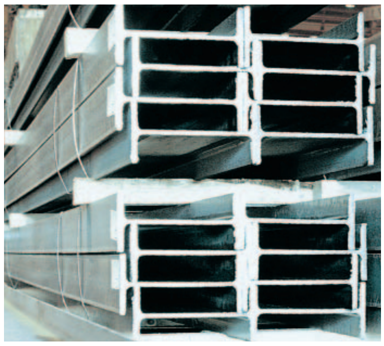
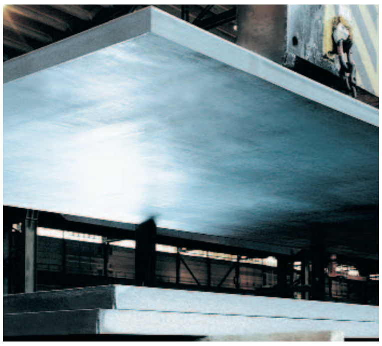
Interim Report | 1st Half 2005


SALZGITTER AG
Stahl und Technologie

Salzgitter Group in Figures

		1st Half 2005	1st Half 2004	Δ
Sales (consolidated)	€ million	**3,631**	2,766	31 %
Steel Division	€ million	**1,134**	912	24 %
Tubes Division	€ million	**705**	459	54 %
Trading Division	€ million	**1,631**	1,232	32 %
Services Division	€ million	**161**	163	-1 %
thereof flat rolled products	€ million	**1,717**	1,411	22 %
thereof sections	€ million	**391**	364	7 %
thereof tubes	€ million	**972**	606	60 %
thereof export share	%	**54**	52	
Income form ordinary operations	€ million	**463**	82	467%
Net income for the year	€ million	**333**	58	477%
Balance sheet total	€ million	**5,113**	3,901	31 %
Non-current assets	€ million	**1,746**	1,877	-7 %
Current assets	€ million	**3,368**	2,024	66 %
Inventories	€ million	**1,396**	899	55 %
Equity[1]	€ million	**1,655**	1,041	59 %
Non-current liabilities	€ million	**1,952**	1,761	11 %
Current liabilities	€ million	**1,506**	1,099	37 %
thereof due to banks (current and non-current)	€ million	**199**	207	-4 %
Capital expenditure[2]	€ million	**120**	82	46 %
Depreciation and amortization[2]	€ million	**100**	114	-12 %
Employees				
Personnel expenses	€ million	**478**	462	3 %
Workforce (annual average)[3]		**17,271**	17,449	-1 %
Crude steel production[4]	kt	**4,581**	4,291	7 %
Key figures				
Earnings before interest and taxes (EBIT)[5]	€ million	**474**	92	417 %
EBIT before depreciation and amortization (EBITDA)	€ million	**574**	206	179 %
Earnings per share (undiluted)	€	**5.39**	0.95	467 %
Return on capital emplyed (ROCE)[6] [7]	%	**45.0**	13.2	
Cashflow	€ million	**188**	100	88 %

Disclosure of financial data in compliance with IFRS; all segmental values in accordance with the new group structure.

1) Including minority interest
2) Excluding financial assets
3) Excluding passive age-related part-time employment arrangements
4) Incl. MRW-/V&M-share in Hüttenwerke Krupp Mannesmann, V&M France, V&M do Brasil and V&M Star
5) EBT plus interest paid (excluding interest element in allocations to pension provisions)
6) EBIT in relation to the total of shareholders' equity (without calculation of accrued and deferred taxes), minority equity interests, interest-bearing tax provisions and interest-bearing liabilities (excluding pension provisions)
7) Annualized

Summary

The Salzgitter Group sets a new record figure with its profit for the first half of 2005

In the first six months of the financial year 2005, **Salzgitter Group** achieved an outstanding increase in external sales and profit. The annualized return on capital employed attained a new high for a half-year period, also in a long-term comparison. Whereas the rolled steel business still benefited from orders on hand placed during the boom phase of the market, the demand for tubes remained at a persistently high level. At the beginning of the second quarter, the Processing Division was closed down and the companies formerly belonging to it were assigned to the Steel and Services Divisions with commercial effect as from January 1. At the same time, Salzgitter Großrohre GmbH switched to the Tubes Division.

Over the course of the first six months, the situation on the steel market, which was previous characterized by a genuine shortage and occasionally by speculation, normalized. Orders placed towards the end of the previous year – often driven by shortfalls – were above the level of short-term demand and had the effect of causing imports from non EU countries to surge in the first half of 2005. This led to an excess in the inventories of traders and customers and a decline in the order volume and in the spot market prices, although the actual consumption of steel remained unchanged at a high level. Salzgitter AG resolved to curtail production volumes of flat steel and beams in order to normalize steel inventories, particularly in the European market. Against this backdrop, the shipments of the **Steel Division** fell year on year. Nonetheless, external sales rose owing to the very positive trend in revenues seen in previous quarters and at the start of the year in comparison to the year-earlier period. The pre-tax result soared.

The boom in the tubes business held steady in 2005 as well. In a year-on-year comparison, the **Tubes Division** boosted its external sales considerably in the first half of 2005. The increase in shipments in conjunction with perceptibly better sales prices in all product groups enabled sales to grow and delivered an outstanding first-half pre-tax result.

In the first six months of 2005, the **Trading Division** succeeded in more than compensating for the decline in sales in the European stock holding and trading segment business through an expansion in international trading and to raise shipments. Due to the higher year-on-year price levels, the external sales of the previous year were exceeded. Pre-tax earnings settled again at an outstanding level.

The companies belonging to the **Services Division** developed more or less in line with the entire Group in the first half of 2005. After a very gratifying first three months in the current financial year, activities subsequently returned to a normal level in the second quarter. External sales and the pre-tax result corresponded more or less to the previous year's figures.

Income from "**Consolidation and others**" was negative in part due to the elimination of the badwill amortization.

Forecast: On the basis of the information currently available and estimates concerning the trends in the procurement and sales markets, as well as the general framework conditions, and taking account of the effects of the Profitability Improvement Program, the **Salzgitter Group expects to post a pre-tax result of around € 600 million in the current year**. We expressly point out that opportunities and risks arising from currently unforeseeable trends in sales prices, input material costs and plant utilization, as well as changes in the currency parity, may significantly affect performance in the second half of the year. Additional positive or negative effects may come about owing to inventory valuation pursuant to revised IFRS standards or the way they are applied. The resulting fluctuation margin in the consolidated result caused by all factors of influence is in the three-digit million range.

Management Report

Economic and market development

In the second quarter of 2005, the **global economy** remained on its robust growth path, the record price of oil and other raw materials as yet having had only a moderate braking effect on expansion. Alongside the USA, China remains the engine of the global economy: For the USA, the Federal Reserve currently anticipates an increase of 3.5 % in the gross domestic product (GDP) in the current year while, at the same, time announcing further low-key interest rate hikes to counteract rising inflation. The Chinese Central Bank expects growth rates in 2005 to remain virtually unchanged year on year at +9 % (2004: +9.5 %). By contrast, fresh economic data for Japan shows more of a mixed picture.

In the **euro zone**, the firm euro, coupled with the high cost of raw materials and energy, put a damper on economic development at the start of the second quarter. This led the OECD to revise its GDP forecast for 2005 to +1.2 %. However, the stable global economy and a weaker euro in the second quarter may have meanwhile triggered a sentiment reversal: The sharp rise in the ZEW indicator of Economic Sentiment signals an economic recovery in the second half of the year. As before, exports will be the main driver of this recovery. Moreover, the European Central Bank is expecting domestic demand to pick up in the wake of brisker investment by companies and a gradual recovery in private consumption. Countries which are members of the European Union but do not belong to the monetary union are for the most part currently developing much better and showing growth rates that are generally above the 2 % mark.

The current status in **Germany** is largely a reflection of the situation in the euro zone. After a relatively good first quarter, GDP is expected to stagnate in the second quarter and then rise again moderately in the second half of the year. For the year as a whole, the GDP estimates of German economic research institutes currently range between 0.7 % and 1.1 %. The expansion of foreign trade will remain the mainstay of growth. Slack domestic demand will continue to hamper economic development, particularly given the stagnation in private consumption caused by the rising cost of fuel and other sources of energy, as well as the persistently poor labor market performance. The situation regarding capital expenditure is equally disparate: Whereas export-oriented companies are ramping up their capacities, suppliers focused on domestic markets do not yet see a reason to invest. The surprisingly marked improvement in the ZEW indicator and the ifo Business Climate Index in July are positive signals that may point to a gradual recovery in German economic sentiment.

Business situation within the Group

		Q2 2005	Q2 2004	H1 2005	H1 2004
Crude steel production[1]	mt	**2.3**	2.1	**4.6**	4.3
External sales	€ million	**1,866**	1,466	**3,631**	2,766
EBITDA	€ million	**265.9**	123.5	**574.3**	205.5
EBIT[2]	€ million	**215.3**	60.2	**474.4**	91.7
Earnings before taxes (EBT)	€ million	**209.9**	55.5	**463.4**	81.7
Net income	€ million	**159.2**	37.6	**332.7**	57.7
ROCE (annualized)[3] [4]	%	**40.8**	17.3	**45.0**	13.2
Capital expenditures[5]	€ million	**86**	43	**120**	82
Depreciation and amortization[5]	€ million	**51**	63	**100**	114
Net liabilites to banks	€ million			**610**	-47
Cashflow	€ million	**165**	163	**188**	100
Equity ratio	%			**32**	30
Core workforce[6]	as of 30/06/			**17,267**	17,449
Apprentices, students, trainees	as of 30/06/			**785**	738

1) Incl. MRW-/V&M-share in Hüttenwerke Krupp Mannesmann, V&M France, V&M do Brasil and V&M Star

2) EBT plus interest paid (excluding interest element in allocations to pension provisions)

3) EBIT in relation to the total of shareholders' equity (without calculation of accrued and deferred taxes), minority equity interests, interest-bearing tax provisions and interest-bearing liabilities (excluding pension provisions)

4) Annualized

5) Excluding financial assets

6) Excluding passive age-related part-time employment arrangements

In the first six months of the financial year 2005, Salzgitter AG achieved an outstanding increase in sales and profit. Whereas the rolled steel business still benefited from orders on hand placed during the boom phase of the market, the demand for tubes remained at a persistently high level.

Consolidated external sales of the Group posted an increase of 31 %, thus notably exceeding the year-earlier level. The Trading Division in particular raised its sales sharply, followed by the tubes and steel segments with similarly substantial increases. By contrast, the Services Division remained unchanged from the previous year's level.

A **Group profit before taxes** of € 463.4 million is a benchmark for a half-year result, also in a long-term comparison. More than half of the profit was accounted for by the Steel Division, with the Tubes and Trading Divisions also generating very presentable results. The Services Division again made a positive contribution. Consolidated earnings comprises € 2.4 million in profit of the Steel Division from reducing its participation in the Steel Dynamics Inc., a steel company based in the USA. Income from “Consolidation and others” was negative in part due to the elimination of the badwill amortization.

The exceptionally good business situation is further reflected by an **after-tax profit** of € 332.7 million and an annualized **return on capital employed** (ROCE) of 45.0 %. Along with good quantities and margins, the pleasing increase in profitability is also due to the systematic implementation of the meanwhile 302 measures which make up the group-wide **Profitability Improvement Program**. This program is developed on an ongoing basis as an instrument for the consistent and sustained optimization of structures, processes and products of the Salzgitter Group. Changes in the valuation of inventory in the Steel Division to comply with the new IFRS rules had a positive effect of € 38 million in comparison with the LIFO method applied up until 2004.

Management Report

In the first six months of 2005, the **balance sheet total** grew by 21 % to € 5.11 billion (December 31, 2004: € 4.24 billion). The structure of balance sheet items was modified to take account of stipulations of the revised IAS 1 (2003) which requires that balance sheet items be disclosed by maturity. At the end of June 2005, aggregated fixed assets came to € 1.75 million (December 31, 2004: € 1.92 billion). The reclassification of the difference resulting from capital consolidation as retained earnings on the liabilities side of € 134.5 million as per December 31, 2004, without the concurrent effect on profit or loss for the period, raised both fixed assets as well as equity. A major change in fixed assets was the charging off of the heretofore consolidated holding at equity in Vallourec & Mannesmann SA (V&M) from the “Associated companies” item as a result of the sale which took place on June 23, 2005. This transaction led to an increase in consolidated capital and reserves consolidated and reserves of € 79,0 million. The increase in current assets to € 3.37 billion (December 31, 2004: € 2.32 billion) was attributable not only to the higher level of inventory (owing to rising prices for raw and input materials and the setting up of a slab stockpile in preparation for the relining of Blast Furnace A in the third quarter of 2005) but primarily also to proceeds from the sale of V&M amounting to € 545 million. In addition, the change in inventory valuation pursuant to IAS 2 on January 1, 2005, from the LIFO to the average cost method had a positive effect (€ 38 million). Together with the two aforementioned influences, the € 553 million increase in retained earnings results mainly from the transfer of € 311.7 million from the after-tax result of the first half of 2005.

Although the financing of the increased working capital and, in particular, of the stockpiling of slabs, tied up a large amount of liquidity, the **operating cash flow** of the previous year (first half of 2004: € 100 million) was nonetheless substantially exceeded in the first half of 2005 with € 188 million. Together with inflow of funds resulting from the sale of V&M, financial resources as per June 30, 2005, had climbed to € 808 million. (30/06/2004: € 160 million; 31/12/2004: € 246 million). As per the end of June, **net position to banks** in the current year came to € +610 million (June 30, 2004: € -47 million; December 31, 2004: € +71 million). Due to changes in the balance sheet structure, the new item “Financial Liabilities” comprises liabilities from financial transactions vis à vis associated and non-consolidated companies as well as liabilities arising from financing and finance leasing agreements which, until the end of 2004, all came under “Other liabilities”, but are now grouped together under “Financial Liabilities”, along with bonds and debt to banks.

The **core workforce** of the Salzgitter Group came to 17,267 employees as per June 30, 2005. Since January 1, 2005, employees in the passive phase of part-time age-related employment arrangements are no longer recorded as part of the workforce in order to have more accurate information on employees in active service. All information from the previous year contained in this report has been changed accordingly to facilitate comparison. At the start of the half-year, the core workforce was made up of 17,261 employees and remained almost unchanged until the end of June. Broken down according to the new Group structure, there have been the following changes: Steel +3, Tubes +23, Trading +1, Services -20 and Holding -1.

Steel Division

		Q2 2005	Q2 2004	H1 2005	H1 2004
Order bookings	kt	**992**	1,269	**2,142**	2,865
Order backlog as of 30/06/	kt			**893**	1,536
Crude steel production	kt	**1,330**	1,140	**2,722**	2,455
LD steel (SZFG)	kt	**1,117**	879	**2,282**	1,929
Electric steel (PTG)	kt	**213**	261	**440**	526
Rolled steel production	kt	**1,158**	1,397	**2,481**	2,770
Shipments	kt	**1,204**	1,440	**2,449**	2,831
Rolled steel	kt	**1,148**	1,400	**2,350**	2,749
Processed products	kt	**56**	40	**99**	82
Sales[1)]	€ million	**768**	651	**1,554**	1,236
External sales	€ million	**560**	469	**1,134**	912
Earnings before taxes (EBT)	€ million	**115.9**	12.9	**282.3**	16.2
Core workforce	as of 30/06/			**7,122**	7,142

All values in accordance with the new group structure; core workforce excluding passive age-related part-time employment arrangements.

[1)] Incl. sales to other corporate divisions

Following the closing 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 taken out of the Steel Division and allocated to the Tubes Division. All financial data cited and annotated in this report for the first half of 2005, the first and the second quarter of 2005, and comparative figures from previous periods reflect the new structure of the respective segment.

The boom on the **European steel market** came to an end in the course of the second quarter of 2005, the previous quarter having shown the first signs of normalizing. Order intake in the German steel industry, which had already ranged noticeably below the extraordinarily high levels of the previous year, fell again significantly between April and June. The cause of slowing demand throughout the whole European market were the excessively high inventory levels of steel trading companies, in particular in the case of commodity products in the flat steel and beams segments, which came about also due to an increase in imports from non-EU countries. The sale of this surplus volume which had been partly ordered by year-end 2004 was promoted by traders cutting prices with the result that the spot market prices began to tumble across the board. Fortunately, the market for plate, especially for high-quality grades, was more favorable. At the end of the first six months, however, prices for the more simple products in this segment also came under pressure.

In the purchasing of **raw materials**, the impact of the 120 % hike in the price of coking coal as from the first April made itself felt, whereas prices for shipping freight and scrap in particular fell in the course of the reporting period. The increase in the **crude steel production** reflected the higher production volume of LD steel resulting from start of operations of Blast Furnace C, on the one hand, and the curtailing of the electric steel production, on the other.

Sales posted by **Salzgitter Flachstahl GmbH** rose notably over the first six months of 2004, with a concurrently lower level of shipments. Profit reached its historically highest level, way above the year-earlier figure, although the monthly results at the end of the second quarter were already on the decline as the effects of higher costs for coking coal and reluctant markets had begun to filter through. In surface coating in particular, production shifts were cancelled in order to ease the strain on the markets. The decision to bring forward the date of the scheduled relining of Blast Furnace A to the beginning of July served the same purpose. The planned purchase of semi-finished goods which, along with stocks of company-manufactured slabs, was intended to bridge the temporary lack of crude steel which this relining would incur, was scaled back considerably in view of the market situation.

The exceptionally upbeat business performance of **Ilsenburger Grobblech GmbH** (ILG) held steady in the months from April through to June as well. Towards the end of the period under review, two trends appeared to divide the market environment: whereas oversupply in the market had an adverse effect in the case of simple grades, the healthy order situation which persisted in the higher-end segment even allowed prices to be raised again marginally. Sales and earnings of ILG soared year on year to reach their long-term best levels which was, at the same time, proof of the success of the strategic realignment of the company undertaken in previous years.

The persistently weak European construction economy also had a negative impact on the market environment of **Peiner Träger GmbH** (PTG) in the first half of 2005. In order to stabilize the market, production was therefore curtailed here as well, a measure that was reflected in the sales volume which remained substantially below the previous year’s level. The company managed to keep the basic price relatively stable; the scrap surcharge was adjusted on a monthly basis to the downtrend in scrap costs. Expectations of rising scrap prices caused a sharp increase in order intake in June; it remains to be seen whether this is the turning point in demand for beams. The higher level of sales prices caused the revenue of PTG to fall only marginally short of the previous year’s figure during the period under review. Pre-tax earnings were positive in a single digit million range.

HSP Hoesch Spundwand und Profil GmbH, newly incorporated into the Steel Division, raised its sales and profit against the previous year's result even though business suffered under the tight policies of public property developers awarding contracts and the generally poor order situation in the civil engineering sector. Similarly, **Salzgitter Bauelemente GmbH**’s performance also suffered greatly from the slack construction market but nonetheless succeeded in raising sales and earnings. **Salzgitter Europlatinen GmbH** produced at the limit of its plant capacity in the period under review and raised both sales and pre-tax earnings.

Despite a 14 % decline in shipments, the **total sales** of the Steel Division grew 26 % as against the year-earlier period, driven by the positive trend in revenues in the previous quarters. Accordingly, **external sales** rose by 24 %. **Earnings before tax** soared, with the profit in the second quarter not being quite as high as in the first as the market situation and curtailing output had already filtered through to the June result.

During the reporting period, **order intake** was 25 % down on the previous year’s level. **Orders on hand** were also lower than the year-earlier period which had benefited from hitherto unknown record orders placed by steel consumers.

The **core workforce** of the Steel Division (new structure) came to 7,122 employees as per March 31, 2005, which corresponds to 20 people less as compared with the previous year’s level and to 3 employees less as against December 31, 2004.

Tubes Division

		Q2 2005	Q2 2004	H1 2005	H1 2004
Order bookings	€ million	**279**	406	**695**	733
Order backlog as of 30/06/	€ million			**954**	681
Sales[1)]	€ million	**545**	325	**960**	617
External sales	€ million	**392**	252	**705**	459
Earnings before taxes (EBT)	€ million	**80.5**	19.6	**157.7**	25.5
Core workforce	as of 30/06/			**4,290**	4,170

All values in accordance with the new group structure; core workforce excluding passive age-related part-time employment arrangements.

1) Incl. sales in own segment (excluding intra-company sales in the DMV Group and the EP Group) and to other corporate divisions

With effect from April 1, 2005, Salzgitter Großrohre GmbH was taken out of the Steel Division and assigned to the Tubes Division. All financial data cited and annotated in this report for the first half of 2005, the first and the second quarter of 2005, and comparative figures from previous periods reflect the new structure of the segment.

The market environment which had been extremely favorable for the international **steel tubes industry** for a year remained so in the first half of 2005. The order books of most tubes produce are therefore still running at a high level. In the medium term, demand is expected to remain steady in the energy generating and producing industry, as well as in the automotive sector. In addition, the competitive situation of European tube manufacturers improved in recent months due to a moderate firming up of the US dollar against the euro although, as before, there is still a currency-induced competitive disadvantage. The reluctance to place orders of a number of customers who are speculating on rolled steel prices falling is currently placing pressure on a number of individual product segments.

The companies of the Mannesmannröhren-Werke sub-group and Salzgitter Großrohre GmbH thus also benefited from the favorable market situation in the first six months of 2005. The **external sales** of the Tubes Division soared by 54 % over the year-earlier period. Along with a better sales price level, a higher volume of shipments was responsible for this trend. The **pre-tax result** was six times as high year on year. All companies of the Division contributed to this increase in profit.

Consolidated **order intake** in the Division settled at a high level during the reporting period but was, however, 5 % down year on year. In terms of their value, **orders on hand** even doubled. The following can be reported on developments in the individual sub-segments:

The **seamless tubes** product segment which comprises Vallourec SA and Vallourec & Mannesmann Tubes SA (V&M) recorded healthy revenues and brisk demand in the first six months of 2005. Sales and profit also soared. Owing to the consolidation of both companies at equity, the increase in sales is not reflected in the external sales of the Division and of the Group. The sale of the 45 % stake held by Mannesmannröhren-Werke GmbH in V&M to the joint venture partner Vallourec, which was announced in January, took place on June 23, 2005. More information on this transaction can be found in the section ”Events of Significance”.

In the **precision tubes** segment, Robur Buizenfabriek BV changed its name to Mannesmann Robur BV (ROB) on June 14, 2005. MHP Mannesmann Präzisrohr and ROB, companies operating in this segment, saw orders normalize in the first six months of 2005 following the extraordinarily strong order booking activity in the second half of 2004. Orders on hand of both companies are nonetheless at a very pleasing level. Sales and pre-tax earnings improved perceptibly due to the increase in sales prices.

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The market conditions for the **stainless steel tubes** producer DMV Stainless were also favorable in the first half of 2005. Order activity way exceeded the first six months of 2004, and orders on hand almost doubled in a year-on-year comparison. Sales grew significantly during the reporting period, boosted by good shipments and the by historical standards very high price of input materials which were passed on to the end consumer by way of alloy markups. The pre-tax result recorded a jump in profits which was, however, attributable to a base effect in conjunction with the weak first half year of 2004.

In the **medium line pipes** product segment, Mannesmann Line Pipe and Röhrenwerk Gebr. Fuchs, two companies which, since the start of the year, have been trading jointly under the “Mannesmann Fuchs Rohr” brand, also reported an upbeat performance. Whereas order intake and orders on hand increased only moderately in comparison with the year-earlier period, sales and profits rose considerably. In the case of medium line pipes, however, recent months have seen demand slowing as a number of customers are speculating on a further decrease of flat steel prices and consequently on declining tubes sales prices.

Europipe and Salzgitter Großrohre, companies which manufacture **large-diameter pipes**, benefited from strong demand over the past six months. Nonetheless, order intake in the first half of 2005 fell as against the previous year’s period, as the high plant capacity utilization coupled with the tight supply of input materials prevented more orders being booked. This was also reflected in a decline in orders on hand which should, however, be seen in the light of the exceptionally high level in the first half of 2004. The sales and profit of both companies rose notably as against the year-earlier period which was still subject to loss.

By June 30, 2005, the **core workforce** of the Tubes Division (new structure) had risen by 23 employees as compared with December 31, 2004. As against June 30, 2004, the increase came to 120 employees. The main factor driving this trend was temporary employment offered by a number of subsidiaries owing to the healthy order position.

Trading Division

		Q2 2005	Q2 2004	H1 2005	H1 2004
Shipments	kt	**1,502**	1,369	**2,965**	2,630
Sales[1]	€ million	**958**	705	**1,880**	1,282
External Sales	€ million	**834**	663	**1,631**	1,232
Earnings before taxes (EBT)	€ million	**17.8**	31.8	**44.1**	43.0
Core workforce	as of 30/06/			**1,713**	1,720

Core workforce excluding passive age-related part-time employment arrangements..

[1] Incl. sales in own segment and to other corporate divisions

The market environment in the **steel trading business** continued to deteriorate in the second quarter, affected by the inventory cycle. Prices for most products have slipped increasingly since the start of the year but were still at a comparatively good level. The price structures on the global steel markets became increasingly heterogeneous in response to the regionally extremely varied demand.

In the first six months of 2005, **Salzgitter Mannesmann Handel Group** (SMHD) boosted shipments and sales substantially as against the previous year, in contrast to the pre-tax result which went into a marginal decline. **Stockholding trade** in Germany and the Benelux countries suffered from the onset of slowing demand of many customers. Moreover, the one-off effect on profit seen in the previous year from the sale of favorably priced material inventories at the extremely high spot market prices of the second quarter of 2004 did not reoccur. In a year-on-year comparison, the contribution to the result was markedly lower. By contrast, the **international trading segment** recorded a substantial increase in sales. The companies based in North America in particular succeeded in expanding their business activities. Brisker ordering activity from the Middle East and Africa also had a positive effect. Pre-tax earnings from international activities were most gratifying when compared with the first two quarters of 2004. Finally, the SMHD Group expanded its purchase activities of input materials for operating companies in other segments versus the previous year, which was reflected in the total sales of the Trading Division.

Both sales and profit as well as the result in the first half year of the plate specialist **Universal Eisen und Stahl** and the German steel service center **Hövelmann & Lueg** rose sharply in the first half of 2005 over the year-earlier period. The French company **Robert** reported an overall steady development in the period under review, with sales and profit remaining stable in comparison with the first six months of 2004. The market environment of all companies presented an increasing challenge in the second quarter of 2005.

The **external sales** of the Trading Division rose 32 % in the reporting period. Despite the afore-mentioned one-off effect of last year, the **pre-tax result** was marginally higher year on year.

As per June 30, 2005, the **core workforce** of the Division remained more or less unchanged within the scope of normal fluctuation as against June 30, 2004 and December 31, 2004.

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Services Division

		Q2 2005	Q2 2004	H1 2005	H1 2004
Sales[1)]	€ million	**204**	216	**428**	424
External sales	€ million	**80**	82	**161**	163
Earnings before taxes (EBT)	€ million	**0.3**	2.5	**3.7**	4.5
Core workforce	as of 30/06/			**4,024**	4,215

All values in accordance with the new group structure; core workforce excluding passive age-related part-time employment arrangements.

1) Incl. sales in own segment and to other corporate divisions

At the start of the second quarter, Salzgitter Automotive Engineering GmbH & Co. KG (SZAE) as well as the non-consolidated company Oswald Hydroforming GmbH & Co. KG and Salzgitter Magnesium-Technologie GmbH were taken over from the Processing Division which was closed at this date. All financial data cited and annotated in this report for the first half of 2005, the first and the second quarter of 2005, and comparative figures from previous periods reflect the new structure of the segment.

The companies belonging to the Services Division developed more or less in line with the whole Group in the first half of 2005. After a very gratifying first three months in the current financial year, activities subsequently returned to a normal level in the second quarter.

Total sales in the period under review remained unchanged in comparison with the previous year's adjusted figure. The largest amount-related changes at the level of the individual companies were at scrap trader DEUMU where there was a revenue-induced increase in sales, and at the IT service provider GESIS where sales declined in comparison with the first half of 2004 due to a major one-off project last year. The SZAE improved its profit despite a slight downturn in business activity. The lack of contracts awarded by auto manufacturers in conjunction with their cost cutting measures again prevented a balanced result.

Similar to the **external sales** of the segment, **pre-tax earnings** came to € 3.7 million in the first half year of 2005, more or less unchanged from the previous year's level.

As per June 30, 2005, the **core workforce** of the Services Division (new structure) had been reduced by 191 employees and, as against December 31, 2004, by 20 employees. The main forces behind this development were personnel measures at SZAE and employees going into passive part-time age-related employment arrangements at Salzgitter Service und Technik GmbH.

Outlook

Strong expansion in China and robust growth in the USA continue to be the engines of the global economy. Although a downturn in global growth is discernable in the meantime in the wake of climbing interest rates in the USA and the rising price of raw materials, in particular crude oil, the export sector remains the mainstay of the economy in Europe and Germany. Owing to the depreciation of the euro there are a number of different indicators which point to a sentiment reversal in domestic industry which could trigger brisker investment activities.

In the **Steel Division**, the relining of Blast furnace A, commenced at the beginning of July, is expected to be completed by the end of September. The purchase of bought-in slabs to compensate for the lower production of crude steel is, however, at a much lower level than planned, as the production of rolled steel will be adjusted to take account of reticent demand in the second half of the year. After the plant holidays of key steel consumers, order intake activity should start to rise given that inventories have normalized by then. Spot market prices for flat steel are meanwhile showing the first signs of stabilizing. In the beams segment, stronger order booking activity and rising costs for scrap have led to the first price increases. In the second half of the year, the results of the Steel Division will be impacted by the anticipated lower level of flat steel placed on the market coupled with the sustainedly high purchasing costs of coking coal, iron ore and alloys. By contrast, the healthy demand situation for high-grade plates and the recovery of the beams market should have a stabilizing effect.

The signs which point to the future development of the steel tubes market are positive again as the high price of energy will drive the dynamic development of the energy generating and producing industries. In the capital goods sector as well, the demand for construction and precision tubes is likely to pick up momentum in the months ahead. Given the high level of orders on hand, it can be assumed that the capacity utilization of plants in the **tubes segment** will again be good.

Similar to the steel segment, the **Trading Division** is likely to see business return to normal levels following an end to the global steel boom. The further development of the **Services Division** is expected to proceed in a satisfactory manner in future.

On the basis of the information currently available and estimates concerning the trends in the procurement and sales markets, as well as the general framework conditions, and taking account of the effects of the Profitability Improvement Program, the **Salzgitter Group expects to post a pre-tax result of around € 600 million in the current year**. We expressly point out that opportunities and risks arising from currently unforeseeable trends in sales prices, input material costs and plant utilization, as well as changes in the currency parity, may significantly affect performance in the second half of the year. Additional positive or negative effects may come about owing to inventory valuation pursuant to revised IFRS standards or the way they are applied. The resulting fluctuation margin in the consolidated result caused by all factors of influence is in the three-digit million range.

Management Report

Events of significance

Having fulfilled all the prerequisites, in particular with respect to obtaining the approval of the antitrust authorities, Salzgitter AG and Mannesmannröhren-Werke GmbH (MRW) on the one hand and Vallourec S.A. on the other, signed an agreement on May 13, 2005, on the **sale of** the 45 % stake held by MRW in **Vallourec & Mannesmann Tubes S.A.** (V&M) to the French joint venture partner Vallourec. The transfer of the shares and the payment of the purchase price of € 545 million took place on June 23, 2005. V&M is now a company wholly owned by Vallourec S.A. and, as from the start of the third quarter of 2005, will no longer be included in the financial statements of Salzgitter AG. Salzgitter/MRW participated in the capital increase of Vallourec S.A., which was initiated on June 20, 2005 and completed on July 13, 2005, in proportion to the amount of their holding of 22.61 %. In the context of the V&M transaction, MRW raised its holding in the steel producer Hüttenwerke Krupp Mannesmann GmbH in Duisburg by 10 % to 30 %.

On July 7, 2005, Salzgitter AG made an ad-hoc announcement pursuant to Section 15 WpHG (German Securities Trading Act) that it intended to use the authorizations granted by the Annual Shareholders' Meetings of 2004 and 2005 and, depending on conditions on the market, repurchase its own shares on the stock exchange up to a maximum stock of 10 % of its share capital. On July 15, 2005, an announcement was made by way of mandatory publication in the "Börsen-Zeitung" that the threshold of 5 % of the share capital had been exceeded on July 8, 2005. The **share buyback** is intended to take account of the wish often expressed by capital market partners that the company permits its investors to participate in the outstandingly successful performance and the extremely sound financial position of the company through this medium. After careful consideration, the share buy-back was given preference, the alternative being a special dividend, as the former could be executed immediately and, in addition, was advantageous to the investor from a tax standpoint.

Consolidated Balance Sheet

Assets in T€	30/06/2005	31/12/2004
Fixed assets		
Intangible fixed assets		
Goodwill/negative goodwill from capital consolidation	**1,224**	-133,316
Other intangible assets	**23,537**	21,819
	24,761	-111,497
Property, plant and equipment	**1,376,932**	1,362,593
Financial assets	**66,751**	64,750
Associated companies	**273,110**	596,308
Other receivables and other assets	**3,041**	4,342
Deferred tax assets	**996**	996
	1,745,591	1,917,492
Current assets		
Inventories	**1,396,351**	1,080,998
Trade receivables	**1,043,377**	901,965
Other receivables and other assets	**112,044**	77,358
Securities	**2,427**	3,679
Cash and cash equivalents	**808,346**	245,871
Income tax assets	**5,252**	8,242
	3,367,797	2,318,113
	5,113,388	4,235,605

Equity and liabilities in T€		
Equity		
Subscribed capital	**161,426**	160,899
Capital reserves	**294,636**	292,670
Retained earnings	**1,191,575**	638,302
Unappropriated retained earnings	**22,000**	26,400
	1,669,637	1,118,271
Treasury shares	**-24,984**	-9,453
	1,644,653	1,108,818
Minority interest	**10,036**	11,819
	1,654,689	1,120,637
Non-current liabilities		
Provisions for pensions and similar obligations	**1,616,329**	1,627,788
Income tax liabilities	**26,913**	26,896
Deferred tax liabilities	**69,519**	41,486
Other Provisions	**140,211**	131,254
Financial liabilities	**99,482**	74,168
	1,952,454	1,901,592
Current liabilities		
Other provisions	**218,414**	200,246
Financial liabilities	**159,548**	116,744
Trade payables	**596,803**	503,903
Income tax liabilities	**87,085**	27,330
Other liabilities	**444,395**	365,153
	1,506,245	1,213,376
	5,113,388	4,235,605

Consolidated Income Statement

in T€	**2nd Quarter 2005**	2nd Quarter 2004	**1st Half 2005**	1st Half 2004
Sales	**1,866,239**	1,466,480	**3,631,018**	2,766,026
Increase or decrease in finished goods and work in process and other own work capitalized	**99,680**	-86,473	**231,894**	-64,956
	1,965,919	1,380,007	**3,862,912**	2,701,070
Other operating earnings	**24,549**	34,807	**66,658**	95,485
Cost of materials	**1,330,981**	927,031	**2,569,651**	1,828,787
Personnel expenses	**242,645**	233,158	**478,297**	462,151
Ammortization and depreciation	**50,590**	63,269	**99,856**	113,799
Other operating expenses	**203,285**	137,941	**398,829**	298,491
Income from shareholdings	**2,630**	2,770	**2,722**	3,044
Income from associated companies	**62,339**	22,883	**117,921**	30,946
Write-downs on financial assets	**0**	124	**0**	124
Net interest income	**-18,060**	-23,472	**-40,167**	-45,520
Profit on ordinary activities	**209,876**	55,472	**463,413**	81,673
Taxes on profits	**48,233**	15,685	**126,238**	19,918
Other taxes	**2,410**	2,222	**4,441**	4,058
Consolidated net income for the year	**159,233**	37,565	**332,734**	57,697
Minority interest	**229**	-395	**623**	-408
Consolidated net income accruing to Salzgitter AG shareholders	**159,004**	37,960	**332,111**	58,105
Undiluted earnings per share (in €)	**2.60**	0.62	**5.39**	0.95
Diluted earnings per share (in €)	**2.60**	0.62	**5.38**	0.95
Application of profits in T€				
Consolidated net income accruing to Salzgitter AG shareholders			**332,111**	58,105
Profit carried forward from previous year			**26,400**	16,780
Dividend payment			**24,798**	-15,317
Appropriation to other retained earnings			**-311,713**	-44,588
Profit shown on the balance sheet after appropriation to or transfers from reserves			**22,000**	14,980

Cash Flow Statement

in T€	1st Half 2005	1st Half 2004
Consolidated net income for the year	**332,111**	58,105
Deprecreciations, write-downs (+)/write-ups (-) on fixed assets	**99,856**	113,923
Other non-payment-related expenses (+)/income (-)	**72,787**	32,091
Interest expenses	**50,575**	50,838
Increase (-)/decrease (+) on the disposal of fixed assets	**22,358**	-4,753
Increase (-)/decrease (+) in inventories	**-315,353**	18,350
Increase (-)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	**-154,011**	-238,505
Payment-related increase (+)/decrease (-) in provisions	**-125,216**	-100,569
Increase (-)/decrease (+) in trade payables and other liabilities not attributable to investment or financing activities	**205,262**	170,768
Cash flow from operating activities	**188,369**	100,248
Payments received from the disposal of fixed assets	**3,929**	2,907
Payments made on investments in intangible and tangible fixed assets	**-83,967**	-85,682
Payments received from the disposal of fixed assets	**548,968**	14,710
Payments made on investments in financial assets	**-45,189**	-2,338
Cash flow from investment activities	**423,741**	-70,403
Payments received (+)/made (-) as a result of sales and repurchases of own shares	**-11,058**	21
Dividend payments	**-24,798**	-15,317
Payments received (+)/made (-) as a result of the issue of bonds, take-up of loans and other financial liabilites	**-5,724**	11,681
Interests paid	**-8,055**	-6,676
Cash flow from financing equivalents	**-49,635**	-10,291
Cash and cash equivalents available at the beginning of the period	**245,871**	139,964
Variation in cash and cash equivalents	**562,475**	19,554
Cash and cash equivalents available at the end of the period	**808,346**	159,518

Statement of Changes in Equity

in T€	Subscribed capital	Capital reserves	Retained earnings	Thereof from currency conversions	Thereof other changes without effect on income
Status December 31, 2003	**159,523**	**287,530**	**511,365**	**-128,722**	**3,301**
Net income for the year					
Dividend					
Disposal of own shares					
Currency conversions			568	568	
Change in value IAS 39 investments					
Change in value IAS 39 from hedging relationships					
Group transfers to retained earnings			44,588		
Deferred taxes on changes without effect on income			3,792		3,792
Others			2,619		-1,481
Status June 30, 2004	**159,523**	**287,530**	**562,932**	**-128,154**	**5,612**

Status December 31, 2004	**160,899**	**292,670**	**636,767**	**-144,393**	**-74,536**
Adjustment as a result of IFRS 3 (negative goodwill)			134,540		
Net income for the year					
Dividend					
Exercise of warrant-linked bonds	527	1,966			
Disposal of own shares					
Repurchase of own shares					
Currency conversions			107,679	107,679	
Change in value IAS 39 investments					
Change in value IAS 39 from hedging relationships					
Group transfers to retained earnings			311,713		
Deferred taxes on changes without effect on income			327		327
Others			-1,502		3,462
Status June 30, 2005	**161,426**	**294,636**	**1,189,524**	**-36,714**	**-70,747**

Statement of Changes in Equity

Repurchase of own shares	Valuation reserve IAS 39 from hedging relationships	Valuation reserve IAS 39 from available for sale	Consolidated net income	Shareholders' equity	Minority interest	Equity
-9,494	**4,458**	**10,084**	**16,780**	**980,246**	**16,168**	**996,414**
			58,105	58,105	-408	57,697
			-15,317	-15,317	-2,056	-17,373
22				22		22
				568		568
		-3,276		-3,276		-3,276
	146			146		146
			-44,588	0		0
				3,792		3,792
				2,619	-1	2,618
-9,472	**4,604**	**6,808**	**14,980**	**1,026,905**	**13,703**	**1,040,608**
-9,453	**-4,428**	**5,963**	**26,400**	**1,108,818**	**11,819**	**1,120,637**
				134,540		134,540
			332,111	332,111	623	332,734
			-24,798	-24,798	-2,315	-27,113
				2,493		2,493
1,561				1,561		1,561
-17,092				-17,092		-17,092
				107,679		107,679
		-3,049		-3,049		-3,049
	3,565			3,565		3,565
			-311,713	0		0
				327		327
				-1,502	-91	-1,593
-24,984	**-863**	**2,914**	**22,000**	**1,644,653**	**10,036**	**1,654,689**

Segment Reporting

€ million	**2nd Quarter 2005**	2nd Quarter 2004	**1st Half 2005**	1st Half 2004
Consolidated sales				
Steel	**560**	469	**1,134**	912
Tubes	**392**	252	**705**	459
Trading	**834**	663	**1,631**	1,232
Services	**80**	82	**161**	163
Group	**1,866**	1,466	**3,631**	2,766
Income from ordinary operations				
Steel	**115.9**	12.9	**282.3**	16.2
Tubes	**80.5**	19.6	**157.7**	25.5
Trading	**17.8**	31.8	**44.1**	43.0
Services	**0.3**	2.5	**3.7**	4.5
Others/Consolidation	**-4.6**	-11.3	**-24.4**	-7.5
Group	**209.9**	55.5	**463.4**	81.7

All values in accordance with the new group structure

Selected Notes to the Consolidated Financial Statements

Principles of accounting and consolidation, balance sheet reporting and valuation methods

1. The consolidated financial report of Salzgitter AG, Salzgitter, for the reporting period from January 1 to June 30, 2005, has been prepared as a condensed report with selected notes. The report has been drawn up as before in accordance with the International Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) in consideration of requirements contained in IAS 34 for condensed interim reports.

2. In comparison with the annual financial statements as at December 31, 2004, the following changes have been made in the accounting, valuation, calculation and consolidated methods in the interim financial statements for the period ended June 30, 2005:
   - The structure of balance sheet items was modified in line with the stipulations of the revised IAS 1 (2003) which requires that balance sheet items be classified by maturity.
   - The differential resulting from capital consolidation (badwill) accrued as of December 31, 2004, has been reclassified as other retained earnings without affecting the operating result.
   - Effective as of January 1, 2005, Salzgitter AG has implemented a change in the valuation of inventories pursuant to IAS 2. Inventories will accordingly no longer be valued by the LIFO method. The reported book value is based on a provisional calculation which will be finalized in the remaining months of the financial year 2005. According to current information, only a minor variation is likely to occur. A retroactive adjustment will be made once the facts have been conclusively evaluated.

Selected Notes to the Consolidated Financial Statements

Selected explanatory notes on the balance sheet

The "Associated companies" item in the balance sheet no longer comprises the pro rata equity of the companies of the V&M Group as the shareholdings in these companies were sold in the second quarter of 2005. The currency-induced losses of the V&M Group already accounted for in the equity, without effect on the results of the periods in previous years, did not lead to a change but merely to an adjustment in equity due to the sale. The balance sheet total was also not affected by this adjustment. However, this effect reduced the sales proceeds as part of the income statement by € 103.4 million as, according to the accounting rules currently in effect, these currency-induced losses affect the income statement upon realization (sale). Accordingly, along with the pro rata operating profit of € 90.5 million of the V&M Group, a capital loss of € -24.4 million became effective, whereas consolidated Group equity rose by both the operating result and by € 79.0 million capital gain from the sale of V&M.

Selected explanatory notes on the income statement

1. Sales by division are shown in the segment reporting section. In contrast to the financial statements of 2004 and the quarterly financial statements as at March 31, 2005, in which the Group comprised the five divisions Steel, Trading, Services, Processing and Tubes, the realignment of the Group has necessitated the companies of the Processing Division being reallocated to the Steel and Services Divisions. Furthermore, Salzgitter Großrohre GmbH was taken out of the Steel segment and reassigned to the Tubes segment. The figures for the financial year 2004 and for the first quarter of 2005 have been adjusted to take account of the new structure of the segments.

2. Earnings per share are calculated pursuant to IAS 33. The **undiluted earnings per share** based on the weighted number of shares of Salzgitter AG came to **€ 5.39** in the period under review.

   Dilution of the earnings per share occurs if the average number of shares is increased by the addition of the potential shares to be issued on the basis of the options and conversion rights granted by Salzgitter AG. In principle, option and conversion rights dilute earnings when the prerequisites for the conversion right are fulfilled.

   The dilution effect of option rights that have not been exercised would occur on the basis of a subscription price of € 12.10 per share. During the reporting period, the prerequisites for the exercising of conversion rights were fulfilled, with the result that in the disclosure pursuant to IAS 33 the **diluted earnings per share** amounted to **€ 5.38**.

Investor Relations

The capital market and the performance of the Salzgitter stock

In the first half of 2005, the **stock markets** initially presented an uneven picture. Whereas second-line stock had performed consistently well since the start of the year, it was mid-May before – following a prolonged period in which it trended sideways – there was an upward movement of the DAX which ultimately resulted in a performance of 8 % for the first six months of 2005. During the same period, the MDAX climbed by 18 %.

Starting with the year-end closing price 2004 (€ 14.25), the initial increase in the price of the **Salzgitter share** was moderate. Upon publication of the results for the first quarter on May 13, which way exceeded the expectations of the capital market, the share enjoyed a dynamic uptrend. A further factor stimulating the share price was the capital market's extremely positive reaction to the V&M deal as well as the directly correlated outstandingly good performance of the share of the French company Vallourec SA in which a 23 % stake is held. At the end of the reporting period, the Salzgitter share reached a new all-time high of € 22.70 (June 29), with this gratifying trend continuing thereafter. With a closing price of € 22.44 on June 30, the first half of 2005 saw a share price increase of more than 57 %. Taking into account the ex dividend markdown of € 0.40 after the General Shareholders Meeting on May 26, it achieved an overall performance of as much as 60 %. As in the previous periods, the share outperformed the developments of DAX, MDAX and the European Steel Index.

In connection with the brisker interest in steel shares that started in mid-2004 and, to a certain extent, the fact that free float was raised to more than 74 %, the average **daily turnover** in the Salzgitter share on German stock exchanges moved ahead to 380,000 in the first half of 2005. The excellent trading volume seen over the last 12 months and a **free float market capitalization** of € 969 million enabled Salzgitter AG to improve its ranking in June in the MDAX list of Deutsche Börse AG, moving up to 22nd and 26th place in the respective categories.

As part of its **capital market communication** activities, the Group presented itself at four investor conferences since the start of the year. In addition, road shows in Frankfurt, New York, London, Zurich, Amsterdam and Brussels as well as a number of analyst and investor visits to the sites of the Steel and Tubes Divisions were organized. With the lively interest of the financial market, the results of the financial year 2004 were presented and discussed at the start of April at analyst conferences in Frankfurt and London.

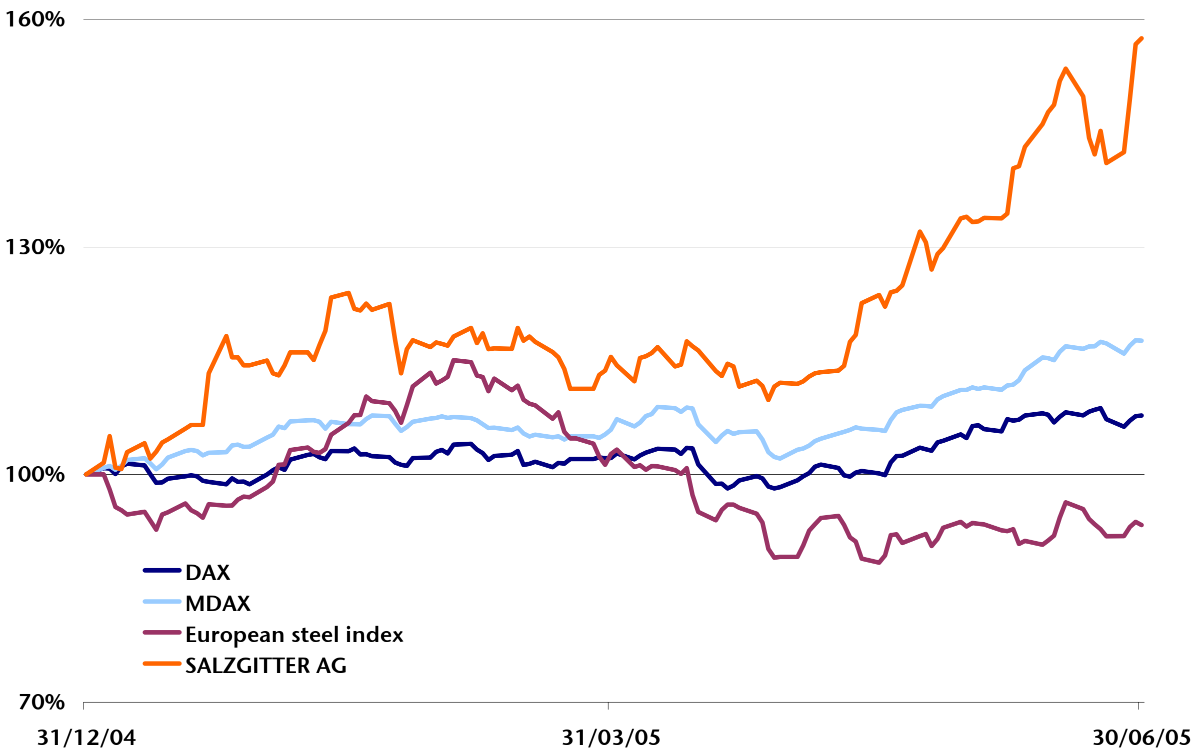
Since the start of the financial year, a total of 95 company reports and recommendations on the Salzgitter share have been published by 28 banks and financial publications with the following current **ratings** (status as per June 30, 2005): 16 buy/outperform, 8 hold/neutral, 4 sell/underperform.

Information for investors

		H1 2005	H1 2004
Nominal capital	€ million	**161.4**	159.5
Number of shares	million	**63.1**	62.4
Market capitalization as of June 30[1)]	€ million	**1,417.0**	614.6
Price as of June 30[1)]	€	**22.44**	9.85
High 01/01/ - 30/06/[1)]	€	**22.70**	10.65
Low 01/01/ - 30/06/[1)]	€	**14.17**	8.72
Security identification number	620200		
ISIN	DE0006202005		

[1)] Information based on XETRA trading prices

Performance of Salzgitter AG vs. European steel index, DAX and MDAX



Sources: Xetra closing prices DBAG, Datastream STEELEU

Options/own shares

At the end of the first six months of 2005, 74,000 subscription rights (each to one share in Salzgitter AG) were owned by employees of the Group. During the period under review, 206,000 subscription rights were converted into new shares of Salzgitter AG. As a result, the number of shares issued by Salzgitter AG had risen from 62,938,400 at the start of the financial year to 63,144,400 by the end of June. Subscribed capital increased accordingly from € 160,899,464.67 to € 161,426,095.32.

The number of own shares was 1,740,602 units on June 30, 2005. In comparison with the number as per December 31, 2004, the increase amounted to 611,105. In line with the authorization given by General Meeting of Shareholders held on May 26, 2004, 1,786 shares at an average price of € 16.04 were used in lieu of payment for the services of third parties during the reporting period. 184,747 shares were issued to members of the workforce for free or as a bonus. Towards the end of the first half-year, 797,638 own shares were acquired at an average price of € 21.43.

Financial calendar

November 14, 2005	Interim report for the first nine months 2005
December 31, 2005	End of financial year 2005

Legal disclaimer

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