Annual Report 2007

Financial Year from January 1 to December 31, 2007

SALZGITTER AG
Steel and Technology

The Salzgitter Group comprises around 200 national and international subsidiaries and associated companies combined under Salzgitter AG as the holding company.

With an annual production of rolled steel and tubes which comes to more than 7 million tons, external sales of approximately € 10 billion and a workforce of around 23,000, the Salzgitter Group ranks among Europe's leading steel technology groups.

The Group's core competences lie in the production of rolled steel and tubes products and their processing, trading in these products and, more recently, in the construction of special machinery and plant engineering.

The specific competences are concentrated in the respective divisions (Steel, Trading, Tubes, Services and Technology).

The Divisions

Steel

SALZGITTER STAHL

Trading

SALZGITTER MANNESMANN HANDEL

Services

SALZGITTER AG Steel and Technology

Tubes

SALZGITTER MANNESMANN RÖHRENWERKE

Technology

KLÖCKNER WERKE AG

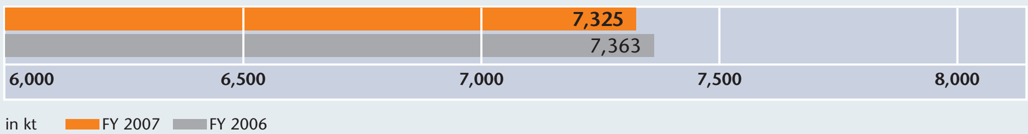
The Steel Division is one of Europe's five largest steel producers and the Tubes Division is a global leader in a number of sub-segments in its sector.

The new Technology Division comprises the companies of the Klöckner Group. The Group's key companies rank among the global leaders and preferred suppliers of plant solutions for the food industry.

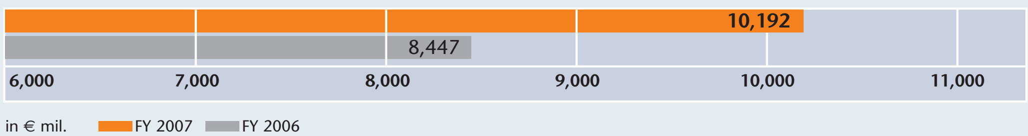
Salzgitter AG is listed on the MDAX and, on the basis of its placing within the index, belongs to Germany's 35 largest stock corporations.

Key Figures for the Financial Year 2007

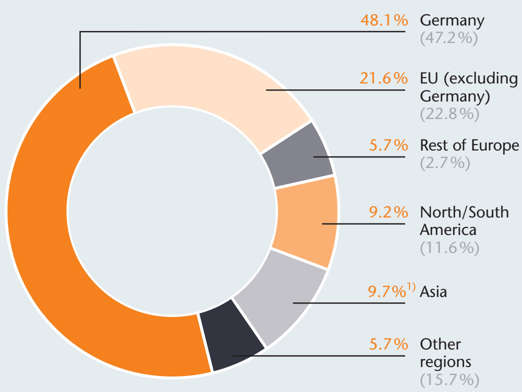
Crude Steel Production



Consolidated Sales

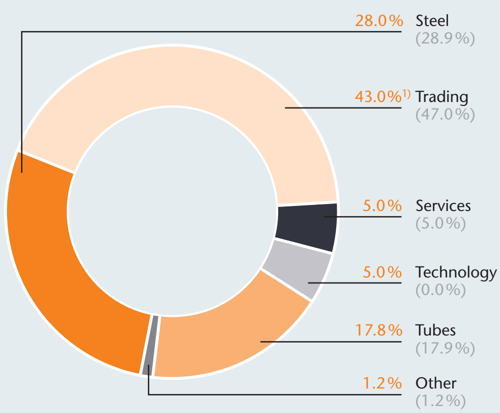


Consolidated Sales by Region 2007 (2006)



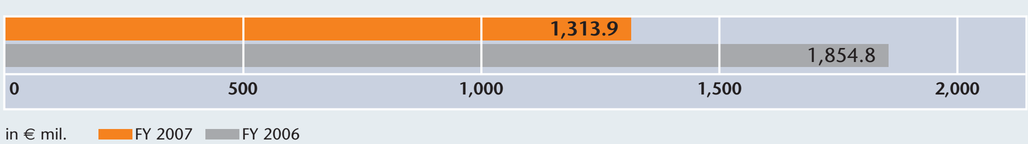
[1] 2006 included in "Other regions"

Consolidated Sales by Division 2007 (2006)

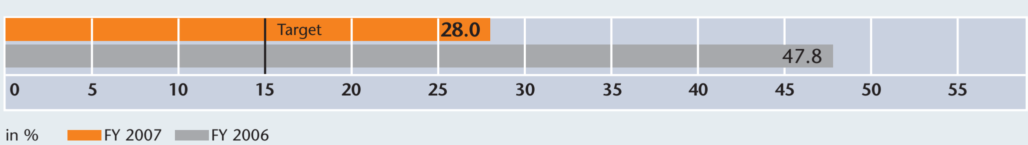


[1] Of which:
Steel Division 9.8% (8.4%)
Tubes Division 5.6% (6.1%)

Earnings before Tax (EBT)



Return on Capital Employed (ROCE)



		FY 2003	FY 2004[1]	FY 2005	FY 2006	FY 2007
Sales (consolidated)	**€ mil.**	**4,842**	**5,942**	**7,152**	**8,447**	**10,192**
Steel Division	€ mil.	1,432	1,946	2,177	2,440	2,852
Trading Division	€ mil.	2,027	2,642	3,244	3,971	4,385
Tubes Division	€ mil.	921	1,016	1,407	1,510	1,815
Services Division	€ mil.	241	338	324	425	504
Technology Division[2]	€ mil.	–	–	–	–	513
Processing Division	€ mil.	221	–	–	–	–
Other/Consolidation	€ mil.	–	–	–	101	123
of which flat rolled products	€ mil.	2,409	3,013	3,379	3,825	4,185
of which sections	€ mil.	596	794	793	1,049	1,444
of which tubes	€ mil.	1,236	1,284	1,908	2,401	2,699
of which export share	%	52	53	55	53	52
Earnings before tax (EBT)[3]	**€ mil.**	**42**	**323**	**941**	**1,855[4]**	**1,314**
Net income for the year	**€ mil.**	**28**	**247**	**842**	**1,510**	**905**
Balance sheet total	**€ mil.**	**3,673**	**4,236**	**5,414**	**6,978**	**8,406**
Non-current assets[5]	**€ mil.**	**1,879**	**1,918**	**1,900**	**1,631**	**2,168**
Current assets[6]	**€ mil.**	**1,794**	**2,318**	**3,514**	**5,347**	**6,238**
Inventories	€ mil.	919	1,081	1,439	1,653	2,084
Shareholders' equity[7]	**€ mil.**	**980**	**1,121**	**2,012**	**3,457**	**4,246**
Debt[8]	**€ mil.**	**2,693**	**3,115**	**3,402**	**3,521**	**4,160**
Long-term liabilities[9]	€ mil.	1,892	1,902	2,079	2,187	2,380
Current liabilities[10]	€ mil.	801	1,213	1,323	1,334	1,780
of which due to banks	€ mil.	196	175	178	140	119
Investments[11]	**€ mil.**	**191**	**228**	**262**	**236**	**385**
Depreciation and amortization[11]	**€ mil.**	**248**	**313**	**206**	**201**	**225**
Employees						
Personnel expenses	€ mil.	935	926	994	1,014	1,232
Annual average core workforce[12]	empl.	17,874	17,352	17,184	16,949	20,072
Annual average total workforce[13]	empl.	19,007	18,498	18,499	18,352	21,648
Crude steel production[14]	**kt**	**8,562**	**6,932**	**7,142**	**7,363**	**7,325**
Key figures						
Earnings before interest and tax (EBIT)[15]	€ mil.	61	346	970	1,901	1,351
EBIT before depreciation and amortization (EBITDA)[16]	€ mil.	309	667	1,186	2,102	1,581
Return on capital employed (ROCE)[17]	%	4.6	24.4	38.9	47.8	28.0
Cash flow	€ mil.	223	352	468	488	781

1) Values for FY 2004 adjusted to the new Group structure and balance sheet reporting regulations
2) Companies of the Technology Division consolidated as per July 1, 2007; EBT including effects of purchase price allocation
3) Earnings before tax
4) Including proceeds from sale/hedging of VLR shares of € 907 million
5) Non-current assets until 2003
6) Current assets until 2003
7) From 2004 including minority interests
8) From 2004 excluding minority interests
9) Provisions until 2003
10) Liabilities until 2003
11) Excluding financial investments
12) Excluding trainees and non-active age-related part-time employees
13) Including trainees and non-active age-related part-time employees
14) 2003 SZFG, PTG and MRW/V&M interests in Hüttenwerke Krupp Mannesmann (HKM) as well as V&M France and V&M do Brasil and including V&M Star; as from 2004, calculated on the basis of the changed shareholdings in HKM and Vallourec; as from 2007, SZFG, PTG and inclusion of the changed shareholding in HKM
15) EBT plus interest paid (excluding the interest portion of allocations to pension provisions)
16) From 2004, including write-downs of financial assets
17) 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 2007

March 8

Salzgitter AG publishes its key figures for the financial year 2006: The global market for rolled steel and tubes was still extremely robust in the year 2006. Favored by these conditions, the Group achieved new all-time highs in its business volume and profit. In the financial year 2006, sales stood at € 8,447 million, which exceeded the previous year's figure (€ 7,152 million) by 18%. Earnings before tax of € 1,855 million again considerably outperformed the exceptionally good 2005 result (€ 941 million). Similarly, operating pre-tax profit, excluding the proceeds from the sale of the Vallourec participation (€ 907 million), came to € 948 million, up on the previous year's figure of € 803 million.

March 27

In a joint press conference together with Dr. Wolfgang Leese, Chief Executive Officer of Salzgitter AG, Christian Wulff, Minister President of Lower Saxony, declared that the Federal State intends to hold its 25.2% participation in Salzgitter AG up until at least 2013.

March 28

Salzgitter AG publishes its Annual Report 2006 and presents it to the financial press at its annual financial statements press conference. In the two days following the press conference, communication with the financial community was brisk, in particular in well-attended analyst conferences in Frankfurt and London.

March 28

Salzgitter AG intends to reinforce its position as a supplier of high-caliber products with competitive advantages in costs structures, productivity, flexibility and customer loyalty. To this end, the investment program "Salzgitter Steel 2012" was launched with a projected volume of € 1.4 billion as a decisive step to promote internal growth. The program bolsters the overriding aim of the Group: The preservation of its entrepreneurial independence through profitability and growth.

March 31

Change in the chairman of Supervisory Board of Salzgitter AG: After eight successful years and at the end of his period of office, Dr. Wilfried Lochte hands over the chairmanship to Rainer Thieme.

May 15

Salzgitter AG continues to benefit from lively demand for steel and tubes products. In the first quarter, the Group presents new benchmarks. Consolidated sales soared 20% to € 2.38 billion in the first three months (first quarter of 2006: € 1.98 billion). Pre-tax profit of € 325.4 million, generated fully from operations, once again significantly exceeded the all-time high for a quarter (in the fourth quarter of financial year 2006: € 286.3 million). After-tax profit came to € 196.6 million (first quarter 2006: € 35.7 million).

May 23

The General Meeting of Shareholders of Salzgitter AG ratifies the proposal of the Executive and Supervisory Boards and approves a dividend of € 1 and a special bonus of € 1 per share, thereby doubling overall dividend payout in comparison to the previous year.

July 2

Salzgitter AG and Vallourec S.A. sign the final agreements on the takeover of the precision tube manufacturer Vallourec Précision Etirage S.A.S., France. This acquisition makes the Salzgitter Group a leading European supplier in the precision tubes business.

July 5

Salzgitter AG takes over another 78 % of the shares of Klöckner-Werke AG and, together with its previously acquired 5 % participation, now holds 83 % of the share capital. Klöckner-Werke AG is a global leader in the construction of beverages filling lines and packaging equipment. The companies of this group form the core of the new "Technology" Division. The investment has meanwhile been raised to approximately 86 %.

August 9

Stable economic growth makes for an extremely positive environment for the sale of rolled steel and tubes products in the second quarter of 2007 as well. Salzgitter AG exceeded all sales and profit benchmarks set to date for a half-year period. Sales climbed 17 % to € 4.72 billion (first half-year of 2006: € 4.03 billion). Pre-tax profit of € 663.6 million, generated fully from operations, delivered an impressive increase over the already extremely high previous year's figure (€ 437.9 million).

November 8

Nord Stream AG and Europipe GmbH, a company jointly held by Salzgitter AG and Dillinger Hütte, signed a contract for the delivery of steel tubes for the construction of the Nord Stream Pipeline. Europipe GmbH will supply around 75 % of the tubes (860,000 tons) for the first section of the 1,200 km long pipeline from Wyborg in Russia through to Lubmin in Germany, as well as parts of the second pipeline along the coast of Russia and Germany.

November 14

Demand for rolled steel and tubes products continued to run high in the third quarter of 2007. Against this extremely positive economic background, the Salzgitter Group set new record figures in sales and operating profit for a nine-month period. All divisions contributed to lifting sales by € 1.29 billion to € 7.50 billion (9 months 2006: € 6.21 billion). An additional factor was the first-time consolidation of Klöckner-Werke AG, which was acquired at the start of the third quarter, and of Vallourec Précision Etirage S.A.S. Pre-tax profit of € 980.4 million generated by operations outstripped the previous year's figure by 48 % (€ 661.5 million; excluding € 907 million from the sale of the Vallourec participation).

November 20

With its construction of a new Technical Center, which will include the large scale equipment and machinery laboratories of Salzgitter Mannesmann Forschung GmbH, Salzgitter AG is set to reinforce its position as a premium supplier of steel materials. This institution will form the core of the research company where the most important research and development activities are concentrated. Around € 11 million was invested in a number of large scale machines and equipment and in buildings at the Salzgitter location. The Group now holds a leading position in Europe in application-oriented steel research and development.

Contents

Preface by the Executive Board

Ladies and Gentlemen,

This is the year which we will remember for two particularly important events in the history and development of Salzgitter AG. One took place 150 years ago: in 1858, Counselor of Justice Carl Haarmann founded Ilseder Hütte as a stock corporation under German law. As one of Germany's oldest corporations, it is not only the genesis under company law of our modern Salzgitter AG, but also the origin of the Peine steel mill location. After an at times turbulent past, the producer of the almost legendary Peiner Träger sections enjoys an excellent economic constitution and is currently in the process of making significant investments.

This is also an apt description of the whole Salzgitter Group, a fact which forges a link between this and the second event which occurred just ten years ago. In the midst of some turbulence, the then Preussag Stahl AG left the Preussag Group in 1998 to make its way as an independent, listed company. Although our profitability was already above average in a peer comparison in those days, the number of those who placed their confidence in us to achieve a modicum of success in the decade ahead was modest. Today, after ten years of independent Salzgitter AG, we can look back with satisfaction and a touch of pride on what we have achieved.

Not enough that we surpassed the € 10 billion sales threshold in 2007 – we capped this performance by achieving a pre-tax result of € 1.314 billion, which is the fourth record income from operations in a row. Decisive for understanding the significance of this performance is less the impressive absolute highs and more the position that we have achieved in terms of return on capital employed as against our competitors. This position – as in previous years – is nothing we need to be modest about.

Without any kind of capital injection, we have not only trebled sales but, at the same time, also raised the equity capital of the Group to € 4.25 billion, which is fourfold what it was, within a ten year period. This is an outstanding basis for future profitable growth in entrepreneurial independence.

The original ideas that drive our corporate philosophy remain the same. These ideas are anchored in our corporate guidelines and are reflected in our business policies and ethics. With this foundation, and reinforced by our decentrally oriented, but at the same time tightly orchestrated organization of tasks, responsibilities and competences, we do not have to instigate a flurry of activity in response to each putative demand requiring correct action. This not only engenders trust within the Group and outside, but also gives our executives the room they need to maneuver with regard to important decisions for the good of the company and its shareholders.

The Executive Board: (standing, from left to right) Wolfgang Eging, Heinz Groschke, Hans Fischer; (sitting, from left to right) Peter-Jürgen Schneider, Dr. Wolfgang Leese, Dr. Heinz Jörg Fuhrmann

The financial year 2007 was another year of superlatives. And the current financial year 2008 also gives us reason to be satisfied, especially in view of the fact that it began better than originally expected by numerous participants in the financial markets. There is much, including the extremely high level of orders in the Tubes Division, among other factors, which underpins our customarily responsible and realistic, but at the same time confident, estimate of the year 2008 as a whole. Determinant factors will continue to be whether the widespread crisis in the financial sector and the ensuing recessionary tendencies in North America can be mastered in the near future without triggering any notable negative consequences for the real economies of other regions.

If anything, the way in which value is being wiped off the US real estate sector illustrates quite clearly that the consequences of entrepreneurial action geared to short-term goals and short-term thinking can be fatal. We would like to assure you that our success in recent years has not blinded us, or gone to our heads. We will continue to consider the internal and external growth path ahead with diligence and with determination that the Salzgitter Group will not only flourish in a boom phase, but also make its way when normality returns one day with more balanced relations between demand and supply.

Although, with the aforementioned in mind, we reject company acquisitions when prices ride the peak of an economic cycle, we are by no means hesitant in seizing opportunities when they arise. We have recently delivered proof of this approach in our acquisition of SIG Beverages which has enabled us to add a strategic component to the product range of KHS, the largest subsidiary of Klöckner-Werke.

In our anniversary year 2008, we intend that Salzgitter shareholders should not only enjoy the long-standing increase in their investment – in addition to a repeated doubling of the basic dividend to two euros, we propose to pay another euro per share as a special bonus.

Steel is not only a companion in many things we use in our daily lives, but ranks as an essential material enabling large-scale projects of the most varied permutations. We all know this. But what is less known is what these projects, which include container ships, ski jumps or bridges spanning kilometers, actually mean for the people who live and work with them. We have documented this in a story book in this annual report, and we hope that you will find the new views on life and insights as interesting as we do.

People are at the core of all entrepreneurial activity, whether shareholders, customers, suppliers or employees. With this in mind, we would like to thank you as the shareholders and business partners of Salzgitter AG, also on behalf of our committed employees, for the trust that you vest in our company.

Dr. Wolfgang Leese | Dr. Heinz Jörg Fuhrmann | Wolfgang Eging

Hans Fischer | Heinz Groschke | Peter-Jürgen Schneider

The financial year 2007 of Salzgitter AG was above all characterized by a significant growth driving measures which consisted in the acquisition of a majority holding in Klöckner-Werke AG, the introduction of an extensive multi-year investment program aimed at securing performance in the core business of steel and another outstanding set of annual results.

Monitoring and Advising the Executive Board in the Exercising of their Managerial Duties

The Supervisory Board monitored the Executive Board in its management of the company. It kept itself fully informed about course of business and the situation of the company on a regular and timely basis by way of written and verbal reports. The Executive Board reported to the Supervisory Board on the strategic development, the profitability of the company, the risks, organization measures set in place to comply with legal requirements and corporate planning. The Supervisory Board was informed of the generally very positive divergences between the planned and actual course of business, and the causes thereof were thoroughly explained and discussed. The Supervisory Board was directly involved in all decisions of particular significance for the company and accompanied the Executive Board in an advisory capacity in these decisions.

There were four regular meetings in which the Supervisory Board discussed the situation and the development of the Group on the basis of reports submitted by the Executive Board. The average attendance by Supervisory Board members came to 94%.

The Presiding Committee of the Supervisory Board convened for two meetings and a number of individual discussions. The Strategy Committee discussed in depth the core issues relating to the strategy of the Group in a meeting with the Executive Board. The Audit Committee of the Supervisory Board met on four occasions in the period before the Supervisory Board meeting convened to adopt the annual financial statements and held on March 27, 2008.

Alongside the Supervisory Board meetings, there was regular contact between the Chairman of the Supervisory Board and the Chairman of the Executive Board. Many individual discussions were conducted on the position of the company, its development and material transactions.

Main Focus of the Supervisory Board: Investment Program

In the financial year 2007, the Supervisory Board carefully reviewed the extensive multi-year investment program launched to secure the market position of the core steel business and a number of major investments made by the Tubes Division in modernizing facilities and enhancing product quality.

The Supervisory Board gave its approval to the following measures:

- The "Salzgitter Steel 2012" project, including the "Salzgitter Flachstahl GmbH 2012" and "Peiner Träger GmbH 2010" sub-projects
- Construction of a new blast furnace gas and steel gas container at Salzgitter Flachstahl GmbH
- Construction of a new main and secondary parallel of the rolling mill at Ilsenburger Grobblech GmbH
- Renewal of the roller conveyers and pushers in the plate mill of Mannesmannröhren Mülheim GmbH

Rainer Thieme,
Chairman of the
Supervisory Board

Alongside the extensive investment program, the Supervisory Board also approved the following planned acquisitions:

- Acquisition of a majority holding in Klöckner-Werke AG. The company is a global player in beverage filling technology. The participation will be managed as part of the newly formed Technology Division.
- Acquisition of the cold-drawn precision tubes business of Vallourec S.A.
- Acquisition of the SIG-Beverages Group, which operates in the beverages filling technology area by supplying equipment and machinery for the production of plastic bottles.

As part of the research and development activities within the Group, the Supervisory Board inspected the experimental belt strip casting plant developed in cooperation with the Technische Universität Clausthal. Based on the promising results, the decision was taken to build an industrial-scale pilot plant at Peiner Träger GmbH.

In its meeting on December 13, 2007, the Supervisory Board dealt in detail with the corporate plans submitted and explained by the Executive Board, including investment, finance and personnel planning for the financial years from 2008 up until and including 2010. The Supervisory Board approved the investment planning for the Group and related financing for the financial year 2008.

Annual Financial Statements at Company Level and Consolidated Financial Statements

In its meeting on March 27, 2008, the Supervisory Board examined the annual financial statements of Salzgitter AG and the consolidated financial statements of the Group, both as of December 31, 2007, as well as the joint management report on the company and the Group for the financial year 2007. During this meeting, the Audit Committee of the Supervisory Board, which had consulted on the documentation pertaining to the financial statements at an earlier point in time, reported on the results of its work. Prior to this, the Hanover-based independent auditor PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, selected by the General Meeting of Shareholders on May 23, 2007, reviewed both sets of financial statements and issued an unqualified auditor's opinion respectively. The auditor thereby confirmed that the balance sheet accounting, the 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 ascertained 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 company as a going concern.

The annual financial statements at company level, the consolidated financial statements at Group level, the joint management report on the company and the Group, the Executive Board's proposal for the appropriation of unappropriated retained earnings, 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 27, 2008, and elaborated on the most important findings of their audit.

Its own examination of the annual financial statements, the consolidated financial statements and the joint management report did not lead to any objections. The Supervisory Board approved the findings of the auditor's review and ratified the annual financial statements. The financial statements were thereby adopted. Having reviewed the proposal of the Executive Board on the appropriation of the unappropriated retained earnings, the Supervisory Board gave its approval.

Changes in the Supervisory Board

In the Supervisory Board meeting on March 28, 2007, Dr. Wilfried Lochte laid down his mandate as Chairman of this executive body for reasons of age. Dr. Lochte had headed the Supervisory Board since 1999 during a phase of company stabilization and growth. He made a decisive contribution to the positive development of the company through his commitment. The Supervisory Board and the Executive Board thank Dr. Lochte for his outstanding service to the company. The Supervisory Board elected Rainer Thieme to the position of Chairman of this executive body. Walter Skiba (employee representative), Chairman of the Works Council of the Group company Salzgitter Mannesmann Handel GmbH, laid down his mandate on December 31, 2007. In his place, the District Court of Braunschweig appointed Uwe Pfante to the Supervisory Board, effective January 1, 2008.
The Supervisory Board thanks Mr. Skiba for his dedicated cooperation.

The Supervisory Board would like to thank the Executive Board and all of the Group's employees for their work and their commitment in the financial year 2007.

Salzgitter, March 27, 2008

The Supervisory Board

Rainer Thieme
Chairman

Corporate Governance Report

Corporate Governance at Salzgitter

The corporate governance (management and control of the company) of Salzgitter AG is anchored in the recommendations set forth under German law on the management and supervision of stock corporations listed on the stock exchange. Moreover, the company has espoused the recommendations of the German Corporate Governance Code on good and responsible management which goes beyond the scope of this legislation. In addition, the Executive Board of Salzgitter AG has approved a set of internal corporate guidelines. These guidelines establish the management organization of the Group (in particular, the formation of divisions and echelons of management between the Group management holding, the management companies and Group companies) as well as uniform management standards for the individual specialist areas.

In the view of the Executive Board and the Supervisory Board of Salzgitter AG, good corporate governance in all the divisions of the company is a cornerstone of success. With this in mind, a number of other recommendations of the German Corporate Governance Code were implemented, and the internal management organization developed and adjusted to the growth of the company in the financial year 2007.

The Shareholders of Salzgitter AG

The shareholders of Salzgitter AG exercise their rights at the General Meeting of Shareholders which usually takes place once a year. In particular, they decide on the appropriation of profit, the discharge of the Executive Board and the Supervisory Board, the election of the members of the Supervisory Board, changes to the Articles of Incorporation and other significant entrepreneurial measures at this meeting. Each shareholder of Salzgitter AG is entitled to participate in the General Meeting of Shareholders to address the Meeting about items on the agenda and to ask pertinent questions and submit relevant motions. Shareholders can exercise their votes without having to be there in person by appointing the proxies of the company to vote for them in accordance with their instructions.

The adopted annual financial statements of the company as at December 31, 2006, the consolidated financial statements of the Group and the joint management report on the company and the Group, the report on information in the Management Report on the status of shares held in the company and the report of the Supervisory Board were presented and explained at the annual General Meeting of Shareholders of Salzgitter AG held on May 23, 2007. These documents had already been posted on the company's web site after Supervisory Board's meeting on March 28, 2007, and made available as a printed version. The General Meeting then discussed applications for resolution pertaining to the following items on the agenda:

- appropriation of unappropriated retained earnings (€ 1 in dividend plus € 1 as a special bonus per share),
- discharge of the Executive and the Supervisory Boards,
- selection of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, as auditor for the financial year 2007,

- by-election election of two Supervisory Board members,
- authorization for the purchase, sale and retraction of shares of Salzgitter AG,
- authorization to carry out a capital increase,
- authorization to issue options and convertible bonds,
- amendment to Section 11 of the Articles of Incorporation.

The applications for resolution submitted by the Executive Board and the Supervisory Board were approved by a large majority to the exception of authorization to carry out a capital increase and to issue options/convertible bonds.

The Executive Board of Salzgitter AG

The Executive Board manages the company under its own responsibility. In doing so, it is bound to by the interests of the company and obligated to increase the value of the company on a sustainable basis. It strives to achieve the highest possible return on capital employed within the scope of the corporate purpose. The tasks of the Executive Board 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 is made up of six members, in part with functional and in part with divisional competences. The members of the Executive Board are liable to the company for any dereliction of duty. The allocation of duties among the members of the Executive Board is set out under a schedule for the allocation of tasks defined by the Supervisory Board. The Supervisory Board has established bylaws for the purpose of regulating cooperation in the Executive Board and involving the Supervisory Board in business transactions.

The remuneration of the members of the Executive Board is disclosed in the Group Management Report (Item I.2.3.).

The Supervisory Board of Salzgitter AG

The task of the Supervisory Board is to advise and supervise the Executive Board in its management of the company. Certain transactions, determined in the bylaws applicable to 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 laid down in a set of bylaws.

Pursuant to the Montanmitbestimmungsgesetz of 1951 (German Act on Employees' Participation in Corporate Governance in Coal, Iron and Steel Industries) in conjunction with Section 7 of its bylaws, the Supervisory Board consists of 21 members, namely 10 shareholder and 10 employee representatives, plus one further member who is put forward for election by the members of the General Meeting of Shareholders. As from 2008, the Supervisory Board must be composed in accordance with the regulations of the Co-Determination Amendment Act of 1956 in conjunction with Section 7 of the company's Articles of Incorporation. Pursuant to these provisions, it has 21 members, 10 of which are shareholder and 10 employee representatives, plus one more member. The shareholder representatives and the additional member are elected by the General Meeting, the additional member having been put forward by the other 20 members.

In order to prepare its decisions, the Supervisory Board has formed a presiding committee alongside its audit, strategy and nomination committees. It reviewed the efficiency of its activities in the financial year 2007 and deemed them satisfactory. The Supervisory Board did not receive any reports of conflicts of interest, neither from the members of the Executive Board nor from members of the Supervisory Board. The Supervisory Board will provide detailed information on its activities and decisions in the financial year 2007 separately in its report to the General Meeting of Shareholders.

Since the General Meeting of Shareholders of Salzgitter AG, held on May 23, 2007, one member has left the Supervisory Board. Upon application by the company, the District Court of Braunschweig appointed one new member in his place. 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 on May 21, 2008; accordingly, the Supervisory Board is to be elected anew in this meeting.

The remuneration of the members of the Supervisory Board is disclosed in the Group Management Report (Item I.2.3.).

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

In stock corporations established under German law, the executive board and the supervisory board work as separate bodies, each carrying out 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 use a set of instruments in performing their management and control duties.

The essential instruments of the Supervisory Board include in particular:

- obligation of the Executive Board to submit regular, timely and comprehensive reports to the Supervisory Board,
- regular discussion of the strategy, planning and business development, including divergences from plans with the Executive Board,
- definition of business activities and measures of the Executive Board which may only be carried out with Supervisory Board approval,
- obligation of the Executive Board to submit longer-term corporate plans on an annual basis and to report on the execution of such plans, and
- agreement on the variable components when determining the remuneration of the members of the Executive Board, geared towards the commercial success of the company and the overall performance of the respective Executive Board member.

The Executive Board uses a selection of instruments for management and control which includes:
- definition of reporting duties and authorization requirements for individual areas in the Corporate Guidelines and the articles of incorporation of the Group companies,
- definition of the principles governing the management of the Group in a set of Corporate Guidelines on management and organization,
- preparation of strategic plans for all divisions and business segments, as well as the regular updating and monitoring of their success,
- obligation of all Group companies to prepare annual sales, investment, financial and personnel plans, as well as regularly monitoring their progress,
- regular internal audits and special audits by the internal audit department,
- establishment and continuous improvement of a groupwide monitoring system for early risk detection (risk management) and
- 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 2007, 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 for implementing the strategic goals. The development of the various Group companies and holdings was monitored by the Executive Board in a timely fashion on the basis of regular target/performance comparisons of their key data, then deliberated in controlling discussions with the management of the Group companies on a rotational basis and corrected if necessary.

Corporate Compliance at Salzgitter

Within the Salzgitter Group, compliance with legal rules and regulations and internal guidelines (corporate compliance) in the carrying out of activities is considered an important part of corporate governance. Accordingly, the obligation of managers at all levels is to ensure that the relevant regulations are observed in their respective areas of tasks and responsibilities. Compliance organization is thus determined by the hierarchical organization of the company. Each manager must give his staff clear instructions as to their tasks and areas of responsibility and document this accordingly. A manager must ensure that staff have the competences necessary to fulfill their compliance duties. Moreover, part of a manager's duty is to monitor the fulfillment of compliance duties. The regular requesting of appropriate reports as part of management means that each individual employee is required to monitor his or her compliance duties. Details on compliance duties have been set down in a set of corporate guidelines. The Executive Board reported to the Supervisory Board on corporate compliance. The Audit Committee of the Supervisory Board addressed its attention to issues of corporate compliance.

Transparency

To ensure that shareholders receive the best possible information on the course of business, Salzgitter publishes an interim report with a summarized balance sheet at the end of the first, second and third quarter of a financial year, alongside its annual report with the financial statements and management report on the financial year in question. The dates of publication are announced in the financial company's financial calendar.

Furthermore, the Executive Board informs the public at an annual statements press conference, directly after the annual meeting of the Supervisory Board when the financial statements are adopted, of the results of the completed financial year. In addition to this event, analysts' conferences are held regularly for analysts and institutional investors in Frankfurt am Main and London. Finally, the Executive Board ensures that information which can have a considerable impact on the share price is published immediately in the form of an ad-hoc release. All reports and statements are accessible on the web site of the company (www.salzgitter-ag.de) in both German and English.

The company received no notification in the financial year 2007 on the purchase or sale of shares of Salzgitter AG by the members of the Executive Board or Supervisory Board or other persons with management tasks, or certain persons closely connected with them, who have regular access to insider information about the company and are authorized to make major entrepreneurial decisions. No member of the Executive or Supervisory Boards holds, either directly or indirectly, a portion of shares issued which is greater than 1%.

There are currently no stock option programs or similar securities-based incentive systems running in the Salzgitter Group.

Declaration of Conformity 2007

On December 13, 2007, the Executive Board and the Supervisory Board of Salzgitter AG submitted their Declaration of Conformity, pursuant to Section 161 of the German Stock Corporation Act (AktG), as set out below:

"All recommendations of the Government Commission on the German Corporate Governance Code released by the Federal Ministry of Justice in the official part of the German Federal Gazette have been complied with at Salzgitter AG."

Salzgitter, March 27, 2008

The Executive Board

Dr. Wolfgang Leese
Chairman

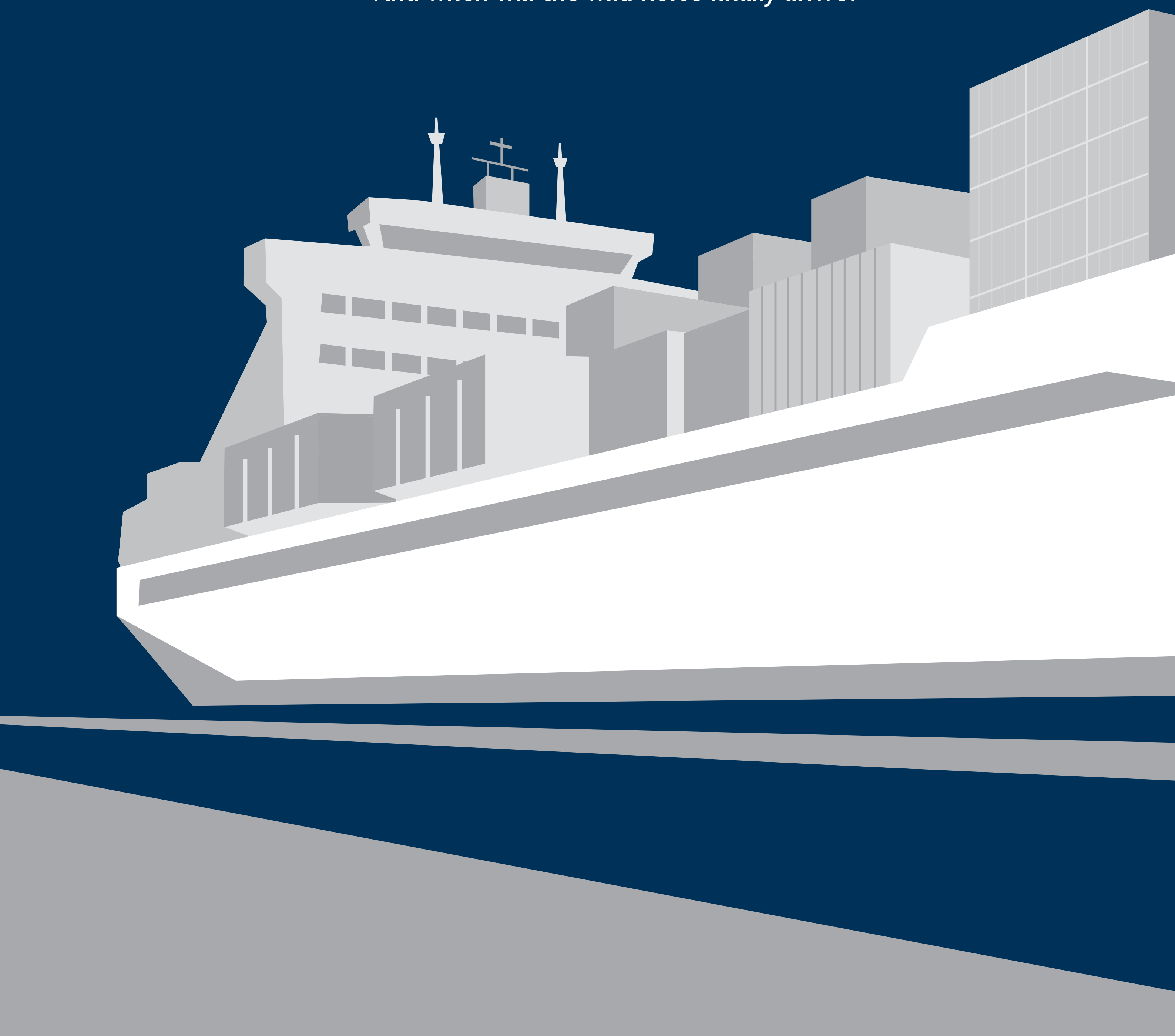
The Supervisory Board

Rainer Thieme
Chairman

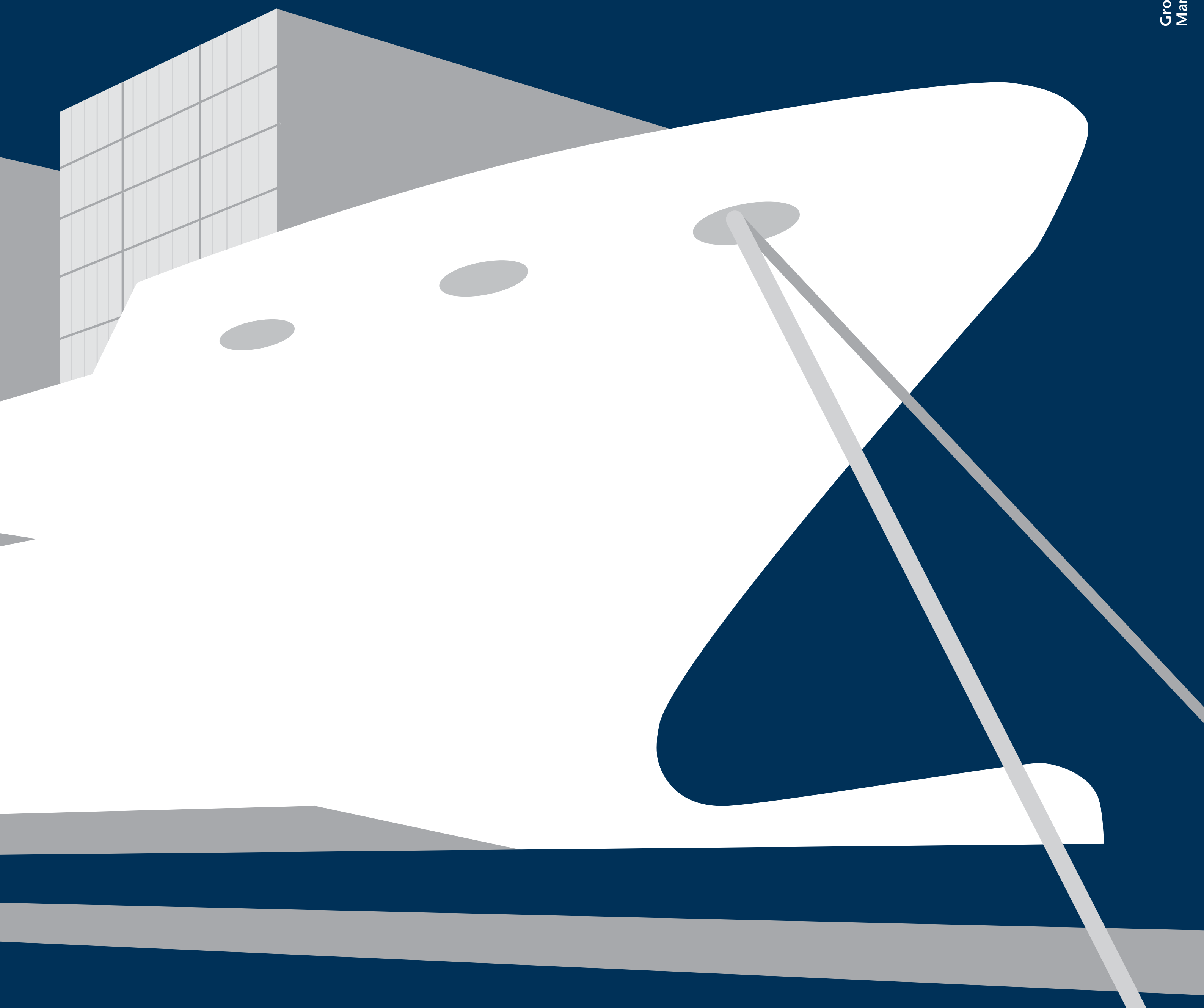
What does it feel like to steer 100,000 tons of steel?

Why is it often seconds and centimeters that count?

And when will the wild horse finally arrive?



What is life like on board?



Where steel swims, time flies and dreams roll.

A container ship not only transports goods from one end of the world to the other.
It also delivers many exciting stories about the people whose lives it affects.


HATSU COURAGE

"The containers travel. We stay put."

Ina von Spies, Spokeswoman of HHLA Nevertheless, as the Spokeswoman of Hamburger Hafen und Logistik AG (HHLA), Ina von Spies is always on the move. She commutes regularly between her office in Hamburg's Speicherstadt district and one of the three enormous container terminals HHLA operates in the harbor. And here, everything is really on the move. Within a space of 24 hours a number of container ships as large as the Hatsu Courage are loaded and unloaded, all at the same time. "It's a question of the right logistics", says Ms. von Spies and smiles. It's time to move on, and, logistically speaking, no extension is possible.

**"You really need to think ahead.
A normal braking distance is around 25 kilometers."**

Eckart Scharff, Captain The vessel measures a total length of 320 meters and weighs in at 100,000 tons – without cargo, that is. Taking the helm of such a ship means that you really have to think ahead. Especially as even an emergency braking maneuver still takes 7 kilometers. While Captain Scharff has been at sea for more than 40 years, he readily admits to being impressed by the developments in recent years. No wonder, he experiences globalization first hand: "I feel as if the number of ships at sea is doubling every 6 months." And in fact, it is getting increasingly crowded on the world's oceans. Perhaps this is why he sees his home in quite a different place: "The mountains – they don't roll from side to side."

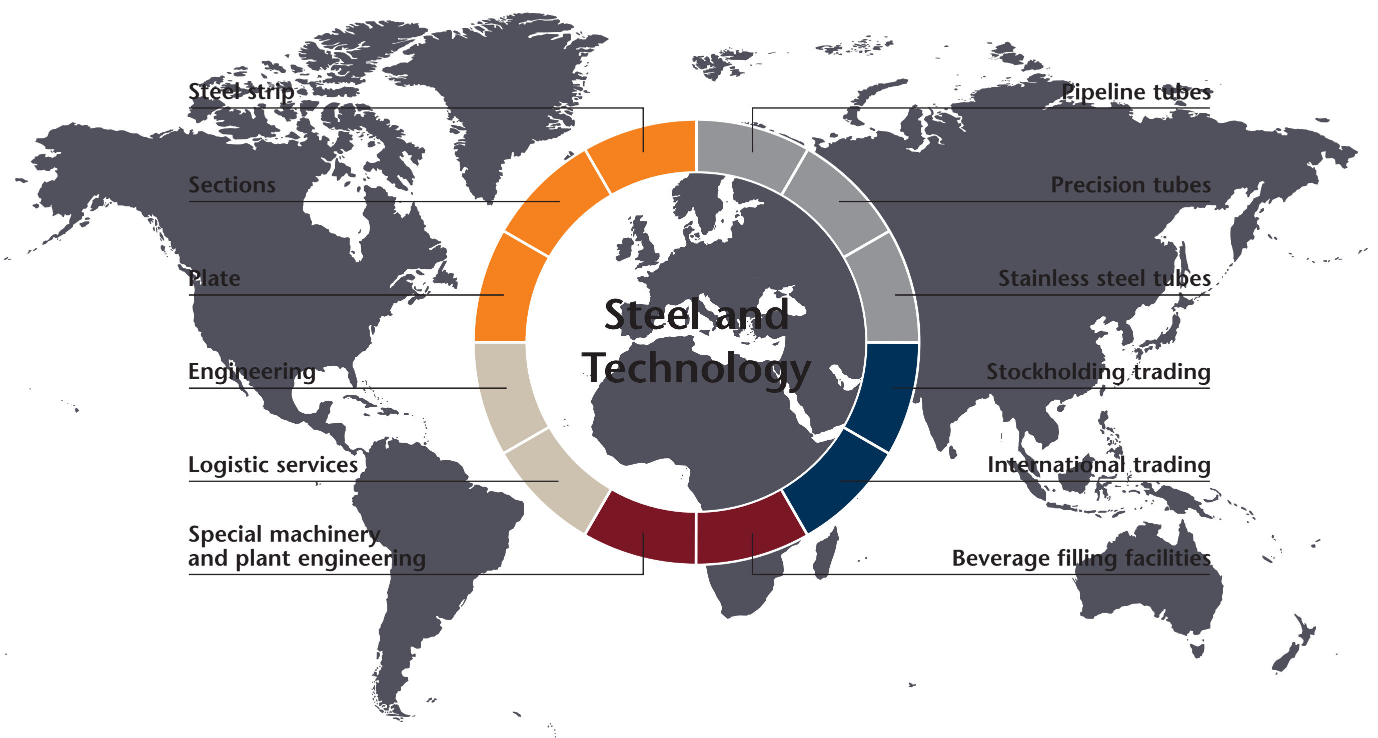
I. Business and the Environment

1. Group Structure and Operations

The Salzgitter Group comprises around 200 national and international subsidiaries and associated companies combined under Salzgitter AG as the holding company.

With an annual production of rolled steel and tubes which comes to more than 7 million tons, external sales of approximately € 10 billion and a workforce of around 23,000, the Salzgitter Group ranks among Europe’s top steel technology groups.

The Group’s core competences lie in the production of rolled steel and tubes products and their processing, trading in these products and, more recently, in the construction of special machinery and plant engineering.



The specific competences are combined under the relevant divisions (Steel, Trading, Tubes, Services and Technology).

The Steel Division ranks amount Europe's five largest steel producers, and the Tubes Division is global market leader in some of its sub-segments in the sector.

The new Technology Division comprises the companies of the Klöckner Group, the most important of which are in the league of global leaders and preferred suppliers of machinery and plant solutions for the food industry.

Salzgitter AG is listed on the MDAX and, on the basis of its ranking, is one of the 35 largest listed German stock corporations.

All important companies of the Salzgitter Group are grouped under the interim holding company Salzgitter Mannesmann GmbH (SMG). This structure has enabled existing tax carryforwards to be used and an unhampered central financial management for the Group to be implemented.

As the holding company, Salzgitter AG manages SMG and all associated companies. This process is facilitated by the members of the Executive Board of Salzgitter AG also being the managing directors of SMG. The Group is managed and supervised, as before, by the executive bodies of Salzgitter AG (Executive Board, Supervisory Board).

As the management holding company, Salzgitter AG coordinates the five divisions Steel, Tubes, Trading, Services and Technology. The chart on the next page shows the structure of the Group.

The Divisions

- **Salzgitter AG**
  - **Salzgitter Mannesmann GmbH**

STEEL

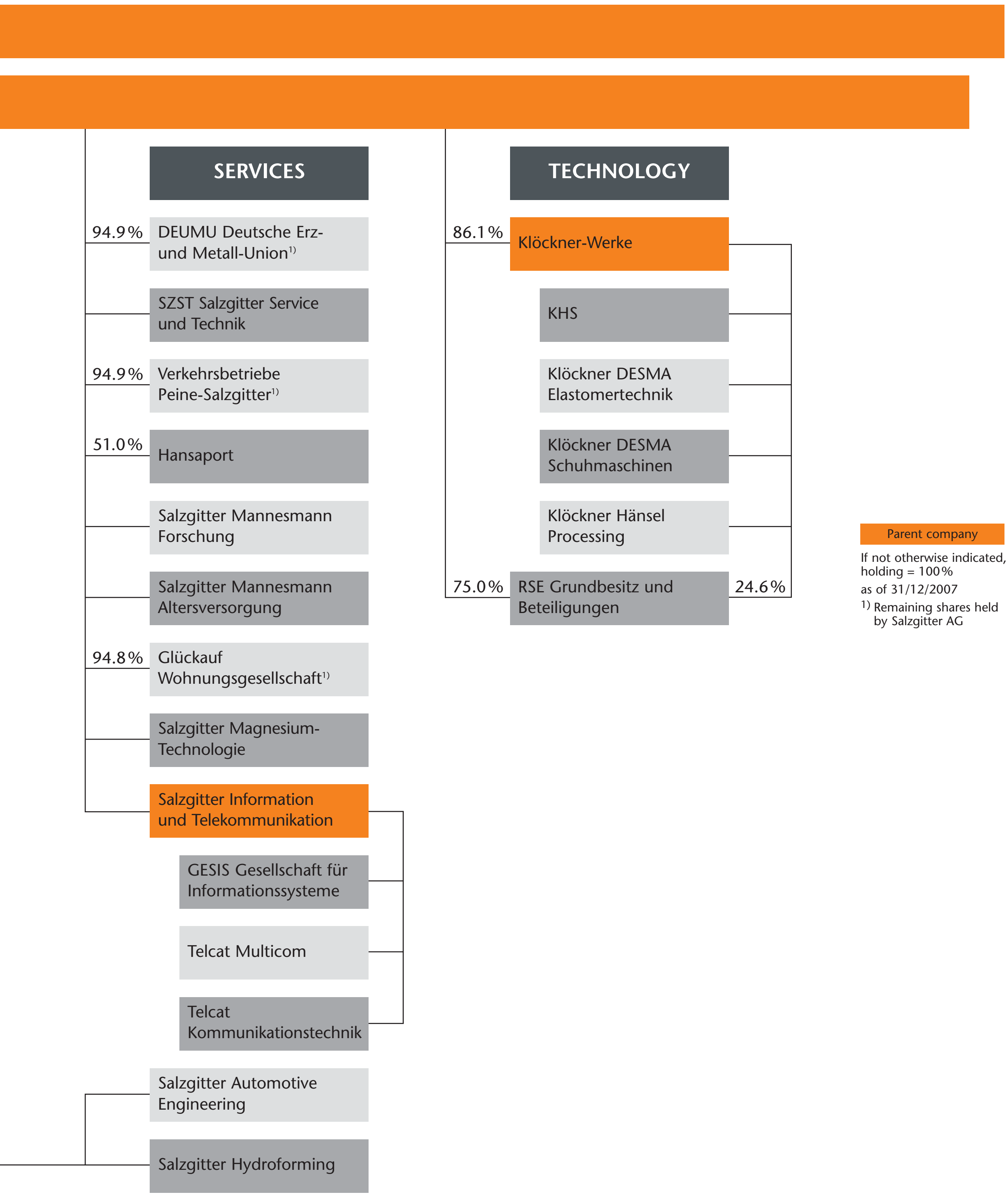
- Salzgitter Stahl
  - 94.9 % Salzgitter Flachstahl[1]
  - 94.8 % Peiner Träger[1]
  - 94.6 % Ilsenburger Grobblech[1]
- Salzgitter Europlatinen
- Salzgitter Bauelemente
- HSP Hoesch Spundwand und Profil

TRADING

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

TUBES

- Mannesmannröhren-Werke
- Mannesmannröhren Mülheim
- 94.9 % Salzgitter Großrohre[1]
- 50.0 % Europipe
- Mannesmann Fuchs Rohr
- Salzgitter Mannesmann Precision
  - Mannesmann Präzisrohr
  - Mannesmannrohr Sachsen
  - Vallourec Précision Etirage
- Mannesmann Robur
- Mannesmann DMV Stainless
- 30.0 % Hüttenwerke Krupp Mannesmann
- 23.0 % Borusan Mannesmann Boru


SERVICES
94.9% DEUMU Deutsche Erz- und Metall-Union[1]
SZST Salzgitter Service und Technik
94.9% Verkehrsbetriebe Peine-Salzgitter[1]
51.0% Hansaport
Salzgitter Mannesmann Forschung
Salzgitter Mannesmann Altersversorgung
94.8% Glückauf Wohnungsgesellschaft[1]
Salzgitter Magnesium-Technologie
Salzgitter Information und Telekommunikation
GESIS Gesellschaft für Informationssysteme
Telcat Multicom
Telcat Kommunikationstechnik
Salzgitter Automotive Engineering
Salzgitter Hydroforming
TECHNOLOGY
86.1% Klöckner-Werke
KHS
Klöckner DESMA Elastomertechnik
Klöckner DESMA Schuhmaschinen
Klöckner Hänsel Processing
75.0% RSE Grundbesitz und Beteiligungen 24.6%
Parent company
If not otherwise indicated, holding = 100%
as of 31/12/2007
1) Remaining shares held by Salzgitter AG

“The diameter of the piston is 960 millimeters. You can crawl inside.”

Jörg Dehde, Chief Engineer In the meantime, however, Jörg Dehde prefers to leave that to his crew. He doesn’t have any time anyway because, as Chief Engineer, he is responsible for all the machinery, engines and electronic equipment on board. Naturally, the “showpiece” is the 12-cylinder ship engine. His response to a question about its power is somewhat understated: ”Horsepower? Around 100,000” and, as a second thought, he adds: “Basically we are a fully fledged power plant. You could easily supply a small town with the power generated.” By the way, he copes well with life on board – 6 months at a stretch – because he can look forward to his holiday afterwards – all 4 months of it.

The divisions are composed of independently operating companies which enjoy a high degree of decentralized decision-making freedom and are able to develop market-, location- and product-related business activities under their own responsibility.

The **Steel Division** includes the companies listed in the table below:

Company	Abbreviation	Location
Salzgitter Stahl GmbH (Intermediate Holding Company)	SZS	Salzgitter
Salzgitter Flachstahl GmbH	SZFG	Salzgitter
Peiner Träger GmbH	PTG	Peine
Ilsenburger Grobblech GmbH	ILG	Ilsenburg
Salzgitter Europlatinen GmbH	SZEP	Salzgitter
Salzgitter Bauelemente GmbH	SZBE	Salzgitter
HSP Hoesch Spundwand und Profil GmbH	HSP	Dortmund

With their high-quality branded and special steels, these companies make a special 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, plate, 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 products will continue to be developed in future.

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. The company thereby ensures that it reaches not only large-scale consumers but also smaller and medium-sized end customers.

The companies of the Salzgitter Mannesmann Handel Group operating under the management company Salzgitter Mannesmann Handel GmbH (SMHD) and the plate specialist Universal Eisen und Stahl GmbH (UES), as well as the steel service centers Hövelmann & Lueg GmbH (HLG) and Flachform Stahl GmbH (FFS) have been assigned to this division, as shown by the table below.

Company	Abbreviation	Location
Salzgitter Mannesmann Handel Group	SMHD Group	
Salzgitter Mannesmann Handel GmbH	SMHD	Düsseldorf
Stockholding trading companies		
Salzgitter Mannesmann Stahlhandel GmbH	SMSD	Düsseldorf
Friesland Staal B.V.	FSD	Drachten (Netherlands)
Deltastaal B.V.	DSO	Oosterhout (Netherlands)
AP Steel U.K. Ltd.[1)]	APS	Scunthorpe (United Kingdom)
Salzgitter Mannesmann Stahlhandel sp.z.o.o.[1)]	SMPL	Slupca (Poland)

1) Non-consolidated

Company	Abbreviation	Location
Salzgitter Mannesmann Stahlhandel s.r.o.[1]	SMCZ	Prague (Czech Republic)
Salzgitter Mannesmann Acélkereskedelmi Kft.[1]	SMHU	Budapest (Hungary)
Salzgitter Mannesmann Distributie S.R.L.[1]	SMRO	Bucharest (Romania)
Agencies		
Salzgitter Mannesmann (U.K.) Ltd.[1]	SMUK	Harrogate (United Kingdom)
Salzgitter Mannesmann (France) S.a.r.l.[1]	SMFR	Paris (France)
Salzgitter Mannesmann (España) S.A.[1]	SMSP	Madrid (Spain)
Salzgitter Mannesmann (Italia) S.r.l.[1]	SMIT	Milan (Italy)
Salzgitter Mannesmann (Scandinavia) AB[1]	SMSC	Lulea (Sweden)
Trading		
Salzgitter Mannesmann International GmbH	SMID	Düsseldorf
Salzgitter Mannesmann International (USA) Inc.	SMIH	Houston (USA)
Salzgitter Mannesmann International (Canada) Inc.	SMIV	Vancouver (Canada)
Salzgitter Mannesmann International (Hong Kong) Ltd.[1]	SMHK	Hong Kong (China)
Salzgitter Mannesmann International (Asia) Pte. Ltd.[1]	SMSG	Singapore
Salzgitter Mannesmann International Tehran[1]	SMIR	Tehran (Iran)
Salzgitter Mannesmann Trade (Beijing) Co. Ltd.[1]	SMCN	Beijing (China)
Salzgitter Mannesmann International (Mexico) S.A. de C.V.[1]	SMIM	Mexico City (Mexico)
Overseas Offices		
		Moscow (Russia)
		Sofia (Bulgaria)
		Bucharest (Romania)
		Kattowitz (Poland)
		Dubai (UAE)
Universal Eisen und Stahl GmbH	UES	Neuss
		Hanover
		Viersen
Universal Steel Holland B.V.[1]	USN	Papendrecht (Netherlands)
Universal Acier S.a.r.l.[1]	UAC	Lyon (France)
Universal Stal sp.z.o.o.[1]	USP	Ruda (Poland)
Universal Ocel s.p.o.l. s.r.o.[1]	UOC	Prague (Czech Republic)
Universal Steel America Chicago, Inc.[1]	USC	Chicago (USA)
Universal Steel America Houston, Inc.[1]	USH	Houston (USA)
Hövelmann & Lueg GmbH	HLG	Schwerte
		Salzgitter
Flachform Stahl GmbH	FFS	Schwerte

[1] Non-consolidated

The SMHD Group operates eleven steel stockholding companies in Germany, nine processing centers and eleven warehouses. Seven companies operate steel trading in Europe, with five agencies located in European countries.

International trading is carried out for the most part by eight companies in the main and five representative offices located abroad.

All in all, the SMHD Group is represented in 65 locations and 30 countries.

The plate specialist UES conducts its trading and processing activities mainly in Germany as well as in other European countries and in the USA.

The steel service centers HLG and FFS round up the product and service range of the Trading Division with their customized flat rolled steel products.

The companies of the **Tubes Division**, headed by Mannesmannröhren-Werke GmbH, offer their customers a virtually complete range of steel tubes. The program includes large-diameter tubes, HFI (high-frequency inductive) welded line pipes, cold-finished tubes and seamless stainless steel tubes in particular.

The following material companies belong to the Division:

Company	Abbreviation	Location
Mannesmannröhren-Werke GmbH	MRW	Mülheim an der Ruhr
Large-diameter tubes		
Europipe GmbH[1]	EP	Mülheim an der Ruhr
Europipe France S.A.[1]	EPF	Dünkirchen (France)
Berg Steel Pipe Corp.[1]	BSPC	Panama City (USA)
Tubos Soldados Atlantico Ltda.[2]	TSA	Serra (Brazil)
Mannesmannröhren Mülheim GmbH	MRM	Mülheim an der Ruhr
Salzgitter Großrohre GmbH	SZGR	Salzgitter
HFI-welded tubes		
Mannesmann Fuchs Rohr GmbH	MFR	Hamm
		Siegen
Cold-finished tubes		
Salzgitter Mannesmann Precision GmbH	SMP	Zeithain
Mannesmann Präzisrohr GmbH	MHP	Hamm
		Brackwede
		Holzhausen
		Wickede
Vallourec Précision Etirage S.A.S.	VPE	Saint Florentin (France)
		Vitry-le-Francois (France)
		Rachecourt (France)
		Tonnerre (France)
		La Charité (France)
Mannesmannrohr Sachsen GmbH	MRS	Zeithain
Mannesmann Precisión Mexico S.A. de C.V.[2]	MPM	Guadalajara (Mexico)
Mannesmann Robur B. V.	ROB	Helmond (Netherlands)

1) Proportionately consolidated (50 % shareholding)
2) Non-consolidated

Company	Abbreviation	Location
Seamless stainless steel tubes		
Mannesmann DMV Stainless GmbH	MDS	Mülheim an der Ruhr
Mannesmann DMV Stainless Deutschland GmbH	DMD	Remscheid
Mannesmann DMV Stainless Italia S.r.l.	DMI	Costa Volpino (Italy)
Mannesmann DMV Stainless France S.A.S.	DMF	Montbard (France)
Mannesmann DMV Stainless USA, Inc.	DMH	Houston (USA)
Hüttenwerke Krupp Mannesmann GmbH[1]	HKM	Duisburg

[1] Consolidated at equity (30% shareholding)

With their high-grade products of internationally recognized quality, these companies generally occupy leading positions in their markets and are global leaders in a number of segments.

The activities of the **Services 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. The skills and know-how of the companies are constantly measured against the requirements of the markets and consistently refined. Based on this foundation, they conceive and realize attractive service offers within a wide spectrum, ranging from the supply of raw materials, logistics and plant technology through to developing materials and complete information technology solutions. This is supplemented by services and products for automotive development and production, as well as other service companies.

The companies below are assigned to the Services Division:

Company	Abbreviation	Location
DEUMU Deutsche Erz- und Metall-Union GmbH	DMU	Peine
		Salzgitter
		Mülheim an der Ruhr
Hansaport Hafenbetriebsgesellschaft mbH	HAN	Hamburg
Verkehrsbetriebe Peine-Salzgitter GmbH	VPS	Salzgitter
SZST Salzgitter Service und Technik GmbH	SZST	Salzgitter
Salzgitter Mannesmann Forschung GmbH	SZMF	Salzgitter
		Duisburg
Salzgitter Magnesium-Technologie GmbH[1]	SZMT	Salzgitter
Salzgitter Information und Telekommunikation GmbH	SIT	Salzgitter
GESIS Gesellschaft für Informationssysteme mbH	GES	Salzgitter
TELCAT MULTICOM GmbH	TMG	Salzgitter
TELCAT KOMMUNIKATIONSTECHNIK GmbH	TCG	Salzgitter
Salzgitter Automotive Engineering GmbH & Co. KG	SZAE	Osnabrück
Salzgitter Hydroforming GmbH & Co. KG[1]	SZHF	Crimmitschau
"Glückauf" Wohnungsgesellschaft mbH	GWG	Peine
Salzgitter Mannesmann Altersversorgung Service GmbH[1]	SZMA	Mülheim an der Ruhr

[1] Non-consolidated

With the purchase of a majority holding in Klöckner-Werke AG on July 5, 2007, the relevant companies of this group were consolidated into Salzgitter AG for the first time.

Since the start of the second half-year of 2007, these companies, as shown in the table below, have formed the core of the new **Technology Division**:

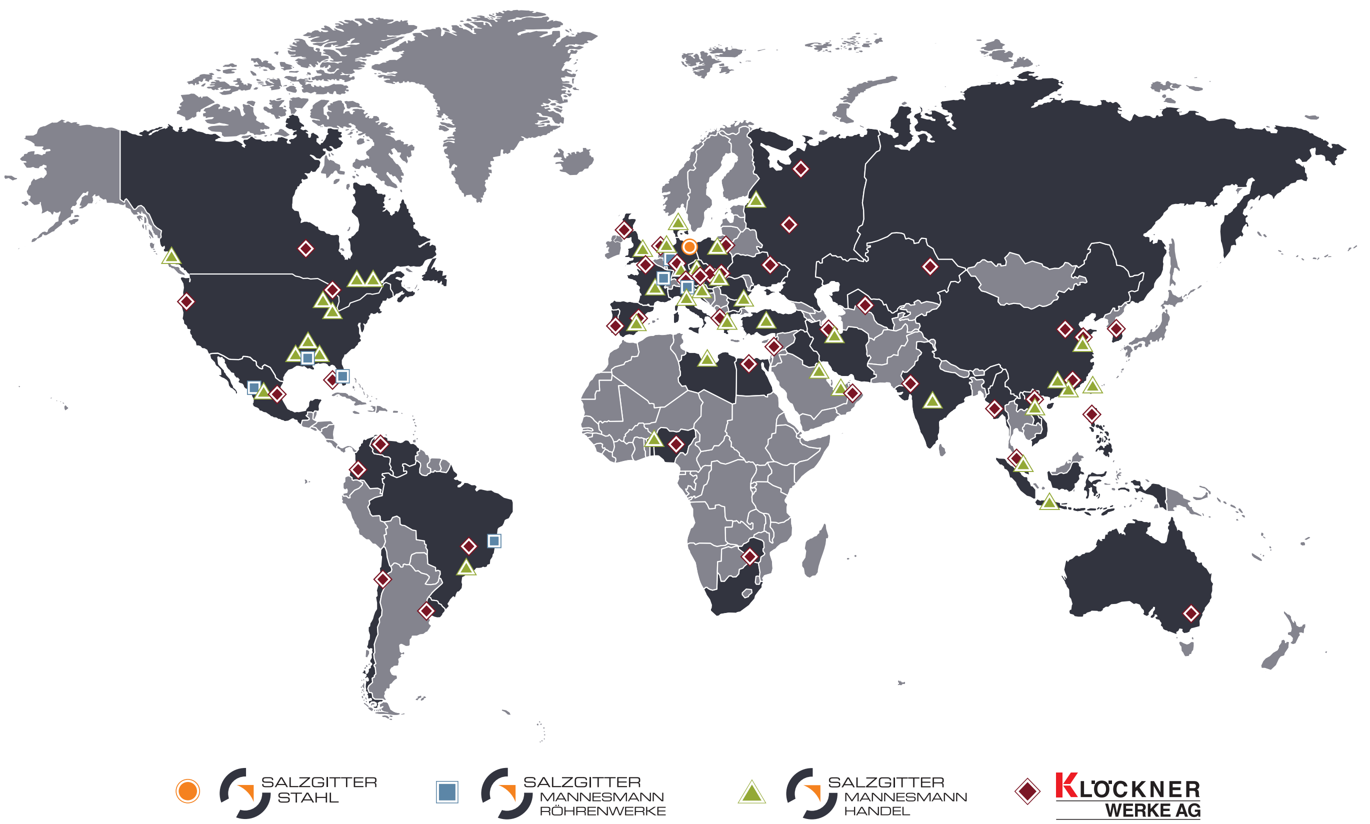
Company	Abbreviation	Location
Holding companies		
Klöckner-Werke AG	KWAG	Duisburg
Klöckner Mercator Maschinenbau GmbH	KMM	Duisburg
Filling and packaging technology		
KHS AG	KHS	Dortmund
KHS USA, Inc.	KHSUS	Waukesha (USA)
KHS RUS 000	KHSRU	Moscow (Russia)
KHS Mexico S.A. de C.V.	KHSME	Zinacantepec (Mexico)
KHS Industria de Maquinas Ltda.	KHSBR	São Paulo (Brazil)
KHS Machinery Pvt. Ltd. Inc.	KHSIN	Ahmedabad (India)
KHS China GLM2 Co. Ltd. Inc.[1)]	KHSGL	Shantou (China)
KHS Pacific Pty. Ltd.	KHSAU	Tullamarine (Australia)
KHS Manufacturing (S.A.) (Pty.) Ltd.	KHSSA	Kramerville (South Africa)
Other industrial shareholdings		
IRKAS Beteiligungs-GmbH & Co. Vermietung-KG	IBV	Munich
Klöckner DESMA Elastomertechnik GmbH	KDE	Fridingen
Klöckner DESMA Schuhmaschinen GmbH	KDS	Achim
Klöckner Hänsel Processing GmbH	KHP	Hanover
RSE Grundbesitz und Beteiligungs-AG	RSE	Frankfurt a. M.

1) Non-consolidated

The focus of the activities of the Technology segment, and thus the development and manufacturing of filling and packaging plants and systems, is Dortmund-based KHS AG. Along with its domestic and foreign production facilities, KHS has more than 60 service and sales outlets across all continents. Production takes place in Germany, the USA, Brazil, Mexico, India and China. For many years, the company has been firmly established as a global player as a supplier of filling and packaging plants and systems for the beverages, food and non-food sectors. Other companies belonging to the Klöckner Group produce special machinery for companies in the plastic processing, shoe manufacturing and confectionary industries.

With its product and services portfolio structured into the aforementioned five divisions, Salzgitter AG is present on the global market:

Global presence



The Group's structure has proven itself both in terms of management processes as well as market competitiveness. Along with the operational flexibility of the individual divisions, which is geared to the markets and customers, this structure, with its decentralized competences and responsibilities, serves to promote the development of the respective companies. Moreover, the management structure is flexible with regard to requirements for change and adjustments and compatible with the growth strategy of the company, as new links in the value chain or divisions can be relatively smoothly integrated into this structure.

Apart from the general legal requirements placed on a listed company, the Salzgitter Group and its individual divisions are not subject to legal factors whose impact depends on conditions specific to the Group. The business of the individual divisions is also not affected by any special legal provisions.

"I'm experienced in storm cooking."

Romeo Extremadura, Head Chef Cooking in a rolling kitchen is not the only challenge that sets Head Chef Romeo Extremadura apart from his colleagues on land. His job extends far beyond the realms of ordinary cooking: "Not only does my food have to taste good, but I am also responsible for the health of the crew", he says, not without pride. By the way, half the crew on board is German and the other half Filipino. This is why the cook has broadened his skills in the past few years: He has now mastered German – not the language, but the cooking.

2. Management and Control

2.1 The Executive Board

The Executive Board represents the company.

The members of the Executive Board of Salzgitter AG are appointed by the Supervisory Board. The Supervisory Board can rescind such appointment for an important reason.

The Executive Board heads up the company under its own responsibility. The Supervisory Board has determined that certain transactions may only be concluded with its approval. The General Meeting of Shareholders can only decide issues affecting the management of the Group if this has been requested by the Executive Board.

Changes to the Articles of Incorporation require that a resolution is passed by the General Meeting of Shareholders with a majority of three quarters of the capital represented at the time when such resolution is put to vote.

In the financial year 2007, the following members belonged to the Executive Board of Salzgitter AG:

Dr.-Ing. h. c. Wolfgang Leese
Chairman

a)
- Mannesmannröhren-Werke GmbH (Chairman)
- Salzgitter Stahl GmbH (Chairman)
- Salzgitter Mannesmann Handel GmbH (Chairman)
- Peiner Träger GmbH (Chairman)
- MAN Nutzfahrzeuge AG

b)
- Ets. Robert et Cie S.A.S. (Comité de Surveillance, Chairman until September 2, 2007, member effective September 3, 2007)
- Hansaport Hafenbetriebsgesellschaft mbH (Supervisory Board)
- ThyssenKrupp GfT Bautechnik GmbH (Advisory Council)

Dr.-Ing. Heinz Jörg Fuhrmann
Vice Chairman since December 13, 2007
Finance and the Technology Division

a)
- Mannesmannröhren-Werke GmbH
- Salzgitter Mannesmann Handel GmbH (Vice Chairman)
- Salzgitter Stahl GmbH
- Salzgitter Flachstahl GmbH
- Europipe GmbH
- Öffentliche Lebensversicherung Braunschweig
- Öffentliche Sachversicherung Braunschweig
- Klöckner-Werke AG since July 12, 2007 (Chairman since August 2, 2007)
- KHS AG since July 6, 2007

Wolfgang Eging
Tubes Division
Chairman of the Executive Board
of Mannesmannröhren-Werke GmbH

a)
- Hüttenwerke Krupp Mannesmann GmbH (Chairman until September 30, 2007, Vice Chairman since October 1, 2007)
- Europipe GmbH (Chairman)
- Mannesmann Präzisrohr GmbH (Chairman) since November 14, 2007
- Salzgitter Mannesmann Handel GmbH
- Mannesmann Fuchs Rohr GmbH (Chairman)

b)
- DMV Stainless B.V. (Supervisory Board, Chairman)
- Mannesmannröhren Mülheim GmbH (Supervisory Board, Chairman)
- Borusan Mannesmann Boru Yatirim Holding A.S. (Board of Directors, Vice Chairman)

a) Membership in other statutory supervisory boards within the meaning of Section 125 German Stock Corporation Act (AktG)
b) Membership in comparable domestic and foreign governing bodies of commercial enterprises

Hans Fischer

Steel Division
Chairman of the Executive Board
of Salzgitter Stahl GmbH

a)
- Salzgitter Flachstahl GmbH (Chairman)
- Ilsenburger Grobblech GmbH (Chairman)
- Peiner Träger GmbH
- Hüttenwerke Krupp Mannesmann GmbH

Heinz Groschke

Trading Division
Chairman of the Executive Board
of Salzgitter Mannesmann Handel GmbH

a)
- Ilsenburger Grobblech GmbH
- Europipe GmbH until November 15, 2007
- Mannesmann Fuchs Rohr GmbH until October 11, 2007
- Klöckner-Werke AG since July 12, 2007
- KHS AG since July 6, 2007

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)
- Salzgitter Mannesmann International (USA) Inc. (Board of Directors, Chairman)
- Salzgitter Mannesmann International (Canada) Inc. (Board of Directors, Chairman)
- Salzgitter Mannesmann International (México) S.A. de C.V. (Board of Directors, Chairman)
- Salzgitter Mannesmann Trade (Beijing) Co. Ltd. (Board of Directors, Chairman)
- Salzgitter Mannesmann International (UK) Inc. (Board of Directors, Chairman)
- Project Metals Ltd. (Board of Directors, Chairman)
- A.P. Steel U.K. Ltd. (Board of Directors, Chairman)

Peter-Jürgen Schneider

Personnel and the Services Division

a)
- Mannesmannröhren-Werke GmbH
- Salzgitter Stahl GmbH
- Salzgitter Flachstahl GmbH
- Peiner Träger GmbH
- Ilsenburger Grobblech GmbH
- Verkehrsbetriebe Peine-Salzgitter GmbH (Chairman)
- SZST Salzgitter Service und Technik GmbH (Chairman)
- Mannesmann Präzisrohr GmbH
- Klöckner-Werke AG since July 12, 2007
- KHS AG since July 6, 2007

b)
- Hansaport Hafenbetriebsgesellschaft mbH (Supervisory Board, Chairman)
- Projekt Region Braunschweig GmbH (Supervisory Board)

a) Membership in other statutory supervisory boards within the meaning of Section 125 German Stock Corporation Act (AktG)

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

2.2 The Supervisory Board

Rainer Thieme
Chairman since April 1, 2007
Chairman of the Management Board
of Wilhelm Karmann GmbH, retired
a) ■ Köster AG
■ Oldenburgische Landesbank AG
■ SCHMITZ Cargobull AG
■ ZF Friedrichshafen AG (Chairman)

Dr. Wilfried Lochte
Chairman until March 31, 2007
Honorary Chairman since April 1, 2007
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)

Jürgen Peters
Vice Chairman
1st Chairman of IG Metall
until November 5, 2007
a) ■ Volkswagen AG (Vice Chairman)

Hasan Cakir
Chairman of the Works Council
of Salzgitter Flachstahl GmbH
a) ■ Salzgitter Stahl GmbH
■ Salzgitter Flachstahl GmbH

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

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

Prof. Dr.-Ing. Heinz Haferkamp
Professor at the Leibniz University of Hanover
■ No membership in other governing bodies

Dr. Lothar Hagebölling
Since January 1, 2007
Secretary of State, Head of the State Chancellery
of Lower Saxony
a) ■ BKB Aktiengesellschaft Helmstedt
b) ■ Bremer Landesbank Kreditanstalt Oldenburg-Girozentrale (Advisory Council) until June 30, 2007
■ Norddeutsche Landesbank (Advisory Council, Public Relations and Administration)

Prof. Dr. Rudolf Hickel
University Professor
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

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

Dr. Arno Morenz
Vice President of DSW Deutsche Schutz-
vereinigung für Wertpapierbesitz e.V.
a) ■ alfabet meta-modelling AG (Chairman)
b) ■ Fidelity Funds, Luxembourg (Board of Administration)

Prof. Dr. Hannes Rehm
Chairman of the Board of Directors of
Norddeutsche Landesbank Girozentrale
a) ■ Landesbank Berlin Holding AG

a) Membership in other statutory supervisory boards within the meaning of Section 125 German Stock Corporation Act (AktG)
b) Membership in comparable domestic and foreign governing bodies of commercial enterprises

b) ■ Bremer Landesbank Kreditanstalt Oldenburg-Girozentrale (Supervisory Board)
■ LBS Norddeutsche Landesbausparkasse Berlin-Hannover (Supervisory Board, Chairman)
■ Provinzial Lebensversicherung Hannover (Supervisory Board)
■ DeKaBank Deutsche Girozentrale (Board of Administration)
■ Nord/LB Luxembourg S.A. (Board of Administration, Chairman)
■ BankDnBNord, Copenhagen (Board of Directors, Vice Chairman)
■ ISH Internationale Schule Region Hannover GmbH (Supervisory Board)

Dr. Rudolf Rupprecht
Chairman of the Executive Board of MAN AG, retired
a) ■ MAN AG
■ SMS AG (Chairman)
■ KME AG
b) ■ Novelis (Board of Directors) until May 1, 2007
■ Bayerische Staatsforsten (Supervisory Board)
■ Karl Augustin GmbH, Straßwalchen, (Supervisory Board) until May 1, 2007

Uwe Pfante
since January 1, 2008
Chairman of the Works Council of Salzgitter Mannesmann Stahlhandel GmbH
a) ■ Salzgitter Mannesmann Handel GmbH

Christian Schwandt
Chairman of the Group's Work Council of Salzgitter AG
Chairman of the Works Council of SZST Salzgitter Service und Technik GmbH
a) ■ SZST Salzgitter Service und Technik GmbH

Walter Skiba
until December 31, 2007
Chairman of the Works Council of Salzgitter Mannesmann Handel GmbH
until December 31, 2007
a) ■ Salzgitter Mannesmann Handel GmbH until December 31, 2007

Michael Sommer
Chairman of the DGB (German Federation of Trade Unions)
a) ■ Deutsche Telekom AG
■ Deutsche Postbank AG (Vice Chairman)
■ DGB Rechtsschutz GmbH until June 30, 2007
b) ■ Kreditanstalt für Wiederaufbau (Advisory Council)

Dr. Johannes Teyssen
Member of the Board of Directors of E.ON AG, Chief Operating Officer
a) ■ E.ON Energie AG since April 1, 2007
■ E.ON Ruhrgas AG since April 1, 2007
■ E.ON Hanse AG (Chairman) until April 19, 2007
b) ■ E.ON UK plc. (Board Member) since March 26, 2007
■ E.ON Nordic AB (Board Member)
■ E.ON Sverige AB (Board Member)

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

Hartmut Tölle
Chairman of the DGB – region of Lower Saxony/ Bremen and Saxony-Anhalt
■ No membership in other governing bodies

Prof. Dr. Martin Winterkorn
Chairman of the Board of Directors of Volkswagen AG
a) ■ AUDI AG (Chairman)
■ Scania AB (Chairman) since May 3, 2007
■ TÜV Süddeutschland Holding AG
■ FC Bayern München AG
■ Infineon Technologies AG
b) ■ SEAT S.A.

Prof. Dr. Ulrich Zachert
University Professor
Professor for Labor Law at the University of Hamburg
■ No membership in other governing bodies

a) Membership in other statutory supervisory boards within the meaning of Section 125 German Stock Corporation Act (AktG)
b) Membership in comparable domestic and foreign governing bodies of commercial enterprises

Business and the Environment


HHLA

"It's rather like being at the Hamburger Dom event, our fun fair. Only that we also get paid for it."

Soenke Greve, Gantry Crane Head Operator Even after 20 years on the job, Soenke Greve still enjoys his work. As gantry crane head operator, he is responsible for loading and unloading the ships. This has a great deal to do with precision, for safety reasons, but also because there is naturally no space to waste on the container ships. Working in the harbor has a long tradition in Greve's family: His grandfathers earned their money here. And perhaps his forebears also enjoyed what sparks his enthusiasm time and time again: "When summer is approaching and you see the sun rising over Hamburg and you can feel the city is slowly waking up."

2.3 Remuneration of Executive Board and Supervisory Board

Remuneration of the Executive Board

The remuneration of the Executive Board members is determined in their contracts of employment.

The individual members of the Executive Board receive remuneration which reflects their tasks, their own individual performance as well as the economic situation and success of the company. This remuneration consists of a basic fixed component and a variable component. The latter is divided into two parts: one which is results-based and calculated according to the return on capital employed (ROCE), and the other which depends on the overall performance of the individual Board member. The results-based part is capped, which creates a long-term incentive to achieve good, sustainable results.

The members of the Executive Board also receive a pension commitment which is a percentage portion of between 50 and 60 % of the fixed remuneration component and therefore does not depend on the variable component. This percentage portion rises depending on the term of office of the respective board member. No other payments have been pledged to any Board member in the event that the respective member's service to the company should end. The structure of remuneration is regularly reviewed by the Supervisory Board, the last time in 2007.

Remuneration with long-term incentive was neither granted nor pledged to the individual members of the Executive Board in 2006 or in 2007. Similarly, no benefits relating to their activities as members of the Executive Board were pledged or granted by third parties.

Remuneration received by the individual members of the Executive Board:

in €	Annual payment in 2007			
	Fixed remuneration	Remuneration in kind	Variable remuneration[1)]	Total
Dr.-Ing. Wolfgang Leese (Chairman)	624,000	43,344	1,187,500	1,854,844
Dr.-Ing. Heinz Jörg Fuhrmann (Vice Chairman)	473,010	27,091	804,219	1,304,320
Wolfgang Eging	375,000	18,103	629,390	1,022,493
Hans Fischer	375,000	19,603	662,813	1,057,416
Heinz Groschke	375,000	18,910	661,900	1,055,810
Peter-Jürgen Schneider	375,000	34,763	665,000	1,074,763
Total	**2,597,010**	**161,814**	**4,610,822**	**7,369,646**

1) Including amounts provisioned for 2007; determined by way of resolution passed by the Presiding Committee of the Supervisory Board once the annual statements have been adopted

in €	Annual payment in 2006			
	Fixed remuneration	Remuneration in kind	Variable remuneration	Total
Wolfgang Leese (Chairman)	504,000	42,810	616,000	1,162,810
Wolfgang Eging	315,000	7,940	385,000	707,940
Hans Fischer	315,000	15,778	385,000	715,778
Dr.-Ing. Heinz Jörg Fuhrmann	415,020	24,496	385,000	824,516
Heinz Groschke	315,000	15,052	385,000	715,052
Peter-Jürgen Schneider	315,000	32,143	385,000	732,143
Total	**2,179,020**	**138,219**	**2,541,000**	**4,858,239**

in €	Pension claim			
	Annual payment upon pension eligibility (as per 31/12/2007)	Transfers to pension provisions in FY 2007	Annual payment upon pension eligibility (as per 31/12/2006)	Transfers to pension provisions in FY 2006
Dr.-Ing. Wolfgang Leese (Chairman)	360,000[1]	1,537,828	239,285[1]	57,684
Dr.-Ing. Heinz Jörg Fuhrmann (Vice Chairman)	240,000[1]	292,347	180,000[1]	37,251
Wolfgang Eging	200,000[1]	682,091	128,000[1]	38,841
Hans Fischer	168,000	247,478	101,069	137,159
Heinz Groschke	200,000[1]	769,181	120,320[1]	165,813
Peter-Jürgen Schneider	80,000	235,980	52,224	62,977
Total	1,248,000	3,764,905	**820,898**	**499,725**

[1] Including a pension commitment taken over against compensation by the former employer

Remuneration of the Supervisory Board

The individual members of the Supervisory Board receive annual remuneration in accordance with the resolution of the General Meeting of Shareholders of November 17, 2005. This remuneration consists of a fixed component of € 12,000 and two performance-related components. The first performance-related component depends on the dividend paid to the shareholders in the respective financial year; it comes to € 400 per dividend of € 0.01 which is disbursed in excess of € 0.20 per share. The other variable component depends on the average consolidated result (EBT) of the last three financial years, and thus on the long-term success of the company; it comes to € 300 per full € 10 million on the portion of the pre-tax result which exceeds € 150 million on average over the last three financial years.

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 is paid for membership of committees of the Supervisory Board as well as attendance fees.

In application of the aforementioned resolutions of the General Meeting of Shareholders which are not capped, the Supervisory Board resolved unanimously in 2007 that the remuneration of the members of the Supervisory Board is to be limited until further notice to a maximum of € 80,000, that of the Chairman to double and that of the Vice Chairman to one and a half times this amount, excepting committee remuneration and attendance fees. This voluntary self-imposed limitation (cap) is applicable to remuneration for the first time in financial year 2007.

Remuneration received by the individual members of the Supervisory Board in 2007:

in €	Fixed remu-neration	Performance-based remuneration for		Commitee remuneration	Attendance fees	Total
		annual perform-ance[1]	long-term company performance			
Rainer Thieme, Chairman since April 1, 2007	21,000	89,690	29,310	2,000	1,750	143,750
Dr. Wilfried Lochte, Chairman until March 31, 2007	15,000	64,065	20,935	2,000	1,000	103,000
Jürgen Peters, Vice Chairman	18,000	76,877	25,123	1,000	1,000	122,000
Hasan Cakir	12,000	51,250	16,750	–	1,000	81,000
Hannelore Elze	12,000	51,250	16,750	–	1,000	81,000
Hermann Eppers	12,000	51,250	16,750	–	1,000	81,000
Prof. Dr.-Ing. Heinz Haferkamp	12,000	51,250	16,750	–	1,000	81,000
Dr. Lothar Hagebölling	12,000	51,250	16,750	1,000	1,000	82,000
Prof. Dr. Rudolf Hickel	12,000	51,250	16,750	1,000	1,750	82,750
Prof. Dr. Hans-Jürgen Krupp	12,000	51,250	16,750	–	1,000	81,000
Dr. Arno Morenz	12,000	51,250	16,750	–	1,000	81,000
Prof. Dr. Hannes Rehm	12,000	51,250	16,750	2,000	1,750	83,750
Dr. Rudolf Rupprecht	12,000	51,250	16,750	–	1,000	81,000
Christian Schwandt	12,000	51,250	16,750	1,000	1,750	82,750
Walter Skiba	12,000	51,250	16,750	–	1,000	81,000
Michael Sommer	12,000	51,250	16,750	–	500	80,500
Dr. Johannes Teyssen	12,000	51,250	16,750	–	750	80,750
Friedrich-Wilhelm Tölkes	12,000	51,250	16,750	1,000	1,000	82,000
Hartmut Tölle	12,000	51,250	16,750	–	1,000	81,000
Prof. Dr. Martin Winterkorn	12,000	51,250	16,750	–	750	80,750
Prof. Dr. Ulrich Zachert	12,000	51,250	16,750	–	1,000	81,000
Total	**270,000**	**1,153,132**	**376,868**	**11,000**	**23,000**	**1,834,000**

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

in €	Fixed remu-neration	Performance-based remuneration for		Commitee remuneration	Attendance fees	Total
		annual perform-ance[1]	long-term company performance			
Hasan Cakir (SZS, SZFG)	18,000	–	–	–	800	18,800
Christian Schwandt (SZST)	5,000	–	–	–	400	5,400
Walter Skiba (SMHD)	10,000	–	–	–	300	10,300
Friedrich-Wilhelm Tölkes (MRW)	10,000	–	–	–	300	10,300
Total	**43,000**	**0**	**0**	**0**	**1,800**	**44,800**
Overall total	**313,000**	**1,153,132**	**376,868**	**11,000**	**24,800**	**1,878,800**

1) The amounts presuppose that the General Meeting of Shareholders 2008 will approve the dividend proposal by the Executive and Supervisory Boards

Remuneration received by the individual members of the Supervisory Board in 2006:

in €	Fixed remuneration	Performance-based remuneration for		Commitee remuneration	Attendance fees	Total
		annual performance	long-term company performance			
Dr. Wilfried Lochte, Chairman	24,000	64,000	53,534	2,000	1,500	145,034
Jürgen Peters, Vice Chairman	18,000	48,000	41,465	1,000	1,500	109,965
Dr. Dieter Brunke	–	–	276	–	–	276
Hasan Cakir (since July 2006)	6,000	16,000	13,200	–	500	35,700
Hannelore Elze	12,000	32,000	26,769	–	1,000	71,769
Hermann Eppers	12,000	32,000	26,769	–	750	71,519
Kurt van Haaren	–	–	240	–	–	240
Prof. Dr. Heinz Haferkamp	12,000	32,000	26,769	–	1,000	71,769
Prof. Dr. Rudolf Hickel	12,000	32,000	26,769	–	1,000	71,769
Dr. Gunther Krajewski	12,000	32,000	26,769	1,000	1,250	73,019
Prof. Dr. Hans-Jürgen Krupp	12,000	32,000	26,769	–	1,000	71,769
Jürgen Ladberg	–	–	246	–	–	246
Bernd Lange	–	–	246	–	–	246
Dr. Arno Morenz	12,000	32,000	26,769	–	1,000	71,769
Dr. Hannes Rehm	12,000	32,000	26,769	1,000	1,250	73,019
Dr. Rudolf Rupprecht	12,000	32,000	26,769	–	750	71,519
Ernst Schäfer (until June 2006)	6,000	16,000	13,569	1,000	750	37,319
Christian Schwandt	12,000	32,000	26,769	1,000	1,000	72,769
Walter Skiba	12,000	32,000	26,523	–	1,000	71,523
Michael Sommer	12,000	32,000	26,523	–	1,000	71,523
Dr. Johannes Teyssen	12,000	32,000	26,523	–	1,000	71,523
Rainer Thieme	12,000	32,000	26,769	–	1,000	71,769
Friedrich-Wilhelm Tölkes	12,000	32,000	26,769	1,000	1,250	73,019
Hartmut Tölle	12,000	32,000	26,769	–	1,000	71,769
Prof. Dr. Martin Winterkorn	12,000	32,000	26,769	–	250	71,019
Prof. Dr. Ulrich Zachert	12,000	32,000	26,523	–	1,000	71,523
Total	**270,000**	**720,000**	**603,634**	**8,000**	**21,750**	**1,623,384**

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

in €	Fixed remuneration	Performance-based remuneration for		Commitee remuneration	Attendance fees	Total
		annual performance	long-term company performance			
Hasan Cakir (SZS, SZFG) since June 2006	9,667	–	–	–	600	10,267
Ernst Schäfer (SZFG) until June 2006	4,000	–	–	–	100	4,100
Christian Schwandt (SZST)	5,000	–	–	–	400	5,400
Walter Skiba (SMHD)	10,000	–	–	–	300	10,300
Friedrich-Wilhelm Tölkes (MRW)	10,000	–	–	–	300	10,300
Total	**38,667**	**0**	**0**	**0**	**1,700**	**40,367**
Overall total	**308,667**	**720,000**	**603,634**	**8,000**	**23,450**	**1,663,751**

"I wish I could also sleep in it."

Christian Breuell, car owner Christian Breuell has something that makes him the envy of many car fans: a vintage 1965 Ford Mustang. He was only 10 years old when he first took a ride in this hot set of wheels while visiting his uncle in the USA. From that moment on it was clear that it would only be a question of time before he would drive one himself. In November 2007, his dream came true: A company specialized in importing American cars offered him a Mustang, including transport and restoration. As the price was right as well, the car went to sea, and a couple of weeks later finally rolled off the ship in Hamburg – and is now a car money just can't buy.

3. Management and Control of the Company, Goals and Strategy

Goals

The overriding goal of Salzgitter AG remains, as before:

Preservation of entrepreneurial independence through profitability and growth.

We strive to secure the company in its stand-alone position through selective, profit-oriented growth with a return on capital employed which exceeds the average for the sector, a sound financial base and a healthy balance sheet structure.

The basis for achieving these objectives are customer orientation and the resulting good position of the company in selected segments in the market, as well as a range of products with high qualitative and technological standards supplied at competitive conditions. We intend to achieve these goals with our qualified workforce. Future-oriented training and the systematic career advancement of our junior staff members and our managers help fulfill this aspiration. In this process, an important factor is securing jobs with appropriate payment. An essential part of this task continues to be the environmental compatibility of our production in conjunction with the prudent use of material resources.

We have channeled all our efforts towards guaranteeing a sustained increase in the value of the Salzgitter Group, now and in future.

In the financial year 2007, the Salzgitter Group forged ahead in its strategic development by concentrating on the growth markets of steel, tubes and trading supplemented through further diversification in the form of a new division: the Technology Division. The core of this Division is formed by the companies of Klöckner-Werke AG (KWAG) which we acquired with a majority holding at mid-year.

On principle, we review external possibilities for growth in respect of their ability to contribute to further optimizing the company portfolio with regard to raising profit in the medium- and long-term. A hurdle to an investment is, however, the currently historically high prices paid for established companies. This is the reason why we are currently striving to attain our growth targets through investments aimed at promoting internal growth, as illustrated in the following sections.

Growth Strategy

Our growth strategy which accords with the goals we have set ourselves is based on both internal and external components.

The internal components include:

- Optimizing quality
- Raising productivity
- Rounding off the product program
- Eliminating bottlenecks
- Reducing our dependency on external suppliers

The external components comprise:

- Building up regional market positions on a selective basis
- Supplementing and extending the product range
- Closing the gaps in the value chain
- Making attractive acquisitions in areas associated with steel

With sales totaling more than € 10 billion in the financial year 2007, the Group shows strong growth compared with the situation at the end of the 90's. This growth was achieved externally through acquisitions and internally through investments in plants, equipment and processes.

Successful growth story ...

Consolidated sales in 2007 vs 1998/1999 in € billion: + 278 %

	2.7 (98/99)	3.3 (99/00)	4.6	4.7	4.8	5.9	7.2	8.4	10.2
	Growth strategy	Growth/ acquisition		Integration/ strategy check	Consolidation/ internal growth				Internal and external growth!
	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP (D)*:	+2.0%	+3.2%	+1.2%	+0.0%	–0.2%	+1.2%	+0.9%	+2.9%	+2.5%

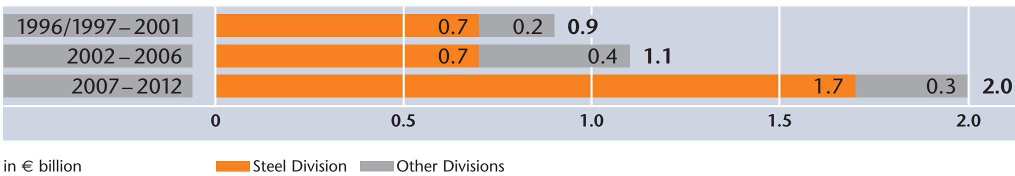
*German Federal Statistical Office

... to be continued

These dimensions mean that we have reached the limits of organic growth. Further relevant growth is therefore only possible through investments and acquisitions which promote growth, in particular in the core businesses of steel, tubes and trading, but also in sectors associated with steel and technology, a prime example being the acquisition of KWAG.

To foster internal growth within the Group there are currently projects with an investment volume of € 2.0 billion which are either planned, under way or already completed.

Groupwide Investment Volume 1996/1997 – 2012



In tandem with the phase of consolidation and realignment of the divisions, we have also extensively reviewed the options for external growth over the course of the year. Of the various options which were of interest we have successfully concluded three projects.

The first of these was the acquisition of Vallorec's precision steel tubes segment.
This transaction comprises the wholly owned subsidiary Vallourec Précision Etirage S.A.S. (VPE), St. Florentin (France), which is specialized in the production of cold-drawn precision steel tubes. VPE generated sales of around € 220 million in the course of the financial year. Two thirds of this volume was attributable to the automotive industry, one third to other special industrial applications. The five production plants of VPE in France have a workforce of around 1,200 employees.

The VPE plants supplement our existing activities in the precision tubes segment, which are operated by the German Salzgitter subsidiary Mannesmann Präzisrohr (MHP) and the Dutch subsidiary Mannesmann Robur (ROB). The combined companies are set to assume a leading role in the European market. The integration of VPE into Salzgitter's existing precision tube activities enhances the future potential of the companies thus combined. Whereas the customer base of MHP in Germany is strong, VPE holds an excellent market position in France. Moreover, the transaction will unleash considerable industrial and R&D-related synergies.

Moreover, in order to ensure the supply of input materials for the precision tubes companies, we took over a mill for hot-rolled tubes in Zeithain (Saxony) from Vallourec. This has enabled companies MHP, VPE and ROB to attain independence for the most part in the supply of the seamless tubes needed as primary material for production. The plant which is located in Saxony has 423 employees (as per December 31, 2007) and a medium-term annual production target of more than 200 ktons. Zeithain was already supplying the three companies with semi-finished goods.

The second undertaking, which is closely connected with the first, concerns a precision tubes mill in Mexico:

In October 2007, Salzgitter AG acquired the Mexican Bresmex Tuberia S.A. de C.V. The company produces welded and drawn precision tubes for the automotive industry with a workforce of 98 employees. The focus is on tubes for shock absorbers. The annual capacity of the mill, which is equipped with leading edge facilities, is currently around 12 ktons. Since its acquisition, the company, located in Guadalajara in the federal state of Jalisco, has been trading under the name of Mannesmann Precisión Mexico S.A. de C.V. and is part of the Salzgitter Mannesmann Precision Group.

The third, much larger and much more important project was the acquisition of a majority holding in Klöckner-Werke AG.

In March 2007, Salzgitter AG signed a contract with WCM Group, Frankfurt am Main, to acquire a 78% stake in Klöckner-Werke AG (KWAG), Duisburg. As part of the deal, Salzgitter AG has also acquired a 71% stake in RSE Grundbesitz und Beteiligungs-AG (RSE), Frankfurt am Main.

Meanwhile the shareholdings amount to 86.1% in KWAG and 99.6 % in RSE (as per December 31, 2007).

KWAG is an industrial holding with globally operating subsidiaries. The mainstay of its business operations is KHS AG, Dortmund, which produces filling and packaging equipment in Germany, the USA Brazil, Mexico, India and China. Other activities are in mechanical engineering, robotics and automation technology. The Klöckner Werke Group has a global workforce of more than 5,000 employees and generated sales in excess of € 1 billion in the financial year 2007.

A driving force behind this investment is the carefully considered move to diversify:

Special machinery and plant construction is influenced in its development by criteria which are different from those which impact the processing or steel producing industry. It is a business and a division which is new to us and which we also intend to develop further.

The second reason is the international strategic alignment of this group of companies. KHS, the largest company of Klöckner-Werke AG, has eight production plants in Germany, two in the USA and one in Mexico, Brazil, India and China respectively.

Another reason lies in the potential of KHS: Filling and packaging machinery is a market segment which is set to achieve estimated growth rates of 5 to 6% in future, irrespective of steel cycles. The growth markets in China, India and other Asian countries are especially important.

In addition, the technology of KHS is a completely different business from the production of steel. This is a segment where turn-key plants, mainly in the dimension of 10 to 20 million euro, are sold. This equipment poses a challenge for mechanical engineers because filling and packaging also involves solving the problem of the extremely high speeds and precision rates at which seamless filling and packaging, including upstream and downstream tasks, has to be handled in a failure-free operation.

And last but not least, we expect to generate synergy effects in the procurement, finance management and tax areas, among others.

The acquisition of this participation has enabled Salzgitter AG to enter a prospering and less cyclical market holding strong future potential and broadening the Group’s line-up.

Furthermore, it is our intention to take advantage of the ongoing process of global consolidation as an opportunity to actively shape the developments in the steel, tubes, trading and technology segments which represent our key operations – without being pressured into action and competing in “bidding wars”. 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 Group’s excellent performance in 2007 on the one hand and exceptionally good liquidity position on the other, which resulted from the sale of the Vallourec stake, enable us to pursue our program of internal growth and, at the same time, open up external opportunities for expansion. Nonetheless, the choices made with regard to development options must accord with the aforementioned corporate objectives. This principle is all the more important as the current still healthy economic situation of the global steel industry has already been factored into the valuation of companies. At the same time, however, we believe there are signs that the steel boom may lose momentum in the medium term. In our understanding, responsible action geared towards achieving the targeted corporate goals always necessitates a careful assessment of the opportunities and risk potential of any growth projects. For this reason, we will adhere to our proven growth policy aligned to the sustainability of strategy and profit in future as well. The goal of this growth policy is to expand our competitive position in our core businesses of steel, tubes, trading and technology and to achieve organic growth and growth through acquisitions in order to secure our independence.

Strategy of the Divisions

Our internal growth strategy for the **Steel Division** is reflected by a number of investments and progress made in processes, as well as by the resulting improvements in the quality of our products. These measures also include the installation of a new continuous pickling line where investments came to € 105 million and which became operational at the start of 2008. For other measures, please see Section II.3 “Investments”.

As an alternative to acquiring companies in the steel sector, we have launched an extensive investment program for this division: “Steel 2012“.

This undertaking is mostly made up of the following investments in the various product groups:

Beams:
- Construction of a second electric arc furnace
- Extension of the existing continuous casting plant
- Optimization of the continuous casting line for special profiles
- Capacity effect: +950,000 tons of liquid steel a year
- Investment volume: €~400 million; commissioning: 2010

Flat rolled steel products and plate:
- Ramping up the capacity of the steel mill (metallurgy, 4th continuous casting line) by 350,000 tons a year
- Extension of the rolling mill for hot-rolled strip and plate
- Production of innovative HSD steels through continuous strip casting
- Investment volume: €~350 million; commissioning: 2012

Through these measures we will extend the product range, cut costs by improving plant efficiency and reduce the volume of material from external sources and outsourced processing in the Steel and Tubes Divisions.

In the **Trading Division** we foster internal growth by strengthening the cooperation between our stockholding companies and other divisions of the Group. We are pursuing this course as we anticipate that demand may normalize in the medium term and because the price of potential external alternatives for growth are still considered to be very high. In plate trading, we see growth potential mainly abroad through investment in steel processing facilities and through raising sales in high-grade steels. Alongside geographical diversification of sales, we are leveraging internal procurement synergies in international trading.

In the **Tubes Division**, we investigate our strategic options for action with regard to feasibility. In the large-diameter tubes product segment, EP has built and is in the process of constructing two spiral-welded large-diameter tubes plants (Brazil, already operational; USA, completion in 2008). These investments open up new markets for our group and reinforce our market presence in these current growth regions. The HFI-welded tubes product segment harbors growth potential, particularly in the North American and East European markets, if expedient through cooperation with suitable partners. MFR has invested in broadening its spectrum of dimensions from 20" to 24", which has closed gaps in its product range. Having successfully taken over VPE's activities and in view of the market advantages resulting from this transaction, we believe there is additional growth potential mainly outside Western Europe in the precision tubes segment. The investigation of further potential in the stainless steel segment is similarly focused on improvements in the supply of input material.

The newly formed **Technology Division** is currently reviewing attractive additions to its core business which, if suitable in strategic and operational terms, would expand the division. In the medium term, we intend to develop this business through internal or external growth as and when it becomes evident that measures of this kind would bolster our Group on a sustained basis. We have already been successful in realizing a significant acquisition (see page 164).

The **Services Division** continues to concentrate on raising the productivity and competitiveness of its individual companies. The core companies of this division mainly supply services within the Group on a non-profit basis, with their main focus on the steel companies. In addition, DMU, TMG, HAN and VPS generate significant sales with external customers. In as much as this is commercially expedient, the other companies are also in a position to raise their external sales in future, thereby making a contribution to improving the profit of the Group. SZMF holds a special position within the Services Division. With its research on and development of materials, products, processes and applications drawing on leading edge, it mainly provides support to the companies of the Steel and Tubes Divisions, but is also instrumental to a considerable degree in serving our customers and partners.

DMU, which generates the lion's share of sales in the Services Division, operates in a scrap market that is currently undergoing increasing concentration. The company is investigating suitable options for raising the volume of scrap sourced in order to be able to cater for the anticipated increase in the needs of PTG's electric steel plant. Strategic alliances with other scrap dealers and potential company acquisitions are aimed at promoting growth.

Management and Control Instruments

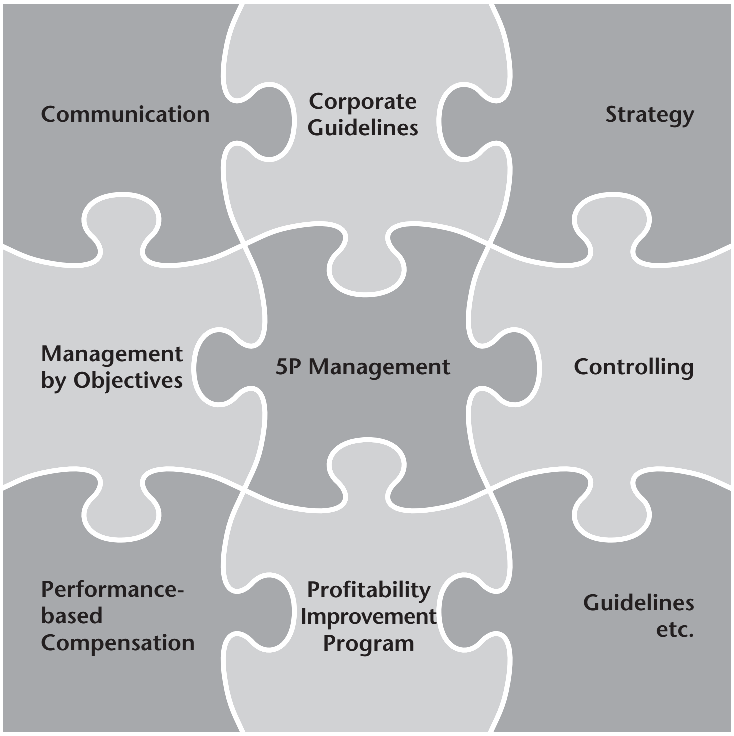
In the reporting year 2007 as well, we continued to develop our tools for strategic management and control. Our software solution, developed back in 2006 in cooperation with our IT subsidiary GESIS for the documentation and tracking of the goals of each individual subsidiary in all the 5P areas of ”Partners“, “Products“, “Processes“, “Personnel“ and “Profit“, was rolled out to other Group companies in the financial year 2007.

A number of functions of this software solution have been adjusted to take account of the individual requirements of the partly very different business content of the various companies. Master scorecards, which can be derived in a suitable standard form from the software solution, became part of the “Strategy Atlas” management tool of SZAG in 2007.

Master scorecards comprise the most important goals at senior management level, along with the definition of performance indicators of the individual goals. Actual and target values and defined measures for achieving the goals have been established.

The balanced scorecard system, geared to the level of objectives under “5P Management”, has meanwhile been implemented in all the Group companies. This tool will enable all Group companies to realize their strategic goals in measurable steps, to monitor progress by using a uniform system and to incorporate this into the individually agreed goals of the executive and non-tariff employees of the Group.

Management tools used in the Salzgitter Group



The thorough and consistent pursuit of clearly defined, quantifiable and sustainable measures as part of the groupwide Profitability Improvement Program is aimed at enhancing our cost and performance structure on a long-term basis. It includes, for instance, plans to reduce external services, raising productivity and output, improving energy efficiency as well as capital expenditure to reduce the amount of input material sourced outside the Group.

Synergy management supplements and builds on activities for releasing additional profit potential through the wider use of opportunities for cooperation between the individual divisions and companies of the Salzgitter Group.

This work continued successfully in the financial year 2007. Many projects have already progressed from the analysis to the realization stage, enabling us to reap the benefits of intensified cooperation and to further the sound development of the company. At the end of 2007, we identified synergies which were worth more than € 50 million in profit potential. These synergies are to be found in the various links in the value chain of the Salzgitter Group such as, for instance, in purchasing or in the cooperation between the Trading Division and steel and tubes producers, but also in the support processes in shared services located in payroll accounting and the reorganization of transport networks within the Group.

We will forge ahead with our synergy management by transferring the initially centrally managed initiative to the various areas of responsibility of the management companies. In doing so, we are putting in place a broader basis in our daily business for releasing additional synergy potential and exploiting those already identified.

Management and Control System applied within the Group

The primary objective of our company remains the aforementioned 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 at least 15% over an economic cycle.

In view of the performance delivered in recent years, which was consistently positive and above average in a peer comparison, the Executive Board of Salzgitter AG has decided to raise the Group's return on capital employed (ROCE) target from the former 12% to 15% above the average of the steel cycle. At the same time, the target for consolidated sales has been set between € 13 and € 15 billion.

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

$$\textbf{ROCE} \text{ (in \%)} = \frac{\textbf{EBIT}}{\textbf{Capital employed}} \times 100 = \frac{\text{€ 1,351 million}}{\text{€ 4,829 million}} \times 100 = 28.0\%$$

EBIT (earnings before interest and tax) is the result before tax and interest expenses, adjusted for the interest portion of 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.	FY 2007	FY 2006
EBT	1,314	1,855
+ Interest expenses	+ 115	+ 116
– Interest expenses for pension provisions	– 78	– 70
= **EBIT**	**= 1,351**	**= 1,901**

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.	FY 2007	FY 2006
Balance sheet total	8,406	6,978
– Pension provisions	– 1,792	– 1,715
– Other provisions excluding tax provisions	– 509	– 398
– Liabilities excluding bank liabilities and bills and notes payable and liabilities from finance leasing, forfaiting and asset-backed securitization	– 1,263	– 842
– Deferred tax claims	– 13	– 49
= **Capital employed**	**= 4,829**	**= 3,974**

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

Figures used for the calculation are always taken from the financial statements as per the reporting date.

As the ROCE target (15 %) is to be achieved within the Group as an average over an economic cycle, it is more of a medium- to long-term target.

Specific strategic objectives are derived from this target for each individual division and each company. These objectives and related measures are approved as a "basic strategy" and taken account of in the medium term plan in their updated form.

At the end of the financial year 2006, we had already considerably exceeded the profitability target for the average of the previous four years, also when adjusted for extraordinary income. Including the current figure for the year, determined by the additionally outstanding result which, along with the healthy market environment, was also due to improvements in internal performance, we have succeeded in considerably outperforming this target figure. The fact that the 47.8 % ROCE of the financial year 2006 was not repeated in 2007, when ROCE was still an excellent 28.0 %, is on one hand caused by the sale of the Vallourec participation in 2006 and on the other hand due to the allocation of more than € 2 billion in low risk money market investments, where 15 % of ROCE is not achievable. There was not a great difference between ROCE from industrial business in 2006 and 2007 which came to 55.1 % and 46.9 % respectively.

Operational early indicators specific to the individual company

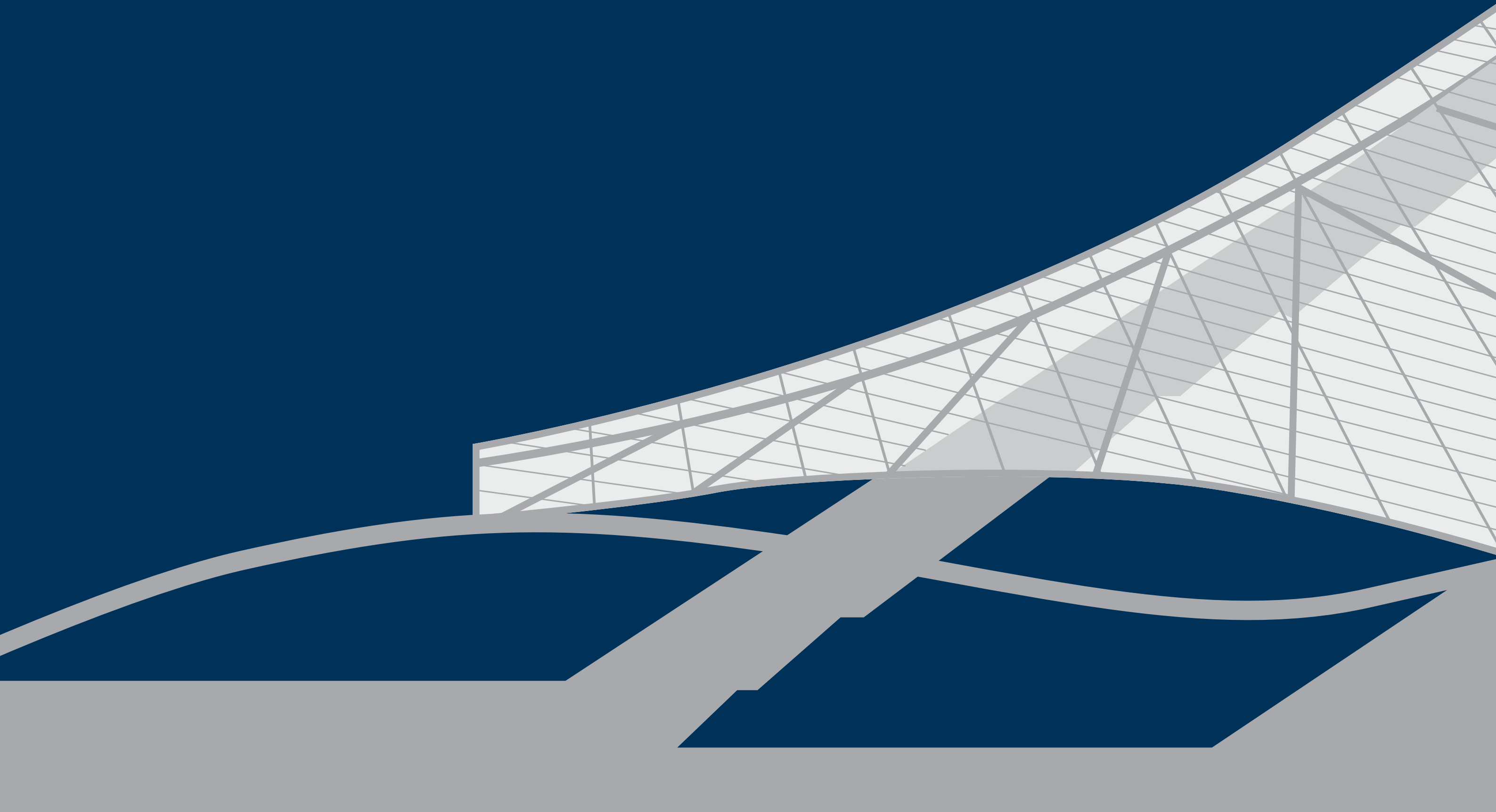
A reliable estimate of likely market developments is a critical part of being able to identify both risks and opportunities at an early stage. To this end, we not only monitor the macro economy but also, if expedient, very specific individual markets. Changes in these markets may have a substantial impact on the future profit situation of individual markets for product segments of our Group. This is why we need to be able to act at an early stage. Generally, senior managers have specific information on the markets which they obtain from information on their operations with customers and contacts to competitors. They use this information to assess the respective market.

When necessary, it is possible to obtain more comprehensive information, such as economic data, sector-specific indices or regional data, to allow the relevant individual markets to be evaluated as accurately as possible. In individual cases, central departments of the holding analyze the markets that are relevant to the various divisions. However, a systematic, comprehensive and consistent monitoring of all relevant early indicators for all product segments of the Group is not carried out, not least owing to the unfavorable cost/benefit relationship of having in-house economics departments in place.

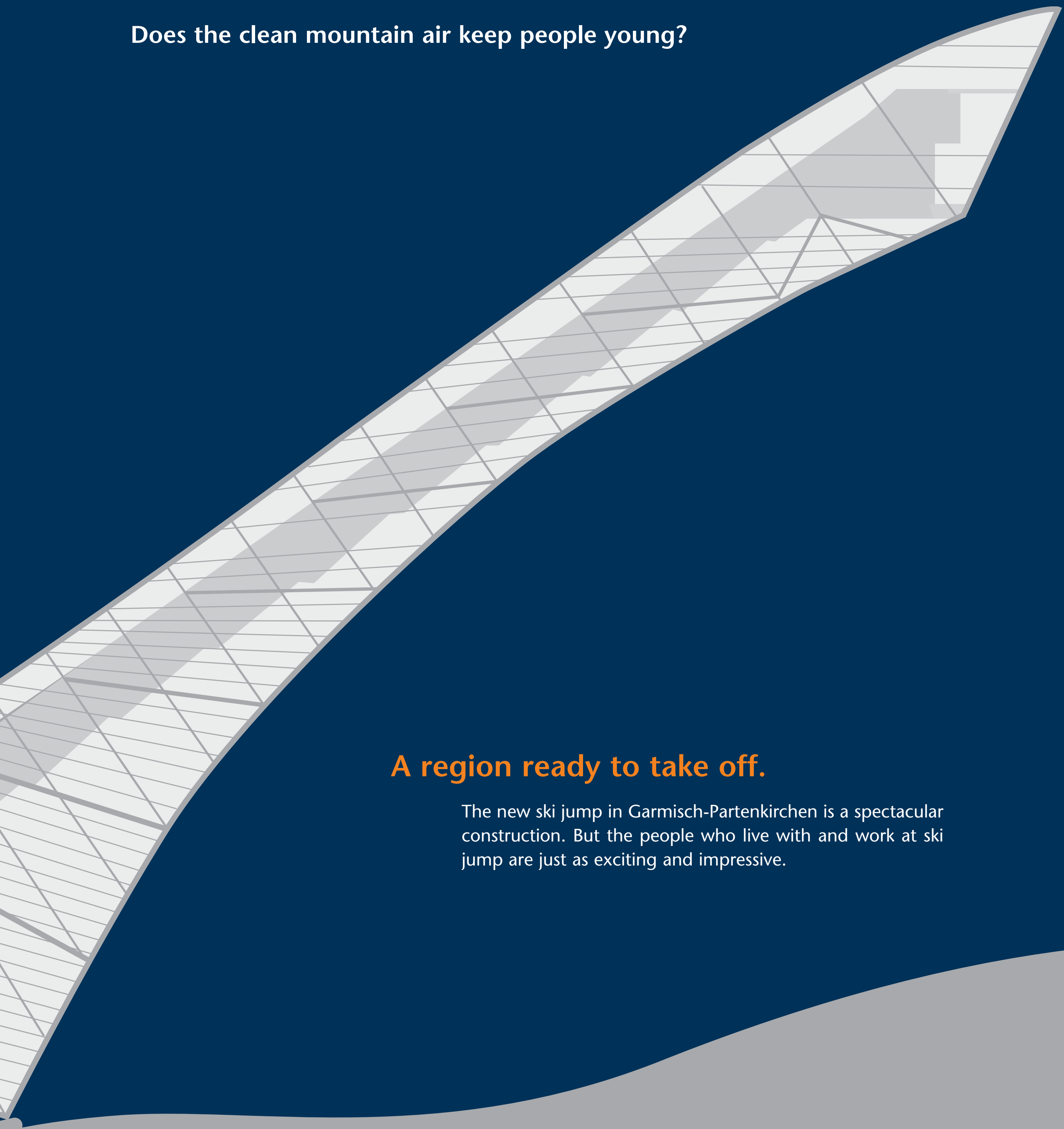
How difficult is it to make steel look weightless?

Can a sports facility lend wings to an entire region?

And how does all this promote German-Brazilian relations?



Does the clean mountain air keep people young?



A region ready to take off.

The new ski jump in Garmisch-Partenkirchen is a spectacular construction. But the people who live with and work at ski jump are just as exciting and impressive.

"For a whole year we really did everything conceivable to get the ski jump ready for the first ski jumper. It was really moving."

Florian Sattler, Project Manager Florian Sattler is predestined for the job of construction manager – not just because he successfully studied architecture. A native of Heidelberg, he was an active ski jumper himself up to the age of 16, so he knows all about long skis and big jumps. Eventually the time came for Florian to make his decision: either ski jumping, or high school and university. He opted for the latter, but has still found a way of actively supporting his sport.

“We could only imagine making the jump out of steel … “

Klaus K. Loenhart, Architect Together with his partner Christoph Mayr, Klaus K. Loenhart worked for over a year to develop the new Olympic ski jump in Garmisch-Partenkirchen. The aim was to build a jump that would truly reflect the dynamics of the sport. The two Munich-based architects have succeeded in doing just that: the brightly illuminated ski jump appears to hover above the forests surrounding Garmisch-Partenkirchen, demonstrating that even 500 tons of steel can be made to look virtually weightless.

4. The Salzgitter Share

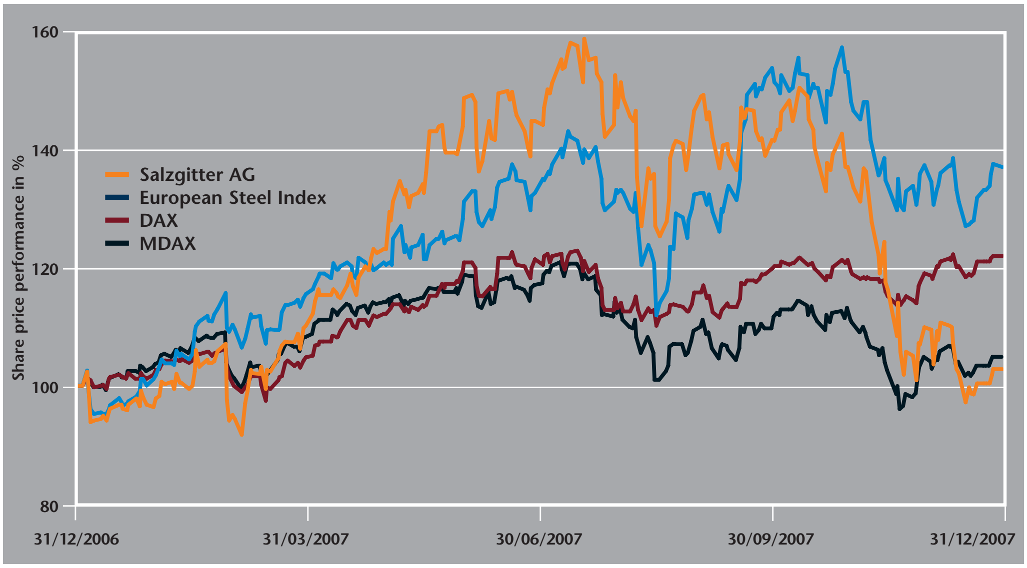
The Capital Market and Price Performance of the Salzgitter Share

After having trended sideways for a longer period of time, the uptrend in the share markets, seen since 2003, came to an end during the financial year 2007, with considerable corrections setting in. Apart from regional upheavals in the financial sector, the ensuing skepticism concerning the continued development of global economic growth was the main cause of the deterioration in stock market sentiment.

At the end of February, a temporary crisis on China's overheated stock markets was initially the first cause of uncertainty in the international capital markets. From June onwards, sentiment darkened again in the wake of the subprime mortgage crisis in the USA. Rising interest rates caused a massive increase in the delinquency rate of mortgage borrowers with low credit standing. This was compounded by a subsequent fall in real estate prices which plunged a number of US mortgage lenders and, as the situation developed, a few international banks as well into financial difficulty. The resulting deterioration in the financing conditions affecting companies and private individuals emanated from the pessimistic expectations of the medium-term trend of the US economy, which partially culminated in global recession scenarios.

The world's stock markets reacted to the sentiment reversal with hefty corrections. Many institutional investors began to restructure their portfolios, selling shares of cyclical sectors and focusing their interest on the highly liquid equities of the major stock exchange indices to contain risks. The annual performance of the DAX (+22%) and the MDAX (+5%) reflected these events.

Salzgitter AG Share Price Performance vs the European Steel Index, MDAX and DAX in 2007



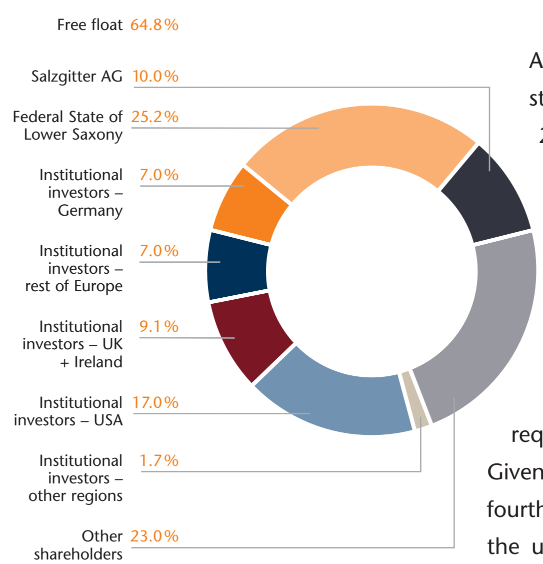
Sources: XETRA closing prices, DBAG, Datastream STEELEU

The events on the international stock exchanges also had a considerable impact on our share price and, temporarily, caused the persistently buoyant situation on the steel market to recede entirely. As the uptrend of previous years initially held steady in the first half of the year, uninterrupted by the market correction in March which took place after the crash on the Chinese stock market, the Salzgitter share reached a new all-time peak listing of € 158.90 on July 13, 2007. The advent of the subprime mortgage crisis put an end to this long-term trend. Up to the end of October, the share price fluctuated strongly in a bandwidth between € 130 and € 150. Information has it that especially institutional investors that had suffered losses from investments of a different kind and wanted to compensate for these losses sold equities which had performed very well up until then, such as the Salzgitter share. In the last months of 2007, MDAX equities in general came under a great deal of pressure from institutional investors selling European midcap shares. The announced takeover of the mining group Rio Tinto by BHP Billiton, a competitor company, placed additional pressure on all steel equities, as this oligopolization was expected to result in rising prices for raw materials. The publishing of the outstanding nine-monthly results of Salzgitter AG on November 14, with a confident outlook for the steel and tubes industry, the subsequent confirmation of buy recommendations of a number of renowned analyst houses, as well as intensified investor relations communication activities of our company were unable to call to mind the fundamental data and bring about a sustained recovery in the share price at the end of the year. To summarize: the price decline of our share during the second half is not due to the operating performance of our company, but to general fears about the economy and the divestment of shares to compensate for losses incurred elsewhere.

The number of Salzgitter shares traded on German stock exchanges averaged just under 474,000 per day, which is 8% lower than the previous year's figure (2006: 510,000 units/day). All in all, the year saw 120 million shares of Salzgitter AG change hands on the German stock exchanges (2006: 130 million units). The share of transactions carried out via electronic trading in XETRA and floor trading in Frankfurt (98.2%) rose marginally again in comparison with the previous year (97.8%).

Measured in terms of the volume of shares traded, which came to more than € 14.3 billion, Salzgitter AG took first place in the MDAX list of Deutsche Börse at the end of December. After a temporary rise to second place, our free float market capitalization of € 4.26 billion as per December 31, 2007, attained fifth place in this category, as in the year before. This valuation places Salzgitter AG among Germany's top 35 listed companies, and it remains among the group of aspiring DAX candidates.

Shareholder Structure



Status: 12/2007

According to a survey commissioned in December, the shareholder structure of Salzgitter AG had changed only marginally at year-end 2007 as against the previous year-end. Shareholders registered in Germany, including the major shareholders of the Federal State of Lower Saxony and Salzgitter AG itself, held 42.2%. The share of domestic institutional investors fell by 1.4% to 7.0% in the course of the year as opposed to that of foreign investors, which climbed to 34.8%. A total of 23% of investors 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. Given the extremely high turnover on the stock exchange during the fourth quarter, in conjuction with the fact that, as experience has shown, the up-to-dateness of relevant data varies, this shareholder analysis is, however, of limited informative value. The free float of the Salzgitter share stood unchanged at 64.8% as per December 31, 2007.

Treasury Shares

The portfolio of treasury shares was recorded at 6,321,823 units on December 31, 2007.

The share in subscribed capital (€ 161,615,273.31 or 63,218,400 units) thus came to 10% at year-end.

In comparison with the portfolio status as per December 31, 2006 (6,321,277 units), there has been an increase in the number of units by 546. In the financial year 2007, 710,176 shares were applied as follows: 124 shares at an average price of € 103.36 in lieu of payment for the services of third parties, 379,827 units in exchange for 2,000,000 shares of Klöckner-Werke AG and 900,000 shares of RSE Grundbesitz und Beteiligungs-AG, 330,050 shares at an average price of € 95.44 to win new investors and 175 shares for free or as a bonus to employees. By reverse, and in accordance with the authorization given by the General Meeting of Shareholders held on June 8, 2006, a total of 710,722 shares were purchased mainly in the second quarter at an average price of € 120.58.

Information for Investors

		FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Share capital[1]	€ mil.	159.5	160.9	161.6	161.6	161.6
Number of shares[1]	million	62.4	62.9	63.2	63.2	63.2
Number of shares outstanding[1]	million	61.3	61.8	56.9	56.9	56.9
Stock market capitalization[1][2]	€ mil.	538.5	880.8	2,595.1	5,635.7	5,806.3
Year-end closing price[1][3]	€	8.79	14.25	45.61	99.05	102.05
Stock market high[3]	€	9.35	15.76	45.95	100.96	158.90
Stock market low[3]	€	5.88	8.72	14.17	45.21	88.13
Earnings per share (EPS)[4]	€	0.52	3.99	14.09	26.50	15.80
Cash flow share (CPS)[4]	€	3.64	5.75	7.83	8.57	13.70
Dividend per share (DPS)	€	0.25	0.40	1.00	2.00	3.00
Dividend total	€ mil.	15.6	25.2	63.2	126.4	189.7

Securities code no.: 620200, ISIN: DE0006202005

1) All data as per December 31
2) Calculated on the basis of the respective year-end closing price multiplied by the number of shares outstanding as per December 31
3) All data relate to prices in XETRA trading
4) Calculated by taking account of the weighted number of average shares outstanding

Dividend

The Executive and Supervisory Boards propose that the General Meeting of Shareholders resolves payment of a basic dividend for the financial year 2007 of € 2.00 per share. Moreover, the proposal was made of paying an additional bonus of € 1.00 owing to the exceptionally good results and due to the fact that it is the 150th anniversary of the founding of the company as Aktiengesellschaft Ilseder Hütte. Our company, which relocated its core operations to Salzgitter in 1970, was founded as one of the oldest German stock corporations on September 6, 1858, in Peine.

Based on the nominal share capital of € 161.6 million, the proposed payment comes to € 189.7 million.

Tax invoice	€/share
Cash dividend	2.37
Creditable capital gains tax and solidarity surcharge	0.63
Dividend	**3.00**

Investor Relations

In 2007, the excellent operational and financial position of the Group once again elicited the lively interest of the capital market in Salzgitter AG and in our share. Apart from analysts' conferences in Frankfurt am Main and London to present the annual report published on the financial year 2006 and the results of the first half of 2007, Salzgitter AG made company presentations during the course of the year at a number of investors' conferences and undertook numerous road shows in Germany, the rest of Europe and the USA. A large number of institutional investors and financial analysts took part in these events, and some of them also visited the location of the Group to gain an insight into the structures, processes, products and potential of the Salzgitter Group on site and in discussion with members of the Executive Board and other managers.

Many private investors and representatives of the financial press informed themselves through direct contact and with the aid of our web site about Salzgitter AG. The "Freundeskreis der Aktionäre der Salzgitter AG" (circle of friends of Salzgitter AG shareholders) also enjoyed great popularity. At its events, many members again used the opportunity of finding out about current developments within the Group and the steel sector and of exchanging ideas with representatives of the Group.

At least 193 recommendations and company reports on Salzgitter AG were made in total in the financial year 2007 by some 35 banks and financial publications. At year-end, their ratings were: 26 buy/outperform, 5 hold/neutral, 4 sell/underperform. Three banks took up the coverage of our company in 2007.

At present, the financial institutions listed below report regularly on our Group:

Bankhaus Lampe	Goldman Sachs	NORD/LB
BHF Bank	HSBC	Sal. Oppenheim
Cheuvreux	JP Morgan	Steubing
Commerzbank	Landesbank Baden-Württemberg	UBS
Credit Suisse	Landsbanki Kepler Equities	UniCredit
Deutsche Bank	MainFirst	WestLB
DZ-Bank	Metzler	
EXANE BNP Paribas	MM Warburg	

The high estimation of the capital market gives us great pleasure: Second prize in the "MDAX companies" of "Investor Relations Preis 2007", awarded by the Deutsche Vereinigung für Finanzanalyse und Asset Management (DVFA) and the trade journal Capital, as well as third place for the "Deutscher Investor Relations Preis 2007" of Thomson, the global leader of financial information services, are motivation and an obligation, as is the choice of Dr.-Ing. Heinz Jörg Fuhrmann as the best chief financial officer in the Metals and Mining sector by the Institutional Investor Research Group.

"At first I had no idea what it was!"

Danielle Rua and Isabel Düsterhöft, ski jumping fans from São Paulo and Garmisch-Partenkirchen Arriving in the evening by car from Munich airport, the ski jump was the first thing that Danielle Rua from São Paulo saw in Garmisch-Partenkirchen. She had no idea what the enormous illuminated steel object was, but was impressed nevertheless. Danielle's friend Isabel Düsterhöft explained the construction to her and together they attended the first competition on the new jump: "That must be so dangerous, I could never do it," exclaimed the 21-year-old Brazilian. But then again no one would seriously ask her to ...

5. Research and Development

Direction of R&D Activities

Research and Development (R&D) paves the way for sharpening the Group's competitive edge and securing sustained growth. In this respect, we are in the same boat as our customers: only when our products are actually put to use can they show what they can do. Close contact to the market hallmarks the R&D guidelines of the company, which is also reflected in the R&D structure. In its role as central R&D coordinator, our subsidiary Salzgitter Mannesmann Forschung GmbH combines market requirements and production and process know-how with the latest trends. The company shapes new developments in association with leading universities, research institutes, start-up companies and industrial partners in application of its knowledge.

Long-standing development partnerships in the Technology Division enable the exclusive use of new developments of original equipment manufacturer (OEM) partners. Our preference is towards practising research cooperations throughout the Group in this way rather than buying in know-how; accordingly, no expenses for know-how outsourced were incurred in this financial year.

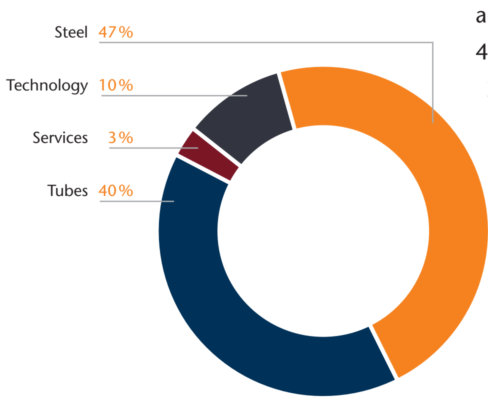
The Technology Division supports proximity to the product by having a Competence Center specialized in the respective product family. Along with development and contract processing, functions also include active product management and product support, which is critical for Sales operations. In this way, technology is able to contribute to projects at an early stage. Centralized departments, which operate independently from contracts, have been created to coordinate the individual activities, ensure a uniform presence in the market and address standards issues.

Within the Salzgitter Group, research and development activities are focused on new products, processes and procedures. Furthermore, we place importance on aspects such as the efficient use of resources and ecological compatibility. Product development activities are concentrated on the areas of ultrahigh-strength steel strip, plate, pipelines and large-diameter tubes, as well as precision steel tubes. We also develop new machines and systems in our Technology Division.

Salzgitter Group companies have a current stock of over 2,200 active commercial patents rights.

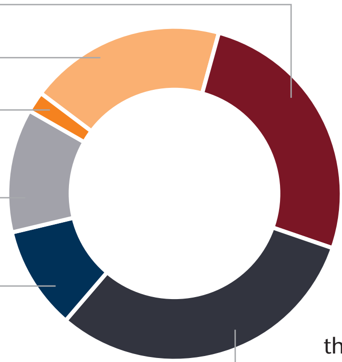
R&D Expenses

R&D expenses by Division



In 2007, the Salzgitter Group spent € 69 million on R&D activities and on R&D relevant and related quality management projects, including € 9 million for external customers. The amount was allocated as follows within the Group: 47% to the Steel Division, 40% to the Tubes Division, 10% to the Technology Division and 3% to the Services Division. Moreover, Salzgitter AG works with other market participants and research institutes in cooperation projects where the total budget comes to € 95 million. In the financial year 2007, Salzgitter AG disclosed first-time capitalized investment costs of € 11.6 million. Capitalization relates solely to the Technology Division. Of this amount, € 1.6 million affected income in the financial year. Value-added R&D applications came to 2.2% for the Group as a whole.

R&D expenses by area of activity



The relatively high amount of R&D expenses this year dedicated to process control and automation is attributable to the new Technology Division.

Some 725 employees were engaged in R&D activities and R&D-related activities. Of this number, 299 members of staff work in the central SZMF R&D company, with the majority employed in the operating companies. This underscores the market orientation of our development activities.

We are convinced that adapting to tomorrow's markets is simply not enough – we want to play a role in shaping them as well. We therefore view the developments of new products over the whole life cycle, from metallurgic production of the melt through to the processing of strip and plate at our customers' and its subsequent use on the market. To be able to map the whole chain on to both the numeric simulation and in experiments, we have concentrated our options and our skills on the development of the most advanced steels. Our investments in large-scale machinery, concluded during the financial year, enable the simulation of a production chain in steel manufacturing under laboratory conditions. The new facilities, a hot-rolled steel mill (Duisburg) and a mill for cold rolling and finishing, as well as a forming press for the new Technical Center (Salzgitter) have been commissioned and have already concluded initial experiments on behalf of customers. We invested around € 8 million in this machinery alone in 2007. The Technical Center thereby makes a significant contribution to the swift development of new steel materials and surface finishings, thus enabling the exploration of new areas of applications.

The Focus of R&D Activities in 2007

ScaLight

We presented our scaleable bodywork architecture, developed jointly with auto manufacturer Wilhelm Karmann GmbH and other steel users in the ScaLight Project, at the IAA and on the occasion of a road show of European auto manufacturers in the second half of the year. The new solutions met with consistently great interest. The concepts use currently state-of-the-art materials produced industrially by our Group for solutions for the bodyshell work of the future which will allow the manufacturing of safer and lighter components.

Offshore wind energy farms

The expansion of regenerative energies makes an important contribution to climate protection, with wind energy playing a leading role. A great part of the output of wind farms is to be generated offshore, as the high-speed winds at sea harbor enormous energy potential. As part of a project subsidized by the German Ministry for Environmental Affairs (BMU) on the "Optimal Design of Offshore Foundation Structures – Ogowin" the prototype for a suitable wind rig structure is currently under construction. The necessary large-diameter tubes and their assembly seams are exposed to utmost loads. Our research makes it possible to ascertain and prove the fatigue strength of these seams.

Continuous strip casting

Together with plant and technology supplier SMS Demag and TU Clausthal, we are developing belt-strip technology designed for the production of new types of steel which conventional casting practices cannot manufacture, or only to a limited extent. To this end, pilot facilities are currently being built to industrial specifications at the Peine location. Alongside special process technology-related features, the technology is exceptional in terms of its high productivity which is expected to result in particularly economic production.

Nord Stream Pipeline

In view of the special technical requirements the Nord Stream Project places on the pipes to be used, scientific capabilities also accompany the production preparations. Accordingly, the molding process has been optimized to produce tubes with varying wall thicknesses of up to 35 mm. Upon completion of the new tools with their improved design, the production of around 1,000 km or 860,000 tons of tubes to be supplied by Europipe can go ahead in 2008.

Surface protection for hot forming

Ultra-high strength materials cater to the heightened awareness of increasingly higher crash security in conjunction with advancing lightweight design and construction in the automotive industry. The press-hardened or hot-formable steel materials are one class of products, which are shaped at temperatures of 950 °C and subsequently attain their extreme strength through a concentrated cooling process in a forming tool. The high forming temperature causes scaling on the uncoated blank which has to be subsequently removed. Together with our suppliers, we are developing a protective layer that can withstand high temperatures and that is also suitable for welding and coating. SZMF's Technology Center is currently investigating product features under mass-production conditions.

Bottle sterilization

To date, the dosage of hydrogen peroxide (H_2O_2) used in the sterilization of bottles has been carried out by a dosing pump. Thanks to a high-pressure injection spray, the level of the accuracy was raised so far that the use of H_2O_2 was cut by 40 %. In this process, the dosage amount of only 0.1 ml is flow-measured at an accuracy of ± 10 %.

Glass bottle fillers

The newly constructed filler with an annulus boiler replaces the various designs for a number of fillers previously used for glass bottles, tins and PET bottles. This norming means that only one piece of machinery needs to be set up instead of five, five large-scale ball bearings replace 27, and the weight of the machinery is reduced by more than 60 %.

Future R&D Focal Areas and Building of Competence

Tubes for the energy sector

Rising global energy requirements are placing ever-new and ambitious demands on different process sequences in energy generation. Consequently, this market is clearly the technology driver of our tubes business. From developing increasingly deeper and more corrosively aggressive fuels to economically viable pipeline transport across geographically difficult terrain and all the way through to enhancing the effectiveness of heat exchange tubes of power plants, we deliver tubes serving the entire energy production chain, products that represent the most advanced, state-of-the-art technology. In view of the long-term dynamics expected in this market, we intend to further expand this area in future, which has traditionally always featured as a focal point of our R&D.

Coating technology

The catalog of our customer demands and requirements made on our products, especially in the area of flat rolled steel products, gets longer every year. Properties that can be achieved by completely new surface coating systems are included in this catalog. The consistent development of know-how in surface engineering is promoted by our investments in facilities that simulate coating processes in a laboratory environment, as well as testing surface properties.

"Salzgitter 2012" investment program

The primary aim of this program is to raise productivity in the Steel Division and to expand our share in niche and special products. To enable the manufacturing of these new products, we conduct numerous experiments on new materials, the production process through to facilities design. This is another focal point of the future development work carried out at the Salzgitter Group.

"ICAMS", world-class research center for multi-scale simulation

The theoretical description and numerical calculation of material properties is currently probably the most innovative concept on the agenda in materials technology. The multi-scale simulation approach holds the promise of a market-oriented efficient production of materials and products which saves both time and resources. Together with the Federal State of North Rhine-Westphalia and six other partners from science and industry, we are promoting the founding of the Interdisciplinary Centre for Advanced Materials Simulation (ICAMS) research institute. The top research center (in public-private partnership), located on the site of the Ruhr-Universität Bochum, will take up its work in 2008.

Special plant engineering for beverages filling and packaging machinery

In the beverages filling and packaging machinery business, competence is being systematically built through strategic acquisitions. SIG Corpoplast enables new products, such as a stretch blow molding machine/filler combination for block construction to be developed and delivered from one source. Asbofill, also a new acquisition, will help to release synergies in the H_2O_2 sterilization of beverages and round off the machinery and equipment program of KHS.

Multi-year Overview of R&D

		FY 2007	FY 2006	FY 2005	FY 2004	FY 2003[3]	FY 2002	FY 2001
R&D expenses	€ mil.	60	58	58	57	58	47	48
R&D employees	empl.	725	688	706	701	670	400	400
R&D ratio[1]	%	0.6	0.7	0.8	1.0	1.2	1.0	1.0
R&D intensity[2]	%	2.2	2.0	2.9	4.2	5.3	4.2	4.3

1) R&D expenses in relation to consolidated sales
2) R&D expenses in relation to Group value added
3) Reporting of R&D-related expenses (employees) at MRW

"It's a punishing climb otherwise. You'd have to take the stairs, which means more than 600 steps."

Jens Schubert, cable car technician Jens Schubert is talking about the inclined cable lift he and his colleagues have fitted at the jump. It takes the ski jumpers to the top of the jump tower. Previously there was simply a long, steep stairway. Jens Schubert's mountaineering gear gives an idea of the challenges the job posed. He and his team installed the lift manually at heights of up 100 meters off the ground, always secured by ropes and the colleagues. The project has been a truly unique assignment for 40-year-old Schubert: "It's a great honor for me to have been able to fasten a few of those screws," he adds in all modesty.

6. Environmental Protection

The Position of Steel in the Resources and Climate Debate

Environmental protection forms an integral part of Salzgitter AG's corporate responsibility and is one of management's central responsibilities geared towards sustainability.

The concepts of resource and energy efficiency continue to play a central role in the public debate. Hardly a day goes by without discussions on environmental protection: whether it be cutting emissions limits as part of CO_2 trading, the outdated attitudes of the automotive industry or banning electric lightbulbs. The steel industry is in the middle of an irreversible process of discussion and development. The debate ranges from the CO_2 emitted by our production processes to the particular attention that needs to be paid to the contribution our steel products make to boosting our customers' energy efficiency.

With a share of 75%, input materials such as ore, scrap, reduction agents and energy play a critical role in the cost base of steel production in Germany. Of necessity, this alone gives rise to long-term economic pressure on production at all levels of the company to ensure that resources are conserved to the greatest possible extent. But does it also mean that simply because we have achieved many successes in terms of implementing processes that boost resource and energy efficiency we have done all we can? Our answer is no. For us, this question also constitutes a challenge to innovate. Our ongoing success in developing innovative materials for the automotive area is just one example of how we have responded to this challenge.

Steel space-frame developed to reduce costs and shell weight

Alone this segment's production of high-strength and extremely high-strength steel products at our Salzgitter plant is already making a significant contribution to climate protection: we have shown that the development and use of these steel products offsets a good 15 % of our unavoidable and process-driven production emissions. Seen from this perspective, the climate protection debate generates a major opportunity for our products. Furthermore, the new types of steel we have developed for near net shape casting also give rise to unprecedented levels of flexibility in lightweight bodywork construction. We are currently working very closely with our customers in this area. Thus it becomes evident that steel, as a material, plays a future-oriented and indispensable role in using resources and energy more efficiently as part of the debate about climate protection.

Companies that best know how to harness their employees' abilities and knowledge in this field will play a pronounced pioneering role in the future. The insights we have gained from profitability improvement programs and internal suggestion schemes show that almost one third of the effects are connected with resource and energy saving. Only the knowledge-based networking of processes and products will allow climate change to be tackled effectively. Excessively one-dimensional approaches, such as using emissions trading to restrict highly efficient production, will not bring us any closer to the desired goal. The way to confront this global problem lies in technically intelligent solutions that offer emerging economies opportunities they need to structure their economic growth more efficiently.

CO_2 emissions rights trading: 2008 to 2012

The year 2007 was characterized by the structuring of the legal framework for emissions trading in the period from 2008 to 2012: a new omnibus act and an allocation ordinance came into force at mid-year. The subsidiaries and affiliated companies of Salzgitter AG that are obligated to participate in this scheme submitted the requisite allocation applications on time. The German Emissions Trading Authority (DEHSt) is expected to issue the related emissions entitlements during the first quarter of 2008.

Certified environmental management systems: compliance and value added all in one step

Compliance in all environmental matters is particularly important at our company. This is why we have decided to expand DIN EN ISO 14.001 certified environmental management systems to form a central component of corporate management, and, where expedient, to combine occupational safety and quality management into integrated systems. In this area too, we stress the importance of setting objectives and of systematically monitoring their implementation. Building on the already visible successes achieved by other Group companies, we have, for instance, had the following companies successfully certified for the first time in 2007: Mannesmannrohr Sachsen, Hoesch Spundwand und Profil, Salzgitter Europlatinen and Salzgitter Großrohre.

Implementation of the REACH regulation at Salzgitter AG

The year just passed was also characterized by the introduction of the so-called REACH Regulation which is dedicated to the **R**egistration, **E**valuation and **A**uthorization of **Ch**emicals. At an early stage, we identified that the implementation of this new legislation is significant for large parts of our value-creation chain in many areas. It affects both the procurement of input materials by our Group companies and our efforts to ensure the future delivery of our products to customers. This is why we have established the requisite organizational structures and taken measures to ensure that the REACH Regulation is implemented appropriately and on time within the Group.

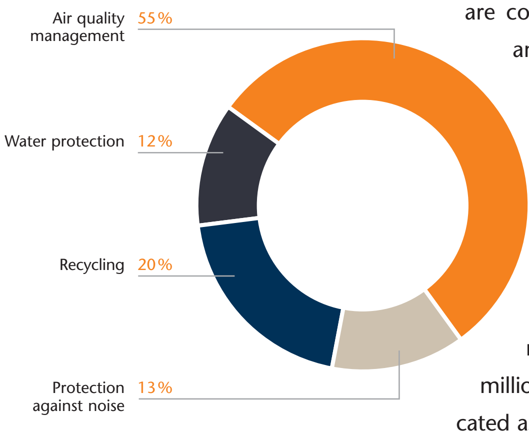
Appropriate landfill legislation retained for the steel industry

Salzgitter AG has to date achieved significant progress in the avoidance and recycling of waste. However, as is the case with other steel companies, and due to the particularities of our operations, we are unable to entirely do away with the operation of our own landfills, despite these successes. These sites, which are typical to the steel industry, are currently classified as so-called mono-landfills. The mineral waste deposited in these landfills does not have an impact on the environment owing to its properties and appropriate processing. Subsidence is minimal, and it produces no landfill gas. As it is possible to gauge long-term landfill behavior with certainty, special landfill legislation which contributes to appropriate and proper environmental protection applies to such locations. The German government is currently intending to create an integrated framework of landfill legislation that draws together and unifies various directives and regulations. We welcome this project, and we will seek to ensure that the valuable special regulations are retained for mono-landfills.

Sustainable environmental protection accompanied by corporate growth

We also place value on sustainable environmental protection when we acquire companies. An example of this is Klöckner-Werke AG, where clearly defined responsibilities ensure its processes and products are compatible with the environment. A number of relevant technically and commercially significant investments and improvement measures have been documented in various locations.

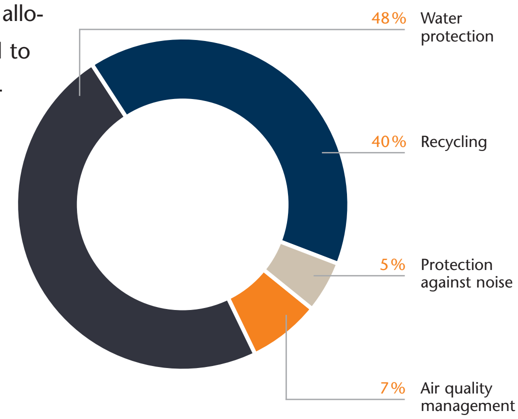
Steel Division environmental expenses data 2007



Costs related to environmental protection

Total spend on environmental protection by the Steel Division amounted to € 127 million. Of this amount, 55% was attributable to measures related to air quality, 12% to water protection, 20% to recycling management and 13% to protection against noise. The Tube Division's companies based in Germany spent € 14 million on environmental protection, allocated as follows: 7% to measures related to air quality, 48% to water protection, 40% to recycling management and 5% to protection against noise.

Tubes Division domestic companies environmental expenses data 2007



“This is a once-in-a-lifetime job.”

Josef Adelbart, fitter and metalworker, 53, and Stefan Haas, 69, metalworker This is what you might call genuine neighborly help: Josef Adelbart’s company was involved in the construction of the new Olympic ski jump. When one of his colleagues dropped out, he needed a quick replacement. He found the solution right next door: his 69-year-old neighbor Stefan Haas stepped in right away. For two months, Haas was in full swing, working 10 hours a day. The pensioner took it lightly: “The longer you work, the more agile you stay.”

7. Performance Report

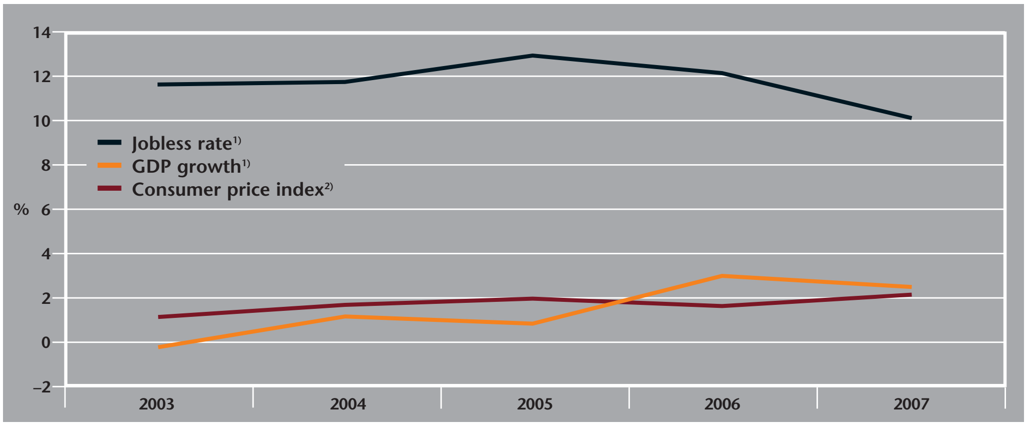
7.1 General Business Conditions

Positive economic development in the financial year 2007

Once again, the **global economy** recorded strong growth in 2007. The increase in gross domestic product (GDP) of 5% was nonetheless slightly lower than the previous year's figure of 5.4%. The dynamic economic expansion of the emerging markets continued unabated, led by China and India. The investment and export sectors were again the main growth drivers. By contrast, the US economic trend was very uneven in 2007. After weak expansion in the first half of the year, overall economic production in the summer months gained strong momentum again, driven in particular by brisk export activity. At the end of the year however, there were growing concerns about the state of the US economy: Private consumption as the driving force behind the American economy slowed dramatically in the wake of the subprime mortgage crisis and the extreme price hikes for energy. For the year as a whole, the real increase in US GDP came to 2.2% (2006: 2.9%).

Conversely, the favorable economic trend in the **euro zone** persisted throughout the year 2007 as well. Once again, investment and exports were the main growth engines, while private consumption remained slack. GDP growth in 2007 (+2.6%) fell marginally short of the previous year's figure (2.8%). In the EU as a whole, growth posted 2.9%, boosted particularly by above-average contribution from Great Britain where the economy has been expanding swiftly for two years.

Macroeconomic Indicators in Germany



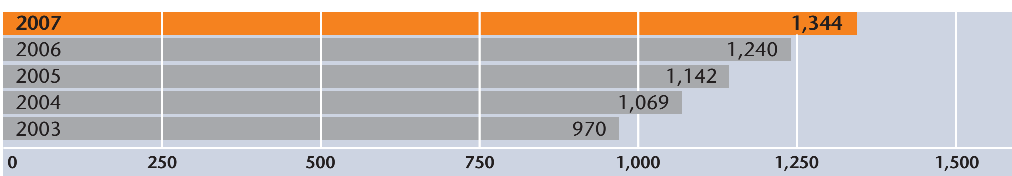
1) Source: German Federal Statistical Office
2) Source: Deutsche Bundesbank

The **German** economy remained robust throughout 2007. Total capacity utilization rose once again, despite the impact of a series of negative events. The restrictive financial policy and exogenous influences, mainly in the form of much higher prices for crude oil and the repeated appreciation of the euro, dampened business sentiment and the economic environment. In a comparison of the year as a whole, however, growth nonetheless came to 2.5% (2006: 2.9%).

Excellent steel market

The sharp expansion in the international **steel markets** persisted in 2007. Since the start of the new millennium, the global production of steel has risen on average by just under 7% per year, thus more swiftly than in the 50's and 60's of the last century. Last year the increase came to 7.5%, a figure which is above the trend line of recent years. Almost 1.35 billion tons of crude steel set a new record figure. More than 70% of the increase in production was attributable to **China**; the Middle Kingdom came close to the 500 million ton threshold. Together with contributions from other countries of the continent, Asia's share of growth stood at just under 85%.

World Crude Steel Production



in million tons

Source: International Iron & Steel Institute

In **Germany's steel market**, the economy was characterized by an uptrend that had not been anticipated in this form prior to the turn of the year. The year 2007 was a year of records in many respects: The sale of steel products surpassed the 45 billion euro threshold for the first time. The production of crude steel, which came in at 48.5 million tons, was the highest ever volume produced in Germany as a whole. The utilization of crude steel capacities came to an average of 92% for the year, which in effect corresponds to full utilization. As from the fall onwards, the steel economy of Germany and the EU was braked somewhat owing to stockpiling which, in the first half-year, was distinctly above the level customary for the season. This was caused by another unusually large increase in imports which also impacted the development of the European market. This increase averaged a good 40% over the year in the markets of the EU. The EU's steel-related foreign balance of trade closed the year 2007 with a record deficit of almost 19 million tons. Imports from **China** played a central role in this result: China's share in total European imports from countries outside Europe soared from below 5% to almost 30%.

Excellent steel tubes market

After a good financial year in 2006, the condition of the **steel tubes market** remained extremely robust in 2007. With a few regional variations, this basically applied to all customer sectors purchasing tubes.

The search for oil and gas was extremely lucrative due to the high oil prices. Accordingly, demand for oil field tubes rose again over 2006. Global demand for pipelines for the transport of oil and gas also continued to run at a high level.

West European mechanical engineering also upheld the high growth level of the previous year. In the USA and Japan, this segment continued to develop well but failed, however, to repeat the figures of the previous year.

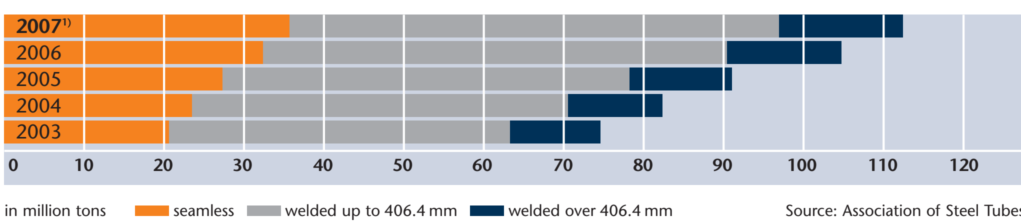
The automotive industry of Western Europe expanded at a faster rate than in 2006 in contrast to growth rates in Japan and China which were lower. The USA reported a decline in production for the second year in a row. The Western European construction industry grew in 2007 as opposed to the USA and Japan where this sector contracted.

In 2007, the investments of the chemicals industry were higher in Western Europe than in the previous year; in the USA they were slightly lower.

Power plant construction activity fell short of the previous year's level, both in Western Europe and in the USA. Seen from a global standpoint, however, particularly in view of the development in China, it remained on a growth path.

In 2007, the **global production of steel tubes** set a new record high at around 110 million tons, following on from the extremely positive development of previous years. Production was thus approximately 8 million tons, or 8%, higher than the 2006 figure. All areas of production contributed to these increases, the largest being seamless tubes which climbed by around 11%. The production of large-diameter tubes advanced 9%, while small welded tubes grew by 5%.

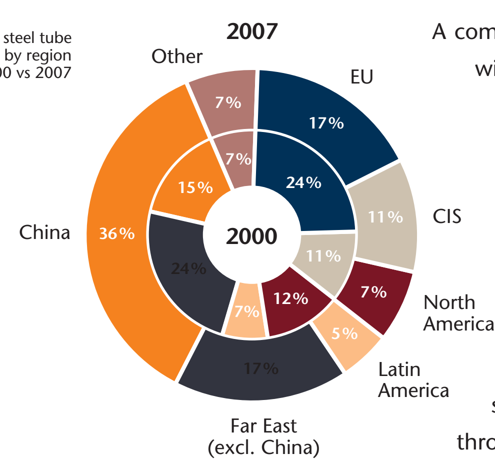
Global Production of Steel Tubes by Manufacturing Process



[1)] Extrapolation

As in previous years, China was the largest contributor to growth in the global production of steel tubes (+5 million tons, or 14% up on the previous year). Other growth regions were the CIS countries (+1.4 million tons; +12%) and the EU (+1.2 million tons; +7%). By contrast, North America saw production decline (–0.3 million tons), mainly owing to the lower volume of seamless tubes produced.

Global steel tube production by region 2000 vs 2007



A comparison of the production shares of steel producers in 2000 with those in 2007 shows that China has more than doubled its share, from 15% (2000) to 36% (2007). The CIS countries and other regions maintained the level of their share in global production, whereas that of the EU and of Japanese producers in particular declined.

Although the increase in production in 2007 is primarily attributable to higher demand and is unlikely to have led to steel trader inventories growing a great deal, the first signs of an imbalance of supply and demand are filtering through, especially in the USA, above all in the wake of the huge increase in Chinese crude steel exports. This triggered price corrections mainly for seamless and small welded tubes, although it was otherwise possible to pass on increases in the price of raw materials in the selling prices.

China's export activities had an impact on all economically relevant regions, first and foremost North America, the Far East and the EU. China has been a net exporter of tubes since 2004.

The aggressive approach of the Chinese has elicited the first responses reflected in the trade policies of the USA, Canada and Russia. EU producers are also considering of taking countermeasures with regard to certain types of tubes to counteract the massively high rate at which Chinese exports are expanding.

Mechanical engineering on a steep growth path

The **mechanical engineering sector** repeated the excellent results of the previous year. Real increase in production accelerated to around 8% at a global level and to as much as 11% in Germany. Increases of this dimension pushed the capacity utilization of domestic production facilities in the mechanical engineering business, which averaged 92%, to their limits, and there were shortfalls in the supply of material.

Having taken second place in the ranking of machine producing countries (second to the USA and ahead of Japan), sales in Germany soared again in 2007. Both exports and a stronger domestic market provided excellent opportunities. Exports to the USA, the largest buyer of German machinery and plants, have meanwhile suffered a slight decline owing to the ailing US economy and the strong euro. Exports to other European countries developed above average. The swiftest growth rate of the world's mechanical engineering nations was again posted by China where growth was more than 25%.

The companies of the **Technology Division** are among the global leaders in their specialized sectors. Regional growth, bolstered by excellent quality and underpinned by intensive research and development activities, serves to secure this status. Customers are particularly appreciative of these companies' international presence.

It was, however, not only the competitive position which was satisfactory, but also the economic success of this division, buoyed by the conditions in our customer sectors and regions. All in all, they developed well in 2007. Our main customer sector, the beverages industry, continues to grow by 5 to 6% a year, which is a sound basis for the utilization of our products. From a regional standpoint, our orders still mainly come from Europe. The regions of America and Asia were, however, also able to deliver excellent growth figures.

7.2 Overall Statement by Management on the Performance of the Group

New benchmarks set in sales and profit

In the financial year 2007, the Salzgitter Group exceeded the extremely good operating result of 2006, thereby setting a new record. Similar to the past three years, the market environment demonstrated an exceptional robustness in place – also currently – of cyclicality with a time lag, in both the flat steel, beams and plates products segments, as well as in the tubes product segment. This development was reinforced by the start to business in special equipment and plant engineering in the newly formed Technology Division. The financial year 2007 thus reflects the exceptionally successful course of the Salzgitter Group.

The individual companies of the Group benefited from the persistently brisk demand for rolled steel and tubes products, as well as from an uptrend in selling prices, which helped boost the consolidated sales of the Group to € 10,192 million, up € 1,745 million (+21 %) from € 8,447 million. Of this amount, € 513 million was attributable to the first-time consolidation of Klöckner-Werke AG, a company acquired at the start of the second half of the year and whose companies form the core of the new Technology Division.

The Salzgitter Group closed the financial year 2007 with a pre-tax profit of € 1,314 million. It thus impressively (€ +366 million) outperformed the already excellent result of 2006 (€ 948 million, adjusted for € 907 million in proceeds from the sale of the Vallourec participation).

Along with a favorable market environment, the groupwide Profitability Improvement Program designed to enhance profitability was also a contributing factor.

ROCE exceeds target figure

Although an ROCE of 28 % in 2007 significantly exceeded the 15 % target, it fell short of the previous year's figure (2006: 47.8 %), which was mainly attributable to the proceeds from the sale of the Vallourec shares (€ 907 million) being included in the calculation of this figure. Upon elimination of both this figure and the net cash investment held at banks, ROCE from industrial operations came to as much as 46.9 % (2006: 55.1 %).

Year-end share price impacted by turbulence on the global financial markets

Our share price climbed from € 99.05 at year-end 2006 to € 102.05 at year-end 2007. This relatively small margin by no means reflects the exceptionally positive trend of our share price during the year which peaked at € 158.90 (July 13, 2007). After this date, the share price declined in the face of the global financial crisis precipitated by events on the stock market. More details are contained in the Section on "The Salzgitter Share".

7.3 Comparison between Actual and Targeted Performance

In our 2006 Annual Report, we believed it was ambitious to repeat the operating profit (2006: € 948 million) in the new financial year 2007. We nonetheless predicted that we would achieve a pre-tax profit in the more challenging triple-digit euro range. In this context, we made explicit reference to the fact that the opportunities and risks of the fluctuation potential of the consolidated result from then unforeseeable cost, selling price, capacity utilization and currency trends could also be in the triple-digit million range.

The decidedly favorable development in the Salzgitter Group has enabled us to generate a consolidated pre-tax profit of € 1,314 million.

We provided information on this steady uptrend, which became increasingly evident during the course of the year, by adjusting our forecast figures in the respective quarterly reports.

Consolidated sales of € 10,192 million were considerably above forecast. Alongside acquisitions where, by definition, no planning can be carried out, all core divisions made a positive contribution to this positive deviation. All divisions contributed to this positive budget variance, with the **Trading**, **Steel** and **Tubes Divisions** making decisive contributions. The **Services Division** also generated higher sales than envisaged. The first-time consolidation of Klöckner-Werke AG, acquired at the start of the second half-year, also impacted the sales of the new **Technology Division** and of SMP/VPE/MRS in the **Tubes Division** in the amount of € 513 million and € 153 million respectively. The greater use of the Group's own trading organization led to higher inter-company sales, which is not reflected in the contribution.

The main reasons behind the significant budget variance in pre-tax profit was the performance of the Steel, Tubes and Trading divisions. Instead of cyclical trends, known in the past for their pronounced swings and the fact that they generally occur with a time lag, the overall market situation in both the steel and tubes segment was excellent in the financial year 2007. As a result of a claim waiver within the Group, the Services Division also closed with an above-target result. Even excluding special influences, the performance of this division was considerably higher. The new companies of the Technology Division generated an overall pre-tax profit which, as already mentioned, was not reflected in the planning.

With greater shipments overall, also including the fact that the production of flat rolled steel was reduced in the fourth quarter with a view to stabilizing the margin, steadily rising selling prices and despite the higher costs of raw materials and energy, the **Steel Division** posted a new all-time high, with all operating steel companies contributing to this result. Pre-tax profit, which came to € 749.4 million, substantially outperformed the target figure.

The overall expansion in the global economy provided positive impetus for international steel trading, with demand still strongest in the markets of Asia and Eastern Europe. Despite the import-induced increase in inventories, the situation on the European market remained robust. Stockholding steel traders benefited in Germany and the Benelux countries from the healthy order books of steel processing companies. Demand in North America, however, slowed owing to inflated inventories and a sluggish construction industry caused by the subprime crisis. The pre-tax profit of the **Trading Division**, which came to € 212.5 million, was considerably above target and set a new record high. This was not least due to the effect still included in the first half-year from the sale of favorably valued material inventories at spot market prices which had meanwhile risen markedly.

The international steel tubes market was in an excellent condition, buoyed by persistently strong demand. Great stimulus emanated from the energy sector in particular, with its strong demand for steel tubes for exploration, the transport of oil and gas and the construction of power plants. The above-target increase in the result of the **Tubes Division** to € 302.5 million was mainly generated by the large-diameter tubes product segment.

With high order intake in the filling and packaging technology business, the new **Technology Division** lifted sales and contributed an amount of € 18.0 million to operating profit. Profit was disclosed at € 4.0 million and included € –14.0 million in first-time consolidation effects owing to the purchase price allocation required under IFRS. Due to the final purchase of shares ("closing") at the start of July, it covers only the second half of 2007 and, as already mentioned, is not reflected in the planning.

Taking account of the result of the **Services Division** (€ 40.4 million, including a claim waiver of € 25 million by SMG in favor of SZAE not impacting the bottom line), consolidated pre-tax profit stood at € 1,313.9 million, a figure which was considerably higher than originally planned.

The new ROCE target, which had been raised in the financial year to an average 15% during an economic cycle, was greatly exceeded by an ROCE of 28.0% (2006: 47.8%). Upon elimination of the impact of selling the Vallourec shares in 2006 and the net cash investment held at banks, ROCE from industrial operations came to 46.9% (2006: 55.1%).

"We couldn't have afforded not to build the ski jump."

Thomas Schmid, Mayor of Garmisch-Partenkirchen Thomas Schmid grew up in Garmisch-Partenkirchen but he has also seen something of the big wide world: he put in a lengthy tenure with Germany's diplomatic corps, where his last assignment was at the German embassy in Canada. But then his hometown beckoned with a new challenge: since 2002 Schmid has been Mayor of Garmisch-Partenkirchen. The 47-year-old was strongly in favor of building the new ski jump, knowing only too well that the eyes of the entire world are trained on Garmisch-Partenkirchen during the traditional New Year ski jumping competition. "There is no better advertisement for our town than this ski jump," says Schmid. Our tip: turn on your television to watch the competition on January 1, 2009.

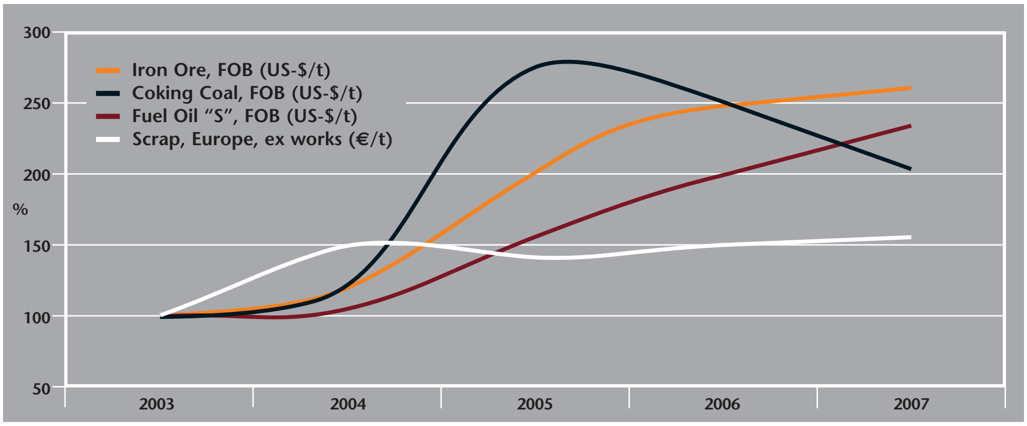
II. Profitability, Financial Position and Net Assets

1. Purchasing

As in previous years, procurement markets remained very tight. Despite this difficult environment, it was possible to ensure that the Salzgitter Group's plants were always fully supplied at market prices, although the prices of important input materials and services once again reported a sharp year-on-year rise.

The continued high levels of economic growth in populous emerging markets such as China, India and Russia resulted in a rapid increase in steel consumption and consequently a surge in the demand for raw materials needed for steel production. Temporary supply bottlenecks arose as a result of limited delivery capacities and insufficient logistical infrastructure in respect of rail and port capacities, as well as freight space, which filtered through in the form of sharp price increases and shortfalls in many market segments. Price volatilities of up to 50% or even more within the space of a few months were the rule rather than the exception for alloys and sea freight prices.

Movement in the Price of selected Raw Materials and Energy Resources



Iron ore

The international iron ore market continued to come under great pressure. Supply failed to keep pace with rising rise in demand in 2007: China alone imported around 70 million tons more iron ore than in the previous year. We recorded price hikes of between 5.3% and 9.5% for pellets, fine ore and lump ore in 2007. The cost increases for the Salzgitter integrated iron works were in the order of 6% including cost and freight. Ore deliveries totaling around 6 million tons came from Sweden, South Africa, Brazil and Canada. Given current developments in the spot markets, we also anticipate marked, demand-driven price increases in 2008. In mid-February, the first price agreement for deliveries of benchmark-type fine ore was concluded between the Brazilian producer VALE (formerly CVRD) and Japanese iron works entailing a price increase of 65%.

Coking coal

We observed very different trends in the international coking coal market in 2007. The weaker market of 2006 resulted in price reductions of around 17% in early 2007/08 (April to March). The coking coal market recovered significantly during the course of the year, underpinned by a surge in demand from Asia and a repeat of loading problems at a number of Australian ports. The Salzgitter plant procured a total volume of 1.9 million tons in 2007, of which only around 2% came from German production. An extremely tight global market suggests that we can anticipate another leap in prices in 2008/09.

Sea freight

With the exception of a slight easing in the middle of the year, the sea freight market has been in an uptrend since the start of 2007. By the end of the year, many routes had reached rate levels that were almost 150% above January's levels. The available freight capacity was most tight. The market reacted very sensitively to fluctuations in demand, which was reflected in high price volatility. Besides the extremely high demand for cargo space for mass-market goods, the fact that ships had been tied up for long periods of time due to long waiting periods in various ports put the market under significant pressure. Speculative trading in freight futures also pushed up prices further. The volume traded in this market now outstrips the physical market and is having an increasing impact on market participants' short-term thinking and activities.

Metals and ferro-alloys

The markets for metals and ferro-alloys developed very disparately in relation to individual groups of materials during the course of the year. For example, extreme price fluctuations were reported for the metals nickel and zinc owing to high demand and massive purchasing activities on the part of various funds, accompanied by very low stocks.

Bulk alloys

The markets for bulk alloys (manganese and silicon carriers) and precious alloys (mainly ferrovanadium, molybdenum, niobium and chrome) have been very firm for some time and are exhibiting signs of shortage. Prices rose in part dramatically year-on-year. Besides higher energy, labor and transportation costs, this sharp uptrend mainly reflects high demand for manganese ore and bulk alloys containing manganese. Various anti-dumping investigations against a number of silico-manganese and ferro-silicon producer countries also put the market under pressure.

Liquid reduction agents

Prices for liquid reduction agents (heavy fuel oil and substitute reduction agents such as recycled waste oil) for use in the blast furnaces at the Salzgitter plant fell by around 3% year on year in 2007. This was due to a collapse in fuel oil prices in the first half of the year, combined with high inventories. Fuel oil price quotations recovered sharply during the second half of the year and reached new heights. This was a reflection of the rally in the price of crude oil and the demand for low-sulfur fuel oil used in shipping which, in turn, was driven by new environmental regulations. At the same time, we increased the proportion of substitute reducing agent, which resulted in significant savings. We expect prices to remain high in 2008, at around the level of the second half of 2007.

Scrap

Scrap procurement volumes amounted to 476 ktons (Salzgitter plant) and 1,124 ktons (Peine plant) in 2007. Here we had to absorb year-on-year price rises of 13% (Salzgitter) and 10% (Peine). We expect a further increase of 10% for both plants in 2008.

Electricity

The average electricity price (energy plus charges related to the German Renewable Energies Act [EEG], the German Cogeneration Act [KWKG] and fees for the use of the grid) rose by 5.1% in 2007 as against the 2006 annual average. The individual components of the price of electricity developed very disparately: the pure energy price increased by 4.5% as compared with charges related to the Renewable Energies Act which soared 55% as a result of the construction of new plants. While Cogeneration Law charges remained unchanged, the cost of using the grid fell 3.7%. We do not exclude the possibility of double-digit percentage increases in electricity prices for 2008.

Natural gas

In 2007, the average price of the natural gas procured (Salzgitter/Peine plants) decreased 5.8% year on year. This reduction results exclusively from lower prices for heavy fuel oil in previous periods. The price of natural gas is connected to the price of fuel oil through an escalation clause, which means changes take effect with a six-month delay. The sharp rise in crude oil prices since mid-year pushed up prices for heavy fuel oil markedly. As a result of the aforementioned time delay, this in turn will result in a significant, double-digit increase in the price of gas in 2008.

Input material for tubes

Hüttenwerke Krupp Mannesmann GmbH (HKM) is the most important supplier of input materials for our companies. In 2007, against the backdrop of production which was stable again, the company delivered around 700 ktons of slabs for the manufacturing of plate and hot-rolled strip for the production of large-diameter pipes, HFI-welded tubes and welded precision tubes. The higher level of demand, which resulted from a healthy order book, was covered by sourcing from third parties or from intra-group supplies. For instance, an additional quantity of around 100 ktons of slabs was bought exclusively from third parties, and over 300 ktons of hot-rolled strip were procured predominantly from SZFG.

HKM delivered 150 ktons of tube rounds on a contractual basis to Vallourec & Mannesmann Tubes S.A., which supplies Salzgitter Mannesmann Precision, as a precision tubes group, with the volume of hollows needed to produce seamless precision tubes. In particular, another 100 ktons of tube rounds were procured for the purposes of the intra-group supply of MRS, an arrangement which has been in place since July 2007.

The ex-HKM input material prices charged to the companies in the Tubes Division rose again compared with the previous year. This reflected significant increases in ore prices and freight rates, which were partially compensated during the first half of the year by more favorable prices for reducing agents and the US dollar exchange rate. The surge in prices for alloys, particularly manganese carriers, drove costs up in the second half of the year.

Materials

We were also obliged to accept extensive price increases in materials purchasing during 2007 which, on the one hand, were attributable to higher input materials prices of our suppliers and, on the other, to major capacity shortfalls. This situation is not expected to ease in 2008.

The price trends of stainless steel and energy in particular affected the costs borne by companies in our Technology Division. This resulted in significant cost increases especially for components with a high proportion of stainless steel, an effect that was only partially compensated by selling prices. To improve procurement for all companies, activities in relation to various groups of goods were coordinated through a series of regular national and international meetings. We are pushing ahead with the standardization of both products and services. As in recent years, we are stepping up our procurement activities in low-wage countries.

Following the implementation of the purchasing portal, KHS initiated interactive communication with suppliers, without disruption of media during data exchange.

"It's very important – after all, this is where I work and I want to go on working here for at least another 30 years."

Florian Dreher, Operations Manager for the Olympic ski stadium and Olympic headquarters No wonder, as Florian Dreher has a fascinating job. It is his responsibility to ensure that everything runs smoothly – in the literal sense of the word: as the operations manager of the Olympic stadium, he is in charge of the landing area of the Olympic ski jump. The surface must be as smooth and even as possible, otherwise competitors might injure themselves. The Dreher family has a traditional association with the job: Florian's father also worked at the Olympic ski stadium. Back then they used wooden sledges to take the snow up the slopes, whereas modern snow groomers are deployed nowadays. How will the job be done 30 years from now?

2. Employees

Workforce growth

The Group’s core workforce (excluding board members, non-active age-related part-time workers, non-active workforce members and trainees) stood at 23,107 employees on December 31, 2007. The workforce thus grew by 6,215 (36.8 %) compared with the previous year (16,892).

The increase is primarily due to the integration of the workforce of Klöckner-Werke AG into the new Technology Division (4,252 employees) and the first-time integration of Mannesmannrohr Sachsen GmbH (423 employees) and Vallourec Précision Etirage S.A.S. (1,211 employees) into the Tubes Division. Besides these additional 5,886 employees, the workforce number rose by another 329 employees on balance.

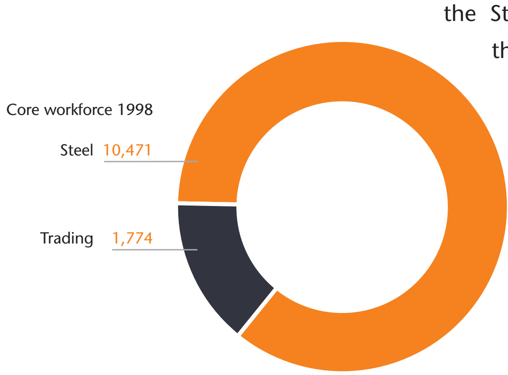
The Core Workforce at the various Divisions developed as follows:

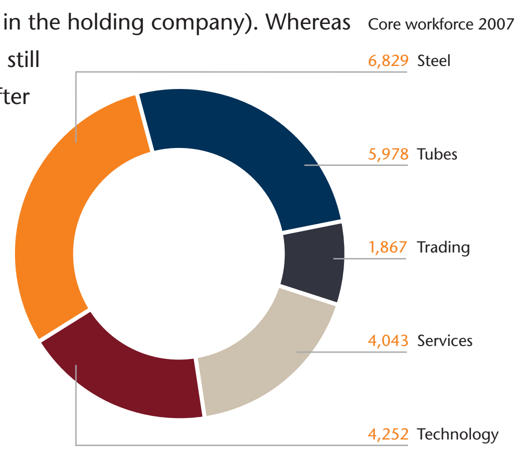
Division	31/12/2007	31/12/2006	Change
Steel	6,829	6,830	–1
Trading	1,867	1,835	32
Tubes	5,978	4,191	1,787
Services	4,043	3,916	127
Technology	4,252	–	4,252
Holding	138	120	18
Group	**23,107**	**16,892**	**6,215**

The number of trainees had risen to 1,424 (2006: 1,030) as of December 31, 2007. Our declared aim remains to offer many young people good career prospects.

Since Salzgitter AG became independent in 1998, we have almost doubled the core workforce from 12,245 to 23,107 as of the end of 2007 (including 138 employees in the holding company). Whereas the Steel Division was, by definition, still the dominant set of operations after separation from Preussag AG, the breakdown is now much more differentiated.

The number of employees abroad rose from 115 in 1998 to 3,070 in 2007.





The greater differentiation within the Group is also reflected in the breakdown of the workforce by collective wage group:

For instance, the share of companies with collective arrangements for the iron and steel industry has fallen from 66 % to 49 % today, and that of companies with collective arrangements for the metal and electrical industry has risen from 4 % to 25 %. In-house collective agreements are valid for other companies.

Profit-sharing

The changes we have described are of great significance for our future personnel policy. The relationship between decentralized responsibility and groupwide regulations is changing of necessity.

For instance, the newly concluded "profit-sharing" Group operating agreement does not apply to the entire Group but only to the Steel, Tubes and Services Divisions.

At the same time, this new agreement has allowed us to introduce uniform regulations for profit-sharing for collective wage agreement employees across large parts of the Group. The related profitability benchmarks are the ROCE targets of both the Group and the Group companies which are set by the Executive Board of Salzgitter AG in the first quarter of every year. Together with the individual objectives agreements, these targets are also the benchmarks for bonus payments to managers and employees not covered by collective wage agreements. This approach of "Management by Objectives" enables us to implement a consistent system across all hierarchical levels in the Salzgitter Group.

The distribution of profit-sharing payments is based on a particularly ambitious level of Group earnings. Accordingly, it is only distributed for financial years in which the Group ROCE target set by Salzgitter AG's Executive Board has been at least 75 % achieved. This level was exceeded significantly in 2007, as in the previous year. Consequently, profit-sharing payments consist of components which depend on both Group earnings and the results of the individual company.

In April 2007, we made the last profit-sharing payments, with respect to the 2006 financial year, based on the old Group master operating agreement. Each company set its own qualitative and quantitative targets and monitored the extent to which they had been attained after the end of the financial year. In conjunction with the good level of earnings at almost all companies, we distributed a profit-sharing bonus of up to € 1,500 to around 13,700 employees governed by collective wage agreements who were entitled to such payouts. Non-tariff employees, executives and managing directors also benefited from the good level of earnings as part of a system of agreed targets dependent on performance and profits.

Generation campaign

A Group operating agreement relating to the shaping of demographic change came into force on November 1, 2007. This agreement forms the cornerstone for implementing measures to tackle demographic challenges in Group companies. These measures have been developed as part of the "GO – Salzgitter AG 2025 Generation Campaign". This agreement applies to most Group companies and includes the Steel, Tubes, Trading and Services Divisions. The financial prerequisites are being created with the help of so-called demographic funds. The aim of these funds is to allow employees who face particular pressures to retire early even after the discontinuation of funded age-related part-time working as of December 31, 2009. This agreement also obligates all companies to take an active approach to demographic changes within their workforces on the basis of age structure analysis.

We developed over 90 measures as part of the Group-wide project, which Group companies will implement successively during the course of the next few years. Some of them are already being implemented. In doing so, we pay attention to the particularities of each company. Besides integrating the topics into the companies' balanced scorecards, the targeted implementation of the measures will form a component of personnel controlling and regular personnel development conferences.

The implementation of "GO – Salzgitter AG 2025 Generation Campaign" forms the basis for personnel work in coming years. The project will allow us to help secure our companies' competitiveness and innovative capacity and enable all employees to enjoy satisfying and value-adding work all the way through to retirement.

Trainee recruitment

As part of various events aimed at recruiting trainees, we gave a number of school children from the Salzgitter region the opportunity of forming their own impression of steel as a material and of its fascinating possibilities at a series of practical workshops. In cooperation with the "phæno – Experimentation Landscape" museum based in Wolfsburg, we offered 70 groups of school goers aged 15 to 19 the opportunity of working with steel and familiarizing themselves with its properties. We informed around 60,000 visitors about our company at the steel campus at the IdeenExpo exhibition of ideas held in Hanover.

Besides participating regularly at university job fairs, special highlights included the presentation of the Salzgitter Group as an attractive employer at various project weeks posted at RWTH Aachen University and the Technical University of Braunschweig. The focus was mainly on the variety of career opportunities on offer, as well as interesting jobs in research, production and administration.

Our Group is already one of Germany's top employers. This is the conclusion of almost 7,000 undergraduate engineering students from across the whole of Germany. The result was published in the so-called "Graduates Barometer 2007" (Engineering Edition). Salzgitter AG ranks as high as position 13 in the list of best employers for engineers in Lower Saxony. The Group is among the 50 best mechanical engineering companies in Germany. We intend to build on these positive results in the next few years.

Employee satisfaction

In autumn 2007, we conducted a groupwide survey of our employees' views of their employer. With a response rate of 52%, we achieved a representative starting point for a meaningful evaluation. The results, which were available at the start of 2008, are being used to further expand the specific strengths of the Group and of its companies and to work on potential areas of weakness.

"This would have been impossible in my day."

Franz Dengg, 79-year-old former ski jumper Franz Dengg knows what he is talking about. After all, he competed on the old wooden ski jump, constructed in 1921, as well as jumping from the first steel ski jump built in the year 1950. "There was always a certain sense of excitement" recalls Dengg, a native of Garmisch-Partenkirchen. He had already turned 19 by the time he took up ski jumping in 1947, proof that latecomers can also take off successfully. Franz Dengg was on the national team, finished as runner-up in the German ski jumping championships and took part in the Olympic Games. To this day, Dengg works on a voluntary basis for Partenkirchen Ski Club, as a jury member gauging the length of the jumps. And he is living proof of just how healthy the clean mountain air can be.

3. Investments

As in previous years, investments at the Salzgitter Group focused on the Steel Division in 2007. The following section covers the most important projects of the Steel Division, as well as those of the other divisions.

Additions to non-current assets totaled € 449 million (2006: € 334 million). There was also an increase of € 363 million arising from additions to the group of consolidated companies in both the Tubes and Technology Divisions. At € 385 million, the volume of investment in property, plant and equipment was significantly above the level of depreciation of € 225 million.

The additions to financial assets, which came to € 39 million, mainly reflected the market valuation of a listed shareholding and the purchase of shares in the American spiral tubes company in the large-diameter tubes area.

We have also capitalized goodwill of € 15 million and adjustments to equity recognized of € 10 million.

Investments/Depreciation[1)]

	Investments		Depreciation	
in € mil.	**Total**	**Of which Steel Div.**	**Total**	**Of which Steel Div.**
2003	191	112	248	135
2004	228	155	313[2)]	229[3)]
2005	262	190	206[4)]	149[4)]
2006	236	161	201	145[5)]
2007	385	246	225[6)]	147
Total	**1,302**	**864**	**1,193**	**805**

1) Excluding financial assets
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) Of which € 5 m unscheduled write-downs
6) Of which € 4 m unscheduled write-downs

Of the investments in property, plant and equipment and intangible assets during this financial year, € 246 million was attributable to the Steel Division, € 71 million to the Tubes Division and € 13 million to the Trading Division. The Services and Technology divisions invested € 38 million and € 15 million respectively.

Investments in Fixed Assets[1)] by Division

in € mil.	**FY 2007**	**FY 2006**
Steel	246.2	161.5
Trading	13.2	13.6
Tubes	70.8	36.2
Services	38.0	24.6
Technology	15.1	–
Others/Consolidation	1.5	0.4
Group	**384.8**	**236.3**

1) Including intangible fixed assets

Depreciation and Amortization of Property, Plant and Equipment[1)2)] by Division

in € mil.	FY 2007	FY 2006
Steel	146.6	145.0
Trading	10.6	10.9
Tubes	27.4	21.9
Services	25.5	21.3
Technology	10.3	–
Others/Consolidation	4.7	2.0
Group	**225.1**	**201.1**

1) Including intangible fixed assets
2) Of which € 4 m unscheduled write-downs (2006: € 5 m)

Investments at the **Steel Division** were mainly aimed at securing and strengthening our position as a leading supplier of steel products to demanding and highly profitable market segments through quality enhancement and process optimization. We also decided to go ahead with the “Salzgitter Steel Strategy 2012” investment program, which is a key measure for internal growth. Parts of this program have already been implemented. This enables us to effectively forge ahead with our campaign in the high-quality steel products area.

SZFG’s investment projects, initiated in the previous year, were progressed and concluded on time.

For instance, the company continued its planning of the new “Power Plant 2010” concept geared towards ensuring that, upon completion, the Salzgitter location is, as far as possible, self-sufficient in terms of generating its own electricity. The expansion of secondary metallurgy at the steel works to include a fifth line is running to schedule, and the work to optimize the supply of slabs to the hot strip rolling mill has largely been finished.

The new hot strip cut-to-length line, which is used to produce low-tension wide strip, went into operation in early 2008, along with the second continuous pickling line.

PTG expanded both the continuous casting plant for beam blanks to include larger formats, with the aim of reducing the procurement of slabs from third parties and the roller straightener in the universal intermediate mill (UMIT).

At **ILG**, both the accelerated cooling line and the cold plate leveler, which represent major investments, went into operation. Besides optimizing production processes, both projects are aimed at expanding the range of higher quality products and achieving a particularly high level of sheet evenness. Ilsenburg and Salzgitter dispatch operations introduced modern warehouse management systems in order to improve logistics and delivery performance. This also entailed the installation of new marking equipment to meet greater customer demand for better quality and information for the marking of heavy plate.

The “Steel 2012” investment program that was launched in mid-2007 has been split up into smaller projects run by the companies **SZFG**, **PTG** and **ILG**, as well as the realization of HSD steels using continuous strip casting technology.

We wish to optimize pig iron production in Salzgitter and produce slabs of up to 350 mm in thickness using a fourth continuous casting plant. The aim is to expand secondary metallurgy and ramp up the capacity of the hot-rolled wide strip mill to 4.5 million tons per year.

SZFG's investments are connected with those of **ILG**, where we are running several projects in the plate mill that enable larger weights per meter to be produced on the basis of thicker slabs and which improve the qualitative execution of the products.

We will set up a second electric furnace in Peine to raise the production capacity of this location to around 2 million tons of crude steel per year. A continuous casting plant at **PTG** has been set up for the production of slabs, and the performance of the heavy section mill is improving. UMIT is to be converted so that it can produce special profiles, for forklift trucks among other things. To this end, considerable investments are being made in logistical processes, with the aim of managing larger volumes of materials in the future, such as scrap, semi-finished products and finished products. It is planned for **PTG** to have implemented the set of measures by 2010 and for **SZFG** by 2012.

The introduction of "belt strip technology" into industrial practice is a major step forward in promoting a new type of a rolled steel production. We will construct a pilot plant for continuous strip casting in Peine where the knowledge gained by **SZMF** in cooperation with the Clausthal University of Technology can be applied. In the belt strip technology process, steel that is still liquid is cast directly out of the ladle horizontally as a thin strip, which is immediately rolled into finished hot-rolled strip. This gives rise to major advantages: entire production steps are omitted, and new types of steel products, such as HSD® steels (High Strength and Ductility), can be produced.

As part of the **Trading Division**, the **SMHD Group** concentrated its investments on the expansion of its Eastern European warehouse facilities. A warehouse operation was set up in Southern Poland in order to secure further growth. It will go into operation during the first few months of 2008. To ensure that the Romanian market is better supplied the **SMHD Group** has acquired a piece of land near Bucharest where warehousing operations will also start in spring 2008. Additional investment activity at the German warehouse sites was primarily aimed at expanding our current market position through modernizing existing facilities.

The **Tubes Division** focused its investment in 2007 on optimizing manufacturing safety and boosting product quality. In some cases, this also entails efforts committed to raising sales and developing new markets.

For instance, the **EP Group** invested in substitution, rationalization and modernization projects in 2007, with the aim of maintaining and further developing the technical standard of its production plants, which is outstanding in a peer comparison. However, most of the funds invested this year relate to the creation of a new spiral tube plant in the USA.

The focus at **MRM** was on the installation of a new cold plate leveler. This will allow the company to stabilize and expand its leading position in the global market in the higher grades spectrum.

The major investment to expand the range of gauges in tubes production at the Hamm plant, which was successfully concluded by mid-2007, enables **MFR** to produce tubes up to an external diameter of 609 mm (24"). A seam annealing unit and an extruder have been procured for the same location. The plant at Siegen replaces the existing tube welding plant with a transistor-type welding machine that corresponds to the latest technology and installed a corrosion protection plant. The latter makes it possible to expand the program of oilfield tube product range.

Within the newly formed **SMP Group**, we forged ahead with the restructuring of the hot tube rolling mill (**MRS**) in Zeithain. Instead of the piercing press that has been used to date, a three-roll piercing mill has been combined with a push bench for the first time in the world. This enables the production capacity to be raised significantly and also secures long-term supplies of input materials for the precision tubes companies.

ROB modernized its heat treatment installations and installed a machinery and order data recording system that enables orders to be monitored better as well as the production processes to be documented continuously and makes them more transparent.

DMV reacted last year to the exceptionally good economy with strategic expansion investments, particularly in the area of boiler tubes, so that the Group's production capacity in this segment is set to grow significantly. With this in mind, two pilgering machines were reactivated in Remscheid that provide the requisite capacity for the planned extra production. Additional projects were aimed at further specialization, optimizing supply performance and strengthening competitiveness.

The companies in the **Technology Division** focused on process optimization in their facilities and on coordinating its installed machinery and plants during 2007. To this end, their priorities were to strengthen existing potential rather than to make acquisitions.

Given the process of standardization under way across the Group, additional investments were made in software, and particularly in research and development, which led to an extensive list of patent-protected innovations.

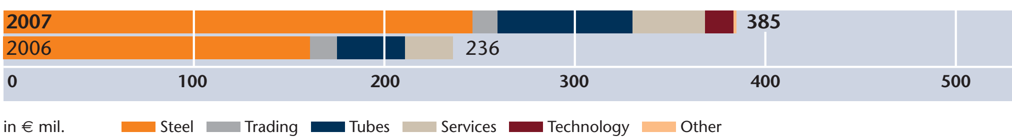
The focus of investment in property, plant and equipment in 2007 was setting up new production halls for the building of labeling machines, assembly and packaging at the Dortmund location. A new manufacturing center for large machinery components was built at Bad Kreuznach. Various high-precision lathes, milling machines and drilling machines were also procured.

The **Services Division** realized a number of investment projects, which, besides the replacement of equipment, also included capacity expansion measures that contribute to an improvement in logistics and open up new opportunities in the research and development area.

Key projects included the construction of a production hall (**SZST**), the procurement of special vehicles for the transportation of scrap (**VPS**) and the creation of a new Technical Center for applied steel research (**SZMF**).

A summary of the investment volume of the divisions is shown in the chart below:

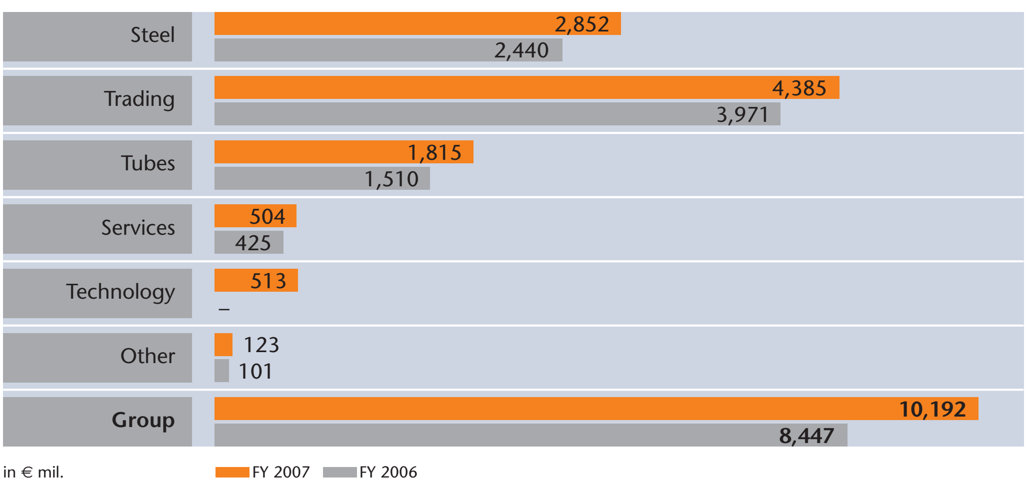
Investment in Property, Plant and Equipment by Division



In the year under review, the Salzgitter Group generated sales of € 10,192 million, which exceeded the previous year's figure (€ 8,447 million) by 21% and surpassed the € 10 billion threshold for the first time. All divisions contributed to this result.

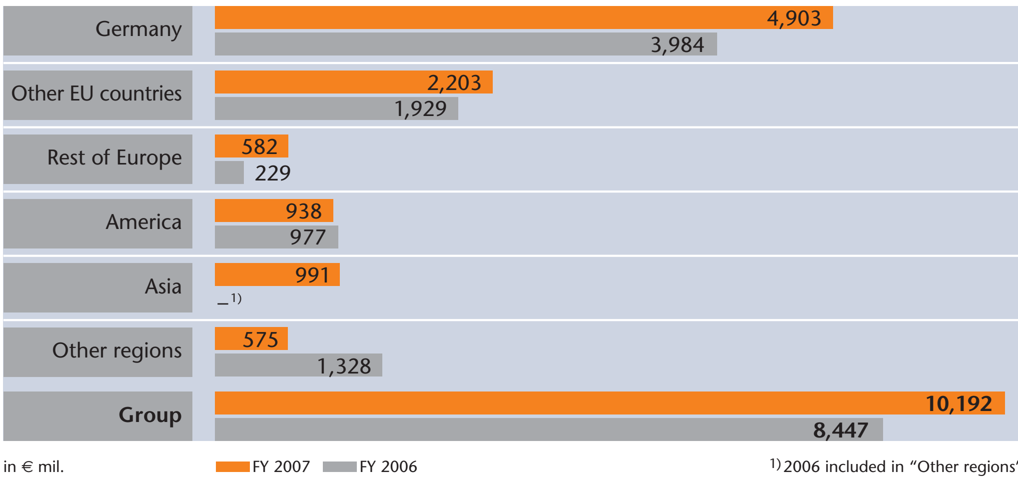
As in the previous year, the **Trading Division** contributed the lion's share of 43% (2006: 47%) to the Group's external sales. Sales of this division, which stood at € 4,385 million, were 10% higher than in 2006. With revenues of € 2,852 million (+17%), the **Steel Division's** share of 28% in consolidated external sales (2006: 29%) was down slightly in a year-on-year comparison. It should, however, be noted that the **Steel Division** delivered supplies worth € 971 million to other segments, to the Trading Division in particular. The **Tubes Division** also lifted its external sales to € 1,815 (+20%), which corresponds to an unchanged share of 18%. With a marked increase in third-party sales (+19), the share generated by the **Services Division** came to 5%, as in 2006. The first-time consolidation of Klöckner-Werke AG, acquired at the start of the third quarter and whose subsidiaries form the core of our new **Technology Division**, generated sales of € 513 million in the second half of the year (5% share). External sales in the Others/Consolidation segment (€ 123 million) again achieved a 1% share.

Consolidated Sales by Division



As before, the major portion of shipments, which accounted for 70%, was generated in the EU. Revenue in Germany came to € 4.9 billion. Foreign sales posted € 5.3 billion, thus contributing a slightly lower share (52%) to total sales as against the previous year (2006: 53%).

Consolidated Sales by Region



The Salzgitter Group closed the financial year 2007 with a pre-tax profit of € 1,313.9 million. In comparison with the previous year's figure (€ 1,854.8 million), account must be taken of the fact that this figure of € 906.9 million include proceeds from the sale of the Vallourec shares. The Group therefore impressively exceeded operating profit in 2006, adjusted for this amount (€ 947.9 million), thereby setting a new record.

This serves to demonstrate that, instead of cyclicality with a time lag, the market environment was remarkably good both for the Steel and the Tubes Divisions. Along with favorable market conditions, the groupwide Profitability Improvement Program, relaunched in 2007, was also a contributing factor.

The persistently buoyant market conditions for rolled steel products enabled the **Steel Division** to set a new profit benchmark of € 749.4 million, following on from the outstanding previous year's result (€ 433.8 million). The greater volume of shipments and steadily rising selling prices more than fully compensated for the higher cost of raw materials and energy.

Higher shipment volumes and growth in specific gross earnings were the determinant factors in enabling the **Trading Division** to outperform its record profit in the year 2006 (€ 200.9 million) with € 212.5 million.

Against the background of a prospering steel tubes market, the **Tubes Division** was able to more than compensate for additional price increases in input materials by raising selling prices. In particular, the favorable development of the large-diameter tubes business resulted in a gratifying pre-tax profit of € 302.5 million. This result is notably higher than in the previous year (€ 262.9 million) and is all the more remarkable as € 73 million in proceeds from Vallourec were still included in the 2006 figure.

The pre-tax profit of the **Services Division** came to € 40.4 million, thus outperforming the previous year's figure (€ 15.4 million) by € 25.0 million. The main reason for the sharp increase was an internal waiver of a claim (€ 25.0 million) by the interim holding SMG in favor of SZAE, offset by € 3.6 million in unscheduled impairment at SZAE. Net of this special effect, the operating profit of the division stood at € 19.0 million. Along with SZAE's improved operating profit, the remaining positive divergence (€ +3.6 million) from the 2006 figure (€ 15.4 million) is mainly attributable to higher transport volumes of VPS and HAN's higher turnover of iron ore and coal.

Owing to the good capacity utilization figures, especially in the filling and packaging business (KHS), which is the **Technology Division's** largest segment, an operating profit of € 18.0 million was achieved in the second half-year. Taking account of the effect of the mandatory purchase price allocation required under IFRS, which mainly affects inventory valuation, pre-tax profit stood at € 4.0 million.

Divisional Results and Consolidated Net Income for the Year

in € mil.	FY 2007	FY 2006
Steel	749.4	433.8
Trading	212.5	200.9
Tubes	302.5	262.9[1)]
Services	40.4	15.4
Technology	4.0	–
Other/Consolidation	5.1	941.8[2)]
Earnings before tax	**1,313.9**	**1,854.8**
Tax	408.8	345.2
Consolidated net income[3)]	**905.1**	**1,509.6**

1) Including Vallourec's contribution of € 73 million to the result
2) Including proceeds of € 906.9 million from the disposal of Vallourec
3) Including minority interests

Development of Substantive Income Statement Items

Explanations on the consolidated income statement, disclosed in detail in the section on "Consolidated Financial Statements/Notes", are as follows:

The increase in "Increase/decrease in finished work or work in progress/own work capitalized" item was primarily attributable to the reporting date-related level of inventories of finished goods in the large-diameter tubes product segment. Other operating income in 2006 included proceeds from the sale of the Vallourec shares. The rise in materials expenses this year reflects the quite considerable price hikes of raw materials and energy as well as changes in the group of consolidated companies. Higher personnel costs, along with increased compensation, were also due to the larger group of consolidated companies. The costs incurred by the hedging and disposal of the Vallourec shares were included in other operating expenses in 2006. The disposal of shares in Vallourec also affected earnings from associated companies. The investment of the cash from the sale of the Vallourec shares, available for the first time for a whole year, raised interest income considerably.

The income tax expense is not affected by tax-exempt earnings from the sale of the participation as in the previous year.

After deduction of income tax, unappropriated retained earnings for the year came to € 905 million (2006: € 1,510 million).

Multi-year Overview of Earnings

in € mil.	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
EBT	1,313.9	1,854.8	940.9	322.8	42.5	72.5	160.3
EBIT I[1]	1,350.7	1,900.5	970.0	345.6	60.8	92.6	178.8
EBIT II[2]	1,428.4	1,971.2	1,048.4	427.1	146.5	181.6	271.8
EBITDA I[1]	1,581.4	2,101.8	1,186.1	666.6	309.5	314.5	389.2
EBITDA II[2]	1,659.1	2,172.5	1,264.5	748.1	395.3	403.5	482.2
EBT margin	12.9	22.0	13.2	5.4	0.9	1.5	3.5
EBIT margin I[1]	13.3	22.5	13.6	5.8	1.3	2.0	3.9
EBIT margin II[2]	14.0	23.3	14.7	7.2	3.0	3.8	5.9
EBITDA margin I[1]	15.5	24.9	16.6	11.2	6.4	6.6	8.5
EBITDA margin II[2]	16.3	25.7	17.7	12.6	8.2	8.5	10.5
ROCE %	28.0	47.8	38.9	24.4	4.6	7.3	13.6
ROCE % from industrial operations[3]	46.9	55.1	49.4	–	–	–	–

1) Excluding interest expenses for pension provisions
2) Including interest expenses for pension provisions
3) Adjusted for the net cash position and interest income thereof

Value Added in the Salzgitter Group

The operating value added of the Group came to € 2,664 million and was thus € 320 million lower than in 2006 (–10.7 %), albeit that the previous year's figure was significantly impacted by the sale of the Vallourec shares. A large portion of the use of value added, which came to 49.2% (2006: 36.3%), was accounted for by employees. The tax share rose to 15.3% (2006: 11.6%). In this financial year, the shareholders (including treasury shares) will receive 7.1% (2006: 4.2%) of the value added in the form of dividend. The portion accounted for by lenders came to 1.3%, slightly lower than the previous year's figure of 1.5%. Another 27.1% (2006: 46.4%) is also attributable to the shareholders; this will serve to strengthen the equity base and raise the value of the Group.

Value Added

in € mil.	FY 2007	%	FY 2006	%
Sources				
Group outputs	10,810	100.0	9,951	100.0
Inputs	8,146	75.4	6,967	70.0
Value added	**2,664**	**24.6**	**2,984**	**30.0**
Allocation				
Employees	1,310	49.2	1,085	36.3
Public authorities	408	15.3	345	11.6
Shareholders	190	7.1	126	4.2
Lenders	35	1.3	44	1.5
Group	721	27.1	1,384	46.4
Value added	**2,664**	**100.0**	**2,984**	**100.0**

"Not fear, just respect."

Toni Kellner, 14, junior ski jumper That is the motto Toni Kellner has adopted for his sport. And it's clearly not a bad one, as things have gone very well for the 14-year-old school student, who has already achieved a distance of 108 meters. This was on a smaller hill, however, not on the big new Olympic jump – though the latter is on his to-do list for this year, so fear really doesn't appear to be an issue for him. When asked what his first jump was like, at the age of 10, Kellner admits: "Yes, I was afraid at the time." So ski jumpers are in fact just like us regular mortals – at least at the beginning of their careers.

5. The Divisions

As the management holding company, Salzgitter AG coordinates the five divisions Steel, Tubes, Trading, Services and Technology.

The following section is dedicated to outlining the performance of these divisions in 2007 on the basis of the financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

Steel Division

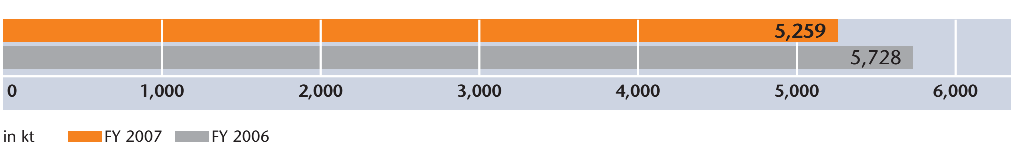
The companies assigned to the Steel Division are listed in the section on “Group Structure and Operations”.

In 2007, the healthy employment levels in the most important steel processing sectors once again drove the use of steel in Germany. Similar to the customer markets of other European countries, the German market showed a gratifying receptiveness to the products of our Steel Division, particularly in the first half-year. Nonetheless, over the course of the year, imports from countries outside the EU, especially China, expanded so strongly that supply outstripped demand, especially in the flat steel product segment. In spite of the sustained high consumption, stockholding traders’ inventories reached critical levels at times due to an oversupply of the market. To contribute to averting greater destabilization of selling prices in the flat steel sector **SZFG** curbed production volumes in the fourth quarter.

Moreover, the European manufacturers prepared the filing of an anti-dumping law suit against the background of unfair trade practices by the Chinese steel industry influenced by government policy.

The **order intake** of the Steel Division attained a satisfactory 5,259 ktons following on from a record figure of 5,728 ktons in 2006 (–469 ktons, –8%). The volume of orders concluded by **SZFG** declined by –280 ktons. **ILG** recorded excellent order intake, albeit with order intake somewhat lower than the previous year’s figure (–85 ktons), whereas the orders placed with **PTG** and **HSP** rose. At the end of the financial year, the **order book** fell against the previous year (1,269 ktons) to 982 ktons (–23%).

Order Intake in the Steel Division



The **production of crude steel**, which stood at 5,663 ktons, fell marginally short of the previous year’s figure (5,692 ktons). Owing to the relining of Blast Furnace B, the LD mill of SZFG did not attain the production of 2006 (–83 ktons), while the electrical steel plant of PTG raised the volume of crude steel as against 2006 (+54 ktons).

Crude Steel Production

in t mil.	World	EU-27	Germany	Of which Steel Division
2003	970.0[1]	192.5[1]	44.8	5.17
2004	1,068.9[1]	202.3[1]	46.4	5.06
2005	1,141.9[1]	195.5[1]	44.5	5.08
2006	1,244.2[1]	206.9[1]	47.2[1]	5.69
2007	**1,320.0[2]**	**210.0[2]**	**48.6[2]**	**5.66**

1) Adjusted to IISI statistics
2) Data as per February 2008

The production of **rolled steel** rose slightly compared with the previous year, from 5,540 ktons to 5,549 ktons. The volume of products processed remained more or less unchanged at 245 ktons as against the 2006 figure (250 ktons).

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

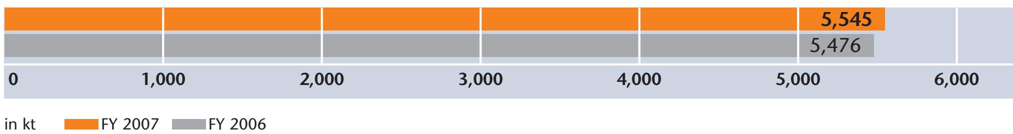
The "processed products" category includes sheet piling, pre-processed sections and track systems made by **PTG**, processed and oxygen-cut plate made by **ILG**, elements for roofing and cladding (sandwich elements, cassette and trapezoidal profiles) made by **SZBE** as well as stamped parts, patchwork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

Steel Division Production

in kt	FY 2007	FY 2006
Pig iron	4,220	4,277
Crude steel	5,663	5,692
Hot-rolled steel and steel strip	1,484	1,422
Cold-rolled steel	266	246
Coated steel	1,136	1,218
Sections	1,297	1,267
Sheet piling	304	259
Plates, including wide strip	954	926
Elements for roofing and cladding	49	43
Stamped and tailored blanks	59	63

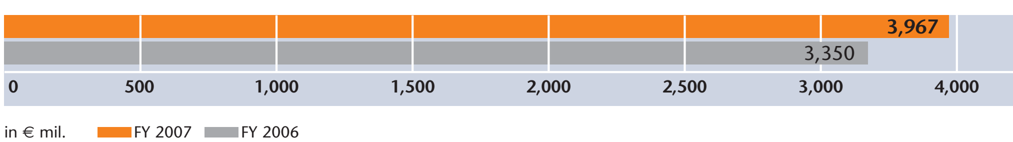
Shipments of rolled steel to external customers and Group companies outside the Steel Division amounted to 5,302 ktons, thus exceeding the year-earlier figure of 5,229 ktons by 73 ktons (+1%). The shipment of processed products remained virtually unchanged at 243 ktons. All in all, shipments rose by 69 ktons (+1%) to 5,545 ktons, up from 5,476 ktons. Increases at PTG (+41 ktons), ILG (+30 ktons), HSP (+24 ktons) and SZBE (+5 ktons) more than compensated for the lower shipment tonnage of SZFG (–26 ktons) and SZEP (–5 ktons).

Steel Division Shipments



The **sale** of rolled steel and processed products to external customers and other Group divisions climbed € 617 million to € 3,967 million as compared with the previous year (€ 3,350 million). **SZFG** lifted sales by 12% despite lower shipments to € 1,953 million. Initially, specific selling prices for cold-rolled flat products rose steadily over the course of the year to reach record levels in the second and third quarters before the huge inflow of imports began to disturb the market balance. First and foremost owing to significantly higher average selling prices, **PTG** saw sales surge by 30% to € 887 million. The situation was similar at **ILG**, **HSP** and **SZBE**. **ILG**'s sales came to € 800 million, which was 23% higher than in 2006. **HSP** and **SZBE** lifted revenues to € 210 million (+26%) and € 62 million (+32%) respectively. **SZEP**'s lower volume of shipments caused sales to decline to € 55 million (–8%) in this financial year.

Steel Division Sales

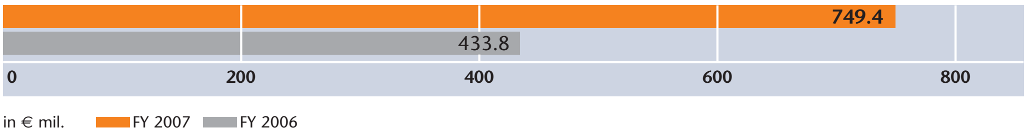


The Steel Division generated an excellent result in **pre-tax profit** of € 749.4 million, thereby exceeding the previous year's result of € 433.8 million by 73%. Besides the excellent market conditions with historically high prices, the consistent exploitation of profitability improvement potential has contributed to this performance. The three largest companies in particular recorded significant increases:

SZFG (€ +93.3 million), **PTG** (€ +157.4 million) and **ILG** (€ +62.8 million). The profit of **HSP** also rose (€ +3.1 million). The results of **SZEP** and **SZBE** fell by € –0.9 million and € –0.3 million respectively.

The companies of the Steel Division were once again able to pass on the higher costs of raw materials and energy to the market. Moreover, they succeeded in considerably widening the margin against the background of strong demand for their products. A pre-tax profit of € 283.7 million set a new record for **SZFG**, which significantly outperformed both the previous year's figure and the record highs of 2005 (€ 242.9 million) and, by comparison with the 2005 figures (which included special effects from abolishing the LIFO method of inventory valuation) was generated fully by operations. **PTG** succeeded in raising the pre-tax result almost fourfold to € 219.0 million as compared with the 2006 figure (€ 61.6 million), the highest result in the company's history. Along with repeated hikes in base prices, a relatively high portion of particularly heavy sections and the preferred delivery to markets with high selling price levels contributed to improving the average margin and thus to raising the results. The still flourishing plate market enabled **ILG** to raise pre-tax profit over the prior year for the fifth time in a row since 2003 (2006: € 164.7 million) and to post pre-tax profit of € 227.5 million. The concentration of ILG on higher grade steels and particularly strong demand in this market segment drove the selling prices to new, excellent levels. **HSP** benefited from the persistently favorable market environment for sheet piles and raised its profit to € 9.8 million (2006: € 6.7 million). **SZBE** and **SZEP** generated pre-tax results of € 3.0 million (2006: € 3.3 million) and € 6.6 million (2006: € 7.5 million).

Steel Division EBT



As of December 31, 2007, the **core workforce** at the Steel Division had declined by 1 employee to a total of 6,829 (2006: 6,830 employees). PTG (+7 employees), HSP (+12 employees) and SZEP (+1 employee) recorded marginal growth, while SZFG (–15 employees), ILG (–5 employees) and SZBE (–1 employee) reduced their workforces.

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

Steel Division		FY 2007	FY 2006
Crude steel production	**kt**	**5,663**	**5,692**
LD steel (SZFG)	kt	4,562	4,645
Electric steel (PTG)	kt	1,101	1,047
Shipments[1]	**kt**	**5,545**	**5,476**
Rolled steel	kt	5,302	5,229
Processed product	kt	243	247
SZFG	kt	3,037	3,063
PTG	kt	1,315	1,274
ILG	kt	805	775
HSP	kt	280	256
SZEP	kt	59	64
SZBE	kt	49	44
Sales[2]	**€ mil.**	**3,967**	**3,350**
SZFG	€ mil.	1,953	1,743
PTG	€ mil.	887	684
ILG	€ mil.	800	649
HSP	€ mil.	210	167
SZEP	€ mil.	55	60
SZBE	€ mil.	62	47
Internal sales[3]	**€ mil.**	**1,115**	**910**
External sales[4]	**€ mil.**	**2,852**	**2,440**
Division earnings before tax (EBT)	**€ mil.**	**749.4**	**433.8**
SZFG	€ mil.	283.7	190.4
PTG	€ mil.	219.0	61.6
ILG	€ mil.	227.5	164.7
HSP	€ mil.	9.8	6.7
SZEP	€ mil.	6.6	7.5
SZBE	€ mil.	3.0	3.3
Other/Consolidation	€ mil.	–0.2	–0.4
EBIT[5]	**€ mil.**	**768.4**	**461.8**
EBITDA[6]	**€ mil.**	**915.0**	**606.7**
Investments[7]	**€ mil.**	**246**	**161**
Total workforce[8]	as per 31/12	**6,896**	**6,891**
Core workforce[9]		**6,829**	**6,830**
SZFG		4,350	4,365
PTG		1,163	1,156
ILG		735	740
HSP		431	419
SZEP		87	86
SZBE		63	64
Apprentices, students, trainees		**67**	**61**

1) Excluding inter-company deliveries in the Steel Division
2) Excluding inter-company sales within the Steel Division
3) Sales with other divisions in the Group
4) Contribution to Group external sales
5) Earnings before tax and including interest paid (but excluding the interest portion from transfers to pension provisions and excluding interest paid within the segment)
6) EBIT plus depreciation/amortization (also on financial investments)
7) Excluding financial investments
8) Including trainees and non-active age-related part-time employees
9) Excluding trainees and non-active age-related part-time employees

Trading Division

The companies belonging to the Trading Division are described in the section on "Group Structure and Operations".

Market conditions in 2007 created a favorable basis for steel trading, enabling the Trading Division to generate an operating profit which exceeded the previous year's record. Stockholding trading in Germany made a particularly notable contribution to this result. Its business volumes reported strong growth due to high demand on the part of steel-processing operations, particularly in the mechanical engineering and construction industries.

International business benefited from stable growth rates, especially in emerging economies such as China, India, Brazil and Russia. These developments largely offset the sluggish growth in North America.

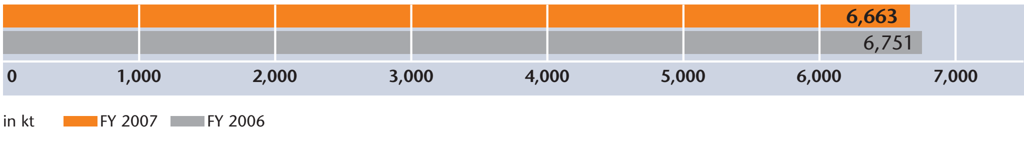
With sales of steel products totaling 6,663 ktons, the Trading Division sold almost the same volume (–88 ktons; –1%) as in the previous year (6,751 ktons).

While **shipments** at the **SMHD Group** were 79 ktons below the previous year's level, **HLG** raised its shipments by 34 ktons. **UES** held the previous year's level (+3 ktons). With regard to the year-on-year comparison of shipment volumes it should be noted that **RSA** was deconsolidated from October 1, 2006 (–46 ktons).

The decline in shipments at **SMHD Group** relates to the North American trading companies, **SMIH** and **SMIV**, where volumes fell substantially (–416 ktons) as a result of the economic slowdown in North America and the discontinuation of business with one major customer. The problems of the US economy worsened during the year owing to the subprime mortgage crisis and the ensuing turbulence in American financial markets. The vigorous activity at **SMID** (+289 ktons), generated by the projects in the Near and Middle East, as well as high-volume business with input materials, especially slabs, for Salzgitter production companies, was unable to fully compensate for lower volumes in North America. As a result, the shipments of all trading companies fell by 127 ktons.

The stockholding **German and Benelux companies** of the SMHD Group expanded their shipment volumes by 48 ktons.

Trading Division Shipments



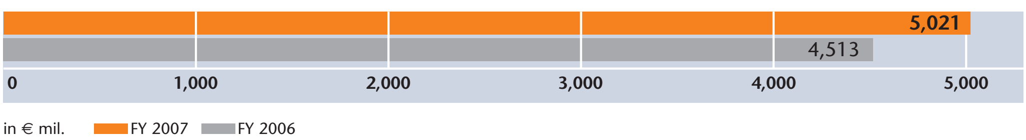
Sales in the Trading Division rose € 508 million (+11%) to € 5,021 million as a result of the higher average price level.

SMHD Group made the major contribution to this growth (€ +457 million; +11 %). In addition, **UES** reported an increase in sales (€ +44 million) due to higher specific selling prices, as well as **HLG** (€ +34 million) – in the latter case as a result of both higher volumes and prices. This growth was offset by the discontinuation of the contribution from RSA (2006: € 29 million) due to its deconsolidation.

The sales growth of the SMHD Group was generated primarily by the **German steel trading companies** (€ +204 million) as well as the **Benelux companies** (€ +30 million), with volume growth effect receiving a marked boost from the higher price level. Consequently, sales in this segment grew faster than shipments.

The **international trading companies** also reported an increase in sales (€ +223 million), which reflected higher prices and a greater share of high-margin tube and flat steel products.

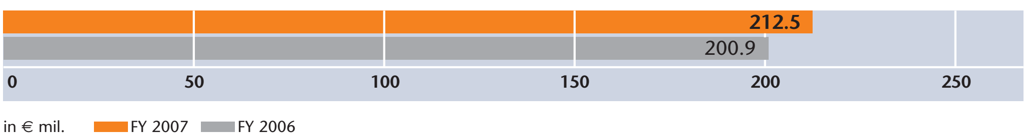
Trading Division Sales



The Trading Division generated € 212.5 million in **earnings before tax**, thereby slightly exceeding the previous year's outstanding result of € 200.9 million.

This included an increase in profit of € 7.2 million at the **SMHD Group** (+4 %). Growth at the **German** (+30 %) and **Dutch** stockholding companies (+32 %) more than compensated for the downtrend, particularly at the North American trading companies. As a result of the strong market for plate, **UES** reported a new record pre-tax profit that climbed € 5.1 million (+15 %) to € 40.1 million. **HLG** registered a € 1.1 million decline in the result compared with the previous year owing to special accounting measures.

Trading Division EBT



The **core workforce** of the Trading Division comprised 1,867 employees as of December 31, 2007 (December 31, 2006: 1,835 employees). The SMHD Group (+19 employees) and UES (+9 employees) were the main contributors to the overall growth in the workforce which rose by 32 employees. The new jobs were created to handle higher business volumes.

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

Trading Division		FY 2007	FY 2006
Shipments	**kt**	**6,663**	**6,751**
SMHD Group	kt	6,106	6,185
UES	kt	256	253
HLG	kt	301	267
RSA (50%)	kt	–	46[7]
Sales	**€ mil.**	**5,021**	**4,513**
SMHD Group	€ mil.	4,481	4,024
UES	€ mil.	344	300
HLG	€ mil.	190	156
FFS	€ mil.	6	4
RSA (50%)	€ mil.	–	29[7]
Internal sales[1]	**€ mil.**	**636**	**542**
External sales[2]	**€ mil.**	**4,385**	**3,971**
Division earnings before tax (EBT)	**€ mil.**	**212.5**	**200.9**
SMHD Group	€ mil.	171.1	163.9
UES	€ mil.	40.1	35.0
HLG	€ mil.	0.2	1.3
FFS	€ mil.	–1.0	0.1
RSA (50%)	€ mil.	–	0.4[7]
Other	€ mil.	2.1	0.2
EBIT[3]	**€ mil.**	**239.8**	**222.7**
EBITDA[4]	**€ mil.**	**250.4**	**233.6**
Inventories	**€ mil.**	**586**	**531**
Total workforce[5]	**as per 31/12**	**2,034**	**1,992**
Core workforce[6]		**1,867**	**1,835**
SMHD Group		1,269	1,250
UES		326	317
HLG		198	191
FFS		74	77
Apprentices, students, trainees		**166**	**152**

1) Sales in own segment and in other divisions in the Group
2) Contribution to Group external sales
3) Earnings before tax and including interest paid (but excluding the interest portion from transfers to pension provisions and excluding interest paid within the segment)
4) EBIT plus depreciation/amortization (also on financial assets)
5) Including trainees and non-active age-related part-time employees
6) Excluding trainees and non-active age-related part-time employees
7) RSA included on a quota basis (50%) until September 30, 2006

Tubes Division

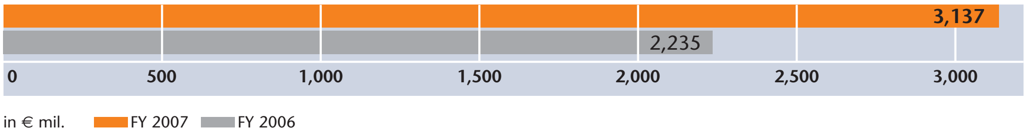
The companies belonging to the Tubes Division are described in the section on "Group Structure and Operations".

The cold-finished tubes product segment saw a major expansion with the acquisitions of Vallourec Précision Etirage S.A.S. (VPE) and of the Zeithain hot tube rolling mill from the Vallourec Group on July 2, 2007. A precision tubes group has been created with a capacity of over 300 ktons of seamless and welded-drawn precision tubes, constituting a global market share of around 10%. The three companies VPE, MRS and SMP have been included in the group of consolidated companies since the start of the second half of the year. Mannesmann Precisión Mexico (MPM) was also acquired as of October 31, 2007, but has not yet been consolidated.

In 2007, the companies of the Tubes Division participated to an even greater extent than before in the favorable conditions of the steel tubes market. Persistently strong demand for oil and gas pipelines remained a key factor. Power plant investments, particularly in China, generated high demand for heat exchangers and boiler tubes. Demand for tubes in mechanical and plant engineering, as well as in the automotive industry, remained sound, as before.

Compared with the already very high level of the previous year, the consolidated **order intake** of the Tubes Division in 2007 rose 40% to € 3,137 million. In particular, the large-diameter pipe business reported 227% year-on-year growth due to the booking of the major Nord Stream project (EP), which was a large part of the gratifying developments. A decline in orders in the HFI-welded pipelines business (–4%) reflected lower bookings in the standard business, mainly during the second half of the year. The increase in seamless stainless steel tubes (+77%) was primarily due to the high level of selling prices of the orders received. The leap in the result (+42%) of the precision tubes product segment is mainly attributable to the integration of the new companies, VPE and MRS; when adjusted to exclude these factors, there was a slight increase of 1%, which reflected an improvement in selling prices.

Order Intake in the Tubes Division

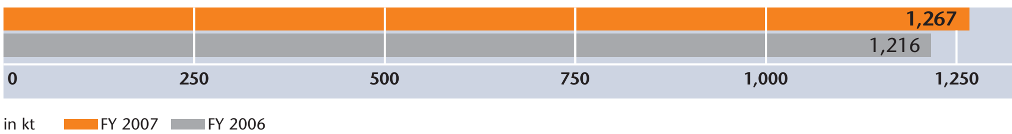


The far above-average bookings in the large-diameter tubes business fed through into year-on-year growth in the Division's consolidated **order book** which had expanded 59% to € 2,491 million by the end of 2007 as against year-end 2006. This already safeguards capacity utilization for most companies well into 2008, and even into 2009 for EP.

In 2007, the Tubes Division reported a 4% year-on-year increase in tubes **shipments** to 1,267 ktons. While the large-diameter tubes business (–57 ktons; particularly EP), the HFI-welded pipelines business

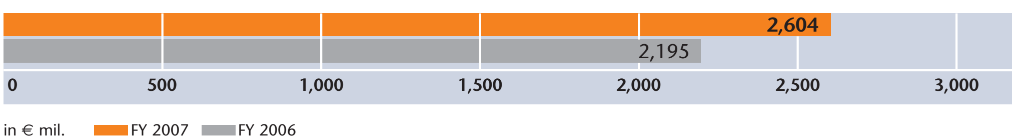
(–1 ktons) and seamless stainless steel tubes (–2 ktons) reported declines, shipments of precision tubes rose following the integration of new companies (+111 ktons).

Tubes Division Shipments



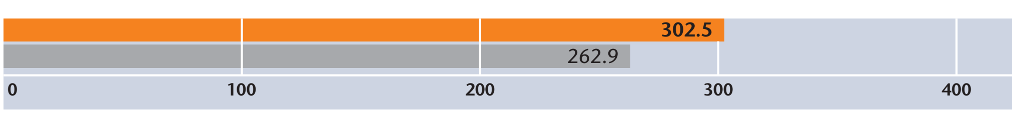
Sales of the Tubes Division advanced by € 409 million (+19 %) to € 2,604 million in 2007, as compared with € 2,195 million in 2006. All product groups contributed to this growth, in particular, however, the large-diameter pipes business (proportionate share: € +98 million). The companies MFR (€ +53 million), MHP (€ +33 million) and ROB (€ +5 million) reported sales growth owing to higher selling prices and volumes. The newly added companies SMP, VPE and MRS lifted sales by € 161 million. At the DMV Group, a markedly higher price level in particular intended to offset hikes in input materials, boosted sales by € 60 million.

Tubes Division Sales



Companies in the Tubes Division continued in 2007 to pass on higher input material costs to customers through higher selling prices. **Earnings before tax** of € 302.5 million significantly outperformed the previous year's level (€ 262.9 million). Particularly notable is the fact that profit in the first half of 2006 still included a contribution from Vallourec of € 73.0 million. On the other hand, the second half of 2007 includes the results of the companies of the precision tubes business (SMP, VPE and MRS: € 7.9 million). Excluding these effects, the Tubes Division reported an increase in profit of € 104.7 million.

Tubes Division EBT



In the **large-diameter tubes** business, EP benefited from improved selling price quality. A very good level of earnings before tax was generated in 2007, despite significantly more expensive input materials. The EP Group closed the financial year 2007 with a pre-tax profit of € 143.0 million (2006: € 158.2 million); on a proportionate basis, € 71.5 million of this amount was attributable to the Tubes Division (2006: € 79.1 million). MRM's result of € 102.2 million was significantly higher than the previous year's figure of € 26.5 million, which was mainly due to higher transfer prices with EP. SZGR had full capacity utilization throughout the year due to a major order. Since both shipment volumes and prices were raised, profit grew to € 13.7 million (2006: € 8.3 million) despite higher input material costs.

MFR, which operates in the **HFI-welded tubes** segment, exceeded its previous year's level of sales despite slightly lower shipments. Markedly higher specific selling prices during the financial year were the main influencing factor which more than offset the higher prices of input materials. MFR generated earnings before tax of € 33.0 million (2006: € 24.2 million).

The acquisitions of VPE and MRS, and organic growth at MHP and ROB, resulted in higher shipment and sales figures for the **precision tubes** products segment. At the same time, it proved possible to pass on negative cost developments, especially for input materials, to customers via prices. In conjunction with the ongoing good level of capacity utilization in all production areas, and the consistent implementation of the cost cutting program, this brought earnings before tax to € 37.2 million (2006: € 19.7 million).

In the **seamless stainless steel tubes** product area, the DMV Group looks back on an exceptionally strong year which saw a number of project acquisitions for the energy producing industry, particularly in Asia, but also in other regions. Shipments in 2007, however, were slightly below the volume of the previous year, which was due to the oilfield pipes (OCTG) and umbilical tubes (offshore oil production) businesses. Higher prices, particularly for cold-finished tubes, resulted in record sales. Earnings before tax of € 33.1 million outstripped the previous year's good result of € 21.0 million and set a new record.

As of December 31, 2007, the **core workforce** of the Tubes Division comprised 5,978 employees, an increase of 1,787 compared with the end of 2006. Of this number, 1,634 employees joined through the integration of the new companies, VPE and MRS. In addition, the workforce was expanded in several companies due to the level of business: at EP (proportionately: +33 employees), MRM (+31 employees), MHP (+34 employees) and DMV Group (+41 employees).

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

Tubes Division		FY 2007	FY 2006
Shipments	**kt**	**1,267**	**1,216**
EP Group (50%)	kt	508	576
SZGR	kt	131	120
MFR	kt	303	304
SMP Group[1]	kt	294	183
DMV Group	kt	31	33
Sales[2]	**€ mil.**	**2,604**	**2,195**
EP Group (50%)	€ mil.	577	597
MRM	€ mil.	650	550
SZGR	€ mil.	130	112
MFR	€ mil.	349	296
SMP Group[1]	€ mil.	475	277
DMV Group	€ mil.	423	363
Internal sales	**€ mil.**	**789**	**685**
External sales[3]	**€ mil.**	**1,815**	**1,510**
Division earnings before tax (EBT)	**€ mil.**	**302.5**	**262.9**
EP Group (50%)	€ mil.	71.5	79.1
MRM	€ mil.	102.2	26.5
SZGR	€ mil.	13.7	8.3
MFR	€ mil.	33.0	24.2
SMP Group[1]	€ mil.	37.2	19.7
DMV Group	€ mil.	33.1	21.0
Cooperation activities with Vallourec[4]	€ mil.	–	73.0
Other/Consolidation	€ mil.	11.8	11.1
EBIT[5]	**€ mil.**	**317.7**	**276.4**
EBITDA[6]	**€ mil.**	**345.1**	**298.3**
Total workforce[7]	**as per 31/12**	**6,202**	**4,339**
Core workforce[8]		**5,978**	**4,191**
EP Group (50%)		630	597
MRM		718	687
SZGR		149	143
MFR		563	557
SMP Group[1]		2,822	1,155
DMV Group		1,040	999
MRW		56	53
Apprentices, students, trainees		**152**	**92**

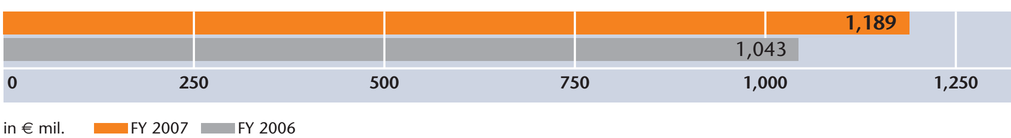
1) Incl. ROB, previous year MHP incl. ROB
2) Excluding inter-company sales within the DMV, EP and SMP groups
3) Contribution to Group external sales
4) Earnings contribution in accordance with consolidation at equity (previously)
5) Earnings before tax and including interest paid (but excluding the interest portion from transfers to pension provisions and excluding interest paid within the segment)
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

Services Division

The companies belonging to the Services Division are listed in the section on "Group Structure and Operations".

The Division's **sales** rose € 146 million (+14 %) to € 1,189 million in 2007 as against year-end of 2006.

Services Division Sales



The increase was generated mainly by **DMU** (€ +107 million). As in the previous year, the fastest rates of growth were registered in the steel scrap (€ +88 million; volume-induced) and non-ferrous metals (€ +15 million; price-induced) product segments.

At **VPS**, higher transportation volumes for SZFG in particular and regional transportation as well as track construction projects at Salzgitter and Peine resulted in an increase of € 16 million. **SZAE** sales (€ +6 million) benefited to a large extent from the settlement of a project with an Indian customer. The rise of € 8 million at **SZST** resulted mainly from brisker demand for technical services within the Group.

The other companies reported only slight changes in sales.

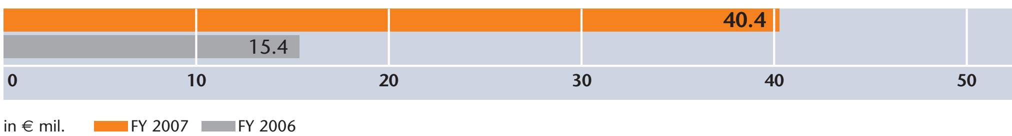
The segment's share of external sales amounted to 42%, which is slightly up on the previous year (41%). **DMU**, **TMG**, **HAN** and **VPS** generated significant sales with third parties.

At € 40.4 million, the Division's **earnings before tax** were almost three times the previous year's figure (€ 15.4 million). The determining factor was a profit of € 17.5 million (€ +24.0 million) at **SZAE** that climbed € 21.4 million solely due to special effects (a € 25 million waiver of receivables by **SMG** and € 3.6 million in special write-downs at **SZAE**). However, even excluding these special items, **SZAE** had improved its financial performance compared with the previous year (€ +2.6 million).

Higher profit was also generated by **VPS** (€ +2.9 million), **DMU** (€ +1.6 million), **HAN** (€ +1.6 million) and **SZMF** (€ +0.8 million). A downtrend in earnings was reported by **SZST** (€ –3.4 million), **GES** (€ –1.0 million) and **TMG** (€ – 0.4 million).

VPS benefited primarily from higher transportation volumes and a lower level of necessary provisions. Profit at **DMU** rose mainly owing to lower expenses at the non-operational level. **HAN** recorded its best result since the company was founded due to the swift growth in coal transportation for both the Group and third-party customers. **SZMF**'s results improved because the previous year's figure contained a provision for the refurbishment of a building. The larger loss at **SZST** was mainly caused by expenses incurred by the employee profit-sharing scheme specific to the Group, as well as the endowment of the demographic fund set up in line with the collective wage agreement. These effects also reduced the pre-tax results of **TMG** and **GES**; GES was also affected by the planned price reductions for e-business products for Group customers.

Services Division EBT



The **core workforce** of the Services Division came to 4,043 employees as at December 31, 2007, which is a year-on-year increase of 127 employees.

Growth is primarily due to 158 trainees joining SZST, along with 103 active age-related part-time employees. This development was offset by the termination of 34 temporary contracts, among other things, and 79 employees commencing non-active age-related part-time working.

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

Services Division		FY 2007	FY 2006
Sales	**€ mil.**	**1,189**	**1,043**
DMU	€ mil.	739	632
SZST	€ mil.	138	130
VPS	€ mil.	104	88
TELCAT Group	€ mil.	56	55
GES	€ mil.	37	37
HAN	€ mil.	39	36
SZAE/SZAI/SZAB	€ mil.	30	24
SZMF	€ mil.	32	29
GWG	€ mil.	14	12
Internal sales[1)]	**€ mil.**	**685**	**618**
External sales[2)]	**€ mil.**	**504**	**425**
Division earnings before tax (EBT)	**€ mil.**	**40.4**	**15.4**
DMU	€ mil.	8.7	7.1
SZST	€ mil.	–4.7	–1.3
VPS	€ mil.	1.1	–1.8
TELCAT Group	€ mil.	3.2	3.6
GES	€ mil.	2.5	3.5
HAN	€ mil.	11.0	9.4
SZAE/SZAI/SZAB	€ mil.	17.5	–6.5
SZMF	€ mil.	0.9	0.1
GWG	€ mil.	0.9	0.9
Other/Consolidation	€ mil.	–0.7	0.4
EBIT[3)]	**€ mil.**	**44.4**	**19.0**
EBITDA[4)]	**€ mil.**	**72.7**	**40.4**
Total workforce[5)]	**as per 31/12**	**5,101**	**5,076**
Core workforce[6)]		**4,043**	**3,916**
DMU		238	227
SZST		1,804	1,739
VPS		787	759
TELCAT Group		375	379
GES		169	162
HAN		106	104
SZAE		263	263
SZMF		280	263
GWG		21	20
Apprentices, students, trainees		**758**	**724**

1) Sales in own segment and in other divisions in the Group

2) Contribution to Group external sales

3) Earnings before tax and including interest paid (but excluding the interest portion from transfers to pension provisions and excluding interest paid within the segment)

4) EBIT plus depreciation/amortization (also on financial assets)

5) Including trainees and non-active age-related part-time employees

6) Excluding trainees and non-active age-related part-time employees

The Technology Division

The core of the new Technology Division, set up during the financial year, is made up of the companies of the Klöckner Group. The scope of the division is described in the section on "Group Structures and Operations".

The division, with its focus on filling and packaging technology, is to be consistently built up as a set of operations to complement the steel and tubes activities which are more cyclical in nature.

As per December 31, 2007, SMG held 86.1% of the shares in KWAG and 75.0% of the shares in RSE. KWAG held more than 24.6% of the RSE shares. The remaining shares in KWAG and RSE are in free float.

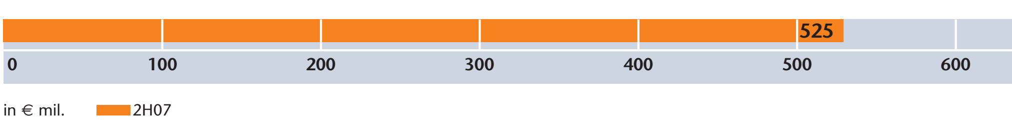
Under the German Stock Corporation Act (AktG), KWAG and RSE are dependent on SZAG (Section 17 German Stock Corporation Act) and are deemed group companies (Section 18 German Stock Corporation Act). As there was neither a control agreement between SZAG and KWAG/RSE, nor integration of the companies under the law, a virtual group has been formed. As a result, the board members of KWAG and RSE act independently and under their own responsibility in the interest of their company and shareholders and do not receive instructions from the Executive Board of Salzgitter AG. Another consequence is the restriction on SZAG's right to information which consists in the Executive Board of SZAG only receiving the information from the companies which it needs to fulfill its statutory obligations under the law.

Owing to the admission of the companies of Klöckner-Werke AG to the group of consolidated companies of SZAG as per July 1, 2007, the data cited below relate only to the second half of the financial year 2007.

As these companies did not belong to the Salzgitter Group in 2006 and the Technology Division did not exist, there are no data for comparison with the previous year.

Following the record year of 2006 in mechanical engineering, 2007 was again charcterized by a very positive environment for the companies of the **Technology Division**. Buoyed by the upbeat global economy, all companies recorded high order intake (€ 525 million; second half-year).

Order Intake in the Technology Division

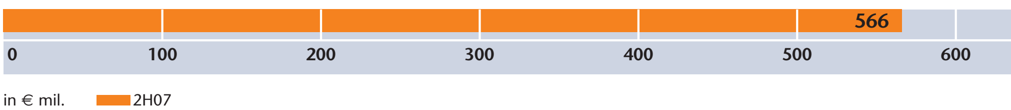


At the end of the financial year, orders in hand came to € 445 million.

Pleasing order intake, particularly since the third quarter of 2006, drove sales growth, but was also accompanied by delays in deliveries to customers. Whereas its influence on the sales trend cannot be ascertained from this information, the impact on the results was evident. Furthermore, the sharp increase in input materials prices, particularly for stainless steel, put pressure on margins.

Sales in the Technology Division in the second half-year of 2007 (€ 566 million) were notably higher than the previous year's figure owing to high capacity utilization. **KHS** was the mainstay (sales: € 509 million), but the smaller companies also generated growth. Price wars in the competitive environment of **KHS** abated after the takeover of a majority holding in KWAG by Salzgitter. The margins gradually stabilized.

Technology Division Sales



The **operating profit** of the Technology Division posted € 18.0 million.

Taking account of the one-off effects caused by the mandatory purchase price allocation required by IFRS (€ –14.0 million), mainly in relation to inventory valuation, **pre-tax profit** came to € 4.0 million.

Technology Division EBT

As per December 31, 2007, the Technology Division had a core workforce of 4,252 employees. The extremely high levels of capacity utilization seen in the KHS Group throughout the financial year 2007 caused employee numbers to rise considerably, the aim being to reduce dependency on external companies, among other factors. The increase in the workforce mainly affects the production sites of **KHS** in Germany and Brazil. On the reporting date, KHS's Chinese subsidiary employed 963 people. This company was not consolidated. Changes in the Other Industrial Holdings segment were only slight.

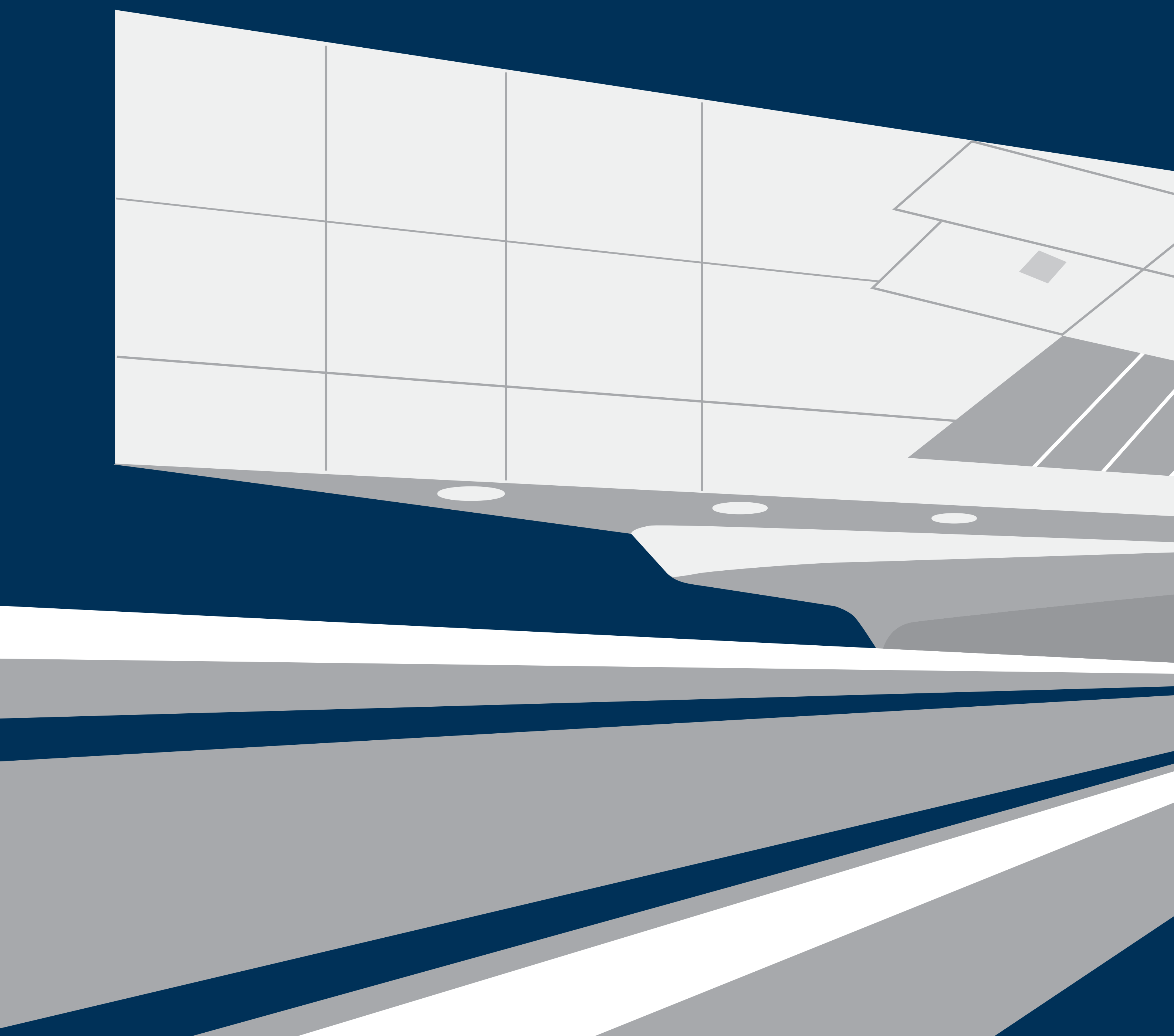
The key data of the Technology Division are shown in the following table:

Technology Division		FY 2007[1]	FY 2006
Sales	**€ mil.**	**566**	–
KHS Group (consolidated)	€ mil.	509	–
KDE	€ mil.	27	–
KDS	€ mil.	19	–
KHP	€ mil.	11	–
RSE	€ mil.	–	–
Other	€ mil.	–	–
Internal sales[2]	**€ mil.**	**53**	–
External sales[3]	**€ mil.**	**513**	–
Earnings before tax (EBT)	**€ mil.**	**4,0**	–
KHS Group	€ mil.	14.5	–
KDE	€ mil.	0.7	–
KDS	€ mil.	1.1	–
KHP	€ mil.	0.8	–
RSE	€ mil.	–0.1	–
Other/Consolidation	€ mil.	–13.0	–
EBIT[4]	**€ mil.**	**7.0**	–
EBITDA[5]	**€ mil.**	**17.3**	–
Total workforce[6]	**as per 31/12**	**4,574**	–
Core workforce[7]		**4,252**	–
KWAG		23	–
KHS Group		3,700	–
KDE		220	–
KDS		182	–
KHP		127	–
Apprentices, students, trainees		**276**	–

1) Consolidated as from July 1, 2007
2) Sales in own segment and with other divisions in the Group
3) Contribution to external sales of the Group
4) Earnings before tax plus interest expenses (excluding interest portion of allocations to pension provisions and excluding interest outside the segment)
5) EBIT plus depreciation and amortization (including of financial assets)
6) Including trainees and non-active age-related part time employees
7) Excluding trainees and non-active age-related part-time employees

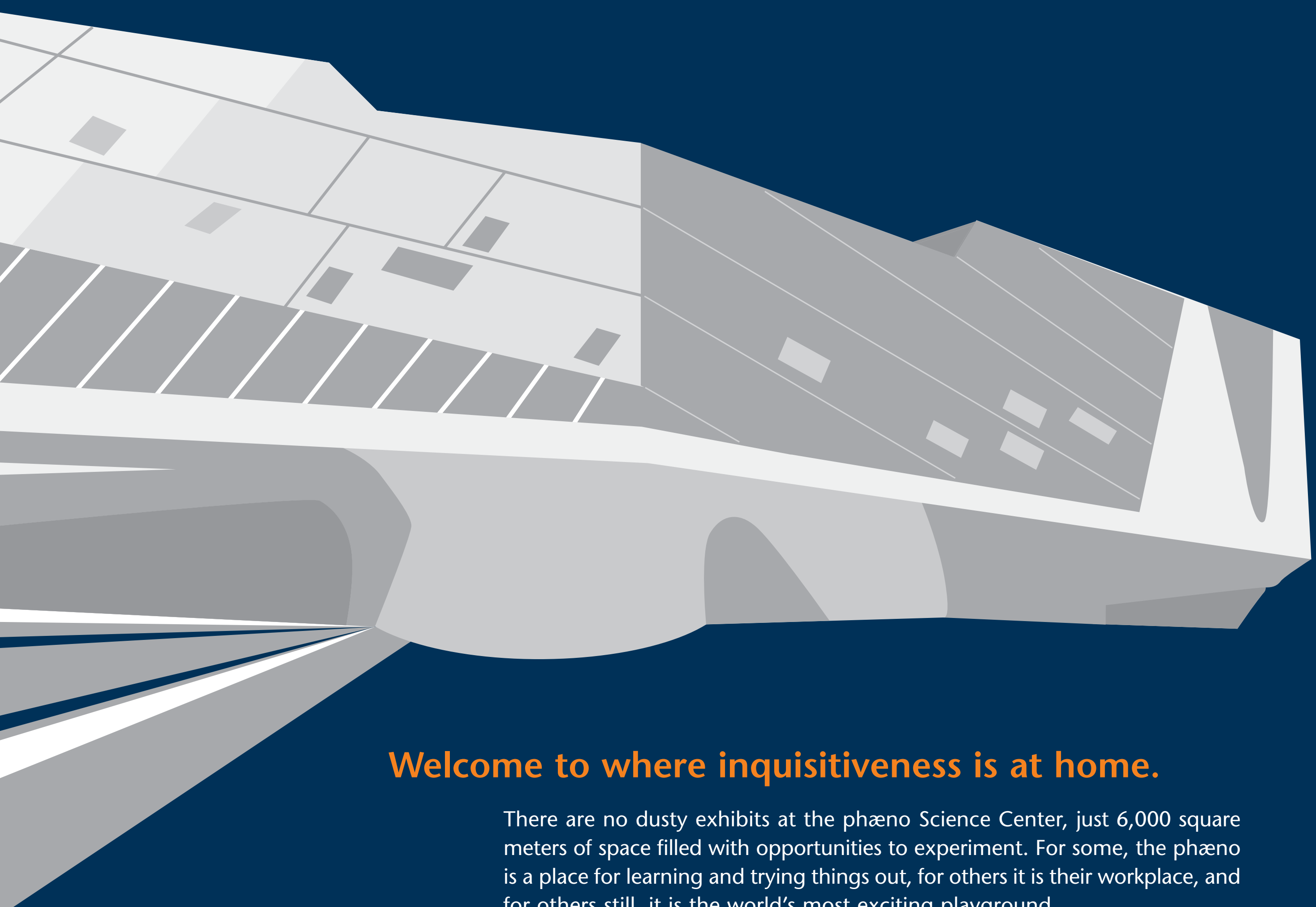
How does steel serve science?

What is the best way of really getting to the bottom of things?



Why do some experiments make your hair stand on end?

And why do you sometimes need a bike pump in places like this?



Welcome to where inquisitiveness is at home.

There are no dusty exhibits at the phæno Science Center, just 6,000 square meters of space filled with opportunities to experiment. For some, the phæno is a place for learning and trying things out, for others it is their workplace, and for others still, it is the world's most exciting playground.

"Our motto is 'I discover.' "

Dr. Wolfgang Guthardt, Director and initiator Back in 1999, when Dr. Wolfgang Guthardt decided to create new impulses for Wolfsburg, he already proceeded according to this motto, and "discovered" the innovative concept of the Wolfsburg Science Center, the phæno. The objective of the center is to help people learn more about technology and the natural sciences by transforming them into first hand experiences. This is accomplished by way of entertaining experiments visitors perform themselves. "That will work well in Wolfsburg," thought Guthardt, the city's minister for culture at the time, and translated this daring idea into reality. The phæno was designed by top architect Zaha Hadid and opened its doors to the public in 2005. Since then it has welcomed between 25,000 and 40,000 visitors each month – a successful experiment.

“For a long-span roof construction of this size, steel is the only option.”

Roland Konefka-Zimpel, Technical Director The roof construction of the phæno impresses with substantial size – and substantial size is called for, since the steel construction also carries some weighty responsibility. The phæno’s 17 ventilation systems are attached to the structure, for example. As Technical Director, Roland Konefka-Zimpel is responsible for the maintenance and control of these systems. “While our visitors should always feel comfortable, we need to keep costs under control at the same time,” says Konefka-Zimpel. Maximum comfort, minimum energy expenditure. In an emergency, the graduate engineer can even control the operating system from home via his laptop.

6. Profitability Improvement Program

Reinforcing our own strengths

Alongside internal and external growth resulting from investments and targeted acquisitions, strengthening the Group through in-house improvement measures is a key objective of efforts to secure and enhance the competitive position of Salzgitter AG. Our strategic orientation towards independence, profitability and growth requires that we consistently avail ourselves of opportunities to optimize in all divisions.

Internal benchmarking

"You can only improve what you can measure." In keeping with this guiding principle, opportunities to improve performance within the Salzgitter Group are identified with consistent rigor, put into practice and monitored through controlling measures. We keep systematic records of the extent to which such opportunities to optimize contribute to earnings improvement as part of the Profitability Improvement Program (PIP).

The very pleasing level of Group earnings in 2007 reflects both the positive economic environment and the result of our efforts to use the PIP as a way of achieving continuous improvements in processes in all functional areas of the Group companies. The PIP is more than just a program designed to partially or temporarily reduce costs and enhance quality: it is a uniform management instrument used across the whole Salzgitter Group to raise profitability on a sustainable basis. Despite confidence that global demand for rolled steel and steel tube products will remain strong in the medium term, we regard the PIP as a long-term management undertaking. We will implement the measures consistently, irrespective of the economic environment, to ensure that we permanently secure our success.

Conclusion of PIP 2

The results of the PIP concluded in 2006 are extremely gratifying. The projects included in the program generated a sustainable annual improvement in earnings, the so-called full year effect (FYE), of € 178 million, which exceeded the targeted level of € 170 million. This improvement is the fruit of 338 measures that we reported and evaluated as part of PIP 2. We regard the PIP as a long-term task which will be enriched by adding new activities.

Start of PIP 3

We successfully implemented the successor PIP 3 program in 2007. Following the long-term objectives of the PIP concept, the relaunch of the program has once again been developed entirely by employees at the Group companies. Many new ideas and measures were included in the project catalog provided they satisfied the strict PIP criteria. At the same time as integrating the new projects, we reviewed the PIP 2 measures already under way. If there were any projects which, upon completion, still had additional potential, these projects were incorporated into PIP 3.

We registered 180 active measures and 75 ideas during the first year of PIP 3, which runs from 2007 to 2010. We have set the full year effect (FYE) for these projects of € 148 million, in other words a contribution which is higher than in the comparable period of PIP 2 (first-year FYE: € 138 million). This is also the result of the permanent challenge we set ourselves of identifying and implementing new measures that improve profitability. It is also proof that both employees and managers have once again set themselves ambitious goals.

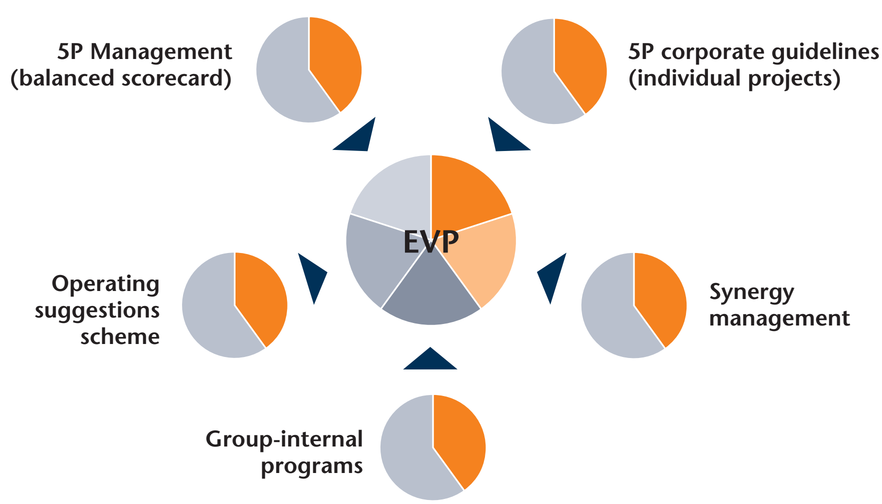
Activities in markets with higher value-added products and expanded sales channels generated an FYE of € 160 million. We have identified a potential gain of € 78 million from improved production and administration processes and the optimization of the use of materials and third-party services. In order to achieve these objectives, certain measures are required, such as investments. We have taken these investments into account with an annual amount of € 90 million for depreciation, interest payments and other expenses.

Earnings components in € mil.	**FYE**
Increase in sales	+ 160
Savings on expenses	+ 78
Depreciation/interest/investment expenditure	– 90
Full Year Effect (FYE) before tax	**148**

Employees and PIP

The outstanding commitment of all participants is the basis and a decisive factor for the successful implementation of the PIP. The many good ideas submitted by our employees flow into the PIP via various management tools, as illustrated by the chart below:

PIP brings together all the calculable effects of the various management tools



Stringent criteria are binding and identical for all project proposals, and they must be satisfied before proposals can be included in the PIP. It is evident that Group employees are very happy to use the structures and institutions of this program to support continuous profitability improvement with their own projects. This is another advantage of our decentralized Group structures, as they enable the company to leverage the knowledge spread across the Group companies with a view to safeguarding the future competitiveness of Salzgitter AG.

“They just loved the experiments.”

Yvonne Busche, secondary school teacher Teachers are finding it harder and harder to keep the attention of their pupils as they compete with more and more distractions such as cell phones, MP3 players and other gadgets. Yet distractions were not a problem when Yvonne Busche took her students to the phæno, because they were far more interested in the exciting experiments at the Wolfsburg Science Center. In fact the ninth grade students became so engrossed with some of the experiments that their teacher almost had to drag them away. “They conducted practical research and got immediate results – what could be better?” commented the teacher. So top marks for the phæno.

7. Financial Position

Financial Management

As part of the Salzgitter Group SMG, a wholly owned subsidiary of SZAG, carries out cash and foreign currency management mainly on a centralized basis for Group companies. Joint venture companies are not included.

Financial management activities of the Holding consist in granting Group credit lines in the context of Group financial transactions or, in individual cases, loan guarantee commitments. To cover the financial requirements of Group companies abroad, SZAG also makes selective use of local lending and capital markets, in particular outside the euro region. It also centralizes and draws on the surplus liquidity of individual Group companies for financing purposes. Intra-group supplies and services are settled via internal accounts within the Group. 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. To calculate the liquidity requirements of our Group, we carry out financial planning that incorporates a multi-year planning horizon alongside a monthly rolling four-month planning process. Liquidity requirements are ensured through available cash investments combined with the availability of sufficient bank credit lines.

In the financial year, we placed a € 300 million syndicated loan with an initial term of 5 years and 2 renewal options each of one year with our core circle of banks. The initial margin is 25 basis points.

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. The Group's internal audit department monitors compliance with these regulations by conducting regular checks. Currency transactions in US dollars, which make up a significant share of our foreign currency transactions, are initially investigated for the possibility for netting off sales and purchase items within the Group and then hedging any amounts left over through forward exchange transactions and options.

Pension provisions still play a significant role in corporate financing. Owing especially to changes in the group of consolidated companies against the backdrop of the countertrend of actuarial gains (€ 38 million) resulting from the actuarial interest rate being adjusted from 4.5% to 5.25%, these provisions came to € 1,792 million (2006: € 1,715 million).

Cash Flow Statement

The cash flow statement (detailed disclosure in the section entitled "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".

Due mainly to the growth in operating profit, the Group generated a remarkable increase in cash flow of € 781 million from operations.

Cash and Cash Equivalents

in € mil.	FY 2007	FY 2006
Inflow of funds from current business activities	781.0	487.7
Outflow/inflow of funds from investment activities	–745.2	1,076.8
Outflow of funds from financing activities	–242.0	–104.4
Change in cash and cash equivalents	**–206.2**	**1,460.1**
Cash and cash equivalents on the reporting date	**2,138.8**	**2,345.0**

Having recorded positive cash flows from investment activity in preceding years, positively influenced by the sale of participations, the cash flow in 2007 was negative at € –745 million. We spent € 373 million on investments in property, plant and equipment and intangible assets. These investments are above the level of the previous year (€ 231 million) and also exceed depreciation. In addition, € 390 million were used for the acquisition of Klöckner-Werke AG and the VPE mill in Zeithain.

In the financial year 2007, the cash flow from financing activities stood at € –242 million. We paid out € 114 million or € 2.00 per share to the shareholders of Salzgitter AG in the financial year 2006.

Despite the increase in working capital and a higher volume of investment and acquisition, the exceptionally good profit trend resulted in an only moderately lower net cash position held at banks in comparison with the previous year's reporting date (€ 2,115 million; 2006: € 2,283 million). Cash investments of € 2,234 million, including securities, as of the end of 2007, were offset, due to reporting date factors, by lower liabilities of € 119 million owed to banks (2006: € 140 million).

The liquidity and debt-to-equity ratios improved again in the financial year 2007.

Multi-year Overview of the Financial Position

	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
Solvency I (%)[1]	211	252	150	100	91	97	116
Solvency II (%)[2]	317	365	253	187	187	185	210
Dynamic debt burden (%)[3]	–304.5	–95.5	41.3	20.2	12.5	8.3	6.8
Gearing (%)[4]	98.0	101.9	169.1	278.0	268.7	261.4	244.3
Cash flow (€ mil.) from current business operations	781	488	468	352	223	157	117
Net debts to banks (€ mil.)[5]	–2,115	–2,283	–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) $\frac{\text{cash flow from current business operations x 100}}{\text{non-current and current borrowings (including pensions) – investments}}$

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

5) – ≙ cash in bank, + ≙ debts

8. Net Assets

The total assets of our Group grew to € 8,406 million and were thus considerably higher (+20.5 %) compared with year-end 2006 (€ 6,978 million). The acquisition of Klöckner-Werke AG (€ 920 million) and the precision tubes entities (€ 230 million) played a major role, with partial utilization of cash funds.

Asset and Capital Structure

in € mil.	31/12/2007	%	31/12/2006	%
Non-current assets	2,168	25.8	1,631	23.4
Current assets	6,238	74.2	5,347	76.6
Assets	**8,406**	**100.0**	**6,978**	**100.0**
Equity	4,246	50.5	3,457	49.6
Long-term liabilities	2,380	28.3	2,187	31.3
Current liabilities	1,780	21.2	1,334	19.1
Equity and liabilities	**8,406**	**100.0**	**6,978**	**100.0**

As part of non-current assets, property, plant and equipment rose as a result of investments of € 385 million which exceeded write-downs of € 225 million.

Current tied-up net assets (working capital) climbed again to € 2,845 million (+31.8 %) in comparison with the previous year's figure (€ 2,159 million). This was partly due to higher inventories as well as effects relating to inclusion in the group of consolidated companies.

On the liabilities side, equity was up by € 789 million (+22.8 %) to € 4,246 million thanks to the exceptionally good performance. Also in connection with the higher balance sheet total, the equity ratio improved notably to 50.5 % (2005: 49.6 %). As in 2006, the curtailed amounts, or so-called actuarial gains, of € 38 million in the calculation of pension provisions resulting in particular from the change in the interest rate, were allocated to equity (retained earnings) with no effect on income, after deferred tax had been deducted, and netted with pension provisions. Accordingly, obligations arising from pension commitments were fully included in the balance sheet, as in the previous year. The generally annual adjustment of the interest rate used for the calculation of the pension provisions which are of a more long-term nature is carried out in accordance with the valid interpretation of the pertinent IFRS standards. Our affirmation of the meaningfulness of the aforementioned is not necessarily a corollary.

Multi-year Overview of the Assets Position

	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
Asset utilization ratio (%)[1]	25.8	23.4	35.1	45.3	51.3	52.1	48.4
Inventory ratio (%)[2]	24.8	23.7	26.6	25.5	25.0	22.8	23.1
Depreciation/amortization ratio (%)[3]	11.7	13.9	14.5	22.6	16.8	14.3	14.3
Debtor days[4]	54.5	47.9	44.9	55.4	47.4	53.3	54.9

1) $\frac{\text{non-current assets x 100}}{\text{total assets}}$

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

3) $\frac{\text{write-downs on tangible and intangible fixed assets x 100}}{\text{tangible fixed assets/intangible assets}}$

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

"Sometimes people do things you wouldn't have thought of yourself."

Davy Champion, member of the scientific staff And that is precisely the way it should be: "I love the fact that the experiments leave room for flexibility," explains Davy Champion, member of the scientific staff at the phæno. The 32-year-old studied aviation and aerospace technology, but rather than going into rocket design, the theater loving Frenchman was drawn to this interface between entertainment and science. At the phæno he shows students that chemistry lessons needn't be boring and concludes with a surprise test. In his one-hour show, Champion demonstrates various different experiments using gases, with a whole lot of bangs and lots of learning.

9. Annual Financial Statements of Salzgitter AG

The annual financial statements of Salzgitter AG (SZAG) for the financial year 2007 were drawn up in accordance with the provisions of the German Commercial Code, taking account of 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 electronic German Federal Gazette (Bundesanzeiger).

SZAG continues to head up the divisions as the management holding company. Operations are conducted by the Group companies. The company's profitability consequently depends on business progress at its subsidiaries and shareholdings and on the extent to which these investments retain their value.

As before, the main investments are held by the wholly-owned subsidiary SMG with which there is no profit transfer agreement.

Salzgitter AG Balance Sheet (summarized)

in € mil.	31/12/2007	%	31/12/2006	%
Fixed assets	**48.5**	**3.6**	**60.0**	**4.7**
Property, plant and equipment[1]	24.0	1.8	24.2	1.9
Financial assets	24.5	1.8	35.8	2.8
Current assets	**1,314.5**	**96.4**	**1,224.5**	**95.3**
Trade receivables and other assets[2]	1,314.4	96.4	1,224.3	95.3
Cash and cash equivalents	0.1	0.0	0.2	0.0
Assets	**1,363.0**	**100.0**	**1,284.5**	**100.0**

in € mil.	31/12/2007	%	31/12/2006	%
Shareholders' equity	825.3	60.6	740.3	57.6
Special reserves with an equity portion	4.3	0.3	3.5	0.3
Provisions	524.2	38.4	518.5	40.4
Liabilities	9.2	0.7	22.2	1.7
due to banks	[7.2]		[7.5]	
Shareholders' equity and liabilities	**1,363.0**	**100.0**	**1,284.5**	**100.0**

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

The main items on the asset side continue to comprise receivables due from the liquidity provided to the subsidiary SMG as part of groupwide cash management (€ 1,004 million) and treasury shares (€ 228 million).

Besides equity, the liabilities side of the balance sheet reports pension obligations amounting to € 428 million. The equity ratio is 60.6 % (2006: 57.6 %).

Salzgitter AG Income Statement (summarized)

in € mil.	FY 2007	FY 2006
Other operating income	91.8	51.1
Personnel expenses	40.8	75.3
Depreciation and amortization[1)]	3.8	1.3
Other operating expenses	41.9	202.2
Income from shareholdings	203.2	321.7
Net interest result	–9.0	32.3
Earnings before tax (EBT)	**199.5**	**126.3**
Tax	–0.3	–7.4
Net profit for the year	**199.2**	**118.9**

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

Other operating earnings include gains from using treasury shares as acquisition financing in connection with the purchase of shareholdings.

The decline in personnel expenses is mainly due to an adjustment made in the previous year to the rate of interest applied to pension provisions (3 %) to cover increases in salaries and pensions.

Financial investments held by one non-consolidated company were subject to write-downs during 2007.

The 2006 other operating expenses comprised payments made in connection with hedging and the sale of shares in Vallourec.

Income from shareholdings in 2007 relates almost exclusively to earnings contributions received by SMG.

The significant decline in net interest income results from a reduction in interest rates as part of group-wide cash management.

The tax expense is influenced by SMG dividend income that is almost free of tax.

The company's workforce was made up of 138 employees as of December 31, 2007, which is an increase of 18 as against the previous year.

Disclosures pursuant to Sections 289 para. 4/315 para. 4 of the German Commercial Code (HGB)

The **subscribed capital** of Salzgitter AG amounted to € 161,615,273.31 as of December 31, 2007. This figure is unchanged from the previous year. The capital stock consists of 63,218,400 ordinary bearer shares. There are no preference shares. One ordinary share has a notional value of € 2.56 of the capital stock. The rights and obligations connected with the ordinary shares are set out under the German Stock Corporation Act (AktG).

Salzgitter AG availed itself of the opportunities under the German Stock Corporation Act (AktG) to create both Contingent Capital and Approved Capital. The requisite resolutions were passed by the General Meeting of Shareholders on May 26, 2004, and were entered in Section 3 of the Articles of Incorporation. They comprise the following main content:

> In accordance with the resolution passed by the General Meeting of Shareholders on May 26, 2004, the capital stock was increased contingently by up to € 15,952,306.69 through the issuing 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-carrying 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 10 years, and to grant the holders of the equally privileged bonds option or conversion rights to a maximum of 6,240,000 new SZAG shares (corresponds to 10% of the capital stock at the time of the authorization). No use has yet been made of this authorization.

In addition and in accordance with the resolution passed by the General Meeting of Shareholders on May 26, 2004, the Executive Board was authorized to raise the capital stock with the approval of the Supervisory Board by a nominal amount of up to € 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**). This authorization has also not yet been used.

In accordance with the resolution passed by the General Meeting of Shareholders on May 23, 2007, the Executive Board was authorized to purchase an amount of the Company's **own shares** equivalent to a proportion of the current capital stock of up to 10% (corresponds to € 16,161,527.33) by November 22, 2008, and to use these shares for all purposes permitted under the law. In particular, this includes sale transactions in connection with the acquisition of companies or investments in companies, broadening the shareholder base to include new shareholders, from both Germany and abroad, as well as the cancellation of the purchased shares. The requisite resolutions are customary for listed stock corporations and have been passed by Salzgitter AG's General Meeting of Shareholders also in previous years, with the repurchase authorization always being limited to 18 months, in accordance with statutory regulations.

On April 2, 2002, Hannoversche Beteiligungsgesellschaft mbH (HanBG), Hanover, disclosed that it held 25.5% of the **voting rights** in SZAG of April 2, 2002. At the same time, the Federal State of Lower Saxony, represented by the Finance Ministry of Lower Saxony, Hanover, also announced that it held 25.5% of the voting rights of SZAG. These voting rights are directly attributable to HanBG and are attributable to the Federal State of Lower Saxony according to Section 22 para. 1 sentence 1 item 1 of the German Securities Trading Act (WpHG), since it owns all the shares in HanBG. Due to the slight increase in the number of shares meanwhile issued as of the reporting day, this proportion is now equivalent to 25.2% of the voting rights. We are not aware of any further shareholdings exceeding 10% of the voting rights of Salzgitter AG's capital.

Regulations regarding the appointment and withdrawal of members of the Executive Board as well as regarding modifications to the Articles of Incorporation derived from the corresponding regulations of the German Stock Corporation Act (AktG).

Apart from the relevant provisions of the German Stock Corporation Act (AktG), there are no restrictions relating to voting rights or the transfer of shares.

We are not aware of any further circumstances requiring notification pursuant to Sections 289 para. 4/315 para. 4 of the German Commercial Code (HGB).

Appropriation of the Profit of SZAG

Salzgitter AG reported net income of € 199.2 million for the financial year 2007. Taking into account unappropriated profit brought forward (€ 12.3 million), and a transfer to reserves of € 21.8 million, unappropriated retained earnings amount to € 189.7 million.

The Executive Board and the Supervisory Board will propose to the General Meeting of Shareholders that these unappropriated retained earnings (€ 189.7 million) be used to fund payment of a dividend of € 3.00 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 a 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.

Interdependence Report

According to our information, Hannoversche Beteiligungsgesellschaft mbH (HanBG) currently holds 25.2% of the voting rights in Salzgitter AG. At the last General Meeting of Shareholders, HanBG no longer held the majority of voting rights present. That HanBG is able to exert a controlling influence on Salzgitter AG cannot therefore be ascertained. Salzgitter AG is thus not a dependent company, and is consequently not obligated to prepare an interdependence report.

10. General Statement on the Economic Situation

The economic situation of the Salzgitter Group was most satisfactory in 2007. Generally vigorous demand for rolled steel and tube products, a continued uptrend in selling prices and acquisition-led growth was reflected by consolidated sales of € 10,192 million, which is an increase of € 1,745 million, or a rise of 21%, compared with the previous year (€ 8,447 million).

All divisions contributed to this sales growth. The key contributors were the **Steel Division** (€ +412 million; +17%), **Trading** (€ +414 million; +10%), and **Tubes** (€ +305 million; +20%). Sales grew by € 79 million in the **Services Division** (+19%) in a year-on-year comparison. Another factor was the first-time consolidation of Klöckner-Werke AG, which was acquired at the start of the second half of the year and which contributed € 513 million. Klöckner-Werke, along with its main companies, forms the core of the **Technology Division**.

Consolidated pre-tax profit of € 1,314 million fell short of the previous year's level (€ 1,855 million). However, since this figure includes earnings from the sale of the Vallourec shareholding (€ 907 million), the result in the financial year under review, generated exclusively by operating activities, represents an increase of € 366 million over the previous year's figure (€ 948 million).

The **Steel Division** made a special contribution to this growth. Higher shipment volumes accompanied by a steady uptrend in selling sales prices offset higher raw materials and energy costs. Earnings before tax of € 749.4 million surpassed the previous year's result of € 433.8 million by € 315.6 million. Almost all operating steel companies made a positive contribution to this result.

The other divisions, however, also generated improved results compared with 2006.

The expansion of sales, connected with higher specific gross income, resulted in a new historic record level of earnings before tax (€ 212.5 million) for the **Trading Division**, reflecting an increase of € 11.6 million as against the previous year (€ 200.9 million).

On the basis of a direct comparison of 2007 earnings (€ 302.5 million) and 2006 earnings (€ 262.9 million), the **Tubes Division** reported a year-on-year improvement of € 39.6 million. It should also be noted that the previous year's figure includes € 73.0 million in earnings from the Vallourec cooperation. The positive performance of operations in this area was therefore even better, though it takes account € 7.9 million of earnings contribution from new acquisitions (precision tube units from the second half of 2007).

Earnings before tax in the **Services Division** (€ 40.4 million) were € 25.0 million up on the previous year's level (€ 15.4 million). The main reason for the sharp rise was a € 25.0 million waiver of receivables within the Group by the SMG intermediate holding company in favor of SZAE, which was offset by € 3.6 million in impairment at SZAE. Excluding these special items, this division's earnings reached € 19.0 million, which is € 3.6 million more than in the previous year.

The new **Technology Division** generated an operating profit of € 18.0 million in the second half of 2007. Earnings before tax of € 4.0 million were reported after taking into account negative consolidation effects due to the purchase price allocation (€ –14.0 million) required under IFRS.

More details on the commercial performance of the segments can be found in the section on "Divisions".

Alongside favorable market conditions, the groupwide profitability improvement program also contributed to enhancing the performance of the Salzgitter Group.

ROCE amounted to 28.0% in 2007 (2006: 47.8%; please also see page 65), thereby significantly exceeding the target of an average of 15% across the economic cycle. After eliminating the effects of the disposal of the shares in Vallourec in 2006 and net cash deposits at banks, ROCE from the industrial business stood at 46.9%, following 55.1% in 2006.

The balance sheet total, which came to € 8,406 million as of December 31, 2007, was € 1,428 million higher against the previous year's figure (€ 6,978 million). This was mainly attributable to the acquisition of Klöckner-Werke AG (€ 920 million) and of the precision tube units (€ 230 million), which partially entailed the use of cash.

The net amount of funds invested with banks fell € 168 million to € 2,115 million as of the 2007 reporting date (2006 reporting date: € 2,283 million) primarily due to acquisitions.

The share of equity in the balance sheet total posted 50.5% as of December 31, 2007, and was thus higher year on year (49.6%).

"Sometimes you have to experiment with food, too."

Gina Palacino, Head of Catering One shouldn't take this too literally though. What Gina Palacino, Head of Catering at the phæno, really means by this is that she is always experimenting with the variety and diversity of menu choices she offers her customers. Gina Palacino was born in Wolfsburg, but her Italian descent shows in the heartwarming atmosphere of everything she does. And this is very important to her, because she does not regard the phæno as just any old place of work. "I put my heart and soul into my work, the phæno is like a family to me," she explains. And this is quite literally so, since her 20-year-old daughter also works at the phæno.

III. Significant Events After the Reporting Date

Acquisition of the Hydroforming Activities of Schmolz + Bickenbach

Salzgitter AG has acquired the hydroforming activities of Schmolz + Bickenbach, which enables it to significantly expand its business with this innovative shaping technology, which has recently reported high growth.

The acquisition of the cutting-edge production facilities and its highly motivated workforce strengthens our business activities in this sector. The approximately 40 employees generated an annual revenue of over € 10 million.

Salzgitter Hydroforming GmbH and the new entity will together produce over 4.5 million construction components this year. These components are used for exhaust gas and heat technology applications, in automotive manufacturing, among other things, and they play a key role in the construction of lighter-weight chassis and bodywork, thereby reducing both consumption and emissions.

The operations were transferred to Salzgitter on January 1, 2008, antitrust authorities having already issued their approval of the transaction.

Acquisition of SIG Beverages

The acquisition of SIG Beverages and the related integration of the PET blow mould technology allows Salzgitter AG to strengthen its Technology Division in a key area. The most important companies belonging to SIG Beverages include: SIG Corpoplast GmbH & Co. KG, Hamburg, and SIG Asbofill GmbH, Neuss. The seller is the SIG Group, which is based at Neuhausen am Rheinfall, Switzerland.

From as early as our acquisition of Klöckner-Werke AG and our related entry into specialty plant engineering for filling and packaging machinery we declared that we would actively shape the strategic and operational growth of the Technology Division. The acquisition of SIG Beverages is an extremely significant step in this direction. It is now possible for the Klöckner-Werke subsidiary KHS to offer complete facilities on a one-stop shop basis in the high-growth market for plastic bottle technology.

SIG Beverages has a workforce of approximately 480 employees, predominantly in Germany. The company generated sales of around € 150 million in 2007.

We will provide information about current business progress at the time of our quarterly reports in 2008.

IV. Risk Report

1. Risk and Opportunities Management System

Business activity as defined by the Articles of Incorporation makes risk-taking unavoidable in many instances. Assuming risks is frequently the necessary precondition for exploiting opportunities. All risks must, however, be contained and manageable for the management of the company. Effective and foresighted risk management is therefore an important and value-creating component among the management functions deployed by Salzgitter AG to safeguard the company as a going concern, along with the invested capital and jobs

Differentiation between risk and opportunities management

In the Salzgitter Group, risk and opportunity management are treated separately as a matter of principle. A separate reporting system maps and tracks risks. By contrast, the identification and communication of opportunities forms an integral part of the management and controlling system that operates between our subsidiaries and associated companies and the holding company. Identification, analysis and implementation of operational opportunities is incumbent on the management of the individual companies. In cooperation with the Group's Strategic Planning and Coordination, measures are devised to profile our strengths and tap strategic growth potential. They are structured systematically in a strategy atlas specially developed for this purpose and consistently reflect our product and market environment. Potential for opportunities for the Salzgitter Group is, on the one hand, inherent in a market-oriented price policy and in reinforcing our market position by developing new materials and products relevant for the steel sector. On the other hand, we also use the ongoing implementation of our profitability improvement and selective acquisitions, as exemplified in the current financial year 2007 by Klöckner-Werke AG and Vallourec Précision Etirage S.A.S. As regards tapping selected opportunity potential, we refer to our Forecast. To secure value-oriented corporate management, we weigh up the aspects of risks versus opportunities.

Organizational permeation

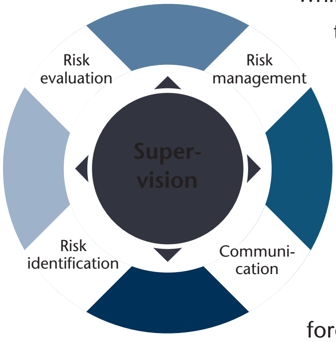
Risk management incorporates all fully consolidated companies in the Steel, Trading and Services Divisions – also including the non-consolidated Salzgitter Hydroforming GmbH & Co. KG and Telefonbau Marienfeld GmbH & Co. KG. In the Tubes Division, both the fully consolidated companies and the joint venture Europipe GmbH, including MÜLHEIM PIPECOATINGS GmbH, are integrated into the risk management system in accordance with Salzgitter AG's guidelines. The companies of the Klöckner-Werke AG (KWAG) were consolidated for the first time in the third quarter of 2007 and, since that time, they have formed the core of the Salzgitter Group's Technology Division. Salzgitter AG performs its group management duties in respect of risk management for the listed company KWAG as part of the control functions of KWAG's Supervisory Board. KWAG's Supervisory Board has formed an audit committee in which SZAG is represented. One of the duties of the audit committee is to monitor the risk management and material risks. The committee meets regularly.

Qualified top-down rules to complement decentralized activities

Our subsidiaries and associated companies apply the risk management system autonomously. It is the task of the management holding company to specify guidelines that constitute the basis on which adequate and uniform consideration and communication of risks are ensured within the Group. We convey our understanding of risk management through a risk manual and risk guidelines which are distributed to the companies and include principles through which we harmonize groupwide risk inventories and ensure the informative value for our Group. As before, we will meet the challenge of developing our risk management system on an ongoing basis in line with requirements in the future as well.

Methodology and reports

We include risks as an integral part of our 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, to control them or to take the relevant preventive measures, while remaining appropriately aware of opportunities that might present themselves.



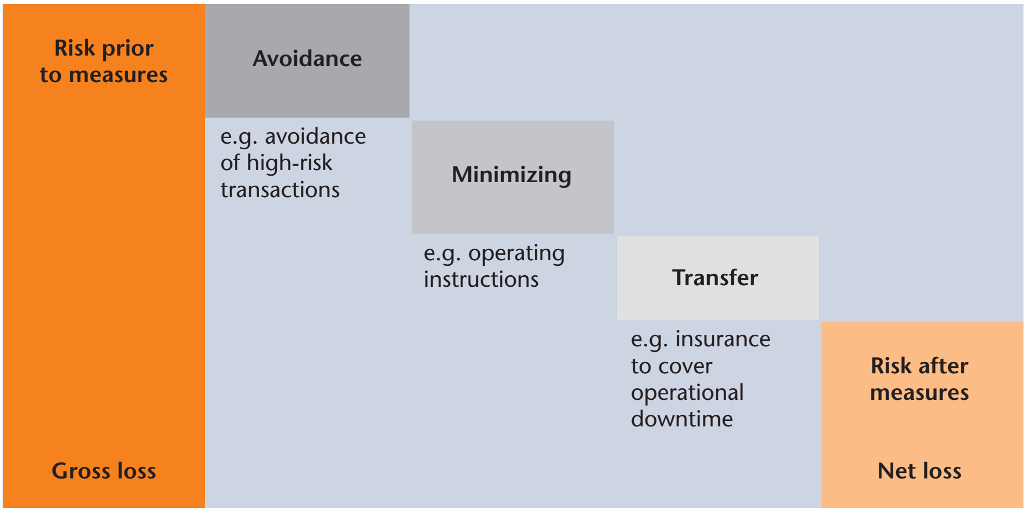
Measures to cope with and delimit risks can be introduced at an early stage and in a targeted manner as a result of the transparency gained with respect to risk-inherent developments and potential risks. At Salzgitter AG there is a clear demarcation between risk management and controlling, which are nonetheless geared towards 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.

A reporting system used by the entire Group ensures that management is provided with pertinent information. Group companies report on the risk situation in monthly controlling reports or ad hoc and directly to the Executive Board. Almost all companies subject to reporting requirements use the Group data bank developed specially to enhance the effective handling of data. We analyze the risks identified and assessed at Group level, monitor them punctiliously and allocate them to risk categories and to our overall economic situation.

Evaluation aspects

A distinction is drawn between improbable and probable risks determined by the likelihood of their occurrence. Improbable risks are events that, after careful commercial, technical and legal consideration of the circumstances, are deemed unlikely to occur and therefore 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 defined is an aspect of controlling and internal 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.

Derivation of Net Loss from Gross Loss



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.

It is evident that, at present, even a number of major risks of € 25 million incurred in parallel would not be sufficient to endanger the Group as a going concern. We consider it expedient, however, not to raise the reporting threshold.

Environment and Sectoral Risks

Sectoral risks

On the back of macroeconomic changes in the international markets, price developments in the sales and procurement markets, exchange rates (in particular the USD/EUR exchange rate) and developments in the price of oil are of key importance for the Salzgitter Group. In order to minimize the resulting business risks, we observe related trends and take them into account in our risk forecasts. This also applies to potential politically induced restrictions in international business, a trade embargo for example.

Along with our efforts to create a healthy sales structure, we are especially committed to developing new steel materials, optimizing manufacturing processes and the targeted expansion of our Group. Salzgitter Mannesmann Forschung GmbH, for instance, has built a new Technical Center with the aim of playing a leading role in Europe in application-oriented research and development and of shaping tomorrow's market as a successful premium supplier.

The acquisition of Vallourec Précision Etirage S.A.S. and Bresmex Tuberia S.A. de C.V. has helped to further our goal of expanding our international market position in the precision tubes business of our Tubes Division. And, finally, we acquired the majority shareholding in Klöckner-Werke AG. Our most recent acquisition in particular is intended to reduce our dependency on economic cycle so typical of the steel industry.

We minimize risks caused by changes in the steel sector by having a decentralized Group structure and, as a result, fast decision-making processes that allow us to adapt swiftly to new market conditions.

The price risks of important raw materials

The price trends of important raw materials, such as iron ore, coal, scrap and alloys, developed as expected in the financial year 2007, even if the cost of procuring these materials was higher than originally planned. We identified these price risks at an early stage, which was reflected in the profit forecast. In the financial year ended, the higher selling prices of our products compensated for the additional costs incurred by these materials.

Procurement risks

We counter the potential risk of insufficient supplies, relative to demand, of important raw materials (iron ore, coal) 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. The assessment of our supply sources gives us the certainty that the availability of these raw materials in the required quantity and quality has been ensured to the best possible extent. We source electricity on a contractually secured basis in as much as our requirements exceed our own production of electricity. To counteract the risk of rising electricity prices, Salzgitter AG took the decision to build two new 105-MW power generating units at the Salzgitter works, which will mean that SZFG's future requirements will be largely covered.

The scheduled rail transport of iron ore and coal from our overseas port in Hamburg to the Salzgitter location is important. Our contractual partner in guaranteeing this logistics task is Railion Deutschland AG, the freight subsidiary of the Deutsche Bahn AG. As this task is extremely important to us, we keep a close watch on the collective bargaining processes of Deutsche Bahn AG and take precautions ahead of any prospective railway strikes. In the event, we developed a detailed contingency plan in good time. This plan includes foresighted stockholding and intensive reconciliation between Railion and ourselves aimed at keeping regular train transport running to the greatest possible extent. Another option is the more intensive use of the railway facilities owned by the Group. We estimate that we do not expect any production downtimes. This measures catalog, however, may incur additional costs for handling or the services of external parties for the use of other carriers. As concerns our other locations, a similar procedure in respect of the supply of input material is practised.

Selling risks

A business-typical risk may result from the sharp fluctuations in prices and volumes in our selling markets. We counteract the possible threat to our existence posed by this risk by broadly diversifying our products, customer segments and regional selling markets, by adopting countermeasures tailored to the specific situation 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 tubes business), we are able to achieve a more balanced risk portfolio across the entire Group.

In contrast to the problems associated with the supply of raw materials, the transport of finished materials is dependent on railway transport to a lesser extent as the share of truck transport is higher. To compensate for the part transported by rail, additional truck and ship capacities have been reserved and the arrangements made for temporary storage.

Production downtime risks

The risk of an unplanned, extended shutdown of our key plant components is counteracted by regular 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 conceivable 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 constantly reviewed and adjusted as required.

Legal risks

To counter possible risks arising from the diverse fiscal, environmental, competition-related and other rules and regulations, we ensure strict compliance with 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.

To coordinate the Group's initiatives with respect to policies relating to the steel industry and its associations, as well as to ensure that these initiatives are pursued on a systematic basis, we have set up an internal contact point for international affairs.

Financial Risks

The coordination of funding and the management of interest rate and currency risks of companies financially integrated into the Group is the task of Salzgitter Mannesmann GmbH. The risk horizon which has proven expedient is a rolling 3-year period aligned to the planning framework. The decreed guidelines require all companies within the consolidated group to hedge against financial risks at the time when they arise. For instance, in the international trading business, open positions or financing arrangements that involve risks must be secured. On principle, we permit financial and currency risks only in connection with our steel production and trading-related processes. In relation to the operating risks, these risks are therefore of minor importance.

Currency risks

Our procurement and sales transactions, primarily in US dollars, may give rise to currency risks. In order to minimize such risks we generally set off counter cash flows within the companies financially integrated into the Group, a process described internally as netting.

To limit the volatility of financial risks, we conclude financial instruments with terms of up to three years, the value of which develops counter to our operations. The development of the market value of all derivative financial instruments is ascertained on a monthly basis. For the purpose of the annual financial statements, we simulate the sensitivity of these instruments in accordance with the standards prescribed by IFRS 7 (see the Notes).

Default risk

The risk on receivables is limited as far as possible by providing security for loans and by having a stringent system for exposure management in place. Translation risks arising from the converting of positions held in a foreign currency into the reporting currency are not hedged as these are immaterial in relation to the consolidated balance sheet. In this context, we refer to the information provided in the Notes to Annual Financial Statements at Company and at Group level.

Liquidity risk

The holding 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 associated risks.

Interest rate risks

The cash and cash equivalent item, significant in relation to the balance sheet assets, is exposed to interest rate risk. In our investment policy, our preference is mainly for low-risk investment categories with top credit rating while, at the same time, ensuring the availability of the positions. Interest rate analyses are regularly drawn up in the monitoring and control of interest rate risks. The results of market observation and of the interest rate analyses have a direct impact on investment decisions.

In addition, there may be risks arising from necessary capital and liquidity measures and from associated companies which may not have performed well over time. Owing to the extremely positive business situation of almost all subsidiaries, no adverse developments are currently expected from this area of risk. We basically counter this risk through a rolling financial planning process.

Tax Risks

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. As the parent company, Salzgitter AG is responsible for provisioning, for instance, for risks from audits by the fiscal authorities. Companies with independent tax liability, on the other hand, are responsible for their own provisioning.

In connection with government aid to border regions, the EU Commission is demanding subsequent interest and tax payments from Salzgitter AG. The European Court of Justice has decided in favor of our company in the first instance. However, the EU Commission has appealed to the European Court of Justice against this verdict. Appropriate provisioning has been carried out for the inherent risk.

Personnel Risks

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. Specialist career paths have been explicitly introduced with the aim of creating career prospects for our experts. Another instrument the company offers is attractive models for a company pension, a benefit which is becoming increasingly important in view of dwindling claims under state pension schemes. Above and beyond this, we initiated the "GO – Generation Campaign 2025" project back in 2005 against the backdrop of demographic development, with the aim of reacting in good time to the impact of this development on our Group, thereby securing the innovative strength and competitiveness of the Salzgitter Group in the long term. The project is focused on the systematic preparation of all employees for a longer working life. With this in mind, employees from all divisions of the Group have worked out a large number of measures in the various areas of action under the project initiated for this purpose. These measures have been implemented already, or will be carried out step by step in the coming years. The areas covered include fitness, ergonomics, retaining and promoting the ability to work and healthcare, new models for working hours and working life "time banks", as well as securing junior staff.

Product and Environmental Risks

We meet the challenge of product and environmental risks with a series of measures to secure quality. Examples include:
- certification in accordance with international standards,
- continuous modernization of all plants,
- ongoing development of our products,
- extensive environmental management.

We have appointed an environmental officer for the Group whose task it is to concentrate and coordinate environmental and energy policy issues across companies, to represent the Group in questions of environment and energy policy and to manage cross-divisional individual projects.

The allocation of emissions allowances to a sufficient extent remains an important aspect. Trading in CO_2 emission certificates has been concluded for the first trading period (2005 – 2007); we are currently in the application stage in respect of the allocation of new CO_2 emission certificates for the second trading period from 2008 until 2012.

Risks from maintaining property can arise, especially from inherited contamination. We counteract this risk, for instance, by fulfilling our cleanup duties. In terms of financial precautions, appropriate amounts of provisions are formed.

Information Technology Risks

We counter risks arising in the field of information technology (IT) by developing and maintaining a Group knowledge base in the form of IT services in our subsidiaries. This ensures 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. We are currently in the process of implementing our so-called back office project that aims at the technological renewal of the hardware and software resources in the office communications area, in order to safeguard their availability, maintenance and IT security at the highest level. Additional measures include gradually streamlining historically evolved, heterogeneous IT structures in the Group.

Corporate Strategy Risks

We reduce our dependency on the economic cycle typical of the steel industry by expanding our holdings portfolio on a selective basis. For more detailed information on our acquisitions, please see the sections describing our strategy and selling opportunity management at the start of this risk report.

To secure our future earning strength, we are committing considerable investments to our Group locations in Salzgitter and Peine. For more information, please see the Sections 1.3 “Strategy” and II.3 “Investments”.

We limit 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, by way of suitable reporting and consultation structures by participation in supervisory committees and through contractual arrangements. Consequently, in order to ensure the transparency of the 50 % joint venture Europipe GmbH, members of the Salzgitter AG Board are represented on its Supervisory Board. With regard to Klöckner-Werke AG, a listed company, we ensure that this transparency is set in place through an audit committee attached to the Supervisory Board. The task of this committee is to monitor risk management and material risks.

3. Overall Statement on the Risk Position of the Group

Evaluation of the Risk Position by Management

Reviewing the overall risk of the Salzgitter Group has resulted in ascertaining that there were no risks which could endanger either the Group or the individual companies as going concerns in the financial year 2007.

The overall risk situation aggregated from the individual risks has remained virtually unchanged against the previous year.

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 early warning system installed at Salzgitter AG in accordance with the German Stock Corporation Act (AktG). This examination verified the fact that the early warning system installed throughout the Group fulfills its functions and fully satisfies all company law requirements.

As an independent authority, the Salzgitter AG internal 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.

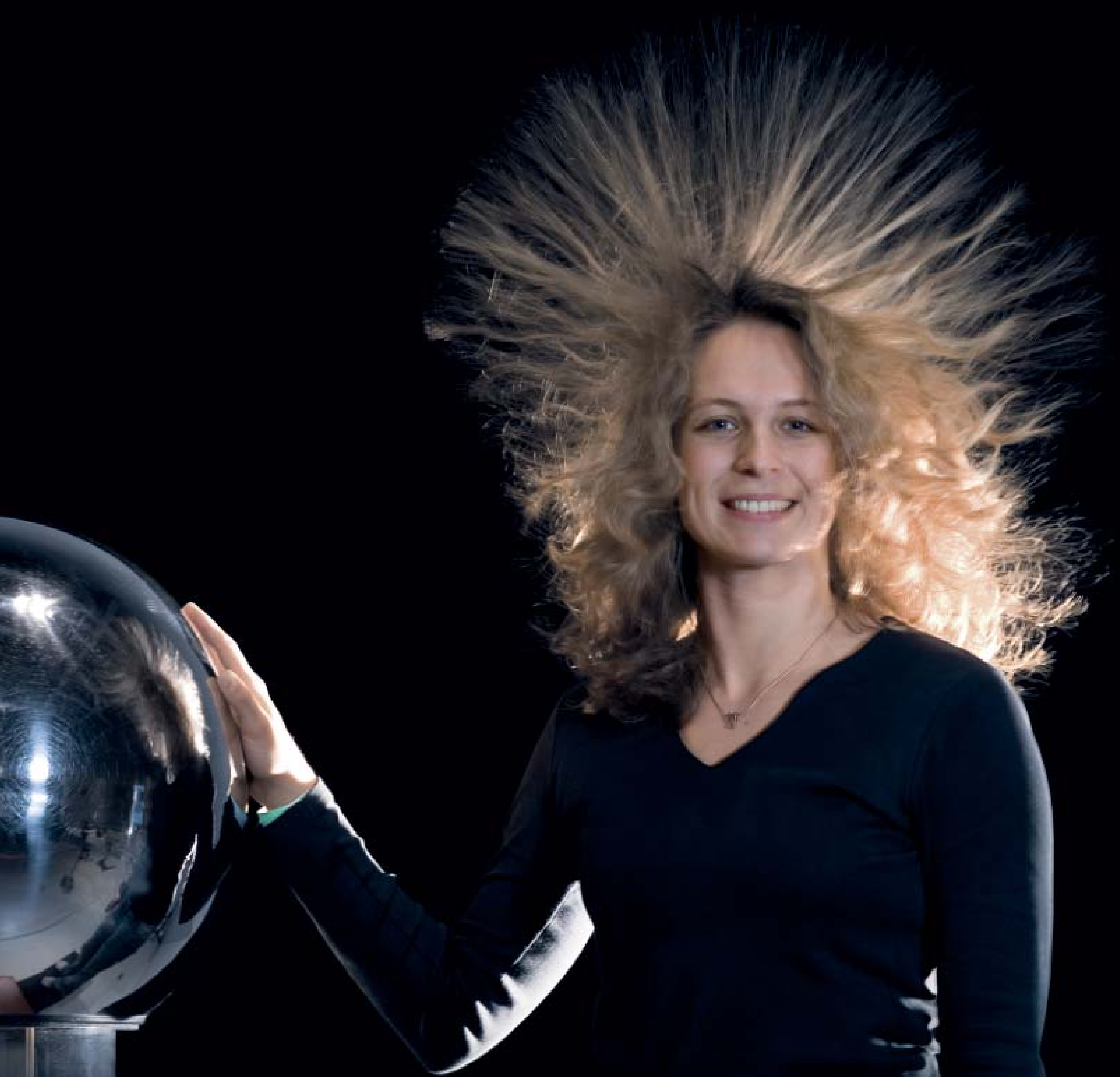
Rating of the Company

No official rating issued by an appropriate rating agency exists for Salzgitter AG. From our perspective, there is also no need for such a rating; this is because, following the growth that we have achieved after four boom years, without the need for a capital increase, we have attained an outstanding financial position that largely precludes the requirement to tap the capital markets.

Our own rating approach performed using the normal quantitative criteria has resulted in values that show hardly any divergence from our own banks' internal ratings, which leads us to assume that an external valuation would place us firmly in the investment grade bracket, despite the high level of our pension obligations.

"The fact that you can get involved in the experiments yourself means you remember them much better."

Sandra Schmidt, visitor It is not just children and young people who are fascinated by the phæno – adults also find themselves suddenly remembering long-lost things from their schooldays, including the fundamentals of natural science and their own sense of fun. Sandra Schmidt visited the phæno with her friends and enthused about the experiments: "It brings everything back to you," exclaimed the young pediatric physician. By the way, static electricity is responsible for her interesting hairstyle – it's just a short-term change of image, so her hairdresser need not worry.



V. Forecast

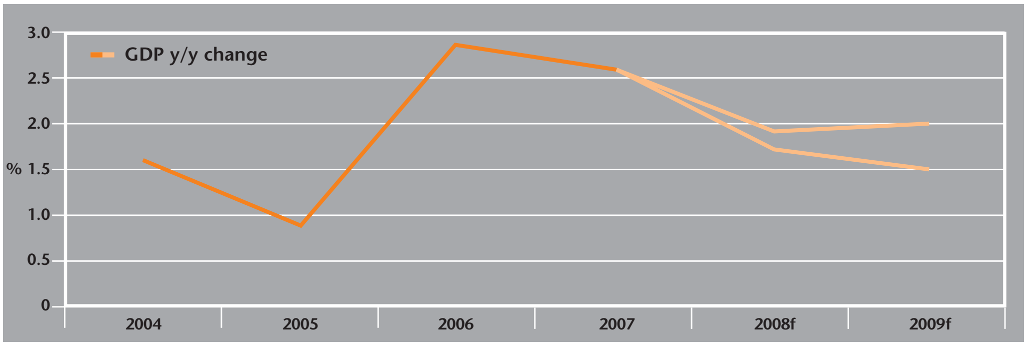
1. General Business Conditions in the next two Financial Years

Economic growth likely to slow

The global economic climate darkened discernibly at year-end 2007, above all in the wake of the US subprime crisis. There is currently no end in sight to the crisis precipitated on the financial markets, which is likely to hamper the development of the real economy of the industrial nations. In the view of economic experts, the **global economy** is set to distinctly lose momentum in the current year. The industrial nations are likely to see real GDP climb discernibly more slowly than production potential would otherwise let it. In the emerging countries, economic momentum will probably slow somewhat, but the increase in production will remain high in a historical comparison. The International Monetary Fund has lowered its most recent forecast for global growth in 2008 by 0.7 percentage points to 4.1 %. This would mean that the global economy would nonetheless develop above its median trend for the fifth year in a row. From today's standpoint, growth in 2009 can be anticipated in the same dimensions. The global economy is therefore still in its most powerful upswing since the 50's.

The **EU** countries are likely to be confronted with tighter lending markets, growth in the US, which is much weaker than previously anticipated, and currency exchange relations which place a burden on exports. The expected loss in the impetus of corporate investments is, however, likely to be at least partly compensated by higher consumer spending, bolstered by the still positive development on the labor market. In 2008 as well, the EU will retain its growth lead in comparison with the other two regions of the Triad (USA, Japan). **Germany** has a sound basis for continuing its satisfying development this year and in the year to come: Capacity utilization, still recently in an uptrend, indicates that corporate investments are likely to grow. In addition, rising employment levels achieved in the labor market form the foundation for a recovery in private consumption. Growth momentum could, on the one hand, be dented by a serious slowdown in the US economy and, on the other, by the euro continuing to appreciate. Moreover, the boom in capital investment may well falter owing to the expiry of favorable impairment options at year-end 2007. The figures forecasted for German GDP growth by a number of economic research institutions range between 1.7 % and 1.9 % (2008) and 1.5 % and 2.0 % (2009).

GDP Germany: Forecast Range 2008/2009



Source: HWWI, ifo, IfW, December 2007 (f: forecast)

Steel market to return to normal levels

In 2008, the capacity utilization of **steel producers** is set to remain high: The growth in crude steel production is likely to slow only marginally to 6.5 %, which would correspond to a global production of 1.43 billion tons. Similar to 2007, the production of crude steel is likely to expand in almost all regions. Within the EU, especially in Germany, considerable further growth cannot be anticipated as the level of capacity utilization achieved is already high.

With regard to market supply, sharp increases are expected in most regions. As a result of the correction process in inventories, we expect an inventory downtrend in the EU. However, the market volume will not decrease significantly from its very high level due to the growing need for steel. In Germany, we believe that a slight growth in market supply of almost 1 % is possible, a theory underpinned by a somewhat more favorable balance between supply and demand than in the other EU member countries and an unchanged positive forecast for Germany's steel processing sectors.

Steel tubes market still expanding

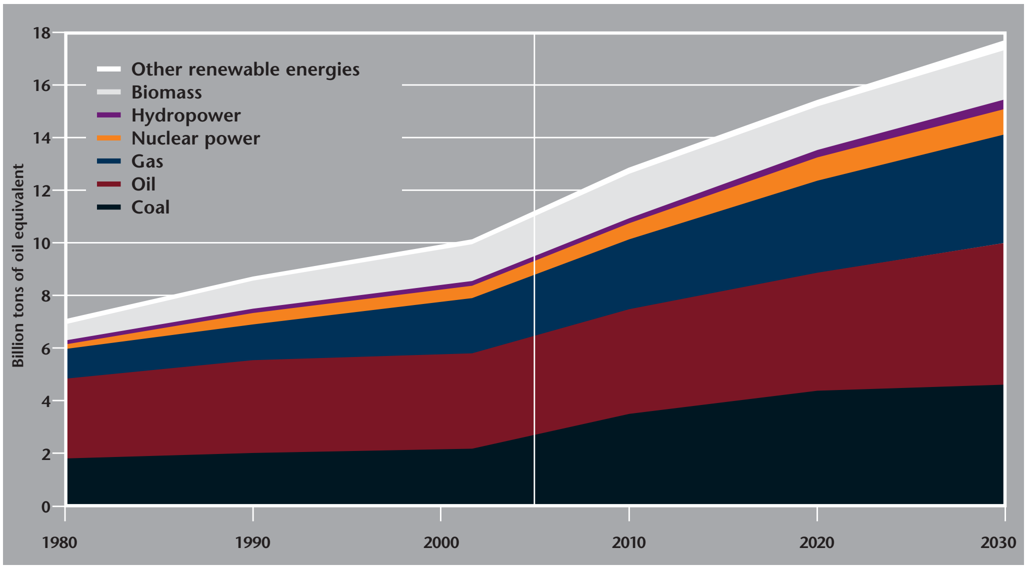
The global economic conditions of the next two years are likely to continue to favor the development of the **steel tubes market**. The need for energy, rising all over the world, the increasing number of pipeline projects, the expansion of power plant construction activities and the stable European automotive industry represent sound growth opportunities for the steel tubes business.

According to the most recent study conducted in November 2007 by the international energy agency "World Energy Outlook 2007", the global energy demand is set to expand through to 2030. As the next chart illustrates, demand is building steadily and is already impacting 2008 and 2009. Naturally it is questionable to what degree this type of scenario can at all take the momentum of ecologically driven measures into account.

"It looks totally awesome."

Dario Palacino, 13-year-old BMX rider from Wolfsburg Dario Palacino knows the phæno inside out because he comes here both to visit his aunt while she works in the restaurant and to chill out and ride his BMX around the outside of the Science Center. The huge square and the numerous passageways underneath the futuristic construction provide the 13-year-old and his friends with plenty of space for having fun. "Concrete, glass and light all together, I like it," says the schoolboy. He's right, there definitely are more boring places to spend your free time.

Trend of Global Energy Demand



Source: World Energy Outlook 2007

The oil price currently exerts a major influence on the performance of the energy sector and is most likely set to do so in the foreseeable future. The development in the price of oil is not always based on reason; speculation is playing an increasingly major role. This makes it virtually impossible to forecast the oil price. However, in 2008 and 2009, the oil price is expected to range at a level of over US$ 70 per barrel (West Texas Intermediate). At this level, brisk drilling activities will probably continue in 2008 and 2009. All in all, the peak number of rigs in operation in 2008 throughout the world is expected to reach around 3,500, a number which will probably rise to 3,640 in 2009.

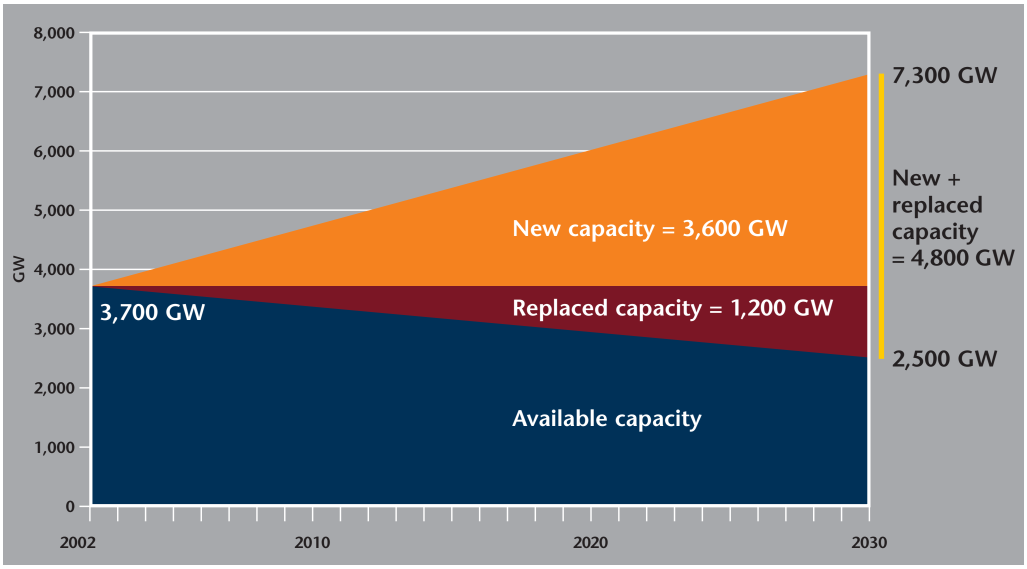
Dynamic exploration activities ultimately determine the construction of new oil and gas pipelines. The major part of the projects known today are realized in North America, with the Middle East, Asia and Europe following on at a certain distance.

According to the "Simdex Future Pipeline Projects Worldwide Guide" published in January 2008, the construction of 63,000 kilometers in total of new pipelines is due to start this year.

More power plants are necessary to cover the growing need for energy. These new power plants are not only being built in high-growth countries such as China and India, but are also required in all other countries. In addition, obsolete power plants are being replaced.

The following chart shows the trend anticipated up until 2030.

Power Plant Capacity Trend



Source: International Energy Agency

There are also a number of risks, however, which are counteracting the factors driving global demand for steel tubes. To begin with, it is not yet possible to estimate the full effect of the crisis in the financial markets.

In addition, reference must be made to the fact that prices for raw materials, energy and freight costs may well rise again. Moreover, the global expansion in tubes production capacities, which total some 11 million tons in 2008 and 7 million tons in 2009, will be looking for a market, and only if growth keeps pace will it not influence pricing. In addition, the global consolidation of the tubes sector will continue.

Finally, there is evidence to suggest that the aforementioned conflicts affecting trading policies may escalate and cause further turbulence in international trade flows.

For EU producers with larger parts of their business in the dollar region, the considerably higher exchange rate of the euro against the US dollar will be an additional factor.

Especially in view of high order levels, the Tubes Division views the new financial year with a certain measure of optimism.

Mechanical engineering market continues to develop well

The companies of the **Technology Division** are embedded in the growth-oriented **mechanical engineering sector**. The partly rapid increase in domestic order intake is likely to lose some of its impetus, but nonetheless continue to grow all in all. Estimates are based on an increase of 5% in capital expenditure projected for Germany in 2008. In respect of foreign orders placed which, despite slackening demand from the USA, continued to develop well, sustained growth is anticipated, above all owing to orders placed from Europe and the emerging markets.

Along with the negative impact of the subprime and financial crisis, the high valuation of the euro against the yen and the dollar and the progressively higher prices of energy and materials, such as stainless steel, for example, are viewed as factors burdening German mechanical engineering. In addition, with order levels remaining high, precautions must be taken for potential capacity shortfalls in key suppliers and in mechanical engineering itself.

Overall, the possible development of international mechanical engineering in the year 2008, also taking account of the customary risks, presents a promising picture. On the basis of factors already known, the VDMA (German association of machine and local industrial equipment manufacturers) in Germany anticipates a plus of 5% in real machinery production, also at an international level. Should this forecast be accurate, this would mean a 40% increase in the production level within 5 years for German mechanical engineering.

The investment propensity of the global beverages industry, which constitutes just under 80% of the sales revenues and is therefore our main customer sector, is looking very dynamic in the future. In the years ahead, the global consumption of packaged beverages is likely to grow by 6%. With the exception of the North American market, which is dampened by the current economical situation there, rising international order intake can be anticipated. Demand for packaged beverages, especially in the emerging markets, driven by the swift increase in prosperity is thus improving the market for our machinery. The positive development will also compensate part of the increase in expenses also caused by rising material and payroll costs.

Overall we expect the steel and tubes economy to remain at a historically and exceptionally high level, albeit to grow at a slower pace. The dynamic development of the special mechanical engineering will slow somewhat in 2008, but gives rise to expectations for a good environment in subsequent years.

The general conditions relevant to the SZAG Group and their impact are still more or less assessable in 2008. Beyond this, however, they cannot be estimated because they are subject to swift change as a result of global developments and particularly the development in China. This has also been the experience with numerous forecasts in the past, since individual important events occurring at short notice and upheavals cannot be reflected in such models. It is also very difficult to gauge the effects of emerging mega trends, such as global climate protection. 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.

2. Strategic Direction of the Group

The Group strategy is geared towards sustaining its independence and profitability, as well as selective growth, and is designed to deliver a continuous increase in the shareholder value. Consequently, there are no plans to change the business policy of the Group in the years ahead. In this context, organizational development, above all in respect of proven effective and profitable structures, enjoys a higher priority than external growth through acquisitions which, still in most cases, is only realizable at an extremely high price.

This is the reason why we are focusing on pursuing the Profitability Improvement Program aimed at improving productivity, product qualification and quality assurance.

Initially, the business activities of the companies in the various divisions will fundamentally concentrate on established sales markets. In doing so, there may be a shift in the focus at a regional or sectoral level. The shape that this will take will ultimately depend on short-term responsiveness and the positioning of the companies. Opportunities on markets not frequented to date are being reviewed and exploited if there is commercial or technical potential.

Along with the customer proximity so characteristic of a group of our dimensions, the balanced customer and sector structure is one of our key success factors when compared with other steel companies.

The use of fundamentally new technological processes and techniques has not been planned for the period under review here. However, 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 quality enhancement, tenets also valid for the Technology Division.

To this extent, the portfolio of the Salzgitter Group in the coming two years will comprise numerous "new" products that offer a qualitative step forwards and additional application possibilities through new further developments. In this context, we refer to the section on "Research and Development".

The **Steel Division** is concentrating first and foremost on organic development, with the focus on productivity and product quality. Its secondary focus is on external growth. The beams segment envisages a successive expansion of its product spectrum to include special profiles, while the plate mills will progressively focus on higher value grades, as it can be assumed that stable demand at attractive prices will continue, especially for these products.

Besides potential acquisitions, the **Tubes Division** is concentrating on growth through expanding existing business segments, as well as raising productivity and quality. In this division, products made of new grades of material for more sophisticated application areas are expected to enable differentiation over providers of standard products.

The **Trading Division** concentrates on regional and product-related expansions, supplemented by selected external growth options.

Finally, in the **Services Division**, the focus will be on the productivity and competitiveness of the services offered and on the optimization of the customer service.

The active development of the food and non-food segments, where potential has been exploited only to a small extent, feature among the strategic targets of the **Technology Division**. Above all the food sector has growth potential in the food processing industry, and in the non-food segment there are potential customers in the cleaning agents and body care product groups. An additional key development step was taken by adding blow molding machines for PET bottles to product portfolio.

3. Expected Earnings

The corporate planning of Salzgitter AG is geared towards strategic goals and comprises its own set of entrepreneurial measures for action embedded in the general economic environment. It forms the basis for a realistic assessment of profit, but must, however, at the same time take adequate account of the long-term aspects relating to investments and the securing of a sound balance sheet and financial stability, also in more difficult market environments.

Market expectations prevailing at the time when the plan was drawn up, as well as envisaged entrepreneurial measures resulting from a process involving the whole Group, which is concluded before the start of the financial year 2008, have been incorporated into this plan.

The underlying structure of the Group which was, by definition, the status quo at the time may not necessarily accord with the structure of the Group at the end of the planning period. This is attributable to the fact that, for the most part, funds accruing from the sale of VLR and V&M have not yet been invested to promote internal and, in particular, external growth.

Moreover, reference is made to the fact that, in contrast to the economic forecasts of economic research institutes which are regularly updated during a financial year, the planning round of the Group takes place only once before the start of a financial year. Planning is based on conclusions drawn in the fourth quarter of 2007, taking account of orders in the books of the individual companies for 2008.

In the development of the individual companies and of the Group, described in the following, we take this planning as a basis and include new insights on the course of business in the current year.

Projected shipment and selling price data used in the planning of the financial year 2008 result in higher consolidated group sales than in 2006. Of this increase, more than 50% are attributable to the full-year inclusion of the Klöckner Group in our new Technology Division.

Despite the rising volumes of rolled steel, the projected sales volume of the Steel Division remains at the previous year’s level owing to the minor declines in selling prices assumed during the planning process. The sales of the Trading and Services Divisions are also incorporated into the consolidated planning virtually unchanged from the year before. The sales growth of the Tubes Division is, alongside the full-year consolidation of VPE, attributable to the rising volume of shipments primarily of large-diameter tubes. The higher sales generated by the Technology Division is, as already mentioned, owing to the full-year inclusion of the companies of the Klöckner Group.

Although the targeted group profit for the year 2008 does not correspond to the record profit of the financial year 2007, almost all Group companies forecast very gratifying contributions which are, in part, considerably above the long-standing average.

Consolidated profit is calculated as the sum total of the individual budgets of the subsidiaries, taking the holding and consolidation effects into account.

Accordingly, we expect an ambitious figure in the upper triple-digit million euro range.

The start of the financial year 2008, by nature having taken place after the completion of the corporate planning, is very encouraging. Having observed developments in 2008, the companies of the **Steel Division** have ascertained a number of disparate trends. Whereas, following a temporary phase of weakness in the spot market, the flat rolled steel sector reports that new orders had normalized and selling prices had firmed up, both the profile and the plate product segments recorded a still booming steel business. Average rolled steel selling prices have resumed their uptrend after a temporary slight dip, which may well mean that the sales of the Steel Division will rise further in 2008.

There are, however, already clear signs that iron ore and coal prices are set to rise sharply in 2008. Substantial price increases are also on the cards in respect of important materials such as scrap, fuel oil, externally sourced coke, electricity and natural gas. Although the weaker dollar is an easing factor, it will not be able to fully compensate for the price hikes.

In the planning year 2008, the steel companies therefore continue to forecast a decline in profit as against the previous year. Accordingly, SZFG has planned for a notably lower, but nonetheless still ambitious result in 2008. Alongside the climbing prices of raw materials, upfront costs in connection with capital expenditure projects running under SZFG's "Steel 2012" are already reducing profit in 2008. The result of PTC will also be affected by preparatory expenses for major capital expenditure projects. Although ILG has based its assumptions on not being able to fully pass on the rising price of input materials to the market, as it did in recent years, it nonetheless anticipates that in 2008 it will achieve the second-highest profit in the history of the company. The expectations of the other companies are similar in that they assume that higher selling prices will compensate for the higher prices of raw materials and energy only to a limited extent.

The **Trading Division** assumes that shipment volumes will hold steady in 2008, as stockholding steel traders and international trading predict that demand will remain robust. If, however, demand momentum were to return to normal levels, this could have a detrimental effect on the specific gross earnings.

In 2008, the Trading Division has planned for a reduction in profit as against the previous year which will nonetheless remain discernibly above the long-standing average. First results confirm the general direction of this forecast.

The **Tubes Division** assumes that the relevant markets will develop positively in 2008 as well. The highest contribution to future earnings is likely to come from the large-diameter tubes segment. EP has planned for higher selling prices which, in conjunction with the projected increase in volume and the expected hikes in input material, will be reflected in the result remaining at the level of the previous year. Similar to EP, SZGR has also booked up production capacities in 2008, with the exception of a small strategic reserve volume, and anticipates that if selling prices reach the expected level profit will remain unchanged from the previous year. The full-year inclusion of VPE, the new precision tubes company, which is also participating in the positive margin trend in the energy and industry sectors, will also contribute to lifting profit in the cold-finished tubes business, similar to MHP where capacity utilization is high as well. In view of the order volume already placed, capacity utilization in almost all companies can be expected to remain high. Although a factor which runs counter to the capacity utilization and selling price situation continues to be the sharp increases in the price of raw materials, the overall result of the Tubes Division in 2008 is likely to remain at an excellent level.

Profit of the **Services Division** in 2008 is likely to be markedly below the previous year's level owing to the special measure implemented in 2007 at SZAE (claim waiver), which had no impact on consolidated profit. Excluding this special effect, pre-tax profit is set to remain around the level of the financial year 2007.

From the standpoint of special mechanical engineering, the strong uptrend in the past financial year will hold steady during the current year. Based on the conditions currently forecast in the sectors and the effectiveness of internal measures planned, sales are set to rise which, in turn, will result in higher profitability. The pre-tax profit of the **Technology Division** is therefore likely to grow in a year-on-year comparison.

Based on the assumption of a slight decline in the market for rolled steel products, that demand for tubes will hold steady and that growth rates will remain stable in the packaging and filling technology sector, consolidated pre-tax profit in the financial year 2009 will be lower than in 2008 but still above the long-standing average.

4. Anticipated Financial Position

With regard to the financial year 2008, the Salzgitter Group has planned a capital expenditure budget which considerably exceeds that of the previous year. Of the budgeted amount, around 65% has been committed to the Steel Division and, in turn, 50% of this amount to SZFG. Targeted investments are aimed at significantly strengthening our earnings. Together with the ongoing investments already approved in previous years, the payment-related portion of the 2008 budget will bring the total investment volume to a level which is significantly higher than in 2007 (€ 385 million). As in the past, these investments will be carried out on a rolling basis in accordance with results and liquidity developments.

Owing to the greater volume of investments, the funds required for the financial year 2008 will be in excess of the depreciations, with the result that the excess portion will need to be financed from excess operating cash flows and, if necessary, partly from existing liquidity. From the viewpoint of company management, this is not an issue as there is enough latitude.

The volume of capital expenditure 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 are therefore currently not planned. In connection with larger acquisition projects, however, such measures may be implemented in due course.

5. Opportunities

To distinguish these activities from risk management, the decision to exploit such opportunities is always covered by the management tools of regular controlling, planning and strategy discussions. Under the "Strategy Atlas" management tool, all companies using the tool are systematically required to report their estimates at the level of the product-market segments in relation to the respective markets and any opportunities arising to the Executive Board.

We have used the Strategy Atlas to document the estimates of the management of currently around 30 individual companies for approximately 100 product-market segments. The information, updated on an annual basis, is also part of the basis for regular strategy discussions of management from selected Group companies. The results of the strategy meetings are integrated into the 3-year planning of the Group companies.

Opportunities arise particularly from the procurement of input materials of producing Group companies which can draw on the existing network and the experience of our international trading operations.

We consider that there are fundamentally good prerequisites for earnings-oriented internal and external growth, above all owing to the outstanding liquidity of our Group. Among other factors, this gives us the opportunity, as in 2007 and the preceding years, to act at short notice without triggering price-driving bidding wars through too much publicity.

Consequently, the strategy we are pursuing offers a number of opportunities for growth that will enable our Group to further improve its market and competitive position. One way for us to realize such opportunities is through targeted investments and product developments. Another approach is to strengthen our core activities in the divisions by seizing acquisition opportunities which sometimes arise in the currently prevailing seller market for companies.

On the whole, we will only realize acquisition projects if we are certain that this will serve to raise our profitability, at least in the medium term.

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 future financial situation of our Group.

6. Overall Statement on the Performance Anticipated for the Group

On the basis of a generally confident estimate of the state of steel, tubes and mechanical engineering economies in the next two years and taking account of all current business data of the first months of 2008, our assessment on how the Group is likely to develop is as follows:

In the financial year 2008, we will strive to achieve notable growth within the Group, more than 50% of which will result from the first-time full-year inclusion of the companies of the Klöckner Group in our new Technology Division.

In connection with this, we expect an ambitious pre-tax operating profit in the upper triple-digit million euro range, meaning in the dimensions achieved in operating results in the financial years 2005 and 2006.

Express reference is made to the fact that opportunities and risks arising from currently unforeseeable trends in selling prices, input prices and capacity levels, as well as currency fluctuations, may exert a considerable impact on the course of the financial year 2008. As shown by the previous years, the resulting potential range within which the consolidated pre-tax result could fluctuate may be considerable, both in positive and negative terms. The dimensions of the aforementioned statement become clear if one considers that, assuming sales of around 12 million tons of steel products by the Steel, Trading and Tubes Divisions, a € 20 per ton fluctuation in the margin is sufficient to cause annual profit to change to the positive or negative by over € 200 million.

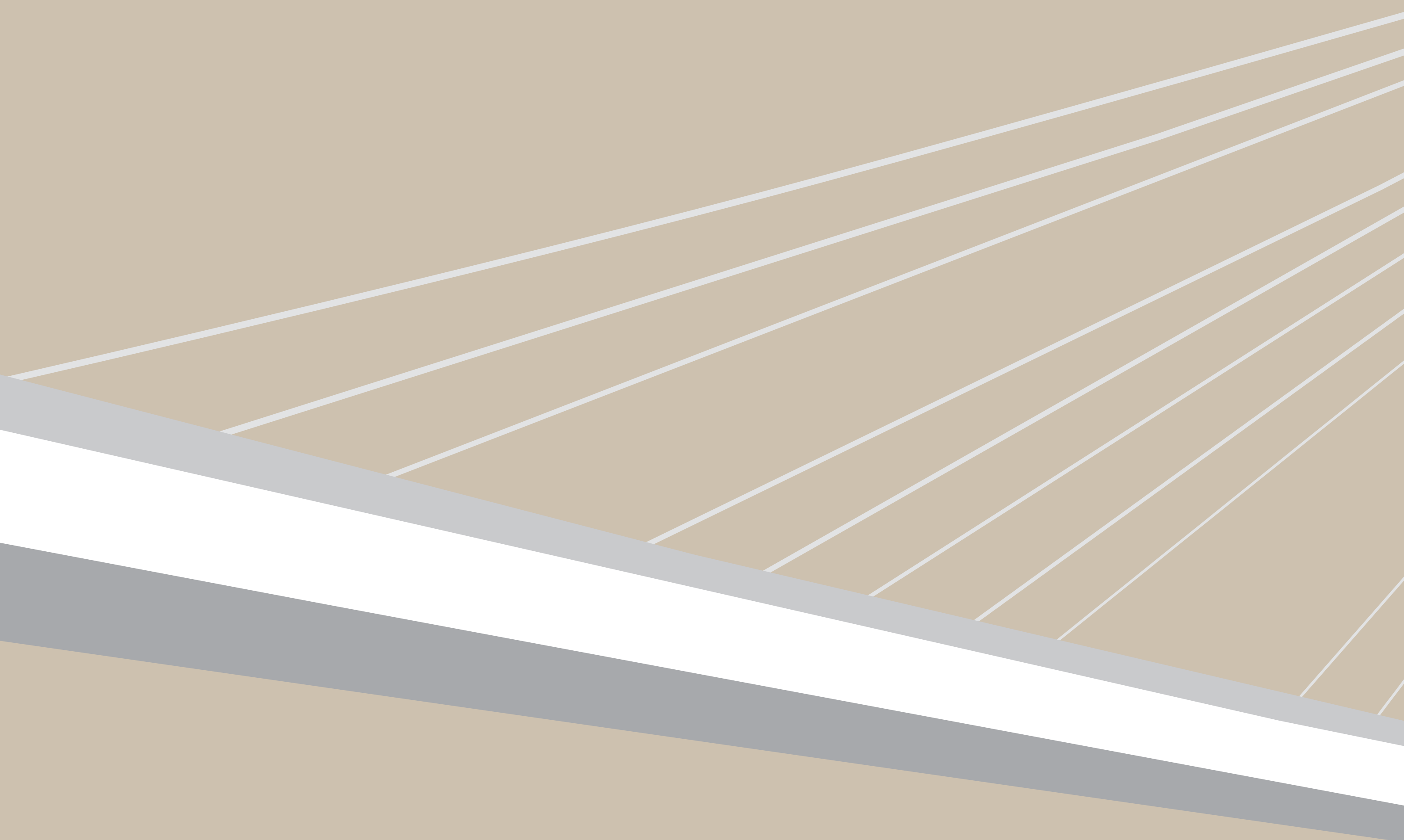
From today's standpoint, no reliably quantifiable outlook, apart from that described in the section on "Anticipated Financial Position", can be ascertained for sales and the results of the Salzgitter Group in 2009. Specific imponderables result from the uncertainties surrounding the price of raw materials and the US dollar exchange rate, not to mention the potential impact of potential China and environmental scenarios, the medium-term effects of which may extend beyond the framework of conventional sensitivity analyses.

The amount of dividend will also depend on the future profit trend. The cyclical fluctuations typical of the sector are naturally reflected in the results of the Group, as well as in the share price. A determinant factor of the Group's ability to pay dividend are the individual 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. This may not necessarily fully reflect the cyclicality of the profit trend. From today's standpoint, the payment of an appropriate dividend financed from operating profit would appear realistic in the financial years 2008 and 2009.

How can steel bring people together?

How romantic is an infrastructure project?

And what does all this have to do with the Swiss Alps?



A bridge that does far more than just link two roads.

Greece plays host to the world's largest cable-stayed bridge, the Rio-Antirrio Bridge. It spans the Gulf of Corinth, linking the Peloponnesian peninsula to the mainland. A structure this size obviously has a significant impact on the region and its people: to find out more, turn to the following chapter.

Why is it worth listening to what a bridge pier can tell you?

Consolidated Annual
Financial Statements

"In the past we were divided by the sea, whereas now we are united by the bridge."

Christos Liakopoulos, Mayor of Rio, and Giorgos Kolovos, Mayor of Antirrio In the past, when the mayors of Rio and Antirrio wanted to discuss something, they usually had to content themselves with a phone call, and if they wanted to meet, one of them had to take a time-consuming ferry trip. Now, however, the journey from one town hall to the other takes less than ten minutes. "For everybody here, the bridge is much more than just a road link," explains Christos Liakopoulos, Mayor of Rio. "The bridge brings us closer together," confirms Giorgos Kolovos, Mayor of Antirrio, giving his colleague a friendly pat on the shoulder – something else he couldn't have done in a phone call.

"We listen to the bridge – 24 hours a day, 365 days a year."

Philip Corbett, Head of Inspections and Maintenance Coordinator for the bridge Philip Corbett listens to absolutely everything. As Head of Inspections for the bridge that is almost 2.9 kilometers in length, he coordinates inspections and maintenance work. "Our work entails such things as checking the condition of the concrete or looking for signs of corrosion in the steel," he explains. The 30-year-old native of Britain and his team have to continuously monitor hundreds and hundreds of different parameters, and no suspicious sound or oscillation escapes them. It was while at work on the bridge that Philip Corbett noticed Chara, a young lady from Antirrio who also worked for the bridge-operating company. They have since got married, proving that bridges do far more than just bring towns closer together.

Contents Consolidated Annual Financial Statements

"It's far more interesting than sitting in an office!"

Kakiana Kakou, toll collector For that is where Kakiana Kakou would be working now if everything had gone according to plan. The 28-year-old originally applied to the operating company for a job as an accountant, but there were no positions available at the time, so they offered her a job in the tollbooth. She accepted, and has absolutely no regrets. One thing she particularly enjoys about her job is dealing with all different kinds of people: "You also really get a feeling for how important this bridge is to the region and to Greece."

I. Consolidated Income Statement

in T€	Note	FY 2007	FY 2006
Sales	(1)	10,192,259	8,447,213
Increase/decrease in finished goods and work in process/ other own work capitalized	(2)	213,919	11,644
		10,406,178	8,458,857
Other operating income	(3)	278,628	1,323,763
Cost of materials	(4)	6,881,087	5,739,038
Personnel expenses	(5)	1,232,313	1,013,812
Amortization and depreciation	(6)	225,112	201,074
Other operating expenses	(7)	1,039,943	1,026,803
Income from shareholdings	(8)	2,091	2,274
Income from associated companies	(9)	9,519	87,667
Impairment losses on financial assets	(10)	5,600	218
Finance income	(11)	116,022	79,547
Finance expenses	(11)	114,472	116,405
Result of ordinary activities		**1,313,911**	**1,854,758**
Income tax	(12)	408,766	345,200
Consolidated net income for the financial year		**905,145**	**1,509,558**

Appropriation of profit in T€	Note	FY 2007	FY 2006
Consolidated net income for the financial year		905,145	1,509,558
Profit carried forward from the previous year		126,500	64,500
Minority interests	(13)	4,003	1,901
Dividend payments		– 114,183	– 56,897
Appropriation to other retained earnings		– 723,759	– 1,388,760
Unappropriated retained earnings		**189,700**	**126,500**

Undiluted earnings per share (in €)	**(14)**	**15.80**	**26.50**
Diluted earnings per share (in €)	**(14)**	**15.80**	**26.50**

II. Consolidated Balance Sheet

Assets in T€	Note	31/12/2007	31/12/2006
Non-current assets			
Intangible assets			
Goodwill	(15)	15,344	–
Other intangible assets	(16)	119,537	18,803
		134,881	18,803
Property, plant and equipment	(17)	1,797,818	1,423,389
Investment property	(18)	26,528	–
Financial assets	(19)	108,790	61,904
Associated companies	(20)	84,102	74,208
Deferred tax assets	(21)	12,988	49,101
Other receivables and other assets	(22)	2,856	3,348
		2,167,963	**1,630,753**
Current assets			
Inventories	(23)	2,084,429	1,653,099
Trade receivables	(24)	1,521,044	1,108,260
Other receivables and other assets	(25)	359,356	176,277
Income tax assets	(26)	114,192	23,950
Securities	(27)	20,383	27,691
Cash and cash equivalents	(27)	2,138,823	2,344,989
		6,238,227	**5,334,266**
Non-current assets held for sale	(28)	–	12,559
		6,238,227	**5,346,825**
		8,406,190	**6,977,578**

Equity and liabilities in T€	Note	31/12/2007	31/12/2006
Equity			
Subscribed capital	(29)	161,615	161,615
Capital reserve	(30)	295,343	295,343
Retained earnings	(31)	3,777,644	3,023,931
Unappropriated retained earnings	(32)	189,700	126,500
		4,424,302	3,607,389
Treasury shares		–227,834	–160,354
		4,196,468	3,447,035
Minority interests	(33)	49,399	9,666
		4,245,867	**3,456,701**
Non-current liabilities			
Provisions for pensions and similar obligations	(34)	1,791,745	1,714,837
Deferred tax liabilities	(21)	94,027	43,870
Income tax liabilities	(26)	214,236	170,758
Other provisions	(35)	192,557	167,405
Financial liabilities	(36)	87,437	89,649
		2,380,002	**2,186,519**
Current liabilities			
Other provisions	(35)	325,597	237,737
Financial liabilities	(37)	98,533	102,635
Trade payables	(38)	760,666	602,007
Income tax liabilities	(26)	19,705	49,150
Other liabilities	(39)	575,820	342,829
		1,780,321	**1,334,358**
		8,406,190	**6,977,578**

III. Statement of Recognized Income and Expense

in T€	FY 2007	FY 2006
Changes in the financial year recorded directly in equity		
Changes in currency translation	–9,934	3,580
Change in value reserve from hedging transactions		
Changes in current value recorded directly in equity	6,879	7,862
Recognition of settled hedging transactions with effect on income	–1,486	–6,376
Changes in value of financial assets in the "available-for-sale assets" category		
Changes in current value recorded directly in equity	27,063	1,196
Recognition from the sale of securities with effect on income	–1,139	–3,566
Actuarial gains and losses	39,374	–9,135
Deferred tax on current changes without effect on income	–47,918	3,664
Other changes without effect on income	1,720	776
	14,559	**–1,999**
Consolidated net income for the financial year	**905,145**	**1,509,558**
Total profit pursuant to IAS 1.97 in conjunction with IAS 19.93B	**919,704**	**1,507,559**
Total profit due to Salzgitter AG shareholders	914,411	1,505,665
Total profit due to minority interests	5,293	1,894
	919,704	**1,507,559**

(43) Cash Flow Statement

in T€	FY 2007	FY 2006
Earnings before tax (EBT)	1,313,911	1,854,758
Depreciation, write-downs (+)/write-ups (–) on fixed assets	195,708	201,292
Income tax paid	–412,455	–170,421
Other non-payment-related expenses (+)/income (–)	100,023	–56,497
Interest expenses	114,472	116,405
Increase (–)/decrease (+) from the disposal of fixed assets	–2,751	–934,756
Increase (–)/decrease (+) in inventories	–214,982	–222,782
Increase (–)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	–79,654	–158,565
Use of provisions affecting payments, excluding income tax provisions	–229,922	–205,824
Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	–3,343	64,087
Cash flow from operating activities	**781,007**	**487,697**
Cash inflow from the disposal of fixed assets	14,413	23,902
Cash outflow for investments in intangible and tangible fixed assets	–372,778	–230,778
Cash inflow (+)/outflow (–) for short-term loans against borrower's note/bonds	–25,000	50,000
Cash inflow from the disposal of financial assets	37,895	1,247,064
Cash outflow for investments in financial assets	–399,671	–13,393
Cash flow from investment activities	**–745,141**	**1,076,795**
Cash inflow (+)/outflow (–) as a result of selling and repurchasing treasury shares	–85,705	–71
Cash outflow in payments to company owners	–114,183	–56,897
Cash inflow (+)/outflow (–) as a result of the issuing of bonds, borrowings and other financial liabilities	–7,541	–7,027
Interest paid	–34,603	–40,405
Cash flow from financing activities	**–242,032**	**–104,400**
Cash and cash equivalents at the start of the period	2,344,989	884,897
Payment-related changes in cash and cash equivalents	–206,166	1,460,092
Cash and cash equivalents at the end of the period	**2,138,823**	**2,344,989**

“Of course you need a head for heights.”

Nikolaos Andreopoulos, Foreman “Safety first,” says Nikolaos Andreopoulos, checking the karabiner on his safety rope before he climbs over the bridge railings and abseils down 52 meters. Andreopoulos is the foreman of the maintenance team, a job that demands skills more usual in the Alps. Sometimes he abseils down from the bridge deck to check bridge sections, sometimes he climbs up one of the 160-meter pylons. Don’t you ever feel dizzy up there? “No,” laughs Andreopoulos, “it’s everyday routine for us.” It makes you ask yourself what it would take to make Andreopoulos lose sleep ...

Statement of Changes in Equity

in T€	Subscribed capital	Capital reserve	Purchase/ repurchase of treasury shares	Other retained earnings	Reserve from currency translation
As per January 1, 2006	**161,615**	**295,343**	**–160,283**	**1,819,755**	**–19,571**
Net income for the financial year	–	–	–	–	–
Dividend	–	–	–	–	–
Exercise of warrant-linked bonds	–	–	–	–	–
Disposal of treasury shares	–	–	63	–	–
Repurchase of treasury shares	–	–	–134	–	–
Currency translation	–	–	–	–	3,580
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	–	–	–	1,388,760	–
Deferred tax on changes without effect on income	–	–	–	–	–
Other	–	–	–	–4,051	–
As per December 31, 2006	**161,615**	**295,343**	**–160,354**	**3,204,464**	**–15,991**
Goodwill resulting from IFRS 3 and IAS 27	–	–	–	7,659	–
Net income for the financial year	–	–	–	–	–
Dividends	–	–	–	–	–
Disposal of treasury shares	–	–	18,224	–	–
Repurchase of treasury shares	–	–	–85,704	–	–
Currency translation	–	–	–	–	–9,934
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	–	–	–	723,758	–
Changes in the consolidated group	–	–	–	–	–
Deferred tax on changes without effect on income	–	–	–	–	–
Other	–	–	–	7,737	–
As per December 31, 2007	**161,615**	**295,343**	**–227,834**	**3,943,618**	**–25,925**

Changes in the value of the reserve from hedging transactions	Changes in the value of the reserve from available-for-sale assets	Other changes in equity with no effect on income	Unappropriated retained earnings	Equity (excluding minority interests)	Minority interests	Equity
1,948	**7,332**	**–168,243**	**64,500**	**2,002,396**	**9,232**	**2,011,628**
–	–	–	1,507,657	1,507,657	1,901	1,509,558
–	–	–	–56,897	–56,897	–1,211	–58,108
–	–	–	–	–	–	–
–	–	–	–	63	–	63
–	–	–	–	–134	–	–134
–	–	–	–	3,580	–	3,580
1,486	–2,370	–	–	–884	–	–884
–	–	–9,135	–	–9,135	–	–9,135
–	–	–	–1,388,760	–	–	–
–	–	3,664	–	3,664	–	3,664
–	–	776	–	–3,275	–256	–3,531
3,434	**4,962**	**–172,938**	**126,500**	**3,447,035**	**9,666**	**3,456,701**
–	–	–	–	7,659	–8,772	–1,113
–	–	–	901,141	901,141	4,003	905,144
–	–	–	–114,183	–114,183	–2,339	–116,522
–	–		–	18,224	–	18,224
–	–	–	–	–85,704	–	–85,704
–	–	–	–	–9,934	–	–9,934
5,393	25,924	–	–	31,317	–	31,317
–	–	39,374	–	39,374	–	39,374
–	–	–	–723,758	–	–	–
–	–	–	–	–	47,274	47,274
–	–	–47,918	–	–47,918	–	–47,918
–	–	1,720	–	9,457	–433	9,024
8,827	30,886	–179,762	189,700	4,196,468	49,399	4,245,867

(45) Segment Reporting

in T€	Steel		Trading	
	FY 2007	FY 2006	FY 2007	FY 2006
External sales	2,851,962	2,439,841	4,384,766	3,971,047
Sales to other segments	971,153	824,244	430,276	287,445
Sales in own segment	–	–	163,639	199,649
Sales to Group companies that cannot be allocated to an operating segment	144,261	85,506	42,526	55,352
Segment sales[1)]	3,967,376	3,349,591	5,021,207	4,513,493
Interest income (consolidated)	132	1,426	9,410	6,802
Interest income from other segments	–	–	–	–
Interest income in own segment	–	–	11,257	7,583
Interest income from Group companies that cannot be allocated to an operating segment	3,850	2,213	735	407
Segment interest income[1)]	3,982	3,639	21,402	14,792
Interest expenses (consolidated)	9,346	9,026	15,751	16,932
Interest expenses to other segments	–	–	121	–
Interest expenses in own segment	–	–	11,257	7,583
Interest expenses to Group companies that cannot be allocated to an operating segment	17,116	26,049	14,914	8,034
Segment interest expenses[1)]	26,462	35,075	42,043	32,549
Scheduled depreciation of tangible fixed assets and amortization of intangible assets (excluding impairment costs in accordance with IAS 36)	146,579	139,706	10,585	10,932
Unscheduled depreciation (impairment costs in accordance with IAS 36) of tangible fixed assets and amortization of intangible assets[2)]	–	5,272	–	–
Reversals of impairment losses of tangible fixed assets and intangible assets[2)]	28,681	–	12	–
Unscheduled write-downs (impairment costs in accordance with IAS 36) on financial assets[2)]	–	–	–	–
Result for the period in the segment	749,405	433,781	212,462	200,899
of which income from associated companies	3,741	966	–	–
Expenses and income with no effect on earnings	–5,025	58,738	30,134	24,646
Segmental operating assets	2,102,555	1,922,231	1,339,258	1,240,782
of which shares in associated companies	3,983	966	–	–
Investments in tangible fixed assets and intangible assets[3)]	246,237	161,477	13,189	13,554
Segmental operating liabilities	1,498,683	1,392,405	1,143,701	1,146,888

Tubes		Services		Technology		Total segments	
FY 2007	FY 2006	FY 2007	FY 2006	FY 2007	FY 2006	FY 2007	FY 2006
1,815,334	1,509,561	503,961	425,368	512,610	–	10,068,633	8,345,817
624,056	549,585	661,140	592,916	18	–	2,686,643	2,254,190
163,726	135,207	19,066	15,509	53,349	–	399,780	350,365
568	479	4,608	9,556	–	–	191,963	150,893
2,603,684	2,194,832	1,188,775	1,043,349	565,977	–	13,347,019	11,101,265
3,337	2,095	1,063	717	2,061	–	16,003	11,040
121	–	–	–	–	–	121	–
–	–	114	108	3,205	–	14,576	7,691
1,908	976	12,955	10,179	–	–	19,448	13,775
5,366	3,071	14,132	11,004	5,266	–	50,148	32,506
8,418	9,362	13,310	11,909	6,201	–	53,026	47,229
–	–	–	–	–	–	121	–
–	–	114	108	3,205	–	14,576	7,691
11,873	8,566	1,702	1,548	241	–	45,846	44,197
20,291	17,928	15,126	13,565	9,647	–	113,569	99,117
27,431	21,915	21,878	21,260	10,345	–	216,818	193,813
–	–	3,619	–	–	–	3,619	5,272
5,937	–	–	–	374	–	35,004	–
–	18	–	200	–	–	–	218
302,466	262,876	40,389	15,435	4,037	–	1,308,759	912,991
5,778	86,701	–	–	–	–	9,519	87,667
3,838	–21,887	18,782	33,232	–14,584	–	33,145	94,729
1,413,302	1,010,995	561,038	548,730	862,123	–	6,278,276	4,722,738
80,119	73,242	–	–	–	–	84,102	74,208
70,784	36,223	37,999	24,642	15,058	–	383,267	235,896
1,038,552	806,504	474,594	497,424	851,108	–	5,006,638	3,843,221

1) The segmental sales, interest income and interest expenses within the Steel Division contain no intrasegmental variables. In the Tubes Division, the intrasegmental variables within EP, Präzisrohr and the DMV Group are not included

2) The unscheduled depreciation and amortization and the reversals of losses are reported in full in the result for the period

3) Increases in non-current assets (excluding financial instruments, deferred tax assets, payments after the end of employment relationships, rights from insurance contracts), IFRS 8.24b

Analysis of Fixed Assets 2007

in T€	Acquisition and production costs						
	1/1/2007	Currency translation differences	Changes in cons. group	Additions	Disposals	Transfers	31/12/2007
Intangible assets							
Goodwill	–	–	–	15,344	–	–	15,344
Concessions, industrial property rights and similar rights and assets, including licenses to such rights and assets	91,923	–126	99,475	12,594	1,225	836	203,477
Payments made on account	495	–	109	1,631	2	–482	1,751
	92,418	**–126**	**99,584**	**29,569**	**1,227**	**354**	**220,572**
Property, plant and equipment							
Land, similar rights and buildings, including buildings on land owned by others	1,009,926	– 2,148	106,125	11,547	10,168	1,607	1,116,889
Plant equipment and machinery	4,043,237	– 3,935	64,270	138,249	81,819	32,191	4,192,193
Other equipment, factory and office equipment	239,091	– 389	20,492	27,870	12,884	1,661	275,841
Payments made on account and equipment under construction	84,815	–50	13,125	192,911	97	– 37,283	253,421
	5,377,069	**–6,522**	**204,012**	**370,577**	**104,968**	**–1,824**	**5,838,344**
Investment property	**–**	**–103**	**25,384**	**–**	**203**	**1,470**	**26,548**
Financial assets							
Shares in affiliated companies	45,076	–	19,593	2,012	7,973	–	58,708
Shareholdings	24,932	– 360	2,701	6,315	6,336	–	27,252
Loans to affiliated companies	–	–	1,493	–	–	–	1,493
Non-current securities	16,292	–	76	30,300	392	–	46,276
Other loans	1,643	–26	10,750	150	8,940	–	3,577
	87,943	**–386**	**34,613**	**38,777**	**23,641**	**–**	**137,306**
Associated companies							
Shares in associated companies	**74,208**	–	–	**9,894**	–	–	**84,102**
	5,631,638	**–7,137**	**363,593**	**448,817**	**130,039**	**–**	**6,306,872**

Valuation allowances								Book values	
1/1/2007	Currency translation differences	Changes in cons. group	Reversal of impairment losses	Amortization and depreciation in the financial year[1)]	Disposals	Transfers	31/12/2007	31/12/2007	31/12/2006
–	–	–	–	–	–	–	–	15,344	–
73,615	–105	–	–	13,295	1,114	–	85,691	117,786	18,308
–	–	–	–	–	–	–	–	1,751	495
73,615	**–105**	**–**	**–**	**13,295**	**1,114**	**–**	**85,691**	**134,881**	**18,803**
609,295	–479	–	10	20,061	8,721	–	620,146	496,743	400,631
3,149,800	–2,734	–	34,430	166,404	66,297	2,791	3,215,534	976,659	893,437
187,819	–192	–	187	25,299	11,871	–	200,868	74,973	51,272
6,766	–	–	–	3	–	–2,791	3,978	249,443	78,049
3,953,680	**–3,405**	**–**	**34,627**	**211,767**	**86,889**	**–**	**4,040,526**	**1,797,818**	**1,423,389**
–	**–**	**–**	**–**	**50**	**30**	**–**	**20**	**26,528**	**–**
19,649	–	–	12	5,600	461	–	24,776	33,932	25,427
6,325	–	–	363	–	2,870	–	3,092	24,160	18,607
–	–	–	–	–	–	–	–	1,493	–
–	–	–	–	–	–	–	–	46,276	16,292
65	–	587	2	–	2	–	648	2,929	1,578
26,039	**–**	**587**	**377**	**5,600**	**3,333**	**–**	**28,516**	**108,790**	**61,904**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**84,102**	**74,208**
4,053,334	**–3,510**	**587**	**35,004**	**230,712**	**91,366**	**–**	**4,154,753**	**2,152,119**	**1,578,304**

1) The impairments (unscheduled amortization and depreciation) contained in this item are summarized under Note 6

Analysis of Fixed Assets 2006

in T€	Acquisition and production costs						
	1/1/2006	Currency translation differences	Changes in cons. group	Additions	Disposals	Transfers	31/12/2006
Intangible assets							
Goodwill	1,224	–	–	–	1,224	–	–
Concessions, industrial property rights and similar rights and assets, including licenses to such rights and assets	94,524	–113	1,471	2,712	6,831	160	91,923
Payments made on account	252	–	–	277	–	–34	495
	96,000	**–113**	**1,471**	**2,989**	**8,055**	**126**	**92,418**
Property, plant and equipment							
Land, similar rights and buildings, including buildings on land owned by others	974,737	–1,022	10,186	27,613	4,129	2,541	1,009,926
Plant equipment and machinery	4,021,732	–3,600	–7,074	119,564	115,375	27,990	4,043,237
Other equipment, factory and office equipment	235,970	–246	1,236	20,239	19,023	915	239,091
Payments made on account and equipment under construction	51,024	–116	–436	65,927	12	–31,572	84,815
	5,283,463	**–4,984**	**3,912**	**233,343**	**138,539**	**–126**	**5,377,069**
Financial assets							
Shares in affiliated companies	45,368	–	–	562	854	–	45,076
Shareholdings	31,324	–	–296	3,470	8,174	–1,392	24,932
Non-current securities	27,888	–	–	3,261	16,249	1,392	16,292
Other loans	4,705	–	–117	226	3,171	–	1,643
	109,285	**–**	**–413**	**7,519**	**28,448**	**–**	**87,943**
Associated companies							
Shares in associated companies	**301,493**	**–**	**–**	**89,883**	**317,168**	**–**	**74,208**
	5,790,241	**–5,097**	**4,970**	**333,734**	**492,210**	**–**	**5,631,638**

Valuation allowances								Book values	
1/1/2006	Currency translation differences	Changes in cons. group	Reversal of impairment losses	Amortization and depreciation in the financial year[1)]	Disposals	Transfers	31/12/2006	31/12/2006	31/12/2005
–	–	–	–	–	–	–	–	–	1,224
72,592	−113	1,462	–	6,201	6,527	–	73,615	18,308	21,932
–	–	–	–	–	–	–	–	495	252
72,592	**−113**	**1,462**	**–**	**6,201**	**6,527**	**–**	**73,615**	**18,803**	**23,408**
590,448	−479	2,981	–	17,675	1,330	–	609,295	400,631	384,289
3,098,451	−2,833	−4,445	–	154,555	98,714	2,786	3,149,800	893,437	923,281
184,870	−192	1,637	–	19,246	17,742	–	187,819	51,272	51,100
6,160	–	–	–	3,397	5	−2,786	6,766	78,049	44,864
3,879,929	**−3,504**	**173**	**–**	**194,873**	**117,791**	**–**	**3,953,680**	**1,423,389**	**1,403,534**
20,452	–	–	–	–	803	–	19,649	25,427	24,916
8,085	–	–	–	200	1,960	–	6,325	18,607	23,239
–	–	–	–	–	–	–	–	16,292	27,888
2,479	–	–	–	18	2,432	–	65	1,578	2,226
31,016	**–**	**–**	**–**	**218**	**5,195**	**–**	**26,039**	**61,904**	**78,269**
–	–	–	–	–	–	–	–	**74,208**	**301,493**
3,983,537	**−3,617**	**1,635**	**–**	**201,292**	**129,513**	**–**	**4,053,334**	**1,578,304**	**1,806,704**

[1)] The impairments (unscheduled amortization and depreciation) contained in this item are summarized under Note 6

Material Participations of Salzgitter AG

Status: 31/12/2007	Equity in € or national currency (1,000 units)		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)]		1,001		100.00
HSP Hoesch Spundwand und Profil GmbH, Dortmund[1)]		16,225		100.00
ThyssenKrupp GfT Bautechnik GmbH, Essen[3)]		1,400		30.00
Salzgitter Europlatinen GmbH, Salzgitter[1)]		4,875		100.00
Trading Division				
Hövelmann & Lueg GmbH, Schwerte[1)]		2,942	5.10	94.90
Flachform Stahl GmbH, Schwerte[1)]		7,548		100.00
Salzgitter Mannesmann Handel GmbH, Düsseldorf[1)]		57,693	5.10	94.90
Salzgitter Mannesmann International GmbH, Düsseldorf[1)]		10,300		100.00
Salzgitter Mannesmann Stahlhandel GmbH, Düsseldorf[1)]		22,729		100.00
Deltastaal B.V., Oosterhout (Netherlands)[1)]		56,614		100.00
Friesland Staal B.V., Drachten (Netherlands)[1)]		12,529		100.00
Stahl-Center Baunatal GmbH, Baunatal[1)]		5,200		100.00
Salzgitter Handel B.V., Oosterhout (Netherlands)[1)]		73,335		100.00
Salzgitter Mannesmann International (Canada) Inc., Vancouver (Canada)[1)]	CAD	19,700		100.00
Universal Eisen und Stahl GmbH, Neuss[1)]		14,975	5.10	94.90
Salzgitter Mannesmann International (USA) Inc., Houston/Texas (USA)[1)]	USD	20,485		100.00
Tubes Division				
Salzgitter Großrohre GmbH, Salzgitter[1)]		6,162	5.10	94.90
Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr[1)]		1,000		100.00
Mannesmannröhren Mülheim GmbH, Mülheim an der Ruhr[1)]		10,226		100.00
Vallourec Précision Etirage S.A.S., Cheu – Saint Florentin (France)[1)]		66,304		100.00
Mannesmann Präzisrohr GmbH, Hamm[1)]		37,748		100.00
Mannesmann Robur B.V., Helmond (Netherlands)[1)]		9,826		100.00
Mannesmannrohr Sachsen GmbH, Zeithain[1)]		14,476		100.00
Mannesmannring Sachsen GmbH, Zeithain[1)]		50,234		100.00
EUROPIPE GmbH, Mülheim an der Ruhr[2)]		216,877		50.00
Europipe France S.A., Grande-Synthe (France)[2)]		–442		100.00
Berg Steel Pipe Corporation, Panama City, Florida (USA)[2)]	USD	96,731		100.00
eb Pipe Coating, Inc., Panama City, Florida (USA)[2)]	USD	7,553		100.00
MÜLHEIM PIPECOATINGS GmbH, Mülheim an der Ruhr[2)]		49,996		100.00
Mannesmann Fuchs Rohr GmbH, Siegen-Kaan[1)]		19,339		100.00
Mannesmann DMV Stainless GmbH, Mülheim an der Ruhr[1)]		15,000		100.00

Status: 31/12/2007	Equity in € or national currency (1,000 units)		Share of capital	
			direct in %	indirect in %
Tubes Division (continued)				
Hüttenwerke Krupp Mannesmann GmbH, Duisburg[3]		122,744		30.00
Mannesmann DMV Stainless France S.A.S., Montbard (France)[1]		31,429		100.00
Mannesmann DMV Stainless Italia S.r.l., Costa Volpino (Italy)[1]		12,942		100.00
Mannesmann DMV Stainless Deutschland GmbH, Remscheid[1]		14,060		100.00
Mannesmann DMV Stainless USA Inc., Houston/Texas (USA)[1]	USD	23,955		100.00
Services Division				
DEUMU Deutsche Erz- und Metall-Union GmbH, Peine[1]		10,674	5.10	94.90
Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter[1]		19,599	5.10	94.90
Hansaport Hafenbetriebsgesellschaft mbH, Hamburg[1]		5,113		51.00
Salzgitter Automotive Engineering Beteiligungs-gesellschaft mbH, Osnabrück[1]		12,980	100.00	
SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter[1]		26		100.00
Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück[1]		7,233		100.00
Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück[1]		16		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	5.19	94.81
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
Technology Division				
Klöckner-Werke AG, Duisburg[1]		228,334		86.08
KHS AG, Dortmund[1]		207,116		100.00
KHS USA Inc., Waukesha (USA)[1]	USD	50,968		100.00
KHS Industria de Máquinas Ltda., São Paulo (Brazil)[1]	BRL	25,582		100.00
KHS Mexico S.A. de C.V., Zinacantepec (Mexico)[1]	MXN	99,785		100.00
KHS Machinery Pvt. Ltd., Ahmedabad (India)[1]	INR	311,093		89.00
KHS Pacific Pty. Ltd., Tullamarine (Australia)[1]	AUD	1,908		100.00
KHS Manufacturing (South Africa) (Pty.) Ltd., Kramerville (South Africa)[1]	ZAR	16,839		100.00
KHS RUS OOO, Moskau (Russia)[1]	RUB	56,384		99.00
IRKAS Beteiligungs GmbH & Co. Vermietung-KG, Munich[1]		15,142		99.00
Klöckner Mercator Maschinenbau GmbH, Duisburg[1]		102,320		100.00
Klöckner DESMA Elastomertechnik GmbH, Fridingen[1]		3,835		85.00
Klöckner DESMA Schuhmaschinen GmbH, Achim[1]		5,113		100.00
Klöckner Hänsel Processing GmbH, Hanover[1]		3,941		100.00
RSE Grundbesitz und Beteiligungs-Aktiengesellschaft, Frankfurt[1]		21,494		99.56
Other				
Salzgitter Mannesmann GmbH, Salzgitter[1]		2,564,174	100.00	

1) Fully consolidated
2) Proportionately consolidated
3) At equity

“We get more local customers now.”

Antonis Stamatopoulos, snack bar owner The colossal pylons of the bridge in whose shadow Antonis Stamatopoulos sells his specialties reflect the huge change that has taken place in this region thanks to the giant bridge. Stamatopoulos, too, has noticed the change: in the past his customers were mainly car and truck drivers waiting for the ferry, but things are very different now. “We are focusing far more on quality, so we are attracting a lot of local customers,” he says. One thing hasn’t changed, however: “Mustard or ketchup?” he still asks as he serves up the aromatic souvlaki skewers from the window of his mobile snack bar.


ΣΟΥΒΛΑΚΙ ΤΣΙΓΑΡ
ΚΑΦΕ ΤΣΙΓΑΡΑ ΣΟΥ

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 reporting date by EU Directive 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 picture of the Salzgitter Group's net assets, financial position and results of operations.

Impact of new or amended standards:

Standard/Interpretation		Mandatory date	Adoption by EU commission[1]	Likely effects
IFRS 7	Financial Instruments: Disclosures	01/01/2007	yes	Notes to the financial statements
IFRS 8	Operating Segments	01/01/2009[2]	yes	Segmental reporting
IAS 1	Presentation of Financial Statements – Capital Disclosures	01/01/2007	yes	Notes to the financial statements
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	01/03/2006	yes	none
IFRIC 8	Scope of IFRS 2	01/05/2006	yes	none
IFRIC 9	Reassessment of Embedded Derivatives	01/06/2006	yes	no material effects
IFRIC 10	Interim Financial Reporting and Impairment	01/11/2006	yes	none
IFRIC 11	Group and Treasury Share Transactions in Accordance with IFRS 2	01/02/2007	yes	none

1) As of December 31, 2007

2) Early application in 2007

Standards that were not applied prematurely:

Standard/Interpretation		Mandatory date	Adoption by the EU commission[1]	Likely effects
IAS 1	Presentation of Financial Statements	01/01/2009	no	Reclassification of the financial statement parts
IAS 23	Borrowing Costs	01/01/2009	no	not foreseeable
IFRIC 12	Service Concession Arrangements	01/01/2008	no	none
IFRIC 13	Customer Loyalty Programmes	01/07/2008	no	none
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01/01/2008	no	not foreseeable

[1] As of December 31, 2007

As a listed holding 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 in the electronic German Federal Gazette (Bundesanzeiger). The Salzgitter AG company, entered in the Commercial Register at Braunschweig District Court under HRB 9207, has its headquarters in Salzgitter. The address of the Executive Board of Salzgitter AG is Eisenhüttenstraße 99, D-38239 Salzgitter.

The financial year of Salzgitter AG and its subsidiaries included in the consolidated financial statements corresponds to the calendar year. Subsidiaries which have a different balance sheet date prepared interim financial statements on the Group reporting date. The financial statements were prepared in euros.

On December 13, 2007, 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 "Corporate Governance Report" section in the annual 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 attains the possibility of exercising control over them. If this possibility is no longer given, these companies are 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 equity revaluation 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 until 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 recognized 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 reserved.

According to IAS 31, a joint venture exists if two or more partners are engaged in conducting a business activity under joint control. 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 where 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 most recently audited set of annual financial statements.

Business combinations are accounted for in accordance with IFRS 3.14 using the purchase method. The acquirer in such cases is the entity which has gained control of the acquired company, with the result that it can derive benefits from that company. The acquisition costs of the business combination determined in accordance with IFRS 3.24 are spread over the acquired assets and assumed liabilities in accordance with IFRS 3.36f.

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

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

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

Interim profits deriving from intragroup 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 disclosed in the electronic German Federal Gazette ("Elektronischer Bundesanzeiger").

Consolidated Group

In addition to the annual financial statements of the holding company, the consolidated financial statements include the annual financial statements of 45 (2006: 35) domestic and 17 (2006: 9) foreign affiliated companies, all prepared as of the same reporting date.

Two domestic (2006: two) and three foreign (2006: three) joint ventures are included on a proportionate basis in the consolidated financial statements by means of proportionate consolidation.

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

in T €	FY 2007	FY 2006
Non-current assets	86,955	52,311
Current assets	214,882	128,352
Non-current liabilities	27,207	28,100
Current liabilities	70,458	70,705
Earnings	464,290	407,338
Expenses	409,059	431,095

As in 2006, two domestic shareholdings over which Salzgitter AG or another Group company exercises a significant influence are included in the consolidated financial statements using the equity method.

A total of 26 (2006: 17) domestic and 54 (2006: 27) foreign subsidiaries have not been consolidated due to their minor overall significance for the Group's net assets, financial position and results of operations.

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 31/12/2006	Additions	Disposals	Status 31/12/2007
Consolidated subsidiaries	**44**	**18**	–	**62**
of which domestic	35	10	–	45
of which foreign	9	8	–	17
Joint ventures	**5**	–	–	**5**
of which domestic	2	–	–	2
of which foreign	3	–	–	3
Associated companies	**2**	–	–	**2**
of which domestic	2	–	–	2
of which foreign	–	–	–	–

The additions of the fully consolidated companies relate to the Technology and Tubes Divisions.

On March 8, 2007, Salzgitter AG concluded a contract on the sale of 77.9% of the shares in Klöckner-Werke AG, Duisburg, with the insolvency administrator of WCM-Gruppe, Frankfurt am Main. A shareholding of 70.7% in RSE Grundbesitz und Beteiligungs-AG (RSE), Frankfurt am Main, was simultaneously transferred as part of the package. 26.6% of RSE is held by Klöckner-Werke AG. Furthermore, it was announced on March 15, 2007, that the Salzgitter Group had acquired an additional 4.3% of the Klöckner-Werke shares. After all the closing requirements had been fulfilled, 15 companies in all (8 domestic and 7 foreign) were included for the first time by way of full consolidation as of July 1, 2007. The companies in question mainly manufacture machinery in the filling and packaging technology sector (KHS Group), and also operate in the fields injection molding, direct top-capping and machinery for confectionery production. The first-time consolidation of these companies resulted in goodwill of € 15.3 million. After control was achieved, a further 3.1% of the shares in Klöckner-Werke AG were acquired. The difference between the purchase price and the equity acquired proportionately was recorded under equity with no effect on income.

In the Tubes Division, 100% of Vallourec Précision Etirage S.A.S., Saint Florentin, France, and assets and liabilities belonging to Rohrwerk Zeithain were acquired from Vallourec & Mannesmann Deutschland GmbH, Düsseldorf. The company's operations extend to the production of precision steel tubes.

Rohrwerk Zeithain's assets and debts were integrated into Mannesmannrohr Sachsen GmbH, Zeithain. The first-time consolidation resulted in negative goodwill of € 8.1 million.

Currency Translation

In the individual annual financial statements of the Group companies, business transactions in foreign currencies are valued at the exchange rate prevailing at the time when they were first recorded. Exchange rate-induced losses incurred due to the valuation of receivables and/or liabilities up to the reporting date are taken into consideration. Gains and losses resulting from changes in exchange rates are reported through profit and loss.

The annual financial statements of the foreign subsidiaries are translated into euros in accordance with the concept of functional currency. Since, from the point of view of Salzgitter AG, all of these companies are generally independent in the execution of their business in financial, commercial and organizational terms, the respective functional currency corresponds to the currency of the country in which these companies are incorporated. Assets and liabilities are translated at the exchange rate prevailing on the reporting date; the positions in the income statement, and thus the result for the year disclosed 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 similar 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	Exchange rate on reporting date		Average exchange rate	
	31/12/2007	31/12/2006	FY 2007	FY 2006
Australian dollar	1.6757	1.6691	1.6348	1.6668
Brazilian real	2.6130	2.8152	2.6693	2.7336
Indian rupee	58.0818	58.2272	56.6080	56.7964
Canadian dollar	1.4449	1.5281	1.4678	1.4237
Mexican peso	16.0887	14.2604	14.9876	13.6845
Russian rouble	35.9860	34.6800	35.0183	34.1124
South African rand	10.0298	9.2124	9.6596	8.5223
US dollar	1.4721	1.3170	1.3705	1.2556

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 IASB standards.

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 fair value.

Estimates and Assumptions

When the consolidated financial statements were drawn up, estimates and assumptions were made that impacted the amounts and the reporting of the assets and liabilities, the revenues and expenses 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, reviewed annually for impairment and, if necessary, amortized.

Any negative goodwill arising will, in accordance with IFRS 3, be recognized immediately through profit and loss 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. The assets identified within the framework of purchase price allocations are subject to scheduled amortization using the straight-line method over periods of between 15 and 19 years.

Intangible assets generated internally are capitalized if it is probable that their future economic benefit 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 to ensure that it is in good working 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 sale. Moreover, capitalization presupposes that development costs will, with sufficient probability, be covered by future inflows of cash and cash equivalents. The development process must be distinguished from a research phase. Development is the application of the research result and takes place before the start of commercial production or use. If the prerequisites for capitalization are not satisfied, the expenses are set off through profit and loss in their year of origin.

The acquisition or production costs in question encompass all costs which are directly attributable to the development process, as well as the parts of the development-related overhead costs which are also directly attributable. They are amortized from the start of production onwards on a straight-line basis over the likely economic useful life of the developed asset models, which is generally five years.

Property, Plant and Equipment

Property, plant and equipment are valued at acquisition or production cost less accumulated depreciation and impairment 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 recoverable 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 property, plant and equipment are determined on the basis of directly attributable costs and estimated demolition and restoration costs.

The costs incurred in the regular maintenance and repair of property, plant and equipment are recognized as expenses. Renewal and maintenance expenses are capitalized as subsequent production costs only 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 property, plant and equipment.

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

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

Economic useful lives	maximum
Buildings	50 years
Technical equipment and machinery	
Locomotives, track systems	30 years
Blast furnaces, steelworks, continuous casting lines, crane systems	20 years
Surface coating plants, rolling mills, coking plants	15 years
Plant equipment, spare parts	10 years
Car pool	5 years
Factory and office equipment	5 years

Leases

The Group operates as both a lessee and a lessor. When leased property, plant and equipment are used, the prerequisites of finance leases in accordance with IAS 17 are fulfilled if all substantial risks and rewards 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 property, plant and equipment are capitalized at acquisition or production cost or at the lower net present value of the minimum lease 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 finance lease arrangement, the net present value of the lease payments is reported as a lease 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 lease 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 payments to be paid under these lease arrangements are recognized in the income statement for the duration of the lease arrangement using the straight-line method.

Investment Property

Investment property encompasses property which is not used for production or administration purposes. This is recognized at cost in accordance with IAS 40 ("cost model"). Depreciable investment properties are depreciated over a period of up to 50 years using the straight-line method.

The properties are valued at cost, taking account of unscheduled depreciation. Transaction costs are included in the first valuation. Fair value is estimated using acknowledged valuation methods or, if current market prices of comparable properties are available, derived from those prices. The substantial part of the property portfolio is valued regularly by independent experts.

Financial Assets

a) Financial assets held for trading

In the Salzgitter Group, only those financial assets which were classified from the outset as "held for trading" are measured at fair value through profit and loss. Derivatives are classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. The option of designating financial instruments as financial assets to be measured at fair value with effect on income when they are first reported (fair value option) is not exercised in the Salzgitter Group.

b) Loans and receivables originated by the company

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. They arise 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 other 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. In the financial year 2007, no use was made of this category in the Salzgitter Group.

d) Derivatives with documented hedging arrangements

These financial instruments are not classifiable as "available-for-sale financial assets", as derivatives from this category are expressly excluded. They therefore systematically constitute an additional category.

e) Available-for-sale financial assets

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

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

In principle, all purchases and sales of financial assets made on customary market terms are recognized as of the settlement date in the Salzgitter Group, i.e. on the date on which the asset is delivered to or by the Group.

Financial assets are initially reported at their fair value; financial instruments that do not belong to the "financial assets held for trading" category are initially reported at their fair value plus transaction costs.

Financial instruments in the "available-for-sale financial assets", "derivatives with documented hedging arrangements" and "financial assets held for trading" categories are reported in the subsequent valuation at fair value. The subsequent valuation of "loans and receivables originated by the company" 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. Immaterial 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.

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. Information on the standardized terms was obtained from a standard market information system. The difference ascertained between the contractually agreed foreign exchange amount 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 made by the issuing banks using recognized methods (e.g. Black-Scholes, Heath-Jarrow-Morton).

Unrealized gains 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 as gains or losses from financial assets to the income statement.

"Some people take the trip across the bridge just to go window shopping or have a coffee."

Dimitris Stavropoulos, bus driver Before the bridge was built, you thought hard about whether your trip was really necessary. Then, if you wanted to go from Antirrio to Rio and on to the nearest large town of Patras, taking the ferry was your only option. "The whole journey took over two hours," remembers bus driver Dimitris Stavropoulos. "Now we can do it in half an hour." The trip across the bridge is part of daily life now, with commuters and tourists alike making use of the enormous structure. Stavropoulos guesses he has made about 7,000 trips across the bridge – it's hard to conceive how long he would have needed to make those trips by ferry.

The method used to report gains 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 derivatives either as hedging the fair value of an asset reported in the balance sheet or a liability (fair value hedge), as hedging cash flows from a transaction that is regarded as highly likely, or as hedging the currency risk inherent in a firm obligation (both cash flow hedges).

Fair value hedge

Changes in the market values of derivatives that qualify as fair value hedges are recorded in the income statement together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the market value of derivatives that are designated for hedging cash flows or the currency risk inherent in firm obligations and qualify as cash flow hedges is recognized under equity. The ineffective portion of the changes in value, on the other hand, is recognized directly in the income statement. Amounts recorded under equity are reposted to the income statement in the period when the hedged item is recorded as earnings or expenses 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 gains or losses previously recorded under equity are transferred from equity and included in the initial valuation of the acquisition 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, the cumulative gain or loss remains in equity and is not recognized in the income statement until the underlying transaction is ultimately recognized. If the forecast transaction is no longer expected to take place, the cumulative gains or losses that were recorded directly in equity must be transferred immediately to the income statement. Movements in the reserve for cash flow hedges in equity are disclosed in the statement of changes in equity and the schedule of recorded 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 “financial assets held for trading” category, an examination is carried out as of each reporting date as to whether there are any objective indications of an impairment of the financial asset or group of financial assets.

Impairments of financial instruments in the “loans and receivables originated by the company” and “held-to-maturity investments” categories are posted to income; write-ups are also recorded with effect on income.

In the case of financial instruments that are classified as "available-for-sale financial assets", a material or permanent decrease in the fair value is posted to income as an impairment. Impairments of equity instruments that have already been recorded in the income statement are reversed with no effect on income, while impairments of debt instruments are reversed with effect on income.

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

Inventories

Inventories are stated at acquisition or production cost or the lower net selling value. Inventories are valued at average costs or individually attributed acquisition or production costs. The production costs are determined on the basis of normal capacity utilization. Specifically, the production costs include not only the directly attributable costs, but also the production-related material costs and production overheads including production-related depreciation. Borrowing costs are not capitalized as part of acquisition or production costs. Lower values as of the reporting date resulting from the decrease in net selling values are stated. If the net selling 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 selling value are taken into account by applying properly calculated value adjustments.

Work in process and finished products, as well as raw materials internally generated, are valued at Group production cost which, in addition to direct costs, includes 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 (consumables and supplies). Initial ownership of emission rights that were acquired gratuitously 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. Impairments of the capitalized emission rights are recorded when the market price of the emission rights has fallen below the acquisition cost.

Trade Receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective yield method, less impairments. An impairment 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 impairment 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 impairment is disclosed in the income statement.

Customized Construction Contracts
According to IAS 11, the sales volume and results of every contract are determined using the percentage-of-completion method. The percentage of completion is calculated from the ratio of the contract costs so far incurred to the estimated total costs as of the respective cut-off date. Contract costs which are incurred immediately are recognized immediately through profit and loss. If the result of a construction contract cannot be determined reliably, only revenues in the amount of the contract costs incurred are recognized.

Payments received on account are deducted directly from the receivables from production contracts reported under trade receivables. If the payments received on account for individual production contracts exceed the receivables from production contracts, the excess amount is reported under liabilities. If it seems likely that total contract costs will exceed total contract revenues, the anticipated loss is recognized immediately as an expense and, if it exceeds the contract costs already incurred, reported as a liability from contract production.

Non-current Assets Held for Sale
Non-current assets (or groups of assets and liabilities) are classified as held for sale and are valued at the carrying amount or lower fair value less costs to sell, if their carrying amount will essentially be generated by a sale rather than through continued operational use.

Pension Provisions
The provisions for pension obligations are formed as a result of benefit plans for 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 level of benefits. The provisions for similar obligations take account of bridging payments in the event of death.

The pension obligations 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 expenses, the interest component of allocations to provisions as net interest income.

Actuarial gains and losses are recorded in full in the pension provisions.

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

	31/12/2007	31/12/2006
Actuarial rate	5.25 %	4.50 %
Trend in salaries	2.75 %	1.75 % or 2.75 %
Trend in pensions	1.75 %	1.25 %
Staff turnover	1.00 %	1.00 %

The Heubeck actuarial tables (Richttafeln) 2005 G were used to value the expected mortality of the beneficiaries. As in the previous year, the actuarial tables devised by Prof. Heubeck (RT 2005 G) were adjusted to the beneficiaries listed at the Essener Verband (Essen-based association) because they are not suitable for valuing the provisions with regard to the life expectancy of this group of persons.

Income Taxes

In accordance with IAS 12, deferred tax is calculated using the accounting-oriented liability method. Under this method, reductions in the tax burden 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, 2007, the deferred taxes of domestic corporations were valued using an overall tax rate of 30.2 %. This tax rate consists of the trade tax rate of 14.4 % which applies as from 2008 and the 15.8 % corporation tax rate (including solidarity surcharge).

The German companies are subject to an average trade income tax rate of some 17 % of trade earnings in the financial year 2007, 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 tax is based on the laws and regulations applicable in the individual countries.

The anticipated tax savings resulting from the utilization of loss carryforwards whose realization is expected in the future are capitalized. When capitalized assets are valued for future reductions in the tax burden, consideration is given to the probability of the expected tax benefit being realized.

Assets deriving from future reductions in the tax burden include deferred tax assets arising from temporary differences between the book values stated in the consolidated balance sheet and values attributed for tax purposes, as well as tax savings resulting from loss carryforwards 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 tax is levied by the same tax authority; the offsetting is carried out insofar as there is matching maturity.

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 deferred tax liabilities is explained under Note 21.

Other Provisions

Provisions are recognized for current obligations to third parties whose occurrence would be likely to burden Group assets. They are recognized at their likely settlement amount, taking account of 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.

Financial Liabilities

There are two valuation categories for financial liabilities.

a) Financial liabilities held for trading

As the Salzgitter Group does not designate financial instruments for valuation at fair value through profit and loss when first recognized (non-application of the fair value option), this category contains only those derivatives which are not shown in the hedge accounting.

b) Liabilities valued at amortized cost

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

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

Income and Expense Recognition

Sales and other operating revenues are recognized when performance has been rendered or assets have been furnished, and thus when the risk has already passed. In the case of construction contracts, revenues are recognized using the percentage-of-completion method.

Dividend is collected when the claim has been legally accrued; interest paid and interest income are reported pro rata temporis. When there are changes in the consolidated group, acquired dividend claims are recorded without effect on income as part of the capital consolidation.

IAS 20 stipulates that grants may not be reported in the balance sheet until the necessary claim 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.

Impairment of Assets (Impairment Test)

On each balance sheet date, the Group examines the book values of its intangible assets and property, plant and equipment to establish whether there is an event which could trigger impairment. If such signs are discernible, the recoverable amount is estimated in order to determine the scope of the impairment. If the recoverable amount for the individual asset cannot be estimated, the estimate is made at the level of the cash generating unit (CGU) to which the asset belongs. Impairments are carried out if the benefit deriving from the asset is lower than its book value. The benefit deriving from an asset corresponds to the net selling price or the value in use, whichever is higher. The value in use is determined by the net present value of future cash flows attributable to the asset. If the reason for a previous special depreciation no longer applies, a write-up is carried out.

Non-current assets that are classified as held for sale are reported at the carrying amount or the lower fair valueless costs to sell.

Financial Risk Management

The Group's business activities expose it to a variety of financial risks: the market risk (includes the currency risk, the interest rate risk and the market price risk), the credit risk and the liquidity risk. The Group's overall risk management program is focused on the unpredictability of developments in 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 currency 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 hedging transactions are concluded. In addition, the estimation as to whether the derivatives used in the hedging relationship are highly effective in compensating for the changes in the current value or the underlying transaction's cash flows is then documented in the Group at the start of the hedging relationship and continuously thereafter.

Credit risk

The Group has no significant potential credit risk clusters. It has trading rules and regulations 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 the individual financial institution.

Liquidity risk

Prudent liquidity 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 interest-bearing liabilities. Liabilities with variable interest rates expose the Group to a cash flow interest rate risk which influences interest expenses and interest income. Fixed-interest liabilities give rise to a fair value interest rate risk, although this has an impact on the balance sheet only if the financial instruments are reported at current value.

Further information about Salzgitter AG's risk management is provided in the Risk Report.

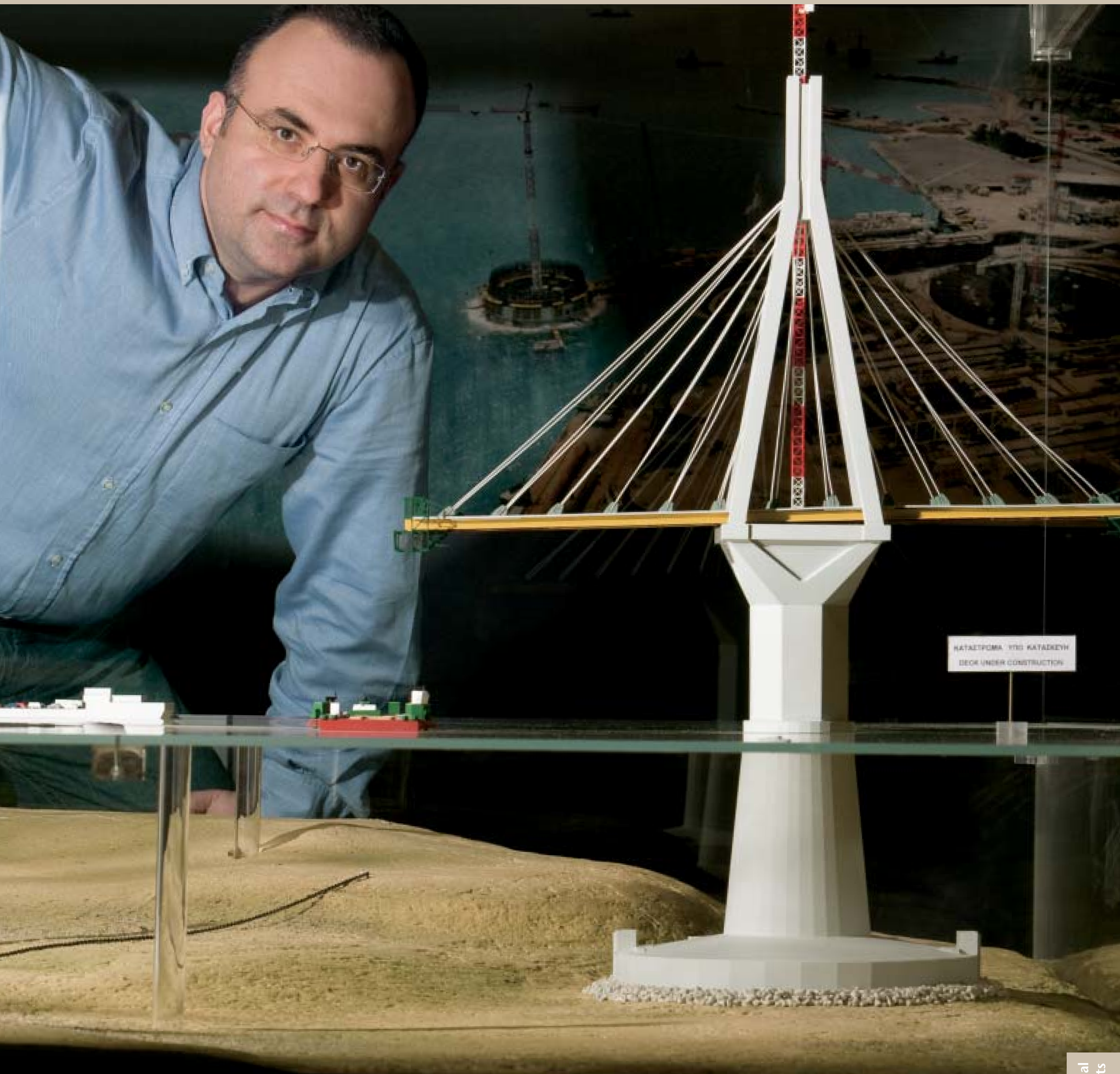
Capital Risk Management

The Group manages its capital with the objective of maximizing the earnings from its shareholdings by optimizing the relationship between equity and debt. This also serves the objective of reducing the costs of capital procurement. In the process, it is ensured that all of the Group companies can operate under the principle of going concern principle.

In order to maintain or optimize the capital structure, the Group is obliged to adjust the amount of the dividend payments, make repayments of capital to the shareholders, issue new shares or dispose of assets for purposes of debt reduction.

The Group's capital structure consists of debt, including leverage, cash and cash equivalents (liquid funds, loans against promissory notes/bonds and securities) and the equity and minority interests due to SZAG's equity providers.

Further information is contained in the Group Management Report in Section A.II.8. "Net Assets".



"The bridge is complete, but the project is never over."

Aris Stathopoulos, Structural Maintenance Manager The 36-year-old civil engineer is a member of the maintenance team and knows all about the specific strains that the bridge is exposed to. But Stathopoulos also knows how well equipped the huge structure is to deal with them: huge pylons and a steel bridge deck with shock absorbers enabling it to move to and fro by up to two meters help to cope with any type of impact and make the bridge extremely robust. It can withstand wind speeds of 250 km/h, earthquakes measuring 7 on the Richter scale, or a collision with an oil tanker, for example.

Notes to the Income Statement

(1) Sales

in T€	FY 2007	FY 2006
Breakdown according to product categories		
Flat rolled products	4,184,559	3,825,144
Sections	1,444,258	1,049,496
Pipes	2,699,361	2,400,804
Other	1,864,081	1,171,769
	10,192,259	**8,447,213**
Breakdown according to regions		
Domestic	4,902,587	3,983,919
Other EU	2,203,121	1,929,467
Other Europe	581,973	228,529
America	938,447	977,270
Other	1,566,131	1,328,028
	10,192,259	**8,447,213**

The breakdown of sales includes an additional presentation by product category which does not correspond to segment reporting.

Sales include revenues from contract production recognized in accordance with the percentage-of-completion method amounting to € 351.5 million.

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

in T€	FY 2007	FY 2006
Changes in the inventory of finished goods and work in process	207,173	7,646
Other own work capitalized	6,746	3,998
	213,919	**11,644**

In comparison with the previous year, finished goods and work in process increased significantly. This increase is attributable to a rise in both volumes and assortment. In the Steel Division, roughed slabs were deliberately stockpiled at the end of the financial year in order to bridge over a planned blast furnace relining in the financial year 2008. In the Tubes Division, raw material price hikes led to an increase in work in process.

(3) Other Operating Income

in T€	FY 2007	FY 2006
Reversal of provisions and allowances	74,230	71,099
Income from the valuation of financial derivatives and foreign currency positions	45,210	25,733
Reversals of impairment losses in fixed assets	35,004	181
Income from the disposal of fixed assets	30,758	1,134,510
Income from changes in exchange rates	14,491	15,495
Ancillary operating income	11,362	11,972
Income from negative goodwill arising from capital consolidation	8,090	111
Income from write-downs of receivables	5,539	13,498
Insurance compensation	5,158	10,195
Rental, lease and licensing income	4,944	3,915
Subsidies	2,395	2,478
Charged-on costs	2,278	3,397
Refunds from previous years	2,243	403
Other income	36,926	30,776
Other operating income	**278,628**	**1,323,763**

The decrease in other operating income can be attributed almost entirely to the lower income from the sale of fixed assets. In the previous year, the shareholding in Vallourec S.A., Boulogne-Billancourt, had been sold.

Reversals of write-downs in accordance with IAS 36.109 et seq were carried out by one company in the Steel Division and another in the Tubes Division.

Other operating income includes income unrelated to the accounting period totaling € 108.0 million (2006: € 78.0 million) that consisted mainly of reversal of impairments, the disposal of assets, the liquidation of provisions for non-recurring obligations, the collection of written-off receivables, insurance compensation payments and reimbursements of costs for previous years.

(4) Cost of Materials

in T€	FY 2007	FY 2006
Cost of raw materials, consumables, supplies and purchased goods	6,421,479	5,388,653
Cost of purchased services	459,608	350,385
Cost of materials	**6,881,087**	**5,739,038**

The cost of raw materials, consumables and supplies relates primarily to expenses for materials used, consumables and supplies, spare parts, energy supply and plant equipment.

The cost of purchased services refers essentially to sales-related contract processing and inter-company transport costs.

The increase can be attributed above all to the increase in sales, the increase in the cost of raw materials and energy and the additions to the consolidated group.

(5) Personnel Expenses

in T€	FY 2007	FY 2006
Wages and salaries	1,001,970	822,161
Social security, pension and other benefits	230,343	191,651
of which pension commitments	[106,398]	[92,359]
Personnel expenses	**1,232,313**	**1,013,812**

In the financial year 2007, the defined contribution plan payments in the Salzgitter Group totaled € 94.9 million (2006: € 72.2 million). Allocations (after being set off against reversals) to the pension provisions are reported as costs for defined benefit plans. The allocations to provisions consist almost entirely of 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 age-related part-time employment)	FY 2007	FY 2006
Wage labor	12,647	11,195
Salaried employees	7,425	5,754
Group core workforce	**20,072**	**16,949**

(6) Amortization and Depreciation

The amortization of intangible assets and the depreciation of property, plant and equipment were carried out according to schedule in the reporting year and are shown in the analysis of fixed assets. The following expenses resulting from impairment were also taken into account:

in T€	FY 2007	FY 2006
Intangible assets	326	1
Land, similar rights and buildings, including buildings on land owned by others	–	–
Plant and machinery	2,128	1,855
Other equipment, factory and office equipment/ equipment under construction	1,165	3,416
Write-downs	**3,619**	**5,272**

The impairment costs are calculated in accordance with the provisions of IAS 36. Amortization and depreciation was carried out on the basis of value in use or the higher net selling price.

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.

The calculation of the useful life, also for property, plant and equipment, is based on the current plans prepared by the management for the three following years. The premises of the plans are adjusted to take account of the current state of knowledge. The value in use was calculated using the discounted cash flow method based on an interest rate of 12.5 % p.a. This led to impairment costs of € 3.6 million (2006: € 5.3 million) at a CGU in the Services Division due to insufficient earnings contributions.

(7) Other Operating Expenses

in T€	FY 2007	FY 2006
Selling expenses	337,435	290,723
External services including provisioning	331,423	286,938
Administrative expenses including insurance costs, fees, charges	94,771	78,774
Advertising/information and travel expenses	45,252	23,616
Expenses from the valuation of financial derivatives and foreign currency positions	36,965	32,081
Exchange losses	29,439	11,136
Rents and leases	28,034	20,190
Allowances for doubtful accounts	21,342	16,129
Welfare-related personnel and non-personnel expenses	17,627	13,650
EDP costs	15,953	16,192
Financial/monetary transfer expenses	13,029	15,951
Other taxes	10,994	6,975
Loss on the disposal of fixed assets	8,276	8,229
Loss on the disposal of current assets	1,301	6,935
Expenses arising from optional structures	–	174,869
Other expenses	48,102	24,415
Other operating expenses	**1,039,943**	**1,026,803**

Other operating expenses include expenses unrelated to the accounting period totaling € 67.8 million (2006: € 41.2 million) connected with, among other things, waste disposal obligations.

(8) Income from Shareholdings

in T€	FY 2007	FY 2006
Earnings from profit transfer agreements	505	921
of which affiliated companies	[435]	[921]
Earnings from shareholdings	2,993	1,610
of which affiliated companies	[246]	[–]
Expenses from the assumption of losses	1,407	257
of which affiliated companies	[1,407]	[43]
Income from shareholdings	**2,091**	**2,274**

(9) Income from Associated Companies

in T€	FY 2007	FY 2006
Income from associated companies	9,519	87,667

The income from associated companies derives from Hüttenwerke Krupp Mannesmann GmbH, Duisburg, and ThyssenKrupp GfT Bautechnik GmbH, Essen. The decrease compared with the previous year can be attributed to the disposal of the shareholding in Vallourec S.A., Boulogne-Billancourt, in August 2006. Income from associated companies in the financial year 2006 still included this company's proportional semi-annual result.

(10) Impairment Losses on Financial Assets

in T€	FY 2007	FY 2006
Impairment losses on financial assets	5,600	218

The impairment losses on financial assets in the financial year under review result entirely from the fair value of shares in an affiliated company. The calculation of the useful life is based on the current plans prepared by management for the three following years. The premises of the plans are adjusted to take account of the current state of knowledge. The value in use was calculated using the discounted cash flow method based on an interest rate of 13.9 % p. a.

(11) Finance Income/Finance Expenses

in T€	FY 2007	FY 2006
Income from loans from financial assets	431	150
Other interest earned and similar income	115,591	79,397
of which affiliated companies	[1,260]	[1,022]
Finance income	116,022	**79,547**

The increase in interest income corresponds to the sharp increase in average cash and cash equivalents compared with the previous year.

in T€	FY 2007	FY 2006
Interest and similar expenses	114,472	116,405
of which affiliated companies	[1,774]	[750]
Finance expenses	**114,472**	**116,405**

The interest component included as part of the allocations to pension provisions is reported at € 77.7 million (2006: € 70.6 million) under interest paid.

(12) Income Tax

in T€	FY 2007	FY 2006
Income tax		
current tax expenses/tax income (+/–)	415,042	301,008
deferred tax expenses/tax income (+/–)	–6,276	44,192
	408,766	**345,200**
of which unrelated to the reporting period	[–2,231]	[–4,285]
Total	**408,766**	**345,200**

Income tax amounting to € 408.8 million affects earnings before tax. The income tax unrelated to the accounting period mainly relates to deferred tax income of € 8.1 million and current tax expenses of € 5.9 million due to subsequent payments resulting from investigations by the tax authorities.

The increase in current income tax from € 301.0 million to € 415.0 million results mainly from the decrease in tax-free income and the lower offsetting of tax loss carryforwards. Domestic income tax accounted for € 377.6 million of this sum. The lower domestic tax rate as from 2008 resulted in deferred tax income of € 39.3 million, which led to a year-on-year increase in deferred tax income to € 6.3 million.

Future dividend payments do not affect income tax. Claims totaling € 1.5 million are reported for corporate income tax reduction credits due to German companies. Deferred taxes of € 37.8 million (2006: € 85.7 million) have been recognized for business transactions which have directly affected equity. € 10.7 million of this sum is accounted for by the reduction of the income tax rate that will be valid in Germany as from 2008.

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€	31/12/2007		31/12/2006	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	3,020	25,689	7,208	234
Property, plant and equipment	3,223	167,671	5,426	174,644
Financial investments	3,473	2,220	3,843	1,408
Current assets	26,404	127,272	23,327	104,454
Pension provisions	100,975	1,071	150,678	526
Other provisions	33,827	9,164	59,298	18,367
Special account including reserves	–	6,754	–	9,423
Liabilities	35,287	482	20,596	248
Other items	18,317	4,854	1,048	66
Total	**224,526**	**345,177**	**271,424**	**309,370**

Summary of the tax benefits from losses carried forward:

in T€	31/12/2007	31/12/2006
Corporate income tax	25,746	42,323
Trade tax	13,866	854
Capitalized tax savings	**39,612**	**43,177**

Development of the capitalized tax saving from losses carried forward that may be realized in the future:

in T€	FY 2007	FY 2006
Capitalized tax savings, January 1	43,177	75,482
Changes to the consolidated group	26,162	–1,125
Capitalization of tax savings from losses carried forward	31,182	35,260
Valuation allowances from losses carried forward	–19,049	–663
Use of losses carried forward	–41,860	–65,777
Capitalized tax savings, December 31	**39,612**	**43,177**

As a result of the "minimum taxation" that was introduced in Germany in 2004, the tax loss carry-forwards are offset in full against ongoing tax up to the amount of € 1.0 million but only up to 60% thereafter.

Thanks to the utilization of tax loss carryforwards that had previously not been taken into consideration, current tax expenses were reduced by € 7.2 million in Germany and by € 1.8 million abroad.

For a number of domestic companies, no deferred taxes were capitalized for trade tax loss carryforwards amounting to € 1,516.6 million and corporate income tax loss carryforwards amounting to € 1,695.0 million, as the possibility of their use can be regarded as unlikely from a current standpoint. Likewise, no deferred tax assets were formed for foreign loss carryforwards amounting to € 29.8 million which are not intrinsically valuable and can be carried forward for an unlimited period.

Transition from anticipated to actual income tax expenses:

in T€	FY 2007	FY 2006
Consolidated net income for the year before income tax	**1,313,911**	**1,854,759**
Expected income tax expenses (tax rate 39.0 %)	512,425	723,356
Tax share for:		
differences between tax rates	–7,292	–4,393
effect of changes in statutory tax rates	–39,280	–
tax credits	–13,319	–
tax-free income	–9,923	–466,684
non-deductible tax expenses and other permanent differences	13,587	135,897
temporary differences excluding deferred taxes	–5,590	2,552
effects of temporary differences and losses		
adjustments in value of capitalized benefits	1,112	663
utilization of benefits not previously capitalized	–16,911	–35,013
tax expenses and income unrelated to the reporting period	–2,231	–4,285
other deviations	–23,812	–6,893
Actual income tax expenses	**408,766**	**345,200**

Actual income tax expenses of € 408.8 million diverge by € 103.6 million from the anticipated income tax expenses of € 512.4 million. This results primarily from reductions in tax rates in Germany, tax credits and the ulilization of loss carryforwards that were previously not capitalized.

(13) Minority Interests

in T€	FY 2007	FY 2006
Profit share of minority shareholders	4,003	1,901

The minority interests in the net income for the year are accounted for by the following companies:

- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg,
- Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück,
- Klöckner-Werke AG, Duisburg (including subsidiaries).

(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 no par bearer shares in circulation during the financial year. Earnings per share amount to € 15.80 under IAS 33.

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 € 15.80.

	Shares issued	Treasury shares	Shares in circulation
Beginning of financial year	63,218,400	6,321,277	56,897,123
Acquisition of treasury shares	–	710,722	–
Release of treasury shares	–	710,176	–
End of financial year	63,218,400	6,321,823	56,896,577
Weighted number of shares	**63,218,400**	**6,197,628**	**57,020,772**

Earnings per share		FY 2007	FY 2006
Consolidated net income for the year	in T€	905,145	1,509,558
Minority interests	in T€	4,003	1,901
Amount due to Salzgitter AG shareholders	in T€	901,142	1,507,657
Earnings per share	**in €**	**15.80**	**26.50**

Notes to the Balance Sheet

Non-current Assets

(15) Goodwill

All of the goodwill relates to the shares in Klöckner-Werke AG, Duisburg, and its participations, which were newly acquired in 2007. The goodwill was assigned to the KHS Group. No need for impairment was ascertained in the reporting year.

(16) Other Intangible Assets

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

The acquisition of Klöckner-Werke AG and its participations led to the first-time capitalization of development costs totaling € 11.6 million in the reporting year. Total expenditure on research and development in the reporting period amounted to € 68.8 million (2006: € 67.0 million), including € 9.4 million (2006: € 8.7 million) for external parties.

There are no material restraints on the right of ownership or disposal.

As part of the purchase price allocation for Klöckner-Werke AG, brand names, customer relationships and technologies were identified as intangible assets and recognized in the balance sheet at € 66.9 million on the date of their first-time consolidation. This resulted in a net book value of € 65.7 million as of the reporting date.

(17) Property, Plant and Equipment

The development of the individual items under property, plant and equipment is shown in the analysis of fixed assets.

Breakdown of property, plant and equipment at their book values:

in T€	31/12/2007	31/12/2006
Land and buildings	496,743	400,631
Plant equipment and machinery	976,659	893,437
Other equipment, factory and office equipment	74,973	51,272
Equipment under construction/payments made on account	249,443	78,049
Property, plant and equipment	**1,797,818**	**1,423,389**

The book values of the assets capitalized as finance leases in accordance with IAS 17 are shown in the following table:

in T€	31/12/2007	31/12/2006
Buildings	5,400	2,640
Plant equipment and machinery	31,595	30,636
Other equipment, factory and office equipment	1,046	1,731
Assets capitalized as finance leases	**38,041**	**35,007**

The amount of the reported impairment charges is shown under Note 6.

Restrictions on the right of ownership or disposal amounted to € 34.8 million (2006: € 38.2 million).

(18) Investment Property

Due to the acquisition of Klöckner-Werke AG and RSE AG and their subsidiaries, investment property amounting to € 26.5 million was reported for the first time in the reporting year.

The properties in question are developed and undeveloped properties which are not held for production or administration purposes. Their fair values as of the reporting date correspond to those reported in the balance sheet, as these were ascertained as part of the purchase price allocation.

The properties consist of the following:

in T€	31/12/2007	31/12/2006
Klöckner-Werke AG	22,981	–
RSE Grundbesitz und Beteiligungs-AG	1,241	–
Klöckner Mercator Maschinenbau GmbH	1,200	–
KHS USA Inc.	1,106	–
Investment property	**26,528**	**–**

Rental income amounted to € 0.2 million in the reporting year. Direct operating expenses for the investment property were basically incurred for properties that generated rental earnings in the reporting year. These totaled € 0.1 million.

As of the reporting date there are no material obligations to carry out repairs, maintenance, improvements etc.

(19) Financial Assets

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

Breakdown of financial assets:

in T€	31/12/2007	31/12/2006
Shares in affiliated companies	33,932	25,427
Shareholdings	24,160	18,607
Non-current securities	46,276	16,292
Other loans	4,422	1,578
Financial assets	**108,790**	**61,904**

The increase in shareholdings in affiliated companies and participations results essentially from the addition of Klöckner-Werke AG, which was consolidated for the first time in the reporting year, and its partly non-consolidated affiliated companies and participations.

The increase in securities relates primarily to the shares in an Indian manufacturing company in the tubes industry; these shares were valued at their market value.

The other loans are accounted for by one loan to a non-consolidated company and interest-bearing housing loans to employees.

(20) Associated Companies

in T€	31/12/2007	31/12/2006
Opening inventory, January 1	74,208	301,493
Result of current financial year	9,519	87,667
Disposals	–	–317,168
Currency translation differences	–	10,426
Other changes in equity	375	–8,210
Book value, December 31	**84,102**	**74,208**

The figure reported for at-equity shares in associated companies increased by € 9.9 million compared with the previous financial year. This was accounted for primarily by the positive results for the year posted by the associated companies.

The Group's shares in its material associated companies are as follows:

2007 in T€	Assets	Debt	Earnings	Profit	Proportion (%)
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	878,895	611,831	2,217,845	19,258	30.00

2006 in T€	Assets	Debt	Earnings	Profit	Proportion (%)
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	842,806	598,664	1,962,067	45,669	30.00

(21) Deferred Tax Assets

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 € 145.4 million (2006: € 159.3 million) were set off in the financial year 2007.

in T€	31/12/2007	31/12/2006
Deferred tax assets	**12,988**	**49,101**
Realization after more than 12 months	19	43,263
Realization within 12 months	12,969	5,838
Deferred tax liabilities	**94,027**	**43,870**
Realization after more than 12 months	23,576	2,467
Realization within 12 months	70,451	41,403
Balance of deferred tax assets and deferred tax liabilities	**–81,039**	**5,231**

(22) Other Receivables and Other Assets

The long-term receivables consist mainly of receivables from finance leases, which were as follows:

in T€	31/12/2007	31/12/2006
Total gross investment	3,137	3,679
Unrealized finance income	281	331
Book value	**2,856**	**3,348**

This position also includes the transactions from the finance leases for telecommunications equipment at two subsidiaries in the Services Division. All of the transactions have residual terms of less than five years.

Current Assets

(23) Inventories

in T€	31/12/2007	31/12/2006
Raw materials, consumables and supplies	676,981	509,174
Unfinished products	432,034	304,437
Unfinished goods or services	20,276	11,895
Finished products and goods	906,723	784,745
Payments on account	48,415	42,848
Inventories	**2,084,429**	**1,653,099**

Individual valuation deductions were made in respect of all inventories where it is likely that the proceeds 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 selling value.

If the reasons for writing down the inventories no longer apply, the write-down is reversed. In the reporting period this led to a write-up of € 3.6 million (2006: € 2.6 million).

In accordance with IAS 2, inventories are valued individually or the average method is applied.

The book value of the inventories reported at the fair value less selling expenses amounted to € 261.9 million in the reporting year (2006: € 193.9 million).

Write-down of inventories amounting to € 15.2 million (2006: € 23.3 million) were posted to expenses.

The inventories disclosed were subject to restrictions on ownership or disposal amounting to € 0.2 million (2006: € 14.3 million).

(24) Trade Receivables

in T€	31/12/2007	31/12/2006
Receivables from third parties	1,480,061	1,061,062
Receivables from affiliated companies	21,146	14,359
Receivables from companies in which the company has a participating interest	19,837	32,839
Trade receivables	**1,521,044**	**1,108,260**

Impairments on trade receivables amounting to € 15.1 million (2006: € 5.7 million) have been carried out 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 € 109.6 million (2006: 134.5 million). These are accounted for exclusively by the forfaiting of receivables and an asset-backed securitization program. For further details, please refer to Note 39, “Other Liabilities”.

The trade receivables include the following receivables from construction contracts recognized using the percentage-of-completion method.

in T€	31/12/2007	31/12/2006
Production costs including result from construction contracts	657,244	–
Payments received on account	–499,936	–
Receivables from construction contracts	**157,308**	**–**

Receivables from construction contracts include customized production contracts with an asset-side balance whose production costs, taking account of profit shares and loss-free valuation, exceed the payments received on account.

"Two economic areas that were previously almost completely separate are now beginning to coalesce."

Spyros Spyridon, General Secretary for the region of western Greece Some things are far more than just the sum of their parts, and the Rio-Antirrio Bridge is one of these. It is far more than just a link between two towns, and no one is more aware of that than Spyros Spyridon, General Secretary for the region of western Greece, which was formerly divided into two parts. "The bridge links the Peloponnes with central and northern Greece," explains the 54-year-old. What is more, the next step has European dimensions: the plan is to build a motorway stretching from the north of Greece to the Albanian border, and the Rio-Antirrio Bridge will be the most important link in this north-south axis. "The real significance of the bridge will then become apparent," as Spyridon comments.

(25) Other Receivables and Other Assets

in T€	31/12/2007	31/12/2006
Other receivables from affiliated companies	68,730	15,262
of which loans	[20,876]	[5,446]
of which other receivables	[8,574]	[9,816]
Other receivables from participating interests	20,422	10,010
of which loans	[2,008]	[2,907]
of which other receivables	[18,414]	[7,103]
Loans against borrower's note/bond	75,000	50,000
Tax refund claims (VAT)	39,353	20,093
Derivatives	54,522	15,096
Subsidies for age-related part-time employment	8,267	8,832
Assets available for sale	5,726	4,816
Insurance claims	5,777	3,984
Advances on company pensions	9,716	3,425
Prepaid expenses and deferred charges	5,673	2,896
Finance lease agreements	1,854	2,410
Other assets	64,316	39,453
Other receivables and other assets	**359,356**	**176,277**

The other receivables and other assets also include the sum of € 8.3 million (2006: € 8.8 million) that did not become legally effective until after the reporting date.

There were restrictions on the ownership of disposal of other receivables amounting to € 5.0 million in the reporting year (2006: none).

The current receivables from finance leases consist of the following:

in T€	31/12/2007	31/12/2006
Total gross investment	2,136	2,755
Unrealized finance income	282	345
Book value	**1,854**	**2,410**

The rental earnings are reported under other operating income.

(26) Income Tax Assets

The income tax assets of € 114.2 million that existed as of December 31, 2007 (2006: € 23.9 million) relate essentially to income tax claims by a domestic Group company. These are offset by non-current income tax liabilities of € 214.2 million (2006: € 170.7 million) and current income tax liabilities of € 19.7 million (2006: € 49.1 million).

These assets 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 for this are that the tax refund claim (asset) and the tax liability both relate to the same tax authority and that the tax authority allows their offsetting.

(27) Securities, Cash and Cash Equivalents

Shares as short-term investments which are assigned to the category "financial assets held for trading" are reported under securities.

Cash and cash equivalents consist of the following:

in T€	**31/12/2007**	**31/12/2006**
Cash at banks	2,133,468	2,184,962
Current investments	–	147,089
Checks, cash in hand	5,355	12,938
Cash and cash equivalents	**2,138,823**	**2,344,989**

(28) Non-current Assets held for Sale

The non-current asset held for sale amounting to € 12.6 million in the previous year resulted entirely from the reclassification of the shareholding in the French company Ets. Robert et Cie S.A.S., which in 2005 had still been consolidated proportionately. The shareholding in Ets. Robert et Cie S.A.S. was reported as held for sale following a management resolution in November 2006. The sale was concluded at the end of January 2007. The sale resulted in a profit of € 1.4 million. No assets were reported in this balance sheet item as of December 31, 2007.

(29) Subscribed Capital

In the financial year 2007, subscribed capital (capital stock) remained unchanged at € 161,615,273.31. 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 May 26, 2004, the capital stock was increased by up to € 15,952,306.69 through the issuing 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). No use has yet been made of this authorization.

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). This authorization has also not yet been used.

(30) Capital Reserve

Within 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 fair values (€ 49.1 million) and the differences posted to the capital reserve.

In the previous years, the exercise of option rights from the stock option program led to an increase of € 7.8 million in the capital reserve.

(31) 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 posted directly to equity in accordance with the IASB regulations. Salzgitter AG's Articles of Incorporation do not contain specific regulations on the formation of reserves.

The retained earnings include differences from currency translation amounting to € –25.9 million (2006: € –16.0 million). These were offset by the change in value reserves from the financial assets/ financial instruments amounting to € 39.7 million (2006: 8.4 million).

According to the new standards set out under IAS 19 "Employee Benefits", all pension commitments are reported in the balance sheet and the actuarial gains and losses are recorded directly under equity. As of the reporting date, actuarial losses of € 220.5 million, after deduction of deferred taxes, were recorded directly under equity (including the actuarial losses posted by associated companies that were not reported in the pension provisions).

Transition of the actuarial losses:

in T€	**31/12/2007**
Actuarial losses of consolidated companies	219,050
Actuarial losses of associated companies	1,487
Actuarial losses	**220,537**

Salzgitter AG holds 6,321,823 (2006: 6,321,277) of its own no par value shares with a notional total value of € 16,161,740.50, equating to 9.99997 % of the subscribed capital (2006: € 16,160,088.05 = 9.9991 %).

In the reporting year, 710,722 shares with a notional total value of € 1,816,932.36 (= 1.1 % of the subscribed capital) were acquired in the months of March (79,314 shares; average price € 101.75 per share), April (356,664 shares; average price € 117.32 per share), May (79,650 shares; average price € 124.30 per share) and June (195,094 shares; average price € 132.29 per share) at an acquisition cost of € 85,704,724.64 (average price € 120.58 per share) for further acquisitions.

Of the 6,321,823 shares acquired pursuant to Section 71 para. 1 no. 8 of the German Stock Corporation Act (AktG), 323,080 were acquired under the authorization granted by the General Meeting of Shareholders on March 16, 1999, 128 as authorized by the General Meeting of Shareholders on May 28, 2003, 5,285,613 as authorized by the General Meeting of Shareholders on May 26, 2004, 2,280 as authorized by the General Meeting of Shareholders on May 26, 2005, and 710,722 as authorized by the General Meeting of Shareholders on June 8, 2006.

Of the 323,336 treasury shares (authorization of March 16, 1999) held at the beginning of the financial year, the company appropriated 256 shares (nominal total par value € 654.45; average price € 69.60), of the 462,924 treasury shares (authorization of June 19, 2002) 462,924 shares (nominal total par value € 1,183,446.69; average price € 95.11), of the 153,400 treasury shares (authorization of May 28, 2003) 153,272 shares (nominal total par value € 391,833,74, average price € 95.41) and of the 5,379,337 treasury shares (authorization of May 26, 2004) 93,724 shares (nominal total par value € 239,601.66; average price € 95.44), to third parties in connection with acquisitions, as a payment equivalent for third-party services utilized (124 shares; average price € 103.36) and as bonus shares or gratuities for employees (175 shares).

The treasury shares were deducted directly from equity in the amount of € 227.8 million (2006: € 160.4 million) as of the reporting date.

(32) Unappropriated Retained Earnings

Under the German Commercial Code (HGB), dividend payments to shareholders in Salzgitter AG are dependent on the year-end result reported under the German Commercial Code by Salzgitter AG. The unappropriated retained earnings are 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 unappropriated retained earnings from the consolidated net income for the year is shown in the income statement.

The proposal will be made to Salzgitter AG's General Meeting of Shareholders that a dividend for the financial year 2007 of € 2.00 per share plus a bonus dividend of € 1.00 per share (equal to € 189.7 million based on the nominal capital stock of some € 161.6 million) be paid from Salzgitter AG's unappropriated retained earnings and that the remaining amount be brought forward to new account.

Based on the closing price of € 102.05 for the Salzgitter share in XETRA trading on December 28, 2007, the dividend yield amounts to 2.9 % (2006: 2.0 %).

If the company holds treasury shares on the day of the General Meeting of Shareholders, the proposed appropriation of profits will be adjusted accordingly since treasury shares are not eligible for dividend.

(33) 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 Immobilien GmbH & Co. KG, Osnabrück,
- Klöckner-Werke AG, Duisburg (including subsidiaries).

In the income statement, the result is reported proportionately under "Profit share of minority shareholders".

Non-current Liabilities

(34) 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 to this, the Salzgitter Group operates a company pension scheme based on defined benefit plans that are covered by provisions. The Group also has some immaterial fund-financed pension commitments.

The pension provisions are accounted for mostly by pension commitments undertaken by German companies and contain the entire present value of the defined benefit obligations.

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 2007	FY 2006
As of January 1 of financial year	257,102	246,185
Change in current financial year	–38,052	10,917
As of December 31 of financial year	**219,050**	**257,102**

The differences between the anticipated and actual development (experience adjustment) amounted to € –12.8 million in the reporting year (2006: € –13.6 million).

The transition to the actuarial gains and losses recorded in equity is shown in Note 31 "Retained Earnings".

The expenses incurred for defined benefit plans in the result for the period were as follows:

in T€	FY 2007	FY 2006
Personnel expenses		
current service costs	11,535	20,102
financing expenses (interest paid)	77,720	70,625
	89,255	**90,727**

Allocations (having been netted against reversals) to the pension provisions are reported as expenses for defined benefit plans.

The amount of provisions in the balance sheet is calculated as follows:

in T€	FY 2007	FY 2006
Cash value of fund-financed obligations	5,355	5,358
Fair value of plan assets	–4,269	–4,266
	1,086	**1,092**
Cash value of non-fund-financed obligations	1,790,659	1,713,745
Reported pension provisions	**1,791,745**	**1,714,837**

The provisions for pensions have developed as follows:

in T€	FY 2007	FY 2006
Opening balance, January 1	**1,714,837**	**1,724,589**
Transfer	–187	2,665
Transfer to other account	–	217
Changes in the consolidated group	145,352	–
Used	–119,579	–114,643
Reversal	–3,664	–618
Adjustment in line with actuarial assumptions, no effect on income	–38,052	10,917
Allocations	15,318	21,085
Interest added	77,720	70,625
Closing balance, December 31	**1,791,745**	**1,714,837**

(35) Other Provisions

The development of the other short-term and long-term provisions is shown in the following table:

FY 2007 in T€	Status 1/1	Currency differences	Addition/Disposals from changes in consolidated group	Transfer
Other taxes	**7,540**	**–37**	**–1,482**	**500**
Personnel	**116,937**	**–**	**20,746**	**95**
of which anniversary provisions	[35,502]	[–]	[2,819]	[–4]
of which for the social plan/ age-related part-time employment	[54,495]	[–]	[13,236]	[198]
Operating risks	**104,053**	**–**	**–**	**–**
Other risks	**176,612**	**–170**	**38,184**	**64**
of which markdowns/complaints	[50,296]	[–43]	[26,565]	[–]
Total	**405,142**	**–207**	**57,448**	**659**

The comparable figures for the previous year were as follows:

FY 2006 in T€	Status 1/1	Currency differences	Addition/Disposals from changes in consolidated group	Transfer
Other taxes	**8,454**	**–42**	**–**	**14**
Personnel	**138,194**	**–**	**295**	**–5**
of which anniversary provisions	[35,957]	[–]	[51]	[2]
of which for the social plan/age-related part-time employment	[65,766]	[–]	[301]	[–]
Operating risks	**76,244**	**–**	**–**	**–**
Other risks	**158,637**	**–188**	**–423**	**–**
of which markdowns/complaints	[49,498]	[–85]	[–]	[–]
Total	**381,529**	**–230**	**–128**	**9**

Transfer to other account	Used	Reversal	Allocations	Interest added	Status 31/12
4,039	–1,972	–797	1,048	700	9,539
–	–34,662	–7,108	48,944	–996	143,956
[–]	[–2,742]	[–126]	[2,114]	[–]	[37,563]
[–]	[–20,775]	[–4,822]	[20,036]	[20]	[62,388]
–	–5,312	–2,893	40,525	–16,926	119,447
–3	–70,368	–45,723	146,616	–	245,212
[6,023]	[–26,597]	[–14,578]	[56,341]	[–]	[98,007]
4,036	–112,314	–56,521	237,133	–17,222	518,154

Transfer to other account	Used	Reversal	Allocations	Interest added	Status 31/12
–	–2,299	–21	634	800	7,540
–211	–44,411	–13,319	36,029	365	116,937
[–]	[–1,981]	[–110]	[1,583]	[–]	[35,502]
[–217]	[–24,665]	[–8,025]	[21,335]	[–]	[54,495]
–110	–4,332	–5,419	38,520	–850	104,053
153	–32,990	–37,199	88,354	268	176,612
[–]	[–15,623]	[–17,227]	[33,733]	[–]	[50,296]
–168	–84,032	–55,958	163,537	583	405,142

The provisions reported in the personnel area were valued on the basis of an assumed interest rate of 5.25 % per annum (2006: 4.25 % per annum).

Allowances for employees leaving the company under the terms of age-related part-time employment contracts are capitalized as an asset worth € 8.3 million (2006: € 8.8 million) and not offset against provisions.

Provisions for typical operating risks are formed for, in particular, waste disposal and recultivation obligations.

The provisions for other risks primarily comprise provisions for discounts/complaints, litigation risks, warranties, environmental risks and pending transaction risks.

Maturities of the other provisions:

FY 2007 in T€	Total 31/12	Current	Non-current
Other taxes	**9,539**	**9,539**	–
Personnel	**143,956**	**52,989**	**90,967**
of which anniversary provisions	[37,563]	[–]	[37,563]
of which for the social plan/age-related part-time employment	[62,388]	[24,021]	[38,367]
Operating risks	**119,447**	**17,857**	**101,590**
Other risks	**245,212**	**245,212**	–
of which markdowns/complaints	[98,007]	[98,007]	[–]
Total	**518,154**	**325,597**	**192,557**

FY 2006 in T€	Total 31/12	Current	Non-current
Other taxes	**7,540**	**7,540**	–
Personnel	**116,937**	**40,967**	**75,970**
of which anniversary provisions	[35,502]	[–]	[35,502]
of which for the social plan/age-related part-time employment	[54,495]	[27,704]	[26,791]
Operating risks	**104,053**	**12,618**	**91,435**
Other risks	**176,612**	**176,612**	–
of which markdowns/complaints	[50,296]	[50,296]	[–]
Total	**405,142**	**237,737**	**167,405**

(36) Long-Term Financial Liabilities

in T€	31/12/2007	31/12/2006
Liabilities to banks	45,845	56,922
Liabilities from finance lease agreements	33,780	32,701
Other borrowings	7,812	26
Financial liabilities	**87,437**	**89,649**

The liabilities from finance leases reported under long-term financial liabilities are shown in the following tables:

in T€	Residual term 1–5 years	Residual term > 5 years	31/12/2007 Total
Minimum lease payments	22,510	21,596	44,106
Finance costs	6,025	4,301	10,326
Cash value of minimum lease payments	**16,485**	**17,295**	**33,780**

in T€	Residual term 1–5 years	Residual term > 5 years	31/12/2006 Total
Minimum lease payments	16,771	27,000	43,771
Finance costs	5,819	5,251	11,070
Cash value of minimum lease payments	**10,952**	**21,749**	**32,701**

The long-term liabilities from lease transactions relate essentially to the leasing of plant equipment and machinery.

Current Liabilities

(37) Current Financial Liabilities

in T€	31/12/2007	31/12/2006
Liabilities to banks	73,319	82,896
Liabilities		
to affiliated companies	17,668	1,067
to participating interests	3,090	1,100
Liabilities from finance lease agreements	4,455	3,250
Other financial liabilities	1	14,322
Current financial liabilities	**98,533**	**102,635**

The liabilities from finance leases reported under current financial liabilities are shown in the following table:

in T€	31/12/2007	31/12/2006
Minimum lease payments	6,466	5,071
Finance costs	2,011	1,821
Cash value of minimum lease payments	**4,455**	**3,250**

The current liabilities from lease transactions relate essentially to the leasing of plant equipment and machinery and of factory and office equipment.

(38) Trade Payables

in T€	31/12/2007	31/12/2006
Liabilities		
to third parties	737,014	588,909
to participating interests	16,709	10,891
to affiliated companies	6,943	2,207
Trade payables	**760,666**	**602,007**

Trade payables include the following payables from construction contracts recognized using the percentage-of-completion method.

in T€	31/12/2007	31/12/2006
Production costs including result of construction contracts	4,613	–
Payments received on account	28,875	–
Payables from construction contracts	**33,488**	–

The payables from construction contracts include those production contracts with liability-side balances for which the payments received on account exceed the production costs, including profit and loss shares.

(39) Other Liabilities

in T€	31/12/2007 Total	31/12/2006 Total
Other liabilities		
to affiliated companies	24,405	12,028
to participating interests	–	225
Other liabilities	551,415	330,576
of which payments received on account	[165,875]	[23,303]
of which to employees	[128,320]	[74,190]
of which from forfaiting and the asset-backed securitization program	[94,579]	[116,246]
of which tax	[41,799]	[50,139]
of which derivatives	[28,514]	[10,580]
of which social security contributions	[21,210]	[17,402]
of which bills payable	[–]	[2,663]
of which other liabilities	[71,118]	[36,053]
Other liabilities (current)	**575,820**	**342,829**

Of the sum total of liabilities, an amount of € 142.7 million (2006: € 167.4 million) is secured by liens and similar rights.

The other liabilities totaling € 94.6 million (2006: € 116.2 million) constitute liabilities resulting from forfaiting and asset-backed securitization programs. Salzgitter Mannesmann 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, and the Salzgitter Group continues to report the full receivable amount on the balance sheet as of the reporting date 2007. The purchase price is calculated from 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 Mannesmann Stahlhandel GmbH, Düsseldorf, bears 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; in the process, Salzgitter Mannesmann International GmbH, Düsseldorf, sold receivables worth €1.9 million (2006: € 8.1 million) as of December 31, 2007. In accordance with the framework contracts, Salzgitter Mannesmann International GmbH, Düsseldorf, carries out revolving sales of export receivables insured against default for amounts up to a maximum of € 75.0 million. In addition, Salzgitter Mannesmann International GmbH, Düsseldorf, – for amounts up to a maximum of USD 25.5 million – has sold export receivables worth the equivalent of € 3.9 million (2006: € 8.3 million) and secured by bank guarantees. Furthermore, Salzgitter Mannesmann International (USA) Inc., Houston, has sold receivables equivalent to € 8.6 million (2006: € 19.6 million) as of December 31, 2007, and reported the funds received as liabilities.

(40) Contingencies

Contingencies are potential liabilities not shown on the balance sheet which are disclosed in the amount of their value on the reporting date. Their total amount is € 122.1 million (2006: € 47.6 million).

The contingencies include guarantees of € 71.8 million (2006: € 42.1 million) and bill commitments totaling € 0.9 million (2006: € 1.6 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.

(41) Other Financial Obligations

in T€	31/12/2007		31/12/2006	
	Short-term	Long-term	Short-term	Long-term
Purchase commitments	233,275	419,481	152,729	54,458
Obligations from long-term rental agreements	28,116	160,901	18,443	145,173
Other obligations	448,477	820,629	404,553	450,602
Total	**709,868**	**1,401,011**	**575,725**	**650,233**

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.

The other financial obligations arising from long-term rental and lease agreements consist of the following:

Future rental and lease obligations in T€	31/12/2007	31/12/2006
Up to 1 year	28,116	18,443
1 to 5 years	40,831	36,840
Over 5 years	120,070	108,334
Total	**189,017**	**163,617**

(42) Financial Instruments

As of the reporting date December 31, 2007, the transition of the balance sheet items to the various categories of financial instruments was as follows:

FY 2007 in T€	Book value		
	31/12/2007	Loans and receivables originated by the company	Available-for-sale financial assets
Assets			
Financial assets	108,790	4,422	104,368
Other non-current receivables and assets	2,856	–	–
Trade receivables	1,521,044	1,521,044	–
Other receivables and other assets (acc. to balance sheet T€ 359,356); of which financial instruments	298,888	242,512	–
Securities	20,383	–	–
Cash and cash equivalents	2,138,823	–	2,138,823
Assets financial instruments		**1,767,978**	**2,243,191**
Assets fair value per category		**1,767,993**	**2,243,191**
Equity and liabilities			
Non-current financial liabilities	87,437	–	–
Current financial liabilities	98,533	–	–
Trade payables	760,666	–	–
Other payables (acc. to balance sheet T€ 575,820); of which financial instruments	211,970	–	–
Equity and liabilities financial instruments		–	–
Equity and liabilities fair value per category		–	–

Valuation according to IAS 39			Valuation according to IAS 17
Financial instruments held for trading	**Derivatives with documented hedging arrangements**	**Financial liabilities measured at amortized cost**	
–	–	–	–
–	–	–	2,856
–	–	–	–
42,929	11,593	–	1,854
20,383	–	–	–
–	–	–	–
63,312	**11,593**	–	**4,710**
63,312	**11,593**	–	**5,444**
–	–	53,657	33,780
–	–	94,078	4,455
–	–	760,666	–
25,747	2,766	183,376	81
25,747	**2,766**	**1,091,777**	**38,316**
25,747	**2,766**	**1,090,796**	**37,656**

As of the reporting date December 31, 2006, the transition of the balance sheet items to the various categories of financial instruments was as follows:

FY 2006 in T€	Book value		
	31/12/2006	Loans and receivables originated by the company	Available-for-sale financial assets
Assets			
Financial assets	61,904	1,578	60,326
Other non-current receivables and assets	3,348	–	–
Trade receivables	1,108,260	1,108,260	–
Other receivables and other assets (acc. to balance sheet T€ 176,277); of which financial instruments	149,863	132,357	–
Securities	27,691	–	–
Cash and cash equivalents	2,344,989	–	2,344,989
Available-for-sale non-current assets	12,559	–	–
Assets financial instruments		**1,242,195**	**2,405,315**
Assets fair value per category		**1,242,250**	**2,405,315**
Equity and liabilities			
Non-current financial liabilities	89,649	–	–
Current financial liabilities	102,635	–	–
Trade payables	602,007	–	–
Other liabilities (acc. to balance sheet T€ 342,829); of which financial instruments	251,161	–	–
Equity and liabilities financial instruments		–	–
Equity and liabilities fair value per category		–	–

The market values of the long-term liabilities are determined by discounting the future payment flows with the market interest rates established as of the reporting date. Trade receivables and cash and cash equivalents mostly have short residual terms, and as a result their book values are very similar to their fair values as of the cut-off date. The fair value of the other receivables corresponds to the cash value of the cash flows associated with the assets. In the process, the interest rate parameters of the yield curve are taken into account. The securities are listed and are valued on the basis of the stock market price prevailing on the reporting date. The same procedure is used for listed shares under financial assets.

Trade payables and other liabilities regularly have short residual terms, and as a result their reported values are very similar to their fair values. The fair values of non-current and current financial liabilities are determined as cash values of the payments associated with the liabilities on the basis of the yield

Valuation according to IAS 39			Valuation according to IAS 17	Valuation according to IFRS 5
Financial instruments held for trading	Derivatives with documented hedging arrangements	Financial liabilities measured at amortized cost		
–	–	–	–	–
–	–	–	3,348	–
–	–	–	–	–
11,153	3,944	–	2,409	–
27,691	–	–	–	–
–	–	–	–	–
–	–	–	–	12,559
38,844	**3,944**	**–**	**5,757**	**12,559**
38,844	**3,944**	**–**	**6,660**	**12,559**
–	–	56,948	32,701	–
–	–	99,385	3,250	–
–	–	602,007	–	–
10,450	130	240,491	90	–
10,450	**130**	**998,831**	**36,041**	**–**
10,450	**130**	**998,298**	**37,520**	**–**

curve and the Salzgitter AG credit spread. The book value of the derivative financial instruments corresponds to the market value.

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 for the individual Group companies. In the case of the companies in the Steel Division, the credit insurance does not cover sales to dealers or companies in the iron and steel industry, for which global securities are arranged via the steel del credere office.

The default risk pertaining to financial instruments stems from the category "loans and receivables originated by the company". As of the reporting date, the default risk compared with the previous year was as follows:

in T€	31/12/2007		31/12/2006	
	Maximum default risk	Secured default risk	Maximum default risk	Secured default risk
Trade receivables	1,521,044	737,199	1,108,260	696,585
Other receivables	242,512	23,302	132,357	1,081
Financial assets	4,422	710	1,578	408
Total	**1,767,978**	**761,211**	**1,242,195**	**698,074**

There are also default risks inherent in financial assets held for trading in the amount of the positive market values of the derivatives, and in lease receivables the amount of reported values for which the default risk is not secured.

The analysis of the ages of the financial assets which are overdue, but not impaired, amounting to € 232.5 million (2006: € 171.2 million) as of the reporting date produced the following result:

31/12/2007 in T€	Overdue since				
	<30 days	31–60 days	61–90 days	91–180 days	>180 days
Loans and receivables originated by the company	162,455	37,436	8,203	10,169	14,275

31/12/2006 in T€	Overdue since				
	<30 days	31–60 days	61–90 days	91–180 days	>180 days
Loans and receivables originated by the company	117,855	36,165	6,954	8,792	1,384

The sum of € 86.8 million (2006: € 73.2 million) in overdue non-impaired financial assets in the "loans and receivables originated by the company" category is secured by means of credit insurance.

Non-impaired amounts which have been due for more than 90 days generally concern regular customers, the receipt of whose payments, as in previous years, is not in doubt.

In the reporting year, the Salzgitter Group recorded impairments of assets categorized as "loans and receivables originated by the company" in the amount of € 21.3 million (2006: € 16.1 million) and reversals of write-downs in the amount of € 12.9 million (2006: € 5.7 million).

An impairment of financial assets in the category "loans and receivables originated by the company" is carried out as soon as there are any objective indications of impairment, for example substantial financial difficulties of the debtor or breach of contract. The impairments are recognized with effect on income under other operating expenses. Reversals of impairment losses are recognized under other operating income.

Trade receivables amounting to € 3.6 million (2006: € 3.4 million) had their credit terms renewed. These receivables have not been written down.

It is assumed that those assets which are neither overdue nor impaired could be collected at any time.

The net results of the categories are as follows:

in T€	FY 2007	FY 2006
Assets/Liabilities held for trading	24,327	–152,879
Loans and receivables originated by the company	–2,009	–4,098
Available-for-sale financial assets	91,357	69,895
Financial liabilities measured at amortized cost	–34,316	–41,801
Total	**79,359**	**–128,883**

The net result in the "assets/liabilities held for trading" category mainly comprises income from the sale of current securities. The "available-for-sale financial assets" and "financial liabilities measured at amortized cost" categories largely comprise interest income of € 115.6 million (2006: € 79.4 million) and interest expenses of € 36.4 million (2006: € 45.3 million). In addition, the net results include effects of currency translation and impairment.

In the reporting year, profits amounting to € 4.6 million (2006: profits € 36.4 million, losses € 2.1 million) were generated from the sale of non-consolidated companies valued at acquisition cost. For the assets in this category recorded as of the reporting date, valuation allowances amounting to € 5.6 million (2006: € 0.2 million) with effect on income were posted in the reporting year.

For financial instruments not measured at fair value through profit and loss, the expenses incurred in financial transactions amounted to € 13.0 million (2006: € 16.0 million); these were recognized with effect on income immediately.

The valuation of securities with no effect on income developed as follows:

in T€	FY 2007	FY 2006
As of January 1	4,962	7,332
Addition	166	1,196
Write-up	26,897	–
Disposal	1,139	3,439
Valuation allowance	–	127
As of December 31	**30,886**	**4,962**

The write-up of € 26.9 million in the financial year 2007 essentially relates to the shares in an Indian manufacturing company in the tubes industry.

In accordance with IAS 39, the Salzgitter Group applied hedge accounting exclusively to forward exchange contracts in the financial year 2007. In the process, the currency risks were hedged using cash flow hedges. The respective market values were as follows:

Positive market values in T€	31/12/2007	31/12/2006
Forward exchange contracts – cash flow hedges	11,593	3,899
Interest rate swaps – cash flow hedges	–	45
Total	**11,593**	**3,944**

Negative market values in T€	31/12/2007	31/12/2006
Forward exchange contracts – cash flow hedges	2,766	130

The underlying transactions that were secured using cash flow hedges will generally affect income within 12 months of the reporting date. A small proportion will affect income within the next three years.

The development of the cash flow hedge reserve, which was posted to equity with no effect on income, was as follows:

in T€	FY 2007	FY 2006
As of January 1	3,434	1,948
Additions	7,053	959
Disposals	1,660	–527
As of December 31	**8,827**	**3,434**

The effectiveness of the hedging arrangements is examined as of every reporting date. This involves comparing the cumulative change in the value of the underlying transaction with the cumulative change in the value of the hedging transaction. In the reporting year, slight ineffectivities arose from cash flow hedges.

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. Hedging relationships were established for both firm obligations and expected future transactions.

The nominal volume of the derivative financial instruments comprises the unnetted total of all purchase and sale amounts, valued at the respective settlement rates. Market values were, on principle, determined on the basis of conditions that prevailed on the reporting date, using the values at which the relevant derivative financial instruments were traded or listed, without considering contrary movements in the value of the underlying transactions. The current value of the derivatives to be reported derives from the valuation of the hedged foreign currency amount with 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 to the reporting date at the euro interest rate in accordance with the residual term.

The following key interest rates were used to determine the fair values of the currency derivatives as of the end of the reporting year and the previous year:

Term	EUR interest rate (%)		GBP interest rate (%)		USD interest rate (%)	
	31/12/2007	31/12/2006	31/12/2007	31/12/2006	31/12/2007	31/12/2006
1 month	4.2940	3.6100	5.9538	6.3747	4.6000	5.2700
3 months	4.6900	3.7000	5.9938	5.9893	4.7025	5.3100
6 months	4.7090	3.8300	5.9400	6.2831	4.5963	5.3350
1 year	4.7540	4.0150	5.7438	6.1745	4.2238	5.3050
2 years	4.5330	4.1160	5.2097	5.4445	3.8180	5.1735
4 years	4.5440	4.1140	4.7075	5.4045	4.0450	5.0750
10 years	4.7240	4.1810	4.6025	5.0875	4.6590	5.1650

The liquidity structure of all the financial liabilities was as follows:

31/12/2007 in T€	Up to 1 year	1 to 5 years	Over 5 years
Trade payables	760,666	–	–
Financial liabilities	96,586	31,982	28,014
Lease liabilities	6,547	22,510	21,596
Other liabilities	195,150	–	–
Liabilities from derivatives	26,858	–	–

31/12/2006 in T€	Up to 1 year	1 to 5 years	Over 5 years
Trade payables	602,007	–	–
Financial liabilities	103,844	43,098	21,394
Lease liabilities	5,161	16,771	27,000
Other liabilities	252,013	–	–
Liabilities from derivatives	9,420	9,798	–

Derivatives paid gross (without currency options) and derivatives with negative market values for which a net adjustment has been agreed have an underlying market volume of € 1,506.3 million (2006: € 1,036.1 million).

Sensitivity Analysis

IFRS 7 stipulates that to ensure a systematic presentation of the market risks to which the company in question is exposed as of the reporting date, a sensitivity analysis must be prepared.

The objective of this sensitivity analysis is to determine the impact of hypothetical changes in relevant risk variables on the company's result and equity. To determine the impact of these risk variables on the financial instruments, the effects of hypothetical changes in the risk variables on the market values and cash flows of the financial instruments in question must be determined as of the reporting date.

The Salzgitter Group is exposed to a variety of financial risks. In terms of the sensitivity analysis under IFRS 7, these are interest rate risks, exchange rate risks and other price risks. For the interest rate risks, the sensitivity analysis assumes a change of 100 basis points in the market interest rate. In the case of exchange rate risks, a fluctuation of 10% in the respective functional currencies of the Group companies against the foreign currencies is assumed. The other price risks arise for the Salzgitter Group from changes in raw materials prices or stock market indices. In this area, the effects of a change in the respective price listings are calculated at 10%. The sensitivities were determined by banks or by means of internal calculations using acknowledged methods (e.g. Black-Scholes, Heath-Jarrow-Morton). The portfolio of financial instruments as of the reporting date is representative of the financial year as a whole.

31/12/2007 in T€	Affecting result	Affecting equity	Total	Affecting result	Affecting equity	Total
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
USD	–27,107	23,202	–3,905	46,930	–27,362	19,568
GBP	3,459	303	3,762	–4,402	–181	–4,583
Other currencies	83	803	886	33	–943	–910
Currency sensitivities	**–23,565**	**24,308**	**743**	**42,561**	**–28,486**	**14,075**
Degree of sensitivity	+100 bp	+100 bp	+100 bp	–100 bp	–100 bp	–100 bp
Interest rate sensitivities	**7,150**	**–**	**7,150**	**–7,155**	**–**	**–7,155**
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
Other price sensitivities	**–6,129**	**–**	**–6,129**	**6,258**	**–**	**6,258**

31/12/2006 in T€	Affecting result	Affecting equity	Total	Affecting result	Affecting equity	Total
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
USD	–20,835	–4,488	–25,323	35,703	2,362	38,065
GBP	1,854	237	2,091	–1,815	–233	–2,048
Other currencies	378	–	378	–452	–	–452
Currency sensitivities	**–18,603**	**–4,251**	**–22,854**	**33,436**	**2,129**	**35,565**
Degree of sensitivity	+100 bp	+100 bp	+100 bp	–100 bp	–100 bp	–100 bp
Interest rate sensitivities	**9,325**	**–**	**9,325**	**–9,441**	**–**	**–9,441**
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
Other price sensitivities	**2,286**	**–**	**2,286**	**–2,286**	**–**	**–2,286**

(43) 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 2007 and 2006, broken down into inflows and outflows of funds from current operating, investment and financing activities. The cash flow 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, near-money funds, securities and cash at banks. The cash and cash equivalents include no cash equivalents (2006: € 147 million) reported in the balance sheet under "cash and cash equivalents".

In the cash flow from operating activities, earnings from fixed asset disposals have been eliminated. Interest income amounted to € 82.9 million (2006: € 62.4 million).

The investments reported under the cash flow for investment activities comprise the additions to intangible assets, property, plant and equipment as well as financial investments. In addition to numerous investments in rationalization and replacements aimed primarily at improving, renewing and safeguarding production plants and data processing systems, various large-scale investments were made, principally for the purpose of enhancing product quality and broadening the product spectrum.

The payments made for investments in financial assets relate particularly to the acquisition of Klöckner-Werke AG and Vallourec Précision Etirage S.A.S., Saint Florentin, France, and to the acquisition of assets and debts of Rohrwerk Zeithain from Vallourec & Mannesmann Deutschland GmbH, Düsseldorf. The net outflow of cash and cash equivalents from these acquisitions in accordance with IFRS 3 (Note 44) for 2007 was as follows:

in T€	FY 2007
Purchase price paid in cash (up to first-time consolidation)	392,171
Cash available in the acquired companies	–23,256
Purchase price paid in cash (after first-time consolidation)	21,328
Cash outflow as a result of acqusitions	**390,243**

The cash inflow from the disposal of financial assets relates primarily to the sale of the shareholding in Ets. Robert et Cie S.A.S. The disposal of the shares in the company SMH Sparkasse Mannesmann Hoffmeister Projektentwicklung GmbH & Co. KG, Mülheim an der Ruhr, and the sale of Grundstücksgemeinschaft Funkschneise Bremen GbR, Bremen, contributed additionally to the cash inflow in the investment area.

Interest paid is attributed solely to financing activities.

The payments for current loans against promissory notes/bonds result from the sale of an additional loan against a promissory note.

Income received from shareholdings during the financial year amounted to € 2.8 million (2006: € 16.2 million).

(44) Acquisitions

In March 2007, 82.2% of Klöckner-Werke AG, Duisburg, and 70.7% of RSE Grundbesitz und Beteiligungs-AG, Frankfurt am Main, were acquired. A total of 15 companies were included in the accounts for the first time by way of full consolidation as from July 2007.

The Technology Division contributed € 512.6 million to the Group's sales and € 4.0 million, after the purchase price allocation, to its profits in the second half of 2007. With regard to the sales and annual results figures posted by the acquired companies for the reporting period 2007, we refer to the figures of Klöckner-Werke AG which were announced ad-hoc as of February 25, 2008, ("Provisional figures for the financial year 2007") in accordance with Section 15, German Securities Trading Act (WpHG). These figures contain no effects resulting from value adjustments for the additions to current values ascertained and reported in the course of the purchase price allocation.

The following assets and liabilities were acquired as a result of the acquisition:

in T€	Fair value	Book value at acquired company
Other intangible assets	28,483	28,483
Brand names	27,356	–
Customer relationships	32,435	–
Technologies	7,093	–
Property, plant and equipment	156,105	122,322
Financial assets	32,982	57,505
Inventories	159,162	148,145
Receivables	379,671	378,195
Cash and cash equivalents	21,460	21,460
Other assets	2,571	2,571
Other provisions	–56,575	–54,575
Pension provisions	–143,669	–153,950
Liabilities	–294,132	–294,132
Deferred tax – net	11,592	59,279
Net assets	**364,534**	**315,303**
Minority interest	–47,036	
Net assets acquired	**317,498**	

In the Tubes Division, 100% of Vallourec Précision Etirage S.A.S., Saint Florentin, France, was acquired, as well as assets and liabilities of Rohrwerk Zeithain from Vallourec & Mannesmann Deutschland GmbH, Düsseldorf. Since their acquisition, these assets and liabilities have been serving the operating activities of Mannesmannrohr Sachsen GmbH, Zeithain.

The companies contributed € 152.6 million to the Group's sales and € 5.7 million – after purchase price allocation – to its profits in the second half of 2007.

The following assets and liabilities were acquired as a result of the acquisition:

in T€	Fair value	Book value at acquired company
Other intangible assets	353	353
Brand names	564	–
Customer relationships	875	–
Technologies	2,527	–
Property, plant and equipment	68,742	55,654
Financial assets	1,096	1,096
Inventories	61,477	54,127
Receivables	78,833	78,833
Cash and cash equivalents	1,796	1,796
Other assets	1,408	1,408
Other provisions	–3,338	–3,338
Pension provisions	–7,370	–7,370
Liabilities	–65,368	–64,176
Deferred tax – net	–17,961	–9,769
Net assets	**123,634**	**108,614**
Minority interest	–	
Net assets acquired	**123,634**	

(45) Notes on Segment Reporting

In its segment reporting, the Salzgitter Group is prematurely applying IFRS 8 (“Operating Segments”), which was adopted by the European Union in November 2007 and will replace the currently valid provisions of IAS 14 as from January 1, 2009.

The segmentation of the Salzgitter Group into five (2006: four) divisions accords with the Group’s internal controlling and reporting functions.

In the segment report, the business activities of the Salzgitter Group are assigned to the Steel, Trading, Tubes and Services Divisions and, since the acquisition of the mechanical engineering group Klöckner in July 2007, the new Technology Division. Salzgitter AG as the management holding company and the intermediate holding company Salzgitter Mannesmann GmbH are not assigned to any division.

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. The Division’s main products are steel strip, sections and plate. HSP Hoesch Spundwand und Profil GmbH, Salzgitter Bauelemente GmbH, Salzgitter Europlatinen GmbH and ThyssenKrupp GfT Bautechnik GmbH, which is valued at equity, continue to be assigned to this division.

The Tubes Division includes the fully consolidated units Mannesmannröhren-Werke GmbH, Mannesmannröhren Mülheim GmbH, Mannesmann Präzisrohr GmbH, Mannesmann Robur B.V., Mannesmann Fuchs Rohr GmbH, Salzgitter Großrohre GmbH, the DMV Group and, for the first time, the newly acquired or first-time consolidated Salzgitter companies Salzgitter Mannesmann Precision GmbH (formerly Mannesmannring Sachsen GmbH), Mannesmannrohr Sachsen GmbH and Vallourec Précision Etirage S.A.S. This division concentrates mainly on the production of pipeline tubes, precision steel tubes and stainless steel steel tubes.

This division also includes the joint venture Europipe GmbH (including the subsidiaries Europipe France S.A., eb Pipe Coatings Corporation, Berg Steel Pipe Corporation and MÜLHEIM PIPECOATINGS GmbH), which is included proportionately in the consolidated financial statements. Hüttenwerke Krupp Mannesmann GmbH is assigned to this business segment as an associated company using the equity method.

The Trading Division consists of four domestic and five foreign companies in the Salzgitter Mannesmann Handel Group, Universal Eisen und Stahl GmbH, Hövelmann & Lueg GmbH and Flachform Stahl GmbH.

This segment also includes the non-consolidated companies in the Salzgitter Mannesmann Handel Group and the Universal Handel Group.

"What a view!"

Jannis Angelopoulos, restaurant owner from Nafpaktos Jannis Angelopoulos owns a restaurant in Nafpaktos, and the specialty of the house is a postcard-perfect view. To the left the mountains of the Peloponnes, to the right the picturesque coastal town of Nafpaktos, and in-between the Gulf of Corinth, with the enormous Rio-Antirrio Bridge stretching across it. Although Angelopoulos has only owned his restaurant for three years, his connections with the bridge dates back further, for he used to run the workers' canteen when the bridge was a construction site. When the structure was completed in 2004, he had to reorient himself, and he has definitely been successful, as you can see.

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, Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Salzgitter Automotive Engineering GmbH & Co. KG and Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, as well as the net income from shareholdings assigned to this segment. This segment also includes the non-consolidated company Salzgitter Hydroforming GmbH & Co. KG.

The companies in this Division are engaged primarily in providing services to the Group. Their applied expertise and the existing infrastructure, however, will increasingly be offered to companies outside of the Group as well. The services provided include data processing, telecommunications services, scrap metal dealing, the handling and storage of bulk cargo, transportation and other services. The companies Salzgitter Hydroforming GmbH & Co. KG and Salzgitter Automotive Engineering Beteiligungsgesellschaft (including subsidiaries) mainly provide services and products for the automotive industry.

The Technology Division contains a total of 15 fully consolidated companies belonging to the Klöckner Group. As of December 31, 2007, the Salzgitter Group holds a total of 86.1 % of the shares in Klöckner-Werke AG (KWAG), the holding company of the Klöckner Group. The Klöckner Group operates via the KWAG subsidiary KHS AG and its domestic and foreign subsidiaries, primarily in the filling and packaging technology segment.

Inter-segment sales are basically conducted on standard market terms such as also apply to transactions with third parties.

Depreciation and amortization relate in their entirety to the fixed assets of the respective segments.

Segmental operating assets and liabilities comprise the assets and debts that are required for operational purposes – excluding both interest-bearing claims and income tax receivables and liabilities.

Of the sales generated, € 4,903 million (2006: € 3,984 million) were earned in Germany and € 5,289 million (2006: € 4,463 million) in third countries.

Of the investments in property, plant and equipment and intangible assets, € 359 million (2006: € 225 million) were accounted for by Germany and € 24 million (2006: € 11 million) by third countries. A further sum of € 1.5 million was invested in Germany by a consolidated unit not assigned to any segment.

In the financial year 2007, as in the previous year, no single customer accounted for more than 10 % of the Salzgitter Group’s sales.

The transition of total segmental assets and segmental liabilities to the Group's balance sheet total, and the transition of total segment sales and segment results to consolidated sales and the consolidated result of ordinary activities respectively, are shown in the following overview:

in T€	FY 2007	FY 2006
Total sales of the segments	13,347,019	11,101,265
Other sales	123,626	101,396
Elimination of the sales in own segment	–399,780	–350,365
Elimination of the sales with other segments	–2,686,643	–2,254,190
Elimination of the sales with Group companies not assigned to a segment	–191,963	–150,893
Sales	**10,192,259**	**8,447,213**

in T€	FY 2007	FY 2006
Total results for the period of the segments	1,308,759	912,991
Other results for the period	5,152	941,767
Result of ordinary activities	**1,313,911**	**1,854,758**

in T€	FY 2007	FY 2006
Segment operating assets	6,278,276	4,722,738
Other assets	1,979,718	2,178,893
Goodwill	15,344	–
Income tax assets	114,192	23,950
Deferred income tax assets	12,988	49,101
Deferred expenses	5,672	2,896
Balance sheet total	**8,406,190**	**6,977,578**

in T€	FY 2007	FY 2006
Segment operating liabilities	5,006,638	3,843,221
Other liabilities	–1,180,930	–586,946
Tax liabilities	327,968	263,778
Group equity	4,245,867	3,456,701
Deferred income	6,647	824
Balance sheet total	**8,406,190**	**6,977,578**

The remaining sales, results for the period under review, assets and liabilities are accounted for by the companies Salzgitter AG and Salzgitter Mannesmann GmbH, which cannot be assigned to any operating segment.

(46) 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.

On April 2, 2002, Hannoversche Beteiligungsgesellschaft mbH, Hanover, disclosed that it held 25.5 % of the voting rights in SZAG as of April 2, 2002. The Federal State of Lower Saxony, represented by the Finance Ministry of Lower Saxony, Hanover, also announced that it held 25.5 % of the voting rights of Salzgitter AG. According to Section 22 para. 1 sentence 1 no. 1 of the Securities Trading Act (WpHG) these voting rights are attributable to the Federal State of Lower Saxony, as the shares in Hannoversche Beteiligungsgesellschaft mbH are fully owned 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€	Sale of goods and services		Purchase of goods and services	
	FY 2007	FY 2006	FY 2007	FY 2006
ThyssenKrupp GfT Bautechnik GmbH, Essen	210,950	160,904	–	–
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	41,290	26,387	384,980	416,339

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€	Trade receivables		Trade payables	
	31/12/2007	31/12/2006	31/12/2007	31/12/2006
ThyssenKrupp GfT Bautechnik GmbH, Essen	13,697	17,503	–	–
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	5,566	2,398	16,496	10,860

All business transactions with related companies are conducted on terms that also customarily apply among third parties.

Deliveries and services rendered for related companies primarily concern deliveries of sheet piling to ThyssenKrupp GfT Bautechnik GmbH.

The deliveries and services received essentially comprise deliveries of input material for the manufacture of large-diameter pipes.

There are contingencies totaling € 0.7 million (2006: € 1.0 million) vis-à-vis non-consolidated affiliated companies.

Remuneration paid to members of the management in key positions:

in T€	FY 2007	FY 2006
Salaries and other current payments	10,952	8,494
Payments after termination of the employment relationship	619	542
Total	**11,571**	**9,036**

(47) 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 2007	FY 2006
Audits	2,595	1,505
Other certification or assessment services	579	67
Tax consulting services	86	16
Other services	256	120

(48) Significant Events Occurring After the Reporting Date

Significant events occurring after the reporting date are explained in the Management Report.

(49) Waiver of Disclosure and Preparation of a Management Report 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 and from the obligation to prepare a management report:

- Salzgitter Mannesmann GmbH, Salzgitter
- Salzgitter Stahl GmbH, Salzgitter
- Salzgitter Flachstahl GmbH, Salzgitter
- Peiner Träger GmbH, Peine
- Ilsenburger Grobblech GmbH, Ilsenburg
- “Glückauf” Wohnungsgesellschaft mbH, Peine
- Hövelmann & Lueg GmbH, Schwerte
- Flachform Stahl GmbH, Schwerte
- SZST Salzgitter Service und Technik GmbH, Salzgitter
- Salzgitter Großrohre GmbH, Salzgitter
- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg
- SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter
- GESIS Gesellschaft für Informationssysteme mbH, Salzgitter
- TELCAT MULTICOM GmbH, Salzgitter
- TELCAT KOMMUNIKATIONSTECHNIK GmbH, Salzgitter
- DEUMU Deutsche Erz- und Metall-Union GmbH, Peine
- HSP Hoesch Spundwand und Profil GmbH, Dortmund
- Salzgitter Mannesmann Handel GmbH, Düsseldorf
- Salzgitter Mannesmann International GmbH, Düsseldorf
- Salzgitter Mannesmann Stahlhandel GmbH, Düsseldorf
- Stahl-Center Baunatal GmbH, Baunatal
- Mannesmann Fuchs Rohr GmbH, Siegen-Kaan
- Mannesmann Präzisrohr GmbH, Hamm
- Salzgitter Mannesmann Precision GmbH, Zeithain
- Mannesmannrohr Sachsen GmbH, Zeithain
- Universal Eisen und Stahl GmbH, Neuss
- Salzgitter Europlatinen GmbH, Salzgitter
- Salzgitter Mannesmann Forschung GmbH, Duisburg
- Salzgitter Bauelemente GmbH, Salzgitter
- Mannesmannröhren Mülheim GmbH, Mülheim
- Mannesmann DMV Stainless GmbH, Mülheim
- Mannesmann DMV Stainless Deutschland GmbH, Remscheid
- Mannesmannröhren-Werke GmbH, Mülheim
- Salzgitter Automotive Engineering Beteiligungs-gesellschaft, Osnabrück
- Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück
- Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück

(50) Supervisory Board and Executive Board

For the discharge of their duties, the members of the Executive Board received the sum of € 7.4 million (2006: € 4.9 million) in the financial year. Of this total, € 4.6 million (2006: € 2.5 million) was accounted for by performance-related remuneration components.

Provisions for pension obligations to members of the Executive Board amounted to € 10.6 million (2006: € 6.9 million). Former members of the Executive Board and their surviving dependants received a total of € 1.5 million for the financial year (2006: € 1.5 million). Pension provisions totaling € 21.5 million (2006: € 20.3 million) have been set aside to cover obligations to former Executive Board members and their surviving dependants.

Supervisory Board members received a total of € 1.9 million for the financial year (2006: € 1.6 million).

The remuneration of the individual members of the Executive and Supervisory Boards of Salzgitter AG is disclosed in Section I.2.3. "Remuneration of the Executive and Supervisory Boards" in the Group Management Report and the Salzgitter AG Management Report.

(51) Assurance from the Legal Representatives

We give our assurance that, to the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group and that the course of business, including the business result and the position of the Group, are portrayed in such a way in the Group Management Report that a true and accurate picture is conveyed and that the significant opportunities and risks of the Group's future development are fairly described.

Salzgitter, March 5, 2008

The Executive Board

Leese Fuhrmann Eging

Fischer Groschke Schneider

VI. Auditor's Report

This report was originally prepared in German language. In case of ambiguities the German version shall prevail:

"Auditor's Report

We have audited the consolidated financial statements prepared by the Salzgitter AG, Salzgitter, comprising the income statement, the balance sheet, statement of recognised income and expense, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the Salzgitter AG, Salzgitter, for the business year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the combined group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined 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 (Institute of Public Auditors in Germany) (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 the applicable financial reporting framework and in the combined group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to 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 in the combined 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 Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined 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 findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 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 combined group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Hanover, March 5, 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed	signed
Michael Lukasch Wirtschaftsprüfer (German Public Auditor)	Dr. Mathias Schellhorn Wirtschaftsprüfer (German Public Auditor)

I. 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

	Trading Division
APS	AP Steel U.K. Ltd.
DSO	Deltastaal B.V.
FFS	Flachform Stahl GmbH
FSD	Friesland Staal B.V.
HLG	Hövelmann & Lueg GmbH
RSA	Ets. Robert et Cie S.A.S.
SCB	Stahl-Center Baunatal GmbH
SHN	Salzgitter Handel B.V.
SMCN	Salzgitter Mannesmann Trade (Beijing) Co. Ltd.
SMCZ	Salzgitter Mannesmann Stahlhandel s.r.o. (Czech Republic)
SMHD	Salzgitter Mannesmann Handel GmbH
SMHK	Salzgitter Mannesmann International (Hong Kong) Ltd.
SMHU	Salzgitter Mannesmann Acélkereskedelmi Kft. (Hungary)
SMID	Salzgitter Mannesmann International GmbH
SMIH	Salzgitter Mannesmann International (USA) Inc.
SMIM	Salzgitter Mannesmann International (Mexico) S.A. de C.V.
SMIR	Salzgitter Mannesmann International Tehran
SMIV	Salzgitter Mannesmann International (Canada) Inc.
SMPL	Salzgitter Mannesmann Stahlhandel sp.z.o.o. (Poland)
SMRO	Salzgitter Mannesmann Distributie S.R.L. (Romania)
SMSD	Salzgitter Mannesmann Stahlhandel GmbH
SMSG	Salzgitter Mannesmann International (Asia) Pte. Ltd.
UES	Universal Eisen und Stahl GmbH
UAC	Universal Acier S.a.r.l.
UOC	Universal Ocel s.p.o.l. s.r.o.
USC	Universal Steel America Chicago, Inc.
USH	Universal Steel America Houston, Inc.
USN	Universal Steel Holland B.V.
USP	Universal Stal sp.z.o.o.

Tubes Division

BMB	Borusan Mannesmann Boru Yatirim Holding A.S.
BSPC	Berg Steel Pipe Corp.
DMD	Mannesmann DMV Stainless Deutschland GmbH
DMF	Mannesmann DMV Stainless France S.A.S.
DMH	Mannesmann DMV Stainless USA, Inc.
DMI	Mannesmann DMV Stainless Italia S.r.l.
EP	Europipe GmbH
EPF	Europipe France S.A.
HKM	Hüttenwerke Krupp Mannesmann GmbH
MDS	Mannesmann DMV Stainless GmbH
MFR	Mannesmann Fuchs Rohr GmbH
MHP	Mannesmann Präzisrohr GmbH
MRS	Mannesmannrohr Sachsen GmbH
MRM	Mannesmannröhren Mülheim GmbH
MRW	Mannesmannröhren-Werke GmbH
MPM	Mannesmann Precisión Mexico S.A. de C.V.
ROB	Mannesmann Robur B.V.
SMP	Salzgitter Mannesmann Precision GmbH
SZGR	Salzgitter Großrohre GmbH
TSA	Tubos Soldados Atlantico Ltda.
VLR	Vallourec S.A.
VPE	Vallourec Précision Etirage S.A.S.

Services Division

DMU	DEUMU Deutsche Erz- und Metall-Union GmbH
GES	GESIS Gesellschaft für Informations-systeme mbH
GWG	"Glückauf" Wohnungsgesellschaft mbH
HAN	Hansaport Hafenbetriebsgesellschaft mbH
SIT	SIT Salzgitter Information und Telekommunikation GmbH
SZAB	Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH
SZAE	Salzgitter Automotive Engineering GmbH & Co. KG
SZAI	Salzgitter Automotive Engineering Immobilien GmbH & Co. KG
SZHF	Salzgitter Hydroforming 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
TCG	TELCAT KOMMUNIKATIONSTECHNIK GmbH
TMG	TELCAT MULTICOM GmbH
VPS	Verkehrsbetriebe Peine-Salzgitter GmbH

Technology Division

IBV	IRKAS Beteiligungs-GmbH & Co. Vermietung-KG
KDE	Klöckner DESMA Elastomertechnik GmbH
KDS	Klöckner DESMA Schuhmaschinen GmbH
KHP	Klöckner Hänsel Processing GmbH
KHS	KHS AG
KHSAU	KHS Pacific Pty. Ltd.
KHSBR	KHS Industria de Maquinas Ltda.
KHSGL	KHS China GLM2 Co. Ltd. Inc.
KHSIN	KHS Machinery Pvt. Ltd. Inc.
KHSME	KHS Mexico S.A. de C.V.
KHSRU	KHS RUS 000
KHSSA	KHS Manufacturing (S.A.) (Pty.) Ltd.
KHSUS	KHS USA, Inc.
KMM	Klöckner Mercator Maschinenbau GmbH
KWAG	Klöckner-Werke AG
RSE	RSE Grundbesitz und Beteiligungs-AG

II. 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 tax (excluding deferred tax) and interest-bearing liabilities. Equity also comprises minority interests.

Cash flow

- **from operating activities**
  Outflow/inflow of liquid funds in as much as not influenced by investment, disinvestment or financing activities.
- **from investment activities**
  Outflow/inflow of liquid funds from investment/disinvestment activities.
- **from financing activities**
  Outflow/inflow of liquid funds from financing activities: issuance/redemption of bonds, borrowing/repayment of loans, issuance/repurchase of shares etc.

Corporate Governance
The term used to describe responsible corporate management and control. In the interests of improving corporate management, the German Federal Minister of Justice set up the Government Commission on the German Code of Corporate Governance in 2001. The Commission is tasked with enhancing the transparency of the rules of corporate management and supervision applicable in Germany and with improving the corporate charter of German stock corporations. The capital markets attach an increasing importance to good corporate governance.

Cost of materials
Expenses incurred by raw materials and supplies, merchandise, spare parts, tooling and outsourced supplies and services such as energy, contract processing and internal transport costs.

Current assets
Assets not intended for use in the long-term operations of the business enterprise. Current assets include, for example, inventories and trade receivables.

D

Debt
Provisions, liabilities and deferred income.

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 recommendations by the Government Commission on the German Code of Corporate Governance.

Deferred tax
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 Tax)
Earnings before interest and tax payments (excluding the interest component in allocations to pension provisions).

EBITDA (Earnings before Interest, Tax, Depreciation and Amortization)
Earnings before interest and tax payments (excluding the interest component in allocations to pension provisions) and depreciation and amortization (including of financial assets).

EBT (Earnings before Tax)
Earnings before deduction of tax.

Equity
Funds made available to a company by its owners as a cash payment and/or capital investment, as well as retained earnings.

External sales
The proportion of total sales accounted for by transactions with companies outside group of consolidated companies of Salzgitter AG.

F

Forfaiting
Sale of export receivables without recourse to the previous owners of the receivables (supplier), generally a bank.

Free float
That part of a company's capital stock that is freely traded on the stockmarket.

I

IAS/IFRS
International Accounting Standards/International Financial Reporting Standards: standards to ensure international comparability in the preparation of accounts.

Internal sales
The portion of total sales accounted for by transactions between companies within the group of consolidated companies of Salzgitter AG.

J

Joint venture
A business venture undertaken in cooperation between, and under the joint control of, at least two companies at arm's length.

L

Lifo
Last in, first out: method of valuing inventories based on their assumed sequence of consumption.

M

Market capitalization
Current market capitalization of a listed company. Market capitalization is calculated by multiplying the share price by the number of shares. Deutsche Börse AG calculates market capitalization for index weighting purposes based on the result of share price and free float.

N

Non-current assets

Assets which are intended for use in the long-term operations of a business enterprise.
A distinction is made between:

- **Property, plant and equipment**
  Land and buildings, technical equipment and machinery etc.
- **Intangible fixed assets**
  Goodwill/negative goodwill, patents, licenses, development costs etc.
- **Financial assets**
  Shares in affiliated and associated companies, other shareholdings, long-term securities etc.

P

Pension provisions

Provisions formed to cover retirement, invalidity and surviving dependants' pension and benefit commitments. Pension obligations are calculated using the present value of the defined benefit obligations method (IFRS) or the going-concern value method (HGB) and valued on the basis of actuarial assumptions and calculations.

Personnel expenses

Expenses incurred by wages and salaries as well as social security, pension and other benefits. These expenses do not include the interest component in allocations to pension provisions, which is reported as part of the financial result.

R

ROCE

Return on capital employed. Ratio of EBIT to capital employed.

U

Unappropriated Retained Earnings

(also: profit shown on the balance sheet after appropriation to or transfer from reserves)
Profit after appropriation to, or transfer from, reserves as shown in the annual financial statements of Salzgitter AG, calculated in accordance with the German Commercial Code. Dividend paid to shareholders is determined by this result.

Technical Terms

A

Annealing furnace

Metallurgical furnace for heat treatment and annealing of metals and alloys; heated either electrically or by means of solid, liquid or gaseous fuels.

B

Beam blanks

Input material for the production of beams.

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 a 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 smelting pig iron out of iron ore. Coke is produced 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 that are used in the construction industry as wall and ceiling elements and for exterior cladding.

F

Filler with ring tube vessel
The ring tube vessel receives the beverage from an external unit and distributes it evenly to all bottling stations. The vessel is made of stainless steel tubing (diameter = approx. 200 mm) which is bent to form a ring shape.

Flat rolled steel
Flat rolled steel products are manufactured by the hot- and cold-rolling of slabs, including other work stages, as necessary. The term refers specifically to sheet steel with a thickness of less than 30 mm used mainly for automobiles and home appliances.

H

Hollows
Seamless tubes used as a input material for the production 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.

I

Induction heating/annealing
The term induction heating/annealing denotes the process of passing steel pipes continuously through several successive inductor coils to heat these to a temperature of 1,200 °C.

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.

Pilger rolling
Conventional step-forming process (cold pilger rolling) for the production of seamless tubes by reducing the diameter and wall thickness of the tube (hollow section).

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 predominantly in mechanical engineering and the automobile industry.

Push bench
Hot-forming machine in which a mandrel rod forces a cylindrical hollow ingot that is heated to forming temperature through several roll passes (consist of three non-driven, calibrated rolls symmetrically arranged on the circumference) for multiple stretching.

R

Reduction agent
Sources of carbon such as coke, coal or fuel 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

Seam annealing unit
Unit for normalizing the longitudinal HF-welding seam of steel tubes on the basis of electromagnetic induction.

Sections
Long products such as beams and sheet piles, used primarily in building construction and civil engineering.

Semi-finished goods/semis
A general term for input material made from crude steel for use in rolling mills (slabs, blooms, tube rounds).

Shot Peening
Steel or ceramic shot-blasting process for targeted improvement of the surface properties (corrosion resistance, mechanical strength) of components for high load performance.

Shuttle coater
Technical facility for covering galvanized thin sheet with various coatings.

Slab
An intermediate product produced from crude steel by the continuous casting process and used as an input material for the production of flat rolled steel.

Surface-coated steel products
Products provided with a metallic or organic surface coating by special processes, for example by galvanizing or paint-coating.

T

Tailored Blanks
Bonded blanks composed of sheet steel of the varying shapes, qualities and properties, which are welded together by laser beam. Automobile manufacturers use tailored blanks to produce press parts for vehicle construction.

Three-roll piercing mill
Hot-forming unit, in which a cylindrical ingot that is heated to hot-forming temperature is forced through a roll stand (consisting of three driven and calibrated rollers arranged symmetrically on the circumference) by means of a centered mandrel to form a hollow and stretched block.

Transistor-type welding machine
Machine for longitudinal seam welding of steel tubes based on HF-welding voltage generated by power transistors.

Tube rounds
An intermediate product manufactured from crude steel by the continuous casting process and used as an input 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, a hollow body is first created by a variety of processes (including pilgering), which is then rolled and, if necessary, drawn to its final dimensions.

Turn-key plants
Complete plants, facilities and systems ready for operation.

III. Financial Calendar of Salzgitter AG for 2008

March 6, 2008	Key data for the financial year 2007
March 27, 2008	Publication of consolidated financial statements for 2007 Annual results press conference
March 28, 2008	Analysts' conference in Frankfurt/Main
March 31, 2008	Analysts' conference in London
May 15, 2008	Interim report for the first quarter of the 2008 financial year
May 21, 2008	General Meeting of Shareholders in 2008
August 14, 2008	Interim report for the first half of the financial year 2008 Analysts' conference in Frankfurt/Main
August 15, 2008	Analysts' conference in London
November 14, 2008	Interim report for the first nine months of the financial year 2008

IV. Editorial Details and Contact

Contact:
SALZGITTER AG
Eisenhüttenstraße 99
38239 Salzgitter

Phone: +49 (0) 53 41/21-01
Fax: +49 (0) 53 41/21-27 27

Postal Address:
D-38223 Salzgitter

Public Relations:
Phone: +49 (0) 53 41/21-23 00
Fax: +49 (0) 53 41/21-23 02

Investor Relations:
Phone: +49 (0) 53 41/21-37 83
Fax: +49 (0) 53 41/21-25 70

Interactive Annual Report:
www.salzgitter-ag.de/gb2007

Publisher:
SALZGITTER AG

Concept and Design:
BUTTER. Agentur für Werbung,
Düsseldorf

Photography:
Franklin Berger (container ship, Hamburg), Dominik Obertreis (ski jump, Garmisch-Partenkirchen), Michael Lange (phæno, Wolfsburg), Marcus Pietrek (Rio-Antirrio Bridge, Executive Board, Supervisory Board)

Lithography:
Weß+Lüer GmbH, Willich

Printed by:
Rasch, Druckerei und Verlag, Bramsche

Translation:
Baker & Harrison, München

Production:
BUTTER. Agentur für Werbung,
Düsseldorf