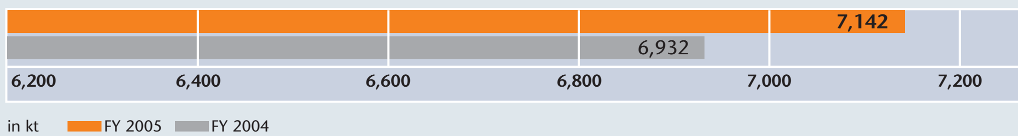
Annual Report 2005

Financial Year from January 1 to December 31, 2005

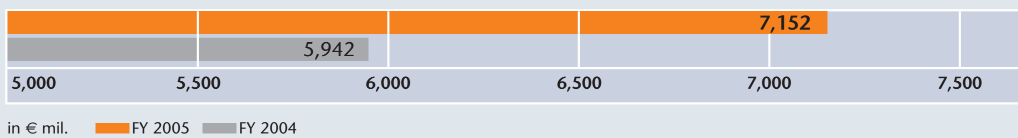
SALZGITTER AG
Stahl und Technologie

Key Figures for the Financial Year 2005

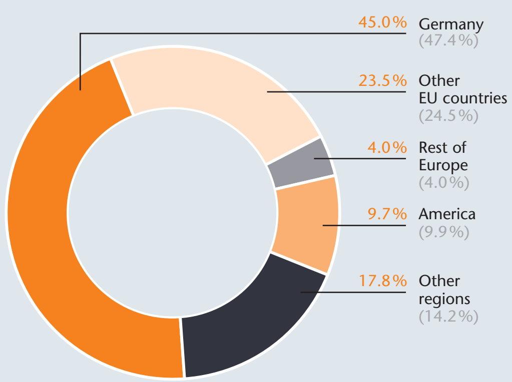
Crude Steel Production



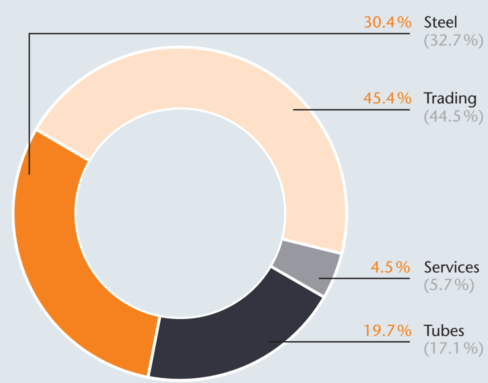
Consolidated Sales



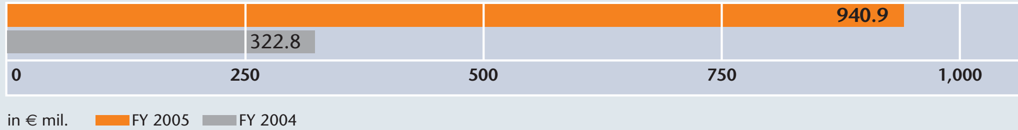
External Sales by Regions 2005 (2004)



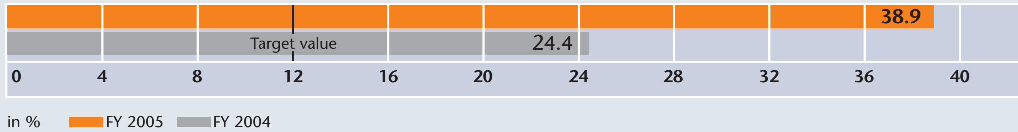
External Sales by Divisions 2005 (2004)



Earnings before Taxes (EBT)



Return on Capital Employed (ROCE)



Salzgitter Group in Figures

		FY 2001	FY 2002	FY 2003	FY 2004[1]	FY 2005
Sales (consolidated)	**€ mil.**	**4,593**	**4,741**	**4,842**	**5,942**	**7,152**
Steel Division	€ mil.	1,397	1,430	1,432	1,946	2,177
Tubes Division	€ mil.	985	1,121	921	1,016	1,407
Trading Division	€ mil.	1,877	1,729	2,027	2,642	3,244
Services Division	€ mil.	216	232	241	338	324
Processing Division	€ mil.	118	229	221	–	–
of which flat rolled products	€ mil.	1,948	2,049	2,409	3,013	3,379
of which sections	€ mil.	909	809	596	794	793
of which tubes	€ mil.	1,227	1,308	1,236	1,284	1,908
of which export share	%	54	54	52	53	55
Income from ordinary operations (EBT)[2]	**€ mil.**	**160**	**72**	**42**	**323**	**941**
Net income for the year	**€ mil.**	**144**	**66**	**28**	**247**	**842**
Balance sheet total	**€ mil.**	**3,809**	**3,807**	**3,673**	**4,236**	**5,414**
Noncurrent assets[3]	**€ mil.**	**1,843**	**1,975**	**1,879**	**1,918**	**1,900**
Current assets[4]	**€ mil.**	**1,966**	**1,832**	**1,794**	**2,318**	**3,514**
Inventories	€ mil.	879	869	919	1,081	1,439
Shareholders' equity[5]	**€ mil.**	**1,085**	**1,027**	**980**	**1,121**	**2,012**
Borrowings[6]	**€ mil.**	**2,724**	**2,780**	**2,693**	**3,115**	**3,402**
Noncurrent debts[7]	€ mil.	1,947	1,884	1,892	1,902	2,079
Current debts[8]	€ mil.	777	896	801	1,213	1,323
of which due to banks	€ mil.	178	177	196	175	178
Capital expenditure[9]	**€ mil.**	**285**	**251**	**191**	**228**	**262**
Depreciation and amortization[9]	**€ mil.**	**210**	**220**	**248**	**313**	**206**
Employees						
Personnel expenses	€ mil.	843	940	935	926	994
Workforce (annual average)		17,664	18,872	18,154	17,625	17,583
Personnel expenses per employee	T €	48	50	51	53	57
Crude steel production[10]	**kt**	**8,151**	**8,209**	**8,562**	**6,932**	**7,142**
Key figures						
Earnings before interest and taxes (EBIT)[11]	€ mil.	179	93	61	346	970
EBIT before depreciation and amortization (EBITDA)[12]	€ mil.	389	313	309	667	1,186
Return on capital employed (ROCE)[13]	%	13.6	7.3	4.6	24.4	38.9
Cash flow	€ mil.	117	157	223	352	468

1) Values for FY 2004 adjusted to the new Group structure and balance sheet reporting regulations
2) Earnings before taxes
3) Fixed assets until 2003
4) Current assets until 2003
5) Including minority interests from 2004 onwards
6) Excluding minority interests from 2004 onwards
7) Provisions until 2003
8) Liabilities until 2003
9) Excluding financial investments
10) Since 2001 SZFG, PTG and MRW-/V&M interests in Hüttenwerke Krupp Mannesmann (HKM) and V&M France and V&M do Brasil, from July 2002 also including V&M Star; from 2004 calculated on the basis of the changed shareholdings in HKM and Vallourec
11) EBT plus interest expenses (excluding the interest portion of allocations to pension provisions)
12) From 2004 including amortization of financial assets
13) EBIT divided by the sum of shareholders' equity, tax provisions and interest-bearing liabilities (from 2003 excluding deferred tax assets and liabilities); from 2005 including liabilities from financial leasing, forfaiting and asset-backed securitization

Highlights of the Financial Year 2005

January 1, 2005

As part of the Trading Division of the Salzgitter Group, Salzgitter Handel GmbH integrates the "Mannesmann" brand name into the company and takes over the international sale and distribution of products of the Tubes Division. As from January 1, 2005, the company operates under the name of Salzgitter Mannesmann Handel GmbH. Headed by this company, around 20 international trading companies and agencies, along with stock-holding companies in Poland, Hungary, the Czech Republic and Romania, will be renamed to include the "Mannesmann" brand name. They will also market and sell large-diameter and medium-line pipes.

March 9, 2005

Salzgitter AG publishes its figures for the financial year 2004: Against the backdrop of booming global demand for rolled steel and tubes, the Group achieved outstanding, above-average results in the financial year 2004. Sales climbed to € 5.9 billion (2004: € 4.8 billion) and, along with profit before tax of € 322.8 million (2004: € 42.5 million), reached a new high, also in a long-term comparison.

March 31, 2005

The Annual Report 2004 of the Group is published and presented to the financial press at its annual results press conference. In the days following this event, we continue our dialogue with the financial community at well attended analysts' conferences in Frankfurt and London.

April 1, 2005

As part of the process of realigning the Group structure, the Processing Division is closed down on April 1 and the companies formerly operating in this division reassigned to the Steel and Services Divisions.

April 11 – 15, 2005

15 subsidiaries belonging to the Salzgitter Group present projects at the Hanover Trade Exhibition Industry involving groupwide and group-overarching cooperation with customers. Highlighting five topic areas, processes for system solutions are demonstrated.

May 13, 2005

Due to brisk demand and prices which rose gradually to a generally comfortable level, the Salzgitter Group recorded an exceptional increase in sales before tax to € 1.8 billion (2004: € 1.3 billion), as well as profit before tax to € 253.5 million (2004: € 26.2 million) in the first quarter of 2005.

May 26, 2005

The General Meeting of the Shareholders of Salzgitter AG ratifies the proposal of the Executive and Supervisory Boards and approves a dividend of € 0.40 per share which, based on the year-end 2004 share price, equates to a dividend yield of 2.8%. As in previous years, this yield exceeds the DAX and MDAX averages.

June 23, 2005

Salzgitter AG and Vallourec S.A. combine and concentrate their seamless tube activities under Vallourec. As part of this transaction, the 45% stake in Vallourec & Mannesmann Tubes S.A. is transferred to Vallourec as the French joint venture partner. The stake of Salzgitter AG in Vallourec remains unchanged at around 23%.

August 12, 2005

In the first six months of the financial year 2005, Salzgitter AG achieves outstanding growth in both sales and profit. With external sales posting € 3.6 billion (2004: € 2.8 billion), the Salzgitter Group considerably outperformed the previous year's figure. A consolidated profit before tax of € 463.4 million (2004: € 81.7 million) is a new benchmark for a semi-annual interim result.

September 25, 2005

After only 89 days of downtime, Salzgitter Flachstahl GmbH's Blast Furnace A is blown again. In the process of relining, the blast furnace is equipped with a larger hearth, a new refractory lining, as well as a number of technical improvements. The amount invested comes to € 57 million.

October 4, 2005

Salzgitter AG and Corus cooperate in the development and use of HSD® (high strength and ductility) steel grades in selected market segments. These types of steel, which have a high manganese content, are vastly superior to conventional steel thanks to their great strength combined with high ductility.

October 4, 2005

Salzgitter AG and Wilhelm Karmann GmbH develop and create concepts for car bodies of the future under the SCALIGHT joint project. The latest materials currently produced on an industrial scale by Salzgitter AG form the basis for the safe and lightweight components of the vehicle bodies of the future. In addition, Salzgitter AG makes available its know-how in processing production methods under the SCALIGHT project. Karmann's contribution to the basic concept and assembly methods is its experience in building vehicles.

November 14, 2005

With business in rolled steel and tubes developing satisfactorily, Salzgitter AG sets new sales and profit records for the first nine months of the current financial year thanks to the outstanding results of the first half year and a better-than-expected third quarter. The 25% increase in consolidated external sales to € 5.4 billion (2004: € 4.3 billion) and a pre-tax profit of € 595.2 million (2004: € 157.2 million) deliver sound proof of the current performance of the Salzgitter Group.

November 17, 2005

An extraordinary General Meeting of the Shareholders of Salzgitter AG resolves that the Group structure be realigned under corporate law for financial reasons. Combining all the major companies of the Salzgitter Group under Salzgitter Mannesmann GmbH, as an intermediate holding company based in Salzgitter, enables the utilization of tax loss carryovers and the implementation of unrestricted centralized financial management for the Group.

The approval of the requisite spin-off and transfer agreement concerning the companies above is legally challenged by one of the shareholders. The case is still pending.

December 22, 2005

Salzgitter AG and the Arcelor Group sign a non-binding Letter of Intent on the takeover of Schwerte-based Flachform Stahl GmbH by Hövelmann & Lueg GmbH, also located in Schwerte.

One of Germany's most high-performance steel service centers will emerge from this transaction.

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3 Consolidated Annual Financial Statements/Notes

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1.1 Preface by the Executive Board

Ladies and Gentlemen,

2005 was another exceedingly good year for steel – the second in succession. Burgeoning growth, particularly in China, of a magnitude beyond the expectations of almost every expert in economics in general and the industry in specific, created an imbalance in the energy and raw materials markets, which in turn ensured that the outstanding business in rolled steel products continued into the first half of 2005. The temporary peak was followed by a brief cyclical downturn, after which demand and prices firmed up at a still gratifying level. By contrast, the tubes business has almost without exception remained remarkably stable throughout the whole of 2005 and until the present day.

Thus 2005 was once again an exceptional year for Salzgitter AG. Our pre-tax profit of € 940.9 million was almost three times the figure for 2004, which itself had already set a long-term record. Even after eliminating profits on disposals resulting from the restructuring of our seamless tubes commitments, Group profit advanced to more than twice the previous year's figure.

There can be no doubt that this success is in large measure attributable to mutually supportive influences deriving from the markets in which we buy and into which we sell. And it is equally obvious that the diversified approach and the comparatively broad product portfolio which we have consistently favored for Salzgitter AG has proven to have the edge over competitors who have concentrated on a single range of products or a limited number of bulk consumers.

Sustainable and consistent corporate management is our motto, both internally and externally. It is integral to our philosophy that even in times of optimum economic performance, the groupwide Profitability Improvement Program continues to be implemented and enhanced with wholehearted dedication.

It is our intention to avoid hasty maneuvers of the kind that are generally good for grabbing headlines but bad for business; we intend instead to prudently pursue our course of independence, profitability and growth.

In addition to numerous projects designed to optimize our production and our range of products, we intend, as in the past, to resolutely take advantage of opportunities for external growth, provided that there is rational justification for so doing. In the present circumstances, which are characterized on the one hand by an overheating in this industry and on the other by a global oversupply of investment capital, it is difficult to create genuine added value through large-scale acquisitions. We will be utilizing this phase to profit from and enhance our efficient structures and consolidate our position through selective action.

The streamlining of our commitment in the seamless tubes sector should be viewed in this context. The sale of a 45 % stake in the joint venture Vallourec & Mannesmann Tubes to our partner Vallourec has earned rewards for both companies in the capital markets. The subsequent cautious reduction in our participating interest in

Vallourec has yielded some extremely gratifying additional earnings. We intend to stand by the position we have now reached, given that the resulting industrial and financial outlook appears better and more reliable than any currently conceivable alternative engagements.

In the course of the year 2005, the price of Salzgitter stock rose by 220 %, putting us in a lead position in every comparative performance rating.

The proposed increase in the dividend to two and a half times its previous level is in line with the development in results. At the same time we will be reinforcing the solidity of the Salzgitter AG balance sheet.

This is entirely appropriate, for the recent exceptionally good times should not be regarded as cause for excessive exuberance. As always, in the segments in which we source our supplies and sell our products, the market economy will ensure convergence between supply and demand. On the raw materials side, there are major development projects underway; the associated transport and logistics infrastructure is being expanded accordingly. The outlook for sustained growth in global steel consumption enhances the attraction of projects aimed at increasing capacities.

From a realist perspective this prospect is neither surprising, nor yet negative. On the contrary, it motivates us to actively construct a future in which Salzgitter AG will remain an independent enterprise noted for above-average profitability. The financial year 2006 has likewise begun well. Even though the extraordinary profits of last year are unlikely to be repeatable, without ignoring the conceivable impact of for example political or currency-related risks, the immediate outlook nevertheless gives cause for confidence.

On this note, in our own name and on behalf of the committed men and women who comprise our workforce, we thank you, our shareholders and business partners, for your valued cooperation over the past financial year and we look forward to our continued future partnership.

Wolfgang Leese

Wolfgang Eging

Hans Fischer

Dr. Heinz Jörg Fuhrmann

Heinz Groschke

Peter-Jürgen Schneider

1.2 Company Profile and Group Structure

The Salzgitter Group comprises more than 80 national and international subsidiaries and associated companies combined under Salzgitter AG as the holding company.

With external sales in excess of € 7 billion, an annual production of more than 7 million tons of crude steel, and a workforce of over 17,000, the Salzgitter Group is one of Europe's leading steel technology groups. In some of its segments, the Tubes Division is a global leader, and the company ranks among Europe's top 5 in the flat carbon steel and profiles sectors. As a company listed on the MDAX, Salzgitter AG is, on the basis of its placing within the index, one of the 50 leading German stock corporations.

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

During the process of realigning the corporate structure, the Processing Division was dissolved on April 1 of this financial year, with retrospective effect for the whole financial year, and the companies formerly operating under this division were assigned to the Steel Division (HSP Hoesch Spundwand GmbH [HSP], Salzgitter Baulelemente GmbH [SZBE], Salzgitter Europlatinen GmbH [SZEP]) and the Services Division (Salzgitter Automotive Engineering GmbH & Co. KG [SZAE], Salzgitter Magnesium-Technologie GmbH [SZMT], Oswald Hydroforming GmbH & Co. KG [OHC]). As part of these restructuring efforts, Salzgitter Großrohre GmbH (SZGR), formerly belonging to the Steel Division, was integrated into the Tubes Division.

Accordingly, this report on the financial year 2005 will concentrate on the segments under the new structure, which consists of four divisions. To this end, the figures from the previous year used for the purpose of comparison have also been adjusted to reflect the new Group structure.

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

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

The approval of the General Meeting of Shareholders on November 17, 2005, concerning the requisite spin-off and transfer agreement between Salzgitter AG and Salzgitter Mannesmann GmbH was legally challenged by one of the shareholders; the case is still pending. Until the case is closed, the new Group structure under corporate law will not be legally effective.

Henceforth, the Steel Division comprises the operating steel companies Salzgitter Flachstahl GmbH (SZFG), Peiner Träger GmbH (PTG) and Ilsenburger Grobblech GmbH (ILG), all headed by the intermediate holding company Salzgitter Stahl GmbH (SZS), as well as Salzgitter Bauelemente GmbH (SZBE), Salzgitter Europlatinen GmbH (SZEP) and HSP Hoesch Spundwand und Profil GmbH (HSP). With their high-quality special and branded steels, these companies make a particular contribution to the success of steel. In line with our “Steel and Technology” aspiration, they develop and produce a broad range of steel products (flat steel and profiles, plates, sheet piles, components for roofing and cladding, blanks and tailored blanks) for constantly evolving and new areas of application. Thanks to intensive research and development and strong customer orientation, the potential of steel for new and creative product developments will continue to be developed in the future.

The companies of the Tubes Division, grouped under Mannesmannröhren-Werke GmbH and now supplemented by Salzgitter Großrohre GmbH (SZGR) assigned to this entity in the financial year 2005, offer their customers a virtually complete range of steel tubes. The Division’s product portfolio includes, in particular, large-diameter pipes (Europipe GmbH [EP] Salzgitter Großrohre GmbH [SZGR]), HFI-welded line pipes (Mannesmann Line Pipe GmbH [MLP], Röhrenwerk Gebr. Fuchs GmbH [RGF]), precision tubes (MHP Mannesmann Präzisrohr GmbH [MHP], Mannesmann Robur B.V. [ROB]) stainless steel tubes (DMV Stainless B.V. [DMV]) and is rounded off by seamless tubes (Vallourec S.A. [VLR]). With their international reputation for recognized quality, the companies of this division generally occupy leading positions and rank as world market leaders in a number of segments.

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

The companies of Salzgitter Mannesmann Handel-Gruppe operating under the management company Salzgitter Mannesmann Handel GmbH (SMHD) and the plate specialist Universal Eisen und Stahl (UES), as well as the two steel service centers Hövelmann & Lueg GmbH (HLG) and Ets. Robert et Cie S.A.S. (RSA) have been assigned to this division.

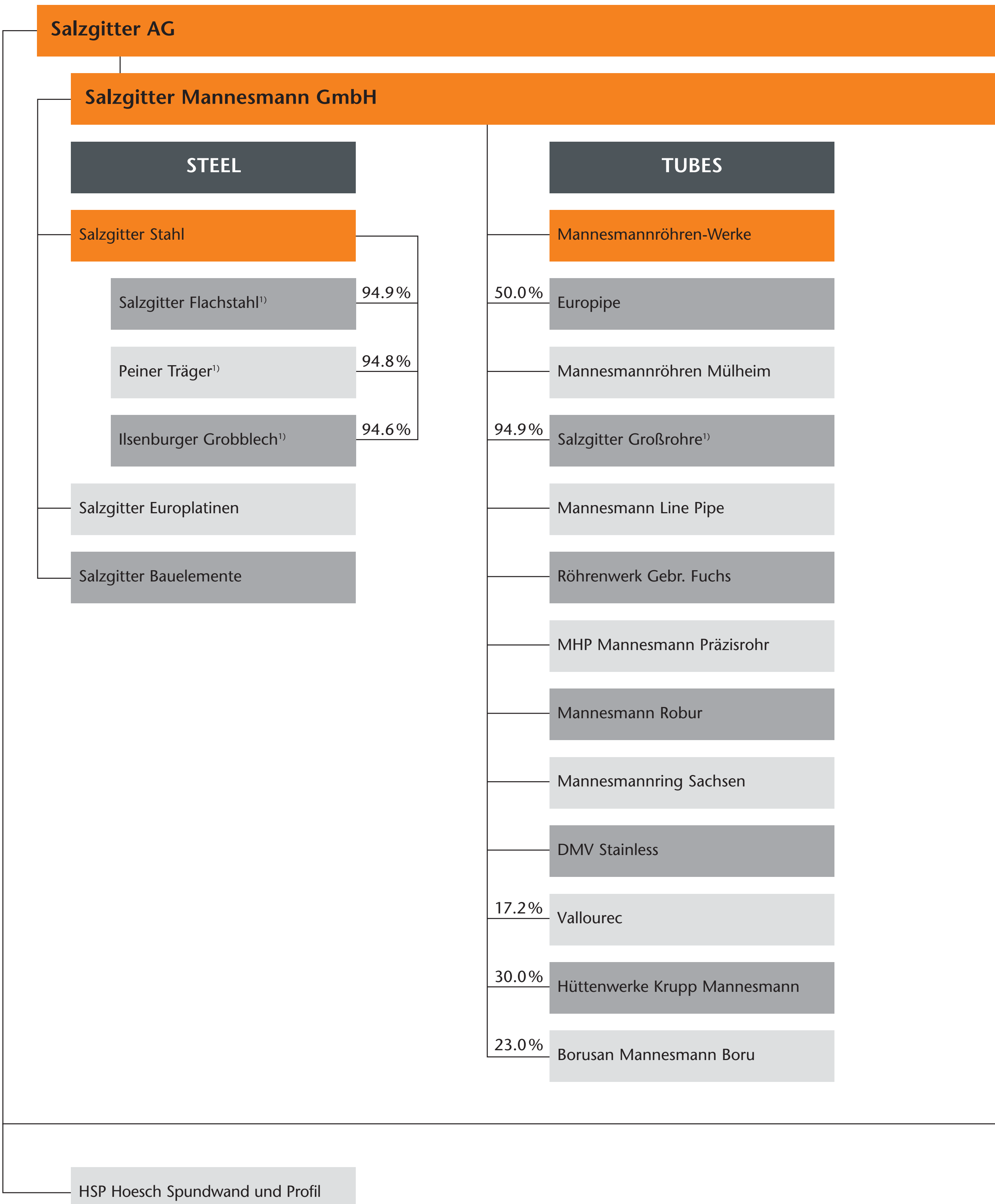
The SMHD Group operates 14 steel stockholding companies in Germany, similarly 14 in Europe, and 9 international trading companies.

The activities of the Service Division are primarily focused on requirements within the Group. Beyond that, the services of the companies of this division are also offered to external customers to generate an additional source of profit for the Group. Their skills and know-how are constantly measured against the requirements of the market and consistently refined. On this basis, they are able to create and realize a wide range of attractive services, extending from raw materials supplies and logistics and systems engineering through to complete IT solutions. The range is supplemented by services and products for automotive development and production.

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

Divisions

The new Group structure under corporate law is not yet legally effective (see explanations on page 12).



TRADING

- 94.9% Salzgitter Mannesmann Handel Gruppe[1]
  - Salzgitter Stahlhandel
  - Stahl-Center Baunatal
  - Salzgitter Mannesmann International
  - Salzgitter Mannesmann International (USA)
  - Salzgitter Mannesmann International (Canada)
  - Salzgitter Handel B.V.
- 94.9% Hövelmann & Lueg[2]
- 94.9% Universal Eisen und Stahl[1]

SERVICES

- 94.9% Deumu Deutsche Erz- und Metall-Union[1]
- Salzgitter Service und Technik
- 94.9% Verkehrsbetriebe Peine-Salzgitter[1]
- 51.0% Hansaport
- Salzgitter Mannesmann Forschung
- Salzgitter Mannesmann Altersversorgung
- 94.9% Glückauf Wohnungsgesellschaft[1]
- 26.0% Burwitz Feuerungsbau
- Salzgitter Magnesium-Technologie
- Salzgitter Information und Telekommunikation
  - Gesis Gesellschaft für Informationssysteme
  - Telcat Multicom
  - Telcat Kommunikationstechnik

- 50.0% Robert
- Oswald Hydroforming
- 74.8% Salzgitter Automotive Engineering

Unless otherwise indicated, the shareholding = 100%
As of 31/12/2005

1) Remaining shares held by Salzgitter AG

2 Remaining shares held by Salzgitter AG/ third parties

1.3 Executive Board

Wolfgang Leese

Chairman

a) ■ Mannesmannröhren-Werke GmbH (Chairman)
■ Salzgitter Stahl GmbH (Chairman)
■ Salzgitter Flachstahl GmbH from June 21, 2005 until January 13, 2006 (Chairman from June 29, 2005 until January 13, 2006)
■ Salzgitter Mannesmann Handel GmbH since May 27, 2005 (Chairman since June 8, 2005)
■ Peiner Träger GmbH (Chairman)
■ MAN Nutzfahrzeuge AG

b) ■ Vallourec S.A. (Conseil de Surveillance)
■ HSP Hoesch Spundwand und Profil GmbH (Supervisory Board) since May 27, 2005 (Supervisory Board Chairman since September 6, 2005)

Wolfgang Eging

Tubes Division

Chairman of the Executive Board of Mannesmannröhren-Werke GmbH

a) ■ Hüttenwerke Krupp Mannesmann GmbH (Supervisory Board), Chairman since March 23, 2005 (Shareholders' Committee)
■ Europipe GmbH (Supervisory Board, Shareholders' Committee)
■ MHP Mannesmann Präzisrohr GmbH (Chairman)
■ Salzgitter Mannesmann Handel GmbH

b) ■ Vallourec & Mannesmann Tubes S.A. (Conseil d'Administration) until June 23, 2005
■ DMV Stainless B.V. (Supervisory Board, Chairman)
■ DMV Stainless S.A.S. (Conseil de Surveillance, Chairman)
■ Mannesmannröhren Mülheim GmbH (Supervisory Board, Chairman)
■ Mannesmann Line Pipe GmbH (Advisory Council, Chairman)
■ Borusan Mannesmann Boru Yatirim Holding A.S. (Board of Directors, Vice Chairman)
■ Vallourec S.A. (Conseil de Surveillance) since March 8, 2005

Hans Fischer

Member of the Executive Board of Salzgitter AG since January 1, 2006

Steel Division

Chairman of the Executive Board of Salzgitter Stahl GmbH since June 21, 2005

Chairman of the Management Board of Salzgitter Flachstahl GmbH until December 31, 2005

a) ■ Peiner Träger GmbH
■ Ilsenburger Grobblech GmbH (Chairman) since June 21, 2005 (Chairman since June 24, 2005)
■ Salzgitter Flachstahl GmbH since January 24, 2006
■ Hüttenwerke Krupp Mannesmann GmbH since September 16, 2005

Dr.-Ing. Heinz Jörg Fuhrmann

Finance

a) ■ Mannesmannröhren-Werke GmbH
■ Salzgitter Mannesmann Handel GmbH (Vice Chairman)
■ Salzgitter Stahl GmbH
■ Salzgitter Flachstahl GmbH
■ Europipe GmbH (Supervisory Board, Shareholders' Committee) since September 9, 2005
■ Öffentliche Lebensversicherung Braunschweig
■ Öffentliche Sachversicherung Braunschweig

b) ■ Vallourec & Mannesmann Tubes S.A. (Conseil d'Administration) until June 23, 2005
■ Ets. Robert et Cie S.A.S. (Comité de Surveillance) Chairman since June 8, 2005
■ Hansaport Hafenbetriebsgesellschaft mbH (Supervisory Board)
■ HSP Hoesch Spundwand und Profil GmbH (Supervisory Board) since May 27, 2005

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

The Executive Board (from left): Wolfgang Eging, Wolfgang Leese, Dr. Heinz Jörg Fuhrmann, Peter-Jürgen Schneider.

- ThyssenKrupp GfT Bautechnik GmbH (Advisory Council) since May 17, 2005
- Vallourec S.A. (Conseil de Surveillance) since December 15, 2005

Heinz Groschke

Member of the Executive Board of Salzgitter AG since January 1, 2006
Trading Division
Chairman of the Executive Board of Salzgitter Mannesmann Handel GmbH
Chairman of the Management Board of Salzgitter Stahlhandel GmbH until December 31, 2005

a)
- Ilsenburger Grobblech GmbH
- Europipe GmbH since June 1, 2005

b)
- Salzgitter Mannesmann International (HK) Ltd. (Board of Administration)
- Salzgitter Mannesmann International (Asia) Pte. Ltd. (Board of Administration)
- Salzgitter Mannesmann (Scandinavia) AB (Board of Administration)
- Salzgitter Mannesmann (Italia) S.r.l. (Board of Administration)
- Salzgitter Mannesmann (España) S.A. (Board of Administration)

Michael B. Pfitzner

Trading Division until March 31, 2005
Member of the Executive Board of Salzgitter Stahl GmbH until March 31, 2005

a)
- Peiner Träger GmbH until May 12, 2005
- Salzgitter Mannesmann Handel GmbH (Chairman) until May 12, 2005
- Europipe GmbH until May 12, 2005

b)
- HSP Hoesch Spundwand und Profil GmbH (Supervisory Board) until May 12, 2005
- Ets. Robert et Cie S.A.S. (Comité de Surveillance, Chairman) until May 31, 2005
- ThyssenKrupp GfT Bautechnik GmbH (Advisory Council) until May 12, 2005
- Borusan Mannesmann Boru Yatirim Holding A.S. (Board of Directors) until June 30, 2005

Peter-Jürgen Schneider

Personnel and Services Division

a)
- Mannesmannröhren-Werke GmbH since May 27, 2005
- Salzgitter Flachstahl GmbH since June 21, 2005
- Peiner Träger GmbH since June 21, 2005
- Ilsenburger Grobblech GmbH
- Verkehrsbetriebe Peine-Salzgitter GmbH (Chairman)
- SZST Salzgitter Service und Technik GmbH (Chairman)
- MHP Mannesmann Präzisrohr GmbH

b)
- Hansaport Hafenbetriebsgesellschaft mbH (Supervisory Board, Chairman)
- Projekt Region Braunschweig GmbH (Supervisory Board) since February 9, 2005

Dr.-Ing. Volker P. H. Schwich

Steel and Processing Divisions until April 30, 2005
Chairman of the Executive Board of Salzgitter Stahl GmbH until April 30, 2005
Chairman of the Management Board of Peiner Träger GmbH until April 30, 2005

a)
- Salzgitter Flachstahl GmbH (Chairman) until April 30, 2005
- Ilsenburger Grobblech GmbH (Chairman) until April 30, 2005

b)
- HSP Hoesch Spundwand und Profil GmbH (Supervisory Board, Chairman) until April 30, 2005
- MPI Max-Planck-Institut für Eisenforschung GmbH (Board of Administration)

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

1.4 Corporate Strategy

As a listed company, Salzgitter AG depends on the acceptance of the capital market in the sourcing of the equity and debt financing needed for its long-term strategic development. This is also a dimension from which the primary goals of the Salzgitter Group are derived. Key objectives are to secure the company in its stand-alone position by selective, earnings-oriented growth, with an adequate rate of return on capital employed, as well to ensure a sound financial position.

Achieving these objectives entails making on-time quality deliveries of attractive products to customers at competitive conditions, securing jobs with adequate remuneration of our employees, and ensuring the compatibility of production and the environmental concerns, in connection with a prudent use of material resources.

The strategic further development of the Salzgitter Group, with its focus on the growth sectors of steel, tubes and trading, has made headway in the financial year 2005. As a part of this focus, the Processing Division was dissolved on March 31, 2005, and the companies formerly belonging to it were reassigned to the Steel and Services Divisions.

As a result of this realignment, the product range of the Steel Division was complemented by the integration of components for roofing and cladding (SZBE), blanks/tailored blanks (SZEP) and sheet piles (HSP). Including these companies in the Steel Division which, up until this point, was the supplier of input materials for some of them, is a sound basis for their sustained further development.

The Services Division now comprises not only Salzgitter Mannesmann Forschung GmbH (SZMF) but also the technology companies Salzgitter Automotive Engineering (SZAE), Salzgitter Magnesium-Technologie GmbH (SZMT) and Oswald Hydroforming GmbH & Co. KG (OHC). The measure of closely integrating these companies is expected to deliver a lasting improvement in their competitive ability.

There have been a series of changes in the Tubes Division which are aimed at sharpening the division's competitive edge and at focusing operations on the welded tubes product segment.

Since the start of 2005, for instance, Mannesmann Line Pipe GmbH and Röhrenwerk Gebr. Fuchs GmbH have operated in the market under the joint brand name of "Mannesmann Fuchs Rohr". At the same time, intensive preparations were initiated for a merger between the two companies which is planned for 2006. The combination of the two firms, which partly target the same markets with their products, is expected to result in considerable synergy effects.

On April 1, 2005, SZGR was transferred from the Steel Division to the Tubes Division. The company produces around 100,000 tons of spiral-welded pipes a year for the transport of oil and gas.

Moreover, the sale of the 45% stake in Vallourec & Mannesmann Tubes S.A. (V&M) to the French joint venture partner Vallourec S.A. was completed on June 23, 2005. Salzgitter participated in the capital increase of Vallourec S.A., which took place on July 13, 2005, in proportion to the amount of its participating interest of 22.6% at that time. As per December 31, 2005, the holding stood at 17.2%

following the sale of shares. As a result of double voting rights, the proportion of voting rights came to 29.9%.

As part of the V&M transaction, MRW raised its stake in the steel producer Hüttenwerke Krupp Mannesmann GmbH (HKM) from 20% to 30%.

All in all, these measures represent a cautious reduction of engagement in the seamless tubes segment, while, at the same time, opening up potential for strengthening the welded pipes product segment.

In the past financial year, Salzgitter Mannesmann Handel took on the task of marketing tubes itself, in particular the sale of HFI-welded line and large-diameter pipes which was formerly conducted via the ThyssenKrupp Mannex trading organization. This move gives Salzgitter Mannesmann Handel and, under its auspices, international trading in particular, the option of selling these products under the "Mannesmann" brand.

To invigorate the Mannesmann brand the companies of Salzgitter Mannesmann Handels Group incorporated the brand name into their own company names at the start of the year.

Shortly before the end of the year (December 22, 2005), Salzgitter AG and the Arcelor Group signed a non-binding Letter of Intent on the takeover of Schwerte-based Flachform Stahl GmbH by Hövelmann & Lueg GmbH (HLG), also based in Schwerte. The transaction will give HLG its own slitting capacities, thereby creating one of the most effective steel service centers in Germany.

In the financial year 2005, the Steel Division continued to pursue its policy, initiated in previous years, of promoting internal growth through investment, improving internal processes and organization as well as enhancing the quality of its products.

Salzgitter Flachstahl GmbH (SZFG) put its Blast Furnace C and its third continuous casting line successfully into operation. This facilitated the repair and relining of Blast Furnace A which was concluded in the fall of 2005 within a very short time frame, and adjusted to market conditions.

During the summer break, Peiner Träger GmbH (PTG) carried out full renovation of its continuous bloom casting line. Weak construction activity in Germany and in many countries of western Europe prompted PTG to change its production strategy. The company has supplemented its product range by adding special profiles which meet higher demands for dimensional accuracy and strength.

The newly constructed logistics building with plate cutting machines at Ilsenburger Grobblech GmbH (ILG) became operational at the start of 2005, which puts the Ilsenburg plant in a position to fulfill additional customer requirements. Another benefit is that the steady increase in truck loads is easier to handle.

HSP Hoesch Spundwand und Profil GmbH (HSP), newly assigned to this division, has continued to work on the development of newer and lighter sheet piling types and has already successfully placed part of these products in the market.

The primary objective of our company remains the preservation of our independence through profitability and growth. As a quantitative, performance-related target, the Group has set itself the goal of achieving a return on capital employed (ROCE) of more than 12% over an economic cycle.
The company's medium-term growth target in the next 5 years is to generate sales worth € 10 billion.

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

$$\text{ROCE (in \%)} = \frac{\text{EBIT}}{\text{Capital employed}} \times 100 = \frac{\text{€ mil. } 970}{\text{€ mil. } 2{,}496} \times 100 = 38.9\,\%$$

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

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

in € mil.	31/12/2005
EBT	941
+ Interest expenses	+ 107
– interest expense for pension provisions	– 78
= **EBIT**	= **970**

Capital employed is interest-bearing equity and debt.

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

in € mil.	31/12/2005
Balance sheet total	5,414
– Pension provisions	– 1,725
– Other provisions excluding tax provisions	– 373
– Liabilities excluding bonds Bank liabilities and bills and notes payable and liabilities arising from finance leasing, forfaiting and asset-backed securitization	– 731
– Deferred tax on the assets side	– 89
= **Capital employed**	**= 2,496**

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

The ratio is made up of figures taken from the Consolidated Financial Statements. In principle, figures from the financial statements as per the reporting date are used for calculations.

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

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

In the financial year 2004, we had already achieved the profitability target for the average of the previous four years. Including this year, determined by the outstanding result which, along with demand running at an exceptionally high level, was also due to improvements in internal performance – we have succeeded in considerably outperforming this target.

Taking account of a sales volume of more than € 7 billion generated in the financial year 2005, the Group has seen sharp growth when compared with its point of departure. This growth was achieved externally through acquisitions and internally through investments in plants, equipment and processes. With an expansion of this magnitude we have reached the limit of our organic growth. Additional effective growth can therefore only be generated through acquisitions, especially in the Group's core segments of steel, tubes and trading.

	Growth strategy	Growth/ acquisition	Integration/ strategy check		Consolidation/ focusing		
	1999	2000	2001	2002	2003	2004	2005
Consolidated sales:		SFY	€ 4.6 billion	€ 4.7 billion	€ 4.8 billion	€ 5.9 billion	€ 7.2 billion
GDP (D):	+2.0%	+2.9%	+0.6%	+0.2%	–0.1%	+1.6%	+0.9%

Source: Federal Statistical Office

Following a period of consolidation and realignment at some divisions, we are now investigating the option of external growth. We wish to use the consolidation taking place in steel, tubes and trading on a global scale in our most important areas of operation, as an opportunity to actively shape the process, without coming under pressure to act. The commercial prerequisites for more effectively realizing our corporate objectives, which are preserving our independence and promoting profitability and growth, must, however, be in place for us to follow this course of action.

The aim of refining our tools for management and control within the Group and in its operating companies is to enhance our competitiveness. The introduction of our "5P Management" (Profit, Partners, Personnel, Processes and Products), initiated in 2004, has meanwhile been concluded and will undergo a trial phase with the necessary fine tuning over the course of this year. 5P Management is essentially based on the balanced scorecard approach adapted to the Salzgitter Group and is designed to implement the objectives set by the company in a series of operational, measurable steps. A stringent application of 5P Management enables strategic controlling to take place at the same time. Upon completion of the trial phase, the plan is to combine this management tool with the individual objectives agreed with the executive and non-tariff employees of the Group.

Whereas classical controlling defines the financial targets and tracks the path to their achievement, 5P Management includes targets which are not necessarily of a financial nature. The pursuit of the latter also contributes to the success of the company, even if the value of their contribution is not always measurable.

These targets cover both customers (timely deliveries in the right quality, inclusion in product development) and employees (future-oriented training, promoting junior employees and managers) and processes (environmental protection, prudent utilization of material resources).

With a view to supplementing and extending our Basic Strategy for delivering additional earnings potential, we introduced synergy management as an additional management tool in 2005.

Quantitative and qualitative results, in particular by consistently taking advantage of possibilities for cooperation between the individual divisions and companies of the Salzgitter Group, are expected to be achieved.

Synergy management will be instrumental in forging ahead with the identification and evaluation of synergies in close cooperation with the operating units of the Group.

The measures derived from all management tools converge, in as much as they are financially assessable, in the Profitability Improvement Program of the Group which, with its quarterly controlling, makes a successful contribution to discernibly enhancing the Group’s competitive capabilities.

1.5 Environmental Protection

At Salzgitter AG environmental protection is an integral part of its corporate responsibility and is one of the core tasks of management. For the general public the production of steel often conjures up images of days gone by when chimneys belched smoke and the steel works lay in the shadow of dark clouds. But these images are things of the past. Of course, we still have complex metallurgic processes today, but they are centrally controlled, enclosed and filtered. The high environmental and energy conserving standards we have achieved on the path from ore to high-tech steel products are clear proof of the creative power of our employees.

With a view to involving our employees more closely in environmental issues arising from production, we are pressing ahead with the introduction of an environmental management system as defined by DIN EN ISO 14001. The integrated Salzgitter iron and steel works is being certified in stages, as scheduled. To date more than 50% of all employees work in certified plants. Our environmental management as part of this process is an integrated system which also combines occupational health and safety as well as quality issues. Along with other Group companies, Salzgitter Flachstahl GmbH will energetically pursue this path.

In addition to the introduction of the management system, our Group companies are committed to systemizing their environmental concerns. In the meantime for instance, Hamm-based Mannesmann Line Pipe GmbH is participating alongside HSP Hoesch Spundwand und Profil GmbH, Dortmund, in "ÖKOPROFIT", an ecological project run at regional level to promote the internalization of environmental technology. The main emphasis of this project, involving companies from different sectors, is to assess environmental issues, provide consultancy services and further qualifications in all areas of environmental protection at company level. The aim is to reduce the amount of resources used, thus contributing to sustainably reducing environmental burdens, while saving operational costs at the same time.


TÜV CERT
ZERTIFIKAT

Certificate of Salzgitter Flachstahl GmbH (Steel Division)

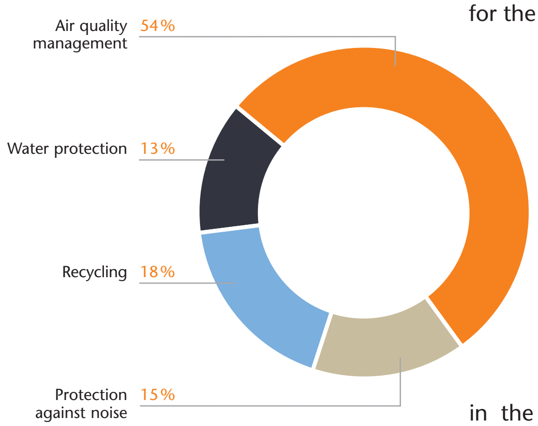
On January 1, 2005, trading in CO_2 emission allowances was launched throughout Europe. In recent months there has been lively discussion about the rising price of electricity relating to emission trading. Salzgitter AG is also taking an active part in these discussions which are aimed at achieving a best possible decoupling of emission trading and the electricity market in favor of energy-intensive industries. Apart from CO_2 emission trading, Salzgitter AG actively supports other measures for climate protection. Salzgitter Flachstahl GmbH, for example, has signed a self-commitment declaration of the VIK (Association of Industrial Energy and Power Users) for the reduction of sulphur hexafluoride (SF_6), one of the gases covered by the Kyoto protocol.

The EU's plans for modernizing and systemizing its policy on chemicals has been the subject of wide debate in the discussions on the environment in 2005. A central part of this approach is the so-called REACH regulatory framework which addresses the **R**egistration, **E**valuation and **A**uthorization of **Ch**emicals. The driving concept behind this directive is to call on industry to provide proof: Whereas up until now it was the task of the authorities to request information on the identification of risks and problems connected with the use of chemicals, it is now up to the manufacturers and importers to keep systematic proof of the safety of the substances they put into circulation. Like other well-known European steel manufacturers, Salzgitter AG is expressly committed to the protection of the environment and consumers and to ensuring healthy working conditions. The proposal of the EU Commission has, however, led to a considerable imbalance in competition for Europe's steel industry. We therefore joined the discussion on chemical policies at an early stage. Our intention was to contribute to the discussion and thus avoid a great deal of unnecessary and costly investigation work being performed on materials which are known to have been in use for many decades in the steel industry without causing damage. This entails, for example, excluding ores from the obligation to register, as well as a targeted recording of the many different steel alloys. Thanks to the proposed amendments approved in the first reading before the European Parliament, which took place mid-November 2005, and the gradually emerging common ground shared by EU member states, we believe that viable compromises can be found from the standpoint of the steel industry.

The year 2005 saw the implementation of the ambitious requirements laid down in the ordinances on storing and depositing waste, and entailed changes which caused considerable upheaval in waste management in Germany. The known consequence of this new directive on communal waste management was the closure of large numbers of waste sites, which has driven up costs for waste disposal services. The requirements of these ordinances also apply to the steel industry. We have set ourselves the special goal of being able to continue to operate our residual materials recycling sites which are essential to the future existence of our company. The preparatory work of many years on technical adjustment had, for instance, reached the stage where the authorities gave their approval for us to continue operating our iron and steel works residual materials recycling center for an unlimited period of time. This center processes around a third of all by-products and waste produced at Salzgitter's iron and steel works, and if these substances cannot be recycled or sold, stores them in an environmentally compatible way.

A path-breaking project has been initiated in Ilsenburg with the goal of rejuvenating industrial and commercial land and property which has been lying vacant for years. The whole undertaking will run for three to four years. At the same time, core areas of the former copper mill, located in close proximity to Ilsenburger Grobblech GmbH, are being dismantled by a municipal company (Ilsenburger Grundstücksentwicklung mbH – IGG), which was founded in 2003. This opens up the possibility of expanding the ILG mill at the level of production flow. Other industrial and commercial enterprises choosing to locate in the neighboring industrial park to be developed by IGG is another example of how resources are used prudently. This project delivers future development potential for ILG as well as for the City of Ilsenburg.

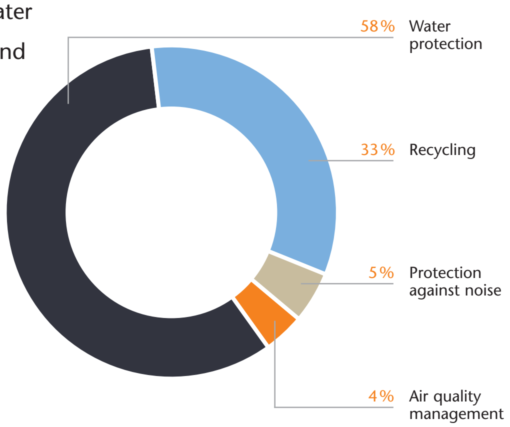
Steel Division environmental expenses data 2005



The total expenditure of the Steel Division on environmental protection came to € 120 million in the financial year 2005. This amount breaks down as follows: 54 % for reducing air pollution, 13 % for preventing water pollution, 18 % for recycling and waste management and 15 % for noise prevention.

At the domestic companies in the Tubes Division, expenditure on environmental protection measures amounted to some € 11 million. 4 % of thus sum was allocated to air quality management, 58 % to water protection, 33 % to recycling and waste management and 5 % to noise prevention measures.

Tubes Division domestic companies environmental expenses data 2005

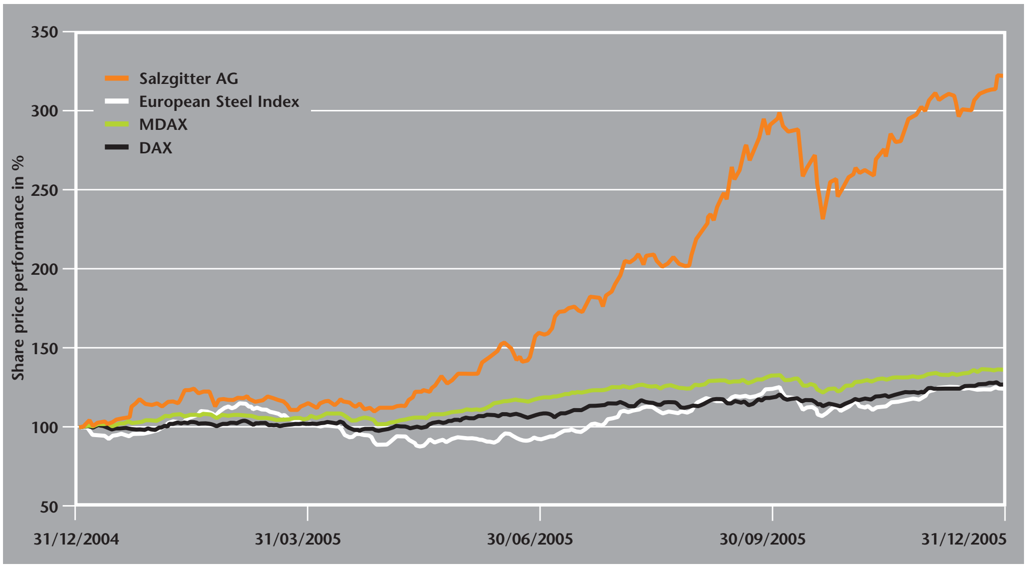


The Capital Market and Performance of the Salzgitter Share

The year 2005 saw the stock markets rally. Following price gains in the second half of 2004, prices initially trended sideways in the first weeks of 2005 through until the end of April.

Upbeat signals from the major economies and an appreciation in the US dollar favorable to German exports then triggered an uptrend, during the course of which the DAX and the MDAX broke through the psychologically significant marks of 5,000 points and 7,000 points respectively.

Salzgitter AG Share Price vs. the European Steel Index, MDAX and DAX in 2005



Source: DBAG Xetra closing price, Datastream STEELEU

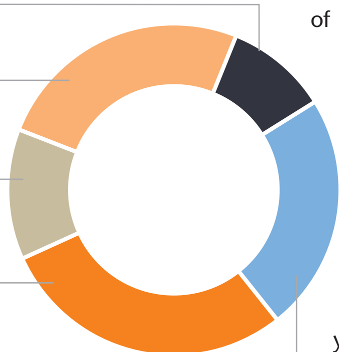
The annual performance of the DAX blue-chip index came to around 27% whereas the MDAX, comprising second-tier stocks, climbed by 36% in 2005. With a few exceptions, steel stocks, hampered by a market environment with rising inventories of major steel consumers and declining revenues, were only able to perform moderately in comparison to the pace set by the leading indices over most of the year 2005. This was the reason why the European Steel Index was only able to narrow the gap to the DAX towards the end of the year.

In 2005 the performance of the Salgitter share was unparalleled. It began upon the company's announcement of its intention to sell the 45% stake in Vallourec & Mannesmann Tubes on January 21, 2005. Boosted by good quarterly results, which partly considerably exceeded analyst expectations, as well as the share buy-back program announced on July 7, the share price rose more or less steadily until the start of October. Following a short phase of consolidation in the wake of profit taking and unfounded rumors on the market concerning the trend in the steel industry and the role of China in the global steel market, the share price was able to match its former performance in the last few months of the year. It closed at year-end at a price of € 45.61, close to the all-time high of € 45.95 which was also reached on December 30, 2005. With a gain over the year of 220 %, the price performance of the Salzgitter share takes a top position, way ahead of the 80 DAX and MDAX companies.

The daily turnover of the Salzgitter share on German stock exchanges in 2005 averaged 421,000 shares per trading day, which means that the volume of shares traded has more than doubled as against the previous year (2004: 193,000 shares/day). The total number of shares traded posted around 109 million in 2005, with 94.9 % accounted for by XETRA electronic trading and the Frankfurt Stock Exchange (2004: 92.5 %).

Salzgitter's MDAX ranking at Deutsche Börse AG improved considerably as a result of the increase in its share price. With a trading volume of € 2,774 million, the company was placed 11th among the 50 companies comprised by the MDAX at year-end. In the "MarketCap" category, Salzgitter came in at 13th place, with a free float market capitalization of € 1,791 million on December 31, 2005. This ranking positions Salzgitter in the league of the Top 50 listed companies in Germany.

Shareholder structure



Status: December 31, 2005

There were two significant changes in the shareholder structure in the financial year 2005. At the start of the year, NORD/LB sold the rest of its stake in Salzgitter AG. In addition, the Executive Board of Salzgitter AG made use of the authorization by the General Meeting of Shareholders and launched a share buy-back program with the aim of enabling shareholders to participate in the outstanding financial position of the company (see below). As per December 31, 2005, the number of Salzgitter shares in free float stood at 64.8 %.

Over the course of the year 2005, the shareholder structure was analyzed twice by external parties. These analyses showed that the number of international investors, mainly from Great Britain, the USA and the Scandinavian countries, had grown again year-on-year, up from 18.2 % to 28.9 %. Shareholders registered in Germany, including Salzgitter AG, held at least 47.9 % of the share capital. A total of 23.2 % of shareholders could not be identified but are most likely accounted for by private domestic and foreign investors as well as institutional investors with no reporting requirements, such as insurance companies and trust foundations.

Own Shares*

The portfolio of own shares stood at 6,321,528 units on December 31, 2005. In comparison with the portfolio status as per December 31, 2004 (1,129,497), there has been an increase in the number of units of 5,192,031. In line with the authorization given by General Meeting of Shareholders held on May 26, 2004, 2,551 shares at an average price of € 20.84 were used in lieu of payment for the services of third parties during the reporting period. Some 184,736 shares were issued to members of the workforce for free or as a bonus. Furthermore, 5,379,337 shares at an average price of € 28.33 were purchased during the reporting period.

As a result of the conversion of the remaining subscription rights, the portion of own shares in the increased subscribed capital (€ 161,615,273.31 or 63,218,400 units) came to just under 10% at year-end.

*The "Options" section has been assigned to the "Corporate Governance Report".

Information for Capital Investors

		FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Nominal capital[1]	€ mil.	159.5	159.5	159.5	160.9	161.6
Number of shares[1]	million	62.4	62.4	62.4	62.9	63.2
Number of shares outstanding[1]	million	61.7	61.3	61.3	61.8	56.9
Market capitalization[1)2)]	€ mil.	590.6	367.0	538.5	880.8	2.595.1
Year-end closing price[1)3)]	€	9.57	5.99	8.79	14.25	45.61
Stock market high[3]	€	10.85	12.65	9.35	15.76	45.95
Stock market low[3]	€	6.65	5.85	5.88	8.72	14.17
Earnings per share (EPS)[4]	€	2.28	1.05	0.52	3.99	14.09
Cash flow per share (CPS)[4]	€	1.93	2.55	3.64	5.75	7.83
Dividend per share (DPS)	€	0.42	0.32	0.25	0.40	1.00
Total dividends	€ mil.	26.2	20.0	15.6	25.2	63.2

Securities Identification Number: 620200, ISIN: DE0006202005

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

Dividend

The Executive and Supervisory Boards propose that the General Meeting of Shareholders resolves to pay a basic dividend for the financial year 2005 of € 0.50 per share. Furthermore, the proposal has been put forward that, in view of the outstanding result and extraordinary income accruing from the withdrawal from the commitment to Vallourec S.A./Vallourec & Mannesmann Tubes S.A., an additional bonus of € 0.50 be paid.

Based on the nominal share capital of € 161.6 million, the proposed payment totals € 63.2 million.

Tax invoice	**€/share**
Cash dividend	0.79
Creditable capital gains tax and solidarity surcharge	0.21
Dividend	**1.00**

Investor Relations

In response to the more lively interest in the steel industry in general and in Salzgitter AG in particular, the company's Investor Relations activities were stepped up again in 2005. In addition to analysts' conferences held in Frankfurt and London upon publication of the company's report on the financial year 2004 and the results of the first half of 2005, Salzgitter AG made presentations at a number of investor conferences and at many road shows held in Germany and abroad. During the year, more than 120 discussions took place with financial analysts and institutional investors in Germany, Europe and the USA.

The financial press and a large number of private investors received information on the development of Salzgitter AG through contacting the company directly. To ensure that investors have access to full and timely information, the Investor Relations website was extended. Furthermore, the work of the "Freundeskreis der Aktionäre der Salzgitter AG" (circle of friends of Salzgitter AG shareholders) received intensive support. In a series of well-attended events, the "Freundeskreis" informed its audience about the Salzgitter Group and the company environment, and won a considerable number of new members.

As in previous years, guided tours of the plants of the Steel and Tubes Divisions and an intensive exchange of views with members of the Executive Board helped to give analysts and investors a detailed, lively impression of the structures, processes, products and potential of the Salzgitter Group. We believe that this is an important prerequisite for a discerning assessment and valuation of the Salzgitter share.

At this time, the following institutions report regularly on Salzgitter AG:

Bankhaus Lampe	Kepler Equities
BHF-Bank	Landesbank Baden-Württemberg
Commerzbank	Landesbank Rheinland-Pfalz
Deutsche Bank	MM Warburg
DZ-Bank	NORD/LB
Goldman Sachs	Sal. Oppenheim
HSBC	Steubing AG
HypoVereinsbank	WestLB

In total, at least 172 company reports or recommendations on Salzgitter AG were made in the financial year 2005 by some 34 banks and financial publications. At year-end, their ratings were: 15 buy/outperform, 12 hold/neutral, 7 sell/underperform.

In July 2005, the investor relations work of Salzgitter AG was awarded second place among the 50 MDAX-listed companies at the "Capital Investor Relations Preis 2005" event organized by the Deutsche Vereinigung für Finanzanalyse und Asset Management (DVFA) and the magazine Capital.

1.7 Supervisory Board

Dr. Wilfried Lochte
Chairman
Chairman of the Executive Board of
MAN Nutzfahrzeuge AG, retired
Member of the Executive Board of
MAN Aktiengesellschaft, retired
a) ■ KNORR-Bremse AG (Vice Chairman)
■ KNORR-Bremse Systeme für Nutzfahrzeuge GmbH (Vice Chairman)
■ Schmitz Cargobull AG (Honorary Chairman) since January 1, 2005

Jürgen Peters
since January 1, 2005
Vice Chairman since March 30, 2005
1st Chairman of the IG Metall
a) ■ Volkswagen AG (Vice Chairman)
■ Mannesmannröhren-Werke GmbH (Vice Chairman) until March 11, 2005

Dr. Dieter Brunke
until September 15, 2005
Member of the Executive Board of Preussag AG, retired
b) ■ JC INSITU Beteiligungsgesellschaft mbH (Supervisory Board)
■ Solyp Informatik GmbH (Advisory Council, Chairman)

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

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

Kurt van Haaren
Deceased on July 14, 2005
Chairman of the German Post Office Labor Union, retired
No membership in other governing bodies

Prof. Dr.-Ing. Heinz Haferkamp
Professor at the University of Hanover
a) ■ ALSTOM-LHB GmbH
b) ■ PZH Produktionstechnisches Zentrum GmbH

Prof. Dr. Rudolf Hickel
Professor of Economics, specializing in Finance, at the Economics Faculty of the University of Bremen
a) ■ GEWOBA – Aktiengesellschaft Wohnen und Bauen
■ Howaldtswerke-Deutsche Werft AG
■ ALLIANZ AG

Dr. Gunther Krajewski
Head of Ministry Department, Department Head at the Ministry of Finance of Lower Saxony
a) ■ Flughafen Hannover-Langenhagen GmbH
■ Öffentliche Lebensversicherung, Braunschweig
■ Öffentliche Sachversicherung, Braunschweig
b) ■ Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale (Supervisory Board) since January 1, 2005

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

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

Hans-Jürgen Ladberg
until August 22, 2005
Chairman of the Central Works Council of V&M DEUTSCHLAND GmbH
Vice Chairman of the Group Works Council of Salzgitter AG until August 30, 2005
a) ■ V&M DEUTSCHLAND GmbH

Bernd Lange
until August 26, 2005
Management Executive
No membership in other governing bodies

Dr. Arno Morenz
Vice President of DSW Deutsche Schutzvereinigung für Wertpapierbesitz e.V.
a) ■ alfabet AG (Chairman)
■ Flossbach & von Storch Vermögensmanagement AG (Vice Chairman) until April 30, 2005
b) ■ Fidelity Funds, Luxembourg (Board of Administration)

Dr. Hannes Rehm
Chairman of the Executive Board of Norddeutsche Landesbank Girozentrale
a) ■ Bankgesellschaft Berlin AG
b) ■ Bremer Landesbank Kreditanstalt Oldenburg-Girozentrale (Supervisory Board)
■ LBS Norddeutsche Landesbausparkasse Berlin-Hannover (Supervisory Board)
■ Provinzial Lebensversicherung Hannover (Supervisory Board)
■ DeKaBank Deutsche Girozentrale (Board of Administration)
■ Nord/LB Luxembourg S.A. (Board of Administration, Chairman)

Dr. Rudolf Rupprecht
Chairman of the Executive Board of MAN Nutzfahrzeuge, retired
a) ■ MAN AG since June 3, 2005
■ SMS AG (Chairman)
■ KME AG since November 27, 2005
■ MAN B&W Diesel AG (Chairman) until January 31, 2005
■ Walter Bau-AG until February 21, 2005
b) ■ MAN B&W Diesel A/S (Board of Directors)
■ Novelis (Board of Directors) since January 1, 2005
■ Bayerische Staatsforsten (Supervisory Board) since July 14, 2005

Ernst Schäfer
Chairman of the Groups Works Council of Salzgitter AG
Chairman of the Works Council of Salzgitter Flachstahl GmbH
a) ■ Salzgitter Flachstahl GmbH

Christian Schwandt
Chairman of the Works Council of SZST Salzgitter Service und Technik GmbH
a) ■ SZST Salzgitter Service und Technik GmbH

Walter Skiba
since September 8, 2005
Chairman of the Works Council of Salzgitter Mannesmann Handel GmbH
a) ■ Salzgitter Mannesmann Handel GmbH

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

Michael Sommer
since September 8, 2005
Chairman of the DGB (German Federation of Trade Unions)
a) ■ Deutsche Telekom AG
■ Deutsche Postbank AG (Vice Chairman)
■ DGB Rechtschutz GmbH
b) ■ Kreditanstalt für Wiederaufbau (Advisory Council)

Dr. Johannes Teyssen
since September 16, 2005
Chairman of the Executive Board of E.ON Energie AG and member of the Executive Board of E.ON AG
a) ■ E.ON Bayern AG (Chairman)
■ E.ON Hanse AG (Chairman)
b) ■ E.ON Nordic AB (Board Member)
■ E.ON Sverige AB (Board Member)

Rainer Thieme
Chairman of the Management Board of Wilhelm Karmann GmbH, retired
a) ■ Köster AG
■ Oldenburgische Landesbank AG
■ SCHMITZ Cargobull AG
■ ZF Friedrichshafen AG (Chairman)
b) ■ Leopold Kostal GmbH & Co. KG (Advisory Council)

Friedrich-Wilhelm Tölkes
Chairman of the Works Council of Hüttenwerke Krupp Mannesmann GmbH
a) ■ Mannesmannröhren-Werke GmbH

Hartmut Tölle
Chairman of the DGB (German Federation of Trade Unions) for Lower Saxony/Bremen and Saxony-Anhalt
No membership in other governing bodies

Prof. Dr. Martin Winterkorn
Chairman of the Executive Board of Audi AG
Member of the Executive Board of Volkswagen AG
a) ■ FC Bayern München AG
■ Infineon Technologies AG
b) ■ SEAT S.A.
■ Lamborghini Holding S.p.A.

Prof. Dr. Ulrich Zachert
since September 8, 2005
Professor for Labor Law at the University of Hamburg
No membership in other governing bodies

1.8 Report of the Supervisory Board

Boosted by the stable growth of the global economy and the ensuing healthy demand for rolled steel products and tubes, Salzgitter AG delivered an outstanding result in the financial year 2005. Factors contributing to this success were the systematic strategic focus of the company along with the measures for improvement consistently pursued in recent years. To strengthen the company's competitive capabilities, selected investments have been made in improving production facilities, extending the range of products and in customer-oriented product development.

Monitoring Management and Advising the Executive Board

The Supervisory Board monitored the Executive Board in its management of the company and assisted the Board in an advisory capacity in all major decisions. It kept itself informed about the course of business and the situation of the company, which included the corporate planning, further strategic development, the profitability of the company and the risks, on a regular, timely and comprehensive basis by means of written and verbal reports. The Supervisory Board was involved in all decisions that were of particular strategic significance for the company. Divergences between the planned and the actual course of business and the causes thereof were discussed.

There were five meetings in which the Supervisory Board discussed the situation and the development of the company on the basis of the reports provided by the Executive Board. The Supervisory Board discussed important transactions in detail, in particular those requiring its approval. The most important matters to be discussed and approved were as follows:

- the sale of the 45% stake in Vallourec & Mannesmann Tubes S.A. and the reduction of the holding in Vallourec S.A.,
- the purchase of the plant premises of Hövelmann & Lueg GmbH in Schwerte,
- the safeguarding of the electricity supply of Salzgitter Flachstahl GmbH,
- changes to the continuous pickling line investment concept of Salzgitter Flachstahl GmbH,
- construction of an accelerated cooling line, including a cold plate leveler, at Ilsenburger Grobblech GmbH,
- research and development activities of the Group,
- the optimization of the Group structure for fiscal reasons.

In its meeting on December 15, 2005, the Supervisory Board dealt in detail with the corporate plans submitted by the Executive Board, including investment, finance and personnel planning for the financial years 2006 to 2008. The Supervisory Board approved the investment planning and related financing for the Group for the financial year 2006.

Dr. Wilfried Lochte,
Chairman of the
Supervisory Board.

The Presiding Committee of the Supervisory Board met once to prepare decisions on Executive Board matters. The Strategy Committee discussed core issues relating to the strategy of the company in a meeting with the Executive Board. The Personnel Committee of the Supervisory Board did not have to be called upon in the financial year 2005. No further committees were formed by the Supervisory Board.

The Chairman of the Supervisory Board also held many individual discussions with the Chairman of the Executive Board on the position of the company and its further development outside of the meetings of the executive body.

The Supervisory Board received no reports of conflicts of interest from any member of the Executive Board or the Supervisory Board in the financial year 2005.

Annual Financial Statements and Consolidated Financial Statements as at December 31, 2005

In its meeting on March 30, 2006, the Supervisory Board dealt in detail with the annual financial statements of Salzgitter AG and the consolidated financial statements, both as at December 31, 2005, as well as the joint management report on the company and the Group for the financial year 2005. Prior to this, the auditor PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, selected by the General Meeting of Shareholders, reviewed both sets of financial statements and granted them the unqualified auditors' certificate. The auditor thereby confirmed that the balance sheet accounting, valuation and consolidation carried out in the consolidated financial statements complied with the International Financial Reporting Standards (IFRS). As part of its assessment of the risk management system, the auditor also established that the Executive Board had taken the steps required by the German Stock Corporation Act (AktG) for the early recognition of risks that could endanger the continued existence of the company.

The annual financial statements, the consolidated financial statements, the joint management report for the company and the Group and the Executive Board's proposal on appropriation of the balance sheet profit, as well as the auditor's reports, were available to the members of the Supervisory Board for examination. Representatives of the auditor took part in the discussions of the annual financial statements and the consolidated financial statements at the Supervisory Board meeting on March 30, 2006, and elaborated upon the most important findings of their audit.

On the basis of its own examination of the annual financial statements, the consolidated financial statements and the associated management reports, which did not lead to any objections, the Supervisory Board approved the findings of the auditor's review and ratified the annual financial statements and the consolidated financial statements. The financial statements were thereby adopted. The Supervisory Board agreed with the proposal made by the Executive Board on the appropriation of the balance sheet profit.

Changes to the Executive Board

On March 31, 2005, Mr. Michael B. Pfitzner (Trading Division and member of the Executive Board of Salzgitter Stahl GmbH) and on April 30, 2005, Dr. Volker P. H. Schwich (Steel and Processing Divisions, Chairman of the Executive Board of Salzgitter Stahl GmbH and Chairman of the Management Board of Peiner Träger GmbH) withdrew from the Executive Board of Salzgitter AG. The Supervisory Board wishes to thank both gentlemen for their commitment to the well-being of the company and, in particular, for their active contribution in reorganizing the Group into a holding structure.

On January 1, 2006, the Supervisory Board appointed Mr. Hans Fischer, Chairman of the Executive Board of Salzgitter Stahl GmbH, and Mr. Heinz Groschke, Chairman of the Executive Board of Salzgitter Mannesmann Handel GmbH, members of the Executive Board of Salzgitter AG. As board members, Mr. Fischer is responsible for the Steel Division and Mr. Groschke for the Trading Division.

Changes to the Supervisory Board

Mr. Kurt van Haaren (employee representative), Chairman of the German Post Office Labor Union, retired, passed away on July 14, 2005. In his place, the District Court of Braunschweig appointed Mr. Michael Sommer, Chairman of the DGB (German Federation of Trade Unions), to the Supervisory Board effective September 8, 2005.

Mr. Hans-Jürgen Ladberg (employee representative), Chairman of the Central Work's Council Representative of V&M Deutschland GmbH, laid down his mandate on August 22, 2005. In his place, the District Court of Braunschweig appointed Mr. Walter Skiba, Chairman of the Works Council of Salzgitter Mannesmann Handel GmbH, to the Supervisory Board effective September 8, 2005.

Mr. Bernd Lange (employee representative), formerly a member of the European Parliament, laid down his mandate on August 26, 2005. In his place, the District Court of Braunschweig appointed Prof. Dr. Ulrich Zachert, Professor of Labor Law at the University of Hamburg, to this executive body effective September 8, 2005.

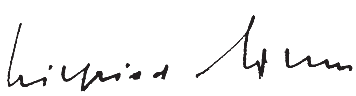
Finally, Dr. Dieter Brunke (shareholder representative), member of the Executive Board of Preussag AG, retired, laid down his mandate on September 15, 2005. In his place, the District Court of Braunschweig appointed Dr. Johannes Teyssen, Chairman of the Executive Board of E.ON Energie AG and member of the Executive Board of E.ON AG, to the Supervisory Board effective September 16, 2005.

The Supervisory Board wishes to thank all former members for their partly long years of cooperation. Each of the new members appointed to this executive body for its term of office by the District Court was ratified by the extraordinary General Meeting of Shareholders, which took place on November 17, 2005.

The Supervisory Board would like to thank the Executive Board and all of the Group employees for their commitment in the financial year 2005.

Salzgitter, March 30, 2006

The Supervisory Board



Dr. Wilfried Lochte
Chairman

1.9 Corporate Governance Report

The German Corporate Governance Code comprises essential legal provisions anchored in German law on the management and supervision of listed stock corporations and contains a set of additional recommendations for conduct. These recommendations affect the General Meeting of Shareholders, the Executive Board, the Supervisory Board, the cooperation between these two executive bodies, transparency, as well as accounting standards and the auditing of financial statements. The corporate management and the corporate culture of the Salzgitter Group comply with the law and, with a few exceptions, with the recommendations of the German Corporate Governance Code.

Corporate Governance at Salzgitter

Salzgitter AG has always been firmly committed to a responsible corporate policy geared towards increasing the value of the company. It regards good corporate governance as an integral part of its success, perceiving it as a standard that encompasses all areas of the company and its activities. Over the past year as well, Salzgitter AG has continued to dedicate much time and effort to developing its corporate governance. During this process, it has in particular implemented additional recommendations of the German Corporate Governance Code, as documented by the submission of its Declaration of Compliance by the Executive Board and the Supervisory Board on December 15, 2005, pursuant to Section 161 of the German Stock Corporation Act (AktG).

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

The Shareholders of Salzgitter AG

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

The adopted financial statements as at December 31, 2004, the consolidated financial statements, the joint management report on the company and the Group and the report of the Supervisory Board were presented at the General Meeting of Shareholders of Salzgitter AG held on May 26, 2005, in

Braunschweig. The General Meeting subsequently discussed applications for resolution pertaining to the following items on the agenda:

- appropriation of the balance sheet profit (€ 0.40 per share),
- discharge of the Executive and the Supervisory Boards,
- selection of the auditor in 2005 (PricewaterhouseCoopers AG),
- authorization for the acquisition of own shares,
- approval of control and profit transfer agreements.

The applications for resolution submitted by the Executive and Supervisory Boards were approved by a great majority.

In the extraordinary General Meeting of Shareholders of Salzgitter AG, held on November 17, 2005, in Braunschweig, the following applications for resolution were among the items on the agenda:

- approval of a spin-off and transfer agreement between Salzgitter AG and Salzgitter Mannesmann AG concerning the transfer of participations as well as the choice of an auditor for the statements of Salzgitter AG as at November 30, 2005,
- by-election of Supervisory Board members,
- amendments to the Articles of Incorporation and
- new regulations governing the remuneration of the Supervisory Board.

The applications for resolution submitted by the Executive and Supervisory Boards were approved by a great majority. The approval of the requisite agreement concerning the spin-off and transfer has been legally challenged by one of the shareholders. The case is still pending.

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

The Executive Board of Salzgitter AG

The Executive Board manages the company on its own responsibility. In doing so, it is bound by the interests of the company and obliged to increase the value of the company. It strives to achieve the highest possible return on capital employed within the scope of the corporate purpose. The tasks of the Executive Board also comprise the strategy and further development of the company, including the Group companies, in coordination with the Supervisory Board. The Executive Board of Salzgitter AG currently consists of six members, whereby in the financial year 2005 there were temporarily only five and then four, in part with functional and in part with divisional competence. The members of the Executive Board are liable to the company for any dereliction of duties.

During the period under review, two members of the Executive Board resigned their office and left Salzgitter AG. With effect from January 1, 2006, the Supervisory Board appointed Mr. Hans Fischer and Mr. Heinz Groschke, both plenipotentiaries at Salzgitter AG since April 2005, to the position of new members of the Executive Board. Mr. Hans Fischer is responsible for the Steel Division and Mr. Heinz Groschke for the Trading Division.

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

The remuneration granted to the members of the Executive Board of Salzgitter AG is regulated in their contracts of employment. The structure of the Executive Board remuneration system and the remuneration of each individual Board member are shown in the section on “Remuneration of the Executive Board and the Supervisory Board”.

The Supervisory Board of Salzgitter AG

The task of the Supervisory Board is to advise and supervise the Executive Board in the management of the company. It is involved in decisions of fundamental significance for the company. Particular transactions that are defined in detail in the rules of procedure for the Executive Board of Salzgitter AG require the approval of the Supervisory Board. In addition, the Supervisory Board appoints and dismisses members of the Executive Board. Its scope of influence has been defined in rules of internal procedures.

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

Since the General Meeting of Shareholders of Salzgitter AG, held on May 26, 2005, four members have left the Supervisory Board. In their place the District Court of Braunschweig has appointed new members based upon application by the company. These new members were confirmed in their office by a great majority of the extraordinary General Meeting of Shareholders on November 17, 2005, in a process of individual election until the end of the term of office of the Supervisory Board. The composition of the Supervisory Board, which is made up of expert members with sufficient independency, forms the basis for the Supervisory Board to conduct its work effectively in future as well.

By way of resolution passed by the extraordinary General Meeting of Shareholders of Salzgitter AG, held on November 17, 2005, the remuneration of the members of the Supervisory Board of Salzgitter AG has been newly regulated. In particular, fixed compensation, coupled with a performance-related component, was determined with a view to satisfying the recommendation set down in Code item 5.4.7 of the German Corporate Governance Code. The structure of the remuneration system and the remuneration of each individual Supervisory Board member are shown in the section on "Remuneration of the Executive Board and the Supervisory Board".

Among other things, the Supervisory Board of Salzgitter AG examined the effectiveness of its activities in its meeting on December 15, 2005. The tasks and information and working methodologies were reviewed in a plenary discussion to identify potential for more improvement.

The Supervisory Board will provide information about its activities and its decisions in the financial year 2005 separately in its report to the General Meeting of Shareholders. The Supervisory Board did not receive any reports of conflicts of interest, neither from the Executive Board nor from the Supervisory Board.

Pursuant to Section 7, Item 2 of the Articles of Incorporation of Salzgitter AG, the term of office of the Supervisory Board is expected to end upon conclusion of the General Meeting of Shareholders in 2008.

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

In German stock corporations, the executive board and supervisory board work as separate bodies allocated different tasks. A member of the executive board cannot be a member of the supervisory board at the same time.

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

The essential instruments of the Supervisory Board include:

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

The instruments for management and control used by the Executive Board comprise the following:

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

In the financial year 2005, the Executive Board developed and optimized the strategy of the Salzgitter Group in particular in trusting cooperation with the Supervisory Board. Proceeding on this basis, the Executive Board initiated and pursued numerous measures to implement the strategic goals. The development of the various Group companies was monitored in a timely fashion on the basis of regular target/performance comparisons of their key data, then dealt with in controlling discussions with the management of the Group companies on a quarterly basis and corrected if necessary.

Transparency

Salzgitter AG informs its shareholders and investors promptly about current events and developments within the Group by making all press releases and other publications available on its website.

The dates of all major, regularly occurring publications are announced in a financial calendar, also to be found on the website.

In the financial year 2005, the company received the following information on the purchase or sale of shares of Salzgitter AG by the members of the Executive or Supervisory Boards of the company or other persons with management tasks who have regular access to insider information on the company and who are authorized to make major entrepreneurial decisions, as well as those who are closely related to such persons:

- November 17, 2005, Wolfgang Leese, sale of 40,000 units
- November 17, 2005, Christiane Fuhrmann, sale of 4,980 units.

In the financial year 2005, the stock option plan, launched in 1998, for members of the Executive Board and management executives of the Salzgitter Group expired. The existing 280,000 subscription rights to one share each of Salzgitter AG were exercised by those entitled after the ambitious exercise hurdle had been exceeded. As a result, the number of shares issued by Salzgitter AG rose from 62,938,400 to 63,218,400 and the subscribed capital increased accordingly, from € 160,899,464.67 to € 161,615,273.31. There are currently no stock option programs or similar securities-based incentive systems running in the Salzgitter Group.

Declaration of Compliance for 2005

The Executive Board and the Supervisory Board of Salzgitter AG submitted their Declaration of Compliance with the recommendations of the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG):

"Salzgitter AG complies with all recommendations of the Government Commission on the German Corporate Governance Code in the version of June 2, 2005, which was published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, and has complied with all the recommendations set down in the Code in the period from December 16, 2004 to July 20, 2005 (Code version dated May 21, 2003), and from July 21, 2005, up until the present time (Code version dated June 2, 2005, published on July 20, 2005), apart from the following exceptions:

- Code item 3.8 para. 2 (deductible for D&O insurance): The Executive Board and the Supervisory Board do not regard the agreement on a deductible within the scope of a consequential loss insurance as being necessary for members of the governing bodies (D&O insurance) to compel members of the Executive and Supervisory Board to practice duty-bound behavior.
- Code item 4.2.4 (disclosure of individual remuneration of the members of the Executive Board): This recommendation is to be complied with in future, for the first time in the 2005 Annual Report.
- Code item 5.3.2 (establishment of an Audit Committee of the Supervisory Board): The Supervisory Board has overall responsibility for the review of the annual financial statements and the consolidated financial statements, and the mandating of an auditor. As an executive body, in its entirety, it intensively reviews the documents submitted, while drawing upon the auditor's findings before they are formally approved in accordance with Section 171 of the German Stock Corporation Act (AktG). In the opinion of the Executive Board and the Supervisory Board, this central obligation of the governing bodies should not be delegated to a committee.
- Code item 5.4.1 (age limit for Supervisory Board members): In the opinion of the Executive Board and the Supervisory Board, suitability for being a Supervisory Board member does not depend on a rigid age limit.
- Code item 5.4.5 paragraphs 1 and 2 (Supervisory Board remuneration): Upon a resolution of the extraordinary General Meeting of Shareholders of Salzgitter AG held on November 17, 2005, new, fundamental regulations were passed on the remuneration of the members of the Supervisory Board. Accordingly, the members of the Supervisory Board will now receive fixed and performance-related remuneration. The portion based on the success of the company is, in turn, partly determined by indicators which go beyond the defined period and thus contains components which are geared to the long-term success of the company.

The Executive Board and the Supervisory Board wish it to be noted that, in their opinion, a Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) is not effectively binding for the future. In as much as, in the course of daily business, discrepancies arise in relation to the recommendations of the currently valid German Corporate Governance Code, these will be published in the annual Declaration of Compliance and, if necessary, explained."

Salzgitter, March 30, 2006

Wolfgang Leese	Dr. Wilfried Lochte
The Executive Board	The Supervisory Board

1.10 Remuneration of the Executive Board and the Supervisory Board

The individual members of the Executive Board receive remuneration based on their individual tasks, their personal performance and on the economic situation of the company. The remuneration comprises a basic fixed component and a variable component. The variable component will be divided up into a performance-related portion, calculated according to ROCE, and a qualitative portion, the calculation of which is based on the overall performance of the individual Board member. The performance-related portion is capped, which has the effect of creating a long-term incentive. In addition, the members of the Executive Board receive a pension commitment which is a percentage portion of between 50 and 60% of the fixed remuneration component, and does not therefore depend on the variable component. No other payments have been pledged to any Board member in the event that his service to the company should end. The Supervisory Board reviewed the structure of the Executive Board's remuneration in 2005.

Remuneration received by the individual Executive Board members in 2005 (in €):

in €	Annual payment				Pension claim (annual payments) as per 31/12/2005
	Fixed remuneration	Remuneration in kind	Performance-related remuneration[1]	Total[3]	
Wolfgang Leese (Chairman)	480,000	40,851	480,000	1,000,851	239,285[2]
Wolfgang Eging	300,000	7,670	300,000	607,670	97,280[2]
Dr.-Ing. Heinz Jörg Fuhrmann	341,675	24,742	300,000	666,417	115,200[2]
Peter-Jürgen Schneider	300,000	27,373	300,000	627,373	40,000

1) Provision amounts; determined by way of resolution by the Presiding Committee of the Supervisory Board once the annual financial statements have been drawn up

2) Including a pension commitment taken over against compensation by the prior employer

3) Members of the Executive Board who left the company in the year under review received remuneration in the amount of € 1,287,342 million; as approval for the itemized disclosure of remuneration has not been given, this information was not disclosed

Remuneration with long-term incentive was neither granted nor pledged to the individual members of the Executive Board in 2005. Similarly, no benefits relating to their activities as members of the Executive Board were pledged or granted by third parties.

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

Remuneration received by the members of the Supervisory Board in 2005 (in €):

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

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

in €	Fixed remuneration	Performance-based remuneration based on		Committee remuneration	Attendance fees	Total
		annual performance	long-term company performance			
Jürgen Peters (until May 2005)	7,500	–	–	–	75	7,575
Ernst Schäfer	7,167	–	–	–	300	7,467
Christian Schwandt	5,000	–	–	–	400	5,400
Friedrich-Wilhelm Tölkes	10,833	–	–	–	375	11,208
Walter Skiba (since Sep 2005)	8,751	–	–	–	250	9,001
Total	**39,251**	**0**	**0**	**0**	**1,400**	**40,651**
Overall total	**308,251**	**717,334**	**178,666**	**7,000**	**27,650**	**1,238,901[2]**

1) The amounts presuppose that the General Meeting of Shareholders 2006 will approve the dividend proposal by the Executive and Supervisory Boards

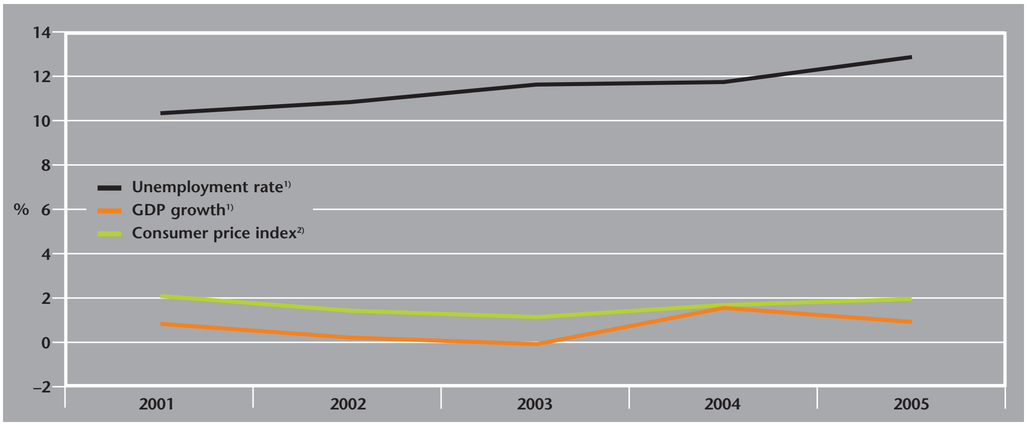
2) The amounts correspond to the provisions which had been formed in the financial statements of Salzgitter AG on the basis of estimated Group results for 2005, and deviate slightly from the amounts that will apply after the financial statements are adopted on March 30, 2006

2.1 Economic Situation

General Business Conditions

The global economy expanded rapidly again in 2005, despite the sharp increase in crude oil prices. The recent IMF estimates are likely to put the increase in world production once again at 4%, which is, in turn, higher than the medium-term trend. China, where, in contrast to many other emerging markets, the rate of growth remained unchanged at a high level of +9.3%, was again an important engine of global economic growth. In the industrial countries as well, the pace of the economy remained virtually unabated, although the trend varied substantially from region to region. Whereas the upswing in the USA held steady even if the rise in GDP (+3.5%) was somewhat lower than in the previous year, the increase in economic activity in the European Union was only modest (+1.5%). Following slack economic growth in the first half of the year, hampered by rising oil prices and the preceding appreciation of the euro in 2004, it was mid-year before there were increasing signs of an economic recovery. Stimulus came especially from foreign demand.

Macroeconomic Indicators in Germany



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

Favorable economic trends in exports also played an important role in the brightening prospects of the German economy. Exports in particular made a swift recovery and are likely to have risen by an annual average of 6.2%. Along with the depreciation of the euro in 2005, it was noticeable that a number of oil producing countries used their vastly increased income to buy German capital goods. In addition, the second half of the year saw stronger growth impetus from the domestic market. Capital expenditure increased substantially and investment in the construction sector rose again for the first time in second part of the year though, all told, falling short of the previous year's level. Private consumption remained the weak point. An important factor here was the decline in disposable income. The drastic increase in oil prices meant that expenditure on energy absorbed a larger share of disposable income. German GDP expanded an overall 0.9% (2004: 1.6%).

In 2005, steel remained in great demand worldwide, although the growth rates of production and consumption, dampened by slower economic momentum in the industrial nations, were lower year-on-year. The global production of steel came to around 1,130 million tons (+5.9%) in 2005. Steel consumption, which stood at 998 million tons (+2.7%) fell only marginally short of the billion ton threshold. Leading this development was Asia again, in particular China, where steel consumption rose to 300 million tons (+10.3%). By contrast, consumption in the USA fell by a good 5% under the pressure of high inventory levels, and the European Union also recorded a decline (–1.5%).

World Crude Steel Production

million tons

Source: International Iron & Steel Institute

2005 was a challenging year for the European steel industry in comparison to the demand-driven boom year of 2004. Against the backdrop of the moderate development of the economy, the general conditions in which manufacturers were forced to balance demand and supply were characterized by at best modest real growth in steel consumption, inventory levels running at a record high, and a huge increase in the imports of non-member countries into the EU.

In the overheated environment of 2004, with steel prices climbing steeply, steel consumers and traders built up stocks way in excess of their needs. In the wake of an economy which had started to cool in the fall of 2004, especially in China and Asia, inventory levels had reached a historical high at the start of 2005. Consequently, in the first half of the year the order intake of European steel producers fell more than 20% short of the previous year's level, as initially inventories were reduced. For flat carbon steel, the decline came to 26%; orders for sections plummeted and stood 30% lower year on year. By contrast, the trend of heavy plate was far less dramatic as international demand in the sophisticated high-grade segment of the important customers groups in the production and transport of energy (pipelines and ship construction) remained firm during the whole of 2005. Only in the segment of simple commercial grades did the greater amount of material available cause fierce competition and sliding prices. Order activities picked up again once inventories had been reduced, in the second half of the year, with the result that, in a year-on-year comparison, the decline in orders narrowed considerably.

Steel manufacturers reacted to this market scenario by extensive production cut-backs, adjusting output to the order situation. Their efforts to balance out supply and demand were, however, hampered by the drastic increase in imports, especially in the first half of the year. The supply of material which, until the fall, exceeded demand led to prices slipping substantially in the second half of the year. The market-oriented supply policy of European manufacturers prevented prices from tumbling to a level known from earlier economic cycles. The turning point in late summer was therefore at a level which was higher than in the economic cycles of the past.

The trends in the sectors affecting the steel tubes industry varied greatly in 2005. Growth in the construction industry of Western Europe and the USA was lower than in the previous year, whereas it was higher year-on-year in Japan and China. The chemical industry, in particular in Germany and China, posted positive growth rates. Mechanical engineering was unable to match the expansion seen in 2004. In the automotive industry as well, China's faster growth rate outstripped all other countries, with exports of automobiles exceeding imports. This is a milestone for local manufacturers on the road to becoming leading producers in the global market.

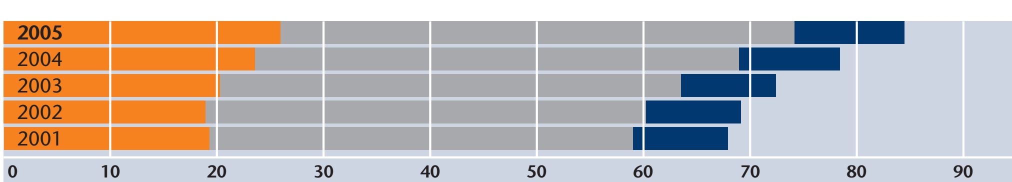
The growth engine of the year 2005 was the energy sector. The increase in oil prices, which peaked at just under USD/bbl Brent 70, impacted not only exploration but also the construction of pipelines. Capital expenditure in new power station projects, driven by the increased need for energy, also had a positive effect on the demand for steel tubes in 2005.

Stockholders' inventories, which were at a very high level at the start of the year, returned to normal over the course of the year.

The price situation showed a varied picture. Seamless tubes recorded stable prices at a high level. The situation for welded pipes of up to 406.4 mm diameters depended on the business segment: Whereas, in the project business, prices remained relatively stable, they came under pressure in the stockholder business from declining hot strip prices and inventory reductions. The prices for large-diameter tubes remained stable owing to brisk demand.

At 83 million tons, world steel tube production reached its highest level recorded to date, boosted by all manufacturing processes. The greatest year-on-year growth was generated by seamless tubes which climbed 8%. Welded tubes in both small and large diameter segments rose by 4% respectively.

World Steel Tube Production



million tons · seamless · welded up to 406.4 mm · welded over 406.4 mm · Source: Wirtschaftsvereinigung Stahlrohre

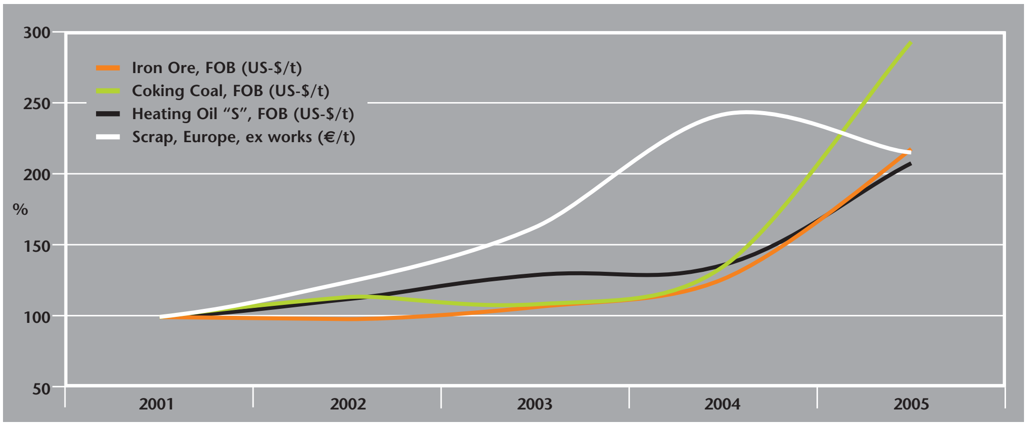
The increase in world steel tube production of 4 million tons is primarily due to China where 3.5 million tons (17%) more was produced than in the previous year. Of this growth, the largest share was attributable to welded tubes of up to 406.4 mm diameter which rose +2.3 million tons (20%), followed by seamless tubes and welded large-diameter pipes which posted +1.1 million tons (12%) and +0.1 million tons (11%) respectively. In all other regions of the world, production volumes remained virtually unchanged as against 2004.

Purchasing

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

The tremendous global demand for raw materials had a great impact on the procurement markets in 2005 as well. Despite some significant shortfalls in most raw materials markets, the supply of the steel and tubes companies was assured both in terms of volume and timing; in some segments, however, considerable price concessions had to be made.

Movement in the Price of selected Raw Materials and Energy Resources



The extremely tense situation on the ore market triggered price increases of 71.5% for fine ore and up to 86% for pellets and lump ore fob port of lading. The volume of ore purchased in 2005 came to 5.9 million tons.

In 2006 as well, we anticipate that the demand for ore will rise, especially in view of the great demand in China. Therefore, price hikes cannot be excluded.

The global demand for coking coal exceeded supply in 2005 as well. Accordingly, price increases of 118% fob port of lading had to be absorbed. In the first half of the year, the availability of high-grade coking coal on the spot market was limited. In the second half of the year, the situation eased as greater volumes were traded on a spot basis. The greater production and port capacities paved the way for additional volume to be placed in the market. In the calendar year 2005, the amount of coking coal purchased totaled 2.0 million tons, of which 1.4 million tons were imported.

In the "coal year 2006/2007", we predict that, depending on the quality, prices will remain stable and even fall slightly.

In the first half of the calendar year 2005, SZFG operated three blast furnaces. The relining of Blast Furnace A in the third quarter reduced the amount of coke needed with the result that the running production of the Group's own coking plant was able to build up inventories. Consequently, there will be no need to procure the full volume of 350 kton of coke from third parties in 2006. In contrast to the coking coal price trend, prices for blast furnace coke fell sharply. At the start of 2005, there was a slight downtrend discernible which accelerated toward mid-year. At the end of 2005, prices had settled at the level of December 2003. This downtrend was the result of China's aggressive pricing policy. By mid-year, Chinese ports were storing huge volumes of coke, which exerted a great influence on the market, causing considerable price reductions.

In 2006, we anticipate that prices will settle at the current level. Requirements in 2006 are largely secured by long-term contracts.

After December 2004 when the spot sea freight market for Capesize ships reached its all-time high, with rates for the Tubarao/Rotterdam route at US-$ 25 per ton, the market in the first half, as in the year-earlier period, staged a sharp downturn and, by July, had reached a low point of US-$ 11 per ton. The background to this development were measures taken by the Chinese authorities to improve the organization of the import market, consistently reduced waiting times in the loading and destination ports, as well as additional newly built ships which flooded the market.

Rates have been rising again since August but at a much more moderate pace than in recent times. In mid-December, Capesize ships of the Tubarao/Rotterdam type cost US-$ 13 per ton. All in all, prices on this market slid US-$ 3 per ton by comparison with the previous year's average. Rates are expected to firm up at the current level, of course, with the fluctuations customary throughout the year. Anticipated newly built bulk carriers should be sufficient to cover additional demand.

A more or less similar development was observed in the shipment of coal where the prices of Panamax units in the second half of the year were considerably more stable than those of larger shipment units.

In 2005, bunker oil cost around an average US-$ 100 more per ton as compared with 2004. The level of US-$ 250 reached at the end of December is not only the annual average but corresponds to expectations for the current year.

The influence of the spot sea freight market on costs was marginal, as ore and coal freights had been mainly covered by favorable long-term contracts. In 2006 as well, ore and coke requirements are largely covered by long-term sea freight contracts.

In 2005, the market trend in ferro alloys and metals varied greatly depending on the individual groups of materials.

As regards metals, the trend on the market of nickel and zinc, which constitute the main metals needed, was disparate. In the first half of the year, during which nickel was quoted at the extremely high price of more than US-$ 17,000 per ton on the London Metal Exchange (LME), the situation eased in the second half of the year. In November 2005, quotations on the exchange stood at US-$ 11,500 per ton.

Developments on the exchange in 2006 will depend mainly on the economic trend in stainless steel. On the supply side, research conducted by the International Nickel Study Group (INSG) indicate that there will be sufficient quantities available. From today's standpoint, there is little likelihood of a shortfall in supply.

By contrast, the price of zinc soared on the exchange in the fourth quarter of 2005. December quotations stood at over US-$ 1,800 per ton, following an annual low of US-$ 1,165 per ton in July 2005. These price increases were compensated for by long-term price hedging at favorable prices. How zinc quotations will develop over the course of the current calendar year cannot be predicted.

Following the high levels seen in 2004, prices for bulk alloys (manganese and silicon carriers) fell by nearly half. It can be assumed, however, that this level will not hold steady in 2006. Price increases are likely to be moderate.

The market scenario for noble alloys – mainly ferrovanadium and ferromolybdenum – eased notably over the course of the year and settled at US-$ 67,000, after prices for ferromolybdenum had peaked at US-$ 100,000 (May 2005) per ton of pure molybdenum. At year-end 2005, the price level for ferrovanadium was in the range of US-$ 45,000 per ton of pure vanadium, following price quotations of US-$ 130,000 per ton in May 2005. It can be assumed that prices at the current level will prevail in the year ahead as well.

The steel companies SZFG and PTG purchased 410 kton and 950 kton of scrap respectively in 2005. In comparison with 2004, the average price dropped by 7%, but is expected to rise again in 2006.

Prices for liquid reducing agents consisting of heating oil "S" and substitute reducing agents (heavy oil, animal fat) for use in the blast furnaces of the Salzgitter plant climbed 37% over the previous year.

The main cause of the unusually sharp increase in heating oil "S" prices was stock exchange speculation which drove up prices for crude oil, especially in the first half of the year. All in all 165 kton of heating oil "S" were used in the financial year 2005.

In 2006, average prices are expected to rise again slightly.

The increase in the price of electricity, which set in at the start of 2002, accelerated sharply in 2005, which led to the cost of electric power rising (excluding use of the grid, the Renewable Energies Law, the Cogeneration Law and electricity tax) by 21 % compared with 2004. In 2006, the cost of buying in electricity is expected to rise by another 17 % in comparison with 2005.

The cost of natural gas advanced 5 % in 2005 over the previous year, attributable to the increase in the price of heating oil "S" in the reference months which affects natural gas prices with a time lag. In the year 2006, a massive increase in gas prices (+40 %) is to be expected.

Hüttenwerke Krupp Mannesmann GmbH (HKM) in Duisburg is the principal supplier of input material to the companies of the Tubes Division. The MRW Group companies purchased 0.9 million tons of slabs from HKM for the manufacturing of plate destined for large-diameter pipes and for the production of hot strip as an input material used for HFI-welded line pipes and welded precision tubes. HKM delivered 60 kton of tube rounds to SMG for the production of seamless precision tubes. HKM is also the major supplier (1.0 million tons) of tube rounds for the manufacture of seamless tubes by Vallourec & Mannesmann Tubes S.A., which is meanwhile a wholly-owned subsidiary of Vallourec S.A. Moreover, the companies producing welded tubes purchased 142 kton of hot-rolled strip from other Salzgitter Group companies and third-party suppliers.

The price of semi-finished products ex HKM, calculated on the basis of a reference grade, have risen as against 2004, which is mainly attributable to the increase in the price of reduction agents and alloys.

Employees

Effective January 1, 2005, the basis of personnel statistics was changed. Since this time, employees in the phase of the non-active period of age-related part-time employment are included in the figure for the "total workforce" but are no longer counted as members of the "core workforce", the aim being to give a more precise overview of the employees in full-time employment.

To facilitate comparison, the data as per December 31, 2004, are also net of the figure pertaining to non-active age-related part-time employees.

In 2005, the core workforce decreased by 225, from 17,261 down to 17,036 (–1.3 %). As per December 31, 2005, this total comprised 66.1 % wage laborers, 26.5 % salaried employees covered by the collective agreement system and 7.4 % non-tariff employees.

A breakdown by divisions shows the following changes:

Steel Division: –85; Tubes Division: –32; Trading Division: +22; Services Division: –126 employees. The number of employees of the holding company fell by 4. When considering employee figures, the restructuring of the divisions upon which these figures are based should be taken into account; the figures for 2004 also reflect the new structure.

The decline in the workforce of the Steel Division is mainly due to cancellation agreements and entry into the active period of age-related part-time employment at SZST. The balance of employees leaving the Services Division was primarily the result of 51 employees leaving the company under a social plan and 240 employees who entered into the non-active period of age-related part-time employment, which was juxtaposed to the hiring of 165 trainees.

The core workforce at the various divisions developed as follows:

Division	31/12/2005	31/12/2004[1]	Change
Steel	7,034	7,119	–85
Tubes	4,235	4,267	–32
Trade	1,734	1,712	22
Services	3,918	4,044	–126
Holding company	115	119	–4
Group	**17,036**	**17,261**	**–225**

[1] Adjusted in accordance with new reporting methodology (see p. 58)

As of December 31, 2005, the Group employed 1,022 trainees (2004: 983). A total of 18 trainees were offered permanent positions in the Group upon completion of their training, and 215 were offered 12-month contracts in accordance with the terms of the collective agreement.

In comparison to previous years during which up to 1.1% of the core workforce left the Group of their own volition, this fluctuation rate came to a mere 0.5% in 2005. This is a reflection of the situation on the labor market. The traditional tool of adjusting personnel by not replacing employees has therefore mainly been dispensed with. The Executive Board has thus resolved to make available funds for age-related part-time employment contracts, thereby securing the requisite personnel adjustments. This enabled us to conclude 343 age-related part-time contracts. Changes in the legal environment make it increasingly difficult to use this tool to adjust workforce levels, taking social considerations into account. With the additional funds available, however, achieving the medium-term personnel goals has been secured.

Salzgitter AG initiated the “Personnel 2025” project in April 2005. This project is designed to enable the company to react in good time to the demographic changes and their consequences for the business

environment, thus safeguarding the innovative and competitive capabilities of the Salzgitter Group in the long term.

The project has been set up as a process of collective learning and development. Employees from all segments of the Group are developing "tools" in the various areas of activity to master the tasks that are related to future changes in the demographic environment. In this process, six areas of action were identified: Corporate culture and management, personnel marketing and recruiting, human resource development and qualification, organization of workflows, working time and remuneration, health, fitness and ergonomics, along with integration management. Project groups have been set up for each area.

The time horizon for the "Personnel 2025" project is three years, though the shaping of demographic change will not have been concluded by the end of the project and not even when the various measures, developed in close cooperation, have been implemented. This is a concept which is embedded in a continuous process.

The process of change trigged by the demographic trend necessitate dialog between all those involved and cannot be steered successfully by instructions issued centrally. The project is based on this consideration and thus takes account of the heterogeneous structure of the Group.

Using a variety of bonus models, the health insurance funds in the Salzgitter Group, especially BKK Salzgitter, have initiated programs which will benefit both the employees and the companies.

Under the "BKK BonusPlus" model, the 20 guarantor companies of BKK Salzgitter, with around 8,800 policy holders, have pledged themselves to anchoring corporate healthcare more firmly, to regularly assessing the status of employees' health and to organizing activities which promote their health. These activities include, for instance, anti-smoking campaigns, back muscle training sessions, support in dealing with addictions and arranging jogging groups. The knowledge gained from health developing programs initiated by the company will also be incorporated into the "Personnel 2025" project.

In May, a works agreement on the variable remuneration of non-tariff employees was reached with the Works Council of the holding company. Accordingly, besides general managers and management executives, non-tariff employees will also receive remuneration which contains a performance-related component as well as a component based on the success of the company. This agreement is a pilot scheme for the whole Group and has also been implemented in a number of other Group companies.

The works agreements on profit sharing concluded in 2004 for nearly all Group companies for salaried employees were applied for the first time in 2005. As a result of the sound operating results, 14,200 employees of the Group received a share in the profit. Depending on the results of the respective company, the profit share ranged between € 100 and € 300, plus 16 free shares for employees of Group companies. 3,000 Group employees were not included as the companies they work for did not achieve sufficient results.

We have thus come much closer to our objective of installing consistent profit- and target-related income components, covering not only Executive Board members and general managers, executives and non-tariff employees, but also, ultimately, salaried employees and wage laborers.

Within the Group, administration and accounting tasks for company pensions are carried out for around 36,000 retired employees in total from 13 Group companies. Of this number, about 22,000 Mannesmann retired employees were administrated centrally by Salzgitter Mannesmann Altersversorgung Service GmbH (SZMA). To improve efficiency and reduce costs, a concentration of all pension payments at SZMA is planned. For this reason, the administration and accounting tasks for 10,000 plant pensioners of Salzgitter AG were transferred to SZMA as from July 1, 2005. Similarly, the remaining 4,000 plant pensioners will be assigned to SZMA in 2006.

With effect from September 1, 2005, the collectively bargained wages and salaries of persons employed in the iron and steel industry were raised by 3.5%. For the period from April 1, 2005, until August 31, 2005, a flat rate amount of € 500 was granted. The term of the collective agreement will run for a full 17 months and will end on August 31, 2006.

As from December 1, 2005, the employees of SZST will also receive a standard rate of remuneration which has been raised by 3.5%. For the period from July 1, 2005, until November 30, 2005, a flat rate amount of € 500 was granted; persons in age-related part-time employment received a flat rate payment of € 425. This agreement concerning remuneration for services cannot be terminated earlier than November 30, 2006.

At the end of August, a 2.2% increase in remuneration with a term from August 1, 2005, to July 31, 2007, was agreed for SMHD, the Group's trading activities. This will be supplemented by a one-off payment of € 230 at mid-term in August 2006.

Management conferences took place in January and September. These conferences were each attended by 125 general managers and management executives of the Salzgitter Group. Activities were focused on the dissemination of up to date information on the Group's position and reports on projects in the various companies.

The Groupwide Forum 2005 was held on May 17 and 18 under the motto of "Unser Kurs bewegt" ("Our course is motion"). The forum was attended by 486 managers from all the companies. Along with presentations made by Mr. Leese, Dr. Fuhrmann and Mr. Schneider on the Group's position, participants were able to inform themselves of topical issues in the companies in the forums on steel, trading and tubes. The contribution by Prof. Ameling, president of the German Federation of the Steel Economy, on the subject of "Hard or soft landing? China will continue to fly!" forged the link to the current commercial situation of the steel sector worldwide, thereby rounding off the topics presented at the Groupwide Forum.

Investments

The main focus of the Salzgitter Group investment program in 2005 was once again on the Steel Division.

Additions to fixed assets totaled € 537 million (2004: € 329 million). In contrast to 2004, the volume of investments in tangible fixed assets, which came to € 262 million, was again higher than the corresponding depreciation of € 206 million.

Due in particular to adjustments in at-equity valuations, the acquisition of further shares in Hüttenwerke Krupp Mannesmann GmbH and the participation in the capital increase of Vallourec S.A., additions in financial assets came to € 275 million.

Investments/Depreciation[1]

	Investments		Depreciation	
in € mil.	**Total**	**Of which Steel Div.**	**Total**	**Of which Steel Div.**
2001	285	197	210	142
2002	251	127	220	137
2003	191	112	248	135
2004[5]	228	155	313[2]	229[3]
2005	**262**	**190**	**206[4]**	**149[4]**
Total	**1,217**	**781**	**1,197**	**792**

1) Excluding financial assets and associated companies
2) Of which € 110 m unscheduled write-downs
3) Of which € 88 m unscheduled write-downs
4) Of which € 9 m unscheduled write-downs
5) Adjusted to the new Group structure

Of the amounts invested in tangible and intangible assets during this financial year, € 190 million was accounted for by the Steel Division, € 23 million by the Tubes Division and € 9 million by the Trading Division. The Services Division invested € 40 million.

Investments in Fixed Assets[1)2)] by Divisions

in € mil.	FY 2005	FY 2004
Steel	190.1	155.0
Tubes	22.9	24.6
Trading	9.1	12.6
Services	40.2	35.4
Others/Consolidation	0.1	0.3
Group	**262.4**	**227.9**

1) Including intangible fixed assets
2) Adjusted to the new Group structure

Depreciation and Amortization of Fixed Assets[1)2)3)] by Divisions

in € mil.	FY 2005	FY 2004
Steel	149.2	229.2
Tubes	23.3	46.2
Trading	11.1	11.5
Services	20.7	22.4
Others/Consolidation	2.0	3.5
Group	**206.3**	**312.8**

1) Including intangible fixed assets
2) Of which € 9 m unscheduled write-downs (2004: € 110 m)
3) Adjusted to the new Group structure

Investment activities in the Steel Division in the financial year 2005 were primarily aimed at securing the supply of slabs and continuing to close the structurally-induced crude steel gap, as well as improving performance in segments and keeping plant and equipment technically up to date.

The preparatory work for the relining of Blast Furnace A with the corresponding extension of the hearth diameter was concluded on time so that the furnace was blown down and shut down in June. The relining of the blast furnace proceeded on schedule and it was blown again on September 25, 2005, after only 89 days. Within the space of a few days, it had reached its target capacity with full stability; all performance tests were successfully carried out and concluded.

The relining of the Blast Furnace B stack still pending has been planned for the start of 2007 after another critical review of its wear profile and adjustment for slab requirements and for market expectations.

In the cold mill, a new coil crane with an inventory management system was purchased with improved workflows on the respective shopfloor areas and lessened damage to coils through transport.

Projects initiated in 2004 aimed at expanding capacity and at improving performance, such as the new turbogenerator of the power plant and the shuttle coater for the strip coating line 2, were on track. The shuttle coater is to become operational in the first quarter and the turbogenerator in the third quarter of 2006.

In 2005, newly initiated projects geared toward securing operations and developing performance, such as ensuring the supply of electricity at the Salzgitter plant, renewing the converter information system, securing the performance of the hot strip mill with focus on the water supply and the roll changing of the finishing line, the construction of a second continuous pickling line, the replacement of the electrical and automation technology in the cold rolling mill and the improvement of dispatch logistics, are proceeding as planned.

Investments in the flat steel segment are still aimed at securing and expanding the company's position as a top supplier for flat steel products in the most important and profitable market segments.

With this in mind, projects have been commissioned for the renovation of the power plant technology ("Kraftwerk 2010") and the steel gas generation for the production of electricity, the replacement of the materials tracking system across the production chain of SZFG, a new hot strip cut-to-length line and automating the coil packaging lines.

Investments in the sections segment were concentrated on the modernization of the continuous bloom casting line of the Peine steel mill. Following an only 28-day period, during which the line was shut down for conversion work, it became operational again in August 2005. The modernization of the electrical and mechanical equipment of the steel and tubing construction as well as the casting technology ensures the availability of the continuous caster in the years ahead.

In the universal section mill the driving motors of the finishing line were modernized. In this process, three more rolling stands were adapted to a new electrical systems technology, bringing the number of stands now modernized to seven out of nine.

In the heavy section mill, work begun on renewing the supply of electricity to the electrical feeding of the finishing line and the back roller table between the finishing line and the saw. The aim of this project is to achieve a higher weight per meter and larger rolling lengths as well as accelerated rolling speeds. The measures will be implemented in the summer of 2006.

Investments at the Ilsenburg plate mill focused on an accelerated cooling line behind the four-high rolling stand and a new cold plate leveler. With these two new facilities, the process sequences are to be optimized and the mechanical properties of the plates improved. The newly constructed logistics building with its integrated CNC-cutting machines for plates has delivered proof of its value. Processes were optimized to improve dispatching logistics and to be in a better position to accommodate customer requirements for greater dimensional accuracy and quality in plate processing.

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

In the Tubes Division, investments were made with the primary intention of optimizing production workflows and raising product quality. Additional funds were invested in replacement equipment to safeguard operational availability.

MHP channeled its investments into the ongoing modernization and performance enhancement of the facilities for the production of short lengths for the automotive industry. At the Hamm plant, a new high-speed saw with processing station was installed. At the start of 2006, two new REIKA cut-off and processing machines became operational at the Wickede plant.

At DMV the main emphasis in the year 2005 was on concluding the first phase of its investment strategy launched in 2002 aimed at specializing production at each plant. In this context, the redesigning of the material flow, including the installation of an eddy current testing facility at the Montbard plant in France, as well as of a new vacuum degreasing line in Houston, USA, deserve special mention.

MLP made investments primarily with the aim of safeguarding production, productivity and quality assurance. A project was initiated for a new roller table featuring technology enabling the fusion-bonded epoxy coating necessary for heavy corrosion protection. Depending on capacity utilization levels, commissioning has been planned for the second half of 2006.

The bulk of RGF's investments were committed to the optimization of the online connection of the coating facility with the welding line, which is expected to help minimize costs considerably.

EP pressed ahead with the streamlining of production. At the Mülheim plant, for instance, the installation of a grinding machine for the seam at the end of the pipe was fully automated. At the Dunkirk mill, the automation of transport between the internal ultrasonic testing and the expander was carried out.

The MRM plate mill commissioned a new plate edge marking machine for the automated signature of plate edges which facilitates tracking the plates in the production process. The optimization of the ultrasonic testing facilities for plate bodies contributed further to streamlining costs.

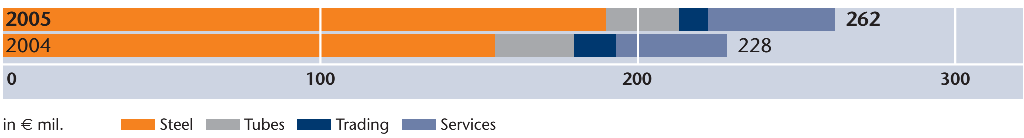
The investments made by SZGR were primarily aimed at fulfilling high-grade specification requirements, improving the quality of tube surfaces and cutting logistics costs.

In the Trading Division, the French steel service center RSA installed a stamping line at its Le Thillay plant in the summer of 2005. This investment is intended to facilitate the production of high-grade stamped blanks, destined mainly for the French automotive industry. This measure enables the RSA joint venture to maintain its successful development.

HAN, a company which is part of the Services Division, commissioned the new coal stockyard and the fourth discharge crane in the spring of 2005. The new place of transshipment will serve to expand the capacity of imported coal for the supply of power stations in northern Germany. Completion of this investment project makes HAN the largest and most efficient port of transshipment for bulk cargo on the German coast.

The chart below gives an overview of the investment volume by division.

Investments in Fixed Assets by Divisions



Earnings

Following the winding down of the Processing Division with effect from April 1, 2005, HSP Hoesch Spundwand und Profil GmbH, Salzgitter Bauelemente GmbH and Salzgitter Europlatinen GmbH were assigned to the Steel Division. In the process of this restructuring, Salzgitter Großrohre GmbH was reallocated from the Steel Division to the Tubes Division.

Salzgitter Automotive Engineering GmbH & Co. KG as well as the non-consolidated Oswald Hydroforming GmbH & Co. KG and Salzgitter Magnesium-Technologie GmbH were assigned to the Services Division.

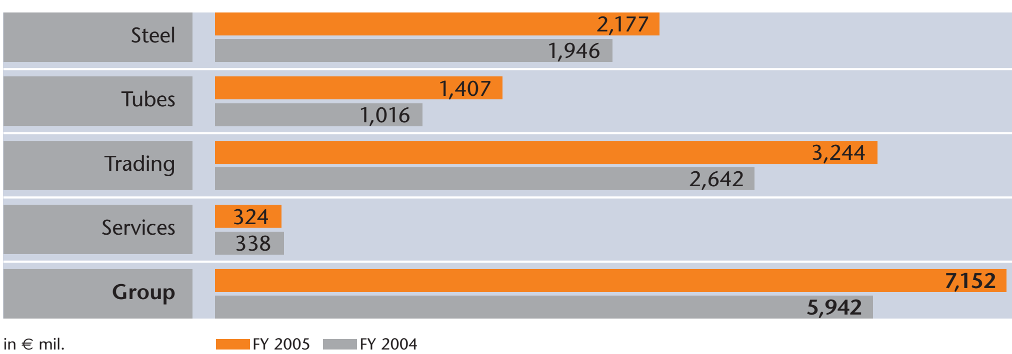
All data cited and annotated reflect the new structure.

In the year under review, the Salzgitter Group generated sales of € 7,152 million which exceeded the previous year's figure (€ 5,942 million) by € 1,210 million (+20%).

All divisions, with the exception of the Services Division which, as against 2004, recorded virtually unchanged earnings, profited from the high price level of rolled steel and steel tubes induced by a drastic increase in the cost of raw materials and energy.

As in 2004, the Trading Division contributed the major part of 45% (2004: 44%) to the Group's external sales. Sales of this division which posted € 3,244 million were some 23% higher than in 2004. With revenues of € 2,177 million (+12%), the Steel Division's share of 30% (2004: 33%) was slightly down in a year-on-year comparison. Of this share, the Steel Division delivered supplies worth € 817 million to other Group companies, especially those belonging to Trading. The Tubes Division raised its sales revenues notably to € 1,407 million (+38%) which corresponds to a share of 20% (2004: 17%). With a slight decline in third party sales (–4%), the share generated by the Services Division remained virtually unchanged at 5% (2004: 6%).

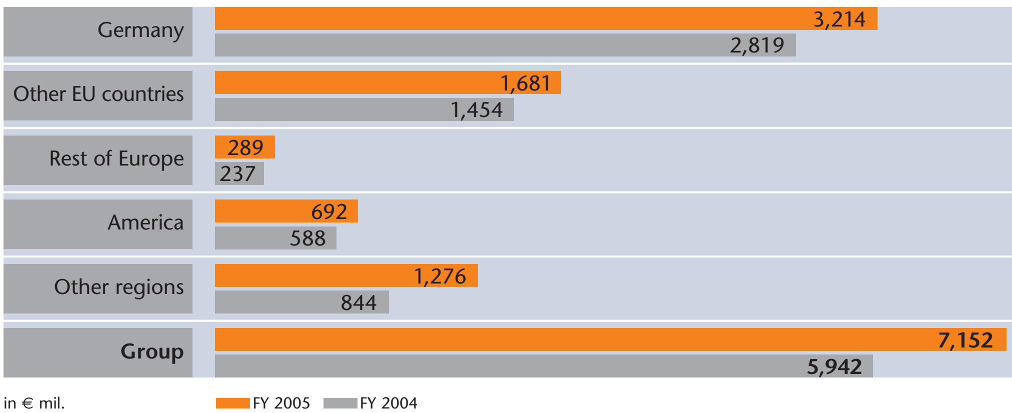
Consolidated Sales by Divisions[1]



[1] Adjusted to the new Group structure

As before, the major portion of sales was generated in the EU, which accounted for 68% (2004: 72%). Sales of € 3.2 billion were concentrated in Germany. Foreign sales came in at € 3.9 billion and contributed a higher share of 55% (2004: 53%) to total sales.

Consolidated Sales by Regions



The Salzgitter Group closed the financial year 2005 with a pre-tax profit of € 940.9 million, thus outperforming the extremely good result of 2004 (€ 322.8 million) and generating a profit which marked a historical high for the Group. Instead of cyclical trends which generally occur with a time lag, trends for flat carbon steel, plate and tubes converged to make the market environment favorable both in 2004 and in 2005 as well. Along with positive market conditions, the Profitability Improvement Program also helped to enhance profitability.

Thanks to extremely gratifying results, primarily for flat carbon steel and plate, as well as improvements in the sections business, the Steel Division raised its earnings by € 256.4 million and contributed € 430.7 million to the Group's earnings.

In these product segments, the dramatic increases in the cost of raw materials and energy, with a virtually unchanged average USD/EUR exchange rate, were compensated successfully by gradually introducing higher selling prices for steel. In this context, weaker demand, discernable from the second quarter of 2005 onwards, was counteracted by cutting the production volume and maximizing the share of higher quality plate. Following a downturn in the revenues generated by flat carbon steel in the third quarter, a stable level was achieved in the fourth quarter. The outstanding result in this segment is mainly due to the excellent trend in the first half of the year.

As a result of the revised provision under IAS 2 (inventories) that took effect on January 1, 2005, the Lifo method for the valuation of inventory was abolished, which was the reason for the Steel Division's contribution to profit of € 80 million. The relining of Blast Furnace A had a negative impact.

The steel tubes market is still buoyant. Considerable price hikes for input materials were overcompensated by rising revenues. As a further € 162.6 million was realized from the sale of shares in

Vallourec S.A., the result of the Tubes Division, which recorded profit improvements in all market segments, came to € 440.5 million, thus way exceeding the year-earlier figure (€ 117.1 million).

Impacted by the increase in the volume of lower specific gross profit, the pre-tax earnings of € 88.1 million generated by the Trading Division was unable to match the outstanding year-earlier figure (€ 98.9 million) but was nonetheless very satisfactory.

The Services Division, which achieved an otherwise healthy profit, fell short of the year-earlier result, mainly due to the unfavorable performance of Salzgitter Automotive Engineering GmbH & Co. KG, newly assigned to this division.

Divisional Results and Consolidated Net Income for the Year[1)]

in € mil.	FY 2005	FY 2004
Steel	430.7	174.3
Tubes	440.5	117.1
Trading	88.1	98.9
Services	9.4	13.3
Other/Consolidation	–27.8	–80.8
Income from ordinary activities	**940.9**	**322.8**
Taxes	98.9	76.1
Consolidated net income for the year[2)]	**842.0**	**246.7**

1) Adjusted to the new Group structure
2) Including minority interests

Development of substantive Income Statement Items

Explanations on the consolidated income statement disclosed in the section on “Consolidated Financial Statements/Notes” are as follows.

Changes in the item “Increase/decrease in finished work or work in progress/own work capitalized” were mainly due to the abolition of the Lifo method as well as to higher inventories in the large-diameter pipe segment where invoicing was still to be done. The proceeds from the sale of the Vallourec shares (€ 163 million) have raised other operating earnings substantially. This was offset by the pro rata reversal of badwill being no longer applicable in the year under review. The rise in the cost of materials reflects in part the drastic price increases of raw materials and energy. Personnel expenses rose due to age-related part-time agreements, adjustments made in profit participation and higher remuneration. When comparing depreciation, it should be taken into account that the year-earlier figure includes unscheduled write-downs of € 110 million. The increase in the cost of maintenance services in particular, coupled with the loss from disposal (€ 24 million) after offsetting of exchange losses of – € 103 million from the sale of V&M shares, already taken account of in consolidated equity, caused other operating expenses to rise. The profit trend of associated companies reflects, on the one hand, the considerably improved earnings position of the seamless tubes segment and, on the other, the change in the Group's stake in these activities resulting from the sale of the V&M shares, which took place in June, and the sale of the Vallourec shares. Higher funds from operations, from the sale of the V&M participation and the Vallourec shares generated high interest income. Moreover, as a lower interest portion of the transfers to pension provisions was capitalized, interest income advanced by € 12 million.

The comparatively moderate increase in income tax expenses results from the fact that the projected change to the Group structure was intended to enable the use of loss carryforwards in the tubes segment. Under IFRS, deferred tax income of € 137 million was capitalized in the year under review.

The calculation of income tax for the current financial year takes account not only of this changed basis but also of the minimum taxation prevailing in Germany since 2004 which only provides for a limited offsetting of corporate and business tax loss carryforwards.

After deduction of tax, consolidated net income for the year comes to € 842 million.

Value Added in the Salzgitter Group

The operational value added of the Group stood at € 2,041 million (+€ 688 million, or +50.8% higher as against 2004). The main portion of the use of value added, which came to 52.5%, was accounted for by the employees (2004: 74.4%). At 4.8% (2004: 5.6%), the tax share was down marginally. In this financial year, the shareholders (including own shares) will receive 3.1% (2004: 1.9%) of the value added in the form of dividend. Another 38.2% (2004: 16.4%) will be used to raise the value of the Group and strengthen its equity base. The portion accounted for by lenders came to 1.4%, slightly down on the previous year's figure of 1.7%.

Value Added

in € mil.	FY 2005	%	FY 2004	%
Sources				
Group outputs	7,862	100.0	6,334	100.0
Inputs	5,821	74.0	4,981	78.6
Value added	**2,041**	**26.0**	**1,353**	**21.4**
Allocation				
Employees	1,072	52.5	1,007	74.4
Public authorities	99	4.8	76	5.6
Shareholders	63	3.1	25	1.9
Lenders	28	1.4	23	1.7
Group	779	38.2	222	16.4
Value added	**2,041**	**100.0**	**1,353**	**100.0**

Five-year Overview of the Earnings Position

in € mil.	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
EBT	940.9	322.8	42.5	72.5	160.3
EBIT I[1]	970.0	345.6	60.8	92.6	178.8
EBIT II[2]	1,048.4	427.1	146.5	181.6	271.8
EBITDA I[1][3]	1,186.1	666.6	309.5	314.5	389.2
EBITDA II[2][3]	1,264.5	748.1	395.3	403.5	482.2
EBT margin	13.2	5.4	0.9	1.5	3.5
EBIT margin I[1]	13.6	5.8	1.3	2.0	3.9
EBIT margin II[2]	14.7	7.2	3.0	3.8	5.9
EBITDA margin I[1][3]	16.6	11.2	6.4	6.6	8.5
EBITDA margin II[2][3]	17.7	12.6	8.2	8.5	10.5
ROCE %	38.9	24.4	4.6	7.3	13.6

1) Excluding interest expenses, provisions for pensions
2) Including interest expenses, provisions for pensions
3) Including amortization of financial assets

Divisions

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

The following section is dedicated to outlining the performance of these divisions in 2005 on the basis of the financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

All key data reflect the new structure of the segments. The data of 2004 have been adjusted accordingly.

Steel Division

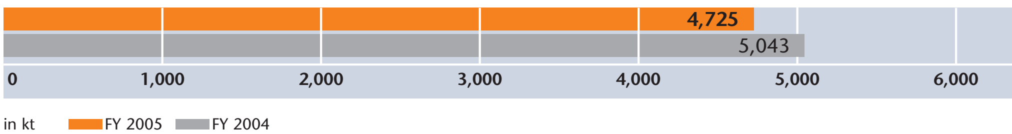
The operating companies Salzgitter Flachstahl GmbH (SZFG), Peiner Träger GmbH (PTG) and Ilsenburger Grobblech GmbH (ILG) are concentrated under the umbrella company Salzgitter Stahl GmbH (SZS). The latter functions merely as an intermediate holding company without its own operations. As part of the restructuring of the corporate divisions, HSP Hoesch Spundwand und Profil GmbH (HSP), Salzgitter Bauelemente GmbH (SZBE) and Salzgitter Europlatinen GmbH (SZEP) have been assigned to the Steel Division. At the same time, Salzgitter Großrohre GmbH (SZGR) was integrated into to the Tubes Division.

The extraordinary development of 2004 in the procurement and sales markets persisted at the start of the financial year 2005 as well. However, the sharp increase in inventories as from spring 2005 led to a detectable slowing of orders in the European steel market. In the third quarter, an overall stable level of steel consumption as well as the cutting of production volumes led to inventories largely normalizing, with an ensuing brisker demand.

For the aforementioned reasons, but also owing to a margin-oriented sales policy, order intake of 4,725 kton in the Steel Division fell short of the previous year's level of 5,043 kton (–318 kton, –6%). Lower volumes at SZFG under HSP were not offset by the higher order intake at PTG. ILG, SZBE and SZEP recorded orders on the same level as the previous year.

Orders on hand at the end of the year were down 15%, from 1,199 kton to 1,016 kton, in comparison with the year-earlier period.

Steel Division Orders received



Crude steel production totaling 5,077 kton was just above the previous year's level (5,059 kton), with the LD steelworks of SZFG achieving a higher output than in 2004, despite the relining of Blast Furnace A. This was made possible by the first-time full utilization of the capacity of Blast Furnace C. PTG's electric steel plants limited production to stabilize the market.

Crude Steel Production

in t mil.	World	EU-25	Germany	Of which Steel Division
2001	850.3	180.5	44.8	5.08
2002	903.8	180.9	45.0	5.15
2003	969.1[1)]	184.0[1)]	44.8	5.17
2004	1,066.5[1)]	193.4	46.4	5.06
2005	**1,129.4[2)]**	**186.5[2)]**	**44.5[2)]**	**5.08**

1) Adjusted to IISI statistics
2) Data as of February 2006

The production of rolled steel, which was particularly affected by production cuts to tailor supply to demand, fell compared with the previous year from 5,352 kton to 4,987 kton (–7%).

The volume of processed products was raised from 189 kton in the previous year to 212 kton (+12%).

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

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

Steel Division Production

in kt	FY 2005	FY 2004[1]
Pig iron	3,843	3,743
Crude steel	5,077	5,059
Hot-rolled steel and steel strip	1,468	1,548
Cold-rolled steel	280	242
Coated steel	1,106	1,275
Sections	1,025	1,197
Plates[2]	848	862
Sheet piling	243	239
Elements for roofing and cladding	34	33
Stamped and tailored blanks	60	60

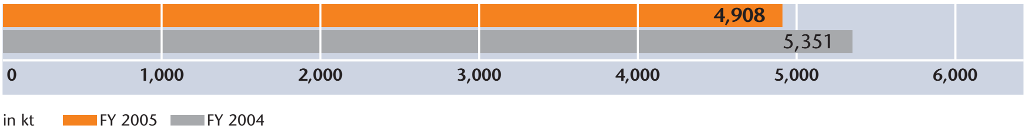
1) Adjusted to the new division structure
2) Including wide strip

Shipments of rolled steel to external customers and Group companies outside of the Steel Division amounted to 4,697 kton, thus falling 466 kton (–9%) short of the year-earlier figure of 5,163 kton.

Shipments of processed products, which came to 211 kton, were 23 kton (+12%) up on the previous year's volume (188 kton). Overall, shipments fell 443 kton, from 5,351 kton to 4,908 kton (–8%).

This result takes account of lower shipment volumes at SZFG (–290 kton), PTG (–143 kton) and HSP (–20 kton). ILG was the only company which raised volumes, while SZBE and SZEP shipped almost unchanged tonnages.

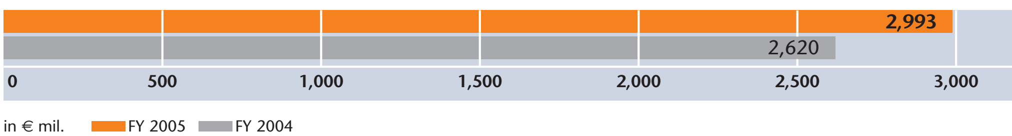
Steel Division Sales Volume



Sales of rolled steel and processed products to external customers and other Group divisions climbed € 373 million (+14%) to € 2,993 million as compared with 2004 (€ 2,620 million).

With shipments down 9% but significantly higher net revenues for rolled steel products, the sales of SZFG were lifted to € 1,640 million, which represents an increase of 11%. At PTG, shipments slipped by 12% but average revenues were higher, which had the combined effect of reducing sales by 5% to € 504 million. With revenues from heavy plate at a much healthier level and larger volumes of shipments, ILG improved on the previous year's sales, which rose by € 207 million (+51%) to € 609 million. At HSP, the price increases led to sales revenues advancing 10% to € 150 million, despite lower shipments. In the face of weak demand in the construction industry, SZBE nonetheless boosted sales to € 35 million. SZEP raised sales to € 55 million (+10%). Though shipments were lower year-on-year, SZEP benefited from selling price adjustments triggered by steel prices hikes.

Steel Division Sales



Pre-tax profits of € 430.7 million generated by the Steel Division, as against the already outstanding result of 2004 (€ 174.3 million), represent a striking increase to a new historic record. The result soared by € 256.4 million, to which ILG contributed € 116.2 million, SZFG € 90.3 million and PTG € 55.2 million, in a direct comparison based on the disclosed results.

Along with the predominantly buoyant market conditions, the upbeat development can also be attributed to realizing the benefits accruing from the Profitability Improvement Program, as scheduled. In addition, the overall trend also reflected the inclusion of positive effects from the revaluation of inventories (€ 80.2 million) in line with IFRS regulations on recognition and disclosure that are mandatory as from January 1, 2005.

SZFG's pre-tax profit of € 242.9 million is a benchmark for the company (2004: € 152.6 million). Besides the effect of revaluing inventories (+€ 64.8 million), this outstanding result was due primarily to an uptrend in revenues that persisted throughout the whole year. By contrast, however, price increases for the most important raw materials put significant pressure on costs that we were able to pass on to the market. Additional negative factors burdening profits were the purchase of slabs necessitated by the 89-day shutdown of a blast furnace and the low capacity utilization of the rolling mills and surface treatment facilities caused by slack order activity in the second and third quarters.

After deduction of € 9.8 million from the changed valuation of inventories, PTG's pre-tax profit (€ 21.0 million) outstripped the previous year's result by € 6.9 million, which was also net of special effects (unscheduled write-downs of € 38.5 million). The generally positive effect of lower scrap prices and the rise in base prices more than compensated for higher processing costs resulting from reduced volumes and higher prices for alloys.

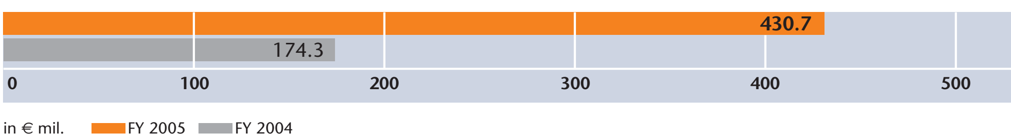
At € 155.0 million, the profit achieved by ILG was by far the highest in the history of the company. As against the previous year (€ 38.8 million), profit soared to € 116.2 million and, besides the effect of inventories (+€ 5.6 million), is mainly the outcome of increased revenues and improved capacity utilization. The higher input material price had a negative effect on the result. However, this negative effect was more than compensated for by healthier revenues for plates.

In 2004, HSP reported a pre-tax result (€ 6.0 million) that was affected by financial restructuring (SZAG's debt waiver of € 60.0 million, unscheduled write-downs of € 39.7 million). This effect also had a positive impact on the results of the financial year 2005 (€ 1.1 million) through lower depreciation charges and interest expenses. The increase in revenues, which was higher than that of input material costs, played a decisive role in the improvement of the result as compared with the adjusted result of 2004. Profit disclosed, however, also contains special effects in the form of unscheduled write-downs and restructuring expenses (a combined negative effect of € 20.0 million) as well as an injection of funds (€ 19.0 million) from Salzgitter AG, which, in their effect on earnings, almost offset each other.

SZEP's significantly higher pre-tax result of € 6.5 million in 2005 as against the previous year (€ 5.2 million) is due not only to sales growth, including a positive product mix effect, but also to lower depreciation.

SZBE raised sales, thereby achieving a pre-tax profit (€ 0.7 million). This stands in contrast to 2004, when the company recorded an operating loss (– € 5.0 million) and the result disclosed (€ 1.0 million) was significantly impacted by special measures.

Steel Division EBT



As of December 31, 2005, the core workforce at the Steel Division had declined to a total of 7,034 (2004: 7,119). An increase in the number of employees at SZEP (+3) and SZBE (+9) was offset by lower employee numbers at HSP (–6), at PTG (–31) and SZFG (–60) in particular, primarily due to age-related part-time employment arrangements (transfer to SZST). ILG's core workforce was unchanged.

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

Steel Division		FY 2005	FY 2004[1]
Crude steel production	**kt**	**5,077**	**5,059**
LD steel (SZFG)	kt	4,168	4,062
Electric steel (PTG)	kt	909	997
Shipments[2]	**kt**	**4,908**	**5,351**
Rolled steel	kt	4,697	5,163
Processed product	kt	211	188
SZFG	kt	2,782	3,072
PTG	kt	1,023	1,166
ILG	kt	766	753
HSP	kt	243	263
SZEP	kt	58	60
SZBE	kt	36	36
Sales[3]	**€ mil.**	**2,993**	**2,620**
SZFG	€ mil.	1,640	1,474
PTG	€ mil.	504	530
ILG	€ mil.	609	402
HSP	€ mil.	150	136
SZEP	€ mil.	55	50
SZBE	€ mil.	35	29
Internal sales[4]	**€ mil.**	**816**	**674**
External sales[5]	**€ mil.**	**2,177**	**1,946**
Division income before taxes (EBT)	**€ mil.**	**430.7**	**174.3**
SZFG	€ mil.	242.9	152.6
PTG	€ mil.	21.0	–34.2[12]
ILG	€ mil.	155.0	38.8
HSP	€ mil.	1.1[11]	6.0[13]
SZEP	€ mil.	6.5	5.2
SZBE	€ mil.	0.7	1.0[14]
Other/Consolidation	€ mil.	3.5	4.9
EBIT[6]	**€ mil.**	**465.0**	**215.9**
EBITDA[7]	**€ mil.**	**614.2**	**445.1**
Investments[8]	**€ mil.**	**190**	**155**
Total workforce[9]	**At Dec. 31.**	**7,099**	**7,170**
Core workforce[10]		**7,034**	**7,119**
SZFG		4,499	4,559
PTG		1,178	1,209
ILG		742	742
HSP		458	464
SZEP		89	86
SZBE		68	59
Apprentices, students, trainees		**65**	**51**

1) Adjusted to the new division structure
2) Excluding inter-company deliveries in the Steel Division
3) Excluding inter-company sales within the Steel Division
4) Sales with other divisions in the Group
5) Contribution to Group external sales
6) Pre-tax result plus interest expenses (excluding interest portion of allocations to pension provisions)
7) EBIT plus depreciation/amortization (also on financial investments)
8) Excluding financial investments
9) Including trainees and non-active age-related part-time employees
10) Excluding trainees and non-active age-related part-time employees
11) Including € 19 m earnings subsidy SZAG and unscheduled write-downs and restructuring expenses (combined € 20 m)
12) Including € 38.5 m in unscheduled write-downs
13) Including € 60.0 m in debt waiver SZAG and € 39.7 m in unscheduled write-downs
14) Including € 16.0 m in debt waiver SZAG and € 10.0 m in unscheduled write-downs

Tubes Division

Through the sale of participation in V&M to Vallourec, the Tubes Division has reduced its stake in the seamless tubes business. A connection to this sector now exists exclusively in the form of the stake held in Vallourec. Excluded from this are seamless precision and stainless steel tubes.

The core activities of the Tubes Division are now concentrated in the following four product segments with the below-mentioned companies, including SZGR which was assigned to this division in 2005:

■ Large-diameter pipes:	Europipe GmbH (EP)
	Mannesmannröhren Mülheim GmbH (MRM)
	Salzgitter Großrohre GmbH (SZGR)
■ HFI[1)]-welded tubes:	Mannesmann Line Pipe GmbH (MLP)
	Röhrenwerk Gebr. Fuchs GmbH (RGF)
■ Cold-finished tubes:	MHP Mannesmann Präzisrohr GmbH (MHP)
	Mannesmann Robur B.V. (ROB)
■ Seamless stainless steel tubes:	DMV Stainless B.V. (DMV)

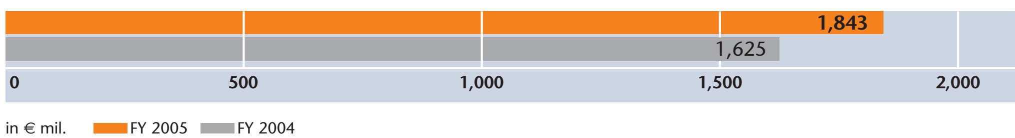
1) High-frequency induction

Holdings in Hüttenwerke Krupp Mannesmann GmbH (HKM), Vallourec S.A. (VLR) and Borusan Mannesmann Boru Yatirim Holding A.S. (BMB), still belong to the Tubes Division as major participating interests, among others.

In 2005, the companies of the Tubes Division were able to participate to a greater extent in the upbeat development of the market for steel tubes than in 2004. Demand for oil and gas line pipes continued to be extremely strong due to the persistently high level of energy prices. Heat exchanger and boiler tubes remained in great demand as a result of large investments in power stations, particularly in China. Demand for tubes, both in mechanical engineering and planned construction, as well as in the automotive industry, ran at a healthy level in 2005.

The consolidated order intake of the Tubes Division climbed by a further 13 % to € 1,843 million in 2005, above the previous year's already high level. This is primarily attributable to significantly higher revenues in all segments. This outcome was particularly a reflection of the accelerated rates of growth in large-diameter tubes and HFI-welded tubes, as well as stainless steel tubes. After the extremely high order level seen in 2004, new orders in the precision tubes segment returned to normal in 2005.

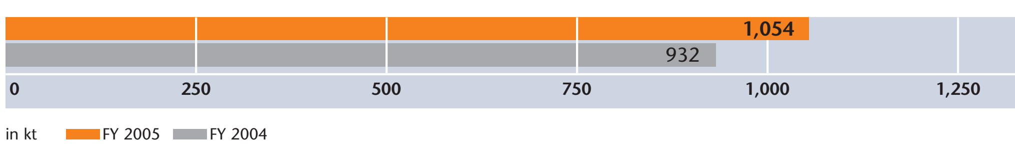
Tubes Division Orders received



At year-end 2005, consolidated orders on hand of the Tubes Division had risen € 264 million to € 1,285 million year-on-year. This uptrend in the order intake was primarily due to price increases in 2005. Consequently, capacity utilization is already ensured for a majority of the companies until well into 2006.

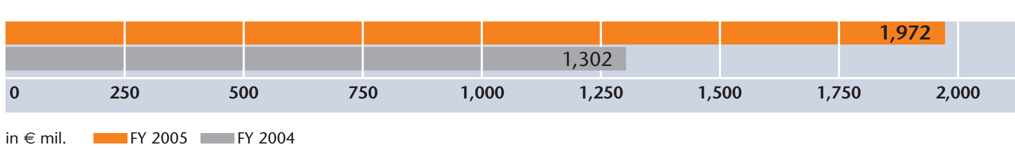
In the year under review, the Tubes Division shipped 1,054 kton, 122 kton more than 2004 (932 kton). Of this volume, 65 kton were due to the fact that RGF was 100% consolidated for the reporting period (formerly 50%). EP, which continues to be 50% consolidated, raised its shipments (proportionally) by 21 kton, and SZGR contributed 24 kton to boosting sales. The other companies also had greater volumes of shipments.

Tubes Division Sales Volume



In 2005, the consolidated order intake of the Tubes Division soared 50% to € 1,972 million in comparison with 2004; a number of product segments recorded partly extraordinary increases, as a result of higher revenues in particular.

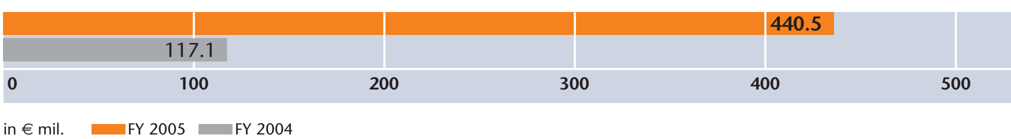
Tubes Division Sales



Of the sales growth (€ 670 million), € 44 million was attributable to MHP/ROB, € 102 million to the DMV Group and € 131 million to MLP/RGF. The EP Group contributed € 63 million and SZGR € 35 million. At € 179 million, sales of MRM expanded remarkably, driven by the sharp rise in demand for heavy plates, not only from EP but also from external customers. Other sales, consisting mainly deliveries of semi-finished products by SMG, rose € 116 million.

The Tubes Division companies were able to pass on the steep increase in the cost of input materials in full to customers through higher pricing. In addition, the consistently implemented cost cutting measures, compensated, among other things, for the rise in other costs. All in all, the Tubes Division outperformed the previous year's already sound earnings level (EBT) of € 117.1 million, lifting pre-tax profit by € 323.3 million to € 440.5 million in 2005. Apart from € 162.6 million in proceeds from the disposal of shares in Vallourec, as well as a € 24.4 million book loss (after netting against a foreign exchange loss of € 103.4 million, already taken into account under consolidated equity) treated as special effects, all operating companies attained a significantly higher level of profit before taxes.

Tubes Division EBT



EP also participated in the uptrend, generating a satisfactory pre-tax profit of € 24.5 million (proportionally; 2004: € 0.5 million).

As a result of a major order for heavy plates booked via SMID, MRM marked a new record level of shipments. This resulted in an additional contribution margin which was particularly instrumental in enabling the company to report an outstanding profit of € 19.5 million (2004: – € 11.3 million, including € 12.1 million in unscheduled write-downs).

In 2005, SZGR achieved a pre-tax profit of € 4.7 million (2004: – € 3.4 million) attributable to the healthy level of capacity utilization and despite price hikes for hot-strip that were partly passed on to customers.

MLP and RGF, both companies of the "HFI-welded tubes" segment, profited from the boom in line pipes and generated significantly better results of € 15.5 million (2004: € 6.0 million) and € 20.2 million (2004: € 3.7 million, consolidated with 50%) respectively.

In the cold-finished tubes segment, both companies benefited from a higher sales volume. In addition, MHP and ROB were able to overcompensate for higher input material costs by raising prices. Consequently, the result stood at € 19.0 million, thereby exceeding the previous year's result of € 5.9 million.

Boosted by the demand for energy, the market for stainless steel tubes developed most gratifyingly; in 2005, DMV posted a profit of € 23.0 million, € 17.8 million up on 2004 (€ 5.2 million).

The positive difference in the result is also attributable to the outstanding profit generated by the seamless tubes segment. The cooperation activities with Vallourec, which until the end of June 2005 consisted of the 45% V&M stake and the 23% Vallourec stake, but which, since July, consists solely of the Vallourec participation, generated an at-equity result of € 185.1 million.

Despite the disposal of the V&M shares and the small reduction of the stake in Vallourec, the result is still € 57.6 million higher year-on-year. Reasons for this are the significantly improved capacity utilization and a better revenue position for all companies.

Moreover, the overall result for the cooperation activities with Vallourec (€ 323.3 million) includes proceeds from the disposal of shares in Vallourec (€ 162.6 million) as well as the book loss on disposal for V & M (€ 24.4 million).

As of December 31, 2005, the core workforce of the Tubes Division stood at 4,235 employees which, compared with the end of 2004 (4,267), represents, on balance, only a small reduction in personnel (–32). The number of employees at MHP grew (+16) as a result of ramping up production and integrating the sales personnel of ThyssenKrupp Mannex, while the staffing in the international companies of the Europipe Group declined (consolidated: –44). The other companies saw insignificant changes in the relevant core workforce.

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

Tubes Division		FY 2005	FY 2004[1)]
Shipments	**kt**	**1,054**	**932**
EP Group (50%)	kt	463	442
SZGR	kt	91	67
MLP	kt	168	160
RGF	kt	129	67
MHP incl. ROB	kt	172	170
DMV Group	kt	31	27
Sales[2)]	**€ mil.**	**1,972**	**1,302**
EP Group (50%)	€ mil.	366	303
MRM	€ mil.	407	228
SZGR	€ mil.	79	44
MLP	€ mil.	154	108
RGF	€ mil.	137	52[9)]
MHP incl. ROB	€ mil.	258	214
DMV Group	€ mil.	320	218
Other	€ mil.	251	135
Internal sales	**€ mil.**	**565**	**286**
External sales[3)]	**€ mil.**	**1,407**	**1,016**
Division income before taxes (EBT)	**€ mil.**	**440.5**	**117.1[10)]**
EP Group (50%)	€ mil.	24.5	0.5
MRM	€ mil.	19.5	–11.3[11)]
SZGR	€ mil.	4.7	–3.4
MLP	€ mil.	15.5	6.0
RGF	€ mil.	20.2	3.7[9)]
MHP incl. ROB	€ mil.	19.0	5.9
DMV Group	€ mil.	23.0	5.2[12)]
Cooperation activities with Vallourec[4)]	€ mil.	323.3	127.5
Other/Consolidation	€ mil.	–9.2	–17.0
EBIT[5)]	**€ mil.**	**454.0**	**123.8**
EBITDA[6)]	**€ mil.**	**477.3**	**173.9**
Total workforce[7)]	**At Dec. 31.**	**4,360**	**4,353**
Core workforce[8)]		**4,235**	**4,267**
EP Group (50%)		635	679
MRM		668	675
SZGR		145	145
MLP		266	264
RGF		296	299
MHP incl. ROB		1,187	1,171
DMV Group		983	981
MRW		55	53
Apprentices, students, trainees		**88**	**86**

1) Adjusted to the new division structure
2) Excluding inter-company sales within the DMV Group and the EP Group (adjusted to previous year)
3) Contribution to Group external sales
4) Earnings contribution in accordance with consolidation at equity and disposal proceeds VLR/V&M
5) Pre-tax result plus interest expenses (excluding interest portion of allocations to pension provisions)
6) EBIT plus depreciation/amortization (also on financial assets)
7) Including trainees and non-active age-related part-time employees
8) Excluding trainees and non-active age-related part-time employees
9) Proportionately 50%
10) Including € 17.9 m in unscheduled write-downs
11) Including € 12.1 m in unscheduled write-downs
12) Including € 5.0 m in debt waiver MRW/SZAG and € 5.8 m in unscheduled write-downs

Trading Division

The Trading Division consists of the companies of the Salzgitter Mannesmann Handel Group (SMHD Group), Universal Eisen und Stahl GmbH (UES), Hövelmann & Lueg GmbH (HLG) and Ets. Robert et Cie. S.A.S. (RSA), which is proportionately consolidated at 50%.

The SMHD Group in turn comprises Salzgitter Mannesmann Handel GmbH (SMHD) as the interim holding company, Salzgitter Stahlhandel GmbH (SSH), Stahl-Center Baunatal GmbH (SCB), Salzgitter Handel B.V. (SHN) with two subsidiaries, Salzgitter Mannesmann International GmbH (SMID), Salzgitter Mannesmann International (USA) Inc. (SMIH), Salzgitter Mannesmann International (Canada) Inc., as well as other non-consolidated subsidiaries.

The market conditions of the previous year, which were very favorable for key segments of steel trading, persisted in the financial year 2005, although on a somewhat weaker basis. In this environment, international steel trading was affected during the first half of the year by a predominantly inventory-induced weakness in demand. Brisk demand from China and North America and the ensuing rise in prices led to a significant speculative increase in inventories by year-end 2004, which failed to normalize until the second half of 2005. At the same time, procurement and sales prices fell to a level that was, however, still above that of the average in 2004.

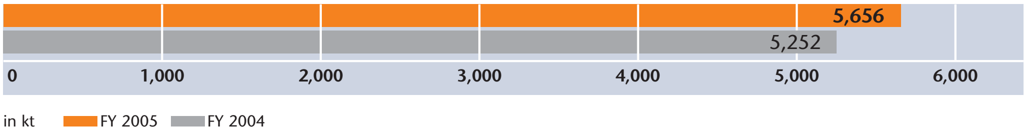
In the steel trading activities in Western Europe, demand remained lackluster and prices fell throughout the year. In Germany, as a result of the economic situation, demand was also insufficient. In particular, the construction industry, which was still in the doldrums and which is of major importance to steel traders, once again had a negative effect. In contrast to the slack German economy, export demand developed satisfactorily and partly made up for dull prospects.

In the market environment described above, the Trading Division sold a total of 5,656 kton in steel products, 404 kton (+8%) more than in the previous year (5,252 kton).

The increase in sales was generated almost exclusively by the SMHD Group (+427 kton). In addition, HLG also raised shipments (+14 kton), while UES (–24 kton) and RSA (–13 kton) saw volumes decline.

The upbeat development of the SMHD Group is exclusively attributable to international trading (+547 kton), while stockholding companies in Germany and Benelux suffered lower sales volumes (–120 kton). The greater business volume of the Trading Division can be mainly ascribed to the integration of the international sales activities for the Tubes Division’s products, a few major projects, in particular in the Middle East, and to a higher level of input material procurement for the production companies of the Salzgitter Group.

Trading Division Sales Volume



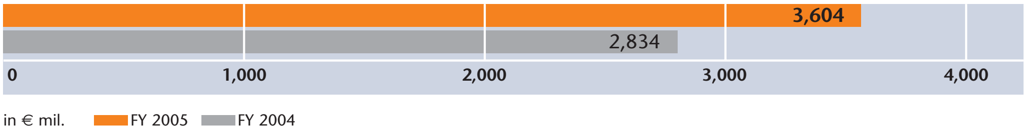
Compared with the previous year (€ 2,834 million), the Trading Division boosted sales by 27% (+€ 770 million) to € 3,604 million, due to a price level, which, although in decline, was on average higher over the course of the year and to a favorable product mix.

Nearly all companies contributed to this outcome, albeit to differing degrees. The greatest portion was contributed by the SMHD Group with € 708 million (+29%). However, UES (+€ 37 million), as a result of better specific revenues, and HLG (+€ 26 million), as a result of higher volumes and prices, also showed positive developments. Despite lower shipments and, in the second half of the year, sliding prices, RSA matched the previous year's sales.

Sales growth at the SMHD Group was achieved primarily by the international trading companies (+€ 676 million). Here, the positive development in volumes was also supported by generally higher prices.

Whereas, despite the downtrend in the sales volumes, the domestic steel trading companies still raised the sales level compared with the previous year (+€ 39 million), the Benelux companies experienced year-on-year declines (– € 7 million).

Trading Division Sales



The Trading Division generated pre-tax profits of € 88.1 million and, as a result, did not match the extraordinary result (€ 98.9 million) of the previous year (difference: – € 10.8 million).

In the SMHD Group (difference: – € 2.8 million), the lower result from stockholding companies was not fully offset by better results from the trading companies. UES recorded a marginal decline in profits of € 2.6 million compared with the outstanding result of the previous year, and HLG (– € 1.7 million) as well as RSA (– € 2.9 million, proportionately) also contributed to the slight weakening in the earnings of the division. It should be emphasized that both the individual results as well as the overall profits of the Trading Division represent an exceptionally good level also in 2005.

Trading Division EBT

in € mil. FY 2005 FY 2004

As of December 31, 2005, there were 1,734 employees in the Trading Division (December 31, 2004: 1,712). The slight increase in the core workforce of 22 employees is split between the SMHD Group (+13), UES (+6) and HLG (+3).

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

Trading Division		FY 2005	FY 2004
Shipments	**kt**	**5,656**	**5,252**
SMHD Group	kt	5,147	4,720
UES[1]	kt	229	253
HLG	kt	226	212
RSA (50 %)[2]	kt	54	67
Sales	**€ mil.**	**3,604**	**2,834**
SMHD Group	€ mil.	3,186	2,478
UES[1]	€ mil.	245	208
HLG	€ mil.	138	112
RSA (50 %)[2]	€ mil.	35	36
Internal sales[3]	**€ mil.**	**360**	**192**
External sales[4]	**€ mil.**	**3,244**	**2,642**
Division income before taxes (EBT)	**€ mil.**	**88.1**	**98.9**
SMHD Group	€ mil.	62.7	65.5
UES[1]	€ mil.	21.7	24.3
HLG	€ mil.	2.5	4.2
RSA (50 %)[2]	€ mil.	1.4	4.3
Other	€ mil.	–0.2	0.6
EBIT[5]	**€ mil.**	**103.1**	**112.0**
EBITDA[6]	**€ mil.**	**114.3**	**127.8**
Inventories	**€ mil.**	**364**	**306**
Total workforce[7]	**At Dec. 31.**	**1,877**	**1,861**
Core workforce[8]		**1,734**	**1,712**
SMHD Group		1,227	1,214
UES[1]		299	293
HLG		184	181
RSA (50 %)[2]		24	24
Apprentices, students, trainees		**134**	**128**

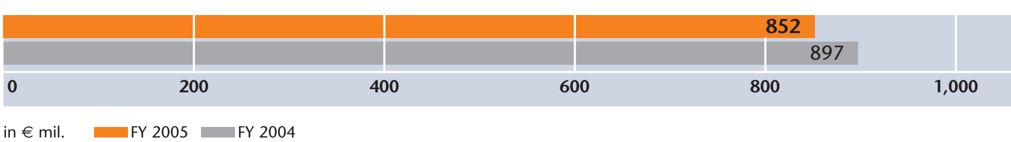
1) Universal Eisen und Stahl GmbH, Neuss
2) Included proportionally (50 %)
3) Sales in own segment and in other divisions in the Group
4) Contribution to Group external sales
5) Pre-tax result plus interest expenses (excluding interest portion of the allocations to pension provisions)
6) EBIT plus depreciation/amortization (also on financial investments)
7) Including trainees and non-active age-related part-time employees
8) Excluding trainees and non-active age-related part-time employees

Services Division

The Services Division consists, as before, of the following companies: DEUMU Deutsche Erz- und Metall-Union GmbH (DMU), Salzgitter Service und Technik GmbH (SZST), Verkehrsbetriebe Peine-Salzgitter GmbH (VPS), Telcat Multicom GmbH (TMG) with its subsidiary Telcat Kommunikationstechnik GmbH (TCG), GESIS Gesellschaft für Informationssysteme mbH (GES) Hansaport Hafenbetriebsgesellschaft mbH (HAN), Salzgitter Mannesmann Forschung GmbH (SZMF), as well as "Glückauf" Wohnungsgesellschaft mbH (GWG). Following the winding down of the Processing Division, the companies Salzgitter Automotive Engineering GmbH & Co. KG (SZAE), Oswald Hydroforming GmbH & Co. KG (OHC) and Salzgitter Magnesium-Technologie (SZMT) were allocated to the Services Division, whereby the two last mentioned companies, as well as some smaller minority holdings, were not consolidated.

In 2005, the Services Division generated sales of € 852 million, € 45 million less than in the previous year (€ 897 million; – 5 %).

Services Division Sales



The downtrend in sales is mainly attributable to DMU (– € 42 million) and GES (– € 15 million).

DMU failed to reach the business volume of the previous year in the steel scrap business. Sales contracted in terms of volume and price, an effect which was not compensated for by expansion in other trading segments and plate processing.

Lower sales posted by GES are mainly attributable to the fact that, in the previous year, major projects, in particular the migration from SAP R/2 to R/3 at the steel companies, were charged to account.

The other companies of this division showed only minor changes in sales.

Almost 80 % of sales of this segment were realized by three companies. Of these, DMU dominates with a 55 % share, followed by SZST (15 %) and VPS (8 %).

The proportion of sales to companies outside the Group amounted to 38 % and was mainly generated by DMU, TMG and SZAE. External sales correspond to the level of 2004 in the adapted division structure.

At € 9.4 million, the pre-tax profit recorded by the Division was some € 3.9 million lower than in the year before (€ 13.3 million). This decline was experienced mainly at SZST (– € 3.5 million), HAN (– € 1.9 million) and VPS (– € 0.9 million).

The change at SZST is due to additional age-related part-time employment contracts and, as such, largely not attributable to operational developments.

At VPS, higher material expenses, in particular higher diesel prices, coupled with unchanged freight tariffs, led to the deterioration.

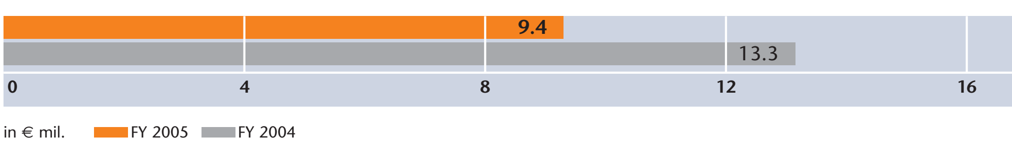
As a result of the increased costs for third-party personnel and equipment as well as for repairs, HAN experienced a higher level of expenses.

Improved results were achieved particularly by DMU (+€ 0.9 million), Telcat Group (+€ 0.5 million) and GES (+€ 0.4 million).

The higher result at DMU was due primarily to plate processing.

As in the previous year, SZAE reported a loss of – € 7.1 million. Since the previous year contains special items (€ 4.5 million debt waiver with SZAG; € 2.3 million in unscheduled write-downs), there was an improvement in the operating result; this was achieved by way of stringent cost cutting in particular and against the backdrop of a continued difficult market and competitive environment for the company.

Services Division EBT



The core workforce at the Services Division as of December 31, 2005, was 3,918. The number of employees is 126 lower than on December 31, 2004 (4,044). The main reason for this lies in the departure of 51 employees under a social scheme and 240 as part of non-active age-related part-time employment. This was counteracted by offering positions in the company to 165 trainees who had successfully completed their training.

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

Services Division		FY 2005	FY 2004[1]
Sales	**€ mil.**	**852**	**897**
DMU	€ mil.	469	511
SZST	€ mil.	124	117
VPS	€ mil.	72	71
TELCAT Group	€ mil.	55	52
GES	€ mil.	40	55
HAN	€ mil.	33	32
SZAE/SZAI	€ mil.	24	26
SZMF	€ mil.	26	24
GWG	€ mil.	9	9
Internal sales[2]	**€ mil.**	**528**	**559**
External sales[3]	**€ mil.**	**324**	**338**
Division income before taxes (EBT)	**€ mil.**	**9.4**	**13.3**
DMU	€ mil.	4.4	3.5
SZST	€ mil.	–3.1	0.4
VPS	€ mil.	0.0	0.9
TELCAT Group	€ mil.	3.6	3.1
GES	€ mil.	2.2	1.8
HAN	€ mil.	6.5	8.4
SZAE	€ mil.	–7.1	–7.1[8]
SZMF	€ mil.	1.3	1.6
GWG	€ mil.	1.1	0.9
Other/Consolidation	€ mil.	0.5	–0.2
EBIT[4]	**€ mil.**	**13.2**	**16.8**
EBITDA[5]	**€ mil.**	**33.9**	**39.2**
Total workforce[6]	**At Dec. 31.**	**5,062**	**5,051**
Core workforce[7]		**3,918**	**4,044**
DMU		219	215
SZST		1,753	1,846
VPS		753	754
TELCAT Group		370	355
GES		148	141
HAN		103	106
SZAE		296	360
SZMF		254	245
GWG		22	22
Apprentices, students, trainees		**732**	**712**

1) Adjusted to the new division structure
2) Sales in own segment and with other divisions in the Group
3) Contribution to Group external sales
4) Pre-tax result plus interest expenses (excluding interest portion of the allocations to pension provisions)
5) EBIT plus depreciation/amortization (also on financial investments)
6) Including trainees and non-active age-related part-time employees
7) Excluding trainees and non-active age-related part-time employees
8) Including € 4.5 m in debt waiver SZAG and € 2.3 m in unscheduled write-downs

Profitability Improvement Program

Our strategic orientation toward independence, growth and profitability require that all divisions exploit the available potential for optimization in a focused manner. This includes the targeted adaptation to changing general conditions, the active participation in developments on the market side, as well as the continuous optimization of the Group and its companies.

We keep ourselves prepared for the future by exercising sustained discipline in the identification and realization of success potential by targeted monitoring of the respective action measures. The Profitability Improvement Program 2 (PIP 2) encompasses both the systematic exploitation of opportunities for improvement and efficient monitoring with respect to its contribution to raising profitability.

PIP was established in the financial year 1995/1996. Relaunched as PIP 2 in 2001, it has proven to be a durably successful system over the past years.

Following the integration of different company-specific programs, particularly from the Tubes Division, the Basic Strategy, defined in the year 2003 for the Group as a whole, has added new momentum to PIP. Company-specific targets developed throughout the Group have been implemented in action plans and measures, and integrated into PIP 2, provided always that they meet the program's strict criteria. As a result of this integrative approach, the Profitability Improvement Program is more than simply a partially or temporarily implemented cost-reduction and quality improvement program; with PIP, the Salzgitter Group has a uniform groupwide management tool for raising earnings performance on a sustainable basis.

On the one hand, the outstanding Group result in the financial year 2005 was shaped and determined by the positive general economic environment. On the other hand, however, it is also the result of our efforts to use PIP to attain a continuous improvement in our processes in all functional areas of our Group companies.

In this context, it becomes apparent that measures and projects are being implemented independently of the economic situation and that PIP is effective as a permanent program.

By the end of 2005 the sustained annual improvement which we had envisaged in PIP 2, the so-called full year effect (FYE) amounting to € 170 million, had been newly defined.

in € mil.	FYE
Total earnings	+116
Savings on expenses	+112
Depreciation/interest/investment expenditure	–58
Full-year effect (FYE) before tax	**+170**

As a result, the targeted level we set ourselves with the Basic Strategy will have been achieved before PIP 2 is concluded. However, this should not be regarded as a conclusion; we will continue to identify and implement projects on a permanent basis.

There are currently 306 projects under way which are aimed at improving sales and costs. Activities focused on the marketing of products with higher value added and the expansion of sales channels in order to boost sales currently yield an FYE of € 116 million. In the course of optimizing not only production and administration processes, but also the consumption of materials and third-party services, we anticipate potential cost savings in the order of € 112 million. The cost of the implementation of these projects, including annual depreciation for investments, interest and materials, amounts to € 58 million.

The basis for the success of PIP has been a great willingness on the part of our workforce to make use of the structures of this program as a means by which to contribute their own ideas and suggestions on how to continuously improve results.

This tool is an established element of corporate management within the Group and will be carried forward and supplemented on a goal-driven basis in the coming years.

In this respect, our decentralized Group structures allow available knowledge to be applied directly, thereby increasing the competitiveness of Salzgitter AG, now and in the future.

Financial Position

The Salzgitter Group carries out cash and foreign currency management on a centralized basis for Group companies. Joint venture companies are not included. As part of the reorganization of the Group structure, SMG, a wholly-owned subsidiary of SZAG, assumed this function as of December 1, 2005.

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

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

Pension provisions still play a significant role in corporate financing. After recording further actuarial losses (€ 117 million), in particular in the wake of adjusting the actuarial interest rate from 5% to 4.25%, they amounted to € 1,725 million.

Cash Flow Statement

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

The Group again generated a significantly improved cash flow of € 468 million from operating activities, primarily due to higher earnings.

This was offset by an increase in working capital requirements.

Cash and Cash Equivalents

in € mil.	FY 2005	FY 2004
Inflow of funds from current business activities	468.0	352.4
Inflow/outflow of funds from investment activities	385.6	–175.3
Outflow of funds from financing activities	–214.5	–71.2
Change in cash and cash equivalents	**639.1**	**105.9**
Cash and cash equivalents on the reporting date	**884.9**	**245.8**

A positive cash flow from investments of € 386 million resulted from cash flows accruing from the disposal of the participation in V&M, as well as the sale of shares in Vallourec. We spent € 228 million on investments in tangible and intangible fixed assets. These investments are above the level of the previous year (€ 218 million) and exceed depreciation. Acquisitions included, in particular, the participation in the capital increase at Vallourec S.A., the purchase of a further 10% stake in HKM and the takeover of the outstanding 50% stake in RGF. This position includes payments for short-term money market deposits of € 115.5 million which, in accounting terms, are attributable to cash and cash equivalents.

In 2005, cash flow from financing activities stood at – € 215 million. We spent a total of € 152 million on buying back 5.4 million shares at an average price of € 28.33 per share. We paid out € 25 million or € 0.40 per share to the shareholders of Salzgitter AG for the financial year 2004.

Despite the increase in the funding of working capital, the outstanding earnings trend and the sale of the stake in V&M and shares in Vallourec resulted in the net cash position – which was € 71 million held at banks on the reporting date of 2004 – soaring to € 822 million in 2005. Cash investments, including securities and structured investments, of € 1,000 million as of the end of 2005 were offset, due to reporting date factors, by marginally higher liabilities owed to banks of € 178 million (2004: € 175 million).

Five-year Overview of the Financial Position

	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
Solvency I (%)[1)]	150	100	91	97	116
Solvency II (%)[2)]	253	187	187	185	210
Dynamic debt burden (%)[3)]	41.3	20.2	12.5	8.3	6.8
Gearing (€ mil.)[4)]	169.1	278.0	268.7	261.4	244.3
Cash flow (€ mil.)	468	352	223	157	117
Net debts to banks (€ mil.)[5)]	–822	–71	56	66	–49

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

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

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

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

5) – ≙ cash in bank, + ≙ debts

Liquidity and debt ratios improved considerably in 2005.

Asset Position

The total assets of the Group of € 5,414 million grew significantly (+€ 1,178 million; +28 %) compared with the year-end 2004 (€ 4,236 million).

Higher cash and cash equivalents were key contributors to this development. These were not only due to operations, but also to the disposal of the stake in V&M and the shares in Vallourec, as well as to higher inventory values that resulted, among other things, from the relining of Blast Furnace A, the discontinuation of the Lifo method and higher inventory levels in the large-diameter pipes segment due to invoicing still to be carried out.

Asset and Capital Structure

in € mil.	31/12/2005	%	31/12/2004	%
Noncurrent assets	1,900	35.1	1,918	45.3
Current assets	3,514	64.9	2,318	54.7
Assets	**5,414**	**100.0**	**4,236**	**100.0**
Equity	2,012	37.2	1,121	26.5
Noncurrent debts	2,079	38.4	1,902	44.9
Current debts	1,323	24.4	1,213	28.6
Equity and liabilities	**5,414**	**100.0**	**4,236**	**100.0**

In the case of long-term (noncurrent) assets, increases, resulting from the netting off of badwill against retained earnings without affecting income, additions to fixed assets, the capitalization of deferred income tax claims from unutilized tax loss carryforwards, as well as the proportionate income from Vallourec recorded at equity were offset by the decrease resulting from the disposal of the V&M shares consolidated at equity to date.

Tangible fixed assets rose as a result of investments of € 262 million which exceeded write-downs of € 206 million.

Current tied-up net worth (working capital: inventories + trade receivables – trade payables) climbed markedly to € 1,809 million, up € 330 million (+22%) from € 1,479 million in 2004. Taking account of a slight decline in trade receivables, this was primarily attributable to the increase in inventories.

The development of other receivables results from the capitalization of securities lending transactions as part of cash investments.

On the liabilities side, despite the repurchase of the company's own shares, shareholders' equity advanced € 891 million (+79%) to € 2,012 million, owing to the excellent business development, the reclassification of badwill and the abolition of the Lifo method. Also in connection with the higher balance sheet total, the equity ratio increased notably to 37.2% (2004: 26.5%). Actuarial losses of € 117 million resulting from the adjusting of the actuarial interest rate (from 5% to 4.25%) in the calculation of pension provisions were, as in the year before, reposted from equity (retained earnings) to pension provisions net of deferred tax without the concurrent effect on income. Accordingly, obligations arising from pension commitments were fully included in the balance sheet, as in the previous year.

Five-Year Summary of the Assets Position

	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
Asset utilization ratio (%)[1)]	35.1	45.3	51.3	52.1	48.4
Inventory ratio (%)[2)]	26.6	25.5	25.0	22.8	23.1
Depreciation/amortization ratio (%)[3)]	14.5	22.6	16.8	14.3	14.3
Debtor days[4)]	44.9	55.4	47.4	53.3	54.9

1) $\frac{\text{noncurrent assets x 100}}{\text{total assets}}$

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

3) $\frac{\text{depreciation tangible fixed assets/ amortization intangible assets x 100}}{\text{tangible fixed assets/intangible assets}}$

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

General Statement on the Economic Situation

The performance of the Salzgitter Group was exceptional in the financial year 2005. This assessment is valid not only in a year-on-year comparison but also in the light of the forecast for the year under review and actual results.

In 2005, the sales of the Salzgitter Group totaled € 7.152 billion, up 20% (€ 1.210 billion) on the previous year's figure (€ 5.942 billion). All divisions, with the exception of the Services Division which recorded sales virtually unchanged, profited from the high price level of rolled steel and steel tube products induced by a drastic increase in the cost of raw materials and energy.

The Tubes Division achieved the highest relative growth in external sales which posted € 391 million (+38%), followed by Trading with the highest absolute increase of € 602 million (+23%) and Steel with € 231 million (+12%).

The Salzgitter Group closed the financial year 2005, as mentioned above, with a pre-tax profit of € 941 million. Accordingly, it almost tripled (+€ 618 million, +191%) the already outstanding result of 2004 (€ 323 million).

The divisions' contributions to this performance were as follows: Steel +€ 257 million, Tubes +€ 323 million (including € 163 million from the sale of shares of VLR), Trading –€ 11 million, Services –€ 4 million. Other items and consolidation effects: +€ 53 million.

At this point it should be noted that, on balance, the consolidated result in 2004 was negatively impacted by extraordinary expenses (€ 63 million) whereas the consolidated result in 2005 was boosted by extraordinary income (€ 142 million).

The latter figure comprises income from the sale of shares in VLR (€ 163 million) and the abolition of the Lifo method (€ 90 million), as well as € 24 million in expenses arising from the sale of shares in V&M, the relining of Blast Furnace A (€ 57 million) and precautionary measures (€ 30 million).

In addition to the favorable market conditions, the groupwide Profitability Improvement Program also enhanced profitability.

Performance Report

In our last 2004 Annual Report we predicted a triple-digit million pre-tax profit – albeit lower in a year-on-year comparison (actual 2004 figure: € 323 million) – for the Group in 2005. At the same time, however, we made explicit reference to the fact that the Group result could also fluctuate within the triple-digit million range due to the risks and opportunities inherent in the costs, revenue, capacity and currency trends, unforeseeable at the time.

The result of our generally outstanding performance is that we have generated a consolidated profit before tax of € 941 million, which is in the upper range of a triple-digit million figure. We communicated the trend, which became discernible over the course of the year, with adjusted forecast figures, in the respective quarterly reports.

Given the starting point, the positive variance between actual and projected result is considerable. This is primarily attributable to the results of the Steel, Tubes and Trading Divisions being way above target. Instead of cyclical trends, known in the past for their pronounced swings and for the fact that they generally occur with a time lag, 2005 also saw a convergence of this cyclicality which made for a generally healthy market situation for flat carbon steel and plate as well as for tubes.

Owing especially to an exceptionally positive development in the first half of the year, the Steel Division generated a pre-tax profit which was far in excess of the targeted figure. All in all, the increases in the cost of raw materials and energy, which ran contrary to planning, were more than offset by the increase in revenue.

This also applies to the Tubes Division. Bolstered by notable increases in volume, the division achieved a result which was much higher than budget.

Despite a decline in volume, mainly on the domestic market, pre-tax earnings of the Trading Division were impacted by higher-than-planned specific gross earnings, and also clearly exceed the projected result.

Owing to the unfavorable performance of SZAE newly assigned to it, the Services Division did not quite meet the targeted figure although the result was otherwise satisfactory.

Consolidated earnings were considerably impacted by one-off income, such as, for instance, from the sale of the Vallourec shares and changes in the values stated for inventories which were not or, as in the case of the latter, not fully included in the planning.

2.2 Annual Financial Statements of Salzgitter AG

The annual financial statements of Salzgitter AG (SZAG) for the financial year 2005 have been drawn up in accordance with the provisions of the German Commercial Code, taking into account the supplementary provisions of the German Stock Corporation Act, and have been approved without qualification by the auditor PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover. The complete text is published in the Federal Gazette (Bundesanzeiger) and deposited under HRB 9207 at the Commercial Register of the District Court of Braunschweig.

SZAG heads up the divisions as the management holding company. Operations are conducted by the Group companies; in as much, the result of SZAG is determined by the income from its shareholdings.

The structure of the Salzgitter Group in its current form means that profits and losses posted by individual Group companies in intercompany trading and any losses carried forward can be offset for tax purposes only to a limited extent, and that the scope for central financial management in the Group is similarly restricted.

To eliminate the disadvantages, the Group intends to reorganize its internal structure under company law in such a way that SZAG will bring the shares in its material affiliated companies by way of a spin-off under the Reorganization Act (UmwG) into its wholly-owned subsidiary Salzgitter Mannesmann GmbH (SMG; formerly: Mannesmannröhren-Werke GmbH) either in their entirety (100 %) or – where expedient for avoiding tax burdens – in the amount of some 99.8 % or 94.9 %.

In this concept, SMG has no employees and is run purely as an intermediate holding company in which the results posted by all of the material Group companies are offset against each other for tax purposes and the Group’s financial management is organized centrally.

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

This resolution was legally challenged on December 19, 2005, at the Regional Court of Braunschweig. In the meantime, the Court has been provided with a statement of defense as well as an application for ascertainment that the action will not impede official entry into the Register of Companies (application for release).

Owing to the action to rescind and the entry into the Register of Companies of the spin-off and transfer agreement which has thereby been challenged, the transfer of beneficial ownership could not be ascertained at the time when the balance sheet was drawn up. For this reason, SZAG has included its holdings unchanged as per December 31, 2005, despite the spin-off and transfer agreement which

has been signed, in its financial assets. The resulting income/expenses from profit sharing agreements have been neutralized in terms of their impact on income by the formation of a provision which does not permit profit contributions that cannot be allocated with certainty to be used for making dividend payments.

As part of the reorganization of the Group structure, it was also agreed to implement groupwide cash and foreign currency management solely through SMG effective as of December 1, 2005. Accordingly, as of this date, SZAG transferred all receivables and liabilities vis-à-vis the Group companies, including existing financial investments, against the granting of a claim to its subsidiary SMG.

Salzgitter AG Balance Sheet (summarized)

in € mil.	31/12/2005	%	31/12/2004	%
Fixed assets	**471.6**	**31.0**	**467.7**	**27.3**
Tangible assets[1]	25.7	1.7	27.1	1.6
Financial assets	445.9	29.3	440.6	25.7
Current assets	**1,047.7**	**69.0**	**1,244.1**	**72.7**
Trade receivables and other assets[2]	1,047.5	69.0	1,015.2	59.3
Cash and cash equivalents	0.2	0.0	228.9	13.4
Assets	**1,519.3**	**100.0**	**1,711.8**	**100.0**

in € mil.	31/12/2005	%	31/12/2004	%
Shareholders' equity	678.3	44.6	636.8	37.2
Special reserves with an equity portion	3.7	0.3	3.9	0.2
Provisions	825.5	54.3	449.0	26.2
Liabilities	11.8	0.8	622.1	36.4
due to banks	[7.9]		[8.2]	
Shareholders' equity and liabilities	**1,519.3**	**100.0**	**1,711.8**	**100.0**

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

The main consequence of the transfer of cash and foreign currency management was that the balance sheet total contracted by € 193 million (–11.2%) to € 1,519 million. This was offset by receivables from profit sharing agreements, as well as the corresponding provisions for profits generated on behalf of third parties disclosed in the balance sheet. The share of equity in the lower balance sheet total came to 44.6% (2004: 37.2%). In accordance with the resolution passed at the General Meeting of Shareholders held on April 23, 1998, provision was made for contingent capital of up to € 5.1 million to cover the issuing of warrant-linked bonds. These warrant-linked bonds comprise a 5% Salzgitter AG bond (term: 1998 to 2005) combined with option rights that entitle the holder to subscribe to Salzgitter AG shares if certain conditions are met. In the financial year 2005, this occurred on a number of occasions and, accordingly, option rights to the subscription of 280,000 shares were exercised by those entitled. The exercising of these options, due to expire on September 28, 2005, served to repay the bond in the amount of € 0.7 million and raised subscribed capital by the same amount.

The greatly improved profit trend of the subsidiaries resulted in another notable increase in income from shareholdings in comparison with 2004. Owing to the pending, invalid spin-off and transfer agreement, a corresponding correction item was disclosed under the position "result generated on behalf of third parties".

Salzgitter AG Income Statement (summarized)

in € mil.	FY 2005	FY 2004
Other operating income	142.4	10.5
Personnel expenses	81.2	14.8
Depreciation and amortization[1)]	11.0	27.7
Other operating expenses	58.9	135.0
Income from shareholdings	410.6	253.9
Net interest result	5.3	–3.7
Profit on ordinary activities	**407.2**	**83.2**
Taxes	–5.6	–38.3
Result generated on behalf of third parties	338.7	0.0
Net profit for the year	**62.9**	**44.9**

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

The profit of SZAG, the holding company, will be decisively impacted by the dividend of € 70 million of its SMG subsidiary. Proceeds of € 94 million from the sale of the shares of Vallourec S.A. are included under other operating earnings. Moreover, for the first time a management fee was paid by the domestic subsidiaries. The management fee of € 24 million was calculated by the application of the formula "50% sales/50% value added".

The significant increase in personnel expenses is mainly attributable to a change in the actuarial rate for pension provisions (from 6% to 4%) for the appropriate disclosure of pension liabilities.

Write-downs of financial assets were carried out this year for one of the companies belonging to the Services Division.

Much lower other operating expenses were attributable to precautionary measures in comparison with 2004 which still related to two companies, one in the Steel Division and one in the Services Division.

The improvement in interest income is mainly the result of a lower portion of interest on transfers to pension provisions arising from the adjustment of the actuarial rate. Moreover, the transfer of group-wide cash management to SMG, effective December 1, 2005, had an impact on interest income.

The development of the tax burden can be explained mainly through the fact that a significantly higher income from shareholdings was generated owing to the outstanding development of companies with profit sharing agreements in the steel and trading segments. Due to the still invalid and pending spin-off and transfer agreement these earnings in their full amount were considered as profit generated on behalf of third parties, i.e. accruing to the contracting party (legal entity). As a result, the tax expenses pertaining to these earnings were not disclosed at SZAG.

Appropriation of Earnings at Salzgitter AG

For the financial year 2005 Salzgitter AG reported a net income of € 62.9 million. Taking into account the unappropriated profit brought forward (€ 1.6 million) the profit shown on the balance sheet came to € 64.5 million.

The Executive Board and the Supervisory Board will propose to the General Meeting of Shareholders that this profit (€ 64.5 million) be used to fund payment of a basic dividend of € 0.50 per share, plus a bonus dividend of € 0.50 per share (based on the capital stock of € 161.6 million divided into 63,218,400 shares) and that the remaining amount be carried forward to new account.

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

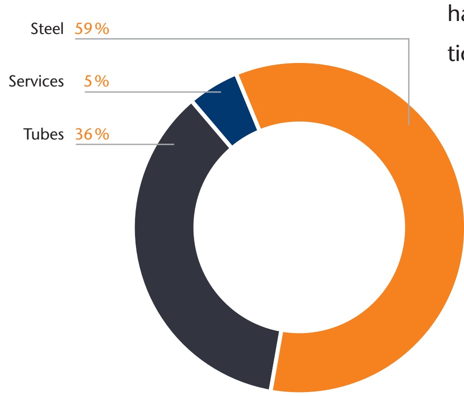
2.3 Research and Development

"Creating competitive advantages for our customers" is the aim of research and development (R&D) in the Salzgitter Group. This means that research and development is practiced as a close cooperation between the central research function, Group companies concerned with either manufacturing or sales and, last, but not least, our customers. The main focus is on new products as well as processes and techniques, including the contribution of research and development to aspects of energy efficiency and ecological compatibility.

Salzgitter Mannesmann Forschung GmbH (SZMF) is the central coordinating unit for research and development activities concerned with innovative processes, and structures the key contents and project areas. On the one hand, it is possible for SZMF to map and reproduce the entire process chain, from the production of liquid metal to the finished product, both in theory and on laboratory scale. On the other hand, SZMF performs an intermediary function between both application-oriented research conducted in-house, as well as basic research carried out at centers of expertise such as public research institutions, universities and colleges. A total of 53 active multilateral projects involving international participation bear impressive witness to this position within an extensive research network.

Cooperation within the field of research is given clear preference over the buying-in of know-how. As a result, there was no expenditure for the latter in 2005.

Research and Development Expenses by Divisions



In 2005, the Salzgitter Group spent € 58 million on R&D activities and on R&D-relevant and -related quality management projects. Of these, 59% were attributable to the Steel Division, 36% to Tubes Division and 5% to the Services Division. R&D expenses amounted to 2.9% of Group value-added. Some 706 employees were engaged in R&D activities.

In order to be able to map and reproduce the process chain to the leading edge of science and technology, in 2005 we invested in, among other things, a surface technology laboratory as well as devices and equipment that characterize the properties of materials. The newly installed surface technology laboratory is able to carry out both existing and future processes, ranging from hot-dip galvanizing to painting, on a laboratory scale and under production conditions, and then analyze the results. Among the devices designed to characterize the properties of materials, a scanning electron microscope with a field emission gun and a microprobe deserve particular mention. Both devices are equipped with extensive analysis tools and also facilitate, by way of example, the investigation of the finest nanoscale and micro-scale coatings that are increasingly used in the latest products.

Besides establishing the qualities of materials, the monitoring of processes is indispensable, not only for steel plate production but also for the production of tubes. Appropriate testing facilities that deliver a process-like simulation of forming conditions help to optimize production parameters for different utilized materials. With the "Gleeble 3500", SZMF is replacing an existing system that simulates the workability of steels in the manufacturing of seamless tube grades. This significantly expands this testing unit's utilization range.

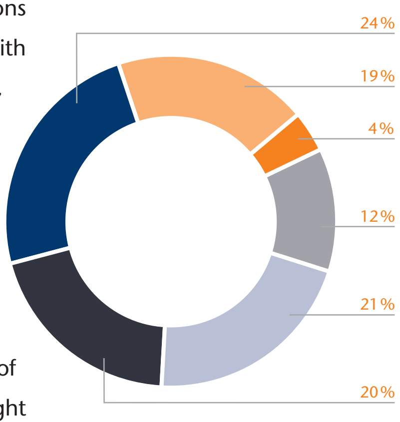
R&D-relevant investments amounted to a total of approximately € 7.5 million.

Air-hardening steels offer greater efficiency and benefits in replacing QT-steels and case-hardened steels. The production of air-hardening steels dispenses with the quenchants otherwise required in hardening such steels. The technological advantages of these steels that have been developed with a strong participation of automotive manufacturers are also reflected in cost advantages compared with the use of aluminum, for example. We have been able to realize significant synergy effects from the shared development of grades and qualities for plates and tubes.

Since 2005 we have been able to offer newly developed, chromate-free surface treatments for strip-coated, hot-galvanized and electrogalvanized products. This allows us to provide our customers with the opportunity of adapting to future EU guidelines at an early stage.

Hydro-formed exhaust systems are suited to the demanding requirements of modern automobile manufacturing. Starting with steel tubes, components are developed and manufactured that simultaneously meet the extremely narrow dimensional specifications demanded in new drive and engine concepts, in connection with minimal wall thickness and optimized operative behavior. To date, the inlet and outlet funnels for catalytic converters have mostly been produced by expensive casting processes involving heavy weights. Starting from this financial year, the series production of such funnels is being carried out at OHC by way of hydroforming.

Research and Development Expenses by Area of Activity



In order to transport liquefied natural gas on large tankers instead of using pipelines, special transport containers are required for the freight that is compressed to 250 times atmospheric pressure. Each gas tanker uses up to 3,700 cylinders made from steel tubes, each of which is 37 meters long and weighs about 30 tons. Frequent changes in pressure due to filling and emptying require a particularly high resistance to material fatigue. In the innovative Hifa® Pipes made by Europipe GmbH this is achieved by optimizing the welded seams.

Thanks to ultra-high-strength tube grades such as X100 and above, it is possible to transport gas in large diameter pipelines under increased pressure. A further advantage of the tubes is the reduced welding input required in laying. However, the ductile concept used for lower-strength tube grades to avoid longitudinal cracks can no longer be ensured for grades above X80. The design developed for Europipe, which uses crack-arrestors made from glass fiber wrapping located at regular intervals on the pipeline, meets the safety requirements for tubes used for both onshore as well as offshore purposes.

We have started a cooperation venture with the CORUS Group to develop high manganese content HSD® (High Strength and Ductility) steels. These ultra-high-strength steels are particularly suited for creating complex components and, thanks to their qualities, represent a quantum leap compared with conventional steels.

Further focal points of future research are the development of automotive lightweight design and engineering concepts and of ultra-high-strength and multi-phase steels. The first area comprises the SCALIGHT Project, in which, besides the Salzgitter Group, the full-service vehicle supplier and manufacturer Wilhelm Karmann GmbH as well as 2nd- and 3rd-tier suppliers are working together. As a group, they are developing new concepts for the efficient implementation of ultra-high-strength steels in car manufacturing. In the process, they particularly take into account the scalability of components for different vehicle series. The project serves as a technology platform for new developments by the Salzgitter Group.

We are developing additional new alloying concepts and adapted plant and system operation procedures for the high-strength and extremely high-strength multiphase steels that are already in successful use today, in order to place the market success of this group of products and quality grades on a broader foundation in the near future. The deployment of these steels enables significant weight savings in the transport sector.

Customer orientation, innovative capabilities and in-depth technology expertise are the key benchmarks of our R&D activity. These strengths create the basis for R&D's contribution to securing the future of the Salzgitter Group.

Five-year Overview of Research and Development

		FY 2005	FY 2004	FY 2003[3]	FY 2002	FY 2001
Research and development expenses	€ mil.	58	57	58	47	48
Research and development employees	empl.	706	701	670	400	400
Research and development ratio[1]	%	0.8	1.0	1.2	1.0	1.0
Research and development intensity[2]	%	2.9	4.2	5.3	4.2	4.3

1) R&D expenses in relation to Group sales
2) R&D expenses in relation to Group value-added
3) Reporting of research-related expenses from FY 2003

2.5 Risk Report

Opportunities and Risk Management System

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

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

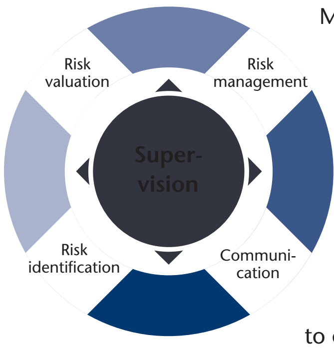
With regard to value-oriented corporate management, we weigh up risk and opportunity aspects.

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

The subsidiaries and associated companies of Salzgitter AG apply the risk management system autonomously. The management holding company specifies guidelines that constitute the basis on which to ensure adequate and uniform consideration and communication of risks within the Group. Beyond this, the system of risk management deployed by Salzgitter AG is also documented in a risk manual.

In order to improve the informative value of the groupwide risk portfolio, the risk management system is constantly being further developed and refined to meet the prevailing requirements. Based on the contents implemented in the previous financial year, principles for the continuing harmonization of damage evaluations were formulated this year in a more extensive set of guidelines.

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



Measures to cope with and delimit risks can be introduced at an early stage and in a targeted manner as a result of the transparency gained with respect to risk-inherent developments and potential risks. At Salzgitter AG there is a clear demarcation between risk management and controlling, which are nevertheless geared to complementing each other. Actual risks can therefore be handled either through the medium of controlling (for example, by way of provisioning), or via the risk management system (by taking action to overcome the risk), or via both approaches augmenting each other.

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

In terms of the likelihood of their occurrence, a distinction is drawn between improbable and probable risks. Improbable risks are events, which after careful commercial, technical and legal consideration of the circumstances, are deemed unlikely to occur and thus tend not to be expected. The conditions that must be fulfilled for this judgment to stand are documented, periodically examined and if necessary updated. Consideration of the sustained validity of the conditions set is an aspect of controlling and auditing at Salzgitter AG. The definition of probable risk means that loss or damage to the company resulting from an undesirable event can no longer be ruled out. In the interest of traceability and controllability, the quantitative extent of the calculated loss or damage is documented in the light of the relevant influencing factors.

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

Individual Risks

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

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

Large value risks resulted from the price increase for important raw materials (iron ore, coal, scrap and alloys). The previous year's trend continued on an overall undiminished basis into 2005 and led to higher purchase costs compared with budget, to the extent of a mid-double digit figure in millions. We identified this at an early stage and it is reflected in the profits preview. In the financial year ended, increases in the sales of our products and the early implementation of currency hedging measures compensated for these additional expenses.

We counter the potential risk of insufficient supplies, relative to demand, of important raw materials and energy (electricity, gas) by safeguarding the procurement of such raw materials from various regions and suppliers, in part by way of long-term framework contracts. We also operate an appropriate warehousing policy. On the basis of our assessment of our sources of supply, we regard the availability of these raw materials in the required quantities and qualities as largely ensured as best as can possibly be the case. This likewise applies to supplies of coal that are still 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.

A typical risk may result from the wide fluctuations in prices and volumes in our selling markets. We counteract the possible threat to our existence this risk may represent by broadly diversifying our products, customer segments and regional selling markets, by adopting situation-related countermeasures in our operations and by maintaining a sound balance sheet and financing structure. By exploiting the compensatory opportunities offered by the differing economic developments which affect our various divisions (for example, the influence of the oil price on the automobile industry and the tube and pipe business), we are able to achieve a more balanced risk portfolio across the entire Group.

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

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

Currency risks arising from purchase or sales transactions must on principle be secured, either by internal netting within the Group or by hedging. Provision is made for hedging interest rate exposure by means of suitable instruments. In this regard, we refer to the information provided in the Notes to the Annual Financial Statements and the Consolidated Financial Statements.

In the international trading business, open positions or financing arrangements that involve risks are not permitted. Receivables risks are limited as far as possible by providing security for loans and by having set in place a stringent system for exposure management. A part of our US dollar currency requirements is covered with currency options with a two-year duration.

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

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

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

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

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

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

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

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

We counter risks arising in the field of information technology by developing and maintaining a Group knowledge base in the form of IT services-oriented subsidiaries. This guarantees that we remain at the forefront of technological progress. The appropriate authority granted to the Group IT management in matters of general policy in this area ensures the ongoing development of our groupwide IT systems and forms the basis for the economic deployment of the required investment funds.

Risks arising in the context of joint ventures in which we do not hold a majority stake and which are therefore not under our full control are limited by way of suitable reporting and consultation structures, by participation in supervisory committees and through contractual arrangements. As a consequence, in order to ensure the transparency of the Europipe GmbH 50 % joint venture, members of the Salzgitter AG Board are represented on the Supervisory Board.

The seamless tube activities of the associated company Vallourec & Mannesmann Tubes S. A. were concentrated in Vallourec at mid-year. As of the year-end, Salzgitter's participation in Vallourec amounts to 17.2 %.

Overall Statement on the Risk Position

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

In the financial year 2005 there were no risks which posed a threat to the continued existence of Salzgitter AG. Nor are there currently any concrete developments discernible which might be capable in future of having a lasting and substantially negative impact on the earnings situation, financial position and net worth of Salzgitter AG.

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

2.6 Forecast

General Market Conditions

In the opinion of the research institutes, the global economy in 2006 will match the pace of the year 2005. The International Monetary Fund expects growth to remain unchanged at 4.3%. Given an assumed oil price remaining at the still high level of US-$ 55 a barrel, the pressure exerted by the preceding oil price hikes is easing. Similarly, the stimulus for demand, triggered by the strong economic growth of the emerging markets, is unabated. Whereas forecasts for economic growth in the USA, China and most of the Asian economies are marginally lower than in 2005, the positive development of the countries of Central and Eastern Europe should continue uninterrupted. The EU and Germany will also show positive trends. Above all, positive impetus is expected from abroad, boosted by greater economic momentum and the depreciation of the euro. The economic upswing on the domestic market will be reflected by plant and equipment expenditure in particular which, encouraged by improved sales prospects on the global markets, is set to increase markedly. Private consumption will remain a weak point. Premature buying is expected, however, prompted by the increase in value added tax (VAT) due next year. GDP growth in the EU is likely to post 2.2% in 2006 (2005: 1.5%), while an increase of 1.5% has been forecast for Germany (2005: 0.9%).

In 2007, the OECD's recent global economic outlook expects worldwide economic growth to remain robust, as in 2006. Similarly, this forecast predicts that the economy of the euro zone will expand by 2.2% in 2007, which is more or less the same as this year. In Germany, the gradual recovery of the economy is likely to hold steady in the year ahead, although at a slower pace, although dampened by the rise in VAT. A self-supporting upswing remains unlikely for the time being. Accordingly, there is still risk that a tangible slowdown in the global economy would result in a setback for the German economy.

Given the robust global economy expected for the year 2006, the consumption of steel will increase further. The forecasts of the International Iron and Steel Institute (IISI) talk of 1,053 million tons, which corresponds to growth picking up pace again (5.5%). Above-average growth rates are expected in Asia (China: +10%), with consumption in the EU expanding rapidly again by 3.3% in 2006, following a decline in 2005 due to destocking.

According to estimates of the Wirtschaftsvereinigung Stahl (German Federation of the Steel Economy), world production of crude steel is expected to rise to more than 1.2 billion tons (+7.2%).

China will be a determinant factor although the rate of increase in Chinese production is likely to slow in comparison with 2005. European crude steel production is expected to grow by 3% to 193 million tons and thereby compensate for the decrease in 2005 (–3.1%). In Germany, the forecast is for an increase of 3% to 45.7 million tons.

In China, where per-capita steel consumption is 270 kilograms, and only half that of industrial nations, the country's still huge backlog demand is an argument in favor of this trend persisting in 2007 as well. Moreover, global demand for steel is also driven by investments in infrastructure and construction in other populated emerging markets. The challenges for the global steel industry are nonetheless great. For this reason, besides China, and in particular India and South America, considerable capacities are being built up outside of Europe. In future, competition on the international steel markets will therefore become even fiercer.

Given the general economic conditions, we expect the steel tubes market to develop at least equally as well as the market for rolled steel products in 2006 and 2007.

With forecasts varying greatly for individual countries and different sectors, the major buyer industries throughout the world continue to experience positive trends.

The oil price is expected to remain around US-$ 55 a barrel in 2006 and 2007. This guarantees that drilling activities will remain at a high level, with concurrent brisk demand for OCTG tubes and a huge downstream demand for new pipelines.

The market for HFI-welded line pipes and large-diameter pipes is currently not showing any signs of weakness, particularly in view of the fact that there are a series of new projects. The trend in seamless tubes is also expected to remain upbeat.

How this demand will be satisfied remains to be clarified. In China, for instance, several tube plants became operational in 2005, and there are plans to expand capacities in 2007. China is already a net exporter of steel tubes. The creating of additional capacity will most certainly have an impact on the export of tubes, and thus on the existing flow of goods.

The general conditions which affect the SZAG Group are still more or less assessable in 2006. They are nonetheless still subject to swift change as a result of global developments and the "China effect", which is especially relevant. Beyond 2006, however, no reliable forecasts can be made. For this reason, the Group's stability in terms of its financial position and strong balance sheet remain a top priority which is to be underpinned on an ongoing basis by profitability improvement projects.

Strategic Direction of the Group

The Group strategy is geared towards sustaining its independence, profitability and selective growth and is designed to deliver continued value added. There are thus no plans to change the business policy of the Group in the years ahead.

Organic growth, in particular on the basis of effective, profitable structures with a proven track record, is highly prioritized, especially in an overheated environment, as a currently extremely costly option of external growth through acquisitions. For this reason, a series of measures are being pursued throughout the Group with the aim of implementing corporate goals under a strategic concept.

A special part of this is a disciplined approach to the Profitability Improvement Program aimed at cutting costs, improving productivity, product qualification and enhancing quality.

Pre-defined, cooperative action is further supported by the ongoing implementation of our Corporate Guidelines with its system of collectively and individually agreed goals. This system is used as a basis for implementing performance-related remuneration models which are linked to objective criteria.

There are also plans to dynamically step up the deployment of cutting-edge information technology compatible in the Group environment for internal and external applications.

The business activities of the companies in the various divisions will fundamentally concentrate on established sales markets in the short term. In doing so, there may be a shift in the focus at a regional or sectoral level to accommodate requirements. The shape that this will take will ultimately depend on short-term responsiveness and the regional or sectoral good positioning of the companies. Opportunities on markets not frequented to date are being reviewed and exploited if there is commercial or technical potential. Together with an active monitoring of the market to identify, depending on delivery possibilities, new potential markets, this is part of our routine work.

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

Insofar, over the next two years the Salzgitter Group will not add any products and services to its portfolio of products and services which are “new and not currently part of its offering” in the sense of “completely different”. This having been said, however, it will offer “new” products which represent qualitative progress through further development and additional application fields. In this context, we refer to the section on “Research and Development”.

In the beams segment, there are plans to extend the product range to special profiles. Our plate mills concentrate increasingly on higher quality grades, as the underlying assumption is that demand for these products in particular will remain stable at attractive prices. In the tubes segment, products made of new grades of material for more sophisticated areas of application are expected to deliver differentiation as against providers of standard products.

Expected Earnings

Although consolidated pre-tax profit projected for the financial year 2006 will not reach the exorbitantly high figure of 2005, it should, from today's standpoint, more or less match the very gratifying level of the year 2004.

Assuming that the favorable market situation for rolled steel products and tubes persists, the result in 2007 is likely to be marginally lower.

We expect the individual divisions to develop as follows:

With larger shipments of rolled steel products, declining revenues by comparison with the extremely high annual average in 2005, coupled with the rising input price of ore, scrap, coal and energy, the Steel Division expects the pre-tax result to fall to a stable level in 2006, which is nonetheless still far above the long-term average. This development should be repeated in 2007 as well. The valuation of inventory under IFRS is not sufficiently planable and was therefore eliminated for subsequent years.

In all probability, it will not be possible to compensate the rising cost of raw materials and falling revenues by increasing shipment, refraining from purchasing slabs and improved capacity levels. SZFG therefore anticipates a considerable drop in profit in a year-on-year comparison.

PTG is also planning for a lower result in 2006. The decline will be mainly due to the effect from changes in the inventory valuation methodology no longer applicable. Margins, which are expected to narrow in 2007, could also be a drag on the result.

At ILG, the stabilizing of plate revenues will considerably erode profit in 2006, but the level attained will nonetheless be outstanding. This stable, but still ambitious, level is expected to be achieved in 2007 as well.

In 2006, HSP expects a balanced result provided that the volume of shipments and prices remain relatively unchanged in 2007.

Higher shipments and improved revenues should bring SZBE back to break-even again in 2006 and 2007.

SZEP anticipates a marginal decline in pre-tax profit in 2006, caused by one-off effects which are no longer applicable, and predicts an uptrend in 2007.

Following an excellent year for steel tubes in 2005, the Tubes Division has forecast profit for this year in the a triple-digit million range, which is substantially lower in a year-on-year comparison but is nonetheless at an extremely high level, far above the long-standing average. In 2007, this figures will probably be somewhat lower.

The main deviation will result from the newly organized cooperation with Vallourec. The forecast for the seamless tubes segment is still at a high level but, due to changes in the holding structure at V&M/VLR, profit contribution will almost halve. This figure will probably be repeated in 2007 as well.

The large-diameter pipes segment will benefit from sustained demand for pipes, in particular in the Near and Middle East. Bolstered by rising volumes and greater revenue quality, the EP Group is set to raise profit considerably in 2006. In 2007, however, the assumption is that lower prices will reduce profit. Despite good general conditions in 2006, MRM will see profit fall significantly, a trend mainly attributable to rising costs for maintenance and repair work; the level is expected to remain unchanged in 2007. In both 2006 and 2007, SZGR anticipates that, despite the higher volume of shipments, results will be slightly lower due to an increase in the cost of input materials.

With revenue down for HFI-welded line pipes, the result forecast for 2006 for Mannesmann Fuchs Rohr GmbH (MFR), the company which will emerge from the projected combination of the two independent companies MLP and RGF, is set to fall. A sustained increase in the volume of shipments and the resulting stable revenue will be reflected in higher profit in 2007.

The cold-finished tubes segment is likely to record a decline in profit in relation to 2005, mainly due not only to MHP/ROB, but also to the DMV Group, which will generate less revenue.

While the result at MHP/ROB is expected to slip somewhat in 2007, profit at DMV will stabilize.

In 2006, the Trading Division anticipates that profits will fall by almost half in comparison with 2005. Despite this development, which will probably be attributable to the results of the major companies (SMHD Group and UES) being halved, the result will nonetheless be above the long-term average. All told, performance is expected to remain at a similar level in 2007.

SMHD predicts a decline in revenues for stockholding companies in Germany which will cause a reduction in specific gross earnings. International trading anticipates that business volume will stabilize, with a slight decline in gross earnings.

The stabilization of the plate economic cycle, in conjunction with higher inventory values, will diminish the projected result of UES in 2006, which is set to recover somewhat in 2007.

Additional shipments of blanks and slit coils, enabled by the projected acquisition of Flachform Stahl GmbH, are intended to extend the profit of HLG in 2006, a performance which should persist in 2007.

Plans of RSA to raise profit in 2006 and 2007 as against 2005 are mainly the result of growth in the shipments of stamped blanks for the automotive industry.

The profit generated by the Service Division is likely to more than double in 2006, whereas in 2007 this figure will see only gradual change.

The primary cause of this substantial improvement in profit is the result of SZAE, based on additional acquisition of major projects. SZAE believes that the market situation will improve in the year ahead, accompanied by lower costs; so, at the latest, the turnaround will be staged by 2007. SZST intends to concentrate more intensively on reducing the amount of external services at the steel companies and achieve a balanced result in 2006. Future cost savings realized will be passed on to the Group customers in the form of lower transfer prices, the company's goal being to achieve a break-even result in 2007.

Higher revenues from plant freight activities and taking over ore traffic from Hamburg to Salzgitter will enable VPS to achieve a balanced result in 2006 which will, due to the general increase in costs and of personnel in particular, slip into the red again in 2007.

The first-time utilization throughout the year of the increased handling capacity will generate a higher profit for HAN in 2006, a level which the company intends to match in 2007.

The other companies have budgeted stable or gradually increasing results.

The consolidated result is derived from the sum total of the individual plans of the subsidiaries, including the holding and consolidation effects.

By contrast, under the German Commercial Code (HGB), the ability of the Group to pay dividend is subject to the company annual financial statements drawn up for Salzgitter AG. This process is also to take account of the new legal structure of the Group in that the earnings transfers of the major Group companies are no longer recorded at SZAG but at SMG. SMG will then, if necessary, simultaneously, pay dividend to SZAG. From today's perspective, the payment of an appropriate dividend, taken from the operating result for the financial years 2006 and 2007, seems realistic.

Expected Financial Position

In 2006, the Salzgitter Group has again planned for a higher investment budget over the previous year. Around 70 % of the budgeted sum is accounted for by the Steel Division, of which 58 % is accounted for by SZFG. We expect our selective investments to deliver a significant improvement in our earnings.

Together with the ongoing investments already approved in previous years, the payment-related portion of the 2006 budget will bring the total investment volume to a level which is significantly higher than in 2005 (€ 262 million).

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

Owing to the rising volume of investments, the funds required for the year 2006 will be higher than the write-downs, with the result that the excess portion will need to be financed as planned from the available funds. From the standpoint of company management, this is not an issue as there is enough latitude.

The volume of investments has been assessed and distributed over time to ensure that the Group's cash position generally remains stable and available at any time for strategic options. Financing measures have therefore not been planned.

Opportunities

The corporate planning of the Salzgitter Group, which ultimately documents the future business development of the company, is geared to strategic goals and comprises its own set of entrepreneurial measures for action embedded in the general economic environment. The short- and medium-term economic trend to date appears to fulfill realistic expectations in Germany as well as abroad. If the general conditions should develop more favorably, there could well be opportunities for the development of the Group which can only be briefly highlighted and outlined here.

If GDP growth in 2006 exceeds expectations, this would have an impact on the construction sector and thus improve the sales potential of beams, profiles and elements for roofing and cladding. Positive stimulus could also emanate from premature buying in the run-up to the VAT increase planned for 2007. Consequently, the automotive industry and its suppliers expect volumes to rise which, in turn, could favorably impact sales and prices of SZFG in particular. There could, however, be a concurrent negative effect in the following year.

Oil prices still on the rise and brisk demand for energy could lead to increased exploration and production of oil and gas in the short term, which could boost pipeline construction in the long term. There would then be opportunities concentrated in the segments of OCTG (oil country tubular goods), medium line pipes and large-diameter pipes.

The principal strategic objective of Salzgitter AG consists in preserving its independence through profitability and growth. Experience has shown that, against the backdrop of the swifter globalization of the steel markets and suppliers, a company of our size can also safeguard its position as a specialized niche supplier. The Group considers opportunities for growth to be those, which reinforce its market and competitive position. Investments in Group companies, consistent development of products, if expedient together with other companies, and targeted acquisitions of “suitable” companies are also measures towards achieving this. Acquisition opportunities are reviewed critically, taking into account the current vendor market, and only set in motion if they serve to underpin the achieving of our goals.

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

The last two years have seen sea changes on our global sales and procurement markets. In addition to risks, these changes also harbor opportunities which can be utilized if appropriate leading indicators allow short-term developments to be identified with sufficient surety. Our company is working on models which can be used to identify and exploit any opportunities which arise.

Anticipated Developments and Trends

The market expectations outlined in this forecast are part of a groupwide process which also includes other general conditions and a set of given entrepreneurial measures in the forefront of the new financial year to make up the overall planning of the Group. On the basis of this information, we predict that earnings before tax will be in the triple-digit million range in the current financial year, an aforementioned figure which will, however, be markedly lower as against 2005. In 2007, the trend may be even lower than in 2006.

Express reference is made to the fact that opportunities and risks arising from currently unforeseeable trends in revenue, input materials and employment, as well as changes in the currency parity, may affect performance in the second half of the year 2006 and that of 2007 in particular.

The resulting potential range within which the consolidated pre-tax result could fluctuate may be considerable, as already illustrated by the financial year 2005.

For this reason, no detailed statements can be made at this point in time on the development of dividend payments in the years ahead. The cyclical fluctuations reflecting the economic climate as a whole that are usual in the industry are naturally reflected in both the Group's results and the share price. A determinant factor for the Group's ability to pay dividend are, as explained above, the annual financial statements of Salzgitter AG.

Salzgitter AG basically pursues a policy of paying dividend on an ongoing basis contingent on the premise that operations remain profitable and attractive dividends can be paid regularly, which may not necessarily reflect the full extent of the cyclicality of performance. It remains our goal to enable the shareholders of Salzgitter AG to benefit from an above-average dividend yield.

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3.1 Consolidated Income Statement

in T€	Note	FY 2005	FY 2004
Sales	(1)	7,151,579	5,941,522
Increase or decrease in finished goods and work in process and other own work capitalized	(2)	159,918	41,558
		7,311,497	5,983,080
Other operating earnings	(3)	332,798	204,628
Cost of materials	(4)	4,866,193	4,006,543
Personnel expenses	(5)	994,039	925,934
Amortization and depreciation	(6)	206,290	312,783
Other operating expenses	(7)	739,798	652,917
Income from shareholdings	(8)	4,189	5,453
Income from associated companies	(9)	185,063	124,317
Write-downs on financial assets	(10)	9,789	8,206
Financing income	(11)	30,944	15,967
Financing expenses	(11)	107,477	104,290
Profit on ordinary activities		**940,905**	**322,772**
Income taxes	(12)	85,302	64,823
Other taxes	(12)	13,608	11,214
Consolidated net income for the year		**841,995**	**246,735**
Consolidated net income due to minority interests	(13)	– 93	2,235
Consolidated net income due to Salzgitter AG shareholders		**842,088**	**244,500**

Application of profits in T€	Note	FY 2005	FY 2004
Consolidated net income accruing to Salzgitter AG shareholders		842,088	244,500
Profit carried forward from previous year		26,400	16,780
Dividend payment		– 24,798	– 15,317
Appropriation to other retained earnings		– 779,190	– 219,563
Profit shown on the balance sheet after appropriation to or transfer from reserves		**64,500**	**26,400**

Undiluted earnings per share (in €)	(14)	**14.09**	**3.99**
Diluted earnings per share (in €)	(14)	**14.09**	**3.99**

3.2 Consolidated Balance Sheet

Assets in T€	Note	31/12/2005	31/12/2004
Noncurrent assets			
Intangible fixed assets			
Goodwill	(15)	1,224	–133,316
Other intangible assets	(16)	22,184	21,819
		23,408	–111,497
Tangible fixed assets	(17)	1,403,534	1,362,593
Financial assets	(18)	78,269	64,750
Associated companies	(19)	301,493	596,308
Deferred income tax claims	(20)	88,712	996
Other receivables and sundry assets	(21)	4,008	4,342
		1,899,424	**1,917,492**
Current assets			
Inventories	(22)	1,439,009	1,080,998
Trade receivables	(23)	880,237	901,965
Other receivables and sundry assets	(24)	227,595	77,358
Income tax refund claims	(25)	82,373	8,242
Securities		–	3,679
Cash and cash equivalents	(26)	884,897	245,871
		3,514,111	**2,318,113**
		5,413,535	**4,235,605**

Equity and liabilities in T€	Note	31/12/2005	31/12/2004
Equity			
Subscribed capital	(27)	161,615	160,899
Capital reserve	(28)	295,343	292,670
Retained earnings	(29)	1,641,221	638,302
Profit shown on the balance sheet after appropriation to or transfer from reserves	(30)	64,500	26,400
		2,162,679	1,118,271
Own shares		–160,283	–9,453
		2,002,396	1,108,818
Minority interests	(31)	9,232	11,819
		2,011,628	**1,120,637**
Noncurrent debts			
Provisions for pensions and similar obligations	(32)	1,724,589	1,627,788
Deferred tax liabilities	(20)	40,338	41,486
Income tax liabilities	(25)	68,164	26,896
Other provisions	(33)	149,785	131,253
Borrowings	(34)	96,467	74,168
		2,079,343	**1,901,591**
Current debts			
Other provisions	(33)	231,744	200,246
Financial liabilities	(35)	132,759	116,745
Trade payables	(36)	510,362	503,903
Tax liabilities	(25)	98,953	27,330
Other liabilities	(37)	348,746	365,153
		1,322,564	**1,213,377**
		5,413,535	**4,235,605**

3.3 Statement of Income and Accumulated Earnings

in T€	FY 2005	FY 2004
Changes recorded directly under equity		
Changes resulting from currency translation	124,822	–15,671
Changes in the value of the reserve from hedging transactions		
Changes in current value reported immediately in equity	–2,510	–4,429
Realization of settled hedging instruments with effect on income	8,886	–4,457
Changes in the value of financial assets in the available-for-sale assets category		
Changes in current value reported immediately in equity	4,023	3,130
Realization of settled hedging instruments with effect on income	–2,654	–7,251
Actuarial gains and losses	–122,315	–128,846
Deferred taxes on changes without effect on income	44,514	51,916
Other changes without effect on income	–2,104	–907
	52,662	**–106,515**
Consolidated net income for the year	**841,995**	**246,735**
Total profit pursuant to IAS 1.97 in conjunction with IAS 19.93B	**894,657**	**140,220**
Total profit due to Salzgitter AG shareholders	894,930	138,095
Total profit due to minority interests	–273	2,125
	894,657	**140,220**

(41) Cash Flow Statement

in T€	FY 2005	FY 2004
Consolidated net income for the year due to Salzgitter AG shareholders	842,088	244,500
Depreciations, write-downs (+)/write-ups (–) on fixed assets	215,877	320,368
Other expenses (+)/income (–) with no effect on earnings	93,449	30,662
Interest expenses	107,477	104,290
Profit (–)/loss (+) on the disposal of fixed assets	–141,863	–7,899
Increase (–)/decrease (+) in inventories	–261,599	–157,965
Increase (–)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	–173,577	–268,547
Increase (+)/decrease (–) in provisions with effect on earnings	–219,507	–191,381
Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	5,637	278,368
Cash flow of funds from operating activities	**467,982**	**352,396**
Cash inflow from the disposal of tangible and intangible assets	16,572	25,214
Cash outflow on investments in intangible and tangible fixed assets	–228,275	–218,419
Cash outflow for short-term loans against borrower's notes/bonds	–100,000	–
Cash inflow from the disposal of financial assets	794,473	21,222
Cash outflow on investments in financial assets	–97,137	–3,350
Cash flow from investment activities	**385,633**	**–175,333**
Cash inflow (+)/outflow (–) as a result of sales and repurchases of own shares	–150,830	40
Dividend payments	–24,798	–15,317
Cash inflow (+)/outflow (–) as a result of the issue of bonds, take-up of loans and other financial liabilities	–13,468	–33,711
Interest paid	–25,493	–22,168
Cash flow from financing activities	**–214,589**	**–71,156**
Cash and cash equivalents available at the beginning of the period	245,871	139,964
Change in cash and cash equivalents with effect on earnings	639,026	105,907
Cash and cash equivalents available at the end of the period	**884,897**	**245,871**

3.5 Notes to the Consolidated Financial Statements of Salzgitter AG

Statement of Changes in Equity

in T€	Subscribed capital	Capital reserve	Purchase/ Repurchase of own shares	Other retained earnings	Reserve from currency translation
Status December 31, 2003	**159,523**	**287,530**	**–9,494**	**636,786**	**–128,722**
Net income for the year	–	–	–	–	–
Dividend	–	–	–	–	–
Exercise of warrant-linked bonds	1,376	5,140	–	–	–
Adjustment in line with actuarial assumptions regarding pension obligations, no effect on income	–	–	–	–	–
Disposal of own shares	–	–	41	–	–
Currency translation	–	–	–	–	–15,671
Change in value pursuant to IAS 39	–	–	–	–	–
Group transfers to retained earnings	–	–	–	219,563	–
Deferred taxes on changes without effect on income	–	–	–	–	–
Other	–	–	–	–653	–
Status December 31, 2004	**160,899**	**292,670**	**–9,453**	**855,696**	**–144,393**
Adjustment IFRS 3 (negative goodwill)	–	–	–	134,540	–
Adjustment IAS 2 abolition Lifo	–	–	–	35,390	–
Adjustment IAS 2 abolition Lifo deferred taxes	–	–	–	–	–
Adjustment equity valuation	–	–	–	23,419	–
Status January 1, 2005	**160,899**	**292,670**	**–9,453**	**1,049,045**	**–144,393**
Net income for the year	–	–	–	–	–
Dividend	–	–	–	–	–
Exercise of warrant-linked bonds	716	2,673	–	–	–
Disposal of own shares	–	–	1,580	–	–
Repurchase of own shares	–	–	–152,410	–	–
Currency translation	–	–	–	–	124,822
Change in value pursuant to IAS 39	–	–	–	–	–
Adjustment in line with actuarial assumptions regarding pension obligations, no effect on income	–	–	–	–	–
Group transfers to retained earnings	–	–	–	779,190	–
Deferred taxes on changes without effect on income	–	–	–	–	–
Other	–	–	–	–8,480	–
Status December 31, 2005	**161,615**	**295,343**	**–160,283**	**1,819,755**	**–19,571**

Valuation reserve IAS 39 from hedging transactions	Valuation reserve IAS 39 from available-for-sale	Other equity changes without effect on income	Consolidated net income	Equity (excl. minority interests)	Minority interests	Equity
4,458	**10,084**	**3,301**	**16,780**	**980,246**	**16,168**	**996,414**
–	–	–	244,500	244,500	2,235	246,735
–	–	–	–15,317	–15,317	–6,474	–21,791
–	–	–	–	6,516	–	6,516
–	–	–128,846	–	–128,846	–	–128,846
–	–	9	–	50	–	50
–	–	–	–	–15,671	–	–15,671
–8,886	–4,121	–	–	–13,007	–	–13,007
–	–	–	–219,563	–	–	–
–	–	51,916	–	51,916	–	51,916
–	–	–916	–	–1,569	–110	–1,679
					–	
–4,428	**5,963**	**–74,536**	**26,400**	**1,108,818**	**11,819**	**1,120,637**
–	–	–	–	134,540	–	134,540
–	–	–	–	35,390	–	35,390
–	–	–13,802	–	–13,802	–	–13,802
–	–	–	–	23,419	–	23,419
–4,428	**5,963**	**–88,338**	**26,400**	**1,288,365**	**11,819**	**1,300,184**
–	–	–	842,088	842,088	–93	841,995
–	–	–	–24,798	–24,798	–2,314	–27,112
–	–	–	–	3,389	–	3,389
–	–	19	–	1,599	–	1,599
–	–	–	–	–152,410	–	–152,410
–	–	–	–	124,822	–	124,822
6,376	1,369	–	–	7,745	–	7,745
–	–	–122,315	–	–122,315	–	–122,315
–	–	–	–779,190	–	–	–
–	–	44,514	–	44,514	–	44,514
–	–	–2,123	–	–10,603	–180	–10,783
1,948	**7,332**	**–168,243**	**64,500**	**2,002,396**	**9,232**	**2,011,628**

Segment Reporting

(42) Segment Reporting by Divisions/Primary Segment

in T€	Steel		Tubes	
	FY 2005	FY 2004	FY 2005	FY 2004
Sales	3,497,043	3,034,254	2,242,181	1,511,146
Sales in own segment	503,495	414,789	569,024	373,042
Sales to other segments	816,968	673,690	265,675	122,278
External sales	2,176,580	1,945,775	1,407,482	1,015,826
Profit on ordinary activities	430,696	174,278	440,526	117,072
of which from associated companies	[702]	[–5,330]	[184,062]	[128,568]
Interest income	227	125	19,620	2,261
Interest expenses	8,669	7,618	45,852	44,819
Segment assets	1,870,293	1,753,669	2,951,514	1,575,610
of which shares in associated companies	[801]	[362]	[297,406]	[592,452]
of which inventories	[641,004]	[513,081]	[381,537]	[214,375]
Segment operating liabilities	1,096,247	1,106,561	2,253,018	1,152,789
Investments in tangible and intangible fixed assets	190,058	155,056	22,905	24,584
Depreciation/amortization on tangible and intangible fixed assets	149,210	229,195	23,277	46,195
Other expenses and income with no effect on earnings	170,603	61,676	–3,614	–86,772
Employees (annual average excluding non-active age-related part-time employees)	7,095	7,192	4,261	4,207

(42) Segment Reporting by Regions/Secondary Segment

in T€	Germany		EU (excluding Germany)		Rest of Europe	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
External sales by recipients	3,214,496	2,819,171	1,680,663	1,454,141	289,073	236,433
External sales by principal place of business	6,180,711	5,175,355	365,338	303,663	–	–
Investments in tangible and intangible fixed assets	252,515	223,165	8,355	4,113	–	–
Segment operating assets	4,815,797	3,983,579	259,119	226,215	–	–
Segment operating liabilities	2,902,041	2,789,227	160,844	124,743	–	–
Depreciation/amortization on tangible and intangible fixed assets	198,839	297,554	5,672	12,609	–	–
Employees (annual average excluding non-active age-related part-time employees)	15,897	16,032	1,097	1,103	–	–

Trading		Services		Other/Consolidation		Group	
FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
3,604,235	2,834,422	852,171	897,000	–	–	10,195,630	8,276,822
94,882	126,350	13,926	11,332	–	–	1,181,327	925,513
265,765	66,245	514,316	547,574	–	–	1,862,724	1,409,787
3,243,588	2,641,827	323,929	338,094	–	–	7,151,579	5,941,522
88,118	98,877	9,387	13,319	–27,822	–80,774	940,905	322,772
[299]	[1,079]	[–]	[–]	[–]	[–]	[185,063]	[124,317]
4,763	7,504	777	857	5,297	4,947	30,684	15,694
13,387	12,369	12,183	11,271	27,386	28,213	107,477	104,290
858,775	842,203	472,832	436,266	–914,441	–252,174	5,238,973	4,355,574
[3,286]	[3,494]	[–]	[–]	[–]	[–]	[301,493]	[596,308]
[364,366]	[306,302]	[59,364]	[64,693]	[–7,262]	[–17,453]	[1,439,009]	[1,080,998]
689,961	721,031	436,286	379,870	–1,323,850	–357,908	3,151,662	3,002,343
9,166	12,571	40,181	35,422	99	259	262,409	227,892
11,126	11,467	20,722	22,395	1,955	3,531	206,290	312,783
44,217	19,491	40,023	42,162	–157,780	–5,895	93,449	30,662
1,717	1,715	3,994	4,089	117	118	17,184	17,321

North America		South America		Other regions		Group	
FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
670,782	477,804	20,950	110,089	1,275,615	843,884	7,151,579	5,941,522
605,530	462,504	–	–	–	–	7,151,579	5,941,522
1,539	614	–	–	–	–	262,409	227,892
164,057	145,780	–	–	–	–	5,238,973	4,355,574
88,777	88,373	–	–	–	–	3,151,662	3,002,343
1,779	2,620	–	–	–	–	206,290	312,783
190	186	–	–	–	–	17,184	17,321

Consolidated Fixed Assets

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

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

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

Substantial Shareholdings of Salzgitter AG

Status December 31, 2005	Equity in € or national currency (in 1,000)		Share of capital direct in %	Share of capital indirect in %
Steel Division				
Salzgitter Stahl GmbH, Salzgitter[1]		240,024	100.00	
Salzgitter Flachstahl GmbH, Salzgitter[1]		176,636	5.05	94.95
Peiner Träger GmbH, Peine[1]		50,195	5.18	94.82
Ilsenburger Grobblech GmbH, Ilsenburg[1]		25,875	5.37	94.63
Salzgitter Bauelemente GmbH, Salzgitter[1]		2,488	100.00	
HSP Hoesch Spundwand und Profil GmbH, Dortmund[1]		14,513	100.00	
ThyssenKrupp GfT Bautechnik GmbH, Essen[3]		690		30.00
Salzgitter Europlatinen GmbH, Salzgitter[1]		10,382	100.00	
Trading Division				
Hövelmann & Lueg GmbH, Schwerte[1]		2,942	95.07	
Salzgitter Mannesmann Handel GmbH, Düsseldorf[1]		57,693	100.00	
Salzgitter Mannesmann International GmbH, Düsseldorf[1]		10,300		100.00
Salzgitter Stahlhandel GmbH, Düsseldorf[1]		22,729		100.00
Deltastaal B.V., Oosterhout (Netherlands)[1]		27,827		100.00
Friesland Staal B.V., Drachten (Netherlands)[1]		6,023		100.00
Stahl-Center Baunatal GmbH, Baunatal[1]		5,200		100.00
Salzgitter Handel B.V., Oosterhout (Netherlands)[1]		36,949		100.00
Salzgitter Mannesmann International (Canada) Inc., Vancouver (Canada)[1]	CAD	10,862		100.00
Ets. Robert & Cie S.A.S., Le Thillay (France)[2]		14,929	50.00	
Le Feuillard S.A.S., Le Thillay (France)[3]		2,497		100.00
Tolcolor S.A.S., Le Thillay (France)[3]		2,866		100.00
Universal Eisen und Stahl GmbH, Neuss[1]		14,975	100.00	
Salzgitter Mannesmann International (USA) Inc., Houston (USA)[1]	USD	12,452		100.00
Services Division				
DEUMU Deutsche Erz- und Metall-Union GmbH, Peine[1]		10,675	100.00	
Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter[1]		19,599	100.00	
Hansaport Hafenbetriebsgesellschaft mbH, Hamburg[1]		5,113	51.00	
Salzgitter Automotive Engineering Beteiligungs-gesellschaft mbH, Wolfsburg[1]		13,860	74.95	
SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter[1]		26	100.00	
Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück[1]		–5,826		100.00

Status December 31, 2005		Equity in € or national currency (in 1,000)	Share of capital direct in %	Share of capital indirect in %
Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück[1]		22		94.00
GESIS Gesellschaft für Informationssysteme mbH, Salzgitter[1]		2,600		100.00
TELCAT KOMMUNIKATIONSTECHNIK GmbH, Salzgitter[1]		492		100.00
"Glückauf" Wohnungsgesellschaft mbH, Peine[1]		26	100.00	
SZST Salzgitter Service und Technik GmbH, Salzgitter[1]		60	100.00	
Salzgitter Mannesmann Forschung GmbH, Salzgitter[1]		750		100.00
TELCAT MULTICOM GmbH, Salzgitter[1]		2,968		100.00
Tubes Division				
Salzgitter Großrohre GmbH, Salzgitter[1]		6,162	100.00	
Salzgitter Mannesmann GmbH, Salzgitter[1]		509,254	100.00	
Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr[1]		1,000		100.00
Mannesmannröhren Mülheim GmbH, Mülheim an der Ruhr[1]		10,226		100.00
MHP Mannesmann Präzisrohr GmbH, Hamm[1]		25,200	100.00	
Mannesmann Line Pipe GmbH, Hamm[1]		11,500	100.00	
Mannesmann Robur B.V., Helmond (Netherlands)[1]		4,932	100.00	
Europipe GmbH, Mülheim an der Ruhr[2]		107,469		50.00
Europipe France S.A., Dunkerque (France)[2]		1,386		100.00
Berg Steel Pipe Corporation, Panama-City, Florida (USA)[2]	USD	40,708		100.00
EB Pipe Coating, Inc., Panama-City, Florida (USA)[2]	USD	7,741		100.00
Eupec PipeCoatings GmbH, Mülheim an der Ruhr[2]		9,334		100.00
Eupec PipeCoatings France S.A., Joeuf (France)[2]		4,837		100.00
Röhrenwerk Gebr. Fuchs GmbH, Siegen-Kaan[1]		7,839		100.00
Mannesmannröhren-Werke 1. Verwaltungsgesellschaft mbH, Mülheim an der Ruhr[2]		14		50.00
Hüttenwerke Krupp Mannesmann GmbH, Duisburg[3]		122,730		30.00
DMV Stainless S.A.S., Montbard (France)[1]		19,396		100.00
DMV Stainless Italia S.R.L., Costa Volpino (Italy)[1]		8,329		100.00
DMV Stainless Deutschland GmbH, Remscheid[1]		7,241		100.00
DMV Stainless France S.A., Montbard (France)[1]		17,317		100.00
DMV Stainless USA Inc., Houston (USA)[1]	USD	15,144		100.00
DMV Stainless B.V., Helmond (Netherlands)[1]		26,072		100.00
Vallourec S.A., Boulogne-Billancourt (France)[3][4]		621,539		17.17

1) Fully consolidated
2) Proportionately consolidated
3) At equity
4) Percentage of voting rights 29.93 %

Accounting Principles

The consolidated financial statements of Salzgitter AG (SZAG) were prepared in accordance with the accounting principles of the International Accounting Standards Board (IASB) that were rendered mandatory on the balance sheet date by EU Regulation No. 1606/2002 and are based on the principle of historical acquisition cost. The requirements of the applied standards and interpretations (SIC/IFRIC) were satisfied without exception and convey a true and fair view of the assets, financial and earnings position of the Salzgitter Group.

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

The consolidated financial statements are disclosed and filed with the Commercial Register at Braunschweig District Court under HRB 9207. The Salzgitter AG company, entered in the Commercial Register at Braunschweig District Court, has its headquarters in Salzgitter. The address of the Executive Board of Salzgitter AG is Eisenhüttenstraße 99, 38239 Salzgitter.

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

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

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

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

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

An action to rescind this resolution was filed at Braunschweig Regional Court on December 19, 2005. In the meantime the court has received both a defense and a request for a statement that the action is not an obstacle to the registration of the spin-off in the Commercial Register (request for acceptance).

When the taxes on income were being ascertained, the effects of the new Group structure adopted by the Extraordinary Meeting of Shareholders of Salzgitter AG on November 17, 2005, were taken into consideration.

As part of the reorganization of the Group structure, it was also agreed between Salzgitter AG and Salzgitter Mannesmann GmbH to implement the groupwide cash and foreign currency management solely through SMG effective from December 1, 2005.

On December 15, 2005, the Executive Board and the Supervisory Board issued the Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act [AktG] and made it permanently available to shareholders on the company's website (www.salzgitter-ag.de). The Declaration of Compliance is also printed in the annual report in the section on Corporate Governance Report.

Consolidation Principles and Methods

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

The consolidated financial statements include all of the companies whose financial and business policies Salzgitter AG is capable of determining directly or indirectly in such a way that the companies in the Salzgitter Group derive benefit from the activities of these companies. These companies are included in the consolidated financial statements as of the time when the Salzgitter Group becomes capable of controlling them. If this possibility is no longer given, these companies will be excluded from the consolidated group.

Capital consolidation is carried out by setting off the acquisition cost of the shareholding against the proportionate amount of the newly-valued equity at the time when the subsidiary was purchased.

The result posted by a subsidiary that has been sold must be included in the consolidated financial statements up to the time of the sale. This is the time when the control of the subsidiary by the parent company ends. The difference between the proceeds from the sale of the subsidiary and the book values of the assets, less the debts at the time of the sale, is included in the consolidated income statement. In the event that the subsidiaries being excluded from the consolidated group were allocated goodwill that was acquired prior to October 1, 1995, any past offsetting against retained earnings without effect on income is not revoked.

In accordance with IAS 31, a joint venture exists if two or more partners are engaged in conducting a business activity under joint control. Control in this case constitutes the possibility of determining the business and financial policy that governs the commercial activity in order to derive a benefit from that activity. Joint control is defined as the contractually agreed sharing of control over a business activity. According to the benchmark method, joint ventures are included in the consolidated financial statements pursuant to IAS 31 by means of proportionate consolidation.

Shareholdings in companies in which the Salzgitter Group is able to exercise a decisive influence over financial and business policy decisions are valued in the consolidated financial statements using the equity method. If the Group is unable to exercise a decisive influence, the shares in the companies are included in the consolidated financial statements in accordance with IAS 39. The dates of admission into and departure from the group of companies valued using the equity method are determined by applying the same principles that are used for subsidiaries. The associated companies are reported using the revaluation method with their proportionate equity at the time of acquisition. In principle, each equity valuation is based on the latest audited annual financial statements, none of which is more than three months old.

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

In the case of assets and obligations denominated in foreign currency, the acquisition costs must on principle be reported at the exchange rate prevailing at the cutoff date when the acquisition was realized. Exchange rates are hedged as a matter of principle.

Intercompany sales, expenses and earnings, as well as receivables and liabilities between the companies included in the financial statements, are eliminated.

Intercompany profits deriving from intercompany deliveries and services are eliminated with effect on income, taking deferred taxes into account. Intercompany deliveries and services are subject to customary market terms.

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

Consolidated Group

In addition to the annual financial statements of the parent company, the consolidated financial statements include the annual financial statements of 34 (2004: 34) domestic and 11 (2004: 11) foreign affiliated companies.

Three domestic and five foreign joint ventures are included on a proportionate basis in the consolidated financial statements by means of proportionate consolidation.

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

in T €	FY 2005	FY 2004
Noncurrent assets	66,884	91,099
Current assets	140,635	112,499
Noncurrent debts	28,768	48,866
Current debts	82,717	78,893
Earnings	354,930	356,251
Expenses	288,315	287,385

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

A total of 23 (2004: 23) domestic and 25 (2004: 25) foreign subsidiaries have not been consolidated due to their minor overall significance for the assets, financial and earnings position of the Group.

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

	Status 31/12/2004	Additions	Disposals	Status 31/12/2005
Consolidated subsidiaries	**45**	**1**	**1**	**45**
of which domestic	34	1	1	34
of which foreign	11	–	–	11
Joint ventures	**8**	**–**	**–**	**8**
of which domestic	3	–	–	3
of which foreign	5	–	–	5
Associated companies	**7**	**–**	**2**	**5**
of which domestic	2	–	–	2
of which foreign	5	–	2	3

The addition results from a foundation of a new company in the Tubes Division; the disposal from the merger of a so far consolidated domestic subsidiary.

Currency Translation

In the individual annual financial statements of the company, business transactions in foreign currencies are valued at the exchange rate prevailing at the time when they were initially recorded. Exchange losses incurred due to the valuation of receivables and/or liabilities up to the reporting date are taken into consideration. Profits and losses resulting from changes in exchange rates are reported with effect on income.

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

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

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

Foreign currency per € 1	Reporting date		Annual average rate	
	31/12/2005	31/12/2004	FY 2005	FY 2004
Canadian dollar	1.3725	1.6416	1.5087	1.6167
US dollar	1.1797	1.3621	1.2441	1.2439
Brazilian real	2.7830	3.6162	3.0407	3.6311

Accounting and Valuation Principles

The annual financial statements of the subsidiaries included in the Salzgitter Group are prepared in accordance with uniform accounting and valuation principles in compliance with the provisions of the IASB.

Assets are capitalized if the Salzgitter Group is entitled to all of the material opportunities and risks associated with their respective use. In principle, assets are valued at amortized cost or production cost or current value. Financing costs are not capitalized.

From the financial year 2005 onwards, the changes to IFRS as a result of the IASB improvement project must be observed. For the Group, this has led to the following changes:

The application of IAS 1 in the reporting of the improvements project requires the classification of the balance sheet in current and noncurrent assets and debts, as well as equity. The proportion of minority interests must henceforth be reported under equity.

According to IAS 2, inventories will no longer be valued using the Lifo method from 2005 onwards. For that reason, inventories have basically been valued individually or using the average method. The adjustment to the valuation method was reported without affecting income in the financial year 2005. In the Steel Division, work in process and finished products were already valued at their moving average in the 2004 financial statements. An adjustment to January 1, 2004, was not made, as the amounts involved could not be ascertained reliably.

A considerable expansion of the disclosures in the Notes was necessitated by the application of IAS 24 (Related Party Disclosures) in the reporting of the improvements project.

Estimates and Assumptions

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

Goodwill/Negative Goodwill from Capital Consolidation

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

The negative difference reported under intangible assets as of December 31, 2004, was reposted to retained earnings neutral to income in accordance with IFRS as of January 1, 2005. Negative goodwill arising after March 31, 2004, will, in accordance with IFRS 3, be recognized immediately with effect on income after the net assets acquired have been revalued.

Intangible Assets

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

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

Internally generated intangible assets are capitalized if it is probable that their usefulness for the Group is reliable and their acquisition and/or production costs can be assessed reliably. The production costs of internally generated intangible assets are determined on the basis of directly attributable costs that are necessary for the creation, production and development of the asset so that it is in good operational condition for the purposes intended for it by the Group's management.

Development costs are capitalized if a newly-developed product or procedure can be clearly defined, is technically feasible and is intended for either the company's own use or marketing. Moreover, capitalization presupposes that development costs will with sufficient probability be covered by future inflows of cash and cash equivalents. As of December 31, 2005, there were no substantial development costs within the Salzgitter Group that satisfied these prerequisites. Research costs are recognized as expenses.

Tangible Fixed Assets

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

The production costs of internally generated tangible fixed assets are determined on the basis of directly attributable costs and estimated demolition and restoration costs. Financing costs for the production period are not included.

The costs of regular maintenance and repair for tangible fixed assets are recognized as expenses. Renewal and maintenance expenses are capitalized as subsequent production costs if they result in a material extension of the useful life or a substantial improvement or an important change in the use of the said tangible fixed assets.

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

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

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

Leasing

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

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

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

Financial Assets

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

The categories used are as follows:

a) Financial assets at fair value through profit and loss

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

b) Loans and receivables

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

c) Held-to-maturity investments

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

d) Derivatives with documented hedging arrangements

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

e) Available-for-sale financial assets

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

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

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

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

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

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

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

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

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

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

Fair value hedge

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

Cash flow hedge

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

Derivatives that do not qualify for hedge accounting

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

For financial instruments that do not belong to the "at fair value through profit and loss" category, it is examined as of each reporting date whether there are any objective indications of a diminution in the value of a financial asset or a group of financial assets.

Diminutions in the value of financial instruments in the "loans and receivables" and "held-to-maturity investments" categories are posted to income; write-ups are also recorded with effect on income.

In the case of equity instruments that are classified as available-for-sale financial assets, a material or permanent decrease in the fair value is posted to income as a diminution in value. Diminutions in the value of equity instruments that have already been recorded in the income statement are reversed without affecting income.

Financial instruments are written off when the rights to payment from the investment have lapsed or been transferred and the Group has essentially transferred all of the risks and opportunities associated with their ownership.

Trade Receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective yield method, less diminutions in value. A diminution in value of trade receivables is reported when there is objective evidence that the Group will not be able to collect all of the amounts due. The amount of the value diminution corresponds to the difference between the book value of the receivable and the net present value of the estimated future cash flows from the receivable, discounted at the effective interest rate. The diminution in value is disclosed in the income statement.

Inventories

Inventories are stated at acquisition or production cost or the lower net realizable value. They are valued at average costs or individually attributed acquisition or production costs. The production costs are determined on the basis of normal operating capacity. Specifically, the production costs include not only the directly attributable costs, but also the production-related material and production overheads including production-related depreciation. Borrowing costs are not capitalized as part of the acquisition or production costs. Lower values on the reporting date resulting from the decrease in net realizable values are stated. If the net realizable value of previously written-down inventories has increased, the resultant reversal of write-downs is recorded as a reduction in the cost of materials or a change in inventories.

All discernible storage and inventory risks that impact the expected net realizable value are taken into account through the suitable application of value adjustments.

Work in progress and finished products, as well as internally generated raw materials, are valued at group production cost, which in addition to direct costs include the variable and fixed overhead costs that are calculated systematically or attributed.

Rights to emit CO_2 gases are reported in the balance sheet under inventories (supplies). Initial ownership of emission rights that were acquired without remuneration are recorded at an acquisition cost of € 0. Emission rights acquired against payment are recorded at acquisition cost. Increases in the value of the capitalized emission rights are realized only in the event of a sale. Diminutions in the value of the capitalized emission rights are recorded when the market price of the emission rights has fallen below the acquisition cost.

Provisions for Pensions

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

The pension commitments are valued on the basis of actuarial assumptions and calculations. The defined benefit obligations are determined using the internationally accepted projected unit credit method. The projected unit credit method takes into account not only pensions and acquired claims that are known on the reporting date, but also the increases in salaries and pensions that may be expected in the future. The current service costs are shown as personnel costs, and the interest component of allocations to provisions is shown as net interest income.

Actuarial profits and losses are recorded in full in the provisions for pension obligations.

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

	31/12/2005	31/12/2004
Actuarial rate	4.25 %	5.00 %
Trend in salaries	1.75 % or 2.75 %	1.75 % or 2.75 %
Trend in pensions	1.25 %	1.25 %
Staff turnover	1.00 %	1.00 %

The Heubeck actuarial tables (Richttafeln) from 1998 were used to value the expected mortality of the beneficiaries as of December 31, 2004, and the Heubeck actuarial tables 2005 G were used for the valuation as of December 31, 2005.

Income Taxes

Income tax liabilities are set off against corresponding tax refund claims if they relate to the same area of fiscal jurisdiction and their types and maturities match. The change in the deferred tax liabilities is explained under Note 20.

In accordance with IAS 12, deferred taxes are calculated using the balance sheet-oriented liability method. Under this method, tax relief and charges that are likely to arise in future are reported for temporary differences between the book values shown in the consolidated financial statements and the values attributed to assets and liabilities for tax purposes.

As of December 31, 2005, the deferred taxes of domestic companies were evaluated with an overall tax rate of 39 %.

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

The calculation of foreign income taxes is based on the laws and regulations that are valid in the individual countries.

The anticipated tax savings resulting from the utilization of losses carried forward whose realization is expected in the future are capitalized. When capitalized assets are valued for the purpose of future tax relief, consideration is given to the probability of the expected tax benefit being realized.

Assets deriving from future tax relief include capitalized deferred taxes arising from temporary differences between book values stated in the consolidated balance sheet and values attributed for tax purposes, as well as tax savings resulting from losses carried forward whose realization is anticipated at a future date.

Deferred tax claims in a particular area of fiscal jurisdiction are offset against deferred tax liabilities in the same area if the company is entitled to offset actual tax liabilities against tax claims and the taxes are levied by the same tax office; the offsetting is carried out insofar as there is matching maturity.

Sundry Provisions

Provisions are formed for current obligations to third parties whose occurrence would be likely to burden Group assets. They are reported at their likely performance amount, taking into consideration all the discernible risks involved, and are not offset against recourse claims. Provisions are formed only if they are based on a legal or de facto obligation to third parties.

Borrowings

When they are recorded for the first time, borrowings are stated at fair value less transaction costs. In the subsequent periods they are basically valued at amortized cost; every difference between the amount paid out and the repayment amount is then spread over the term of the loan using the effective yield method.

Borrowings are classified as current liabilities insofar as the liability is going to be settled within 12 months of the reporting date.

Income and Expense Recognition

Sales and other operating earnings are recorded when performance has been rendered or assets have been furnished, and thus when the risk has already been passed.

Dividends are collected when the claim has been legally accrued; interest expenses and interest earnings are reported pro rata temporis. Within the scope of the changes in the consolidated group, acquired dividend claims are recorded without effect on income as part of the capital consolidation.

In accordance with IAS 20, grants may not be reported in the balance sheet until the necessary prerequisites have been fulfilled and it can be anticipated that the grants will actually be paid out. In principle, grants related to assets are reported as deductions from acquisition or production costs. Insofar as a grant related to income refers to future financial years, it is reported using the accrual method, and the component for future periods is transferred to an accrued item.

Diminutions in Value of Assets (Impairment Test)

On every balance sheet date, the Group examines the book values of its intangible and tangible fixed assets to establish whether there are any signs of a diminution in value. If such signs are discernible, the recoverable amount is estimated in order to determine the cost of the diminution in value. If the obtainable amount for the individual asset cannot be estimated, the estimate is made at the level of the cash generating unit to which the asset belongs. Write-downs are carried out if the recoverable amount of the asset is lower than its book value. The recoverable amount of an asset corresponds to the net selling price or the capitalized value, whichever is higher. The capitalized value is determined by the net present value of future cash flows attributable to the asset. If the reason for a previous write-down no longer exists, a write-up is carried out.

Noncurrent assets that are classified as available for sale are reported at the book value or the lower fair value, less disposal costs.

Financial Risk Management

The Group's business activities expose it to a variety of financial risks: the market risk (includes the currency risk, the fair value interest rate risk and the market price risk), the credit risk, the liquidity risk and the cash flow interest risk. The Group's overall risk management program is focused on the unpredictability of developments on the financial markets and seeks to minimize potential adverse effects on the Group's financial position.

Risk management is carried out independently by the subsidiaries and associated companies of Salzgitter AG in accordance with policies approved by the Executive Board. The Executive Board issues written principles for overall risk management as well as guidelines for specific areas such as the foreign exchange risk, the interest rate and credit risk, the use of derivative and non-derivative financial instruments and the investment of excess liquidity.

Currency risk

The Group operates internationally and is therefore exposed to a currency risk based on fluctuations in the exchange rates between various foreign currencies. Currency risks arise from expected future transactions and assets and liabilities reported in the balance sheet. The risk arises when transactions are denominated in a currency that is not the functional currency of the company. The Group companies use forward exchange contracts to hedge against such risks.

In the Group, the hedging relationship between the hedging instrument and the underlying transaction, the objective of the Group's risk management and the strategy underlying the hedging transactions are documented when the transaction is concluded. In addition, the estimation as to whether the derivatives used in the hedging relationship compensate highly effectively for the changes in the current value or the underlying transaction's cash flow is documented in the Group at the start of the hedging transaction and continuously thereafter.

Credit risk

The Group has no significant potential credit risk clusters. It has trading policies and an efficient receivables management program which ensure that products are sold only to customers with an appropriate payment history. Contracts involving derivative financial instruments and financial transactions are restricted to financial institutions with prime creditworthiness. The Group's business policy is to limit the amount of credit exposure to any individual financial institution.

Liquidity risk

Prudent liquidity risk management includes the maintenance of sufficient reserves of cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the existence of unused credit facilities.

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from noncurrent, interest-bearing liabilities. The liabilities with variable interest rates expose the Group to a cash flow interest rate risk. The fixed-interest liabilities give rise to a fair value interest rate risk.

Notes to the Income Statement

(1) Sales

in T€	FY 2005	FY 2004
Breakdown according to product categories		
Flat rolled products	3,378,866	3,012,553
Sections	793,251	794,175
Pipes	1,908,016	1,283,921
Other	1,071,446	850,873
	7,151,579	**5,941,522**
Breakdown according to regions		
Domestic	3,214,496	2,819,171
Other EU	1,680,663	1,454,141
Other Europe	289,073	236,433
America	691,732	587,893
Other	1,275,615	843,884
	7,151,579	**5,941,522**

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

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

in T€	FY 2005	FY 2004
Changes in the inventory of finished goods and work in progress	156,558	37,501
Own work capitalized	3,360	4,057
	159,918	**41,558**

Changes in inventories include effects from the discontinuation of the Lifo method pursuant to IAS 2 amounting to € 43.8 million (2004: € 34.6 million). By the reporting date, moreover, higher inventories from the Tubes Division had to be included in the balance sheet for accounting reasons.

(3) Other Operating Earnings

in T€	FY 2005	FY 2004
Income from disposal of fixed assets	172,812	16,747
Reversal of provisions and allowances	59,357	30,108
Income from the valuation of financial derivates and foreign currency positions	45,460	26,766
Income from changes in exchange rates	4,222	5,515
Ancillary operating income	11,348	8,802
Income from amortized receivables	6,369	9,226
Rental, leasing and licensing income	3,855	3,656
Subsidies	2,480	2,299
Insurance compensation	2,123	7,878
Charged-on costs	1,676	3,925
Refunds from previous years	1,385	2,077
Amortization of negative goodwill from capital consolidation	–	60,429
Other income	21,711	27,200
Other operating earnings	**332,798**	**204,628**

In the course of the fourth quarter of 2005, 575,000 shares in Vallourec S.A., Boulogne-Billancourt, were gradually sold, reducing the shareholding in the company from 22.65% to 17.17%. The sale resulted in a book profit of € 163 million.

Other operating earnings include earnings unrelated to the accounting period totaling € 53 million (2004: € 51 million) that consisted mainly of income from the disposal of assets, the liquidation of provisions for non-recurring obligations, insurance compensation payments and reimbursements of costs for previous years.

(4) Cost of Materials

in T€	FY 2005	FY 2004
Cost of raw materials, consumables, supplies and purchased goods	4,667,384	3,745,181
Cost of purchased services	198,809	261,362
Cost of materials	**4,866,193**	**4,006,543**

The cost of raw materials, consumables and supplies relates primarily to expenses for materials used, consumables and supplies, spare parts and plant equipment.

The cost of purchased services refers essentially to sales-related contract processing and intra-company transport costs.

As far as the cost of materials was concerned, the discontinuation of the Lifo method pursuant to IAS 2 had a positive effect of € 46.1 million (2004: € 0.4 million). The remainder of the increase can be attributed mainly to increases in the cost of raw materials and energy.

(5) Personnel Expenses

in T€	FY 2005	FY 2004
Wages and salaries	809,335	745,704
Social security, pension and other benefits	184,704	180,230
of which pension commitments	[85,281]	[78,810]
Personnel expenses	**994,039**	**925,934**

In the financial year 2005, the defined contribution plan payments in the Salzgitter Group totaled € 72.8 million (2004: € 68.4 million). Allocations to the pension provisions amounting to € 12.5 million (2004: € 10.4 million) are reported as costs for defined benefit plans. The allocations to provisions include only ongoing pension costs for employees' earned pension expectancies in the reporting year. The costs for retirement pensions do not include the compounding of the pension provisions that are shown in the financial result.

Average number of employees (excl. employees in non-active age-related part-time employment)	FY 2005	FY 2004
Wage labor	11,414	11,520
Salaried employees	5,770	5,801
Group core workforce	**17,184**	**17,321**

(6) Amortization and Depreciation

The amortization of intangible assets and the depreciation of tangible fixed assets were carried out according to schedule in the reporting year and are shown in the consolidated fixed assets. The following expenses resulting from diminutions in value (write-downs) were also taken into account:

in T€	FY 2005	FY 2004
Intangible assets	1	407
Land, similar rights and buildings, including buildings on land owned by others	2,512	3,695
Plant equipment and machinery	2,842	97,869
Other equipment, factory and office equipment/ equipment under construction	3,704	8,026
Write-downs	**9,059**	**109,997**

The value diminution expenses are calculated in accordance with the provisions of IAS 36. They were amortized on the basis of value in use or the higher net realizable value.

An impairment test is carried out at least once a year for goodwill and intangible assets with indeterminate useful lives. In the case of other intangible assets with limited useful lives, however, such a test is carried out only on specific grounds. In the Salzgitter Group, the value of goodwill and intangible assets with indeterminate useful lives is basically determined by their value in use. This calculation is based on the current plans prepared by the management for the years 2006 to 2008. The premises of the plans are derived from the current state of knowledge. The value in use is calculated using the discounted cash flow method based on an interest rate spread of 6.6 to 8.0 % p.a. This led to value diminution expenses of € 9.1 million (2004: 110.0 million).

(7) Other Operating Expenses

in T€	FY 2005	FY 2004
External services including provisioning	253,328	216,534
Selling expenses	226,495	220,261
Administrative expenses including insurance costs, fees, charges	67,507	70,071
Income from the valuation of financial derivatives and foreign currency positions	46,018	25,581
Loss from disposal of assets	30,948	8,351
Advertising/Information and travel expenses	22,708	21,492
Rents and leases	18,368	21,145
EDP costs	12,448	13,035
Other welfare-related personnel and non-personnel expenses	11,027	11,308
Allowances for doubtful accounts	8,534	21,646
Exchange losses	7,968	6,097
Financial/Monetary transfer expenses	7,097	5,733
Loss on the disposal of current assets	198	7,030
Other expenses	27,154	4,633
Other operating expenses	**739,798**	**652,917**

Losses in the amount of € 24.4 million from plant disposals were accounted for by the sale of the shares in Vallourec & Mannesmann Tubes S.A., Boulogne-Billancourt, Vallourec & Mannesmann Tubes Corporation, Houston, and V&M Deutschland GmbH to Vallourec S.A. and its subsidiaries. This book loss contains exchange rate differences of € 103.4 million that had previously been booked against Group shareholders' equity and with no effect on income.

Other operating expenses include expenses unrelated to the accounting period totaling € 15.3 million (2004: € 51.9 million).

(8) Income from Shareholdings

in T€	FY 2005	FY 2004
Earnings from profit transfer agreements	418	602
of which affiliated companies	[418]	[546]
Income from shareholdings	4,618	4,851
of which affiliated companies	[55]	[1]
Expenses from the transfer of losses	847	–
of which affiliated companies	[563]	[–]
Income from shareholdings	**4,189**	**5,453**

(9) Income from Associated Companies

in T€	FY 2005	FY 2004
Income from associated companies	185,063	124,317

Income from associated companies essentially derives from Vallourec & Mannesmann Tubes S.A., Boulogne-Billancourt, and Vallourec S.A., Boulogne-Billancourt. The shares in Vallourec & Mannesmann Tubes S.A., Boulogne-Billancourt, were sold at the end of June 2005. The income from associated companies contains this company's pro rata semi-annual result.

(10) Write-downs on Financial Assets

in T€	FY 2005	FY 2004
Write-downs on financial assets	9,789	8,206

The write-downs on financial assets in the financial year under review consist solely of write-downs on the fair value of shareholdings in affiliated companies (2004: € 0.1 million on affiliated companies and € 8.1 million on shareholdings).

(11) Financing Income/Financing Expenses

in T€	FY 2005	FY 2004
Income from loans from financial assets	260	273
Other interest earned and similar income	30,684	15,694
of which affiliated companies	[521]	[892]
Financing income	**30,944**	**15,967**

in T€	FY 2005	FY 2004
Interest and similar expenses	107,477	104,290
of which affiliated companies	[584]	[400]
Financing expenses	**107,477**	**104,290**

The interest component included as part of the allocations to pension provisions is reported at € 78.4 million (2004: € 81.4 million) under interest expenses.

(12) Taxes

in T€	FY 2005	FY 2004
Income taxes		
Current tax expense/tax income (+/–)	143,453	48,449
Deferred tax expense/tax income (+/–)	–58,151	16,374
	85,302	**64,823**
of which unrelated to the accounting period	[–4,110]	[3,952]
Other taxes	**13,608**	**11,214**
Total	**98,910**	**76,037**

Income taxes amounting to € 85.3 million affect the result from ordinary activities after deduction of other taxes. The income taxes unrelated to the accounting period mainly concern deferred tax income for previous years.

Other taxes essentially comprise the costs of real property taxes in Germany and abroad and property acquisition tax in Germany.

In relation to results, but also in consideration of the "minimum taxation" applicable to profits earned within Germany, current income tax expenses increased to € 143.5 million. € 129.0 million of this sum was accounted for by domestic income taxes. The deferred tax income of € 58.2 million results essentially from the capitalization of losses carried forward that were recognized for the first time and from other asset-side deferred tax savings.

Future dividend payments have no consequences for taxes on income. Deferred taxes amounting to € 30.7 million (2004: € 51.9 million) were recorded for business transactions that had a direct impact on equity in the financial year under review. All in all, deferred taxes on changes not posted to income were included in equity in the amount of € 82.1 million (2004: € 51.4 million) as of the end of the financial year.

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

in T€	31/12/2005		31/12/2004	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	7,165	30	7,188	93
Tangible fixed assets	3,257	178,454	3,039	157,469
Financial assets	6,908	1,864	77	65
Current assets	5,739	74,360	4,483	31,576
Pension provisions	164,817	90	98,838	–
Other provisions	32,617	12,594	19,156	2,886
Special item including reserves	–	10,845	–	11,361
Liabilities	31,092	1,135	10,791	12
Other items	671	2	796	1,594
Total	**252,266**	**279,374**	**144,368**	**205,056**

Summary of the tax benefits from losses carried forward:

in T€	31/12/2005	31/12/2004
Corporate income tax	73,829	17,413
Trade tax	1,653	2,786
Capitalized tax savings	**75,482**	**20,199**

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

in T€	FY 2005	FY 2004
Capitalized tax savings January 1	20,199	36,245
Changes to the consolidated group	–	–221
Capitalization of tax savings from losses carried forward	212,304	36,272
Use of losses carried forward	–87,041	–42,879
Value adjustments from losses carried forward	–69,980	–9,218
Capitalized tax savings December 31	**75,482**	**20,199**

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

The change in the capitalized tax savings on tax loss carryforwards amounting to € 55.3 million resulted essentially from the tax loss carryforwards at a German subsidiary that were recognized for the first time. As of the beginning of the financial year, € 136.7 million of this sum was accounted for by deferred tax income, offset by € 79.6 million in deferred tax expenses for the simultaneous utilization of these loss carryforwards.

In connection with this tax savings on deductible temporary differences in previous years that were assessed as unusable were recognized for the first time; these amounted to € 43.3 million.

The potential tax savings for the tax loss carryforwards at several companies amounting to € 122.8 million as of December 31, 2004, that had already existed or had emerged for the first time during the financial year were not recorded in the balance sheet, as the possibility of using them appears improbable at present.

The capitalization of deferred taxes for temporary differences amounting to € 3.7 million was also dispensed with due to a lack of value. Tax loss carryforwards previously not included led to a reduction of € 1.0 million in the actual tax expenses in the financial year under review.

Transition from anticipated to actual income tax expenses:

in T€	FY 2005	FY 2004
Consolidated net income for the year before income tax	**927,297**	**311,557**
Expected income tax expenditure (tax rate 39.0%)	361,646	121,507
Tax share for:		
differences between tax rates	–326	–530
tax-free income	–134,205	–52,943
reversal of neg. goodwill/amortization on goodwill	–	–23,154
non-deductible tax expenditures and other permanent differences	26,852	3,214
temporary differences excluding deferred taxes	4,902	18,946
effects of temporary differences and losses		
adjustment in the value of capitalized benefits	9,260	12,760
application of benefits not previously capitalized	–3,254	–20,701
capitalization of previously unreported advantages from losses carried forward and temporary differences	–179,988	–
tax expenses and income unrelated to the accounting period	–4,110	3,952
other deviations	4,525	1,772
Actual income tax expenses	**85,302**	**64,823**

The actual income tax expenses of € 85.3 million diverge by € 276.3 million from the expected income tax expenses of € 361.6 million. This results primarily from the effects of tax-free earnings and from the capitalization of losses carried forward (€ 136.7 million) recognized as valuable for the first time and temporary differences (€ 43.3 million).

(13) Minority Interests

in T€	FY 2005	FY 2004
Minority interests in consolidated net income for the year	–93	2.235

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

- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg,
- Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Wolfsburg (including its subsidiaries),
- Hövelmann & Lueg GmbH, Schwerte.

(14) Earnings per Share

The undiluted earnings per share are determined in accordance with IAS 33 as the ratio between the Group net income for the financial year to which the shareholders of Salzgitter AG are entitled and the weighted average number of individual bearer share certificates in circulation during the financial year. Earnings per share according to IAS 33 are € 14.09.

The earnings per share would be diluted if the average number of shares were increased by adding the issue of potential shares from option and conversion rights. There were no such rights as of the reporting date, however. For that reason, the diluted earnings per share also amount to € 14.09.

	Shares issued	Own shares	Shares in circulation
Beginning of financial year	62,938,400	1,129,497	61,808,903
Purchase of own shares		5,192,031	
Issue of new shares	280,000		
End of financial year	63,218,400	6,321,528	56,896,872
Weighted number of shares	**63,134,450**	**3,371,890**	**59,762,560**

Earnings per share		**FY 2005**	**FY 2004**
Consolidated net income for the year	in T€	841,995	246,735
Minority interests	in T€	–93	2,235
Consolidated net income due to Salzgitter AG shareholders	in T€	842,088	244,500
Earnings per share	**in €**	**14.09**	**3.99**

Notes to the Consolidated Balance Sheet

Noncurrent Assets

(15) Goodwill

Goodwill is reported under intangible assets (in 2004 the goodwill and negative goodwill were offset under intangible assets). From 2005 onwards, capitalized goodwill will not be reversed regularly as before, but subjected to an impairment test at least once a year.

The residual book value of the negative goodwill as of December 31, 2004, was reposted to retained earnings without effect on income as of January 1, 2005, in accordance with IFRS 3.

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

Development of goodwill in T€	**31/12/2005**	**31/12/2004**
Opening balance hist. acquisition costs January 1	12,863	12,863
Disposals	–11,639	–
Closing balance hist. acquisition costs December 31	1,224	12,863
Opening balance valuation allowances January 1	11,639	10,578
Amortization current financial year	–	1,061
Disposals	–11,639	–
Closing balance valuation allowances December 31	–	11,639
Book value December 31	**1,224**	**1,224**

Development of negative goodwill in T€	**31/12/2005**	**31/12/2004**
Opening balance hist. acquisition costs January 1	383,203	379,906
Additions	–	3,297
Disposals	–383,203	–
Closing balance hist. acquisition costs December 31	–	383,203
Opening balance reversals January 1	248,663	188,234
Reversals current financial year	–	60,429
Disposals	–248,663	–
Closing balance reversals as of December 31	–	248,663
Book value December 31	**–**	**134,540**

Under the IASB regulations, only the residual book value of the capitalized goodwill is reported. The accumulated valuation allowances from the previous year are therefore set off against accumulated acquisition cost and disclosed as disposals. The book value of € 1.2 million relates to a French joint venture. No value diminution expenses were ascertained and posted for this company in the reporting year.

(16) Other Intangible Assets

The development of the individual items under other intangible assets is shown in the schedule of consolidated fixed assets.

As of December 31, 2005, the book value of the capitalized internally generated intangible assets – which relates exclusively to computer software – amounted to € 0.1 million (2004: € 0.1 million).

As in the previous year, there was no capitalization of research and development expenses. Total research and development expenses in the reporting period amounted to € 57.5 million (2004: € 57.4 million).

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

(17) Tangible Fixed Assets

The development of the individual items in tangible fixed assets is shown in the consolidated fixed assets.

Breakdown of tangible fixed assets at book value:

in T€	31/12/2005	31/12/2004
Land and buildings	384,289	399,795
Plant equipment and machinery	923,281	880,044
Other equipment, factory and office equipment	51,100	49,214
Equipment under construction	41,849	30,280
Payments made on account	3,015	3,260
Tangible fixed assets	**1,403,534**	**1,362,593**

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

in T€	31/12/2005	31/12/2004
Buildings	5,529	5,468
Plant equipment and machinery	1,223	393
Other equipment, factory and office equipment	34,834	4,041
	41,586	**9,902**

The amount of the reported value diminution expenses is shown under Note 6.

Restraints on the right of ownership or disposal on the reporting date amounted to € 31.1 million (2004: € 35.8 million).

The historical acquisition costs of the tangible fixed assets that have been fully depreciated but are still in use amount to € 2,545.4 million (2004: € 2,423.5 million).

(18) Financial Assets

The development of the individual items under financial assets is shown in the consolidated fixed assets.

Breakdown of financial assets:

in T€	31/12/2005	31/12/2004
Shares in affiliated companies	24,916	34,634
Shareholdings	23,239	22,813
Noncurrent securities	27,888	4,215
Other loans	2,226	3,088
Financial assets	**78,269**	**64,750**

The decrease in shares in affiliated companies relates to a valuation allowance for the financial asset value of a company in the Services Division.

The increase in noncurrent securities results from the investment of cash generated by the sale of shares in Vallourec & Mannesmann Tubes S.A., Boulogne-Billancourt.

The other loans are accounted for almost entirely by interest-bearing housing loans to employees.

(19) Associated Companies

in T€	31/12/2005	31/12/2004
Opening inventory, January 1	596,308	512,594
Profit of current financial year	185,063	124,317
Additions	50,265	–
Disposals	–542,765	–
Currency translation differences	13,030	–12,939
Other changes in equity	–408	–27,664
Book value December 31	**301,493**	**596,308**

The figure reported for at-equity shares in associated companies decreased by € 294.8 million compared with the previous financial year. This was primarily accounted for by the sale of the shares in Vallourec & Mannesmann Tubes S.A., Boulogne-Billancourt, and the reduction of the shareholding in Vallourec S.A., Boulogne-Billancourt. This is offset by the results for the year posted by the associated companies, the additions from the capital increase of € 28 million at Vallourec S.A., the acquisition of further shares amounting to € 22 million in Hüttenwerke Krupp Mannesmann GmbH, Duisburg, and the change in the currency translation differences.

The Group's shares in its significant associated companies are as follows:

2005 in T€	Assets	Debts	Earnings	Profit	Proportion (%)
Vallourec S.A., Boulogne-Billancourt (France)	3,584,274	2,081,178	4,479,229	632,389	17.17
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	757,541	562,924	1,948,527	2,547	30.00
	4,341,815	**2,644,102**	**6,427,756**	**634,936**	

2004 in T€	Assets	Debts	Earnings	Profit	Proportion (%)
Vallourec S.A., Boulogne-Billancourt (France)	2,750,491	1,437,951	3,128,887	265,252	22.65
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	750,868	538,840	1,638,092	5,256	20.00
	3,501,359	**1,976,791**	**4,766,979**	**270,508**	

The shares in the listed company Vallourec S.A. represent a pro rata market capitalization of € 846.5 million.

(20) Deferred Income Tax Claims

If it is likely that tax benefits will be realized, they must be capitalized. Clearing is possible only if the deferred tax assets and liabilities relate to the same tax authority. Deferred tax claims amounting to € 239.0 million (2004: € 163.6 million) were set off in the financial year 2005.

in T€	31/12/2005	31/12/2004
Deferred tax receivables	**88,712**	**996**
Realization after more than 12 months	59,411	–
Realization within 12 months	29,301	996
Deferred tax liabilities	**40,338**	**41,486**
Realization after more than 12 months	2,615	27,621
Realization within 12 months	37,723	13,865
Balance of deferred tax receivables and deferred tax liabilities	**48,374**	**–40,490**

(21) Other Receivables and Sundry Assets

The long-term receivables from financial leasing consist of the following:

in T€	31/12/2005	31/12/2004
Total gross investment	4,401	4,766
Unrealized financial income	399	428
Book value	**4,002**	**4,338**

This position also includes the transactions from the financial leasing of telecommunications equipment at two subsidiaries in the Services Division. All of the transactions have a residual term of less than five years.

Current Assets

(22) Inventories

in T€	31/12/2005	31/12/2004
Raw materials, consumables and supplies	482,873	345,023
Unfinished products	292,704	216,507
Unfinished goods or services	6,343	7,413
Finished products and goods	639,613	499,475
Advance payments made on account	17,476	12,580
Inventories	**1,439,009**	**1,080,998**

Individual markdowns were made in the valuations of all the inventories where it is likely that the revenues realized through their sale or use will be lower than their book values. The anticipated realizable sale proceeds less costs incurred up to the time of sale are reported as the net realizable value.

If the reasons for devaluing the inventories no longer apply, a reversal of the write-down is carried out. In the reporting period this led to a write-up of € 0.5 million (2004: € 7.0 million).

In accordance with the amended IAS 2, inventories are valued individually or the average method is applied (in the previous year the raw materials, consumables and supplies in the Steel Division and the goods in the Trading Division were still valued according to the Lifo method). The adjustment was made as per January 1, 2005, and offset against equity in the amount of € 35.4 million, without concurrent effect on income.

The book value of the inventories reported at fair value less selling expenses amounted to € 357.0 million in the reporting year (2004: € 214.1 million).

Diminutions in inventory values amounting to € 9.2 million (2004: € 25.8 million) were posted to expenses.

There are no significant restrictions on the ownership or disposal of the inventories disclosed (2004: € 10.5 million).

(23) Trade Receivables

in T€	31/12/2005	31/12/2004
Receivables due from third parties	840,512	853,632
Receivables due from affiliated companies	9,640	13,732
Receivables due from enterprises in which a participating interest is held	30,085	34,601
Trade receivables	**880,237**	**901,965**

Appropriate valuation markdowns have been made for all discernible individual risks, the credit risk assessed on the basis of empirical values and specific country risks.

Restrictions on the ownership or disposal of trade receivables amount to € 126.7 million (2004: € 173.2 million). These are accounted for exclusively (2004: € 165.8 million) by the forfaiting of receivables and asset-backed securitization programs. For further details, we refer to Note 37 “Other Liabilities”.

(24) Other Receivables and Sundry Assets

in T€	31/12/2005	31/12/2004
Other receivables due from affiliated companies	5,722	6,409
of which loans	[3,586]	[2,569]
of which other receivables	[2,136]	[3,840]
Other receivables due from participating interests	15,090	3,439
of which loans	[12,753]	[3,061]
of which other receivables	[2,337]	[378]
Loans against borrower’s notes/bond (straddle)	100,000	–
Tax refund claims (other taxes)	18,764	20,146
Derivatives	18,456	12,900
Age-related part-time employment subsidies	7,717	9,784
Advances on company pensions	3,846	4,175
Finance lease agreements	2,648	2,675
Prepaid expenses and deferred charges	2,253	2,131
Assets available for sale	1,776	1,667
Sundry assets	51,323	14,032
Other receivables and sundry assets	**227,595**	**77,358**

Other receivables and sundry assets include the sum of € 7.7 million (2004: € 9.8 million) that will not become legally effective until after the reporting date.

The cash generated by the sale of the shares in Vallourec & Mannesmann Tubes S.A. was partly invested in the form of fixed-interest loans against non-listed borrower's notes. The interest on these investments ranges from 2.4 and 4.0%. They mature on June 29, 2006.

A straddle is a structured investment whose returns are subject to a notional withholding tax at the registered seat of the issuer. These forms of investment feature the EUR-USD derivative which, depending on exchange rate developments, results in the payment of an additional coupon during the term of the investment. The offsetting nature of the securities prevents asymmetrical risks and makes it possible to optimize their after-tax returns.

The short-term receivables from financial leasing consist of the following:

in T€	31/12/2005	31/12/2004
Total gross investment	3,047	3,096
Unrealized financial income	399	421
Book value	**2,648**	**2,675**

The rental earnings are reported under other operational earnings.

(25) Income Tax Refund Claims

The income tax refund claims of € 82.4 million that existed as of December 31, 2005, (2004: € 8.2 million) relate essentially to income tax overpayments by a domestic Group company. These are offset by noncurrent income tax liabilities of € 68.2 million (2004: € 26.9 million) and current income tax liabilities of € 98.9 million (2004: € 27.3 million).

Refund claims are set off against tax liabilities if there is an enforceable right to set off the reported amounts against each other and the intention is to offset them in net terms. The prerequisites of this are that the tax refund claim and the tax liability both relate to the same tax authority and that the tax authority allows their offsetting.

(26) Cash and Cash Equivalents

in T€	31/12/2005	31/12/2004
Cash at banks	592,644	245,466
Current investments	290,548	–
Checks, cash in hand	1,705	405
Cash and cash equivalents	**884,897**	**245,871**

Current investments include near-money market funds. In addition, the cash generated by the sale of the shares in Vallourec & Mannesmann Tubes S.A. was invested in the form of securities lending transactions.

For further explanations, we refer to Note 40.

(27) Subscribed Capital

In the financial year 2005, the subscribed capital (capital stock) increased to € 161,615,273.32 as a result of the issuance of 280,000 shares from the contingent capital for servicing the Salzgitter stock option plan. The 63,218,400 no par value shares have a notional par value of € 2.56 each.

In accordance with the resolution passed by the General Meeting of Shareholders on April 23, 1998, provision was made for contingent capital of up to € 5.1 million to cover the issue of warrant-linked bonds. These warrant-linked bonds comprise a 5% Salzgitter AG bond (with a term from 1998 to 2005) coupled with option rights that entitle the holder to subscribe to Salzgitter AG shares when defined conditions occur. In the financial year 2005, the criteria were fulfilled on various dates and, accordingly, option rights for subscription to 280,000 shares were exercised by the persons entitled to them. Their exercise, which was possible up to September 30, 2005, led to increases of € 715,808.64 in the subscribed capital and € 2,672,829.53 in the capital reserve. At the same time, the bond was repaid in full in the amount of € 715,808.69.

In accordance with the resolution passed by the General Meeting of Shareholders on May 26, 2004, the capital stock was increased by up to € 15,952,306.69 through the issuance of up to 6,240,000 new no par value bearer shares (Contingent Capital 2004). The purpose of this contingent increase in capital is to facilitate the granting of option and conversion rights, in accordance with the option and convertible bond terms, to the holders of the options and/or convertible bonds issued on the basis of the authorization granted by the General Meeting of Shareholders on May 26, 2004. This authorization enables the Executive Board, with the approval of the Supervisory Board, to issue interest-bearing bearer warrant-linked bonds and/or convertible bonds on one or more occasions on or before May 25, 2009, up to a total nominal value of € 90,000,000 with a maximum term of ten years and to grant the holders of the equally privileged bonds and option or conversion rights to a maximum of 6,240,000 new Salzgitter AG shares (corresponds to 10% of the capital stock prior to the capital increase).

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

(28) Capital Reserve

Under the capital reserve (€ 295.3 million), the sum of € 115.2 million is accounted for by a premium lodged on the occasion of a capital increase on October 1, 1970. Other amounts totaling € 111.2 million relate to reserves predating the merger of Ilseder Hütte with Salzgitter Hüttenwerke AG and lodged with the former Preussag Stahl AG, as well as a sundry contribution by the then principal shareholder dating from 1971/72.

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

The exercise of option rights from the stock option program led to an increase of € 7.8 million in the capital reserve.

(29) Retained Earnings

Retained earnings include allocations deriving from the results in the financial year or from previous years and differences resulting from the currency translation – without effect on income – of the accounts of foreign subsidiaries against which, in particular, the capitalized goodwill of subsidiaries acquired up to September 30, 1995, has been offset. The retained earnings also include further components that were immediately posted to equity in accordance with the IASB regulations. The articles of incorporation of Salzgitter AG do not contain specified regulations for the formation of reserves.

The retained earnings include differences from currency translation amounting to – € 19.6 million (2004: – € 144.4 million). The decrease of € 124.8 million compared with the previous year results mainly from the sale of the V&M shares in 2005.

According to the new regulations in IAS 19 “Employee Benefits”, all pension commitments are reported in the balance sheet and the actuarial gains and losses are posted immediately to equity. As of the reporting date, actuarial losses of € 251.2 million, after deduction of deferred taxes, were posted immediately to equity (including the actuarial losses posted by associated companies that were not reported in the provisions for pensions).

Salzgitter AG holds 6,321,528 (2004: 1,129,497) of its own no par value shares with a notional total value of € 16,160,729.72, equating to 9.9995% of the subscribed capital (2004: € 2,887,513.23 = 1.79%).

In the reporting year, 5,379,337 shares with a notional total value of € 13,752,056.68 (= 8.51% of the subscribed capital) were acquired in the months of June (797,638 shares; average price € 21.43 per share), July (2,252,319 shares; average price € 23.88 per share), August (846,556 shares; average price € 28.88 per share), September (997,672 shares; average price 37.67 € per share) and October (485,152 shares; average price 40.21 € per share) at an acquisition cost of € 152,410,118.99 (average price € 28.33 per share) for the purpose of making future acquisitions.

Of the 6,321,528 shares acquired pursuant to Section 71 para. 1 no. 8 of the German Stock Corporation Act (AktG), 325,825 were acquired under the authorization granted by the General Meeting of Shareholders on March 16, 1999, 462,924 as authorized by the General Meeting of Shareholders on June 19, 2002, 153,442 as authorized by the General Meeting of Shareholders on May 28, 2003, and 5,379,337 as authorized by the General Meeting of Shareholders on May 26, 2004.

Of the 513,112 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 2,551 shares with a nominal total par value of € 6,521.53 to third parties at an average price of € 20.84. The shares, which were used as a cash equivalent, were sold in order to increase the number of shareholders. 184,736 shares with a nominal total par value of € 472,270.18 were issued free to employees and persons belonging to the Group in the form of a profit-sharing scheme, and 19 shares with a nominal total par value of € 48.57 (authorization of May 28, 2003) were likewise issued to reward improvement suggestions.

Own shares – amounting to € 160.3 million (2004: € 9.5 million) as of the reporting date – have been deducted immediately from equity.

(30) Profit shown on the Balance Sheet after Appropriation to or Transfer from Reserves

Under German commercial law, dividend payments to shareholders in Salzgitter AG are dependent on the year-end result reported under German commercial law by Salzgitter AG. The profit shown on the balance sheet after appropriation to or transfer from reserves is shown at the same level in both the consolidated financial statements of the Salzgitter Group and the financial statements of Salzgitter AG. The transition of Salzgitter AG's profit disclosed in the balance sheet after appropriation to or transfer from reserves from the consolidated net income for the year is shown in the income statement.

The proposal will be made to the General Meeting of the Shareholders of Salzgitter AG that a dividend for the financial year 2005 of € 0.50 per share, plus a bonus dividend of € 0.50 per share (equal to € 63.2 million based on the nominal capital stock of some € 161.6 million), be paid from Salzgitter AG's profit shown on the balance sheet after appropriation to or transfer from reserves and that the remaining amount be brought forward to new account.

Based on the closing price of € 45.61 for the Salzgitter share in XETRA trading on December 30, 2005, the dividend yield amounts to 2.2% (2004: 2.8%).

If the company holds own shares on the day of the General Meeting of Shareholders, the proposed appropriation of profits will be adjusted accordingly since own shares are not eligible for dividend.

(31) Minority Interests

This item contains the minority interests in the subscribed capital, the general reserves and the profits and losses of the Group companies reported.

The minority interests in equity relate to:
- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg,
- Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Wolfsburg (including its subsidiaries),
- Hövelmann & Lueg GmbH, Schwerte.

In the income statement, the result is reported proportionately under "minority interests in Group net income for the year".

Noncurrent Debts

(32) Provisions for Pensions and similar Obligations

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

In addition, the Salzgitter Group operates a company pension scheme based on performance-related commitments that are covered by provisions. The Group also has some insignificant fund-financed pension commitments.

The pension provisions are accounted for mostly by pension commitments undertaken by German companies and contain the entire net present value of the defined benefit obligations.

Provisions for pensions and similar obligations:

in T€	31/12/2005	31/12/2004
Pension provisions	1,721,946	1,625,039
Similar obligations	2,643	2,749
Total	**1,724,589**	**1,627,788**

The provisions for similar obligations take account of bridging payments in the event of death.

The actuarial gains (–) and losses (+) developed as follows:

in T€	FY 2005	FY 2004
As at January 1 of financial year	128,846	94,860
Change in current financial year	117,339	33,986
As at December 31 of financial year	**246,185**	**128,846**

The differences between the anticipated and actual development (experience adjustment) amounted to € 4.2 million in the reporting year.

The amount of provisions in the balance sheet is calculated as follows:

in T€	31/12/2005
Net present value of fund-financed obligations	6,941
Fair value of planned assets	–3,938
	3,003
Net present value of non-fund-financed obligations	1,718,943
Balance sheet provision for pensions	**1,721,946**

The provisions for pensions and similar obligations developed as follows:

FY 2005 in T€	Pension provisions	Similar obligations	Total
Opening balance Jan. 1	**1,625,039**	**2,749**	**1,627,788**
Transfer to other account	3,282	–	3,282
Transfer	–73	–	–73
Used	–114,209	–156	–114,365
Reversal	–331	–34	–365
Adjustment in line with actuarial assumptions, no effect on income	117,339	–	117,339
Additions	12,494	84	12,578
Interest added	78,405	–	78,405
Closing balance Dec. 31	**1,721,946**	**2,643**	**1,724,589**

FY 2004 in T€	Pension provisions	Similar obligations	Total
Opening balance Jan. 1	**1,504,722**	**2,977**	**1,507,699**
Adjustment due to IAS 19	94,860	–	94,860
Opening balance Jan. 1 (adjusted)	**1,599,582**	**2,977**	**1,602,559**
Changes in the consolidated group	3,003	–	3,003
Transfer to other account	2,639	–466	2,173
Transfer	272	–11	261
Used	–115,045	–110	–115,155
Reversal	–84	–42	–126
Adjustment in line with actuarial assumptions, no effect on income	33,986	–	33,986
Additions	19,266	401	19,667
Interest added	81,420	–	81,420
Closing balance Dec. 31	**1,625,039**	**2,749**	**1,627,788**

(33) Sundry Provisions

The development of the other short-term and long-term provisions is shown in the following table:

FY 2005 in T€	Status 1/1	Currency differences	Addition/Disposals from changes in consolidated group	Transfer
Other taxes	4,404	23	–	–
Personnel	129,300	–	–	289
of which anniversary provisions	[32,932]	[–]	[–]	[33]
of which for the social plan/ age-related part-time employment	[62,201]	[–]	[–]	[61]
Operating risks	56,617	–	–	–
Other provisions	141,178	462	–	–111
of which markdowns/complaints	[37,656]	[97]	[–]	[–]
Total	331,499	485	–	178

The comparable figures for the previous year were as follows:

FY 2004 in T€	Status 1/1	Currency differences	Addition/Disposals from changes in consolidated group	Transfer
Other taxes	3,118	–3	–	–
Personnel	134,955	–	1,055	–168
of which anniversary provisions	[32,892]	[–]	[181]	[–24]
of which for the social plan/ age-related part-time employment	[70,766]	[–]	[564]	[–186]
Operating risks	36,361	–	–	–
Other provisions	116,516	–60	509	4
of which markdowns/complaints	[26,117]	[–]	[299]	[–]
Total	290,950	–63	1,564	–164

Transfer to other account	Used	Reversals	Allocations	Interest added	Status 31/12
–	–951	–359	5,337	–	8,454
–1,534	–34,867	–5,101	49,614	493	138,194
[–]	[–2,096]	[–517]	[5,600]	5	[35,957]
[–1,539]	[–23,231]	[–1,574]	[29,880]	–32	[65,766]
–	–4,069	–830	24,411	115	76,244
–1,914	–29,766	–39,696	87,981	503	158,637
[–]	[–15,254]	[–9,222]	[36,221]	[–]	[49,498]
–3,448	–69,653	–45,986	167,343	1,111	381,529

Transfer to other account	Used	Reversals	Allocations	Interest added	Status 31/12
53	–1,492	–67	2,795	–	4,404
–2,173	–41,338	–3,663	40,365	267	129,300
[155]	[–2,105]	[–791]	[2,624]	[–]	[32,932]
[–2,442]	[–27,218]	[–2,259]	[22,976]	[–]	[62,201]
–3,332	–3,513	–589	26,970	720	56,617
3,332	–26,772	–16,651	63,935	365	141,178
[514]	[–11,745]	[–4,411]	[26,882]	[–]	[37,656]
–2,120	–73,115	–20,970	134,065	1,352	331,499

The provisions reported regarding personnel were valued on the basis of an assumed actuarial interest rate of 4.25 % per annum (2004: 5.0 % per annum).

The allowances for employees leaving the company under the terms of age-related part-time employment contracts are capitalized as an asset worth € 7.7 million (2004: € 9.8 million) and not offset against provisions.

Provisions for operational risks are formed in particular for waste disposal and recultivation obligations.

The provisions for other risks primarily include provisions for litigation risks, warranties, environmental risks and pending transaction risks.

Maturities of the other provisions:

FY 2005 in T€	Total 31/12	short-term	long-term
Other taxes	8,454	8,454	–
Personnel	138,194	56,452	81,742
of which anniversary provisions	[35,957]	[–]	[35,957]
of which for the social plan/age-related part-time employment	[65,766]	[32,875]	[32,891]
Typical operating risks	76,244	8,201	68,043
Other provisions	158,637	158,637	–
of which markdowns/complaints	[49,498]	[49,498]	[–]
Total	381,529	231,744	149,785

FY 2004 in T€	Total 31/12	short-term	long-term
Other taxes	4,404	4,404	–
Personnel	129,300	49,485	79,815
of which anniversary provisions	[32,932]	[–]	[32,932]
of which for the social plan/age-related part-time employment	[62,201]	[26,134]	[36,067]
Typical operating risks	56,617	5,179	51,438
Other provisions	141,178	141,178	–
of which markdowns/complaints	[37,656]	[37,656]	[–]
Total	331,499	200,246	131,253

(34) Long-Term Borrowings

in T€	31/12/2005	31/12/2004
Liabilities to banks	57,575	66,085
Liabilities from financial lease agreements	38,576	8,083
Other borrowings	316	–
Borrowings	**96,467**	**74,168**

The liabilities from financial leasing reported under long-term borrowings are shown in the following tables:

in T€	Residual time to maturity 1–5 years	Residual time to maturity > 5 years	31/12/2005 Total
Minimum lease payments	22,899	31,124	54,023
Financing costs	8,366	7,081	15,447
Present value of minimum lease payments	**14,533**	**24,043**	**38,576**

in T€	Residual time to maturity 1–5 years	Residual time to maturity > 5 years	31/12/2004 Total
Minimum lease payments	6,851	3,781	10,632
Financing costs	1,753	796	2,549
Present value of minimum lease payments	**5,098**	**2,985**	**8,083**

The long-term liabilities from leasing transactions relate essentially to the leasing of plant equipment and machinery.

Current Debts

(35) Short-Term Borrowings

in T€	31/12/2005	31/12/2004
Liabilities to banks	120,799	108,753
Bonds	–	716
Liabilities		
to affiliated companies	2,282	2,627
to participating interests	–	764
Liabilities from financial lease agreements	3,573	1,806
Other borrowings	6,105	2,079
Short-term borrowings	**132,759**	**116,745**

The liabilities from financial leasing transactions reported under short-term borrowings are shown in the following table:

in T€	31/12/2005	31/12/2004
Minimum lease payments	4,535	2,523
Financing costs	962	717
Net present value of minimum lease payments	**3,573**	**1,806**

The short-term liabilities from leasing transactions relate primarily to the leasing of plant equipment and machinery as well as factory and office equipment.

(36) Trade Payables

in T€	31/12/2005	31/12/2004
Liabilities		
to third parties	493,373	462,243
to participating interests	16,163	41,195
to affiliated companies	826	465
Trade payables	**510,362**	**503,903**

(37) Other Liabilities

in T€	31/12/2005 Total	31/12/2004 Total
Other liabilities		
to affiliated companies	9,144	8,251
to participating interests	1,473	24
Other liabilities	338,129	356,878
of which from forfaiting and asset-backed securitization programs	[126,695]	[165,793]
of which to employees	[68,856]	[41,696]
of which taxes	[39,107]	[41,505]
of which social security contributions	[27,414]	[25,336]
of which received payments on account	[20,263]	[17,358]
of which derivatives	[10,514]	[9,292]
of which bills payable	[9,362]	[11,920]
of which other liabilities	[35,918]	[43,978]
Other liabilities (short-term)	**348,746**	**365,153**

Of the sum total of liabilities, some € 153.7 million (2004: € 229.3 million) is secured by liens and similar rights.

Other liabilities of total € 126.7 million (previous year € 165.8 million) in debts are resulting from forfaiting and asset-backed securitization programs. Salzgitter Stahlhandel GmbH, Düsseldorf, and Salzgitter Mannesmann International GmbH, Düsseldorf, are carrying out revolving sales of short-term domestic trade receivables on the basis of an asset-backed securitization agreement. The sale of receivables is limited to an amount (purchase price) of € 80.0 million. The purchase price comprises the nominal value of the receivables less a del credere markdown relating to the default rate over the past twelve months, a verity markdown and a markdown for refinancing, insurance and administrative costs. Since Salzgitter Stahlhandel GmbH, Düsseldorf, and Salzgitter Mannesmann International GmbH, Düsseldorf, bear the commercial risks inherent in the receivables, they report the sold receivables in the accounts accurately as own receivables and report the funds received for them as liabilities arising from the sale of receivables.

With the support of Salzgitter Mannesmann Handel GmbH, Düsseldorf, Salzgitter Mannesmann International GmbH, Düsseldorf, made other non-Group external financing arrangements, and Salzgitter Mannesmann International GmbH, Düsseldorf, also sold receivables worth € 12.0 million (previous year € 40.9 million) as of December 31, 2005. In accordance with the framework contracts, Salzgitter Mannesmann International GmbH, Düsseldorf, carries out revolving sales of export receivables insured against default for amounts of up to a maximum of € 75.0 million. In addition, Salzgitter Mannesmann International GmbH, Düsseldorf, – for amounts up to a maximum of US-$ 20.0 million – has sold export receivables worth the equivalent of € 5.4 million (2004: € 9.3 million) and secured by bank guaranties. Furthermore, Salzgitter Mannesmann International (USA) Inc., Houston, has sold receivables equivalent to € 30.0 million (2004: € 35.4 million) as of December 31, 2005, and reported the funds received as liabilities.

(38) Contingencies

Contingencies are potential liabilities not shown on the balance sheet which are disclosed in the amount of their utilization on the reporting date. Their total amounts to € 59.3 million (previous year € 80.5 million).

The contingencies include guaranties of € 41.2 million (2004: € 64.7 million) and bill commitments totaling € 1.0 million (2004: € 2.5 million).

Neither Salzgitter AG nor any of its Group companies is engaged in current or foreseeable legal or arbitration proceedings that might have a significant effect on their commercial situation. Moreover, adequate provisions have been made at the respective Group companies to cover potential financial burdens arising from legal proceedings or arbitration.

(39) Other Financial Obligations

In overall terms, the Group has obligations from investment commitments amounting to € 127.6 million (2004: € 74.7 million), obligations from rental agreements with terms lasting several years amounting to € 161.2 million (2004: € 162.0 million) and other obligations totaling € 687.9 million (2004: € 615.9 million).

In the Steel Division, long-term purchasing commitments to safeguard the procurement of input material for raw materials and sea freight, which due to the current market situation are relevant for assessing the financial position, are also reported under other financial obligations.

Apart from a sum of € 577.9 million (2004: € 345.8 million), the other financial obligations have a residual time to maturity of up to one year.

The other financial obligations arising from long-term rental and lease agreements consist of the following:

Future rental and lease obligations in T€	31/12/2005	31/12/2004
Up to 1 year	20,206	15,348
1 to 5 years	35,789	28,576
Over 5 years	105,243	118,040
Total	**161,238**	**161,964**

(40) Financial Instruments

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

in T€	31/12/2005		31/12/2004	
	Assets	Borrowings	Assets	Borrowings
Trade receivables	880,237	–	901,965	–
Loans	2,226	–	3,088	–
Other receivables	181,629	–	43,573	–
Shares in affiliated companies (non-consolidated)	24,916	–	34,634	–
Shareholdings	23,239	–	22,813	–
Other securities	27,888	–	7,894	–
Commercial paper	–	–	36,986	–
Cash and cash equivalents	884,897	–	208,885	–
Bonds	–	–	–	716
Trade payables	–	510,362	–	503,868
Liabilities to banks	–	178,373	–	174,838
Other liabilities	–	259,494	–	275,777
Currency hedges	18,295	3,105	10,445	9,292
Interest rate hedges	–	7,224	2,455	–
Other derivatives	–	23	–	–
Total	**2,043,327**	**958,581**	**1,272,738**	**964,491**

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

Financial instruments	**Time to maturity (months)**	
	from	**to**
Trade receivables	1	3
Other receivables	1	60
Originated loans	48	240
Trade payables	1	3
Other liabilities	1	31
Bank loans, short-term	1	2
Bank loans, long-term	35	447
Forward exchange contracts	1	36
Currency options	8	36
Interest rate hedges	11	36
Other derivatives	12	18

These financial instruments can be categorized as follows as of the reporting date:

in T€	**31/12/2005**	**31/12/2004**
Financial assets held for trading	4,584	1,095
Loans and receivables originated by the enterprise	294,236	168,265
Derivatives with documented hedging arrangement	3,359	–3,454
Available-for-sale financial assets	782,567	142,341
Total	**1,084,746**	**308,247**

The “financial assets held for trading” amounting to € 4.6 million (2004: € 1.1 million) relate to ineffective hedging transactions.

In the reporting year the Salzgitter Group recorded write-downs on assets categorized as “loans and receivables originated by the company” in the amount of € 8.7 million (2004: € 28.6 million) and reversals of write-downs in the amount of € 6.4 million (2004: € 6.0 million).

The changes in the value of hedging transactions concluded to secure future cash flows are posted to equity with no effect on income. As of the end of the reporting year, a total amount of € 1.9 million (2004: – € 4.4 million) resulting from changes in the value of the hedging transactions was reported under equity without effect on income.

In the reporting year, the valuation of shareholdings and securities without effect on income led to the posting under equity of € 2.7 million as disposals and € 4.0 million as write-ups (2004: disposals of

€ 7.3 million and write-ups of € 3.3 million). This position essentially concerns the shareholding in a North American steel company (SDI) and the shares in an Indian tube manufacturing company that were acquired in the reporting year; the fair value of these two investments is some € 6.4 million (2004: € 5.1 million) higher than their historical acquisition cost.

In the reporting year, profits amounting to € 3.4 million (2004: € 10.1 million) were made from the sale of "available-for-sale financial assets". For the assets in this category recorded as of the reporting date, valuation allowances amounting to € 9.8 million (2004: € 8.2 million) with effect on income were posted in the reporting year.

The interest on fixed-term deposits in euro was between 1.91% and 2.36% p.a. with a maximum term of 2 months. The interest on fixed-term deposits in currencies other than the euro was between 2.18% and 4.25% p.a. with a term of up to 5 days. Interest rates on term money borrowings in euro ranged from 2.36% to 2.90% with a maximum term of 2 months, while interest rates on term money borrowings in currencies other than euro were between 2.72% and 3.95% with a maximum term of 3 days. Interest rates on short-term capital market instruments ranged from 2.20% to 2.32% p.a. with an investment period of 1 to 2 months. Interest on loans extended by the company is subject to a maximum residual term of 6 months to 20 years. Interest on bank loans received by the company ranged from 3.00% to 4.78% per annum with a maximum residual term of 9 months to 5 years.

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

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

in T€	31/12/2005		31/12/2004	
	Maximum default risk	Secured default risk	Maximum default risk	Secured default risk
Trade receivables	880,237	568,410	901,965	584,982
Other receivables	181,629	2,510	43,573	1,550
Loans	2,226	151	3,088	217
Securities	118,436	25	7,894	25
Total	**1,182,528**	**571,096**	**956,520**	**586,774**

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

The nominal volume of the derivative hedging transactions comprises the unnetted total of all purchases and sales amounts, valued at the respective settlement rates. Market values were always determined on the basis of conditions that prevailed on the reporting date, using the values at which the relevant derivatives were traded or listed, without considering contrary movements in value deriving from the underlying transactions. The current value of the derivatives to be reported derives from the valuation of the hedged foreign currency amount as the difference between the rate applying when the forward contract was entered into and the forward rate on the reporting date; this amount is discounted at the euro interest rate to the reporting date in line with the residual time to maturity.

in T€	**Par value 31/12/2005**	**Market value 31/12/2005**	**Par value 31/12/2004**	**Market value 31/12/2004**
Forward exchange contracts				
Purchase				
PLN	21	–	47	1
CAD	457	–2	53	–1
SEK	333	7	756	–3
GBP	4,137	–13	1,941	–22
USD	287,782	7,252	459,265	–21,713
Other	735	1	3,314	59
Sale				
USD	270,261	–5,011	264,549	18,529
GBP	37,380	201	37,065	748
CAD	2,377	–50	13,864	44
SEK	24,267	–149	21,025	17
PLN	648	–16	455	–18
Other currencies	367	–2	–	–
Currency options				
Purchases USD	101,912	11,633	101,970	3,512
Sales USD	33,595	1,339	–	–
Interest rate instruments	170,000	–7,224	120,000	2,455
Other derivatives	8,698	–23	–	–
Total	–	**7,943**	–	**3,608**

(41) Notes to the Cash Flow Statement

In accordance with IAS 7, the cash flow statement depicts the development in cash flows for the financial years 2005 and 2004, broken down into inflows and outflows of funds from current business, investment and financing activities. The statement is derived from the consolidated financial statements of Salzgitter AG using the indirect method.

The cash and cash equivalents used comprise cash in hand, checks, receivables from securities lending transactions, securities and cash at banks. The cash and cash equivalents include cash equivalents of € 291 million reported in the balance sheet under "Cash and Cash Equivalents". The cash and cash equivalents increased by € 0.6 million due to changes in the values of near-money funds.

Within the inflow of funds from current business activities, income from the disposal of assets has been eliminated. During the financial year under review, income taxes amounting to € 114.0 million were paid. In the same period, refunds totaling € 3.0 million were paid to Salzgitter AG. The income taxes paid and refunded have been assigned to current business operations. For the financial year 2004, Salzgitter AG paid € 7.1 million in income taxes and in the same period received refunds amounting to € 1.5 million. These sums were also assigned to current business operations. Interest receipts amounted to € 19.7 million (2004: € 11.7 million).

The investments reported under the outflow of funds for investment activities comprise the additions to intangible assets, tangible fixed assets and financial investments. In addition to numerous investments in rationalization and replacements aimed primarily at improving, renewing and safeguarding production plant and data processing systems, various large-scale investments were made, principally for the purpose of enhancing product quality and extending the value chain. The payments made on investments in financial assets relate particularly to the previous year's acquisition of the remaining 50% of the shares in Röhrenwerk Gebr. Fuchs GmbH, the acquisition of further shares in Hüttenwerke Krupp Mannesmann GmbH and the participation in the capital increase at Vallourec S.A.

The inflow of funds from the disposal of financial assets relates primarily to the sale of the 45% stake in the joint venture Vallourec & Mannesmann Tubes S.A. and the reduction of the shareholding in Vallourec S.A.

Interest expenses are assigned solely to financing activities.

The payments for current loans against borrower's notes/bonds result from the investment of cash in the form of securities lending transactions, mutual fund shares and loans against borrower's notes from the proceeds of the sale of the shares in Vallourec & Mannesmann Tubes S.A.

Receipts from shareholdings during the financial year amounted to € 21.7 million (2004: € 32.0 million).

During the reporting period the Group made no acquisitions that have increased the size of the consolidated group. Only shares in associated companies were acquired in the reporting year.

(42) Notes on Segment Reporting

Primary Segmentation

The segmentation of the Salzgitter Group into four (2004: five) corporate divisions accords with the Group's internal controlling and reporting functions. The previous year's figures were adjusted to the changed segment classification.

In the segment report, the business activities of the Salzgitter Group are assigned to the Steel, Tubes, Trading and Services Divisions in accordance with the Group structure. The companies formerly in the Processing Division were assigned to the Steel or the Services Divisions. Salzgitter AG as the holding company is included under the heading Other/Consolidation.

The operating steel companies Salzgitter Flachstahl GmbH, Peiner Träger GmbH and Ilsenburger Grobblech GmbH belong to the Steel Division via the intermediate holding company Salzgitter Stahl GmbH. HSP Hoesch Spundwand und Profil GmbH, Salzgitter Bauelemente GmbH and Salzgitter Europlatinen GmbH were assigned to this division for the first time. ThyssenKrupp GfT Bautechnik GmbH (previously in the Processing Division), which is valued at equity, is now assigned to this division.

The Tubes Division includes the fully consolidated units Salzgitter Mannesmann GmbH, Mannesmannröhren-Werke GmbH, Mannesmannröhren Mülheim GmbH, MHP Mannesmann Präzisrohr GmbH, Mannesmann Line Pipe GmbH, Mannesmann Robur B.V., Röhrenwerk Gebr. Fuchs GmbH and the DMV Group. Salzgitter Großrohre GmbH (2004: Steel Division) is reported in this division for the first time.

In addition, the Group includes the joint venture Europipe GmbH (including the subsidiaries Europipe France S.A., EB Pipe Coating Corporation, Berg Steel Pipe Corporation, Eupec PipeCoatings GmbH and Eupec PipeCoatings France S.A.) and Mannesmannröhren 1. Verwaltungsgesellschaft mbH, which are also included proportionately in the consolidated financial statements. Vallourec S.A. and Hüttenwerk Krupp Mannesmann GmbH are likewise assigned to this business segment as associated companies in accordance with the equity method. In the previous year, the shares in Vallourec & Mannesmann Tubes S.A., Boulogne-Billancourt, and Vallourec & Mannesmann Tubes Corporation, Houston, which had been sold at the end of June 2005 were still included in this segment.

The Trading Division consists of four domestic and five foreign companies in the Salzgitter Mannesmann Handel Group, Universal Eisen und Stahl GmbH and Hövelmann & Lueg GmbH; Robert S.A.S., as a proportionately integrated joint venture, is assigned to the Trading Division.

The companies Le Feuillard S.A.S. and Tolcolor S.A.S., which belong to the Robert Group, are assigned to the Trading Division as associated companies in accordance with the equity method. This segment also includes the non-consolidated companies in the Salzgitter Mannesmann Handel Group and the Universal Handel Group.

The Services Division includes DEUMU Deutsche Erz- und Metall-Union GmbH, SZST Salzgitter Service und Technik GmbH, SIT Salzgitter Information und Telekommunikation GmbH, the TELCAT Group, GESIS Gesellschaft für Informationssysteme mbH, Hansaport Hafenbetriebsgesellschaft mbH, "Glückauf" Wohnungsgesellschaft mbH, Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter Mannesmann Forschung GmbH and also the net income from shareholdings assigned to this segment. From this reporting year onwards, Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Salzgitter Automotive Engineering GmbH & Co. KG and Salzgitter Automotive Engineering Immobilien GmbH & Co. KG will be reported in this division, having been assigned to the Processing Division in the previous year. This segment also includes the non-consolidated companies Salzgitter Magnesium-Technologie GmbH and Oswald Hydroforming GmbH & Co. KG (previously in the Processing Division).

The companies in this division are engaged primarily in providing services to the Group. It is intended, however, that their expertise and existing infrastructure should be made increasingly available to companies outside of the Group. The services offered include data processing, telecommunications services, scrap metal dealing, the handling and storage of bulk cargo, transport and other services. The newly allocated companies Salzgitter Magnesium-Technologie GmbH, Oswald Hydroforming GmbH & Co. KG as well as Salzgitter Automotive Engineering Beteiligungsgesellschaft (including subsidiaries) mainly produce or provide services and products for the automotive industry.

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

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

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

The investments relate to additions to tangible fixed assets and intangible assets, excluding goodwill resulting from the acquisition of shares.

Secondary Segmentation

Secondary segmentation subdivides the commercial activity by region. External sales classified by performance recipient subdivide Group sales to non-Group entities according to the customers' principal place of business. Group external sales are also subdivided according to the principal place of business of the consolidated supplier company.

The transitions of the segmental assets to Group assets and the total segmental debts to Group debts are shown in the following overview:

in T€	31/12/2005	31/12/2004
Segment operating assets	5,238,973	4,355,574
Goodwill	1,224	–131,338
Income tax refund claims	82,373	8,242
Deferred income tax claims	88,712	996
Deferred expenses	2,253	2,131
Balance sheet total	**5,413,535**	**4,235,605**
Segment operating liabilities	3,151,662	3,002,343
Tax liabilities	207,455	101,381
Financial lease liabilities	42,149	9,889
Group equity	2,011,628	1,120,637
Deferred income	641	1,355
Balance sheet total	**5,413,535**	**4,235,605**

(43) Related Party Disclosures

In addition to business relationships with companies that are consolidated fully and proportionately in the consolidated financial statements, relationships also exist with associated companies and shareholdings that must be designated as related companies in accordance with IAS 24.

As of December 31, 2005, Hannoversche Beteiligungsgesellschaft mbH holds 25.2% of the shares in Salzgitter AG. Hannoversche Beteiligungsgesellschaft mbH is owned in its entirety (100%) by the Federal State of Lower Saxony.

Delivery and service relationships between companies in the consolidated group and companies related to the Salzgitter Group are depicted in the following table:

in T € Related companies	Sale of goods and services		Purchase of goods and services	
	FY 2005	FY 2004	FY 2005	FY 2004
ThyssenKrupp GfT Bautechnik GmbH, Essen	143,102	112,844	–	–
V&M Deutschland GmbH, Düsseldorf	96,658	50,066	59,716	54,009
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	27,834	12,646	379,157	236,431

Outstanding items from deliveries and services arising from the purchase or sale of goods and services between companies in the consolidated group and companies related to the Salzgitter Group are as follows:

in T € Related companies	Trade receivables		Trade payables	
	31/12/2005	31/12/2004	31/12/2005	31/12/2004
ThyssenKrupp GfT Bautechnik GmbH, Essen	17,061	9,285	–	–
V&M Deutschland GmbH, Düsseldorf	12,395	8,201	1,785	6,712
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	3,805	2,440	15,921	33,243

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

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

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

There are contingencies totaling € 0.8 million vis-à-vis non-consolidated affiliated companies.

Remuneration paid to members of the management in key positions:

in T€	FY 2005	FY 2004
Salaries and other current payments	6,637	5,744
Payments after termination of the employment relationship	636	780
Payments resulting from the termination of employment relationships	1,034	–
Total	**8,307**	**6,524**

(44) Fees for the Auditor of the Consolidated Financial Statements that were reported as Expenses in the Financial Year in Accordance with Section 314, Para. 9 of the German Commercial Code (HGB)

in T€	FY 2005
Audits	1,487
Other certification or assessment services	24
Tax consulting services	14
Other services	123

(45) Significant Events occurring after the Reporting Date

Significant events occurring after the reporting date are explained in the Management Report.

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

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

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

(47) Supervisory Board and Executive Board

One loan of € 150,000 granted to a member of the Executive Board during the financial year 2003, with a term up to June 30, 2006, and an interest rate of 5.5 %, was redeemed in full during the financial year.

For the discharge of their duties, the members of the Executive Board received the sum of € 4.2 million (2004: € 3.8 million) in the financial year. Of this total, € 1.4 million (2004: € 1.9 million) was accounted for by performance-related remuneration components.

Provisions for pension obligations to members of the Executive Board amounted to € 5.2 million (2004: € 5.0 million). Former members of the Executive Board and their surviving dependants received a total of € 1.6 million for the financial year (2004: € 1.6 million). Pension provisions totaling € 20.8 million (2004: € 19.6 million) have been set aside to cover obligations to former Executive Board members and their surviving dependants.

Supervisory Board members received a total of € 1.2 million for the financial year (2004: € 0.5 million).

The remuneration of the individual members of the Executive and Supervisory Boards of Salzgitter AG is disclosed in the "Remuneration of the Executive and Supervisory Boards" section in the Annual Report.

Salzgitter, March 8, 2006

The Executive Board

Leese Eging Fischer

Fuhrmann Groschke Schneider

3.6 Independent Auditor's Report

This report was originally prepared in German language. In case of ambiguities the German version shall prevail:

"Independent Auditor's Report

We have audited the consolidated financial statements – consisting of balance sheet, income statement, statement of recognised income and expense, cash flow statements as well as notes – and the group management report of the Salzgitter AG, Salzgitter, for the business year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the group management report according to IFRS, as adopted by the EU, and the additional provisions stated in § 315 a para. 1 HGB are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the results of our audit the consolidated financial statements are in compliance with the IFRS, as adopted by the EU, and the additional provisions stated in § 315a para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The group management report is in accordance with the consolidated financial statements and provides on the whole a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development."

Hannover, March 8, 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed	signed
Lukasch	ppa. Menking
Wirtschaftsprüfer	Wirtschaftsprüfer

4.1 List of Company Abbreviations

SZAG	Salzgitter AG (Holding)
SMG	Salzgitter Mannesmann GmbH (Intermediate Holding)

	Steel Division
HSP	HSP Hoesch Spundwand und Profil GmbH
ILG	Ilsenburger Grobblech GmbH
PTG	Peiner Träger GmbH
SZBE	Salzgitter Bauelemente GmbH
SZEP	Salzgitter Europlatinen GmbH
SZFG	Salzgitter Flachstahl GmbH
SZS	Salzgitter Stahl GmbH

	Tubes Division
BMB	Borusan Mannesmann Boru Yatirim Holding A.S.
DMV	DMV Stainless B.V.
EP	Europipe GmbH
HKM	Hüttenwerke Krupp Mannesmann GmbH
MHP	MHP Mannesmann Präzisrohr GmbH
MLP	Mannesmann Line Pipe GmbH
MRM	Mannesmannröhren Mülheim GmbH
MRW	Mannesmannröhren-Werke GmbH
RGF	Röhrenwerk Gebr. Fuchs GmbH
ROB	Mannesmann Robur B.V.
SZGR	Salzgitter Großrohre GmbH
VLR	Vallourec S.A.
V&M	Vallourec & Mannesmann Tubes S.A.

	Trading Division
HLG	Hövelmann & Lueg GmbH
RSA	Ets. Robert et Cie S.A.S.
SCB	Stahl-Center Baunatal GmbH
SHN	Salzgitter Handel B.V.
SMHD	Salzgitter Mannesmann Handel GmbH
SMID	Salzgitter Mannesmann International GmbH
SMIH	Salzgitter Mannesmann International (USA) Inc.
SMIV	Salzgitter Mannesmann International (Canada) Inc.
SSH	Salzgitter Stahlhandel GmbH
UES	Universal Eisen und Stahl GmbH

	Services Division
DMU	DEUMU Deutsche Erz- und Metall-Union GmbH
GES	GESIS Gesellschaft für Informationssysteme mbH
GWG	"Glückauf" Wohnungsgesellschaft mbH
HAN	HANSAPORT Hafenbetriebsgesellschaft mbH
OHC	Oswald Hydroforming GmbH & Co. KG
SIT	SIT Salzgitter Information und Telekommunikation GmbH
SZAE	Salzgitter Automotive Engineering GmbH & Co. KG
SZAI	Salzgitter Automotive Engineering Immobilien GmbH & Co. KG
SZMA	Salzgitter Mannesmann Altersversorgung Service GmbH
SZMF	Salzgitter Mannesmann Forschung GmbH
SZMT	Salzgitter Magnesium-Technologie GmbH
SZST	SZST Salzgitter Service und Technik GmbH
TMG	TELCAT MULTICOM GmbH
TCG	TELCAT KOMMUNIKATIONSTECHNIK GmbH
VPS	Verkehrsbetriebe Peine-Salzgitter GmbH

4.2 Glossary

Business and Financial Terms

A

Asset-backed securitization (ABS)

Selling receivables with securitization on the capital market.

At equity

Method of capital consolidation with which an affiliated company's proportionate equity is valued.

C

Capital Employed

The sum total of equity, provisions for taxes (excluding deferred taxes) and interest-bearing liabilities. Minority interests are reported under equity.

Cash flow

- **from operating activities**
  Increase/decrease of liquid funds not dependent on the acquisition or disposal of investments or financing activities.
- **from investment activities**
  Increase/decrease of liquid funds as a result of the acquisition/disposal of investments.
- **from financing activities**
  Increase/decrease of liquid funds as a result of financing activities: issue/redemption of bonds, raising/redemption of loans, issue/repurchase of shares etc.

Corporate Governance

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

Current assets

Assets not intended to remain within the long-term operations of a business enterprise. Current assets include, for example, inventories and trade receivables.

D

Declaration of Compliance

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

Deferred taxes

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

E

EBIT (Earnings before Interest and Taxes)

Earnings before interest and tax payments (excluding the interest component in appropriation to provisions for pensions).

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

Earnings before interest and tax payments (excluding the interest component in appropriations to provisions for pensions) and depreciation and amortization (also of financial assets).

EBT (Earnings before Taxes)

Earnings before deduction of taxes.

Equity

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

External funds

Provisions, liabilities and deferred income.

External sales

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

F

Fixed assets

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

- **Tangible fixed (noncurrent) assets**
  Land and buildings, technical plant and machinery etc.
- **Intangible fixed (noncurrent) assets**
  Goodwill/negative goodwill, patents, licenses, development costs etc.
- **Financial assets**
  Shares in affiliated and associated companies, other shareholdings, long-term securities etc.

Forfaiting

Sale of export receivables without recourse to previous owners of the receivables (supplier), usually to a bank.

Free float

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

I

IAS/IFRS

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

Internal sales

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

J

Joint venture

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

L

Lifo

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

M

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

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

P

Pension provisions
Provisions formed to cover retirement, invalidity and surviving dependents' pension and benefit commitments. Pension obligations are calculated using the projected unit credit method (IFRS) or the going-concern value method (HGB) and valued on the basis of actuarial assumptions and calculations.

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

R

Result from ordinary activities
The result from ordinary activities is synonymous with **EBT** (Earnings before Taxes).

ROCE (Return on Capital Employed). Interest yield on capital invested.
Ratio of EBIT to capital employed.

U

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

Technical Terms

B

Blanks

Stampings punched out of (mainly) surface-coated sheet for the automobile industry.

Blast furnace

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

Bloom

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

C

Coating

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

Coke

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

Cold-rolled steel

Non-surface-coated sheet produced by cold rolling.

Cold rolling

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

Continuous casting

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

E

Electric steel

Steel produced by smelting scrap in an electric arc furnace.

Elements for roofing and cladding

Components produced from profiled surface-coated steel sheet which are used in the construction industry as wall and ceiling elements and for exterior cladding.

F

Flat rolled steel/Flat carbon steel

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

H

Hollows

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

Hot-rolled (wide) strip

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

Hot rolling

Forming process carried out at high temperatures. Different types of rolling mills are used to convert semi-finished material into hot-rolled strip, plate, sections or seamless tubes.

L

LD steel

Oxygen steel produced out of pig iron by the **L**inz-**D**onawitz process (top blowing process).

P

Pellets

Small spheres manufactured from fine-grain iron ore with the addition of water and binding agents, hardened in an oven. Pellets are used in the blast furnace along with lump ore and sinter as a source of iron.

Pickling

Hot strip oxidized (covered in scale) by the hot rolling process is passed through a bath of hydrochloric or sulfuric acid. This can either be a continuous (continuous pickling) or discontinuous (push-pull pickling) process.

Plate

Sheet steel of 30 mm or more in thickness. Plate is required mainly in the construction industry, for mechanical engineering and equipment manufacturing, shipbuilding and large-diameter pipes.

Precision tubes

Seamless or welded steel tubes utilized in mechanical engineering and the automobile industry.

R

Reduction agent

Sources of carbon such as coke, coal or heating oil used in the blast furnace process to convert iron ore (iron oxide) into pig iron.

Relining

Cladding the blast furnace with refractory material, a process repeated in intervals from ten to fifteen years.

Rolled steel

The sum total of all end products to emerge from rolling mills.

S

Sections

Long products such as beams and sheet piles, used primarily in building construction and civil engineering.

Semi-finished goods

A general term for pre-material made from crude steel for use in rolling mills (slabs, blooms, tube rounds).

Shuttle coater

Technical facility for covering galvanized thin sheet with various coatings.

Slab

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

Surface-coated steel products

Products which by special processes are provided with a metallic or organic surface coating, for example by galvanizing or paint-coating.

T

Tailored Blanks

Bonded blanks composed of sheet steel of varying shapes, qualities and properties which are welded together by laser beam. Automobile manufacturers use tailored blanks to produce press parts for vehicle construction.

Tube rounds

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

Tubes

- **Welded tubes**

  Tubes made by welding plate or hot-rolled strip. A distinction is drawn between longitudinally welded tubes (where the weld seam runs along the axis of the tube) and spiral-welded tubes (where the weld seam spirals around the circumference of the tube).

- **Seamless tubes**

  Tubes made from tube rounds. After heating, by a variety of processes (including pilgering) a hollow body is first created which is then rolled and if necessary drawn to its final dimensions.

4.3 Financial Calendar of Salzgitter AG for 2006

March 13, 2006	Key data for financial year 2005
March 30, 2006	Publication of consolidated financial statements for 2005 Annual Press Conference
March 31, 2006	Analysts' conference in Frankfurt/Main
April 3, 2006	Analysts' conference in London
May 12, 2006	Interim report for the first quarter of the 2006 financial year
June 8, 2006	Ordinary Meeting of Shareholders for 2006
August 10, 2006	Interim report for the first half of the financial year 2006 Analysts' conference in Frankfurt/Main
August 11, 2006	Analysts' conference in London
November 14, 2006	Interim report for the first nine months of the financial year 2006

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