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VALUES

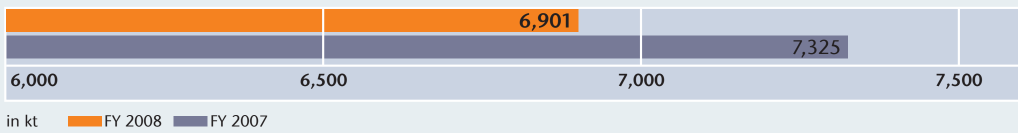
Annual Report 2008

Financial Year from January 1 to December 31, 2008

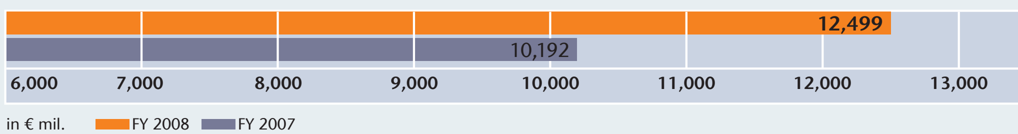
SALZGITTER AG
Steel and Technology

Key Figures for the Financial Year 2008

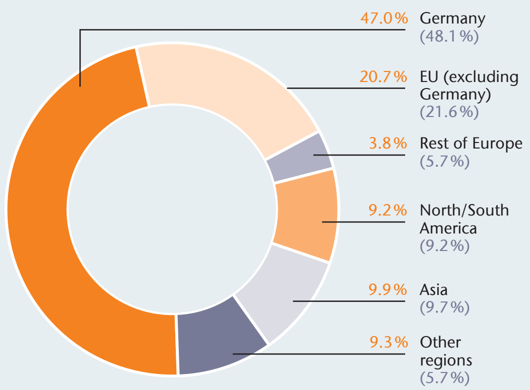
Crude Steel Production



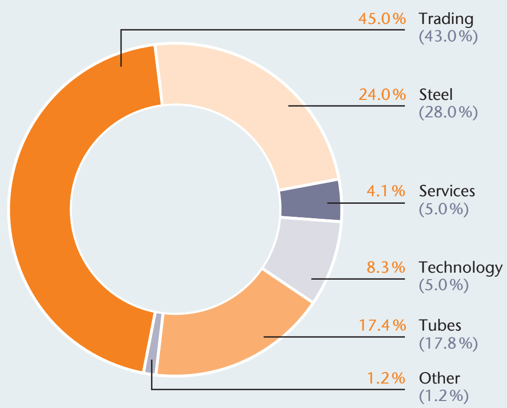
Consolidated Sales



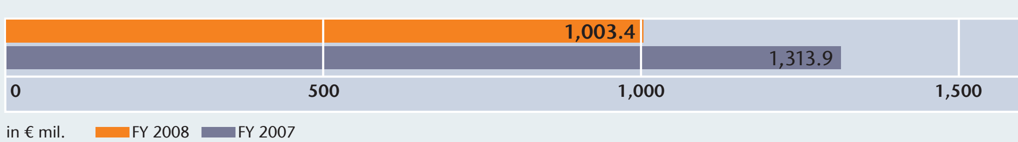
Consolidated Sales by Region 2008 (2007)



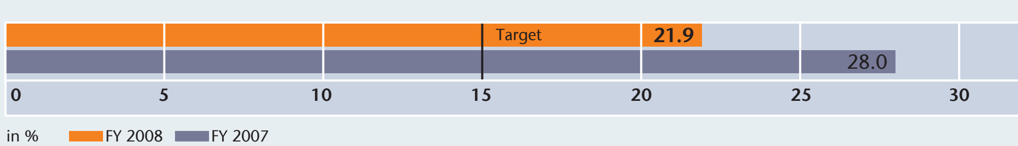
Consolidated Sales by Division 2008 (2007)



Earnings before tax (EBT)



Return on Capital Employed (ROCE)



		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
External Sales	**€ mil.**	**5,942**	**7,152**	**8,447**	**10,192**	**12,499**
Steel Division	€ mil.	1,946	2,177	2,440	2,852	3,002
Trading Division	€ mil.	2,642	3,244	3,971	4,385	5,622
Tubes Division	€ mil.	1,016	1,407	1,510	1,815	2,172
Services Division	€ mil.	338	324	425	504	519
Technology Division[1]	€ mil.	–	–	–	513	1,038
Other/Consolidation	€ mil.	–	–	101	123	146
Earnings before tax (EBT)	**€ mil.**	**323**	**941**	**1,855[2]**	**1,314**	**1,003**
EBT by Division						
Steel Division	€ mil.	174[3]	431	434	749	546
Trading Division	€ mil.	99	88	201	213	151
Tubes Division	€ mil.	117[4]	441[5]	263	303	312
Services Division	€ mil.	13	9	15	40	24
Technology Division[1]	€ mil.	–	–	–	4	4
Other/Consolidation	€ mil.	–81	–28	942[2]	5	–32[6]
Net income for the year	**€ mil.**	**247**	**842**	**1,510**	**905**	**677**
Balance sheet total	**€ mil.**	**4,236**	**5,414**	**6,978**	**8,406**	**8,701**
Non-current assets	**€ mil.**	**1,918**	**1,900**	**1,631**	**2,168**	**2,918**
Current assets	**€ mil.**	**2,318**	**3,514**	**5,347**	**6,238**	**5,783**
Inventories	€ mil.	1,081	1,439	1,653	2,084	2,551
Shareholders' equity	**€ mil.**	**1,121**	**2,012**	**3,457**	**4,246**	**4,346**
Debt	**€ mil.**	**3,115**	**3,402**	**3,521**	**4,160**	**4,355**
Non-current liabilities	€ mil.	1,902	2,079	2,187	2,380	2,380
Current liabilities	€ mil.	1,213	1,323	1,334	1,780	1,975
of which due to banks	€ mil.	175	178	140	119	132
Investments[7]	**€ mil.**	**228**	**262**	**236**	**385**	**653**
Depreciation and amortization[7]	**€ mil.**	**313**	**206**	**201**	**225**	**278**
Employees						
Personal expenses	€ mil.	926	994	1,014	1,232	1,472
Annual average core workforce[8]	empl.	17,352	17,184	16,949	20,072	23,866
Annual average total workforce[9]	empl.	18,498	18,499	18,352	21,648	25,628
Crude steel production[10]	**kt**	**6,932**	**7,142**	**7,363**	**7,325**	**6,901**
Key figures						
Earnings before interest and tax (EBIT)[11]	€ mil.	346	970	1,901	1,351	1,072
EBIT before depreciation and amortization (EBITDA)	€ mil.	667	1,186	2,102	1,581	1,362
Return on capital employed (ROCE)[12]	%	24.4	38.9	47.8	28.0	21.9
Cash flow	€ mil.	352	468	488	781	547

1) Companies of the Technology Division consolidated as per July 1, 2007; EBT including effects of purchase price allocation
2) Including proceeds from sale/hedging of VLR shares of € 907 million
3) Including € 35.0 million profit-related effect from changes in inventory valuation
4) Including € 17.9 million in unscheduled depreciation and amortization
5) Excluding contribution from the sale of V&M and VLR activities; assigned to the "Other/Consolidation" item
6) Including amortization of goodwill
7) Excluding financial investments
8) Excluding trainees and non-active age-related part-time employees
9) Including trainees and non-active age-related part-time employees
10) Taking consideration of share in HKM under company law
11) EBT plus interest paid (excluding the interest portion of allocations to pension provisions)
12) 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 finance leasing, forfaiting and asset-backed securitization)

Highlights of the Financial Year 2008

January

Salzgitter AG decisively strengthens its Technology Division through the purchase of SIG-Beverages and the associated integration of the PET stretch-blow molding technology into the product range of KHS AG, a subsidiary of Klöckner-Werke.

Salzgitter AG's investor relations work is awarded the "BIRD 2007" prize by the investor magazine 'Börse Online' for "Germany's Best Investor Relations". We take third place in the MDAX category and ninth place in the overall assessment encompassing a total of 160 companies. Börse Online confers the "BIRD" prize on companies whose private investors consider themselves to be particularly well informed and fairly treated.

February

The new government of the Federal State of Lower Saxony signs the coalition agreement for the years 2008 to 2013, thereby officially committing to its participating interest in Salzgitter AG.

March

Salzgitter AG publishes its key data for the financial year 2007: new records are set for both sales and pre-tax profit. Along with the exceptionally good market conditions for rolled steel products and tubes, another main contributing factor to this performance was the consistent implementation of measures underpinning the growth strategy.

Growing association between two strong brand names: At "Tube", the world's largest tubes trade fair held in Düsseldorf, the Tubes Division presented itself to the public for the first time under the new brand name of "Salzgitter Mannesmann". Since then, this has also been reflected in the company names of the Division's fully consolidated companies.

April

Salzgitter Flachstahl GmbH officially opens its new hot strip cut-to-length line in the presence of customers and business partners. The investment is geared towards strengthening its market position as a supplier of high-grade steel products.

May

A perfect start with record sales and an outstanding profit: In the first quarter of 2008, the Salzgitter Group reaps the benefit of a notable recovery in the European steel market and the expansion of its activities in the precision tube product segment.

On May 21, the General Meeting of Shareholders of Salzgitter AG approves a basic dividend of € 2 per share and a special bonus of € 1 per share, thereby raising dividend by 50% as against the previous year.

June

A special anniversary: Ten years ago, on June 2, 1998, 60.2% of the shares of Salzgitter AG, formerly known as Preussag Stahl AG, were floated on the stock exchange at an issuing price of a converted € 11.76. Ten years later, on June 2, 2008, the share is worth ten times as much.

July
Salzgitter AG acquires a stake of 5.8% in Norddeutsche Affinerie AG and raises its participating interest to 20% through a series of subsequent transactions. Both groups agree to investigate the potential of medium- and long-term cooperation in production technology, research and development, as well as sales and procurement, among other areas.

August
In July and August, a total of 3,121,400 Salzgitter shares are retracted by way of a simplified procedure without capital reduction. This measure serves to enhance the attractiveness of our share on a long-term basis.

In the wake of the exceptional results recorded in the first half of 2008, Salzgitter AG revises its profits forecast upwards for the current financial year to more than one billion euros.

September
Under the slogan of “FE-Feiertage”, Salzgitter AG celebrates the 150th anniversary of the founding day of ‘Ilseder Hütte’, one of the historical roots of Salzgitter AG, together with around 40,000 visitors.

World innovation: Salzgitter Mannesmann Rohr Sachsen GmbH officially inaugurates its new three-roll piercing elongating mill. In a combination of facilities, the only one of its type in the world, previously heated steel ingots are pierced and elongated in a single workflow. This eliminates one phase in the production process of manufacturing seamless tubes from continuous cast steel rounds.

Prof. Dr.-Ing. h.c. Wolfgang Leese is awarded a prize for his strategic skills as Chief Executive Officer of Salzgitter AG. Prof. Leese is proclaimed “Strategist of the Year” in the category of companies with revenues of between € 5 and 15 billion. Initiators of the prize are the Financial Times Deutschland, the private university WHU – Otto Beisheim School of Management and the strategy consultants Bain & Company.

October
The companies of Salzgitter AG present themselves as materials specialists for system solutions at Euro-BLECH 2008, the world’s leading trade fair for metal working technology. The focus of Salzgitter AG’s participation in the trade fair runs under the slogan of “Whatever your plans may be”.

The Salzgitter Group introduces a new scholarship program: Support is given to students of selected subjects in engineering and science in the form of a considerable monthly stipend. Employees in the same area of expertise are involved in the process as mentors and facilitate the integration of the students into operations.

November
In an environment characterized by growing uncertainty about future economic development, the Salzgitter Group sets a new record for a pre-tax result in the first three quarters of the financial year thanks to the high volume of orders placed for rolled steel and tubes.

December
The Share Indices Working Group of Deutsche Börse decides to admit Salzgitter AG to the DAX on December 3, 2008. Accordingly, as from December 22, our company ranks among the 30 largest listed companies (Prime Standard) in Germany.

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Preface by the Executive Board

Ladies and Gentlemen,

A year ago we were asking the question of whether the crisis in large parts of the financial sector and the recessionary tendencies in North America resulting from this crisis – already evident in 2007 – could be swiftly overcome without incurring significantly negative consequences on the real economy in other regions. Today we know the unfortunate answer. In the meantime, proponents of the Cassandra view are even suggesting that the recession is only a temporary transition phase between the recent and abrupt end to the booming economy and a looming depression.

But no one really knows the answer, as there has been nothing that can compare to the current situation since 1929. Economic models have failed, as have the rating agencies. In their place there is inauspicious anxiety, fuelled by a slew of negative reports emanating daily from the business community and society.

At the heart of the crisis is a loss of trust and confidence rather than simply the consequences of the de facto withdrawal of liquidity from large parts of our economy. Only if we are able to restore trust in the credibility of business partners in particular and in the future of our economic system in general will we be able to overcome this crisis.

It therefore comes as no surprise that terms such as “values”, considered outdated and relegated to the past, have come to the fore again. Values are fundamental yardsticks by which we can measure human judgment and action, in a league set apart from profit margins and share prices. They have an aura of reliability and confidence in companies as well as in any other grouping of society.

When we made the decision some months ago to publish our annual report under the motto of “values” we could scarcely have been aware of how topical this issue would become. We now, however, have undisputed evidence of how important it is for a company to have a stable cornerstone of values, particularly in times such as these when the economic environment is in a critical state and anxiety holds sway in many walks of life. And it is especially such times that will show whether the values of a company have substance and validity. Salzgitter AG has always acted in a responsible fashion, in boom times as well, in the interest of its shareholders, its employees and of building a secure future together. It can be taken as given that our company will not escape the impact of the financial crisis. The fact that we are able to defy it and are well and securely positioned to do so, even now, is attributable to our company values and principles: solidity, reliability, solidarity, sustainability, strategy and leadership. Values and principles which we would like to illustrate in the following, taking the example of the material steel and our employees who fill them with life, time and time again.

The Executive Board (from left): Wolfgang Eging, Prof. Dr.-Ing. Heinz Jörg Fuhrmann, Prof. Dr.-Ing. h. c. Wolfgang Leese, Hans Fischer, Heinz Groschke, Peter-Jürgen Schneider

In the year 2008, we pursued our course and performed extremely well once again, as reflected by a pre-tax result of € 1,003 billion, notwithstanding extensive accounting measures focused on inventories. A dividend of € 1,40 per share secures you an above-average return while, at the same time, not being inappropriately detrimental to the liquidity scope of our company.

It is our intention to not only emerge from the imminently demanding and difficult year 2009, but also from a possibly longer downturn as a company that is both technically and financially intact. The steps to ensure this course have been initiated: While there will be no hectic changes to our strategy, adjustments geared towards safeguarding intrinsic value will be made in all divisions.

This is in line with our tenet of values.

We would like extend our thanks to you, the shareholders and business partners of Salzgitter AG, also on behalf of our committed employees, for accompanying us down this path and for the trust that you vest in our company.

Sincerely,

Prof. Dr.-Ing. h. c. Wolfgang Leese   Prof. Dr.-Ing. Heinz Jörg Fuhrmann   Wolfgang Eging

Hans Fischer   Heinz Groschke   Peter-Jürgen Schneider

Salzgitter AG delivered another set of excellent results in the financial year 2008, having benefited from the outstanding global conditions in the steel and tubes businesses throughout most of the year. The sharp decline in economic growth caused by the advent of the crisis in the global financial markets in the fall of 2008 burdened performance only in the final months of the year. The notable downturn in the demand for a number of different steel products, however, had a considerable impact on the fourth quarter. Thanks to its broad-based business and extremely sound financial base, however, we consider our company to be comparatively well equipped to meet the challenges ahead.

Rainer Thieme, Chairman of the Supervisory Board

Salzgitter AG decisively strengthened its new Technology Division through the purchase of SIG-Beverages and the associated integration of the PET stretch-blow molding technology in the first quarter. In addition, a minority interest in Norddeutsche Affinerie AG, a company operating in the production and processing of copper, was raised over the course of the year. The strategy of diversification pursued through this acquisition will enable the Salzgitter Group to progress towards its goal of becoming more independent from the cyclical fluctuations in the steel and tubes market.

Monitoring and advising the Executive Board in the Exercising of its Management Duties

The Supervisory Board monitored and advised the Executive Board in its management of the company. It kept itself fully informed about the course of business, the financial and earnings position of the company and its business policy on a regular and timely basis by way of written and verbal reports. Moreover, the Supervisory Board received timely and comprehensive information on the intended strategic further development, the risks of the company and of the divergences between the planned and actual course of business and goals. The causes of the – generally positive – divergences were thoroughly explained and discussed. The Supervisory Board was directly involved in all decisions of particular significance for the company and availed itself of the opportunity of discussing these decisions in detail with the Executive Board.

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 rate of the supervisory board members was 93 %. In addition, there were four meetings of the Presiding Committee, three meetings of the Audit Committee and four meetings of the Nomination Committee.

The Chairman of the Supervisory Board coordinated the work of the Supervisory Board. He maintained regular contact with the Executive Board, in particular with its Chairman, and discussed the current situation of the company, its development and material transactions.

Focus of the Consultation of the Supervisory Board

Consultations and resolutions of the Supervisory Board focused on the following investment measures in particular:

- extension of the tandem line of Salzgitter Flachstahl GmbH,
- construction of a new process gas purification in the sintering plant of Salzgitter Flachstahl GmbH,
- modernization of the rolling mill of HSP Hoesch Spundwand und Profil GmbH.

Moreover, the financial year was again hallmarked by strategic acquisitions. The acquisition of the SIG-Beverages Group was completed in April 2008, and the group was subsequently integrated into Klöckner Werke AG against the granting of shares. In addition, the Supervisory Board approved the gradual raising of the stake held in Norddeutsche Affinerie AG.

In its meeting on December 10, 2008, the Supervisory Board dealt in detail with the corporate plans submitted and explained by the Executive Board including the investment, finance and personnel planning for the financial years 2009 to 2011. At the same time, it approved the investment planning for the Group and related financing for the financial year 2009.

Annual Financial Statements and Consolidated Financial Statements

In its meeting on March 26, 2009, the Supervisory Board examined the annual financial statements of Salzgitter AG and of the Group, both as of December 31, 2008, as well as the joint management report on the company and the Group for the financial year 2008. Prior to this, the independent auditor PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, selected by the General Meeting of Shareholders, 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 the risks that could endanger the company as a going concern.

Furthermore, the Audit Committee of the Supervisory Board had the auditor and the Executive Board explain the details of the financial statements at an earlier point in time and discussed any questions arising. The Committee recommended that the Supervisory Board ratify the financial statements.

The annual financial statements at company level, the consolidated financial at Group level, the joint management report on the company and the Group, the Executive Board's proposal for the appropriation of the unappropriated retained earnings, as well as the auditor's reports were available to the members of the Supervisory Board for examination. The 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 26, 2009, and elaborated on the most important findings of their audit.

The examination of the annual financial statements, consolidated financial statements and the joint management report by the Supervisory Board did not lead to any objections. The Supervisory Board approved the findings of the auditor's review and ratified the annual financial statements which are hereby adopted. After due consideration, the Supervisory Board gave its approval to the proposal made by the Executive Board on the appropriation of the unappropriated retained earnings.

Reelection of the Supervisory Board

The period of office of the Supervisory Board expired at the end of this year's Annual General Meeting of Shareholders on May 21, 2008. The Board therefore had to be reelected. The General Meeting of Shareholders on May 21, 2008, elected the new shareholder representatives and the new twenty-first member through a process of individual selection and approved the proposals of the former Supervisory Board by a large majority. The employee representatives had already been elected by delegates of the employees on March 4, 2008.

Mr. Friedrich-Wilhelm Tölkes, employee representative, laid down his mandate as of January 15, 2009. With effect from January 16, 2009, his position was filled by Mr. Ulrich Kimpel, who had hitherto been an elected substitute member.

The current members of the Supervisory Board are listed in the Notes to the Consolidated Financial Statements with reference to other mandates which they exercise.

The Supervisory Board would like to thank the members leaving the Board for their, in part, longstanding cooperation.

The Supervisory Board would like to thank the Executive Board and all employees of the Group for their work and commitment throughout the fiscal year 2008.

Salzgitter, March 26, 2009

The Supervisory Board

Rainer Thieme
Chairman

Corporate Governance Report

Corporate Governance at Salzgitter Group

Good management and control of the company – in a word, all-encompassing corporate governance – has always been one of the key factors for the success of the company in the view of the Executive Board and the Supervisory Board of Salzgitter AG (SZAG).

For this reason, both executive bodies have regularly reviewed the concrete management structures of the Group and the controlling instruments of its committees in recent years, implemented changes upon consensus agreement in accordance with the various requirements and adjusted them to the growth of the Group to accommodate the framework laid down by the general provisions prevailing under German law on the management and supervision of listed stock corporations and the supplementary recommendations of the German Corporate Governance Code.

Significant changes were:

2000/2001	Developing and implementing the "5P" corporate guidelines with the equally important key components of Profit – Personnel – Partners – Products – Processes
2001	Transition from a parent company to a holding structure by hiving off individual product segments into independent companies with the approval of the shareholders; management of the companies by division (Steel, Trading, Processing, Services and Tubes)
2001	Establishing the Group's management organization with cascading management responsibilities between the controlling company, management and Group companies; documentation of this process in a set of corporate guidelines
As from 2002	Defining of uniform management standards for the individual areas of expertise by issuing further corporate guidelines
2003	Introduction of the Management-by-Objectives system with managing directors and senior executives and linking these objectives to variable remuneration components as another management tool
2005	Dissolving of the Processing Division
2007	First-time formation of an audit committee and a nomination committee by the Supervisory Board
2007	Setting up of the new Technology Division
2008	Dissolution of the Supervisory Board's Personnel Committee

In the financial year 2008, the executive bodies of SZAG were involved in the management and control of the company in the following key areas:

The Shareholders of Salzgitter AG

Fundamental decisions affecting the company, such as changes to the Articles of Incorporation, appropriation of annual profits, the election of shareholder representatives to the Supervisory Board, the raising or lowering of capital or the selection of the annual independent auditor can only be carried out subject to approval by the shareholders. Shareholders principally exercise their rights at the General Meeting of Shareholders. Each shareholder of SZAG is entitled to participate in the General Meeting of Shareholders, to address the Meeting about items on the agenda, to ask pertinent questions and submit relevant motions, as well as to vote. SZAG facilitates the process of its shareholders exercising their rights personally; in particular, it enables its shareholders to exercise their voting rights without having to attend the Meeting personally by appointing the proxy designated by the company.

The adopted annual financial statements as at December 31, 2007, the consolidated financial statements, the joint management report on the company and the Group and the report of the Supervisory Board were presented to the regular General Meeting of Shareholders of SZAG held on May 21, 2008. Prior to the General Meeting, the documents were posted on the website of SZAG for viewing by the shareholders. The General Meeting then discussed applications for resolution pertaining to the following items on the agenda:

- appropriation of unappropriated retained earnings (dividend of € 2 per share, plus a special dividend distribution of € 1),
- discharge of the Executive and Supervisory boards,
- selection of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, as auditor for the financial year 2008,
- election of new shareholder representatives and of the so-called 'other member' to the Supervisory Board,
- authorization for the purchase, sale and retraction of shares.

The applications for resolution submitted by the Executive and Supervisory boards were approved by a large majority. The election of Supervisory Board members was carried out through a process of individual election; the representatives elected are listed in the Group Management Report.

The Executive Board

In accordance with legal requirements, the Executive Board is to manage the company on its own responsibility. In this process, it manages subsidiaries and holdings by way of instruments permitted under company law and with the aid of regular controlling measures. Its tasks include the strategic alignment and development of the company in consultation with the Supervisory Board. In doing so, it is bound 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 Executive Board of SZAG is made up of six members, in part with functional and in part with divisional competences. They are liable to the company for any dereliction of duty. The assignment of duties among the members of the Executive Board is set out under a schedule for the allocation of tasks. The Supervisory Board has established bylaws for the purpose of regulating cooperation in the Executive Board and involving the Supervisory Board in business management transactions.

The Supervisory Board plenum determines the remuneration system of the Executive Board, including key contractual components. Detailed information is disclosed in the Group Management Report.

The Supervisory Board

The Supervisory Board supervises and advises the Executive Board in its management of the company. It appoints Executive Board members and plans their successors on a long-term basis. It is involved in material decisions affecting the company which require its approval. The Supervisory Board determines the information and reporting duties of the Executive Board. In addition to the Presiding Committee, it has formed an audit, a strategic and a nomination committee. Alongside its primary tasks, the Audit Committee also concerns itself with issues arising from rules and regulations affecting the company (corporate compliance).

Pursuant to the provisions of the Co-Determination Amendment Act of 1956, applicable to the company since 2008, in conjunction with Section 7 of the company's Articles of Incorporation, the Supervisory Board consists of 21 members, namely 10 shareholder and 10 employee representatives, and one other member. The shareholder representatives and the additional member are elected by the General Meeting of Shareholders.

The Supervisory Board provides detailed information on its activities and decisions in the financial year 2008 in a separate report made to the General Meeting of Shareholders. It 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 remuneration system of the Supervisory Board is disclosed in the Group Management Report.

Cooperation between the Executive Board and the Supervisory Board

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 order to ensure successful corporate governance at SZAG, 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 planning, business development and the strategy 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,
- agreement on the variable components when determining the remuneration of Executive Board members, geared towards the commercial success of the company and the overall performance of the individual Executive Board member.

The Executive Board uses a selection of management and control instruments which includes:
- definition of reporting duties and authorization requirements of individual areas in corporate guidelines and the Articles of Incorporation of the Group companies,
- definition of principles governing the management of the Group in the “Management and Organization” corporate guidelines,
- 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),
- agreement on the targets and a performance-related component of the remuneration for the managing directors and senior executives of the Group companies.

In the financial year 2008, the Executive Board further developed and optimized the strategic orientation 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 economic data, then deliberated in controlling discussions with the management of the Group companies on a rotational basis and corrected if necessary.

Corporate Compliance as Part of Corporate Governance

Within the Salzgitter Group, compliance with legal prescribed 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 includes ensuring that the relevant regulations are observed in their respective areas of tasks and responsibilities. Compliance organization thus accords with the hierarchical organization of the company. Each manager must give his staff clear instructions as to their tasks and areas of responsibility and to document this accordingly. Managers 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 defined 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, SZAG publishes an interim report with condensed financial statements and a management report at the end of the first, second and third quarter of the financial year, in addition to its annual report with the financial statements and management report on the respective financial year. The dates of publication are announced in the 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, analysts' conferences are held regularly for analysts and institutional investors in Frankfurt am Main and London. Finally, the Executive Board ensures that information which could have a considerable impact on the share price is published immediately in the form of an ad-hoc release. All reports and statements are available on the company's web site (www.salzgitter-ag.de) in both German and English.

The following notifications on the purchase or sale of the shares of SZAG by persons who are obligated to disclose such transactions (Director's Dealings) were submitted to the company in the financial year 2008.

- September 15, 2008, Prof. Dr.-Ing. Heinz Jörg Fuhrmann, purchase of 62 shares,
- October 7, 2008, Prof. Dr.-Ing. Heinz Jörg Fuhrmann, purchase of 450 shares,
- October 13, 2008, Rainer Thieme, purchase of 1,720 shares,
- October 16, 2008, Prof. Dr.-Ing. Heinz Jörg Fuhrmann, purchase of 160 shares.

No member of the Executive Board or the Supervisory Board owns a portion of the shares issued, either directly or indirectly, that exceeds 1%. There are currently no share option programs or similar security-based incentive systems implemented in the Salzgitter Group.

Declaration of Conformity 2008

On December 10, 2008, the Executive Board and the Supervisory Board of Salzgitter AG submitted their Declaration of Conformity with the German Corporate Governance Code, 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 26, 2009

The Executive Board

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

The Supervisory Board

Rainer Thieme
Chairman

LEADERSHIP

The Gornergrat cog railway in the Swiss Alps. On the steepest track sections, the railway masters gradients of up to 20%.

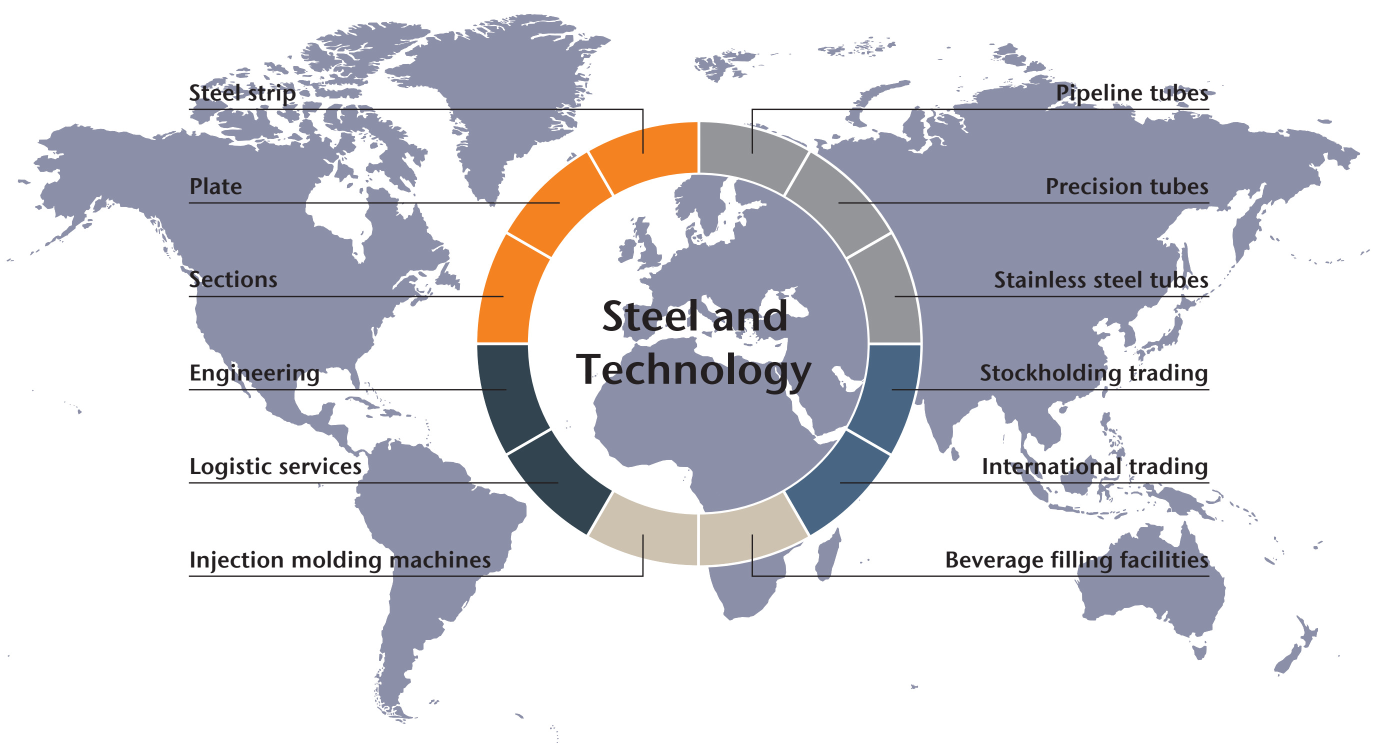
We regard **LEADERSHIP** as the ability to consistently pursue our goals with knowledge and far-sightedness. We do not allow ourselves to be sidetracked – even in difficult times. And it is especially then that we benefit from the fact that the management of our company is spread across many shoulders. Thanks to our decentralized organization there are many members of staff who act independently and assume a considerable amount of responsibility. The success of this cooperative management style is based on mutual trust, team spirit and open communication.

I. Business and Organization

1. Group Structure and Operations

The Salzgitter Group comprises around 200 national and international subsidiaries and associated companies organized into five divisions and combined under Salzgitter AG (SZAG) as the holding company. With an annual crude steel production of around 7 million tons, external sales of around € 12 billion and a workforce of around 24,000 employees, the Salzgitter Group ranks among Europe's top steel technology groups. SZAG is a member of the DAX and is thereby one of the 30 largest listed German stock corporations that fulfill the criteria of Prime Standard of Deutsche Börse AG, Frankfurt.

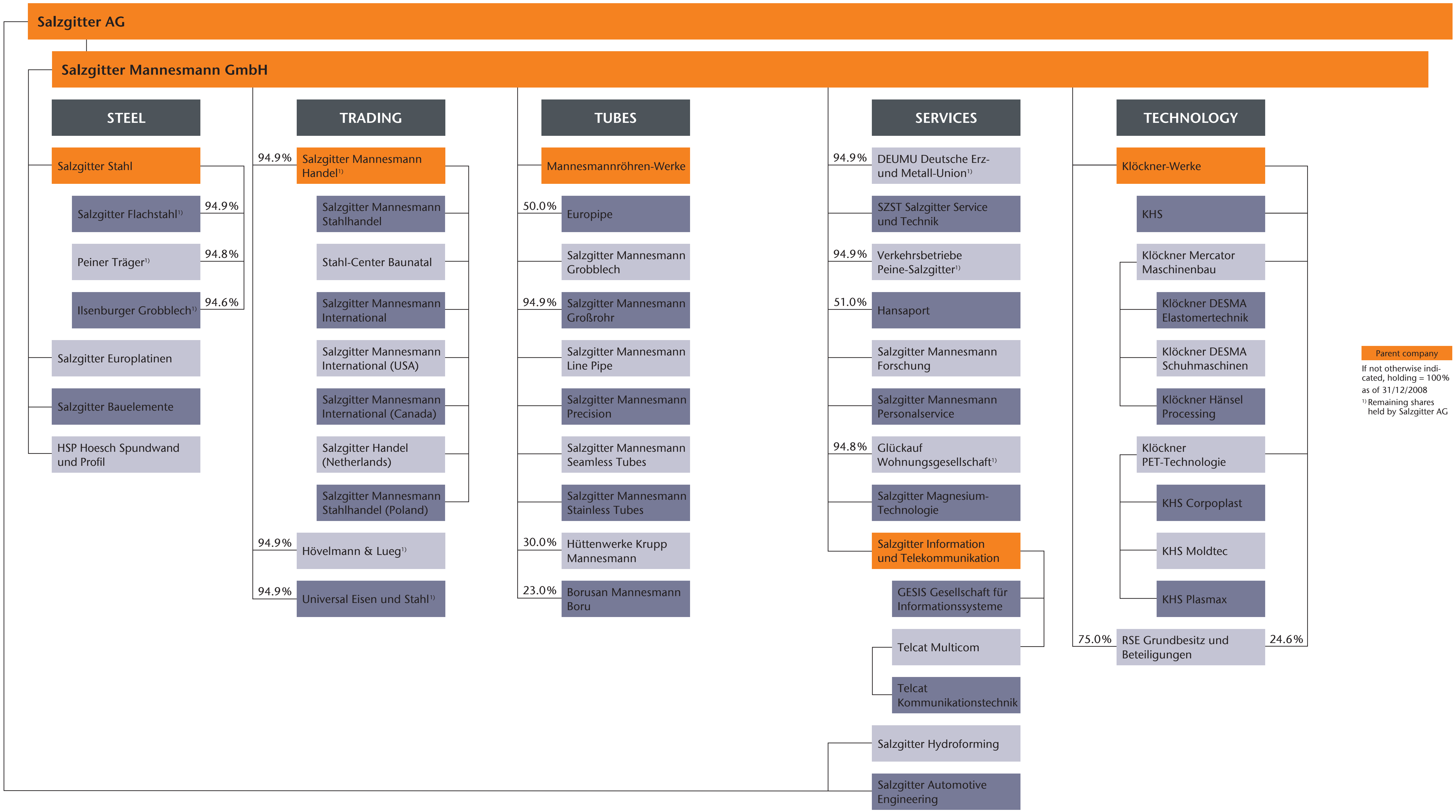
The Group's core competences lie in the production of rolled steel and tubes products and their processing, trading in these products and the construction of special machinery and plant engineering.



All important companies of the Salzgitter Group are grouped under an interim holding company, Salzgitter Mannesmann GmbH (SMG). This structure enables, among other things, an unhampered central financial management of the Group.

As the management holding, SZAG manages SMG and all associated companies. The members of SZAG's Executive Board are also the managing directors of SMG. Thus the management and control of the Group is carried out by the responsible executive bodies of SZAG (Executive Board, Supervisory Board). The specific responsibilities associated with the entrepreneurial management of the divisions have been combined under the respective divisions of Steel, Trading, Tubes, Services and Technology within the holding.

The structure of the Salzgitter Group is shown in the chart on the next page.


Salzgitter AG
Salzgitter Mannesmann GmbH
STEEL
Salzgitter Stahl
94.9% Salzgitter Flachstahl1)
94.8% Peiner Träger1)
94.6% Ilsenburger Grobblech1)
Salzgitter Europlatinen
Salzgitter Bauelemente
HSP Hoesch Spundwand und Profil
TRADING
94.9% Salzgitter Mannesmann Handel1)
Salzgitter Mannesmann Stahlhandel
Stahl-Center Baunatal
Salzgitter Mannesmann International
Salzgitter Mannesmann International (USA)
Salzgitter Mannesmann International (Canada)
Salzgitter Handel (Netherlands)
Salzgitter Mannesmann Stahlhandel (Poland)
94.9% Hövelmann & Lueg1)
94.9% Universal Eisen und Stahl1)
TUBES
Mannesmannröhren-Werke
50.0% Europipe
Salzgitter Mannesmann Grobblech
94.9% Salzgitter Mannesmann Großrohr
Salzgitter Mannesmann Line Pipe
Salzgitter Mannesmann Precision
Salzgitter Mannesmann Seamless Tubes
Salzgitter Mannesmann Stainless Tubes
30.0% Hüttenwerke Krupp Mannesmann
23.0% Borusan Mannesmann Boru
SERVICES
94.9% DEUMU Deutsche Erz- und Metall-Union1)
SZST Salzgitter Service und Technik
94.9% Verkehrsbetriebe Peine-Salzgitter1)
51.0% Hansaport
Salzgitter Mannesmann Forschung
Salzgitter Mannesmann Personalservice
94.8% Glückauf Wohnungsgesellschaft1)
Salzgitter Magnesium-Technologie
Salzgitter Information und Telekommunikation
GESIS Gesellschaft für Informationssysteme
Telcat Multicom
Telcat Kommunikationstechnik
Salzgitter Hydroforming
Salzgitter Automotive Engineering
TECHNOLOGY
Klöckner-Werke
KHS
Klöckner Mercator Maschinenbau
Klöckner DESMA Elastomertechnik
Klöckner DESMA Schuhmaschinen
Klöckner Hänsel Processing
Klöckner PET-Technologie
KHS Corpoplast
KHS Moldtec
KHS Plasmax
75.0% RSE Grundbesitz und Beteiligungen 24.6%
Parent company
If not otherwise indicated, holding = 100% as of 31/12/2008
1) Remaining shares held by Salzgitter AG

The Divisions of the Salzgitter Group

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

With their high-quality branded and special steels, the companies of the **Steel Division** make major contributions to the success of steel as a material. They develop and produce a broad range of steel products (flat steel and sections, plate, sheet piling, components for roofing and cladding and tailored blanks) for constantly evolving new application areas. The product program is focused on the segment of high-quality steel for sophisticated applications. The German automobile industry is, for instance, a major customer sector whose requirements for service and quality are particularly demanding. Thanks to intensive research and development and strong customer orientation, the potential of steel for creative and innovative products will continue to be developed in future.

More than five million tons of crude steel are melted in the integrated mill of Salzgitter and in the Peine electric steel plant. Owing to their highly sophisticated and complex plant and process technology, the three large rolled steel mills of Salzgitter, Peine and Ilsenburg are among the most modern of their type.

The Division works in close cooperation with our trading organization, which is not only our most important sales channel, but also operates in the sourcing of semi-finished products on a case-by-case basis.

The **Trading Division** comprises a tight European sales network, as well as trading companies and agencies worldwide. This combination underpins the successful market presence of the Salzgitter Group with blanket coverage supporting the optimal marketing of its products and services. In this way, the company ensures that it not only reaches large-scale customers 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 center Hövelmann & Lueg GmbH (HLG), have been assigned to this division.

The SMHD Group operates eleven steel stockholding companies, nine processing centers and eleven warehouses in Germany. Seven companies engage in steel trading in European countries with additionally four agencies active. International trading is mainly handled by nine independent companies and five representative offices located abroad.

The plate specialist UES conducts its trading and preprocessing business mostly in Germany, but also has representation offices in other European countries and in the USA. With its customized flat steel products, the steel service center HLG rounds up the product and service range of the Trading Division.

The companies and holdings of the **Tubes Division**, headed by Mannesmannröhren-Werke GmbH (MRW), offer their customers a wide range of steel tubes. The product range comprises in particular longitudinally and spiral-welded large-diameter tubes, HFI (high-frequency inductive) welded line pipes, seamless and welded precision tubes, as well as seamless stainless steel tubes. With their high-grade products recognized internationally for their quality, these companies generally occupy leading positions in their markets and are global leaders in a number of segments.

The Tubes Division has secured its own supply of input materials in the form of a participating interest in Hüttenwerke Krupp Mannesmann, through its own plate mill and through the production of semi-finished products for the manufacturing of seamless tubes.

This division also makes intensive use of our trading organization, both for the sale of its products and for the sourcing of semi-finished products.

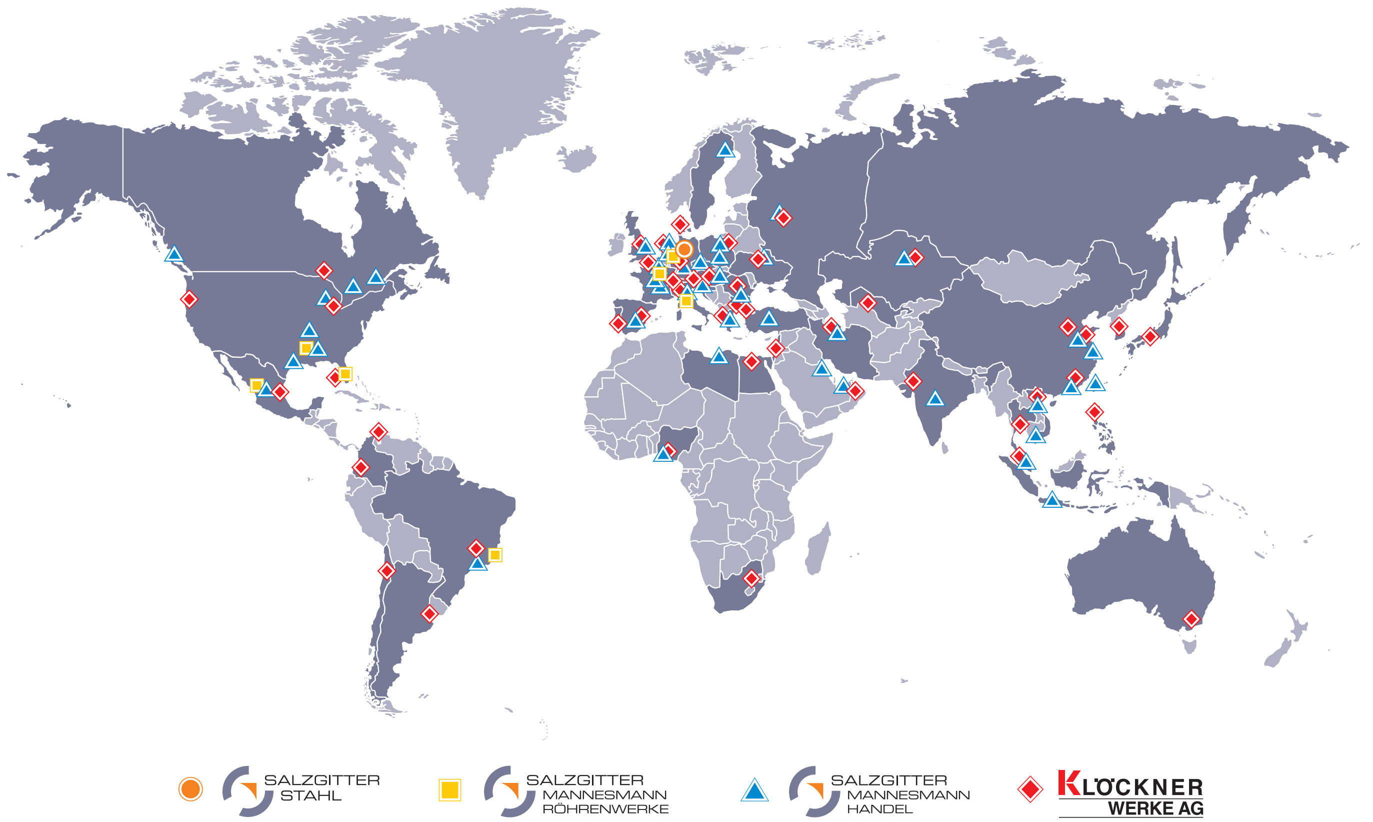
The activities of the **Services Division** are primarily focused on requirements within the Group. Beyond that, the services of the companies of this division are also offered to external customers to generate an additional contribution to the profit for the Group. This way the skills and know-how of the companies are constantly measured against the requirements of the market and consistently further developed and 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 IT solutions. This is supplemented by services and products for automotive development and production, as well as other service companies.

The products and services range of the **Technology Division** comprises in particular plant and machinery for the filling and packaging of beverages. The activities of this division are concentrated in Dortmund-based KHS AG. With its production facilities and more than 60 service and sales outlets, KHS is present on all continents. In 2008, the product mix was supplemented by the acquisition of the former SIG-Beverages Group with its competence in PET technology. The filling and packaging technology business segment generates around 90% of the revenues of this division.

Other companies belonging to the Klöckner Group produce special machinery for companies in the plastic processing, shoe manufacturing and confectionery industries.

Through its product and services portfolio, SZAG is present in all relevant markets in the world:

Global Presence



The structure of the Salzgitter Group has proven itself in competition. Along with the operational flexibility of the individual divisions that is geared to the market 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 company's growth strategy, as new tiers in the value chain or divisions can be integrated into this structure relatively smoothly.

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

The material participations are listed in the "Consolidated Financial Statements/Notes" section on page 176.

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 the 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 subject to its approval. The General Meeting of Shareholders can only decide matters affecting the management of the Group if this has been requested by the Executive Board.

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

In the financial year 2008, the following members belonged to the Executive Board of Salzgitter AG:

Prof. 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)
■ Hansaport Hafenbetriebsgesellschaft mbH (Supervisory Board) until May 26, 2008
■ ThyssenKrupp GfT Bautechnik GmbH (Advisory Council) until September 16, 2008

Prof. Dr.-Ing. Heinz Jörg Fuhrmann
Vice Chairman
Finance and the Technology Division
a) ■ Mannesmannröhren-Werke GmbH
■ Salzgitter Mannesmann Handel GmbH (Vice Chairman)
■ Salzgitter Stahl GmbH
■ Salzgitter Flachstahl GmbH
■ EUROPIPE GmbH (Supervisory Board and Shareholders’ Committee)
■ Öffentliche Lebensversicherung Braunschweig
■ Öffentliche Sachversicherung Braunschweig
■ Klöckner-Werke AG (Chairman)
■ Norddeutsche Affinerie AG since January 5, 2009
■ KHS AG (Chairman) since February 1, 2009
■ TÜV Nord AG since May 20, 2008

Wolfgang Eging
Tubes Division
Chairman of the Executive Board of Mannesmannröhren-Werke GmbH
a) ■ Hüttenwerke Krupp Mannesmann GmbH (Vice Chairman, member of the Shareholders’ Committee)
■ EUROPIPE GmbH (Chairman, member of the Shareholders’ Committee)
■ Salzgitter Mannesmann Grobblech GmbH (Supervisory Board, Chairman)
■ Salzgitter Mannesmann Präzisrohr GmbH (Chairman)
■ Salzgitter Mannesmann Handel GmbH
■ Salzgitter Mannesmann Line Pipe GmbH (Chairman)
b) ■ DMV Stainless B.V. (Supervisory Board, Chairman) until August 31, 2008
■ Borusan Mannesmann Boru Yatirim Holding A.S. (Board of Directors, Vice Chairman)
■ Salzgitter Mannesmann Précision Etirage S.A.S. (Conseil d’Administration) since July 1, 2008

a) Membership in other supervisory boards formed subject to the regulations and the definition of Section 125 German Stock Corporation Act (AktG)
b) Membership in comparable domestic and foreign controlling 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
- ■ Mannesmannröhren-Werke GmbH since March 3, 2008

b) ■ ThyssenKrupp GfT Bautechnik GmbH (Advisory Council) since September 17, 2008

Heinz Groschke

Trading Division

Chairman of the Executive Board of Salzgitter Mannesmann Handel GmbH

a) ■ Ilsenburger Grobblech GmbH
- ■ Salzgitter Mannesmann Line Pipe GmbH since July 1, 2008
- ■ Klöckner-Werke AG
- ■ KHS AG

b) ■ EUROPIPE GmbH (Shareholders' Committee)
- ■ 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 Pentasteel International (India) Pvt. Ltd. (Board of Directors, Chairman)
- ■ Salzgitter Mannesmann (UK) 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)
- ■ Salzgitter Mannesmann Präzisrohr GmbH
- ■ Klöckner-Werke AG
- ■ KHS AG

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

a) Membership in other supervisory boards formed subject to the regulations and the definition of Section 125 German Stock Corporation Act (AktG)

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

2.2 The Supervisory Board

Rainer Thieme
Chairman
Chairman of the Management Board
of Wilhelm Karmann GmbH, retired
a) ■ Köster AG
■ Schmitz Cargobull AG
■ ZF Friedrichshafen AG (Chairman) until April 15, 2008
■ Oldenburgische Landesbank AG until May 27, 2008

Jürgen Peters
Vice Chairman
President of International Metalworkers' Federation (IMF)
a) ■ Volkswagen AG (Vice Chairman)

Dr. Wilfried Lochte
until May 21, 2008
Honorary Chairman
Chairman of the Executive Board
of MAN Nutzfahrzeuge AG, retired
Member of the Executive Board
of MAN Aktiengesellschaft, retired
a) ■ KNORR-Bremse AG (Vice Chairman) until September 30, 2008
■ KNORR-Bremse Systeme für Nutzfahrzeuge GmbH (Vice Chairman) until September 30, 2008
■ Schmitz Cargobull AG (Honorary Chairman)

Manfred Bogen
since May 21, 2008
Chairman of the Works Council
of EUROPIPE GmbH
a) ■ EUROPIPE GmbH
b) ■ BKK VOR ORT (Board of Administration)

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

Ulrich Dickert
since May 21, 2008
Chairman of the Works Council
of Salzgitter Mannesmann Stainless Tubes Deutschland GmbH
■ No membership in other governing bodies

Karl Ehlerding
since May 21, 2008
Businessman
a) ■ WCM Beteiligungs- und Grundbesitz AG
■ Klöckner-Werke AG
■ KHS Maschinen- und Anlagenbau AG
■ Maternus-Kliniken AG
■ Deutsche Real Estate AG
b) ■ Deutsche Bank AG (Advisory Council)

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

Hermann Eppers
until May 21, 2008
Member of the Parliament of Lower Saxony
until January 27, 2008
Managing Partner of e.trans GmbH
a) ■ ALSTOM-LHB GmbH

Prof. Dr.-Ing. Heinz Haferkamp
until May 21, 2008
Professor at the Leibniz University of Hanover
Member of the Management Board
of Laser Zentrum Hannover
■ No membership in other governing bodies

Dr. Lothar Hagebölling
Secretary of State, Head of the State Chancellery
of Lower Saxony
a) ■ E.ON Energy from Waste AG
b) ■ Norddeutsche Landesbank (Advisory Council – Public Relations and Administration)

a) Membership in other supervisory boards formed subject to the regulations and the definition of Section 125 German Stock Corporation Act (AktG)
b) Membership in comparable domestic and foreign controlling bodies of commercial enterprises

Prof. Dr.-Ing. Dr. h. c. Jürgen Hesselbach
since May 21, 2008
President of the Technische Universität Carolo-Wilhelmina zu Braunschweig
a) ■ Öffentliche Versicherung Braunschweig
b) ■ Regional Advisory Council of the Braunschweigische Landessparkasse since October 1, 2008

Prof. Dr. Rudolf Hickel
until May 21, 2008
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

Ulrich Kimpel
since January 16, 2009
Commercial clerk and Vice Chairman of the Works Council Hüttenwerke Krupp Mannesmann GmbH
a) ■ Hüttenwerke Krupp Mannesmann GmbH

Dr. Dieter Köster
since May 21, 2008
Chairman of the Executive Board of Köster AG
■ No membership in other governing bodies

Prof. Dr. Hans-Jürgen Krupp
until May 21, 2008
President of the 'Landeszentralbank in der Freien und Hansestadt Hamburg, in Mecklenburg-Vorpommern und Schleswig-Holstein' (German State Central Bank in the Free and Hanseatic City of Hamburg, in Mecklenburg-Western Pomerania and Schleswig-Holstein), retired
■ No membership in other governing bodies

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

Udo Pfante
Chairman of the Works Council of Salzgitter Mannesmann Stahlhandel GmbH
a) ■ Salzgitter Mannesmann Handel GmbH

Prof. Dr. Hannes Rehm
Chairman of the Management of the Financial Market Stabilization Agency (SoFFin) since January 26, 2009
President of the Hanover Chamber of Industry and Commerce (IHK) since January 1, 2009
Chairman of the Board of Directors of Norddeutsche Landesbank Girozentrale until December 31, 2008
a) ■ Deutsche Hypothekenbank AG since February 16, 2008
b) ■ Porzellanmanufaktur Fürstenberg GmbH (Supervisory Board)
■ Bremer Landesbank Kreditanstalt Oldenburg-Girozentrale (Supervisory Board) until December 31, 2008
■ LBS Norddeutsche Landesbausparkasse Berlin-Hannover (Supervisory Board, Chairman) until December 31, 2008
■ Provinzial Lebensversicherung Hannover (Supervisory Board) until December 31, 2008
■ Joh. Berenberg Gossler & Co. Bank Hamburg (Supervisory Board) until December 31, 2008
■ DeKaBank Deutsche Girozentrale (Board of Administration) until December 31, 2008
■ Nord/LB Luxembourg S.A. (Board of Administration, Chairman) until December 31, 2008

a) Membership in other supervisory boards formed subject to the regulations and the definition of Section 125 German Stock Corporation Act (AktG)
b) Membership in comparable domestic and foreign controlling bodies of commercial enterprises

Dr. Rudolf Rupprecht
Chairman of the Executive Board of MAN AG, retired
a) ■ MAN AG
■ Demag cranes AG since December 10, 2008
■ Bilfinger & Berger AG since April 25, 2008
■ SMS AG (Chairman) until April 30, 2008
■ KME AG until March 30, 2008
b) ■ Bayerische Staatsforsten (Supervisory Board)

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

Michael Sommer
until May 21, 2008
Chairman of the DGB (German Federation of Trade Unions)
a) ■ Deutsche Telekom AG
■ Deutsche Postbank AG (Vice Chairman)
b) ■ Kreditanstalt für Wiederaufbau (Advisory Council)

Dr. Werner Tegtmeier
since May 21, 2008
State Secretary, retired, of the Federal Ministry of Labour and Social Affairs
a) ■ Mannesmannröhren-Werke GmbH

Dr. Johannes Teyssen
Vice Chairman of the Board of Directors of E.ON AG
a) ■ Deutsche Bank AG since May 29, 2008
■ E.ON Energie AG
■ E.ON Ruhrgas AG
b) ■ E.ON Nordic AB (Board Member)
■ E.ON Sverige AB (Board Member)

Friedrich-Wilhelm Tölkes
until January 15, 2009
Chairman of the Works Council of Hüttenwerke Krupp Mannesmann GmbH
a) ■ Mannesmannröhren-Werke GmbH

Hartmut Tölle
until May 21, 2008
Chairman of the DGB – region of Lower Saxony/ Bremen and Saxony-Anhalt
■ No membership in other governing bodies

Dr. Hans-Jürgen Urban
since May 21, 2008
Executive member of the Management Board of IG Metall
a) ■ Salzgitter Stahl GmbH (Supervisory Board, Vice Chairman)
b) ■ Treuhandverwaltung IGEMET GmbH

Helmut Weber
since May 21, 2008
Chairman of the Works Council of KHS AG
a) ■ Klöckner-Werke AG
■ KHS AG

Prof. Dr. Martin Winterkorn
Chairman of the Board of Directors of Volkswagen AG
a) ■ AUDI AG (Chairman)
■ Scania AB (Chairman)
■ TÜV Süddeutschland Holding AG
■ FC Bayern München AG
■ Infineon Technologies AG until January 31, 2009
b) ■ SEAT S.A.

Prof. Dr. Ulrich Zachert
until May 21, 2008
University Professor
Professor for Labor Law at the University of Hamburg
■ No membership in other governing bodies

a) Membership in other supervisory boards formed subject to the regulations and the definition of Section 125 German Stock Corporation Act (AktG)
b) Membership in comparable domestic and foreign controlling bodies of commercial enterprises

2.3 Remuneration of the Executive Board and the Supervisory Board

Remuneration of the Executive Board

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

The criteria for ascertaining the amount of the remuneration are the tasks of the respective Board members and their own individual performance, as well as the economic situation and success of the company as measured in the context of its comparative business environment.

Along with the fixed component each member of the Executive Board receives 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 also creates a long-term incentive to achieve good, sustainable results.

The members of the Executive Board also receive a pension commitment which is the percentage portion of 60 % of the fixed remuneration component and therefore does not depend on the variable component. No other payments have been pledged to any Board member in the event that the respective member's service to the company should end.

Remuneration with long-term incentive was neither granted nor pledged to the individual members of the Executive Board in 2007 or in 2008. 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 2008			
	Fixed remuneration	Remuneration in kind	Variable remuneration	Total
Prof. Dr.-Ing. h. c. Wolfgang Leese (Chairman)	720,000	49,181	1,020,000	1,789,181
Prof. Dr.-Ing. Heinz Jörg Fuhrmann (Vice Chairman)	516,000	27,236	731,000	1,274,236
Wolfgang Eging	420,000	18,596	595,000	1,033,596
Hans Fischer	420,000	21,196	595,000	1,036,196
Heinz Groschke	420,000	20,995	595,000	1,035,995
Peter-Jürgen Schneider	420,000	35,893	595,000	1,050,893
Total	**2,916,000**	**173,097**	**4,131,000**	**7,220,097**

in €	Annual payment in 2007			
	Fixed remuneration	Remuneration in kind	Variable remuneration	Total
Prof. Dr.-Ing. h. c. Wolfgang Leese (Chairman)	624,000	43,344	1,187,500	1,854,844
Prof. 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**

in €	Pension claim			
	Annual payment upon pension eligibility (as per 31/12/2008)	Transfers to pension provisions in FY 2008[2)]	Annual payment upon pension eligibility (as per 31/12/2007)	Transfers to pension provisions in FY 2007[2)]
Prof. Dr.-Ing. h. c. Wolfgang Leese (Chairman)	432,000[1)]	1,289,970	360,000[1)]	1,537,828
Prof. Dr.-Ing. Heinz Jörg Fuhrmann (Vice Chairman)	309,600[1)]	523,713	240,000[1)]	292,347
Wolfgang Eging	252,000[1)]	699,440	200,000[1)]	682,091
Hans Fischer	211,680	271,814	168,000	247,478
Heinz Groschke	252,000[1)]	699,696	200,000[1)]	769,181
Peter-Jürgen Schneider	110,880	370,038	80,000	235,980
Total	**1,568,160**	**3,854,671**	**1,248,000**	**3,764,905**

1) Including a pension commitment taken over against compensation by the former employer
2) Pursuant to the German Commercial Code (HGB)

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 is based on the individual tasks and the economic situation of the company. Along with a fixed component of € 12,000, Supervisory Board members also receive two performance-related components. The first performance-related component depends on the dividend paid to the shareholders in the respective financial year and comes to € 400 per dividend of € 0.01 which is disbursed in excess of € 0.20 per share. The other variable component is based on the average consolidated results (EBT) of the last three financial years. It amounts 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 from the addition of the respective remuneration components. In addition, compensation is paid for membership of the committees of the Supervisory Board as well as attendance fees.

This structure ensures that the remuneration of Board members is aligned to the long-term success of the company.

In application of the aforementioned resolutions of the General Meeting of Shareholders which are not capped, the Supervisory Board resolved unanimously on December 10, 2008, that the remuneration of the members of the Supervisory Board is to be limited to a maximum of € 80,000 in total, excepting committee remuneration and attendance fees. The Chairman of the Supervisory Board receives double and the Vice Chairman one and a half times this amount.

Remuneration received by the individual members of the Supervisory Board in 2008:

in €	Fixed remu-neration	Performance-based remuneration for		Commitee remuneration	Attendance fees	Total
		annual perform-ance[1]	long-term company performance			
Rainer Thieme, Chairman	24,000	76,620	59,380	2,000	3,500	165,500
Jürgen Peters, Vice Chairman	18,000	57,460	44,540	1,000	2,000	123,000
Dr. Wilfried Lochte, until May 21, 2008, Honorary Chairman	5,000	15,963	12,370	–	500	33,833
Manfred Bogen, since May 21, 2008	8,000	25,543	19,790	–	750	54,083
Hasan Cakir	12,000	38,310	29,690	–	1,000	81,000
Ulrich Dickert, since May 21, 2008	8,000	25,543	19,790	–	750	54,083
Karl Ehlerding, since May 21, 2008	8,000	25,543	19,790	–	750	54,083
Hannelore Elze	12,000	38,310	29,690	1,000	1,500	82,500
Hermann Eppers, until May 21, 2008	5,000	15,963	12,370	–	500	33,833
Prof. Dr.-Ing. Heinz Haferkamp, until May 21, 2008	5,000	15,963	12,370	–	500	33,833
Dr. Lothar Hagebölling	12,000	38,310	29,690	1,000	2,750	83,750
Prof. Dr.-Ing. Dr. h.c. Jürgen Hesselbach, since May 21, 2008	8,000	25,543	19,790	–	750	54,083
Prof. Dr. Rudolf Hickel, until May 21, 2008	5,000	15,963	12,370	1,000	750	35,083
Dr. Dieter Köster, since May 21, 2008	8,000	25,543	19,790	–	750	54,083
Prof. Dr. Hans-Jürgen Krupp, until May 21, 2008	5,000	15,963	12,370	–	500	33,833
Dr. Arno Morenz	12,000	38,310	29,690	–	1,000	81,000
Udo Pfante	12,000	38,310	29,690	–	1,000	81,000
Prof. Dr. Hannes Rehm	12,000	38,310	29,690	2,000	2,000	84,000
Dr. Rudolf Rupprecht	12,000	38,310	29,690	–	750	80,750
Christian Schwandt	12,000	38,310	29,690	1,000	2,250	83,250
Michael Sommer, until May 21, 2008	5,000	15,963	12,370	–	–	33,333
Dr. Werner Tegtmeier, since May 21, 2008	8,000	25,543	19,790	–	750	54,083
Dr. Johannes Teyssen	12,000	38,310	29,690	–	750	80,750
Friedrich-Wilhelm Tölkes	12,000	38,310	29,690	1,000	750	81,750
Hartmut Tölle, until May 21, 2008	5,000	15,963	12,370	–	500	33,833
Dr. Hans-Jürgen Urban, since May 21, 2008	8,000	25,543	19,790	–	750	54,083
Helmut Weber, since May 21, 2008	8,000	25,543	19,790	1,000	1,250	55,583
Prof. Dr. Martin Winterkorn	12,000	38,310	29,690	–	750	80,750
Prof. Dr. Ulrich Zachert, until May 21, 2008	5,000	15,963	12,370	–	500	33,833
Total	**278,000**	**887,538**	**687,790**	**11,000**	**30,250**	**1,894,578**

[1] The amounts presuppose that the General Meeting of Shareholders 2009 will approve the dividend proposal by the Executive and Supervisory Boards

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[1]	long-term company performance			
Manfred Bogen (EP)	3,100	–	–	–	–	3,100
Hasan Cakir (SZS, SZFG)	18,000	–	–	–	800	18,800
Udo Pfante (SMHD)	10,000	–	–	–	400	10,400
Christian Schwandt (SZST)	5,000	–	–	–	400	5,400
Friedrich-Wilhelm Tölkes (MRW)	10,000	–	–	–	300	10,300
Helmut Weber (KWAG, KHS)	25,113	–	–	10,000	2,500	37,613
Total	**71,213**	**0**	**0**	**10,000**	**4,400**	**85,613**
Overall total	**349,213**	**996,208**	**579,120**	**21,000**	**34,650**	**1,980,191**

[1] The amounts presuppose that the General Meeting of Shareholders 2009 will approve the dividend proposal by the Executive and Supervisory Boards

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

in €	Fixed remuneration	Performance-based remuneration for		Commitee remuneration	Attendance fees	Total
		annual performance	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 remuneration	Performance-based remuneration for		Commitee remuneration	Attendance fees	Total
		annual performance	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**

Workforce Development

The Group's workforce (excluding board members, non-active age-related part-time workers, non-active workforce members and trainees) numbered 23,915 employees on December 31, 2008. The headcount had thus grown by 808 (3.5 %) compared with the previous year. The increase is primarily due to the integration of 432 employees from the PET companies, which were consolidated for the first time under the Technology Division on April 1, 2008.

The Core Workforce in the various Divisions developed as follows:

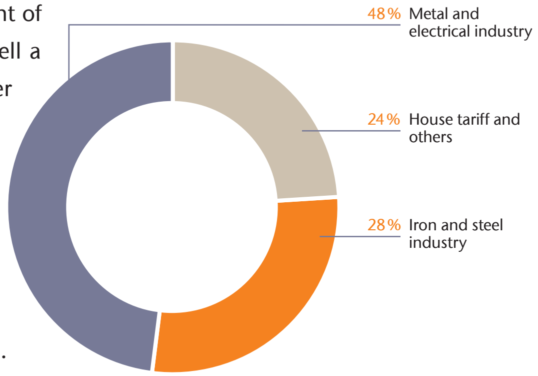
	31/12/2008	31/12/2007	Change
Core workforce	**23,915**	**23,107**	**808**
of which Steel Division	6,949	6,829	120
of which Trading Division	1,983	1,867	116
of which Tubes Division	5,929	5,978	–49
of which Services Division	4,003	4,043	–40
of which Technology Division	4,907	4,252	655
of which others (Holding)	144	138	6

Overview of the Outcome of Collective Bargaining

In February 2008, the parties to tariff negotiations of the north-west German steel industry found consensus on a new tariff agreement. Since March 1, 2008, the 85,000 employees of the steel industry in Lower Saxony, North Rhine-Westfalia and Bremen have received a wage and salary increase of 5.2 %. Remuneration for trainees was raised by €70 per month. The tariff agreement has a term until March 31, 2009. Subsequent to the signing of the tariff agreement of the north-west German steel industry, IG Metall and the employees of the east German steel industry achieved an identical outcome from their negotiations.

After the consolidation of the companies of Klöckner-Werke AG (KWAG) into the Salzgitter Group, approximately 28 % of Group employees come under the conditions laid down in the tariff agreement of the metal and electrical industry. The main components of the tariff agreement agreed in November 2008, which will run for a term of 18 months, are a one-off payment of € 510 for the months of November 2008 until January 2009, as well a wage and salary increase of 2.1 % as from February 2009. A further increase of 2.1 %, envisaged as from May 2009, can be postponed by up to 7 months, depending on the economic environment. There will also be an additional one-off payment of € 122 in September 2009. From January to April 2010, 0.4 % of the monthly wage or salary will be paid out as an additional benefit to help finance the employee's contribution to the tariff regulations governing age-related part-time workers agreed in the summer of 2008.

Breakdown of tariffs within Group



Occupational Safety and Health Management

Along with profitability, productivity and quality, occupational safety takes high priority throughout the Salzgitter Group.

The importance of occupational safety is rooted in the concern for and obligation towards all employees with regard to their well-being and in the knowledge that safety-conscious thought and action make a significant contribution to the success of the company. Our goal is to avoid all accidents, thereby safeguarding the physical integrity of our own employees as well as employees of partner firms, customers, suppliers and visitors.

The top security officers of the Group develop concepts which span all Group companies and set in place a uniform occupational safety culture and all the requisite measures. These measures flank the extensive and successful regulations on accident prevention in the individual Group companies.

To enable the employees of the Salzgitter Group to lead fulfilling and fruitful lives through to and into retirement age, while, at the same time, fostering the competitive ability and innovative strength of our company, also under changing demographic conditions, a concept for comprehensive occupational health management is being implemented step by step. By this we mean a holistic approach driven by a central goal of enabling our employees to adopt a conduct appropriate to promoting their health. In this context, all parameters which have an impact on the health of our employees were carefully analyzed, and numerous measures were subsequently implemented.

Communication

In 2007, we conducted our first survey on the employees of the 42 companies in total which make up Salzgitter AG (SZAG) in Germany and abroad. The results of this survey, which was given the name “IMPULS 2007”, were available at the start of 2008, then communicated to the companies and analyzed. The first measures have been initiated. They are to serve as the basis for further improvements and enhancement of efficiency. Under the name of “IMPULS 2007–2008”, the employee survey was rolled out to other companies of the Group who had joined the group of consolidated companies of SZAG at a later point in time.

Securing the next Generation of Employees

Securing the next generation of employees qualified at all levels is of crucial importance in safeguarding the long-term success of the Group. Aside from long-standing partnerships with schools and universities, we launched a series of wide-ranging activities to attract the future generation of employees.

Throughout the Group we run vocational training programs for school graduates in a wide variety of professions in the fields of processing and production, commerce and IT. The number of trainees came to 1,296 on December 31, 2008 (2007: 1,277), and we will continue to offer many young people the sound prospect of a promising career. Despite the difficult economic environment, we will strive to retain our trainee quota in order to secure the future generation of skilled employees. Moreover, in the reporting year we raised the number of internships (December 31, 2008: 126) and improved the quality of the support they receive through a special program.

	31/12/2008	31/12/2007	Change absolute
Total trainee positions	**1,466**	**1,424**	**42**
Total number of trainees	**1,296**	**1,277**	**19**
Trainees/industry	840	805	35
Trainees/commerce	414	433	–19
Trainees/engineering	11	14	–3
Double degree courses	31	25	6
Total of other trainee positions	**170**	**147**	**23**
Trainees	36	32	4
Interns	126	113	13
Student trainees	8	2	6

We introduced a new instrument for recruiting young people in 2008 through our newly developed grant program. This program has been set up for students in mechanical engineering, electrical engineering, metallurgy and materials science, as well as other MINT disciplines (mathematics, information technology, natural sciences, technology) where future shortages of skilled staff have been predicted. Candidates who have successfully completed the selection procedure will receive support from the individual companies in the form of a generous monthly grant. A high level of identification is targeted through integration into daily operations and mentoring by employees in the same area of expertise. The grant entails subsequently working for the Group.

Proof of the success of our consistent and structured efforts to enhance the image of the Salzgitter Group as an attractive employee is also evident in SZAG's being chosen to rank among the group of Germany's TOP employers again. In 2008, the Group improved its position, rising 21 notches to rank in 69th place, a verdict reached in the 'German Graduate Barometer 2008' by 8,000 undergraduate students of engineering from all over Germany.

Personnel Synergy Project

A synergy project, initiated in December 2007 and continued in 2008, is being run with the aim of having remuneration paid by the Group companies handled centrally via a Shared Service Centre at the Salzgitter location. This organization unit is part of Salzgitter Mannesmann Personalservice GmbH (SZMP), which already attends to company pensions centrally. The first phase of project implementation has been defined and will initially comprise payroll accounting for 17 Group companies at the Salzgitter site, thus centralizing this service for around 11,500 employees. We anticipate considerable cost savings, especially from the IT-supported operations involved.

In the process of setting in place a transparent, uniform system for an old age pension scheme within the Salzgitter Group, HSP Hoesch Spundwand und Profil GmbH (HSP) and Salzgitter Mannesmann Rohr Sachsen GmbH (MRS) were incorporated into the scheme and became eligible for the Salzgitter pension with retrospective effect from January 1, 2008. The phasing out and substitution of the pension schemes of these companies, which had been applicable before, is another step on the way to creating an intra-Group system of retirement benefits.

Cooperation among the managers of the companies combined under the Technology Division developed well.

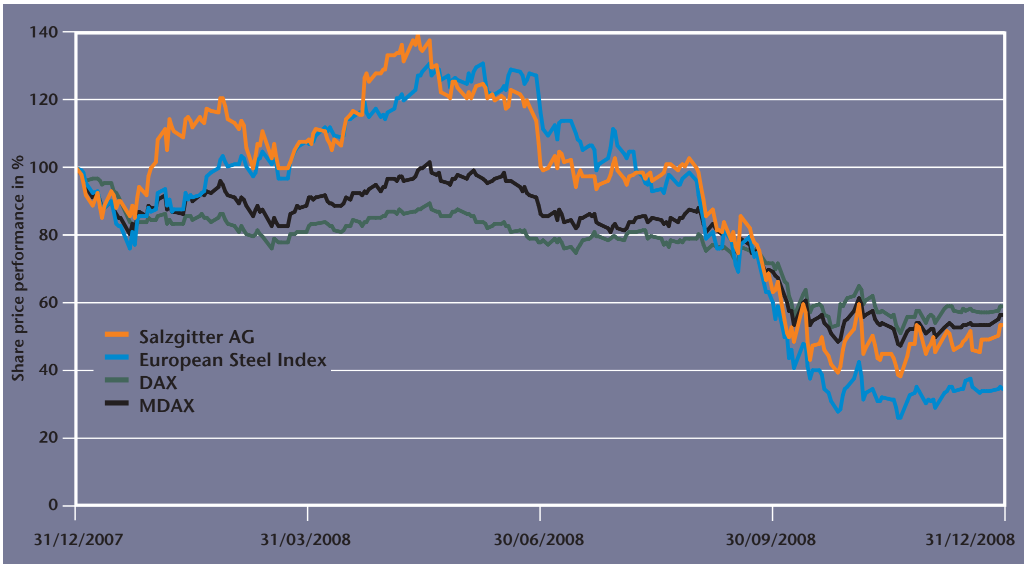
These companies have begun to send selected employees to participate in the management development programs of SZAG.

The Capital Market and Price Performance of the Salzgitter Share

The steady uptrend, which had held sway in the international stock exchanges for years, ended abruptly in the reporting year. The main causes for the collapse of the market were the crisis in the financial sector, triggered by the subprime crisis and credit crunch of the year 2007, and the ensuing dramatic liquidity shortfalls in the money markets, exacerbated by the loss of trust among the market participants. The discernible economic slowdown over the course of the year was reflected in the clear signs of recession in a number of countries. By the end of the year, the crisis in the financial sector had filtered through to trade and the real economy, confirming earlier fears.

At the start of the year, disparate economic data and fluctuations in the sentiment of capital markets caused international share indices to move in a volatile downward trend. The escalation of the crisis in the USA and its subsequent firm grip on Europe triggered dramatic events on the international stock exchanges at the end of the third quarter. The insolvency of the investment bank Lehman Brothers in mid-September threw the capital markets into turmoil, and the downtrend in the markets accelerated. Only at the end of October did the markets begin to trend sideways, a development which persisted until the end of the year. In 2008, the DAX shed 40% of its value, delivering the second worst performance in its 20-year history. The MDAX, whose performance was equally poor, lost 43%.

Salzgitter AG (SZAG) Share Price Performance vs. the European Steel Index, MDAX and DAX in 2008



Sources: Xetra closing prices, DBAG, Datastream STEELEU

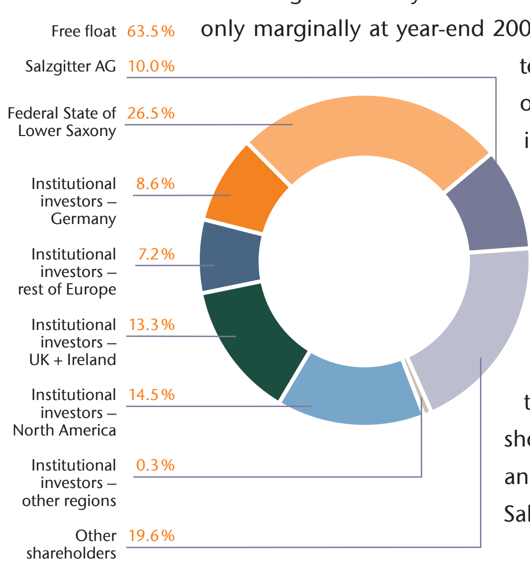
The events on the international stock exchanges naturally affected the development of our share. Nonetheless, in the first nine months of the reporting year, it generally performed well. The more robust-than-expected steel market initially exerted a positive influence on the share price which peaked at € 143.88 on May 16. Towards the end of the second quarter, anxiety about the economy and the high price levels attained by raw materials and energy exerted increasing pressure on the shares of our sector. After the summer, economic data deteriorated under our eyes. As a result, the cyclical sensitivity normally assumed of steel shares caused share prices to nosedive. Despite our outstanding half-yearly figures, we were unable to decouple from this development. Accompanied by partly wild fluctuations, the Salzgitter share fell to its lowest point for the year of € 37.80 on November 20 despite the again outstanding nine-monthly results and positive evaluations by most analysts. Following the return of the markets to calmer waters and the decision of Deutsche Börse AG, announced on December 3, to admit the Salzgitter share to the DAX in future, the share rallied in the final weeks of the year. By the end of the year, our share price was quoted at € 55.00, which is about 46 % below the year-end price of 2007. Taking account of a dividend reduction of € 3.00, the value of the share sale fell –43 %, a performance which virtually mirrors that of the DAX and MDAX but which was significantly better than the European Steel Index (–65 %).

The volume of Salzgitter shares traded on German stock exchanges averaged around 790,000 units a day in 2008, which is approximately 67 % more than in the previous year (474,000 units per day). All in all, 201 million shares of our company changed hands on the German stock exchanges (2007: 120 million units). The share of transactions carried out by electronic trading in Xetra and floor trading in Frankfurt (98.4 %) remained virtually unchanged compared with 2007 (98.2 %).

Having already been traded as an aspiring potential DAX candidate in 2008, the Salzgitter share advanced to take its place among the top 30 listed German stock corporations of Deutsche Börse AG on December 22. Since the placement of its shares on June 2, 1998, our company has thus delivered proof of its ability to steadily enhance its weightiness in the German stock exchanges. With a free-float market capitalization of € 1.9 billion as per December 31, 2008, SZAG occupied 28th position in the DAX ranking. In comparison with companies in other indices, we took the 31st place. Measured in terms of the volume of shares traded, which stood at almost € 17.1 billion, SZAG was listed number 26 in the DAX ranking of Deutsche Börse at the end of December.

Shareholder Structure

According to a survey commissioned in December, the shareholder structure of SZAG had changed only marginally at year-end 2008 as against the previous year-end. Accordingly, shareholders registered in Germany, including the major shareholder, the Federal State of Lower Saxony, and SZAG itself, held 45.1 %. The share of domestic institutional investors rose by 1.6 % to 8.6 % over the course of the year as opposed to that of foreign investors, which climbed slightly to 35.3 %. A total of 19.6 % of investors could not be identified, but are most likely accounted for by private domestic and foreign private 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 conjunction with the fact that, as experience has shown, the up-to-dateness of relevant findings varies, this shareholder analysis is, however, of limited informative value. The free float of the Salzgitter share came to 63.5 % on December 31, 2008.



As per 12/2008

Treasury Shares

As per December 31, 2008, SZAG's portfolio of treasury shares totaled 6,009,684 units, which equates to an unchanged 10.0%. In comparison with the portfolio status as per December 31, 2007 (6,321,823 units), the number of shares decreased by 312,139 units. All in all, 3,121,451 shares were acquired or retracted in the period under review and used as follows: In July and August, we retracted 3,121,400 Salzgitter shares in two transactions by way of a simplified procedure without capital reduction. The company's assets and profit are now distributed among 60.1 million shares. Moreover, members of the workforce received 51 shares in the form of a bonus. In a countermeasure, a total of 2,809,312 shares were purchased at an average price of € 99.52, mainly in the third quarter.

Information for Investors

		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Share capital[1]	€ mil.	160.9	161.6	161.6	161.6	161.6
Number of shares[1]	million	62.9	63.2	63.2	63.2	60.1
Number of shares outstanding[1]	million	61.8	56.9	56.9	56.9	54.1
Stock market capitalization[1,2]	€ mil.	880.8	2,595.1	5,635.7	5,806.3	2,974.8
Year-end closing price[1,3]	€	14.25	45.61	99.05	102.05	55.00
Stock market high[3]	€	15.76	45.95	100.96	158.90	143.88
Stock market low[3]	€	8.72	14.17	45.21	88.13	37.80
Earnings per share (EPS)[4]	€	3.99	14.09	26.50	15.83	12.11
Cash flow per share (CPS)[4]	€	5.75	7.83	8.57	13.70	9.83
Dividend per share (DPS)	€	0.40	1.00	2.00	3.00	1.40[5]
Total dividend	€ mil.	25.2	63.2	126.4	189.7	84.1[5]

Securities code number: 620200, ISIN: DE0006202005

[1] All data as per December 31
[2] Calculated on the basis of the respective year-end a 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
[5] Subject to approval by the General Meeting of Shareholders

Dividend

The Executive and Supervisory Boards propose that the General Meeting of Shareholders approve payment of a gross dividend for the financial year 2008 of € 1.40 a share.

In relation to the nominal share capital of € 161.6 million for total dividend distribution proposed comes to € 84.1 million.

Tax calculation	€/share
Cash dividend	1.03
Capital gains tax and solidarity surcharge	0.37
Gross dividend	**1.40**

Investor Relations

The capital market expressed its great interest in SZAG in 2008 as well, which we responded to in a number of ways: In addition to our analysts meetings in Frankfurt and London to present the annual report published on the financial year 2007 and the results of the first half year of 2008, we presented the company at a number of investors conferences and road shows in Germany, other European countries and the USA. These events were very well received by institutional investors and financial analysts. Some of them also visited the various locations 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.

The high estimation of the capital market last year was also reflected in very satisfactory valuations and placements in a number of investor relations rankings. Qualifying for admission to the DAX is a huge motivation for us to extend the range of information on offer and to continue to optimize the service we provide to our shareholders.

The “Freundeskreis der Aktionäre der Salzgitter AG” (circle of friends of SZAG) continued to enjoy great popularity. At its events, many members again took the opportunity to find out more about current developments within the Group and business and to engage in discussions with representatives of the Group and external experts.

At least 168 recommendations and company reports on SZAG were made by 34 banks and financial publications. At year-end, their ratings were:

- 24 buy/outperform,
- 7 hold/neutral,
- 3 sell/underperform.

Four financial institutes took up the coverage of our company in 2008.

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

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

STRATEGY

The Maeslant storm tide weir in Rotterdam. Closed when water levels run high, it protects the harbor and the city from flooding.

Our **STRATEGY** is geared to safeguarding the success of our corporation over the long term. Ambitious performance benchmarks and the continuous increase of our enterprise value guarantee that we will retain our independence. Especially in difficult times, this independence is the foundation of our success on the markets. It allows us to react flexibly at all times and make decisions purely with the interest of our corporation, its partners and its employees in mind.

II. Goals and Key Factors for Success

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

The overriding goal of Salzgitter AG (SZAG) remains, as before, to preserve its entrepreneurial independence through profitability and growth.

As successfully accomplished in the past years, we strive to secure the further development of the Group through selective, profit-oriented internal and external growth. In our view, this is not an end in itself but stands under the proviso of achieving above-average profitability for our company in a peer comparison, now and in future, a process that we measure by the return on capital employed. In this context, our continued financial stability and sound balance sheet represent an indispensable precondition.

The strategic development of the Salzgitter Group through growth is focused on the Steel, Tubes, Trading and Technology divisions. Along with the projects initiated to promote our organic growth, we also fundamentally review external growth options in terms of their suitability at all times, while not neglecting to pay special attention to the cost aspect of our competitive position.

To achieve a top-down/bottom-up synthesis between corporate goals and the potential of our operating units, and to safeguard a systematic method of procedure, we have used a range of tried-and-tested management tools for many years.

The measures resulting from the deployment of all management instruments – provided they can be financially assessed – are incorporated into the Group's Profit Improvement Program (PIP). With controlling conducted on a quarterly basis, this program serves to ensure that measures to enhance competitiveness are transparent.

The basis for achieving our goals continues to be our ability to improve the customer benefits of our products. With our broad range of qualitatively and technologically advanced products, offered at competitive conditions, we have achieved an outstanding market position in the respective product segments; nonetheless, efforts must consistently be invested in maintaining and strengthening this competitive edge. As our employees in all divisions make a major contribution to our success in this context, the future-oriented training and the systematic promoting of the qualifications of our workforce are, in our view, very important tasks. Beyond this, the environmental compatibility of our products and production processes, as well as the prudent use of resources, is a basis for our activities that we view as a matter of course.

Consequently, we have channeled all our activities and efforts towards guaranteeing a long-term and sustainable increase in the value of the Salzgitter Group.

1.1 Management and Control Instruments

The Group's management and control instruments serve to consistently enhance the competitiveness of its individual companies. "5P-Management", a project launched in 2004, has been modeled on the basis of a balanced scorecard system adapted to the Salzgitter Group that translates the goals of the company into operational, measurable steps in the development of its individual companies.

"5P-Management" also encompasses non-financial goals, the pursuit of which also contributes to the success of the company even if their impact cannot always be measured in financial terms.

Non-financial goals – structured to accord with 5P corporate guideline dimensions – comprise both customers (deliveries made by the deadline in the desired quality, involvement in product development), employees (future-oriented further training, promoting junior staff and managers) and processes (environmental protection, prudent handling of material resources).

The "5P-Management" balanced scorecard system, geared to the level of objectives under the "5P" corporate guidelines, has meanwhile been rolled out to all the Group companies. This tool enables all companies to realize their strategic goals in measurable steps, to monitor their progress by using a uniform system and to incorporate this into the individual goal agreements of the executive and non-tariff employees.

1.2 Profit Improvement Program (PIP)

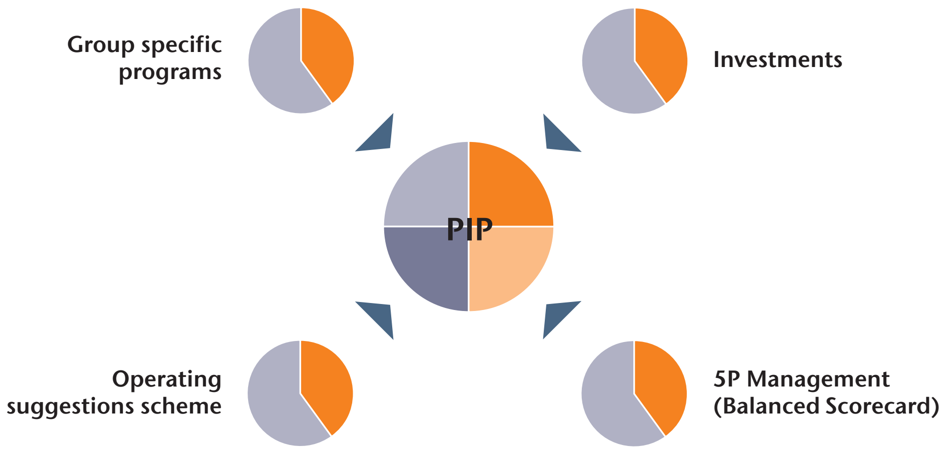
The strengthening of our Group through a permanent process of improving processes in the value chain is a major goal in securing and enhancing our competitive edge, and it supplements internal and external growth through investments and selected acquisitions. Our strategy, which is geared towards independency, profitability and growth, necessitates the consistent leverage of any optimization potential in all divisions.

PIP combines all the explicitly defined measures of the Group companies, with the impacts being assessable and measurable based on a set of financial ratios.

Given the aforementioned, PIP is more than just a partial or temporary program installed to cut costs and improve quality: It gives us a groupwide, uniform management instrument for the Salzgitter Group which serves to raise profitability on a sustainable basis through the ongoing optimization of processes at all functional levels in the Group companies.

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:



The stringent PIP criteria are binding and identical for all measures. The willingness of our employees in the Group to use the structures and mechanisms established in this program to consistently improve the profitability of their own projects on an ongoing basis remains high. This highlights another advantage of our decentralized structures which make it possible to leverage know-how throughout the Group in order to safeguard the competitiveness of SZAG as a group in the future as well.

Internal benchmark

During the past financial year, we consistently pursued the Profit Improvement Program (PIP 3), the third successor version launched in 2007 to follow on from PIP 2. Against the backdrop of the recent swift changes in business conditions, the concept has again delivered proof of its success: consistent reviewing and adjusting of internal processes regardless of the economic environment, continuity instead of panic-stricken “snap decisions”. Accordingly, we view PIP as an ongoing task across all levels of management.

In the Technology Division as well, a new addition to the Group in 2007, a number of companies have also launched their own profit improvement programs. An example of this is the KHS Group, the largest unit, which is in the process of optimizing its internal performance through a package of measures entitled “KHS2010plus”. In order to map the program in a uniform way throughout the Group, we have set ourselves the goal of integrating the “KHS2010plus” program into PIP.

Current status of PIP 3

With a view to the long-term goals anchored in the PIP concept, the freshly launched version of the program has once again been entirely developed by the employees and managers of the Group companies. We integrated a large number of new ideas and measures that stood the stringent test of the PIP criteria into the project catalogue, which was thereby considerably extended.

We were successful in raising the number of active measures to 211 and ideas to 83, and a full-year effect (FYE) of € 173 million, a figure slightly above that of the previous year, was ascertained.

This effect results from a number of different areas: Activities in sales markets using products with a higher value added and extending the network of sales channels has delivered an FYE of € 169 million. In the course of improving process workflows in production and administration, and streamlining the use of materials and external services, we have identified a potential of € 83 million. Achieving these goals necessitates certain measures such as investments, for example, which have been taken account of in an annual amount of € 103 million in depreciation and amortization, interest and other expenses.

We anticipate additional profit potential from the 12 key projects under the "KHS2010plus" program, an improvement effect, minus expenses, of around € 24 million on top of the amounts cited above.

in € million	FYE
Overall operating performance	169
Savings on expenses	83
Depreciation and amortization/interest/non-personnel expenses	–103
KHS2010plus	24
Profit-related effect before tax	**173**

1.3 Management and Control System applied within the Salzgitter 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 positive performance delivered in recent years, which has been consistently positive and above average in a peer comparison, the Executive Board of SZAG had decided in the financial year 2007 to raise the Group's return on capital employed (ROCE) from the former 12 % to 15 % above the average of the steel cycle. At the same time, the envisaged medium-term 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:

$$\textbf{ROCE} \text{ (in \%)} = \frac{\textbf{EBIT}}{\textbf{Capital employed}} \times 100 = \frac{€1{,}072 \text{ million}}{€4{,}886 \text{ million}} \times 100 = 21.9\,\%$$

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

Interest income remains part of EBIT as it is considered to be part of ordinary activities and contributes to the return on capital employed.

in € mil.	FY 2008	FY 2007
EBT	1,003	1,314
+ interest expense	+ 160	+ 115
– interest expenses for pension provisions	– 91	– 78
= EBIT	**= 1,072**	**= 1,351**

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 2008	FY 2007
Balance sheet total	8,701	8,406
– Pension provisions	– 1,787	– 1,792
– Other provisions excluding tax provisions	– 677	– 509
– Liabilities excluding bank liabilities, bills and notes payable and liabilities from finance leasing, forfaiting and asset-backed securitization	– 1,335	– 1,263
– Deferred tax claims	– 16	– 13
= Capital employed	**= 4,886**	**= 4,829**

Pension provisions and related interest expenses are eliminated in the calculation of ROCE, as these components cannot be influenced by management's decisions 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 wherever necessary.

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 addition of the outstanding result which, along with a healthy market environment, was also due to improvements in internal performance, we have succeeded in considerably outperforming this target figure.

It is likely that the new ROCE target of 15 % was clearly exceeded by 21.9 % (2007: 28 %) in mid-cycle. Upon elimination of the net cash investment held at banks and of the stake in Norddeutsche Affinerie AG (NA), ROCE from industrial operations comes to 26.9 % (2007: 46.9 %).

1.4 Growth Strategy

The outstanding commercial success of the past financial years and the ensuing exceptionally good financial and liquidity position will pave the way for us to pursue our chosen growth path in the future as well. However, creating additional values – especially in an environment characterized by uncertainty about how the economy will develop – requires stringent selection criteria to be applied to potential projects. We therefore always understand responsible action in the best interest of our company to reside in a careful weighing up of the opportunity/risk potential.

We have defined the following internal and external goals as part of our strategy:

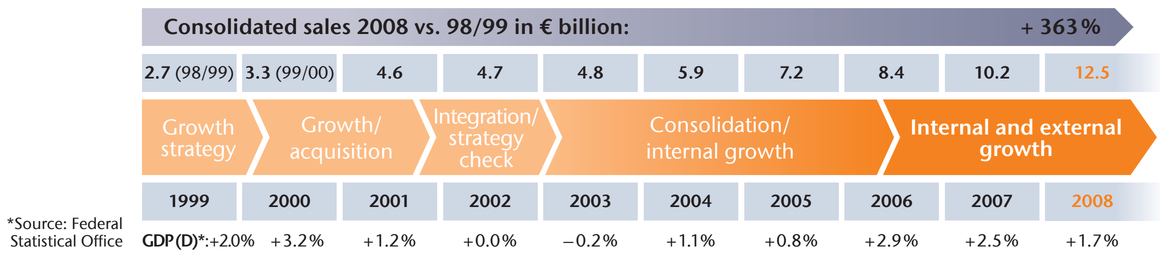
Internal goals:
- Optimizing quality
- Raising productivity
- Rounding off the product program
- Eliminating bottlenecks
- Reducing our dependency on external suppliers

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

In addition to the aforementioned criteria, all individual projects must accord with the target set for ROCE and aligned towards raising the value of the Group.

With a sales volume totaling € 12.5 billion in the financial year 2008, consolidated sales have almost quadrupled since the financial year 2000. We achieved this considerable growth in our core businesses of steel, tubes, trading and in our new Technology Division externally through acquisitions as well as internally through investments in plants and processes.

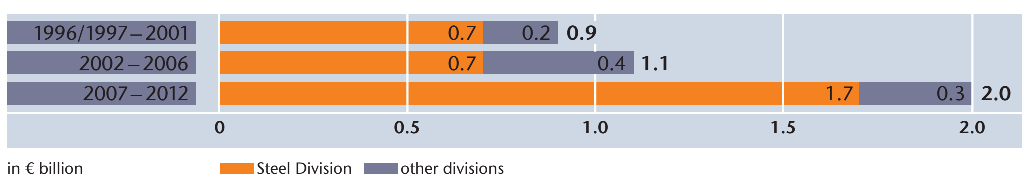
Successful growth story ...



... to be continued

To foster internal growth within the Group, projects with an investment volume of € 2 billion have either been planned, are under way or have already been partly completed.

Groupwide Investment Volume 1996/1997 – 2012



For more information please see the section entitled “Investments” on page 67.

In the past two years alone, we have invested around € 1 billion in external measures. In the course of the year 2008 therefore – after having examined numerous projects – we successfully completed three acquisitions and also acquired a major holding.

At the start of 2008, we took over the hydroforming business of SCHMOLZ + BICKENBACH Edelstahl GmbH, headquartered in Brumby near Magdeburg, and integrated it into the existing activities of Salzgitter Hydroforming GmbH & Co. KG (SZHF). This measure has enabled us to reinforce our leading market position in hydroformed components.

In April 2008, we acquired SIG-Beverages, which was integrated into Klöckner-Werke AG (KWAG) against the granting of shares. Prior to this date, KWAG had executed a capital increase specifically for this transaction. The SIG Group of ‘Neuhausen am Rheinfall’, Switzerland, was the seller. The newly acquired companies employ around 500 people mainly in Germany, and generated sales of some € 150 million in 2007. The group, which is meanwhile closely allied with KHS AG, is one of the internationally most renowned suppliers of facilities for the production and the finishing of PET plastic bottles. This acquisition has thus allowed SZAG to complete an important step in becoming a full-line supplier for beverages and packaging machinery, thereby securing the competitive edge and future potential of the Technology Division.

In the second half-year of 2008, SZAG bought more than 20% of the voting rights in Norddeutsche Affinerie AG (NA). This transaction initially has the characteristics of a financial investment with an industrial background. In the fall of 2008, the next step in the process was to investigate the synergy potential in production technology, research and development, as well as in sales and procurement. NA is Europe's largest producer of copper with twelve locations in seven European countries and a workforce of around 4,700 employees. Given the long-term, bright market prospects for the copper industry on the one hand and the especially attractive market position of NA on the other, considerable value-enhancing potential that will benefit SZAG should be generated in the future.

Furthermore, it is our intention to take advantage of the ongoing process of 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 especially without competing in "bidding wars". The rapid decline in the valuations of companies in the world over in the fourth quarter of 2008, following a protracted boom, has confirmed us in our conservative approach to acquisitions in our core businesses.

1.5 Strategy of the Divisions

With a view to sharpening its competitive edge, the Steel Division continues to pursue its extensive "Salzgitter Stahl 2012" investment programs announced in 2007. These programs comprise the following investment projects for the Salzgitter, Ilsenburg and Peine locations:

Salzgitter and Ilsenburg
- Ramping up the capacity of the Salzgitter 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: approximately € 350 million; tiered until 2012.

Peine
- Construction of a second electric arc furnace and secondary metallurgy,
- extension of the existing casting plant,
- optimization of the continuous casting line for special profiles production,
- capacity effect: +950,000 tons of crude steel a year,
- investment volume: approximately € 400 million; commissioning: 2010.

The aforementioned investments are geared towards extending our product range, cutting costs through improving plant efficiency and reducing the volume of materials sourced externally, as well as outsourced processing in the Steel and Tubes divisions.

Against the backdrop of the initially weakening economy, our efforts in the Trading Division are directed towards further intensifying the cooperation between our stockholding steel traders in Europe and international trading with other divisions of the Group. To this end, the integration and networking between business processes and the coordinated market presence are being consistently strengthened. Moreover, stockholding steel trading will concentrate more on higher quality grades, for instance in the plate product segment, and consistently ramp up processing capacities, also by way of investments, with the aim of reinforcing and expanding the current market position. International trading will continue to foster its long-standing customer relationships, build up the project business with products from the Salzgitter Group and, in addition, in its capacity as a major procurement channel of input materials, leverage the current advantages in the market to the benefit of the Group.

The activities of the Tubes Division are characterized by their strong connection with international projects in the oil and gas sectors. With the persistently sound market situation in this segment in mind, EUROPIPE GmbH (EP) commissioned a spiral-welded pipe mill featuring cutting edge technology in Mobile, Alabama (USA), in 2008, alongside a mill for large-diameter tubes made from hot-rolled strip in Brazil which came on line in 2007. These investments enable us to develop new markets for our Group, thereby enhancing our presence in the market. With demand for high-quality tubes in sophisticated dimensions running high, the longitudinally welded large-diameter tubes product segment also has good future prospects, especially in regions where demand for energy is surging, as well as those rich in raw materials. Following the successful takeover of VPE activities in the previous year, the precision tubes product segment has become the market leader in Western Europe. The key tasks currently on the agenda concern the integration of activities and locations.

As described above, the Technology Division has been strengthened on a long-term basis through the acquisition of the SIG-Beverages Group. This measure has now enabled KHS AG, a subsidiary of Klöckner-Werke, to become a one-stop supplier for turnkey plants for a variety of different applications in the high-growth filling technology market.

The long-standing aim of the Services Division is to enhance the productivity and competitiveness of its individual companies. As before, the task of DEUMU Deutsche Erz- und Metall-Union GmbH (DMU), which generates the lion's share of sales in the division, is to procure sufficient quantities for our electric steel production with its future greater capacity on a scrap market that is currently undergoing a process of increasing concentration. The development of additional warehousing and transfer facilities in Peine and Salzgitter facilitate the company's handling of the scrap volumes required.

The supply of scrap within the Group can also be supplemented by strategic alliances with other scrap dealers on a case-by-case basis.

As in previous years, investments at the Salzgitter Group focused on the Steel Division in the financial year 2008. The following section covers the most important projects of this division, as well as those of the other divisions.

Additions to non-current assets from investments totaled € 970 million (2007: € 449 million). Included in this figure are adjustments in the recognition of equity (€ 258 million) mainly resulting from the acquisition of the shareholding in Norddeutsche Affinerie AG (NA). There was also an increase of € 139 million arising from additions to the group of consolidated companies in the Technology Division, which include goodwill of € 36 million relating to the acquisition of the PET companies. At € 653 million, the volume of investment in property, plant and equipment was significantly above the level of depreciation and amortization of € 278 million. The additions to financial assets, which came to € 59 million, mainly reflect the granting of a loan to two associated company and the purchase of a holding.

Investments/Depreciation and Amortization[1)]

	Investments		Depreciation/ amortization[2)]	
in € mil.	**Total**	**Of which Steel Div.**	**Total**	**Of which Steel Div.**
2004	228	155	313	229
2005	262	190	206	149
2006	236	161	201	145
2007	385	246	225	147
2008	653	454	278	154
Total	**1,764**	**1,244**	**1,223**	**832**

[1)] Excluding financial assets
[2)] Scheduled and unscheduled write-downs

Of the investments in property, plant and equipment and intangible assets during the financial year, € 454.3 million was attributable to the Steel Division, € 85.6 million to the Tubes Division and € 16.2 million to the Trading Division. The Services and Technology divisions invested € 50.4 million and € 40.3 million, respectively.

Investments in Property, Plant and Equipment[1)] by Division

in € mil.	**FY 2008**	**FY 2007**
Steel	454.3	246.2
Trading	16.2	13.2
Tubes	85.6	70.8
Services	50.4	38.0
Technology	40.3	15.1[2)]
Others/Consolidation	6.5	1.5
Group	**653.3**	**384.8**

[1)] Including intangible fixed assets
[2)] Inclusion in the group of consolidated companies effective 01/07/2007

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

in € mil.	FY 2008	FY 2007
Steel	154.1	146.6
Trading	11.3	10.6
Tubes	32.5	27.4
Services	20.9	25.5
Technology	26.8	10.3[3]
Others/Consolidation	32.8	4.7
Group	**278.4**	**225.1**

[1] Including intangible fixed assets
[2] Including unscheduled write-downs
[3] Inclusion in the group of consolidated companies effective 01/07/2007

Steel Division

The investment measures of the Steel Division in 2008 stood under the auspices of the "Salzgitter Steel 2012" program. This program is intended, on the one hand, to raise the capacity of plant equipment and machinery, on the other, to enhance the flexibility of the entire flow of materials in order to be able to react more effectively to the cyclical nature of the steel business. In addition, the aim is to lower the volume of material sourced from external suppliers in the Steel and Tubes Divisions through raising in-house production. At present, around 80% of the project volume has been awarded, and implementation is currently under way.

Salzgitter Flachstahl GmbH (SZFG) made and completed extensive investments in its plants during the reporting year: For instance, a series of regular activities to reline the blast furnaces, initiated in 2005, were completed with the relining of Blast Furnace C in July. All blast furnaces are now well equipped and able to sustain steady-state operation in the coming years. As part of these upgrading measures, Blast Furnace C was extended to take equipment for injecting granulate plastics, which enables fossil-based reducing agents to be cost-effectively replaced. The plastics used in the blast furnace process are largely sourced from recycled motor vehicles, which constitutes a particularly environmentally compatible re-use of this type of waste material.

In the past financial year, construction work began on the Continuous Casting Line No. 4 which will produce slabs of up to 350 mm thickness: As an initial step under the project, preparatory reconfiguration work and extending the building to accommodate the plant technology was completed according to schedule. Construction work on the foundations began on time.

Similarly, the expansion of the secondary metallurgy of the steel works to include the "5th stand of the degassing line", which will allow operations to focus more strongly on sophisticated steel grades, progressed according to schedule.

Together with the suppliers of plant and machinery, the cold rolling product segment invested a great deal of effort in commissioning the new continuous pickling line which is designed to optimize performance and product quality. Upon completion of work, the new pickling line will take over from the old facility, which, after 40 years of operation, was not worth modernizing from a cost standpoint. The pickling capacity of SZFG is thus boosted by a remarkable 40%.

In conjunction with measures to raise the capacity of the hot-rolled strip line, assembly work was started on the fourth reheating furnace. Construction work on the water supply, batch transport and the open-air storage area went according to plan.

As part of the Power Plant 2010 project to raise the efficiency of generating electricity within the Group, some of the main phases of construction have been realized and large plant components, such as a new boiler, were installed. The first generating unit will be commissioned in 2009.

The implementation of the Peiner Träger GmbH 2010 (PTG 2010) investment program proceeded according to plan. In the financial year PTG used 75 % of its budgeted funds and placed the respective orders.

The heart of the program is the construction of a second electric arc furnace which will ramp up the production capacity of PTG to 1.9 million tons of crude steel per year. In addition, a secondary metallurgic center, including a vacuum treatment system, is being set up in the steel mill. Another measure is the extension of the existing Continuous Casting Line 2. Once these measures have been completed, PTG will be able to produce slabs with widths ranging from 500 to 1,100 mm as from the year 2010.

Work on the medium section mill (UMIT) progressed according to schedule. The rolling mill is being converted into a reversing tandem mill. The simplified and modernized structure of the plant will enable the product range to be extended to include special sections, increase flexibility in respect of smaller rolled batches and help to reduce costs. Commissioning has been scheduled for August 2009.

The whole underlying automation, including the tracking of material for the entire straightening line, was renewed in the heavy section mill. In addition to the aforementioned investments, PTG invested a great deal of effort in optimizing mill logistics to expedite the future flow of material. The second electric furnace, state-of-the-art vacuum technology and extending the product mix will add considerable value to the location in terms of quantity, quality and flexibility.

Ilsenburger Grobblech GmbH (ILG) started work on the replacement and optimizing of the workflow and parallel rolling table of its rolling mill which, alongside other capital expenditure measures, is intended to facilitate the production of heavy plate envisaged for the future. In addition, capacities were expanded to allow for plate edge planing and the manufacturing of pre-processed blanks with a view to raising the sales of high-margin products.

Tubes Division

Investments in the Tubes Division in 2008 primarily served the purpose of optimizing product quality and of replacing machinery and equipment. Moreover, the focus of various locations was on expanding capacity in order to be able to extend the range of dimensions and to develop new markets.

The investment measures implemented by EUROPIPE GmbH (EP) concentrated mainly on the renewal and modernization of production machinery to safeguard its position as a global market leader through premium product quality. The building of new spiral tubes production plant in the USA, by contrast, is intended to open up new markets. The new plant in Mobile, Alabama, was completed as planned during the course of the year and is up and running. A major order has already ensured full capacity utilization of the plant from the end of May 2009 through to the first quarter of 2010.

At Salzgitter Mannesmann Precision Group the new three-roll piercing press at Salzgitter Mannesmann Rohr Sachsen GmbH (MRS) was commissioned with a delay. To achieve the performance envisaged, however, further optimization measures need to be carried out in close cooperation with the plant manufacturer. The St. Florentin plant of Salzgitter Mannesmann Précision Etirage S.A.S. (MPE) commissioned the new pickling line in February 2008.

The Salzgitter Mannesmann Stainless Tubes Group forged ahead with the strategic expansion of a number of selected locations. As a result, manufacturing capacity in Houston, Texas, was considerably raised and the product quality optimized.

Technology Division

The Technology Division concentrated on lowering production costs and developing the functionalities of its products.

Within the Klöckner-Werke Group key activities were investments by KHS AG to expand the Dortmund location. The company built a new factory building for the assembly of labeling machines and extended the packaging building. In addition, IT projects, such as the introduction of a global, uniform design software and the integration of the IT infrastructure of the new PET companies, progressed. The new plant built for Klöckner DESMA Elastomertechnik GmbH in India was the largest investment committed by the other associated industrial companies, alongside investments in research and development. These measures are reflected in the numerous patents, patent applications and trademark rights which have been granted.

The Trading and Services Divisions

The Trading Division focused its investments on expanding its Eastern European warehouse locations.

The Services Division invested in the following key projects:

- refurbishment of the guesthouse of Salzgitter AG,
- procuring new freight cars for Verkehrsbetriebe Peine GmbH (VPS) and
- construction of a new production building for SZST Salzgitter Service und Technik GmbH (SZST).

Salzgitter Mannesmann Forschung GmbH (SZMF) is the Salzgitter Group's central service provider for research and development (R&D) and, beyond that, a key driver of innovation. This is the hub where cutting-edge scientific trends are brought together with production and process know-how and adjusted against current market demands and requirements. The insights won from this process are automatically integrated into technology roadmaps. Moreover, SZMF also functions as an interface supporting an international research network comprising leading universities, research institutes and partners from industry. We clearly prefer the research cooperations that this generates to the buying-in of know-how.

Our R&D philosophy extends far beyond the classical development of our current portfolio of products and processes. In our view, R&D involves intensively accompanying the initial idea in all its details all the way through to successful industrial implementation. To be in a position to offer innovative solutions we break with conventional thought molds. We consider this an important contribution to the long-term economic and ecological success of our company. Active trend scouting (technology intelligence) enables us to assimilate ideas proactively and then to promote their development in subsequent innovation workshops. In this process, we partly consciously choose to involve external parties alongside our customers, instead of finding a purely internal solution.

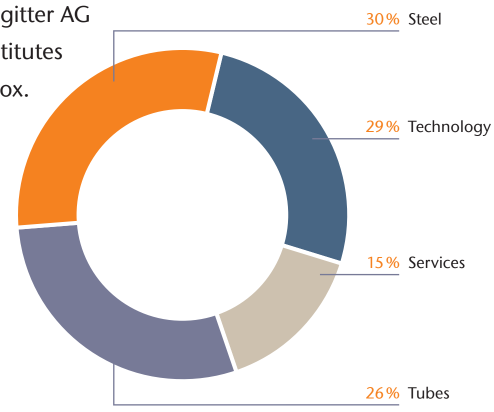
In our Technology Division, we foster proximity to products through "competence centers" specializing in the specific product family. Along with development and the processing of orders, the functions of the competence centers also include active product management. Moreover, they provide important product support for our sales operations. Evidence of our innovation strength in the reporting year is documented by more than 220 patents and patents applications, as well as the granting of 50 trademark rights in the beverages filling and packaging machinery segment. The focus of more than 80 development projects was on cutting manufacturing costs and refining product functionalities.

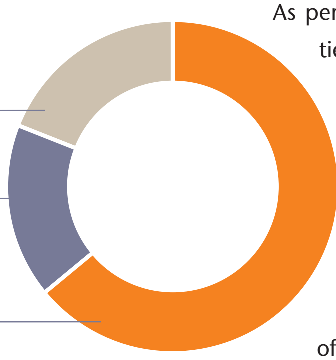
R&D Expenses

In 2008, the Salzgitter Group spent € 91.0 million on R&D activities and on R&D-related quality management measures, including € 11.4 million for external customers. The amount was allocated as follows within the Group: 30% to the Steel Division, 26% to the Tubes Division, 29% to the Technology Division and 15% to the Services Division[1]. Moreover, Salzgitter AG (SZAG) works with other market participants and research institutes in co-operation projects where the total budget comes to approx. € 128 million. In the financial year 2008, SZAG disclosed capitalized investment costs for development of € 16.0 million, of which € 6.7 million were recorded through profit and loss. Value-added R&D applications came to 3.0% for the Group as a whole.

[1] External activities of SZMF are allocated to Services Division (as opposed to the previous year, where these activities were allocated to the Steel and Tubes divisions).

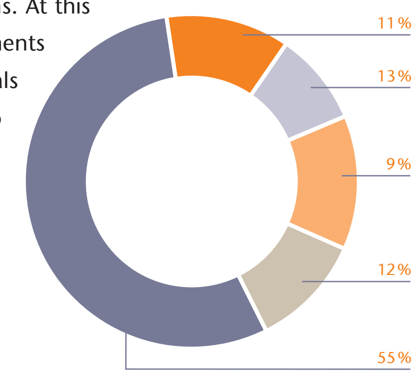
R&D expenses by division





As per December 31, 2008, 983 employees were engaged in R&D activities and R&D-related activities. Of this number, 308 staff members are employed in the central R&D company SZMF, whereas the majority of R&D staff (68 %) are employed in the operating companies. This underscores the market and process orientation of our development activities.

With the qualified team of SZMF and our technical facilities, which are largely taken as a benchmark by our industry, we cover the whole of the value chain, from the metallurgical production of melt and sheet processing through to their applications. At this point we favor numerical simulation procedures and real experiments while concentrating on the development of leading-edge materials and their application. We are convinced that it is not enough to adapt to the markets of the future; it is our intention to participate in shaping these markets. In order to forge ahead with these R&D issues, we will continue to run our strategic investment program for large R&D appliances at a high level in the coming years.



1) Since environmental protection and energy optimization are integrated in all our activities, those expenses will no longer be shown separately.

The Focus of R&D Activities in 2008

In the past financial year, we concentrated our research and development activities on the development of ultra high-strength steels. These steels are used in the automotive industry for lightweight construction concepts. Ultra high-strength steels and, beyond these, high ductility steels are also an important area of research for the quality grades of the tubes segment. In this context, experiments were conducted on a new coating method to be used on large-diameter tubes. In addition, activities are being carried out to enhance materials and processes mainly for pipeline and precision steel tubes as well for the steel strip and sheet product segment. The following section describes examples of some of the key areas of R&D in 2008.

Bainite hot strip steel

The use of high and ultra high-strength steel grades enable new lightweight construction concepts to be realized in automotive construction. Thanks to the properties of this material, the wall thickness of the components used can be reduced while retaining their tensile strength. Special requirements are placed on chassis frames as, alongside a high degree of strength, prerequisites include good formability and cyclical stability. The ongoing development of our high strength Bainite phase steels will be able to cater to these demands even better in the future. Our products have been tested as an alternative to conventional dual-phase and micro-alloyed steels in close cooperation with a large automotive supplier and have been released for series production.

LH® steel for chassis, industrial production facilities and energy technology

Air-hardening steels (so-called LH®-Stahl) are an alternative to conventional high and ultra high-strength steels. At the start of exploring the options for using LH®-Stahl, SZMF conducted concept studies and customer workshops with a leading automotive manufacturer. These activities showed that, beyond the originally intended chassis application, there were a number of other concrete application areas. The results met with a positive response, both from a select audience of experts and from the public. LH®-Stahl can be used for completely new applications in the construction of enameled plant components in the fields of industrial and energy technology, which highlights its versatility.

Prudent use of resources in surface finishing with zinc and magnesium

In cooperation with the Corus Group, SZMF and Salzgitter Flachstahl GmbH have developed a novel hot-dip coating based on zinc and small amounts of magnesium. This coating has considerably more superior protection properties against corrosion while, at the same time, ensuring a thinner coating by comparison with conventional zinc coatings. The coils, which were coated in a series of field tests, were closely examined and used by pilot customers from the construction industry with excellent results. The processing properties are superior to traditional hot-dipped galvanized surfaces. We have thereby made considerable contributions to the resource-saving manufacturing and surface finishing of cold-rolled coil for a variety of different customer applications.

ICAMS

ICAMS (Interdisciplinary Centre for Advanced Materials Simulations), a materials research centre opened in the summer of 2008, puts the development of materials on a new footing: material properties are calculated solely on the basis of the fundamental laws of nature. ICAMS covers a highly innovative field of research that is unique in its position in the national and international arenas and, at the same time, acts as an interface between university-based and industrial research. SZAG participates in the center, which is attached to the Ruhr University in Bochum.

Improved mechanical properties of high-strength tubes

The exploitation of new oil and gas fields is becoming increasingly important in the light of the growing demand for energy. Owing to their geographical location, the new regions for the extraction of oil and gas place special requirements on the materials deployed. Pipelines are exposed to very low temperatures, geologically unstable grounds and extremely corrosive conditions. Accordingly, the requirements placed on the steel materials used are very high. However, it is not only the environmental conditions but also growing economic requirements that are driving demand for ultra high-strength tube grades. With this in mind, we have continued to develop the manufacturing process of X100 tube grades as part of our 50% joint venture with EUROPIPE GmbH (EP), one of the leading manufacturers of large-diameter tubes. Thanks to the optimization of process parameters relating to plate rolling through to surface coating, we were able to significantly improve the mechanical properties of the tubes.

Filling technology

The Technology Division (KHS) considerably reduced the number of different filling systems with the aid of standardizing measures in 2008. Customers continue to benefit from flexible solutions that comprehensively meet the demands placed on technology and hygiene. Innofill NV, a newly launched filling system, has already been successfully sold to the Coca-Cola Company in the US; machinery has also been delivered to Russia.

Future key areas of R&D and the building of competence

SZMF will also give its development-related support to the "Salzgitter 2012" investment program in the future. For instance, Belt Strip Technology is currently in the process of qualifying for industrial use as part of a cooperation with SMS Demag, a plant manufacturer, and the Clausthal Technical University. The design and preliminary project work for the pilot facilities planned under "Salzgitter 2012" at the Peine site were completed this year.

Along with investments in new facilities, we also consider the optimization of existing production facilities to be extremely important. In the years ahead, we will strive to achieve a qualitative improvement in our products and a stabilization of manufacturing processes with the aid of mathematical analyses methods (data mining) and online testing systems. In the area of materials development, we are planning to round off our product range, which comprises medium-strength through to ultra high-strength hot-dipped galvanized multiphase steels. To this end we are conducting ongoing research projects and cooperation activities with external partners.

The refining and qualification of our tube grades to fulfill the specific requirements placed on them by low temperatures and at great underwater depths, geothermic applications and power plants low on CO_2 emissions are on the program for development.

Developments in the Technology Division will concentrate on cutting manufacturing costs and refining product functionalities. The focus of filling technology rests with the optimization of the interlocking of stretch-blow machinery and fillers for the aseptic PET product segment and filler platform strategy. Other R&D projects are geared towards automation concepts, as well as labeling and inspection technologies.

Multi-year overview of R&D

		FY 2008[3]	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003[4]	FY 2002	FY 2001
R&D expenses	€ mil.	80	60	58	58	57	58	47	48
R&D employees	empl.	983	725	688	706	701	670	400	400
R&D ratio[1]	%	0.6	0.6	0.7	0.8	1.0	1.2	1.0	1.0
R&D intensity[2]	%	3.0	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] KHS AG fully consolidated
[4] Reporting of R&D-related expenses (employees) at MRW

Salzgitter AG (SZAG) is well aware of its responsibility to the environment and society. It exercises this responsibility through reducing emissions, the efficient use of resources and by minimizing the environmental impact of its operations. We pursue our goal of operating safe production processes that make prudent and sparing use of resources by optimizing processes and organizational structures on an ongoing basis. Along with the other German steel corporations, we rank at the top of the global league table in terms of our committed environmental spend. Effective production geared to the highest environmental protection standards can, however, only be realized over the long term if both commercial viability and, as a result, jobs are safeguarded. Particularly in view of climate protection, having a global and coherent framework of regulations in place is decisive to enable entrepreneurial tasks in Europe and in Germany to be shaped actively in line with the goals defined.

Further progress made in the organization of environmental protection

In the implementation of groupwide guidelines on environmental protection and the associated continual improvement of the contribution by our Group to the environment, the companies of the Steel and Tubes divisions largely practice the environmental management system DIN EN ISO 14001, which is also being increasingly implemented in the Services Division. The financial year 2008, for instance, saw the successful certification of our Telcat Group subsidiaries, and we have initiated preparatory measures at Salzgitter Automotive Engineering with the aim of achieving certification in the years 2009/2010. Certification under DIN EN ISO 14001 already issued to other Group companies was updated by conducting the respective audits.

A total of some 80% of our employees already work in locations where environmental management systems have been implemented. In some companies, these systems form part of an integrated approach that also comprises quality and occupational safety management. It is our intention to consistently forge ahead with these efforts in our Group.

Completion of the allotment of certificates in CO_2 emissions rights trading

The subsidiaries and affiliated companies of SZAG that are obligated to participate in emissions trading obtained their emission rights from the German Emissions Trading Authority (DEHSt) during the fourth quarter of 2008. These permits correspond to the allotments officially determined for the second trading period (2008 to 2012).

To safeguard the competitiveness and the sustainability of the European steel industry in the future, we and our associations are involved in ongoing political discussions at a national and a European level aimed at ensuring that emissions trading after 2012 is carried out in an appropriate manner. The most important issues were and are:

- taking account of the special technical contexts and interactions associated with reusable byproduct gases generated by the production of steel in integrated mills,
- allotment which is fully free of charge for steel production and processing based on benchmarks,
- compensation for the rising cost of electricity at energy-intensive production locations caused by emissions trading such as, for instance, electric steel production.

The resolutions passed at European level in December 2008 have given positive signals for the steel industry, which now need to be discussed in depth in the political arena to be more closely defined.

Expanding our own supply of electricity while reducing CO_2

The efficient use of gases, which are byproducts of steel production, makes a considerable contribution to climate protection. Salzgitter Flachstahl GmbH (SZFG) has its own gas power plant in order to be able to supply mill operations with process steam and electricity. To gain greater independence from externally sourced electricity, two new power plants will also be taken into operation in 2010, among other measures. Through investments and extensive modernization measures worth some € 240 million, we achieve considerable improvements in respect of environmental protection, including a significant increase in the efficiency of the power plant. This will enable us to reduce the supply of electricity sourced externally, cutting CO_2 emissions by around 200 ktons a year. Moreover, this measure will not only result in less noise pollution but also, thanks to investment in state-of-the-art technology and – despite having a power plant that is more efficient – will not cause any additional burden due to air-borne pollutants.

Steel Division: approval procedures for investment program running to schedule

Under the extensive investment program of the Steel Division a multitude of significant approvals procedures under environmental law have been initiated in the period under review and have, in part, already been successfully completed. Among other investments, this concerns the fourth continuous casting line and the extension of the degassing line in the Salzgitter converter steel mill, along with an additional reheating furnace in the Salzgitter hot-strip rolling mill and all measures connected with the "Peiner Träger 2010" expansion program.

Tubes Division: new coating technology eliminates solvents emissions

In the financial year 2008, new coating facilities were taken into operation at the location of our Salzgitter Mannesmann Line Pipe GmbH (MLP) subsidiary. This new technology allows the solvent-based coatings formerly in use to be replaced by solvent-free UV coating. It enables emissions from solvents to be completely eliminated, as well as guaranteeing a high rate of production and swift drying so that the coated tubes can be shipped without delay. Encouraged by the positive experiences of the Siegen location, similar coating facilities are to be installed at the Hamm works and commissioned next year.

Technology Division:
optimization of environmental compatibility through new processes and products

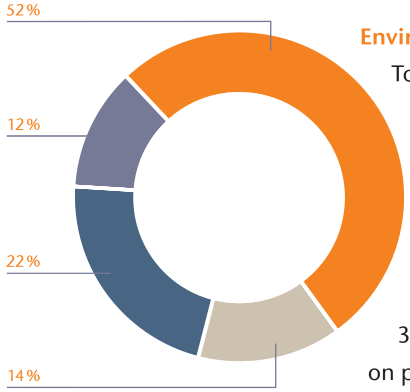
In the financial year 2008, KHS AG placed particular emphasis on intelligent construction concepts geared to enhancing customer benefits by providing better resources and energy efficiency. For instance, filling machines for specific products in glass and PET bottles and can filling machines were redesigned so as to optimize the type of filling machinery. This innovative technology has resulted in reducing the materials used for each machine by two tons. Moreover, the volume of cleaning agents needed has fallen by around 10 %.

The Monobloc series of KHS AG has also proven to be a groundbreaking product: Conveyor facilities between bottle blowing machines and filling machines for PET bottles can be eliminated. As a result, the amount of energy involved in running the facilities can be substantially reduced, which means saving on operating costs.

Salzgitter AG prepares itself systematically for the implementation of REACH

The financial year 2008 was hallmarked by the implementation of the European chemicals directive REACH (registration, evaluation, authorization and restriction of chemicals) that came into force in mid-year. As a manufacturer, importer and downstream user, SZAG is affected by REACH, which makes securing supply and delivery across the whole process chain extremely important. We have therefore identified which materials we produce ourselves and which are imported in respect of the entire Group and taken the steps necessary to ensure compliance with requirements. An internal audit carried out on the relevant activities during the months of September/October 2008 showed that our subsidiaries are aware of this issue and are proceeding with the implementation of the regulations in an expedient manner.

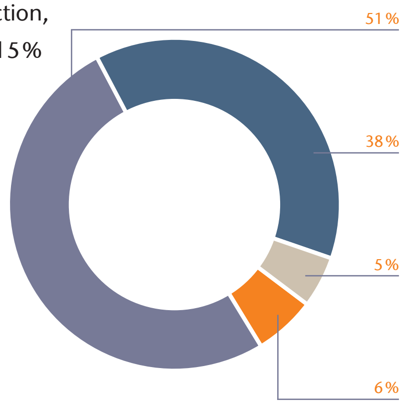
Environmental protection spend Steel Division 2008



Environmental protection spend

Total spend of the Steel Division on environmental protection came to € 134 million. Of this amount, 52 % was attributable to measures related to air quality, 12 % to water protection, 22 % to recycling management and 14 % to protection against noise. The Tubes Division's companies based in Germany spent € 16 million on environmental protection as follows: 6 % on measures related to air quality, 51 % on water protection, 38 % on recycling management and 5 % on protection against noise.

Environmental protection spend domestic companies of the Steel Division 2008



SOLIDARITY

Trainer and trainee at Salzgitter AG performing maintenance work on a coiler.

1. General Business Conditions

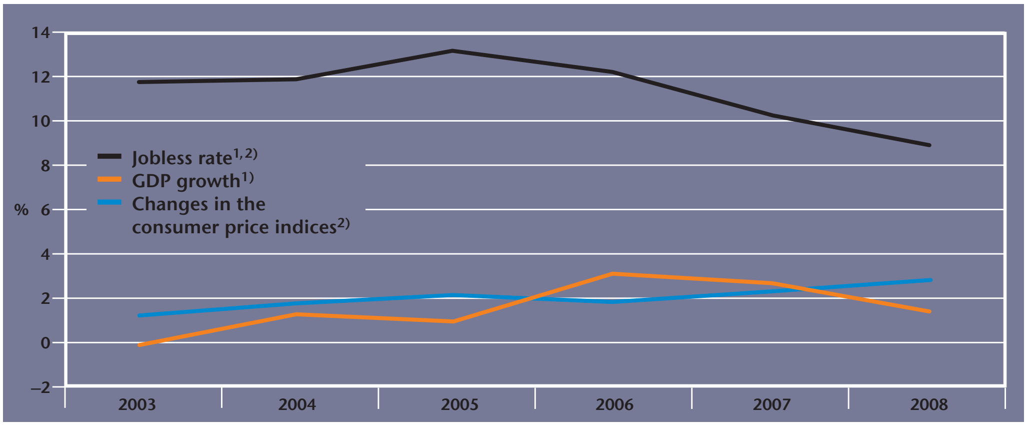
The global economy slides into the crisis

Whereas the global economy was in a relatively robust condition at the start of 2008, growth slowed notably over the course of the year. The downtrend accelerated appreciably and, as from September, picked up a momentum hitherto deemed impossible. The financial crisis, which had its origins in the American real estate market, triggered massive turbulence throughout the US economy and ultimately spread to all other industrial nations of the world. By the end of the year, the economic activities of the emerging markets which, up until that time, had remained sturdy, had also been caught in the turbulences. The expansion of the global economy (3.6 %), fell considerably short of the previous year's figure (5 %).

With a contraction of 1.2 % in the gross domestic product (GDP), the United States had already entered recession in 2008. One of the main causes of this development, along with the reversal of banks' lending policies, was the collapse of private consumption caused by the sharp decline in the value of assets and rising unemployment figures. The financial crisis has also affected all the larger nations belonging to the euro region. GDP growth posted a mere 0.9 % (2007: 2.6 %). During the first half of the year, inflation, which was running at a high level, braked private consumption. Dampened by the cooling global economy and the steady appreciation of the euro up until mid-year, the earning prospects of companies deteriorated, which had a curbing effect primarily on the propensity to invest. After a boom of many years, the sharp downturn in the construction sector placed an additional burden on the economies of Ireland and Spain. Although the development of the economies of the new member states of the European Union was disparate, their overall condition remained robust. Pressure on these economies as well, however, emerged at a later point in time.

Even in the emerging markets whose economies had been buoyed by the boom of past years there were increasing signs of a considerable slowdown in the economy by the end of the year. The theory often voiced that sustained economic growth in the emerging markets might mitigate or even balance out negative development in the industrial nations was therefore dissipated.

Macro-economic Indicators in Germany



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

What did these developments in the global economy mean for Germany? In terms of the German economy, the year 2008 oscillated between boom and crisis. Not least owing to the high level of orders at the start of the year, the economic upturn initially held steady in the face of manifold burdening factors. Economic momentum slowed over the course of the remaining year, even though the pace was not as swift as in other industrialized nations. In the second half of the year, Germany, with its high dependency on exports and the negative development of its trading partners, slipped inexorably into the crisis. As a result, the sales problems that the automotive, mechanical engineering and chemical industries were experiencing in November and December also began to noticeably affect upstream production areas, the consequence being the temporary closure of the production sites of a number of large corporations. By the end of 2008, the German economy was in recession. Nonetheless, in terms of the year as a whole, Germany achieved a GDP growth of 1.5 % (2007: 2.5 %).

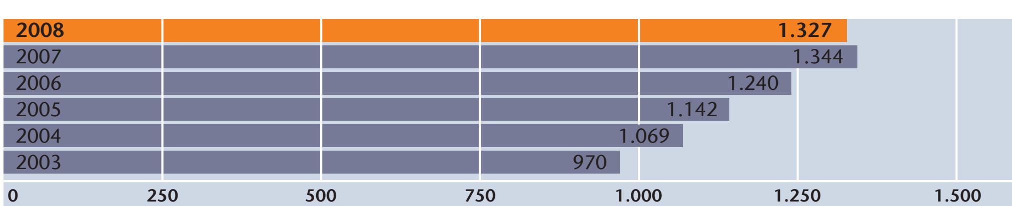
Steel market in the shadow of the impact of the financial crisis

In recent years, the **global steel industry** has enjoyed exceptionally strong growth in the demand for its products that was mainly rooted in the pace of industrialization of the emerging markets in the Far East. The concurrent significant expansion of capacities was unable to compensate for temporary bottlenecks in a number of products, with the result that steel prices reached unprecedented levels. The past financial year saw buoyant market conditions in the steel industry hold steady until late summer. The uptrend in the production of crude steel persisted in all regions even though growth rates fell short of the previous year's figures, a trend which was mainly attributable to the development of China's steel production. Under the influence of slowing growth in important customer sectors, headed by the construction and automotive industries, and domestic demand for steel which almost halved during the year, Chinese production of crude steel (500 million tons) rose only marginally as against the previous year, delivering the weakest growth since the beginning of the eighties.

With the advent of the international financial crisis in 2007 and its impact on product markets over the course of the year 2008, demand from the steel industry's key customers – especially from the automotive sector – bottomed out swiftly. The unparalleled boom in the global steel markets came to an abrupt end in the fall. The year-on-year comparison of the volume of crude steel production was negative for the first time in September.

The economic downturn, which gathered pace in the final months of the year, caused almost all steel manufacturers to adjust their production. In an annual average, global crude steel production thus stagnated at around 1.3 billion tons.

World Crude Steel Production



in million tons

Source: International Iron & Steel Institute

Throughout much of the year economic momentum in the **European steel market** was significantly slower than in the German market, and supplies to the European market fell by 6.9%. Nonetheless, due to strong export growth, on the one hand, and a decline in imports, on the other, crude steel production nonetheless remained at a high level until the fall but declined in 2008 as a whole to around 198 million tons (– 5.5%) owing to the weak fourth quarter.

Over a large part of 2008, the **German steel market** was characterized by robust demand. One of the main contributors was the still healthy condition of the German steel processing sectors which had been able to participate more strongly in the upswing of recent years in comparison to their European competitors. Driven by announcements for further price increases in the subsequent months, the volume of order intake of German steel manufacturers rose steeply to reach new highs in the spring. Market supply in this phase, affected by the sharp increase in deliveries, even outperformed the very good level of the previous year. The high level of crude steel production held steady until the third quarter. Due to the events in the financial markets, however, economic conditions changed radically: This was patently evident from the dramatic decline in order intake (47%) at year-end when it reached its absolute low. In response to the changed demand situation, crude steel production fell by 20% in the fourth quarter as against the previous year. Instead of the forecasted volume of 48.5 million tons, 45.8 million tons (– 5.6%) were produced.

Trend of global steel trading prices fluctuates over the course of the year

International steel trading was characterized by brisk demand and considerable price hikes, above all in the first half of the year. By contrast, business activities were dampened severely as from late summer, a development which persisted until the end of the year. Scrap surcharges, which have a direct impact on the selling prices of many trading products, went into a sharp decline from August onwards. As from this time, many customers speculated on the prospect of prices falling further, either withholding their orders or attempting to renegotiate existing contracts. After the Olympic Games, China’s need for steel also slowed, with the result that producers in this country tried to compensate for oversupply through price discounts and higher exports. Moreover, the Chinese government lifted export tax to stimulate trading.

Owing to the economic environment, demand in North America remained at a low level throughout the year – despite a temporary recovery.

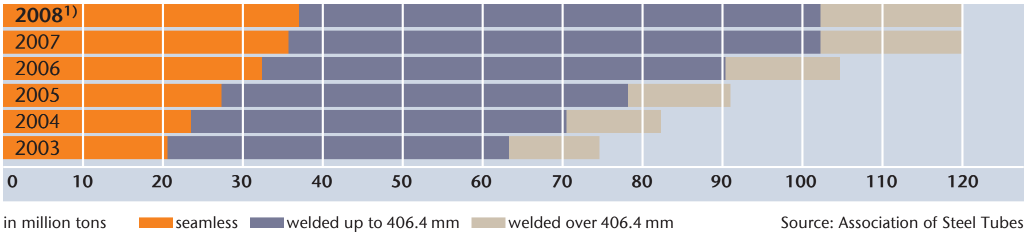
In tandem with developments in the international markets and after above-average performance during the first half of the year, **German steel trading** recorded significant declines in sales with prices falling substantially in the fourth quarter in particular.

Steel tubes market remains at a high level

Driven mainly by the surge in the global demand for energy, the production of steel tubes ran at a record level in 2008, following on from five years of dynamic growth. Whereas the indicators in the first three quarters still signaled another production record, the effects of the financial crisis were clearly felt in the tubes product segment in the final months of the year. While the production of seamless tubes climbed again (37 million tons, +3%) thanks to strong demand for oil field pipes in the North American market and the large-diameter tubes segment continued to perform well (production plus of 1% to 18 million tons), the global production of welded tubes with external dimensions of up to

406 mm contracted to 65 million tons (– 2 %). This is attributable to the fact that these tubes are also used in quasi-consumer areas, such as automotive engineering.

Global Production of Steel Tubes by Manufacturing Process



[1)]Extrapolation

As in previous years, Chinese producers, whose production totaled 43 million tons (+3 %), defended their position as the world's largest tubes manufacturers, but no longer delivered the highest growth rates. North American mills raised their production by 10 % to just under 15 million tons. By contrast, CIS producers lost market shares, resulting in a volume which was around 10 million tons lower (– 13 %). Despite the decline in production volume (17 million tons, – 5 %), the level within the European Union was still satisfactory, which also applies to German producers.

Slight downtrend in growth rates in the mechanical engineering sector

Although the global growth rate of the overall mechanical engineering sector in Germany slowed in 2008, according to VDMA (German Machinery and Plant Manufacturing Association) real production climbed by 5.4 % (2007: 11 %). Following an uptrend in the industry, which had held steady for several years, the business climate deteriorated notably again in the second half of 2008. The sector was also suffering from the global financial crisis and the ensuing decline in international demand. Whereas emerging markets such as Russia, India, Brazil and China continued to function as economic engines, economic activity in the American, South Korean and some Western European markets slowed notably. Capacity utilization decreased in the course of the year, but remained at a good level of 88.9 %.

The filling and packaging technology segment of the KHS Group, which is the core business of the Technology Division, generates around 90 % of the revenues. KHS AG operates in a market that will continue to grow in the long term, driven by the demand for packaged beverages. The company is an established supplier of large beverages manufacturers such as Nestlé, Unilever, Coca-Cola and InBev.

The course of business in the industries relevant to KHS tracked general economic developments in 2008. These developments put the brakes on the willingness of the beverages industry to invest, which was markedly down on the previous year. The second half of the year in particular saw orders concentrate more on investment in replacements and services rather than on buying new assets or ramping up capacities. Moreover, price-led competition for new orders was notably exacerbated by a number of suppliers. Against this backdrop, growing emphasis was placed on the best use of the production capacity available and on identifying streamlining potential.

2. Overall Statement by Management on the Performance of the Group

Very satisfactory results in all divisions and sound balance sheet

Against the backdrop of an environment hallmarked by growing anxiety about future economic developments, the Salzgitter Group again delivered outstanding results in the financial year 2008, boosted by robust demand for our steel and tubes products that held steady over a large part of the year.

Consolidated external sales climbed by € 2.3 billion (+23 %) to € 12.5 billion, thus achieving a new record. Along with higher steel selling prices, the consistently positive development in the Tubes Division's business, especially in large-diameter tubes, buoyed by brisk investment activities in the energy sector made a considerable contribution to growth. The domestic steel stockholding business, which flourished in the first nine months of the year, and major international trading projects lifted the level of Trading Division's sales considerably. Last but not least, the new additions to the group of consolidated companies in the Technology and Trading divisions also made a positive contribution.

The excellent pre-tax profit of the Group, which posted € 1.0 billion, nonetheless fell short of the outstanding results of the financial year 2007 (€ 1.3 billion). The Steel Division was burdened by the considerable hikes in the cost of raw materials which were not fully compensated by higher-than-expected increases in selling prices. Moreover, extensive accounting adjustment measures pertaining to the valuation of the Steel and Trading divisions' inventories and necessitated by the drastic deterioration in steel market conditions in the fourth quarter were reflected in the result. The Tubes Division excelled by delivering another increase in profit.

Consolidated profit after tax posted € 676.9 million which is below the previous year's figure (€ 905.1 million). Earnings per share came to € 12.11. Return on capital employed (ROCE) from industrial operations stood at 26.9 %; including more than € 1 billion in cash and cash equivalents, ROCE was 21.9 % (2007: 28.0 %).

Despite the considerable utilization of financial resources for the financing of, among other things, the extensive investment program, alongside acquisitions and holdings, a major share buyback transaction, dividend distribution for the financial year 2007 and an increase in working capital, the Group's cash investments nevertheless came to a remarkable € 1,123 million at the end of the year. The equity ratio of 49.9 % remained virtually unchanged from the year-earlier figure (50.5 %). The Salzgitter Group therefore has sufficient financial scope at the moment.

The Salzgitter Group has thus once again delivered proof that its broad-based and well-balanced business, its sound financial base and its foresighted business policy are not only able to generate excellent results when conditions in the market are good but also that it is comparatively well equipped to meet the more difficult times ahead.

3. Comparison between Actual and Targeted Performance

At the Annual Results Press Conference of the previous year and with the release of the Annual Report for the financial year 2007 we had set ourselves a very ambitious target for profit in the upper three-digit million euro range which would have corresponded to the dimensions of the operating results of the financial years 2005 (EBT of € 803 million) and 2006 (EBT of € 948 million). Given our pleasing performance in the first half of 2008, we considered it justifiable to raise our pre-tax profit forecast for the Group to over one billion euros. In doing so, we made explicit reference to the fact that the fluctuation range of the consolidated result could also be within the three-digit million range and that it is linked to the opportunities and risks of the then unforeseeable developments in costs, selling prices, capacity utilization and currency trends as well as to volatility in the financial and real economy. Upon the publication of our nine-monthly report in mid-November, we were more specific about this statement in consideration of the first ripples that were felt from the global financial crisis: “Provided that the conditions in the environment do not change beyond what is currently known and expected up until the end of the year, Salzgitter AG will generate a consolidated pre-tax profit of almost € 1.2 billion in the financial year 2008. Even after contingent accounting measures as part of the annual accounts process, pre-tax profit will range within the previous forecast for the financial year of more than one billion euros.”

The good performance of all companies, above all in the first nine months of the financial year 2008, resulted in an excellent consolidated result of € 1.0 billion. This result includes extensive accounting measures necessitated by the development of the economy at large, especially in the fourth quarter.

The individual divisions performed as follows:

At the start of the reporting year, the scenario predicted for the **Steel Division** was accurate: Healthy order books and the still above-average intake of new orders ensured the full capacity utilization of the mills for long periods. In conjunction with successfully implemented price increases, the revenues of the division in fact even exceeded the budgeted figure. However, as it was not possible to fully compensate for the exorbitant price hikes of input materials, profit was once again excellent but lower than that of 2007. All the steel companies contributed to this very good result. The unparalleled buying reticence of customers at the end of the fourth quarter was, by contrast, not foreseeable. This development nonetheless had a limited impact on the course of business over the entire financial year 2008 and will only emerge in its full effect in 2009.

Unexpectedly sharp spot market price hikes for steel products buoyed the activities of the **Trading Division** in the first nine months of 2008. The leaps in selling prices seen at the start of the second and third quarters not only resulted in an improvement in external sales but also delivered a pre-tax profit which reached an unanticipated record high. At the end of the final quarter, the scaling back of inventories by end customers and the general unwillingness to buy caused by uncertainty reached critical dimensions. The ensuing abrupt slump in demand, coupled with inventory valuation measures necessitated by tumbling spot market prices, resulted in the Trading Division recording a negative quarterly result, an outcome which had not been anticipated even at the start of November. Even though it was impossible to foresee the turbulent development of business at the start of the year under review, the division still succeeded in generating an extremely satisfactory result over the period as a whole, which confirms the forecast set down in the 2007 Annual Report.

The **Tubes Division** forecasted dynamic developments in the relevant markets up until the second half of 2008. The well-filled order books guaranteed high capacity utilization in almost all mills over the past financial year. The compensation of cost increases, however, necessitated considerable efforts in view of the extensive order volume. Accordingly, achieving a repeat of the previous year's result, as early as the third quarter, was an ambitious goal. As the impact of the financial crisis on the companies of the Tubes Division was more moderate owing to the largely high level of orders in hand, the large-diameter and stainless steel tubes segment proved to be particularly robust. The precision tubes segment, however, suffered considerably from the effects of business cooling in the automotive sector. All in all, the Tubes Division delivered an outstanding result, boosted by selling prices and volumes, and even exceeded the forecasted excellent previous year's level. Declines in the profit of the remaining companies were compensated by the improvements achieved by the large-diameter and stainless steel tubes companies.

Thanks to demand developing well, the companies of the **Services Division** achieved their target revenues which ranged higher than 2007. Adjusted for the special effects included in the previous year's result, operating profit outperformed the previous year's figure, as anticipated.

At the start of the year the **Technology Division** expected the positive business trend to persist as – based on forecasts for market development and the taking effect of internal measures – the initial goal was to raise revenues and profitability. The unprecedented and unforeseeable severe impact of the global economic slowdown, however, exerted such pressure on the business activities of the Technology Division in the final months of the year that the originally envisaged revenues and profits targets were not achieved at the end of the year. The PET Group, newly integrated into the group of consolidated companies, generated gratifying and positive revenue and profit contributions in the financial year.

RELIABILITY

The Salzgitter AG plant fire brigade engaging in a high rescue drill.

RELIABILITY is the cornerstone for the success of our corporation, in matters both large and small. Only when people can rely on each other will they be able to work in a concentrated and unconstrained manner. And only then will they have the confidence to take courageous decisions and go down new avenues. Reliability is also reflected in the trust of our customers, partners and shareholders that we have earned – based on the high quality of our products and our competent, clear-cut communication and management style.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IV. Profitability, Financial Position and Net Assets

1. Profitability of the Group

In the financial year 2008, the Salzgitter Group benefited again from the global boom in steel and tubes which had begun in 2004, reached its zenith in 2007, and came to an unexpectedly abrupt end in the fourth quarter of 2008. The boom development in recent years was reflected in a multitude of financial ratios which showed unprecedented record figures and growth rates. It is unlikely that we will be able to repeat these results in the time ahead; indeed our expectations are directed more to achieving a more moderate level after the excessive turbulence in the markets has returned to calm waters.

Profitability

With external sales, which came in at € 12,499.2 million, the Salzgitter Group outperformed the previous year's figure of € 10,192.3 million by 23 %, thus setting a new record high in the financial year 2008. All divisions contributed to this growth.

The **Steel Division** raised its contribution to consolidated sales (share of 24 %) on the back of brisk sales and a better-than-expected selling price trend in the first nine months of the financial year. However, the rapid deterioration in business in the fourth quarter brought year-end growth to € 3,001.7 million, which is an increase of a mere 5 %. It should, however, be noted that the division delivered products worth € 1,141.7 million to other segments – to the Trading Division in particular.

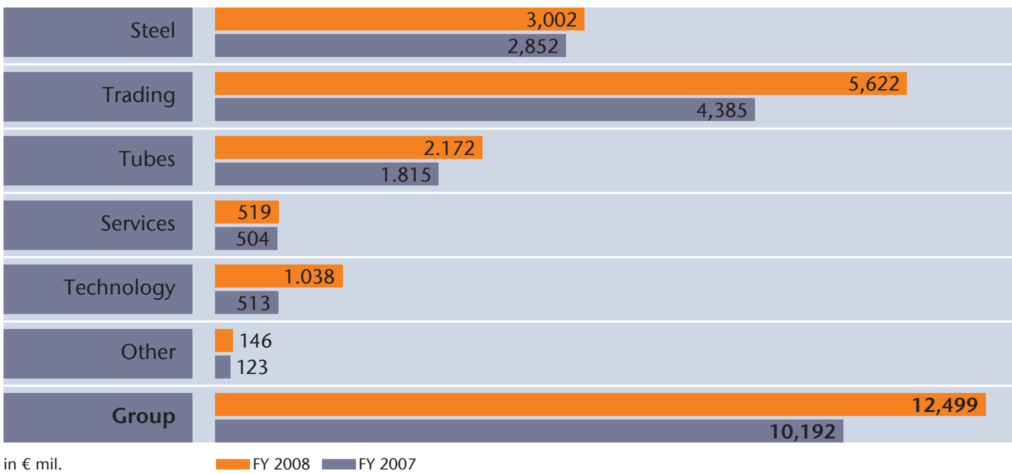
As in 2007, the **Trading Division** contributed the lion's share to the external sales of the Group (45 %) with € 5,621.7 million. Annual growth, which was mainly attributable to the sound development in shipment volumes and good selling prices, came to a remarkable 28 %.

The **Tubes Division** lifted sales revenues by a notable 20 % to € 2,172.5 million, which corresponds to an unchanged share of 17 %.

With a marginal improvement in external sales (€ 519.3 million, +3 %), the **Services Division** accounted for a share of 4 %, which is therefore virtually unchanged from the previous year.

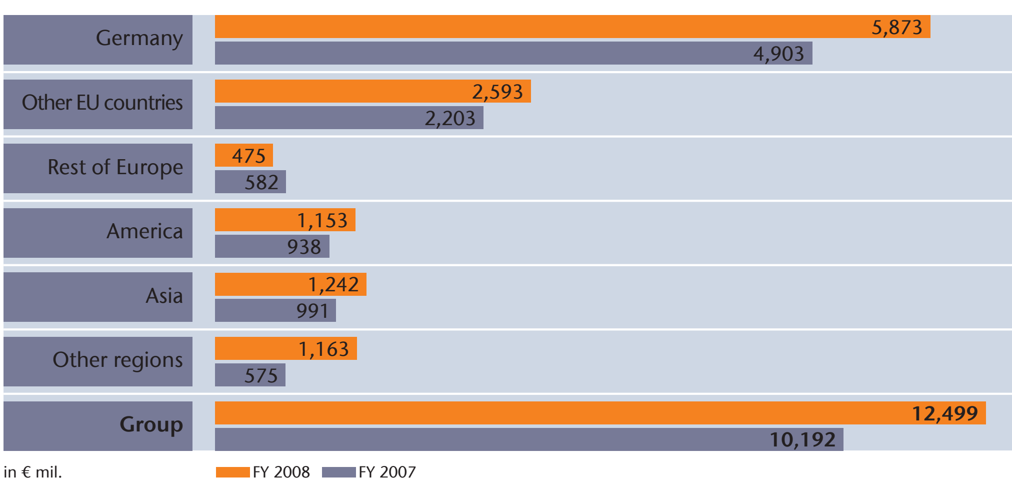
In the financial year, the **Technology Division** contributed € 1,037.9 million (share of 8 %) to the external sales of the Group. In comparing this result against the previous year, account must be taken of the fact that the first-time consolidation of the division was carried out at the start of the second half of 2007. External sales in the Others/Consolidation segment grew 18 % to € 146.0 million (1% share).

Consolidated Sales by Division



As before, the business activities of the Salzgitter Group were focused on the European Union (€ 8.5 billion; 68 % share of revenues). Germany remained the largest single market with revenues of € 5.9 billion. Foreign sales posted € 6.6 billion, which represents a slight increase (53 %) in the share of total sales.

Consolidated Sales by Region



The Salzgitter Group closed the financial year 2008 with earnings before tax (EBT) of € 1,003.4 million. In comparison with 2007 (EBT of € 1,313.9 million), it should be noted that, owing to the deterioration in the economic environment, accounting adjustment measures in the context of preparing the annual financial accounts were necessary as per the reporting date. If these measures are excluded, consolidated earnings before tax at the operational level are only marginally below the year-earlier figure.

Together by the favorable market conditions, the groupwide Profitability Improvement Program, which was relaunched in 2007, also contributed to the gratifying performance.

As a consequence of the significant downturn in the demand for rolled steel products during the fourth quarter, the **Steel Division**, which achieved a profit of € 545.6 million, was unable to repeat the outstanding 2007 result (€ 749.4 million) although almost all the division's companies had succeeded in compensating for the steep increase in the price of raw materials through selling prices by the end of the third quarter. Adjustments carried out to the valuation of inventories on the reporting date additionally burdened the result.

In the **Trading Division** as well, where pre-tax profit came to € 150.8 million, accounting measures in the context of drawing up the annual financial statements were the reason why the record profit set in the year 2007 (€ 212.5 million) was not attained, despite the generally very satisfactory course of business over the year. Taken at the operational level, however, the result was significantly higher than the previous-year's figure.

The companies of the **Tubes Division** benefited from the robust constitution of the global steel tubes market in 2008 as well. The considerable price increases in input materials were compensated through higher selling prices and process optimizations. In particular, the favorable development of the large-diameter tubes business resulted in a most gratifying pre-tax profit of € 311.8 million which was even slightly higher than the 2007 figure of € 302.5 million.

The pre-tax profit of the **Services Division** came to € 23.9 million, which is considerably lower than the previous year's figure (€ 40.4 million). The main reason for the decline was an internal debt waiver (€ 25.0 million) by the interim holding Salzgitter Mannesmann GmbH (SMG) in favor of Salzgitter Automotive GmbH & Co. (SZAE), offset by € 3.6 million in impairments at SZAE. Net of this special effect, the operating profit of the division came to € 19.0 million in 2007. The positive divergence (€ +4.9 million), adjusted for the aforementioned effects, is mainly attributable to the improved results of SZAE and SZST Salzgitter Service und Technik GmbH (SZST).

Due to the decline in new orders and revenues, the **Technology Division** was unable to repeat the upbeat performance of 2007. The first-time inclusion of the PET Group made a pleasing and positive contribution. Including the effects of the obligatory purchase price allocation under IFRS, pre-tax profit posted € 3.8 million (2007: € 4.0 million).

Results by Division and Consolidated Net Income for the Year

in € mil.	FY 2008	FY 2007
Steel	545.6	749.4
Trading	150.8	212.5
Tubes	311.8	302.5
Services	23.9	40.4
Technology	3.8	4.0
Other/Consolidation	–32.5	5.1
Earnings before tax	**1,003.4**	**1,313.9**
Tax	326.5	408.8
Consolidated net income[1)]	**676.9**	**905.1**

[1)] Including minority interests

Development of Substantive Income Statement Items

Explanations on the consolidated income statement, disclosed in detail in the section "Consolidated Financial Statements/Notes" on page 164, are as follows:

The decrease 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. The development of other operating income is the result of the full-year consolidation of the Technology Division and the outcome of the valuation of derivatives. The rise in material expenses this year reflects the quite considerable price hikes of raw materials and energy as well as changes in the group of consolidated companies. The latter is also applicable to the increases in personnel-related and other operating expenses.

After deduction of income taxes, consolidated net income for the year comes to € 676.9 million (2007: € 905 million).

Multi-year Overview of Earnings

	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
EBT	1,003,4	1,313.9	1,854.8	940.9	322.8	42.5	72.5	160.3
EBIT I[1)]	1,072.1	1,350.7	1,900.5	970.0	345.6	60.8	92.6	178.8
EBIT II[2)]	1,162.9	1,428.4	1,971.2	1,048.4	427.1	146.5	181.6	271.8
EBITDA I[1)]	1,362.3	1,581.4	2,101.8	1,186.1	666.6	309.5	314.5	389.2
EBITDA II[2)]	1,453.2	1,659.1	2,172.5	1,264.5	748.1	395.3	403.5	482.2
EBT margin	8.0	12.9	22.0	13.2	5.4	0.9	1.5	3.5
EBIT margin I[1)]	8.6	13.3	22.5	13.6	5.8	1.3	2.0	3.9
EBIT margin II[2)]	9.3	14.0	23.3	14.7	7.2	3.0	3.8	5.9
EBITDA margin I[1)]	10.9	15.5	24.9	16.6	11.2	6.4	6.6	8.5
EBITDA margin II[2)]	11.6	16.3	25.7	17.7	12.6	8.2	8.5	10.5
ROCE %	21.9	28.0	47.8	38.9	24.4	4.6	7.3	13.6
ROCE % from industrial operations[3)]	26.9	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 operational value added of the Group posted € 2,633 million and was thus € 31 million (–1.2 %) lower than in the previous year. A large part, specifically 59.4 % (2007: 49.2 %) of the use of value added is attributable to the employees. The tax portion fell to 12.4 % (2007: 15.3 %). The shareholders (including treasury shares) will receive 3.2% of value added in the form of dividend for this financial year (2007: 7.1 %). The portion of 2.5 % accounted for by lenders was marginally higher in comparison with the previous year (1.3 %). Another 22.5 % (2007: 27.1 %) are also attributable to the shareholders; this portion will serve to strengthen the equity base and raise the value of the Group.

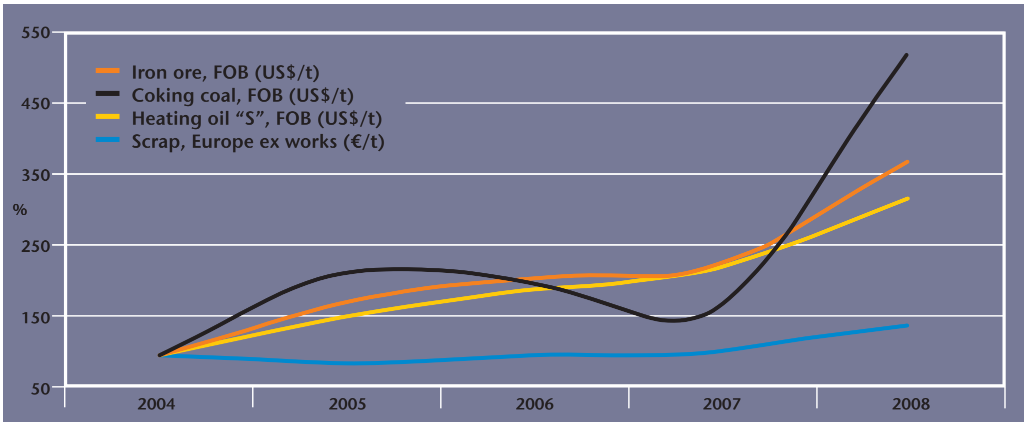
Value Added

in € mil.	31/12/2008	%	31/12/2007	%
Sources				
Group outputs	13,092	100.0	10,810	100.0
Inputs	10,459	79.9	8,146	75.4
Value added	**2,633**	**20.1**	**2,664**	**24.6**
Allocation				
Employees	1,563	59.4	1,310	49.2
Public authorities	327	12.4	408	15.3
Shareholders (dividend)	84	3.2	190	7.1
Lenders	66	2.5	35	1.3
Group	593	22.5	721	27.1
Value added	**2,633**	**100.0**	**2,664**	**100.0**

2.1 Procurement

The year 2008 was one of decidedly contrary market scenarios. The first half of the year, for instance, was dominated by a healthy global economy with a considerable surplus in demand for many raw materials, which drove prices in numerous markets to historically high levels. The second half of the year saw the impact of the economic slowdown on the cyclically sensitive steel industry and its procurement markets. The decline in the global production of crude steel, which had started mid-year, was responsible for the huge downturn in demand for the key input materials of iron ore and coking coal. Given the lackluster selling prospects, the price of raw materials is expected to fall in 2009. Against this backdrop, producers of raw materials with overseas trading operations have shelved their expansion projects for the time being.

Price Trend of Selected Raw Materials and Sources of Energy



High mark-ups on iron ore contracts

Pricing is primarily conducted in this field by way of direct contractual negotiations which take place once a year between iron ore producers and the world's leading steel manufacturers. Backed by booming economic activity in the steel industry seen at the start of the year, the large mining companies were able to implement significant price increases for 2008: Vale, BHP Billiton and Rio Tinto, all suppliers operating in the global arena, raised the price of ore dust by 65–80 %. The slowdown in the steel economy in the second half of 2008 exerted great pressure on pricing. Following a phase when prices rose persistently over a number of years, there were the first significant corrections in the spot market. The effect of the pace and the extent of the downturn in the steel industry were passed on virtually unreservedly to iron ore producers and are therefore likely to have an immediate impact on the round of contract negotiations for the supply year 2009 which started in January.

The shortfall in coking coal results in exorbitant price increases

Owing to the lack of parameters on qualities eligible for stock exchange trading, the price of coking coal is generally negotiated between producer and customer in a traditional fashion. The contractual prices agreed for the Japanese financial year between Australian suppliers and the Japanese steel industry serve as a benchmark. Along with strong demand, production shortfalls in the wake of flooding in Queensland, Australia's most important mining area, sent prices upwards for the contract period of April 2008 to March 2009. Due to the shortfall in supply, BHP Billiton, the world's largest producer accounting for around 30 % of overseas trading, was able, for instance, to implement price increases of 200 % on around US$ 300 per ton on an FOB basis. With economic activity weakening in the steel industry, the need for coking coal had fallen discernibly at the turn of the year 2008/2009, which should provide potential for considerable price reductions.

Sea freight rates exceptionally volatile

There is probably no market that was more volatile over the course of 2008 than the international sea freight market for dry bulk goods. After a modest start at the beginning of the year, with a freight rates that were slightly lower than in the previous year, the market saw a steep uptrend within a couple of weeks and reached new historically high levels in the months of May and June. Not long after, the rapidly cooling economy was also reflected in a swift onset of a decline in rates. Along with the aforementioned factors – i.e. a global slowdown in steel production and the associated slackening demand for raw materials – one of the main reasons for the sharp decline was said to be the withdrawal of speculative funds from the freight futures market. Towards the end of the year, many lanes had reached price levels last seen in 2003.

Disparate development in metals and ferro-alloys

Over the course of the year, the development of numerous metals and ferro-alloys in the various markets was extremely disparate. Materials listed on the stock exchange, such as zinc, nickel and copper in particular, were engulfed by the downtrend in the financial markets and suffered considerable declines in quotations.

Bulk alloys at base level again by year-end

By the first half of the year the market for mass alloys (sources of manganese and silicon) had already come under considerable pressure. Energy supply problems in South Africa, coupled with robust global demand for manganese ore and production cuts by China – induced by more stringent environmental protection obligations – drove prices up by around 70 % during the first half-year of 2008. In the second half of the year, quotations tumbled and by December had reached a level which virtually corresponded to that observed at the start of the year.

Erratic prices for liquid reducing agents

The prices for liquid reducing agents (heavy heating oil and substitute reduction agents) used in the blast furnaces climbed by around 51 % over 2007. This development was attributable to the soaring price of crude oil which persisted until mid-year 2008 and the resulting drastic increases in heating oil prices. In the second half of the year the market underwent a trend reversal, and heating oil quotations fell notably week by week, which was triggered by lower demand and the ceasing of speculation activities on raw materials. Salzgitter Flachstahl GmbH (SZFG) used a total 305 ktons of liquid reduction agents. The share in substitute reduction agents remained unchanged at 60 %, allowing savings in the double-digit range to be achieved.

Scrap subject to extreme volatility

The first six months of the financial year were hallmarked by an extremely brisk demand for steel scrap with prices surging by up to 500 €/t. Impacted by the dramatic developments of the economic crisis, the price of steel scrap plummeted within a short space of time to substantially below the level of the previous year, partly to below 100 €/t.

The procurement volume in 2008 came to 398 ktons (Salzgitter works) and 1,074 ktons (Peine works). As against 2007, price increases of 35 % (Salzgitter) and 32 % (Peine) had to be absorbed. The price for the base year 2009 is expected to be around the level of 2007.

Increase in the price of electricity

Ensuring the supply of electricity within the Group is accomplished in a number of ways that are determined by the criteria of ensuring full coverage of supply, structured procurement and the Group's own generation of electricity. The average price of electricity (energy plus charges imposed by the German Renewal Energy Act [EEG] and the Combined Heat and Energy Act [KWKG] and grid utilization) rose by 17.5 % as against the 2007 annual average, with the development in the individual components of the electricity price varying greatly: The pure price of energy climbed by 22.4 % and the actual burden of EEG charges fell by 21.3 %, despite new plants having been built. Whereas charges under the German Combined Heat and Energy Act remained unchanged, grid usage was raised by 3.0 %. In comparison to 2008, electricity prices will probably increase in the low double-digit percent range in 2009.

Renewed hike in the price of natural gas

The average price of natural gas needed for the Salzgitter and Peine works advanced 29.3 % as against 2007.

The price of natural gas is linked to heating oil by way of a sliding scale clause which reflects changes with a time lag of half a year. Due to this time lag the high oil prices of summer 2008 will have an impact through to 2009, and gas prices can therefore be expected to fall in the first half of 2009.

Procurement of Materials

Operating supplies at a higher level

Based on the year 2007, the average price level of operating supplies and spare parts rose again in 2008. The price hikes were triggered by increases in the cost of input materials and strong demand. There were even shortfalls in availability as a result of the production capacities of suppliers which were running at an extremely high level. Against the backdrop of the current developments in the economic environment, a considerable easing of the markets is anticipated in the first half-year of 2009.

Input materials – price of slabs on the rise

Not all the companies of the Salzgitter Group have their own metallurgy operations, which means that they are dependent on sourcing steel externally. Moreover, the production of crude steel has been structured in such a way that the volume of steel needed by the rolling mills – when capacities are running high – is greater than what can be produced by metallurgic suppliers. This is a measure intentionally taken to minimize the risk of production downtime in metallurgy when the capacity of sub-segments of rolled steel production is not fully utilized. The Technology Division also buys in the cast parts and stainless steel needed for its products.

In the first half of 2008 the market price of slabs rose sharply. From July onwards, there were shorter delivery times for standard qualities owing to the lower levels of capacity utilization of producers. In addition, as from September, there was a sharp decline in prices for standard products while the market for higher-priced grades firmed up. SZFG purchased 244 ktons of slabs and Ilsenburger Grobblech GmbH (ILG) around 16 ktons from external producers in the financial year 2008.

In 2008, Peiner Träger GmbH (PTG) purchased around 172 ktons of input materials, 102 ktons of which were slabs and 70 ktons blooms and beam blanks. During the same period, HSP Hoesch Spundwand und Profil GmbH (HSP) sourced 317 ktons of roughed slabs. The average price which HSP had to pay for slabs rose by around 29 % in comparison with the previous year.

Hüttenwerke Krupp Mannesmann GmbH (HKM), a company based in Duisburg, continues to operate as the principal supplier of input materials to the companies of the Tubes Division. In 2008, it delivered 698 ktons of slabs for the manufacturing of plate and hot-rolled strip for the production of welded tubes. Furthermore, with business boosted by the healthy economic environment which held steady until the third quarter of 2008, an additional 485 ktons of slabs were procured from external suppliers. The price of slabs and hot-rolled strip sourced externally was around 16 % higher in average than the cost of materials produced within the Group.

As part of the Round Supply Agreement with VALLOUREC & MANNESMANN TUBES S.A. (V&M), HKM delivered 157 ktons of tube rounds to V&M, a company which in turn supplies hollows to the precision tubes group consisting of Salzgitter Mannesmann Precision GmbH (SMP) and Salzgitter Mannesmann Seamless Tubes B.V., both companies that manufacture seamless precision tubes. Another 92 ktons of hollows were procured for Salzgitter Mannesmann Rohr Sachsen GmbH (MRS) for their own needs and 48 ktons from V&M for the production of V&M products at MRS.

Input materials prices invoiced ex HKM to companies within the Tubes Division appreciated about 25 % based on the basic grade.

The procurement situation of the Technology Division was particularly affected by the development of stainless steel prices. Whereas there were drastic price hikes in the stainless and black steel markets at the start of 2008, prices slipped again over the course of the year and stabilized at the level recorded in the third quarter of 2007. Due to slackening demand, the price of stainless steel plates has currently settled at the February 2004 price level. Contrary to earlier forecasts, there were also considerable cuts in the price of black steel.

Since the start of 2008, precision casting components have been sourced from the Far East with positive results. In November 2008, receipt was taken of the first sample delivery of parts made in China to KHS specifications and approved by Quality Assurance. The volume procured from China is expected to increase considerably in the financial year 2009.

2.2 Sales Structures

The companies of the Salzgitter Group maintain a wide variety of different supply relationships with their customers in Germany and abroad. These relationships are characterized by their strong orientation towards the individual businesses and needs of the respective customers. The various forms are differentiated as follows:

Multi-year, year and half-year contracts

Salzgitter Flachstahl GmbH (SZFG) delivers the major share of its turnover through multi-year, year or half-year contracts in which selling prices are fixed by way of negotiations at regular intervals. Framework agreements apply to delivery volumes but do not, however, contain purchase obligations for the customer. Customer groups typical for this type of supply relationship are the automotive industry and its suppliers, specialized manufacturers of cold-rolled strip and steel service centers. Ilsenburger Grobblech GmbH (ILG) delivers less than half its production through long-term contracts to dockyards, manufacturers of wind energy towers and plant engineering companies. At Peiner Träger GmbH (PTG) only a very small volume is sold in this way. With regard to tubes activities, the majority of the deliveries of the precision tube companies are committed to the automotive industry and its suppliers by way of the long-term agreements.

Quarter-year contracts

The major part of the delivery volume of the Steel Division is sold to customers by way of quarter-year contracts. The base prices and grade-related markups and dimensions are generally announced quarterly by the respective rolled steel manufacturers, negotiated with the customers and then implemented through the relevant order bookings. Typical customer groups are steel traders and service centers. The Salzgitter Group produces finished materials almost only on the basis of contracts. The share of quarterly contracts in the overall deliveries of the Steel Division has remained largely stable in recent years.

Spot market transactions

A spot market is a market where business is effected directly for an agreed transaction consisting of delivery, acceptance and payment. The Trading Division transacts a large part of its shipments through such short-term supply agreements, whereby this type of relationship with key customers in Germany and abroad may well be long-standing and fostered over many years. Typical customer sectors are medium and small steel traders which operate independently, steel construction companies, as well as machine and plant building companies.

Project deliveries

The Tubes Division supplies its customers mainly via project contracts. Alongside international pipeline projects, deliveries are also taken under contract in this form for newly constructed power plants and chemical plants. The same applies to products of the Steel Division – first and foremost with sheet piling – and trapezoidal profiles utilized in major civil engineering undertakings. Salzgitter trading acquires and supplies international projects in the role of an intermediary between the steel and tubes manufacturers of the Group, or producers external to the Group, and the end customers. Sales volumes and prices are generally negotiated and fixed for the entire term of the respective project. The products of the Technology Division are manufactured solely upon request by clients and are customized accordingly, or produced in small batch series, which also comes under project deliveries.

As a matter of principle, the Salzgitter Group does not disclose contractual details such as prices, other conditions and terms (duration). Officially released spot market price information can be used for orientation purposes with many steel and tubes products, but are only valid for purely standard products that comprise only a very small part of our delivery program.

Drawing on its very well-balanced and diversified mix of customer relationships, the Salzgitter Group can, on the one hand, exploit advantages in the market at short notice and, on the other, is in a better position to predict outcomes more accurately in a number of areas owing to greater transparency with regard to the scope of orders. The customers belong to a wide variety of sectors where economic cycles do not move in parallel or even partly run counter to one another. Viewed from an overall standpoint, the sales structures of the Salzgitter Group described above therefore constitute a significant basis for the profitability and stability of the Group.

As the management holding company, Salzgitter AG (SZAG) coordinates the five divisions Steel, Trading, Tubes, Services and Technology. In the following, the business performance of these divisions in the financial year 2008 are outlined on the basis of the annual reports of the individual companies drawn up pursuant to the International Financial Reporting Standards (IFRS).

Other/Consolidation is not a segment within the meaning of IFRS. The derivation of the sum total of segment assets and liabilities to form the consolidated balance sheet total of the Group and the derivation of the sum total of segment revenues and results to form the consolidated revenues and the earnings before tax of the Group are shown in the section "Consolidated Financial Statements/Notes" on page 164.

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

Steel Division		**FY 2008**	**FY 2007**
Order intake	**kt**	**4,928**	**5,259**
Order book	**kt**	**512**	**983**
Shipments	**kt**	**5,398**	**5,545**
SZFG[1)]	kt	2,984	3,037
PTG	kt	1,212	1,315
ILG	kt	831	806[2)]
HSP	kt	268	282[2)]
SZEP	kt	53	59
SZBE	kt	52	49
Consolidation	kt	–2	–3
Division sales[3)]	**€ mil.**	**4,281.0**	**3,967.4**
SZFG	€ mil.	2,764.3	2,534.3
PTG	€ mil.	948.4	887.4
ILG	€ mil.	893.5	801.0
HSP	€ mil.	243.0	211.3
SZEP	€ mil.	55.2	54.7
SZBE	€ mil.	68.9	62.3
Consolidation	€ mil.	–692.2	–583.6
Internal sales	**€ mil.**	**1,279.3**	**1,115.5**
External sales[4)]	**€ mil.**	**3,001.7**	**2,852.0**
Division earnings before tax (EBT)	**€ mil.**	**545.6**	**749.4**
SZS	€ mil.	–3.5	–0.2
SZFG	€ mil.	200.2	283.7
PTG	€ mil.	115.8	219.0
ILG	€ mil.	207.8	227.5
HSP	€ mil.	14.7	9.8
SZEP	€ mil.	4.5	6.6
SZBE	€ mil.	5.1	3.0
Other/Consolidation	€ mil.	1.1	–
EBIT[5)]	**€ mil.**	**579.3**	**768.4**
EBITDA[6)]	**€ mil.**	**733.4**	**915.0**
Investments[7)]	**€ mil.**	**454**	**246**

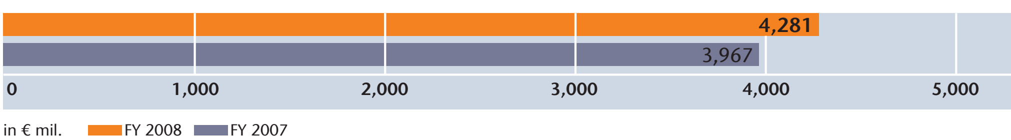
1) SZFG excluding inter-company deliveries in the Steel Division
2) Disclosure changed as against previous year (incl. intra-division [Steel] deliveries)
3) Including sales with other divisions in the Group
4) Contribution to consolidated external sales
5) Earnings before tax and including interest paid (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 assets)
7) Excluding financial assets

Steel Division

The Steel Division has six production sites which are largely equipped with cutting-edge, high-performance plant and equipment technology. The product range comprises steel strip products, plate, beams, sheet piling and other processed steel products for the automotive and construction industries. More information can be found in the section “Group Structure and Operations” on page 28. The companies assigned to the Steel Division are listed under “Material Participations” in the Notes on page 176.

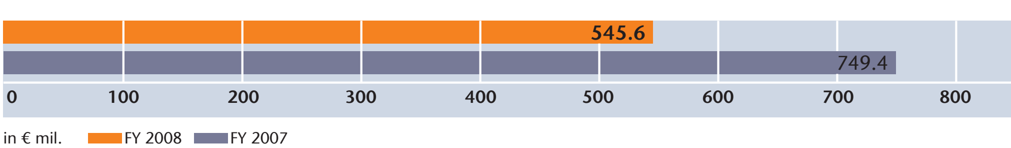
The performance of the Steel Division during the financial year varied greatly. During the tail end of the steel boom in the first three quarters, the steel companies delivered record revenues and most gratifying results. They were therefore well positioned to go into the final months of the year which were hallmarked by customers holding back on orders or even placing none at all.

Steel Division Sales



Overall the Steel Division performed extremely well in 2008, despite the weak last quarter and adjustments to inventory valuations at year end (€ 90 million). It delivered **segment revenues** of € 4,281.0 million, **external sales** of € 3,001.7 million and a **pre-tax profit** of € 545.6 million. The growth achieved in revenues was mainly attributable to increases in selling prices which were implemented against the background of the exorbitant price hikes in raw materials, freight and energy. The **shipment tonnage** of rolled steel (5,150 ktons) and processed products (247 ktons) was slightly lower than the previous year’s figure.

Steel Division EBT



Order intake rose initially until the end of the third quarter but was unable to maintain its growth rates through to the end of the year; in comparison with 2007, it declined by as much as 6%.

As per December 31, 2008, the **order book** had contracted by 48% and was therefore no longer sufficient to guarantee a comfortable level of capacity utilization. Salzgitter Flachstahl GmbH (SZFG), Peiner Träger GmbH (PTG) and HSP Hoesch Spundwand und Profil GmbH (HSP) that were, comparatively speaking, the companies hardest hit by the weak economic environment, had therefore initiated negotiations before the turn of the year with workforce representatives and the German labor exchange in respect of reduced work in the first quarter of 2009 and had specified the details of these negotiations by the start of the new year.

The steel mills in Salzgitter and Peine produced 5,340 ktons of **crude steel** in the financial year 2008. Groupwide a total of 6,901 ktons were smelted, a figure which also takes account of the pro-rata production of the Hüttenwerke Krupp Mannesmann (HKM) joint venture. HKM is assigned to the Tubes Division, which is why the figures on the Group and the Steel Division do not tally.

The manufacturing of **rolled steel** and processed products declined by 4 % to 5,340 ktons.

Steel Division Production

in kt	FY 2008	FY 2007
Pig iron	3,985	4,220
Crude steel	5,340	5,663
Hot-rolled steel and steel strip	1,400	1,484
Cold-rolled steel	307	266
Coated steel	1,117	1,136
Sections	1,175	1,297
Sheet piling	272	304
Plates, including wide strip	963	954
Elements for roofing and cladding	51	49
Stamped and tailored blanks	51	59

The rolled steel production (4,319 ktons) of **Salzgitter Flachstahl GmbH** (SZFG) fell short of the previous year's volume due to the relining of Blast Furnace C in the first half of the year and the scaling back of **crude steel production** in response to slackening demand and the ensuing decline in the need for crude steel. By the end of the year, blast furnace operations in all three plants were reduced to minimum running production. The rolling mills were running at full capacity until the fall, which is the reason why the **production of rolled steel** in the first three quarters exceeded the level of 2007. The dramatic deterioration in the situation in the important customer markets of SZFG during the final months of the year necessitated production cuts of more than 20 % in the fourth quarter, which pushed the total output of rolled steel down to 3,077 ktons. The **shipment** of steel strip products (2,984 ktons) was also lower than 2007 tonnage for the same reason. In addition, as in the previous year, around 1,200 ktons of semi-finished products and rolled steel were supplied to the associated companies.

Up until the end of the third quarter **order intake** was higher in a year-on-year comparison, although, already by the start of the second half-year, momentum was discernibly slowing. With the spreading of the financial crisis to the goods sector, order intake collapsed as from October. In the financial year 2008, a total of 4,000 ktons were recorded. At the end of the year **orders in hand** contracted to below 305 ktons.

Whereas revenue climbed to new record highs during the first three quarters of the year, with the shipment volumes at a very satisfactory level, particularly due to the substantial increases in selling prices, the deterioration in the economic environment in the final quarter of the year was reflected in the downtrend in figures. Nonetheless, the favorable development of selling prices that held steady until October lifted SZFG's **segment revenue** by 9% to € 2,764.3 million for the year as a whole. In the face of the challenges described above, SZFG generated a still gratifying **pre-tax profit** of € 200.2 million, which was, however, notably below that of the record year of 2007.

After a modest start to the year 2008, the performance of **Ilsenburger Grobblech GmbH** (ILG) proved to be largely unaffected by the economic slowdown. As from February, the excellent order books of customer sectors and the decline in imports from China resulted in a marked recovery. Demand ran high, especially in respect of higher quality grades, and considerably exceeded supply, which resulted in record prices at mid-year. ILG therefore booked new orders in the first months of 2008 which were considerably higher in terms of volume and selling prices in comparison with the previous year's figures. Passing on the massive price increases for raw materials and energy directly to the market during the first half-year also did not have the effect of slowing new orders placed. Quite the contrary: Traders and consumers continued to stockpile with the result that trading reported record volumes of inventories in July. From September onwards, there was a notable cooling in the heavy plate market. Sectors associated with construction and the project business were especially affected. Given the more stringent conditions for the granting of loans and falling returns on projects in energy and raw materials, the crisis spread to envelop more sectors. What followed was a slew of order cancellations and delays that, coupled with a renewed uptrend in imports and a substantial scaling back of inventories by steel trading, led to a considerably larger supply volume.

Despite the low level of new orders in the fourth quarter, ILG booked a total of 792 ktons of plate orders in 2008. Extremely high shipment volumes (832 ktons) lowered the level of **orders in hand** to 151 ktons. In terms of value, **order intake** rose considerably, boosted by the higher price level. The **production of rolled steel** achieved a most gratifying 816 ktons, buoyed by a generally advantageous order structure and the stable availability of plant capacities. The record volume of the previous year (822 ktons) was not quite achieved owing to brought forward and extended downtimes of the rolling mill at the end of the year. In terms of margin-oriented capacity utilization of production facilities, the oxygen cutting and heat treatment machinery always ran almost at maximum capacity and were therefore not affected by production cuts at year-end. The share of processed plate increased markedly in the wind power industry and project business. Another improvement in selling prices lifted revenue to a new **record high** of € 893.5 million which was considerably higher than the year-earlier figure. As input material costs rose again, driven by sharp increases in the price of raw materials, the exceptionally high 2007 profit of ILG (€ 227.5 million) was not quite achieved, but a **pre-tax profit** of € 207.8 million is nonetheless second best in the history of the company.

Whereas, in the first half of the year, European steel mills were unable to fully keep abreast of brisk demand for **section products**, order activity slackened discernibly from June onwards. Increased supply from Southern Europe resulted in inventories rising – mainly in the case of smaller steel traders. August saw a sharp decline in scrap prices which had a direct impact on the selling prices of sections and caused traders to hold back on orders. Despite still good levels of capacity utilization, consumers were also increasingly hesitant to place orders so as to be able to deplete stockpiled inventories procured at the high prices. **Peiner Träger GmbH** (PTG) was initially only little affected as customers took delivery of the contractual volumes in medium and heavy sections, as agreed. Up until the fall, orders to be processed ensured that capacity utilization remained at a consistently good level. The rapid decline in scrap prices and the ensuing pressure to pare down inventories exacerbated the order and capacity utilization situation: In November and December PTG had orders covering only a third of its capacity. All in all, **order intake** in the financial year came to 1,066 ktons, which is 12% down on 2007; **orders in hand** had fallen to 92 ktons by the end of the year.

The reduction of inventories exerted considerable pressure on manufacturing prices at the end of the year. PTG took measures to counteract this severe trend in the market by cutting production in the fourth quarter and already shutting down both rolling mills in mid-December. Owing first and foremost to these cuts, annual production, which posted 1,188 ktons, fell below the previous year's figure by 118 ktons. As PTG had on a number of occasions shelved extensive maintenance work on the steel mill because of strong demand in the previous years, this work was carried out in December. As a result, the annual **production of crude steel** fell by 80 ktons.

Curtailing the production volume also resulted in a lower volume of **shipments** which stood at 1,212 ktons. Thanks to the price increases implemented and the adjusting of the scrap surcharge to accommodate the exorbitant scrap price level, however, **revenues** advanced 7% to € 948.4 million. Seen as an annual average, PTG did not entirely succeed in passing on the full scope of the increases in input materials and energy to the market. Nevertheless, € 115.8 million is still the second best **result** in the history of PTG.

Up until the third quarter, the shipments of **HSP Hoesch Spundwand und Profil GmbH** (HSP) were higher year on year and, together with price increases realized up until that point, boosted revenues substantially. The fourth quarter saw a sharp decline in shipments owing to the uncertainty as to the financing of projects planned and because the return on certain sheet piling projects had been called into question in the wake of the generally ailing economy. The market was fundamentally pervaded by huge insecurity in respect of prices, which then caused the inflow of orders to run dry in the fourth quarter. In 2008, **new orders** recorded by HSP came to a moderate 227 ktons, and **orders in hand** had fallen to 20 ktons by the end of the year. HSP also responded to the difficult situation with extended production downtime over the Christmas period. Accordingly, the **shipments** (268 ktons) of sheet piling, mine arches and ship building sections were below the level of 2007. HSP's initial measures to counteract the financial consequences of capacity underutilization included the reduction of time-in-lieu and adding extra hours worked to flexi-time accounts. At the same time, plans for reduced work in the first quarter of 2009 moved ahead. Thanks to implementation of the selling price increases, **revenues** of € 243.0 million exceeded the previous year's figure by 15%. **Pre-tax profit** climbed by 33% to € 14.7 million.

Whereas, up until August 2008, the domestic market for cars, an important market for **Salzgitter Europlatinen GmbH** (SZEP), grew by 2%, it virtually collapsed by the final months of the year. In November, therefore, the number of new vehicles registered was down 18% on the previous month, and there was no improvement on this in December. The crisis finally encompassed all important global markets, which also caused export activities to contract. With the volume of **shipments** and **revenues** (€ 55.2 million) more or less stable, the **pre-tax result** was marginally lower (€ 4.5 million).

During the first three quarters, industrial and commercial construction enjoyed robust demand which enabled **Salzgitter Bauelemente GmbH** (SZBE) to expand its business activities in comparison with the previous year. **Shipments** of trapezoidal and cassette profiles and sandwich elements rose marginally, and **revenues** recorded a sharp increase. The **pre-tax result** to € 5.1 million improved in the wake of excellent selling price levels.

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

Trading Division		FY 2008	FY 2007
Shipments	**kt**	**6,791**	**6,406**[1]
SMHD Group	kt	6,257	5,864[1]
UES	kt	258	256
HLG	kt	297	301
Consolidation	kt	–22	–15
Division sales[2]	**€ mil.**	**6,302.0**	**4,857.6**
SMHD Group	€ mil.	5,745.9	4,333.9[1]
UES	€ mil.	365.8	343.9
HLG (inkl. Flachform)	€ mil.	211.2	192.8
Consolidation	€ mil.	–20.9	–13.2
Internal sales	**€ mil.**	**680.2**	**472.8**
External sales[3]	**€ mil.**	**5,621.7**	**4,384.8**
Division earnings before tax (EBT)	**€ mil.**	**150.8**	**212.5**
SMHD Group	€ mil.	140.9	171.1
UES	€ mil.	15.0	40.1
HLG (incl. Flachform)	€ mil.	–5.1	–0.8
Others/Consolidation	€ mil.	–	2.1
EBIT[4]	**€ mil.**	**180.8**	**239.8**
EBITDA[5]	**€ mil.**	**192.1**	**250.4**
Inventories	€ mil.	663	586

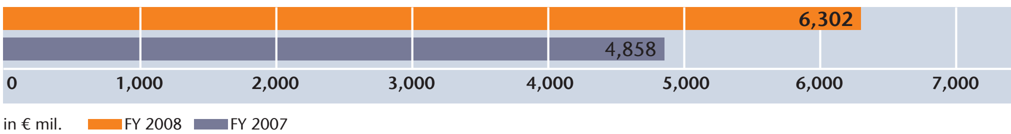
1) Disclosure changed as against previous year (including deliveries within the Trading Division and SMHD Group)
2) Including sales with other divisions in the Group
3) Contribution to consolidated external sales
4) Earnings before tax and including interest paid (but excluding the interest portion from transfers to pension provisions and excluding interest paid within the segment)
5) EBIT plus depreciation/amortization (also on financial investments)

Trading Division

Alongside a well-developed organization of stock holding steel trading subsidiaries in Europe, the Trading Division comprises two steel service center companies, one specialized in flat steel products and one in heavy plates, and operates a globalized international trading network. Along with rolled steel and tubes products of the subsidiaries of the Salzgitter Group, it also sells products of other manufacturers in Germany and abroad and procures semi-finished products for the Group and external customers on the international markets. More information can be found in the section on “Group Structure and Operations” on page 28. The consolidated individual companies are listed under “Material Participations” in the Notes on page 176.

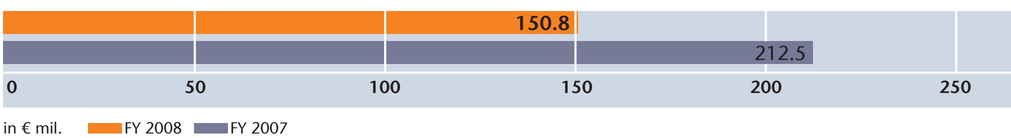
Despite the onset of the deterioration in the general economic conditions in the fall of 2008, the Trading Division delivered most satisfactory results. For instance, with a moderate increase in shipments, the excellent level of selling prices boosted **segment revenues** significantly over the entire financial year. **External sales** stood at € 5,621.7 million, which is 28 % up on the previous year’s figure.

Trading Division Sales



The recent downturn in demand, coupled with the inventory valuation measures carried out to take account of tumbling spot market prices at year-end, caused the **pre-tax profit** disclosed of € 150.8 million to fall short of the 2007 figure.

Trading Division EBT



The stock holding steel trading of the Salzgitter Mannesmann Handel Gruppe benefited from rising prices and the still stable economic environment in Europe during the first half of the year. The mechanical engineering and construction industries remained the most important customer groups. Along with Düsseldorf-based **Salzgitter Mannesmann Stahlhandel GmbH** (SMSD), the largest stock holding company, our Dutch companies in particular recorded an increase in revenues and a slightly higher volume of shipments, as regional steel construction was experiencing gratifyingly high rates of capacity utilization. The Polish company, **Salzgitter Mannesmann Stahlhandel sp.z.o.o.** (SMPL), Slupca, Poland, included for the first time at the start of the year, made an additional positive contribution to lifting shipments and revenues. Right through until late summer excellent gross earnings resulted in renewed increases in profits in comparison with the previous year's figures that were already way above average. In the fall, however, there was a trend reversal: A sharp downtrend in selling prices in the second half of the year and a significantly poorer business outlook caused German steel stock holding traders in particular to carry out valuation adjustments to their inventories, which drove the pre-tax result down to below the 2007 results. Only the Dutch stock holding trading succeeded in outperforming its year-earlier result.

Although there were a number of challenges to be met, the **international trading operations of Salzgitter Handel Group** achieved growth in shipments and revenues. This growth resulted primarily from high-volume projects for the oil and gas industries in the Middle East, Africa and North America. We were able to compensate for delays in the delivery of materials for major international projects owing to lack of shipping space capacities during the first quarter and time lags in the Group-internal supply of slabs in later months. The downturn in the shipments of the North American subsidiaries – caused inter alia by the discontinuation of a high-volume slab transaction at **Salzgitter Mannesmann International (USA) Inc.** (SMIH), Houston – was more than offset by the higher level of shipments of **Salzgitter Mannesmann International GmbH** (SMID), Düsseldorf, as the largest trading company.

Thanks to better selling prices and an excellent level of gross earnings, revenues and the pre-tax results of the international trading companies were way above the previous year's figures.

In order to participate in the growing demand for steel in India, SMID, a company with international trading operations, founded the trading company **Salzgitter Mannesmann Pentasteel International Pvt. Ltd., Mumbai, India** (SMII) together with an Indian partner. SMID holds 51% of the company.

Whereas, during the first half of 2008, **Universal Eisen und Stahl GmbH** (UES) was still enjoying brisk global demand for heavy plate, customer requirements steadily declined as from late summer. At the same time, imports from non-EU companies climbed again and have subsequently been exerting massive pressure on selling prices in Germany since the start of October. This has caused customers to hold back their orders in anticipation of lower prices, which had an additional negative effect on existing market conditions. However, the extension of the Hanover-based firing operations, concluded in the spring of 2008, contributed to a year-on-year increase in the shipment tonnage of UES. Revenues expanded marginally on the back of changes to the product mix and a general price increase in the plate market. At the end of the year, UES responded to a significant drop in the selling price level and dampened business prospects by adjusting balance sheet inventory valuations. For this reason, the pre-tax result is considerably lower than the year-earlier figure.

Buoyed by the favorable economic environment in the first half of the year, the order intake of the steel service center **Hövelmann & Lueg GmbH** (HLG) fulfilled expectations. Stimulated, on the one hand, by the discussions on raw material surcharges and, on the other, by the assumption of limited availability of certain rolled steel products, demand from major customer groups of HLG held strong until mid-year. The end of the third quarter signaled an end to this trend, which ultimately resulted in shipments stagnating below the level of 2007. Nonetheless, revenues were raised as against the previous year due to the fact that fixed customer contracts guaranteed that prices remained stable. The pre-tax result of HLG fell short of the year-earlier figure owing to inventory valuation adjustments which were carried out in the 2008 annual accounts.

Flachform Stahl GmbH (FFS) was integrated into HLG with retrospective effect from January 1, 2008.

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

Tubes Division		FY 2008	FY 2007
Order intake	**€ mil.**	**2,112**	**3,137**
Order book	**€ mil.**	**1,799**	**2,491**
Shipments	**kt**	**1,402**	**1,267**
EP Group (50%)	kt	615	508
MGR	kt	136	131
MLP	kt	288	303
SMP Group incl. MSE	kt	328	294
MST Group	kt	37	31
Consolidation	kt	–	–
Division sales[1]	**€ mil.**	**2,951.7**	**2,440.0**
EP Group (50%)	€ mil.	796.7	576.9
MGB	€ mil.	757.3	649.9
MGR	€ mil.	144.9	129.5
MLP	€ mil.	345.4	349.4
SMP Group incl. MSE	€ mil.	586.8	471.0[2]
MST Group	€ mil.	535.8	422.6
Other	€ mil.	3.0	–
Consolidation	€ mil.	–218.1	–159.4
Internal sales	**€ mil.**	**779.2**	**624.6**
External sales[3]	**€ mil.**	**2,172.5**	**1,815.3**
Division earnings before tax (EBT)	**€ mil.**	**311.8**	**302.5**
EP Group (50%)	€ mil.	76.4	71.5
MGB	€ mil.	118.9	102.2
MGR	€ mil.	11.0	13.7
MLP	€ mil.	13.7	33.1
SMP Group incl. MSE[4]	€ mil.	14.6	38.2
MST Group	€ mil.	51.1	33.1
Consolidation	€ mil.	26.0	10.7
EBIT[5]	**€ mil.**	**327.8**	**317.7**
EBITDA[6]	**€ mil.**	**367.0**	**345.1**

[1] Sales in own segment and in other divisions in the Group

[2] Disclosure changed as against previous year – including effects from the purchase price allocation

[3] Contribution to consolidated external sales

[4] Including effects from the purchase price allocation

[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)

Tubes Division

The Tubes Division comprises a large number of subsidiaries and associated companies on four continents that manufacture and process welded and seamless steel tubes. The product range consists mainly of pipelines of all diameters, ranging from gas pipelines through to injection tubes for diesel engines, stainless oil field and boiler tubes, precision tubes for the automotive and machine building industries, as well as construction tubes in a variety of profiles. More information on the companies can be found under the section on “Group Structure and Operations” on page 28. The individual companies are listed under “Material Participations” in the Notes on page 176.

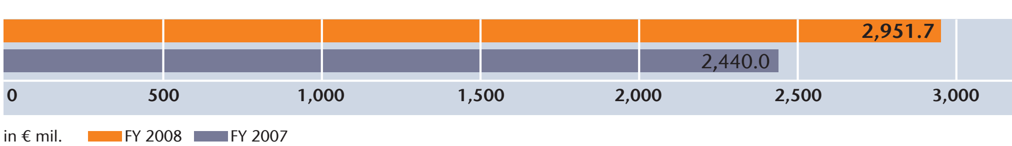
As in the previous year, the companies of the division benefited from the robust condition of the global steel tubes market in 2008. In particular, persistent strong demand in the energy sector for oil and gas pipelines was one of the main factors contributing to this positive development. Only areas dependent on the automotive industry were notably impacted by the financial crisis in the final months of the year.

In 2008, the Tube Division’s consolidated **order intake** (€ 2,112 million) fell short of the extremely high previous year’s level. This is primarily attributable to the large-diameter tube segment, which exercised caution in taking on new orders owing to the high level of orders in hand resulting from the major project Nordstream. There was a counter-effect in the precision tube segment from the first-time full-year inclusion of the French precision tube company.

In comparison with the 2007 reporting date, consolidated **new orders** of the division fell to € 1,799 million as per December 31, 2008, owing to work successively completed on the aforementioned pipeline project.

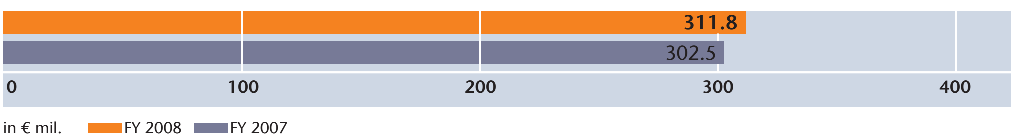
The increase in the sales of large-diameter tubes, the full contribution by the new companies as well as record deliveries of seamless stainless steel tubes boosted the **tubes shipments** of the division (1,402 ktons) considerably over the previous year. **Segment revenues** grew accordingly, driven by both volume and selling price, to € 2,951.7 million. The consolidation effect in the precision tubes segment came to € 117 million. **External sales** soared 20% to € 2,172.5 million as against 2007, with almost all product segments contributing in terms of volumes and selling prices.

Tubes Division Sales



As the companies were largely successful in passing on the significant price increases in input materials to the market, and as other cost increases were compensated through higher capacity utilization and stringent cost management, **pre-tax profit** came to € 311.8 million, thus exceeding the already good 2007 result.

Tubes Division EBT



The individual product segments reported the following developments:

Over the past financial year, the **large-diameter tubes** segment recorded a decline in orders as the 50:50 joint venture EUROPIPE GmbH (EP) only took on new orders on a selective basis due to the high level of orders in hand for pipeline tubes required for the major Nordstream project. By contrast, there was an uptrend in the new orders of **Salzgitter Mannesmann Großrohr GmbH** (MGR) and **Salzgitter Mannesmann Grobblech GmbH** (MGB).

Owing to the progress made in work on and the delivery of the Nordstream contract, the order backlog of the large-diameter tubes segment had declined by the end of 2008 as against December 31, 2007. This ran contrary to large-diameter tubes shipments that rose considerably mainly due to the contribution of EP. Boosted by the higher volume of shipments accompanied by good selling prices, the **Europipe Group** recorded revenue growth of 38 %. Despite the renewed significant increase in the price of input materials, the Salzgitter share in the pre-tax profit of EP improved in 2008 as against the previous year and climbed to € 76.4 million.

The plate producer **MGB** lifted both shipments and revenues as against the already very good results of the year 2007. Pre-tax profit (€ 118.9 million), which outperformed the previous year's figure, was the result of successful plate business transacted with external parties and adjustments to transfer prices within the Group to the market developments.

MGR, a company manufacturing helical-welded large-diameter tubes, raised shipments and revenues on the back of stable capacity utilization drawing on the orders received in the years 2006 and 2007. The considerable hikes in input material costs in this business as well were also not fully compensated through the customary fixed and binding contracts concluded without sliding price scale clauses. Consequently, the pre-tax result (€ 11.0 million) fell in a year-on-year comparison.

Demand for the **HFI-welded line pipes** of **Salzgitter Mannesmann Line Pipe GmbH** (MLP) was uneven in 2008: Following a relatively weak first quarter, high order intake (+30 %), the effect of which held steady until year-end, was recorded through to the onset of the economic slowdown in the fall of 2008. Bottlenecks in the availability of input materials, however, meant that the shipment volume of the previous year was not repeated. Due to higher average selling prices, revenues remained virtually unchanged from the previous year's level. As selling prices rose at a disproportionately slower pace compared with the cost of input materials, the pre-tax result declined to € 13.7 million.

The **precision tubes** segment of the **Salzgitter Mannesmann precision companies** recorded brisk order activity and a healthy order book in the first nine months. The exacerbation of the financial crisis caused demand to plummet suddenly in the fourth quarter. For this reason, despite the first-time full-year inclusion of the new companies of **Salzgitter Mannesmann Précision Etirage S.A.S.** (MPE) and **Salzgitter Mannesmann Rohr Sachsen** (MRS), there was no improvement in order intake as against the previous year. Having been successful in passing on input materials price hikes to customers up until September and in raising the shipment volume significantly, the company saw its shipments tumble in the fourth quarter due to the massive economic slowdown in the automotive industry and the export business. With the additional burden of the problematic and delayed commissioning of the three-roll piercing elongating mill in Zeithain pre-tax profit, which came in at € 14.6 million, fell considerably short of the year-earlier result.

In its **seamless stainless steel tubes segment**, **Salzgitter Mannesmann Stainless Tubes-Gruppe** (MST) can look back on an exceptionally successful financial year, which was mainly attributable to the outstanding project business with industries associated with energy – in particular power plant construction   in Europe, China and North America. Following a high level of new orders recorded in 2007, which was characterized by an exceptionally good selling price quality, the value of the order books in 2008 dropped considerably, also caused by the sharp declines in the price of nickel during the reporting period. Shipment volumes reached a new record level (+19 %) and revenues climbed by € 113.2 million to € 535.8 million. Prices, which developed unusually well, especially for cold rolled tubes, in conjunction with the downturn in the price of nickel, caused margins to widen temporarily, which lifted pre-tax profit to € 51.1 million, a result which was considerably higher than the excellent previous year's figure.

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

Services Division		FY 2008	FY 2007
Division Sales[1]	**€ mil.**	**1,287.1**	**1,169.7**
DMU	€ mil.	828.1	739.0
SZST	€ mil.	141.4	138.4
VPS	€ mil.	107.3	103.5
TELCAT Group[2]	€ mil.	58.9	55.2[3]
GES	€ mil.	44.0	36.6
HAN	€ mil.	37.8	38.8
SZAE/SZAI/SZAB	€ mil.	31.9	29.2[3]
SZMF	€ mil.	34.4	32.3
GWG	€ mil.	20.4	14.0
Consolidation	€ mil.	–17.1	–17.2
Internal sales	**€ mil.**	**767.7**	**665.7**
External sales[4]	**€ mil.**	**519.3**	**504.0**
Division earnings before tax (EBT)	**€ mil.**	**23.9**	**40.4**
DMU	€ mil.	5.8	8.7
SZST	€ mil.	–1.6	–4.7
VPS	€ mil.	0.5	1.1
TELCAT Group[2]	€ mil.	4.0	3.2
GES	€ mil.	2.7	2.5
HAN	€ mil.	9.8	11.0
SZAE/SZAI/SZAB	€ mil.	1.7	17.5
SZMF	€ mil.	0.8	0.9
GWG	€ mil.	0.8	0.9
Others/Consolidation	€ mil.	–0.7	–0.7
EBIT[5]	**€ mil.**	**27.5**	**44.4**
EBITDA[6]	**€ mil.**	**48.4**	**72.7**

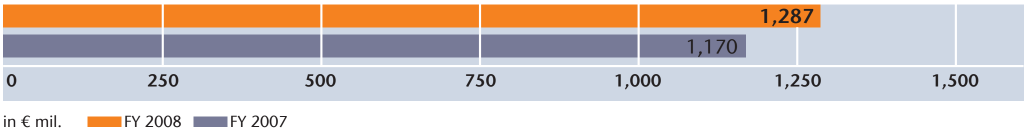
[1] Sales in own segment and in other divisions in the Group
[2] Excluding TBM
[3] Disclosure changed as against previous year (sales consolidated)
[4] Contribution to consolidated external sales
[5] Earnings before tax and including interest paid (but excluding the interest portion from transfers to pension provisions and excluding interest paid within the segment)
[6] EBIT plus depreciation/amortization (also on financial assets)

Services Division

The range of services offered by the Services Division is first and foremost aligned to the requirements of the Group itself. In addition, services of the companies operating in this division are also offered to external customers. The Division conceives and implements an attractive and competitive wide range of services. The spectrum includes the supply of raw materials, logistics, IT services, personnel services, automotive products up to research and development. The companies assigned to the Services Division are listed under “Material Participations” in the Notes on page 176. More information on the companies can be found under the section on “Group Structure and Operations” on page 28.

Over the course of the financial year, the division recorded overall healthy demand from internal and external customers for its services, allowing it to look back on a very satisfying performance at year-end 2008.

Services Division Sales



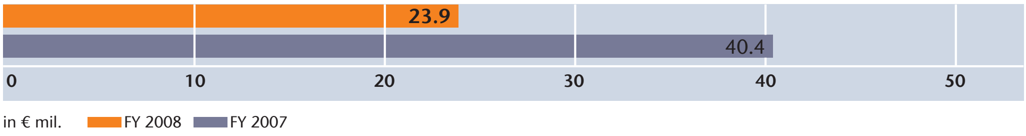
The Services Division's **segment sales** attained a record level of € 1,287.1 million. With almost two thirds of the revenues and a 12% increase in comparison with 2007, **DEUMU Deutsche Erz- und Metall-Union GmbH** (DMU), the scrap metal trade company, once again made a significant contribution to this development. Despite the notable decline in demand in the last two months of the year DMU benefited from the considerable price increases in steel scrap-up until mid-year. On the back of brisk demand, **SZST Salzgitter Service und Technik GmbH** (SZST) contributed to growth in the steel-related product range, but also due to the expansion of business in the area of personnel and work-related services as well as higher selling prices. Extensive new Group IT projects lifted the revenues of **GESIS Gesellschaft für Informationssysteme mbH** (GES). Moreover, **Salzgitter Automotive Engineering GmbH & Co. KG** (SZAE) recorded a notable improvement in the order and price situation.

The external sales of the Services Division advanced by 3% to € 519.3 million.

The division generated a presentable pre-tax profit of € 23.9 million. Irrespective of the good course of business, this result was nonetheless considerably lower as against the year-earlier figure, which is mainly attributable to one-off special effects included in the 2007 result of **SZAE**.

Hansaport Hafenbetriebsgesellschaft GmbH (HAN) and **DMU** were also unable to repeat the record results of the year before: the turnover of coal for the Group and external customers, for instance, normalized over the course of the financial year 2008 and settled at the level of 2006. The excellent earnings situation achieved in the steel scrap segment by exploiting price volatility in the raw materials market and an inventory management system geared to the market was significantly burdened by the downtrend in scrap prices which set in at the end of the year. The loss disclosed by **SZST** was caused by personnel-related transfers to provisions. **SZAE** improved its operating profit by around € 6.0 million as compared with 2007.

Services Division EBT



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

Technology Division		FY 2008	FY 2007[1]
Order intake	**€ mil.**	**882**	**525**
Order book	**€ mil.**	**297**	**445**
Division Sales[2]	**€ mil.**	**1,038.2**	**512.6**
KHS Group	€ mil.	934.2[3]	455.8[4]
KDE	€ mil.	47.9	27.4
KDS	€ mil.	36.6	18.5
KHP	€ mil.	19.0	10.8
RSE	€ mil.	0.5	0.1
Other	€ mil.	0.6	–
Consolidation	€ mil.	–0.5	–
Internal sales	**€ mil.**	**0.3**	**–**
External sales[5]	**€ mil.**	**1,037.9**	**512.6**
Division earnings before tax (EBT)	**€ mil.**	**3.8**	**4.0**
KHS Group	€ mil.	7.5[3]	14.5
KDE	€ mil.	1.1	0.7
KDS	€ mil.	2.1	1.1
KHP	€ mil.	0.5	0.8
RSE	€ mil.	0.7	–0.1
Others/Consolidation	€ mil.	–8.0	–13.0
EBIT[6]	**€ mil.**	**11.5**	**7.0**
EBITDA[7]	**€ mil.**	**38.5**	**17.3**

[1] Consolidated as from July 1, 2007
[2] Including sales with other divisions
[3] Including the PET Group
[4] Disclosure changed as against previous year (excl. deliveries within the KHS Group)
[5] Contribution to consolidated external sales
[6] Earnings before tax and including interest paid (but excluding the interest portion from transfers to pension provisions and excluding interest paid within the segment)
[7] EBIT plus depreciation/amortization (also on financial assets)

Technology Division

Under the roof of Klöckner-Werke AG (KWAG), the Technology Division combines companies with international operations in machine building and production sites on four continents. The product range includes in particular machinery and plant for the filling and packaging of beverages. KHS AG, the largest subsidiary, offers a fully fledged portfolio: from machinery for the manufacturing of PET bottles and bottles needed for filling operations through to ready-for-dispatch packaging for end customers. Other companies of the Klöckner Group offer special machinery for the manufacturing of confectionery and the plastics processing industry, for example. Moreover, RSE Grundbesitz und Beteiligungs-AG (RSE), a company which develops and manages commercial real estate in Germany, is also assigned to the Technology Division. More information on the companies can be found under the section on “Group Structure and Operations” on page 28. The individual companies are listed under “Material Participations” in the Notes on page 176.

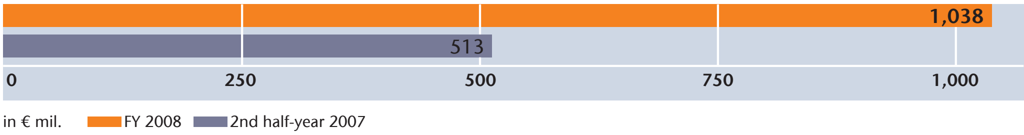
Under Section 17 of the German Stock Corporation Act (AktG), KWAG and RSE are dependent on Salzgitter AG (SZAG) and are deemed to be companies of the Group (Section 18 German Stock Corporation Act). As there was neither a control agreement between SZAG and KWAG or RSE, respectively, nor an integration 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 interests of their respective companies and the 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 takes the form of the Executive Board of SZAG only receiving the information from the companies which it needs to fulfill its statutory obligations under the law.

As per December 31, 2008, Salzgitter Mannesmann GmbH (SMG) held 95.4% of the shares in KWAG. The remaining shares are in free float. The squeeze out process was initiated for RSE in 2007.

The business of the Technology Division initially developed well, but momentum was slower than in 2007. As from the second half of the year, the difficult global economic situation began to take effect, with the result that the record level of the previous year was not attained. Accordingly, the **order intake** of the division reflected growing customer reluctance to purchase and amounted to € 882 million in the financial year 2008.

Orders in hand posted € 297 million at year-end. In this context, the new orders of KHS Plasmax GmbH (BEVPX), integrated by SMG into KWAG in July, stand out positively. The innovative PLASMAX process enables the inside of PET bottles to be coated with an extremely thin transparent layer of glass; this gives the plastic bottles the characteristics of their glass counterparts with a minimum of weight. Irrespective of the difficult environment, significant new orders were recorded for machinery at the end of the fourth quarter.

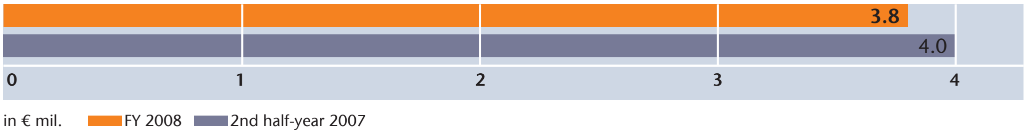
Technology Division Sales



Segment sales came to € 1,038.2 million. As the previous year's revenues only reflect the second half-year owing to the first-time consolidation of the companies of the Technology Division on July 1, 2007, this figure cannot be used for the purpose of comparison. External sales came to € 1,037.9 million.

The service and spare parts business of KHS AG developed well in 2008. By contrast, however, the project business failed to meet original expectations owing to the difficult economic environment. The PET Group, acquired by SMG in April 2008 and integrated into KWAG on August 1, generated an increase in sales of € 72.7 million. The PET companies were closely aligned with the KHS Group in organizational terms in the financial year. The companies Klöckner DESMA Schuhmaschinen GmbH (KDS), Klöckner DESMA Elastomertechnik (KDE) and Klöckner Hänsel Processing GmbH (KHP) improved their business situation in comparison with 2007 and generated total sales of € 103.5 million.

Technology Division EBT



The Technology Division achieved a **pre-tax profit** of € 3.8 million in 2008, with a number of special effects influencing the profit situation in the financial year 2008. For instance, the obligatory purchase price allocation under IFRS of € 4.4 million incurred by the purchase of the majority holding in Klöckner-Werke and the purchase of the SIG-Beverages Group (now PET Group) is included in this result.

Furthermore, temporary interest on the purchase price (€ 1.0 million from financing transactions within the Group as part of the purchasing of the SIG-Beverages Group) was also taken account of.

The result of KHS AG was, on the one hand, burdened by higher transfers to provisions for risks associated with settling contracts and foreign activities and, on the other, positively influenced by the first-time inclusion of the PET Group and extraordinary earnings. The profit trend of KDE was impacted, among other factors, by its dependency on the automotive industry and the related sales problems in the fourth quarter. The result of KHP came to € 0.5 million. The positive contributions of KDS and RSE are well worth a mention.

More information on Klöckner-Werke and their business development can be found on the Internet under the following website: www.kloecknerwerke.de.

Other/Consolidation

The Other/Consolidation segment comprises activities that are not directly allocated to an operating division. Specifically, this includes the business of the holding companies Salzgitter AG (SZAG) and Salzgitter Mannesmann GmbH (SMG). As a management holding company, SZAG does not have any operations of its own. Instead it manages SMG, the company under which the major companies of the Salzgitter Group are held.

The **revenues** of the Other/Consolidation area are generated by the semi-finished product business with subsidiaries and parties external to the Group. In the reporting year, revenues rose to € 552.7 million, boosted by both volume and price. **External sales** rose for the same reason to € 146.0 million.

The pre-tax result, which came to € –32.5 million in the period under review, was mainly impacted by reporting date-related changes in the value of derivatives due to exchange rate fluctuations, balance sheet valuation adjustments to holdings, the balance of interest income from cash investments and interest expenses for pension provisions, interim profit eliminations relating to inventories of Group material in Trading and a goodwill impairment.

Financial Management

Salzgitter Mannesmann GmbH (SMG), a wholly-owned subsidiary of Salzgitter AG (SZAG), carries out cash and foreign currency management on a predominantly centralized basis for companies belonging to the Salzgitter Group. Joint venture companies are not included.

Back office operations consist of granting Group credit lines in the context of Group financial transactions and, in individual cases, loan guarantee commitments. To cover the financial requirements of foreign Group companies – in particular those outside the euro area – SMG also makes selective use of local lending and capital markets. At the same time, it draws on the liquidity surplus of the Group companies for financing. Trade receivables and trade payables within the Salzgitter Group are settled via internal accounts. Central finance management enables capital to be borrowed at favorable conditions, as well as exercising a positive effect on net interest income by reducing the volume of external borrowing and optimizing cash investments within the Group. We calculate liquidity requirements by using financial planning with a multi-year planning horizon and a monthly rolling four-month planning process. The funds invested combined with sufficient credit lines serve to guarantee that our liquidity requirements are covered.

In the financial year 2008, SMG drew on the first renewal option of the € 300 million syndicated loan placed with our group of principal banks with an initial term of five years and two renewal options each of one year. The conditions are exceptionally advantageous as the initial margin is 25 basis points.

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

Pension provisions still play a significant role in corporate financing. With an actuarial interest rate at an unchanged 5.25 %, they came to € 1,787 million (2007: € 1,792 million).

Cash Flow Statement

The cash flow statement (detailed disclosure in the section „Consolidated Annual Financial Statements/ Notes” on page 167) shows the source and use of funds. The cash and cash equivalents referred to in the cash flow statement correspond to the balance sheet item “Cash and Cash Equivalents”.

Owing to an increase in working capital, the Group’s cash flow from operating activities was lower than in the previous year, at € 547 million.

The increase in cash outflow from investment activities was mainly attributable to the extensive investment measures of the Steel Division and acquisitions. The buy-back of the company‘s treasury shares is reflected in higher cash outflow from financing activities.

Cash and Cash Equivalents

in € mil.	FY 2008	FY 2007
Inflow of funds from current business activities	546.9	781.0
Outflow/inflow of funds from investment activities	–1,589.0	–745.2
Outflow of funds from financing activities	–504.9	–242.0
Change in cash and cash equivalents	**–1,546.7**	**–206.2**
Cash and cash equivalents on the reporting date	**592.1**	**2,138.8**

The implementation of the wide-reaching investment program in the Steel Division and payments for the acquisition of Norddeutsche Affinerie AG (€ 275 million), the PET Group (€ 141 million) and additional shares in Klöckner-Werke AG (€ 71 million) as well as the inclusion of tax-induced deposits under this item incurred a cash outflow from investment activities of € 1,589 million. We spent € 638 million on investments in property, plant and equipment and in intangible fixed assets.

In 2008, the cash flow from financing activities stood at € –505 million. We paid out € 171 million or € 3.00 per share to the shareholders of Salzgitter AG for the financial year 2007. Moreover, the capital market received funds of € 280 million as a result of the share buy-back.

From a financial standpoint, increases in the tax-induced deposits and securities items as well as the granting of a loan to an associated company are to be assigned to cash and cash equivalents. Based on a modified cash and cash equivalents position of € 2,235 million at the beginning of the financial year, a substantially lower cash outflow from investment activities (€ 1,164 million) – alongside a slightly higher cash inflow from operating activities (€ 557 million) – results in cash and cash equivalents at the end of the period of € 1,123 million.

Despite the exceptionally good profit trend, the larger volume of working capital and the higher level of investments and acquisitions caused a substantial decline in the net cash position held at banks in a year-on-year comparison (€ 991 million; 2007: € 2,215 million). Cash investments of € 1,123 million, including securities as per the end of 2008, were set off by a reporting date-related increase in liabilities owed to banks of € 132 million (2007: € 119 million).

The liquidity and debt-to-equity ratios were again positive in the financial year 2008.

Multi-year Overview of the Financial Position

	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
Solvency I (%)[1]	157	211	252	150	100	91	97	116
Solvency II (%)[2]	281	317	365	253	187	187	185	210
Dynamic debt burden (%)[3]	65	–304.5	–95.5	41.3	20.2	12.5	8.3	6.8
Gearing (%)[4]	100.3	98.0	101.9	169.1	278.0	268.7	261.4	244.3
Cash flow (€ mil.) from operating activities	547	781	488	468	352	223	157	117
Net debts to banks (€ mil.)[5]	–991	–2,115	–2,283	–822	–71	56	66	–49

[1] (current assets – inventories) x 100 / current liabilities + dividend proposal

[2] current assets x 100 / current liabilities + dividend proposal

[3] cash flow from current business operations x 100 / non-current and current borrowings (including pensions) – investments

[4] non-current and current liabilities (including pensions) x 100 / equity

[5] – ≙ cash in bank, + ≙ liabilities

Net Assets

The total assets of the Group grew to € 8,701 million, which is 3.5 % higher than the figure posted at the end of the financial year 2007 (€ 8,406 million). One of the main contributing factors was the implementation of the investment program which raised non-current assets by € 750 million (+34.6 %). The utilization of funds for, among other things, the financing of current and non-current assets, the share buyback, payment of dividend for the financial year 2007 and due to a changed cash investment resulted in a decrease in current assets of € 455 million (–7 %), irrespective of the increase in inventories and trade receivables.

Asset and Capital Structure

in € mil.	31/12/2008	%	31/12/2007	%
Non-current assets	2,918	33.5	2,168	25.8
Current assets	5,783	66.5	6,238	74.2
Assets	**8,701**	**100.0**	**8,406**	**100.0**
Equity	4,346	49.9	4,246	50.5
Long-term liabilities	2,380	27.4	2,380	28.3
Current liabilities	1,975	22.7	1,780	21.2
Equity and liabilities	**8,701**	**100.0**	**8,406**	**100.0**

As part of non-current assets, property, plant and equipment and intangible assets rose as a result of investments (€ 653 million) which exceeded depreciation and amortization (€ 278 million), the first-time inclusion of the PET Group (formerly SIG-Beverages), as well as the purchase of a stake in Norddeutsche Affinerie AG.

Current tied-up net assets (working capital) climbed to € 3,338 million (+17.3 %), mainly due to the exorbitant price hikes of raw materials and the higher price level of all steel and tubes products.

On the liability side, equity rose by € 100 million (2.4 %) to € 4,346 million thanks to the good consolidated results, minus dividend paid and the share buyback transaction. The equity ratio came in at 49.9 % and thus almost attained the previous year's level of 50.5 %. The actuarial interest rate applied to the calculation of pension provisions remained unchanged against the previous year; the impact of the crisis in the financial market was taken account of accordingly. Obligations arising from pension commitments were fully included in the balance sheet, as in the previous year. The generally annual adjustments of the actuarial interest rate used for the calculation of existing long-term pension provisions are carried out in accordance with the currently applicable 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 2008	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
Asset utilization ratio (%)[1]	33.5	25.8	23.4	35.1	45.3	51.3	52.1	48.4
Inventory ratio (%)[2]	29.3	24.8	23.7	26.6	25.5	25.0	22.8	23.1
Depreciation/amortization ratio (%)[3]	11.7	11.7	13.9	14.5	22.6	16.8	14.3	14.3
Debtor days[4]	48.4	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) $\frac{\text{write-downs on property, plant and equipment/intangible assets x 100}}{\text{property, plant and equipment/intangible assets}}$

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

The annual financial statements of Salzgitter AG (SZAG) for the financial year 2008 have been drawn up in accordance with the provisions of the German Commercial Code, taking into account the supplementary provisions of the German Stock Corporation Act, and have been approved without qualification by the auditor PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover. The complete text is published in the electronic German Federal Gazette.

SZAG heads up the divisions as the management holding company, as before. Operations are conducted by the Group companies. The profitability of the company consequently depends on the business progress made by 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 company Salzgitter Mannesmann GmbH (SMG) with which there is no profit transfer agreement.

Salzgitter AG Balance Sheet (summarized)

in € mil.	31/12/2008	%	31/12/2007	%
Non-current assets	**53.4**	**4.4**	**48.5**	**3.6**
Property, plant and equipment[1]	28.6	2.4	24.0	1.8
Financial assets	24.8	2.0	24.5	1.8
Current assets	**1,160.7**	**95.6**	**1,314.5**	**96.4**
Trade receivables and other assets[2]	1,160.6	95.6	1,314.4	96.4
Cash and cash equivalents	0.1	–	0.1	–
Assets	**1,214.1**	**100.0**	**1,363.0**	**100.0**

in € mil.	31/12/2008	%	31/12/2007	%
Shareholders' equity	711.3	58.6	825.3	60.6
Special reserves with equity portion	4.1	0.3	4.3	0.3
Provisions	497.6	41.0	524.2	38.4
Liabilities	1.1	0.1	9.2	0.7
due to banks	[0.1]	–	[7.2]	–
Shareholders' equity and liabilities	**1,214.1**	**100.0**	**1,363.0**	**100.0**

[1] Including intangible assets
[2] Including prepaid expenses and treasury shares

The main items on the assets side continued to comprise receivables due from the liquidity provided to the subsidiary SMG as part of a groupwide cash management (€ 709 million) and treasury shares (€ 331 million).

Besides equity, the liability side of the balance sheet reports pension obligations of € 410 million. The equity ratio currently posts 58.6 % (2007: 60.6 %).

Salzgitter AG Income Statement (summarized)

in € mil.	FY 2008	FY 2007
Other operating income	70.5	91.8
Personnel expenses	25.4	40.8
Depreciation and amortization[1)]	43.4	3.8
Other operating expenses	74.4	41.9
Income from shareholdings	273.7	203.2
Net interest result	–9.2	–9.0
Earnings before tax (EBT)	**191.8**	**199.5**
Tax	–0.3	–0.3
Net profit for the year	**191.5**	**199.2**

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

Other operating earnings include gains from price hedging transactions for treasury shares and income from the levying of a Group contribution.

The decline in personnel expenses is mainly due to the considerably lower outlay for retirement benefits.

The development of other operating expenses was impacted by reporting date-related expenses in connection with the hedging of treasury shares.

Income from shareholdings in the reporting year almost exclusively related to earnings contributions received by SMG.

The tax expenses are influenced by the SMG dividend income that is almost tax free.

The company's workforce was made up of 144 employees as of December 31, 2008, which is an increase of six 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, 2008. This figure is unchanged from the previous year. The capital stock consists of 60,097,000 (2007: 63,218,400) ordinary bearer shares. There are no preference shares. One ordinary share has a notional value of around € 2.69 in the capital stock. The rights and obligations connected with the ordinary shares are set out under the German Stock Corporation Act (AktG).

Based on the requisite resolutions passed by the Annual General Meeting, the Executive Board has the following three options of issuing or buying back shares:

In accordance with the resolution passed by the Annual General Meeting on May 26, 2004, the stock capital was increased contingently by up to € 15,952,306.69 through the issuing of up to 6,240,000 new no par 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 options and/or convertible bonds issued on the basis of the authorization granted by the Annual General Meeting on May 26, 2004. This authorization enables the Executive Board to issue interest-carrying bearer warrant-linked bonds and/or convertible bonds on one or more occasions on or before May 25, 2009, subject to the approval of the Supervisory Board 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 new shares of SZAG. The maximum amount of such shares is 6,240,000 (which corresponded to 10% of the capital stock of SZAG at the time when the authorizing resolution was passed).

In addition and in accordance with the resolution passed by the Annual General Meeting on May 26, 2004, the Executive Board was authorized to raise the capital stock – subject to the approval of the Supervisory Board – by a nominal amount of up to € 55,833,073.42 (= 35% of the capital stock at the time when the authorizing resolution was passed) 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**).

Finally, the Executive Board was authorized in accordance with the resolution passed by the Annual General Meeting on May 21, 2008, to purchase the Company's **treasury shares** equivalent to a proportion of the current capital stock of up to 10% (= € 16,161,527.33) on or before November 20, 2009, 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 Germany and abroad, as well as the cancellation of the purchased shares. Such resolutions are customary for listed stock corporations and have been passed by SZAG's Annual General Meeting in previous years as well, with the repurchase authorization always being limited to 18 months, in accordance with statutory regulations.

On April 2, 2002, Hannoversche Beteiligungsgesellschaft mbH (HanBG), Hanover, had disclosed to SZAG that it was holding 25.5% of the **voting rights** in SZAG as of that date. At the same time, the Federal State of Lower Saxony, represented by the Finance Ministry of Lower Saxony, also announced that it was entitled to 25.5% of the voting rights in SZAG. These voting rights are directly allocable 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 the Federal State of Lower Saxony owns all the shares in HanBG. Due to the slight decline in the number of shares meanwhile issued as of the reporting date of December 31, 2008, this proportion is now equivalent to 26.48 % of the share of capital. We are not aware of any further shareholdings in SZAG which exceed 10 % of the voting rights.

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

Apart from the relevant provisions of the German Stock Corporation Act, 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 and 315 para. 4 of the German Commercial Code (HGB).

Appropriation of the Profit of Salzgitter AG

SZAG reported a net income of € 191.5 million for the financial year 2008. Taking into account retained earnings brought forward (€ 19.0 million) and 126.3 million in capital reserves and retained earnings movements in relation to treasury shares, current retained earnings amount to € 84.2 million.

The Executive Board and the Supervisory Board will propose to the General Meeting of Shareholders that these retained earnings (€ 84.2 million) be used to distribute a dividend of € 1.40 per share (based on the capital stock of € 161.6 million divided into 60,097,000 shares) and that the remaining amount be carried forward to new account.

The proposed appropriation of earnings will be adopted accordingly if the company is holding treasury shares on the day of the Annual General Meeting, as these shares are not eligible for dividend.

Interdependence report

According to our information, Hannoversche Beteiligungsgesellschaft mbH (HanBG) currently holds 26.48 % of the voting rights in SZAG. At the last two Annual General Meetings, HanBG no longer held the majority of the voting rights present. It can therefore not be ascertained that HanBG is able to exert a controlling influence on SZAG. SZAG is therefore not a dependent company and is consequently not obligated to prepare an interdependence report.

Against the background of the critical state of the capital markets and the recessionary tendency of the global economy, the business situation of the Salzgitter Group can be described as comparatively very robust at the start of the financial year 2009.

Owing to its broad-based business with a wide-ranging mix of customer sectors and supply structures, the impact of critical developments in the individual customer industries on the Group's profitability will be at least partially cushioned. Our primary strategic alignment towards technologically sophisticated products tailored to suit the individual customer and our services takes the competitive pressure off our Group as this is pressure which is generally exacerbated by a weak economic environment, especially in respect of commodity products. Our technical competence and service orientation is an important basis for our long-standing and reliable customer relationships which do not always have to be set down in annual contracts and are of special importance to us, particularly in the current situation.

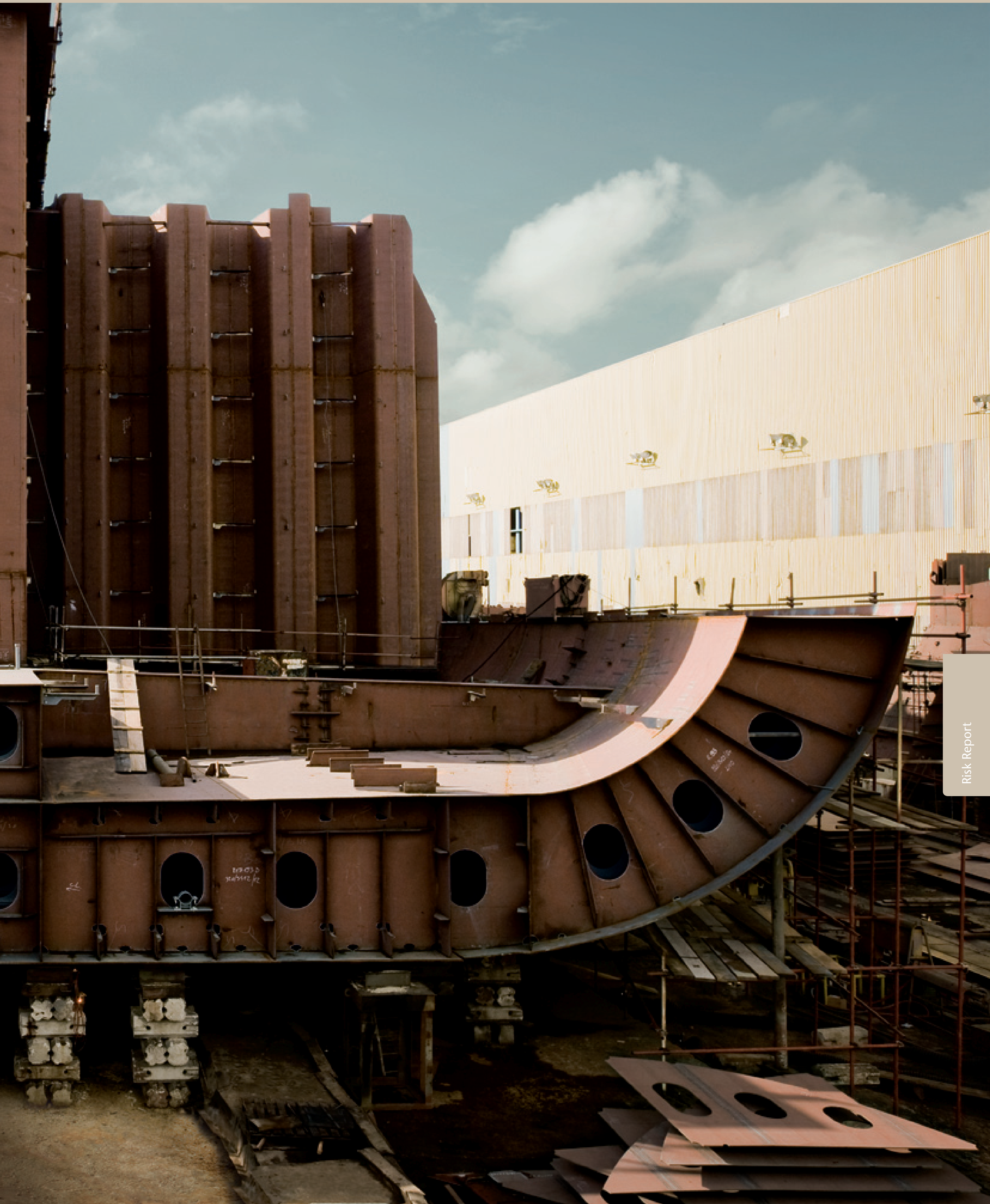
With more than one billion euros in cash and cash equivalents and an equity ratio of almost 50%, the Salzgitter Group enjoys a healthy financial base and a sound balance sheet which enables us to make prudent decisions even in challenging phases and to act sustainably. We intend to pursue our successful corporate strategy and realize most of the major investments envisaged in order to be ready for the next upswing. Our Profitability Improvement Program, stringently implemented in boom years as well, has contributed to sharpening our competitive edge on an ongoing basis. For this reason, restructuring measures at short notice are not necessary.

We will pay particular attention in the coming months to safeguarding the currently robust constitution of our business to the greatest possible extent. Once the economic environment has improved again we intend to step up our activities to build up our business systematically.

SOLIDITY

Double hull tanker under construction. The second hull ensures higher safety in the event of a collision and helps prevent spills of environmentally detrimental cargo.

SOLIDITY is not just a quality that distinguishes our steel as a material. It is also a factor that plays a major role in our entrepreneurial thinking. This also entails avoiding unjustifiable risks and always keeping a keen eye on securing the future of our corporation. We take it as a great compliment that customers and shareholders commend our solidity. This is synonymous with the trust that we work hard to earn anew, day by day.



V. Risk Report

1. Risk and Opportunities Management System

Against the backdrop of the current economic downturn and the turbulence in the financial markets, our tried-and-tested risk management has proven to be extremely efficient, and it has highlighted the key role it plays in our operations.

Taking account of any emerging opportunities and risks, we comment on the medium-term development in business conditions and their impact on our company in our section "Significant Events after the Reporting Date and Forecast" on page 150.

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

Differentiation between risk and opportunities management

We treat risk and opportunity management 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 the implementation of operational opportunities is incumbent on the management of the individual companies. As already described, selective measures are devised to profile our strengths and to tap strategic growth potential in cooperation with the Group's Strategic Planning department. They are structured systematically in a Strategy Atlas specially developed for this purpose and consistently reflect our product and market environment. Opportunity potential resides in the consistent reinforcing of our competitive position through developing new materials and products, tapping new market segments or regional markets, but also, on principle, in pursuing a market-oriented price policy and optimizing of our cost position on an ongoing basis. In this context, we use "5P-Management" and the Profit Improvement Program in our endeavors to realize the potential systematically.

Organizational permeation

Risk management incorporates all fully consolidated companies in the Steel, Trading and Services divisions – also including the non-consolidated companies Salzgitter Hydroforming GmbH & Co. KG (SZHF) and TELEFONBAU MARIENFELD GmbH & Co. KG (TBM). All the fully consolidated companies of the Tubes Division plus the EUROPIPE GmbH (EP) joint venture, including MÜLHEIM PIPECOATINGS GmbH (MPC), have been integrated into the risk management system in accordance with Salzgitter AG's (SZAG) guidelines.

We fulfill our risk management duties in respect of the listed company Klöckner-Werke AG (KWAG) as part of the control functions exercised by the Supervisory Board of KWAG. This also applies to the newly acquired PET companies that were integrated into KWAG with effect from August 1, 2008. The Supervisory Board of KWAG has formed an audit committee on which SZAG is represented. One of the duties of the audit committee is to monitor the risk management and major 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 provide 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 distributed to the companies. These documents set down the principles through which we harmonize groupwide risk inventories and ensure the informative value for the Group. As has been our practice up until now, 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. With the aim of avoiding potential risks, controlling, managing, mastering them and taking the relevant preventive measures, we have defined a set of different procedures, rules, regulations and tools. As a result of the transparency achieved in respect of developments which involve risk, we are able to take appropriate countermeasures and to implement them at an early stage.

At SZAG 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 through the risk management system (by taking action to overcome the risk), or by using both approaches, each augmenting the 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 directly to the Executive Board. Almost all companies subject to reporting requirements use the Group database developed specially to enhance the effective handling of data. The risks identified and assessed are analyzed at Group level, monitored punctiliously, allocated 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 updated if necessary. Consideration of the sustained validity of the conditions is defined as an area for controlling and internal auditing at SZAG. The definition of probable risk means that a loss or damage to the company resulting from an undesirable event can no longer be ruled out. In order to trace and assess the risks we document the quantitative extent of the calculated loss or damage in the light of relevant influencing factors.

Derivation of net loss from gross loss

In the derivation of net loss from gross loss we take account of measures to contain loss: avoidance, minimization, transfer. Provisions and valuation allowances are handled by our controlling, and the gross loss is reduced accordingly, a measure to which we make specific reference in our risk documentation.

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 are recorded in the internal planning and controlling system of the respective companies and communicated to Group management in accordance with the specific company reporting thresholds.

Despite the economic slowdown, it is evident that, even if a number of major risks of € 25 million were to occur at the same time, the Group would not be endangered as a going concern.

Environmental and Sectoral Risks

Sectoral risks

Against the backdrop of macroeconomic changes in the international markets, price developments in the sales and procurement markets, exchange rates (especially US$/€) and the oil price are factors of great significance for the Salzgitter Group. In order to minimize the associated business risks, the relevant trends are monitored and taken account of in risk forecasts. This is also valid for potential restrictions resulting from political measures affecting international business such as, for instance, a trade embargo.

Along with efforts to set in place a healthy sales structure, we are especially committed to developing new steel materials, optimizing manufacturing processes and promoting the targeted growth of our Group. We are supported in these efforts by the Research Center of Salzgitter Mannesmann Forschung GmbH with its application-oriented research and development for steel, our aim being to participate in shaping tomorrow's markets as a successful supplier. Our intention in expanding our holdings portfolio by adding the Technology Division is to reduce our dependency on the strongly cyclical nature of the steel industry.

We limit risks from changes in the steel sector by having a decentralized group structure enabling swift decision-making processes which allow us to adapt to new market conditions in a timely fashion. From today's standpoint, there are no risks identifiable from developments in the relevant sectors which could constitute a threat to Salzgitter AG (SZAG) as a going concern.

Price risks of purchased essential raw materials

The price trend of important raw materials, such as iron ore, coal, scrap and alloys, at the start of the reporting year caused procurement costs to rise against the original budget. We identified these risks at an early stage and incorporated them into the earnings forecast. Moreover – as in the previous years – the higher selling prices of our products helped compensate for additional material expenses. In accordance with the current outlook for 2009, the cost of these materials is, in our opinion, in line with market conditions. We do not therefore expect any significant risks which could negatively impact profit from this front.

Procurement risks

We counteract the potential risk of supplies of important materials (iron ore, coal) and energy (electricity, gas) not being sufficient to cover the needs by safeguarding the procurement of such raw materials and energy from various regions and suppliers – in part by way of long-term framework contracts. We also operate an appropriate inventory management. Based on our assessment of our supply sources we are certain that the availability of these raw materials in the required quantity and quality is ensured to the best possible extent. We source our electricity on a contractually secured basis where our needs exceed our own generating capacity. To contain the risk of further electricity price hikes, construction work was started on two 105 MW power generating units at the Salzgitter works which will serve to largely cover the future requirements of Salzgitter Flachstahl GmbH. For the reasons cited above, we believe that supply bottlenecks are unlikely, and we therefore do not anticipate any adverse effects.

The scheduled rail transport of iron ore and coal from our overseas port in Hamburg to the Salzgitter location is also important. Our contractual partner in guaranteeing this logistics task is Railion Deutschland AG, the freight subsidiary of Deutsche Bahn AG. We have developed a detailed contingency plan to deal with any adverse events, such as strikes. This plan includes foresighted stockholding and intensive coordination between Railion and ourselves to keep train transport running regularly to the greatest possible extent. A possible alternative in place would be the more intensive use of the railway facilities owned by the Group, as well as using inland waterways to transport partial shipments.

Selling risks

A risk typical to our business may result from the sharp fluctuations in the prices and volumes in our target markets. In respect of the current economic environment, we refer to the forecast for the outlook in the financial year 2009.

We counteract any potential, general risk to our company as a going concern by means of a diversified portfolio of products, customer sectors and regional sales markets. Thanks to our broad-based business and our flexible organization, we are in a position to implement countermeasures tailored to the specific situation swiftly and effectively. By exploiting the compensatory opportunities arising from a variety of different economic developments which affect our various divisions (for example, the impact of the oil price on the automobile industry and on the tubes business), we are able to achieve a more balanced risk portfolio across the whole Group.

Production downtime risks

We counteract the risk of unscheduled, protracted downtime of our key plant components through regular plant checks, a program of preventive maintenance, as well as a continuous process of modernization and investments. To cover possible loss or damage and the associated production downtime, as well as other conceivable compensation and liabilities claims, we have concluded insurance policies which guarantee that potential financial consequences are curtailed, if not fully excluded.

The scope of insurance cover is reviewed on an ongoing basis and adjusted, if necessary. Apart from cases with the requisite insurance cover in place already, we consider the probability of such events occurring, and any associated potential loss, as low.

Legal risks

In order 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 provisions and seek extensive legal advice from our 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 a Group-internal contact desk for international affairs. In our opinion, there are no discernible material legal risks.

Financial risks

The coordination of funding and the management of the interest rate and currency risks of companies financially integrated into the Group is the task of Salzgitter Mannesmann GmbH (SMG). The risks horizon which has proven expedient is a rolling 3-year period aligned to the planning framework. The guidelines issued require all companies belonging to the group of consolidated companies to hedge against financial risks at the time when they arise. For instance, risk-bearing open positions or funding in international trading must be secured. On principle, we permit financial and currency risks only in conjunction with processes typical to steel production and trading.

In relation to the operating risks, these risks are therefore of minor importance with little impact on the risk situation of the Group.

Currency risks

Our procurement and sales transactions in foreign currencies naturally harbor currency risks. The development of the dollar, for instance, exerts a major influence on the cost of procuring raw materials and energy, as well as on export selling prices in the tubes segment or mechanical engineering, for example. Although the effects cancel each other out, the need for dollars for procurement activities predominates, owing to the business volumes which vary greatly. We generally set off all cash flows denominated in foreign currency within the consolidated group, a process known as netting, thereby minimizing the risk potential.

In order to limit the volatility of financial risks, we conclude derivatives contracts with terms of up to three years, the value of which develops counter to our operational business. 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 stimulate the sensitivity of these instruments in accordance with the standards laid down under IFRS 7 (see the section "Consolidated Annual Financial Statements/Notes" on page 164).

Default risks

The receivables risks are limited as far as possible by securitizing loans and by having a stringent system for exposure management in place. Owing to the lack of transparency in the financial markets, the position of trade credit insurers has become more critical. Although, up until now, this trend can only be interpreted from the increase in individual instances where limits have been curtailed or insufficiently raised, the possibility that the situation may worsen cannot be entirely discounted. We are keeping a close watch on developments and factoring this into our business activities.

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 the Annual Financial Statements at company and at Group level. As a result of preventative measures, we believe that currency-related risks do not constitute a threat to the company as a going concern.

Liquidity risks

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. If these subsidiaries have their own credit lines they are responsible for minimizing the associated risks themselves, and they report on potential risks to the management companies. Given the cash and credit lines available, we see no danger to our Group as a going concern from the emergent recession.

Interest rate risks

The cash and cash equivalent item, significant in relation to the balance sheet total, is exposed to interest rate risk. In our investment policy, our preference is to the largest possible extent for low risk investment categories with a top credit rating while, at the same time, ensuring the availability of positions. Interest rate analyses are regularly drawn up in the monitoring and control of interest rate risks. The results are directly incorporated into investment decisions. In addition, risks may arise from capital and liquidity measures which would become necessary for subsidiaries and holdings if their business has not performed well on a long-term basis. Even with the changed economic environment and the deterioration in the business situation of subsidiaries, we do not expect any threats to the Group as a going concern from interest rate risk. As a basic principle, we use rolling financial planning to counteract this risk.

Tax risks

The recording and documenting of tax risks are 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, SZAG is responsible for provisioning, for instance, in respect of the risks inherent in audits by the fiscal authorities. By contrast, companies with independent tax liability are responsible for their own provisioning.

In the context of former government aid to border regions, the EU Commission requires SZAG to make back payments on interest and tax. In 2008, the European Court of Justice made a decision which went largely against the company in the second instance but, owing to cause of an action, has referred the case back to the court of first instance. The court is not expected to come to a decision before 2010. Appropriate provisions have been made to cover this risk. In this specific instance, we perceive a risk potential with a medium probability of occurrence and impact.

Personnel risks

SZAG actively competes on the market to attract qualified specialists and managers. The company counters the risk of fluctuation and the associated loss of knowledge by means of broad-based measures designed to develop its personnel. Specialist career paths have been explicitly introduced with the aim of creating career prospects for our specialists. Another instrument the company uses is to offer attractive company pension schemes which, given the dwindling benefits under state pension schemes, is becoming increasingly important.

Above and beyond this, we initiated the "GO – Generation Campaign 2025 of SZAG" project back in 2005 against the backdrop of the 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. Given the manifold measures, we believe there will be no significantly negative effects from this area of risk.

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 centralize and coordinate environmental and energy policies across all companies, to represent the Group in matters relating to the environment and energy policies and to manage individual projects affecting the whole Group.

The allocation of emission allowances remains an important issue. New CO_2 emission certificates sufficient to cover the second trading period (2008 until 2012) have been allocated. (See the section of the Report entitled “Environmental Protection” on page 75.)

Risks from maintaining land property may arise, particularly from inherited contamination. We counteract this risk, for instance, by fulfilling our clean-up duties. In terms of financial precautions, appropriate amounts of provisions are formed. There are no unmanageable circumstances arising from this type of risk.

Information technology risks

We contain 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 always remain at the forefront of technological progress.

The appropriate authority and competence granted to 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.

The consistent replacement of our hard- and software resources in line with the latest technology ensures that availability, maintenance and IT security are kept at the highest levels. Moreover, we operate our own computer center, the performance of which meets with high standards. Additional measures include gradually streamlining the historically evolved, heterogeneous IT structures in the Group. The risks from this area are deemed manageable, and the probability of an adverse event occurring is low.

Corporate strategy risks

We reduce our dependency on the economic cycle typical of the steel industry by expanding our holding portfolio on a selective basis. Such measures include last year's acquisition of the PET companies, headquartered in Hamburg and Essen, for the filling and packaging technology segment which forms part of the Technology Division. This measure has supplemented the value chain of the KHS Group which was taken over in the previous year as part of Klöckner-Werke AG (KWAG). In the Services Division, we reinforced the hydroforming business segment through the takeover of the hydroforming activities of SCHMOLZ + BICKENBACH Edelstahl GmbH. For further information on acquisitions, please see the section "Management and Control of the Company, Goals and Strategy" on page 58.

To secure our future earnings strength, we are committing considerable investments to our Group locations in Salzgitter and Peine. Please see the sections "Management and Control of the Company, Goals and Strategy" on page 58 and "Investments" on page 67 for more detailed information.

We limit the risks arising from joint ventures in which we do not hold a majority stake by way of suitable reporting and consultation structures, through participation in supervisory committees and through contractual arrangements. To ensure the transparency of the 50 % EUROPIPE GmbH (EP) joint venture, for instance, members of SZAG's Executive Board are represented on the company's Supervisory Board.

With respect of KWAG, a listed company, we ensure this transparency through an audit committee attached to the Supervisory Board. The task of this committee is to monitor risk management and major risks.

Evaluation of the risk position by management

Reviewing the overall risk of the Salzgitter Group has resulted in ascertaining that there were no risks that could endanger either the Group or the individual companies as going concerns at the time when the 2008 financial statements were drawn up. The overall risk situation aggregated from the various individual risks has thus remained virtually unchanged from the previous year in respect of our Group as a going concern.

The exceptional situation in the global financial markets and the concurrent swift deterioration in the global economy at the end of the financial year 2008 has caused transparency and continuity to deteriorate, thereby impairing the accuracy with which individual risks can be predicted. This will have a significant effect on the earnings position of the Group. In spite of this difficult situation, Salzgitter AG (SZAG) views itself as fundamentally well equipped to master the considerably greater challenges placed on risk management during this phase, given its business policy, which is geared towards sustainability and takes due account of the risks, as well as its sound strategic alignment.

The independent auditor has examined the early warning system installed at SZAG in accordance with the German Stock Corporation Act (AktG). This audit verified that the early warning system installed throughout the Group fulfills its functions and fully satisfies all requirements under company law.

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

Rating of the company

No official rating has been issued for SZAG by the pertinent rating agencies. From our perspective, there is currently no need for such a rating as, in spite of the growth achieved after some five years of boom, – without the need for a capital increase – we have attained an outstanding financial position that largely precludes the necessity of tapping the capital markets. Our own rating approach, performed using the customary quantitative criteria, has resulted in values which show hardly any divergence from our banks' internal ratings. This leads us to assume that an external valuation would place us firmly in the investment grade category, despite the high level of pension obligations.

SUSTAINABILITY

Steel is 100 % recyclable. At Salzgitter's own scrap yard the valuable old metal is prepared for further processing.

We live the principle of **SUSTAINABILITY** on many different levels.

As a corporation whose business is mainly based on the utilization of primary and secondary raw materials, we are well aware of our responsibility for the environment and are firmly committed to making the most prudent and sparing use of natural resources. Sustainability is also at the core of our entrepreneurial thought and action: all of our strategies and decisions are geared towards sustaining and improving the substance of our corporation over the long term – both for our employees and for our shareholders.

1. Significant Events after the Reporting Date

There were no events subject to reporting requirements after the reporting date.

2. General Business Conditions in the next two Financial Years

Global economy: gradual improvement feasible as from the second half of 2009

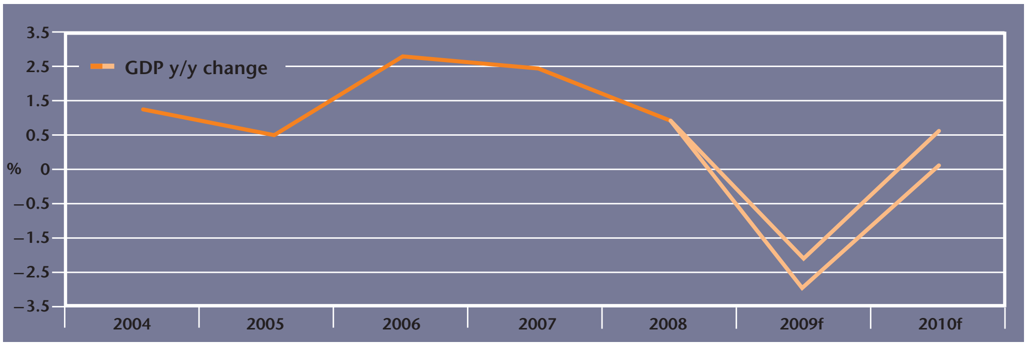
The future development of the **global economy** – which is likely to stand under the auspices of the financial crisis in 2009 as well – is virtually impossible to predict at present. Current economic forecasts for the months ahead assume that the significant global downswing is set to persist. In its forecast of January 26, 2009, the International Monetary Fund (IMF) therefore anticipates a growth in global GDP of a mere 0.5 % for the year as a whole. The group of industrialized nations is slipping into recession hand in hand for the first time in post-war history. Contrary to optimistic expectations, the emerging markets are unlikely to fare better. Their average growth rate has been estimated at 4 % which is only half what it was in 2007.

In the **United States of America** which, after the bursting of the real estate bubble, has been in recession for more than a year now, economic output fell again at the end of the year. The IMF has forecast a decline in GDP of 1.6 % in 2009. The economic cycle of the **European Monetary Union** mirrors that of the USA. Countries such as Spain and Ireland, which are strongly dependent on the construction sector, are leading the way. But also countries where growth is driven mainly by exports are faced with an economic downturn of no uncertain dimensions – this is particularly valid for Germany. Accordingly, the IMF anticipates a decline in economic output of 2 % for the euro zone in the year 2009.

In the opinion of the German Central Bank, real economic activity can be expected to sink rapidly in the winter half-year 2008/2009 in **Germany**. This downswing will be exacerbated by a significant decrease in capital goods expenditure and exports. The current forecasts which are impacted by a great deal of uncertainty report a contraction in 2009 GDP in the range of between 2.25 % (Federal government) and 2.5 % (IMF). Slow economic recovery is anticipated for the following year.

Even if the burdening factors still appear immense, the economic aid packages enacted by many countries and the concerted action by the central banks may set in place a broad base for containing global recession. It is, however, not possible to plan for or to forecast the prerequisites for a recovery, i.e. consumer confidence. The most recent price corrections in the international raw materials markets are likely to have a curbing effect on inflation worldwide in the months ahead. In as much, it is quite feasible that there may be economic recovery in the second half of 2009, albeit at a very slow pace.

GDP Germany; Forecast Range 2009/2010



Source: DW 02/09, German Federal Government 01/09, IMF 01/09 (f = forecast)

The steel market tracks the global economy

The critical state of the global steel markets as a direct result of the general economic downturn persisted into the new year 2009. A recovery can only be anticipated once the general economic expectations stabilize again. Assuming that business activities normalize by mid-year, sectoral associations anticipate that market supply in 2009 will settle somewhat below the level of 2008. If there is a further adversarial development of the economic situation, an even larger slump might have to be faced. After a slight decrease of crude steel production in 2008, the minus is expected to repeat in 2009. The IMF forecasts first signs of economic recovery in late 2009 if the situation in the financial markets levels out, if the various economic stimulus measures have an effective and positive impact if the US real estate market stabilizes. Accordingly an increase in market supply and the production of crude steel in 2010 is feasible.

The basic conditions for the steel year 2009 are challenging in the European Union and in Germany: based on recessionary developments in the automotive and construction industry, a decline in the demand for capital goods and an altogether weaker industrial production, the demand for steel is expected to slacken. The adjusting of inventory levels to bring them in line with lower demand is likely to be ongoing, which will constitute an additional burden. Both Germany and the European Union therefore expect the fall in market supply to be sharper than in demand for steel, a development which would entail notably lower levels of crude steel production in the year 2009. The year 2010 may subsequently see signs of recovery. If inventory demand coverage falls to a low level, at the latest by the end of 2009, inventory levels will not fall further in the subsequent year. Under these preconditions, even a moderate increase in steel requirements in 2010 would noticeably stimulate the demand for steel. This development should result in the production of crude steel rising again in 2010.

Cyclical downturn with few rays of light

Slowing demand for steel tubes, which set in over the course of the year 2008, is likely to continue into 2009. If the state of the market as seen in the fourth quarter of 2008 persists, global steel tube production may fall by 10 million tons, the equivalent of 8%, to 110 million tons. This would, however, still be the third-best production result of all time. In terms of the different application segments, the development varies: The large-diameter segment should be relatively well equipped for the year 2009 on the back of partly still very full order books. Nonetheless, despite the still generally good project situation, there may well be delays in the placing of orders owing to the notable decline in oil and gas prices, coupled with potential bottlenecks in financing. This statement can also be applied analogously to the segment of seamless tubes and (carbon and stainless) steel tubes welded from hot-rolled strip used in the oil and gas sector or in power plant construction. By contrast, the picture which is emerging in the automotive, construction and mechanical engineering sectors in particular looks much more critical, exacerbated by the fact that these industries are partly supplied by stockholding steel trading. In view of weaker demand from end consumers, tube traders will have to adjust their inventories, which is likely to reinforce the effect of paring down the level of new bookings.

As a consequence of the probable continued global growth in the need for energy it can be assumed that steel tubes required by the energy industry are more likely to meet with stable demand in 2010 as well. This segment will, however, not be able to disengage from the falling price trend in the overall market. It is currently difficult to estimate how financing options in respect of projects will develop, especially if the implementation of such projects is not a strategic necessity. The outlook until 2010 for tube products used in the automotive sector, industry at large and trading is much more moderate, although a certain degree of recovery is expected here as well.

Ailing global economy puts pressure on the mechanical engineering sector

After five years of high growth rates, German mechanical engineering is shoring itself up for a slowdown in development in 2009. The strongly export-oriented German mechanical engineering sector will not be able to escape global economic cooling. The VDMA (German Machinery and Plant Manufacturing Association) has put the decline in real production at 7% in 2009. Downturns are expected especially in the American, Japanese and West European markets which are set to be particularly strongly impacted by the real estate crisis and the credit crunch. Against this background, optimizing the utilization of production capacities in preference to new projects will become increasingly important.

Irrespective of economic shortfalls, the beverages industry, the most important customer sector of the Technology Division, anticipates that demand will continue to rise in the medium to long term. Expert opinion estimates state that the global demand for beverages is likely to grow by around 3.7%[1] a year up until 2012, thus exceeding overall economic growth.

[1] Euromonitor 2008

Provided that the paralysis of the economy in general and the extreme dampening of consumer confidence in particular can be overcome, long-term, fundamentally anchored developments will once more gain the upper hand. Population growth and achieving higher standards of living, especially in the emerging markets, may drive the demand for higher quality food and beverages. Additional impetus is generally anticipated from PET packaging, which is becoming increasingly important. For a number of years now the share in form of packaging has been rising in comparison with glass, cardboard and metal packaging.

Leading indicators specific to the company

Recognizing risks and opportunities is crucial to our ability to react to market developments at an early stage. With this in mind, we monitor not only the economy as a whole and the relevant economic indicators but also very specific individual markets where changes may exert a considerable influence on the future profit potential in the product market segments of the Group. In this process, we use economic data, sector indices as well as information from the respective associations in our customer sectors. The management of our Group companies is kept informed on an ongoing basis about information relevant to the market from discussions with suppliers, customers and associations. The information thus collated forms the fundaments for assessing developments in the pertinent markets. Above and beyond the continuous process of recording these types of opportunities and risks through the groupwide controlling system, long-term trends and changes in the structure of the market and competition are documented and communicated within the Group.

For instance, the sales figures forecast for motor vehicles and vehicle parts are an important operational leading indicator for the Steel Division. The movements of scrap prices can also provide an indication of how the steel markets will perform in future. In the Tubes Division, deductions about business expectations can be derived from the oil price level, as this component exerts a considerable influence on the investment activities of the energy sector. The general demand for energy, for instance, helps to ascertain the future level of activities in the large-diameter tubes segment. Another indicator relevant here is the rig count, which is the number of global oil and gas exploratory drillings worldwide. The corporate planning of the Technology Division naturally includes the relevant information from machinery and plant construction and from the latter’s customer sectors.

3. Strategic Direction of the Group

Our Group strategy is geared towards sustaining its independence through profitability and growth and has been crafted to deliver a steady increase in enterprise value. There are no plans to change our fundamental business policy in the years ahead. In this context, organizational development, above all in respect of proven and profitable structures, enjoys a higher priority than external growth through acquisitions. This is particularly applicable in cases where the relationship between the associated financial commitment and potential economic benefit cannot dispel all doubt as to sustainable economic viability over an economic cycle. Against the backdrop of the current global financial crisis and the turbulences on the international financial markets, top priority is being given to ensuring a sound balance sheet and the financial stability of our Group.

As a matter of principle, the business activities of the companies in the various divisions will concentrate on the established sales markets. This process may involve a shift in the focus on a regional or sectoral level. The shape that this will take will ultimately depend on market developments, the positioning of the companies and short-term responsiveness. Opportunities on markets not frequented to date are being reviewed and will be exploited if there is commercial and technical potential.

Along with the customer proximity so characteristic of a group of our dimensions, a 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 had not been planned for the period under review. However, in order to reinforce their market share as manufacturers of high-grade rolled steel products and steel tubes, the companies of the Steel and the Tubes Divisions intend to invest in modernizing various production stages. The primary aim, alongside reducing costs, is a 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 forward and additional application possibilities through ongoing development. In this context, we refer to the sections “Research and Development” on page 71 and “Investments” on page 67.

For the purpose of systematic recording and control of all projects and measures aimed at reducing costs, as well as improving productivity, product qualification and quality assurance, we will forge ahead with consistently implementing the groupwide Profitability Improvement Program.

The **Steel Division** concentrates first and foremost on organic development, with the focus on productivity and product quality. To this end, Salzgitter Flachstahl GmbH (SZFG) focuses primarily on optimizing its extensive steel strip program for sophisticated customers such as, for instance, the automotive industry. The beams segment envisages a gradual expansion of its products spectrum to include special profiles, while the plate mills will progressively focus on higher value grades, as it can be assumed that a more stable demand at attractive prices will hold steady, especially for these products.

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

The **Tubes Division** intends to foster growth mainly through building up existing business segments and improving 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.

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

The strategic targets of the **Technology Division** include the food and non-food segments gradually penetrating markets, whose potential has been exploited only to a limited extent, and the completion of the range of high-performance beverage filling and packaging technology. 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 products groups. Another key step in development was taken by adding a PET blow molding machine to the product portfolio.

It is basically feasible that the Salzgitter Group may purchase further holdings in steel-related areas or build on its existing portfolio of holdings. The aim of such measures is to achieve a broader strategic base for the Salzgitter Group as part of its corporate strategy.

4. Expected Earnings

The precipitous deterioration, triggered by the global credit crunch, in the general economic environment in the fourth quarter of the financial year 2008 was the reason why Salzgitter AG's (SZAG) Executive Board decided upon a route which diverges from the customary procedure of preparing a budget and deriving forecasts for the financial years ahead. In the section below we give explanations on the basic planning approach, describe the divergences from the customary procedure and conclude with a statement on the course of the financial year which is justifiable and based on the most recent information available at the time this Annual Report was compiled.

The corporate planning of SZAG is geared towards strategic goals and comprises its own set of entrepreneurial measures with action embedded in the general economic environment. It forms the basis for a realistic assessment of profit, but must, 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, even in more difficult market environments. For this reason, 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 new financial year, are incorporated into this plan. The individual goals of the subsidiaries are discussed and defined in a combination of a top-down and bottom-up approach between the respective management and the Group's Executive Board. All individual plans are then aggregated to form a plan for the whole Group. 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. The extremely sophisticated planning process of the Group is conducted before the beginning of each new financial year, starting in August and ending with the presentation of the results at the last meeting of the Group's Supervisory Board in the respective financial year.

In the financial year 2009, this procedure was not adhered to as the assumptions which were incorporated into the original plans at company level were based on a normalizing economic environment that would nonetheless remain positive for all the Group companies. With the sudden indirect impact of the financial crisis on the rest of the economy at the end of October, these estimates proved to be too optimistic. Along with the scaling back of inventories by a number of different customers, there was a concurrent sharp downturn in demand in the short-term business of the Steel Division to which we responded by curtailing production and adjusting capacity utilization, mainly at those companies engaged in finished goods, in December 2008 and in the first quarter of 2009. These measures were also carried out in the precision tubes segment which was particularly hard hit by the production downtime of automotive manufacturers.

Key aspects of the original planning by the companies were therefore modified at the start of December. Such modifications include the reduction of shipment volumes, lowering raw material prices and selling prices for the 2009 planning year and basing assumptions on having to contend with difficult market and competitive conditions at least until the end of the first quarter of 2009. Upon the economy bottoming out in the second quarter of 2009, the second half of the year is expected to see shipments and selling prices normalizing at a much lower level in comparison with 2008.

Despite its broad-based business, which is sound from every angle, the Salzgitter Group will be unable to decouple from the consequences in financial 2009 of the worst recession experienced since the end of World War II.

It is highly probable that the order intake of the **steel companies** will fall significantly below the level of 2008. Consequently, there is likely to be a substantial decline in the shipments of rolled steel and processed products: Salzgitter Flachstahl GmbH (SZFG) assumes that sales of flat steel will be substantially lower, and Peiner Träger GmbH (PTG) expects a decline in its section shipments which will exceed the scope of volumes curtailed due to conversion measures (including furnace downtime in the steel mill, conversion of the universal beam line to a tandem line). The extremely weak condition of the market will cause shipments to fall at HSP Hoesch Spundwand und Profil GmbH (HSP) as well. By contrast, there are also signs that plate, as a product that lags economic cycles, will also suffer from more moderate but nonetheless negative demand-related influences. At the same time, there is a perceptible weakening in the selling prices of all products. Over the course of the quarters, the cost of iron ore and coal is expected to fall gradually. The prices of other key input materials, such as scrap, heating oil, coke from external sources and electricity are also likely to decrease.

The steel companies forecast a significant decline in profit for the year 2009 as against the previous year. SZFG and PTG are the companies hardest hit by the critical developments in the market and are additionally burdened by upfront costs in connection with running investment projects. Ilsenburger Grobblech GmbH (ILG) also anticipates a substantial decline owing to the return of the exceptionally high margins of previous years to more normal levels but should be able to achieve at least breakeven. The sales and earnings of the Steel Division will therefore be considerably lower than in the previous year.

The **Trading Division** also assumes that shipment volumes and gross earnings will decline. Significant discounts on the spot market are also likely to erode sales. We assume that the sales and earnings of the trading companies in Germany and abroad will fall considerably short of the levels achieved in the financial year 2008.

By contrast, we believe that the outlook for business in the **Tubes Division** will remain positive, mainly owing to orders in hand. First and foremost, Europipe has entered 2009 with a historically high level of orders which are backed by the certainty of revenues. As there will be no nickel price-induced windfall profit in the financial year 2009, the stainless steel tubes companies will sustain a notable decline in their results. The other tubes companies also anticipate negative changes in their results, particularly in the automotive supplier market. The sales and earnings of the Tubes Division are likely to be in decline in comparison with the previous-year's figures but will nonetheless settle at a comparatively high level.

The lower production levels will probably cause the pre-tax profit of the **Services Division** to fall in 2009. Through the nature of their business, companies operating in the automotive industry are exposed to risks which burden their results. Sales will decline mainly due to the tumbling prices of scrap.

The **Technology Division** is also preparing itself for weak demand in large parts of the mechanical and plant engineering sectors. The KHS Group was particularly hard hit in the second half of 2008 by shrinking order intake and declining sales. The results of the division are expected to fall short of the 2008 figures owing to the lower volume of sales.

In view of the drastic deterioration in the business environment in the first quarter of 2009, we assume that there will be initial stagnation through to and beyond the second quarter, and that the second half year of 2009 could see a hesitant uptrend at a low level. Our estimates for shipment volumes and the selling price trend are much more pessimistic than in 2008, and we anticipate a notable decline in sales for the Salzgitter Group.

In the financial year 2009, we will be confronted with unprecedented imponderables. Against this background, it would be irresponsible at the current point in time to provide a quantified **forecast for a 2009 consolidated result**. The first half-year is unlikely to close at breakeven for the Group, as the critical development in the rolled steel market cannot be cushioned by the other activities of the Salzgitter Group. In the event of a notable recovery, especially in the rolled steel markets and in demand from the automotive industry, attaining more or less breakeven in the pre-tax result should be possible in 2009.

As in recent years, we make reference to the fact that **opportunities and risks** from currently unforeseeable trends in selling prices, input materials and capacity level developments, as well as changes in the currency parity, may considerably affect performance in the course of the financial year 2009. The resulting fluctuation in the consolidated pre-tax result may, as current events show, be within a considerable range, either to the positive or to the negative. The dimensions of this range become clear if one considers that, with around 10 million tons of steel products sold by the Steel, Trading and Tubes divisions, an average € 50 contraction in the margin per ton is sufficient to cause annual profit to diverge by more than € 500 million.

The **medium and long-term outlook** are deemed to be relatively intact for all Group companies provided that the recession can be overcome. With the onset of a market recovery, the consolidated sales and the pre-tax result of the Steel and Trading divisions should rise again in 2010.

5. Anticipated Financial Position

The investment budget of the Salzgitter Group for the financial year 2009 is currently being reviewed. The aim of this review is to ensure that the aggregate amount of the payment-related part of the 2009 budget and the sum total of subsequent investments approved in former years does not substantially exceed the previous year's volume (€ 702 million). As before, investments will be effectively triggered on a step-by-step basis and in accordance with the development of profit and liquidity.

Based on the foreseeable amount of investment, financial resources required for the financial year 2009 will in any case be higher than depreciation and amortization, with the result that the excess amount will be funded less by the cash flow from operating activities than predominantly by available cash and cash equivalents. This is feasible from the standpoint of management as there is enough leeway.

The financial position of the Salzgitter Group is likely to be comparatively sound at the end of the financial year as well. External financing measures, such as borrowing, are not currently envisaged. However, measures of this kind may be realized if and when the time comes in the context of more major acquisition projects or if there is a substantial deterioration in the general environment.

6. Overall Statement on the Performance Anticipated for the Group

The excellent economic conditions prevailing in recent years in the markets of the Salzgitter Group deteriorated rapidly towards the end of the financial year 2008. As a direct or indirect result of the crisis in the financial markets, many of our customers are now confronted with problems that would have been considered unthinkable a few months ago, as the sudden and dramatic slump in demand is compounded in many cases by problems with financing that pose a threat to the continuation of their operations. Despite all the efforts by policy makers to limit the damage the enormous insecurity felt across all sectors and frontiers constitutes a huge risk potential for the economy and the development of business.

The Salzgitter Group has responded to this crisis by curbing production and adjusting capacity utilization. The areas mainly affected were the metallurgy and finishing operations of the flat steel and sections manufacturers Salzgitter Flachstahl GmbH (SZFG), Peiner Träger GmbH (PTG), HSP Hoesch Spundwand und Profile GmbH (HSP) and the precision tubes manufacturer Salzgitter Mannesmann Precision GmbH (SMP). The low level of capacity utilization and the still high price of raw materials and energy, which are likely to fall only in the course of the year, will have an extremely negative impact on the earnings of the aforementioned companies. By contrast, order intake and the selling price situation of the Tubes Division is relatively satisfactory and is likely to have a considerable stabilizing effect on the Group. Having absorbed any subsequent effects associated with the valuation of inventories, the Trading and Services divisions will make significantly lower contributions to the profit of the Group. The Technology Division has felt the consequences of the global economic slowdown: owing to weak capacity utilization it will therefore not be able to repeat the positive development seen in recent years.

With its sound financial base and its flat and efficient organization structures the Salzgitter Group has proven that it is comparatively well prepared to master challenging phases. The Profitability Improvement Program, stringently pursued in boom phases as well, makes hectic cost-cutting and restructuring measures redundant; all the steps necessary for safeguarding the company as a going concern and its intrinsic value have been well thought through and confidently implemented. Major investments are therefore to be realized within a scope deemed meaningful, which will serve to strengthen our entrepreneurial potential in the years ahead when economic prosperity returns.

The financial year 2009 will pose challenges for our Group that are unprecedented in the 150-year history of our company. There is no question that it will be in a better position to master these challenges than others.

However, we also view the crisis as an opportunity of calling a temporary halt to very unhealthy developments, such as the unrestrained building up of global capacity and the unscrupulous speculation with all natural and economic resources which contravene all rules of stewardship and sustainable action. In view of these considerations, we look to the future with confidence.

From today's standpoint, no reliable quantification above and beyond that made under the section entitled "Expected Earnings" on page 156 can be reliably made with regard to the outlook for sales and profit of the Salzgitter Group in 2010. The ripples of the financial crisis and its impact on the course of business will most certainly make themselves felt in this year as well.

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 its share price. Determinant factors for the Group's ability to pay dividend are the individual financial statements of Salzgitter AG (SZAG) as well as the expected liquidity situation. The Salzgitter Group basically pursues a policy of paying attractive dividends on an ongoing basis, contingent on the premise that operations remain profitable. This may not necessarily fully reflect the cyclicality of the profit trend.

Contents Consolidated Annual Financial Statements

I. Consolidated Income Statement

in € mil.	Note	FY 2008	FY 2007
Sales	1	12,499.2	10,192.3
Increase/decrease in finished goods and work in process/other own work capitalized	2	76.9	213.9
		12,576.1	**10,406.2**
Other operating income	3	360.0	278.6
Cost of materials	4	8,783.3	6,881.1
Personnel expenses	5	1,472.4	1,232.3
Amortization and depreciation	6	278.5	225.1
Other operating expenses	7	1,385.4	1,039.9
Income from shareholdings	8	14.2	2.1
Income from associated companies	9	8.0	9.5
Impairment losses on financial assets	10	11.8	5.6
Finance income	11	136.0	116.0
Finance expenses	11	159.5	114.5
Earnings before tax		**1,003.4**	**1,313.9**
Income tax	12	326.5	408.8
Consolidated net income for the financial year		**676.9**	**905.1**

Appropriation of profit in € mil.	Note	FY 2008	FY 2007
Consolidated net income for the financial year		676.9	905.1
Profit carried forward from the previous year		189.7	126.5
Minority interests	13	2.6	4.0
Dividend payment		–170.7	–114.2
Allocation from capital reserve		111.1	–
Appropriation to other retained earnings		–720.2	–723.7
Unappropriated retained earnings		**84.2**	**189.7**

Undiluted earnings per share (in €)	**14**	**12.11**	**15.80**
Diluted earnings per share (in €)	**14**	**12.11**	**15.80**

Assets in € mil.	Note	31/12/2008	31/12/2007
Non-current assets			
Intangible assets			
Goodwill	15	20.6	15.4
Other intangible assets	16	184.0	119.5
		204.6	**134.9**
Property, plant and equipment	17	2,199.4	1,797.8
Investment property	18	31.6	26.5
Financial assets	19	122.1	108.8
Associated companies	20	341.7	84.1
Deferred income tax assets	21	15.7	13.0
Other receivables and other assets	22	3.1	2.9
		2,918.2	**2,168.0**
Current assets			
Inventories	23	2,551.2	2,084.4
Trade receivables	24	1,652.2	1,521.0
Other receivables and other assets	25	881.9	359.4
Income tax assets	26	75.1	114.2
Securities	27	30.7	20.4
Cash and cash equivalents	27	592.1	2,138.8
		5,783.2	**6,238.2**
		8,701.4	**8,406.2**

Equity and liabilities in € mil.	Note	31/12/2008	31/12/2007
Equity			
Subscribed capital	28	161.6	161.6
Capital reserve	29	184.2	295.3
Retained earnings	30	4,261.6	3,777.7
Unappropriated retained earnings	31	84.2	189.7
		4,691.6	**4,424.3**
Treasury shares	30	–372.8	–227.8
		4,318.8	**4,196.5**
Minority interests	32	27.3	49.4
		4,346.1	**4,245.9**
Non-current liabilities			
Provisions for pensions and similar obligations	33	1,787.0	1,791.8
Deferred tax liabilities	21	103.1	94.0
Income tax liabilities	26	207.4	214.2
Other provisions	34	214.4	192.6
Financial liabilities	35	68.0	87.4
		2,379.9	**2,380.0**
Current liabilities			
Other provisions	34	473.5	325.6
Financial liabilities	36	110.5	98.5
Trade payables	37	865.4	760.7
Income tax liabilities	26	36.4	19.7
Other liabilities	38	489.6	575.8
		1,975.4	**1,780.3**
		8,701.4	**8,406.2**

III. Statement of Recognized Income and Expense

(30) Statement of Recognized Income and Expense

in € mil.	FY 2008	FY 2007
Changes in the financial year recorded directly in equity		
Changes in currency translation	–1.2	–9.9
Change in value reserve from hedging transactions		
Changes in current value recorded directly in equity	–5.6	6.9
Recognition of settled hedging transactions with effect on income	–5.4	–1.5
Changes in value of financial assets in the „available-for-sale" assets category		
Changes in current value recorded directly in equity	–44.4	27.0
Recognition from the sale of securities with effect on income	–	–1.1
Actuarial gains and losses	–14.6	39.4
Deferred tax on current changes without effect on income	24.6	–47.9
Other changes without effect on income	–0.1	1.7
	–46.7	**14.6**
Consolidated net income for the financial year	**676.9**	**905.1**
Total comprehensive income	**630.2**	**919.7**
Total profit due to Salzgitter AG shareholders	627.3	914.4
Total profit due to minority interests	2.9	5.3
	630.2	**919.7**

(42) Cash Flow Statement

in € mil.	FY 2008	FY 2007
Earnings before tax (EBT)	1,003.4	1,313.9
Depreciation, write-downs(+)/write-ups(–) on fixed assets	290.3	195.7
Income tax paid	–240.2	–412.4
Other non-payment-related expenses (+)/income (–)	300.6	100.0
Interest expenses	159.5	114.5
Increase (–)/decrease (+) from the disposal of fixed assets	6.5	–2.8
Increase (–)/decrease (+) in inventories	–415.4	–215.0
Increase (–)/decrease (+)in trade receivables and other assets not attributable to investment or financing activities	–200.4	–79.7
Use of provisions affecting payments, excluding use of tax provision	–250.4	–229.9
Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	–107.0	–3.3
Cash inflow from operating activities	**546.9**	**781.0**
Cash inflow from the disposal of fixed assets	5.5	14.4
Cash outflow for investments in intangible and tangible fixed assets	–638.1	–372.8
Cash inflow (+)/outflow (–) for short-term loans against borrower's note/bonds	–425.0	–25.0
Cash inflow from the disposal of financial assets	5.4	37.9
Cash outflow for investments in financial assets	–536.5	–399.7
Cash outflow from investment activities	**–1,588.7**	**–745.2**
Cash inflow (+)/outflow (–) as a result of selling and repurchasing treasury shares	–279.7	–85.7
Cash outflow in payments to company owners	–170.7	–114.2
Cash inflow (+)/outflow (–) as a result of the issuing of bonds, borrowings and other financial liabilities	–27.5	–7.5
Interest paid	–27.0	–34.6
Cash outflow from financing activities	**–504.9**	**–242.0**
Cash and cash equivalents at the start of the period	2,138.8	2,345.0
Payment-related changes in cash and cash equivalents	–1,546.7	–206.2
Cash and cash equivalents at the end of the period	**592.1**	**2,138.8**

(28 to 32) Statement of Changes in Equity

in € mil.	Subscribed capital	Capital reserve	Purchase/re-purchase of treasury shares	Other retained earnings	Reserve from currency translation
Status 01/01/2007	**161.6**	**295.3**	**–160.4**	**3,204.5**	**–16.0**
Goodwill resulting from IFRS 3 and IAS 27	–	–	–	7.7	–
Net income for the financial year	–	–	–	–	–
Dividend	–	–	–	–	–
Disposal of treasury shares	–	–	18.2	–	–
Repurchase of treasury shares	–	–	–85.7	–	–
Currency translation	–	–	–	–	–9.9
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	–	–	–	723.8	–
Changes in the consolidated group	–	–	–	–	–
Deferred tax on changes without effect on income	–	–	–	–	–
Other	–	–	–	7.7	–
Status 31/12/2007	**161.6**	**295.3**	**–227.9**	**3,943.7**	**–25.9**
First-time consolidation of group companies so far not consolidated for materiality reeasons	–	–	–	5.8	0.8
Goodwill resulting from IFRS 3 and IAS 27	–	–	–	–51.5	–
Net income for the financial year	–	–	–	–	–
Dividend	–	–	–	–	–
Redeemed own shares	–	–	134.8	–134.8	–
Repurchase of treasury shares	–	–	–279.7	–	–
Currency translation	–	–	–	–	–2.0
Change in value pursuant to IAS 39	–	–	–	–	–
Adjustment in line with actuarial assumptions regarding pension obligations, no effect on income	–	–	–	–	–
Allocation from capital reserve	–	–111.1	–	–	–
Group transfers to retained earnings	–	–	–	720.2	–
Changes in the consolidated group	–	–	–	–	–
Deferred tax on changes without effect on income	–	–	–	–	–
Other	–	–	–	–9.2	–
Status 31/12/2008	**161.6**	**184.2**	**–372.8**	**4,474.2**	**–27.1**

Change 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
3.4	**5.0**	**–172.9**	**126.5**	**3,447.0**	**9.7**	**3,456.7**
–	–	–	–	7.7	–8.8	–1.1
–	–	–	901.1	901.1	4.0	905.1
–	–	–	–114.2	–114.2	–2.3	–116.5
–	–	–	–	18.2	–	18.2
–	–	–	–	–85.7	–	–85.7
–	–	–	–	–9.9	–	–9.9
5.4	25.9	–	–	31.3	–	31.3
–	–	39.4	–	39.4	–	39.4
–	–	–	–723.8	–	–	–
–	–	–	–	–	47.3	47.3
–	–	–47.9	–	–47.9	–	–47.9
–	–	1.7	–	9.4	–0.5	8.9
8.8	**30.9**	**–179.7**	**189.7**	**4,196.5**	**49.4**	**4,245.9**
–	–	–	–	6.6	–	6.6
–	–	–	–	–51.5	–19.7	–71.2
–	–	–	674.3	674.3	2.6	676.9
–	–	–	–170.7	–170.7	–	–170.7
–	–	–	–	–	–	–
–	–	–	–	–279.7	–	–279.7
–	–	–	–	–2.0	–	–2.0
–11.0	–44.4	–	–	–55.4	–	–55.4
–	–	–14.6	–	–14.6	–	–14.6
–	–	–	111.1	–	–	–
–	–	–	–720.2	–	–	–
–	–	–	–	–	–	–
–	–	24.6	–	24.6	–	24.6
–	–	–0.1	–	–9.3	–5.0	–14.3
–2.2	**–13.5**	**–169.8**	**84.2**	**4,318.8**	**27.3**	**4,346.1**

(44) Segment Reporting

in € mil.	Steel		Trading	
	FY 2008	FY 2007	FY 2008	FY 2007
External sales	3,001.7	2,852.0	5,621.7	4,384.8
Sales to other segments	1,141.7	971.1	616.4	430.3
Sales to Group companies that cannot be allocated to an operating segment	137.6	144.3	63.9	42.5
Segment sales	4,281.0	3,967.4	6,302.0	4,857.6
Interest income (consolidated)	3.1	0.1	10.4	9.4
Interest income from other segments	–	–	–	–
Interest income from Group companies that cannot be allocated to an operating segment	4.1	3.9	–	0.7
Segment interest income	7.2	4.0	10.4	10.1
Interest expenses (consolidated)	10.5	9.3	15.9	15.8
Interest expenses to other segments	–	–	–	0.1
Interest expenses to Group companies that cannot be allocated to an operating segment	31.6	17.1	17.7	14.9
Segment interest expenses	42.1	26.4	33.6	30.8
Scheduled depreciation of tangible fixed assets and amortization of intangible assets (excluding impairment costs in accordance with IAS 36)	154.1	146.6	11.3	10.6
Unscheduled write-downs (impairment costs in accordance with IAS 36 on tangible assets and amortization of intangible assets[1]	–	–	–	–
Reversals of impairment losses of tangible fixed assets and intangible assets[1]	–	28.7	–	–
Unscheduled write-downs (impairment costs in accordance with IAS 36 on financial assets[1]	–	–	–	–
Result for the period in the segment	545.6	749.4	150.8	212.5
of which income from associated companies	4.5	3.7	–	–
Other expenses and income with no effect on income	119.0	–5.0	43.7	30.1
Investments in tangible fixed assets and intangible assets	2,562.0	2,102.6	1,655.9	1,339.3
of which shares in associated companies	1.9	4.0	–	–
Investments in tangible fixed assets and intangible assets	454.3	246.2	16.2	13.2
Segmental operating liabilities	1,732.8	1,498.7	1,523.4	1,143.7

Tubes		Services		Technology		Total segments	
FY 2008	FY 2007	FY 2008	FY 2007	FY 2008	FY 2007	FY 2008	FY 2007
2,172.5	1,815.3	519.3	504.0	1,037.9	512.6	12,353.1	10,068.7
778.6	624.1	757.0	661.1	0.1	–	3,293.8	2,686.6
0.6	0.6	10.8	4.6	0.2	–	213.1	192.0
2,951.7	2,440.0	1,287.1	1,169.7	1,038.2	512.6	15,860.0	12,947.3
3.3	3.3	1.0	1.1	3.4	2.1	21.2	16.0
–	0.1	–	–	–	–	–	0.1
1.7	1.9	13.3	12.9	0.7	–	19.8	19.4
5.0	5.3	14.3	14.0	4.1	2.1	41.0	35.5
8.3	8.4	14.2	13.3	12.1	6.2	61.0	53.0
–	–	–	–	–	–	–	0.1
13.7	11.9	2.3	1.7	3.5	0.2	68.8	45.8
22.0	20.3	16.5	15.0	15.6	6.4	129.8	98.9
32.5	27.4	20.9	21.9	57.9	10.3	276.7	216.8
–	–	–	3.6	–	–	–	3.6
–	5.9	–	–	–	0.4	–	35.0
6.7	–	–	–	0.1	–	6.8	–
311.8	302.5	23.9	40.4	3.8	4.0	1,035.9	1,308.8
3.5	5.8	–	–	–	–	8.0	9.5
46.3	3.8	21.4	18.8	29.8	–14.6	260.2	33.1
1,601.5	1,413.3	555.6	561.0	968.4	862.1	7,343.4	6,278.3
82.9	80.1	–	–	–	–	84.8	84.1
85.6	70.8	50.4	38.0	40.3	15.1	646.8	383.3
1,174.9	1,038.5	469.3	474.6	1,074.0	851.1	5,974.4	5,006.6

[1] The unscheduled depreciation and amortization and the reversals of losses are reported in full in the result for the period.

Analysis of Fixed Assets 2008

in € mil.	Acquisition and production costs						
	01/01/2008	Currency translation differences	Changes in the consoli-dation group	Additions	Disposals	Transfers to other accounts	31/12/2008
Intangible assets							
Goodwill	15.4	–	36.2	–	–	–	51.6
Concessions, industrial property rights and similar rights and assets, including licenses to such rights and assets	203.5	–	60.9	16.5	4.9	2.8	278.8
Payments on account	1.7	–	–	1.0	–	–0.9	1.8
	220.6	**–**	**97.1**	**17.5**	**4.9**	**1.9**	**332.2**
Property, plant and equipment							
Land, similar rights and buildings, including buildings on land owned by others	1,116.9	–0.1	12.0	33.6	11.2	29.6	1,180.8
Plant equipment and machinery	4,192.2	1.3	8.0	211.5	146.3	75.1	4,341.8
Other equipment, factory and office equipment	275.8	–0.2	2.2	37.8	14.1	3.5	305.0
Payments made on account and equipments under construction	253.4	–1.1	9.0	352.9	0.4	–111.7	502.1
	5,838.3	**–0.1**	**31.2**	**635.8**	**172.0**	**–3.5**	**6,329.7**
Investment property	**26.6**	**0.1**	**4.7**	**–**	**0.9**	**1.6**	**32.1**
Financial investments							
Shares in affiliated companies	58.7	–	6.0	13.2	27.7	0.1	50.3
Shareholdings	27.2	0.5	–	10.7	0.4	–0.1	37.9
Loans to affiliated companies	1.5	–	–	18.5	1.5	–	18.5
Non-current securities	46.3	–	–	4.7	26.9	–	24.1
Other loans	3.6	–	0.1	11.9	3.1	–	12.5
	137.3	**0.5**	**6.1**	**59.0**	**59.6**	**–**	**143.3**
Associated companies							
Shares in associated companies	**84.1**	**–**	**–**	**257.6**	**–**	**–**	**341.7**
	6,306.9	**0.5**	**139.1**	**969.9**	**237.4**	**–**	**7,179.0**

Valuation allowances							Book values	
01/01/2008	Currency translation differences	Changes in the consoli-dation group	Depreciation Amortization and in the financial year[1)]	Disposals	Transfers to other accounts	31/12/2008	31/12/2008	31/12/2007
–	–	–	31.0	–	–	31.0	20.6	15.4
85.7	–	–	15.8	4.9	–	96.6	182.2	117.8
–	–	–	–	–	–	–	1.8	1.7
85.7	**–**	**–**	**46.8**	**4.9**	**–**	**127.6**	**204.6**	**134.9**
620.2	0.2	–	23.8	9.0	0.4	635.6	545.2	496.7
3,215.5	1.3	1.4	179.0	122.2	–0.1	3,274.9	1,066.9	976.7
200.8	–	0.2	28.5	13.4	0.7	216.8	88.2	75.0
4.0	–	–	0.1	–	–1.1	3.0	499.1	249.4
4,040.5	**1.5**	**1.6**	**231.4**	**144.6**	**–0.1**	**4,130.3**	**2,199.4**	**1,797.8**
0.1	**–**	**–**	**0.3**	**–**	**0.1**	**0.5**	**31.6**	**26.5**
24.8	–	–	5.1	19.1	–	10.8	39.5	33.9
3.0	–	–	6.7	–	–	9.7	28.2	24.2
–	–	–	–	–	–	–	18.5	1.5
–	–	–	–	–	–	–	24.1	46.3
0.7	–	–	–	–	–	0.7	11.8	2.9
28.5	**–**	**–**	**11.8**	**19.1**	**–**	**21.2**	**122.1**	**108.8**
–	**–**	**–**	**–**	**–**	**–**	**–**	**341.7**	**84.1**
4,154.8	**1.5**	**1.6**	**290.3**	**168.6**	**–**	**4,279.6**	**2,899.4**	**2,152.1**

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

Analysis Fixed Assets 2007

in € mil.	Acquisition and production costs						
	01/01/2007	Currency translation differences	Changes in the consolidated group	Additions	Disposals	Transfer to other accounts	31/12/2007
Intangible Assets							
Goodwill	–	–	–	15.4	–	–	15.4
Concessions, industrial property rights and similar rights and assets, including licenses to such rights and assets	91.9	–0.1	99.5	12.6	1.2	0.8	203.5
Payments on account	0.5	–	0.1	1.6	–	–0.5	1.7
	92.4	**–0.1**	**99.6**	**29.6**	**1.2**	**0.3**	**220.6**
Property, plant and equipment							
Land, similar rights and buildings, including buildings on land owned by others	1,009.9	–2.1	106.1	11.5	10.1	1.6	1,116.9
Plant equipment and machinery	4,043.3	–4.0	64.3	138.2	81.8	32.2	4,192.2
Other equipment, factory and office equipment	239.1	–0.5	20.5	27.9	12.9	1.7	275.8
Payments made on account and equipments under construction	84.8	–	13.1	192.9	0.1	–37.3	253.4
	5,377.1	**–6.6**	**204.0**	**370.5**	**104.9**	**–1.8**	**5,838.3**
Investment property	**–**	**–0.1**	**25.4**	**–**	**0.2**	**1.5**	**26.6**
Financial investments							
Shares in affiliated companies	45.1	–	19.6	2.0	8.0	–	58.7
Shareholdings	24.9	–0.4	2.7	6.3	6.3	–	27.2
Loans to affiliated companies	–	–	1.5	–	–	–	1.5
Non-current securities	16.3	–	0.1	30.3	0.4	–	46.3
Other loans	1.6	–	10.7	0.2	8.9	–	3.6
	87.9	**–0.4**	**34.6**	**38.8**	**23.6**	**–**	**137.3**
Associated companies							
Shares in associated companies	**74.2**	**–**	**–**	**9.9**	**–**	**–**	**84.1**
	5,631.6	**–7.2**	**363.6**	**448.8**	**129.9**	**–**	**6,306.9**

Valuation allowances								Book values	
01/01/2007	Currency translation differences	Changes in the consoli-dated group	Reversal of impairment losses	Deprecia-tion and amotization in the financial year[1]	Disposals	Transfer to other accounts	31/12/2007	31/12/2007	31/12/2006
–	–	–	–	–	–	–	–	15.4	–
73.6	–0.1	–	–	13.3	1.1	–	85.7	117.8	18.3
–	–	–	–	–	–	–	–	1.7	0.5
73.6	**–0.1**	**–**	**–**	**13.3**	**1.1**	**–**	**85.7**	**134.9**	**18.8**
609.3	–0.4	–	–	20.0	8.7	–	620.2	496.7	400.6
3,149.8	–2.8	–	34.4	166.4	66.3	2.8	3,215.5	976.7	893.5
187.8	–0.2	–	0.2	25.3	11.9	–	200.8	75.0	51.3
6.8	–	–	–	–	–	–2.8	4.0	249.4	78.0
3,953.7	**–3.4**	**–**	**34.6**	**211.7**	**86.9**	**–**	**4,040.5**	**1,797.8**	**1,423.4**
–	**–**	**–**	**–**	**0.1**	**–**	**–**	**0.1**	**26.5**	**–**
19.6	–	–	–	5.6	0.4	–	24.8	33.9	25.5
6.3	–	–	0.4	–	2.9	–	3.0	24.2	18.6
–	–	–	–	–	–	–	–	1.5	–
–	–	–	–	–	–	–	–	46.3	16.3
0.1	–	0.6	–	–	–	–	0.7	2.9	1.5
26.0	**–**	**0.6**	**0.4**	**5.6**	**3.3**	**–**	**28.5**	**108.8**	**61.9**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**84.1**	**74.2**
4,053.3	**–3.5**	**0.6**	**35.0**	**230.7**	**91.3**	**–**	**4,154.8**	**2,152.1**	**1,578.3**

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

Material Participations of Salzgitter AG

Status 31/12/2008		Equity in € or national currency (1,000 units)	Share of capital direct in %	indirect in %
Steel Division				
Salzgitter Stahl GmbH, Salzgitter[1)]		240,024		100.0
Salzgitter Flachstahl GmbH, Salzgitter[1)]		176,636	5.0	95.0
Peiner Träger GmbH, Peine[1)]		50,195	5.2	94.8
Ilsenburger Grobblech GmbH, Ilsenburg[1)]		25,875	5.4	94.6
Salzgitter Bauelemente GmbH, Salzgitter[1)]		1,001		100.0
HSP Hoesch Spundwand und Profil GmbH, Dortmund[1)]		14,623		100.0
ThyssenKrupp GfT Bautechnik GmbH, Essen[3)]		1,893		30.0
Salzgitter Europlatinen GmbH, Salzgitter[1)]		4,875		100.0
Trading Division				
Hövelmann & Lueg GmbH, Schwerte[1)]		2,942	5.1	94.9
Salzgitter Mannesmann Handel GmbH, Düsseldorf[1)]		57,693	5.1	94.9
Salzgitter Mannesmann International GmbH, Düsseldorf[1)]		10,300		100.0
Salzgitter Mannesmann Stahlhandel GmbH, Düsseldorf[1)]		22,729		100.0
Deltastaal B.V., Oosterhout (Netherlands)[1)]		44,528		100.0
Friesland-Staal B.V., Drachten (Netherlands)[1)]		11,693		100.0
Stahl-Center Baunatal GmbH, Baunatal[1)]		5,200		100.0
Salzgitter Handel B.V., Oosterhout (Netherlands)[1)]		60,982		100.0
Salzgitter Mannesmann International (Canada) Inc., Vancouver (Canada)[1)]	CAD	22,498		100.0
Universal Eisen und Stahl GmbH, Neuss[1)]		14,975	5.1	94.9
Salzgitter Mannesmann Stahlhandel sp.z.o.o., Slupca (Poland)[1)]	PLN	23,709		100.0
Salzgitter Mannesmann International (USA) Inc., Houston (USA)[1)]	USD	24,733		100.0
Tubes Division				
Salzgitter Mannesmann Großrohr GmbH, Salzgitter[1)]		6,162	5.1	94.9
Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr[1)]		1,000		100.0
Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr[1)]		10,226		100.0

Status 31/12/2008		Equity in € or national currency (1,000 units)	Share of capital direct in %	Share of capital indirect in %
Salzgitter Mannesmann Précision Etirage S.A.S., Saint Florentin (France)[1]		60,203		100.0
Salzgitter Mannesmann Präzisrohr GmbH, Hamm[1]		37,748		100.0
Salzgitter Mannesmann Seamless Tubes B.V., Helmond (Netherlands)[1]		9,939		100.0
Salzgitter Mannesmann Rohr Sachsen GmbH, Zeithain[1]		14,476		100.0
Salzgitter Mannesmann Precision GmbH, Mülheim an der Ruhr[1]		53,014		100.0
EUROPIPE GmbH, Mülheim an der Ruhr[2]		278,845		50.0
Europipe France S.A., Grande-Synthe (France)[2]		4,274		100.0
Berg Steel Pipe Corporation, Panama City (USA)[2]	USD	95,236		100.0
eb Pipe Coating Inc., Panama City (USA)[2]	USD	9,317		100.0
BERG EUROPIPE HOLDING CORP., New York (USA)[2]	USD	173,188		100.0
MÜLHEIM PIPECOATINGS GmbH, Mülheim an der Ruhr[2]		27,021		100.0
Salzgitter Mannesmann Line Pipe GmbH, Siegen[1]		19,339		100.0
Salzgitter Mannesmann Stainless Tubes GmbH, Mülheim an der Ruhr[1]		15,000		100.0
Hüttenwerke Krupp Mannesmann GmbH, Duisburg[3]		122,744		30.0
Salzgitter Mannesmann Stainless Tubes France S.A.S., Montbard (France)[1]		41,659		100.0
Salzgitter Mannesmann Stainless Tubes Italia S.r.l., Costa Volpino (Italy)[1]		20,782		100.0
Salzgitter Mannesmann Stainless Tubes Deutschland GmbH, Remscheid[1]		38,510		100.0
Salzgitter Mannesmann Stainless Tubes USA, Inc., Houston (USA)[1]	USD	27,247		100.0
Services Division				
DEUMU Deutsche Erz- und Metall-Union GmbH, Peine[1]		10,674	5.1	94.9
Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter[1]		19,599	5.1	94.9
Hansaport Hafenbetriebsgesellschaft mbH, Hamburg[1]		5,113		51.0
Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Osnabrück[1]		12,878	100.0	
SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter[1]		26		100.0

[1] Fully consolidated
[2] Proportionally consolidated
[3] At equity

Status 31/12/2008		Equity in € or national currency (1,000 units)	Share of capital direct in %	indirect in %
Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück[1]		7,877		100.0
Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück[1]		83		100.0
GESIS Gesellschaft für Informationssysteme mbH, Salzgitter[1]		2,600		100.0
TELCAT KOMMUNIKATIONSTECHNIK GmbH, Salzgitter[1]		492		100.0
"Glückauf" Wohnungsgesellschaft mbH, Peine[1]		26	5.2	94.8
SZST Salzgitter Service und Technik GmbH, Salzgitter[1]		60		100.0
Salzgitter Mannesmann Forschung GmbH, Salzgitter[1]		750		100.0
TELCAT MULTICOM GmbH, Salzgitter[1]		2,968		100.0
Technology Division				
Klöckner-Werke AG, Duisburg[1]		370,161		95.4
KHS AG, Dortmund[1]		223,604		100.0
KHS USA Inc., Waukesha (USA)[1]	USD	52,258		100.0
KHS Industria de Máquinas Ltda., São Paulo (Brazil)[1]	BRL	10,960		100.0
KHS Mexico S.A. de C.V., Zinacantepec (Mexico)[1]	MXN	105,306		100.0
KHS Machinery Pvt. Ltd., Ahmedabad (India)[1]	INR	335,427		89.0
KHS Pacific Pty. Ltd., Tullamarine (Australia)[1]	AUD	2,974		100.0
KHS Manufacturing (South Africa) (Pty.) Ltd., Kramerville (South Africa)[1]	ZAR	22,680		100.0
KHS RUS OOO, Moscow (Russia)[1]	RUB	13,760		99.0
IRKAS Beteiligungs GmbH & Co. Vermietung-KG, Munich[1]		14,233		99.0
Klöckner Mercator Maschinenbau GmbH, Duisburg[1]		102,320		100.0
Klöckner DESMA Elastomertechnik GmbH, Fridingen[1]		3,835		85.0
Klöckner DESMA Schuhmaschinen GmbH, Achim[1]		5,113		100.0
Klöckner Hänsel Processing GmbH, Hanover[1]		5,471		100.0
RSE Grundbesitz und Beteiligungs- Aktiengesellschaft, Frankfurt am Main[1]		22,165		99.6
Klöckner PET-Technologie GmbH, Frankfurt am Main[1]		135,718		100.0
KHS Corpoplast GmbH & Co. KG, Hamburg[1]		67,800		100.0
KHS Moldtec GmbH & Co. KG, Essen[1]		2,000		100.0
KHS Plasmax GmbH, Hamburg[1]		1,526		100.0
Other				
Salzgitter Mannesmann GmbH, Salzgitter[1]		2,867,413	100.0	
Norddeutsche Affinerie AG, Hamburg[3]		795,739		22.4

[1] Fully consolidated
[2] Proportionally consolidated
[3] At equity

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 Regulation No. 1606/2002 and are based on the principle of historical acquisition cost. The requirements of the applied standards and interpretations (SIC/IFRIC) were satisfied without exception and convey a true and fair picture of the Salzgitter Group's net assets, financial position and results of operations.

Impact of new or amended standards:

Standards/Interpretation		Mandatory date	Adoption by EU commission[1]	Effects
IFRS 8	Operating Segments	01/01/2009[2]	yes	Segmental reporting
IAS 39 IFRS 7	Amendment: Reclassification of Financial Instruments	01/07/2008	yes	none
IFRIC 11	Group and Treasury Share Transaction in Accordance with IFRS 2	01/03/2007	yes	none

[1] As of December 31, 2008

[2] Early application in 2007

Standards not applied early:

Standards/Interpretation		Mandatory date	Adoption by EU commission[1)]	Likely effects
IAS 1	Presentation of Financial Statements - Capital Disclosures	01/01/2009	yes	Reclassification of the financial statement parts
IAS 23	Borrowing Costs	01/01/2009	yes	not foreseeable
IAS 32 IAS 1	Amendment: Puttable Financial Instruments and Obligations arising on Liquidation	01/01/2009	no	none
IFRS 1 IAS 27	Cost of an Investment in a Subsidiary	01/01/2009	no	not foreseeable
IFRS 1 rev.	First-time Adoption of IFRS	01/07/2009	no	none
IFRS 2	Amendment: Share based payments: Vesting Conditions and Cancellations	01/01/2009	yes	none
IFRS 3 rev.	Business Combinations	01/07/2009	no	not foreseeable
IFRIC 12	Service Concession Arrangements	01/01/2008	no	none
IFRIC 13	Customer Loyalty Programs	01/07/2008	yes	none
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01/01/2009	yes	not foreseeable
IFRIC 15	Agreement for the Contruction of Real Estate	01/01/2009	no	none
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	01/10/2008	no	none

[1)] As of December 31, 2008

As a listed parent company of a group, Salzgitter AG is obliged in accordance with Section 315a, German Commercial Code (HGB) to prepare consolidated financial statements in accordance 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 Local Court, 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 with divergent balance sheet dates prepare interim financial statements as of the Groups balance sheet date. The consolidated financial statements were prepared in euros. If nothing to the contrary is indicated, the amounts are stated in millions of euros (€ million).

On December 10, 2008, the Executive Board and the Supervisory Board issued the Declaration of Conformity 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 Conformity is also printed in the “Corporate Governance Report” section of 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 becomes capable of controlling 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 newly-valued equity at the time when the subsidiary was purchased.

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

IAS 31 defines a joint venture as an arrangement where two or more partners carry out a commercial activity under joint management. Joint management is defined as the contractually agreed participation in the management of a commercial activity. Under IAS 31, joint ventures are included in the consolidated financial statements in accordance with the benchmark method by means of proportionate consolidation.

Shareholdings in companies in which the Salzgitter Group is able to exercise a decisive influence over financial and business policy decisions are valued in the consolidated financial statements using the equity method. If the Group is unable to exercise a decisive influence, the shares in the companies are included in the consolidated financial statements in accordance with IAS 39. The dates of admission into and departure from the group of companies valued using the equity method are determined by applying the same principles that are used for subsidiaries. The associated companies are reported using the revaluation method with their proportionate equity at the time of acquisition. In principle, each equity valuation is based on the latest audited annual financial statements.

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 obligations denominated in foreign currency, the acquisition costs must always 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.

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

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

Details of the material direct and indirect subsidiaries and shareholdings of Salzgitter AG are listed in a separate appendix to the Notes. The complete schedule of investment holdings is disclosed in the electronic German Federal Gazette (Bundesanzeiger).

Consolidated Group

In addition to the annual financial statements of the parent company, the consolidated financial statements include the annual financial statements of 48 (2007: 45) domestic and 18 (2007: 17) foreign affiliated companies, all prepared as of the same reporting date.

Two domestic (2007: two) and four foreign (2007: three) joint ventures are included on a pro-rata basis in the consolidated financial statements by means of proportionate consolidation.

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

in € mil.	FY 2008	FY 2007
Non-current assets	78.8	87.0
Current assets	215.4	214.9
Non-current liabilities	26.0	27.2
Current liabilities	66.6	70.5
Earnings	592.7	464.3
Expenses	535.5	409.1

Three domestic shareholdings (2007: two) over which Salzgitter AG or another Group company exercises a significant influence are also included in the consolidated financial statements using the equity method.

A total of 34 (2007: 26) domestic and 59 (2007: 54) 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 31/12/2007	Additions	Disposals	Status 31/12/2008
Consolidated subsidiaries	**62**	**6**	**2**	**66**
of which domestic	45	5	2	48
of which foreign	17	1	–	18
Joint ventures	**5**	**1**	**–**	**6**
of which domestic	2	–	–	2
of which foreign	3	1	–	4
Associated companies	**2**	**1**	**–**	**3**
of which domestic	2	1	–	3
of which foreign	–	–	–	–

The additions of the fully consolidated companies concern the Technology and Trading divisions.

By means of the share purchase and assignment agreement of January 11/12, 2008, Klöckner PET-Technologie GmbH, Frankfurt am Main (formerly Salzgitter Mannesmann PET-Technologie GmbH, Salzgitter) acquired the shares in the four German companies SIG Corpoplast GmbH & Co. KG, Hamburg, SIG Moldtec GmbH & Co. KG, Essen, SIG Asbofill GmbH, Neuss, and SIG Plasmax GmbH, Hamburg. After all the closing requirements had been fulfilled, these companies were integrated for the first time as of April 1, 2008, by means of full consolidation. The companies manufacture machines in the fields of PET stretch blow procedures, aseptic filling technology and barrier-resistant PET interior coatings.

Klöckner PET-Technologie GmbH was likewise fully consolidated as of April 1, 2008 as the management company heading up the PET Group. In addition, six further foreign companies (not consolidated), as well as rights, licenses and associated assets in Brazil belonging to the former commercial activities of SIG-Beverages, were acquired. The first-time consolidation of these companies generated a positive balance of € 36.2 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 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 with effect on income.

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 therefore the result for the year posted in the income statement, are translated at the annual average exchange rate. The resulting differences are reported without effect on income until such time as the subsidiary is sold.

A 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:

	Exchange rate on reporting date		Average exchange rate	
Foreign currency per € 1	**31/12/2008**	**31/12/2007**	**FY 2008**	**FY 2007**
Australian dollar	2.0274	1.6757	1.7416	1.6348
Brazilian real	3.2436	2.6130	2.6737	2.6693
Indian rupee	67.6360	58.0818	63.6439	56.6080
Canadian dollar	1.6998	1.4449	1.5594	1.4678
Mexican peso	19.2333	16.0887	16.2911	14.9876
Polish zloty	4.1535	3.5935	3.5121	3.7837
Russian ruble	41.2830	35.9860	36.4207	35.0183
South African rand	13.0667	10.0298	12.0590	9.6596
US dollar	1.3917	1.4721	1.4708	1.3705

Accounting and Valuation Principles

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

Assets are capitalized if the Salzgitter Group is entitled to all of the material benefits and risks associated with their respective use. In principle, assets are valued at amortized cost or production cost or current value.

Estimates and Assumptions

When the consolidated financial statements were being prepared, estimates and assumptions were made that impacted the amounts and reporting of the assets and liabilities, the earnings and expenditure and the contingent liabilities that are included in the balance sheet. All the estimates and assumptions were made in order to convey and true and fair picture of the Group's net assets, financial position and results of operations. The actual values may 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.

a) Financial accounting of acquisitions

Goodwill is reported in the Group's balance sheet as a possible consequence of acquisitions. When an acquisition is consolidated for the first time, all identifiable assets, liabilities and contingent liabilities are reported at their respective fair values as of the acquisition date. One of the most crucial estimates made in connection with these relates to the ascertainment of the fair values of these assets and liabilities as of the acquisition date. Land, buildings and office equipment are usually valued on the basis of independent expert opinions, either an independent opinion from an external valuation expert is obtained or, depending on the type of intangible asset and the complexity of determining its fair value, the fair value is ascertained internally using an appropriate valuation technique which is usually based on the expected aggregate cash flow in the future. These valuations are closely linked to the assumptions that the management has made regarding the future development of the respective assets' value and to the supposed changes in the discount rate to be applied.

b) Goodwill

The Group examines annually, and also additionally if there are any indications which justify such action, whether there has been impairment of any goodwill reported in the balance sheet. Should that be the case, the cash generating unit's recoverable amount (net selling price) must be estimated. This is the higher of the fair value less selling costs and the value in use. To determine the value in use, adjustments and estimates regarding the forecasting and discounting of the future cash flows are made. Although the management is confident that the assumptions used for calculating the recoverable amount are appropriate, any unforeseeable changes to these assumptions could lead to value impairments that might impact the Group's net assets, financial position and results of operations.

c) Intrinsic value of the assets

As of every balance sheet date the Group must estimate whether there is any concrete indication that the carrying amount of a tangible fixed asset, an investment property or an intangible asset could be impaired. Should this be the case, the recoverable amount of the asset in question is estimated. The recoverable amount is the higher of the fair value less selling costs and the value in use. To determine the value in use, the discounted future cash flows of the asset in question must be determined. The estimate of the discounted future cash flows contains fundamental assumptions concerning, for example, future selling prices and selling volumes, costs and discount rates. Although the management is confident that the estimates of the relevant useful lives, the assumptions regarding the general economic framework, the development of the branches of industry in which the Group operates and the estimates of the discounted future cash flows are appropriate, a change in the assumptions or in the prevailing circumstances could necessitate a change in the analysis. This could result in additional impairments or reversals of write-downs in the future if the trends identified by the management go into reverse or if the assumptions and estimates prove to be false.

d) Recognition of sales in the case of customer-specific contract production

Particular Group companies in the Technology Division conduct a proportion of their transactions as customer-specific construction contracts reported using the percentage-of-completion method, according to which sales must be shown in accordance with the extent to which the order has been completed. This method demands a precise estimate of the progress that has been made. Depending on the method of determining the degree of completion, the material estimates encompass the total costs of the order, the costs still to be incurred before completion, total revenues from the order, the risks that the order involves and other assessments. The management of the operating units checks all of the estimates that are necessary on an ongoing basis within the scope of production orders and adjusts them if necessary.

e) Income tax

As the Group operates and generates income in numerous countries, it is subject to an extremely wide variety of tax laws under a multiplicity of taxation authorities. To ascertain the Group's tax liabilities worldwide, a number of fundamental assessments must therefore be made. Although the management is assuming that it has made a sensible assessment of fiscal imponderables, there can be no assurance that the outcome of such fiscal imponderables will correspond to the original estimate. Any differences could have an impact on the tax liabilities and the deferred taxes in the period when the matter is finally decided upon.

As of every balance sheet date, the Group assesses whether the realizability of future tax benefits is sufficiently probable for the reporting of deferred tax assets. This requires the management to, among other things, assess the tax benefits that arise from the available tax strategies and future taxable income, and to take other positive and negative factors into account. The deferred tax assets reported can decrease if the estimates of planned taxable income and the tax benefits attainable using the available tax strategies are reduced or if changes to current tax laws restrict the time framework or the scope of realizability of future tax benefits.

f) Employee benefits

Pensions and similar obligations are reported in the balance sheet in compliance with actuarial valuations. These valuations are based on statistical and other factors with a view to anticipating future events. These factors encompass actuarial assumptions such as the discount rate, the expected capital yield from the plan assets, expected salary increases, mortality rates and rates of increase in the costs of healthcare provision. These actuarial assumptions can diverge significantly from actual developments as a result of changed market and competitive conditions and can therefore lead to a substantial change in the pensions and similar obligations and in the future expenses associated with them.

Intangible Assets

a) Goodwill/negative goodwill from capital consolidation

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

Any negative goodwill arising will, in accordance with IFRS 3, be recognized immediately with effect on income after the net assets acquired have been revalued.

b) other 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 useful economic lives.

Other intangible assets are usually amortized over a period of five years. The assets identified within the scope of the purchase price allocation undergo scheduled amortization using the straight line method over periods of between 7 and 20 years.

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

Development costs are capitalized if a newly-developed product or procedure can be clearly defined, is technically feasible and is intended for either the company's own use or marketing. Moreover, capitalization presupposes that development costs will with sufficient probability be covered by future inflows of cash and cash equivalents. 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 with effect on income 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 likewise directly attributable parts of the development-related overhead costs. They are amortized from the start of production onwards on a straight-line basis over the likely useful economic 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 useful economic lives.

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

Usefull economic lives	**maximum**
Buildings	50 years
Plant equipment and machinery	
Locomotives, track systems	30 years
Blast furnaces, steelworks, continuous casting lines, crane systems	20 years
Surface coating plants, rolling mills, cocking 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 benefits 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 useful economic lives, or the shorter term of the lease agreement. Future lease payment obligations are discounted as liabilities.

If assets are utilized under 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 installments to be paid under these lease arrangements are recorded in the income statement for the duration of the lease arrangement using the straight-line method.

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 with effect on income. Derivatives are classified as held for trading unless they are designated as effective hedging instruments in 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 2008, 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 the 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. 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.

The forward exchange contracts are valued using the Group’s own calculations. The outright rates applicable for the reporting date were determined on the basis of the ECB’s reference rates for the respective currency pairings and the interest rate differences between the various terms of the forward exchange contracts. Working on the assumption of standardized terms, the interest rate differences between the actual terms were determined by means of interpolation. The information regarding the standardized terms was obtained from a standard market information system. The difference ascertained between the contractually agreed foreign exchange 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 profits and losses arising from changes in the fair value of financial instruments in the "Available-for-sale financial assets" category are posted to equity. If assets in this category are sold, the cumulative adjustments to fair value under equity are posted to income as profits or losses from financial assets in the income statement.

The method used to report 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 payment 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 payment 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 posted immediately to the income statement. Amounts shown under equity are reposted to the income statement in the period when the hedged item is recorded as income 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 statement of recorded income and expense.

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 on 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 benefits 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. The cost of debt is 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, 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 carried out 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 with effect on income. If the result of a construction contract cannot be determined reliably, only revenues in the amount of the contract costs incurred are stated.

Payments received on account are deducted asset-wise from the receivables from construction contracts reported under trade receivables. If the payments received on account for individual construction contracts exceed the receivables from construction 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 reognized as expenses immediately 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 book value or lower fair value, less selling costs, if their book value 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 provision. The provisions for pensions also include 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:

	31/12/2008	31/12/2007
Actuarial rate	5.25 %	5.25 %
Trend in salaries	2.75 %	2.75 %
Trend in pension	1.75 %	1.75 %
Staff turnover	1.00 %	1.00 %

Due to the financial market/credit crisis there are a number of market distortions which are affecting the returns on even high-quality corporate bonds and which are therefore having an impact on the actuarial interest rates derived from them, with the result that, as of the balance sheet date, bonds from corporations in the financial sector were still providing disproportionately high market returns. It was against this backdrop that the company decided to eliminate the financial bonds in the iBoxx Index when deriving the yield curve. This resulted in an unchanged actuarial interest rate of 5.25 %, compared with the previous year, as of the balance sheet date.

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) for valuing the provisions with regard to life expectancy because it is not suitable for this category 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, 2008, the deferred taxes of domestic companies were evaluated with an overall tax rate of 30.2 %. This tax rate consists of the 14.4 % trade tax rate valid from 2008 and the 15.8 % corporate income tax (including solidarity surcharge).

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 formed for current obligations to third parties whose occurrence would be likely to burden Group assets. They are reported 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; every difference between the amount paid out and the amount repaid is 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 earnings are recognized when performance has been rendered or assets have been furnished, and thus when the risk has already been passed. In the case of customized construction contracts, sales are recognized using the percentage-of-completion method.

Dividends are collected when the claim has been legally accrued; interest expense 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 pre-requisites 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 every balance sheet date, the Group examines the book values of its intangible assets and property, plant and equipment to establish whether there are any signs of impairment. If such signs are discernible, the recoverable amount is estimated in order to determine the cost 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 to which the asset belongs. Special depreciations 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 capitalized earnings value, whichever is higher. The capitalized value is determined by the net present value of future cash flows attributable to the asset. If the reason for a previous 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 book value or the lower fair value, less disposal costs.

Financial Risk Management

The Group's business activities expose it to a variety of financial risks: the market risk (includes the currency risk, interest rate risk and market price risk), the credit risk and the liquidity risk. The Group's overall risk management program is focused on the unpredictability of developments on the financial markets and seeks to minimize potential adverse effects on the Group's financial position.

Risk management is carried out independently by the subsidiaries and associated companies of Salzgitter AG in accordance with policies approved by the Executive Board. The Executive Board issues written principles for overall risk management as well as guidelines for specific areas such as the foreign 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 first-class credit standing. The Group's business policy is to limit the amount of credit exposure to any 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 bilateral credit facilities and long-term consortium financing, as well as 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. The liabilities with variable interest rates expose the Group to a cash flow interest rate risk which influences interest expenses and interest income. The 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 going concern premise.

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 borrowed capital structure (net debt/credit balance) consists of short- and long-term liabilities to banks less liquid funds, short-term bonds and securities.

Further explanations are contained in Section IV.4., "Financial Position and Net Assets", in the Group Management Report.

Notes to the Income Statement

(1) Sales

in € mil.	FY 2008	FY 2007
Breakdown according to product categories		
Flat rolled products	4,775.8	4,184.6
Sections	1,503.1	1,444.2
Pipes	3,376.4	2,699.4
Other	2,843.9	1,864.1
	12,499.2	**10,192.3**
Breakdown according to regions		
Domestic	5,873.3	4,902.6
Other EU	2,593.2	2,203.1
Other Europe	474.9	582.0
America	1,152.8	938.4
Asia	1,242.0	991.2
Other	1,163.0	575.0
	12,499.2	**10,192.3**

The breakdown of sales includes an additional presentation by product category which does not correspond to segment reporting.

The sales include revenues recorded using the percentage-of-completion method amounting to € 331.7 million (2007: € 351.5 million).

(2) Increase or Decrease in Finished Goods and Work in Process and Other Own Work Capitalized

in € mil.	FY 2008	FY 2007
Changes in the inventory of finished goods	48.9	207.2
Other own work capitalized	28.0	6.7
	76.9	**213.9**

Compared with the previous year, finished goods and work in process increased slightly. This increase is attributable to a rise in both values and volumes. All in all, increased raw material and input material prices led to a higher valuation of this item. There were contrary effects in this area towards the end of the financial year as a result of lower prices on selling markets which led to lower-of-cost-or-market depreciations in the inventories. Falling demand during December led to stockpiling of finished goods and work in process, particularly in the Steel Division.

The own work capitalized increased primarily due to equipment under construction.

(3) Other Operating Income

in € mil.	FY 2008	FY 2007
Reversal of provisions an allowances	119.3	74.2
Income from the valuation of financial derivatives and foreign currency positions	75.8	45.2
Income from exchange rate fluctuations	68.0	14.5
Ancillary operating income	11.8	11.4
Income from the disposal of fixed assets	8.7	30.8
Income from write-downs of receivables	8.5	5.5
Rental, lease and licensing income	8.2	4.9
Insurance compensation	6.4	5.2
Subsidies	4.9	2.4
Charged-on costs	2.0	2.3
Refund from previous years	1.1	2.2
Income from negative goodwill arising from capital consolidation	–	8.1
Reversal of impairment losses in fixed assets	–	35.0
Other income	45.3	36.9
Other operating income	**360.0**	**278.6**

The income from the valuation of financial derivatives and foreign currency items, as well as the income from exchange rate fluctuations, owed their sharp increase primarily to the high volatility of the US dollar against the euro. The corresponding expense items under other operating expenses likewise increased.

Other operating income include income unrelated to the accounting period totaling € 99.7 million (2007: € 108.0 million) that consisted mainly of gains from 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 € mil.	FY 2008	FY 2007
Cost of raw materials, consumables, supplies and purchased goods	8,185.8	6,421.5
Cost of purchased services	597.5	459.6
Cost of materials	**8,783.3**	**6,881.1**

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.

This increase can be attributed primarily to the expansion of sales and increases in the cost of raw materials and energy.

(5) Personnel Expenses

in € mil.	FY 2008	FY 2007
Wages and salaries	1,198.9	1,002.0
Social security, pension and other benefits	273.5	230.3
of which pension plans and retirement benefits	[119.6]	[106.4]
Personnel expenses	**1,472.4**	**1,232.3**

In the financial year 2008, the defined contribution plan payments in the Salzgitter Group totaled € 105.4 million (2007: € 94.9 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 under financing expenses.

Average number of employees (excl. employees in age-related part-time employment)	FY 2008	FY 2007
Wage labour	14,980	12,647
Salaried employees	8,886	7,425
Group core workforce	**23,866**	**20,072**

(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 € mil.	FY 2008	FY 2007
Intangible assets	31.0	0.3
Plant equipment and machinery	–	2.1
Other equipment, factory and office equipment/equipment under construction	–	1.2
Impairment	**31.0**	**3.6**

The impairment costs are calculated in accordance with the provisions of IAS 36. They were amortized 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 net realizable value.

The calculation of the net realizable value is based on the current plans prepared by the management for the three following years. The premises of the plans are derived from the current state of knowledge. The net realizable value in use was calculated using the discounted cash flow method based on interest rates of 7.6 % p.a. for the Technology Division and 8.9 % for the other divisions. This led to impairment costs of € 31.0 million for the goodwill of the KHS Group (including the PET Group) due to insufficient earnings contributions.

(7) Other Operating Expenses

in € mil.	FY 2008	FY 2007
External services and provisioning	447.4	331.4
Selling expenses	374.0	337.4
Administrative expenses including insurance costs, fees, charges	111.7	94.8
Expenses from the valuation of financial derivatives and foreign currency positions	75.6	37.0
Advertising/information and travel expenses	72.0	45.3
Exchange losses	54.4	29.4
Valuation allowances for doubtful accounts	39.8	21.3
Rent and leases	38.1	28.0
Write-down on short-term securities	30.8	–
Welfare-related personnel and non-personnel expenses	19.6	17.6
EDP costs	19.6	16.0
Financial/monetary transfer expenses	18.1	13.0
Other taxes	16.4	11.0
Loss on the disposal of fixed assets	13.2	8.3
Loss on the disposal of current assets	8.1	1.3
Other expenses	46.6	48.1
Other operating expenses	**1,385.4**	**1,039.9**

The increase in selling expenses and in advertising and travel expenses correspond to the increased sales.

The development of expenses from the valuation of financial derivatives and foreign currency items, and the exchange rate losses essentially results from the high volatility of the US dollar against the euro during the course of the financial year.

The negative trend on the capital market led to write-downs of marketable securities amounting to € 30.8 million.

Other operating expenses include expenses unrelated to the accounting period totaling € 65.1 million (2007: € 67.8 million), among other things for allocation to provisions for typical operation risks.

(8) Income from Shareholdings

in € mil.	FY 2008	FY 2007
Income from profit transfer agreements	0.2	0.5
of which affiliated companies	[0.2]	[0.4]
Income from shareholdings	15.5	3.0
of which affiliated companies	[12.8]	[0.2]
Expenses from the assumption of losses	1.5	1.4
of which affiliated companies	[1.5]	[1.4]
Income from shareholdings	**14.2**	**2.1**

(9) Income from Associated Companies

in € mil.	FY 2008	FY 2007
Income from associated companies	8.0	9.5

The income from associated companies originates from Hüttenwerke Krupp Mannesmann GmbH, Duisburg, and ThyssenKrupp GfT Bautechnik GmbH, Essen.

(10) Impairment losses on Financial Assets

in € mil.	FY 2008	FY 2007
Impairment losses on financial assets	11.8	5.6

The impairment losses on financial assets in the financial year under review result primarily from the fair value of shares in two non-consolidated companies. The calculation of the useful life is based on the current plans prepared by the management for the three following years. The premises of the plans are derived from the current state of knowledge. The value in use was calculated using the discounted cash flow method based on a country- and risk-specific interest rate.

(11) Finance Income/Finance Expenses

in € mil.	FY 2008	FY 2007
Income from loans from financial assets	0.8	0.4
Other interest earned and similar income	135.2	115.6
of which affiliated companies	[1.5]	[1.2]
Finance income	**136.0**	**116.0**

Due to growth in financial investments and their structure during the year, the interest income increased in the financial year ended.

in € mil.	FY 2008	FY 2007
Interest and similar expenses	159.5	114.5
of which affiliated companies	[1.6]	[1.8]
Finance expenses	**159.5**	**114.5**

The interest component included as part of the allocations to pension provisions is reported at € 90.9 million (2007: € 77.7 million) under interest expenses.

(12) Income Tax

in € mil.	FY 2008	FY 2007
Income tax		
current tax expenses/tax income (+/–)	295.1	415.1
deferred tax expenses/tax income (+/–)	31.4	–6.3
	326.5	**408.8**
of which unrelated to the reporting period	[–2.7]	[–2.2]
Total	**326.5**	**408.8**

Income tax amounting to € 326.5 million relates to earnings before tax. The income tax unrelated to the accounting period applies almost entirely to deferred tax amounts.

The decrease in current income tax from € 415.1 million to € 295.1 million results primarily from the lower Group net income for the financial year and the lower domestic income tax rate valid as from 2008. Income tax of € 251.5 million affects domestic earnings. In the financial year, due among other things to valuation allowances for capitalized benefits from tax loss carryforwards, there were deferred tax expenses of € 31.4 million compared with tax income of € 6.3 million in the previous year.

Future dividend payments do not lead to any consequences as far as income tax is concerned. Claims amounting to € 1.4 million are reported in the balance sheet for German companies' corporate income tax reduction credits. Deferred taxes amounting to € 62.4 million (2007: € 37.8 million) were recorded for business transactions that influenced equity directly.

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 € mil.	31/12/2008		31/12/2007	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	2.4	27.6	3.0	25.7
Property, plant and equipment	7.0	163.3	3.2	167.6
Financial investments	4.6	0.5	3.5	2.2
Current assets	43.0	184.0	26.4	127.3
Pension provisions	106.2	0.3	101.0	1.1
Other provisions	53.6	7.2	33.8	9.1
Special account including reserves	–	6.4	–	6.8
Liabilities	39.0	1.9	35.3	0.5
Other items	35.3	7.3	18.3	4.9
Total	**291.1**	**398.5**	**224.5**	**345.2**

Summary of the capitalized tax savings from losses carried forward that may be realized in the future:

in € mil.	31/12/2008	31/12/2007
Corporate income tax	15.3	25.7
Trade tax	4.7	13.9
Capitalized tax savings	**20.0**	**39.6**

Development of the capitalized tax savings from losses carried forward that may be realized in the future:

in € mil.	FY 2008	FY 2007
Capitalized tax savings, January 1	39.6	43.2
Changes to the consolidated group	–	26.2
Capitalization of tax savings from losses carried forward	3.1	31.2
Valuation allowances from losses carried forward	–16.4	–19.1
Use of losses carried forward	–6.3	–41.9
Capitalized tax savings, December 31	**20.0**	**39.6**

As a result of the “minimum taxation” that was introduced in Germany in 2004, the tax loss carryforwards are offset in full against the ongoing tax result 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 € 2.7 million in Germany and by € 0.2 million abroad.

For a number of domestic companies, no deferred taxes were capitalized for trade tax loss carryforwards amounting to € 1,466.0 million and corporate income tax loss carryforwards amounting to € 1,643.0 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 € 29.0 million which are not intrinsically valuable and can be carried forward for an unlimited period.

Transition from anticipated to actual income tax expenses:

in € mil.	FY 2008	FY 2007
Consolidated net income for the year before income tax	**1,003.4**	**1,313.9**
Expected income tax expenses (tax rate 30.2% and 39.0% respectively)	303.0	512.4
Tax share for:		
differences between tax rates	4.4	–7.3
effects of changes in statutory tax rates	0.0	–39.3
tax credits	–12.4	–13.3
tax-free income	–27.1	–9.9
badwill amortization/goodwill write-down	9.4	–
non-deductible tax expenses and other permanent differences	21.5	13.6
temporary differences excluding deferred taxes	1.4	–5.6
effects of temporary differences and losses		
adjustments in value of capitalized benefits	16.8	1.1
utilization of benefits not previously capitalized	–2.9	–16.9
tax expenses and income unrelated to the reporting period	–2.7	–2.2
other deviations	15.1	–23.8
Actual income tax expenses	**326.5**	**408.8**

The actual income tax expenses of € 326.5 million deviate by a total of € 23.5 million from the expected income tax expenses of € 303.0 million. This results primarily from valuation allowances for capitalized benefits from tax loss carryforwards and additions of non-tax-deductible expenses, countered by effects from tax-free income and tax credits in Germany.

(13) Minority Interests

in € mil.	FY 2008	FY 2007
Minority interests	2.6	4.0

The minority interests are accounted for by the following companies:

- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg,
- 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 according to IAS 33 amount to € 12.11.

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 € 12.11.

3,121,400 treasury shares were redeemed in the financial year 2008. The proportion of the Subscribed Capital accounted for by the remaining shares increased accordingly.

	Shares issued	Treasury shares	Shares in circulation
Beginning of financial year	63,218,400	6,321,823	56,896,577
Redeemed treasury shares	3,121,400	3,121,400	–
Acquisition of treasury shares	–	2,809,312	–
Disposal of treasury shares	–	51	–
End of financial year	60,097,000	6,009,684	54,087,316
Weighted number of shares	**61,786,111**	**6,121,869**	**55,664,242**

Earnings per share		FY 2008	FY 2007
Consolidated net income for the financial year	in € mil.	676.9	905.1
Minority interests	in € mil.	2.6	4.0
Amount due to Salzgitter AG shareholders	in € mil.	674.3	901.1
Earnings per share	**(in €)**	**12.11**	**15.80**

Notes to the Consolidated Balance Sheet

Non-current Assets

(15) Goodwill

Goodwill relates to both the shares in Klöckner-Werke AG, Duisburg, and its participating interests that were acquired in 2007, and the SIG-Beverages Group, renamed as the PET Group, which was newly acquired in 2008 and has now been integrated into Klöckner-Werke. The goodwill is allocated to the KHS Group (including the PET Group). In the reporting year, a need for impairment amounting to € 31.0 million was ascertained during the mandatory annual impairment test for goodwill. The goodwill reported in the balance sheet as of December 31, 2008, therefore constitutes the fair value less selling costs (net selling price). The net selling price was ascertained in accordance with the discounted cash flow method based on an interest rate (WACC) of 7.6% p.a. (2007: 10.1%), selling costs of 1.0% and a growth surcharge of 1.5 percentage points for determining the perpetual annuities.

(16) Other Intangible Assets

The development of the individual items under other intangible assets is shown in the Analysis of Fixed Assets.

Of the entire capitalized development costs amounting to € 16.0 million (2007: € 11.6 million), € 6.7 million (2007: € 16.0 million) was allocated in the financial year 2008; this sum was accounted for primarily by the Technology Division. Total research and development expenses in the reporting period amounted to € 91.0 million (2007: € 68.8 million), including € 11.4 million (2007: € 9.4 million) for external services.

There are no restraints on the right of ownership or disposal.

As part of the purchase price allocation for the SIG-Beverages Group, now the PET Group, brand names, customer relationships and technologies were identified as intangible assets and recognized in the balance sheet at € 55.9 million on the date of their first-time consolidation. This resulted in a net book value of € 53.6 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 € mil.	31/12/2008	31/12/2007
Land and buildings	545.2	496.7
Plant equipment and machinery	1,066.9	976.7
Other equipment, factory and office equipment	88.2	75.0
Equipment under construction/payments made on account	499.1	249.4
Property, plant and equipment	**2,199.4**	**1,797.8**

The book values of the assets capitalized as finance leases in accordance with IAS 17 are shown in the following table:

in € mil.	31/12/2008	31/12/2007
Buildings	5.0	5.4
Plant equipment and machinery	29.0	31.6
Other equipment, factory and office equipment	0.6	1.0
Assets capitalized as finance leases	**34.6**	**38.0**

The amount of the reported impairment charges is shown under Note 6.

Restraints on the right of ownership or disposal on the reporting date amounted to € 25.8 million (2007: € 34.8 million).

(18) Investment Property

The investment property comprises undeveloped and developed land which is not held for production or administration purposes. The fair values determined in the previous years using the DCF method were rolled over as of the balance sheet date.

The properties consist of the following:

in € mil.	31/12/2008	31/12/2007
Klöckner-Werke AG	22.8	23.0
RSE Grundbesitz und Beteiligungs-AG	0.8	1.2
Klöckner Mercator Maschinenbau GmbH	2.6	1.2
KHS USA Inc.	0.9	1.1
KHS Moldtec GmbH & Co. KG	4.5	–
Investment property	**31.6**	**26.5**

Rental income amounted to € 0.2 million (2007: € 0.2 million) in the reporting year. Direct operating expenses for the investment property were basically incurred for properties that generated rental income in the reporting year. As in the previous 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 € mil.	31/12/2008	31/12/2007
Shares in affiliated companies	39.5	33.9
Shareholdings	28.2	24.2
Non-current securities	24.1	46.3
Other loans	30.3	4.4
Financial assets	**122.1**	**108.8**

The increase in shares in affiliated companies relates primarily to capital increases at a non-consolidated Mexican company in the pipes segment and the addition of a US-based company from the acquisition of the PET Group. The amortization of the shares in a non-consolidated company had a contrary effect.

The increase in shareholdings results primarily from a capital increase at a US-based company from the pipes segment. The amortization of a shareholding in a Brazilian company from the same segment had a contrary effect.

The decrease in securities relates primarily to the shares in an Indian manufacturing company in the pipes industry; these shares were valued at their market value. The change in value was reported as per IAS 39 with no effect on income.

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 € mil.	FY 2008	FY 2007
Opening balance, 1/1	84.1	74.2
Result of current financial year	8.0	9.5
Additions	256.9	–
Other changes in equity	–7.3	0.4
Book value, 31/12	**341.7**	**84.1**

The figure reported for at-equity shares in associated companies increased by € 257.6 million compared with the previous financial year. This was accounted for primarily by the inclusion of Norddeutsche Affinerie AG, valued at market prices, as an associated company and the companies' positive results for the year. The exercise of the voting rights in Norddeutsche Affinerie AG, Hamburg, was dependent on the approval of the EU cartel regulators. Approval was granted in December 2008, whereupon the shareholding was reclassified under "Associated Companies".

The Group's shares in its material associated companies are as follows:

2008 in € mil.	Assets	Debt	Earnings	Profit	Share (%)
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	1,025.3	748.8	2,662.1	11.7	30.0
Norddeutsche Affinerie AG, Hamburg	2,917.2	2,034.3	–	–	22.4

2007 in € mil.	Assets	Debt	Earnings	Profit	Share (%)
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	878.9	612.0	2,218.0	19.0	30.0

The earnings and results of Norddeutsche Affinerie AG, Hamburg, are not specified, as the company has been included as an associated company only since December 2008.

(21) Deferred Income 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 have matching maturities and relate to the same tax authority. After offsetting, the deferred tax assets and liabilities for the financial year 2008 are as follows:

in € mil.	31/12/2008	31/12/2007
Deferred income tax assets	**15.7**	**13.0**
Realization within 12 months	12.8	13.0
Realization after more than 12 months	2.9	–
Deferred income tax liabilities	**103.1**	**94.0**
Realization within 12 months	93.2	70.5
Realization after more than 12 months	9.9	23.5
Balance of deferred tax assets and deferred tax liabilities	**–87.4**	**–81.0**

(22) Other Receivables and Other Assets

The long-term receivables consist mainly of receivables from finance leases, which were as follows:

in € mil.	31/12/2008	31/12/2007
Total gross investment	3.1	3.2
Unrealized finance income	0.3	0.3
Book value	**2.8**	**2.9**

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 a residual term of less than five years.

The other receivables relate to tax receivables in foreign countries.

Current Assets

(23) Inventories

in € mil.	31/12/2008	31/12/2007
Raw materials, consumables and supplies	1,004.9	677.0
Unfinished products	448.9	432.0
Unfinished goods or services	13.1	20.3
Finished products and goods	1,041.9	906.7
Payments on account	42.4	48.4
Inventories	**2,551.2**	**2,084.4**

Individual markdowns were made in the valuations of all the 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 € 7.2 million (2007: € 3.6 million).

In accordance with IAS 2, inventories are valued individually or the average method is applied.

The book value of the inventories reported at fair value less selling expenses amounted to € 883.6 million in the reporting year (2007: € 261.9 million).

Impairments of inventories amounting to € 223.8 million (2007: € 15.2 million) were posted to expenses.

There are no restrictions on the ownership or disposal of the inventories reported (2007: € 0.2 million).

(24) Trade Receivables

in € mil.	31/12/2008	31/12/2007
Receivables from third parties	1,615.9	1,480.1
Receivables from affiliated companies	28.7	21.1
Receivables from companies in which the company has a participating interest	7.6	19.8
Trade receivables	**1,652.2**	**1,521.0**

Impairments on trade receivables amounting to € 19.9 million (2007: € 15.1 million) have been carried out for all discernible individual risks, the credit risk assessed on the basis of empirical values and special country risks.

Restrictions on the ownership or disposal of trade receivables amount to € 24.9 million (2007: 109.6 million). These are accounted for exclusively by the forfaiting of receivables. For further details, please refer to Note 38 "Other Liabilities".

The trade receivables include the following receivables from construction contracts recognized using the percentage-of-completion method:

in € mil.	31/12/2008	31/12/2007
Production costs including result from construction contracts	429.0	657.2
Payments received on account	–282.6	–499.9
Receivables from construction contracts	**146.4**	**157.3**

Receivables from construction contracts include those customized construction contracts with an asset-side balance whose production costs, taking account of profit shares and loss-free valuation, exceed the payments received on account.

(25) Other Receivables and Other Assets

in € mil.	31/12/2008	31/12/2007
Other receivables from affiliated companies	74.0	68.7
of which loans	[8.6]	[20.9]
of which other receivables	[65.4]	[47.8]
Other receivables from participating interests	112.3	20.4
of which loans	[103.5]	[2.0]
of which other receivables	[8.8]	[18.4]
Bonds	400.0	75.0
Tax refund claims (VAT)	95.7	39.4
Derivatives	82.8	54.5
Advances on company pensions	9.2	9.7
Deferred expenses	8.0	5.7
Subsidies for age-related part-time employment	6.7	8.3
Insurance claims	1.9	5.8
Assets available for sale	1.7	5.7
Finance lease agreements	1.7	1.9
Other assets	87.9	64.3
Other receivables and other assets	**881.9**	**359.4**

A short-term loan receivable amounting to € 100.0 million is owed by Hüttenwerke Krupp Mannesmann GmbH, Duisburg.

The increase in receivables from bonds results from the purchase of an additional promissory note loan (straddle).

The other receivables and other assets also include the sum of € 6.7 million (2007: € 8.3 million) that did not become legally effective until after the reporting date.

The other receivables are subject to restrictions on ownership or disposal amounting to € 5.0 million (2007: € 5.0 million).

The current receivables from finance leases consist of the following:

in € mil.	31/12/2008	31/12/2007
Total gross investment	2.0	2.1
Unrealized finance income	0.3	0.3
Book value	**1.7**	**1.8**

The rental income is reported under other operating earnings.

(26) Income Tax Assets

The income tax refund claims of € 75.1 million that existed as of December 31, 2008 (2007: € 114.2 million) relate essentially to a capital gains withholding tax claim by a domestic Group company. This is offset by noncurrent income tax liabilities of € 207.4 million (2007: € 214.2 million) and current income tax liabilities of € 36.4 million (2007: € 19.7 million).

Refund claims are set off against tax liabilities if there is an enforceable right to set off the reported amounts against each other and the intention is to offset them in net terms. The prerequisites for this are that the tax refund claim and the tax liability both relate to the same tax authority and that the tax authority allows their offsetting.

(27) Securities and Cash and Cash Equivalents

Under securities, shares are reported as current financial investments classified in the category "Financial assets held for trading purposes".

The cash and cash equivalents consist of the following:

in € mil.	31/12/2008	31/12/2007
Cash at banks	590.6	2,133.5
Checks, cash in hand	1.5	5.3
Cash and cash equivalents	**592.1**	**2,138.8**

Equity

(28) Subscribed Capital

The subscribed capital (capital stock) remained unchanged at € 161,615,273.31. The 60,097,000 no par value shares have a notional par value of € 2.69 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 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). This authorization has not yet been used.

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 bearer shares against payment in cash or kind (Authorized Capital 2004). This authorization, too, has not yet been used.

(29) Capital Reserve

Within the capital reserve of € 184.2 million (2007: € 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. In the previous year, other sums totaling € 111.1 million were included; these 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. These amounts were withdrawn in the reporting year and transferred to other retained earnings.

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.

(30) Retained Earnings

Retained earnings include allocations deriving from the results in the financial year or from previous years and differences resulting from the currency translation – without effect on income – of the accounts of foreign subsidiaries against which, in particular, the capitalized goodwill of subsidiaries acquired up to September 30, 1995, has been offset. The retained earnings also include further components that were immediately posted to equity in accordance with the IASB regulations. Salzgitter AG's articles of incorporation do not contain specified regulations for the formation of reserves.

The retained earnings include differences from currency translation amounting to € –27.1 million (2007: € –25.9 million). The change in value reserves from the financial assets/financial instruments amounts to € –15.7 million (2007: 39.7 million). This decrease results from the fall in the market value of a listed Indian production company from the Tubes Division.

According to the regulations in 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 € 235.2 million, after deduction of deferred taxes, were recorded directly under equity (including the actuarial losses posted by associated companies which are not reported in the pension provisions).

Transition of the actuarial losses:

in € mil.	31/12/2008	31/12/2007
Actuarial losses of consolidated companies	233.3	219.0
Actuarial losses of associated companies	1.9	1.5
Actuarial losses	**235.2**	**220.5**

Salzgitter AG holds 6,009,684 (2007: 6,321,823) of its own no par value shares with a notional total value of € 16,160,484.30, equating to 9.99997% of the subscribed capital (2007: € 16,161,740.50 = 9.99997%).

The Executive Board of Salzgitter AG, with the consent of the Supervisory Board, has made use of its authorization by way of resolution of the General Meeting of Shareholders on May 21, 2008, to redeem a total of 1,580,460 treasury shares in July 2008 and 1,540,940 treasury shares in August 2008 by way of the simplified procedure in accordance with Section 237 para. 3 no. 3, German Stock Corporation Act (AktG) without a capital reduction.

Also in the reporting year, 2,809,312 shares with a total notional par value of € 7,554,915 (= 4.7% of the subscribed capital) were acquired in July (984,084 shares; average price € 98.79 per share), August (1,582,893 shares; average price € 100.01 per share) and September (242,335 shares; average price € 100.18 per share) at an acquisition cost of € 279,796,742.54 (average price € 99.60 per share) in accordance with the authorization granted by the General Meeting of Shareholders on May 21, 2008, for the purpose of financing future acquisitions.

Of the 6,009,684 shares acquired pursuant to Section 71 para. 1 no. 8 of the German Stock Corporation Act (AktG), 2,487,370 were acquired under the authorization granted by the General Meeting of Shareholders on May 26, 2004, 2,280 as authorized by the General Meeting of Shareholders on May 26, 2005, 710,722 as authorized by the General Meeting of Shareholders on June 8, 2006, and 2,809,312 as authorized by the General Meeting of Shareholders on May 21, 2008.

Of the treasury shares available at the beginning of the financial year, the Company issued 51 shares as bonus shares or gratuities for employees.

The treasury shares were deducted directly from equity in the amount of € 372.8 million (2007: € 227.8 million) as of the reporting date.

(31) 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 2008 of € 1.40 per share (equal to € 84.1 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 € 55.00 for the Salzgitter share in XETRA trading on December 30, 2008, the dividend yield amounts to 2.5 % (2007: 2.9 %).

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.

(32) 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,
- Klöckner-Werke AG, Duisburg (including subsidiaries).

In the income statement, the result is reported proportionately under “Minority interests”.

Non-current liabilities

(33) Provisions for Pensions and other 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 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 actuarial gains (–) and losses (+) developed as follows:

in € mil.	FY 2008	FY 2007
Status: 1/1	219.1	257.1
Change in financial year	14.2	–38.0
Status 31/12	**233.3**	**219.1**

The differences between the expected and actual trend (experience adjustment) are as follows profit (+)/loss (–):

in € mil.	FY 2008	FY 2007	FY 2006	FY 2005
Status 31/12	**–8.0**	**–12.8**	**–13.6**	**4.2**

The transition to the actuarial gains and losses recorded in equity is shown in Note 30 "Retained Earnings".

The expenses incurred for defined benefit plans in the result for the period were as follows:

in € mil.	FY 2008	FY 2007
Personnel expenses		
current service costs	14.2	11.6
financing expenses (interest paid)	90.9	77.7
	105.1	**89.3**

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 € mil.	31/12/2008	31/12/2007	31/12/2006	31/12/2005
Present value of fund-financed obligations	6.7	5.4	5.4	6.9
Fair value of plan assets	−5.4	−4.3	−4.3	−3.9
	1.3	**1.1**	**1.1**	**3.0**
Present value of fund-financed obligations	1,785.7	1,790.7	1,713.7	1,721.6
Reported pension provisions	**1,787.0**	**1,791.8**	**1,714.8**	**1,724.6**

The provisions for pensions have developed as follows:

in € mil.	FY 2008	FY 2007
Opening balance, 1/1	**1,791.8**	**1,714.8**
Transfer	−3.1	−0.2
Transfer to other accounts	−2.1	–
Changes in the consolidated group	9.1	145.4
Used	−128.0	−119.6
Reversal	−2.0	−3.7
Adjustment in line with actuarial assumptions, no effect on income	14.2	−38.0
Allocations	16.2	15.4
Interest added	90.9	77.7
Closing balance, 31/12	**1,787.0**	**1,791.8**

(34) Other Provisions

The development of the other short-term and long-term provisions is shown in the following table:

in € mil.	Status 1/1/2008	Currency differences	Addition/Disposals from changes in consolidated group	Transfer
Other taxes	**9.5**	**–**	**0.2**	**–**
Personnel	**144.0**	**–0.1**	**2.6**	**–8.1**
of which anniversary provisions	[37.6]	[–]	[0.8]	[–]
of which for the social plan/age-related part-time employment/demographics fund	[62.3]	[–0.1]	[0.7]	[–7.4]
Operating risks	**119.5**	**–**	**–**	**–**
Other risks	**245.2**	**–0.4**	**18.8**	**–0.2**
of which markdowns/complaints	[98.0]	[–0.1]	[16.1]	[–]
Total	**518.2**	**–0.5**	**21.6**	**–8.3**

The comparable figures for the previous year were as follows:

in € mil.	Status 1/1/2007	Currency differences	Addition/Disposals from changes in consolidated group	Transfer
Other taxes	**7.5**	**–**	**–1.5**	**0.5**
Personnel	**116.9**	**–**	**20.8**	**0.1**
of which anniversary provisions	[35.5]	[–]	[2.8]	[–]
of which for the social plan/age-related part-time employment/demographics fund	[54.5]	[–]	[13.2]	[0.2]
Operating risks	**104.1**	**–**	**–**	**–**
Other risks	**176.6**	**–0.2**	**38.2**	**0.1**
of which markdowns/complaints	[50.3]	[–]	[26.6]	[–]
Total	**405.1**	**–0.2**	**57.5**	**0.7**

Transfer to other accounts	Used	Reversal	Allocation	Interest added	Status 31/12/2008
–	–2.0	–0.6	3.2	–	10.3
2.1	–41.9	–5.1	56.6	0.8	150.9
[–]	[–2.5]	[–0.1]	[7.3]	[–]	[43.1]
[7.5]	[–25.8]	[–2.7]	[27.0]	[–]	[61.5]
–	–6.2	–7.5	31.7	0.3	137.8
–	–70.2	–58.1	253.7	0.1	388.9
[0.1]	[–35.1]	[–34.2]	[122.5]	[0.1]	[167.4]
2.1	–120.3	–71.3	345.2	1.2	687.9

Transfer to other accounts	Used	Reversal	Allocation	Interest added	Status 31/12/2007
4.0	–2.0	–0.8	1.0	0.8	9.5
–	–34.7	–8.1	49.0	–	144.0
[–]	[–2.7]	[–0.1]	[2.1]	[–]	[37.6]
[–]	[–20.8]	[–4.8]	[20.0]	[–]	[62.3]
–	–5.3	–19.8	40.5	–	119.5
–	–70.4	–45.7	146.6	–	245.2
[6.0]	[–26.6]	[–14.6]	[56.3]	[–]	[98.0]
4.0	–112.4	–74.4	237.1	0.8	518.2

The provisions for pensions reported in the personnel area were valued on the basis of an assumed interest rate of 5.25 % per annum (2007: 5.25 % per annum). The other non-current provisions in the personnel area were discounted at 5.75 % p.a. Risk-commensurate interest rates of 5.25 % to 5.75 % were used to discount the other non-current provisions.

The allowances for employees leaving the company under the terms of age-related part-time employment contracts are capitalized as an asset worth € 6.7 million (2007: € 8.3 million) and not offset against provisions.

Provisions for typical operational 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 and pending transaction risks.

Maturities of the other provisions:

in € mil.	Total 31/12/2008	Short-term	Long-term
Other taxes	10.3	**10.3**	–
Personnel	150.9	**57.9**	**93.0**
of which anniversary provisions	[43.1]	[–]	[43.1]
of which for the social plan/age-related part-time employment/demographics fund	[61.5]	[29.4]	[32.1]
Operating risks	137.8	**16.4**	**121.4**
Other risks	388.9	**388.9**	–
of which markdowns/complaints	[167.4]	[167.4]	[–]
Total	687.9	**473.5**	**214.4**

in € mil.	Total 31/12/2007	Short-term	Long-term
Other taxes	**9.5**	**9.5**	–
Personnel	**144.0**	**53.0**	**91.0**
of which anniversary provisions	[37.6]	[–]	[37.6]
of which for the social plan/age-related part-time employment/demographics fund	[62.3]	[23.9]	[38.4]
Operating risks	**119.5**	**17.9**	**101.6**
Other risks	**245.2**	**245.2**	–
of which markdowns/complaints	[98.0]	[98.0]	[–]
Total	**518.2**	**325.6**	**192.6**

(35) Non-current Financial Liabilities

in € mil.	31/12/2008	31/12/2007
Liabilities to banks	27.8	45.8
Liabilities from finance lease agreements	31.4	33.8
Other borrowings	8.8	7.8
Financial liabilities	**68.0**	**87.4**

The liabilities from finance leases reported under non-current financial liabilities are shown in the following tables:

in € mil.	Residual term 1–5 years	Residual term > 5 years	31/12/2008 Total
Minimum lease payments	18.9	20.9	39.8
Finance costs	5.2	3.2	8.4
Present value of minimum lease payments	**13.7**	**17.7**	**31.4**

in € mil.	Residual term 1–5 years	Residual term > 5 years	31/12/2007 Total
Minimum lease payments	22.5	21.6	44.1
Finance costs	6.0	4.3	10.3
Present value of minimum lease payments	**16.5**	**17.3**	**33.8**

The non-current liabilities from lease transactions relate essentially to the leasing of plant equipment and machinery.

Current Liabilities

(36) Current Financial Liabilities

in € mil.	31/12/2008	31/12/2007
Liabilities to banks	104.3	73.3
Liabilities		
to affiliated companies	1.4	17.7
to participating interests	1.0	3.1
Liabilities from finance lease agreements	3.8	4.4
Current financial liabilities	**110.5**	**98.5**

The liabilities from finance leases reported under current financial liabilities are shown in the following table:

in € mil.	31/12/2008	31/12/2007
Minimum lease payments	5.6	6.4
Finance costs	1.8	2.0
Present value of minimum lease payments	**3.8**	**4.4**

The current liabilities from lease transactions relate essentially to the leasing of plant equipment and machinery and of factory and office equipment.

(37) Trade Payables

in € mil.	31/12/2008	31/12/2007
Liabilities		
to third parties	803.4	737.1
to affiliated companies	33.5	6.9
to participating interests	28.5	16.7
Trade payables	**865.4**	**760.7**

Trade payables include the following payables from construction contracts recognized using the percentage-of-completion method:

in € mil.	31/12/2008	31/12/2007
Payments received on account	39.4	38.1
Less production costs including result from construction contracts	2.6	4.6
Payables from construction contracts	**36.8**	**33.5**

The payables from construction contracts include those construction contracts with liability-side balances for which the payments received on account exceed the production costs, including shares in profit and loss.

(38) Other Liabilities

in € mil.	31/12/2008	31/12/2007
Other liabilities		
to affiliated companies	23.9	24.4
to participating interests	0.8	–
Other liabilities	464.9	551.4
of which to employees	[122.8]	[128.3]
of which payments received on account	[101.7]	[165.9]
of which tax	[51.5]	[41.8]
of which derivatives	[47.2]	[28.5]
of which interest	[31.4]	[–]
of which from forfaiting and the asset-backed securitization program	[24.1]	[94.6]
of which social security contributions	[19.4]	[21.2]
of which customer credit	[12.6]	[12.7]
of which other liabilities	[54.2]	[58.4]
Other liabilities (current)	**489.6**	**575.8**

Of the sum total of liabilities, € 84.3 million (2007: € 142.7 million) is secured by liens and similar rights.

Of the other liabilities, € 24.1 million (2007: € 14.2 million) are accounted for by liabilities which arose in connection with forfaiting programs.

With the support of Salzgitter Mannesmann Handel GmbH, Düsseldorf, Salzgitter Mannesmann International GmbH, Düsseldorf, made other non-Group external financing arrangements and sold receivables worth the equivalent of € 5.9 million (2007: € 5.8 million). Furthermore, Salzgitter Mannesmann International (USA) Inc., Houston, has sold receivables equivalent to € 18.2 million (2007: € 8.6 million) as of December 31, 2008, and reported the funds received as liabilities.

The asset-backed securitization program was wound up in the financial year under review.

(39) Contingencies

Contingencies are potential liabilities not shown on the balance sheet which are disclosed in the amount of their utilization on the reporting date. Their total amount is € 178.9 million (2007: € 122.1 million).

The contingencies include guaranties of € 107.8 million (2007: € 71.8 million) and bill commitments totaling € 0.4 million (2007: € 0.9 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.

(40) Other Financial Obligations

in € mil.	31/12/2008		31/12/2007	
	Short-term	Long-term	Short-term	Long-term
Purchase commitments	317.4	364.4	233.3	419.5
Obligations from long-term rental agreements	35.5	245.6	28.1	160.9
Other financial obligations	645.4	706.3	448.5	820.6
Total	**998.3**	**1,316.3**	**709.9**	**1,401.0**

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 € mil.	31/12/2008	31/12/2007
up to 1 year	35.5	28.1
1 to 5 years	70.7	40.8
over 5 years	174.9	120.1
Total	**281.1**	**189.0**

(41) Financial Instruments

As of the balance sheet date of December 31, 2008, the transition of the balance sheet items to the various categories of financial instruments was as follows:

FY 2008 in € mil.	Book value		
	31/12/2008	Loans and receivables originated by the company	Available for sale
Assets			
Financial assets	122.1	30.3	91.8
Other non-current receivables and assets (acc. to balance sheet € mil. 3.1); of which financial instruments	2.8	–	–
Trade receivables	1,652.2	1,652.2	–
Other receivables and other assets (acc. to balance sheet € mil. 881.9); of which financial instruments	767.3	682.8	–
Securities	30.7	–	–
Cash and cash equivalents	592.1	–	592.1
Assets financial instruments		**2,365.3**	**683.9**
Assets fair value per category		**2,365.3**	**683.9**
Equity and liabilities			
Non current financial liabilities	68.0	–	–
Current financial liabilities	110.5	–	–
Trade payables	865.4	–	–
Other payables (acc. to balance sheet € mil. 489.6); of which financial instruments	203.3	–	–
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	Derivates with documented hedging arrangements	Financial liabilities measured at amortized cost	
–	–	–	–
–	–	–	2.8
–	–	–	–
81.6	1.2	–	1.7
30.7	–	–	–
–	–	–	–
112.3	**1.2**	**–**	**4.5**
112.3	**1.2**	**–**	**4.6**
–	–	36.6	31.4
–	–	106.7	3.8
–	–	865.4	–
43.8	3.4	156.0	0.1
43.8	**3.4**	**1,164.7**	**35.3**
43.8	**3.4**	**1,164.9**	**34.0**

As of the balance sheet date of December 31, 2007, the transition of the balance sheet items to the various categories of financial instruments was as follows:

FY 2007 in € mil.	Book value		
	31/12/2007	Loans and receivables originated by the company	Available for sale
Assets			
Financial assets	108.8	4.4	104.4
Other non-current receivables and assets	2.9	–	–
Trade receivables	1,521.0	1,521.0	–
Other receivables and other assets (acc. to balance sheet € mil. 359.4; of which financial instruments	298.9	242.6	–
Securities	20.4	–	–
Cash and cash equivalents	2,138.8	–	2,138.8
Assets financial instruments		**1,768.0**	**2,243.2**
Assets fair value per category		**1,768.0**	**2,243.2**
Equity and liabilities			
Non current financial liabilities	87.4	–	–
Current financial liabilities	98.5	–	–
Trade payables	760.7	–	–
Other payables (acc. to balance sheet € mil. 575.8; of which financial instruments	212.0	–	–
Equity and liabilities financial instruments		**–**	**–**
Equity and liabilities fair value per category		**–**	**–**

The market values of the non-current receivables are determined by discounting the future payment flows with the market interest rates established as of the reporting date. Trade receivables, cash and cash equivalents mostly have short residual terms, and as a result their book values correspond 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 correspond 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 curve and the Salzgitter AG credit spread. The fair values of the derivative financial instruments correspond to their market values.

Valuation according to IAS 39			Valuation according to IAS 17
Financial instruments held for trading	Derivates with documented hedging arrangements	Financial liabilities measured at amortized cost	
–	–	–	–
–	–	–	2.9
–	–	–	–
42.9	11.6	–	1.8
20.4	–	–	–
–	–	–	–
63.3	**11.6**	**–**	**4.7**
63.3	**11.6**	**–**	**5.4**
–	–	53.6	33.8
–	–	94.1	4.4
–	–	760.7	–
25.7	2.8	183.4	0.1
25.7	**2.8**	**1,091.8**	**38.3**
25.7	**2.8**	**1,090.8**	**37.6**

In order to cover significant elements of the default risk and to afford access to a special information service, credit insurance cover has been arranged at the individual Group companies. For the companies in the Steel Division, the credit insurance does not extend to sales to dealers or companies in the iron and steel industry enterprises, for which global securities are arranged via the steel del credere office.

The default risk pertaining to financial instruments 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 € mil.	31/12/2008		31/12/2007	
	Maximum default risk	Secured default risk	Maximum default risk	Secured default risk
Trade receivables	1,652.2	943.3	1,521.0	737.2
Other receivables	682.8	3.7	242.5	23.3
Financial assets	30.3	2.4	4.4	0.7
Total	**2,365.3**	**949.4**	**1,767.9**	**761.2**

There are also default risks in the amount of the positive market values of the derivatives and with lease receivables in the amount of the 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 € 300.6 million (2007: € 232.5 million) as of the reporting date produced the following result:

31/12/2008 in € mil.	overdue for				
	< 30 days	31–60 days	61–90 days	91–180 days	> 180 days
Loans and receivables originated by the company	197.8	46.8	15.8	20.6	19.6

31/12/2007 in € mil.	overdue for				
	< 30 days	31–60 days	61–90 days	91–180 days	> 180 days
Loans and receivables originated by the company	162.5	37.4	8.2	10.2	14.4

A sum of € 154.2 million (2007: € 86.8 million) comprising overdue, non-impaired financial assets in the "Loans and receivables originated by the company" category is safeguarded with credit insurance.

Sums which have been overdue for more than 90 days usually relate to regular customers from whom the receipt of payment, as in previous years, is not in question.

In the reporting year, the Salzgitter Group recorded impairments of assets categorized as “Loans and receivables originated by the company” in the amount of € 39.8 million (2007: € 21.3 million) and reversals of write-downs in the amount of € 36.2 million (2007: € 12.9 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 shown with effect on income under other operating expenses.

Trade receivables amounting to € 0.1 million (2007: € 3.6 million) had their credit terms prolonged. 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 € mil.	FY 2008	FY 2007
Assets/Liabilities held for trading	–17.1	24.3
Loans and receivables originated by the company	13.8	–2.0
Available for sale	77.2	91.4
Financial liabilities measured at amortized cost	–18.9	–34.3
Total	**55.0**	**79.4**

The net result in the "Assets/liabilities held for trading" category primarily contains income and expenses from the balance sheet date valuation of current securities and from the valuation of hedging transactions. The “Available-for-sale” financial assets and “Financial liabilities measured at amortized cost“ categories largely comprise interest income of € 133.7 million (2007: € 115.6 million) and interest expenses of € 66.4 million (2007: € 36.4 million). In addition, the net results also comprise effects from currency translation and impairment.

In the reporting year, profits of € 1.4 million (2007: € 4.6 million) and losses of € 0.4 million (2007: € 0.0 million) were generated from the disposal of non-consolidated assets valued at acquisition cost. Valuation allowances of € 11.8 million (2007: € 5.6 million) with effect on income were recorded for the assets in this category reported as of the balance sheet date.

For financial instruments not measured at fair value through profit and loss, the expenses incurred in financial transactions amounted to € 18.1 million (2007: € 13.0 million); these were recognized with effect on income immediately.

The change in value reserve for financial instruments of the category "available-for-sale financial assets" developed as follows:

in € mil.	**FY 2008**	**FY 2007**
Status 1/1	30.9	4.9
Addition	0.4	0.2
Write-up	0.1	26.9
Disposal	0.1	1.1
valuation allowance	44.8	–
Status 31/12	**–13.5**	**30.9**

The valuation allowance of € 44.8 million in the financial year 2008 relates primarily to the shares in an Indian manufacturing company in the tubes industry and the shareholding in Norddeutsche Affinerie AG.

In the financial year 2008, the Salzgitter Group applied hedge accounting in accordance with IAS 39 only for forward exchange contracts. In the process, it hedged the currency risks using cash flow hedges. The respective market values were as follows:

Positive market values in € mil.	**31/12/2008**	**31/12/2007**
Forward exchange contracts – cashflow hedges	1.2	11.6

Negative market values in € mil.	**31/12/2008**	**31/12/2007**
Forward exchange contracts – cashflow hedges	3.4	2.8

The underlying transactions that were secured using cashflow 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 € mil.	FY 2008	FY 2007
Status 1/1	8.8	3.4
Addition	3.6	7.1
Disposals	14.6	1.7
Status 31/12	**–2.2**	**8.8**

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 value deriving from the underlying transactions. The current value of the derivatives to be reported derives from the valuation of the hedged foreign currency amount 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 in line 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 (%)	
	31/12/2008	31/12/2007	31/12/2008	31/12/2007	31/12/2008	31/12/2007
1 month	2.6030	4.2940	2.1663	5.9538	0.4363	4.6000
3 months	2.8920	4.6900	2.7700	5.9938	1.4250	4.7025
6 months	2.9710	4.7090	2.9600	5.9400	1.7500	4.5963
1 year	3.0490	4.7540	3.0738	5.7438	2.0038	4.2238
2 years	2.7210	4.5330	2.6970	5.2097	1.4460	3.8180
4 years	3.0865	4.5440	3.1950	4.7075	1.9660	4.0450
10 years	3.6930	4.7240	3.5950	4.6025	2.5740	4.6590

The liquidity structure of all the financial liabilities was as follows:

31/12/2008 in € mil.	up to 1 year	1 to 5 years	over 5 years
Trade payables	865.4	–	–
Financial liabilities	110.5	20.7	16.4
Lease liabilities	5.7	18.9	20.9
Other liabilities	227.9	–	–

31/12/2007 in € mil.	up to 1 year	1 to 5 years	Over 5 years
Trade payables	760.7	–	–
Financial liabilities	96.6	32.0	28.0
Lease liabilities	6.5	22.5	21.6
Other liabilities	195.2	–	–

As of December 31, 2008, disbursements from derivatives amounting to € 1,210.8 million (2007: € 1,396.6 million) were offset by payment contributions towards derivatives amounting to € 1,210.7 million (2007: € 1,414.6 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 these sensitivity analyses 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 payment 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. These, as defined by the sensitivity analysis prescribed by IFRS 7, are interest rate risks, currency 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. With regard to the currency risks, a fluctuation of 10% in the Group companies' respective functional currencies against the foreign currencies is assumed. The other price risks arise for the Salzgitter Group from changes in commodity prices or stock market indices. In the latter area, the impact of a 10% change in the respective quoted prices is taken into account. The sensitivities are ascertained 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 balance sheet date is representative of the year as a whole.

31/12/2008 in € mil.	affecting result	affecting equity	Total	affecting result	affecting equity	Total
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
USD	–61.3	6.5	–54.8	65.4	–7.5	57.9
GBP	0.7	–	0.7	–0.9	–	–0.9
Other currencies	–1.9	–0.5	–2.4	1.9	0.5	2.4
Currency sensitivities	**–62.5**	**6.0**	**–56.5**	**66.4**	**–7.0**	**59.4**
Degree of sensitivity	+100 bp	+100 bp	+100 bp	–100 bp	–100 bp	–100 bp
Interest rate sensitivities	**3.0**	**–**	**3.0**	**–3.0**	**–**	**–3.0**
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
Other price sensitivities	**2.3**	**–**	**2.3**	**–2.5**	**–**	**–2.5**

31/12/2007 in € mil.	affecting result	affecting equity	Total	affecting result	affecting equity	Total
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
USD	–27.1	23.2	–3.9	46.9	–27.4	19.5
GBP	3.5	0.3	3.8	–4.4	–0.2	–4.6
Other currencies	0.1	0.8	0.9	–	–0.9	–0.9
Currency sensitivities	**–23.5**	**24.3**	**0.8**	**42.5**	**–28.5**	**14.0**
Degree of sensitivity	+100 bp	+100 bp	+100 bp	–100 bp	–100 bp	–100 bp
Interest rate sensitivities	**7.2**	**–**	**7.2**	**–7.2**	**–**	**–7.2**
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
Other price sensitivities	**–6.1**	**–**	**–6.1**	**6.3**	**–**	**6.3**

(42) 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 2008 and 2007, 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 consist of cash in hand, checks, near-money funds securities and cash at banks.

In the cash flow from operating activities, earnings from fixed asset disposals have been eliminated. Interest income amounted to € 133.9 million (2007: € 82.9 million).

The investments reported under 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 plant and data processing systems, various large-scale investments were made, principally for the purpose of enhancing product quality and broadening the product range.

The payments for investment in the financial assets relate in particular to the purchase of shares in Norddeutsche Affinerie AG. In addition, the PET Group was acquired and included in the Salzgitter Group's scope of consolidation. The net cash outflow from this company acquisition in accordance with IFRS 3 (Note 43) in 2008 was as follows:

in € mil.	FY 2008
Purchase price paid in cash	140.9
Cash available in the acquired companies	–0.3
Incidental acquisition costs	0.9
Cash outflow as a result of acquisitions	**141.5**

Interest paid is attributed solely to financing activities.

The payments for short-term loans against promissory notes/bonds result from the sale of an additional loan against a promissory note and the issuance of a short-term loan to an associated company.

Receipts from shareholdings during the financial year amounted to € 17.7 million (2007: € 2.8 million).

(43) Acquisitions

By means of the share purchase and assignment agreement of January 11/12, 2008, Klöckner PET-Technologie GmbH, Frankfurt am Main, acquired the shares in the four German companies SIG Corpoplast GmbH & Co. KG, SIG Moldtec GmbH & Co. KG, SIG Asbofill GmbH and SIG Plasmax GmbH, as well as another six foreign companies (not consolidated) and the rights, licenses and associated assets in Brazil that belonged to the former SIG-Beverages business operations there. After the closing requirements had been fulfilled, four German companies were included in their entirety for the first time by means of full consolidation as per April 1, 2008. These companies contributed € 72.7 million to sales and € –1.6 million, after the purchase price allocation, to the Group's result for the year. Had the acquisition of these companies been effective from the beginning of the financial year, total sales of € 110.7 million and a profit contribution of € 3.6 million after the purchase price allocation could have been achieved since April 1, 2008.

The following assets and liabilities were acquired as a result of the acquisition:

in € mil.	Fair value	Book value at acquired company
Other intangible assets	4.9	0.2
Brand names	9.8	–
Customer relationships	5.4	–
Technologies	40.7	55.0
Property, plant and equipment	24.0	15.9
Financial assets	6.7	8.5
Inventories	38.1	36.2
Receivables	42.1	41.4
Cash and cash equivalents	0.3	0.3
Other assets	0.7	0.7
Other provisions	–30.8	–29.3
Pension provisions	–2.9	–3.5
Liabilities	–40.1	–39.5
Deferred tax – net	–0.6	–
Net assets	**98.3**	**85.9**
Net assets acquired	**98.3**	

The following schedule shows the derivation of the asset-side difference from the company acquisitions in 2008:

in € mil.	FY 2008
Cash outflow as a result of acquisition	140.9
Cash and cash equivalents	–0.3
Non-cash reduction of the purchase price	–7.0
Incidental acquisition costs	0.9
Subtotal	**134.5**
Net assets acquired	98.3
Goodwill	**36.2**

(44) 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 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, Services and Technology divisions in accordance with the Group structure in line with different products and services. Salzgitter AG as the management holding company and the intermediate holding company Salzgitter Mannesmann GmbH are not assigned to any division.

The Steel Division manufactures high-quality brands and special steels. Its main products are hot-rolled strip and cold-rolled steel, sections and sheet piling, plate, elements for roofing and cladding, blanks and tailored blanks.

The Tubes Division is concerned primarily with the manufacture of pipeline tubes, HFI-welded tubes, precision steel tubes and stainless steel tubes.

The Trading Division operates a tightly-knit European sales network as well as trading companies and agencies worldwide which ensure that the Salzgitter Group's products and services are marketed efficiently.

The business of the companies in the Services Division is primarily geared towards the needs of the Group. The range of services they provide includes data processing, telecommunications services, scrap dealing, the handling and storage of bulk cargo, transportation and other services for, among others, the automotive industry.

The Technology Division operates mainly 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.

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, € 5,873.3 million (2007: € 4,902.6 million) were earned in Germany and € 6,625.9 million (2007: € 5,289.7 million) in other countries: € 2,593.2 million (2007: € 2,203.1 million) were accounted for by other EU countries and € 1,152.8 million (2007: € 938.4 million) by America. The sales are allocated geographically by the domicile of the invoice recipient.

Of the non-current assets, € 2,290.8 million (2007: € 1,779.4 million) were accounted for by Germany and € 164.5 million (2007: € 145.0 million) by other countries. A further sum of € 321.9 million (2007: € 119.0 million) affects consolidated units not assigned to any segment.

In the financial year 2008, 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 € mil.	FY 2008	FY 2007
Total sales of the segments	15,860.0	12,947.3
Other sales	146.0	123.6
Elimination of the sales with other segments	–3,293.8	–2,686.6
Elimination of the sales with Group companies not assigned to a segment	–213.0	–192.0
Sales	**12,499.2**	**10,192.3**

in € mil.	FY 2008	FY 2007
Total results for the period of the segments	1,035.9	1,308.8
Other results for the period	–32.5	5.1
Earnings before tax	**1,003.4**	**1,313.9**

The other results for the period under review include, among other things, goodwill amortization amounting to € 31.0 million.

in € mil.	31/12/2008	31/12/2007
Segment operating assets	7,343.4	6,278.3
Other assets	1,238.6	1,979.7
Goodwill	20.6	15.3
Income tax assets	75.1	114.2
Deferred income tax assets	15.7	13.0
Deferred expenses	8.0	5.7
Balance sheet total	**8,701.4**	**8,406.2**

in € mil.	31/12/2008	31/12/2007
Segment operating liabilities	5,974.4	5,006.6
Other liabilities	–1,972.8	–1,180.9
Tax liabilities	346.8	328.0
Group equity	4,346.1	4,245.9
Deferred expenses	6.9	6.6
Balance sheet total	**8,701.4**	**8,406.2**

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. The shareholding in Norddeutsche Affinerie AG was likewise not allocated to any operating segment.

(45) 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.

Delivery and service relationships between companies in the consolidated group and companies related to the Salzgitter Group are depicted in the following table:

in € mil.	Sale of goods and services		Purchase of goods and services	
	FY 2008	FY 2007	FY 2008	FY 2007
ThyssenKrupp GfT Bautechnik GmbH, Essen	246.6	210.9	–	–
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	45.0	41.3	510.8	385.0

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 € mil.	Trade receivables		Trade payables	
	31/12/2008	31/12/2007	31/12/2008	31/12/2007
ThyssenKrupp GfT Bautechnik GmbH, Essen	4.5	13.7	0.5	–
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	1.0	5.6	27.6	16.5

A short-term loan receivable amounting to € 100.0 million is owed by Hüttenwerke Krupp Mannesmann GmbH, Duisburg.

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 € 83.7 million (2007: € 20.0 million) vis-à-vis non-consolidated affiliated companies.

Remuneration paid to members of the management in key positions:

in € mil.	FY 2008	FY 2007
Salary and other current payments	13.6	14.0
Payments after termination of the employment relationship	1.0	0.7
Total	**14.6**	**14.7**

(46) 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 € mil.	FY 2008	FY 2007
Audits	2.4	2.6
Other certification or assessment services	0.1	0.6
Tax consulting services	–	0.1
Other services	–	0.3

(47) Significant Events occurring after the Reporting Date

Significant events occurring after the reporting date are explained in the Management Report.

(48) Waiver of Disclosure and Preparation of a Management Report in Accordance with Section 264 Para. 3 or Section 264 b, 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
- SZST Salzgitter Service und Technik GmbH, Salzgitter
- Salzgitter Mannesmann Großrohr 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
- Salzgitter Mannesmann Grobblech GmbH, Mülheim
- Salzgitter Mannesmann Line Pipe GmbH, Siegen
- Salzgitter Mannesmann Precision GmbH, Mülheim
- Salzgitter Mannesmann Präzisrohr GmbH, Hamm
- Salzgitter Mannesmann Rohr Sachsen GmbH, Zeithain
- Universal Eisen und Stahl GmbH, Neuss
- Salzgitter Europlatinen GmbH, Salzgitter
- Salzgitter Mannesmann Forschung GmbH, Salzgitter
- Salzgitter Bauelemente GmbH, Salzgitter
- Mannesmannröhren-Werke GmbH, Mülheim
- Salzgitter Mannesmann Stainless Tubes GmbH, Mülheim
- Salzgitter Mannesmann Stainless Tubes Deutschland GmbH, Remscheid
- Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Osnabrück
- Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück
- Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück

(49) Supervisory Board and Executive Board

For the discharge of their duties, the members of the Executive Board received the sum of € 7.2 million (2007: € 7.4 million) in the financial year. Of this total, € 4.1 million (2007: € 4.6 million) was accounted for by performance-related remuneration components.

Provisions for pension obligations to members of the Executive Board amounted to € 14.5 million (2007: € 10.6 million). Former members of the Executive Board and their surviving dependants received a total of € 1.6 million for the financial year (2007: € 1.5 million). Pension provisions totaling € 19.1 million (2007: € 21.5 million) have been set aside to cover obligations to former Executive Board members and their surviving dependants.

Supervisory Board members received a total of € 2.0 million for the financial year (2007: € 1.9 million).

The remuneration of the individual members of the Executive and Supervisory Boards of Salzgitter AG is disclosed in Section I.2. “Management and Control” in the Group Management Report and the Salzgitter AG Management Report.

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 4 and March 16, 2009

The Executive Board

Leese Fuhrmann Eging

Fischer Groschke Schneider

VI. Auditor’s Report

“Independent Auditor’s Report

We have audited the consolidated financial statements – consisting of balance sheet, income statement, statement of recognized income and expense, cash flow statements and notes – and the group management report of Salzgitter AG, Salzgitter, which is combined with the company's management report, for the financial year from January 1 to December 31, 2008. The preparation of the consolidated financial statements and the group management report according to IFRS, as adopted by the EU, and the additional provisions stated in Section 315a para. 1 German Commercial Code (HGB) are the responsibility of the Company’s Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW). Those standards require that we plan and perform the audit in such a way that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements, observing the German principles of proper accounting, and in the group management report are detected with a reasonable degree of certainty. Knowledge of the business activities and the economic and legal environment of the Group and expectations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined group management report are examined primarily on a sample basis within the framework of the audit. The audit includes an assessment of the annual financial statements of the companies in the consolidated group, the determination of the composition of the consolidated group, the accounting and consolidation principles used and significant estimates made by the Company’s Executive Board, as well as an assessment of the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any objections.

In our opinion based on the results of our audit, the consolidated financial statements are in compliance with the IFRS, as adopted by the EU, and the additional provisions stated in Section 315a para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined group management report accords with the consolidated financial statements and, all in all, provides an accurate picture of the Group's position and an accurate description of the opportunities and risks of future development."

Hanover, March 5 and March 20, 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed	signed
Thomas Stieve Wirtschaftsprüfer (German Public Auditor)	Dr. Mathias Schellhorn Wirtschaftsprüfer (German Public Auditor)

I. 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, taxes (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 suppliers 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 Conformity
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 taxes
Tax charges and reliefs likely to arise at a future date as a result of temporary differences between the book value applied to the consolidated financial statements and the tax valuations of assets and liabilities.

E

EBIT (Earnings before Interest, 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 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 (suppliers), generally a bank.

Free float

That part of a company's capital stock that is freely traded on the stock market.

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 belonging to 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 assets**
  Goodwill/badwill, patents, licenses, development costs etc.
- **Financial assets**
  Shares in affiliated and associated companies, participating interests, securities held as fixed assets, 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 (German Commercial Code [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 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 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 materials for the production of beams.

Belt strip technology
Process for continuous casting.

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 produced from crude steel by the continuous casting process and used as an input material for the production of sections.

Blow molding technology
Method for manufacturing hollow containers from thermoplastics.

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 to smelt 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 manufacturing of slabs, blooms and tube rounds from molten steel.

E

Electric arc furnace

Unit in which steel scrap is melted using electricity producing so-called electric steel.

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

HFI-welding
Process to create welds on the basis of electro-magnetic induction.

Hollows
Seamless tubes used as an 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. a 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 plates 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 used 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.

Reusable gas
Combustible process gas which is a by-product in the manufacturing of primary materials and can be reused for other purposes.

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).

Sheet piling
Steel sections used to secure and seal excavation pits.

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 covering galvanized tin 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 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 produced 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.

U

UV paint

Paint which hardens when exposed to UV light.

II. Financial Calendar of Salzgitter AG for 2009

March 5, 2009	Key data for the financial year 2008
March 26, 2009	Publication of consolidated financial statements for 2008 Annual Results Press Conference
March 30, 2009	Analysts' conference in Frankfurt/Main
March 31, 2009	Analysts' conference in London
May 14, 2009	Interim report for the first quarter of the 2009 financial year
May 27, 2009	General Meeting of Shareholders in 2009
August 13, 2009	Interim report for the first half of the financial year 2009 Analysts' conference in Frankfurt/Main
August 14, 2009	Analysts' conference in London
November 12, 2009	Interim report for the first nine months of the financial year 2009

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