduced.

As a result of technical alterations to the rolling mill and the hot leveler in conjunction with investments in its second pusher furnace, Ilsenburger Grobblech GmbH has been successful in achieving some extensive improvements in quality and output. This represents a substantial contribution to the development of our status as a quality supplier in the face of international competition.
The investment projects implemented already and planned for the future will safeguard the capacity of the Steel Division to innovate and deliver a sustained increase in profitability.

Investment activity at the Tubes Division was concentrated mainly on modernization, optimizing operational processes and enhancing quality.
V&M Deutschland GmbH has modernized the boiler tube finishing line at the continuous tube rolling mill located at its works in Mülheim. This has not only resulted in an optimized material flow, but has also expanded capacity. A walking beam furnace was commissioned at the Düsseldorf-Reisholz works along with an additional continuous furnace for heat-treating boiler tubes in Zeithain and a high-pressure descaling line at the works in Düsseldorf-Rath.
V&M France installed a new non-destructive testing facility at its Deville plant. At V&M do Brasil, the plug mill and continuous tube mill finishing lines were updated in order to improve internal material flows and oil field pipe production was restructured.

MHP Mannesmann Präzisrohr GmbH commissioned high-performance carbide-tipped saws for cutting short sections at its Holzhausen and Brackwede plants during the fourth quarter. The commissioning of a total of three new 10-roll levelers at Brackwede and Hamm is scheduled for the first half of 2003. This equipment will ensure that production quality meets the increased demands made on our products by the automobile industry in particular.
At DMV Stainless the program to restructure cold tube production at the works in Remscheid and Costa Volpino, Italy, was completed with the commissioning of two full ring die pilger mills. At the works in Remscheid, the expansion press and reheating plant were also modernized.

The focus of investments at Mannesmannring Sachsen GmbH was on creating the requisite capacities for future cam ring production and the manufacture of rings for double shoulder bearings. Following the successful development of a new technique for manufacturing cam rings for hydroformed camshafts, appropriate investments were made in automatic lathes and hydroforming equipment. This step forward represents an essential element in a new development for the automotive sector.

Mannesmann Line Pipe GmbH has replaced the strip feed to its welding line and installed a new welding bench. Both these investments constitute important steps towards the strategic objective of expanding the range of HFI-welded tubes for offshore applications in particular to include wall thicknesses up to 20 mm and higher qualities.

The investments undertaken by Europipe GmbH in the year 2002 were essentially aimed at replacing and modernizing the production plant. At the Mülheim works, the welding current sources at the internal welding machines were replaced.

In the first stage of its renewal program, Mannesmannröhren Mülheim GmbH has replaced the 25 kV switching system which supplies the entire Mülheim site with electric power. The concluding second stage of the program is scheduled for 2003. A major energy-saving investment involved the remodeling of the horizontal supporting tube systems including the mounted castings and fire-proof insulation of the walking beam furnace at the plate mill. The function of the system is to transport slabs through the furnace. The new design reduces the amount of natural gas consumed by the furnace by more than 15% and improves product quality by achieving a more even temperature inside the slabs.
At the other divisions too, a large number of medium and smaller investment projects were carried out that will contribute towards the competitive strengths of the individual companies concerned and increase overall profitability.

An extensive investment budget has been planned for the next financial year with a volume exceeding € 250 million. Two thirds of this budget are earmarked for the Steel Division, with over half this amount accounted for by SZFG.
The funds will be released for investment in line with economic developments.

Profitability Improvement Program

In addition to the achievement of internal and external growth through investments and targeted acquisitions, one of our major goals is to secure and advance the competitive position enjoyed by Salzgitter AG through the ongoing improvement of our operational performance. In recent years the profitability improvement program has proven to be a consistently successful tool.

The second-generation profitability improvement program (PIP 2) launched in January 2001 as the successor to PIP 1 was consistently carried forward during the reporting period. Last year the Tubes Division was also integrated into PIP 2 in a process which involved absorbing the existing improvement programs at the tubes companies into the PIP system structure.

At the close of the financial year 2002, PIP 2 comprised some 353 projects. The sustained improvement we have been aiming for, the so-called full year effect, is currently running at € 132 million. Product-related measures have boosted earnings by € 111 million, while the burden of expenses has been eased by some € 68 million through savings on input materials, personnel and external services. These figures compare with an essential total of € 47 million in depreciation, interest and investment expenditure associated with the implementation of these measures.

The decisive factor in the successful implementation of PIP 2 is the whole-hearted commitment of all members of staff involved. There has been a great willingness to make use of the systems and institutions which comprise this program as a means by which to contribute ideas and suggestions on how to continuously improve results. Our decentralized Group structures allow knowledge disseminated within the undertaking to be applied directly to increasing the future competitiveness of Salzgitter AG.
Within the Salzgitter Group the PIP concept has become firmly established as an element of corporate management. As described in the section on "Growth Strategy," the program will be amended in line with current goals and continued in the coming financial year. The transparent, institutionalized PIP 2 reporting system will be employed to consistently pursue the basic strategy developed in 2002, thereby revealing a further aspect of PIP as a uniform Group-wide management tool.

GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT ON SALZGITTER AG

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Accounting Principles

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

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

Four companies engaged in the construction and automotive sectors were fully consolidated within the Processing Division for the first time with effect from January 1, 2002 (Salzgitter Bauelemente GmbH, Salzgitter Europlatinen GmbH, Salzgitter Automotive Engineering GmbH & Co. KG, Salzgitter Automotive Engineering Beteiligungsgesellschaft mbh). One company (SIT Salzgitter Information und Telekommunikation GmbH) was fully consolidated within the Services Division.

Two Tubes Division companies were deconsolidated with the sale of the business operations of Wälzlagerrohr GmbH and the holding in Mannesmann Presné Trubsky s.r.o.

Asset and Capital Structure

The Group balance sheet total at € 3,807 million remained virtually constant in comparison with the financial year 2001 (€ 3,809 million). On the assets side, as a result of the reversal of bad will, new Group companies, a capital investment volume in excess of depreciation and an adjustment of the at equity valuation of participating interests, fixed assets rose by € 132 million (7.2%) to € 1.98 billion, representing 51.9% of tied assets.

As a result of the demands on financial resources in implementation of the investment program, as well as through the reduction in inventories and other receivables, current assets declined by 6.8% to € 1.83 billion.

On the liabilities side, due in particular to currency-related adjustments for tube companies in Brazil and America, equity capital was reduced by € 58 million (–5.4%) to € 1.03 billion, corresponding to 27.0% of the balance sheet total. Long- and short-term external funds valued at € 2.78 billion (previous year € 2.72 billion; +2.1%) were employed in order to finance tied assets.

Asset and Capital Structure (in accordance with IAS)

(in € mil.)	31/12/2002	%	31/12/2001	%
Fixed assets	1,975	51.9	1,843	48.4
Current assets	1,832	48.1	1,966	51.6
Assets	**3,807**	**100.0**	**3,809**	**100.0**
Shareholders' equity	1,027	27.0	1,085	28.5
Long-term borrowings	1,851	48.6	1,878	49.3
Short-term borrowings	929	24.4	846	22.2
Liabilities	**3,807**	**100.0**	**3,809**	**100.0**

As a result of the capital investment program, net bank borrowings amounted to € 66 million (previous year € 49 million net cash on deposit).

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

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

Short-term working capital within the Group fell slightly by 0.8% to € 1,215 million (previous year € 1,224 million).

Pension provisions amounted to € 1,507 million (previous year € 1,534 million) and thereby represent a major element of corporate financing.
The remaining provisions at € 378 million were down by € 35 million on the year before, due in particular to a decline in accruals for deferred taxes.

In the following representation of the asset and capital structure of our company and by way of departure from the consolidated financial statements prepared in accordance with IAS provisions, we have not deducted the negative difference of € 242 million (bad will) incurred as a result of initial consolidation from intangible assets, but assigned it instead to capital resources since this item is to be appropriated as income over a relatively short period of time and accrued to equity tax-free. Minority interests in the amount of € 26 million have likewise been assigned to capital resources.

Asset and Capital Structure (business point of view)

(in € mil.)	31/12/2002	%	31/12/2001	%
Fixed assets	2,217	54.8	2,150	52.2
Current assets	1,832	45.2	1,966	47.8
Assets	**4,049**	**100.0**	**4,116**	**100.0**
Shareholders' equity[1]	1,295	32.0	1,413	34.3
Long-term borrowings	1,825	45.1	1,857	45.1
Short-term borrowings	929	22.9	846	20.6
Liabilities	**4,049**	**100.0**	**4,116**	**100.0**

[1] Including bad will and minority interests

Capital resources thereby made up 32% of the balance sheet total of € 4,049 million, marginally less than the proportion accounted for in the previous year (34%).

Cash and Cash Equivalents

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

The development in financial resources was affected by implementation of the growth strategy initiated at the Steel Division in 1999 and by the Group's participation in a major acquisition by the joint venture company V&M Tubes.

Current Group operations yielded an improved cash flow of € 157 million. The high level of investment disbursements reached € 330 million. After offsetting inflows of € 60 million from asset disposals, the outflow of € 270 million for investments was essentially responsible for the fall of € 111 in cash and cash equivalents at the end of the financial year. The complete cash flow statement forms part of the consolidated financial statements.

Cash and Cash Equivalents

(in € mil.)	FY 2002	FY 2001
Net cash provided by current operations	157.1	117.1
Net cash used for investing activities	–270.4	–262.7
Net cash from financial activities	–2.1	–8.7
Change in cash and cash equivalents	–115.4	–154.3
Cash and cash equivalents on balance cut-off	**111.2**	**226.6**

Value Added within the Salzgitter Group

At € 1,120 million the Group's operational value added was some € 6 million (0.5%) up on the previous year.

The proportion of value utilization accounted for by staff at 91.9% was distinctly higher than in the preceding year.

Shareholders (including own shares) will receive a proportion of 1.8% of the value added for this financial year.

Lenders accounted for 1.4%, virtually the same proportion as in the previous year.

The reduced tax share of 0.6% results from the comparatively high proportion of tax-free income from writing back bad will as well as from at equity adjustments.

Value Added

(in € mil.)	FY 2002	%	FY 2001	%
Sources				
Group outputs	5,078	100.0	4,954	100.0
Inputs	3,958	77.9	3,840	77.5
Value Added	**1,120**	**22.1**	**1,114**	**22.5**
Allocation				
Employees	1,029	91.9	936	84.0
Shareholders	20	1.8	26	2.3
Lenders	16	1.4	17	1.5
Public authorities	7	0.6	16	1.5
Group	48	4.3	119	10.7
Value Added	**1,120**	**100.0**	**1,114**	**100.0**

GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT ON SALZGITTER AG

ANNUAL FINANCIAL STATEMENTS FOR SALZGITTER AG

The Salzgitter AG (SZAG) annual financial statements for financial year 2002 have been prepared in accordance with the provisions of the German Commercial Code with due regard for the supplementary regulations of the German Stock Corporation Law and have been awarded an unqualified auditors' certificate by the auditors PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hannover. The complete text is published in the Federal Official Gazette (Bundesanzeiger) and, after relocation of the Company, deposited as HRB 9207 with the Commercial Register of the Local Court of Braunschweig.

Salzgitter AG heads the various divisions as the management holding company. Operational business is conducted by the Group member companies.

Salzgitter AG Balance Sheet (short version)

(in € mil.)	31/12/2002	%	31/12/2001	%
Fixed assets	497.1	28.9	528.7	28.4
Tangible assets[1)]	31.1	1.8	32.4	1.7
Financial assets	466.0	27.1	496.3	26.7
Current assets	1,224.5	71.1	1,336.1	71.6
Trade receivables and other assets[2)]	1,142.1	66.3	1,156.5	62.0
Cash and cash equivalents	82.4	4.8	179.6	9.6
Assets	**1,721.6**	**100.0**	**1,864.8**	**100.0**

(in € mil.)	31/12/2002	%	31/12/2001	%
Shareholders' equity	603.9	35.1	658.8	35.3
Special reserves with an equity portion	4.3	0.2	4.5	0.2
Provisions	414.3	24.1	441.6	23.7
Liabilities	699.1	40.6	759.9	40.8
due to banks	[52.2]		[19.4]	
Liabilities	**1,721.6**	**100.0**	**1,864.8**	**100.0**

1) Including intangible assets
2) Including prepaid expenses

Own funds accounted for 35.1 % of the balance sheet total (previous year 35.3 %). The provision of finance for an acquisition by V&M Tubes as well as the implementation of the internal growth strategy led to a decline in Salzgitter AG's financial resources.

Salzgitter AG Income Statement (short version)

(in € mil.)	FY 2002	FY 2001
Other operating income	48.3	25.3
Personnel expenses	16.3	17.2
Depreciation and amortization[1)]	13.3	14.1
Income from shareholdings	9.2	76.9
Net interest result	0.4	1.8
Other operating expenses	56.8	44.2
Loss/profit on ordinary activities	**–28.5**	**28.5**
Taxes	–0.5	–0.5
Net loss/profit for the year	**–29.0**	**28.0**

1) Inc. writedowns on financial assets and marketable securities

The result reported by the management holding company SZAG is shaped primarily by the results from the Steel Division companies that have been spun off, as well as by the member companies of the Trading and Services Divisions. The positive trend in results at the Tubes Division will impact on the Salzgitter AG result only after a certain time lag.

The losses to be accommodated as a result of the unfavorable development in steel along with provisioning for two companies of the Processing Division resulted in a marked reduction in the pre-tax result. However, a counter-effect was exerted by earnings from the sale of SDI shares.

Appropriation of Earnings at Salzgitter AG

For the financial year 2002, Salzgitter AG reported a loss of € 29.0 million. In consideration of the earnings of € 2.1 million brought forward and the withdrawal of € 46.9 million from reserves, the net income shown on the balance sheet amounted to € 20.0 million.

The Executive and Supervisory Boards will propose to the General Meeting of Shareholders that the profit of € 20.0 million be used to fund payment of a dividend of € 0.32 per share (based on the capital stock of € 159.5 million divided into 62,400,000 shares).

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

GROUP MANAGEMENT REPORT
AND MANAGEMENT REPORT ON SALZGITTER AG

RESEARCH AND DEVELOPMENT

In all segments of the market Salzgitter AG has consolidated and expanded its position as a powerful international steel and technology enterprise. An essential distinguishing factor has been the Group's orientation towards high-quality, innovative products and services. This orientation is likewise decisive in achieving competitive advantages. The Group's innovative capabilities are safeguarded by its well established research and development activities (R&D). Drawing on leading edge customer- and application oriented procedures, our highly qualified staff consistently refine products, processes and services. Pioneering research projects track and direct the technology trends of the future in the interests of ensuring continuing earnings growth.

Salzgitter AG is pursuing a dual strategy to safeguard corporate success through qualified R&D.

- On the one hand, we are engaged in innovative research and development aimed at expanding our existing product portfolio. In the field of high-strength hot-dip galvanized cold strip, for example, we were the first company in the world to achieve series production of isotropic steel in qualities suitable for exterior automobile body panels.
- On the other hand, we are entering both growing and entirely new business areas and markets through our interests in young, technology-driven companies such as Salzgitter Magnesium-Technologie GmbH, active in the field of high-quality flat magnesium products, and Salzgitter Automotive Engineering GmbH & Co. KG, operating in the field of prototype construction. Both companies are developing products of international importance with significant growth potential.

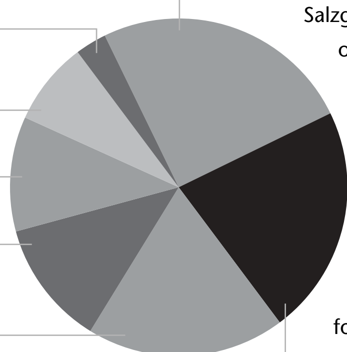
These successful endeavors are paralleled by close cooperative arrangements with universities and non-academic research institutions. This cooperation mainly leads to bilateral projects which attract public subsidies. In addition Salzgitter AG has endowed a chair in structural maintenance and supporting structures at the Technical University of Braunschweig in order to develop new approaches to building with steel and add emphasis to the training of students in this field. Activities of this kind will ultimately also promote the sale of steel. Our active participation in competence networks, for example the Braunschweig Center for Mechatronics and PhotonicNet, supports the exploitation of complementary skills and the transfer of knowledge especially in the field of process development. These centers are essential incubators for new projects and successful developments in cooperative ventures with universities.

In the year 2002 the Salzgitter Group invested € 47 million in R&D projects and related quality assurance measures. The Group has around 400 members of staff engaged in such tasks.

Overall, our R&D activities cover a broad spectrum: for example one of the main emphases at the Steel Division lies in the development of processing and surface-treatment procedures in the interests of expanding the product range and further enhancing performance.

In the automotive sector in particular Salzgitter AG adopts a proactive approach towards meeting its customer's needs: an approach which embraces not only materials but also comprehensive solutions covering almost the entire value chain. A prime example is the joint ATLAS project (Advanced Technologies for Lightweight Autobodies in Steel) undertaken by Salzgitter AG and automobile manufacturer Wilhelm Karmann GmbH. With the participation of Group companies from three divisions, the project investigated potential applications for the latest grades of steel and tube in conjunction with innovative manufacturing technologies such as the hydroforming of steel spaceframe structures. Among

Subject Areas/Expenditure in %



the results based on a physical vehicle were some significant reductions in weight in connection with enhanced crash behavior.

Salzgitter Flachstahl GmbH uses its internal R&D projects to drive developments in materials and treatment processes. Typical examples include the refinement and subsequent market launch of high-strength hot-rolled strip and high-strength surface-treated cold strip.

In the field of surface treatment, new-generation organic coatings will shortly be ready to enter full-scale production. Other projects are underway in the area of processing where the emphasis is on forming paint-coated sheet and mechanical jointing.

The R&D activities at Ilsenburger Grobblech GmbH have essentially been concentrated on refining thermo-mechanical rolling technology in order to improve surface qualities. Other process-oriented projects have further enhanced the already high-quality standards.

At Peiner Träger GmbH there was a two-fold emphasis, partly on advancing product quality at the new beam blank plant and partly on continuing to optimize rolling processes. The UPE flat slab system has been extended to include a design atlas aimed at improving market penetration.

At the Processing Division, the close links and cooperation between the R&D departments of the automotive companies resulted in new and innovative products and processes all along the value chain in the field of automotive construction, from prototypes and series production tools to tailored blanking and hydroforming.

Salzgitter Automotive Engineering GmbH & Co. KG has focused on virtual prototype construction in order to establish itself in the field of DMU (Digital Mock-Up) and meet a number of additional needs of automobile manufacturers.
In cooperation between Salzgitter Antriebstechnik GmbH & Co. KG and Oswald Hydroforming GmbH & Co. KG, further work was done on the development of lightweight hydroformed camshafts for future engine generations.
Salzgitter Magnesium-Technologie GmbH completed the implementation of a magnesium sheet production mill which is unique worldwide. The company has set a milestone in the development of this ultra-light, high-tech material.

At HSP Hoesch Spundwand und Profil GmbH a new range of sheet piling sections has been developed with a system width of 675 mm which is unique throughout the world. The greater weight-specific characteristics of these products offer customers significant installation advantages.

The renowned Mannesmann Forschungsinstitut (MFI) was primarily engaged in carrying out research commissioned by the Tubes Division. The main focus was on the development of processes and materials. In the following, a number of successful MFI projects are outlined.

For extreme requirements calling for seamless thick-walled line pipes, a new grade of steel with an extremely low carbon content was developed for Vallourec & Mannesmann Tubes S.A. and subsequently introduced. Improvements in plant and processes in the automation and testing technology sector resulted in productivity and quality gains.

Existing grades of steel were modified for Europipe GmbH so as to allow large-diameter pipes to be deployed in areas prone to seismic activity as well as for applications involving oxygen at very low temperatures.

MFI successfully trialed the manufacture of plate for thin-walled, large-diameter grade API X80 steel pipes for Mannesmannröhren Mülheim GmbH. In addition, a procedure was developed to produce roll-bonded sheet for corrosion-resistant large-diameter pipes which offers substantial cost benefits in comparison with existing technologies.

At MHP Mannesmann Präzisrohr GmbH, further developments for sophisticated automotive applications were in the forefront. Examples include injection lines capable of withstanding increased internal pressures up to 1,800 bar powering the latest generation diesel engines. Newly developed testing methods offer promising prospects for improved precision tubes suitable for hydroforming.

This selection of projects and directly marketable developments gives an insight into the customer-oriented approach adopted by Salzgitter AG and highlights the company's considerable capacity for innovation and technological competence.

GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT ON SALZGITTER AG

RISK MANAGEMENT

Effective and foresighted risk management represents an important and value creating component among the management instruments employed by Salzgitter AG. The risk management system is constantly being expanded and refined to meet specific needs. At the Tubes Division, in addition to the fully consolidated Mannesmannröhren- Werke companies, joint ventures such as Europipe GmbH and Röhrenwerke Gebr. Fuchs GmbH have also been integrated into the risk management system in accordance with Salzgitter AG guidelines. Work has also begun on introducing the system at DMV Stainless B.V.

At the Steel and Services Divisions, all fully consolidated companies are likewise integrated into the risk management system. While at the Trading Division, participation extends to the companies of the Salzgitter Handel Group and Hövelmann & Lueg GmbH & Co. KG.

Among the Processing Division companies, HSP Hoesch Spundwand und Profil GmbH, Salzgitter Bauelemente GmbH and Salzgitter Europlatinen GmbH are already linked into the system. At Salzgitter Automotive Engineering GmbH & Co. KG the integration process is underway.

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

To support unbureaucratic data handling, an extended data processing system was introduced during the reporting period. The Tubes Division is the first division to be fully linked into the new system. The remaining companies will also successively be integrated in order of their importance.
Measures to cope with and delimit risks can be introduced at an early stage and in a targeted manner as a result of the transparency gained with respect to risk-inherent developments and potential risks. At Salzgitter AG there is a clear demarcation between risk management and controlling, which are nevertheless geared to complement each another. Risks are considered as an integral part of intra-year forecasting, medium-term planning and strategy discussions. Our highest priority is to give adequate consideration to every opportunity which arises for the limitation of risks.

In terms of the likelihood of their occurrence, a distinction is drawn between probable and improbable risks. In the case of improbable risks, on the basis of prudent commercial, technical and legal judgement, there must be no likelihood of loss or damage occurring. The conditions to be fulfilled for this judgement to stand are documented, periodically examined and if necessary updated. Consideration of the sustained validity of the conditions set is an aspect of controlling and auditing at Salzgitter AG.

Where a probable risk exists, loss or damage can no longer be ruled out, for example as a consequence of the occurrence of certain events. In the interests of reproducibility and/or controllability, the quantitative extent of the calculated loss or damage is documented in the light of the relevant influencing factors.

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

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

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

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

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

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

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

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

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

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

In financial year 2002 there were no risks which endangered the continued existence of Salzgitter AG. Nor are there currently any concrete developments discernible which might be capable in future of having a lasting and substantially negative impact on the net worth, financial position or earnings of Salzgitter AG.

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

GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT ON SALZGITTER AG

OUTLOOK

Since the summer of 2002, the **global economic situation** has been marked by growing uncertainty. There was no end to this unsatisfactory development in sight at the beginning of the year 2003, nor any sign of a reversal of the trend.
The global economy is primarily dependent on the United States. Most economic research institutes estimate that in the course of the year 2003, the expansionary economic policy pursued by the US should become evident in an acceleration in aggregate output, with a subsequent positive effect on Europe. It is also to be expected that in the coming year the global economy will benefit from additional impetus from the newly industrializing countries of Asia where an upturn had begun to gather momentum in the course of 2002. Likewise in the countries of Central and Eastern Europe, there is a hesitant upward trend. In the euro zone, on the other hand, the economy is unlikely to strengthen until the second half of the year. For the moment the economy shows little momentum and development in Germany in particular is reticent at best. Overall it is to be expected that aggregate economic expansion in the euro zone will gain in strength as the year 2003 progresses. Annual average GDP is likely to rise by 1.4% on the heels of a rise of just 0.8% in the reporting period.

A recovery at the global economic level may be expected to provide perceptible stimulus for the **German economy**. Besides stimulating exports, an improvement in outlook would have a positive impact on the future plans of both companies and consumers alike. The added stimulus of an expansionary monetary policy is however eclipsed by the damping effect of financial policy. In view of the prospective burden of taxes and other charges, it is hardly likely in the short term that either companies or consumers will abandon their wait-and-see attitude, with the result that stagnation is likely to prevail in the first half of the year. A gradual revival in Germany likewise is not anticipated before the middle of the year. Real gross domestic product in the year 2003 is forecast to rise within a range of 0.6% to 1%, leaving Germany once again lingering at the bottom of the table in the euro zone.

There are some considerable risks inherent in the scenario as described: the war in Iraq that has commenced in the meantime may bring the recovery of the world to a halt once again, with serious consequences not least for Germany. There are further risks inherent in the development of the stock markets and the significant US balance of payments deficit, with the danger of a sharp decline in the value of the dollar.

In view of the modest economic prospects in Germany and some other EU countries and the atmosphere of global political risk, the starting point for the **rolled steel market** in 2003 is necessarily marked by a degree of skepticism. Once again this year, the climate for steel is a difficult one. Nevertheless, we anticipate that as growth begins to strengthen in the course of 2003, we will be in a position to view the developing situation with cautious optimism. We expect to see a somewhat more favorable trend in steel consumption in the EU during 2003, following last year's decline of 2% or more. Likewise supplies to the market will in all probability show a further increase and a rise of 3.5% would appear possible. Production of crude steel in the EU and Germany should reach approximately the same level as last year (159 million t and 45 million t respectively).

In anticipation of a more favorable movement in the market, there is also likely to be a marginal increase in stocks held by traders and consumers. The proportion of market supplies accounted for by third-country imports in 2003 may also increase once more in comparison with last year's relatively low level. A continuing rise in prices in the EU will render the comparatively open European steel market highly attractive.

Similarly, the development in the **steel tubes market** in 2003 will also be closely intertwined with an improvement in the global economic situation. Development in the oil and gas pipes segment will be dependent on whether the Iraq conflict can be resolved within the near future and how oil prices subsequently develop. The demand for pipes for exploration purposes and the transport and production of energy is substantially subject to the demand for energy and the realization of new power station projects. It is of major importance for European manufacturers that the decline in the dollar exchange rate remains within bounds. Increased orders from mechanical engineering and plant construction companies are likewise only to be expected provided that economic growth provides sufficient stimulus to release the investment logjam. The automotive industry anticipates that production will reach no more than the level of 2002 at best, albeit with a positive outlook from the second half onwards. Car model changes in the autumn by key manufacturers are likely to add fresh impetus, and the increasing average age of the vehicles on Germany's roads should also play a part.

Against this background, hopes for a recovery in the steel market are focusing on the second half of 2003.

With regard to the individual divisions of the **Salzgitter Group**, we anticipate the following developments in financial year 2003.

The Steel Division plans to return to profitability in the current financial year.
SZFG anticipates posting profits again, aided primarily by an increase in net revenues along with the effects of measures designed to enhance the result. The average total cost of sales is expected to remain at the same level as last year, mainly due to the beneficial effect of the dollar exchange rate on purchases of raw materials and energy supplies which should outweigh possible price increases in these commodities.

PTG is planning for sales growth, likewise as a result of increases in net revenues and shipments. Despite the negative effect of prices on the purchase of scrap, the earnings situation looks set to make a move towards the break-even point.

The expectation at ILG is for a gradual rise in sales with higher volumes being shipped and higher revenues achieved. In conjunction with measures introduced to enhance its earnings, the company is expected to return to profitability.

After a good year in 2002, SZGR this year expects sales to decline as a result of reduced shipments of pipe products. The company will accordingly return a lower profit than in the previous year.

Overall, however, the Steel Division has its sights set on higher sales and a perceptible improvement in its earnings situation.

Despite reticent demand the Trading Division expects to achieve an improvement in its results in comparison with 2002. A substantial contribution is anticipated from the SHD Group. The first-time consolidation of SIH (Houston, USA) will bring a discernible increase in sales volume coupled with positive earnings.
As a result of the steps which have been taken to reduce costs, coupled with an increase in value added, there has been an improvement in results at SSH.
SID, too, is profiting from its consolidation and expects to achieve a result comparable to the profit made in the year 2002. At HLK the anticipated increase in sales, coupled with higher margins, should be reflected in an improvement in the result. UES Neuss and Ocel are recording some initial successes in business transacted with new customers and are planning a turnaround, while Ets. Robert et Cie S.A.S. intends to reach a profit on a par with the year before.

The result returned by the Services Division in 2003 should prove more positive than in the year before. The developments at the individual companies are subject to a variety of influencing factors.
Improved performance is expected at PPS in particular, as it is likely that the technology services planned for SZFG will be fully utilized, and the effects of further measures will combine to boost results.
Additional profit contributions are also expected from DMU thanks to the positive development in non-ferrous metals and from TMG following the acquisition of contracts for network services.

VPS is planning not to pass on the increased cost of services provided within the Group, to the benefit of the steel companies in particular. GES is undertaking preparatory works including corresponding expenses in developing the eService platform and readying the latter for operation, and at HAN it is possible that the volume of coal handling services for external customers may decline.

Having been supported by special measures during 2002, it is likely that the Processing Division will return a loss this year too – albeit at a much lower level than in 2002 prior to the special measures.
With the market for sheet piling still difficult and the restructuring program continuing to bite, HSP anticipates a further loss in 2003, but on a lesser scale than in 2002.
SZBE once again plans a mildly negative result for 2003, taking account of its structural shift towards products with higher margins and corresponding volumes.
SZEP anticipates a profit for the financial year 2003 on a par with that achieved in 2002.
On the basis of an anticipated increase in sales and the optimization of projects, SZAE is looking to achieve a higher profit than in 2002.

Against the background as outlined above, the Tubes Division expects business in 2003 to be weaker than that experienced in the preceding year. Expectations vary for the individual product areas.

Demand for seamless tubes, especially oil and gas field pipes, had already begun to decline in the second half of 2002, and this downward trend will continue during the early months of 2003. The prospect of oil and gas prices settling at a level which will encourage drilling activities and thereby stimulate demand for oil and gas field pipes in the second half of the year is dependent on the hope of a rapid conclusion of the Iraq conflict. Non-energy-dependent products are nevertheless dependent on a resurgence in the economy.
Overall, it is to be expected that the seamless tubes segment will return a reduced but nonetheless respectable profit somewhat below the level of 2002.

In the area of precision tubes, the weakness in the mechanical engineering sector and in trading and the not overly positive outlook for the automotive industry would appear to render an increase in growth unlikely. Nevertheless, the profitability improvement program meanwhile largely completed at MHP and the attendant concentration on the higher end of the market, along with a strong order situation at numerous plants at the beginning of the year, give cause to anticipate a further improvement in the result.

Demand for stainless tubes had already begun to weaken in the second half of 2002 and has meanwhile stabilized at a low level. There is no improvement in prospect in the short term and any upturn in the longer term will be dependent on a general economic recovery. Having virtually completed its restructuring and cost-reduction program in 2002, DMV should however be better positioned now than in the past to respond to this adverse situation.

The medium line pipe companies expect business in 2003 to remain constant, with the possibility of a slight increase in activity. Besides the general, global climate of economic uncertainty, the development in the dollar exchange rate is of major importance. The current weakness of the dollar in comparison with the euro is having a restrictive effect on exports.

2003 promises to be a difficult year for large-diameter pipes. The low level of orders on hand at Europipe at the beginning of the year was sufficient only to safeguard capacity utilization for the first quarter in the field of longitudinally welded pipes. So far, the outlook for the following quarter suggests no more than a basic level of utilization. Likewise the situation for spiral welded pipes remains unsatisfactory. Competition for those projects which are pending is fierce, and in a battle in which price is the main weapon the strengthening euro is proving to be a disadvantage for Europipe. Nevertheless, there is cause to hope that the investment logjam among pipeline projects will be released as the year progresses, with a consequent influx of short-term orders.

Given the wide range of economy- and currency-driven fluctuations in this sector the Tubes Division result may, from a present perspective, be expected to be at break-even as a minimum.

Prior to the start of the financial year and as part of the Group-wide planning process, the market expectations discussed in this outlook were combined with a range of internal measures and additional parameters to arrive at an overall plan for the Group. Based on the current status of information available for the financial year 2003, this overall plan foresees a pre-tax profit ranging in the mid-tens of millions.

The capacity of the Group to pay a dividend is subject to the individual annual financial statement for Salzgitter AG to be prepared in accordance with the German Commercial Code [HGB].

As a result in particular of the strong results achieved by the Tubes Division companies in 2001 and 2002 which are, however, distributed only at a later date, Salzgitter AG plans to report an annual surplus – based on distributions expected from MRW in the year 2003 and in the context of improved results from the Steel Division – which will allow an appropriate dividend to be paid out of operating profits.
This will however be subject to current tax legislation in Germany. Should the principal elements of the plans resolved by the Germany's ruling coalition government be implemented, that is to say, legislation to reduce tax concessions and the new rules on environmental taxes, the considerable extra tax burden would lead to an additional financial outflow.

Naturally, the above statements are closely aligned with the general underlying conditions forecasted and accordingly entail inherent risks as well as possible opportunities. From a present perspective the risk side would appear to predominate, due to the specific situation in Germany, including for example the legislation on taxes, and to global economic and especially global political uncertainties.

ENVIRONMENTAL PROTECTION

The Salzgitter Group accords high priority to environmental protection and the prudent utilization of natural resources. Especially in recent years, environmental protection has had to repeatedly surmount new challenges. The increasingly narrow layout of the legal framework conditions, but also the growing interest of the public in corporate environmental policies and performance have contributed to the fact that economic, social and ecological interests are perceived as corporate aims and objectives to be concurrently pursued in a balanced manner.
In line with the concept of sustainability, the company is striving to reduce unavoidable environmental impact even further and to constantly advance the judicious, sparing use of resources.

At the Peine steelworks crude steel is produced by an electric arc furnace. The exclusive use of steel scrap not only substitutes iron ore and coking coal as raw materials, but also requires approximately 60 % less primary energy than the production route via blast furnace.

At the same time, the fact that our production processes utilize steel scrap represents a valuable contribution both in terms of the recovery of useful materials, as well as the implementation of the European Union Guideline on End of Life Vehicles. We are presently developing concepts with our partners in the automotive industry geared to achieving future advances in the very high share of end of life vehicle recycling that has already been attained.

We are also aiming for enhanced recycling processes and high recycling ratios for the by-products and waste materials produced at our companies. In the financial year just elapsed we succeeded in maintaining our high marketing and recycling ratio in excess of 90 % in the steel and tubes divisions. Far less than 10 % of all waste materials accumulated underwent final disposal.

In 2002, for the first time, Salzgitter was able to devise and implement a recovery concept for its the integrated metallurgical plant, enabling 100 % of the lime sludge produced by water purification to be recovered and fed back into the recycling process for useful materials. While utilization of the calcium carbonate sludge has not been possible to date, in future the lime will be recovered from the deposit basins of the Adersheim waterworks and enter into the production of agricultural fertilizer.

The topic of air pollution control continues to be one of the central environmental protection tasks throughout the steel industry and also at Salzgitter AG. Dust emissions were considerably reduced through the refurbishment of the dust extraction system in the ore preparation plant at the Salzgitter production location. We are already meeting the requirements of the new Technical Instruction for Air Protection [TA Luft] that entered into force in October 2002 with regard to room dust extraction in our sintering plant.

In view of the growing importance of environmental management and the international DIN EN ISO 14001 standard, we are endeavoring to obtain certification of all our environmental management systems in all divisions in accordance with this standard. In the period under review, the Holzhausen plant of MHP Mannesmann Präzisrohr GmbH marked a further Tubes division production site to gain certification to with this international standard.

The total expenditures of the Steel division committed to environmental protection amounted to € 120 million. A 43 % share was allotted to air pollution control measures, 27 % expended on the prevention of water pollution, 24 % in the area of residual substance and waste management, as well as 6 % committed to noise abatement measures. At the domestic companies in the Tubes division environmental protection measures reached a volume of € 10 million. A total of 4 % were committed to air pollution control measures, some 54 % to water pollution control and 37 % of the total sum expended on the waste management area. The remaining 5 % was allotted for noise abatement measures.

In 2002, changes in environmental policy and the basic legal conditions relating to the environment have once again defined further tasks in environmental protection.

The considerable effects of these developments are evident, for example, in the entire waste management area. With the Landfill Ordinance coming into force in August 2002, the EU Landfill Directive was implemented in the form of binding law. The requirements to be met by waste management and landfill operation were increased once again through these and other changes in the laws relating to waste disposal. In future, more action will have to be taken in order to implement the current requirements by way of technical, operational and organizational measures.

In December 2002, the European Commission Environment Directorate made a provisional decision on emissions trading throughout the European Union. Participation in this novel international system for trading emission rights will be mandatory for companies in the steel industry as of the year 2005.
As has already been practiced in fore field of this decision, Salzgitter AG will continue to be committed to expeditious implementation of the Kyoto agreements and emissions trading in a manner that is in line with market requirements. In order to achieve this goal, it will be necessary to give adequate consideration to positive results of the climatic improvement agreements of the German economy. At the same time, the other climate protection instruments provided for in the Kyoto Protocol – joint implementation and clean development mechanisms – must enter the current discussions. Only then can additional latitude be won for the branches of industry concerned in order to reduce climatic gases worldwide and at optimal costs.

At the present, additional burdens for the German economy have become evident as a result of national energy policy developments. Among other things, tax benefits granted to the manufacturing sector are to be diminished in the course of progressing ecological tax reform.
The planned increases in the tax rates for the mineral oil tax and the tax on electrical power, the rise in tax on natural gas, as well as the planned changes in compensatory transfers will, according to initial estimates, result in considerable additional burdens on German companies. However, seen from the perspective of the energy-intensive branches of industry, the continuation of compensatory transfers are particularly necessary as they are directly connected with the success of the climatic improvement agreements.

Against the backdrop of sustainable management, it will be necessary to develop an overall concept that takes the economic, ecological and social aspects of energy policy into consideration. In the future, the efforts of the Salzgitter Group will also remain directed toward preventing the internationally unbalanced energy price burdens from being further exacerbated by eco-tax reforms.

REPORT OF THE SUPERVISORY BOARD

From the Supervisory Board's viewpoint, Salzgitter AG was also able to achieve a satisfying result in financial year 2002 in spite of the difficult market environment. Further investments were initiated in order to shape and secure the future of the company, while the medium- and long-term strategic goals of the individual divisions and their business fields were systematically examined and redefined. In doing so, the decision to change the organizational structure of the Group to a holding company, as conducted in 2001, has decidedly proved its worth.

Monitoring Management and Advising the Executive Board

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

In four Supervisory Board meetings the Supervisory Board dealt with the current situation and development of the Group on the basis of Executive Board reporting and discussed those particularly important business operations in detail submitted by the Executive Board that require the approval of the Supervisory Board. Approval was given in particular for the following:

- reorientation of the Trading division,
- several investments in the Steel division (continuous caster, continuous pickling line, power supply),
- partial financing of an acquisition in the Tubes division (steel tube activities of North Star Steel Corp., USA) as well as
- implementation of the German Corporate Governance Code with few exceptions (among other things, through adaptation of the rules of internal procedure and a proposal on adaptation of the articles of incorporation).

In its meeting on December 12, 2002 the Supervisory Board dealt in detail with the corporate planning submitted by the Executive Board for financial years 2003 to 2005. Finance, investment and personnel planning were discussed in particular and the investment planning for financial year 2003 was approved.

In addition, the strategy committee which was formed by the Supervisory Board met twice and held intensive discussions with the Executive Board on the further strategic development of the company. These results, together with the updated strategic target proposed by the Executive Board, were subsequently presented to the Supervisory Board plenum and there discussed in detail.

The members of the presiding committee of the Supervisory Board met once to discuss preparation of Executive Board matters. At its meeting December 12, 2002 the Supervisory Board thereupon appointed Mr. Peter-Jürgen Schneider as a member of the Executive Board and as Personnel Director of the company for a period of five years, effective as of April 1, 2003.

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

The Supervisory Board received no reports from Executive Board members with regard to conflicts of interest in financial year 2002 and none of the members of the Supervisory Board communicated any conflicts of interest to the Supervisory Board.

Annual Financial Statements and Consolidated Financial Statements as of December 31, 2002

The principal subject of the Supervisory Board meeting on April 3, 2003 involved the annual financial statements and the consolidated financial statements of Salzgitter AG as of December 31, 2002 which were respectively submitted by the Executive Board as well as the joint management report for the company and the Group for financial year 2002. Prior to this, the auditors PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hannover, selected by the General Meeting of Shareholders on June 19, 2002, reviewed both financial statements on behalf of the Supervisory Board and provided them with an unqualified auditors' certificate. The auditor thereby confirmed agreement between the balance, the valuation of the company and the consolidated financial statements with International Accounting Standards (IAS). Moreover, the auditor has reviewed the Salzgitter AG early warning system and verified the fact that this system meets all of the legal requirements in its entirety. When commissioning the auditors the Supervisory Board waived the right to direct the focus of the auditors' review of the respective financial statements.

The annual financial statements, the consolidated financial statements, the joint management report for the company and the Group, the Executive Board proposal on appropriation of the balance sheet profit, as well as the auditor's reports were available to all of the Members of the Supervisory Board for examination. The representatives of the auditors took part in the discussions of the annual financial statements and the consolidated financial statements at the Supervisory Board meeting on April 3, 2003 and elaborated upon the essential findings of their review.

On the basis of its own examination of the annual financial statements, the consolidated financial statements and the joint management report, the Supervisory Board approved the findings of the review by the auditor. There were no objections to the final result of the audit. The Supervisory Board approved the annual financial statements and the consolidated financial statements. The financial statement is thus certified. The Supervisory Board agreed with the proposal made by the Executive Board on appropriation of the balance sheet profit.

Changes to the Executive and Supervisory Boards

Mr. Arnold Jacob retired from the Executive Board as of March 31, 2002. Dr. Schwich, responsible for the Steel and Processing divisions since the middle of the year 2001, took over the tasks last carried out by Mr. Jacob. Appointment of Mr. Peter-Jürgen Schneider to Personnel Director and member of the Executive Board as of April 1, 2003 has already been reported on in the above.

As far as the members of the Supervisory Board are concerned, Mr. Rainer Schmidt has laid down his mandate, effective as of April 1, 2003 due to other professional tasks. The competent registration court appointed Ms. Hannelore Elze as a member of the Supervisory Board in his stead.

The Supervisory Board wishes to thank Mr. Jacob for his many years of commitment to the company and Mr. Schmidt for this constructive work.

The Supervisory Board would like to thank the Executive Board and all of the Group staff and employees at Salzgitter AG for their commitment in financial year 2002.

Salzgitter, April 3, 2003

The Supervisory Board

Dr. Wilfried Lochte
Chairman

CORPORATE GOVERNANCE

Structure

In accordance with the relevant German corporate laws that apply to the company, corporate governance in the Salzgitter Group is practiced by governing bodies at Salzgitter AG; these include the following:

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

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

The **Supervisory Board** monitors and advises the Executive Board. It consists of 21 members, 10 respective shareholders and employee-elected representatives and one further member who is proposed by the other 20 members to the General Meeting of Shareholders for appointment. The Supervisory Board’s sphere of responsibility includes appointment of the members of the Executive Board and review of the annual financial statements and the consolidated financial statements. The Supervisory Board is required to comment on the results of the legally prescribed review of these financial statements by an independent auditor. Particularly important Executive Board decisions are subject to its approval. The members of the Executive Board are liable to the company for any dereliction of duties.

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

Instruments

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

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

The Executive Board employs, among other things, the following instruments for management and control:
- definition of the principles for management of the Group in a Group guideline for management and organization,
- definition of reporting obligations and authorization requirements in Group guidelines for individual areas,
- preparation of strategic planning for all divisions and fields of business as well as the regular updating of same and checks on progress,
- obligation of all Group companies to annual sales, investment, financial and personnel planning as well as regular checks on the progress of same,
- controlling discussions between Executive Board and Group companies on a quarterly basis,
- monitoring system for early risk detection (risk management),
- regular internal audits and special audits,
- agreement on targets and a performance-related share as remuneration of the business managers of Group companies and managerial employees,
- the issuing of share options to business managers and managerial employees with exercise options upon reaching a long-term increase in corporate value (Long-Term Incentive Plan).

Management and Controlling in Financial Year 2002

In financial year 2002 the **shareholders** exercised their rights at the General Meeting in Braunschweig on June 19, 2002. A total of 64.3 % of all voting rights were represented. Decisions were made on the following:
- appropriation of the balance sheet profit of financial year 2001 (dividend of € 0.42 per share, net earnings brought forward),
- discharge of Executive Board and Supervisory Board (approval granted),
- selection of the auditors for financial year 2002 (PwC Deutsche Revision),
- changes to the articles of incorporation with regard to the deposit period and corporate domicile (approval granted)
- authorization to purchase and sell the company's own shares (approval granted) as well as
- approval of controlling and profit transfer agreements (approval granted).

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

The **Executive Board** reviewed the strategic orientation of the company in the year under review in particular and specified it once again after consulting with the strategy committee of the Supervisory Board. Proceeding on this basis, the Executive Board introduced measures to implement the strategic goals of the company, initiated projects and arranged for concrete investments and disinvestments. Development of the various Group companies was monitored in a timely fashion through regular budgeted/actual comparisons of their key data, then dealt with in controlling discussions with the management staff on a quarterly basis and corrected if necessary. One of the areas emphasized in this respect was by the Steel division and its earnings trend in the light of a very difficult market environment.
The Executive Board provided a detailed report on risk management in the Group as part of the Group management report (cf. beginning on page 16). Moreover, the Executive Board prepared corporate planning for the Group for financial years 2003 to 2005 and concluded agreements on the targets for the Group companies with their respective management staff.
The Executive Board also ensured monitoring of compliance with the recommendations on management and control that were revised by the Government Commission German Corporate Governance Code in the year 2002 and accepted by the Executive Board and the Supervisory Board of Salzgitter AG.

In its report to the General Meeting of Shareholders (cf. beginning on page 75), the **Supervisory Board** provides separate information on the details of its monitoring activity in financial year 2002 and its decisions on the successors for retiring members of the Executive Board. In particular, the Supervisory Board was informed through the written and verbal reports of the Executive Board on a regular and comprehensive basis with regard to the intended business policy, including corporate planning, the profitability of the company, the risk situation, the course of business and the situation of the company as well as a number of particularly important individual business matters. Deviations between the business trend and the established plans and targets were discussed. Together with the Executive Board, the Supervisory Board deliberated and reached decisions concerning those business matters and matters whose transaction and implementation require the prior approval of the latter in accordance with the rules of internal procedure. Among other things, the Supervisory Board expressly adopted the precept that the recommendations of the German Corporate Governance Code are to be taken into consideration in the future, insofar as the Executive Board and the Supervisory Board have not declared that the recommendations are not to be applied. The remuneration granted to the members of the Executive Board, which consists of fixed and variable – i.e. performance-related (return on capital employed) – components, is shown in the notes to the consolidated statements.
The annual remuneration for the Supervisory Board was last determined by the General Meeting of Shareholders on May 23, 2001 as follows:

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

The members of the Supervisory Board do not receive performance-related remuneration components. The Supervisory Board received no reports from either the members of the Executive Board or the Supervisory Board with regard to conflicts of interest.
The term of office of the present Supervisory Board ends based on § 7 Clause 2 of the company's articles of incorporation with conclusion of the General Meeting of Shareholders on May 28, 2003 and thus new appointments are to be made by this General Meeting of Shareholders.

There are 21 members of the Supervisory Board. In accordance with the provisions of the German Stock Corporation Law [AktG] and the Iron and Steel Codetermination Law from 1951, 10 candidates are proposed to the Supervisory Board with the votes of the shareholder representatives in order to serve as the new shareholder representatives upon election. Parallel to this procedure the Group works council will appoint the 10 employee representatives.
In the event of their election, the proposed candidates are then obliged in accordance with the law to make a proposal for the so-called 21st other member. All election proposals are expected to included in the agenda and the proposed resolutions for the General Meeting of Shareholders which are to be published in the Federal Official Gazette and on the company's Internet page on April 17, 2003.

Information und Transparency

The Executive Board is obliged to provide shareholders, financial analysts and other participants on the capital market as well as the public with comprehensive and detailed information on a regular basis concerning the current situation and development of the company in the course of financial year 2002, in particular through

- publication of the key data of the consolidated statements for financial year 2001 on March 13, 2002,
- publication of the consolidated statements for financial year 2001 together with the management report on April 29, 2002, which includes detailed explanations with regard to the individual balance sheet items and income statement items, including segment reporting and numerous other data in accordance with the German Commercial Code and International Accounting Standards,
- explanation of the annual financial statements and the consolidated financial statements for 2001 and comments on development of the company in the first months of the year 2002 at the accounts press conference on April 29, 2002,
- the report on the first three months of financial year 2002 from May 29, 2002,
- the management report at the General Meeting of Shareholders on June 19, 2002,
- the report on the first six months of financial year 2002 from August 28, 2002,
- the report on the first nine months of financial year 2002 from November 27, 2002 as well as
- a series of press releases – in part, immediately distributed as ad-hoc reports – over the course of the year.

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

Declaration of Correspondence with the German Corporate Governance Code

With regard to the recommendations of the Government Commission German Corporate Governance Code[1)] the Executive Board and the Supervisory Board stated in accordance with § 161 of the German Stock Corporation Law that, with the following exceptions, these recommendations are complied with at Salzgitter AG:

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

1) Last published in the official part of the electronic Federal Official Gazette on November 26, 2002 in the November 7, 2002 version; available on the Internet at www.corporate-governance-code.de

This explanation has been accessible to shareholders on the company's Internet page on a permanent basis since December 17, 2002 (www.salzgitter-ag.de).

We justify this as follows:
Subclause 3.8 Paragraph 2 (deductible for D&O insurance):
The Executive Board and the Supervisory Board do not regard the agreement on a deductible within the scope of consequential loss insurance as being necessary for members of the governing bodies (D&O insurance) in order to compel members of the Executive Board and Supervisory Board to practice duty bound behavior.

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

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

Subclause 5.4.5 Paragraph 1 und 2 (Supervisory Board remuneration):
In the opinion of both the Executive Board and the Supervisory Board any remuneration of Supervisory Board members that is coupled with corporate success would be not beneficial in light of the legally desirable function of the Supervisory Board as an independent, and thus neutral, monitoring body in terms of company interests and an extra remuneration for presidency and membership in committees as unnecessary.

Subclause 7.1.2 (public availability of consolidated statements within ninety days):
The 90-day deadline could not be achieved in the year 2003 due to of the schedule specified one year ago for preparation, review and approval of the consolidated statements for the year 2002 and will presumably also be exceeded in the year 2004 in view of the required, extremely complex conversion of the SAP software to a new generation at the turn of the year 2003/04. The 90-day deadline will be complied with thereafter.

Salzgitter, April 3, 2003

The Executive Board

Wolfgang Leese
Chairman

The Supervisory Board

Dr. Wilfried Lochte
Chairman

BOARDS, PERSONAL DATA

Executive Board

Wolfgang Leese
Chairman
a) ■ Mannesmannröhren-Werke AG (Chairman)
■ Salzgitter Stahl GmbH (Chairman)
■ MAN Nutzfahrzeuge AG since March 15, 2002
■ Vallourec S.A. (Conseil de Surveillance) since June 11, 2002

Prof. Dr. Günter Geisler
Vice Chairman
Personnel and Services Division
a) ■ Mannesmannröhren-Werke AG
■ Salzgitter Stahl GmbH
■ Ilsenburger Grobblech GmbH
■ PPS Personal-, Produktions- u. Servicegesellschaft mbH (Chairman)
■ Verkehrsbetriebe Peine-Salzgitter GmbH (Vice Chairman)
b) ■ HANSAPORT Hafenbetriebsgesellschaft mbH (Supervisory Board, Chairman)

Dr. Heinz Jörg Fuhrmann
Finances
a) ■ Mannesmannröhren-Werke AG
■ Salzgitter Handel GmbH (Vice Chairman)
■ Salzgitter Stahl GmbH
■ Salzgitter Flachstahl GmbH
■ HSP Hoesch Spundwand und Profil GmbH until June 20, 2002
b) ■ UNIVERSAL Eisen und Stahl GmbH (Advisory Council)
■ Ets. Robert & Cie S.A.S. (Comité de Surveillance)
■ HANSAPORT Hafenbetriebsgesellschaft mbH (Supervisory Board)

Arnold Jacob
Investments in Steel Division
until March 31, 2002
a) ■ PPS Personal-, Produktions- u. Servicegesellschaft mbH until March 31, 2002
■ Verkehrsbetriebe Peine-Salzgitter GmbH until March 31, 2002
b) ■ Redestillationsgemeinschaft GmbH (Advisory Council) until June 30, 2002
■ intra Unternehmensberatung GmbH (Advisory Council) since April 1, 2002

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

Helmut F. Koch
Tubes Division
Chairman of the Executive Board of
Mannesmannröhren-Werke AG

a) ▪ Hüttenwerke Krupp Mannesmann GmbH (Supervisory Board; Chairman until September 30, 2002)
▪ MHP Mannesmann Präzisrohr GmbH (Chairman)
▪ Europipe GmbH (Chairman)
▪ Salzgitter Stahl GmbH

b) ▪ Vallourec S.A. (Conseil de Surveillance, Vice Chairman)
▪ VALLOUREC & MANNESMANN TUBES S.A. (Conseil d'Administration)
▪ V&M do Brasil S.A. (Conselho Consultivo)
▪ DMV Stainless B.V. (Supervisory Board, Chairman until February 15, 2002)
▪ DMV Stainless S.A.S. (Conseil de Surveillance, Chairman until February 15, 2002)
▪ Hüttenwerke Krupp Mannesmann GmbH (Shareholders' Committee)
▪ Europipe GmbH (Shareholders' Committee)
▪ Mannesmann Line Pipe GmbH (Advisory Council, Chairman)
▪ Röhrenwerke Gebr. Fuchs GmbH (Supervisory Board; Chairman until September 30, 2002)
▪ Borusan Mannesmann Boru A.S. (Administrative Board, Vice Chairman until March 31, 2002)
▪ Mannesmann Forschungsinstitut GmbH (Advisory Council, Chairman)
▪ Mannesmann Altersversorgung Service GmbH (Advisory Council, Chairman)

Michael B. Pfitzner
Trading Division
Member of the Executive Board of Salzgitter Stahl GmbH
Business Manager of Salzgitter Flachstahl GmbH

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

b) ▪ UNIVERSAL Eisen und Stahl GmbH (Advisory Council, Chairman)
▪ Ets. Robert & Cie S.A.S (Comité de Surveillance, Chairman)

Peter-Jürgen Schneider
Member of the Executive Board since April 1, 2003

Dr. Volker P. H. Schwich
Steel and Processing Divisions
Member of the Executive Board of Salzgitter Stahl GmbH

a) ▪ Salzgitter Flachstahl GmbH (Chairman)
▪ Peiner Träger GmbH (Chairman)
▪ Ilsenburger Grobblech GmbH (Chairman)
▪ HSP Hoesch Spundwand und Profil GmbH (Chairman)

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

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

Supervisory Board

Dr. Wilfried Lochte
Chairman
Chairman of the Executive Board of
MAN Nutzfahrzeuge AG, retired
Member of the Executive Board MAN Aktiengesellschaft, retired
a) ■ Schmitz Cargobull AG (Chairman)
■ Knorr-Bremse AG (Vice Chairman)
■ Knorr-Bremse Systeme für Nutzfahrzeuge GmbH (Vice Chairman)
■ Claas KGaA
b) ■ Claas KGaA (Shareholders' Committee)

Horst Schmitthenner
Vice Chairman
Managing Member of the Executive Board of IG Metall
a) ■ Salzgitter Stahl GmbH (Vice Chairman)

Dr. Dieter Brunke
Member of the Executive Board of Preussag AG, retired
b) ■ JC INSITU Beteiligungsgesellschaft mbH (Supervisory Board)
■ Solyp Informatik GmbH (Advisory Council, Chairman)

Dr. Gunter Dunkel
Member of the Executive Board of Norddeutsche Landesbank Girozentrale
a) ■ CinemaxX AG (Vice Chairman) until August 22, 2002
■ Viscardi AG
■ üstra Intalliance AG
■ Lausitzer Braunkohle AG (LAUBAG)
b) ■ NORD/LB Luxembourg S.A. (Administrative Council)
■ Skandifinanz AG (Administrative Council)
■ Pirma Banka (Supervisory Board, Chairman)
■ MHB Bank Polska S.A. (Supervisory Board, Vice Chairman)
■ AB Lieturos Zemes Ukio Bankas (LZUB), (Supervisory Board, Chairman)

Hannelore Elze
since April 1, 2003
Secretary of IG Metall Trade Union –
Düsseldorf Subsidiary Office
a) ■ Babcock Borsig AG
■ V&M DEUTSCHLAND GmbH since March 1, 2003
■ Hydro Aluminium Deutschland GmbH

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, retired
■ No membership in other governing bodies

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

Prof. Dr. Heinz Haferkamp
University Professor at Universität Hannover
a) ▪ Deutsche Gesellschaft zum Bau und Betrieb von Endlagern für Abfallstoffe mbH (DBE)
▪ ALSTOM LHB GmbH
▪ Produktionstechnisches Zentrum GmbH

Prof. Dr. Rudolf Hickel
Professor of Economics, specializing in Finance at the Economics Faculty of the University of Bremen
a) ▪ „GEWOBA – Aktiengesellschaft Wohnen und Bauen"
▪ Sächsische Edelstahlwerke Freital GmbH
▪ ALLIANZ AG

Dr. Gunther Krajewski
Head of Ministry Department, Department Head in Lower Saxony Ministry of Finance
Managing Director of Hannoversche Beteiligungsgesellschaft mbH
a) ▪ Flughafen Hannover-Langenhagen GmbH

Prof. Dr. Hans-Jürgen Krupp
President Landeszentralbank in der Freien und Hansestadt Hamburg, in Mecklenburg-Western Pomerania and Schleswig-Holstein, retired
▪ No membership in other governing bodies

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

Bernd Lange
Member of European Parliament
▪ No membership in other governing bodies

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

Dr. Hannes Rehm
Vice Chairman of the Executive Board of Norddeutsche Landesbank Girozentrale
a) ▪ Berlin-Hannoversche Hypothekenbank AG
▪ dvg Hannover Datenverarbeitungsgesellschaft mbH
▪ Niedersächsisches Staatstheater Hannover GmbH
b) ▪ Fürstenberg Ehemalige Herzoglich Braunschweigische Porzellanmanufaktur Fürstenberg (Supervisory Board, Chairman)
▪ Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale (Supervisory Board)
▪ LBS Norddeutsche Landesbausparkasse Berlin-Hannover (Supervisory Board)
▪ Niedersächsische Gesellschaft für öffentliche Finanzierung mbH (Supervisory Board)
▪ NILEG Norddeutsche Gesellschaft für Landesentwicklung mbH, Wohnungsbau und Kommunale Anlagen (Supervisory Board)

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

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
■ 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 Group Works Council of Salzgitter AG
Chairman of Works Council of Salzgitter Flachstahl GmbH

a) ■ Salzgitter Flachstahl GmbH

Rainer Schmidt

until April 1, 2003
Secretary of IG Metall Trade Union –
Düsseldorf Subsidiary Office

a) ■ Vodafone AG
■ Vodafone Deutschland GmbH
■ Gröditzer Stahlwerke GmbH i.L.
■ V&M DEUTSCHLAND GmbH
until February 28, 2003

Christian Schwandt

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

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

Friedrich-Wilhelm Tölkes

Chairman of Works Council of Hüttenwerke Krupp Mannesmann GmbH

a) ■ Mannesmannröhren-Werke AG

Hartmut Tölle

Chairman of DGB-Landesbezirk Lower Saxony/Bremen and Saxony-Anhalt

■ No membership in other governing bodies

Dr. Martin Winterkorn

Chairman of the Executive Board of Audi AG

a) ■ Infineon Technologies AG

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

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

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2002

(in T €)	Note	FY 2002	FY 2001
Sales	(1)	4,741,321	4,593,038
Increase or decrease in finished goods and work in progress and other own work capitalized	(2)	+ 7,294	+ 55,912
		4,748,615	4,648,950
Other operating income	(3)	229,902	195,165
Costs of materials	(4)	3,111,485	3,085,123
Personnel expenses	(5)	939,907	842,970
Depreciation	(6)	219,612	210,381
Other operating expenses	(7)	627,143	544,979
Income from shareholdings	(8)	+ 5,659	+ 2,998
Income from associated companies	(9)	+ 84,309	+ 83,737
Write-downs on financial assets and current securities	(10)	2,232	17
Net interest income	(11)	– 95,642	– 87,059
Profit on ordinary activities		**+ 72,464**	**+ 160,321**
Taxes	(12)	6,601	16,025
Consolidated net income for the year		**65,863**	**144,296**
Minority interests	(13)	1,473	5,673
Consolidated net income accruing to Salzgitter AG shareholders		**64,390**	**138,623**

Application of profits (in T €)	Note	FY 2002	FY 2001
Consolidated net income accruing to Salzgitter AG shareholders		64,390	138,623
Profit carried forward from previous year		28,014	46,011
Dividend payment		–25,918	–32,815
Appropriation to other retained earnings		–46,486	–123,805
Net income of Salzgitter AG		**20,000**	**28,014**

Earnings per share (in €)	(14)	**1.05**	**2.28**

CONSOLIDATED BALANCE SHEET (AT DECEMBER 31, 2002)

Assets (in T €)	Note	31/12/2002	31/12/2001
Fixed assets			
Intangible fixed assets			
Goodwill/negative goodwill from capital consolidation	(15)	−241,962	−306,746
Other intangible assets	(16)	23,241	17,037
		−218,721	**−289,709**
Tangible fixed assets	(17)	1,509,626	1,456,401
Financial assets	(18)	195,711	194,690
Associated companies	(19)	488,159	481,364
		1,974,775	**1,842,746**
Current assets			
Inventories	(20)	868,512	879,224
Receivables and other assets			
Trade receivables	(21)	691,958	691,276
Other receivables and sundry assets	(22)	152,710	163,569
Current securities		392	1,249
Cash and cash equivalents	(23)	111,237	226,669
		1,824,809	**1,961,987**
Capitalized deferred taxes	(24)	4,545	718
Prepaid expenses	(25)	2,496	3,470
		3,806,625	3,808,921

Equity and liabilities (in T €)			
Shareholders' equity	(26)		
Subscribed capital	(27)	159,523	159,523
Capital reserve	(28)	287,530	287,530
Retained earnings	(29)	566,450	616,407
Non-distributed income	(30)	20,000	28,014
		1,033,503	1,091,474
Own shares		−6,802	−6,225
		1,026,701	**1,085,249**
Minority interests	(31)	26,312	20,897
Provisions			
Provisions for pensions and similar obligations	(32)	1,506,536	1,534,451
Tax provisions	(33)	99,534	110,762
Other provisions	(33)	278,020	302,113
		1,884,090	**1,947,326**
Liabilities	(34)		
Bonds		2,263	3,640
Liabilities to banks		177,497	177,930
Trade payables		345,447	346,145
Other liabilities		343,143	225,569
		868,350	**753,284**
Thereof long-term interest-bearing financial liabilities		[98,969]	[81,936]
Deferred income	(35)	1,172	2,165
		3,806,625	3,808,921

STATEMENT OF CHANGES IN EQUITY

(in T €)	Subscribed capital	Capital reserve	Retained earnings
Status December 31, 2000	**159,523**	**287,530**	**455,773**
First-time application of IAS 39 effective January 1	–	–	–
Net income for the year	–	–	–
Dividend	–	–	–
Disposal of own shares	–	–	1,673
Repurchase of own shares	–	–	–
Currency conversions	–	–	–9,267
Change in value IAS 39 investments	–	–	–
Change in value IAS 39 from hedging relationships	–	–	–
Transfer by Salzgitter AG to retained earnings	–	–	13,200
Group transfers to retained earnings	–	–	110,605
Others	–	–	217
Status December 31, 2001	**159,523**	**287,530**	**572,201**
Net income for the year	–	–	–
Dividend	–	–	–
Disposal of own shares	–	–	–
Repurchase of own shares	–	–	–
Change in value of own shares	–	–	3
Currency conversions	–	–	–72,730
Change in value IAS 39 investments	–	–	–
Change in value IAS 39 from hedging relationships	–	–	–
Withdrawal from retained earnings by Salzgitter AG	–	–	–46,899
Group transfers to retained earnings	–	–	93,385
Changes to the group of consolidated companies	–	–	–12,266
Changes in value net taken to profit and loss	–	–	1,627
Others	–	–	147
Status December 31, 2002	**159,523**	**287,530**	**535,468**

Thereof deriving from currency conversion	Thereof other equity changes which do not affect the result	Repurchase of own shares	Valuation reserve IAS 39 from hedging relationships	Valuation reserve IAS 39 from available for sale	Consolidated net income	Shareholders' equity
–7,143	**–**	**–37,937**	**–**	**–**	**46,011**	**910,900**
–	–	–	–120	28,622	–	28,502
–	–	–	–	–	138,623	138,623
–	–	–	–	–	–32,815	–32,815
–	1,673	33,016	–	–	–	34,689
–	–	–1,304	–	–	–	–1,304
–9,267	–	–	–	–	–	–9,267
–	–	–	–	20,158	–	20,158
–	–	–	–4,454	–	–	–4,454
–	–	–	–	–	–13,200	–
–	–	–	–	–	–110,605	–
–	–	–	–	–	–	217
–16,410	**1,673**	**–6,225**	**–4,574**	**48,780**	**28,014**	**1,085,249**
–	–	–	–	–	64,390	64,390
–	–	–	–	–	–25,918	–25,918
–	–	47	–	–	–	47
–	–	–3,340	–	–	–	–3,340
–	3	2,716	–	–	–	2,719
–72,730	–	–	–	–	–	–72,730
–	–	–	–	–35,815	–	–35,815
–	–	–	22,591	–	–	22,591
–	–	–	–	–	46,899	–
–	–	–	–	–	–93,385	–
–	–	–	–	–	–	–12,266
–	1,627	–	–	–	–	1,627
–	–	–	–	–	–	147
–89,140	**3,303**	**–6,802**	**18,017**	**12,965**	**20,000**	**1,026,701**

(36) CASH FLOW STATEMENT

(in T €)	FY 2002	FY 2001
Consolidated net income for the year	64,390	138,623
Write-downs (+) / write-ups (–) on fixed assets	221,193	210,255
Other non-payment-related expenses (+) / income (–)	–28,922	–80,982
Interest expenses	109,181	111,482
Profit (–) / loss (+) on the disposal of fixed assets	–14,612	–11,157
Increase (–) / decrease (+) in inventories	24,885	–16,971
Increase (–) / decrease (+) in trade receivables and other assets not attributable to investment or financing activities	–20,592	–39,286
Payment-related increase (+) / decrease (–) in provisions	–237,038	–239,018
Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	38,653	44,160
Cash flow from operating activities	**157,138**	**117,106**
Payments received from the disposal of fixed assets	11,320	24,636
Payments made on investments in intangible and tangible fixed assets	–252,880	–274,650
Payments received from the disposal of financial assets	48,848	9,438
Payments made on investments in financial assets	–77,781	–22,137
Cash flow from investment activities	**–270,493**	**–262,713**
Payments received (+) / made (–) due to the repurchase of own shares	–574	33,386
Dividend payments	–25,918	–32,816
Payments received (+)/made (–) resulting from the issue of shares and take-up of loans	40,046	5,032
Interests paid	–15,631	–14,280
Cash flow from financing activities	**–2,077**	**–8,678**
Cash and cash equivalents available at the beginning of the period	226,669	380,954
Variation in cash and cash equivalents	–115,432	–154,285
Cash and cash equivalents available at the end of the period	**111,237**	**226,669**

(37) SEGMENT REPORTING/PRIMARY SEGMENT

(in T€)	Steel		Trading		Services	
	FY 2002	FY 2001	FY 2002	FY 2001	FY 2002	FY 2001
Sales	2,243,579	2,239,575	1,779,070	1,909,870	612,256	546,671
Sales in own segment	316,604	375,615	31,241	23,485	13,115	7,857
Sales to other segments	496,334	467,329	18,472	9,701	367,270	322,276
External sales	1,430,641	1,396,631	1,729,357	1,876,684	231,871	216,538
Income from ordinary activities	–23,521	30,085	8,197	18,547	8,275	12,784
Thereof from associated companies	–	–	438	4,626	–	–
Interest income	605	3,035	5,765	5,189	5,539	7,646
Interest expenditure	47,280	39,990	19,103	23,247	9,181	10,525
Operating assets per segment	1,665,342	1,603,446	629,591	655,226	310,087	296,636
Thereof shares in associated companies	–	–	5,129	4,962	–	–
Thereof inventories	417,684	392,484	210,783	211,099	37,965	41,382
Operating liabilities per segment	1,049,223	952,016	519,209	566,759	270,954	237,343
Investments in tangible and intangible fixed assets	127,136	196,510	10,752	8,888	35,354	20,970
Depreciation on tangible and intangible fixed assets	137,086	141,642	10,764	11,339	12,270	11,963
Non-payment-related income and expenditure	31,443	–33,903	9,358	–11,058	23,376	28,174
Employees (annual average)	6,990	7,013	1,945	2,017	3,797	3,713

(37) SEGMENT REPORTING BY REGIONS

(in T€)	Germany		EU (excluding Germany)		Rest of Europe	
	FY 2002	FY 2001	FY 2002	FY 2001	FY 2002	FY 2001
External sales by recipients	2,165,532	2,124,827	1,200,780	1,100,886	275,271	338,612
External sales by company headquarters	4,271,610	4,150,366	311,328	190,184	4,888	24,866
Investments in tangible and intangible assets	229,869	279,949	15,006	3,362	3	194
Segmental assets	3,743,221	3,845,179	203,112	196,705	4,285	12,721
Segmental liabilities	2,476,047	2,521,224	148,123	109,861	253	12,393
Depreciation	204,332	200,875	11,418	4,594	55	4,399
Employees (annual average)	17,406	16,902	1,213	469	18	179

Processing		Tubes		Others/Consolidation		Group	
FY 2002	FY 2001	FY 2002	FY 2001	FY 2002	FY 2001	FY 2002	FY 2001
260,821	131,882	1,343,108	1,167,562	–	–	6,238,834	5,995,560
–	–	194,223	161,827	–	–	555,183	568,784
32,081	13,869	28,173	20,563	–	–	942,330	833,738
228,740	118,013	1,120,712	985,172	–	–	4,741,321	4,593,038
7,972	−2,333	76,799	101,872	−5,258	−634	72,464	160,321
–	−3,007	83,871	88,645	–	−6,527	84,309	83,737
126	28	30,144	37,414	−30,905	−28,889	11,274	24,423
6,566	2,472	56,125	63,808	−29,074	−28,560	109,181	111,482
204,849	222,968	1,609,220	1,780,350	−396,693	−447,105	4,022,396	4,111,521
–	–	483,030	476,402	–	–	488,159	481,364
39,136	31,292	162,944	202,967	–	–	868,512	879,224
158,907	58,422	1,202,876	1,395,590	−543,871	−539,095	2,657,298	2,671,035
36,847	18,056	40,548	39,926	603	360	251,240	284,710
16,701	10,619	33,500	33,268	9,291	1,550	219,612	210,381
9,195	8,595	−69,756	−35,339	−32,537	−37,451	−28,921	−80,982
1,139	562	4,891	4,260	110	99	18,872	17,664

North America		South America		Other regions		Group	
FY 2002	FY 2001	FY 2002	FY 2001	FY 2002	FY 2001	FY 2002	FY 2001
254,081	339,529	65,207	55,515	780,450	633,669	4,741,321	4,593,038
153,495	227,622	–	–	–	–	4,741,321	4,593,038
6,362	1,205	–	–	–	–	251,240	284,710
71,778	56,916	–	–	–	–	4,022,396	4,111,521
32,875	27,557	–	–	–	–	2,657,298	2,671,035
3,807	513	–	–	–	–	219,612	210,381
235	114	–	–	–	–	18,872	17,664

ANALYSIS OF FIXED ASSETS (AT DECEMBER 31, 2002)

(in T€)	Acquisition and production costs						
	1/1/2002	Currency differences	Changes to cons. Group	Additions	Disposals	Transfers	31/12/2002
Intangible fixed assets							
Goodwill/negative goodwill from capital consolidation	–376,007	–	4,540	–	–7,314	–	–364,153
Concessions, industrial property rights and similar rights and assets, including licenses on such rights and assets	66,715	–203	402	12,731	2,898	194	76,941
Goodwill	81	–	–	144	–	–	225
Payments on account	321	–	–	1,576	–	–90	1,807
	–308,890	–203	4,942	14,451	–4,416	104	–285,180
Tangible fixed assets							
Land, land rights and buildings, including buildings on land owned by others	908,391	–1,689	–540	32,658	1,666	13,654	950,808
Technical plant and machinery	3,572,770	–6,970	44,796	120,633	86,230	35,216	3,680,215
Other equipment, operating and office equipment	209,846	–278	2,914	20,339	19,659	4,954	218,116
Payments on account and assets in course of construction	89,531	–152	3,018	62,879	396	–53,928	100,952
	4,780,538	–9,089	50,188	236,509	107,951	–104	4,950,091
Financial assets							
Shares in affiliated companies	115,960	–	–11,984	10,040	5,498	–1,113	107,405
Loans to affiliated companies	191	–	–	–	191	–	–
Shareholdings	118,376	–	–	3,202[3)]	58,885	1,113	63,806
Loans to undertakings in which the company has a participating interest	562	–	–	67,500	–	–	68,062
Securities held as long-term investments	88	–	–	508	4	–88	504
Other loans	21,412	–	–36	693	2,714	88	19,443
	256,589	–	–12,020	81,943	67,292	–	259,220
Associated companies							
	481,364	–68,300	–	84,309	9,214	–	488,159
	5,209,601	–77,592	43,110	417,212	180,041	–	5,412,290

Value adjustments								Book values	
1/1/2002	Currency differences	Changes to cons. Group	Write-ups in the financial year	Write-downs in the financial year[1]	Disposals	Transfers	31/12/2002	31/12/2002	31/12/2001
–69,261	–	203	63,499[2]	5,589	–4,777	–	–122,191	–241,962	–306,746
50,016	–133	227	–	8,328	2,815	1	55,624	21,317	16,699
64	–	–	–	44	–	–	108	117	17
–	–	–	–	–	–	–	–	1,807	321
–19,181	–133	430	63,499	13,961	–1,962	1	–66,459	–218,721	–289,709
537,919	–783	–2,465	1	18,516	1,116	–	552,070	398,738	370,472
2,619,692	–4,391	10,183	12	167,755	72,663	–3,632	2,716,932	963,283	953,078
166,526	–209	486	–	19,380	18,351	3,631	171,463	46,653	43,320
–	–	–	–	–	–	–	–	100,952	89,531
3,324,137	–5,383	8,204	13	205,651	92,130	–1	3,440,465	1,509,626	1,456,401
45,215	–	–	–	1,977	9	–	47,183	60,222	70,745
–	–	–	–	–	–	–	–	–	191
5,065	–	–	–	–	–	–	5,065	58,741	113,311
562	–	–	–	–	–	–	562	67,500	–
–	–	–	–	–	–	–	–	504	88
11,057	–	–4	572	255	37	–	10,699	8,744	10,355
61,899	–	–4	572	2,232	46	–	63,509	195,711	194,690
–	–	–	–	–	–	–	–	488,159	481,364
3,366,855	–5,516	8,630	64,084	221,844	90,214	–	3,437,515	1,974,775	1,842,746

[1] The unscheduled depreciation is explained under note 6

[2] Liquidation of accrued differences arising from capital consolidation

[3] Including adjustments for the current value of financial assets

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF SALZGITTER AG FOR FINANCIAL YEAR 2002

Accounting Principles

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

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

The Group Annual Financial Accounts shall be disclosed and deposited with the Commercial Register at Braunschweig Local Court under HRB 9207. The Salzgitter AG company entered in the Commercial Registry at Braunschweig Local Court has its headquarters in Salzgitter. The address of the Managing Board of Salzgitter AG is Eisenhüttenstraße 99, 38239 Salzgitter.

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

In order to make the representation more comprehensible, individual positions have been grouped in the balance sheet and in the statement of income and shown separately in the Notes. The Annual Financial Statement was prepared in Euro.

Application of the IAS has resulted in the following substantial deviations from the balance sheet and valuation methods for a consolidated financial statement prepared in accordance with German commercial law as of December 31, 2002:

- Capitalization and regular depreciation of reportable goodwill treated as income from the acquisition of consolidated subsidiary companies in the financial years starting from January 1, 1995.
- Accounting for existing leasing arrangements according to an economic approach within the meaning of IAS 17.
- Reporting of certain financial instruments at current markets values in accordance with IAS 39.
- Revaluation into individual values in accordance with the standard valuation of assets as permitted by German commercial law.
- Retroactive conversion of regular write-offs of items belonging to tangible fixed assets as of the time of acquisition or manufacture from the declining balance method of depreciation applied thus far to the straight-line amortization method as well as the simplification method for a proportionate period of time.
- Largely fiscal service lives were adjusted to the relevant economic circumstances.

- Retroactive elimination of write-offs that were formed exclusively due to tax regulations.
- Valuation of pension provisions in accordance with the Projected Unit Credit Method as specified in IAS 19 while taking future salary and pension increases into consideration.
- Reporting of provisions only insofar as liabilities vis-à-vis third parties are involved.
- Accounting for estimated savings on income tax from losses brought forward from previous account which can be expected to be realized in the future. In contrast to the income statement-oriented method in accordance with the German Commercial Code, IAS 12 is based on a balance sheet-oriented view.

On December 12, 2002 the Executive Board and the Supervisory Board provided a Declaration of Correspondence in accordance with §161 of the German Stock Corporation Law [AktG] and made it available to shareholders on the company's Web site on a permanent basis. The Declaration of Correspondence is also printed in the financial report in the chapter on Corporate Governance.

Consolidation Principles and Methods

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

The consolidated financial statement includes all of the major companies in which Salzgitter AG is capable of directly or indirectly determining the financial and business policy thereof in such a way that the companies in the Salzgitter Group derive some benefit from the activities of these companies. These companies are included in the consolidated financial statement as of the period when the Salzgitter Group is provided with the possibility of control. If this possibility is no longer given, then the corresponding companies are excluded from the group of companies being consolidated.

Capital consolidation is carried out by netting the acquisition costs of participation with the proportionate amount of the newly valuated equity capital at the time when the subsidiary company was purchased. The resulting capitalized differences from acquired companies since October 1, 1995 are capitalized as goodwill and, as a rule, regularly written off on a straight-line basis as net income over a period of 10 years.
A resulting negative difference is absorbed in accordance with the 3-step concept as specified in IAS 22.59 ff. As the anticipated negative difference from future expenses and losses arises, an equivalent sum is taken to income as other operating income. The then remaining difference is taken to income in the amount of existing non-monetary depreciable assets over the period of their average weighted remaining useful life. If a difference still remains, it will be shown in the profit and loss directly at the time of initial consolidation.

Differences from subsidiary companies acquired prior to this time period are offset against the retained earnings. With the exception of the goodwill at the time of acquisition, deferred taxes are shown for the differences vis-à-vis the tax balance sheet which result from adjustment in the accounting and revaluation of the German subsidiary companies.

The result for a subsidiary company that has been sold is to be included in the consolidated financial statement up to the time of the sale. The control of the subsidiary company by the parent company ends with the sale. The difference between the proceeds from the sale of the subsidiary company and the book values of assets less the debts at the time of the sale are in the Group income statement. In the event that the exclusion of subsidiaries from the consolidated group of companies leads to a deduction of goodwill acquired prior to October 1, 1995, any past set-off against profit reserves is revoked.

Subsidiaries not included in the consolidated financial statement are of subordinate significance, even if summarized. Shares in affiliated, non-consolidated companies are, as a rule, shown in the consolidated balance sheet at current value.

In the case of assets and obligations denominated in foreign currency, the cost of acquisition is on principle to be reported at the exchange rate applying on the period-end date at which the acquisition was realized. As a rule, rates are hedged.

In accordance with IAS 20, subsidies are not recognized on the balance sheet until the legal basis for the claim is fulfilled and it is to be expected that the subsidies will indeed be granted. On principle, asset-related subsidies are reported as a deduction from the cost of acquisition/manufacturing. Insofar as any earnings-related subsidy is related to future financial years, it is accordingly apportioned to the relevant accounting periods and the part related to future periods is recognized as deferred income.

In accordance with IAS 31.2, a joint venture exists if two or more partners are engaged in conducting a business activity under joint control. Whereby control constitutes the possibility of determining the business and financial policy embodied in the activity for the purpose of deriving a benefit therefrom. Joint control is defined as the contractually agreed division of control over a business activity. Following the benchmark method, joint venture companies pursuant to IAS 31.25 are included in the consolidated financial statement on a pro rate basis.

Interests in companies wherein the Salzgitter Group is able to exercise a definitive influence over financial and business policy decisions are valued following the equity method. The times of admission into and departure from the group of companies valued by the equity method are determined by application of the same principles applying to subsidiary companies. Insofar as any significant differences arise in relation to the book value method, associated companies are reported using the purchase method of accounting, at the time of acquisition with proportionate equity capital. The equity valuation is on principle based in each case on the latest audited annual or interim financial statement; none of these statements being more than twelve months in the past.

Third-party interests in consolidated companies are shown separately from SZAG shareholders' equity.

Group-internal sales revenues, expenses and earnings, as well as receivables and liabilities between integrated companies are eliminated.

Interim profits deriving from internal supplies and performances – where not of subordinate significance – are eliminated considering deferred taxes. Internal supplies and performances are subject to customary market terms.

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

Scope of Consolidation

Apart from the annual financial statements of the parent company, the consolidated financial statement also includes the annual financial statements of the 33 (previous year 29) domestic and 11 (previous year 12) foreign affiliated companies prepared for the same balance sheet cut-off date.

Five domestic and five foreign joint ventures are included on a proportionate basis in the consolidated financial statement in accordance with the pro rata consolidation procedure. There were no changes compared with the previous year.

Due to of the proportionate share in the respective company the following assets, debts as well as expenses and income items (without investment earnings, net interest and tax income) are attributable within the Group:

(in € mil.)	FY 2002	FY 2001
Fixed assets	121	87
Current assets	132	164
Provisions	39	34
Liabilities	105	134
Income	546	539
Expenses	535	505

In accordance with the equity method, one domestic and seven foreign shareholdings on which Salzgitter AG or another consolidated company exercises a decisive influence are also included in the consolidated financial statement.

A total of 29 (previous year 31) domestic and 25 (previous year 32) foreign subsidiaries have not been consolidated as a result of the overall insignificant role which they play for the net worth, financial and earnings situation of the Group.

Composition and development of the group of companies being consolidated (without Salzgitter AG) and the group of companies which have been valuated based on equity accounting:

	Status as of Dec. 31, 2001	Additions	Disposals	Status as of Dec. 31, 2002
Consolidated subsidiary companies	41	5	2	44
Thereof domestic	29	5	1	33
Thereof foreign	12	–	1	11
Joint ventures	10	–	–	10
Thereof domestic	5	–	–	5
Thereof foreign	5	–	–	5
Associated companies	8	–	–	8
Thereof domestic	1	–	–	1
Thereof foreign	7	–	–	7

Additions to the group of companies being consolidated were accounted for by the Processing division with four domestic subsidiary companies. Due to their economic development these companies are no longer of subordinate significance for the Salzgitter Group.

On May 30, 2000 Salzgitter AG purchased a 74.7% share in K.F.Z. Projektmanagement GmbH. The company has been renamed to Salzgitter Automotive Engineering GmbH, Wolfsburg. In accordance with a capital increase Salzgitter AG now holds 74.95% of the shares in the company. Subsequent to approval by the Supervisory Board Kurt Matzner GmbH & Co. KG, Osnabrück, was acquired as a whole by Salzgitter Automotive Engineering GmbH, Wolfsburg, on September 12, 2001. Salzgitter Automotive Engineering GmbH, Wolfsburg, was renamed to Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Wolfsburg, and Kurt Matzner GmbH & Co. KG, Osnabrück, to Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück, on November 30, 2001. All operational activities were assigned to Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück. These involve the development, design and manufacture of products and services for products connected with vehicle development and manufacturing of vehicle prototypes. Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Wolfsburg, now exercises the function of a pure holding company.

With the contract of transfer from January 5, 2001 Salzgitter AG transferred its “Component Manufacturing” product segment with the existing production plants to Salzgitter Bauelemente GmbH, Salzgitter, effective as of January 1, 2001. The purpose of the company consists in the manufacture and sales of trapezoidal sheet metal, cartridges, panels, steel sandwich elements and accessories.

With the merger agreement from March 29, 2001 Europlatinen Holding GmbH, Salzgitter, which held 99% of the shares of Salzgitter Europlatinen GmbH, Salzgitter, was merged with Salzgitter AG, Salzgitter, which held 1% of the shares in Europlatinen Holding GmbH. Salzgitter Europlatinen GmbH manufactures and sells both punched and welded boards. In addition, it performs the further processing of the manufactured boards as well as other steel products and other metals.

In the Services division the shares in TELCAT Multicom GmbH, Salzgitter, and GESIS Gesellschaft für Informationssysteme mbH, Salzgitter, were transferred to SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter, effective as of December 31, 2002. For this reason, SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter, was fully consolidated into the Salzgitter Group for the first time.

Wälzlagerrohr GmbH, Krefeld, on the other hand, left the group of consolidated companies. The operational business was sold and the company now serves only as a shell company.

As planned, manufacturing of smooth precision and antifriction bearing pipes at MHP Mannesmann Presné Trubky s.r.o. in Chomutov (Czech Republic) was terminated at the end of April 2002. A portion of the previous range of products was transferred to other locations. All of the shares in the company held by Salzgitter AG were sold on July 10, 2002.

Both companies were taken out of the group of companies being consolidated as of January 1, 2002.

Currency Translation

In the individual annual financial statements of the various companies business transactions were valued in the foreign currency at the exchange rate prevailing at the time of initial entry. Exchange losses incurred due to the valuation of accounts receivable and liabilities as of the balance sheet cut-off date are taken into consideration. Profits and losses from changes in the exchange rate are taken into account in the revenue result.

The annual financial statements of the foreign subsidiaries are converted into Euros in accordance with the concept of functional currency. Since, from the point of view of Salzgitter AG, all of these companies are generally independent in the execution of their business in financial, economic and organizational terms, the respective functional currency corresponds to the currency of the country in which these companies are incorporated. Net assets and debts are converted at the rate prevailing on the reporting date; the positions of the income statement and thus the results for the year posted in the performance summary are converted at the annual average rate of exchange. The resulting differences are shown as neutral in their effects on profit up to the point of sale of the subsidiary.

A corresponding approach is employed when converting equity rollover for foreign companies reported in accordance with equity accounting. Differences vis-à-vis the conversion of the previous year are offset against retained earnings without affecting the operating result. Goodwill is accounted for as net assets in the reporting currency. Expense and earnings items are converted with annual average rates, while changes in reserves are converted at the rate prevailing on the reporting date.

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

Foreign currency per 1 €	Balance sheet date		Annual average rate	
	31/12/2002	31/12/2001	FY 2002	FY 2001
Canadian dollar	1.6550	1.4077	1.4838	1.3864
US dollar	1.0487	0.8813	0.9456	0.8956
Czech crown	31.5770	31.9620	30.8040	34.0680
Brazilian real	3.7112	2.0469	2.8709	2.1054
British pound	0.6505	0.6085	0.6288	0.6219

Accounting and Valuation Principles

Independent of the respective tax regulations, the annual financial statements of the subsidiary companies included in the Salzgitter Group are prepared in accordance with uniform accounting and valuation principles as specified in the provisions of the IASB.

Assets are capitalized if the Salzgitter Group is entitled to all of the essential opportunities and risks associated with the respective use. Assets are valued, as a rule, at amortized cost or fair value. Financial charges are not capitalized.

Goodwill/Negative Goodwill from Capital Consolidation

The resulting differences carried as assets from capital consolidation for companies acquired before October 1, 1995 stay offset against retained earnings. Goodwill acquired since October 1, 1995 is capitalized and, using the straight-line method of depreciation, written down as scheduled and so as to affect the operating result over the respective economic service life. Taking the strategic significance of the respective company acquisition into consideration as well as other factors that influence the respective service life, the scheduled write-off of goodwill from the acquisition of consolidated subsidiary companies is carried out by applying the straight-line method of depreciation over a period of 10 years.

Intangible Assets

Other intangible assets acquired against payment are reported with their acquisition costs and depreciated on a straight-line basis over the period of their prospective economic service life.

Self-produced intangible assets are capitalized if it is probable that a reliable, appreciable use for the Group will be provided.

Development costs are capitalized if a newly developed product or procedure can be clearly defined, is technically feasible and either the company's own use or marketing is intended. Moreover, capitalization presupposes that development costs will, with sufficient probability, be covered by future inflows of money. The manufacturing costs of self-produced assets are determined on the basis of directly attributable direct costs as well as the appropriate surcharges for overhead costs and write-offs. As of December 31, 2001 and December 31, 2002 there were no substantial development costs within the Salzgitter Group which satisfied these prerequisites. Research costs are recognized as expenses.

Tangible Fixed Assets

Tangible fixed assets are valued at acquisition or manufacturing costs, less depreciation according to schedule and, in individual cases, unscheduled write-offs. Any investment grants received are shown as a reduction in the acquisition and manufacturing costs. If the reasons for an unscheduled write-off in previous years no longer exists, then corresponding reversals of depreciation are carried out.

The manufacturing costs of self-produced tangible fixed assets are determined on the basis of direct costs as well as appropriate surcharges for overhead costs and write-offs. Financing expenses for the period of manufacture are not included.

Low-cost assets (acquisition or manufacturing costs of up to € 410.00) are written off completely in the year of acquisition and shown as disposals.

The costs of maintenance and repair for tangible fixed assets are charged as expenses. Renewal and maintenance expenditures are capitalized as additional manufacturing costs if they result in a substantial extension of the service life, a substantial improvement or an important change in the use of the tangible fixed assets.

Substantial components of items of tangible fixed assets which require replacement at regular time intervals are capitalized as independent assets and written off over the course of their economic service life.

When using rented tangible fixed assets the prerequisites of finance leasing in accordance with IAS 17 are fulfilled if all substantial risks and opportunities connected with the property are transferred to the respective group company. In these cases the respective tangible fixed assets are capitalized at acquisition or manufacturing costs or at the lower cash value of the minimum leasing payments and written down on a straight-line basis in accordance with the economic service life or over the shorter term of the leasing agreement. Future leasing payments are discounted as liabilities.

Leasing payments or rent payments are recorded directly as expenditures in the income statement for operational leasing conditions as a lessee.

Financial Investments/Associated Companies

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

Financial Assets

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

Derivative financial instruments are subsequently reported at fair value, even where this exceeds the acquisition cost. The opportunities and risks arising from the valuation of financial instruments employed to secure future cash flows (cash flow hedges) are declared separately under the equity. By contrast, opportunities and risks arising from the valuation of derivatives employed as security for assets (fair value hedges) are recorded with immediate effect on the current-period result.

Subsequent to being reported for the first time, securities and significant equity interests which constitute financial instruments are thereafter shown at current value. Changes in current value are reflected directly under the equity.

Receivables are recorded at amortized cost.

Other loans are shown at the respective nominal value. This also applies to interest-free or low interest loans.

Financial instruments are capitalized as of the value date.

Other Assets

Other assets are shown at their acquisition costs. Value discounts were made for recognizable individual risks, the existing credit risk is taken into appropriate account on the basis of empirical values.

Inventories

Inventories are shown at acquisition and/or manufacturing costs. Valuation of inventories in the Trading and Steel divisions is generally carried out in accordance with the last in, first out principle, while average costs are generally used in the other divisions. The manufacturing costs include full costs; they are determined on the basis of normal activity. In detail the manufacturing costs include, apart from directly attributable costs, product-related material and manufacturing overhead costs including production-related write-offs and retirement pension costs. Outside capital costs are not capitalized as part of the acquisition or manufacturing costs. Inventory risks which result from diminished usability are taken into account with the appropriate reductions in value. Lower values are shown at the balance sheet cut-off date due to the decline in net realizable values. If the net realizable value has increased in the case of previously devalued inventories, then the resulting increase in valuation is shown as a reduction in material costs.

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

The finished and unfinished products as well as in-plant generated raw materials are valued with Group manufacturing costs which, in addition to direct costs, also include write-offs and proportionate shares of the required overhead costs.

Provisions for Pensions

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

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

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

	31/12/2002	31/12/2001
Assumed rate of interest	5.5%	6.0%
Trend in salaries	2% resp. 3%	2% resp. 3%
Trend in pensions	1.33% resp. 1.5%	1.33% resp. 1.5%
Staff turnover	1% p.a.	1% p.a.

The Heubeck Richttafeln actuarial tables were applied in valuing the expected mortality of the beneficiaries at both cut-off dates.

Deferred Taxes

In accordance with IAS 12, deferred taxes are calculated by the balance sheet-oriented liability method. Tax relief and charges which are likely to arise in future are recognized with respect to temporary differences between the book values shown in the consolidated financial statement and the values attributed to assets and liabilities for tax purposes.

The German corporate income tax rate will be increased to 26.5% (plus solidarity tax on the corporate income tax of 5.5%) due to the Flood Victim Solidarity Law for the year 2003 which came into effect on September 21, 2002.

As a rule, deferred taxes for the German companies of the Salzgitter Group are calculated with a tax rate of 39%. German companies are subject to an average trade tax on earnings of approximately 17% of trade earnings, which is deductible when determining the corporate income tax. The corporate income tax rate amounts to a uniform 25% plus a solidarity tax on the corporate income tax of 5.5%. Calculation of foreign income taxes is based on the laws and regulations that are valid in the individual countries.

Anticipated tax savings resulting from the utilization of losses carried forward which are expected to be realized in the future are recognized as assets. In valuing capitalized assets for the purpose of future tax relief, consideration is given to the probability of the expected tax benefit being realized.

Assets deriving from future tax relief include capitalized deferred taxes with respect to temporary differences between book values stated in the consolidated balance sheet and values attributed for tax purposes, as well as tax savings resulting from carryovers which are expected to be realized at a future date. Deferred tax rebate claims in a particular area of fiscal jurisdiction are netted with deferred tax liabilities in the same area, insofar as the maturity patterns correspond.

Sundry Provisions

Provisions are formed for contingent obligations vis-à-vis third parties, the occurrence of which would probably burden Group assets. They are shown at the prospective amount of performance, while taking all of the resulting recognizable risks into consideration, and not offset against claims for indemnification. Provisions are formed only if they are based on a legal or de facto obligation vis-à-vis third parties.

All long-term provisions are reported with their discounted performance amount as of the balance sheet cut-off date. An interest rate of 5.5% is applied.

Liabilities

Liabilities from finance leasing contracts are shown with the cash value of the leasing payments.

Financial liabilities, with the exception of liabilities held for trading purposes, as well as derivative liabilities are valued at net book value using the effective interest method.

Income and Expense

Sales and other operating revenue are recorded when performance has been rendered or assets have been furnished and thus passage of the risk has taken place.

Dividends are collected when the respective claim has been legally accrued, interest payments and interest income are reported on a prorated basis. Within the scope of the changes to the group of companies being consolidated, acquired dividend claims were entered without affecting the operating result in the context of capital consolidation.

Impairment Test

The value of the respective book value of all intangible assets (including capitalized development costs and goodwill) and all tangible fixed assets are reviewed at the end of each financial year. Unscheduled write-downs are carried out if the recoverable amount of the asset is lower than its book value. The recoverable amount corresponds to the higher value from value in use and net selling price. The value in use is determined by the cash value of future cash flows attributable to the asset. A write-up is carried out if the reason for an unscheduled write-down no longer exists.

Explanations of the Income Statement

(1) Sales

(in T €)	FY 2002	FY 2001
Breakdown according to segments		
Flat-rolled products	2,048,611	1,947,668
Sections	808,780	909,486
Pipes	1,308,087	1,227,327
Other	575,843	508,557
	4,741,321	4,593,038
Breakdown according to regions		
Domestic	2,165,532	2,124,827
Other EU	1,200,780	1,100,886
Other Europe	275,271	338,612
America	319,288	395,044
Other	780,450	633,669
	4,741,321	4,593,038

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

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

(in T €)	FY 2002	FY 2001
Changes in inventory of finished and unfinished products	–560	48,111
Own work capitalized	7,854	7,801
	7,294	55,912

(3) Other Operating Income

(in T €)	FY 2002	FY 2001
Amortization of differences resulting from capital consolidation	63,499	56,930
Change in value IAS 39	37,817	4,208
Reversal of provisions and allowances	36,921	31,530
Income from disposal of fixed assets	29,355	29,440
Ancillary operating income	7,527	9,900
Rental, leasing and licensing income	4,090	5,427
Distributed costs	3,548	4,419
Insurance compensation	2,868	8,413
Subsidies	2,152	2,658
Income from amortized receivables	1,586	2,677
Income from changes exchange rates	1,503	2,582
Reimbursement of previous years	1,025	2,166
Other income	38,011	34,815
Other operating income	**229,902**	**195,165**

Other operating income includes income unrelated to the accounting period in the amount of € 55 million (previous year: € 64 million), derived essentially from liquidation of non-recurrent obligations, income from disposal of assets, insurance compensations and reimbursements of costs for previous years. Income from the disposal of assets includes profit of € 25.7 million from the sale of shares in a listed company domiciled in the USA.

(4) Costs of Materials

(in T €)	FY 2002	FY 2001
Costs for raw materials, consumables, supplies and purchased goods	2,687,654	2,705,112
Costs for purchased services	423,831	380,011
Costs of materials	**3,111,485**	**3,085,123**

The costs for raw materials, consumables and supplies primarily include expenditures for materials used, consumables and supplies, spare parts and plant devices.
The costs for purchased services essentially involve energies, contract processing and transport costs.

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

(5) Personnel Expenses

(in T €)	FY 2002	FY 2001
Wages and salaries	757,845	683,311
Social security and costs for pension commitments and support	182,062	159,659
Thereof pension commitments	[78,671]	[70,687]
Personnel expenses	**939,907**	**842,970**

Additions to the pension reserves in the amount of € 13.3 million (previous year: € 11.1 million) are shown as costs for defined benefit plans. In financial year 2002 the total of all defined contribution plan payments in the Salzgitter Group amounted to € 65.4 million (previous year: € 59.6 million). The additions to reserves only include current service costs for employee performance in the financial year under review. The costs for retirement pensions do not include the compounding of the pension reserves which are shown in net interest income. The personnel costs include € 10.8 million in costs for restructuring measures unrelated to the accounting period (there were no costs unrelated to the accounting period in the previous year).

Average annual number of employees	FY 2002	FY 2001
Non-salaried employees	12,751	12,002
Salaried employees	6,121	5,662
Group employees	**18,872**	**17,664**

Given the same Group structure there would have been 626 more employees in the previous year.

(6) Depreciation

Depreciation of tangible and intangible fixed assets was applied according to schedule in the year under review and is shown in the analysis of fixed assets. In addition, the following unscheduled depreciations were carried out:

(in T €)	FY 2002	FY 2001
Capitalized difference	4,525	–
Intangible assets	8	45
Real estate and equivalent titles including buildings on third-party real estate	74	2,148
Technical plants and machinery	–	1,789
Other operating and office equipment	42	289
Unscheduled depreciation	**4,649**	**4,271**

(7) Other Operating Expenses

(in T €)	FY 2002	FY 2001
Expenses for distribution	208,050	171,886
External services including provisioning	191,743	226,917
Administrative expenses including cost of insurance, fees, charges	66,676	60,729
Value change IAS 39	40,758	5,332
Rents and leases	23,409	16,138
Advertising/information and travel expenses	23,275	22,600
Allowances for doubtful accounts	19,277	24,349
Loss from disposal of assets	14,356	5,019
EDP costs	12,142	6,554
Other costs	27,457	5,455
Other operating expenses	**627,143**	**544,979**

The other operating costs include expenses that are unrelated to the accounting period in the amount of € 13.1 million (previous year: € 9.5 million).

The costs for rents and leases include conditional rental payments of € 2.7 million (previous year: € 2.6 million).

(8) Income from Shareholdings

(in T €)	FY 2002	FY 2001
Earnings from profit transfer agreements	1,955	1,716
Thereof affiliated companies	[1,955]	[1,508]
Income from shareholdings	4,505	1,282
Thereof affiliated companies	[2,253]	[168]
Expenditures from loss transfers in affiliated companies	801	–
Income from shareholdings	**5,659**	**2,998**

(9) Income from Associated Companies

(in T €)	FY 2002	FY 2001
Income from associated companies	84,309	83,737

The result from associated companies essentially derives from Vallourec & Mannesmann Tubes S.A., Boulogne-Billancourt, Vallourec S.A., Boulogne-Billancourt. The results for Vallourec S.A. and Vallourec & Mannesmann Tubes S.A. are based on French GAAP. Adjustments to IAS were made in the area of reserves.

(10) Write-down of Financial Assets and Current Securities

(in T €)	FY 2002	FY 2001
Write-down of financial assets	2,232	17

A total of € 2.0 million of the write-downs on financial assets are attributable to write-downs on shareholdings as well as € 0.2 million to write-downs on other loans.

(11) Net Interest Income

(in T €)	FY 2002	FY 2001
Income from long-term financial investments	2,265	987
Other interest earned and similar income	11,274	23,436
Thereof affiliated companies	[1,168]	[1,989]
Interest and similar expenses	–109,181	–111,482
Thereof affiliated companies	[–4,095]	[–1,775]
Net interest income	**–95,642**	**–87,059**

The share of interest included as part of the additions to the pension reserves is accounted with € 89.0 million (in the previous year: € 93.0 million).

(12) Taxes

(in T €)	FY 2002	FY 2001
Taxes on income and profits		
Current tax expense/tax income (+/–)	8,969	10,910
Deferred tax expense/tax income (+/–)	–11,102	–988
	–2,133	9,922
Thereof unrelated to the accounting period	[244]	[462]
Other taxes	8,734	6,103
Total	**6,601**	**16,025**

Taxes from income and revenue are related to profit or loss on ordinary business activity after deduction of other taxes. Other taxes essentially include the costs for real property taxes.

The German corporate income tax rate will be increased to 26.5% (plus solidarity tax on the corporate income tax of 5.5%) due to the Flood Victim Solidarity Law for the year 2003 which came into effort on September 21, 2002. For this reason, the deferred taxes realized in 2003 for German companies are valued with an overall tax rate of 40.2% (including a trade tax of 17%) as of December 31, 2002.

This results in additional deferred tax earnings in the amount of T€ 120 in the case of the domestic companies in the financial year.

Future dividend payments have no consequences with regard to taxes on earnings. Deferred taxes in the amount of € 1.9 million (previous year: –€ 3,9 million) were recorded for business transactions that have had a direct impact on equity capital funds.

The following deferred tax assets/liabilities are recognized with regard to the differences between reported book values and attributed tax valuations:

(in T€)	31/12/2002		31/12/2001	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	692	474	409	1,424
Tangible assets	2,654	164,556	19,017	170,074
Financial assets	338	109	358	9,376
Current assets	2,492	10,038	3,024	6,572
Pension reserves	47,473	528	44,492	1,344
Other provisions	10,084	10,456	17,705	8,213
Special item including reserves	–	15,711	–	23,348
Liabilities	24,757	885	1,889	14
Other items	1,501	69	1,383	447
Total	**89,991**	**202,826**	**88,277**	**220,812**

Composition of the advantages from losses brought forward from previous account:

(in T€)	31/12/2002	31/12/2001
Corporate income tax	30,487	32,142
Trade tax	9,673	8,305
Loss carryovers	**40,160**	**40,447**

Development of the capitalized tax saving from losses brought forward from previous account which may be realized in the future:

(in T €)	FY 2002	FY 2001
Capitalized tax savings January 1	40,447	49,922
Changes to the group of companies being consolidated	2,306	–
Use of losses brought forward from previous account	–722	–13,847
Capitalization of tax savings from loss carryovers	14,811	4,372
Value adjustments from loss carryovers	–16,682	–
Capitalized tax savings December 31	**40,160**	**40,447**

Through the use of losses carried forward, deferred tax expenditures in the amount of € 0.7 million were incurred in the financial year, contrasted with deferred tax income of € 14.8 million from the capitalization of additional loss carryovers. As of December 31, 2002 a total of € 40.1 million were shown for future realizable losses brought forward. Capitalization of potential tax savings for loss carryovers (a three-digit €-amount in the millions) at a consolidated company as of December 31, 2002 was dispensed with since the possibility of using these loss carryovers appears improbable in light of a general exemption from investment earnings in accordance with German law as of the year 2002.

Adjustment from anticipated to actual income tax expenditure:

(in T €)	FY 2002	FY 2001
Consolidated net income for the year before income tax	63,730	154,218
Expected income tax expenditure (tax rate 39 %)	24,855	60,145
Tax share for:		
Differences between tax rates	–4	–2,106
Tax-free income (inc. goodwill/neg. goodwill liquidation)	–64,384	–50,264
Non-deductible tax expenditures and other permanent differences	7,702	2,652
Temporary differences and losses, for which no deferred tax was entered	29,764	–851
Tax rate modifications	–120	–
Tax expenditures and yields unrelated to the accounting period	244	462
Other deviations	–190	–116
Actual income tax expenses	**–2,133**	**9,922**

The actual income tax expenditure of –€ 2.1 million deviates from the expected income tax expenditure of € 24.8 million in particular due to tax-free earnings as well as nontaxable expenditures and unusable estimated loss carryovers of € 26.9 million in total.

(13) Minority Interests

(in T €)	FY 2002	FY 2001
Profit due to minority interests	1,473	5,673

The companies entitled to profits for the year include Hansaport Hafenbetriebsgesellschaft mbH, Hamburg, Mannesmannröhren-Werke AG, Mülheim an der Ruhr (including subsidiary companies), Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Wolfsburg (including Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück), Salzgitter Beteiligungsgesellschaft mbH, Braunschweig, and Hövelmann & Lueg GmbH & Co. KG, Schwerte, as well as the Eupec Group and the DMV Stainless Group.

(14) Earnings per Share

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

Dilution of the earnings per share occurs if the average number of shares is increased by adding the issue of potential shares from the options and conversion rights granted by Salzgitter AG. As a rule, options and conversion rights are diluting in their effect, insofar as the prerequisites for conversion have been realized.

The share dilution effect of option rights which have not been exercised would be realized on the basis of a purchase price of € 12.10 per share. In the year under review the share price was constantly below the purchase price of € 12.10, so that no indication of a share dilution effect as a result of conversion rights is included in the year under review.

	Shares issued	Own shares	Shares in circulation
Beginning of financial year	62,400,000	683,421	61,716,579
Purchase of own shares		457,924	
Issue of own shares		–5,163	
End of financial year	62,400,000	1,136,182	61,263,818
Weighted number of shares	**62,400,000**	**806,207**	**61,593,793**

Cash earnings/share		FY 2002	FY 2001
Consolidated net income for the year	in T€	65,863	144,296
Minority shareholders	in T€	1,473	5,673
Share of Salzgitter AG shareholders	in T€	64,390	138,623
Earnings per share	**in €**	**1.05**	**2.28**

Explanations of the Consolidated Balance Sheet

(15) Goodwill / Negative Goodwill from Capital Consolidation

The resulting differences carried as assets from capital consolidation are netted under intangible assets. The addition of the difference carried as an asset refers to the acquisition of Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück, and Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Wolfsburg. The addition of the negative difference is carried out as scheduled and in accordance with the weighted average remaining useful life of existing non-monetary depreciable assets between five and seven years originally.

The development of the differences resulting from capital consolidation is as follows:

Development of goodwill (in T €)	31/12/2002	31/12/2001
Opening balance hist. acquisition costs January 1	8,051	1,812
Addition	4,541	6,239
Closing balance hist. acquisition costs December 31	12,592	8,051
Opening balance value adjustments January 1	4,191	704
Additions within the scope of changes to consolidated companies	203	–
Depreciation current financial year	5,589	3,487
Closing balance value adjustments December 31	9,983	4,191
Book value December 31	**2,609**	**3,860**

Development of negative goodwill (in T €)	31/12/2002	31/12/2001
Opening balance hist. acquisition costs January 1	384,059	378,850
Addition	–	5,209
Disposal	7,314	–
Closing balance hist. acquisition costs December 31	376,745	384,059
Opening balance value adjustments January 1	73,453	16,524
Reversal current financial year	63,499	56,929
Disposal	4,778	–
Closing balance liquidations as of December 31	132,174	73,453
Book value December 31	**244,571**	**310,606**

The negative goodwill still includes € 0.7 million which is reserved for the future losses of a foreign group of companies. In particular, the disposals involve the sale of Mannesmann Presné Trubky s.r.o. (Czech Republic).

(16) Other Intangible Assets

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

As of December 31, 2002 the book value of capitalized self-produced intangible assets – which exclusively involved EDP software – amounted to a total of € 2.4 million (previous year: € 2.2 million).

Overall expenditures for research and development in the reporting period amounted to € 47.0 million (previous year: € 48.0 million).

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

A write-up is carried out if the reasons for an unscheduled write-off in previous years no longer exists.

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

(17) Tangible Fixed Assets

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

Breakdown of tangible fixed assets by book values:

(in T €)	31/12/2002	31/12/2001
Land and buildings	398,738	370,472
Plant equipment and machinery	963,283	953,078
Other equipment, operating and office equipment	46,653	43,320
Equipment under construction	95,631	78,888
Payments made	5,321	10,643
Tangible fixed assets	**1,509,626**	**1,456,401**

The book values of the assets capitalized in accordance with IAS 17 "Finance Leasing" can be found in the following table:

(in T €)	31/12/2002	31/12/2001
Buildings	3,388	3,670
Plant equipment and machinery	1,197	166
Other equipment, operating and office equipment	367	143
	4,952	**3,979**

The regular straight line depreciation is essentially based on the following economical service life:

	Useful life
Buildings	at least 40 years
Plant equipment and machinery	
Coking plants	maximum 15 years
Blast furnaces, steelworks, continuous casting equipment	maximum 20 years
Rolling mills	maximum 15 years
Surface coating plants	maximum 15 years
Locomotives, track systems	20 to 30 years
Crane systems	maximum 20 years
Plant equipment, spare parts	maximum 10 years
Car pool	maximum 5 years
Office and plant equipment	maximum 5 years

Restraints on the right of disposal or property on the balance sheet cut-off date amounted to € 28.7 million (previous year: € 25.8 million).

Historical costs of tangible fixed assets which have been completely depreciated, but are still in use:

(in T €)	31/12/2002
Land and buildings	205,547
Plant equipment and machinery	1,882,162
Other equipment, operating and office equipment	122,786
Historical acquisition costs of tangible assets	**2,210,495**

(18) Financial Assets

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

Breakdown of financial assets:

(in T €)	31/12/2002	31/12/2001
Shares in affiliated companies	60,222	70,745
Loans to affiliated companies	–	191
Shareholdings	58,741	113,311
Loans to associated companies	67,500	–
Long-term investments	504	88
Other loans	8,744	10,355
Financial assets	**195,711**	**194,690**

The decline in shares held in affiliated companies results from the first-time consolidation of Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Wolfsburg, Salzgitter Europlatinen GmbH, Salzgitter, and Salzgitter Bauelemente GmbH, Salzgitter. Following the deconsolidation of Wälzrohrlager GmbH, Krefeld, shares in this company are reported in the annual financial statement for 2002 under the heading of shares in affiliated companies. Additionally, an increase in capital was implemented at Salzgitter Magnesium-Technologie GmbH, Salzgitter.
The change in shareholdings (– € 54.6 million) essentially reflects the sale of shares in Steel Dynamics Inc., Butler.

The increase in lending to associated companies concerns a shareholder loan to Vallourec & Mannesmann Tubes S.A., the purpose of which was to part-finance the purchase price paid to acquire the “seamless tubes” business activities of the North Star Steel Company, Houston/USA.
Of other loans (€ 8.7 million; previous year € 10.4 million), € 1.7 million (previous year € 2.9 million) was accounted for by the financing of warrant-linked bonds issued by Salzgitter AG to members of the Executive Board and Group management staff as part of the “Long-Term Incentive Plan”. These loans which carry interest at 5.0% per annum are used exclusively to finance the acquisition of Salzgitter AG warrant-linked bonds and are due for repayment no later than in the year 2005.
The remaining loans are almost entirely accounted by housing loans to members of staff.

(19) Associated Companies

(in T €)	31/12/2002	31/12/2001
Shareholdings in associated companies	488,159	481,364

The figure reported for at equity shares in associated companies increased by T€ 6,795 in comparison with the year before. The reasons for this lay in particular in the positive annual results achieved by the associated companies and, on the negative side, the development in the US dollar and the Brazilian Real, which led to equity losses which did not however affect the operating result. The reported figure for shares in associated companies also declined as a result of distributions.

(20) Inventories

(in T €)	31/12/2002	31/12/2001
Raw materials and supplies	237,907	252,442
Unfinished products	224,469	176,105
Unfinished performances	6,581	8,948
Finished products and goods	384,288	417,748
Advance payments made	15,267	23,981
Inventories	**868,512**	**879,224**

Individual reductions are made in the valuations of all inventories where there is a likelihood that the revenues realized through their sale or use may be lower than their book values. The lower attributable value at which these are reported comprises the anticipated achievable sale proceeds less costs incurred up to the time of sale. Where the reasons for devaluing inventories no longer apply, the higher values are reinstated. During the reporting period this led to a write-up of € 1.2 million (previous year € 6.1 million).

For similar inventories the lifo method is applied as a matter of principle. The value of inventories reported in application of the lifo method is some € 5.9 million (previous year € 7.0 million) lower than their valuation on a replacement cost basis.

The book value of inventories reported at net sales value amounted to € 305.0 million for the reporting period (previous year € 177.0 million). The variation results from the valuation of inventory assets on the basis of falling market prices in accordance with IAS 2.6.

In respect of the inventories reported, significant restrictions on ownership or disposal existed in the amount of € 7.7 million.

(21) Trade Receivables

(in T €)	31/12/2002	31/12/2001
Due from third parties	651,463	655,343
Due from affiliated companies	24,102	25,051
Due from enterprises in which a participating interest is held	16,393	10,882
Trade receivables	**691,958**	**691,276**

The trade receivables have a time to maturity of less than one year. In the preceding year trade receivables with a time to maturity of more than one year were reported in the amount of € 4.5 million. Appropriate reductions in value have been made for all recognizable individual risks, for general risk, for credit risk as assessed on the basis of experience and for specific country risks.

(22) Other Receivables and Sundry Assets

(in T €)	31/12/2002	31/12/2001
Other receivables due from affiliated companies	31,786	56,026
Thereof other receivables	[24,033]	[50,279]
Thereof loans	[7,753]	[5,747]
Other receivables due from participating interests	3,341	5,625
Thereof other receivables	[2,836]	[2,441]
Thereof loans	[505]	[3,184]
Other receivables	**35,127**	**61,651**
Tax refund claims (inc. other taxes)	43,253	50,923
Derivatives	18,018	1,177
Insurance claims	8,717	9,431
Finance leasing agreements	6,944	4,707
Age-related part-time employment subsidies	5,694	6,019
Advances on company pensions	5,141	4,852
Loans	769	746
Assets available for sale	629	629
Other assets	28,418	23,434
Other assets	**117,583**	**101,918**
Other receivables and assets	**152,710**	**163,569**

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

In other assets there is an amount of € 5.7 million (previous year € 6.0 million) which will become legally effective only after the balance sheet cut-off date.

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

The receivables from finance leasing included under this heading are composed as follows:

(in T €)	Residual time to maturity < 1 years	Residual time to maturity 1–5 years	31/12/2002 Total	31/12/2001 Total	Residual time to maturity < 1 year
Total gross investment	3,181	4,633	7,814	5,511	2,733
Unrealized financial income	437	433	870	804	577
Book value	**2,744**	**4,200**	**6,944**	**4,707**	**2,156**

These receivables primarily relate to the leasing of communications equipment to third parties.

(23) Cash and Cash Equivalents

(in T €)	31/12/2002	31/12/2001
Cash at banks	104,781	215,638
Checks, cash in hand and Bundesbank balances	6,456	935
Commercial paper	–	10,096
Cash and cash equivalents	**111,237**	**226,669**

At the time of acquisition, the commercial paper reported in the preceding year had a time to maturity of no more than three months.

(24) Capitalized Deferred Taxes

Insofar as there is likely that tax benefits will be realized, there is a duty to carry these as assets. Netting of deferred taxes is possible only where deferred tax assets and liabilities relate to the same tax authority.

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

(25) Prepaid Expenses

Capitalized prepayments above all include accruals for contributions, real property levies and motor vehicle taxes.

(26) Shareholders’ Equity

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

(27) Subscribed Capital

By a resolution passed by the General Meeting on March 16, 1999, the fully paid-up capital of the company was converted into Euro at the Euro-DM conversion rate of 1:1.95583 laid down by the European Commission. Accordingly the capital amounts to € 159,523,066.93, equivalent to DM 312.0 million, and is divided into 62,400,000 bearer shares, each with a par value of € 2.56 (= DM 5.00).

Hannoversche Beteiligungsgesellschaft mbH, Hannover, a company controlled by the Federal State of Lower Saxony, in accordance with a notice issued on April 2, 2002, holds 25.5% of the shares in Salzgitter AG. Similarly, in accordance with a notice issued on April 2, 2002, pursuant § 41, Para. 2. Sentence 1 and § 22, Para. 1. Sentence 1 of the German Securities Trading Act [WpHG], 21.474% of Salzgitter AG voting stock is held by Nord/LB and its subsidiaries.

By a resolution of the General Meeting dated April 23, 1998, provision was made for contingent capital of up to € 5,112,918.81 to cover the issue of warrant-linked bonds.

As of December 31, 2002, the Executive Board had not availed itself of the authorization granted by the General Meeting for such contingent increases in capital.

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

As of the balance sheet cut-off date, the take-up of the bond amounted to € 2,263,489.16 divided into 4,427 units each of € 511.30 and each carrying 200 option warrants; subscription is limited to Salzgitter Group management staff. Following the expiry of a qualifying period of 36 months, the option rights may be exercised subject to certain defined conditions being fulfilled. The following target parameters must have been achieved:

- The share price must stand at a minimum of € 13.92,
- the development in the Salzgitter AG share price must exceed that of a comparable index (composed of same-sector companies) and
- the member of staff must occupy a non-terminated position of employment with a Salzgitter Group member company.

In addition, in accordance with a resolution passed by the General Meeting of Shareholders on March 16, 1999, the nominal capital was conditionally increased by up to € 10,225,837.62 through the issue of up to 4,000,000 new shares made out to bearer. The purpose of this contingent increase in capital is to facilitate the granting of option and conversion rights. It will only be implemented to the extent that use is made of such option and conversion rights.

The Executive Board was authorized with the approval of the Supervisory Board on one or more occasions on or before March 15, 2004 to issue interest-bearing option and/or convertible bonds made out to bearer up to a total nominal

value of € 50 million with a maximum term of ten years and to grant the holders of the said bonds option and conversion rights to a maximum total of 4,000,000 new Salzgitter AG shares.
As of December 31, 2002, no use had yet been made of this authorization.

(28) Capital Reserve

Within the capital reserve (€ 287.5 million), the sum of € 115.2 million is accounted for by a premium lodged on the occasion of an increase in capital on October 1, 1970. Other amounts totaling € 111.2 million relate to reserves predating the merger of Ilseder Hütte with Salzgitter Hüttenwerke AG and lodged with the former Preussag Stahl AG, as well as a sundry contribution by the then principal shareholder dating from 1971/72.

As part of the divestment agreement certain assets were sold to Salzgitter AG by Preussag AG for € 0.51 each. These assets at the time of acquisition were reported at their attributable values (€ 49.1 million) and the differences posted to the capital reserve.

(29) Retained Earnings

The retained earnings qualify within the meaning of commercial law reporting regulations as ‘other retained earnings’. They include allocations deriving from the results of the financial year in question or from previous years as well as differences resulting from the currency conversion of the accounts of foreign subsidiaries against which have been netted the capitalized differences resulting from the capital consolidation of subsidiaries acquired up to September 30, 1995. The articles of incorporation of Salzgitter AG do not contain specified terms for the formation of reserves.

Included in the retained earnings are differences amounting to –€ 89.1 million resulting from currency conversions (previous year –€ 16.4 million). The changes are due to the weaker Brazilian Real and the US dollar and relate to the Vallourec Group which is included at equity in the consolidated financial statement.

As of the balance sheet cut-off date, Salzgitter AG held 1,136,182 (previous year 683,421) own shares with a notional total value of € 2,904,603.16, equating to 1.82% of subscribed capital (previous year € 1,747,138.04 = 1.10%).

Of the 982,685 shares acquired pursuant to § 71, Para. 1, No. 8 of the German Stock Corporation Law [AktG], 524,761 were acquired under the authorization granted by the General Meeting of March 16, 1999, and 457,924 as authorized by the General Meeting of June 19, 2002. Of the 529,897 own shares held at the beginning of the financial year and acquired under the authorization granted on March 16, 1999, the company disposed of some 5,136 shares with a total nominal value of € 13,129.98 to third parties at an average price of € 9.39. The shares were disposed of in lieu of payment for marketing activities. No use has been made of the authorization granted by the General Meeting of December 20, 2000, to acquire shares pursuant to § 71, Para. 1, No. 8 AktG.

As of the balance sheet cut-off date acquisitions for the employee share scheme pursuant to § 71, Para. 1. No. 2 AktG totaled 153,497 shares. Of the holding of 153,524 shares at the beginning of the year, 27 shares with a total nominal value of € 69.02 were distributed free of charge to Group employees and members of staff by way of remuneration for suggested improvements. The remaining 153,497 shares were acquired in January 1999, December 2000 and July and September 2001. It is anticipated that a renewed resolution will be put to the General Meeting in 2003 authorizing the acquisition of own shares pursuant to § 71, Para. 1. No. 8 AktG, under which these remaining 153,497 shares will be retained.

(30) Non-Distributed Income

Under German commercial law, distributions to shareholders in Salzgitter AG are dependent on the year-end result reported by Salzgitter AG. The non-distributed income is shown at the same level in both the consolidated Salzgitter Group financial statement and the statement for Salzgitter AG. The transition from the consolidated surplus to the non-distributed income of Salzgitter AG is illustrated in the income statement.

It is proposed that the General Meeting of Salzgitter AG endorse payment of a dividend for the financial year 2002 of € 0.32 per share (equal to € 20.0 million based on the nominal capital of some € 159.5 million).

Based on the closing price of € 5.99 for Salzgitter share in XETRA trading on December 30, 2002, the dividend yield amounts to 5.3 % (previous year 4.4 %).

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

(31) Minority interests

Included among the balancing items are minority interests in equity, general reserves and profits and losses of Group companies. Minority interests in equity relate primarily to Hansaport Hafenbetriebsgesellschaft mbH, Hamburg, Mannesmannröhren-Werke AG, Mülheim an der Ruhr (including subsidiaries), and Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Wolfsburg (including Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück). In addition, a proportion is accounted for by Hövelmann & Lueg GmbH & Co. KG, Schwerte, Salzgitter Beteiligungs-gesellschaft mbH, Braunschweig, and the Eupec Group and DMV Stainless Group.

(32) Provisions for Pensions and Similar Obligations

In Germany there is a contribution-related basic employee pension scheme embodied in law under which pension payments are made on the basis of income and contributions. Having paid the relevant contributions to the state social security insurance carrier and to pension funds constituted under private law, the company has no obligation to pay further benefits. The contribution payments are reported in each relevant period as expenses.

In addition, the Salzgitter Group also operates a company pension scheme based on performance-related commitments which are covered by provisions. There are also certain non-significant fund-financed pension commitments.

Provisions for pensions and similar obligations:

(in T €)	31/12/2002	31/12/2001
Pension provisions	1,503,958	1,532,403
Similar obligations	2,578	2,048
Total	**1,506,536**	**1,534,451**

The development in provisions to cover pensions and similar obligations was as follows:

(in T €)	Pension provisions	Similar obligations	Total
Opening balance January 1	1,532,403	2,048	1,534,451
Additions and disposals resulting from changes to the group of consolidated companies	–11,126	335	–10,791
Transfers	–6,267	–	–6,267
Payments made	112,934	75	113,009
Reversal	937	–	937
Additions	13,785	270	14,055
Accrued invest	89,034	–	89,034
Closing balance December 31	**1,503,958**	**2,578**	**1,506,536**

The provisions for pensions are accounted for almost exclusively by commitments undertaken by German companies. The provisions for similar obligations take account of bridging payments in cases of death. The transfers relate to obligations from remuneration conversion agreements arising from the conversion of income into pension contributions which with effect from 2002 have been reported under provisions for personnel (in the previous year, these were reported under provisions for pensions).

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

(in T €)	31/12/2002	31/12/2001
Present value of the defined benefit obligations	1,593,598	1,523,024
Less market value of assets held by external funds	–1,143	–981
Differences as a result of actuarial adjustments	–88,497	10,360
Balance sheet provisions	**1,503,958**	**1,532,403**

In the current financial year the difference resulting from actuarial adjustments amounts to – € 88.5 million and therefore lies within the 10 % range according to IAS 19.

(33) Tax and Other Provisions

(in T €)	Status 1/1/2002	Addition due to consolida-tion changes	Transfers	Used	Liquidate	Appro-priations	Interest added	Status 31/12/2002
Tax provisions	110,762	229	–	34,118	598	22,759	500	99,534
Thereof for current income taxes	[12,652]	[224]	[–]	[4,650]	[98]	[4,386]	[500]	[13,014]
Thereof for deferred taxes	[89,615]	[5]	[–]	[29,447]	[487]	[17,535]	[–]	[77,221]
Thereof for other taxes	[8,495]	[–]	[–]	[21]	[13]	[838]	[–]	[9,299]
Personnel sector	119,663	–682	6,267	43,695	8,054	51,596	434	125,529
Thereof for the social scheme/age-related part-time work	[57,176]	[–845]	[–]	[23,013]	[2,908]	[31,427]	[–]	[61,837]
Typical operating risks	33,942	–313	–6,707	3,599	3,745	18,613	130	38,321
Other provisions	148,508	3,033	6,707	46,625	27,757	29,730	574	114,170
Thereof markdowns/ complaints	[23,729]	[1,142]	[–]	[11,147]	[2,756]	[14,284]	[–]	[25,252]
Total	**412,875**	**2,267**	**6,267**	**128,037**	**40,154**	**122,698**	**1,638**	**377,554**

The tax provisions include provisions for current and deferred income taxes and other taxes. Current income tax provisions – subject to being in the same area of fiscal jurisdiction and of similar natures and maturities – are netted against corresponding tax refund claims. The change in provisions for deferred taxes is explained under No. 12.
Provisions for typical risks are formed in particular to cover waste disposal and recultivation obligations.
The provisions for personnel expenses essentially include social compensation scheme obligations, anniversary awards and obligations arising from age-related part-time employment agreements.

The reported personnel-related provisions were valued on the basis of an assumed interest rate of 5.5% per annum.

Subsidies for employees leaving the company under the terms of age-related part-time employment agreements are carried at an asset value of € 5.7 million (previous year € 6.0 million) and not netted against provisions.

The provisions for other risks primarily include provisions for litigation risks and price markdowns.

Maturities of tax and other provisions:

(in T €)	Total 31/12/2002	Residual time to maturity < 1 year	Residual time to maturity > 1 year
Tax provisions	99,534	43,004	56,530
Thereof for current income taxes	[13,014]	[12,710]	[304]
Thereof for deferred taxes	[77,221]	[28,853]	[48,368]
Thereof for other taxes	[9,299]	[1,441]	[7,858]
Personnel sector	125,529	39,903	85,626
Thereof for the social scheme/ age-related part-time work	[61,837]	[23,258]	[38,579]
Typical operating risks	38,321	15,104	23,217
Other provisions	114,170	65,508	48,662
Thereof markdowns/complaints	[25,252]	[23,569]	[1,683]
Total	**377,554**	**163,519**	**214,035**

(in T €)	Total 31/12/2001	Residual time to maturity < 1 year	Residual time to maturity > 1 year
Tax provisions	110,762	14,349	96,413
Thereof for current income taxes	[12,652]	[12,126]	[526]
Thereof for deferred taxes	[89,615]	[837]	[88,778]
Thereof for other taxes	[8,495]	[1,386]	[7,109]
Personnel sector	119,663	49,407	70,256
Thereof for the social scheme/ age-related part-time work	[57,176]	[29,476]	[27,700]
Typical operating risks	33,942	7,566	26,376
Other provisions	148,508	105,189	43,319
Thereof markdowns/complaints	[23,729]	[23,719]	[10]
Total	**412,875**	**176,511**	**236,364**

(34) Liabilities

Residual time to maturity (in T €)	< 1 year	> 5 years	31/12/2002 Total	31/12/2001 Total	< 1 year
Financial obligations					
Bonds	–	–	2,263	3,640	3,640
Liabilities to banks	83,961	21,771	177,497	177,930	99,242
	83,961	21,771	179,760	181,570	102,882
Trade payables					
To external third parties	311,016	–	311,125	315,246	314,224
To affiliated companies	234	–	234	1,509	1,509
To shareholdings	34,088	–	34,088	29,390	29,390
	345,338	–	345,447	346,145	345,123
Other liabilities					
To affiliated companies	68,131	–	68,131	42,705	42,705
Other liabilities	266,424	3,221	275,012	182,864	176,680
Thereof taxes	[32,776]	–	[32,776]	[34,020]	[34,020]
Thereof social security contributions	[22,763]	–	[22,763]	[22,645]	[22,595]
Thereof to employees	[28,756]	–	[29,221]	[24,035]	[24,035]
Thereof received payments on account	[31,149]	–	[31,149]	[8,436]	[8,436]
Thereof bills payable	[11,313]	–	[11,313]	[20,221]	[20,221]
Thereof with regard to financing activities	[81,941]	[633]	[82,574]	[4,535]	[4,345]
Thereof other liabilities	[57,726]	[2,588]	[65,216]	[68,972]	[63,028]
	334,555	3,221	343,143	225,569	219,385
Total liabilities	763,854	24,992	868,350	753,284	667,390

Provided that the performance-related conditions defined in the bond terms are fulfilled, following the expiry of a qualifying period of three years (as of September 28, 2001, at the earliest), bonds may be converted into Salzgitter AG shares on or before September 23, 2005. In addition, please note the details listed under No. 27.

Of the total of liabilities, some T€ 45,075 (previous year T€ 55,981) is secured by liens and similar rights.

The liabilities with regard to financing activities include € 75.5 million debts arising in the context of forfaiting and asset-backed securities programs.

The items listed under other liabilities in respect of finance leasing are composed as follows:

(in T €)	Residual time to maturity < 1 year	Residual time to maturity 1–5 years	Residual time to maturity > 5 years	31/12/2002 Total
Minimum leasing payments	1,475	2,259	2,018	5,752
Financing costs	231	741	366	1,338
Cash value of minimum leasing payments	**1,244**	**1,518**	**1,652**	**4,414**

(in T €)	Residual time to maturity < 1 year	Residual time to maturity 1–5 years	Residual time to maturity > 5 years	31/12/2001 Total
Minimum leasing payments	636	1,963	2,465	5,064
Financing costs	326	949	369	1,644
Cash value of minimum leasing payments	**310**	**1,014**	**2,096**	**3,420**

The leasing liabilities essentially relate to the rental of technical plant and equipment.

(35) Deferred Income

The deferred income items mainly concern contributions from the public sector intended to promote investment (investment subsidies). These are allocated to deferred income and taken to income over time on a pro rata basis in line with the service life of the relevant assets – in the financial year 2002 the amount in question was € 0.5 million (previous year € 0.2 million).

Contingencies

Contingencies are potential liabilities not shown on the balance sheet which are disclosed at the maximum possible figure at which they might arise as of the balance sheet date. The total amounts to € 72.8 million (previous year € 96.8 million). Included among the contingent liabilities are guarantees of € 38.2 million (previous year € 34.3 million) and bill commitments totaling € 24.1 million (previous year € 45.4 million).

In conjunction with the placement of shares on the stock market in 1997/1998, among the liabilities relating to statements made in its issuing prospectus, Salzgitter AG gave the usual assurances, guarantees and indemnities. The company's resulting liability is limited to 40%.
Neither Salzgitter AG nor any of its Group companies are engaged in current or foreseeable legal or arbitration proceedings which might have a significant effect on its economic situation. Moreover, adequate provisions have been made at the respective Group companies to cover potential financial burdens arising from legal proceedings or arbitration.

Other Financial Obligations

Overall, obligations exist that arise from investment commitments (€ 66.5 million; previous year € 119.5 million) and from multi-year rental agreements (€ 70.7 million; previous year € 47.6 million) as well as other obligations (€ 123.1 million; previous year € 157.3 million) which together total € 260.3 million (previous year € 324.4 million). The remaining financial obligations essentially include commitments arising from forward exchange dealings (purchases and sales) and input material procurement commitments.

With the exception of an amount of € 55.6 million (previous year € 32.1 million), the other financial obligations have a residual time to maturity of up to one year.
The other obligations arising from long-term rental and leasing agreements are composed as follows:

Future rental and leasing obligations (in T €)	31/12/2002	31/12/2001
Up to 1 year	19,023	16,445
Over 1 year	51,673	31,106
Total	70,696	47,551

Financial Instruments

Financial instruments are bilateral agreements between enterprises which result in a financial asset of one enterprise and a financial liability or equity instrument of the other. In accordance with IAS 32 and IAS 39, these include originated financial instruments such as trade accounts receivable and payable, and the right to receive cash or another financial asset and the obligation to deliver the same. In particular, IAS 39 also deals with the reporting of participating interests not already dealt with by other standards (inc. IAS 27, IAS 28, IAS 31). On the other hand, this heading also covers derivatives.

As of the balance sheet date, the following groups of financial instruments existed at the Salzgitter Group:

(in T €)	31/12/2002		31/12/2001	
	Assets	Financial liabilities	Assets	Financial liabilities
Trade accounts receivable	691,958	–	691,276	–
Loans extended, other receivables	266,834	–	349,862	–
Participating interests	120,360	–	151,677	–
Fixed-interest securities	10	–	88	–
Trade accounts payable	–	345,377	–	346,145
Bonds, other liabilities	–	454,829	–	342,088
Forward exchange transactions	18,019	3,049	–	8,252
Total	1,097,181	803,255	1,192,903	696,485

In accordance with IAS 39, financial instruments are first recognized at cost. Financial assets are then subsequently measured either at amortized cost or at fair value.

The fair value of a financial instrument is the figure at which an asset might be traded or a liability settled between mutually independent business partners possessing the requisite knowledge and willingness to conduct such a transaction.

For the purpose of attributing current values, publicly quoted stock market prices and own calculations have been applied. These own calculations concern future exchange transactions calculated precisely to the day. The outright rates have been ascertained on the basis of the ECB reference rates for the currency pairs in question and the interest differentials for the respective terms of the forward transactions. Using standardized terms as a starting point, the interest differentials for the actual terms were arrived at by interpolation. Data on standardized terms was in turn derived from a conventional market information system. The differences between the contracted forward amounts and the forward amounts resulting from the exchange-rates and interest-rate ratios at balance sheet date were discounted to balance sheet date with the corresponding Euro interest rates for residual time to maturity of the contracts.

Amortized cost correspond with the value reported upon first recognition less redemptions and unscheduled write-downs, taking account of differences between par values and amounts repayable.

The subsequent attribution of value to financial assets is based upon the assignment of all items to one of four categories: “held-to-maturity investments” and “loans and receivables originated by the company” are measured at amortized cost; “financial assets held for trading” and “financial assets available for sale” are measured at fair value. With the exception of liabilities held for trading and derivatives with a negative market value, financial liabilities are subsequently measured at amortized cost.

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

(in T €)	31/12/2002	31/12/2001
Financial assets held for trading	1,327	–825
Held-to-maturity investments	10	3,887
Originated loans and receivables	224,846	346,141
Financial assets available for sale	67,743	147,215
Total	**293,926**	**496,418**

The “financial assets held for trading” in the amount of € 1.3 million relate to ineffective hedging transactions.

In the period under review the Salzgitter Group recorded write-downs on assets categorized as “loans and receivables originated by the company” in the amount of € 19.3 million (previous year € 7.0 million) and write-ups in the amount of € 4.0 million (previous year € 1.7 million).

The changes in the value of “financial assets available for sale” are booked to equity with no effect on the operating result. As of the end of the reporting period a total figure of € 18 million (previous year –€ 4.6 million) was reflected in reported equity as a result of changes in the value of derivatives, without impact on the result.

As a result of the valuation of participating interests, in the period in question some € 24.7 million was reflected in reported equity as disposals along with € 10.8 million as diminution. (In the previous year the first-time application of IAS 39 led to additions of € 28.6 million and write-ups of € 20.2 million.) This primarily and essentially related to the interest in SDI; the fair value of this interest being some € 13 million greater than the historic cost of acquisition.

During the reporting period, profits in the amount of € 26 million and losses in the amount of € 5.2 million were made on the disposal of “financial assets available for sale.”

Overnight money and fixed-term deposits attracted interest at rates of between 2.6 and 3.7% p.a. with a maximum term of one month. Interest rates on short-term capital market instruments ranged between 3.2 and 3.9% p.a. with an investment period of one to two months. Interest on loans extended by the company are bearing interest at rates of 4 to 6% with a maximum term of 10 years.
The Salzgitter Group is not exposed to any significant interest rate risks.

A creditworthiness/default risk arises from the hazard that the contracting party to a transaction involving a financial instrument may be unable to fulfill its obligations, with the result that assets may be impaired. In order to provide partial cover for the risk of default and to afford access to a special information service, insurance cover has been arranged to include credit sale insurance for domestic sales and export credit insurance for customers in specific foreign countries. Moreover, the default risk for supplies to Scandinavian customers is born by a Swedish del credere agent. The credit sale insurance does not extend to sales to dealers or iron and steel industry enterprises for which global securities are arranged via Delkredere-Stelle Stahl, nor to trade credit arrangements of less than T€ 51.

The default risk pertaining to financial instruments as of the balance sheet date in comparison with the previous year was composed as follows:

(in T€)	31/12/2002		31/12/2001	
	Maximum default risk	Secured risk	Maximum default risk	Secured risk
Trade accounts receivable	691,958	444,256	691,276	323,519
Other receivables	80,249	1,249	112,646	2,915
Extended loans	76,244	3,861	10,547	454
Total	**848,451**	**449,366**	**814,469**	**326,888**

Currency risks, that is to say, potential reductions in the value of financial instruments due to variations in exchange rates, in particular apply in cases in which receivables or liabilities denominated in other than the house currency of the company concerned either already exist or are likely to arise during the course of scheduled business activities.

Derivative financial instruments are employed as security against currency risks. These instruments exclusively provide security against currency risks arising from existing and pending mainstay business activities. In the past financial year, security was provided by forward exchange transactions. These derivatives transactions are subject to ongoing risk control and a strict functional distinction is maintained between trading, processing, documentation and control.

The terms of these currency derivatives generally extend to periods of up to 12 months.

In the case of receivables denominated in foreign currency, rate hedging cover is provided by entering into forward exchange transactions with various banks. The relevant claims are in each case reported at the agreed rate.

(in T €)	Nominal value 31/12/2002	Market value 31/12/2002	Nominal value 31/12/2001	Market value 31/12/2001
Forward exchange transactions				
Purchases				
DKK	5	–1	66	–
GBP	1,376	–19	1,080	25
CHF	–	–	71	–
USD	150,875	–6,520	26,813	927
JPY	–	–	59	–5
Sales				
CHF	187	–1	–	–
DKK	1,574	1	1,974	–3
GBP	39,090	608	50,785	–905
NOK	2,188	–23	2,685	–24
CAD	–	–	618	315
SEK	6,147	21	7,751	–194
USD	381,702	21,037	287,039	–8,518
PLN	2,978	–12	–	–
Interest rate instruments				
Sales	3,338	–102	–	–
Other derivatives				
Sales	1,021	–20	–	–

The nominal volume of forward exchange transactions comprises the un-netted total of all purchases and sales, valued at the respective settlement rates. Market values have fundamentally been determined on the basis of conditions applying at the balance sheet date, employing values at which the relevant derivatives were traded or quoted, without considering contrary movements in value deriving from the underlying transactions. The market value of forward exchange transactions derives from a valuation of the secured foreign currency amount at the difference between the rate applying when the forward transaction was entered into and the forward rate on the balance sheet date; this amount is discounted at the euro interest rate to the balance sheet date in correspondence with the residual time to maturity.

Transactions are entered into exclusively with banks whose creditworthiness is beyond reproach.

The results following settlement of these currency contracts are reported as they mature under the headings of other operational income and other operational expenditure.

(36) Explanations of the Cash Flow Statement

In accordance with IAS 7, the cash flow statement depicts the development in cash flows for the financial years 2002 and 2001, broken down into inflows and outflows of funds from current business, investment and financing activities. The statement is derived from the consolidated financial statement of Salzgitter AG using the indirect method.

The liquidity figure comprises cash in hand, checks, cash at banks and commercial paper.

Within the inflow of funds from current business activities, income from the disposal of assets has been eliminated. During the financial year, some € 11.3 million was paid in income taxes, while over the same period refunds were made to Salzgitter AG totaling € 0.4 million. The income taxes paid and refunded have been assigned to current business activities. For the financial year 2001 Salzgitter AG paid some € 6.5 million in income taxes and in the same period received refunds amounting to € 22.4 million. These figures likewise were assigned to current business activities. Interest receipts amounted to € 9.6 million (previous year € 19.6 million).

The investments reported among the outflow of funds for investment activities include additions to intangible and tangible assets as well as financial investments. In addition to numerous investments in rationalization and replacements aimed primarily at improving, renewing and safeguarding production plant and data processing systems, various large-scale investments were also made principally for the purpose of enhancing product quality and adding further links to the value chain. Of the sums invested in financial assets, some € 1.2 million relates to the liquidity held by companies newly integrated into the consolidated accounts. The bulk of the investment in financial assets relates to a loan granted to an associated company.

Interest expenditure is exclusively assigned to financing activities. Receipts resulting from participating interests during the financial year amounted to € 16.8 million (previous year € 14.2 million).

The Group made several acquisitions during the reporting period. The fair value of the assets and liabilities thus acquired were as follows:

(in € mil.)	
Fixed assets	55
Inventories	18
Receivables	12
Liquidity	2
Other assets	9
Pension provisions	1
Other provisions	3
Liabilities	60
Total of net assets acquired pro rata	**32**
Acquisition costs for corporate acquisitions	28
Capitalized differences resulting from capital consolidation	4

The deconsolidation of two companies led to a decline in provisions of € 15 million.

(37) Explanations of Segment Reporting

Segmentation of the Salzgitter Group in five corporate divisions is in accordance with internal corporate controlling and reporting.

In the segment report the business activities of the Salzgitter Group are assigned to the divisions Steel, Trade, Services, Processing and Tubes in accordance with the overall corporate structure. Salzgitter AG as the holding company is included under the heading of Other/Consolidation.

The Steel sector operating companies, Salzgitter Flachstahl GmbH, Peiner Träger GmbH and Ilsenburger Grobblech GmbH belong to the Steel Division under the intermediate holding company Salzgitter Stahl GmbH. Also assigned to this division is Salzgitter Großrohre GmbH.

The Trade Division is comprised of the companies of the Salzgitter Handel Group, Universal Eisen und Stahl GmbH, Universal Ocel spol. s.r.o. and Hövelmann & Lueg GmbH & Co. KG. As a jointly owned enterprise, Ets. Robert et Cie S.A.S. is also assigned to the Trade segment and included in the consolidated accounts on a pro rata basis. The companies Le Feuillard S.A. and Tolcolor S.A., which belong to the Robert Group, are assigned to the Trading Division as associated companies following the equity method.

The Services Division includes DEUMU Deutsche Erz- und Metall-Union GmbH, PPS Personal-, Produktions- und Service-gesellschaft mbH, SIT Salzgitter Information und Telekommunikation GmbH, the TELCAT Group, GESIS Gesellschaft für Informationssysteme mbH, Hansaport Hafenbetriebsgesellschaft mbH, "Glückauf" Wohnungsgesellschaft mbH, VPS Verkehrsbetriebe Peine-Salzgitter GmbH and also the net income from shareholdings assigned to this segment.
The companies in this division are primarily engaged in providing services to the Group. However, it is intended that their know-how and existing infrastructure should also be made available to companies outside of the Group on an increasing scale. The services offered include data processing, telecommunications services, scrap metal trade, the handling and storage of bulk cargo, transport and other services.

Included within the Processing Division are HSP Hoesch Spundwand und Profil GmbH, Salzgitter Europlatinen GmbH, Salzgitter Bauelemente GmbH, Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Salzgitter Automotive Engineering GmbH & Co. KG and Salzgitter Beteiligungsgesellschaft mbH. Also assigned to this segment are the non-consolidated companies Salzgitter Antriebstechnik GmbH & Co. KG and Salzgitter Magnesium-Technologie GmbH, as well as the Wescol Group plc which is valued at equity. In addition, the participating interests in Steel Dynamics Inc. (SDI) and Oswald Hydroforming GmbH & Co. KG are also attached to this segment. At the end of the reporting period, in a disposal which involved the partial realization of the stock price gain, the stake in SDI was sold to SZS and now belongs to the Steel Division. In the course of the year, a quantity of SDI shares were also sold on the stock market; overall these measures led to an improvement of € 29.9 million in the divisional result.

The Tubes Division comprises the Mannesmannröhren-Werke Group. The following companies are fully consolidated: Mannesmannröhren-Werke AG, Mannesmann Forschungsinstitut GmbH, Mannesmannröhren Mülheim GmbH, Mannesmannröhren Service GmbH, MHP Mannesmann Präzisrohr GmbH, Mannesmann Line Pipe GmbH, Robur Buizenfabriek B.V., and the DMV Group. In addition, the Group also includes the two joint ventures Europipe GmbH (including the subsidiary companies Europipe France S.A. and Berg Steel Pipe Corporation as well as the Eupec Group) and Röhrenwerke Gebr. Fuchs GmbH, both of which are integrated into the consolidated accounts on a pro rata basis. Vallourec S.A., Vallourec & Mannesmann Tubes S.A., Vallourec & Mannesmann Tubes Corporation and Hüttenwerk Krupp Mannesmann GmbH are likewise assigned to this business segment as associated companies following the equity method.

Sales in the various segments are additionally subdivided according to the customers' principal place of business. Inter-segment sales are fundamentally conducted on standard market terms such as also apply to transactions with external third parties.

Depreciation and amortization relate solely to the fixed assets of the respective segments.

In the interests of accurately representing the direct investment income of the various divisions within the scope of internal Group controlling, the result reported for companies valued by the equity method also includes write-downs on goodwill and income from the liquidation of negative goodwill at these companies.

Segmental operating assets and liabilities are composed of the assets and external funds required for operational purposes – excluding interest-bearing debt and excluding also both income tax receivables and liabilities.

The investments relate to additions to tangible and intangible assets, excluding goodwill resulting from the acquisition of shares which is fundamentally assigned to the heading of Others/Consolidation.

Related Party Disclosures

In addition to business relationships with companies consolidated fully and on a pro rata basis in the consolidated financial statement, relationships also exist with affiliated, non-consolidated companies and associated companies which must be qualified as related companies in accordance with IAS 24.

The bulk of the relationships involving supplies and performances between consolidated and related Salzgitter Group companies are depicted in the following table:

(in € mil.) Related companies	Supplies and performances rendered	Supplies and performances received
V&M Deutschland GmbH, Düsseldorf	51	43
Salzgitter International Inc., Houston	42	–
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	14	207
Salzgitter Trade Hongkong Ltd., Hong Kong	7	–
Salzgitter Stahlhandel sp.z.o.o., Slupca	5	–
V&M France, Boulogne-Billancourt	5	–
Tolcolor S.A.S., Le Thillay	3	–
Dobberkau Stahlhandel GmbH & Co. KG, Celle	3	–
Cederbaum Schrotthandel GmbH, Braunschweig	–	3

All business transactions with related companies are conducted on terms such as also apply among external third parties. Supplies and performances provided to related companies primarily concern deliveries of crude steel products to associated companies for processing and products supplied to trading companies for resale. The supplies and performances received essentially comprise deliveries of crude steel products and supplies of input stock for the manufacture of large-diameter pipes and precision tubes.

During the reporting period interest was levied at 3.75% on the shareholder loan extended to Vallourec & Mannesmann Tubes S.A. for the purpose of part-financing the “seamless tubes” division of the North Star Steel Company, Houston/USA.

The receivables and liabilities resulting from transactions with related companies are specified in the Notes to the consolidated financial statement among the comments on the corresponding asset and liability items.

In accordance with notices given to the company pursuant to § 21 of the German Securities Trading Act [WpHG] and related documentation, as of the balance sheet date more than 25 % of the shares in Salzgitter AG were held by Hannoversche Beteiligungsgesellschaft mbH, Hannover, a company fully controlled by the Federal State of Lower Saxony. In addition, in accordance with a voluntary notice pursuant to § 21 WpHG dated April 2, 2002, a total of 21.5 % (previous year 21.2 %) of Salzgitter AG voting stock is held by NORD/LB and its subsidiaries.

During the reporting period, both payment transactions and term money borrowings and deposits as well as forward exchange transactions were conducted with NORD/LB, as indeed with other banks also. The transactions were conducted on customary market terms.

Administrative costs and operating expenses were charged on in accordance with considerations of cost coverage.

Within the context of internal clearing transactions, day to day maturities were on principle charged at 6 %. In the case of term money borrowings, the subsidiary companies were charged interest at rates of between 3.43 % and 6.00 % p.a.; on term money deposits Salzgitter AG paid interest at between 2.82 % and 6.00 % p.a. Overall, these financial transactions generated interest income for Salzgitter AG in the amount of € 61.2 million (previous year € 60.3 million) and interest expenses of € 38.8 million (previous year € 43.4 million). In no case were the terms disadvantageous to the company.

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

(in T €)	
Guaranties and letters of comfort to secure long-term loans	4,015
Guaranties and letters of comfort for downpayments, rent security deposits and warranties	10,596
Other guaranties	19,118
Borrowing requests for guarantee bonds, letters of credit, overdraft facilities and long-term loans	277,116
Thereof used	160,680

For these and similar transactions conducted in the reporting period, no costs were charged.

For members of the Executive Board and management staff of the Salzgitter Group, a warrant-linked bond was issued as part of the Long-Term Incentive Plan; details are given under No. 27.

Likewise in conjunction with the Long-Term Incentive Plan, loans were extended to both management staff and Executive Board members which were repaid in full by December 31, 2002 (previous year T € 307).

During the year 2002 a total of 18,986 Salzgitter AG shares were purchased by Executive and Supervisory Board members. There were no sales of Salzgitter AG shares. As of December 31, 2002, the total of shares held by all Executive and Supervisory Board members amounted to less than 1% of the shares issued by the company.

Waiver of Disclosure in Accordance with § 264, Para. 3 of the German Commercial Code [HGB]

The following domestic subsidiaries having the legal form of a corporation have fulfilled the conditions required under § 264, Para. 3 of the German Commercial Code [HGB] and are therefore exempted from disclosure of their financial statements and related documents:

Salzgitter Stahl GmbH, Salzgitter
Salzgitter Flachstahl GmbH, Salzgitter
Peiner Träger GmbH, Peine
Ilsenburger Grobblech GmbH, Ilsenburg
Salzgitter Großrohre GmbH, Salzgitter
Salzgitter Stahlhandel GmbH, Düsseldorf
Salzgitter Handel GmbH, Düsseldorf
Stahl-Center Baunatal GmbH, Baunatal
DEUMU Deutsche Erz- und Metall-Union GmbH, Peine
GESIS Gesellschaft für Informationssysteme mbH, Salzgitter
TELCAT Kommunikationstechnik GmbH, Salzgitter
TELCAT Multicom GmbH, Salzgitter
Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter
Universal Eisen und Stahl GmbH, Neuss
PPS Personal-, Produktions- und Service GmbH, Salzgitter
"Glückauf" Wohnungsgesellschaft mbH, Peine
Salzgitter International GmbH, Düsseldorf
Mannesmann Line Pipe GmbH, Hamm
Mannesmann Präzisrohr GmbH, Hamm

Supervisory Board and Executive Board

The members of the Supervisory Board and the Executive Board are stated separately. For the discharge of their duties, in the financial year under review the members of the Executive Board received the sum of € 2.9 million (previous year € 3.8 million). Of this total, € 0.8 million was accounted for during the reporting period by performance-related remuneration. Supervisory Board members received a total of € 0.5 million in the year under review (previous year € 0.5 million). Former members of the Executive Board and their surviving dependants received a total of € 1.2 million for the financial year (previous year € 1.0 million). To cover commitments to former Executive Board members and their surviving dependants, pension provisions totaling € 13.3 million have been made.

Salzgitter, March 21, 2003

Leese   Koch   Geisler   Pfitzner   Fuhrmann   Schwich

INDEPENDENT AUDITOR'S REPORT

Based on the result of our audit of the in German prepared consolidated financial statements, we have issued an unqualified audit report dated March 21, 2003; translated in English as follows:

"Independent auditor's report

We have audited the consolidated financial statements of Salzgitter AG, Salzgitter, consisting of the balance sheet, the income statement and the statement of changes in equity and cash flows as well as the notes to the business year from January 1 to December 31, 2002. The preparation and the content of the consolidated financial statements according to the International Accounting Standards of the IASB (IAS) are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion, based on our audit, whether the consolidated financial statements are in accordance with IAS.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year 2002 in accordance with IAS.

Our audit, which according to German auditing regulations also extends to the group management report, combined with the management report of the Company, prepared by the Executive Board for the business year from January 1 to December 31, 2002, has not led to any reservations. In our opinion, on the whole the combined management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the combined management report for the business year from January 1 to December 31, 2002 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German accounting law."

Hannover, March 21, 2003

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

ppa. Menking

Lukasch
Wirtschaftsprüfer

ppa. Menking
Wirtschaftsprüfer

SUBSTANTIAL EQUITY HOLDINGS OF SALZGITTER AG

Status December 31, 2002	Nominal capital in € or national currency (in 1,000s)		Direct and indirect share of capital in %
Steel Division			
Salzgitter Stahl GmbH, Salzgitter		240,024	100.0
Salzgitter Flachstahl GmbH, Salzgitter		176,636	100.0
Peiner Träger GmbH, Peine		50,195	100.0
Ilsenburger Grobblech GmbH, Ilsenburg		25,875	100.0
Salzgitter Großrohre GmbH, Salzgitter		6,162	100.0
Trading Division			
Salzgitter Handel GmbH, Düsseldorf		51,693	100.0
Salzgitter Stahlhandel GmbH, Düsseldorf		22,729	100.0
Stahl-Center Baunatal GmbH, Baunatal		5,200	100.0
Salzgitter International GmbH, Düsseldorf		10,300	100.0
Salzgitter Handel B.V., Oosterhout (Netherlands)		10,400	100.0
Deltastaal B.V., Oosterhout (Netherlands)		12,023	100.0
Friesland Staal B.V., Drachten (Netherlands)		2,704	100.0
A.P. Steel (U.K.) Ltd., Scunthorpe (Great Britain)	GBP	1,546	100.0
Salzgitter Trade Inc., Vancouver (Canada)	CAD	6,002	100.0
Universal Eisen und Stahl GmbH, Neuss		14,975	100.0
Universal OCEL spol. s.r.o., Prag (Czech Republic)	CZK	83,146	100.0
Hövelmann & Lueg GmbH & Co. KG, Schwerte		2,824	95.0
Robert & Cie S.A.S., Le Thillay (France)		13,280	50.0
Services Division			
Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter		19,599	100.0
DEUMU Deutsche Erz- und Metall-Union GmbH, Peine		10,674	100.0
SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter		26	100.0
GESIS Gesellschaft für Informationssysteme mbH, Salzgitter		2,600	100.0
TELCAT Multicom GmbH, Salzgitter		2,968	100.0
TELCAT Kommunikationstechnik GmbH, Salzgitter		492	100.0
PPS Personal-, Produktions- und Service GmbH, Salzgitter		60	100.0
„Glückauf" Wohnungsgesellschaft mbH, Peine		26	100.0
Hansaport Hafenbetriebsgesellschaft mbH, Hamburg		8,456	51.0

Status December 31, 2002	Nominal capital in € or national currency (in 1,000s)	Direct and indirect share of capital in %
Processing Division		
HSP Hoesch Spundwand und Profil GmbH, Dortmund	16,208	100.0
Salzgitter Europlatinen GmbH, Salzgitter	5,451	100.0
Salzgitter Bauelemente GmbH, Salzgitter	–4.176	100.0
Salzgitter Beteiligungsgesellschaft mbH, Braunschweig	14	94.8
Salzgitter Automotive Engineering Beteiligungsges. mbH, Wolfsburg	12,063	74.9
Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück	7,269	100.0
Tubes Division		
Mannesmannröhren-Werke AG, Mülheim an der Ruhr	204,393	99.3
Mannesmann Forschungsinstitut GmbH, Duisburg	750	100.0
Mannesmannröhren Mülheim GmbH, Mülheim an der Ruhr	10,226	100.0
Mannesmannröhren Service GmbH, Mülheim an der Ruhr	1,790	100.0
MHP Mannesmann Präzisrohr GmbH, Hamm	25,200	100.0
Mannesmann Line Pipe GmbH, Hamm	11,499	100.0
Robur Buizenfabriek B.V., Helmond (Netherlands)	2,458	100.0
Vallourec S.A., Boulogne-Billancourt (France)	499,235	22.2[1)]
Vallourec & Mannesmann Tubes S.A., Boulogne-Billancourt (France)	698,986	45.0
Vallourec & Mannesmann Tubes Corporation, Houston (USA)	USD 17,809	33.3
DMV Stainless B.V., Helmond (Netherlands)[2)]	21,230	66.7
DMV Stainless Deutschland GmbH, Remscheid	1,733	100.0
DMV Stainless S.A.S., Paris (France)	18,995	100.0
DMV Stainless Italia S.R.L., Costa Volpino (Italy)	5,157	100.0
DMV Stainless France S.A., Montbard (France)	14,159	100.0
DMV Stainless USA Inc., Houston (USA)	9,857	100.0
Europipe GmbH, Ratingen	109,842	50.0
Röhrenwerke Gebr. Fuchs GmbH, Siegen-Kaan	7,839	50.0
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	122,735	20.0

1) The voting right percentage is 32.6%
2) Information based on subgroups

LIST OF COMPANY ABBREVIATIONS

Salzgitter AG (Holding)	SZAG

Steel Division	
Salzgitter Stahl GmbH	SZS
Salzgitter Flachstahl GmbH	SZFG
Peiner Träger GmbH	PTG
Ilsenburger Grobblech GmbH	ILG
Salzgitter Großrohre GmbH	SZGR

Trading Division	
Salzgitter Handel GmbH	SHD
Salzgitter Stahlhandel GmbH	SSH
Stahl-Center Baunatal GmbH	SCB
Salzgitter Handel B.V., Oosterhout	SHN
Salzgitter International GmbH	SID
Salzgitter Trade Inc., Vancouver	STV
Salzgitter International Inc., Houston	SIH
Hövelmann & Lueg GmbH & Co. KG	HLK
Universal Eisen und Stahl GmbH	UES
Ets. Robert et Cie S.A.S.	RSA

Services Division	
PPS Personal-, Produktions- und Service-gesellschaft mbH	PPS
DEUMU Deutsche Erz- und Metall-Union GmbH	DMU
SIT Salzgitter Information und Telekommunikation GmbH	SIT
TELCAT Multicom GmbH	TMG
TELCAT Kommunikationstechnik GmbH	TCG
GESIS Gesellschaft für Informationssysteme mbH	GES
Hansaport Hafenbetriebsgesellschaft mbH	HAN
Verkehrsbetriebe Peine-Salzgitter GmbH	VPS
„Glückauf“ Wohnungsgesellschaft mbH	GWG

Processing Division	
HSP Hoesch Spundwand und Profil GmbH	HSP
Salzgitter Bauelemente GmbH	SZBE
Salzgitter Europlatinen GmbH	SZEP
Salzgitter Automotive Engineering GmbH & Co. KG	SZAE
Oswald Hydroforming GmbH & Co. KG	OHC
Salzgitter Antriebstechnik GmbH & Co. KG	SZAT
Salzgitter Magnesium-Technologie GmbH	SZMT

Tubes Division	
Mannesmannröhren-Werke AG	MRW
Vallourec & Mannesmann Tubes S.A.	V&M
MHP Mannesmann Präzisrohr GmbH	MHP
Robur Buizenfabriek B.V.	ROB
DMV Stainless B.V.	DMV
Mannesmann Line Pipe GmbH	MLP
Röhrenwerke Gebr. Fuchs GmbH	RGF
Europipe GmbH	EP
Mannesmannröhren Mülheim GmbH	MRM
Mannesmann Forschungsinstitut GmbH	MFI

FINANCIAL CALENDER OF SALZGITTER AG FOR 2003

March 13, 2003	Key data for financial year 2002
April 15, 2003	Publication of consolidated financial statements for 2002 Balance sheet press conference
April 16, 2003	Analysts' conference in Frankfurt/Main
April 17, 2003	Analysts' conference in London
May 15, 2003	Result for the first quarter of financial year 2003
May 28, 2003	Ordinary Shareholders' Meeting for 2003
August 14, 2003	Interim Report for the first half-year of 2003 Conference of analysts in Frankfurt/Main
August 15, 2003	Analysts' conference in London
November 14, 2003	Nine-month report for financial year 2003

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