Annual Report 2009

Who we are

Salzgitter AG ranks among the German corporations that look back on a long history. The focus of our business is on steel and technology. Through sustained internal and external growth our company has developed into one of Europe's leading steel and technology groups – with external sales of around € 8 billion, a capacity of some 7 million tons of crude steel and a workforce of around 23,500 employees in 2009. Our overriding goal is – and in future will remain – to preserve our entrepreneurial independence through profitability and growth.

Comprising some 200 national and international subsidiaries and associates, the Group is structured into five divisions – Steel, Trading, Tubes, Services and Technology.

The Salzgitter share is included in the DAX index, which places the company among the top 30 German stock corporations.

The Salzgitter Group in Figures

		FY 2009	FY 2008	FY 2007	FY 2006	FY 2005
External sales	**€ m**	**7,818**	**12,499**	**10,192**	**8,447**	**7,152**
Steel Division	€ m	1,674	3,002	2,852	2,440	2,177
Trading Division	€ m	3,039	5,622	4,385	3,971	3,244
Tubes Division	€ m	2,045	2,172	1,815	1,510	1,407
Services Division	€ m	303	519	504	425	324
Technology Division[1]	€ m	718	1,038	513	–	–
Other/Consolidation	€ m	41	146	123	101	–
Earnings before tax (EBT)	**€ m**	**–496**	**1,003**	**1,314**	**1,855**[2]	**941**
EBT by division						
Steel Division	€ m	–374	546	749	434	431
Trading Division	€ m	–128	151	213	201	88
Tubes Division	€ m	104	312	303	263	441[3]
Services Division	€ m	8	24	40	15	9
Technology Division[1]	€ m	–210	4	4	–	–
Other/Consolidation	€ m	103[4]	–32[4]	5	942[2]	–28
Net income for the year	**€ m**	**–387**	**677**	**905**	**1,510**	**842**
Balance sheet total	**€ m**	**8,052**	**8,701**	**8,406**	**6,978**	**5,414**
Non-current assets	**€ m**	**3,184**	**2,918**	**2,168**	**1,631**	**1,900**
Current assets	**€ m**	**4,868**	**5,783**	**6,238**	**5,347**	**3,514**
Inventories	€ m	1,466	2,551	2,084	1,653	1,439
Shareholders' equity	**€ m**	**3,904**	**4,346**	**4,246**	**3,457**	**2,012**
Liabilities	**€ m**	**4,147**	**4,355**	**4,160**	**3,521**	**3,402**
Non-current liabilities	€ m	2,553	2,380	2,380	2,187	2,079
Current liabilities	€ m	1,595	1,975	1,780	1,334	1,323
of which due to banks	€ m	95[5]	132	119	140	178
Investments[6]	**€ m**	**677**	**653**	**385**	**236**	**262**
Depreciation and amortization[6]	**€ m**	**543**	**278**	**225**	**201**	**206**
Employees						
Personal expenses	€ m	1,397	1,472	1,232	1,014	994
Annual average core workforce[7]	empl.	23,769	23,866	20,072	16,949	17,184
Annual average total workforce[8]	empl.	25,639	25,628	21,648	18,352	18,499
Crude steel production[9]	**kt**	**4,918**	**6,901**	**7,325**	**7,363**	**7,142**
Key figures						
Earnings before interest and tax (EBIT)[10]	€ m	–468	1,072	1,351	1,901	970
EBIT before depreciation and amortization (EBITDA)	€ m	100	1,362	1,581	2,102	1,186
Return on capital employed (ROCE)[11]	%	–10.5	21.9	28.0	47.8	38.9
Cash flow	€ m	1,190	547	781	488	468

[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] Excluding contribution from the sale of V&M and VLR activities; assigned to the "Other/Consolidation" item
[4] Including amortization of goodwill
[5] Current and non-current liabilities to banks
[6] Excluding financial investments
[7] Excluding trainees and non-active age-related part-time employees
[8] Including trainees and non-active age-related part-time employees
[9] Taking consideration of share in HKM under company law
[10] EBT plus interest paid (excluding the interest portion of allocations to pension provisions)
[11] EBIT divided by the sum of shareholders' equity, tax provisions and interest-bearing liabilities (from 2005 including liabilities from finance leasing, forfaiting and asset-backed securitization)

Annual Report 2009

Financial Year from January 1 to December 31, 2009

SALZGITTER AG
Steel and Technology

Highlights of the Financial Year 2009

01 January

Prof. Dr.-Ing. Heinz Jörg Fuhrmann, Vice Chairman of the Executive Board of Salzgitter AG, is appointed to the Supervisory Board of Norddeutsche Affinerie AG (now Aurubis AG).

02 February

Salzgitter AG and the steel manufacturer Corus announce that they will continue their successful and close cooperation in the development of high-strength and ductility (HSD®) steel.

The new steels are especially suitable for components with complex geometric shapes which must also satisfy the enormous demands made on high strength.

03 March

Salzgitter AG announces its key data for the financial year ended: Consolidated external sales of almost € 12.5 billion, with a pre-tax profit of more than € 1 billion, set a new record. As early as the fourth quarter of 2008, however, the first effects of the drastic deterioration in the economic situation were being felt. At the Annual Results Press Conference, which took place on March 26, 2009, the Executive Board presented the 2008 Annual Report. Intensive discussions with the financial community then followed on from this event at well-attended analyst conferences in Frankfurt/Main and London. The Supervisory Board of Salzgitter AG unanimously reappoints Prof. Dr.-Ing. h.c. Wolfgang Leese for the period from February 1, 2010, through to June 30, 2011, as Chief Executive Officer and Chairman of the Executive Board.

04 April

The Salzgitter Group presents its Steel and Technology divisions to customers and partners at the Hanover Trade Fair. The trade fair stand, the central block of which was designed using 700 meters of steel beams from the Group Company Peiner Träger GmbH, was an exhibit in itself.

Ford confers the Q1 Award on Salzgitter Europlatinen GmbH. This prize is awarded to suppliers fulfilling the highest standards with regard to quality and delivery performance, as well as guaranteeing an excellent technical standard.

05 May

The difficult economic situation and accounting-related precautionary measures impact the result of the first quarter of the financial year 2009. The 23 % participation in Aurubis AG, Europe's leading copper manufacturer, included at equity in the group of consolidated companies for the first time, contributes very gratifying after-tax earnings of € 23.7 million to the quarterly result. The downturn in order intake and prices appears to have bottomed out in the European steel market. The market for flat steel in particular sees notable reductions in inventories, with the result that new orders begin to rise markedly from the end of May onwards. On May 27, the General Meeting of Shareholders of Salzgitter AG approves payment of a dividend of € 1.40 per share.

06 June

Sigmar Gabriel, Germany's Federal Minister of the Environment, makes a statement on EU emission trading on the occasion of his visit to Salzgitter's steel mill. He clearly states that German steel locations must not be put at a disadvantage in EU emission trading in an international comparison.

For this reason, he proposes that special regulations for sectors of industry, such as steel, must be enforced until there are equitable international regulations on competition. With reference to Salzgitter as a "highly efficient steel location", Gabriel does not envisage any urgent, lasting potential for lowering CO_2 emissions in the next few years.

07

July

After a 3.5-week period of downtime over the summer, Salzgitter Mannesmann Grobblech GmbH takes up production in its Mülheim plate rolling mill at the end of July. During this period numerous repairs were made, alongside the commissioning of a major investment project. These measures have enhanced the mill's performance delivering notable quality and cost advantages, as well as positive effects on the environment.

08

August

Half-year results 2009: The results of the Salzgitter Group reflect the considerable burden from the impact of the global economic and financial crisis, above all in the Steel, Trading and Technology divisions.

The new "Niedersachsenkai", part of the River Weser port of Brake, is inaugurated. Salzgitter AG supports work on further extension by granting a loan.

09

September

No innovation, no future: The Duisburg Location of Salzgitter Mannesmann Forschung, the central research company of the Salzgitter Group, had its 75th anniversary. The renowned Mannesmann Forschungsinstitut (research institute), its forerunner, was founded in 1934.

Salzgitter AG invests in a globally unique technology dedicated to near net-shape steel casting. Compared with conventional steel manufacturing, belt casting technology (BCT®) differentiates itself through substantial energy savings and CO_2 reductions. As part of an environmental innovation program, the German Federal Ministry of the Environment, Conservation and Nuclear Safety is supporting the project through an investment grant of € 19 million.

Almost 300,000 children and young people visit the second IdeenExpo. Salzgitter AG promotes the event as a premium sponsor and is actively committed through its creative ideas, workshops and interactive exhibits under the slogan: "What would the world be without metal?"

10

October

Prof. Dr.-Ing. h.c. Wolfgang Leese, Salzgitter AG's Chief Executive Officer, is appointed to the Supervisory Board of Aurubis AG (formerly Norddeutsche Affinerie AG).

Salzgitter AG takes advantage of the favorable environment in the capital market and places a convertible bond worth € 296.45 million through its Dutch subsidiary Salzgitter Finance B.V. The issue serves to diversify the Salzgitter Group's sources of finance.

11

November

The Salzgitter Group records a perceptible improvement in the results in the third quarter. The effects of the global economic crisis are, however, still evident and provide further proof that the broad and sound business base of the company is extremely advantageous.

At an extraordinary meeting, the Supervisory Board appoints Dipl.-Wirtsch.-Ing. Johannes Nonn as the new Executive Board member responsible for the Steel Division. He is the successor of Dipl.-Ing. Hans Fischer who, after nine years of successful work, is leaving the Group at the end of the year at his own wish.

12

December

The Salzgitter AG acquires a blocking minority in the copper producer Aurubis AG: As of December 15, 2009, Salzgitter AG holds 10,323,640 shares of Aurubis AG, corresponding to a shareholding of 25.26 % of the nominal capital of that company, via its subsidiary Salzgitter Mannesmann GmbH.

Contents

B Consolidated Financial Statements/Notes

C Further Information

Preface by the Executive Board

Ladies and Gentlemen,

We do not wish to importune you with the platitude "we were unable to escape the effects of the crisis" which is commonplace in virtually all information released by companies nowadays. You will most likely feel that we are stating the obvious. And you are also aware of how the crisis came about and know that we were not responsible for it. What may be of interest to you, however, is how we mastered the challenges it presented.

As repeatedly mentioned in previous years at this point, we have not been anticipating decades of a steady steel boom, but have factored in a cyclical downturn of considerable proportions. We did not succumb to the temptation of entering into extremely complex and risky commitments far removed from our core activities, but have chosen instead to put our cards on modernizing our existing locations and making selective acquisitions which will diversify our Group portfolio. Thanks to our financial stability and sound balance sheet structure we were not forced, like many other industrial enterprises, to take out loans and issue corporate bonds at high interest rates.

In response to the crisis, we initiated an extensive program of measures to stabilize profit and liquidity at the turn of the year 2008/2009 which was then swiftly and successfully implemented. This program was instrumental in helping our Group companies to actively save costs totaling € 276 million. This amount is even more than originally planned and does not include the effect of market price fluctuations outside our scope of influence, such as that of commodities, for instance. We have acted prudently; adjusting personnel expenses to capacity utilization was made mainly through using the tools of short-time work and time accounts, and investments to secure the future were generally realized without delay. Anything else would have meant that we would have saved at the cost of our future.

Nonetheless, we consider it our duty to take a critical look at our activities ourselves. Wherever achieving our targeted results involved ongoing organizational and streamlining measures, which went beyond the short-term program of immediate measures, they were initiated. The largest portion of funds amounting to € –73 million necessitated by these measures have been absorbed by our 2009 annual financial statements, along with € 263 million in unscheduled write-downs which have no effect on liquidity. The effects of these measures will already serve to ease the burden on the results of the current financial year.

After elimination of these non-recurrent expenses, the Group's remaining operating pre-tax result comes to € –160 million. Seen in absolute terms this result is not good but is acceptable when compared with that of numerous competitors in Germany and abroad and also in view of the difficulties experienced in many customer industries which buy our products. With an after-tax contribution of € 60 million, our stake in Aurubis AG has made a gratifying contribution to our consolidated result; this investment, which we made shortly before the crisis in the financial market spread to the rest of the economy, is still delivering a genuinely positive performance.

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

This step, which initially drew negative comments from a number of observers, also highlights one thing: achieving competitive differentiation is the first move towards being better. Otherwise you are nothing more than just as good – in the best case scenario.

But it is not always the decisions of huge import with far-reaching consequences which make that special difference – often it is just small things. This is the insight illustrated by the images and accompanying stories in the 2009 Annual Report. Here you can find out what an impartial look, a new approach to a known topic, an alloy particle, or a little bit of appreciation in our dealings with one another can do.

This approach must have had some effect; otherwise our share would not have multiplied its value many times over in the last decade, leaving the competitor average far behind. May we ask you to remember this when you come to assess the dividend of € 0.25 per share which we intend to distribute despite the huge loss sustained by the Group. The last time we paid dividend in this amount was the financial year 2003 that was, after all, a year which closed with a profit.

Although the sales and procurement markets are still exposed to erratic fluctuation and the economy is not showing any clear signs of firming up, we nonetheless anticipate an improvement in the Group's results in 2010.

On this note, we would like to extend our thanks to you as the shareholders and business partners of Salzgitter AG, also on behalf of our committed employees, for the trust that you vest in our company.

Sincerely,

Wolfgang Leese

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

Jörg Fuhrmann

Prof. Dr.-Ing. Heinz Jörg Fuhrmann

Wolfgang Eging

Wolfgang Eging

Heinz Groschke

Heinz Groschke

Johannes Nonn

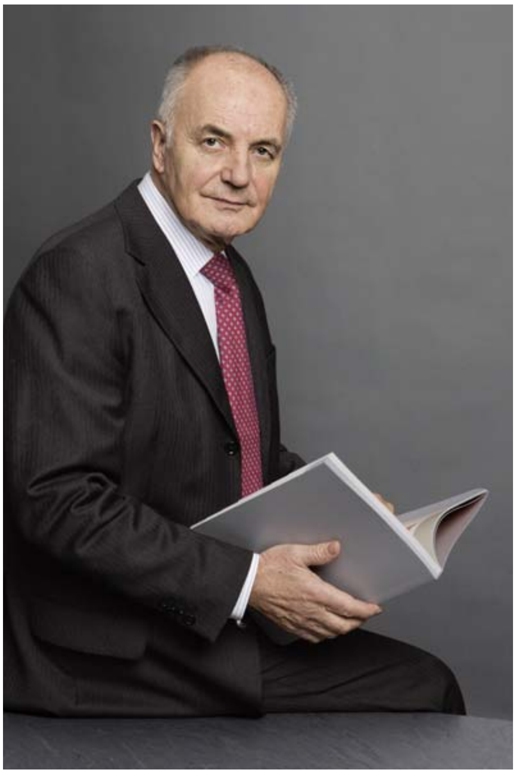
Johannes Nonn

Peter-Jürgen Schneider

Peter-Jürgen Schneider

Report of the Supervisory Board

For Salzgitter AG, the year 2009 will go down as one of the most difficult financial years in the history of the Salzgitter Group, founded over 150 years ago. The global financial crisis caused economic output in Germany to decline by around 5%, despite the extensive economic packages that were put in place. The steel industry, which was still flourishing in mid-2008, was hard hit by the severe recession.


Rainer Thieme, Chairman of the Supervisory Board

Especially in the first half of the year Salzgitter AG had to absorb the dramatic slump in demand in the steel markets. Alongside a drastic downturn in production in almost all customer groups, the reduction of the excessive material inventories of steel processors and dealers exerted substantial pressure on the market environment.

Thanks to its sound and broad business base and its healthy financial position, our company has mastered the challenges ensuing from the crisis relatively well. A program swiftly launched by the Executive Board was greatly instrumental in stabilizing profit and securing liquidity. Further reaching, profound restructuring measures and severe cutbacks have been avoided up until now. In this context, keeping a steady focus on the cost and earnings situation and our having exercised reticence in the past with regard to acquisitions have proven to be the correct choice. At the end of the financial year 2009, Salzgitter AG nonetheless concededly incurred the largest loss in its company history.

At the start of the second half-year, there were the first hesitant signs of a gradual stabilization in the market, nonetheless at a very low level. Performance in the financial year 2010 will, in our view, depend greatly on the extent to which Europe and North America in particular manage to return to the path of steady growth. The decentralized structure of the Salzgitter Group will enable us to react swiftly for the most part to the future market developments.

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

We regularly supervised and advised the Executive Board in the exercise of its management duties. Our board received both written and verbal reports on the business performance, financial and earnings position of the company, as well as the business policy pursued.

Moreover, we were provided with timely and comprehensive information on the risks of the company and on divergences between the planned and actual course of business and goals. The causes of the divergences were thoroughly explained and discussed. We were directly involved in all decisions of particular significance for the company and availed ourselves of the opportunity of discussing these decisions in detail with the Executive Board.

There were four regular and one extraordinary meeting 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 Supervisory Board members was 90% – including an extraordinary meeting convened at short notice. In addition, there were nine meetings of the Presiding Committee and one meeting of the Nomination Committee. The Audit Committee conferred four times.

The Chairman of the Supervisory Board coordinated the work of the Supervisory Board. He maintained regular contact with the Executive Board, in particular with Prof. Dr.-Ing. h.c. Wolfgang Leese, its Chairman, and discussed with him the current situation of the company, its development and material transactions.

Focus of the Consultations of the Supervisory Board

The consultations of the Supervisory Board were essentially focused on the impact of the global financial crisis on our company and the countermeasures initiated. We also had reports submitted to us on the progress made in extensive investment projects commenced in previous years. Moreover, on the basis of authorization granted by the Annual Meeting of Shareholders which took place on May 27, 2009, we approved the issuing of a convertible bond.

In our meeting on December 10, 2009, we discussed the corporate planning for the financial years 2010 through to 2012 submitted by the Executive Board with its pertinent annotations, including investment, finance and personnel planning. We also approved the investment plan of the Group for the financial year 2010 and its financing.

Annual Financial Statements of Salzgitter AG and Consolidated Financial Statements

In the meeting on March 25, 2010, we examined the annual financial statements of Salzgitter AG and of the Group, both drawn up as of December 31, 2009, as well as the joint management report on the company and the Group for the financial year 2009. Prior to this, the independent auditor PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, Germany, selected by the General Meeting of Shareholders, reviewed both sets of financial statements and issued an unqualified auditor's opinion. The auditor thereby confirmed that the accounting, valuation and consolidation carried out in the consolidated financial statements complied with the International Financial Reporting Standards (IFRS). Furthermore, as part of its assessment of the risk management system, the auditor ascertained that the Executive Board had taken the steps required by the German Stock Corporation Act (AktG) for the early recognition of risks that could endanger the company as a going concern.

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 had discussed various questions. The Committee recommended that the Supervisory Board ratify the financial statements.

The annual financial statements of Salzgitter AG, the consolidated financial statements of the Group, the joint management report on the company and the Group, the Executive Board's proposal for the appropriation of the 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 25, 2010, 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. We thus approved the findings of the auditor's review and ratified the annual financial statements and the consolidated financial statements. The annual financial statements are thereby adopted. After due consideration, we gave our approval to the proposal made by the Executive Board on the appropriation of the retained earnings.

Changes to the Supervisory Board and the Executive Board

Mr. Friedrich-Wilhelm Tölkes, employee representative, laid down his Supervisory Board mandate on January 15, 2009. With effect from January 16, 2009, his position was filled by Mr. Ulrich Kimpel, hitherto 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.

At his own request, Mr. Dipl.-Ing. Hans Fischer resigned from the Executive Board on December 31, 2009, in order to take up tasks at another company. On November 16, 2009, the Supervisory Board appointed Mr. Dipl.-Wirtsch.-Ing. Johannes Nonn, formerly member of the Board of Directors of the management company overseeing the Steel Division, Salzgitter Stahl GmbH, and Chairman of the Board of Directors of Salzgitter Flachstahl GmbH, Salzgitter, with effect from January 1, 2010, as the member of the Executive Board responsible for the Steel Division.

The Supervisory Board would like to thank the Executive Board and all employees of the Group for their work and commitment throughout the financial year 2009.

Salzgitter, March 25, 2010

The Supervisory Board

Rainer Thieme
Chairman of the Supervisory Board

Corporate Governance Report

Declaration on the Management of the Company in the Financial Year 2009 and Corporate Governance Report

The Executive Board and the Supervisory Board of Salzgitter AG regard good, responsible management and control of the company in all its aspects as one of the key factors for the success of the company. Both executive bodies have reviewed the concrete management structures of the Group and the controlling instruments of its committees on several occasions in recent years and adjusted them in mutual agreement to the changed requirements and to the growth of the Group.

The general provisions prevailing under German law on the management and supervision of listed stock corporations form the framework under which the management of the company is conducted. In addition, the company complies with the many supplementary recommendations of the German Corporate Governance Code – with only one exception – in the financial year 2009. Specifically, these were the following:

- the rights of the shareholders and the general meetings of shareholders,
- the cooperation between the Executive Board and the Supervisory Board,
- the tasks and remuneration of the Executive Board,
- the tasks and remuneration of the Supervisory Board,
- conflicts of interest of Executive and Supervisory board members,
- the transparency of the company and
- the accounting and auditing of the financial statements.

You can read more about the recommendations online at www.corporate-governance-code.com

On December 10, 2009, the Executive Board and Supervisory Board of Salzgitter AG submitted the following declaration on the recommendations of the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG):

> "All recommendations of the 'Government Commission German Corporate Governance Code' (GCGC) published by the German Federal Ministry of Justice in the official part of the electronic German Federal Gazette (Bundesanzeiger) have been complied with by Salzgitter AG with the exception of Code Item 3.8 (2) GCGC changed in 2009; the regulation recommended under this paragraph of raising the deductible for Executive and Supervisory board members in respect of the D&O insurance will be included in the insurance policy with effect from January 1, 2010."

Beyond the recommendations laid down in the Code, employees of the company developed a set of corporate guidelines back in 2001 determining ethical standards for the entire Group which were subsequently approved by the Executive Board. This mission states the standards for the company and its employees, formulated under the five bywords "Partners, Products, Processes, Personnel, Profit" (5P). You can read our Corporate Mission on our company website at www.salzgitter-ag.de/en/Konzern/Leitbild_5P

In the financial year 2009, the shareholders and the Executive and Supervisory boards were involved in the management and control of Salzgitter AG in following key areas:

The Shareholders of Salzgitter AG

The shareholders principally exercise their rights at general meetings of shareholders. Each shareholder of Salzgitter AG is entitled to participate in the General Meeting of Shareholders, which customarily takes place once a year, to address the Meeting about items on the agenda, to ask pertinent questions, to submit relevant motions and to exercise his/her voting right. Fundamental decisions affecting the company, such as changes to the Articles of Incorporation, the appropriation of the annual profit, 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 General Meeting of Shareholders. Salzgitter AG facilitates the process of exercising their personal rights: by appointing a proxy of the company, shareholders can choose not to attend the General Meeting of Shareholders personally and will not waive their voting rights.

The annual financial statements as at December 31, 2008, the consolidated financial statements, the joint management report on the company and the Group as well as the report of the Supervisory Board were presented to the regular General Meeting of Shareholders of Salzgitter AG held on May 27, 2009. Prior to the General Meeting, the documents were posted on our website for viewing by the shareholders.

The General Meeting then discussed the applications for resolution pertaining to the following items on the agenda:

- Appropriation of unappropriated retained earnings (€ 1.40 per share)
- Discharge of the Executive and Supervisory boards
- Selection of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, as the independent auditor for the financial year 2009
- Authorization for the purchase, sale and retraction of the company's own shares
- Authorization to raise the share capital
- Authorization to issue bonds with warrants, convertible bonds, profit participation rights and/or profit sharing stock

All applications for resolution submitted by the Executive and Supervisory boards were approved by a large majority.

The Executive Board of Salzgitter AG

In accordance with legal requirements, the Executive Board manages the company under its own responsibility. In this process, it manages the subsidiaries and holdings in accordance with company law, by means of manifold organizational instruments and by applying regular controlling measures. Its principal tasks include the strategic alignment and development of the company in consultation with the Supervisory Board. In carrying out these activities, the Executive Board 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 the Salzgitter AG was made up of six members in the financial year 2009, some of which had functional, others divisional competences. They are liable towards the company for any dereliction of duty. The assignment of duties among the members of the Executive Board is set out in a schedule for the allocation of tasks. The Supervisory Board has established articles of incorporation for the purpose of regulating the cooperation in the Executive Board and for involving the Supervisory Board in business management transactions.

The Supervisory Board plenum decides upon the remuneration system applicable to the Executive Board, including key contractual components, and determines the overall remuneration of each individual member of the Executive Board. Detailed information on the remuneration system is disclosed in the Group Management Report.

The Supervisory Board of Salzgitter AG

The Supervisory Board is tasked with supervising and advising the Executive Board in its management of the company. It appoints the Executive Board members and plans their successors on a long-term basis. It is also involved in material decisions affecting the company which require its approval. The Supervisory Board determines the information and reporting duties of the Executive Board.

The Supervisory Board is made up of 21 members, namely 10 shareholder and 10 employee representatives plus one other member; this composition has been laid down under the provisions of the Co-Determination Amendment Act of 1956 applicable to the company, in conjunction with Article 7 of the company's Articles of Incorporation. 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 2009 in its 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 (see page 40).

Working practices of 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.

The Executive Board and the Supervisory Board of Salzgitter AG use a set of practical instruments for successfully performing their management and control duties.

The essential instruments of the Supervisory Board include in particular:
- the 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,
- the determination of business activities and measures of the Executive Board which may only be carried out with Supervisory Board approval,
- the obligation of the Executive Board to submit long-term corporate plans on an annual basis and to report on the execution of such plans,
- when determining the remuneration of the Executive Board members, agreement on the variable components, geared towards the commercial success of the company and the overall performance of each individual Executive Board member.

The Supervisory Board has set up the following committees during its current term of office for the preparation of its consultations and resolutions:

Presiding Committee:
Rainer Thieme, Chairman
Dr. Lothar Hagebölling
Jürgen Peters
Christian Schwandt

Audit Committee:
Prof. Dr. Hannes Rehm, Chairman
Hannelore Elze
Rainer Thieme
Helmut Weber

Strategy Committee:
Rainer Thieme, Chairman
Manfred Bogen since March 26, 2009
Dr. Lothar Hagebölling
Jürgen Peters
Prof. Dr. Hannes Rehm
Christian Schwandt
Friedrich-Wilhelm Tölkes until January 15, 2009

Nomination Committee:
Dr. Lothar Hagebölling
Rainer Thieme

The Presiding Committee undertakes the preparatory work in connection with the appointing of Executive Board members and, in place of the Supervisory Board plenum, makes decisions on business measures requiring urgent approval. The Presiding Committee deliberates whenever necessary, also in the form of meetings or telephone conferences.

The Audit Committee deals with the following in particular:
- the annual financial statements,
- the quarterly financial statements,
- the internal control system,
- the risk management system,
- issues relating to compliance with the provisions applicable to the company (corporate compliance),
- the independence of the external auditor,
- the assignment of the audit mandate and
- the determination of key audit areas.

The Audit Committee generally meets four times a year, has the Executive Board report in writing and orally on individual issues to be discussed, as well as having representatives of the independent auditor explain the report on their audit of the financial statements at company and at Group level.

The Strategy Committee is tasked with discussing the strategy of the company with the Executive Board. The Committee meets sporadically.

The Nomination Committee, which is exclusively comprised of representatives of the shareholders, proposes suitable candidates to the Supervisory Board, which in turn presents its proposals to the General Meeting of Shareholders for the election of Supervisory Board members. It becomes especially active before the Supervisory Board is reelected.

The Executive Board uses – inter alia – the following management and control instruments:

- definition of reporting duties and authorization requirements of individual areas in corporate guidelines and the Articles of Incorporation of the respective 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 an internal audit department,
- operating of a groupwide monitoring system for early risk detection (risk management),
- agreement on the targets and on the performance-related remuneration component for the managing directors and senior executives of the Group companies.

The Executive Board did not set up any committees in the financial year 2009. It further developed the strategic orientation of the Salzgitter Group and its divisions and initiated a large number of measures for the implementation of strategic goals. The development of the Group companies and holdings was monitored by the Executive Board in a timely manner 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 where necessary.

Corporate Compliance as Part of Corporate Governance

Corporate Compliance means the adherence to the legal provisions and internal guidelines relevant in conducting the company's business. We view this as 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. For this purpose each superior must give his/her staff clear instructions as to their tasks and areas of responsibilities and must document this accordingly. This responsibility includes ensuring that staff have the competences necessary to fulfill their compliance duties. Moreover, part of a superior's duty is to monitor the fulfillment of compliance duties. The regular requesting of appropriate reports is part of guaranteeing that compliance tasks are monitored. We have defined this process in detail 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 of the Company

We regard transparency and providing our shareholders with comprehensive information on the performance and the situation of the company as a matter of course. Along with the annual report, Salzgitter AG therefore publishes condensed interim accounts and an interim management report at the end of the first, second and third quarter of the financial year. This ensures that our shareholders are kept informed about our business performance in as timely a manner as possible. The dates of publication are announced in the company's financial calendar.

Furthermore, the Executive Board explains the results of each financial year ended at an annual statements press conference which takes place directly after the meeting of the Supervisory Board when the financial statements are adopted.

In addition to this, we organize regular analysts' conferences for analysts and institutional investors in Frankfurt/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 ad-hoc releases. All reports and statements are available on the company's website (www.salzgitter-ag.de) in both German and English.

In the financial year 2009, the company did not receive any information on the purchase or sale of the shares of Salzgitter AG by persons who are obligated to disclose such transactions (Directors' Dealings). No members of the Executive or Supervisory boards own a portion of the shares issued, either directly or indirectly, exceeding 1%. There are currently no share option programs or similar security-based incentive systems implemented at the Salzgitter Group.

Salzgitter, March 25, 2010

The Executive Board

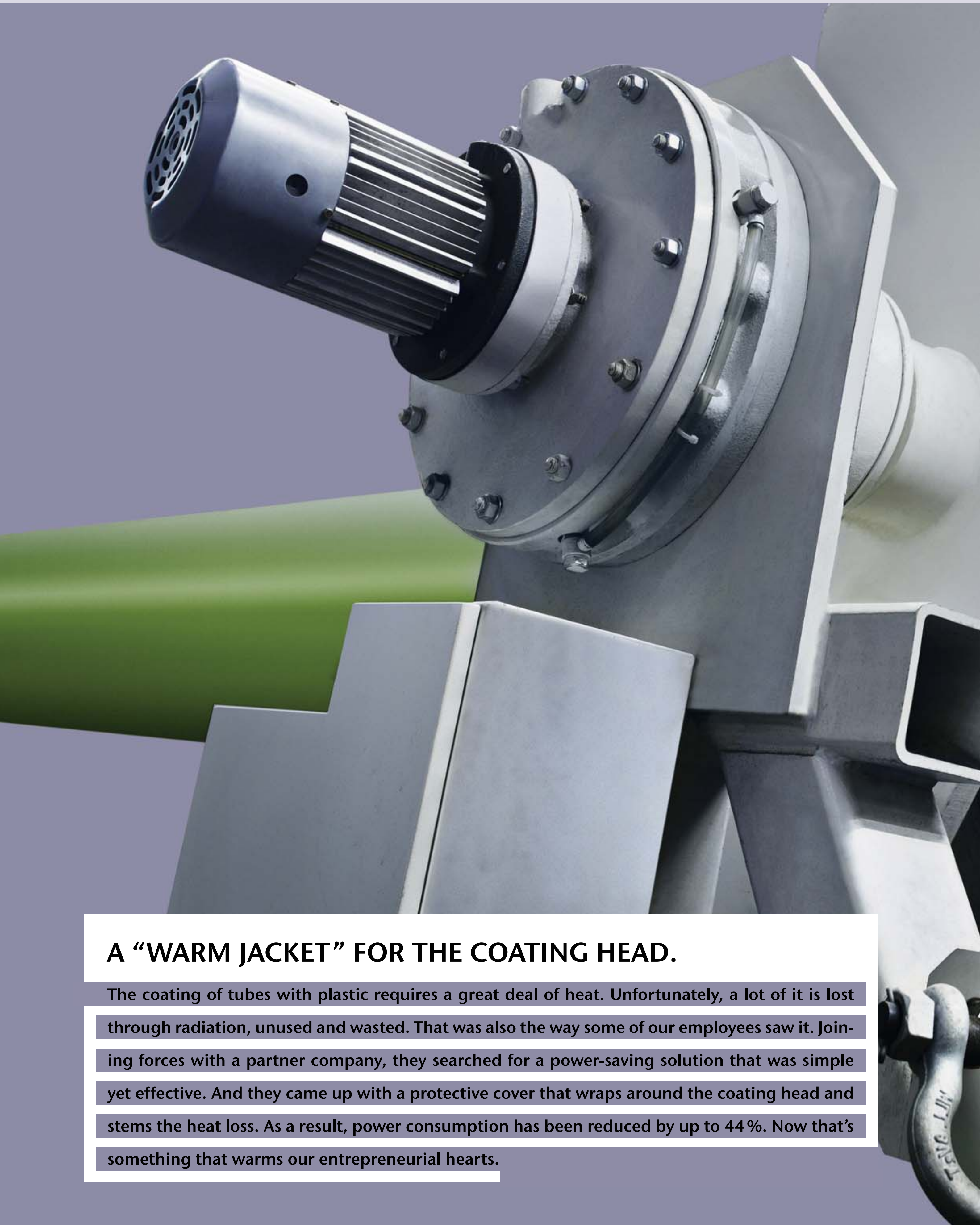
Prof. Dr.-Ing. h. c. Wolfgang Leese
Chairman

The Supervisory Board

Rainer Thieme
Chairman

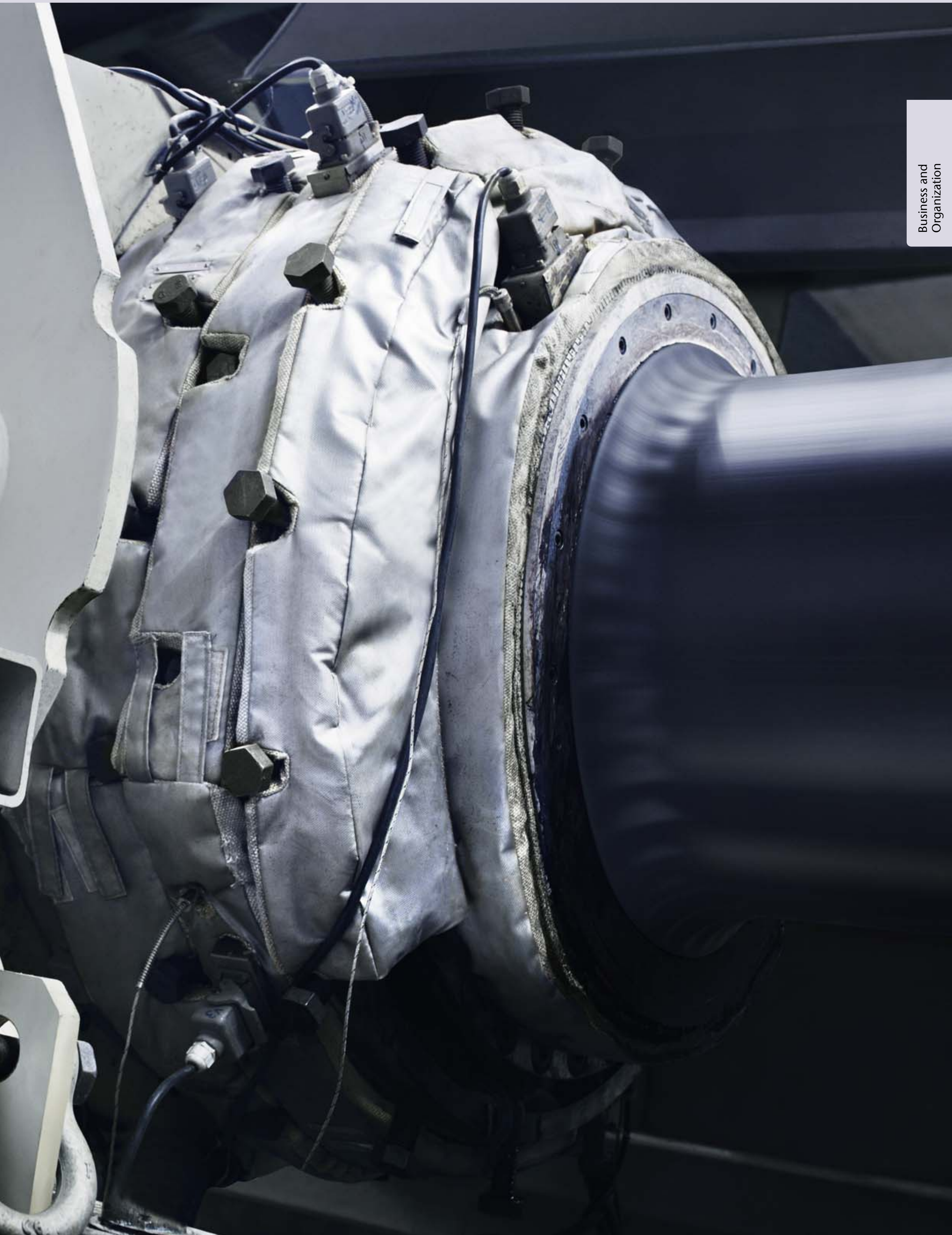
SOMETIMES, IT IS SIMPLY A MATTER OF PRINCIPLE.

When it's cold, it's good to wrap up warm. A simple principle that everyone knows and everyone practices, year in, year out. And also one that can be applied elsewhere with great success.



A "WARM JACKET" FOR THE COATING HEAD.

The coating of tubes with plastic requires a great deal of heat. Unfortunately, a lot of it is lost through radiation, unused and wasted. That was also the way some of our employees saw it. Joining forces with a partner company, they searched for a power-saving solution that was simple yet effective. And they came up with a protective cover that wraps around the coating head and stems the heat loss. As a result, power consumption has been reduced by up to 44%. Now that's something that warms our entrepreneurial hearts.



I. Business and Organization

1. Group Structure and Operations

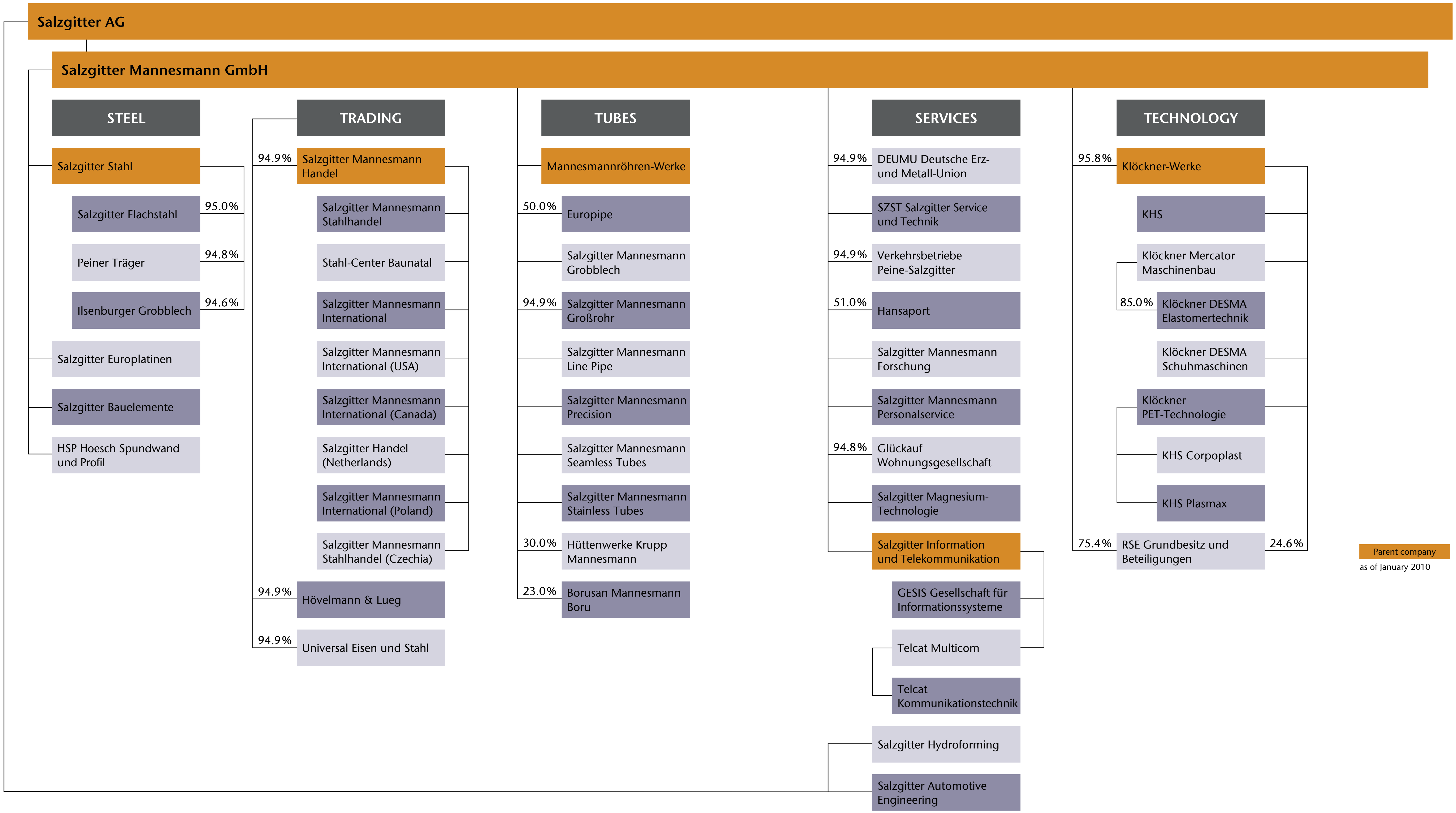
The Salzgitter Group comprises more than 200 subsidiaries and associated companies organized into five divisions and combined under Salzgitter AG as the holding company. With an annual crude steel capacity of around 7 million tons, external sales of around € 8 billion and a workforce of some 23,500 employees in 2009, the Salzgitter Group ranks among Europe's top steel technology groups. Salzgitter AG is a member of the DAX index of Deutsche Börse AG.

Our core competencies reside in the production of rolled steel and tubes products, their processing, trading in these products and the construction of special machinery and plant engineering.

All important companies of the Salzgitter Group are combined under Salzgitter Mannesmann GmbH (SMG) as an interim holding. This structure, among other things, enables the centralized operation of the Group's financial management. As the management holding, Salzgitter AG manages SMG as well as all associated companies. The Executive Board of Salzgitter AG is composed of the same persons as the management board of SMG. The management and control of the Group is therefore carried out by the executive bodies responsible for Salzgitter AG (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 following chart.

Divisions


Salzgitter AG
Salzgitter Mannesmann GmbH
STEEL
Salzgitter Stahl
Salzgitter Flachstahl 95.0%
Peiner Träger 94.8%
Ilsenburger Grobblech 94.6%
Salzgitter Europlatinen
Salzgitter Bauelemente
HSP Hoesch Spundwand und Profil
TRADING
94.9% Salzgitter Mannesmann Handel
Salzgitter Mannesmann Stahlhandel
Stahl-Center Baunatal
Salzgitter Mannesmann International
Salzgitter Mannesmann International (USA)
Salzgitter Mannesmann International (Canada)
Salzgitter Handel (Netherlands)
Salzgitter Mannesmann International (Poland)
Salzgitter Mannesmann Stahlhandel (Czechia)
94.9% Hövelmann & Lueg
94.9% Universal Eisen und Stahl
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-Union
SZST Salzgitter Service und Technik
94.9% Verkehrsbetriebe Peine-Salzgitter
51.0% Hansaport
Salzgitter Mannesmann Forschung
Salzgitter Mannesmann Personalservice
94.8% Glückauf Wohnungsgesellschaft
Salzgitter Magnesium-Technologie
Salzgitter Information und Telekommunikation
GESIS Gesellschaft für Informationssysteme
Telcat Multicom
Telcat Kommunikationstechnik
Salzgitter Hydroforming
Salzgitter Automotive Engineering
TECHNOLOGY
95.8% Klöckner-Werke
KHS
Klöckner Mercator Maschinenbau
85.0% Klöckner DESMA Elastomertechnik
Klöckner DESMA Schuhmaschinen
Klöckner PET-Technologie
KHS Corpoplast
KHS Plasmax
75.4% RSE Grundbesitz und Beteiligungen 24.6%
Parent company
as of January 2010

The Divisions of the Salzgitter Group

Our divisions are composed of independently operating companies which enjoy a high degree of decision-making freedom and are thus able to engage in business activities regarding markets, locations and products under their own responsibility.

With their high-quality branded and special steels, the companies of the **Steel Division** constitute the core competence of our Group. They develop and produce a broad range of steel products (flat steel and sections, plate, sheet piling, corrugated sheets and tailored blanks) for constantly evolving new areas. We focus our product program on the segment of high-quality steel grades for sophisticated applications. The German automobile industry is, for instance, a major customer sector whose service and quality requirements are particularly demanding. Thanks to intensive research and development and strong customer orientation, we are set to continue developing market potential for creative and innovative products on an ongoing basis.

Given normal market conditions, more than five million tons of crude steel are melted in the integrated mill of Salzgitter and in the Peine electric steel plant. Due to their highly sophisticated and complex plant and process technology, the three large rolled steel mills of Salzgitter, Peine and Ilsenburg rank 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, we ensure that we reach not only major customers but also smaller and medium-sized end customers.

The following companies, operating under the management company Salzgitter Mannesmann Handel GmbH (SMHD), have been assigned to the Trading Division: Salzgitter Mannesmann Handel Group, the plate specialist Universal Eisen und Stahl GmbH (UES), as well as the steel service center Hövelmann & Lueg GmbH (HLG).

The SMHD Group operates three companies in Germany from thirteen distribution centers, eleven of which are warehouses. Seven companies engage in steel trading in European countries, with an additional four active agencies. International trading is mainly handled by nine independent companies and five representative offices located abroad.

The plate specialist UES conducts its trading and processing business mainly in Germany, but also has representative 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 scope of products 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 its high-quality products of international standing, 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 30-percent stake held in Hüttenwerke Krupp Mannesmann GmbH (HKM), through its own cutting-edge 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 the sourcing of semi-finished products.

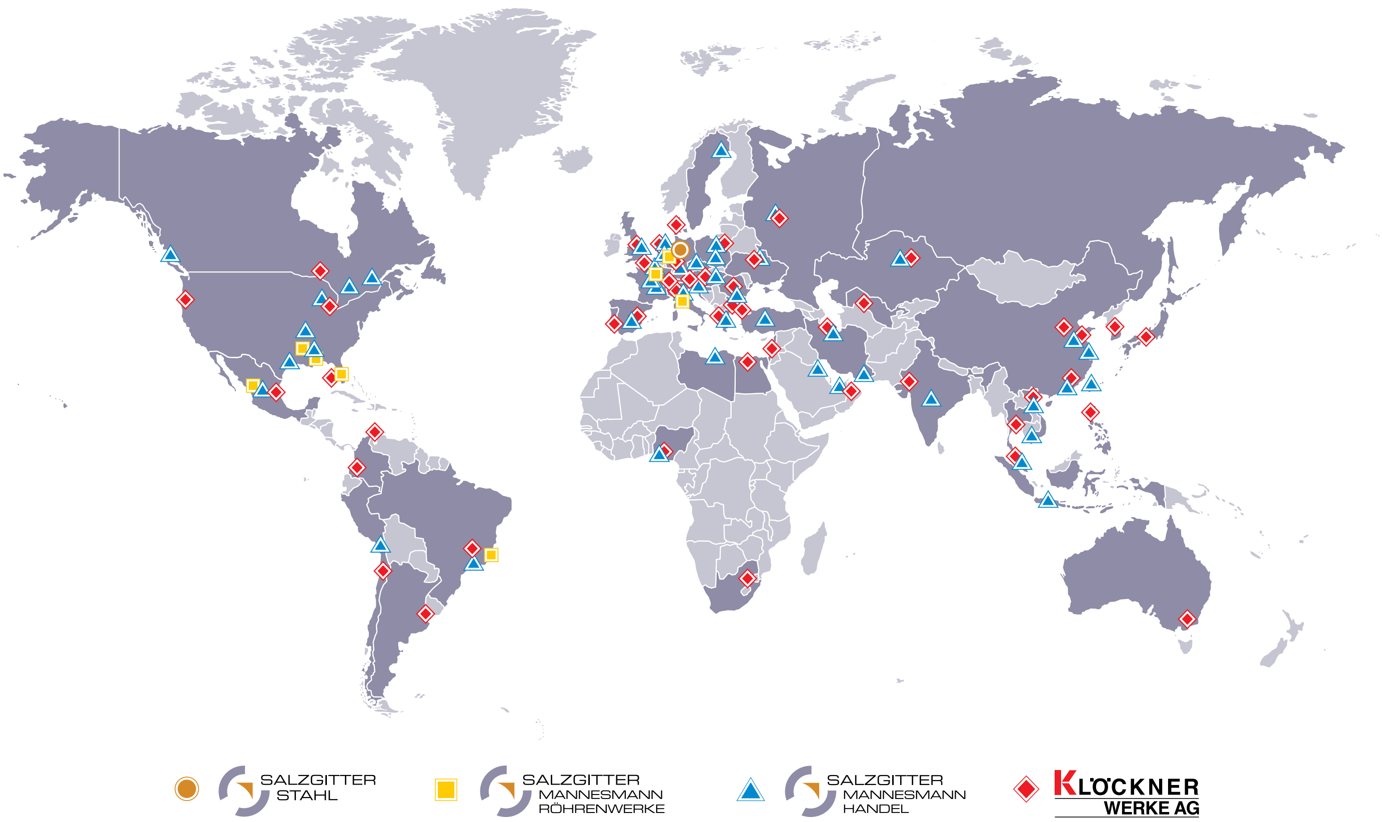
The activities of the **Service Division** are primarily focused on requirements within the Group. Beyond that, the services of the companies operating under this division are also offered to external customers to generate additional contributions to the profit of the Group. This serves to ensure that the performance and the know-how of the companies are constantly measured against the requirements of the market. On this basis our Group companies conceive and realize attractive service offerings 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 the automotive industry.

The product and services range of the **Technology Division** comprises plant and machinery for the filling and packaging of beverages in particular. 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 business makes up around 90% of the division's sales.

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

Through its products and services portfolio, Salzgitter AG is present in all the relevant markets:

Global Presence



The structure of the Salzgitter Group has proven its competitive ability over the economic cycle. Along with the operational flexibility of each individual division, which is geared to the market and our 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 adjustment and compatible with the 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 is not subject to legal factors depending on conditions specific to the Group. The business of the individual division is also not affected by any particular or special legal provisions.

The material participations are listed in the Notes to the Financial Statements on page 174.

2. Management and Control

2.1 The Executive Board

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. A restriction that certain transactions may only be concluded subject to the approval of the Supervisory Board has been imposed.

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

In the financial year 2009, 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 Mannesmann Handel GmbH (Chairman)
■ Salzgitter Stahl GmbH (Chairman)
■ MAN Nutzfahrzeuge AG
■ Aurubis AG since October 1, 2009
■ Peiner Träger GmbH (Chairman) until March 23, 2009

Prof. Dr.-Ing. Heinz Jörg Fuhrmann
Vice Chairman
Finance and the Technology Division
a) ■ Klöckner-Werke AG (Chairman)
■ KHS AG (Chairman since February 1, 2009)
■ Salzgitter Mannesmann Handel GmbH (Vice Chairman)
■ Mannesmannröhren-Werke GmbH
■ Aurubis AG since January 5, 2009
■ Salzgitter Stahl GmbH
■ Salzgitter Flachstahl GmbH
■ EUROPIPE GmbH (Supervisory Board and Shareholders' Committee)
■ Öffentliche Lebensversicherung Braunschweig
■ Öffentliche Sachversicherung Braunschweig
■ TÜV Nord AG
b) ■ Ets. Robert et Cie S.A.S. (Comité de Surveillance)

Wolfgang Eging
Tubes Division
Chairman of the Executive Board of Mannesmannröhren-Werke GmbH
a) ■ Hüttenwerke Krupp Mannesmann GmbH (Vice Chairman until October 7, 2009, Chairman since October 7, 2009, Member of the Shareholders' Committee)
■ EUROPIPE GmbH (Chairman until April 29, 2009, Vice Chairman since April 29, 2009, Member of the Shareholders' Committee)
■ Salzgitter Mannesmann Präzisrohr GmbH (Chairman)
■ Salzgitter Mannesmann Line Pipe GmbH (Chairman)
■ Salzgitter Mannesmann Grobblech GmbH (Chairman)
■ Salzgitter Mannesmann Handel GmbH
b) ■ Borusan Mannesmann Boru Yatirim Holding A.S. (Board of Directors, Vice Chairman)
■ Salzgitter Mannesmann Précision Etirage S.A.S. (Conseil d'Administration)

Hans Fischer
until December 31, 2009
Steel Division
Chairman of the Executive Board of Salzgitter Stahl GmbH until December 31, 2009
a) ■ Salzgitter Flachstahl GmbH (Chairman) until December 31, 2009

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

- Ilsenburger Grobblech GmbH (Chairman) until December 31, 2009
- Peiner Träger GmbH (Chairman since March 23, 2009) until December 31, 2009
- Hüttenwerke Krupp Mannesmann GmbH until December 31, 2009
- Mannesmannröhren-Werke GmbH until December 31, 2009

b) ▪ ThyssenKrupp GfT Bautechnik GmbH (Advisory Council) until December 31, 2009

Heinz Groschke

Trading Division

Chairman of the Executive Board of Salzgitter Mannesmann Handel GmbH

a) ▪ Ilsenburger Grobblech GmbH
- Salzgitter Mannesmann Line Pipe GmbH
- 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
- Salzgitter Mannesmann Handel GmbH since May 29, 2009

b) ▪ Hansaport Hafenbetriebsgesellschaft mbH (Supervisory Board, Chairman)
- Projekt Region Braunschweig GmbH (Supervisory Board)
- Salzgitter Wohnbau Gesellschaft mbH since February 17, 2010

Johannes Nonn

since January 1, 2010

Steel Division

Chairman of the Executive Board of Salzgitter Stahl GmbH since January 1, 2010

Chairman of the Executive Board of Salzgitter Flachstahl GmbH until December 31, 2009

a) ▪ Salzgitter Flachstahl GmbH since January 1, 2010 (Chairman)
- Ilsenburger Grobblech GmbH since January 1, 2010 (Chairman)
- Peiner Träger GmbH since January 1, 2010 (Chairman)
- Hüttenwerke Krupp Mannesmann GmbH since January 1, 2010
- Salzgitter Mannesmann Handel GmbH
- Verkehrsbetriebe Peine-Salzgitter GmbH until December 31, 2009
- Salzgitter Mannesmann Line Pipe GmbH until December 31, 2009

b) ▪ ThyssenKrupp GfT Bautechnik GmbH (Advisory Council) since January 1, 2010

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 Holding AG
■ Schmitz Cargobull AG

Jürgen Peters
Vice Chairman
President of the International Metal Workers Federation (IMF) until May 2009
a) ■ Volkswagen AG (Vice Chairman)

Manfred Bogen
Chairman of the Works Council of EUROPIPE GmbH
a) ■ EUROPIPE GmbH
b) ■ BKK VOR ORT (Board of Administration) until July 1, 2009

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

Ulrich Dickert
Chairman of the Works Council of Salzgitter Mannesmann Stainless Tubes Deutschland GmbH
■ no membership in other governing bodies

Karl Ehlerding
Businessman
a) ■ WCM Beteiligungs- und Grundbesitz AG
■ Klöckner-Werke AG
■ KHS Maschinen- und Anlagenbau AG
■ MATERNUS-Kliniken AG
■ Deutsche Real Estate AG until July 8, 2009
b) ■ Deutsche Bank AG (Advisory Council)

Hannelore Elze
Secretary of IG Metall – Management Board
a) ■ Hydro Aluminium Deutschland GmbH (Vice Chairwoman)
■ NORSK Hydro Deutschland Verwaltungs-GmbH (Vice Chairwoman)
■ AluNorf GmbH since January 29, 2009

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)

Prof. Dr.-Ing. Dr. h.c. Jürgen Hesselbach
President of the Technische Universität Carolo-Wilhelmina zu Braunschweig
a) ■ Öffentliche Versicherung Braunschweig
■ Öffentliche Sachversicherung Braunschweig
b) ■ Regional Advisory Council of the Braunschweigische Landessparkasse

Ulrich Kimpel
since January 16, 2009
Chairman of the Works Council of Hüttenwerke Krupp Mannesmann GmbH since June 3, 2009
a) ■ Hüttenwerke Krupp Mannesmann GmbH

Dr. Dieter Köster
Chairman of the Executive Board of Köster Holding AG
■ no membership in other governing bodies

Dr. Arno Morenz
Vice President of DSW Deutsche Schutzvereinigung für Wertpapierbesitz e.V.
Chairman of the Executive Board of Aachener Rückversicherung, retired
a) ■ alfabet AG (Chairman)
■ Business Keeper AG (Chairman)
■ FIL Investment Management GmbH (Supervisory Board) since January 1, 2009
b) ■ Fidelity Funds, Luxembourg (Board of 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

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

Prof. Dr. Hannes Rehm
Spokesman of the Steering Committee 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, retired
b) ■ Porzellanmanufaktur Fürstenberg GmbH (Supervisory Board) until July 15, 2009

Dr. Rudolf Rupprecht
Chairman of the Executive Board of MAN AG, retired
a) ■ MAN AG
■ Demag Cranes AG
■ Bilfinger & Berger AG
b) ■ Bayerische Staatsforsten (Supervisory Board)

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

Dr. Werner Tegtmeier
State Secretary, retired, of the Federal Ministry of Labor 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
■ 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 until May 31, 2009
a) ■ Mannesmannröhren-Werke GmbH until January 15, 2009

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

Helmut Weber
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
Chairman of the Board of Directors of Porsche Automobil Holding SE since September 15, 2009
a) ■ AUDI AG (Chairman)
■ Scania AB (Chairman)
■ TÜV Süddeutschland Holding AG until May 29, 2009
■ FC Bayern München AG
■ Infineon Technologies AG until January 31, 2009
b) ■ SEAT S.A.

Dr. Wilfried Lochte
Honorary Chairman
Chairman of the Executive Board of MAN Nutzfahrzeuge AG, retired
Member of the Executive Board of MAN Aktiengesellschaft, retired
a) ■ Schmitz Cargobull AG (Honorary Chairman)

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 assessing 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 a fixed basic component, each member of the Executive Board receives a variable component. The latter is divided into two parts: one of 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 and evaluated over a number of years, 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 a percentage portion of 60% of the fixed basic remuneration component and therefore does not depend on the variable component. No other payments have been pledged in the event that a Board member's service to the company should end.

No benefits were granted or pledged by external parties to the individual members of the Executive Board in the financial year 2009 or in 2008 for their activities as Executive Board members.

Remuneration received by the individual members of the Executive Board:

In €	Annual payment in 2009				
	Fixed remuneration	Remuneration in kind	Variable remuneration	Remuneration for Supervisory Board activities in subsidiaries	Total
Prof. Dr.-Ing. h.c. Wolfgang Leese (Chairman)	720,000	49,012	780,000	1,100	1,550,112
Prof. Dr.-Ing. Heinz Jörg Fuhrmann (Vice Chairman)	516,000	27,861	559,000	61,850	1,164,711
Wolfgang Eging	420,000	19,014	455,000	900	894,914
Hans Fischer	420,000	25,171	455,000	1,500	901,671
Heinz Groschke	420,000	23,127	455,000	26,363	924,490
Peter-Jürgen Schneider	420,000	36,315	455,000	34,113	945,428
Total	**2,916,000**	**180,500**	**3,159,000**	**125,826**	**6,381,326**

In €	Annual payment in 2008				
	Fixed remuneration	Remuneration in kind	Variable remuneration	Remuneration for Supervisory Board activities in subsidiaries	Total
Prof. Dr.-Ing. h.c. Wolfgang Leese (Chairman)	720,000	49,181	1,020,000	1,400	1,790,581
Prof. Dr.-Ing. Heinz Jörg Fuhrmann (Vice Chairman)	516,000	27,236	731,000	57,763	1,331,999
Wolfgang Eging	420,000	18,596	595,000	900	1,034,496
Hans Fischer	420,000	21,196	595,000	1,500	1,037,696
Heinz Groschke	420,000	20,995	595,000	26,113	1,062,108
Peter-Jürgen Schneider	420,000	35,893	595,000	33,813	1,084,706
Total	**2,916,000**	**173,097**	**4,131,000**	**121,489**	**7,341,586**

In €	Pension claim			
	Annual payment upon pension eligibility (as per 31/12/2009)	Transfers to pension provisions in FY 2009	Annual payment upon pension eligibility (as per 31/12/2008)	Transfers to pension provisions in FY 2008
Prof. Dr.-Ing. h.c. Wolfgang Leese (Chairman)	432,000 [1)]	802,836	432,000 [1)]	1,289,970
Prof. Dr.-Ing. Heinz Jörg Fuhrmann (Vice Chairman)	309,600 [1)]	377,813	309,600 [1)]	523,713
Wolfgang Eging	252,000 [1)]	442,493	252,000 [1)]	699,440
Hans Fischer	91,213 [2)]	108,424	211,680	271,814
Heinz Groschke	252,000 [1)]	424,096	252,000 [1)]	699,696
Peter-Jürgen Schneider	103,824 [3)]	39,742	110,880	370,038
Total	**1,440,637**	**2,195,404**	**1,568,160**	**3,854,671**

1) Including a pension commitment taken over against compensation by the former employer
2) Taking account of contract termination on 31/12/2009
3) Correction of pension entitlement achievable upon expiry of contract (maximum age of 66)

Remuneration of the Supervisory Board

Each member of the Supervisory Board receives an annual remuneration in accordance with the resolution of the General Meeting of Shareholders last taken on 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, each Supervisory Board member also receives two performance-related components: the first depends on the dividend paid for the respective financial year and comes to € 400 per dividend of € 0.01 which is disbursed in excess of € 0.20 per share. The second variable component is based on the average consolidated results (earnings before tax, 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 of the sum derived from the addition of the respective remuneration components. Beyond this, compensation is paid for membership of the committees of the Supervisory Board as well as attendance fees.

This structure is to be adjusted, whenever appropriate, to reflect the more stringent legal requirements placed on Supervisory Board members and the endeavors to ensure greater independency of these board members.

Annual remuneration received by the individual Supervisory Board members in 2009:

In €	Fixed remu-neration	Performance-based remuneration for		Commitee remuneration	Attendance fees	Total
		annual perfor-mance[1)]	long-term company performance			
Rainer Thieme, Chairman	24,000	4,000	27,000	2,000	4,500	61,500
Jürgen Peters, Vice Chairman	18,000	3,000	20,250	1,000	3,500	45,750
Manfred Bogen	12,000	2,000	13,500		1,250	28,750
Hasan Cakir	12,000	2,000	13,500		1,250	28,750
Ulrich Dickert	12,000	2,000	13,500		1,250	28,750
Karl Ehlerding	12,000	2,000	13,500		750	28,250
Hannelore Elze	12,000	2,000	13,500	1,000	1,750	30,250
Dr. Lothar Hagebölling	12,000	2,000	13,500	1,000	3,750	32,250
Prof. Dr.-Ing. Dr. h. c. Jürgen Hesselbach	12,000	2,000	13,500		1,250	28,750
Ulrich Kimpel, since January 16, 2009	12,000	2,000	13,500		1,250	28,750
Dr. Dieter Köster	12,000	2,000	13,500		1,000	28,500
Dr. Arno Morenz	12,000	2,000	13,500		1,000	28,500
Udo Pfante	12,000	2,000	13,500		1,250	28,750
Prof. Dr. Hannes Rehm	12,000	2,000	13,500	2,000	1,750	31,250
Dr. Rudolf Rupprecht	12,000	2,000	13,500		1,250	28,750
Christian Schwandt	12,000	2,000	13,500	1,000	3,500	32,000
Dr. Werner Tegtmeier	12,000	2,000	13,500		1,000	28,500
Dr. Johannes Teyssen	12,000	2,000	13,500		1,000	28,500
Friedrich-Wilhelm Tölkes, until January 15, 2009	1,000	162	1,130			2,292
Dr. Hans-Jürgen Urban	12,000	2,000	13,500		1,000	28,500
Helmut Weber	12,000	2,000	13,500	1,000	2,000	30,500
Prof. Dr. Martin Winterkorn	12,000	2,000	13,500		750	28,250
Total	**271,000**	**45,162**	**304,880**	**9,000**	**36,000**	**666,042**

[1)] The amounts presuppose that the General Meeting of Share-holders 2010 will approve the dividend proposal by the Executive and Supervisory Boards

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

In €	Fixed remu-neration	Performance-based remuneration for		Commitee remuneration	Attendance fees	Total
		annual perfor-mance[1)]	long-term company performance			
Manfred Bogen (EP)	3,100	–	–	–	–	3,100
Hasan Cakir (SZS)	10,000	–	–	–	400	10,400
(SZFG)	8,000	–	–	–	400	8,400
Karl Ehlerding (KWAG)	20,000	–	–	10,000	2,000	32,000
(KHS)	5,113	–	–	–	–	5,113
Ulrich Kimpel (HKM)	7,500	–	–	–	225	7,725
Udo Pfante (SMHD)	10,000	–	–	–	400	10,400
Christian Schwandt (SZST)	5,000	–	–	–	400	5,400
Dr. Werner Tegtmeier (MRW)	10,000	–	–	–	300	10,300
Dr. Hans-Jürgen Urban (SZS)	10,000	–	–	–	400	10,400
Helmut Weber (KWAG)	20,000	–	–	10,000	2,500	32,500
(KHS)	5,113	–	–	–	–	5,113
Total	**113, 826**	**0**	**0**	**20,000**	**7,025**	**140,851**
Overall total	**384,826**	**45,162**	**304,880**	**29,000**	**43,025**	**806,893**

[1)] The amounts presuppose that the General Meeting of Share-holders 2010 will approve the dividend proposal by the Executive and Supervisory Boards

Annual remuneration received by the individual Supervisory Board members in 2008:

In €	Fixed remu-neration	Performance-based remuneration for		Commitee remuneration	Attendance fees	Total
		annual perfor-mance	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**

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

In €	Fixed remuneration	Performance-based remuneration for		Commitee remuneration	Attendance fees	Total
		annual performance	long-term company performance			
Manfred Bogen (EP)	3,100	–	–	–	–	3,100
Hasan Cakir (SZS, SZFG)	18,000	–	–	–	800	18,800
Karl Ehlerding (KWAG)	20,000	–	–	10,000	1,500	31,500
(KHS)	5,113	–	–	–	–	5,113
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	**96,326**	**0**	**0**	**20,000**	**5,900**	**122,226**
Overall total	**374,326**	**887,538**	**687,790**	**31,000**	**36,150**	**2,016,804**

3. Corporate Governance and Declaration of Conformity

Explanations on how companies were managed in the financial year 2009 is part of our Corporate Governance Report and can be accessed on our website under
www.salzgitter-ag.de/en/Investor_Relations/Corporate_Governance/
at any time.

4. Employees

Our employees are critical to the success and development of Salzgitter AG. They shape the future of the Group. We have therefore made it our goal to ensure that our employees have a working environment which is motivating, healthy and conducive to performance, a task gaining importance against the background of demographic change because well-qualified staff and managers, particularly with scientific and/or technical backgrounds, are becoming increasingly rare. Moreover, a globalized labor market has exacerbated competition. The personnel policy of the Salzgitter Group is based on sustainability and therefore not only takes account of changes at the operational level but also in society.

Workforce Development: Number of Employees on the Decline

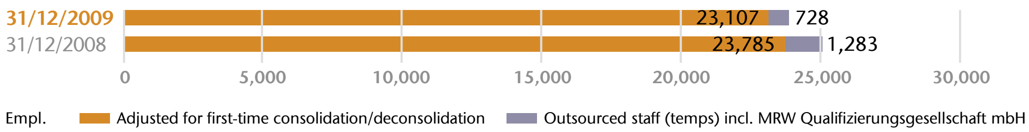
As per December 31, 2009, the Group's core workforce numbered 23,378 employees, which is a decline of 2.2% as against the previous year. The following companies with an overall workforce of 215 people were consolidated for the first time: Salzgitter Mannesmann Stahlhandel s.r.o., Prague (SMCZ), Berg Spiral Pipe Corporation Wilmington, USA (BSPM) and Salzgitter Hydroforming GmbH & Co. KG, Crimmitschau (SZHF). The number of trainees came to 1,484 (+18).

Core workforce[1]	31/12/2009	31/12/2008	Change
Group	**23,378**	**23,915**	**–537**
of which Steel Division	6,816	6,949	–133
of which Trading Division	1,931	1,983	–52
of which Tubes Division	5,791	5,929	–138
of which Services Division	4,181	4,003	178
of which Technology Division	4,513	4,907	–394
of which Holding	146	144	2

[1] Core workforce excluding executive body members, non-active age-related part-time employees, non-active workforce members and trainees

The number of people employed by the Group fell by 1,233 (of which core workforce: –678, staff outsourced [temps]: –555).

Core Workforce and Outsourced Staff (temps)

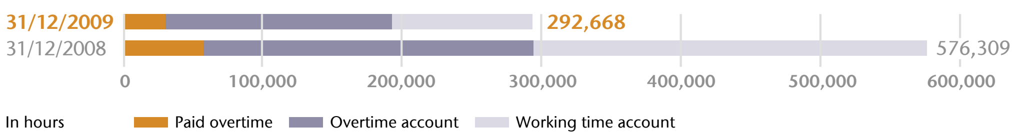


Personnel Policy and the Global Economic Crisis

In the period under review our personnel policy stood under the influence of the global economic crisis. Swiftly effective measures were needed to contain the negative consequences for the Salzgitter Group to the greatest extent possible. We nonetheless continued to pursue our overriding "GO – Generation Campaign 2025 of Salzgitter AG" personnel strategy, which is geared to the long term. This strategy has made a decisive contribution to securing our competitive edge and will continue to do so in the future.

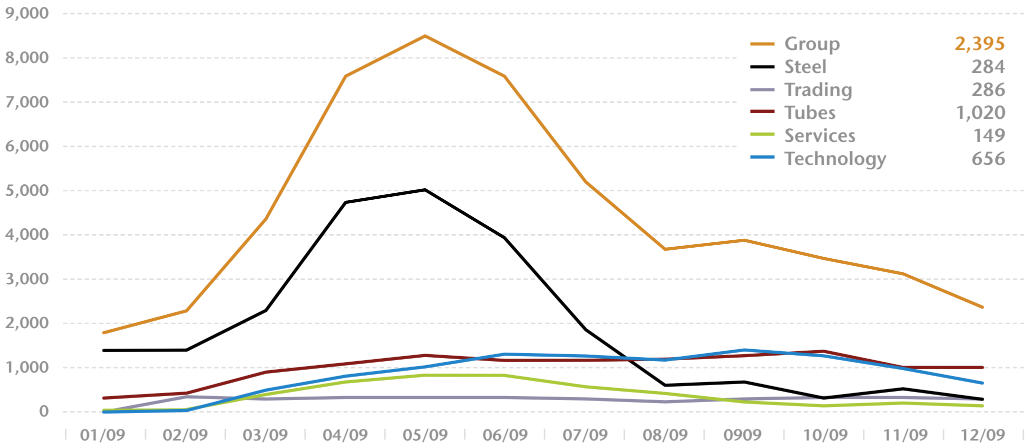
As a response to developments in the economy in the financial year 2009 we fully exploited all available means of adapting under the personnel policy. Extra hours paid were reduced to an absolute minimum, and working time and overtime accounts were instrumental in responding appropriately to fluctuations in capacity utilization. The agreements made on working time accounts as part of the collective bargaining process proved their effectiveness in practice.

Time Accounts and Overtime Accounts (adjusted for first-time consolidation/deconsolidation)



Short-time work contributed significantly to securing jobs in many Group companies. At the peak, nearly 9,000 employees were affected to varying degrees in 2009. This measure ranged from 5 to 15 days of short-time work a month. Changes in the legal framework governing short-time work proved expedient.

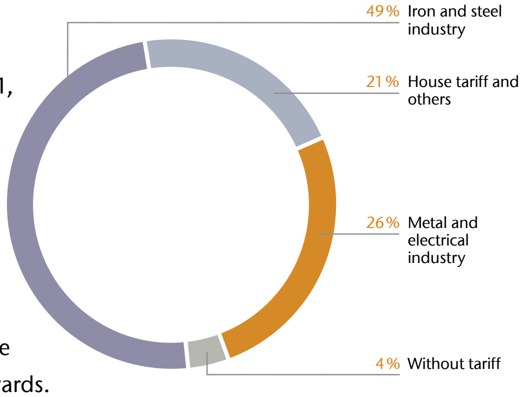
Employees in Short-time Work



As in the past, all adjustments made to personnel were carried out in a socially responsible manner; mainly through deploying the tool of "age-related part-time work". The Executive Board and the Group's Works Council laid down the general conditions for the financing of age-related part-time work from the Demography Fund set up in 2007. Against the backdrop of the current situation and in view of the expiry of measures by the German Federal Employment Agency designed to promote semi-retirement, this form of financing was first used as part of the "2009 Special Program". In the fall of 2009, 401 employees began their age-related part-time phase, which was partly financed from the Demography Fund.

Collective Wage Agreements

Breakdown of tariffs within Group



In conjunction with the collective wage agreement signed on April 1, 2009, which covers the steel industry and which is applicable to around half the entire workforce of the Group, an agreement was made to retain age-related part-time work. The costs will now be borne by the individual companies.

In 2009, there was no collectively agreed wage increase apart from a non-recurrent payment of € 350.00. The collectively agreed wage levels are nonetheless set to rise by 2 % from January 1, 2010 onwards. Given the term of the collective agreement (which runs from April 2009 to August 2010), this will entail an additional burden for the Group of € 10.1 million. In addition, trained persons in a minimum 28-hour week employment will be hired for 24 months instead of formerly 12 months.

An increase in real wages and salaries (collectively agreed rates and supplements above the union rates) was agreed in the Trading Division as follows: 1.75 % from October 1, 2009, and 1.25 % from June 1, 2010, with a term through to July 31, 2011.

Sustainable Personnel Policy

The "GO – Generation Campaign 2025 of Salzgitter AG", a project initiated in 2005, is currently in the implementation phase. The 60 individual measures developed under this project enable the Group to respond appropriately to the challenges of demographic change, thereby making a contribution to the future viability of the Group.

Die Generationen-Offensive 2025 der Salzgitter AG

Personnel development conferences take place regularly where the introduction and implementation of the measures are discussed, agreed and followed up by the Executive board members responsible for personnel and the managing directors, together with the personnel managers appointed by the Group companies.

Occupational Safety

Occupational safety is a high-priority goal of Salzgitter AG. We are committed to our obligation and feel responsible for the welfare and health of all our employees. We are pleased to state that the number of reportable accidents (without the Technology Division) has fallen by around 33.5 % in comparison to 2008. Regrettably, though, there were still a number of accidents recorded. In response to three tragic events which took place in our rail operations at the start of the year at the Salzgitter location, we have carefully checked all safety measures set in place at Verkehrsbetriebe Peine-Salzgitter GmbH (VPS). The outcome showed that our employees were insufficiently aware of the extensive safety measures. To eliminate information deficits and for the purpose of making express reference to the special hazards of rail operations, employees in this area now undergo further qualification through the "Security Offensive 2009".

Communication

The Group Forum of Salzgitter AG took place on May 11 and 12 in the Hanover Congress Center under the motto of "STARK BLEIBEN" (staying strong). On the first day, a total of 307 board members, managing directors and senior executives from all Group companies in Germany and abroad listened attentively to the explanations of the Executive Board on the general situation of the Group and the Group's financial and personnel policies. On the second day there were presentations on topics from the Steel, Tubes, Trading and Technology divisions. A highlight of the event eagerly awaited was the guest speech by the former Federal Chancellor Gerhard Schröder on "Germany's Future in International Business".

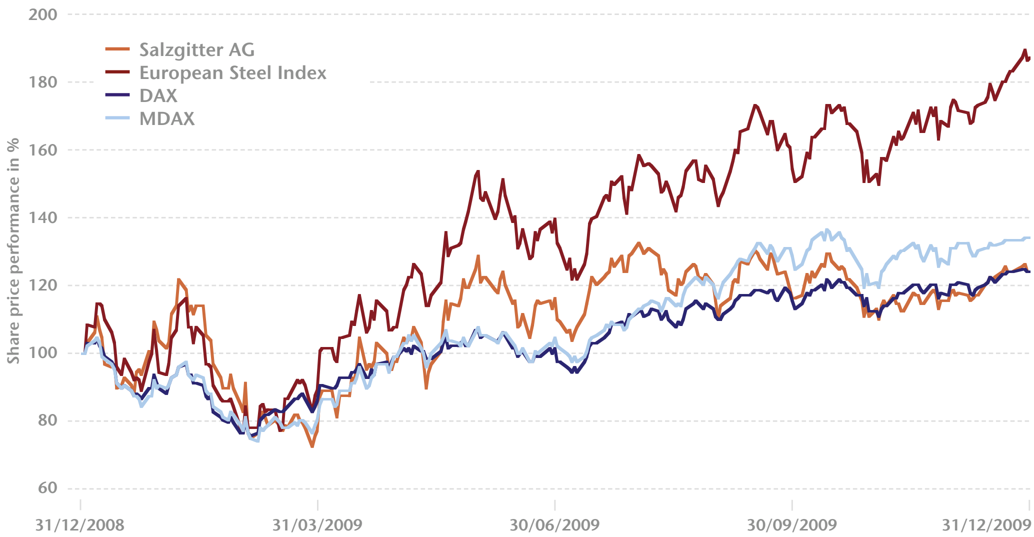
For more detailed information on the topic of "Employees" we make reference to Section 8 of our Corporate Responsibility Report published in February 2010.

5. The Salzgitter Share

Capital Market and Price Performance of the Salzgitter Share

In 2009, the stock market was characterized by a perceptible recovery with sharp fluctuations: The trend reversal set in at the beginning of March and halted the dramatic slide in share prices of the previous year. Following the period when the financial crisis, which broke out in 2008, fanned fears for a total collapse of the global financial system right through until the spring of 2009, news of government rescue packages and extensive measures to boost the economy gave rise to hopes that the crisis would soon be overcome. During the further course of the year, unfavorable economic indicators and the general mutual distrust prevailing in the business community repeatedly put a damper on sentiment in the capital markets. The goods sector only saw a slow recovery. The massive volume of funds poured into the capital markets nonetheless buoyed the stock exchanges, as the extremely low interest rate level prompted a search for attractive investment alternatives. Towards the end of the year share prices therefore gained significant momentum: By December 31, the DAX and MDAX had each recovered around 60% as against their lowest levels in early March. In comparison to the closing prices in 2008, the DAX posted an annual performance of 24% and the MDAX had risen by 34%.

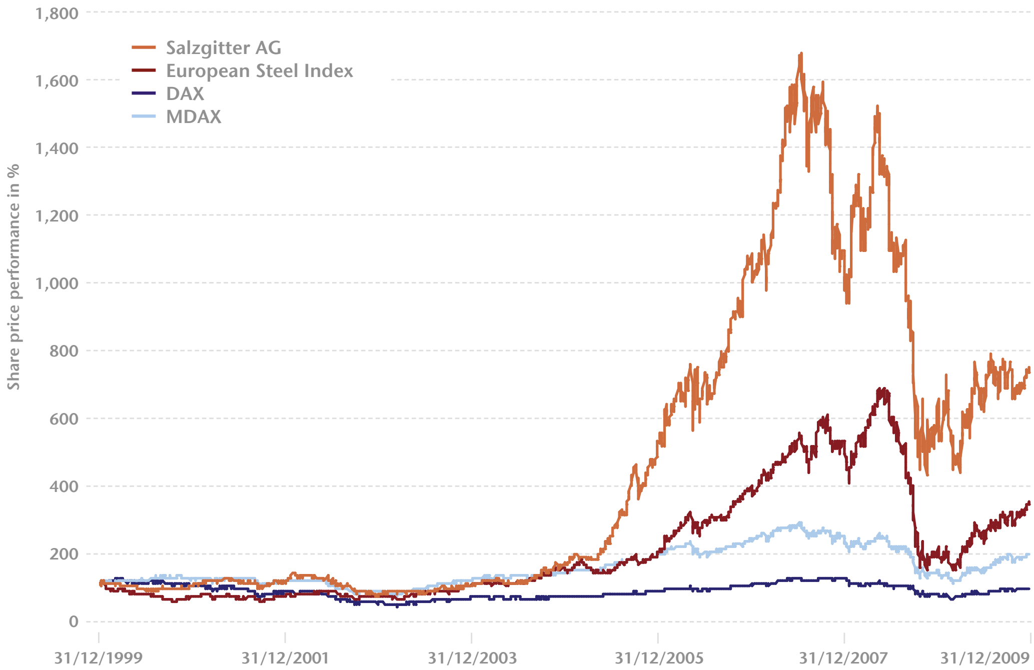
Salzgitter AG Share Price Performance vs. the European Steel Index, MDAX and DAX in 2009



Sources: Xetra closing prices on Deutsche Börse AG, Datastream STEELEU

Owing to the posited high sensitivity of the divisions to economic conditions, our share was strongly impacted by the respective trends in the markets, especially in the first half-year. The unfavorable economic outlook and the poor capacity utilization situation of the steel producing industry and its major customer sectors caused investors to hold back. This sent the Salzgitter share to its lowest level of € 40.22 on March 31, down from its initial starting point of € 55.00 at year-end 2008, but not for long: The first brightening of economic indicators in April then triggered a sharp rally which held strong until mid-year. The Salzgitter share peaked at € 73.40 on August 4, which is a 82% increase in the share price over its lowest point. Our share subsequently trended sideways, while displaying pronounced volatility. Based on a year-end closing price of € 68.44, overall performance came to 24% in 2009 and, taking account of a dividend markdown of € 1.40, to as much as 27%.

Salzgitter AG Share Price Performance vs. the European Steel Index, MDAX and DAX 2000–2009



Sources: Xetra closing prices on Deutsche Börse AG, Datastream STEELEU

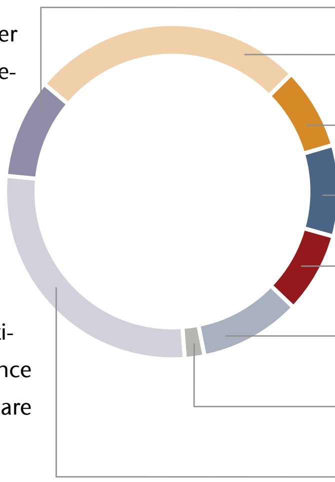
The long-term performance of the Salzgitter share continues to be better than those of DAX, MDAX and the European Steel Index, also when taking into account the distortions of the capital markets following the world financial crisis of 2008. While the DAX lost 14 % of its value versus the closing price of 1999 in a ten-year comparison, the MDAX (+83 %) and the European Steel Index (+238 %) improved. In the same period, our share price rose by 628 %. Taking account of the € 10.06 in total dividends disbursed in that time, the performance came to 735 %.

Following the company's admission to the DAX on December 22, 2008, the fundamental interest of investors ran at consistently high levels. The volume of Salzgitter shares traded daily on the German stock exchanges averaged around 720,000 units – a mere 9 % below the record level of the previous year (790,000 units). All in all, 184 million shares of our Group changed hands. The share of transactions carried out by electronic trading in Xetra and floor trading in Frankfurt (92.0 %) fell marginally in comparison with the previous year's period (98.4 %).

With a trading volume of just under € 9.4 billion as per December 31, 2009, our share ranked 24th in the DAX list of Deutsche Börse AG. Free float market capitalization amounted to around € 2.5 billion on the same reporting date, which put us in 33rd place.

Shareholder Structure

According to a survey commissioned in December, our shareholder structure has not changed as compared with year-end 2008. Shareholders registered in Germany, including the Federal State of Saxony as the major shareholder, held at least 44.0 %, a proportion virtually unchanged from the previous year's survey (2008: 45.1 %). Of this figure, German institutional investors accounted for 7.9 % (8.6 %). The share of foreign investors amounted to 28.3 % (2008: 35.3 %), and 27.7 % of our investors could not be identified. These are likely to be domestic and foreign private investors, as well as institutional investors with no reporting requirements, such as insurance companies and trust foundations. The free float of the Salzgitter share came to 63.9 %.



As per 12/2009

Treasury Shares

As per December 31, 2009, Salzgitter AG's portfolio of treasury shares totaled 5,795,252 units. In comparison with the portfolio status as per December 31, 2008 (6,009,684 units), the number of shares decreased by 214,432 units. All in all, 250,032 shares were disposed of and used as follows: 250,000 shares at an average price of € 62.03 as part of acquiring a participating investment and 32 shares as a bonus to members of the workforce for improvement suggestions. In a countermeasure, 35,600 shares were purchased at an average price of € 60.53.

Information for Investors

		FY 2009	FY 2008	FY 2007	FY 2006	FY 2005
Share capital[1]	€ m	161.6	161.6	161.6	161.6	161.6
Number of shares[1]	m	60.1	60.1	63.2	63.2	63.2
Number of shares outstanding[1]	m	54.3	54.1	56.9	56.9	56.9
Stock market capitalization[1,2]	€ m	3,716.4	2,974.8	5,806.3	5,635.7	2,595.1
Year-end closing price[1,3]	€	68.44	55.00	102.05	99.05	45.61
Stock market high[3]	€	73.40	143.88	158.90	100.96	45.95
Stock market low[3]	€	40.22	37.80	88.13	45.21	14.17
Earnings per share (EPS)[4]	€	–7.10	12.11	15.83	26.50	14.09
Cash flow per share (CPS)[4]	€	22.75	9.83	13.70	8.57	7.83
Dividend per share (DPS)	€	0.25[5]	1.40	3.00	2.00	1.00
Total dividend	€ m	15.1[5]	84.1	189.7	126.4	63.2

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 proposed that the General Meeting of Shareholders approve payment of a dividend for the financial year 2009 of € 0.25 per share.

In relation to the nominal share capital of € 161.6 million, the total dividend distribution proposed comes to € 15.1 million.

Investor Relations

In the first year following the Group's admission to the DAX, the information requirements of the capital market were extremely demanding due to the enormous challenges confronting Salzgitter AG in connection with the global economic crisis throughout the whole of the financial year 2009. Consequently, lively use was made of our multifaceted communication services. For instance, we presented and discussed the results of the financial year 2008 and the first half-year of 2009 at well-attended analysts' conferences in Frankfurt/Main and London. Salzgitter AG's presentations at a number of investor conferences and road shows in Germany, other European countries and the USA were also followed with great interest by institutional investors and financial analysts. In addition, we also organized visits to various locations of the Group enabling guests to gain an insight into the structures, processes and products and to inform themselves about the business situation and the potential of our Group in discussions with members of the Executive Board and other managers.

The "Freundeskreis der Aktionäre der Salzgitter AG" (circle of friends of Salzgitter AG shareholders) arranged various events and tours of the mills for private member investors to give them the opportunity of speaking personally to representatives of the Group.

We are pleased that our work is held in consistently high regard as is evidenced by the very satisfactory evaluations and our positions in a number of investor relations rankings.

At least 129 recommendations and company reports on Salzgitter AG were made by 30 banks and financial publications in the financial year 2009. At year-end, their ratings were:

- 11 buy/outperform,
- 12 hold/neutral,
- 7 sell/underperform.

Four financial institutions took up the coverage of our company in 2009.

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

Bank of America – Merrill Lynch	Kepler Equities
Bankhaus Lampe	Landesbank Baden-Württemberg
BHF Bank	MainFirst
Cheuvreux	Merck Fink
Citigroup	Metzler
Commerzbank	Nomura
Credit Suisse	NORD/LB
Deutsche Bank	Sal. Oppenheim
DZ-Bank	SRH – Alster Research
Equinet	Steubing
EXANE BNP Paribas	UBS
Goldman Sachs	UniCredit
HSBC	WestLB
JP Morgan	

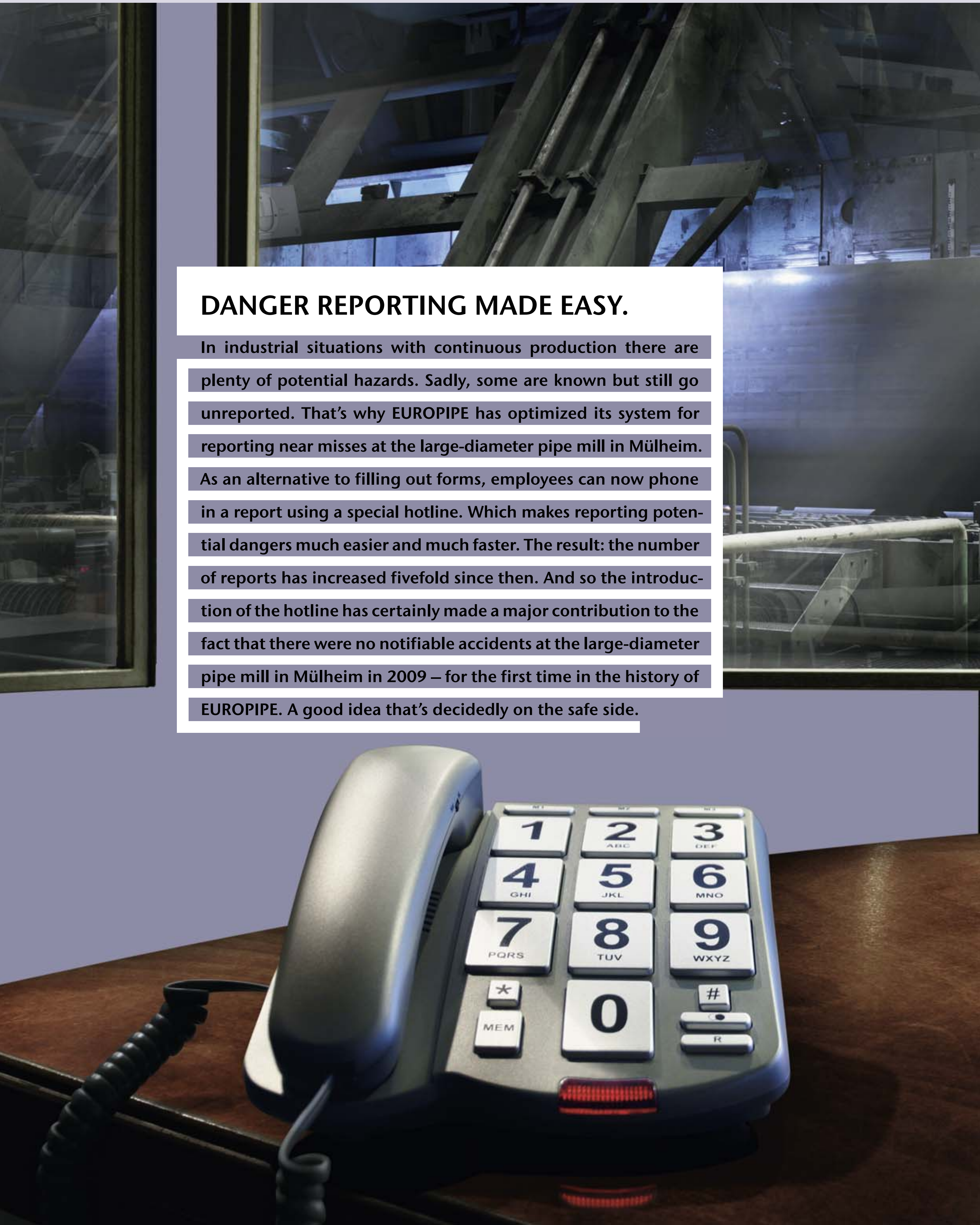
Convertible bond

On September 29, 2009, Salzgitter Finance B.V. (SZFBV), a wholly-owned Dutch subsidiary of Salzgitter AG, placed a convertible bond with a volume of € 296.45 million under a guarantee furnished by Salzgitter AG. Settlement took place on October 6, 2009. The term of the bond is seven years and may be returned by the investors after five years. The bond may be converted into the shares of Salzgitter AG and features an annually payable coupon of 1.125 % p. a. With a reference price of € 66.797 per Salzgitter share, a 25 % premium would result in a conversion price of € 83.4963. The subscription rights of the current shareholders of Salzgitter AG to the part convertible bond were excluded. The issue serves to diversify the Salzgitter Group's sources of finance. We intend to use the funds for general company purposes.

THE IMPORTANT THINGS ARE BEST KEPT SIMPLE.

Roadside emergency telephones are really a great idea. But wouldn’t it be even better if we were warned of possible breakdowns or accidents in advance? Plain and simply, without any complications? One of our employees at EUROPIPE must have been thinking along these lines. Who knows, maybe while waiting by the roadside for help.


SOS



DANGER REPORTING MADE EASY.

In industrial situations with continuous production there are plenty of potential hazards. Sadly, some are known but still go unreported. That's why EUROPIPE has optimized its system for reporting near misses at the large-diameter pipe mill in Mülheim. As an alternative to filling out forms, employees can now phone in a report using a special hotline. Which makes reporting potential dangers much easier and much faster. The result: the number of reports has increased fivefold since then. And so the introduction of the hotline has certainly made a major contribution to the fact that there were no notifiable accidents at the large-diameter pipe mill in Mülheim in 2009 – for the first time in the history of EUROPIPE. A good idea that's decidedly on the safe side.

II. Goals and Key Factors for Success

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

As we operate in an environment characterized by its fast pace and uncertainty, we place pivotal emphasis on securing the company's sustainable successful performance to the benefit of all its stakeholders. This focus is reflected in how we formulate our strategic goals, and it has been consistently implemented through the respective development measures carried out in past years. We view the stability and consistency of our business policy as a fundamental and proven key factor for the success of the company. The alignment of Salzgitter AG towards its overriding goals – namely preserving its entrepreneurial independence through profitability and growth – therefore remains unchanged.

As successfully accomplished in past years, we strive to secure the further development of the Group through selective, profit-oriented growth. In our view, expanding our activities is not an end in itself but is always subject to 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. Within the context of containing entrepreneurial risk, our continued financial stability and sound balance sheet are indispensable preconditions.

The strategic development of the Salzgitter Group through growth is focused on the Steel, Tubes, Trading and Technology divisions. Along with current and planned projects aimed at promoting our organic growth, we also fundamentally review expansion potential in terms of suitability.

At the same time, we always pay special attention to the cost and technological aspects of our competitive position and work steadily on opening up and developing new potential in all areas of the Group.

To achieve a top-down/bottom-up synthesis between our corporate goals and the goals and preconditions of our operating units and to safeguard a systematic method of procedure, we use a range of tried-and-tested management tools (see Section 1.1).

We are aware that the valuable contributions of our employees throughout the Group are a cornerstone for the realization of our goals. This is why we view the future-oriented professional development and the systematic fostering of the qualifications of our workforce as a crucial strategic task.

The environmental compatibility of our products and production processes, combined with the prudent use of the resources deployed, form a natural and cardinal platform for all our activities.

1.1 Management and Control Instruments

Our aim is to ensure that the competitive edge of all Group companies is enhanced in a sustainable and continuous manner. To this end, we systematically deploy a range of management and control instruments, alongside the coordination of goals at regular intervals, flanked by the respective reporting to the supervisory and control executive bodies of the Group:

- 5P Management,
- Profit Improvement Program (PIP), as well as
- agreeing individual goals for executives and non-tariff employees.

We have meanwhile implemented a "5P" balanced scorecard system, geared to the level of objectives under the "5P-Management" corporate guidelines, in most of the Group companies. This tool enables operational goals and measures to be derived for the individual organization units from the respective sub-strategy of each individual Group company and measurable criteria to be set in place in order to assess the degree to which goals are achieved. In this process, goals, the impact of which is difficult to ascertain in financial terms but which nonetheless exert a positive impact on the company's performance, are formulated. These goals include, for instance:

- supplying our customers on schedule and with a high quality,
- ensuring smooth production processes with the lowest possible number of unscheduled disruptions and
- professional development of our employees.

The goals and measures formulated are also anchored in agreements on goals with executives and non-tariff employees.

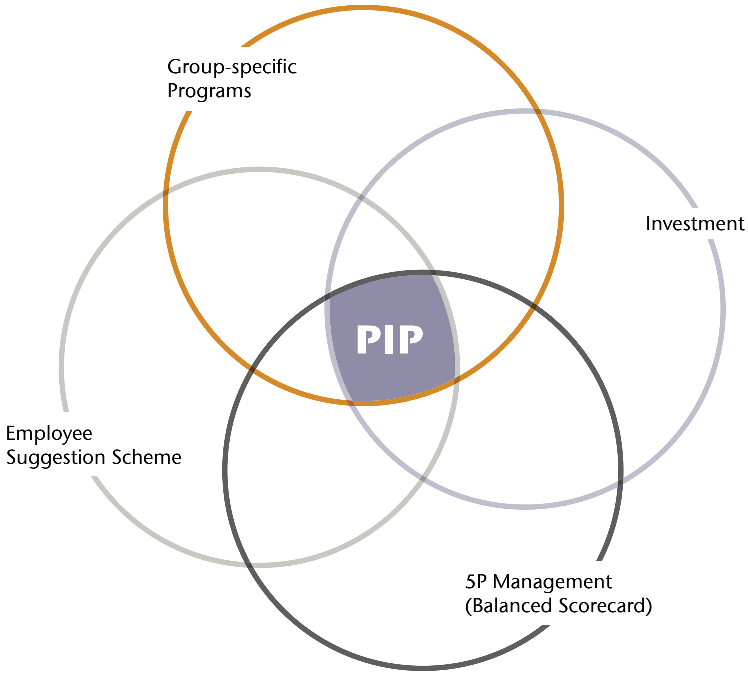
1.2 Profit Improvement Program (PIP)

We view the ongoing optimization of value-added processes as an important management task that makes a major contribution to preserving and enhancing our Group's competitiveness on a sustainable basis. It entails the systematic and consistent leverage of the existing potential in all our divisions.

To this end, we introduced the concept of our Profit Improvement Program as a groupwide, uniform management instrument into the Salzgitter Group in 1996. PIP combines all the explicitly defined performance and results optimizing measures of the Group companies, the impacts of which are assessable and measurable based on a set of financial ratios. All projects are subject to binding and identical assessment criteria, and a stringently systematic procedure for measuring success has been set in place.

Employees and PIP

In contrast to pure top-down approaches, the commitment of all participants involved under the PIP concept ensures the successful implementation of the steps agreed. Our employees' suggestions for improvement are also incorporated into the PIP. The acceptance of the program and the willingness of our employees to use the structures and mechanisms established to consistently add to the profitability with their own projects therefore remains very high. Accordingly, we regard PIP as an ongoing task that permeates all levels of management.



Internal benchmark

During the financial year ended, we consistently pursued the Profit Improvement Program (PIP 3), the third successor version launched in 2007. Moreover, profit improvement programs had already been set in place in the individual companies belonging to the Technology Division which joined the Group in the same year. "KHS2010plus", which is a package of measures of the KHS Group, the division's largest unit, has now been successfully integrated into our groupwide PIP.

Current status of PIP 3

Over the past year 2009, we integrated a large number of new ideas and sustainably effective measures that stood the stringent test of the PIP criteria into the project catalogue. We were successful in raising the number of active projects to 241 and ideas to 85, and a full-year effect (FYE) of € 176 million, a figure slightly above that of the previous year, was ascertained.

This overall effect results from a number of different areas: Activities in sales markets based on products with a higher value added and extending the network of sales channels delivered an FYE of € 249 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 € 33 million.

A precondition for achieving the goals set for the Group involves in part an increase in expenses such as those incurred for investments, for instance. Such investments were accounted for with an annual amount of € 106 million in depreciation and amortization, interest and other expenses.

From this year onwards, an integral part of PIP is the “KHS2010plus” program which contributed profit potential of around € 16 million.

Current status of PIP 3

In € m	FYE
Increase in overall operating performance	249
Savings on expenses	33
Depreciation and amortization/interest/non-personnel expenses	–106
Profit-related effect before tax	**176**

Immediate action program for securing profit and liquidity in the short term

Against the backdrop of considerable capacity utilization reductions due to the circumstances prevailing in the financial year 2009, the continuity with which PIP was implemented naturally suffered interruptions in most parts of the Group. As a supplementary measure, we launched an immediate action program designed to secure profit and liquidity in the short term which resulted in realizing € 268 million envisaged for the profit-related effect and was therefore extremely successful. From today’s standpoint, around half of the measures under the program are likely to have a permanent effect. Our curtailment of our maintenance and repair budget, for example, is a measure which only makes sense for a limited period of time as, otherwise, the efficiency of our facilities would be endangered. All sustainable cost-cutting projects will be admitted and incorporated into the Group PIP.

1.3 Management and Control System Applied within the Salzgitter Group

The primary objective of our company remains the preservation of our independence through profitability and growth. As a quantitative, performance-related target, the Group has set itself the goal of achieving a return on capital employed (ROCE) of at least 15 % over an economic cycle. We define an economic cycle as a period of five years.

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

$$\textbf{ROCE}\text{ (in \%)} = \frac{\textbf{EBIT}}{\textbf{Capital employed}} \times 100\,\%$$

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 € m	FY 2009	FY 2008
EBT	–496.5	1,003
+ interest expense	118.7	160
– interest expenses for pension provisions	–90.3	–91
= EBIT	**–468.1**	**1,072**

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 € m	FY 2009	FY 2008
Balance sheet total	8,052	8,701
– Pension provisions	–1,858	–1,787
– Other provisions excluding tax provisions	–693	–677
– Liabilities excluding bonds, bank liabilities and notes payable, liabilities from finance leasing and forfaiting and asset-backed securitization	–915	–1,335
– Deferred tax claims	–129	–16
= Capital employed	**4,457**	**4,886**

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 of the ratios 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 the 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 company. These objectives are taken account of in the medium-term plan – in their updated form whenever necessary.

In the financial years from 2005 up until and including 2009, we exceeded the profitability target, despite figures from the current year which are also comprised (–10.5 %; 2008: 21.9 %) and elimination of extraordinary income and expenses, by delivering an ROCE of 18.3 %. The ROCE posted in the financial year ended reflects the disastrous economic framework conditions. Upon elimination of the net cash investments held at banks, ROCE from industrial operations comes to –17.3 % (2008: 26.9 %).

1.4 Growth Strategy

We formulated our growth objectives and our strategy for achieving these objectives in 2007. The internal and external components of these objectives are still valid:

Internal goals:
- Optimizing quality
- Raising productivity
- Enhancing the product range
- Eliminating bottlenecks
- Reducing our dependency on external deliveries and services in sensitive areas

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
- Industrial diversification

In successfully implementing these goals, we are striving to attain consolidated sales in the region of between € 13 and 15 billion in the medium term. Each individual project involved in these efforts must, however, be able to contribute sustainably to the Group's ROCE target of 15 % achieved across the economic cycle typical of the steel industry.

Decisive measures to promote growth by companies always involve entrepreneurial risk, as far-reaching decisions for the future are made on the basis of historical data, insights and experience and the commitment of considerable financial resources. These decisions may later still prove to be advantageous due to major changes in the general environment or – despite the most careful and diligent preparation – turn out to be unfavorable.

The dramatic consequences of the global financial and economic crisis and the ensuing uncertainty about how the economy will develop in the future have caused us to place the primary emphasis on securing the future of our Group rather than on achieving our external growth objectives.

As soon as there are signs of a sustained recovery in the macroeconomic situation, we will once again pursue the more offensive components of our strategy with renewed momentum. As in the past, the careful weighing up of the opportunities and risks will form the basis when assessing potential projects.

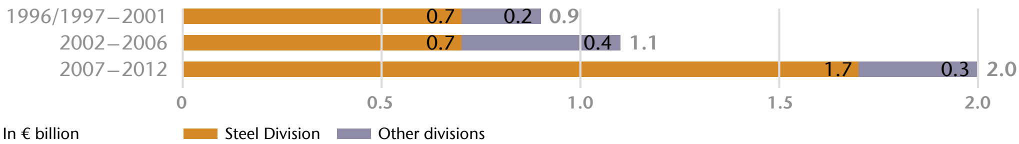
It is our fundamental intention to reap the benefits from the consolidation processes taking place on a global scale as an opportunity to actively shape the developments in the steel, trading, tubes and technology sectors which represent our key operations, without being pressured into action. Furthermore, we will not be taking part in "bidding wars" and will not pay unrealistic prices for acquisitions. The global swift decline in the value of companies in 2008 and 2009 has confirmed our decision to adopt a conservative stance.

Our foresighted financing structure and considerable liquidity reserves mean that we can forge ahead with our investment measures which were initiated some time ago and have now reached a well-advanced stage without being forced to curtail these activities. In as much, we have continued to implement the more defensive aspects of our growth strategy.

We always base our examination and assessment of all the Group's investment measures on conservative assumptions and review them in a series of different scenarios across the economic cycle. We are confident that the undertakings expedited in our core businesses of steel, tubes, trading and technology have left us well equipped and able to achieve the internal goals envisaged, even if there is a delay in some instances. Once the macroeconomic situation has sustainably returned to normal levels, the large majority of our projects will also serve to promote our long-term growth objectives as well.

The investment volume of all projects currently being implemented or already completed within the Group comes to € 2.0 billion.

Groupwide Investment Volume 1996/1997 – 2012



You will find more detailed information in the section on "Investments", see page 64.

1.5 Strategy of the Divisions

The extensive investment program of the Steel Division, initiated back in 2007, progressed over the course of the financial year ended. The program comprised the following sub-projects in the three steel locations of Salzgitter, Peine and Ilsenburg:

Salzgitter and Ilsenburg
- Ramping up of the capacity of the Salzgitter 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 by means of continuous strip casting, investment volume: approximately € 350 million; tiered until 2012.

Peine
- Construction of a second electric arc furnace with secondary metallurgy,
- extension of the existing continuous casting lines,
- optimization of the rolling mill for production of special profiles,
- capacity effect: +950,000 tons of crude steel a year, investment volume: around € 400 million; commissioned in 2009 and 2010.

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

In response to the current general economic environment, our efforts in the Trading Division are directed towards intensifying cooperation between our stockholding steel traders and the export business of our production companies, and leveraging the potential inherent in joint market development. In the strategic growth segment of higher quality grades, the Salzgitter Group's stockholding steel trading intends to reinforce its position and extend its pre-processing capacities. The Group's international trading will continue to foster its customer relationships, consistently raise the share of products from the Group itself and, in future, provide significant support in sourcing input materials for the production companies.

The Tubes Division reacts with a time lag to short-term economic fluctuations, as the main part of its business depends on infrastructure projects and therefore tends to lag economic cycles.

This is explained by its concentration on the oil, gas and energy businesses which, in turn, are geared towards long-term energy requirements. We assume that the companies specialized in the production of line pipes in particular are set to benefit from this trend owing to their extremely good competitive position. The Tubes Division will continue to generally sharpen its profile by rounding off its product range and optimizing current activities.

The Technology Division concentrates its activities on
- development,
- manufacturing and
- installation, as well as providing services

covering turnkey plants for the potentially high-growth market of beverage bottling. In future, even greater emphasis will be placed on comprehensive solutions for customers encompassing the entire production cycle of plants and facilities, from planning through to operations and final decommissioning and recycling.

Owing to the considerable impact of the global economic crisis, the focus is currently on strengthening the competitiveness of existing structures, with the first major steps having already been taken in the previous financial year.

In future, the Services Division will continue to mainly focus on supporting its producing sister companies. The aim is to enhance the efficiency of its services on an ongoing basis and to optimize its own business performance in competition in the external market.

DEUMU Deutsche Erz- und Metall-Union GmbH (DMU), the Group's service company which generates the lion's share of sales, has created additional storage capacities options in Salzgitter and Peine in order to be able to take advantage of price fluctuations in the spot market: In future, the company will be able to build up stocks of scrap needed for the manufacturing of steel in excess of short-term needs.

2. Investments

As in previous years, investments of the Salzgitter Group focused on the Steel Division in the financial year 2009. The most important projects are explained in the information on the individual divisions.

Additions to non-current assets from investments totaled € 717 million (2008: € 970 million, including shares in associated companies which came to € 258 million). At € 677 million, the volume of investment capitalized in property, plant and intangible assets was significantly above the level of depreciation and amortization (€ 543 million). The purchase of two non-consolidated companies and a holding and funds invested in the context of deferred compensation resulted in additions to financial assets totaling € 40 million.

Investments/Depreciation and Amortization[1)]

	Investments		Depreciation/ amortization[2)]	
In € m	**Total**	**Of which Steel Div.**	**Total**	**Of which Steel Div.**
2005	262	190	206	149
2006	236	161	201	145
2007	385	246	225	147
2008	653	454	278	154
2009	677	541	543	308
Total	**2,213**	**1,592**	**1,453**	**903**

[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, € 541.0 million was attributable to the Steel Division, € 55.2 million to the Tubes Division and € 12.9 million to the Trading Division. The Services and Technology divisions invested € 39.0 million and € 27.3 million respectively.

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

In € m	FY 2009	FY 2008
Steel	541.0	454.3
Trading	12.9	16.2
Tubes	55.2	85.6
Services	39.0	50.4
Technology	27.3	40.3
Other/Consolidation	1.6	6.5
Group	**677.0**	**653.3**

[1)] Including intangible fixed assets

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

In € m	FY 2009	FY 2008
Steel	307.9	154.1
Trading	17.5	11.3
Tubes	73.3	32.5
Services	23.5	20.9
Technology	98.0	26.8
Other/Consolidation	22.3	32.8
Group	**542.6**	**278.4**

[1] Including intangible non-current assets
[2] Including unscheduled write-downs

Steel Division

In 2009, Salzgitter Flachstahl GmbH (SZFG) continued to work on projects started in previous years. Activities centered around the “Salzgitter Steel 2012” and the “Power Plant 2010” investment programs. Given the overall economic developments, new projects were restricted to the minimum necessary for operations so that the originally planned investment volume was reduced by around 25% through savings, follow-up negotiations and postponements.

As part of the “Salzgitter Steel 2012” project, a new cold mixer for the blast furnace plant was taken into operation at the Salzgitter steel works, and the assembly of the Continuous Casting Line 4 to produce 350 mm thick slabs in the melt shop progressed apace. In accordance with planning, we expect to cast the first slab in the first quarter of 2010.

The fifth line of the secondary metallurgy of the melt shop was successfully put into regular operation. The extension of the 5th stand of the degassing line contributes to achieving our aim of focusing more strongly on sophisticated steel grades.

A new water management system, the fourth heating furnace and the third coiler of the hot rolling mill were completed, apart from some remaining work. Progress was also made with preparations of the rolling stands for the production of 2,000 mm wide strip: The first new main drive of the finishing line was successfully assembled in these facilities in December. The other six driver units will follow in the years 2010 and 2011.

The commissioning of the first block commenced at the end of the year as part of the major “Power Plant 2010” project which will improve the supply of SZFG’s own electricity through the more effective use of the reusable byproduct gases.

As a result of the economic environment and the ongoing high level of investment activity, no new major projects have been planned for 2010. We will, however, continue to invest in activities relating to product development, to enhancing efficiency, to compliance with environmental regulations and to the preservation of our assets through maintenance.

In the first quarter of 2009, the investments envisaged for the major “PTG 2010” project were once more reviewed in the light of the difficult market environment of Peiner Träger GmbH (PTG). After comprehensive calculations of cost effectiveness, the decision was made to go ahead with the second line of the steelworks – consisting of an electric arc furnace, secondary metallurgy, dust removal, water management system – and the extension of the existing Continuous Casting Line 2, while opting to adjust the date of commissioning subject to the prevailing conditions. At the current point in time, the buildings and the infrastructure for the new plant facilities are being constructed. The Continuous Casting Line 2 was decommissioned in November and converted for slab casting. The first casting trials have been scheduled for spring 2010.

The conversion work on the medium section mill (UMIT) proceeded virtually to schedule in 2009. Production therefore commenced on September 1, 2009.

The construction of an oxygen pipeline between Salzgitter and Peine also progressed as planned. It will serve to ensure a cost-effective central supply for both locations in the future and is scheduled to become operational in March 2010.

Ilsenburger Grobblech GmbH (ILG) completed the replacement and reinforcing of the main and secondary parallel of the rolling mill. Alongside other investment measures, this project is part of our plans to produce heavier plate in the future. Moreover, ILG commissioned new facilities for processing sheet metal edges and for manufacturing blanks.

Tubes Division

Alongside the replacement of facilities, the investments of the Tubes Division in the financial year 2009 were carried out with the goal of optimizing product quality.

The following projects were completed by the Tubes Division in 2009:
The 2009 summer shutdown was used to carry out the “Conversion of the Shifting Manipulator” at the plate rolling mill of Salzgitter Mannesmann Grobblech GmbH (MGB). The new shifting manipulators will enable us to raise the performance of the plant while operating in a more cost-effective way.

The projects implemented by the Europipe Group were primarily aimed at renewing and modernizing facilities in order to reinforce the company’s position as a world market leader.

At the Salzgitter Mannesmann Precision Group, the Three-Roll Piercing Elongating Mill of Salzgitter Mannesmann Rohr Sachsen GmbH (MRS), which had been commissioned in the previous year, was supplemented, in close cooperation with equipment and plant suppliers, by additional mechanical equipment for the production process.

In the past financial year Salzgitter Mannesmann Stainless Tubes Group completed its strategic expansion investments at its various locations so that the production capacity in the segment of seamless stainless steel tubes was raised significantly. In this context, the replacement of the shot blast facilities, resulting in a capacity increase, as well as the commissioning of an induction heat treatment plant were completed at the Remscheid plant. The plant in Houston, USA, saw the completion of a new induction bright-annealing furnace as well as of additional reciprocating mills. In addition, a number of smaller replacement investments were made to modernize the production machinery. For instance, at the Costa Volpino plant in Italy, two technologically obsolete straighteners were replaced by a new, more powerful machine for the Instrumentation Tubes product segment.

Technology Division

The Technology Division responded to the difficult economic environment and a decline in profits by reducing its investment volume: Wherever economically viable and possible in organizational terms, investments were postponed.

Despite this circumstance, investments in new technologies were not neglected. Innovative technical solutions secure sustainable success with customers and competitive advantages against the competition. The division focused on building on the functions of machinery and facilities and making progress in reducing the consumption of energy and resources.

The main part of investments were accounted for by the modernization of the production machinery to enable us to reduce production costs in the future. Special attention was given to the filling and packaging technology segment, which successfully completed the projects initiated in the years 2007 and 2008.

The Trading and Services Divisions

The focus of the investment activities in the Trading Division was on further modernizing its existing facilities. In addition, the relocation of the warehouse of Salzgitter Mannesmann Stahlhandel GmbH (SMSD) from Lauchhammer to Zeithain was completed for the most part.

The Services Division invested mainly in the following:

- Extension of the infrastructure of DEUMU Deutsche Erz- und Metallunion GmbH (DMU) in Peine as part of the “PTG 2010” project
- Replacement investments in locomotives and freight cars for the transportation operations of Verkehrsbetriebe Peine-Salzgitter GmbH (VPS)
- Construction of a new production building for SZST Salzgitter Service und Technik GmbH (SZST)

3. Research and Development

Our 5P corporate guidelines lay down the following tenet on products and innovation:

"We use our competence in steel and technology to compete successfully fielding our innovative, high-profile products and sophisticated services. We contribute to the sustainable success of our customers. The products and services of the Salzgitter Group create value added for the customer. The ongoing development of our products and services is an integral part of our entrepreneurial activities."

Or to put it more simply: We want our customers to be satisfied.

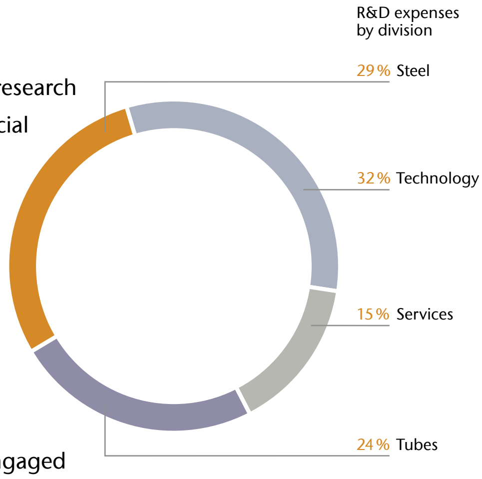
First and foremost, genuine innovations are essential in order to guarantee this in a sustained manner, in addition to ongoing product and process optimization. We support this process as part of our sophisticated innovation management. Salzgitter Mannesmann Forschung GmbH (SZMF) is a driver of innovation and central coordinator for research and development (R&D) in steel-related activities. It creates a synthesis between market requirements, the existing product, process and manufacturing know-how within the Salzgitter Group and the latest scientific trends. Innovation goals are always determined in line with our strategy and are thereby aligned to the aspiration of belonging to the top league in steel and technology, now and in the future.

SZMF has highly qualified employees with clear goals which are geared toward established technology roadmaps. SZMF's activities reside in particular in the field of application-oriented research and development rather than in purely fundamental research. This necessitates our participation in a close network involving universities, other research institutions and industrial partners. We view the resulting research cooperation activities as clearly preferable to buying in external know-how, which is also the reason why no commensurate expenses have been incurred during the reporting period.

In the financial year 2009, SZMF employees worked in more than 60 bi- and multilateral, partly international projects on innovations in steel which is by far the most important material used in construction.

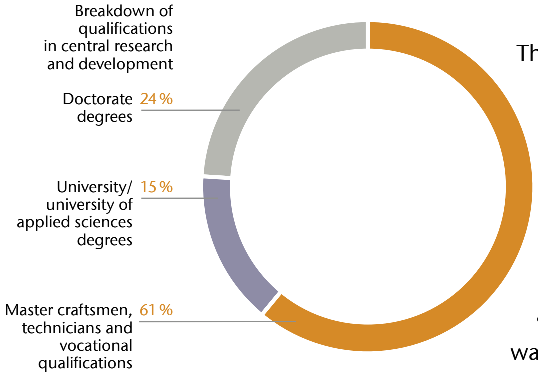
Research and development activities in the Technology Division stood under the auspices of the world's largest trade fair dedicated to the filling and packaging sector: "drinktec" in Munich. Under the motto of "Competence in Solutions", KHS AG strengthened its position as a technology leader, a reliable partner and a full-line solution supplier in the beverages and liquid food industry through an impressive presentation of numerous innovations.

R&D Expenses

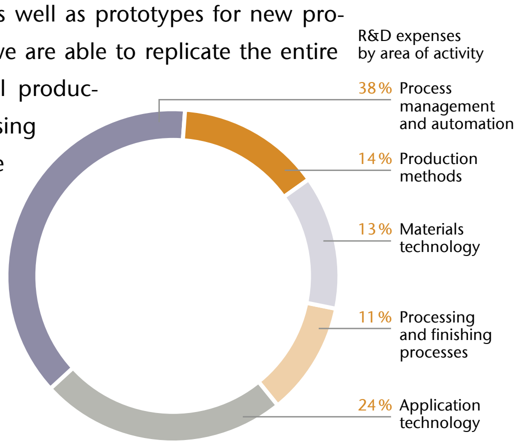


The Salzgitter Group dedicated a budget totaling € 93.46 million to research and development and activities relating to this field in the financial year 2009, of which external customers carried € 12.8 million. This amount was divided up as follows: Steel 28.8 %, Tubes 24.2 %, Technology 31.6 % and Services 15.3 %. Moreover, Salzgitter AG invested an amount of around € 179 million in cooperation projects with other market participants and research and development institutions. R&D-related expenses contributing to value added within the Group amounted to 9.0 % (2008: 3.3 %).

As per December 31, 2009, 916 employees in our Group were engaged in activities relating to research and development and related activities, of whom 311 work in the central research and development company SZMF and 605 (66 %) in the operating companies. This allocation underscores how strongly our R&D activities are oriented to processes – and therefore to our customers. The marginal increase in the number of employees in central developments in the year 2009 (+3 employees) is primarily the result of accelerated activities in the field of developing materials and engineering technology.



The highly qualified team active at Salzgitter Mannesmann Forschung is equipped with facilities and instruments that represent the cutting edge of technology. This comprises measurement and analysis facilities developed in-house, as well as prototypes for new production facilities. In this way, we are able to replicate the entire value chain, from metallurgical production of smelting, across processing and refining of steel and all the way through to the area of application. Alongside physical experiments we placed emphasis on numerous simulation procedures in research and development.



R&D Focus Areas in 2009

High-strength steels were the focus of our research and development activities in the financial year ended. Alongside the development of materials for lightweight automotive construction and high-strength tube grades, the optimization of production processes based on simulation and data mining methods also plays an important role. Additional lightweight construction potential resides in the use of thin dual-phase steels that substantially reduce the substitution potential of light metal in the outer skin of automobile bodywork.

The section below cites several examples of key R&D areas in the Steel, Tubes and Technology divisions in the financial year 2009:

Thin dual-phase steel for chassis part outer skins

In the flat steel product segment, hot-dipped galvanized dual-phase steel for bodywork outer skin applications has been developed in the thickness of 0.5 mm. This steel can be used, for instance, for fenders, doors and front and tailgates. Great strength combined with good ductility makes thin dual-phase plate suitable even for use in complex component geometry, thereby opening up even greater lightweight construction potential. All the necessary tests conducted by automotive manufacturers were successfully completed.

Serial production of air-hardened steels

Air-hardened LH®800 steel, developed jointly by SZMF and Salzgitter Flachstahl GmbH (SZFG), was used in large-scale industrial application for the first time, specifically in the front axle carrier of the new Mercedes E Class. Along with this first successful application, automotive manufacturers and suppliers are currently in the process of testing additional areas where LH® steels can be used. The special focus here is on components which can take high static and dynamic loads and fulfill supporting and security-relevant functions. Examples are cardan shafts, hybrid and control arms, roll bars and trailer axles. The use of LH® steels has created additional potential for reducing the weight of the vehicle, thereby lowering fuel consumption and pollutant emissions. Moreover, tests are currently being run on new applications in the construction of enameled plant components for industrial and energy technology. The first results from our customers' enameling trial runs have delivered very promising results with regard to the enameling capacity and the mechanical parameters of the finished components.

Analysis of technical processes using data mining methods

The modern production facilities of the companies belonging to the Salzgitter Group enable the recording and storing of a large number of product and process parameters. This data is an important repository of process knowledge which can be used to optimize production workflows and enhance product quality. The huge volume of data and multi-dimensional dependencies between product and process parameters require automated methods for the processing and analysis of information. We utilize leading-edge data mining methods for this purpose. We are in the process of reinforcing this area of competence at SZMF which enables us to bring many projects swiftly and successfully to a close. One such example is the optimization of the annealing process in the continuous furnace of the galvanizing facilities through geometry-dependent remodeling, which results in enhancing product quality and lowering energy consumption. We have also achieved significant improvements with the aid of data mining methods in pig iron production, annealing, cold rolling and surface finishing of flat steel products and in the manufacturing of tubes. In addition to the above, materials and process-related developments have been made, mainly in the pipeline and precision steel tubes segments as well as strip and sheet products.

Optimization of tools for X100 large-diameter tube production through simulations

In the spring of 2009, EUROPIPE GmbH (EP) successfully manufactured large-diameter tubes of the X100 grade for the construction of a demonstration pipeline in North America. The high-strength tube grade ensures the resource-efficient and economical transport of natural gas under high pressure across long distances. The strong spring back effect of the material, however, presented special challenges in shaping the tubes. SZMF optimized the tools by deploying numerical simulations in order to achieve a controlled spring back of the sheets during the shaping process.

Higher strength hot strip for tube grades

Market demand is rising for steels with considerably higher tensile strength suitable for high-pressure gas pipelines such as those manufactured by Salzgitter Mannesmann Großrohr GmbH (MGR). In response to this demand, SZMF has developed hot-rolled strip which features low carbon content and a high proportion of niobium which more than meets customer requirements. The alloy concept has resulted in a series of process technology advantages for production in the steel mill and the processing in the hot-strip rolling mill. The development took place in cooperation with the South Korean steel manufacturer POSCO.

The Technology Division concentrated on the following key R&D areas in the financial year 2009:

The InnoPET Blomax Series IV generation of stretch-blow molding machines

To satisfy the greater demands placed by customers in the beverages industry on sustainability and on lowering overall operating costs, Hamburg-based KHS Corpoplast GmbH & CoKG (BEVCP) has developed a new generation of stretch-blow molding machines. The emphasis was on conserving resources in the production of PET bottles, in connection with the optimal use of space and production facilities. This resulted in the ability to offer larger machines capable of generating greater specific performance per blow station. Maximum output has been increased by more than 60% to 72,000 bottles per hour. In addition, process stability has been enhanced, for instance, by the removal of transfer points. The StretchFlexx procedure enables PET bottles to be elongated, irrespective of the rotation speed during the blowing process. Among other advantages, customers' conversion times can be halved, flexibility is improved and the overall availability of production facilities significantly boosted.

Powerwall and 3D laser scanning

Planning at KHS AG's plant technology is now performed three-dimensionally with a powerwall, a large-area screen projection system and with 3D laser scanning. KHS AG has set new benchmarks with this implementation. A complex plant planned with the help of this technology is displayed in large-screen imagery on the powerwall and viewers are thereby able to comprehend the construction components in three dimensions. Moreover, the system can be used to review construction assembly which means that construction times can be considerably curtailed, for example through swift identification of potential sources of conflict.

The "SixPointFour" lightweight 0.5 liter PET bottle

A lightweight 0.5 liter PET bottle was developed in the Bottles & Shapes™ Center in Hamburg and presented to an expert audience by KHS AG at the "drinktec" trade fair. The world's lightest 0.5 liter PET bottle, which goes by the name of "SixPointFour", weighs only 6.4 grams. The bottle not only saves on resources but also meets all the necessary preconditions for filling, labeling, palletizing and transport. The super lightweight needs only half as much material as the traditional 0.5 liter PET bottle. The lower recycling volume makes a significant contribution to environmental protection.

Future key areas of R&D within the Group

We will continue to focus our development activities on environmental aspects, alongside economic factors. Our intention is not only to improve customer benefits by, for instance, offering strength-optimized and media resistance-optimized steel for the construction of lightweight vehicles or for the transport and storage of carbon dioxide but, above and beyond this, to commit intensive effort to making our products even more compatible with the environment and able to economize on resources. Apart from the actual use of the product, its manufacturing and recycling are becoming increasingly important. This is how we intend to make holistically positive contributions and to secure the competitiveness of steel as the most important material used in construction as well as that of all the Group's other products on a sustainable basis, while taking account of all relevant environmental aspects.

As always practiced in the past, our R&D activities concentrate on the development of high-strength and ultra high-strength steels, with excellent qualitative properties as well as on the optimization of production processes. As a precondition we also intend to consistently strengthen our methodological competences such as, for instance, our data mining methods or the simulation of our products and processes.

In our Technology Division we will forge ahead with our InnoPET-PLASMAX procedure where the interior of the PET bottles is coated with a very thin, highly-transparent and flexible layer of glass made of silicon oxide. The barrier layer prevents carbon dioxide and oxygen permeating the PET bottles while retaining the crystal clear appearance of the bottle, thereby preserving the quality and taste of the filled products while extending the shelf life. Following on from the market's acceptance of the basic machine with an output of a maximum of 12,000 bottles per hour, the series is now being developed and is supplemented by a model which can guarantee an output of 40,000 bottles an hour.

Multi-year Overview of R&D

		FY 2009[3]	FY 2008[3]	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003[4]	FY 2002	FY 2001
R&D expenses	€ m	81	80	60	58	58	57	58	47	48
R&D employees	empl.	916	983	725	688	706	701	670	400	400
R&D ratio[1]	%	1.2	0.6	0.6	0.7	0.8	1.0	1.2	1.0	1.0
R&D intensity[2]	%	9.0	3.0	2.2	2.0	2.9	4.2	5.3	4.2	4.3

[1] R&D expenses in relation to Group sales
[2] R&D expenses in relation to Group value added
[3] KHS AG fully consolidated
[4] First-time inclusion of research-related expenses (employees) MRW

4. Environmental Protection

Steel products generate quality of life. They are used in buildings, they guarantee mobility, they allow for a secure and effective supply of energy and they are used as basic materials in many everyday commodities. The production of steel, however, necessitates a great amount of energy and resources. As a steel and technology group with energy-intensive processes, Salzgitter AG is well aware of its special responsibility and proceeds in a foresighted and sustainable manner. The use of natural resources and energy has come to the forefront of our customers' attention and has developed into an important purchasing criterion. Consequently, the efficient use of resources and energy is an important requirement in all divisions of Salzgitter AG and one that is rigorously managed.

Environmental management in the Group

Environmental protection entails responsibility. With regard to environmental protection matters, the Salzgitter Group relies on decentralized responsibilities. In order to improve performance in environmental and energy efficiency on an ongoing basis the Group's Executive Board calls upon all Group companies to commit to fulfilling environmental goals on the basis of the "Group Guidelines on Environmental Protection". Among other rules and regulations governing the use of raw materials and energy, these guidelines comprise instructions on the minimization of emissions and environmental protection integrated into processes. Management decisions such as, for instance, investment undertakings are checked at an early stage in terms of their environmental impact. In order to guarantee uniform and legally compliant standards of environmental protection while keeping our decentralized local competences, we strive to implement environmental management systems according to ISO 14001 at our various locations and to attain the pertinent certification. Guided by this basic concept and in addition to external environmental management certifications, we carry out internal organization and compliance audits with our central Group audit department. Following the audit of Salzgitter Flachstahl GmbH (SZFG) in 2007, Salzgitter Mannesmann Grobblech GmbH (MGB) was checked against our risk control matrix in the reporting period. The outcome of the audit confirms the good results of the certification of the respective environmental management systems.

Within the period of only four months, Peiner Träger GmbH (PTG) also built up an environmental management system according to ISO 14001 and had it appraised by an external certifying company in October 2009. The certification initially covers the steel mill and the supporting processes (inter alia maintenance and utility supplies).

Steel Division – investment and approval procedures

In the financial year ended, the Group carried out various measures and investment projects which further optimize the environmental standards of our processes and products. With regard to the new investment projects "new process gas purification at the sintering plant" in Salzgitter and "new electric arc furnace" in Peine we applied for approvals for the construction and operation of the facilities, each of which was conducted as an official process involving the public. Extensive environmental compatibility audits have proven that no significant effects on the environment are anticipated. The invitation to the public to view the approval documentation did not result in any objections; the dates set for the discussion hearings, which had already been published, were cancelled.

The extension carried out on process gas purification at the sintering plant is due to be commissioned in 2010. Data collected in 2008 show that we will be able to reduce the overall dust emission of SZFG by an estimated 10 %. All in all, here we have lowered dust emission by 40 % over the period from 2001 to 2008.

The "PTG 2010" investment program was carried out with special attention paid to environmental compatibility and the needs of the neighboring vicinity, as our plant is located centrally in the town of Peine. With the aid of sophisticated standards, also applied to the construction of the new furnace hall, exposure to noise will in future be even lower in absolute terms than when operations were run with only one electric arc furnace and a continuous casting line. An expert opinion already drawn up on noise exposure also came to this conclusion. As regards dust removal technology, we are also in the forefield of technology and leading at the Peine location: The statutory threshold of 10 mg of dust per cubic meter of exhaust air has always been comfortably complied with in the past and, based on experience to date and our planning, the threshold of 5 mg, applicable in the future, will also pose no problems.

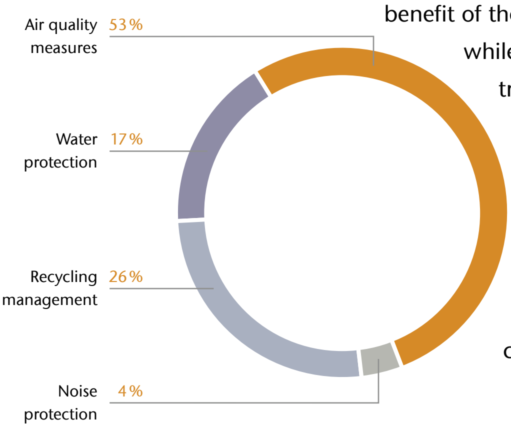
Steel Division – closing down of waste sites

Despite every effort to avoid waste, there is still a need for waste sites at our Steel Division. Based on today's technology, a small portion, specifically less than 5 %, of the slag we produce is unsuitable for recycling or selling owing to its composition or mechanical behavior; thus it is deposited in an environmentally compatible manner. At the end of their useful life, we ensure that the waste sites are duly and properly decommissioned and reintegrated into the landscape. The Heerte waste site, used by Salzgitter AG since the mid-50's, stopped operating on July 15, 2009. Prior to closing this waste site down, we agreed a concept for the procedure with the authorities responsible including an extensive package of measures. The secured waste site is to be recultivated and naturalized and ultimately reintegrated into the landscape as a "green island".

Technology Division – innovative beverage filling technology for sustainable production

According to the trade association PlasticsEurope, around 15 million tons of PET plastics were used worldwide in 2007. A major part of the PET produced is processed into PET bottles in the beverages sector. As a technology provider to the beverages industry, KHS AG provides solutions for its customers that make major contributions towards reducing the energy and resources used to manufacture their products and are therefore instrumental in lowering operating costs. KHS Corpoplast GmbH & Co. KG (BEVCP) presented a new machine series (InnoPET Blomax series IV) for the manufacturing of premium PET bottle qualities in September 2009. We have set new benchmarks for the industry with this cutting-edge generation of stretch-blow machines in the interest of our customers and to the benefit of the environment: the machines deliver up to 40 % more performance while reducing energy consumption by 40 %. This progress is part of the tradition of innovative technologies by Klöckner Werke AG (KWAG) and enables both ecological and economic potential to be realized in industrial production.

Environmental protection spend Steel Division 2009

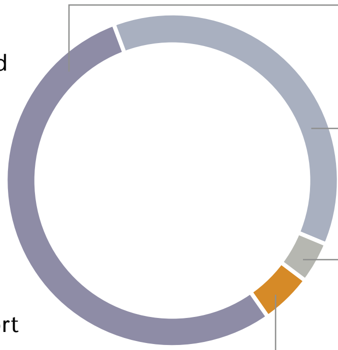


Environmental protection spend

The total spend of the Steel Division on environmental protection came to € 162 million that was allocated as shown in the adjacent chart.

The Tubes Division's companies based in Germany spent € 12 million on environmental protection, an amount allocated as shown in the chart below.

Environmental protection spend domestic companies of the Tubes Division 2009



A detailed description of our environmental protection measures and other environmental key figures have been included in our current Corporate Responsibility Report (CR Report).

5. Sustainability

Salzgitter AG published its first Corporate Responsibility Report (CR Report) in February. The Report is intended to supplement the Annual Report by providing information in a condensed form on the Group's ecological, business and social activities.

The 60-page report documents the multifaceted commitment of the company in the key areas of "Strategy & Values", "Market & Innovation", "Environment & Energy", "Employees" and "Company", and describes our basic understanding of corporate responsibility. The report is geared to the current guidelines laid down under the internationally acknowledged Global Reporting Initiative (GRI). GRI has certified that we have transparent and sound reporting in place in line with Application Level B.

Our target stakeholders are shareholders, analysts and investors, employees and potential new employee, business partners, institutions and opinion leaders in politics as well as the interested public.

In this report, Salzgitter AG clearly illustrates that sustainability is an important maxim underlying its action and decisions. This tenet is reflected in many aspects of the way in which our company is structured: The Salzgitter Group is, on the one hand, a progressive and innovative company, but also one that is rooted, oriented to stable structures and geared to long-term growth. This is reflected by the heading in the CR Report with which we describe our societal contribution to sustainable development: "Continuity through Progress".

The printed report is supplemented by more detailed information and additional, regular updates on the newly designed CR websites.

They can be viewed under: www.salzgitter-ag.de/cr/2009

The printed report can be ordered from the contact addresses listed under the Imprint.

ON THE SCENT OF A GOOD IDEA.

Perfumes are generally too expensive to waste. The inventors of the atomizer were aware of that. So they developed a method by which to evenly distribute a small amount of scent over a wider area. A method that some of our engineers found beguiling.

LESS IS MORE.

To shape PET bottles, the plastic is first heated to a high temperature. Then it has to be cooled again, especially at the bottom of the bottle. In the past this required a great deal of water. Water that has to be collected and cooled down again. So engineers at KHS decided to apply an entirely different cooling principle: evaporation. When water evaporates it extracts energy from its environment. In this case the environment consists of PET bottles and the energy is the heat of the bottles themselves. So it was just a matter of wetting the bottoms of the bottles as evenly as possible with fine mix of air and water. As a result of this new cooling principle, water consumption fell dramatically. And with it the costs. They just evaporated into thin air.

III. Performance Report

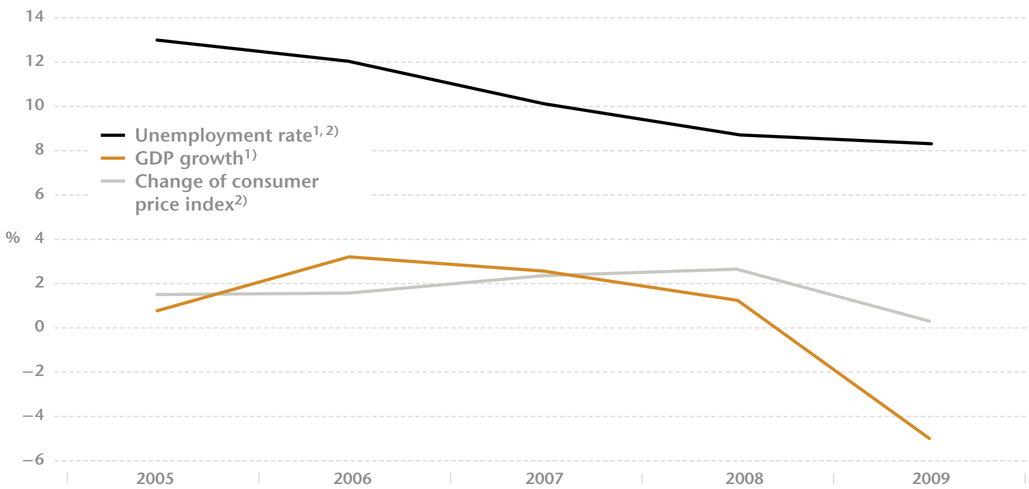
1. General Business Conditions

Gradual recovery in the global economy

Triggered by the international financial crisis, the **global economy** plunged into the most dramatic downturn seen since the end of the Second World War in the winter months of 2008/2009. The crash into recession was so extreme that even some emerging markets, which had posted extremely high growth rates up until then, suffered considerable declines. The extensive financial measures taken by the governments of the industrial nations to boost the economy and to stabilize the banking sector prevented the collapse of the global financial system and, at the same time, laid the foundations for an easing of the tense situation. The global economy has been on the path to recovery since the spring of 2009, also thanks to the extensive economic rescue programs. In contrast to the downturn, the individual markets did not rally as one and lacked strong impetus. The emerging markets of Asia in particular, with China as the main economic engine, saw demand pick up momentum relatively swiftly again, supported by a slew of measures launched by the government to stimulate the economy. By contrast, recovery in the industrial nations was markedly slower. As virtually everywhere support came from the building up of inventories, which had been drastically scaled back, and government aid programs, the upswing could not be considered self-supporting at year-end. The global economy posted negative growth of –0.8 % in 2009, which is the first time since 1946 (2008: +3.6 %).

Overall economic activity in the **European Union** had stabilized at a low level by mid-year. Accordingly, the gross domestic product edged up for the first time in the summer although the figure varied widely in the individual member countries: Whereas Spain and Great Britain remained in recession, France and Italy, and above all **Germany**, became the drivers of a moderate recovery. All in all, the economy of the European Union contracted by 4.0 % in 2009 (2008: +0.9 %). In Germany, overall economic output had already firmed up the spring and gained ground in the subsequent months, thereby putting an end to the downtrend in capital expenditure and exports. Due to the very high dependency of Germany on exports, in conjunction with the negative developments experienced by its trading partners, the decline in the gross domestic product was more pronounced in comparison to most other European countries and resulted in a drop of 4.8 % (2008: +1.5 %) as against the previous year.

Overall Economic Indicators Germany



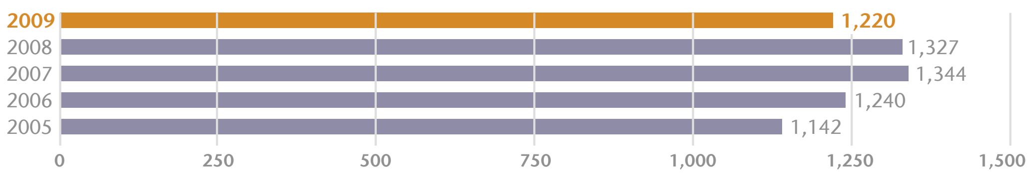
[1] Source: German Federal Statistical Office
[2] Source: German Central Bank

The global recession hits the steel industry head on

In tandem with the recession of the global economy, the **global production of crude steel** in 2009 contracted by 8 % to 1.22 billion tons. The strong growth of Chinese production was the only factor preventing the downturn from being even more severe. Apart from China, India was the only other country to raise its crude steel production. Output everywhere else fell by a fifth, which is the sharpest drop ever experienced in the post-war period. The regions most strongly affected were the European Union and North America with –29 % and –35 %, respectively. A look at the year as a whole showed that global crude steel output had already stabilized by the start of the year and had started to climb steadily. By the summer, a broad-based recovery was discernible, with a considerable reduction in production backlogs in the **European Union** as against the previous year. Nonetheless, the plant capacity utilization averaged less than 60 % with a crude steel output of just under 140 million tons. The extent of the slump is also evident from a regional perspective: All larger EU sub-markets reported declines of 30 % at minimum over the course of the year ended. Likewise the European rolled steel market supply (supply within the EU and imports) dropped by around one third to approximately 125 million tons in the reporting year.

In **Germany** specifically customers in the domestic steel industry such as the capital goods sectors, vehicle construction and steel tubes were hit hard by the crisis. Beyond this, there was strong move towards reducing inventory levels, which was an additional burden to the order situation of steel producers. As a consequence, the real demand for steel contracted by around one fifth, and the crude steel production sank to just under 33 million tons (–28 %), which is its lowest level since the early 1960's. Over the course of the year, however, there was a substantial recovery – sustained by new orders rising. The production of crude steel climbed steadily to reach an annualized 40 million tons in the fourth quarter, resulting in capacity utilization growing from below 50 % to recently around 70 %. One of the main reasons behind this development was that, after massive destocking at the start of the year, steel processors began to purchase more material again from producers. New orders nonetheless stagnated at a comparatively low level even at the end of the reporting period.

Crude Steel Production World



In m tons

Source: International Iron & Steel Institute

Damper on demand accompanied by price erosion in global steel trading

The crisis-ridden economic environment was clearly reflected in the business activities of global steel trading: Thus the significantly tighter lending conditions, for instance for automotive suppliers and the metal industry, restricted the options for financing inventories, thereby considerably reducing the volume of stocks and new orders. Moreover, as the trade credit insurers limited their credit insurance, the default risk for commercial credit arrangements was increasingly passed to steel trading.

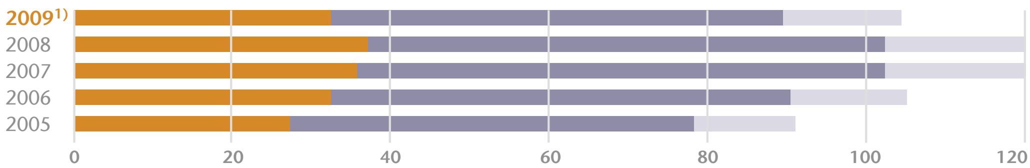
The contraction in demand was most notable in the industrial nations with intensive steel consumption and a high proportion of exports. The slump in Europe and on the North American continent also exerted an influence on the developing and emerging markets, which meant that the consequences of the recession were felt worldwide. In the Middle East, tumbling oil prices put a discernible damper on investment activity. From the fourth quarter onwards, there were initial signs of a stabilization of prices and sales volumes – mainly in China –, but not for all products and not to the same degree.

Trends in Germany developed virtually in tandem with global events. Important customer sectors of steel trading such as, for instance, the construction industry and mechanical engineering, whose business was still flourishing in the previous year, were severely affected by the downswing. The mechanical engineering segment in particular suffered greatly from the decline in exports induced by its strong export dependency.

Tubes market impacted by production downturn across all product segments

Similarly, the dramatic decline in order intake, which had been prevalent from the third quarter of 2008 onwards in virtually all industries, also had an impact on global steel tubes production. Global steel tubes production in 2009 totaled 105 million tons (–17 % in a year-on-year comparison) even though Chinese tubes producers raised their output by as much as 7 % to 50 million tons. The demand for seamless steel tubes was impacted in particular by the shortfall in orders placed by the energy sector due to the sharp drop in oil and gas prices; consequently production dropped to a mere 31 million tons (–21 %). Despite the comparatively healthy order book of individual manufacturers, the production of large-diameter tubes also declined to 14.5 million tons (–22 %).

Global Steel Tubes Production according to Production Methods



[1)]Extrapolation In m tons seamless welded up to 406.4 mm welded exceeding 406.4 mm Source: German steel tubes trade association

The production output of the European steel tubes producers slumped by almost one third to a figure close to 12 million tons. This drastic reduction in volume affected all product segments, with the precision steel tubes segment sustaining the largest declines.

Although the production volume of the large-diameter tubes segment remained virtually unchanged at 1.1 million tons thanks to the high level of orders placed in the first half-year 2008, the German steel tubes industry was also unable to decouple from the downtrend in the markets. All in all, production plummeted by 25 % to 2.9 million tons in Germany.

Slump of around 25 percent in annual average machine production

Following on from an extended upswing, German mechanical engineering fell into a deep recession in 2009. The industry, with its strong export orientation, had to absorb sharp declines in sales particularly in Western Europe and North America. There was also a slowdown in the high-growth markets of China and India in comparison with previous years. According to calculations by the German Engineering Federation (VDMA) this sector of industry sustained a dramatic decline in new orders in 2009 (– 38 %). Having been partially cushioned by existing orders at the start of the year, the average capacity utilization subsequently dropped to 70.7 % (2008: 88.9 %), and real decline in production came to just under 25 %.

Filling and packaging machinery production, which is the focus of the Technology Division, accounting for approximately 90 % of its sales revenues, suffered a massive setback in 2009 following on from years of steady growth. The uncertainty about how the economy would develop and the financially critical situation of some companies in the beer industry subject to large-scale acquisitions, caused great investment reticence on the part of food and beverages producers: purchasing new equipment and facilities was rare and only done if there was no option for postponement; new orders received were mainly for replacement investments and services. At the same time, the price war in the competitive environment was exacerbated by severe capacity underutilization.

This had serious consequences for the order books of the filling and packaging machinery industry. Order intake, as calculated by the VDMA, was 27 % below the previous year's figure, and thus sales declined by 20 %. All manufacturers came under extreme pressure. In contrast to other areas in mechanical engineering, there were, however, no structural sales problems in beverages technology. According to market research conducted by renowned research institutes, the volume of packaged beverages is even set to grow in the years ahead. The optimistic statements made by exhibitors and visitors of the "drinktec 2009", the global trade fair for beverages and liquid food technology, provided reasons to believe that the machinery and plant engineering companies active in the filling and packaging machinery industry will be able to emerge from the crisis ahead of the overall mechanical engineering segment.

The remaining special machinery construction segments comprised under the Technology Division, such as shoe machinery, but particularly injection molding machinery, developed in line with the negative overall picture that German machine building presented in the past year.

2. Overall Statement by Management on the Performance

The Salzgitter Group masters the challenges of the financial crisis with assuredness

The year 2009 will go down as one of the most difficult financial years in the 150-year history of the Salzgitter Group. "During the initial months the Group had to absorb a dramatic slump in the demand for rolled steel products, among other occurrences. Thanks, on the one hand, to the sound and broad business base and the healthy financial position of the company and, on the other, to a program of swiftly implemented urgent measures to stabilize performance, we were able to master all the challenges posed by the crisis with assuredness. With the onset of economic recovery, we were again generating a positive operating profit by the fourth quarter. As part of the process of drawing up the annual financial statements, we have carried out extensive impairments and accounting-related measures which will serve to ease the burden on future periods.

Almost all the business activities of the Salzgitter Group were affected by the global economic crisis in the financial year 2009. As a consequence, consolidated external sales came in at € 7,818.0 million, which is considerably lower than the previous year's figure (2008: € 12,499.2 million). The Salzgitter Group closed the financial year 2009 with an operating loss of € – 160.3 million. This figure comprises the € 60.2 million contribution to profit by the Aurubis shareholding as well as positive valuation-related effects. The profit forecast released in November was therefore exceeded. As announced at the same time, the financial statements include accounting-related non-recurrent effects. For instance, they comprise impairments of € 262.7 million and funds of € 73.4 million for streamlining measures. These components, which affect net income and accord fully with a conservative accounting policy, will already be instrumental in easing the burden on the results of the current financial year. All in all, the pre-tax loss comes to € – 496.5 million (2008: € + 1,003.4 million). Taking account of tax revenues of € 109.6 million, the consolidated loss posts € – 386.9 million.

Despite the considerable utilization of financial resources mainly for the financing of the extensive investment program and dividend distribution for the financial year 2008, the Group's net cash investments nonetheless came to a remarkable € 1,561 million at the end of the year. The equity ratio of 48.5 % remained virtually unchanged from the year-earlier figure (49.9 %). The Salzgitter Group therefore has sufficient financial scope, as before.

The crisis, in particular, has underscored the fact that the Salzgitter Group, with its broad-based and well-balanced business, its sound financial base and its foresighted business policy, is not only able to generate excellent results when market conditions are good, but is also well equipped to master difficult times.

3. Comparison of Actual and Forecasted Business Activities

At the time when we published our 2008 annual financial statements, there was huge uncertainty about the future development of the economic environment. For this reason we refrained from a detailed, quantified forecast for the consolidated result of the financial year 2009 at our Annual Results Press Conference. Nevertheless, at that time we had already assumed that no profit would be generated in the first half-year, as the crisis prevailing in the rolled steel market would be reflected commensurately in our results. Moreover, there was no expectation of this being compensated by the Salzgitter Group's other activities. In the event of a notable recovery in the rolled steel markets over the course of the remaining year, we believed it feasible to achieve breakeven in our annual result.

Against the background of the persistent global economic downturn, the result for the first half-year (EBT of € –195.2 million) was in line with our forecast. However, this result also took account of the extensive accounting-related adjustments to inventory valuations, focused in particular on the Steel Division, to enable the Group to be unencumbered by hidden burdens from inventory valuation in the periods following this set of interim financial statements.

Despite a certain brightening of the general situation, there was no identifiable fundamental and sustained turnaround in conditions on the steel market at the start of the second half-year. Only a few product groups showed a tendency towards recovering in terms of order intake and selling prices. With this in mind, we gave guidance in August for a pre-tax loss in the second half of 2009, nonetheless predicted at a lower level than in the first six months. It thus became certain that our Group would close the year as a whole with a significantly negative result.

At the end of the first nine months, however, we were able to assume in November that, if the business environment continued to rally, the consolidated pre-tax result would continue to move in the direction of breakeven in the remaining three months of the financial year. Particularly as the year drew to a close, the recovery was increasingly evident in the flat steel market and reflected in results which picked up again while other areas of the Group also raised their performance, enabling the fourth quarter to deliver a consolidated operating profit again, albeit at a low level. The operating results of the Salzgitter Group have thus developed in line with the forecasts. There was nonetheless a significant overall loss following the accounting-related measures and impairment.

As in past years, we made reference in our publications on opportunities and risks which may impact the financial statements for the financial year 2009. We explained that potentially additional effects may emanate from changes of a structural and methodological nature, both to the negative and to the positive, which includes most particularly valuations under IFRS standards and their treatment.

The financial statements of the year 2009 include € 73.4 million in restructuring expenses and € 262.7 million in impairment. Including these effects, the Salzgitter Group brought the financial year 2009 to a close with a pre-tax loss of € 496.5 million. In evaluating these results, it should be noted that the accounting-related non-recurrent effects will make a considerable contribution to easing the burden on future periods.

Against the backdrop of the severe deterioration in the economic environment already seen by the end of 2008, we had forecasted a considerable decline in sales and a markedly lower result for the **Steel Division** as compared with the previous year.

The situation developed as predicted, but has to be differentiated in terms of the degree to which it affected the various product groups. By the start of the year the production of flat steel had already been fully engulfed by the crisis. At bottom low, plant capacity utilization came to almost 50% of nominal capacity, causing us to shut down the smallest of our three blast furnaces on March 25. Only at the end of May did order intake show the first signs of recovering, although accompanied by selling prices declining through to the fall. Plate, as a product lagging the economic cycle, was also confronted with capacity utilization problems and likewise recorded a steady decrease of sale prices. As from the summer, the product segments saw a notable improvement: Capacity utilization soared to around 80%, and short-time work was terminated. The beams segment, by contrast, was very slow to recover over the course of the year, making short-time work unavoidable in the first nine months. Against the backdrop of these conditions the Steel Division posted an overall operating loss. The necessary restructuring costs and extensive impairment writedowns were an additional burden on the result.

In 2009, the **Trading Division** had factored in a considerable downturn in sales and gross earnings and therefore expected sales and pre-tax results to fall significantly short of the previous year's levels. Our forecast proved to be accurate: After the very difficult first six months during which inventories purchased at a high price in 2008 had to be reduced at a significant markdown in selling prices, the stockholding steel trade experienced a gradual recovery. The activities of international trading, by contrast, came under pressure from a slowdown in investment activities in many countries, especially in the second half-year, and a lack of other demand stimuli. This market situation caused a sharp decline in the segment's sales and led to a negative result overall, which was additionally burdened by provisions expenses.

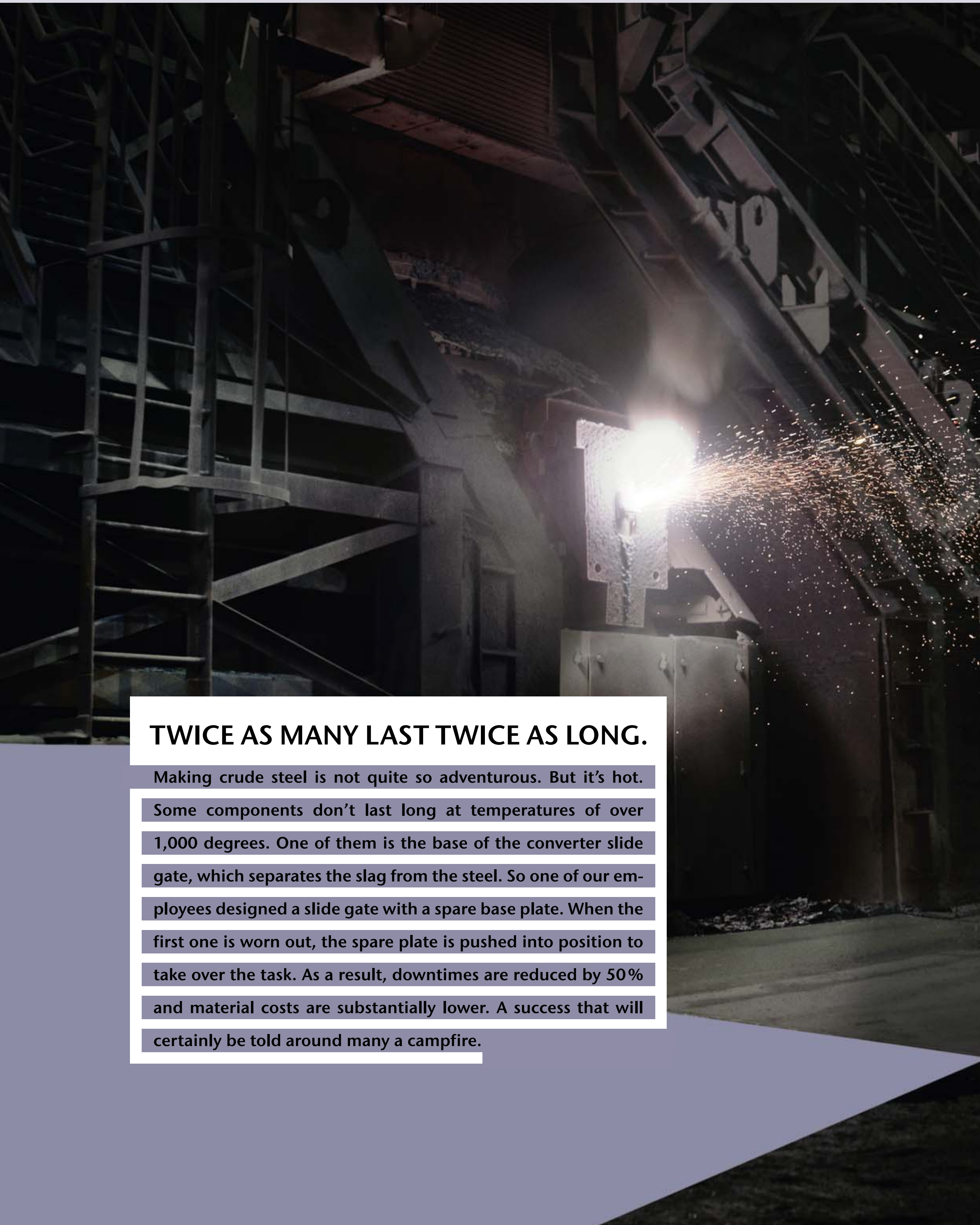
Well-filled order books enabled the **Tubes Division** to generate relatively stable sales and a positive, but nonetheless declining result in 2009. The extremely difficult situation in the precision tubes market and a progressive cooling in the stainless steel and HFI-welded tubes product segments impacted on sales that fell substantially from mid-year onwards. Still good capacity utilization in the large-diameter tubes segment served to counteract this trend by generating stable contributions. All in all, the Tubes Division generated a gratifying operating pre-tax profit, underpinned by the delivery of high-margin contracts in the segments of HFI-welded tubes and stainless steel tubes in the first half-year, as well as a generally consistent performance in the large-diameter tubes segment. The total result was, however, significantly pared down by restructuring measures and impairment writedowns.

As predicted, the **Services Division's** business, which depends mainly on capacity utilization in the Steel Division, slowed accordingly. First and foremost the division sustained a substantial volume-induced downturn in sales. The pre-tax result was positive, but was unable to repeat the previous year's level, owing in particular to the plunging steel scrap sales of DEUMU Deutsche Erz- und Metall-union GmbH (DMU).

The **Technology Division** had to meet the challenge of slack demand right at the start of the year. Results were therefore expected to be lower in a year-on-year comparison. Although there were the first indications of recovery in the mechanical engineering sector from the fourth quarter onwards, the extremely low level of order intake up until then and fierce price competition in the new plants business were reflected in discernibly lower sales and a clear operating loss in the financial year 2009. Moreover, the obligatory purchase price allocation connected with the majority acquisition of Klöckner-Werke AG (KWAG) under IFRS and the purchase of the SIG Beverages Group (now: PET Group), along with restructuring measures and impairment writedowns, also had the effect of lowering the result.

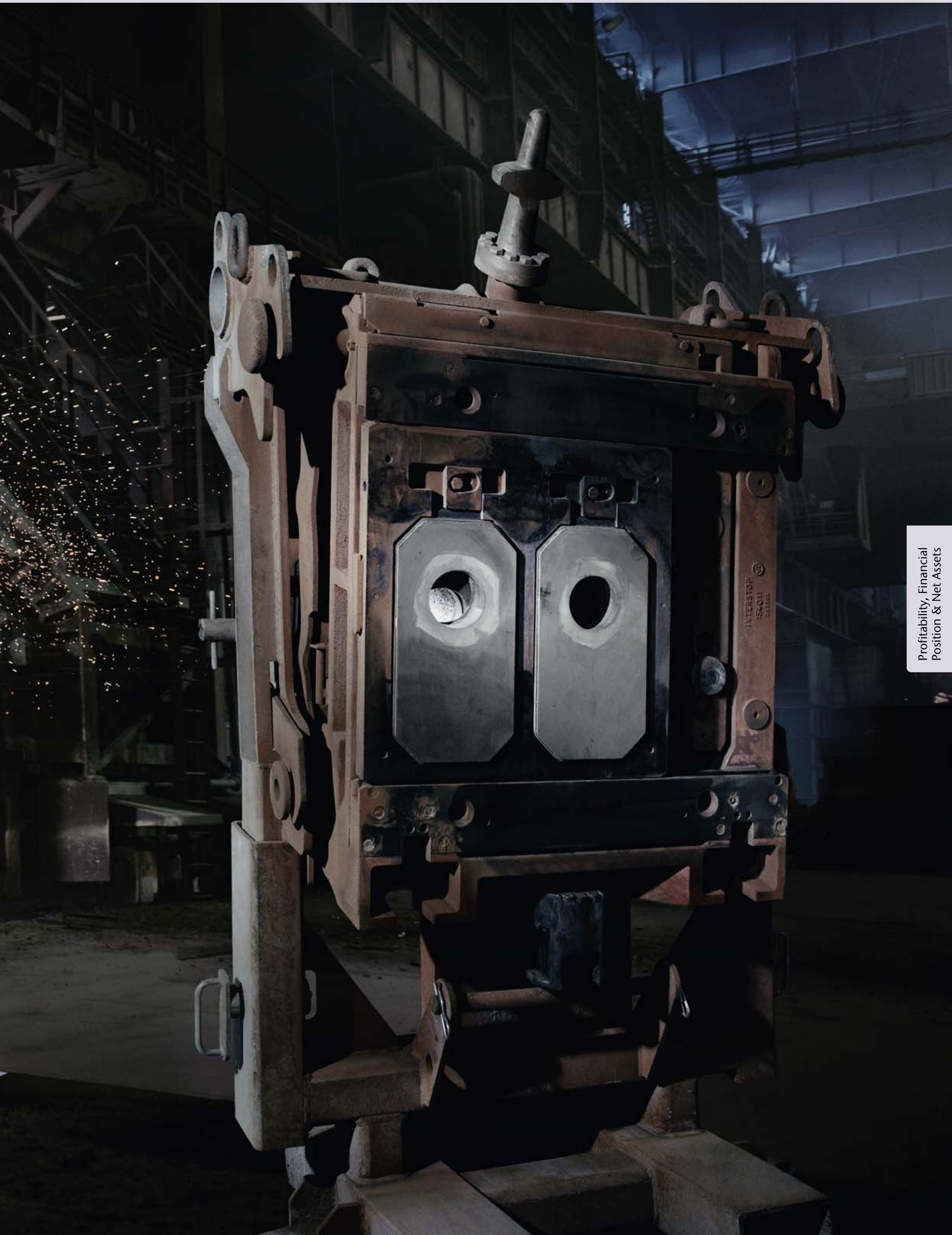
EVEN FROM THE WILD WEST THERE ARE LESSONS TO BE LEARNED.

Imagine riding for weeks in searing heat, through hostile territory: Those cowboys were adventurers alright. But they weren't tired of life. That's why they made sure to always have spare horses at hand. After all, you have to live to tell the tales.



TWICE AS MANY LAST TWICE AS LONG.

Making crude steel is not quite so adventurous. But it's hot. Some components don't last long at temperatures of over 1,000 degrees. One of them is the base of the converter slide gate, which separates the slag from the steel. So one of our employees designed a slide gate with a spare base plate. When the first one is worn out, the spare plate is pushed into position to take over the task. As a result, downtimes are reduced by 50% and material costs are substantially lower. A success that will certainly be told around many a campfire.



IV. Profitability, Financial Position and Net Assets

Almost all the business activities of the Salzgitter Group were affected by the global financial and economic crisis in the financial year 2009. Against this backdrop, the broad-based and sound business of our company and its business policy that is geared to sustainability have proved to be extremely advantageous. The positive contributions by the Tubes Division, the Aurubis holding and our extensive other financial investments were nonetheless unable to compensate for the operating results of the Steel, Trading and Technology divisions which were particularly hard-hit. A comprehensive program for reducing costs initiated at short notice served to ease the burden considerably.

1. Profitability of the Group

Despite a gradual brightening of the economic environment over the course of the year, the external sales of the Salzgitter Group, which came to € 7,818.0 million, fell way short of the previous year's figure (€ 12,499.2 million, –37 %).

The contribution of the **Steel Division** to the consolidated sales of the Group fell 44 % to € 1,673.6 million mainly due to the catastrophic capacity underutilization of the steel mills in the first half of 2009 and a steep downturn in the selling prices of all products, which brought the division's share in consolidated sales to 21 %. Business with other Group segments, especially the Trading Division, contracted to € 762.4 million (– 40 %).

The **Trading Division** again contributed the lion's share of € 3,038.7 million to the external sales of the Group (39 %). In comparison with the previous year, there was a volume and selling price-induced decrease of 46 % respectively.

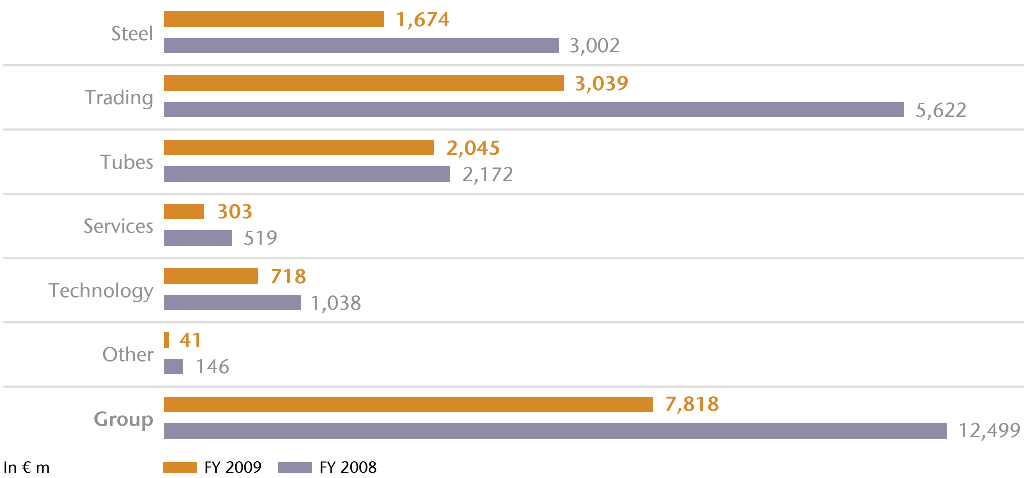
The **Tubes Division** raised its share in Group sales to 26 % as its contribution of € 2,044.6 million to sales remained virtually stable (– 6 %).

The **Services Division** suffered from the low level of activities in the steel companies and plummeting scrap prices which reduced sales considerably (€ 302.9 million, – 42 %). Its share in consolidated sales corresponded to the year-earlier figure (4 %).

In the financial year, the **Technology Division** contributed € 717.6 million (share of 9 %) to the external sales of the Group, which corresponds to a decline in sales of 31 % in a year-on-year comparison.

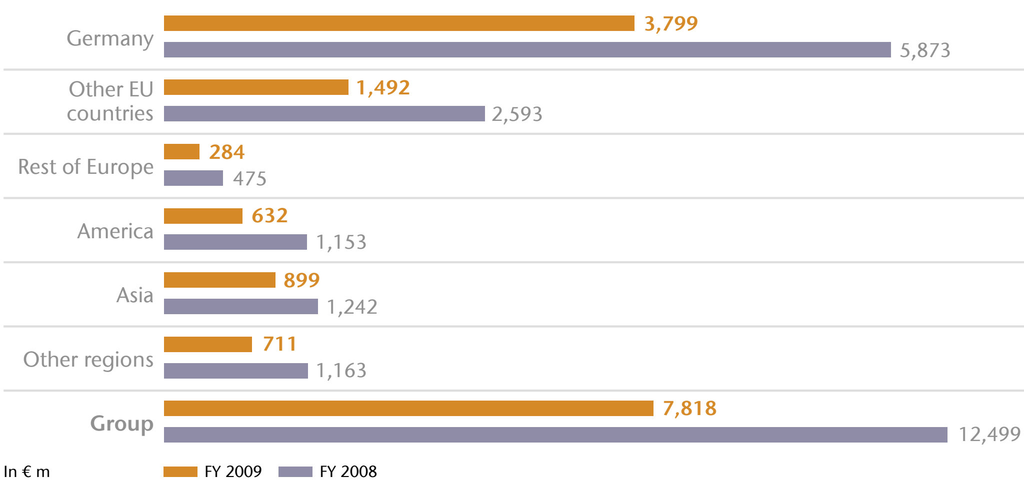
The external sales of the Other/Consolidation segment dropped by 72 % to € 40.6 million (share of Group sales 1 %) mainly owing to changes in the methodology applied to charging for input materials.

Consolidated Sales by Division



As before, the business activities of the Salzgitter Group were focused on the European Union (€ 5.3 billion, 68 % share of sales). Germany remained the largest single market with sales of € 3.8 billion. Foreign sales posted € 4.0 billion, which represents a slight decrease (51 %) in the share of total sales.

Consolidated Sales by Region



The impact of the crisis on the general environment caused the **Salzgitter Group** to close the financial year 2009 with an operating loss of € 160.3 million. As part of preparing the annual financial statements, impairments worth € 262.7 million were carried out, primarily in the Steel, Technology and Tubes divisions. Moreover, € 73.4 million were committed to measures designed to improve structures first and foremost in these divisions. Both components reflect our conservative accounting policy and will ease the burden on future periods. All in all, there was a pre-tax loss of € 496.5 million (2008: € +1,003.4 million).

The segments recorded the following results:

The **Steel Division** disclosed a negative operating result of € 230.1 million. Owing to impairments of € 139.0 million and restructuring expenses of € 4.5 million, the overall pre-tax loss came to € 373.5 million.

The operating result of the **Trading Division** came to € – 119.7 million. Amounts of € 2.3 million in restructuring expenses and € 6.1 million in impairments were also included, which in sum totaled to a negative pre-tax result of € 128.0 million.

The **Tubes Division** set a positive note with an operating profit of € 171.6 million. Despite impairments of € 29.9 million and restructuring expenses of € 37.7 million, the division delivered a sound pre-tax profit of € 104.0 million.

The pre-tax result of the **Services Division** came to € 8.2 million, which is considerably lower than the previous year's figure (€ 23.9 million). This figure also includes an extraordinary proceeds from the sale of the Group's portfolio of real estate (€ 6 million) as well as restructuring measures incurring costs of € 0.7 million.

The **Technology Division** generated a negative operating result of € 115.1 million (including the purchase price allocation) due to the downturn in the international project business in the wake of the recession. Furthermore, € 28.2 million in restructuring expenses and € 67.2 million in impairments had to be absorbed, the effects of which will act as a relief on future periods. The pre-tax loss posted € 210.4 million.

The **Other/Consolidation** segment delivered a pre-tax profit of € 103.3 million. This segment mainly comprises components not allocated to any division: reporting-date related changes in the value of derivatives due to exchange rate fluctuations, goodwill and other positions, as well as interest balances. It also includes the 25.3 % stake in Aurubis AG (NAAG), a company included at equity since the start of the financial year. NAAG contributed a gratifying post-tax profit of € 60.2 million.

Results by Division and Consolidated Net Income for the Year

In € m	FY 2009	FY 2008
Steel	– 373.5	545.6
Trading	– 128.0	150.8
Tubes	104.0	311.8
Services	8.2	23.9
Technology	– 210.4	3.8
Other/Consolidation	103.3	– 32.5
Earnings before tax	**– 496.5**	**1,003.4**
Tax	– 109.6	326.5
Consolidated net income[1]	**– 386.9**	**676.9**

[1] Including minority interests

Impairment and Restructuring Expenses by Division

In € m	Operating result	Restructuring expenses	Impairment	Earnings before tax 2009
Steel	–230.1	–4.5	–139.0	–373.5
Trading	–119.7	–2.3	–6.1	–128.0
Tubes	171.6	–37.7	–29.9	104.0
Services	8.9	–0.7	–	8.2
Technology[1]	–115.1	–28.2	–67.2	–210.4
Other/Consolidation	124.0	–0.1	–20.6	103.3
Group	**–160.3**	**–73.4**	**–262.7**	**–496.5**

[1] Incl. PPA

Development of Selected Income Statement Items

Explanations on the consolidated income statement, disclosed in detail in the section on "Notes to the Consolidated Financial Statements", see page 162, are as follows:

The decline in the "Increase/decrease in the finished work on work in progress/own work capitalized" item was primarily attributable to a substantial decrease of the product inventories held by the Steel and Tubes divisions on the reporting date. The development of other operating income and expenses is the outcome of the valuation of derivatives. In addition, the significantly lower level of products and services outsourced, under the measures program, and reduced selling costs were behind the reduction in other operating expenses. The decline in material expenses reflects lower capacity utilization and the tumbling prices of raw materials, semi-finished goods and steel products purchased externally. Lower allocation of profit sharing and short-time work resulted in a drop in personnel expenses. A counter-effect was the higher level of contributions to the pension insurance association (PSVaG) and adjustments to age-related part-time work. Income from associated companies includes the very pleasing after-tax profit contribution of € 60.2 million by Aurubis AG (NAAG).

Taking account of tax revenues of € 109.6 million, the consolidated loss comes to € 386.9 million.

Multi-year Overview of Earnings

	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
EBT	–496.5	1,003.4	1,313.9	1,854.8	940.9	322.8	42.5	72.5	160.3
EBIT I[1]	–468.1	1,072.1	1,350.7	1,900.5	970.0	345.6	60.8	92.6	178.8
EBIT II[2]	–377.8	1,162.9	1,428.4	1,971.2	1,048.4	427.1	146.5	181.6	271.8
EBITDA I[1]	100.2	1,362.3	1,581.4	2,101.8	1,186.1	666.6	309.5	314.5	389.2
EBITDA II[2]	190.4	1,453.2	1,659.1	2,172.5	1,264.5	748.1	395.3	403.5	482.2
EBT margin	–6.4	8.0	12.9	22.0	13.2	5.4	0.9	1.5	3.5
EBIT margin I[1]	–6.0	8.6	13.3	22.5	13.6	5.8	1.3	2.0	3.9
EBIT margin II[2]	–4.8	9.3	14.0	23.3	14.7	7.2	3.0	3.8	5.9
EBITDA margin I[1]	1.3	10.9	15.5	24.9	16.6	11.2	6.4	6.6	8.5
EBITDA margin II[2]	2.4	11.6	16.3	25.7	17.7	12.6	8.2	8.5	10.5
ROCE %	–10.5	21.9	28.0	47.8	38.9	24.4	4.6	7.3	13.6
ROCE % from industrial operations[3]	–17.3	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 thereon

Value Added in the Salzgitter Group

The operational value added of the Group posted only € 1,040 million in 2009 and was thus 60.5 % lower than in the previous year. The part attributable to the employees (– 5 %) grew proportionately to 143.0 %. The public sector contributed 10.5 % in the form of deferred tax earnings which will become effective in the future (2008: tax portion of 12.4 %). The portion of 2.3 % accounted for by lenders remained virtually the same as in the previous year (2.5 %), but the absolute figure fell mainly due to the lower interest rate level. The shareholders (including treasury shares) will receive 1.5 % of value added in the form of dividend for this financial year (2007: 3.2 %). As opposed to the last five years when a total of € 3.7 billion from the value added remained within the Group and enhanced its value, the difficult course of business and impairments eroded € 376 million. The balance of € 3.3 billion in value added, which remains within the Group and raises its value, is reflected among other factors in the 390.3 % increase in the share price (€ 14.25 on December 31, 2004, to € 68.44 on December 31, 2009).

Value Added

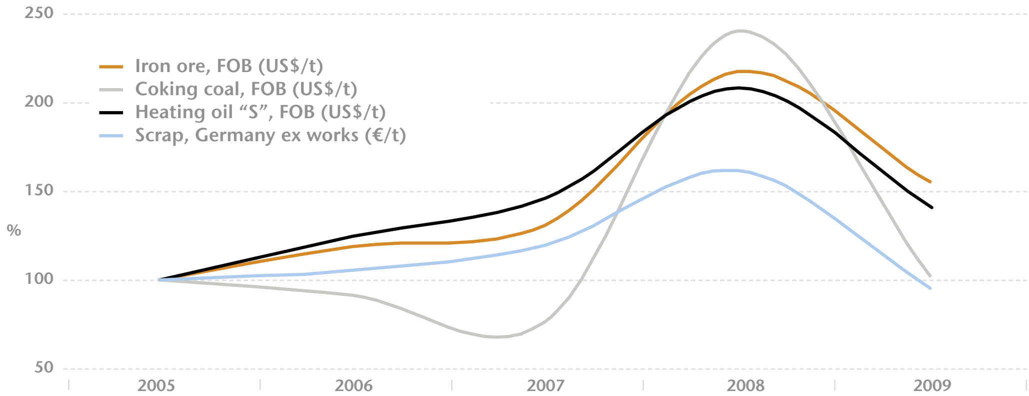
In € m	31/12/2009	%	31/12/2008	%
Sources				
Group outputs	8,069	100.0	13,092	100.0
Inputs	7,029	87.1	10,459	79.9
Value added	**1,040**	**12.9**	**2,633**	**20.1**
Allocation				
Employees	1,487	143.0	1,563	59.4
Public sector	– 110	– 10.5	327	12.4
Shareholders (dividend)	15	1.5	84	3.2
Lenders	24	2.3	66	2.5
Group	– 376	– 36.2	593	22.5
Value added	**1,040**	**100.0**	**2,633**	**100.0**

2. Procurement and Distribution Structures

2.1 Procurement

Over the course of the year 2009, the international procurement market came under the influence of the global financial crisis, the extent of which varied depending on the region and the respective asset. For instance, the production of crude steel in Europe collapsed at the beginning of the year and only showed signs of recovery at the start of the third quarter. In contrast, China has recorded rising output again since the end of 2008 and, by mid-year, had even succeeded in setting a new benchmark of more than 50 million tons of crude steel a month. This discrepancy had a considerable impact on the global raw materials markets.

Price Development of Selected Raw Materials and Energy Sources



Strong price corrections in respect of iron ore contracts

Price negotiations between the iron ore producers and the world’s leading steel producers in the first three months of 2009 were impacted by the extremely difficult economic conditions. For this reason reductions for fine ore, lump ore and pellets of between 30 % and 50 % became possible, depending on the grade. Despite the significant price decline, the contractual agreement nonetheless provided for the second highest iron ore prices in a historical comparison. The negotiations of the Chinese metallurgical industry demanding greater price reductions from the three large producers Vale, BHP Billiton and Rio Tinto seemingly came to nothing. The accelerating production in crude steel all over the world in the second half of 2009 and the sharp increase in the import needs of China have meanwhile triggered a notable recovery in the ore market, and prices are expected to climb in the delivery year 2010.

Temporary easing of the situation on the coking coal market

The contractual prices agreed for the Japanese financial year between Australian suppliers and the Japanese steel industry serve as a benchmark. The sharp decline in demand for coking coal at the start of the year resulted in price discounts of around 57 % for qualitatively high grades. Asian customers, particularly Chinese steel works, used the attractive price level to stock up on considerable volumes on the spot market. In the second half-year, this caused spot market prices to soar and availability to tighten. Demand is not expected to slow in 2010, which gives rise to expectations for significant price hikes.

Sea freights remain volatile

Following the dramatic downturn in the sea freight market at the end of 2008, sea freights rallied in the first half of 2009. China in particular was a driving force behind this trend owing to the higher volume of iron ore and coking coal imported. In mid-June 2009, the Tubarão–Rotterdam reference rate stood at just under 30 USD/t. In the second half of the year the market was very volatile: Whereas freight costs in the summer fell sharply, the market picked up momentum again towards the end of the year. New shipping capacities, which will flood the market from 2010 onwards, are likely to result in a weaker level in the future.

Metals and ferro-alloys fluctuate

The market trends of various metals and ferro-alloys varied widely over the course of 2009: The price of alloys slid in the first half-year, to be followed by an upswing at mid-year and then by another slow-down as from September.

Materials listed on the stock exchange, such a zinc, nickel, aluminum and copper, were caught in the downtrend in the financial markets and hit their lowest point in February. At the start of the second quarter, prices were very volatile and soared by as much as 110 % in the second half-year.

Price trend of liquid reduction agents very disparate

The prices for liquid reduction agents (heavy fuel oil and substitute reduction agents) used in blast furnaces were very disparate in 2009. In the first quarter of the year, prices were extremely low and reflected levels last seen at the start of 2005. During the second quarter, there was a trend reversal in the market – driven mainly by speculation – and fuel oil prices doubled over the course of subsequent months. Prices continued to climb until the turn of the year.

Steel scrap prices influenced by cyclical fluctuations

In Germany the extremely weak demand for steel scrap caused prices for this raw material to tumble in the first months of the financial year 2009. Depending on the grade and the region, they fell by up to 75 €/t as against December 2008. The second half-year was characterized by volatile price trends: Whereas the scrap prices rose over the period from July to September on the back of higher demand by domestic and international concrete reinforcement steel manufacturers, slumping exports in the months of October and November triggered a price countertrend. The December price increase was mainly the result of European steel works replenishing their low inventories.

Another rise in electricity costs

Ensuring the supply of electricity within the Group is accomplished in a number of ways that are determined by the criteria of securing full coverage of supply, structured procurement and the Group's own generation of electricity. The average price of electricity for the interlinked plants of Salzgitter Flachstahl GmbH (SZFG)/Peiner Träger GmbH (PTG) (energy plus charges imposed by the German Renewable Energies Act [EEG] and the Combined Heat and Energy Act [KWKG] and grid utilization) rose by 21.6 % as against the 2008 annual average, with the development in the individual components of the electricity price varying greatly: The pure energy price climbed by 14.9 %, and the actual burden of EEG charges soared by around 57 %. Whereas charges under the Combined Heat and Energy Act remained unchanged, grid usage grew by 24.9 %. The price of electricity will in all likelihood rise again in 2010 as compared with the year ended.

Natural gas more expensive

The average price of natural gas purchased for the SZFG/PTG interlinked plants rose by 5.5 % in a year-on-year comparison. The price of natural gas is linked to heating oil by way of a sliding price scale clause which reflects changes with a time lag of half a year. Due to this time lag, the high oil prices of the summer of 2008 had a negative effect through to the year 2009. Conversely, the downturn in the price of oil in 2009 will result in lower natural gas prices in 2010. Given that basic volumes have been secured at a favorable price, the costs of natural gas in 2010 can therefore be expected to fall in the low one-digit percentage range.

Procurement of Materials

Variation in the price levels of operating supplies

Whereas the price level for operating supplies and spare parts remained stable in the first three months of 2009 owing to the ongoing good capacity utilization of suppliers, price declines and special discounts were agreed on a broad basis from the second quarter of 2009 onwards against the backdrop of the crisis. In conjunction with reports about the economic situation stabilizing in Germany, the second half of 2009 was characterized by increasing demands for raising prices. In view of uncertain expectations in 2010, both producers and customers are expected to tend to enter into price fixings with rather short terms.

Input materials – sharp downturn in the sourcing of semi-finished products and prices

Not all the companies of the Salzgitter Group have their own metallurgy operations, which means that they are dependent on externally sourcing steel input materials, also known as semi-finished goods. Moreover, the Group's production of crude steel is organized in such a way that the volume of steel required by the rolling mills – when capacities are running high – is greater than what can be produced by metallurgic operations. This is a measure intentionally taken to minimize the risk from 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.

The slump in demand for steel products which prevailed for long periods in the financial year also affected the slabs market where demand and prices tumbled dramatically, reaching their temporary lowpoint at mid-year with prices at their lowest in the regions of the Black Sea and East Asia. From the second half of the year onwards, a slight uptrend set in that continued in China through to the end of the year but lost a great deal of momentum in other regions of the world in the fourth quarter.

We took account of the general situation in the steel market by making massive cuts in sourcing steel externally, also in order to keep capacity utilization in the metallurgic operations of the Salzgitter Group running at as high a level as possible. Over all, we only procured 92 ktons of third-party input material for the companies of Steel Division. The volume of slabs purchased externally by the Steel Division in 2009 was therefore slashed by about 90% as against 2008.

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 2009, it delivered 707 ktons of slabs for the manufacturing of plate and hot-rolled strip for the production of welded tubes. Owing to the economic slump, external procurement – aligned to the Group's own capacities – was scaled back to 147 ktons while the Group's own inventories were reduced.

The volume procured by the Technology Division also fell as a result of market conditions. At the start of the financial year, KHS AG as its largest subsidiary launched a cost-cutting program in procurement which, having factored in the decline in sales, resulted in considerably better purchasing conditions and in a reduction of the associated costs.

Although many suppliers introduced short-time work in their operations, there were no fundamental problems in the quality of deliveries.

In the first half of 2009, the prices of the stainless steel materials required for our machinery and plant-building business fell to a very low level. From the spring onwards, however, there was a slight uptrend in prices again. The low capacity utilization of production sites and the ensuing lower volume of lot sizes to be procured, combined with a targeted reduction in inventories, served to reduce the procurement volume of the technology companies substantially over the course of the year.

2.2 Sales Structures

The companies of the Salzgitter Group maintain a wide variety of different supplier 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 shipments through year or half-year contracts in which selling prices are fixed by way of negotiations at regular intervals. Customer groups typical of this type of supplier 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 shipyards, manufacturers of wind towers and plant engineering companies. At Peiner Träger GmbH (PTG), only a very small volume is sold in this way. In Tubes Division, the majority of the deliveries by the precision tube companies are committed to the automotive industry and its suppliers by way of long-term agreements.

Quarterly 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 settled directly for an individual transaction consisting of delivery, acceptance and payment of a defined product. 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 smaller 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 the products of the Steel Division, first and foremost with sheet piling and trapezoidal profiles that are used in major civil engineering undertakings. Salzgitter trading acquires and supplies international projects in the role of an intermediary acting as an interface 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 customers 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 make up only a very small part of our delivery program.

Drawing on its very well-balanced and diversified mix of customer relationships, that remained virtually unchanged in the financial year 2009, 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 visibility 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.

3. Divisions

As the management holding company, Salzgitter AG coordinates the five divisions Steel, Trading, Tubes, Services and Technology. In the following, the business performance of these divisions in the financial year 2009 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 "Notes to the Consolidated Financial Statements" on page 162.

Key data for the Steel Division:

Steel Division		FY 2009	FY 2008
Order intake	**kt**	**4,190**	**4,928**
Order book	**kt**	**829**	**512**
Shipments	**kt**	**3,873**	**5,398**
SZFG[1]	kt	2,260	2,984
PTG	kt	778	1,212
ILG	kt	662	831
HSP	kt	99	268
SZEP	kt	46	53
SZBE	kt	31	52
Consolidation	kt	–1	–2
Division sales[2]	**€ m**	**2,436.0**	**4,281.0**
SZFG	€ m	1,812.9	2,764.3
PTG	€ m	402.0	948.4
ILG	€ m	534.1	893.5
HSP	€ m	81.8	243.0
SZEP	€ m	45.6	55.2
SZBE	€ m	34.0	68.9
Consolidation	€ m	–474.5	–692.2
Internal sales	**€ m**	**762.4**	**1,279.3**
External sales[3]	**€ m**	**1,673.6**	**3,001.7**
Division earnings before tax (EBT)	**€ m**	**–373.5**	**545.6**
SZS	€ m	–3.6	–3.5
SZFG	€ m	–137.3	200.2
PTG	€ m	–250.4	115.8
ILG	€ m	36.1	207.8
HSP	€ m	–20.7	14.7
SZEP	€ m	1.9	4.5
SZBE	€ m	0.4	5.1
Other/Consolidation	€ m	–	1.1
EBIT[4]	**€ m**	**–319.8**	**579.3**
EBITDA[5]	**€ m**	**–11.8**	**733.4**
Investments[6]	**€ m**	**541**	**454**

[1] SZFG excluding inter-company deliveries in the Steel Division
[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 assets)
[6] Excluding financial assets

Steel Division

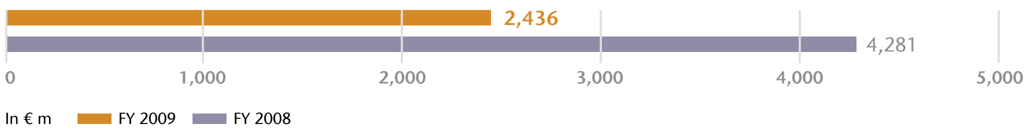
The Steel Division comprises six production sites and an intermediate holding company. The production sites in Salzgitter, Peine, Ilsenburg and Dortmund are largely equipped with cutting-edge, high-performance plant and equipment technology. More information can be found in the section on “Group Structure and Operations”, see page 28. The companies assigned to this division are listed under “Material Participations”, see page 174, in the “Notes to the Consolidated Financial Statements” and have remained unchanged from the previous year.

The product range includes the following in particular:
- rolled steel in the form of coils (rolled strip), also known as hot-rolled coil (HRC) or cold-rolled coil (CRC),
- longitudinally slit HRC,
- cut-to-length plate manufactured from HRC,
- surface-coated HRC and CRC (galvanized, organically coated),
- corrugated sheet and sandwich elements for the construction industry,
- tailored blanks (cut-to-size and welded sheet), patchwork panels and stamped blanks for the automotive industry,
- plate (rolled blanks more than 3 mm thick),
- medium-sized and heavy hot-rolled sections (beams), especially with I, H and U profiles, and
- hot-rolled sheet piling products.

The steel companies have systematically developed their range of products, evolving them from previous years without, however, making fundamental changes. The names of the products used to date and their definitions are based on the formulations set out under the founding Treaty of the European Coal and Steel Community which expired in 2002.

In accordance with our forecast, the economic and financial crisis had a severe impact on the Steel Division in 2009. An unprecedented reluctance of customers to buy was already causing capacity underutilization from the fourth quarter of 2008 onwards. In the first half of 2009, the unfavorable situation in the market persisted and only in early summer were there signs of a slight recovery. To the exception of Salzgitter Bauelemente GmbH (SZBE), all steel companies had to register, at least temporarily, for varying degrees of short-time work. The downturn in production was so dramatic that, despite a recovery in demand as from the third quarter, the production, shipment and sales figures fell way short of the previous year’s results.

Steel Division Sales



Following exceptionally pleasing contributions to profit seen in the preceding boom period, the results delivered by the Steel Division in the financial year 2009 were unsatisfactory due to the difficult economic conditions: **segment sales** came to € 2,436.0 million, **external sales** to € 1,673.6 million, resulting in an operating loss of € 230.1 million. Moreover, restructuring expenses of € 4.5 million, along with € 139.0 million in impairment write-downs carried out in the context of drawing up the annual financial statements, placed an additional burden on the segment result and led to an overall **pre-tax loss** of € 373.5 million. These measures will, however, serve to significantly ease the burden on future periods. The decline in sales, which came to more than 40 %, was primarily attributable to the lower **shipment tonnage**, which contracted by almost one third, and the concurrent substantial decline in the selling price of rolled steel.

Steel Division EBT

Order intake, which posted 4,190 ktons, was 15 % lower than in the previous reporting year. **Orders on hand** at year-end stood at 829 ktons, which was an actual improvement of almost 300 ktons as against December 31, 2008, mainly owing to the brisker order activity of Salzgitter Flachstahl GmbH (SZFG).

The division's **production of crude steel** was reduced significantly to adjust to the low level of order intake. The steel mills in Salzgitter and Peine produced 4,073 ktons of crude steel in the financial year ended (2008: 5,340 ktons), which is almost one quarter less than in the previous year. Groupwide a total of 4,918 ktons were smelted, a figure that 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. Whereas the production of **rolled steel** of the companies of the Steel Division came to 5,340 ktons in 2008, this figure came to 3,820 ktons in the following year, which is a decline of 28 %.

Total Production Volumes[1] of the most important Production Facilities in the Steel Division[2]

		FY 2009	FY 2008	FY 2007	FY 2006	FY 2005
Pig iron (SZFG)	kt	3,149	3,985	4,220	4,277	3,843
Crude steel	kt	4,073	5,340	5,663	5,693	5,077
of which SZFG	kt	3,369	4,319	4,562	4,645	4,168
of which PTG	kt	704	1,021	1,101	1,047	910
SZFG						
Hot rolling mill: hot-rolled coil (HRC)	kt	2,393	3,153	3,296	3,195	3,068
of which cold rolling mill: cold-rolled coil (CRC)	kt	1,248	1,512	1,525	1,432	1,484
of which galvanizing plants: galvanized HRC/CRC	kt	1,001	1,219	1,248	1,332	1,199
of which strip coating plants: coated HRC/CRC	kt	195	218	228	249	223
PTG: sections/beams	kt	796	1,188	1,306	1,262	1,014
of which heavy beam-making mill: large sections	kt	371	527	556	521	385
of which medium section mill: other sections	kt	426	660	750	740	629
ILG: plate	kt	658	816	822	780	770
HSP: sheet piling, mine support sections, hot-rolled bulb flats	kt	94	259	295	264	253
SZBE: profiled sheet and sandwich elements	m^2 m	2.6	4.3	4.2	4.1	3.2
SZEP: tailored blanks, patchwork panels and stamped blanks	kt	45	52	59	65	60

[1] Total production volumes comprise not only finished products (e.g. "HRC intended for sale"), but also volumes which are then processed in further production steps (e.g. "HRC as feed stock product of cold rolling").

[2] The presentation, which has been changed in comparison with previous years, accords with management reporting which is differentiated by company.

After its dramatic slump in September 2008, demand settled at an extremely low level in the European flat steel market and only showed signs of rallying at the end of the first six months of 2009. After a weak start into the first quarter (–48 % as against the previous year's respective quarter), the **order intake** of **Salzgitter Flachstahl GmbH** (SZFG) made a notable recovery as from the end of May. State subsidies ("scrappage premium") underpinning the sale of vehicles in Germany and abroad boosted demand considerably in the important automotive customer segment.

If the deliveries of input materials to the other companies belonging to the Steel Division are included, tonnage booked fell by an overall 15 % as against 2008. At year-end, the **order book** was around 40 % below the record figure of recent years but nonetheless higher than the weak previous year's reporting date.

SZFG responded to the difficult situation by making massive cuts in the production of crude and rolled steel at the start of the year and introducing short-time work. At the end of March, Blast Furnace C was shut down and pig iron produced at a low level by the A and B furnaces only. The **production of crude steel** output was therefore slashed by a dramatic 37 % compared with the first half-year of 2008. Thanks to a better-than-expected recovery in orders from the summer onwards, the shortfall in production had improved to 22 % by December 31, 2009. The decline in crude steel production in 2009 as a whole came to 3.4 million tons (2008: 4.3 million tons).

The poor order situation at the start of the year made it imperative to introduce short-time work in the rolling mills. In the first six months of 2009, **the production of rolled steel** came to only 54 % of the 2008 tonnage, but was raised to notably higher levels over time. Recently, the monthly production of some product groups were even approaching the healthy volumes of 2008. In the reporting period as a whole, however, a reduction of 26 % was sustained. **Shipments** (2,260 ktons) also fell markedly below the previous year's volumes for the same reason. In addition, around 928 ktons of semi-finished products and rolled steel were supplied to the associated companies.

The spot market prices for flat steel tumbled progressively at the beginning of the year, a downtrend which only came to a halt in the second quarter. At their worst, price declines came to more than 40%. There was scope for moderate price increases only as from mid-year, along with a recovery in new orders. The declining selling prices, in conjunction with a huge downturn in shipments, resulted in **sales dropping** 34% to € 1,812.9 million. The sliding prices of procuring raw materials and inventory write-downs carried out in the previous year and in the first quarter caused a significant decline in the cost of crude steel over the course of the year. This was the reason why, despite below-average capacity utilization, delivering positive monthly results had become possible again by the end of the year. As this was unable to compensate for the results of the first half-year, SZFG closed the reporting year overall with a **pre-tax loss** of € 137.3 million. An extensive program of swiftly implemented measures delivered considerable cost savings, which prevented the result from being even weaker.

The global recession also caused the demand and prices for **heavy plate** to slump in 2009. Almost all customer segments were affected with capacity utilization in only the wind power industry and steel construction remaining comparatively stable through to the end of the year. Demand for plate slowed swiftly in the second quarter in particular. New orders placed with Eurofer heavy plate mills were therefore 54% lower in a year-on-year comparison due to slack demand and the high level of inventories stockpiled in anticipation of continuing growth. As inventories were still replenished from orders placed in 2008, destocking was a very slow process. For this reason, the reduction of basic grades was ongoing until after the summer break. In the case of special products, such as ship plate and quenched plate, lack of demand meant that the process had not been completed even by the end of the year. Exports to non-EU countries and the project business remained weak. Against this background, the production of European steel mills halved. Capacity underutilization exacerbated the competition and market prices plummeted by up to 60% in reaching their lowest level in the summer.

The consequences of this difficult environment were significantly mitigated for **Ilsenburger Grobblech GmbH** (ILG) by a healthy order book, good customer relationships, long-standing delivery agreements with the wind plant industry and orders by traders belonging to the Group. The volume of **new orders** nonetheless fell by almost a fifth as against the previous year's figure. Although **orders in hand** recovered, by year-end they had settled around 20% below the averages seen in past periods. The **production of rolled steel** was adjusted to accommodate lower demand and applications were made for temporary short-time work. The recovery in the second half of the year then resulted in comfortable production volumes again. Long-standing agreements with the wind plant industry and project business ensured consistently good capacity utilization in processing operations, thereby achieving a production level which almost matched the previous year's period. Despite the considerable downtrend in **shipments**, ILG succeeded in winning EU market shares. Pressured by the huge reductions in selling prices, **sales** fell by around 40% to € 534.1 million. The lower input material costs were only able to make up for the significantly higher shortfall in earnings to a limited extent. In addition, the program implemented to secure profit and liquidity contributed to supporting the result. Against the backdrop of this difficult environment, a satisfactory, clearly positive **result** of € 36.1 million was achieved.

The European **beams market** experienced a worrying slump in the first half of the year in particular. Numerous building, bridge and power plant construction projects were postponed or even cancelled. The resulting extremely low utilization of construction steel, in conjunction with the excessive inventories of stockholding steel traders, culminated in a very low level of orders in the first three months and producers experiencing very low capacity utilization. This sent prices spiraling downwards, which mainly reflected the price trend of scrap as the most important raw material. At the start of the second quarter there were signs of a slight recovery which, however, did not prove to be sustainable. Only the producers' factory vacations in the summer brought the market back to calmer waters. Significant reductions in scrap prices were, however, foreseeable at the start of the fall, which due to expectations of prices falling further then led to lower booking volumes.

The year 2009 proved to be generally extremely unsatisfactory for **Peiner Träger GmbH** (PTG). Low steel consumption resulted in notable underutilization of the production capacities. The persistently poor market situation, high order volatility, extreme price reductions, coupled with the jitteriness and unreliability of almost all market participants, put PTG in a difficult situation. There has been no stimulus to date for the company from government infrastructure measures to support the economy. This is also reflected in the key economic data of the financial year: All in all, **order intake** came to 874 ktons which is around one fifth lower than in 2008. The first and fourth quarter in particular recorded an exceptionally low number of new orders. In contrast, **orders on hand** were raised considerably in comparison with the weak figure posted in the previous year. The steel works halted production completely in January 2009. In order to adjust the production of input materials to the reduced needs of the rolling mills, downtime was implemented repeatedly over a number of days and sometimes even over a number of weeks in the subsequent period. As a result, the **production of crude and rolled steel** was around 30% lower than the year-earlier tonnage. The curbing of the production output led to a lower **shipment volume** which, in the context of the decline of the net selling prices, was reflected in **sales** (€ 402.0 million) which were half of those generated in the previous year. Despite a number of different measures to stabilize earnings and liquidity, the operating result of € –110.2 million was clearly in the minus and was additionally burdened by € 1.2 million in restructuring expenses and € 139.0 million in impairment write-downs. In sum total, therefore, the **pre-tax loss** came to € 250.4 million.

HSP Hoesch Spundwand und Profil GmbH (HSP) operates a hot rolling mill which, alongside the primary product of sheet piling, also manufactures hot-rolled bulb flats and mine support sections. Activities in construction and hydraulic engineering as well as the shipbuilding industry, which were severely curtailed owing to the economic crisis, had the effect of reducing **order intake** (–61 %) which had already been running at a low level in the financial year 2008. As a result, the average capacity utilization of the plants came to one week a month in the first half-year, raised to two weeks a month in the second half-year when sheet piling and hot-rolled bulb flats were produced. On December 31, 2009, **orders on hand** made up only 50% of the previous year's tonnage and **shipments** of 99 ktons were almost two thirds less than in the previous year. Over the first months of 2009, the high **selling price level** of the previous year held steady on the back of existing orders, but then subsequently declined to a significantly lower level owing to the dramatic downturn in volume. **Sales** (€ 81.8 million) fell way short of the year-earlier figure (€ 243.0 million). HSP closed the reporting year with a **pre-tax loss** of € 20.7 million. Although intensive use of short-time work was made to cushion the negative impact on the result, the higher price of imported materials exerted additional pressure.

The European car market which is relevant for **Salzgitter Europlatinen GmbH** (SZEP) developed better than predicted at the start of the year by industry experts thanks to the governments "scrappage premium". Whereas sales in Western Europe rose marginally all in all, the sale of cars in the Eastern European countries contracted by more than a quarter. SZEP's **shipment volumes** fell to below the level of the reporting year 2008 in this environment. Moreover, the sustained price pressure by car manufacturers drove down **sales** and the operating **result**, which came to € 45.6 million and € 1.9 million respectively.

Against the backdrop of declining prices, **shipment volumes** for roof and wall cladding in industrial construction were around 40% lower as against previous year's figures. As a result of these conditions, the **sales** of **Salzgitter Bauelemente GmbH** (SZBE) plummeted by more than 50% to € 34.0 million. The company nonetheless succeeded in achieving breakeven (€ 0.4 million).

Key data for the Trading Division:

Trading Division		FY 2009	FY 2008
Shipments	**kt**	**4,322**	**6,791**
SMHD Group	kt	3,968	6,257
UES	kt	159	258
HLG	kt	211	297
Consolidation	kt	–15	–22
Division sales[1]	**€ m**	**3,127.6**	**6,302.0**
SMHD Group	€ m	2,840.9	5,745.9
UES	€ m	177.3	365.8
HLG	€ m	120.8	211.2
Consolidation	€ m	–11.3	–20.9
Internal sales	**€ m**	**89.0**	**680.2**
External sales[2]	**€ m**	**3,038.7**	**5,621.7**
Division earnings before tax (EBT)	**€ m**	**–128.0**	**150.8**
SMHD Group	€ m	–66.9	140.9
UES	€ m	–29.7	15.0
HLG	€ m	–31.5	–5.1
EBIT[3]	**€ m**	**–105.8**	**180.8**
EBITDA[4]	**€ m**	**–86.9**	**192.1**
Inventories	€ m	299	663

[1] Including sales with other divisions in the Group

[2] Contribution to consolidated external sales

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

[4] EBIT plus depreciation/amortization (also on financial investments)

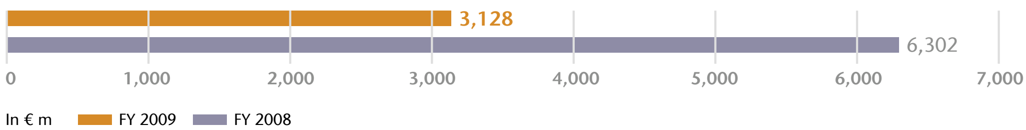
Trading Division

Alongside a well-developed organization of stockholding steel trading subsidiaries in Europe, the Trading Division comprises two steel service center (SSC) companies, one specialized in flat steel products and one in plate, and operates a global international trading network. Along with the rolled steel and tubes products of the Salzgitter Group, it also sells products of other manufacturers in Germany and abroad and procures semi-finished products for the Group and for external customers in the international markets. More information can be found in the section on "Group Structure and Operations", see page 28. The individual consolidated companies are listed under "Material Participations", see page 174, in the "Notes to the Consolidated Financial Statements".

The economic framework conditions prevailing throughout the financial year 2009 and the outcome of these conditions had decidedly negative impact on steel trading over the course of the reporting year: The poor order position of steel processors and customers and the extremely high level of inventories built up during the second half of 2008 were the determining factors in the market. The reduction of inventories across all levels of industrial production caused prices to tumble foremost in the first six months of 2009, which served to exacerbate the situation, both in stock holding steel trading and in international steel trading.

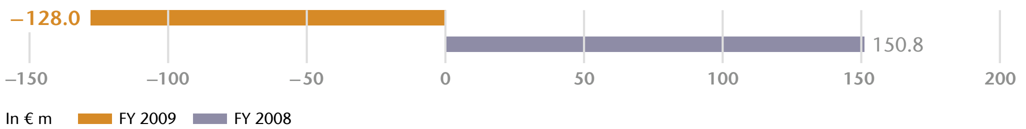
Economic developments were clearly reflected in the figures of the **Trading Division**. The decline in the shipments ascertainable for all the companies, coupled with a partly dramatic price erosion, halved the **segment's sales**. The **external sales** of the Services Division dropped by 45% to € 3,038.7 million.

Trading Division Sales



Insufficient gross earnings across the whole range of products and significantly lower volumes delivered a negative operating result of € –119.7 million which was way below the previous year's figure. The result comprises € 2.3 million in restructuring expenses and € 6.1 million in impairment write-downs. In sum total, the **pre-tax loss** therefore came to € 128.0 million.

Trading Division EBT



The **steel stockholding business** of **Salzgitter Mannesmann Handel Group** (SMHD Group) was particularly affected as the original, high purchase prices of the goods sold were not initially covered by the lower selling prices. Over the course of the year the problem was almost fully resolved through the inventory turnover which was nonetheless markedly slower. The group companies in Germany as well as all other Western and East European subsidiaries recorded sharp downturns in shipments and sales. The two East European companies, Polish Salzgitter Mannesmann Stahlhandel sp. z o. o., Slupca, (SMPL) and Salzgitter Mannesmann Stahlhandel s.r.o., Prague, (SMCZ), a Czech company included in the group of consolidated companies for the first time at the start of the year, also suffered from the lack of export contracts which the respective domestic demand was unable to compensate for. In contrast, business in the Netherlands was the first to take a turn for the better at the start of the summer months. Thanks to comparatively high turnover frequencies in the section product segment, coupled with a considerable reduction in inventories, the Benelux companies were delivering positive results again from June onwards. In sum total, however, the stockholding steel trade wrote red figures.

The Trading Division's **international trading** was also characterized by a sharp decrease in new orders accompanied by slowing shipments and sales. Owing mainly to the downturn in the number of projects in the oil and gas industry, the trading volume of Düsseldorf-based Salzgitter Mannesmann International GmbH (SMID) was unable to repeat the high level achieved in the previous year. Steady business in Africa that played a considerable part in contributing to the success of the company in the flat and the long product segments, and the recent expansion of activities in the Indian market were unable to compensate for this shortfall. Moreover, the negative contribution by the US-American subsidiary, a company particularly hard hit by the recession, and the virtual standstill in US steel trading, dampened the result of the trading group. The trading business thus also recorded a negative pre-tax result.

The loss of the SMHD Group came to € 66.9 million.

Whereas, in the first half of 2009, the plate market suffered considerable price erosion, it returned to calmer waters from late summer onwards as a result of progress made in reducing inventories. Plate processors were already struggling at the start of the year, not only from a discernibly lower order intake but also from having to meet the challenge of order cancellations, from shipbuilding for example. To generate liquidity for themselves, steel traders offered their material at an increasing markdown, a trend that ultimately resulted in sending selling prices down further. The economic environment described above was the reason for the 39 % decline in the shipments of **Universal Eisen und Stahl GmbH** (UES) in a year-on-year comparison. The selling price trend resulted in negative gross earnings being generated for much of the year. Accordingly, UES sustained a considerable loss.

The steel service center **Hövelmann & Lueg GmbH** (HLG) saw a sharp downturn in volumes. Deliveries to customers in the automotive industry, especially in the utility vehicles segment, were the hardest hit, with shipments and selling prices falling dramatically. Shrinking demand and above all lower gross earnings were the main reasons for the pre-tax result which came in at € –31.5 million and was thus significantly lower as against the previous-year's figure.

Key data for the Tubes Division:

Tubes Division		FY 2009	FY 2008
Order intake	**€ m**	**1,146**	**2,112**
Order book	**€ m**	**761**	**1,799**
Shipments	**kt**	**1,171**	**1,402**
EP Group (50%)	kt	593	615
MGR	kt	113	136
MLP	kt	236	288
SMP Group incl. MSE	kt	201	328
MST Group	kt	29	37
Division sales[1)]	**€ m**	**2,428.4**	**2,951.7**
EP Group (50%)	€ m	812.3	796.7
MGB	€ m	697.3	757.3
MGR	€ m	145.3	144.9
MLP	€ m	310.5	345.4
SMP Group incl. MSE	€ m	357.1	586.8
MST Group	€ m	354.0	535.8
Other	€ m	–	3.0
Consolidation	€ m	–248.2	–218.1
Internal sales	**€ m**	**383.7**	**779.2**
External sales[2)]	**€ m**	**2,044.6**	**2,172.5**
Division earnings before tax (EBT)	**€ m**	**104.0**	**311.8**
EP Group (50%)	€ m	56.9	76.4
MGB	€ m	106.1	118.9
MGR	€ m	18.1	11.0
MLP	€ m	13.8	13.7
SMP Group incl. MSE	€ m	–106.1	14.6
MST Group	€ m	26.5	51.1
Consolidation	€ m	–11.4	26.0
EBIT[3)]	**€ m**	**116.7**	**327.8**
EBITDA[4)]	**€ m**	**211.4**	**367.0**

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

2) Contribution to consolidated external sales

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

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

Tubes Division

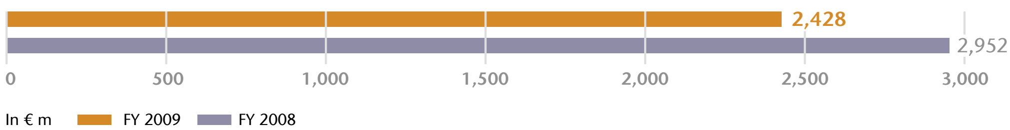
The Tubes Division comprises a large number of subsidiaries and associated companies which manufacture and process welded and seamless steel tubes on four continents. The product range consists mainly of pipelines of all diameters, ranging from the gas pipeline through to injection tubes for diesel engines, 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”, see page 28. The individual companies are listed under “Material Participations”, see page 174, in the “Notes to the Consolidated Financial Statements”.

Having recorded a swift slowdown in the demand for precision tubes shortly after the onset of the financial and economic crisis, the Tubes Division saw its customers becoming increasingly reticent in placing orders, also in other product segments over the course of 2009. The division’s companies were still benefiting from healthy order books at the start of the year, which guaranteed good capacity utilization throughout the whole year in the large-diameter tubes business and in the first half of the year in the HFI-welded medium-line pipes and seamless stainless steel tubes segments. The precision tubes segment’s capacity remained underutilized virtually throughout the whole of 2009.

Due to lack of demand for almost all products, consolidated **new orders** received by the Tubes Division contracted by around 46 % to € 1,146 million in comparison with the previous year’s figure. As a result, the division’s **orders on hand** had tumbled by almost 60 %, down to only € 761 million on December 31, 2009, as against the previous year’s reporting date. HFI-welded tubes and seamless stainless steel tubes, the latter were also greatly affected by the sharp downturn in the price of nickel, suffered the sharpest declines.

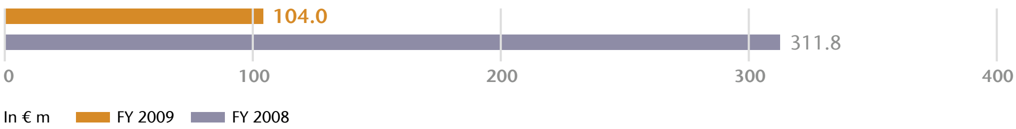
Owing to the generally healthy order situation at the start of the year, **tubes shipments** came to 1,171 ktons, thus falling only 16 % short of the previous year’s extremely good level. The same applies to the **segment sales** that posted € 2,428.4 million and were thus 18 % lower in comparison with a year ago. The decline was caused by the cold-finished tubes and seamless stainless steel tubes product segments in particular. **External sales** dropped to € 2,044.6 million (– 6 %).

Tubes Division Sales



Consistently good capacity utilization in the large-diameter tubes segment and the delivery of high-margin orders for HFI-welded tubes and stainless steel tubes during the first six months of the reporting year enabled the Tubes Division to deliver a distinctly positive operating result which came to € 171.6 million in 2009. The difficult economic environment and accounting-related measures totaling € 67.6 million in the context of drawing up the annual financial statements, of which € 29.9 million were committed to impairment write-downs and € 37.7 million for restructuring expenses, brought the **pre-tax result** to € 104.0 million, which is significantly lower than the exceptionally good 2008 figure of € 311.8 million.

Tubes Division EBT



The individual product segments reported the following developments:

Large-diameter tubes sustained a sharp downturn in orders as virtually no new orders were placed owing to the economic crisis. Moreover, there was no need for us to book excessively low-margin orders in order to secure capacity utilization. As a result, the cushion of work had been considerably depleted by the end of the year. The **EUROPIPE GmbH** (EP) joint venture focused on the successful acquisition of the major Nord Stream II project where the decision to award the contract was made in January 2010: EP was awarded the largest contract package of 65 % of the tubes to be delivered for the 1,220 kilometer long gas pipeline worth approximately € 1 billion. New orders and orders on hand of **Salzgitter Mannesmann Grobblech GmbH** (MGB), EP's main supplier, were unable to match the figures of 2008. The Nord Stream project will be greatly instrumental in improving the situation.

On the back of consistently good selling prices, the **Europipe Group** delivered stable sales, with shipment volumes remaining virtually unchanged as against the previous year. The Group posted a good result despite another slight increase in input material prices and the noticeable consequences of a shrinking global economy in 2009 for the large-diameter tubes market, as well as the start-up costs of a new spiral tube plant in the USA. The share of EP (50 %) in the pre-tax profit and included in the segment result contracted to € 56.9 million.

Plate producer **MGB** was unable to repeat the high volumes of shipments and sales achieved in the financial year ended. Mainly as a result of lower plate shipments within the Group itself, its pre-tax profit stood at € 106.1 million, which was only marginally below the previous year's figure (€ 118.9 million).

Salzgitter Mannesmann Großrohr GmbH (MGR), a company manufacturing spiral-welded large-diameter tubes, reaped the benefit of orders left over from 2008 that ensured three-shift capacity utilization. The customary contracts signed in the project business prevented MGR from being affected by delays in orders or cancellations. The sales remained stable. In a year-on-year comparison, the pre-tax result rose to € 18.1 million on the back of substantial declines in input material costs in 2009, despite a downturn in shipments and sales.

Demand for the **HFI-welded line pipes** of **Salzgitter Mannesmann Line Pipe GmbH** (MLP) was decidedly slow both in the standard and in the project business. This development was a reflection of a significant decrease in order intake (–58%) and in the order book (–77%) by the end of the year. Lack of stimulus from the markets, coupled with fierce competition, sent market prices into a nosedive, a trend which only showed signs of bottoming out towards the end of 2009. Shipment volumes and selling prices in 2009 were still positively affected by surplus orders from 2008 and settled at levels just under those of the previous year. Buoyed by this effect and by measures to improve costs and liquidity, a very satisfactory pre-tax result of € 13.8 million, which holds its own against 2008, was achieved despite the unfavorable economic environment.

Demand by the major customer sectors of the **precision tubes** product segment, namely the automotive manufacturers, industry (primarily mechanical engineering) and energy industries, slumped as never before starting with the fourth quarter of 2008 through to 2009. The European market for drawn tubes halved. Although government economic rescue packages, the scaling back of inventories and exports regaining momentum culminated in a recovery in the demand for cars and a revival of industry from April 2009 onwards, deliveries, for instance to the commercial vehicles segment, remained weak. The **Salzgitter Mannesmann Precision Group** nonetheless succeeded in maintaining its share in the European market. The companies responded to the slump in orders (new and existing orders both down by –36%) by swiftly adjusting their production capacities and using all personnel policy instruments available, including short-time work. In addition, one of the five plants in France was shut down. All measures taken were, however, only able to partially cushion the economic consequences of plummeting volumes; consequently, the precision tube companies recorded significant sales declines (–39%) and an operating loss of € 67.1 million. In addition, measures initiated included € 29.9 million in impairment write-downs as well as € 9.5 million in restructuring expenses, the sum total of which resulted in a pre-tax loss of € 106.1 million.

The impact of the economic crisis has recently become patently evident in the **seamless stainless steel tubes** product segment as well. New orders received by **Salzgitter Mannesmann Stainless Tubes Group** were 58% below the year-earlier volume. Underpinned by a healthy order book at the start of the year, the company achieved a good shipment tonnage that did not, however, match the volume of a year ago. Along with lower production output and shipment volumes, the decline in the price of alloy components was also responsible for eroding sales. Owing to the fact that this effect on the cost of materials side was virtually compensated, and as margin-high contracts in the boiler tubes business left over from the boom phase at the turn of the year 2007/2008 were produced and delivered in this year, the segment delivered a satisfactory operating result of € 52.6 million. Restructuring expenses, which came to € 26.1 million, resulted overall in a pre-tax profit of € 26.5 million.

Key data for the Services Division:

Services Division		FY 2009	FY 2008
Division sales[1)]	**€ m**	**752.2**	**1,287.1**
DMU	€ m	336.1	828.1
SZST	€ m	124.2	141.4
VPS	€ m	92.6	107.3
TELCAT Group[2)]	€ m	50.3	58.9
GES	€ m	42.4	44.0
HAN	€ m	32.0	37.8
SZAE/SZAI/SZAB	€ m	18.8	31.9
SZHF[3)]	€ m	22.4	–
SZMF	€ m	33.4	34.4
GWG	€ m	17.5	20.4
Consolidation	€ m	–17.6	–17.1
Internal sales	**€ m**	**449.3**	**767.7**
External sales[4)]	**€ m**	**302.9**	**519.3**
Division earnings before tax (EBT)	**€ m**	**8.2**	**23.9**
DMU	€ m	–5.9	5.8
SZST	€ m	–4.2	–1.6
VPS	€ m	–2.1	0.5
TELCAT Group[2)]	€ m	2.9	4.0
GES	€ m	3.0	2.7
HAN	€ m	7.5	9.8
SZAE/SZAI/SZAB	€ m	–3.4	1.7
SZHF[3)]	€ m	2.5	–
SZMF	€ m	1.3	0.8
GWG	€ m	7.1	0.8
Other/Consolidation	€ m	–0.3	–0.7
EBIT[5)]	**€ m**	**12.2**	**27.5**
EBITDA[6)]	**€ m**	**35.7**	**48.4**

1) Sales in own segment and in other divisions in the Group
2) Excluding TBM
3) First-time consolidation in 2009
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)

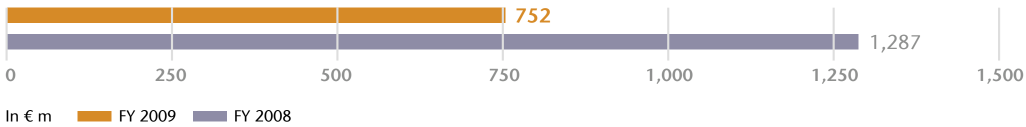
Services Division

The range of services offered by the Services Division are 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 through to research and development. The companies assigned to the Services Division are listed under “Material Participations”, see page 174, in the “Notes to the Consolidated Financial Statements”. More information on the companies can be found under the section on “Group Structure and Operations”, see page 28.

The activities of the division of companies depend primarily on the capacity utilization situation in the steel-producing units. Following the high volume of sales seen in previous years, internal and external customers used the services to a much lesser extent. Consequently, the **division's sales** came to € 752.2 million in the financial year ended, thereby falling short of the billion threshold for the first time since 2006.

The decline of € 534.9 million as against 2008 was mainly attributable to the lower trading volume and the steel scrap prices of **DEUMU Deutsche Erz- und Metallunion GmbH** (DMU). The downturn in requirements within the Group, for instance for maintenance, repair and transport services, put pressure on the sales of **SZST Salzgitter Service und Technik GmbH** (SZST) and **Verkehrsbetriebe Peine-Salzgitter GmbH** (VPS). **Salzgitter Automotive Engineering GmbH & Co. KG** (SZAE) felt the effects of the poor economic environment in fiercer competition, which was the reason for a general decline in prices first and foremost in the prototype segment and sales which were below the level of the previous year. The **external sales** of the Services Division dropped by 42% to € 302.9 million.

Services Division Sales



The division generated nonetheless a gratifying **pre-tax profit** of € 8.2 million, which is two thirds less than the year-earlier figure. Slowing demand for steel scrap and narrower margins in user steel trading and steel processing contracts resulted in a significant downturn in the result of **DMU**.

The initial backlog of orders left over from 2008 was only able to cushion the crisis to a minor extent in the prototype and series production segments in the markets relevant to **SZAE**. In contrast to the previous year, the company made a loss despite measures launched to reduce costs and improve performance. The partly insufficient capacity utilization of the steel-producing companies in Salzgitter and Peine was also evident in the negative results of **VPS** and **SZST**.

In contrast, **Hansaport Hafenbetriebsgesellschaft GmbH** (HAN) delivered a very good result, although the volume of freight traffic was lower than in 2008.

The sale of all apartments to the municipal company Wohnbau Salzgitter GmbH had a positive effect on the profit situation of **"Glückauf" Wohnungsgesellschaft mbH** (GWG).

Salzgitter Hydroforming GmbH & Co. KG (SZHF), a company consolidated for the first time in 2009, also made a positive contribution to the result.

Services Division EBT

Key data for the Technology Division:

Technology Division		FY 2009	FY 2008
Order intake	**€ m**	**708**	**882**
Order book	**€ m**	**235**	**297**
Division sales[1]	**€ m**	**718.1**	**1,038.2**
KHS Group (consolidated)[2]	€ m	648.4	934.2
KDE	€ m	18.6	47.9
KDS	€ m	28.7	36.6
KHP[3]	€ m	16.8	19.0
RSE	€ m	2.0	0.5
Other	€ m	7.1	0.6
Consolidation	€ m	–3.6	–0.5
Internal sales	**€ m**	**0.5**	**0.3**
External sales[4]	**€ m**	**717.6**	**1,037.9**
Division earnings before tax (EBT)	**€ m**	**–210.4**	**3.8**
KHS Group (consolidated)[2]	€ m	–172.7	7.5
KDE	€ m	–8.2	1.1
KDS	€ m	–0.5	2.1
KHP[3]	€ m	–1.1	0.5
RSE	€ m	0.5	0.7
Other/Consolidation	€ m	–28.4	–8.0
EBIT[5]	**€ m**	**–205.5**	**11.5**
EBITDA[6]	**€ m**	**–104.6**	**38.5**

[1] Including sales with other divisions
[2] Disclosure changed as against previous year
[3] Until Oct. 31, 2009
[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)

Technology Division

Under the roof of Klöckner-Werke AG (KWAG), the Technology Division combines companies with international operations in machine building with production sites on four continents. The product range includes in particular machinery and plants 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 through to ready-for-dispatch packaging technology. Other companies of the Klöckner Group provide special machinery for the plastics processing industry, for example. Moreover, RSE Grundbesitz und Beteiligungs-Aktiengesellschaft (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”, see page 28. The individual companies are listed under “Material Participations”, see page 174, in the “Notes to the Consolidated Financial Statements”.

Under Section 17 of the German Stock Corporation Act (AktG), KWAG is dependent on Salzgitter AG and is deemed a group company (Section 18 German Stock Corporation Act). As there was neither a control agreement between Salzgitter AG and KWAG, nor an integration of the company under the law, a virtual group has been formed. As a result, the board members of KWAG act independently and under their own responsibility in the interests of the company, and its shareholders and do not receive instructions from the Executive Board of Salzgitter AG. Another consequence is the restriction on Salzgitter AG's right to information, which takes the form of the Executive Board of Salzgitter AG only receiving the information from the companies which it needs to fulfill its statutory obligations under the law. As per December 31, 2009, Salzgitter Mannesmann GmbH (SMG) held 95.8% of the shares in KWAG. The remaining shares are in free float.

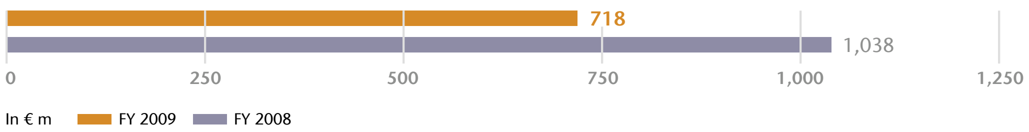
The extraordinary Meeting of Shareholders of RSE on December 20, 2007, approved the transfer of minority shareholders shares to SMG which, at this time, already held more than 99.6% of the shares in RSE itself and through KWAG. The resolution on the transfer was entered into the Commercial Register of RSE (HRB 53446) held at the Local Court of Frankfurt/Main on March 26, 2009. Accordingly, Salzgitter AG indirectly holds 100% of the RSE shares via SMG and KWAG, 24.6% of which are held by KWAG.

Following consistent growth over years, the strongly export-dependent German mechanical engineering sector fell into deep recession in the financial year 2009 and is one of the industries hardest hit by the economic crisis. According to the German Machinery and Plant Manufacturing Association (VDMA), machine builders sustained a 38% decline in orders and a production downturn of almost 25% in the reporting period.

The companies of the Technology Division were unable to decouple from the negative trend in the sector: General uncertainty on the part of customers and financing bottlenecks arising from the extremely restrictive lending policies of banks led to new orders being postponed and cancelled. Moreover, extremely slack demand triggered partly excessively fierce price competition which further contributed to the economic malaise.

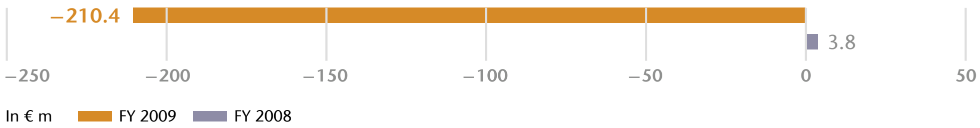
Order intake (€ 708 million) and **orders in hand** (€ 235 million) were a reflection of the extremely poor state of the market and each were around 20% lower than the already unsatisfactory year-earlier figures.

Technology Division Sales



As a result, **segment and external sales** fell by almost one third to € 718.1 million and € 717.6 million respectively. A proportion of 90% of the Technology Division's business is determined by the selling prices of the KHS Group, which is one of the three world market leaders in filling and packaging technology. The decline in key data is therefore primarily a reflection of the reluctance to invest of large consumer goods manufacturers in the beverages industry. Against the background of shrinking global economic growth, machinery and plants are currently being used over longer periods and more intensively than is customary. Although this trend boosted the service and spare parts business, it was unable to compensate for the downturn in new business. The other special machine manufacturers of the segment also recorded partly drastic declines in business. The difficult situation of the international automotive industry exerted great pressure on Klöckner DESMA Elastomertechnik GmbH (KDE). Klöckner DESMA Schuhmaschinen GmbH (KDS) was partly able to mitigate this development through its move towards product-specific and regional differentiation initiated in previous years.

Technology Division EBT



A number of measures were taken at the start of the year to counteract the effects of capacity under-utilization: personnel expenses were lowered by applying the instrument of short-time work, and the hours on working time accounts as well as the number of staff outsourced (temps) were reduced. Subsequent negotiations on materials and services outsourced and the consistent lowering of non-personnel costs also provided additional relief. Moreover, investments planned were delayed so as to minimize the amount of finance needed. The Technology Division nonetheless closed the financial year 2009 with an operating loss of € 111.7 million. In addition, the obligatory purchase price allocation of € 3.4 million under IFRS in connection with the majority holding in KWAG and the purchase of the SIG Beverages Group (now known as the PET Group), a total of € 28.2 million in restructuring expenses and € 67.2 million in impairments placed additional pressure on the result. These measures will serve to ease the burden on the division in future periods and enhance its competitiveness. All in all, the Technology Division closed the financial year with a **pre-tax loss** of € 210.4 million.

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 which are not directly allocated to an operating division. Specifically, this includes the business of the holding companies Salzgitter AG and Salzgitter Mannesmann GmbH (SMG). As a management holding company, Salzgitter AG 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 **sales** of the Other/Consolidation segment are generated by the semi-finished product business with subsidiaries and parties external to the Group. In the reporting year, sales fell to € 192.4 million owing to changed patterns in the sourcing of input materials since January 1, 2009. In future, material will mainly be invoiced directly between suppliers and customers, rather than through the holding companies. Decreasing requirements by external customers also drove **external sales** down to € 40.6 million.

The **pre-tax result** came to € 103.3 million in the reporting period. This result is primarily due to the following: reporting date-related changes in the value of derivatives due to exchange rate fluctuations, the balance of interest income from cash investments and interest expenses for pension provisions, as well as interim profit elimination relating to inventories of Group material in the Trading Division, goodwill impairment. Since the start of the financial year, this figure has also included the now 25.3 % stake in Aurubis AG (NAAG), a company included at equity. After deduction of the purchase price allocation of € 4.8 million, obligatory under IFRS, NAAG contributed a gratifying € 60.2 million in profit after tax to the consolidated result.

4. Financial Position and Net Assets

Financial Management

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

The central financing of Group companies is made by way 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 use of local lending and capital markets. At the same time, it draws on the liquidity surplus of the Group companies for financing. Supplies and services 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 through financial planning with a multi-year planning horizon and a monthly rolling four-month or twelve-month planning process for selected companies. The funds invested combined with sufficient credit lines serve to guarantee that our liquidity requirements are covered.

SMG drew on the second renewal option with a renewal volume of € 165 million under the € 300 million syndicated loan placed in June 2007 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.

In October 2009, a significantly oversubscribed convertible bond with a nominal volume of € 296 million, a 1.125 % annual coupon and a term up until 2016 was successfully placed in the market.

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 must hedge foreign currency positions at the time when they arise in accordance with Group guidelines. The Group's Internal Audit monitors compliance with these regulations. Currency transactions in US dollars, which make up a significant share of our foreign currency transactions, are initially covered within the Group by netting off sales and purchase items and then hedging any amounts left over through forward exchange transactions and options.

Pension provisions still play a significant role in corporate financing. Given the lower actuarial interest rate (4.75 %), they came to € 1,858 million (2008: € 1,787 million at 5.25 %).

Cash Flow Statement

The cash flow statement (detailed disclosure in the section on the "Notes to the Consolidated Financial Statements", see page 162) shows the source and application of funds. The cash and cash equivalents referred to in the cash flow statement correspond to the balance sheet item "Cash and Cash Equivalents".

Cash and Cash Equivalents

In € m	FY 2009	FY 2008
Cash inflow from operating activities	1,190.0	546.6
Cash inflow/outflow from investment activities	–185.3	–1,589.6
Cash outflow from financing activities	201.8	–504.9
Change in cash and cash equivalents	**1,206.5**	**–1,547.9**[1)]
Changes to the group of consolidated companies/ changes in exchange rates	–5.6	1.1[1)]
Cash and cash equivalents on the reporting date	**1,793.0**	**592.1**

[1)] Disclosure changed as against 2008

Despite the unfavorable course of business, the Group succeeded in significantly improving its cash flow from operating activities as against the previous year to € 1,190 million, mainly owing to the reduction in working capital. The reduction in cash outflow from investment activities resulted from the reallocation of funds (€ 500 million) and much lower acquisition expenses. The disbursements for investments in property, plant and equipment and intangible assets (€ 653 million) remained virtually unchanged from the year-earlier period. The issuing of the convertible bond is reflected in higher cash inflow from financing activities.

In the financial year 2009, the cash flow from financing activities stood at € 202 million. We paid out € 76 million, or € 1.40 per share, to the shareholders of Salzgitter AG for the financial year 2008; the placement of the convertible bond resulted in a cash inflow for the company of € 296 million.

From a financial standpoint, tax-induced investments and securities, the granting of loans to associated companies and marketable securities are assigned to cash and cash equivalents. The modified cash and cash equivalents at the start of the period is raised by € 531 million through the addition of the positions, to € 1,123 million up from € 592 million. When viewing the cash flow statement in the light of the above, there are also effects on the fund inflow from operating activities and on the outflow from investment activities. Cash inflow from operating activities has risen by € 129 million, from € 1,190 million to € 1,319 million, due to the reassignment of the aforementioned items. Cash outflow from investment activities has also changed by € –500 million, from € –185 million to € –685 million. Taking account of marketable securities, there were extremely sound cash and cash equivalents of € 1,953 million on the reporting date.

Despite the poor earnings performance, the lower volume of working capital and our reduced investments resulted in notably higher net cash position at banks than in the previous year (€ 1,561 million; 2008: € 991 million). Cash investments of € 1,953 million, including securities as per the end of 2009, were set off by a reporting date-related increase in liabilities owed to banks of € 392 million (2008: € 132 million). The latter also include € 296 million in obligations attached to the convertible bond.

The liquidity and debt-to-equity ratios were again positive in the financial year 2009.

Multi-year Overview of the Financial Position

	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
Solvency I (%)[1]	211	157	211	252	150	100	91	97	116
Solvency II (%)[2]	302	281	317	365	253	187	187	185	210
Dynamic debt burden (%)[3]	406.8	64.9	–304.5	–95.5	41.3	20.2	12.5	8.3	6.8
Gearing (%)[4]	106.2	100.3	98.0	101.9	169.1	278.0	268.7	261.4	244.3
Cash flow (€ m) from operating activities	1,190	547	781	488	468	352	223	157	117
Net debts to banks (€ m)[5]	–1,561	–991	–2,115	–2,283	–822	–71	56	66	–49

[1] $\frac{\text{(current assets – inventories) x 100}}{\text{current liabilities + dividend proposal}}$

[2] $\frac{\text{current assets x 100}}{\text{current liabilities + dividend proposal}}$

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

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

[5] – ≙ cash in bank, + ≙ liabilities

Net Assets

The total assets of our Group declined by 7.5 % to € 8,052 million in a year-on-year comparison (2008: € 8,701 million). The reduction in inventories (€ –1,086 million) and in trade receivables (€ –596 million) played a major role in this development. The ongoing implementation of the investment program had a countereffect, resulting in an increase in non-current assets to € 266 million (+9.1 %). In a comparison of cash and cash equivalents, the fact that, on the previous year's reporting date, other receivables and other assets comprised financial investments worth € 500 million which are now disclosed as cash and cash equivalents owing to the different form of investment must be taken into account.

Asset and Capital Structure

In € m	31/12/2009	%	31/12/2008	%
Non-current assets	3,184	39.5	2,918	33.5
Current assets	4,868	60.5	5,783	66.5
Assets	**8,052**	**100.0**	**8,701**	**100.0**
Equity	3,904	48.5	4,346	49.9
Long-term liabilities	2,553	31.7	2,380	27.4
Current liabilities	1,595	19.8	1,975	22.7
Equity and liabilities	**8,052**	**100.0**	**8,701**	**100.0**

As part of non-current assets, property, plant and equipment and intangible assets rose as a result of investments (€ 677 million) which exceeded depreciation and amortization (€ 543 million).

Working capital fell to € 1,981 million (–40.7 %), the main influencing factor here being the volume and value-based reduction in inventories and trade receivables.

On the liabilities side, equity declined by € 442 million to € 3,904 million (–10.2%) due to the consolidated loss and dividend distribution. A countereffect was the equity portion from the issuing of a convertible bond (€ +54 million). The equity ratio is therefore 48.5% which is marginally below the previous year's figure (49.9%). The actuarial interest rate of 4.75% applied to the calculation of pension provisions was lower as per the reporting date (2008: 5.25%); the implications of the crisis in the financial market were taken account of accordingly. Obligations arising from pension commitments are therefore fully included in the balance sheet, as in the previous year. The mostly annual adjustment of the actuarial rate used for the calculation of pension provisions, which are of a long-term nature, is 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 2009	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
Asset utilization ratio (%)[1)]	39.5	33.5	25.8	23.4	35.1	45.3	51.3	52.1	48.4
Inventory ratio (%)[2)]	18.2	29.3	24.8	23.7	26.6	25.5	25.0	22.8	23.1
Depreciation/amortization ratio (%)[3)]	21.3	11.7	11.7	13.9	14.5	22.6	16.8	14.3	14.3
Debtor days[4)]	49.3	48.4	54.5	47.9	44.9	55.4	47.4	53.3	54.9
Capital employed	4,457	4,886	4,829	3,974	2,496	1,418	1,308	1,258	1,311
Working capital	1,981	3,338	2,845	2,159	1,809	1,479	1,222	1,215	1,224

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

5. Annual Financial Statements of Salzgitter AG

The annual financial statements of Salzgitter AG for the financial year 2009 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.

As before, Salzgitter AG heads up the Group divisions as the management holding company. Operations are conducted by the Group companies. Consequently, the profitability of the company depends on the business progress made by its subsidiaries and shareholdings and on the extent to which they retain their value.

The main associated companies are held, as before, by the wholly-owned company Salzgitter Mannesmann GmbH (SMG) with which there is no profit transfer agreement.

Salzgitter AG Balance Sheet (summarized)

In € m	31/12/2009	%	31/12/2008	%
Non-current assets	**43.6**	**2.9**	**53.4**	**4.4**
Property, plant and equipment[1]	21.8	1.5	28.6	2.4
Financial assets	21.8	1.5	24.8	2.0
Current assets	**1,444.7**	**97.1**	**1,160.7**	**95.6**
Trade receivables and other assets[2]	1,444.6	97.1	1,160.6	95.6
Cash and cash equivalents	0.1	–	0.1	–
Assets	**1,488.3**	**100.0**	**1,214.1**	**100.0**

In € m	31/12/2009	%	31/12/2008	%
Shareholders' equity	743.9	50.0	711.3	58.6
Special reserves with equity portion	10.2	0.7	4.1	0.3
Provisions	434.9	29.2	497.6	41.0
Liabilities	299.2	20.1	1.1	0.1
due to banks	[–]	–	[0.1]	–
Shareholders' equity and liabilities	**1,488.3**	**100.0**	**1,214.1**	**100.0**

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

The main items on the assets side continue to comprise receivables due from the liquidity (€ 899 million) which noticeably rose due to the cash inflow following the issuance of a convertible bond, provided to the subsidiary SMG as part of a groupwide cash management, and treasury shares (€ 359 million).

Besides equity, the liabilities side of the balance sheet reports pension obligations of € 393 million. The equity ratio currently posts 50.0% (2008: 58.6%).

Salzgitter AG Income Statement (summarized)

In € m	FY 2009	FY 2008
Other operating income	121.8	70.5
Personnel expenses	27.1	25.4
Depreciation and amortization[1]	1.4	43.4
Other operating expenses	27.9	74.4
Income from shareholdings	0.1	273.7
Net interest result	–11.4	–9.2
Earnings before tax (EBT)	**54.2**	**191.8**
Tax	–0.3	–0.3
Net profit for the year	**53.9**	**191.5**

[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 and from the writing back of provisions.

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

Income from shareholdings from the previous year is 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 146 employees as of December 31, 2009, which is an increase of two as against the previous year.

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

The subscribed capital consisted of 60,097,000 ordinary bearer shares with a notional value per share of € 2.69 in the share capital on the reporting date. All shares are subject to the same rights and obligations laid out under the German Stock Corporation Act (AktG).

To the knowledge of the Executive Board, the only restrictions on the voting rights or the assignment of shares on the reporting date were as follows: the company was not entitled to any voting rights from its treasury shares (5,795,252 units), and the members of the Executive and Supervisory boards were not entitled to any voting rights from their shares (2,392 units) in respect of the resolution passed on their own ratification and discharge.

The only share in the capital exceeding 10% of the voting rights on the reporting date was held by Hannoversche Beteiligungsgesellschaft mbH (HanBG), Hanover, which disclosed on April 2, 2002 that it was holding 25.5% of the voting rights in Salzgitter AG; owing to the decline in the number of total shares outstanding since that date, this corresponds to voting rights of 26.5%. The sole shareholder of HanBG is the Federal State of Lower Saxony.

There are no shares with special rights conferring power of control. The Executive Board does not know of any employees participating in the capital who do not exercise their power of control directly.

The appointing and dismissing of members of the Executive Board and amendments to the Articles of Incorporation are carried out solely within the provisions set out under the German Stock Corporation Act (AktG).

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

- Upon approval by the Supervisory Board, the Executive Board may issue 30,048,500 new no par bearer shares against payment in cash or in kind on or before May 26, 2014 (Authorized Capital 2009), whereby a maximum of 12,019,400 units may be issued excluding the subscription rights of the shareholders (20% of all shares issued on May 27, 2009). The 20% cap is reduced by the proportionate amount in the share capital to which the following relate: the option or conversion rights and the option or conversion obligations attached to the warrants, convertible bonds, profit participation rights and/or profit-sharing stock or a combination of these instruments which have been issued, with subscription rights excluded, since May 27, 2009. On October 6, 2009, a convertible bond was issued on up to 3,550,457 no-par bearer shares (5.9% of the shares issued) excluding the shareholder subscription rights with conversion rights which may be exercised on or before September 27, 2016.

- Moreover, upon approval by the Supervisory Board, the Executive Board may issue bonds in the total nominal amount of € 1 billion on or before May 26, 2014, and grant the bearers of the respective bonds conversion rights to shares of the company in a total amount of up to 30,048,500 (Contingent Capital 2009). Under this transaction, the subscription rights of shareholders can be excluded up to a total nominal amount of bonds to which conversion rights of up to 6,009,700 are attached. Bonds with conversion rights excluding shareholder subscription rights may only be issued provided that shares making up a proportion of 20% of the share capital, excluding subscription rights, from the Authorized Capital have not been issued since May 27, 2009. By the reporting date there had been no shares issued since May 27, 2009, from the Authorized Capital. On October 6, 2009, a convertible bond excluding shareholder subscription rights with conversion rights was issued on up to 3,550,457 new no-par bearer shares (5.9% of the shares issued) which may be exercised on or before September 27, 2016.
- The Executive Board is authorized to purchase the company's own shares equivalent to a proportion of the share capital of up to 10% in the period on or before November 26, 2010, and to use these shares for all purposes permitted under the law.

There are no material agreements of the company subject to the condition of a change of control following a takeover offer, nor are there agreements on compensation with the members of the Executive Board or employees contingent on a takeover offer.

Appropriation of the Profit of Salzgitter AG

Salzgitter Aktiengesellschaft reports net income of € 53.9 million for the financial year 2009. Taking into account retained earnings brought forward (€ 8.4 million) and transfers to retained earnings of € 47.2 million, unappropriated retained earnings amount to € 15.1 million.

The Executive Board and the Supervisory Board will propose to the General Meeting of Shareholders that these unappropriated retained earnings (€ 15.1 million) be used to fund payment of a dividend of € 0.25 per share (based on the share capital 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 in line with the company's holding of own shares on the day of the General Meeting of Shareholders, as these shares are not eligible for dividend.

6. Overall Statement by the Executive Board on the Economic Situation

Having emerged from the trough of the most severe economic crisis since the end of the Second World War, the Salzgitter Group's situation can still be considered exceptionally sound.

Although the catastrophic capacity utilization situation of many companies in the first half-year, the extensive accounting-related measures and necessary impairments carried out on Group assets resulted in a significant loss in the financial year 2009, the Group's ability to survive was never in question.

On the contrary, our broad-based business with its manifold mix of products, customer sectors and suppliers structures succeeded in at least partly cushioning the – on occasion – extremely critical developments in individual customer sectors. Our long-standing and reliable customer relationships that are anchored in technical competence and strong service orientation proved to be exceptionally valuable, particularly in the crisis.

With more than 1.9 billion euros in cash and cash equivalents and an equity ratio of almost 50%, the Salzgitter Group enjoys a healthy financial base which gives us sufficient leeway to shape the months ahead in an uncertain economic environment with confidence. In this spirit, we will also bring our investment program to a successful completion. Our Profit Improvement Program, with its long-term horizon and the flexible implementation of supplementary short-term measures, has made radical groupwide restructuring measures mostly superfluous to date. The structural measures initiated in parts of the Group are implemented in a low-key and consistent manner.

We will also pay special attention in the coming months to safeguarding the robust constitution of our business. We will respond to an improvement in the framework conditions by cautiously expanding our existing business activities, for example, by taking capacity lying fallow into operation again. Only once there is a foreseeably sustainable stabilization of the economic environment will we regard it tenable to consider key strategic growth measures.

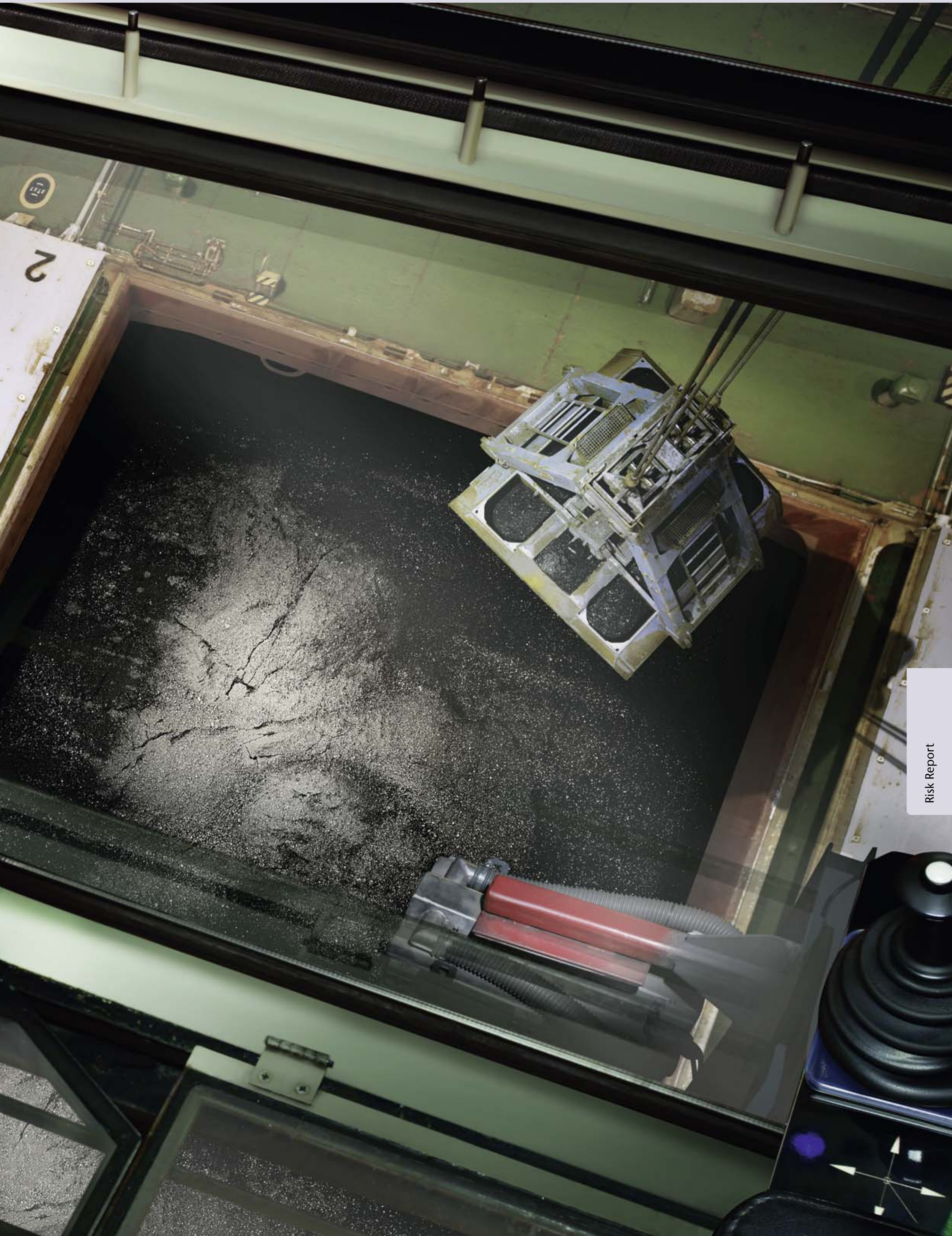
WHEN IT'S A MATTER OF TONS, EVERY CENTIMETER COUNTS.

Short in the leg, broad in the shoulder, hollow in the back – to a tailor every customer is unique. That's why even the most experienced with a needle never trusts his eyes alone. He measures with care. After all, customers expect a perfect fit. We saw that as an inspiration. Because pinpoint precision matters to us as well.


Made in Germany

MEASURE FIRST, THEN UNLOAD.

When ships are unloading, every minute counts. Bulk cargoes present a special challenge, as the material is constantly shifting while offloading is in progress. In the past it was a matter of judging every movement of the crane by eye. Now, thanks to the leading edge technology the procedure has been perfected: A 3D laser scanner detects the distribution of the material in real time, while a satellite navigation system plots the position of the crane with centimeter accuracy. In combination with an inertial navigation system borrowed from the aviation industry, it is now possible to set down the 35 ton grab in just the right place. With the result that expensive time in port has been substantially reduced. A solution made to measure.



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 risk management has proven to be most efficient and has underscored the key role it plays in our operations.

Taking account of the opportunities and risks, we comment on the medium-term development in business conditions and their impact on our company in the section on "Significant Events after the Reporting Date and Forecast" on page 146.

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 of management which is geared towards safeguarding the entire company as a going concern, along with capital invested 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, tracks and supports the monitoring of risks. By contrast, the recording and communication of opportunities forms an integral part of the well-established 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. Goal-oriented measures are devised to reinforce our strengths and to tap strategic growth potential in cooperation with the holding of the Group. To this end, the Group has a series of instruments at its disposal which are described in the section entitled "Management and Control Instruments" on page 57.

Organizational permeation

Risk management incorporates all fully consolidated companies in the Steel, Trading and Services divisions and also includes a number of non-consolidated companies. Alongside the fully consolidated companies combined under the Tubes Division, jointly held EUROPIPE GmbH (EP), including MÜLHEIM PIPECOATINGS GmbH (MPC), has been integrated in accordance with Salzgitter AG's guidelines. In the current financial year, RSE Grundbesitz und Beteiligungs-Aktiengesellschaft (RSE), a company of the Technology Division, was also included.

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. KWAG's Supervisory Board has set up an Audit Committee on which Salzgitter AG is represented. One of the core tasks of the Audit Committee is to monitor risk management and material risks. The committee meets regularly.

Qualified top-down rules to complement decentralized activities

Our subsidiaries and associated companies apply the risk management system autonomously. It is the task of the management holding company to provide guidelines that constitute the basis on which adequate and uniform consideration and communication of risks can be ensured within the Group. We convey our understanding of risk management through a risk manual and risk guidelines distributed to the companies. These documents lay 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 high degree of transparency achieved in respect of developments which involve risk, we are able to take appropriate countermeasures and implement them at an early stage.

At Salzgitter AG there is a clear demarcation between risk management and controlling which are nonetheless geared towards complementing each other. Actual risks can therefore be handled either through the medium of controlling (for example, by way of provisioning), or through the risk management system (by taking action to overcome the risk), or by using both approaches, each augmenting the other.

Our 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, which was developed particularly for this purpose. We analyze and assess the risks at Group level, monitor them punctiliously, allocate them to risk categories and align them to our overall business situation.

For its part, the Executive Board reports to the Supervisory Board on the risk position of the Group as well as – where appropriate – on the status and details of individual risks. The Supervisory Board has formed an Audit Committee that is tasked with addressing issues relating to risk management in its regular meetings.

Valuation 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. The conditions that must be fulfilled for this judgment to stand are documented, periodically examined and updated if necessary. It is the task of controlling and internal auditing at Salzgitter AG to monitor observance of the criteria established. The definition of probable risk means that loss or damage to the company resulting from undesirable event can no longer be ruled out. We document the quantitative extent of the calculated loss or damage in the light of all influencing factors in order to track and assess the risks.

Derivation of net loss from gross loss

In the derivation of net loss from gross loss we take account of all measures to contain loss. 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, we distinguish between major risks in excess of a gross amount of at least € 25 million and other risks involving loss or damage of less than a gross amount of € 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.

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

2. Individual Risks

Environmental and Sectoral Risks

Sectoral risks

Based on macroeconomic changes in the international markets, the development of the following factors is of great significance for the Salzgitter Group:

- prices in the sales and procurement markets,
- the exchange rates (especially (USD/€) and
- the prices of energy.

With a view to minimizing the associated business risks, we monitor the relevant trends and take account of them 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 to achieve 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 (SZMF) with its application-oriented research and development for steel, our aim being to participate in shaping tomorrow's markets as a successful supplier. In expanding our holdings portfolio by adding the Technology Division our intention 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 as a going concern.

Price risks of purchased essential raw materials

Compared with the financial year 2008, the current year saw procurement costs fall in part significantly for the important raw materials of iron ore, coal, scrap and alloys. With this reduced price level as our starting point, we are keeping a close eye on price trends in the year 2010. If economically-induced price increases should become discernable we will identify these risks at an early stage and incorporate them into our profit forecast. Fundamentally, any increase in the selling prices of our products may be able to partially or fully compensate for the higher price of input materials, as has been the case in previous years. We therefore do not expect any significant risks from this front.

Procurement risks

We counteract the potential risk of supply shortfalls of important raw materials (iron ore, coal) and energy (electricity, gas) by safeguarding the procurement in part by way of long-term framework contracts and also through procurement from several regions and/or a number of suppliers. In addition, we operate an appropriate inventory management. Our assessment of our supply sources confirms that the availability of these raw materials in the required quantity and quality is ensured. We source our electricity on a contractually secured basis where our needs exceed our own generating capacity. In order to contain the risks of further electricity price hikes, construction work has been started on two new 105 MW power-generating units at the Salzgitter location which will largely serve to cover the future requirements of Salzgitter Flachstahl GmbH (SZFG). Commissioning of these new units has been scheduled for the year 2010. 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 detailed contingency plans to deal with any adverse events, such as strikes. This plan includes foresighted stockholding and intensive coordination between Railion and ourselves to keep train transports running regularly to the greatest possible extent. A possible alternative 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 of 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 outlook for the financial year 2010 under the section entitled “Significant Events after the Reporting Date and Forecast”, see page 146.

We counteract any potential general risk to our company as a going concern by having a diversified portfolio of products, customers sectors and regional sales markets.

As effects of the economic situation in the various divisions have different impacts and thus partly compensate for one another, we achieve a certain balance in our risk portfolio. Thanks to our broad-based business and our flexible organization, we are also in a position to swiftly and effectively implement countermeasures tailored to the specific situation.

Production downtime risks

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

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

Legal risks

In order to counteract risks arising from any potential breach of the manifold fiscal, environmental, competition-related and other rules, regulations and legal provisions, we ensure that they are stringently complied with. We 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.

There are currently no recognizable 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 risk horizon which has proven to be expedient is a rolling three-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 financing in international trading must be hedged. 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 selling prices in the tubes segment or mechanical engineering, for example. Although there are reverse effects, the need for dollars in procurement activities predominates, owing to the business volumes which vary greatly. We generally set off all cash flows denominated in foreign currencies 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 derivative financial instruments 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 determined on a monthly basis. Moreover, for the purpose of the annual financial statements, we simulate the sensitivity of these instruments in accordance with the standards laid down under IFRS 7 (see the section entitled "Notes to the Consolidated Financial Statements" on page 162).

Default risks

The receivables risks are limited to the greatest possible extent by trade credit insurance. Due to the lack of transparency in the financial markets, trade credit insurers have responded increasingly by curtailing limits or even by fully retracting cover which, from our view, primarily affects the automotive supplier sectors and customers in Eastern Europe.

We counteract this by maintaining a stringent internal system for exposure management. Supported by a task force which spans the Group and which was specially created for this purpose, we monitor and assess developments very carefully and take this into account in our business.

We do not hedge translation risks arising from the converting of positions held in a foreign currency into the reporting currency, as these are of secondary importance 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 preventive measures, we believe that currency-related risks do not constitute a threat to the company as a going concern.

Liquidity risks

The management 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 the potential risks to the management companies. Risks may also arise from necessary capital and liquidity measures taken for subsidiaries and holdings if their business should develop unsatisfactorily in the longer term. However, we do not anticipate any burdens from this area of risk which could constitute a going concern risk even given the changed general conditions in the environment and the weakened business position of the subsidiaries. We counteract this risk with a rolling financial planning. Given the cash and credit lines available, we see no danger to our Group as a going concern from the current economic situation.

Interest rate risks

The cash and cash equivalents item, significant in relation to the balance sheet total, is exposed to interest rate risk. Our investment policy is oriented to the greatest possible extent towards low risk investment categories with a top credit rating while, at the same time, ensuring the availability of positions. Interest rate analyses, the results of which are directly incorporated into investment decisions, are regularly drawn up for the monitoring and control of interest rate risks.

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. Salzgitter AG and SMG are responsible for provisioning, for example, in respect of the risks inherent in audits of its companies consolidated for tax purposes. In addition, subsidiaries with independent tax liability are responsible for their own provisioning.

In the context of former government aid to border regions, the EU Commission requires Salzgitter AG to make back payments on – from our standpoint – the legal and legitimate tax advantages accrued at that point in time. In 2008, the European Court of Justice made a decision which went largely against the company in the second instance but has referred the case back to the court of first instance. The verdict of this court is anticipated in 2010 at the earliest. Pending the successful outcome of our case, we have already remitted payment of the amount of € 17.8 million (including interest payments) claimed by the Commission.

Personnel risks

Salzgitter AG 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 personnel development measures. Specialist career paths have been explicitly introduced with the aim of creating appealing career prospects for our specialists. Another instrument the company uses is to offer attractive company pension schemes which, given the dwindling benefits under the state pension scheme, is becoming increasingly important.

Above and beyond this, we initiated the “GO – Generation Campaign 2025 of Salzgitter AG” 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 our innovative strength and competitiveness in the long term as well. The project is focused on the systematic preparation of all employees for a longer working life. Given the manifold measures, we believe that we are well prepared in this area of risk (see the section on “Employees” starting on page 43).

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 facilities and plants,
- ongoing development of our products,
- extensive environmental management.

We have appointed an environmental officer for the Group whose task it is to pool and to 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.

Risks from owning land and property may arise, particularly from inherited contamination. We counteract this risk, for instance, by fulfilling our remediation and 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 the risks arising in the field of information technology (IT) by developing and maintaining a Group knowledge base for 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 investments.

The consistent renewal 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 with high standard performance. Additional measures include streamlining the historically evolved heterogeneous IT structures in the Group bit by bit. The risks in this area are deemed manageable, and we estimate the probability of an adverse event occurring to be 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.

An important step in this direction was the takeover of the KHS companies as part of Klöckner-Werke AG (KWAG) in 2007. The Services Division strengthened its telecommunications business by taking over NORTHSTAR Telecommunications GmbH. We have also achieved greater independence from the steel sector by starting to raise a notable minority interest in Aurubis AG, Europe's largest copper producer, in 2008. For more detailed information we make reference to our explanations in the section on "Management and Control of the Company, Goals and Strategy", page 56.

To secure our future earnings strength, we have been investing considerable sums in our Group locations in Salzgitter and Peine since 2007. Projects are being realized in spite of the economic environment – in some instances with a delay. More detailed information is contained in the sections entitled "Management and Control of the Company, Goals and Strategy", page 56, and "Investments", page 64.

By means of suitable reporting and consultation structures, participation in supervisory committees and contractual regulations we limit the risks arising from joint ventures in which we do not hold a majority stake. Hence members of Salzgitter AG's Executive Board are represented on the Supervisory Board of EUROPIPE GmbH (EP) in order to ensure the transparency of our 50% joint venture.

With respect to the listed KWAG we ensure our objective through the Supervisory Board's audit committee, whose tasks include the monitoring of risk management and major risks.

3. Overall Statement on the Risk Position of the Group

Evaluation of the risk position by management

The review of the Salzgitter Group's overall risk situation has shown that there were no risks that could endanger either the individual companies or the Group as going concerns at the time when the 2009 financial statements were drawn up. The overall risk situation, aggregated from the various individual risks, has thus not changed significantly from the previous year with regard to our Group as a going concern.

The exceptional situation in the global financial markets and the associated burden on the global economy had an impact on the Group's earnings position in the financial year 2009. In parallel transparency and continuity even of short-term developments have deteriorated, which means that predictability of individual risks has declined considerably. In spite of the above and the general hardship due to the current situation, Salzgitter AG views itself as fundamentally well equipped to master the considerably greater challenge placed on risk management during this phase. Its business policy, which takes due account of risks and is geared towards sustainability, as well as its sound strategic alignment, form the basis for this assessment.

The independent auditor has examined the early warning system installed at Salzgitter AG 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, Salzgitter AG'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 Salzgitter AG by the pertinent rating agencies. From our perspective, there is currently no need for such a rating as we have attained an excellent financial standing without a capital increase – with a considerable growth achieved in the years 2004 to 2008 – and have maintained this position despite the crisis year of 2009. This has largely precluded the necessity of tapping capital market funds. In October 2009, a significantly oversubscribed convertible bond with a nominal volume of € 296 million was placed in the market at benchmark conditions. Our own rating assessment – taking account of the customary quantitative requirement criteria – has delivered results which are virtually identical to the ratings ascertained internally by our banks. This leads us to assume that an external valuation would place us in the investment-grade category having regard to the high level of pension obligations.

Description of the main features of the accounting-related internal control system and the risk management system with respect to the (Group) accounting process (Sections 289 para. 5 and 315 para. 2 German Commercial Code [HGB])

To supplement the information already contained in the risk report, the main features of the internal control and risk management system implemented within the Salzgitter Group in respect of the (Group) accounting process can be described as follows:

The accounting-related internal control system is operated in cooperation with the controlling, legal, internal audit, accounting and treasury departments where the functions are clearly segregated and to which clearly delineated areas of responsibility have been assigned.

To ensure the effectiveness, efficiency and regularity of accounting and compliance with pertinent statutory provisions the control system encompasses all the necessary principles, procedures and measures.

The Executive Board is responsible for the implementation of and compliance with statutory provisions. It reports to the Audit Committee (Supervisory Board) regularly on the financial position of Salzgitter AG. The Audit Committee is also tasked with monitoring the effectiveness of the internal control system. An agreement has been made with the external auditor that the Chairman of the Supervisory Board will be informed without delay about all material findings and events connected with the auditing of the annual financial statements which are relevant to the tasks of the Supervisory Board.

The Salzgitter Group is decentralized, which means that responsibility for compliance with legal standards rests with the executive bodies of the various companies. Supervision is carried out by the holding departments.

Group-internal audit examines the operations and transactions relevant to the accounting of Salzgitter AG and its subsidiaries and holdings independently and on behalf of the Executive Board in observance of regulatory requirements. The planning and carrying out of the audit by internal audit takes account of the risks in the (consolidated) financial statements and the accounting process. These tasks are carried out by members of staff specially qualified in accounting. The basis of activities is the annual audit plan that is determined in accordance with statutory requirements. Group audit informs the Executive Board of Salzgitter AG and the Group's external auditor of the outcome of audits by way of audit reports. Group audit follows up on the implementation of measures and recommendations agreed in the audit reports.

Salzgitter AG's group accounting department draws up the consolidated annual financial statements. Independent auditors issue an audit opinion on the financial statements of the companies included. To ensure that statutory requirements are complied with, Group guidelines are formulated on an annual basis and disseminated to the companies. These guidelines form the basis of a uniform, due and proper ongoing accounting process, both with respect to accounting as defined under the German Commercial Code (HGB), as well under the International Financial Reporting Standards (IFRS). Along with general accounting principles and methods, rules and regulations on the balance sheet, income statement, notes to the financial statements, management report, cash flow statement and segment report are first and foremost defined, taking into account the legal position prevailing within the European Union. Accounting regulations also lay down specific formal requirements relating to the consolidated financial statements. In addition to determining the group of consolidated companies, the components of the reporting packages which Group companies must prepare is similarly defined in detail. A standardized and comprehensive set of forms is used for this purpose. The Group guidelines also include explicit instructions for the presentation and processing of offsetting procedures within the Group, with the respective process for reconciling balances and the calculation of the fair value of holdings. The heads of accounting in the companies are informed about changes under the law in annual events organized by the Group.

The financial statements of the consolidated companies are recorded with the aid of a uniform IT-based workflow used throughout the Group. This workflow comprises a permissions concept, along with checking routines and check digits. These control and surveillance mechanisms have been devised for process integration as well as for functioning independently of processes. A major part of this is, for instance, made up of manual process controls in application, among other things, of the principle of dual control, alongside automated IT-based processes controls. Moreover, the Group has an integrated accounting and consolidation system.

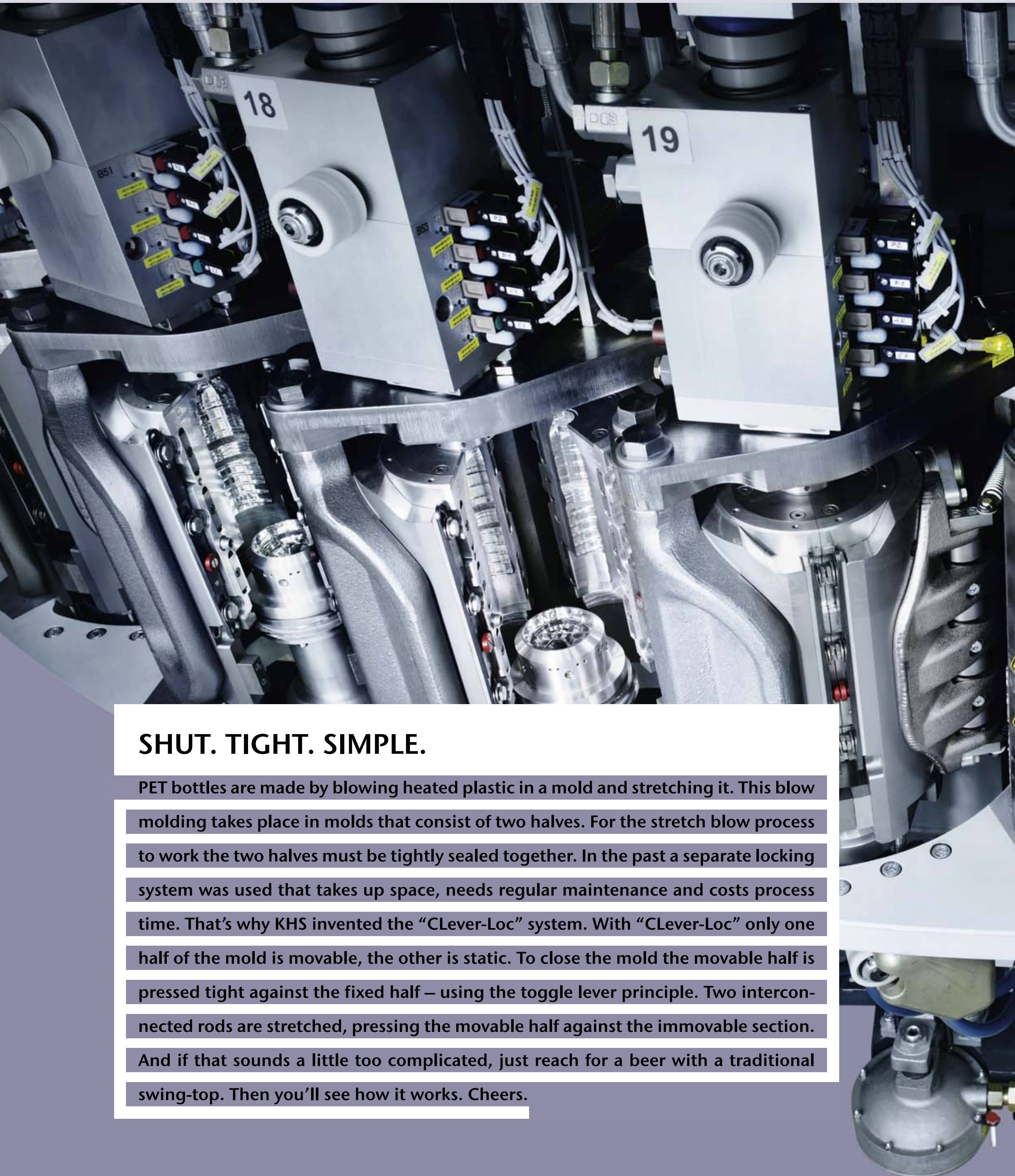
At Group level, the individual control activities ensuring the regularity and reliability of Group accounting include the analysis and, if appropriate, the correction of the individual financial statements submitted by the Group company, including the reports submitted by the auditors and the respective discussions on the financial statements. Control mechanisms and plausibility controls already built into the consolidation software allow financial statements forms containing errors to be corrected before the consolidation process takes place.

The application of uniform, standardized measurement criteria to impairment tests is ensured by way of centralized processing for the – from the Group's perspective – individual cash generating units.

The valuation of pensions and other reserves, among other items, is also subject to uniform regulations by centrally determining the parameters applicable throughout the Group.

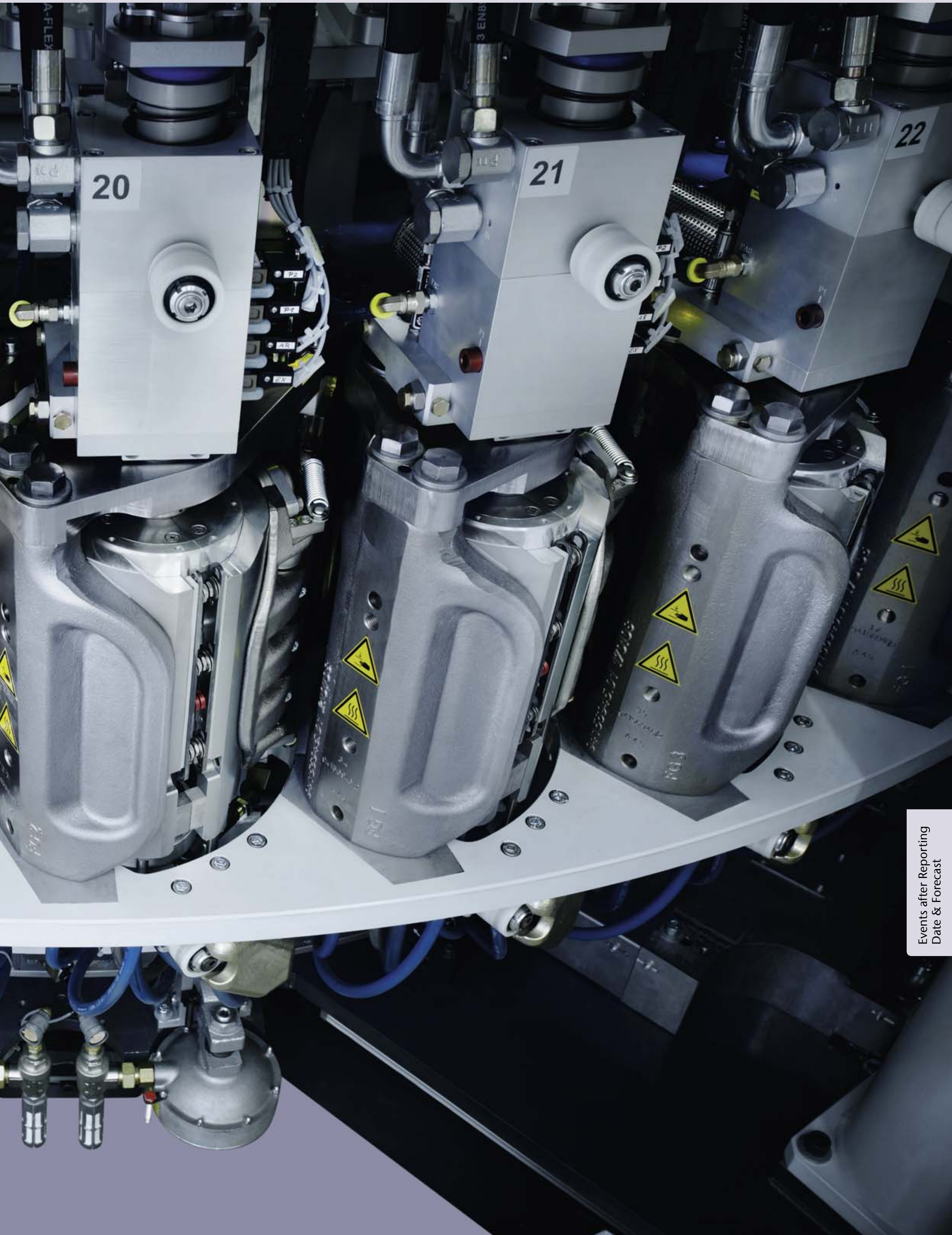
EVEN WHEN IT'S TIME FOR A BEER, WE'RE STILL THINKING OF IMPROVEMENTS.

After a hard day at work even an engineer deserves a beer. You open the bottle with a satisfying 'pop', pour yourself a glass and the traditional swing-top efficiently closes the bottle tight once more. So much for a night off. What engineer could possibly ignore the word 'efficiently'?



SHUT. TIGHT. SIMPLE.

PET bottles are made by blowing heated plastic in a mold and stretching it. This blow molding takes place in molds that consist of two halves. For the stretch blow process to work the two halves must be tightly sealed together. In the past a separate locking system was used that takes up space, needs regular maintenance and costs process time. That's why KHS invented the "CLever-Loc" system. With "CLever-Loc" only one half of the mold is movable, the other is static. To close the mold the movable half is pressed tight against the fixed half – using the toggle lever principle. Two interconnected rods are stretched, pressing the movable half against the immovable section. And if that sounds a little too complicated, just reach for a beer with a traditional swing-top. Then you'll see how it works. Cheers.


20
21
22

VI. Significant Events after the Reporting Date and Forecast

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

Economic recovery varies strongly from region to region

The recovery in the **global economy**, the first signs of which were evident in the second half of 2009, is likely to continue in the years 2010 and 2011, while its pace will vary depending on the respective economy. Whereas economic impetus in the industrial nations is likely to be more moderate, many of the emerging markets will benefit from brisk domestic demand. Seen from a general standpoint, the process of recovery to date has first and foremost been driven by stimuli of a temporary nature. Factors decelerating this process may again weigh more heavily in the months ahead if the banking sector requires fresh financial aid, the real economy is starved of credit, and the unemployment rate rises. In its forecast for 2010 and 2011, the International Monetary Fund (IMF) anticipates GDP growth of 3.9 % and 4.3 % respectively.

There are increasing signs of a recovery in the **United States of America**. The unprecedented volume of support measures by the Fed and the US government has stabilized the real estate and the financial markets, as well as consumer spending. The IMF has forecasted growth of 2.7 % and 2.4 % for 2010 and 2011 respectively.

In its most recent outlook, the EU Commission predicts that the **European Union** will record slight growth in GDP of only 0.7 %, mainly driven by government capital expenditure and consumer spending. Only in 2011 is economic growth expected to gain somewhat more momentum, and then also on the back of a recovery in private demand. In comparison with other economies, however, the 1.6 % growth is more in the below-average range.

Economic expansion in **Germany** will be only very moderate in the 2009/2010 winter half-year. A repeat of the surge seen last summer that resulted mainly from a technical counter-reaction to the dramatic slump is unlikely. Impetus from abroad will remain downbeat as economic growth in the important trading partner countries will initially continue to be moderate. Against this backdrop, most research institutes exercise caution in their predictions. GDP is expected to expand between 1.4 % and 2.1 % in 2010. 1.9 % growth might then be possible in 2011.

Emerging markets support a swift recovery in the global steel industry

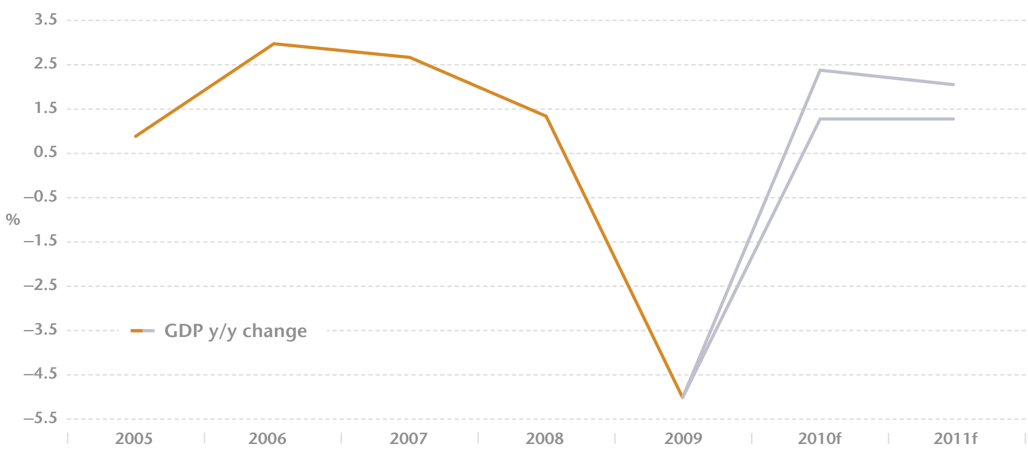
The global steel industry may now recover more swiftly than originally expected. The German Steel Association anticipates an increase in global demand of around 11 % to 1.23 billion tons of rolled steel, which brings demand to the level seen prior to the crisis. Market observers anticipate another above-average increase to 1.3 billion tons for 2011.

This outlook is based on regional developments which vary widely, with China in particular playing a special role. Slowing impetus from programs to support the economy launched by the Chinese government and huge stockpiling are likely to put pressure on Chinese demand for steel in the next two years, bringing it from more than 20 % in 2009 down to 7 %. At the same time, this means absolute growth in the mid double-digit million ton range. By contrast, strong impetus driving the demand for steel is expected to emanate from most of the other emerging economies in 2010 and 2011. There are signs that consumption in India and the MENA region (Middle East and North Africa) is likely to exceed the pre-crisis level in 2011. This is contrasted by the recovery in the CIS countries that is markedly slower.

The close correlation between crude steel production and GDP growth gives rise to medium-term expectations of only marginal growth in the steel markets of the industrial nations. The mainstay of recovery will initially be attributable to supplementing inventories. The forecasts for the year 2010 suggest a sideways movement followed by an only moderate growth in demand in 2011. Eurofer anticipates an increase of 13 % in the market supply of the EU and, accordingly, a rise of 10 % in Germany. In the coming year, the recovery is expected to gain ground, and will then also be supported by moderate growth in the demand for steel. There are signs that, in 2011, the European Union, Japan and the USA will only reach between 75 % to 80 % of the level attained in 2007.

Structural shifts in the international steel industry are taking place more swiftly owing to the varying pace of economic recovery. All in all, around 70 % of the demand for steel in 2011 may be accounted for by the emerging and developing countries as opposed to 65 % in 2007.

GDP Germany; Forecast Range 2010/2011



Source: BDA
as of 17/02/2010
(f = forecast)

Demand for steel tubes expected to rise

On the back of adjustments to inventories across the value chain in 2009, the global demand for steel tubes outside China is likely to improve moderately in the second half of the year. Chinese producers will continue to reap the benefit of domestic programs designed to boost the economy.

As the most important customer sector of steel tubes producers, the energy sector should gradually start to invest again in new exploration and development projects motivated by the rising price of oil and gas. However, demand for oilfield tubes in the USA as the world's largest single market is still suffering from the excessively high inventories. There are currently no signs of recovery in the awarding of new pipeline projects and global plant construction. Mechanical engineering is only making a slow recovery from the production slump in 2009. Moreover, there is also uncertainty as to how the automotive industry will develop once the government subsidy programs have expired. The impact of a slew of confrontations about trade policies, first and foremost with Chinese steel tubes producers, on global trade flows is also not yet foreseeable.

In 2011, the global economic upswing should pick up momentum. In conjunction with the processes involved in adjusting inventories which have been brought to final completion, global steel tubes output is likely to climb again without, however, being able to repeat the boom years of 2007 and 2008.

Mechanical engineering expects consolidation on a low level

The outlook for 2010 suggests another difficult year for both the German mechanical engineering sector as a whole and for the manufacturers of special machinery in the food and packaging solutions business. The German Engineering Federation (VDMA) anticipates a consolidation at a low level in 2010. The experts assume that the level achieved in the first few months of the current year will fall considerably short of the previous year but that subsequent periods may well see positive growth rates again. German mechanical engineering should generally be able to maintain production volume around the level of the year 2009 against the backdrop of a slight uptrend. VDMA's outlook for 2010 therefore remains unchanged: "zero percentage growth". Once consolidation at a low level has taken place, the federation sees a good chance of matching the successes achieved in previous years. This would, however, be in 2011 in the best case scenario. There are nonetheless the first positive signs. "drinktec", the most important trade fair in the filling and packaging technology sector which took place in September 2009, provided confident impetus for the sector.

PET bottling material is increasingly emerging as the big winner in the packaging market. A growth rate of more than 4 % a year has been forecast in almost all beverages segments. Alongside the exceptional importance in the segments where PET bottles are customarily used (water, soft drinks etc.), PET material also carved out large market shares in the Eastern European beer market. Even wine and spirits are already being filled into PET bottles in some parts of the world. In addition, PET is gaining increasing significance in the food and non-food business as a packaging material.

Leading indicators specific to the company

Recognizing opportunities and risks at an early stage is crucial to our ability to react to market developments in a timely manner. With this in mind, we not only monitor the economy as a whole and the relevant economic indicators but also our 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. Moreover, the management of our Group companies takes in market-relevant information from discussions with suppliers, customers and associations in an ongoing process.

The information thus collated forms the fundaments for assessing developments in the pertinent markets. Long-term trends and changes in the structure of the market and competition are documented and communicated within the Group through an ongoing process of recording these types of opportunities and risks in the groupwide controlling system.

For instance, the shipment and sales figures anticipated by the Steel Division, and by the tubes companies with their customer relationships in the automotive sector, can be derived from sales forecasts for motorized vehicles and vehicle components, in part very effectively differentiated by countries and regions. Individual Group companies continue to display on occasion great sensitivity in relation to the business outlook of the construction, chemical and/or mechanical engineering sectors: For example, the statistical data on order intake in construction contracts are meaningful for the assessment of the sales prospects of sections. The approval of major publicly funded programs such as, for instance, for the use of wind power, enables deductions to be made about the future requirements for plate and tubes products. Information on the performance expected by the global oil and gas markets, depending on the oil price, may be an indication in particular of the order book levels which can expected by the large-diameter tubes companies. Important individual indicators relevant here are the so-called rig count, which is the number of oil wells worldwide, and the total scope of exploratory drillings.

Furthermore, the forecast for capacity utilization in our Technology Division's virtually accords with the developments predicted in the mechanical engineering sector.

Given the cyclical nature of our industry, a basic differentiation must be made between indicators with short-term informative value and those with a long-term horizon: situations may therefore arise in which there may be a short- to medium-term imbalance in supply and demand due to excess inventories held by traders and end consumers or unfavorable situations on the import front which temporarily distort long-term trends. By contrast, spikes in demand, driven by speculation, may on occasion be deceptive because they cover up structural deficits in the market. It is readily understandable that the plethora of factors exerting an influence and the complexity of their interaction make it difficult for us, especially in phases of pronounced economic volatility, to provide detailed predictions retaining validity over a longer term for the Group as a whole.

Opportunities and Opportunities Management

The ongoing screening and analysis of the relevant markets and competitors, carried out centrally by the holding as well as decentrally by the subsidiaries, form the basis in our Group for the timely identification of opportunities. We strive to develop suitable strategies in good time and to implement them in order to leverage inherent potential for the success of the company. The strengths and core competences of the companies within our Group are incorporated into the preparations underlying strategic decisions. Discernible risks are fully and responsibly taken account of.

Basically, Salzgitter AG has honed its strengths, in particular through investment in existing and new production facilities, in order to successfully take advantage of perceived opportunities through adjusting its product mix, through the selective ramping up of capacity, above all in the Steel Division, and by exploiting the different sales channels in the various regions. Consistent cost management in all divisions, coupled with the ongoing optimization of product quality, is a foundation that we view as a matter of course for our corporate success.

Along with current and planned projects aimed at growing organically, we also fundamentally review external growth options at all times in terms of their suitability.

More detailed explanations can be found in the sections entitled "Goals and Key Factors for Success", see page 56.

3. Strategic Direction of the Group

Our Group strategy is geared towards sustaining 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 with regard to proven and profitable structures, enjoys a higher priority at the moment than external growth through acquisitions.

Against the backdrop of the global economic crisis, decisions on large financial commitments are particularly critical due to the uncertainty concerning their potential economic benefits, as their sustained economic viability cannot be ascertained without a considerable measure of doubt. Ensuring a sound balance sheet and financial stability of our Group takes top priority for us, especially in such times.

As a matter of principle, the business activities of the companies in the various divisions will concentrate on established sales markets. This process may involve a shift in the focus at 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 in markets not frequented to date are being reviewed and exploited if there is commercial or technical potential.

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

In order to reinforce their market position as manufacturers of market high-grade rolled steel products and steel tubes, the companies of the Steel and the Tubes divisions intend to invest in modernizing the various production stages. The primary aim, alongside reducing costs, is product qualification and quality enhancement, tenets also valid for the Technology Division. With this in mind, the portfolio of the Salzgitter Group in the coming two years will comprise numerous "new" products that offer a qualitative step forwards and additional application possibilities through ongoing developments. In addition, we will continue to expand the range of services offered to our customers in many areas. In this context, we refer to the sections on "Research and Development", see page 68, and "Investments", see page 64.

Of special importance, particularly given the difficult economic environment, is the systematic recording and control of projects and measures aimed at reducing costs, as well as the improving of productivity, product qualification and quality assurance. To this end, we will forge ahead with consistently implementing the groupwide Profitability Improvement Program.

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 corporate planning of Salzgitter AG is basically geared towards the strategic goals and comprises its own set of entrepreneurial measures with action embedded in the general economic environment. It therefore 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, also under more difficult circumstances. For this reason, market expectations prevailing at the time when the plan was drawn up, as well as envisaged entrepreneurial measures, are incorporated into this plan. It is drawn up in a process involving the whole Group which is concluded before the start of the new financial year. 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 start of each new financial year, generally 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.

As the outlook for capacity utilization in important steel consumer sectors has stabilized at the level of recovery achieved in the second half of 2009 and orders of stockholding steel traders picked up momentum in response to shortfalls in the availability of products, the **Steel Division** is again anticipating a higher level of new orders in the financial year 2010. With this as a basis, the shipment of rolled steel and processed products should rise in all companies belonging to the division. In conjunction with the accompanying increase in selling prices, the Steel Division expects sales to recover. Following significant declines in the costs of procuring ores and coal in 2009, prices are expected to climb again in 2010. All in all, there is likely to be a rise in manufacturing costs. Consequently, specific gross earnings per ton may not automatically improve.

The steel companies forecast an overall result around breakeven for the year 2010 with its muted prospects. This result should, however, on no account be considered certain. Salzgitter Flachstahl GmbH (SZFG) can return to the profit zone, the main prerequisite here being that capacity utilization stabilizes in the long term. Owing to the selling price trend expected, Ilsenburger Grobblech GmbH (ILG) predicts a downturn in the result which will nonetheless be positive. In contrast, as a result of the recovery in the sections market predicted only in the medium term, Peiner Träger GmbH (PTG) is expecting to write red figures again, even though the loss will be substantially lower.

The **Trading Division** expects to distribute more steel in 2010 based primarily on higher shipment volumes in international trading. The growth in shipments and improved margins should deliver a positive result.

Given falling average selling price levels, influenced in the previous year by orders still outstanding from the boom phase, the **Tubes Division** expects a substantial decline in the results. A pre-tax result around breakeven should be achievable provided that raw material price hikes do not exert too much pressure on the profitability of major projects. Profit generated in the large-diameter tubes segment will fall markedly, as the comparatively good capacity utilization will not compensate for the tumbling selling prices predicted. The precision tubes companies are expecting to reduce the amount of pre-tax loss considerably through better capacity utilization. In view of the difficult situation prevailing, there is no trend reversal discernible in the product market for seamless stainless steel tubes. Falling margins will therefore result in a lower pre-tax profit.

An overall better capacity utilization of the steel companies is likely to boost the sales and pre-tax profit of the **Services Division** in 2010 in a year-on-year comparison.

In the wake of a recovery in the markets and boosted by measures implemented to optimize processes and enhance efficiency becoming increasingly effective, the performance of the **Technology Division** in 2010 should improve substantially in comparison with the year ended. A pre-tax loss is, however, expected in the financial year 2010 but at a much lower level.

As the tailend effects of the financial crisis are still being felt in the current year and cause jitteriness in the relevant sales and procurement markets, providing a reliable quantified outlook for sales and the result of the Salzgitter Group is naturally not possible. It is, however, foreseeable that there will be an improvement in the economic situation of most of the Group companies. The recovery of these steel companies, which depends on capacity utilization, should be able to partly compensate for a selling price-induced lower result in the Tubes Division.

After a modest start to the first quarter of 2010, we believe there will be a subsequent marginal improvement in the results from the second quarter onwards, although the composition of the components is likely to change as the year progresses. All in all, quarterly results may settle just above breakeven in the best case scenario.

We therefore expect our Group to generate a positive pre-tax result in the double-digit million euro range. There are nonetheless considerable risks, as before: Alongside the foreseeable increase in the cost of raw materials, the recovery of the steel and mechanical engineering markets is still subject to uncertainties.

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 currency parities, may considerably affect performance in the course of the financial year 2010. 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 a variation in the annual result of more than € 500 million.

The **medium- and long-term outlook** are considered to be relatively intact for all Group companies. On the basis of a steady market recovery for the Steel and Trading divisions in particular, the consolidated sales and the pre-tax result should rise again in 2011. As, at the current point in time, there is no reliable information available about how the relevant framework conditions will develop in the future, no quantifiable outlook can be made for the financial year 2011.

5. Anticipated Financial Position

Despite the implementation of an extensive investment program in the Steel Division, we have set our Group's investment budget in the financial year 2010 at a figure below that of the previous year (€ 677 million). Together with follow-up investments already approved in previous years, the cash-related portion of the 2010 budget of around € 500 million will be substantially lower than the 2009 volume. 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, the financial resources required for the financial year 2010 will be higher than depreciation and amortization, with the result that the excess amount will have to be funded not only by the cash flow from operating activities, but in addition by available cash and cash equivalents. This is feasible from the standpoint of management, as there is sufficient leeway.

The financial position of our Group should be comparatively sound at the end of the year as well, especially in view of the financial transactions effected in 2009. External financing measures, such as borrowing, are not currently envisaged. However, measures of this kind may become feasible and realizable in the context of larger acquisition projects or if there is a substantial deterioration in the general environment.

6. Overall Statement on Anticipated Group Performance

Based on an extremely difficult year 2009, the majority of the companies belonging to our Group assume that there will be a discernible improvement in performance in the financial year 2010. Only the Tubes Division expects lower results owing to the downturn in selling prices. It is, however, unlikely that all individual companies will succeed in returning to the profit zone. We expect our Group to generate a positive pre-tax result in the double-digit million euro range. Fundamentally there are considerable risks, as before: alongside the foreseeable increase in the cost of raw materials, the recovery of the steel and mechanical engineering markets is still subject to uncertainties.

From today's standpoint, no reliable quantified outlook for sales and the result of the Salzgitter Group can be given for 2011. We nonetheless assume that the economic upswing will persist for the main part, although occasional temporary setbacks also have to be factored in.

Owing to the uncertain future economic outlook in particular, we consider it important to accord high priority to the stability of our financial position and the soundness of our balance sheet, as we always have done. By its nature, this approach restricts the possibilities for making major acquisitions. Small to mid-sized projects are, however, entirely feasible.

Our financial reserves will be partly used to finance the major investments currently being implemented. The projects will be concluded over the course of the years 2010 and 2011 and will serve to enhance our entrepreneurial potential for phases of economic prosperity in the years ahead.

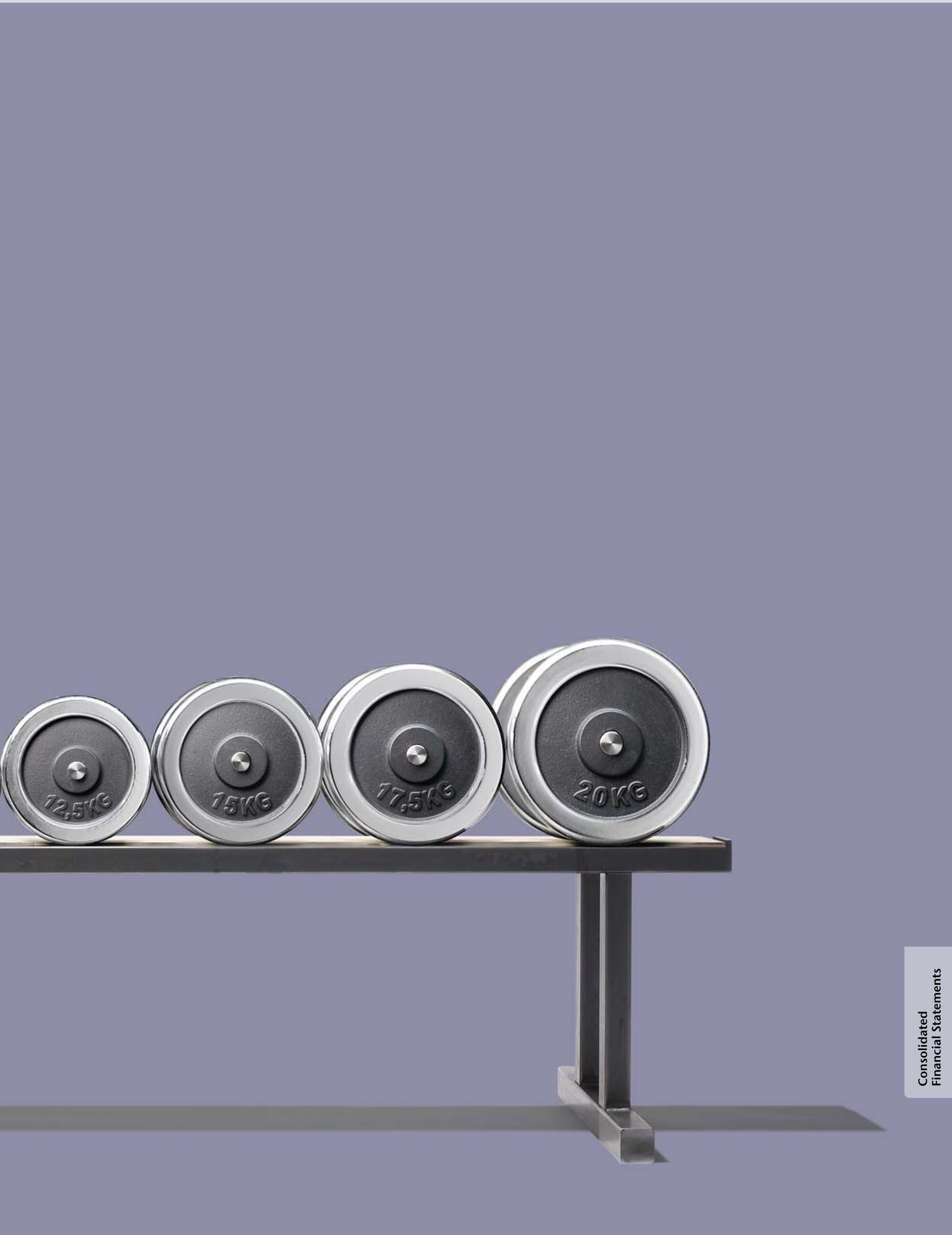
The Profit Improvement Program, which was also stringently pursued in boom times, has made hectic cost-cutting and restructuring measures redundant. All future steps necessary to ensure long-term survival and to preserve the intrinsic value of the Group can therefore be carried out in a well-planned and assured manner. A relaunch of the Profit Improvement Program will deliver additional contributions to the economic performance of the Group in the coming years.

In conclusion, proof has been delivered that the Salzgitter Group, with its broad-based business, its sound financial base and its flat, efficient organization structure is comparatively well prepared to meet challenging phases. We will continue to chart this tried-and-tested course.

The amount of dividend will be geared to the earnings development in the future as well. The cyclical fluctuations typical of the sector are by nature reflected both in the results of the Group and in its share price. The separate financial statements of Salzgitter AG are decisive for the ability to pay dividend. The Salzgitter Group pursues a fundamental policy of paying out steady and attractive dividend based on the pre-requisite of actual profits; which does not necessarily have to reflect the cyclicality of the earnings performance.

CONTINUITY PAYS OFF.

As everyone knows, strength does not come overnight. You have to work at it, earn it bit by bit. And when you have achieved it, you cannot just sit back. We aren't. But allow us to take a brief look back at where we have come from.


12,5KG
15KG
17,5KG
20KG

WE ARE SORRY IF YOU DIDN’T PUT MONEY ON US.

Many investments in recent years have yielded no return. In some cases people were lucky not to lose their money. But not if you had invested in us. In spite of all the ups and downs of the stock markets, the development in our share price has been an absolute success story – in itself, but also in comparison with other investment opportunities. Anyone who bought Salzgitter shares at the start of the year 2000 will have seen the sum of their capital and returns increase by almost nine times in the space of ten years. By comparison, the DAX shed more than 10 percent in the same period. As we said, we are sorry for those who were unable to profit from our development. But we have a great offer for them: the next 10 years.


Performance based on an investment of € 1,000
20
18
16
14
12
10
8
6
4
2
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
in € thousand
Salzgitter share
(with dividend but no reinvestment)
European Steel Index
(ex UK)
Gold
German Bund
(with reinvestment of interest)
DAX

Contents Consolidated Financial Statements

I. Consolidated Income Statement

In € m	Note	FY 2009	FY 2008
Sales	[1]	7,818.0	12,499.2
Increase/decrease in finished goods and work in process/other own work capitalized	[2]	–245.0	76.9
		7,573.0	**12,576.1**
Other operating income	[3]	409.3	360.0
Cost of materials	[4]	5,456.1	8,783.3
Personnel expenses	[5]	1,396.9	1,472.4
Amortization and depreciation	[6]	542.6	278.5
Other operating expenses	[7]	1,030.1	1,385.4
Income from shareholdings	[8]	1.1	14.2
Income from associated companies	[9]	56.7	8.0
Impairment losses on financial assets	[10]	25.7	11.8
Finance income	[11]	33.5	136.0
Finance expenses	[11]	118.7	159.5
Earnings before tax		**–496.5**	**1,003.4**
Income tax	[12]	–109.6	326.5
Consolidated net income/loss for the financial year		**–386.9**	**676.9**

Appropriation of profit in € m	Note	FY 2009	FY 2008
Consolidated net income/loss for the financial year		–386.9	676.9
Profit carried forward from the previous year		84.2	189.7
Minority interests	[13]	–3.2	2.6
Dividend payment		–75.7	–170.7
Allocation from capital reserve		–	111.1
Appropriation to other retained earnings		–	–720.2
Allocation from other retained earnings		390.4	–
Unappropriated retained earnings		**15.1**	**84.2**

Basic earnings per share (in €)	[14]	**–7.10**	**12.11**
Diluted earnings per share (in €)	[14]	**–7.10**	**12.11**

II. Statement of Income and Accumulated Earnings

In €m	FY 2009	FY 2008
Consolidated net income/loss for the financial year	**–386.9**	**676.9**
Changes in currency translation	2.2	–1.2
Change in value reserve from hedging transactions		
Changes in current value recorded directly in equity	13.6	–5.6
Recognition of settled hedging transactions with effect on income	–11.0	–5.4
Changes in current value recorded directly in equity of financial assets in the “Available-for-sale assets” category	11.7	–44.4
Actuarial gains and losses	–96.8	–14.6
Deferred tax on current changes without effect on income	28.1	24.6
Other changes without effect on income	3.2	–0.1
Changes in the financial year recorded directly in equity	**–49.0**	**–46.7**
Total comprehensive income	**–435.9**	**630.2**
Total profit due to Salzgitter AG shareholders	–432.7	627.3
Total profit due to minority interests	–3.2	2.9
	–435.9	**630.2**

III. Consolidated Balance Sheet

Assets in € m	Note	31/12/2009	31/12/2008
Non-current assets			
Intangible assets			
Goodwill	[15]	–	20.6
Other intangible assets	[16]	123.8	184.0
		123.8	**204.6**
Property, plant and equipment	[17]	2,423.5	2,199.4
Investment property	[18]	25.9	31.6
Financial assets	[19]	77.4	122.1
Associated companies	[20]	400.8	341.7
Deferred income tax assets	[21]	129.0	15.7
Other receivables and other assets	[22]	3.3	3.1
		3,183.7	**2,918.2**
Current assets			
Inventories	[23]	1,465.6	2,551.2
Trade receivables	[24]	1,056.6	1,652.2
Other receivables and other assets	[25]	283.7	881.9
Income tax assets	[26]	109.4	75.1
Securities	[27]	159.5	30.7
Cash and cash equivalents	[27]	1,793.0	592.1
		4,867.8	**5,783.2**
		8,051.5	**8,701.4**

Equity and liabilities in € m	Note	31/12/2009	31/12/2008
Equity			
Subscribed capital	[28]	161.6	161.6
Capital reserve	[29]	238.6	184.2
Retained earnings	[30]	3,835.4	4,261.6
Unappropriated retained earnings	[31]	15.1	84.2
		4,250.7	**4,691.6**
Treasury shares	[30]	–359.4	–372.8
		3,891.3	**4,318.8**
Minority interests	[32]	13.0	27.3
		3,904.3	**4,346.1**
Non-current liabilities			
Provisions for pensions and similar obligations	[33]	1,857.6	1,787.0
Deferred tax liabilities	[21]	3.8	103.1
Income tax liabilities	[26]	200.5	207.4
Other provisions	[34]	184.8	214.4
Financial liabilities	[35]	306.0	68.0
		2,552.7	**2,379.9**
Current liabilities			
Other provisions	[34]	515.3	473.5
Financial liabilities	[36]	81.4	110.5
Trade payables	[37]	541.3	865.4
Income tax liabilities	[26]	75.3	36.4
Other liabilities	[38]	381.2	489.6
		1,594.5	**1,975.4**
		8,051.5	**8,701.4**

(42) Cash flow statement

In € m	FY 2009	FY 2008
Earnings before tax (EBT)	–496.5	1,003.4
Depreciation, write-downs (+)/write-ups (–) on fixed assets	568.2	290.3
Income tax paid	–2.2	–240.2
Other non-payment-related expenses (+)/income (–)	155.6	300.2
Interest expenses	118.7	159.5
Increase (–)/decrease (+) from the disposal of fixed assets	–2.1	6.5
Increase (–)/decrease (+) in inventories	1,093.2	–415.4
Increase (–)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	518.3	–200.3
Use of provisions affecting payments, excluding use of tax provision	–263.3	–250.4
Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	–499.9	–107.0
Cash inflow from operating activities	**1,190.0**	**546.6**
Cash inflow from the disposal of fixed assets	0.8	5.5
Cash outflow for investments in intangible and fixed assets	–653.2	–638.1
Cash inflow (+)/outflow (–) for short-term loans against borrower's note/bonds	500.0	–425.0
Cash inflow from the disposal of financial assets	6.8	5.4
Cash outflow for investments in financial assets	–39.7	–537.4
Cash outflow from investment activities	**–185.3**	**–1,589.6**
Cash inflow (+)/outflow (–) as a result of selling and repurchasing treasury shares	13.8	–279.7
Cash outflow in payments to company owners	–75.7	–170.7
Cash inflow (+)/outflow (–) as a result of the issuing of bonds, borrowings and other financial liabilities	280.7	–27.5
Interest paid	–17.0	–27.0
Cash inflow/outflow from financing activities	**201.8**	**–504.9**
Cash and cash equivalents at the start of the period	592.1	2,138.8
Cash and cash equivalents relating to changes of the consolidated group	–5.8	0.9
Gains and losses from changes in foreign exchange rates	0.2	0.3
Payment-related changes in cash and cash equivalents	1,206.5	–1,547.9
Cash and cash equivalents at the end of the period	**1,793.0**	**592.1**

V. Statement of Changes in Equity

(28 to 32) Statement of Changes in Equity

In €m	Subscribed capital	Capital reserve	Sale/repurchase of treasury shares	Other retained earnings	Reserve from currency translation	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
Status 01/01/2008	**161.6**	**295.3**	**–227.9**	**3,943.7**	**–25.9**	**8.8**	**30.9**	**–179.7**	**189.7**	**4,196.5**	**49.4**	**4,245.9**
First-time consolidation of group companies so far not consolidated for materiality reasons				5.8						5.8		5.8
Goodwill resulting from the acquisition of minority interests	–	–	–	–51.5	–	–	–	–	–	–51.5	–19.7	–71.2
Total income	–	–	–	–0.3	–1.2	–11.0	–44.4	9.9	674.3	627.3	2.9	630.2
Dividend	–	–	–	–	–	–	–	–	–170.7	–170.7	–	–170.7
Redeemed own shares	–	–	134.8	–134.8	–	–	–	–	–	–	–	–
Repurchase of treasury shares	–	–	–279.7	–	–	–	–	–	–	–279.7	–	–279.7
Allocation from capital reserve	–	–111.1	–	–	–	–	–	–	111.1	–		
Group transfers to retained earnings	–	–	–	720.2	–	–	–	–	–720.2	–	–	–
Other	–	–	–	–8.9	–	–	–	–	–	–8.9	–5.3	–14.2
Status 31/12/2008	**161.6**	**184.2**	**–372.8**	**4,474.2**	**–27.1**	**–2.2**	**–13.5**	**–169.8**	**84.2**	**4,318.8**	**27.3**	**4,346.1**
First-time consolidation of group companies so far not consolidated for materiality reasons	–	–	–	12.5	–	–	–	–	–	12.5	–	12.5
Goodwill resulting from the acquisition of minority interests	–	–	–	3.0	–	–	–	–	–	3.0	–8.0	–5.0
Total income	–	–	–	0.1	2.2	2.6	11.7	–65.5	–383.8	–432.7	–3.2	–435.9
Dividend	–	–	–	–	–	–	–	–	–75.7	–75.7	–	–75.7
Disposal of treasury shares	–	–	15.5	–	–	–	–	–	–	15.5	–	15.5
Repurchase of treasury shares	–	–	–2.1	–	–	–	–	–	–	–2.1	–	–2.1
Appropriation to capital reserve from convertible bond	–	54.4	–	–	–	–	–	–	–	54.4	–	54.4
Group transfers to retained earnings	–	–	–	–390.4	–	–	–	–	390.4	–	–	–
Other	–	–	–	–2.4	–	–	–	–	–	–2.4	–3.1	–5.5
Status 31/12/2009	161.6	238.6	–359.4	4,097.0	–24.9	0.4	–1.8	–235.3	15.1	3,891.3	13.0	3,904.3

(43) Segment Reporting

In € m	Steel		Trading		Tubes		Services		Technology		Total segments	
	FY 2009	FY 2008	FY 2009	FY 2008	FY 2009	FY 2008	FY 2009	FY 2008	FY 2009	FY 2008	FY 2009	FY 2008
External sales	1,673.6	3,001.7	3,038.7	5,621.7	2,044.6	2,172.5	302.9	519.3	717.6	1,037.9	7,777.4	12,353.1
Sales to other segments	761.3	1,141.7	80.5	616.4	383.1	778.6	443.5	757.0	0.3	0.1	1,668.7	3,293.8
Sales to Group companies that cannot be allocated to an operating segment	1.1	137.6	8.4	63.9	0.6	0.6	5.8	10.8	0.2	0.2	16.1	213.1
Segment sales	2,436.0	4,281.0	3,127.6	6,302.0	2,428.4	2,951.7	752.2	1,287.1	718.1	1,038.2	9,462.2	15,860.0
Interest income (consolidated)	1.4	3.1	6.9	10.4	1.8	3.3	0.6	1.0	3.0	3.4	13.7	21.2
Interest income from Group companies that cannot be allocated to an operating segment	0.3	4.1	–	–	1.3	1.7	12.6	13.3	0.1	0.7	14.3	19.8
Segment interest income	1.7	7.2	6.9	10.4	3.1	5.0	13.2	14.3	3.1	4.1	28.0	41.0
Interest expenses (consolidated)	12.3	10.5	8.8	15.9	8.2	8.3	15.0	14.2	11.2	12.1	55.5	61.0
Interest expenses to Group companies that cannot be allocated to an operating segment	50.5	31.6	17.1	17.7	12.2	13.7	2.4	2.3	1.6	3.5	83.8	68.8
Segment interest expenses	62.8	42.1	25.9	33.6	20.4	22.0	17.4	16.5	12.8	15.6	139.3	129.8
Scheduled depreciation of property, plant and equipment and amortization of intangible assets (excluding impairment costs in accordance with IAS 36)	168.9	154.1	11.4	11.3	43.4	32.5	23.5	20.9	30.8	57.9	278.0	276.7
Unscheduled write-downs (impairment costs in accordance with IAS 36) on tangible assets and amortization of intangible assets[1]	139.0	–	6.1	–	29.9	–	–	–	67.2	–	242.2	–
Unscheduled write-downs (impairment costs in accordance with IAS 36) on financial assets[1]	–	–	1.5	–	21.4	6.7	–	–	2.8	0.1	25.7	6.8
Result for the period in the segment	–373.5	545.6	–128.0	150.8	104.0	311.8	8.2	23.9	–210.4	3.8	–599.7	1,035.9
of which income from associated companies	3.4	4.5	–	–	–6.9	3.5	–	–	–	–	–3.5	8.0
Other expenses and income with no effect on earnings	28.8	119.0	15.4	43.7	106.0	46.3	20.5	21.4	54.4	29.8	225.1	260.2
Investments in property, plant and equipment and intangible assets	2,434.6	2,562.0	863.6	1,655.9	1,368.5	1,601.5	563.6	555.6	880.6	968.4	6,110.9	7,343.4
of which shares in associated companies	1.4	1.9	–	–	87.0	82.9	–	–	–	–	88.4	84.8
Investments in property, plant and equipment and intangible assets	541.0	454.3	12.9	16.2	55.2	85.6	39.0	50.4	27.3	40.3	675.4	646.8
Segmental operating liabilities	1,903.6	1,732.8	796.8	1,523.4	950.0	1,174.9	485.7	469.3	1,108.0	1,074.0	5,244.1	5,974.4

[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 2009

In €m	Acquisition and production costs							Valuation allowances								Book values	
	01/01/2009	Currency translation differences	Changes in the consoli-dated group	Additions	Disposals	Transfers to other accounts	31/12/2009	01/01/2009	Currency translation differences	Changes in the consoli-dation group	Write-up	Deprecia-tion in the financial year[1]	Disposals	Transfers to other accounts	31/12/2009	31/12/2009	31/12/2008
Intangible assets																	
Goodwill	51.6	–	–	–	–	–	51.6	31.0	–	–	–	20.6	–	–	51.6	–	20.6
Concessions, industrial property rights and similar rights and assets, including licenses to such rights and assets	278.8	–0.1	1.4	10.2	2.3	4.2	292.2	96.6	–	0.1	–	77.5	2.4	–	171.8	120.4	182.2
Payments on account	1.8	–	–	2.4	–	–0.8	3.4	–	–	–	–	–	–	–	–	3.4	1.8
	332.2	**–0.1**	**1.4**	**12.6**	**2.3**	**3.4**	**347.2**	**127.6**	**–**	**0.1**	**–**	**98.1**	**2.4**	**–**	**223.4**	**123.8**	**204.6**
Property, plant and equipment																	
Land, similar rights and buildings, including buildings on land owned by others	1,180.8	–0.5	19.0	41.9	23.6	38.6	1,256.2	635.6	–0.1	0.9	–	75.6	7.0	–0.2	704.8	551.4	545.2
Plant equipment and machinery	4,341.8	–1.6	36.2	283.9	135.6	174.2	4,698.9	3,274.9	–0.9	4.5	–	330.3	108.9	–	3,499.9	1,199.0	1,066.9
Other equipment, factory and office equipment	305.0	0.1	0.8	26.1	16.3	5.7	321.4	216.8	–	0.6	–	34.6	15.5	–	236.5	84.9	88.2
Payments made on account and equipment under construction	502.1	–0.1	1.1	312.4	2.1	–222.4	591.0	3.0	–	–	–	–	–	–0.2	2.8	588.2	499.1
	6,329.7	**–2.1**	**57.1**	**664.3**	**177.6**	**–3.9**	**6,867.5**	**4,130.3**	**–1.0**	**6.0**	**–**	**440.5**	**131.4**	**–0.4**	**4,444.0**	**2,423.5**	**2,199.4**
Investment property	**32.1**	**–**	**–**	**–**	**2.0**	**0.5**	**30.6**	**0.5**	**–**	**–**	**–**	**4.0**	**0.2**	**0.4**	**4.7**	**25.9**	**31.6**
Financial investments																	
Shares in affiliated companies	50.3	–	–	5.2	12.1	–0.9	42.5	10.8	–	–	–	11.3	9.8	–	12.3	30.2	39.5
Shareholdings	37.9	–0.7	–	17.9	22.8	0.9	33.2	9.7	–	–	–	14.4	2.2	–	21.9	11.3	28.2
Loans to affiliated companies	18.5	–	–	1.0	14.0	–	5.5	–	–	–	–	–	–	–	–	5.5	18.5
Non-current securities	24.1	–	–	15.1	18.0	–	21.2	–	–	–	–	–	–	–	–	21.2	24.1
Other loans	12.5	–0.3	–	0.7	3.1	–	9.8	0.7	–	–	0.1	–	–	–	0.6	9.2	11.8
	143.3	**–1.0**	**–**	**39.9**	**70.0**	**–**	**112.2**	**21.2**	**–**	**–**	**0.1**	**25.7**	**12.0**	**–**	**34.8**	**77.4**	**122.1**
	6,837.3	**–3.2**	**58.5**	**716.8**	**251.9**	**–**	**7,357.5**	**4,279.6**	**–1.0**	**6.1**	**0.1**	**568.3**	**146.0**	**–**	**4,706.9**	**2,650.6**	**2,557.7**

[1] The composition of the impairments contained herein (unscheduled deprecition/ amortization) is shown in the Notes, Note 6.

Analysis of Fixed Assets 2008

In €m	Acquisition and production costs						
	01/01/2008	Currency translation differences	Changes in the consolidation 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 equipment 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**
	6,222.8	**0.5**	**139.1**	**712.3**	**237.4**	**–**	**6,837.3**

In €m	Valuation allowances								Book values	
	01/01/2008	Currency translation differences	Changes in the consolidation group	Write-up	Depreciation in the financial year[1]	Disposals	Transfers to other accounts	31/12/2008	31/12/2008	31/12/2007
Intangible assets										
Goodwill	–	–	–	–	31.0	–	–	31.0	20.6	15.4
Concessions, industrial property rights and similar rights and assets, including licenses to such rights and assets	85.7	–	–	–	15.8	4.9	–	96.6	182.2	117.8
Payments on account	–	–	–	–	–	–	–	–	1.8	1.7
	85.7	**–**	**–**	**–**	**46.8**	**4.9**	**–**	**127.6**	**204.6**	**134.9**
Property, plant and equipment										
Land, similar rights and buildings, including buildings on land owned by others	620.2	0.2	–	–	23.8	9.0	0.4	635.6	545.2	496.7
Plant equipment and machinery	3,215.5	1.3	1.4	–	179.0	122.2	–0.1	3,274.9	1,066.9	976.7
Other equipment, factory and office equipment	200.8	–	0.2	–	28.5	13.4	0.7	216.8	88.2	75.0
Payments made on account and equipment under construction	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**
Investment property	**0.1**	**–**	**–**	**–**	**0.3**	**–**	**0.1**	**0.5**	**31.6**	**26.5**
Financial investments										
Shares in affiliated companies	24.8	–	–	–	5.1	19.1	–	10.8	39.5	33.9
Shareholdings	3.0	–	–	–	6.7	–	–	9.7	28.2	24.2
Loans to affiliated companies	–	–	–	–	–	–	–	–	18.5	1.5
Non-current securities	–	–	–	–	–	–	–	–	24.1	46.3
Other loans	0.7	–	–	–	–	–	–	0.7	11.8	2.9
	28.5	**–**	**–**	**–**	**11.8**	**19.1**	**–**	**21.2**	**122.1**	**108.8**
	4,154.8	**1.5**	**1.6**	**–**	**290.3**	**168.6**	**–**	**4,279.6**	**2,557.7**	**2,068.0**

[1] The composition of the impairments contained herein (unscheduled depreciation/amortization) is shown in the Notes, Note 6.

Material Participations of Salzgitter AG

Status 31/12/2009		Equity in € or national currency (1,000 units)		Share of capital direct in %	Share of capital indirect in %
Steel Division					
Salzgitter Stahl GmbH, Salzgitter[1]	SZS		240,024		100.0
Salzgitter Flachstahl GmbH, Salzgitter[1]	SZFG		176,636	5.0	95.0
Peiner Träger GmbH, Peine[1]	PTG		50,195	5.2	94.8
Ilsenburger Grobblech GmbH, Ilsenburg[1]	ILG		25,875	5.4	94.6
Salzgitter Bauelemente GmbH, Salzgitter[1]	SZBE		1,001		100.0
HSP Hoesch Spundwand und Profil GmbH, Dortmund[1]	HSP		14,623		100.0
ThyssenKrupp GfT Bautechnik GmbH, Essen[3]	TKBT		500		30.0
Salzgitter Europlatinen GmbH, Salzgitter[1]	SZEP		4,875		100.0
Trading Division					
Hövelmann & Lueg GmbH, Schwerte[1]	HLG		2,942	5.1	94.9
Salzgitter Mannesmann Handel GmbH, Düsseldorf[1]	SMHD		75,193	5.1	94.9
Salzgitter Mannesmann International GmbH, Düsseldorf[1]	SMID		10,300		100.0
Salzgitter Mannesmann Stahlhandel GmbH, Düsseldorf[1]	SMSD		22,729		100.0
Deltastaal B.V., Oosterhout (Netherlands)[1]	DSO		45,013		100.0
Friesland-Staal B.V., Drachten (Netherlands)[1]	FSD		11,405		100.0
Stahl-Center Baunatal GmbH, Baunatal[1]	SCB		5,200		100.0
Salzgitter Handel B.V., Oosterhout (Netherlands)[1]	SHN		61,733		100.0
Salzgitter Mannesmann International (Canada) Inc., Vancouver (Canada)[1]	SMIV	CAD	22,809		100.0
Universal Eisen und Stahl GmbH, Neuss[1]	UES		14,975	5.1	94.9
Salzgitter Mannesmann Stahlhandel s.r.o., Prague (Czech Republic)[1]	SMCZ	CZK	45,907		100.0
Salzgitter Mannesmann Stahlhandel sp.z.o.o., Slupca (Poland)[1]	SMPL	PLN	9,454		100.0
Salzgitter Mannesmann International (USA) Inc., Houston (USA)[1]	SMIH	USD	3,650		100.0
Tubes Division					
Salzgitter Mannesmann Großrohr GmbH, Salzgitter[1]	MGR		6,162	5.1	94.9
Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr[1]	MRW		1,000		100.0
Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr[1]	MGB		10,226		100.0

Status 31/12/2009			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., Chèu (France)[1]	MPE		12,187		100.0
Salzgitter Mannesmann Präzisrohr GmbH, Hamm[1]	MPR		37,748		100.0
Salzgitter Mannesmann Seamless Tubes B.V., Helmond (Netherlands)[1]	MSE		8,740		100.0
Salzgitter Mannesmann Rohr Sachsen GmbH, Zeithain[1]	MRS		14,476		100.0
Salzgitter Mannesmann Precision GmbH, Mülheim an der Ruhr[1]	SMP		50,514		100.0
EUROPIPE GmbH, Mülheim an der Ruhr[2]	EP		298,365		50.0
Europipe France S.A., Grande-Synthe (France)[2]	EPF		5,157		100.0
Berg Steel Pipe Corporation, Wilmington (USA)[2]	BSPC	USD	117,012		100.0
eb Pipe Coating Inc., Wilmington (USA)[2]	EBPC	USD	12,980		100.0
BERG EUROPIPE HOLDING CORP., New York (USA)[2]	BEHC	USD	159,000		100.0
Berg Spiral Pipe Corporation, Wilmington (USA)[2]	BSPM	USD	23,062		100.0
MÜLHEIM PIPECOATINGS GmbH, Mülheim an der Ruhr[2]	MPC		24,522		100.0
Salzgitter Mannesmann Line Pipe GmbH, Siegen[1]	MLP		19,339		100.0
Salzgitter Mannesmann Stainless Tubes GmbH, Mülheim an der Ruhr[1]	MST		15,000		100.0
Hüttenwerke Krupp Mannesmann GmbH, Duisburg[3]	HKM		122,738		30.0
Salzgitter Mannesmann Stainless Tubes France S.A.S., Montbard (France)[1]	MSTF		46,574		100.0
Salzgitter Mannesmann Stainless Tubes Italia S.r.l., Costa Volpino (Italy)[1]	MSTI		16,142		100.0
Salzgitter Mannesmann Stainless Tubes Deutschland GmbH, Remscheid[1]	MSTD		58,585		100.0
Salzgitter Mannesmann Stainless Tubes USA, Inc., Houston (USA)[1]	MSTU	USD	24,196		100.0
Services Division					
DEUMU Deutsche Erz- und Metall-Union GmbH, Peine[1]	DMU		10,674	5.1	94.9
Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter[1]	VPS		19,599	5.1	94.9
Hansaport Hafenbetriebsgesellschaft mbH, Hamburg[1]	HAN		5,113		51.0
Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Osnabrück[1]	SZAB		12,921	100.0	
SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter[1]	SIT		26		100.0

[1] fully consolidated
[2] Proportionally consolidated
[3] at equity

Status 31/12/2009			Equity in € or national currency (1,000 units)	Share of capital direct in %	Share of capital indirect in %
Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück[1]	SZAE		3,663		100.0
Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück[1]	SZAI		83		100.0
Salzgitter Hydroforming GmbH & Co. KG, Crimmitschau[1]	SZHF		7,704	100.0	
GESIS Gesellschaft für Informationssysteme mbH, Salzgitter[1]	GES		2,600		100.0
TELCAT KOMMUNIKATIONSTECHNIK GmbH, Salzgitter[1]	TCG		492		100.0
"Glückauf" Wohnungsgesellschaft mbH, Peine[1]	GWG		26	5.2	94.8
SZST Salzgitter Service und Technik GmbH, Salzgitter[1]	SZST		60		100.0
Salzgitter Mannesmann Forschung GmbH, Salzgitter[1]	SZMF		750		100.0
TELCAT MULTICOM GmbH, Salzgitter[1]	TMG		2,968		100.0
Technology Division					
Klöckner-Werke AG, Duisburg[1]	KWAG		244,827		95.8
KHS AG, Dortmund[1]	KHSAG		223,604		100.0
KHS USA Inc., Waukesha (USA)[1]	KHSUS	USD	53,086		100.0
KHS Industria de Máquinas Ltda., São Paulo (Brazil)[1]	KHSBR	BRL	660		100.0
KHS Mexico S.A. de C.V., Zinacantepec (Mexico)[1]	KHSME	MXN	118,870		100.0
KHS Machinery Pvt. Ltd., Ahmedabad (India)[1]	KHSIN	INR	348,242		89.0
KHS Pacific Pty. Ltd., Tullamarine (Australia)[1]	KHSAU	AUD	2,130		100.0
KHS Manufacturing (South Africa) (Pty.) Ltd., Kramerville (South Africa)[1]	KHSSA	ZAR	31,699		100.0
KHS RUS OOO, Moscow (Russia)[1]	KHSRU	RUB	14,936		99.0
Klöckner Mercator Maschinenbau GmbH, Duisburg[1]	KMM		102,320		100.0
Klöckner DESMA Elastomertechnik GmbH, Fridingen[1]	KDE		3,835		85.0
Klöckner DESMA Schuhmaschinen GmbH, Achim[1]	KDS		5,113		100.0
RSE Grundbesitz und Beteiligungs-Aktiengesellschaft, Frankfurt am Main[1]	RSE		20,767		100.0
Klöckner PET-Technologie GmbH, Frankfurt am Main[1]	SMPET		120,627		100.0
KHS Corpoplast GmbH & Co. KG, Hamburg[1]	BEVCP		67,800		100.0
KHS Plasmax GmbH, Hamburg[1]	BEVPX		1,526		100.0
Other					
Salzgitter Mannesmann GmbH, Salzgitter[1]	SMG		2,298,560	100.0	
Salzgitter Finance B.V., Oosterhout (Netherlands)[1]	SZFBV		2,003	100.0	
Aurubis AG, Hamburg	NAAG		745,805		25.3

[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.

Effects of new or amended standards:

Standards/Interpretation		Mandatory date	Adoption by EU commission[1]	Effects
IFRS 1 IAS 27	Cost of an Investment in a Subsidiary	01/01/2009	yes	none
IFRS 2	Amendment: Share based payments: Vesting Conditions and Cancellations	01/01/2009	yes	none
IFRS 7	Amendment: Reclassification of Financial Instruments	01/07/2008	yes	none
IFRS 7	Amendment: Disclosures of Financial Instruments	01/01/2009	yes	notes
IFRS 8	Operating Segments	01/01/2009[2]	yes	segmental reporting
	Improvements 2008[3]	01/01/2009	yes	no material effects
IAS 1	Amendment: Presentation of Financial Statements	01/01/2009	yes	presentation of financial statements
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	yes	none
IFRIC 9 IAS 39	Reassessment of Embedded Derivates	01/01/2009	yes	none
IFRIC 13	Customer Loyalty Programs	01/07/2009	yes	none
IFRIC 14 IAS 19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01/01/2009	yes	not foreseeable

1) As of 31/12/2009
2) Early application in 2007
3) IFRS 5, IFRS7, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 40, IAS 41

Standards not applied early:

Standards/Interpretation		Mandatory date	Adoption by EU commission[1]	Likely effects
IFRS 1	First-time Adoption of IFRS	01/01/2010	yes	none
IFRS 1	Additional Exemptions for First-time Adopters	01/01/2010	no	none
IFRS 1/ IFRS 5	Improvements 2008	01/01/2010	yes	none
IFRS 2	Share-based Payment	01/01/2010	no	none
IFRS 3/ IAS 27	Business Combinations	01/07/2009	yes	modified presentation of business combinations
IFRS 9	Financial Instruments (replacement of IAS 39)	01/01/2013	no	not foreseeable
IAS 24	Related Party Disclosures	01/01/2011	no	none
IAS 32	Financial Instruments: Presentation	01/02/2010	yes	none
IAS 39	Eligible Hedged Items	01/01/2010	no	none
	Improvements 2009[2]	01/01/2010	no	no material effects
IFRIC 12	Service Concession Arrangements	01/01/2010	yes	none
IFRIC 14	IAS 19 The Limit on a defined Benefit Asset - Changes	01/01/2011	no	none
IFRIC 15	Agreement for the Contruction of Real Estate	01/01/2010	yes	none
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	01/01/2008	yes	none
IFRIC 17	Distributions of Non-cash Assets to Owners	01/07/2009	yes	none
IFRIC 18	Transfers of Assets from Customers	01/07/2009	yes	none
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	01/07/2010	no	no material effects

[1] As of 31/12/2009

[2] Minor amendments to numerous standards (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) and consequential amendments

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

The consolidated financial statements are disclosed 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, 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 Group's 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 (€ m).

On December 10, 2009, the Executive Board and the Supervisory Board issued the Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act [AktG] and made it permanently available to shareholders on the company's website (www.salzgitter-ag.de). The Declaration of Confomity is also printed in the "Corporate Governance Report" section in the annual report.

Consolidation Principles and Methods

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

The consolidated financial statements include all of the companies whose financial and business policies Salzgitter AG is capable of determining directly or indirectly in such a way that the companies in the Salzgitter Group derive benefit from the activities of these companies. These companies are included in the consolidated financial statements as of the time when the Salzgitter Group 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 until the time of the sale, which is 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 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 at their proportionate equity at the time of acquisition. In principle, each equity valuation is based on the latest audited annual financial statements. The equity valuation is based on the last audited annual financial statements or, if a Group company has a financial year which deviates from that of the consolidated financial statements, the interim financial statements as at December 31.

Business combinations are accounted for in accordance with IFRS 3.4 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. Consideration in return for an acquisition must be determined from the total fair values of the assets acquired as of the time when they changed hands, the liabilities entered into or acquired, and the equity instruments issued by the group in exchange for the control of the acquired company. Any costs incurred in connection with the business combination must be recorded with effect on income when they are incurred. Subsequent changes in fair values must be adjusted against the acquisition costs, provided that the adjustments are within the valuation period. All other changes in the fair value of a conditional consideration classified as an asset or a liability must be recorded in accordance with the respective IFRS rules. Changes in the fair value of a conditional consideration which is classified as equity are not recorded. In the case of a gradual business combination, the equity interest in the acquired company previously held by the group must be redetermined at the fair value which is valid at the time of acquisition (i.e. at the point when control was gained) and any resulting profit or loss must be recorded as appropriate under profit or loss. Amounts recorded under other earnings which result from shares in the acquired company before control changed hands must be recorded in the income statement if this would have been required if the shareholding had been disposed of. The identifiable assets, liabilities and contingencies which are acquired must – if they satisfy the requirements for reporting under IFRS 3 – be accounted for at their fair values as of the time of acquisition. The valuation period is the period from the time of acquisition to the time when the group has received all the information about the facts and circumstances prevailing as of the time of acquisition, but no later than one year after the acquisition date.

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

In the case of assets and liabilities denominated in foreign currency, the acquisition costs must in always 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 46 (2008: 48) domestic and 20 (2008: 18) foreign affiliated companies, all prepared as of the same reporting date.

Two domestic (2008: two) and five foreign (2008: four) joint ventures are included on a pro rata basis in the consolidated financial statements by means of proportionate consolidation.

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

In € m	FY 2009	FY 2008
Non-current assets	103.4	78.8
Current assets	297.6	215.4
Non-current liabilities	32.6	26.0
Current liabilities	127.5	66.6
Earnings	713.7	592.7
Expenses	534.1	535.5

Three domestic shareholdings (2008: three) over which Salzgitter AG or another Group company exercises a decisive influence are also included in the consolidated financial statements using the equity method.

A total of 33 (2008: 34) domestic and 57 (2008: 59) 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 31/12/2008	Additions	Disposals	Status 31/12/2009
Consolidated subsidiaries	**66**	**3**	**3**	**66**
of which domestic	48	1	3	46
of which foreign	18	2	–	20
Joint ventures	**6**	**1**	**–**	**7**
of which domestic	2	–	–	2
of which foreign	4	1	–	5
Associated companies	**3**	**–**	**–**	**3**
of which domestic	3	–	–	3
of which foreign	–	–	–	–

The addition of the fully and/or proportionately consolidated companies relates to the Trading, Services and Tubes divisions and "Others". The disposals result from the merger of two companies and the disposal of a company from the Technology Division.

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	**31/12/2009**	**31/12/2008**	**FY 2009**	**FY 2008**
Australian dollar	1.6008	2.0274	1.7727	1.7416
Brazilian real	2.5113	3.2436	2.7674	2.6737
Indian rupee	67.0400	67.6360	67.3611	63.6439
Canadian dollar	1.5128	1.6998	1.5850	1.5594
Mexican peso	18.9223	19.2333	18.7989	16.2911
Polish zloty	4.1045	4.1535	4.3276	3.5121
Russian ruble	43.1540	41.2830	44.1376	36.4207
South African rand	10.6660	13.0667	11.6737	12.0590
Czech koruna	26.4730	26.8750	26.4350	24.9460
US dollar	1.4406	1.3917	1.3948	1.4708

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 standards defined by the IASB.

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

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 can deviate from the assumptions and estimates in individual cases. Deviations of this kind are posted to income as of the time when better knowledge becomes available.

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 internationally recognized valuation technique which is usually based on the expected aggregate cash flow in the future. These valuations are closely linked to the assumptions that 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. In the Salzgitter Group, the cash generating unit is generally the individual legal entity. In the individual case, legal entities are combined to form a group. Management is confident that the assumptions used for calculating the recoverable amount are appropriate. Any changes in these assumptions could lead to value impairments that would adversely affect 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 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 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 contract production 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 continuously checks all of the estimates that are necessary 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. Management is assuming that it has made a sensible assessment of fiscal imponderables. Under some circumstances, 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 management, among other things, to 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 and mortality rates. 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.

Any surplus of the acquisition cost of an associated company over the Group's share of the net fair values of the assets, liabilities and contingent liabilities of that associated company as of the acquisition date must be accounted for as goodwill. Goodwill is a component of the shareholding's book value and is not examined separately for possible impairment. Instead, the entire book value of the shareholding is examined for impairment.

b) Other intangible assets

Other intangible assets acquired against payment are reported at acquisition cost and amortized on a straight-line basis over the period of their likely economic useful lives, generally no more than 5 years.

Other intangible assets are usually amortized over a period of five years. The assets identified within the framework of the purchase price allocations are amortized regularly over periods of between 7 and 22 years using the straight line method.

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. Costs which are necessary for the creation, production and development of the asset so that it is in good operational condition for the purposes intended for it by the Group's management are included.

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 economic useful life of the developed asset models.

Property, Plant and Equipment

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

The production costs of internally generated property, plant and equipment are determined on the basis of directly attributable costs and estimated demolition and restoration costs.

The costs incurred in the regular maintenance and repair of property, plant and equipment are recognized as expenses. Renewal and maintenance expenses are capitalized as subsequent production costs only if they result in a material extension of the useful life or a substantial improvement or an important change in the use of the said property, plant and equipment.

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

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

Useful 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, coking plants	15 years
Plant equipment, spare parts	10 years
Car pool	5 years
Factory and office equipment	5 years

Borrowing Costs

Borrowing costs which are connected directly with the acquisition, construction or manufacturing of qualifying assets (assets which require a considerable period of time to bring them up to their intended usable or saleable condition) are added to the production costs of these assets up until such time when the assets are basically available to be used or sold as intended. Income generated by the temporary investment of specially borrowed funds is deducted from the capitalizable borrowing costs until they are spent on qualifying assets.

All other borrowing costs are recorded in the period when they are incurred with effect on income.

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 opportunities associated with ownership were transferred to the respective Group company. If a contract consisting of several components applies, a lease arrangement is then assumed, in accordance with IFRIC 4, if the fulfillment of the contract depends on the utilization of a particular asset and the contract regulates the transfer of this utilization right. In these cases the respective property, plant and equipment are capitalized at acquisition or production cost or at the lower net present value of the minimum lease payments and are depreciated using the straight-line method over their economic useful lives, or the shorter term of the lease agreement. Payment obligations resulting from future lease instalments are discounted as liabilities.

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

Lease arrangements in which a material part of the benefits and risks inherent in ownership of the leased item remains with the lessor are classified as operating leases. The lease 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 used to generate rental income or long-term value appreciation and not 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. The notes to the consolidated financial statements indicate the fair value of these properties, which is ascertained using internationally acknowledged valuation methods such as the DCF method 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 or a financial guarantee contract. The option of designating financial instruments as financial assets to be measured at fair value with effect on income when they are first reported (fair value option) is not exercised in the Salzgitter Group.

b) Loans and receivables originated by the company

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

c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and the ability to hold to maturity. In the financial year 2009, 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 non-current assets if management does not intend to sell them within 12 months of the reporting date.

In principle, all purchases and sales of financial assets made on customary market terms are recognized as of the settlement date in the Salzgitter Group – i.e. 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 on 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 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 recognized immediately in the income statement. Amounts recorded under equity are reposted to the income statement in the period when the hedged item is recorded as earnings or expenses and in which the hedged underlying transaction is posted to income. However, when a hedged future transaction results in the recognition of a non-financial asset (e.g. inventories) or a liability, the gains or losses previously recorded under equity are transferred from equity and included in the initial valuation of the acquisition cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the requirements of hedge accounting, the cumulative gain or loss remains in equity and is not recognized in the income statement until the underlying transaction is ultimately recognized. If the forecast transaction is no longer expected to take place, the cumulative gains or losses that were recorded directly in equity must be transferred immediately to the income statement. Movements in the reserve for cash flow hedges in equity are disclosed in the statement of changes in equity and the schedule of recorded income and 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 impairment. Impairments of equity instruments that have already been recorded in the income statement are reversed with no effect on income, while impairments of debt instruments are reversed with effect on income.

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

Inventories

Inventories are stated at acquisition or production cost or the lower net selling value. Inventories are valued at average costs or individually attributed acquisition or production costs. The production costs are determined on the basis of normal capacity utilization. Specifically, the production costs include not only the directly attributable costs, but also the production-related material costs and production overheads including production-related depreciation. If a qualified asset is present, borrowing costs are capitalized as part of acquisition or production cost. 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 (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

Under 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 recorded.

Payments received on account are deducted on the assets side 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 recognized as expenses immediately and, if it exceeds the contract costs already incurred, reported as a liability from contract construction.

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 usual projected unit credit method prescribed by the IFRS. This procedure 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 the pension provisions with no effect whatsoever on income in the year in which they are incurred.

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

	31/12/2009	31/12/2008
Actuarial rate	4.75 %	5.25 %
Trend in salaries	2.75 %	2.75 %
Trend in pension	1.75 %	1.75 %
Staff turnover	1.00 %	1.00 %

As a result of the crisis in the financial markets/the credit crunch, there are still several market distortions which affect the yields of high-quality corporate bonds and consequently the actuarial interest rates derived from them. Against this backdrop, the company has decided, in deducing the applicable yield curve, to eliminate all those corporate bonds contained in the iBoxx € Corporate AA 10+ Index whose yield as of the balance sheet date deviates from the weighted average yield of the bonds listed in the index by more than a standard deviation. After this adjustment had been carried out, the actuarial rate, taking account of the durations of the obligations assessed, was 4.75 %.

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 this provides a more realistic valuation of the obligations 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, 2009, the deferred taxes of domestic companies were evaluated with an overall tax rate of 30.2 %, as in the previous year. This tax rate consists of the 14.4 % trade tax rate that applies in the Group and the 15.8 % corporate income tax (including the 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 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 production orders, sales are recognized using the percentage-of-completion method.

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

IAS 20 stipulates that grants may not be reported in the balance sheet until the necessary claim 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. Unscheduled depreciation is 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 unscheduled depreciation no longer applies, a reversal 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 currency risk, the interest rate and credit risk, the use of derivative and non-derivative financial instruments and the investment of excess liquidity.

Currency risk

The Group operates internationally and is therefore exposed to a currency risk based on fluctuations in the exchange rates between various foreign currencies. Currency risks arise from expected future transactions and assets and liabilities reported in the balance sheet. The risk arises when transactions are denominated in a currency that is not the functional currency of the company. The Group companies use forward exchange contracts to hedge against such risks.

In the Group, the hedging relationship between the hedging instrument and the underlying transaction, the objective of the Group's risk management and the strategy underlying the hedging transactions are documented when hedging transactions are concluded. In addition, the estimation as to whether the derivatives used in the hedging relationship are highly effective in compensating for the changes in the current value or the underlying transaction's cash flows is then documented in the Group at the start of the hedging relationship and continuously thereafter.

Credit risk

The Group has no significant potential credit risk clusters. It has trading rules and regulations and an efficient receivables management program which ensure that products are sold only to customers with an appropriate payment history. Contracts involving derivative financial instruments and financial transactions are restricted to financial institutions with prime 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 a convertible bond and the existence of unused credit lines.

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 debt structure (net debt/credit) consists of current and non-current liabilities to banks less cash and cash equivalents 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 € m	FY 2009	FY 2008
Breakdown by product category		
Flat rolled products	2,713.1	4,775.8
Sections	653.6	1,503.1
Tubes	2,767.2	3,376.4
Filling and packaging machinery	644.9	862.4
Other	1,039.2	1,981.5
	7,818.0	**12,499.2**
Breakdown by region		
Domestic	3,799.1	5,873.3
Other EU	1,492.2	2,593.2
Other Europe	283.9	474.9
America	632.1	1,152.8
Asia	899.5	1,242.0
Other	711.2	1,163.0
	7,818.0	**12,499.2**

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

Sales include revenues recorded using the percentage-of-completion method amounting to € 276.0 million (2008: € 331.7 million).

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

In € m	FY 2009	FY 2008
Changes in the inventory of finished goods	–259.7	48.9
Other own work capitalized	14.7	28.0
	–245.0	**76.9**

Compared with the previous year, finished goods and work in process decreased slightly which is attributable to a decline in both values and volumes. All in all, lower raw material and input material prices led to a lower valuation of this item.

Own work capitalized decreased primarily due to progress made in the completion of investment projects.

(3) Other Operating Income

In € m	FY 2009	FY 2008
Reversal of provisions and allowances	170.0	119.3
Income from exchange rate fluctuations	62.9	68.0
Income from the valuation of financial derivatives and foreign currency positions	29.1	75.8
Income from the disposal of fixed assets	17.8	8.7
Income from CO_2 emission rights	16.0	3.1
Income from write-downs of receivables	15.0	8.5
Ancillary operating income	12.6	11.8
Rental, lease and licensing income	9.2	8.2
Write-ups on short-term securities	8.4	–
Insurance compensation	6.6	6.4
Subsidies	3.8	4.9
Charged-on costs	3.5	2.0
Refund from previous years	2.6	1.1
Other income	51.8	42.2
Other operating income	**409.3**	**360.0**

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

(4) Cost of Materials

In € m	FY 2009	FY 2008
Cost of raw materials, consumables, supplies and purchased goods	5,091.7	8,185.8
Cost of purchased services	364.4	597.5
Cost of materials	**5,456.1**	**8,783.3**

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 consists essentially of sales-related contract processing and inter-company transport costs.

This decrease can be attributed primarily to reduced sales and lower raw materials costs.

(5) Personnel Expenses

In € m	FY 2009	FY 2008
Wages and salaries	1,118.9	1,198.9
Social security, pension and other benefits	278.0	273.5
of which pension plans and retirement benefits	[137.1]	[119.6]
Personnel expenses	**1,396.9**	**1,472.4**

In the financial year 2009, the defined contribution plan payments in the Salzgitter Group totaled € 122.4 million (2008: € 105.4 million). The increase in the costs of pensions and retirement benefits results primarily from premium increases by the pension security association. 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 which is shown in the financial result.

Average number of employees (excl. employees in age-related part-time employment)	FY 2009	FY 2008
Wage labour	14,799	14,980
Salaried employees	8,971	8,886
Group core workforce	**23,770**	**23,866**

(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 impairment expenses were also taken into account due to the general economic crisis and the future earnings contributions that are currently anticipated:

In € m	FY 2009	FY 2008
Intangible assets	79.5	31.0
Land, similar rights and buildings	49.1	–
Plant equipment and machinery	125.9	–
Other equipment, factory and office equipment/equipment under construction	4.5	–
Investment property	3.7	–
Impairment	**262.7**	**31.0**

The impairment costs are calculated in accordance with the standards set out under 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 net realizable value is based on the current plans prepared by management for the three subsequent years. The premises of the plans are adjusted to the current state of knowledge which, in turn, is based on general business and economic data supplemented by the company's own estimates. The net realizable value was calculated using the discounted cash flow method based on interest rates of 7.2% p.a. (2008: 7.6%) for the Technology Division and 8.5% p.a. (2008: 8.9 %) for the other divisions.

The calculations led to impairment costs of € 20.6 million (2008: € 31.0 million) for the goodwill of the KHS Group (including the PET Group) due to the expected earnings contributions.

In 2009, the valuation allowances carried out were mostly connected with restructuring measures. In the Steel Division's sections product segment, for example, the allowances amounted to € 139.0 million, of which € 28.9 million was accounted for by land and buildings and € 110.1 million by plant equipment and machinery and other property, plant and equipment.

In the Technology Division, the very cautious investment climate in the beverages industry and the steep decline in demand in the mechanical engineering sector in general led to an appreciable drop in orders. Valuation allowances amounting to € 67.1 million were carried out in the division, consisting of € 6.4 million for land and buildings (of which € 3.7 million for investment property), € 58.2 million for intangible assets, € 1.0 million for plant equipment and machinery, and € 1.5 million for other plant equipment.

At the precision steel tubes group in the Tubes Division, there were valuation allowances amounting to € 29.9 million, of which € 12.0 million was accounted for by land and buildings, € 17.2 million by plant equipment and machinery, and € 0.7 million by intangible assets.

In the Trading Division there were valuation allowances of € 6.1 million, of which € 5.5 million were accounted for by land and buildings and € 0.6 million by plant equipment and machinery.

A reduction or increase of 1% in the interest rate applied to the calculation of impairment for intangible assets and tangible fixed assets leads to a reduction of € 10.9 million or, respectively, an increase of € 11.5 million in total impairment.

(7) Other Operating Expenses

In € m	FY 2009	FY 2008
External services and provisioning	327.4	447.4
Selling expenses	274.9	374.0
Administrative expenses including insurance costs, charges and consulting costs	98.6	111.7
Advertising/information and travel expenses	57.4	72.0
Expenses from the valuation of financial derivatives and foreign currency positions	56.7	75.6
Rent and leases	36.3	38.1
Exchange losses	35.2	54.4
Valuation allowances for doubtful accounts	33.9	39.8
EDP costs	18.7	19.6
Welfare-related personnel and non-personnel expenses	18.2	19.6
Loss on the disposal of fixed assets	14.2	13.2
Other taxes	13.5	16.4
Financial/monetary transfer expenses	10.2	18.1
Loss on the disposal of current assets	2.5	8.1
Write-down on securities held short term	–	30.8
Other expenses	32.4	46.6
Other operating expenses	**1,030.1**	**1,385.4**

The “Administrative expenses including insurance costs, charges and consulting costs” item includes insurance costs of € 30.5 million, expenses for fees, charges and appraisals amounting to € 16.2 million, and consulting costs of € 12.9 million.

The development of expenses from the valuation of financial derivatives and foreign currency items, and the exchange rate losses essentially results primarily from the high volatility of the US dollar against the euro during the course of the financial year. In the case of other operating income, the corresponding income positions have also decreased.

(8) Income from Shareholdings

In € m	FY 2009	FY 2008
Income from profit transfer agreements	0.7	0.2
of which affiliated companies	[0.7]	[0.2]
Income from shareholdings	1.0	15.5
of which affiliated companies	[0.2]	[12.8]
Expenses from the assumption of losses	0.6	1.5
of which affiliated companies	[0.6]	[1.5]
Income from shareholdings	**1.1**	**14.2**

(9) Income from Associated Companies

In €m	FY 2009	FY 2008
Income from associated companies	56.7	8.0

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

(10) Impairment Losses on Financial Assets

In €m	FY 2009	FY 2008
Impairment losses on financial assets	25.7	11.8

The impairment losses on financial assets in the financial year under review result primarily from the fair value of shares in four non-consolidated companies. The calculation of the useful life is based on the current plans prepared by management for the three following years. The premises of the plans are 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 €m	FY 2009	FY 2008
Income from loans from financial assets	0.7	0.8
Other interest earned and similar income	32.8	135.2
of which affiliated companies	[1.6]	[1.5]
Finance income	**33.5**	**136.0**

Interest income decreased in the financial year ended due to the sharp reduction in the interest rate during the course of the year.

In €m	FY 2009	FY 2008
Interest component from allocation to pension provisions	90.3	90.9
Other Interest and similar expenses	28.4	68.6
of which affiliated companies	[1.3]	[1.6]
Finance expenses	**118.7**	**159.5**

(12) Income Tax

In € m	FY 2009	FY 2008
Income tax		
current tax expenses/tax income (+/–)	77.4	295.1
deferred tax expenses/tax income (+/–)	–187.0	31.4
	–109.6	**326.5**
of which unrelated to the reporting period	[–6.7]	[–2.7]
Total	**–109.6**	**326.5**

The tax income of € 109.6 million relates to earnings before tax. The income tax unrelated to the accounting period consists primarily of deferred tax amounts.

The decrease in current income tax from € 295.1 million to € 77.4 million results first and foremost from the lower consolidated result for the financial year. Of this income tax amount € 71.8 million is attributable to domestic earnings. The increase in deferred tax income to € 187.0 million results mainly from the volume and price-induced decrease in liability-side temporary differences in inventories and the increase in asset-side temporary differences in property, plant and equipment.

Future dividend payments will not incur any consequences as far as income tax is concerned. Claims amounting to € 1.2 million (2008: € 1.4 million) are reported in the balance sheet for German companies' corporate income tax reduction credits.

Deferred taxes amounting to € 90.5 million (2008: € 62.4 million) were recorded for business transactions that influenced equity directly. The deferred taxes with no effect on income relate to actuarial gains and losses (€ 98.7 million), other changes with no effect on income (€ – 7.0 million), financial assets from the category "Assets held for sale" (€ – 0.9 million), and the changes in the values of hedging transactions (€ – 0.3 million). Deferred taxes amounting to € 28.1 million on on-going changes with no effect on income relate primarily to actuarial gains and losses.

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 €m	31/12/2009		31/12/2008	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	5.3	11.8	2.4	27.6
Property, plant and equipment	42.2	141.4	7.0	163.3
Financial investments	4.3	2.8	4.6	0.5
Current assets	34.6	46.5	43.0	184.0
Pension provisions	135.6	–	106.2	0.3
Other provisions	70.2	10.4	53.6	7.2
Special account including reserves	–	10.1	–	6.4
Liabilities	25.3	1.6	39.0	1.9
Other items	38.3	8.6	35.3	7.3
Total	**355.8**	**233.2**	**291.1**	**398.5**

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

In €m	31/12/2009	31/12/2008
Corporate income tax	1.9	15.3
Trade tax	0.7	4.7
Capitalized tax savings	**2.6**	**20.0**

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

In €m	FY 2009	FY 2008
Capitalized tax savings, January 1	20.0	39.6
Changes to the consolidated group	1.2	–
Capitalization of tax savings from losses carried forward	3.9	3.1
Valuation allowances from losses carried forward	–18.5	–16.4
Use of losses carried forward	–4.0	–6.3
Capitalized tax savings, December 31	**2.6**	**20.0**

As a result of the "minimum taxation" that was introduced in Germany in 2004, the tax loss carryforwards are offset against the ongoing tax result in full up to an 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 € 3.9 million in Germany. For a number of domestic companies, no deferred taxes were capitalized for trade tax loss carryforwards amounting to € 1,643.9 million and corporate income tax loss carryforwards amounting to € 1,995.0 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 without intrinsic value amounting to € 112.7 million, of which € 101.8 million can be utilized for an unlimited period and € 10.9 million during the next 20 years. In addition, no deferred tax assets were formed for deductible temporary differences amounting to € 34.9 million for domestic companies.

Deferred tax assets amounting to € 3.3 million were capitalized on grounds of expected future taxable income at a domestic Group company which incurred tax losses in the financial year under review.

Transition from anticipated to actual income tax expenses:

In €m	FY 2009	FY 2008
Consolidated net income/loss for the year before income tax	**–496.5**	**1,003.4**
Expected income tax expenses (tax rate 30.2%)	–149.9	303.0
Tax share for:		
differences between tax rates	–5.4	4.4
effects of changes in statutory tax rates	–1.5	–
tax credits	–0.6	–12.4
tax-free income	–34.6	–27.1
badwill amortization/goodwill impairment	6.2	9.4
non-deductible tax expenses and other permanent differences	20.3	21.5
temporary differences excluding deferred taxes	39.9	1.4
effects of temporary differences and losses		
adjustments in value of capitalized benefits	18.5	16.8
utilization of benefits not previously capitalized	–3.9	–2.9
tax expenses and income unrelated to the reporting period	–6.7	–2.7
other deviations	8.1	15.1
Actual income tax expenses	**–109.6**	**326.5**

The actual income tax income of € 109.6 million deviate by a total of € 40.3 million from the expected income tax income of € 149.9 million. This results primarily from tax-deductible temporary differences for which no deferred taxes were included in the balance sheet, and 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 income not related to the reporting period.

(13) Minority Interests

In €m	FY 2009	FY 2008
Minority interests	–3.2	2.6

The minority interests in the net result for the year are accounted for by the following companies:

- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg,
- Klöckner-Werke AG, Duisburg (including subsidiaries).

(14) Earnings per Share

The basic earnings per share are determined in accordance with IAS 33 as the ratio between the consolidated net income or loss 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 € – 7.10.

The earnings per share would be diluted if the average number of shares were reduced by adding the issue of potential shares from option and conversion rights. Such rights existed as of the balance sheet date. When taken into account, however, there is a reduction in the loss per share from continuing business operations, as a result of which these option and conversion rights have no dilutive effect. For that reason, the diluted earnings per share amount to € – 7.10.

	Shares issued	Treasury shares	Shares in circulation
Beginning of financial year	60,097,000	6,009,684	54,087,316
Acquisition of treasury shares	–	35,600	–
Disposal of treasury shares	–	250,032	–
End of financial year	60,097,000	5,795,252	54,301,748
Weighted number of shares	**60,097,000**	**6,029,552**	**54,067,448**

Earnings per share		**FY 2009**	**FY 2008**
Consolidated net income/loss for the financial year	In €m	–386.9	676.9
Minority interests	In €m	–3.2	2.6
Amount due to Salzgitter AG shareholders	In €m	–383.7	674.3
Earnings per share	**(in €)**	**–7.10**	**12.11**

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, now the PET Group, which was newly acquired in 2008 and has now been integrated into Klöckner-Werke. The goodwill was allocated to the KHS Group (including the PET Group). In 2008, there had already been a valuation allowance of € 31.0 million. In the reporting year, a need for further impairment amounting to € 20.6 million was ascertained during the mandatory annual impairment test for goodwill. The net selling price was ascertained in accordance with the discounted cash flow method based on an interest rate (WACC) of 7.2 % p.a. (2008: 7.6 %), unchanged selling costs of 1.0 % and a growth markdown of 1.0 (2008: 1.5 %) percentage points when the perpetual annuities were being determined.

(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, € 3.5 million was amortized regularly and € 12.2 million within the framework of the impairment test in the reporting year. Total research and development expenses in the reporting period amounted to € 93.5 million (2008: € 91.0 million), including € 12.8 million (2008: € 11.4 million) for external services.

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

(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 €m	31/12/2009	31/12/2008
Land and buildings	551.4	545.2
Plant equipment and machinery	1,199.0	1,066.9
Other equipment, factory and office equipment	84.9	88.2
Equipment under construction/payments made on account	588.2	499.1
Property, plant and equipment	**2,423.5**	**2,199.4**

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

In € m	31/12/2009	31/12/2008
Buildings	1.8	5.0
Plant equipment and machinery	26.2	29.0
Other equipment, factory and office equipment	1.5	0.6
Assets capitalized as finance leases	**29.5**	**34.6**

The amount of the reported impairment expenses is shown in Note 6.

Restraints on the right of ownership or disposal as of the reporting date amounted to € 7.7 million (2008: € 25.8 million).

(18) Investment Property

The investment property comprises undeveloped and developed land which are held to generate rental income or long-term value appreciation and not for production or administration purposes. The fair values determined using the DCF method in the previous years correspond to the cost amortized as of the reporting date.

The properties consist of the following:

In € m	31/12/2009	31/12/2008
Klöckner-Werke AG	21.3	22.8
RSE Grundbesitz und Beteiligungs-AG	2.1	0.8
Klöckner Mercator Maschinenbau GmbH	2.5	2.6
KHS USA Inc.	–	0.9
KHS Moldtec GmbH & Co. KG	–	4.5
Investment property	**25.9**	**31.6**

Rental earnings amounted to € 0.8 million (2008: € 0.2 million) in the reporting year. Direct operating expenses for the investment property were basically incurred for properties that generated rental earnings in the reporting year. These totaled € 0.4 million (2008: € 0.1 million).

As of the reporting date there are no material obligations to carry out repairs, maintenance, improvements etc.

The impairment costs for the investment property are explained in Note 6 “Amortization and Depreciation”.

(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 €m	31/12/2009	31/12/2008
Shares in affiliated companies	30.2	39.5
Shareholdings	11.3	28.2
Non-current securities	21.2	24.1
Other loans	14.7	30.3
Financial assets	**77.4**	**122.1**

The decrease in shares in affiliated companies relates primarily to the first-time consolidation of companies previously not consolidated for reasons of materiality and to the combination of non-consolidated companies.

The lower level of shareholdings compared with the previous year results from the first-time consolidation (proportional inclusion) of a previously non-consolidated company in the reporting year.

The other loans are accounted for by loans to non-consolidated companies and interest-bearing housing loans to employees. In 2008, these included a loan to a non-consolidated company that was rededicated as a receivable in the reporting year.

(20) Associated Companies

In €m	FY 2009	FY 2008
Opening balance, 1/1	341.7	84.1
Result of current financial year	56.7	8.0
Capital increase	12.8	–
Additions	8.0	256.9
Dividends	–19.8	–3.5
Other changes in equity	1.4	–3.8
Book value, 31/12	**400.8**	**341.7**

The figure reported for at-equity shares in associated companies increased by € 59.1 million compared with the previous financial year. This results primarily from the companies' positive results for the year and the purchase of additional shares in Aurubis AG, Hamburg. The stock market value of the Aurubis share as of December 31, 2009, was € 30.22.

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

2009 in €m	Assets	Liabilities	Earnings	Profit	Share (%)
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	980.6	690.8	1,641.5	–23.1	30.0
Aurubis AG, Hamburg	3,216.5	2,069.2	7,308.5	332.0	25.3

2008 in €m	Assets	Liabilities	Earnings	Profit	Share (%)
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	1,025.3	748.8	2,662.1	11.7	30.0
Aurubis AG, Hamburg	2,917.2	2,034.3	–	–	22.4

(21) Deferred Tax Assets

If it is likely that tax benefits will be realized, they must be capitalized. Clearing is possible only if the deferred tax assets and liabilities have matching maturities and relate to the same tax authority. After offsetting, the deferred tax assets and liabilities for the financial year 2009 are as follows:

In €m	31/12/2009	31/12/2008
Deferred income tax assets	**129.0**	**15.7**
Realization within 12 months	42.2	12.8
Realization after more than 12 months	86.8	2.9
Deferred income tax liabilities	**3.8**	**103.1**
Realization within 12 months	0.4	93.2
Realization after more than 12 months	3.4	9.9
Balance of deferred tax assets and deferred tax liabilities	**125.2**	**–87.4**

(22) Other Receivables and Other Assets

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

In €m	31/12/2009	31/12/2008
Total gross investment	2.9	3.1
Unrealized finance income	0.2	0.3
Book value	**2.7**	**2.8**

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 foreign tax receivables.

Current Assets

(23) Inventories

In € m	31/12/2009	31/12/2008
Raw materials, consumables and supplies	521.1	1,004.9
Unfinished products	294.2	448.9
Unfinished goods or services	7.1	13.1
Finished products and goods	579.3	1,041.9
Payments on account	63.9	42.4
Inventories	**1,465.6**	**2,551.2**

Individual markdowns were made in the valuations of all the inventories where it is likely that the revenues realized through their sale or use will be lower than their book values. The anticipated realizable sale proceeds less costs incurred up to the time of sale are reported as the net realizable value.

If the reasons for writing down the inventories no longer apply, the write-down is reversed. In the reporting period this led to a write-up of € 12.4 million (2008: € 7.2 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 € 469.7 million in the reporting year (2008: € 883.6 million).

The inventories recorded at fair value in the previous period were consumed in their entirety in the reporting year.

Impairments of inventories amounting to € 65.4 million (2008: € 223.8 million) were posted to expenses.

As in the previous year, there are no restrictions on the ownership or disposal of the inventories reported.

(24) Trade Receivables

In € m	31/12/2009	31/12/2008
Receivables from third parties	1,023.9	1,615.9
Receivables from affiliated companies	16.7	28.7
Receivables from companies in which the company has a participating interest	16.0	7.6
Trade receivables	**1,056.6**	**1,652.2**

Impairments on trade receivables amounting to € 22.8 million (2008: € 19.9 million) have been carried out for all discernible individual risks, the credit risk assessed on the basis of empirical values, and specific country risks.

Trade receivables are subject to restrictions on ownership or disposal amounting to € 19.8 million (2008: € 24.9 million). These are largely accounted for by the forfaiting of receivables. For further details, please refer to Note (38) "Other Liabilities".

The trade receivables include the following receivables from contract production recognized using the percentage-of-completion method.

In € m	31/12/2009	31/12/2008
Production costs including result from construction contracts	221.1	429.0
Payments received on account	–142.1	–282.6
Receivables from construction contracts	**79.0**	**146.4**

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 €m	31/12/2009	31/12/2008
Other receivables from affiliated companies	52.4	74.0
of which other receivables	[49.8]	[65.4]
of which loans	[2.6]	[8.6]
Other receivables from participating interests	16.4	112.3
of which other receivables	[16.4]	[8.8]
of which loans	[–]	[103.5]
Tax refund claims (VAT)	50.1	95.7
Assets available for sale	17.7	1.7
Derivatives	13.2	82.8
Advances on company pensions	8.7	9.2
Deferred expenses	7.2	8.0
Subsidies for age-related part-time employment	6.0	6.7
Bonds	–	400.0
Other assets	112.0	91.5
Other receivables and other assets	**283.7**	**881.9**

The short-term loan receivable of € 100 million owed by Hüttenwerke Krupp Mannesmann GmbH, Duisburg, in the previous year was redeemed in the financial year 2009.

The decrease in receivables from bonds results from the sale of a promissory note loan (straddle).

The other receivables and other assets also include the sum of € 6.0 million (2008: € 6.7 million) that did not become legally effective until after the reporting date.

There are no restrictions on the ownership or disposal for other receivables (2008: € 5.0 million).

The current receivables from finance leases consist of the following:

In €m	31/12/2009	31/12/2008
Total gross investment	2.0	2.0
Unrealized finance income	0.3	0.3
Book value	**1.7**	**1.7**

The rental earnings are reported under other operating earnings.

(26) Income Tax Assets

The income tax refund claims of € 109.4 million that existed as of December 31, 2009 (2008: € 75.1 million) relate essentially to a capital yields withholding tax claim by a domestic Group company. This is offset by non-current income tax liabilities of € 200.4 million (2008: € 207.4 million) and current income tax liabilities of € 75.3 million (2008: € 36.4 million).

Refund claims are set off against tax liabilities if there is an enforceable right to set off the reported amounts against each other and the intention is to offset them in net terms. The prerequisites of this are that the tax refund claim and the tax liability both relate to the same tax authority and that the tax authority allows their offsetting.

(27) Securities and Cash and Cash Equivalents

Under securities, shares are reported as current financial investments or commercial paper, which are classified in the category “Financial assets held for trading purposes” or “Loans and receivables originated by the enterprise”.

The cash and cash equivalents consist of the following:

In € m	31/12/2009	31/12/2008
Cash at banks	1,792.7	590.6
Checks, cash in hand	0.3	1.5
Cash and cash equivalents	**1,793.0**	**592.1**

Equity

(28) Subscribed Capital

The subscribed capital (share capital) 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 share capital was increased by up to € 15,952,306.69 through the issuing of up to 6,240,000 new no par value bearer shares (Contingent Capital 2004). The purpose of this contingent increase in capital is to facilitate the granting of option and conversion rights, in accordance with the option and convertible bond terms, to the holders of the options and/or convertible bonds issued on the basis of the authorization granted by the General Meeting of Shareholders on May 26, 2004. This authorization enables the Executive Board, with the approval of the Supervisory Board, to issue interest-bearing bearer warrant-linked bonds and/or convertible bonds on one or more occasions on or before May 25, 2009, up to a total nominal value of € 90,000,000 with a maximum term of ten years and to grant the holders of the equally privileged bonds and option or conversion rights to a maximum of 6,240,000 new SZAG shares (this corresponded to 10% of the SZAG share capital at the time of the authorization resolution). No use has been made of this authorization.

In addition, the Executive Board, in accordance with the resolution passed by the General Meeting of Shareholders on May 26, 2004, was authorized to increase the share capital with the approval of the Supervisory Board by up to a nominal amount of € 55,833,073.42 (= 35% of the share capital at the time of the authorization resolution) on or before May 25, 2009, by issuing up to 21,840,000 new no par value bearer shares against payment in cash or kind (Authorized Capital 2004). This authorization has not yet been used either.

In addition, the Executive Board is authorized to increase the share capital with the approval of the Supervisory Board by up to a nominal amount of € 80,807,636.65 in the period up to May 26, 2014, by issuing up to 30,048,500 new no par value bearer shares against payment in cash or kind (Authorized Capital 2009). This capital, combined and to the exclusion of the shareholders' subscription rights, may be increased only by up to € 32,323,054.66 (20% of the share capital) through the issuing of up to 12,019,400 new no par value bearer shares. The 20% ceiling is reduced by the proportional share of the share capital to which option or conversion rights, or option or conversion obligations from warrant-linked bonds, convertible bonds, profit-sharing rights and/or participating bonds and/or combinations of these instruments, which were issued since May 27, 2009 to the exclusion of subscription rights, relate. On October 6, 2009, a convertible bond was issued to the exclusion of shareholders' subscription rights with conversion rights to up to 3,550,457 new no par value bearer shares (5.9% of the share capital).

The nominal value of the convertible bond issued by the company totaled € 296,450,000 on the reporting date. It certifies an interest entitlement of 1.125% p.a. and a right of conversion into shares in the company at a price of € 83.4963 per share which can be exercised up to September 27, 2016.

(29) Capital Reserve

Of the capital reserve amounting to € 238.6 million (2008: € 184.2 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. Another € 54.4 million is connected with a convertible bond issued in the financial year.

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 regulations specifying the formation of reserves.

The retained earnings include differences from currency translation amounting to € –24.9 million (2008: € –27.1 million). The change in value reserves from the financial assets/financial instruments amounts to € –1.4 million (2008: € –15.7 million). This change results from the increase 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 € 331.9 million (2008: € 235.2 million), after deduction of deferred taxes, were recorded directly under equity (including the actuarial losses posted by associated companies that were not reported in the pension provisions).

Transition of the actuarial losses:

In € m	31/12/2009	31/12/2008
Actuarial losses of consolidated companies	331.6	233.3
Actuarial losses of associated companies	0.3	1.9
Actuarial losses	**331.9**	**235.2**

Salzgitter AG held 5,795,252 (2008: 6,009,684) of its own no par value shares, accounting for € 15,584,823.32 (= 9.64 %) of the share capital (2008: € 16,161,484.30 = 9.99 %) as of the reporting date.

All of the shares were acquired in accordance with Section 71 para. 1 no. 8, German Stock Corporation Act, on the basis of an authorization given by the General Meeting of Shareholders (2,487,370 shares authorized on May 26, 2004; 462,970 shares authorized on June 8, 2006; 2,809,312 shares authorized on May 21, 2008, and 35,600 shares authorized on May 27, 2009), so that they can be used for, in particular, for future acquisitions, the fulfillment of option or conversion rights from warrant-linked bonds or convertible bonds, or for issuing to employees of the company or a company affiliated to it.

In the reporting year (September), 35,600 shares were acquired for a price of € 60.53 per share. These account for € 95,764 of the share capital (= 0.06 %). 32 shares were issued free to employees to reward outstanding suggestions for improvements. 250,000 shares were sold at a price of € 62.03 per share; the proceeds went towards the general financing of the company.

The treasury shares were deducted directly from equity in the amount of € 359.4 million (2008: € 372.8 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 2009 of € 0.25 per share (equal to € 15.0 million based on the nominal share capital 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 € 68.44 for the Salzgitter share in XETRA, trading on December 30, 2009, the dividend yield amounts to 0.4 % (2008: 2.5 %).

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 "Profit share of minority shareholders".

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 pension commitments that are covered by provisions. The Group also has some immaterial fund-financed pension commitments.

The employees of the Salzgitter Group's German-based companies receive retirement pensions (collective commitment) which are essentially based on a collective Group agreement concluded in December 2006. Within the scope of the pension commitment guaranteed in this agreement, the employer pays an annual contribution into a pension account. The amount of the resultant pension component depends on the age and the annual income of the employee entitled to pension payments in the respective contribution year. When payment becomes due, the employee or his/her surviving dependents is/are entitled to a monthly pension. There are transitional rules regulating the claims to pension payments (defined benefit pension commitments) established before the collective Group agreement came into effect.

For executives of the Salzgitter Group companies there are individual pension commitments which are based essentially on the pension tables drawn up by the Essener Verband.

Pension commitments exist only to an immaterial extent in the Salzgitter Group's foreign companies.

The obligations arising from the aforementioned pension commitments are covered to a marginal extent (€ 6.1 million) by plan assets (life insurance policies, pension plan reinsurance). Income of € 0.1 million resulted from the plan assets in the reporting year.

The pension provisions encompass the entire defined benefit obligations.

The actuarial gains (–) and losses (+) developed as follows:

In € m	FY 2009	FY 2008
Status 1/1	233.3	219.1
Change in financial year	98.3	14.2
Status 31/12	**331.6**	**233.3**

The differences between the expected and actual trend (experience adjustment) are as follows (gains +/ losses –):

In €m	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005
Status 31/12	0.3	**–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 €m	FY 2009	FY 2008
current service costs (personnel expenses)	14.7	14.2
financing expenses (interest paid)	90.3	90.9
	105.0	**105.1**

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 €m	31/12/2009	31/12/2008	31/12/2007	31/12/2006	31/12/2005
Present value of fund-financed obligations	7.9	6.7	5.4	5.4	6.9
Fair value of plan assets	–6.1	–5.4	–4.3	–4.3	–3.9
	1.8	**1.3**	**1.1**	**1.1**	**3.0**
Present value of fund-financed obligations	1,855.8	1,785.7	1,790.7	1,713.7	1,721.6
Reported pension provisions	1,857.6	**1,787.0**	**1,791.8**	**1,714.8**	**1,724.6**

The development of plan assets is as follows:

In €m	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005
Opening balance, 1/1	5,4	4,3	4,3	3,9	3,6
Changes in the consolidated group	–	0,8	–	–	–
Earnings	0,1	0,1	0,2	0,2	0,3
Adjustment in line with actuarial assumptions, no effect on income	0,2	– 0,1	– 0,6	–	–
Allocations	0,5	0,5	0,4	0,4	–
Used	– 0,1	– 0,2	–	– 0,2	–
Closing balance, 31/12	**6,1**	**5,4**	**4,3**	**4,3**	**3,9**

The provisions for pensions have developed as follows:

In €m	FY 2009	FY 2008
Opening balance, 1/1	**1,787.0**	**1,791.8**
Transfer	1.7	–3.1
Transfer to other accounts	–0.1	–2.1
Changes in the consolidated group	–7.1	9.1
Used	–127.2	–128.0
Reversal	–2.2	–2.0
Adjustment in line with actuarial assumptions, no effect on income	98.3	14.2
Allocations	16.9	16.2
Interest costs	90.3	90.9
Closing balance, 31/12	**1,857.6**	**1,787.0**

The current service costs are the balance from allocation to and reversal of pension provisions.

(34) Other Provisions

The development of the other current and non-current term provisions is shown in the following table:

In €m	Status 01/01/2009	Currency translation differences	Addition/Disposals from changes in consolidated group	Transfer	Transfers to other accounts	Used	Reversal	Allocation	Interest costs	Status 31/12/2009
Other taxes	**10.3**	**–**	**–**	**–**	**–**	**–1.4**	**–1.8**	**4.0**	**–**	**11.1**
Personnel	**150.9**	**0.2**	**–0.1**	**–6.6**	**0.1**	**–45.1**	**–5.6**	**74.8**	**3.6**	**172.2**
of which anniversary provisions	[43.1]	[–]	[–]	[–0.1]	[–]	[–3.0]	[–]	[7.0]	[–]	[47.0]
of which for the social plan/age-related part-time employment/demographics fund	[61.5]	[–]	[–0.2]	[–6.6]	[6.6]	[–26.2]	[–3.3]	[50.3]	[1.9]	[84.0]
Operating risks	**137.8**	**0.6**	**–**	**–**	**–**	**–8.2**	**–13.1**	**30.5**	**0.7**	**148.3**
Other risks	**388.9**	**1.1**	**–0.7**	**1.8**	**–**	**–79.7**	**–132.7**	**189.8**	**0.0**	**368.5**
of which markdowns/complaints	[167.4]	[0.1]	[–1.2]	[–0.5]	[–0.9]	[–41.2]	[–74.3]	[68.9]	[–]	[118.3]
Total	**687.9**	**1.9**	**–0.8**	**–4.8**	**0.1**	**–134.4**	**–153.2**	**299.1**	**4.3**	**700.1**

The comparable figures for the previous year were as follows:

In €m	Status 01/01/2008	Currency translation differences	Addition/Disposals from changes in consolidated group	Transfer	Transfers to other accounts	Used	Reversal	Allocation	Interest costs	Status 31/12/2008
Other taxes	**9.5**	**–**	**0.2**	**–**	**–**	**–2.0**	**–0.6**	**3.2**	**–**	**10.3**
Personnel	**144.0**	**–0.1**	**2.6**	**–8.1**	**2.1**	**–41.9**	**–5.1**	**56.6**	**0.8**	**150.9**
of which anniversary provisions	[37.6]	[–]	[0.8]	[–]	[–]	[–2.5]	[–0.1]	[7.3]	[–]	[43.1]
of which for the social plan/age-related part-time employment/demographics fund	[62.3]	[–0.1]	[0.7]	[–7.4]	[7.5]	[–25.8]	[–2.7]	[27.0]	[–]	[61.5]
Operating risks	**119.5**	**–**	**–**	**–**	**–**	**–6.2**	**–7.5**	**31.7**	**0.3**	**137.8**
Other risks	**245.2**	**–0.4**	**18.8**	**–0.2**	**–**	**–70.2**	**–58.1**	**253.7**	**0.1**	**388.9**
of which markdowns/complaints	[98.0]	[–0.1]	[16.1]	[–]	[0.1]	[–35.1]	[–34.2]	[122.5]	[0.1]	[167.4]
Total	**518.2**	**–0.5**	**21.6**	**–8.3**	**2.1**	**–120.3**	**–71.3**	**345.2**	**1.2**	**687.9**

An amount of € 31.1 million in restructuring expenses is included in the allocations to provisions for the social plan/age-related part-time working/demographics fund and € 32.2 million in the allocations to the provisions for other risks. Restructuring expenses of € 10.1 million are included in the current expenses.

The provisions for pensions reported in the personnel area were valued on the basis of an assumed interest rate of 4.75 % p.a. (2008: 5.25 % p.a.). The remaining non-current provisions in the personnel area as well as other non-current provisions were also discounted at 4.75 % p.a.

The allowances for employees leaving the company under the terms of age-related part-time employment contracts are capitalized as an asset worth € 6.0 million (2008: € 6.7 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 € m	Total 31/12/2009	Current	Non-current
Other taxes	11.1	**11.1**	–
Personnel	172.2	**65.6**	**106.6**
of which anniversary provisions	[47.0]	[–]	[47.0]
of which for the social plan/age-related part-time employment/demographics fund	[84.0]	[46.6]	[37.4]
Operating risks	148.3	**70.1**	**78.2**
Other risks	368.5	**368.5**	–
of which markdowns/complaints	[118.3]	[118.3]	[–]
Total	700.1	**515.3**	**184.8**

In € m	Total 31/12/2008	Current	Non-current
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**

(35) Non-current Financial Liabilities

In €m	31/12/2009	31/12/2008
Bonds	240.5	–
Liabilities to banks	27.3	27.8
Liabilities from finance lease agreements	27.1	31.4
Other borrowings	11.1	8.8
Financial liabilities	**306.0**	**68.0**

On October 6, 2009, Salzgitter AG placed a convertible bond with a volume of € 296.5 million. The bond was issued by Salzgitter Finance B.V., a wholly-owned Dutch subsidiary of Salzgitter AG. It is guaranteed by Salzgitter AG and can be converted into Salzgitter AG shares.

The bond has a term of seven years and can be can be accelerated as of the fifth anniversary of its issuance by investors at the nominal value plus accumulated interest. The convertible bond's annual coupon was set at 1.125 %. The marketed range was between 0.625 % and 1.625 %. The initial conversion price was set at € 83.4963. This represents a premium of 25 % over and above the reference price of € 66.7970. The Salzgitter AG shareholders' right to subscribe for partial convertible bonds was precluded.

The liabilities from finance leases reported under non-current financial liabilities are shown in the following tables:

In €m	Residual term 1–5 years	Residual term > 5 years	31/12/2009 Total
Minimum lease payments	16.6	17.1	33.7
Finance costs	4.2	2.4	6.6
Present value of minimum lease payments	**12.4**	**14.7**	**27.1**

In €m	Residual term 1–5 years	Residual term > 5 years	31/12/2008
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**

The long-term liabilities from lease transactions relate essentially to the leasing of plant equipment and machinery.

Current Liabilities

(36) Current Financial Liabilities

In €m	31/12/2009	31/12/2008
Liabilities to banks	67.9	104.3
Liabilities		
to affiliated companies	6.4	1.4
to participating interests	3.3	1.0
Liabilities from finance lease agreements	3.8	3.8
Current financial liabilities	**81.4**	**110.5**

The liabilities from finance leases reported under current financial liabilities are shown in the following table:

In €m	31/12/2009	31/12/2008
Minimum lease payments	5.2	5.6
Finance costs	1.4	1.8
Present value of minimum lease payments	**3.8**	**3.8**

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 €m	31/12/2009	31/12/2008
Liabilities		
to third parties	499.9	803.4
to affiliated companies	9.9	33.5
to participating interests	31.5	28.5
Trade payables	**541.3**	**865.4**

Trade payables include the following payables from contract production recognized using the percentage-of-completion method:

In €m	31/12/2009	31/12/2008
Payments received on account	78.6	39.4
Less production costs including result from construction contracts	49.6	2.6
Payables from construction contracts	**29.0**	**36.8**

The payables from construction contracts include those 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 € m	31/12/2009	31/12/2008
Other liabilities		
to affiliated companies	28.6	23.9
to participating interests	0.5	0.8
Other liabilities	352.1	464.9
of which payments received on account	[141.1]	[101.7]
of which to employees	[65.6]	[122.8]
of which tax	[38.8]	[51.5]
of which social security contributions	[21.7]	[19.4]
of which from forfaiting and the asset-backed securitization program	[18.5]	[24.1]
of which derivatives	[13.9]	[47.2]
of which customer credit	[7.7]	[12.6]
of which interest	[0.8]	[31.4]
of which other liabilities	[44.0]	[54.2]
Other liabilities (current)	**381.2**	**489.6**

Of the sum total of liabilities, some € 64.2 million (2008: € 84.3 million) is secured by liens and similar rights.

Of the other liabilities, € 18.5 million (2008: € 24.1 million) are accounted for by debts 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 € 6.5 million (2008: € 5.9 million). Furthermore, Salzgitter Mannesmann International (USA) Inc., Houston, sold receivables equivalent to € 12.0 million (2008: € 18.2 million) as of December 31, 2009, and reported the funds received as liabilities.

(39) Contingencies

Contingencies are potential liabilities not shown on the balance sheet which are disclosed in the amount of their fixed value on the reporting date. Their total amount is € 141.4 million (2008: € 178.9 million).

The contingencies include sureties and guarantees amounting to € 107.8 million (2008: € 161.4 million) and bill commitments totaling € 1.1 million (2008: € 0.4 million).

Neither Salzgitter AG nor any of its Group companies are engaged in current or foreseeable legal or arbitration proceedings that might have a significant effect on their commercial situation. Adequate provisions have been formed at the respective Group companies to cover potential financial burdens arising from legal proceedings or arbitration.

(40) Other Financial Obligations

In €m	31/12/2009		31/12/2008	
	Short-term	Long-term	Short-term	Long-term
Purchase commitments	275.3	43.6	317.4	364.4
Obligations from long-term rental agreements	37.6	235.0	35.5	245.6
Other financial obligations	439.8	558.0	645.4	706.3
Total	**752.7**	**836.6**	**998.3**	**1,316.3**

The other financial obligations primarily concern long-term purchasing commitments of the companies in the Steel Division whose purpose is to safeguard the procurement of input material for raw materials and sea freight. In view of the current market situation, these disclosures are relevant for assessing the financial position.

The other financial obligations arising from long-term rental and lease agreements consist of the following:

Future rental and lease obligations in €m	31/12/2009	31/12/2008
up to 1 year	37.6	35.5
1 to 5 years	73.5	70.7
over 5 years	161.5	174.9
Total	**272.6**	**281.1**

(41) Financial Instruments

As of the balance sheet date December 31, 2009, the transition of the balance sheet items to the various categories of financial instruments was as follows:

FY 2009 in € m	Book value			Valuation according to IAS 39			Valuation according to IAS 17
	31/12/2009	Loans and receivables originated by the company	Available for sale	Financial instruments held for trading	Derivates with documented hedging arrangements	Financial liabilities measured at amortized cost	
Assets							
Financial assets	77.4	14.7	62.7	–	–	–	–
Other non-current receivables and assets (acc. to balance sheet €m 3.3); of which financial instruments	2.7	–	–	–	–	–	2.7
Trade receivables	1,056.6	1,056.6	–	–	–	–	–
Other receivables and other assets (acc. to balance sheet €m 283.7); of which financial instruments	217.3	184.8	17.6	12.6	0.6	–	1.7
Securities	159.5	50.0	–	109.5	–	–	–
Cash and cash equivalents	1,793.0	–	1,793.0	–	–	–	–
Assets financial instruments		**1,306.1**	**1,873.3**	**122.1**	**0.6**	**–**	**4.4**
Assets fair value per category		**1,306.1**	**1,873.3**	**122.1**	**0.6**	**–**	**4.8**
Equity and liabilities							
Non-current financial liabilities	306.0	–	–	–	–	278.9	27.1
Current financial liabilities	81.4	–	–	–	–	77.6	3.8
Trade payables	541.3	–	–	–	–	541.3	–
Other payables (acc. to balance sheet €m 381.2); of which financial instruments	96.5	–	–	13.7	0.2	82.6	–
Equity and liabilities financial instruments		**–**	**–**	**13.7**	**0.2**	**980.4**	**30.9**
Equity and liabilities fair value per category		**–**	**–**	**13.7**	**0.2**	**980.3**	**32.2**

As of the reporting date December 31, 2008, the transition of the balance sheet items to the various categories of financial instruments was as follows:

FY 2008 in €m	Book value	Valuation according to IAS 39					Valuation according to IAS 17
	31/12/2008	Loans and receivables originated by the company	Available for sale	Financial instruments held for trading	Derivates with documented hedging arrangements	Financial liabilities measured at amortized cost	
Assets							
Financial assets	122.1	30.3	91.8	–	–	–	–
Other non-current receivables and assets (acc. to balance sheet €m 3.1); of which financial instruments	2.8	–	–	–	–	–	2.8
Trade receivables	1,652.2	1,652.2	–	–	–	–	–
Other receivables and other assets (acc. to balance sheet €m 881.9); of which financial instruments	767.3	682.8	–	81.6	1.2	–	1.7
Securities	30.7	–	–	30.7	–	–	–
Cash and cash equivalents	592.1	–	592.1	–	–	–	–
Assets financial instruments		**2,365.3**	**683.9**	**112.3**	**1.2**	**–**	**4.5**
Assets fair value per category		**2,365.3**	**683.9**	**112.3**	**1.2**	**–**	**4.6**
Equity and liabilities							
Non-current financial liabilities	68.0	–	–	–	–	36.6	31.4
Current financial liabilities	110.5	–	–	–	–	106.7	3.8
Trade payables	865.4	–	–	–	–	865.4	–
Other payables (acc. to balance sheet €m 489.6); of which financial instruments	203.3	–	–	43.8	3.4	156.0	0.1
Equity and liabilities financial instruments		**–**	**–**	**43.8**	**3.4**	**1,164.7**	**35.3**
Equity and liabilities fair value per category		**–**	**–**	**43.8**	**3.4**	**1,164.9**	**34.0**

The market values of the non-current liabilities are determined by discounting the future payment flows with the market interest rates established as of the reporting date. Trade receivables and cash and cash equivalents mostly have short residual terms, and as a result their book values 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.

The proximity to the market of the data included in the calculation of fair values is shown in the following table. Level 1 means that there is a stock exchange or market price for the financial instrument in question. The condition for categorization in level 2 is that there is a stock exchange or market price for a similar financial instrument, and/or that the calculation parameters are based on data from observable markets. If valuation methods for which the significant input parameters do not result from observable markets are used, the ascertainment of these data is assigned to level 3.

Fair value calculation: assets

In €m	31/12/2009			
	Available for sale	Financial instruments held for trading	Derivates with documented hedging arrangements	Total
Level 1	17.6	109.5	–	127.1
Level 2	–	12.6	0.6	13.2
Level 3	–	–	–	–
Total	**17.6**	**122.1**	**0.6**	**140.3**

Fair value calculation: equity and liabilities

In €m	31/12/2009		
	Financial instruments held for trading	Derivates with documented hedging arrangements	Total
Level 1	–	–	–
Level 2	13.7	0.2	13.9
Level 3	–	–	–
Total	**13.7**	**0.2**	**13.9**

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 €m	31/12/2009		31/12/2008	
	Maximum default risk	Secured default risk	Maximum default risk	Secured default risk
Trade receivables	1,056.6	633.6	1,652.2	943.3
Other receivables	184.8	22.4	682.8	3.7
Financial assets	14.7	0.4	30.3	2.4
Securities	50.0	–	–	–
Total	**1,306.1**	**656.4**	**2,365.3**	**949.4**

There are also default risks in respect of the financial assets held for trading in the amount of the positive market values of the derivatives and in respect of 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 instruments which are overdue, but not impaired, amounting to € 161.7 million (2008: € 300.6 million) as of the reporting date produced the following result:

31/12/2009 in €m	overdue for				
	< 30 days	31–60 days	61–90 days	91–180 days	> 180 days
Loans and receivables originated by the company	85.2	26.3	8.3	18.2	23.7

31/12/2008 in €m	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

A sum of € 66.6 million (2008: € 154.2 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 € 33.9 million (2008: € 39.8 million) and reversals of write-downs in the amount of € 12.1 million (2008: € 36.2 million).

An impairment of financial assets in the category “Loans and receivables originated by the company” is carried out as soon as there are any objective indications of impairment, for example substantial financial difficulties of the debtor or breach of contract. The impairments are recognized with effect on income under other operating expenses. Reversals of impairment losses are recognized under other operating earnings.

Trade receivables amounting to € 1.0 million (2008: € 0.1 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 € m	FY 2009	FY 2008
Assets/Liabilities held for trading	–1.1	–17.1
Loans and receivables originated by the company	25.1	13.8
Available for sale	–24.0	77.2
Financial liabilities measured at amortized cost	–26.2	–18.9
Total	**–26.2**	**55.0**

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 € 31.1 million (2008: € 133.7 million) and interest expenses of € 23.5 million (2008: € 66.4 million). The net results also include effects from currency translation and impairment.

In the reporting year, no profits (2008: € 1.4 million) were generated from the disposal of non-consolidated companies valued at acquisition cost. There were losses of € 1.4 million (2008: € 0.4 million). Valuation allowances of € 25.7 million (2008: € 11.8 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 € 10.2 million (2008: € 18.1 million); these were immediately recognized with effect on income.

The change in value reserve for financial instruments in the “Available-for-sale” category developed as follows:

In € m	FY 2009	FY 2008
Status 1/1	–13.5	30.9
Addition	–	0.4
Write-up	11.7	0.1
Disposal	–	0.1
Valuation allowance	–	44.8
Status 31/12	**–1.8**	**–13.5**

The write-up of € 11.7 million in the financial year 2009 relates primarily to the shares in an Indian manufacturing company in the tubes industry.

In the financial year 2009, 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 € m	31/12/2009	31/12/2008
Forward exchange contracts – cashflow hedges	0.6	1.2

Negative market values in € m	31/12/2009	31/12/2008
Forward exchange contracts – cashflow hedges	0.2	3.4

The underlying transactions that were secured using cash flow hedges will generally affect income within 12 months of the reporting date. A small proportion will affect income within the next three years.

The development of the cash flow hedge reserve, which was posted to equity with no effect on income, was as follows:

In € m	FY 2009	FY 2008
Status 1/1	–2.2	8.8
Addition	1.1	3.6
Disposals	–1.5	14.6
Status 31/12	**0.4**	**–2.2**

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 (%)	
	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008
1 month	0.4530	2.6030	0.5150	2.1663	0.2309	0.4363
3 months	0.7000	2.8920	0.6050	2.7700	0.2506	1.4250
6 months	0.9940	2.9710	0.8394	2.9600	0.4297	1.7500
1 year	1.2480	3.0490	1.2475	3.0738	0.9844	2.0038
2 years	1.8230	2.7210	2.0010	2.6970	1.4600	1.4460
4 years	2.5310	3.0865	3.1040	3.1950	2.6190	1.9660
10 years	3.5850	3.6930	4.1300	3.5950	4.0090	2.5740

The liquidity structure of all the financial liabilities was as follows:

31/12/2009 in €m	up to 1 year	1 to 5 years	over 5 years
Trade payables	541.3	–	–
Financial liabilities	83.2	289.9	2.6
Lease liabilities	5.2	16.6	17.1
Other liabilities	104.2	–	–

31/12/2008 in €m	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	–	–

As of December 31, 2009, disbursements from derivatives amounting to € 574.4 million (2008: € 1,210.8 million) are offset by payment contributions towards derivatives amounting to € 564.3 million (2008: € 1,210.7 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 base 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.

31/12/2009 in €m	affecting result	affecting equity	Total	affecting result	affecting equity	Total
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
USD	–15.0	–	–15.0	25.8	–	25.8
GBP	–0.4	–	–0.4	0.5	–	0.5
Other currencies	1.9	–1.1	0.8	–2.2	1.1	–1.1
Currency sensitivities	**–13.5**	**–1.1**	**–14.6**	**24.1**	**1.1**	**25.2**
Degree of sensitivity	+100 bp	+100 bp	+100 bp	–100 bp	–100 bp	–100 bp
Interest rate sensitivities	**1.9**	–	**1.9**	**–1.7**	–	**–1.7**
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
Other price sensitivities	**2.7**	–	**2.7**	**–2.7**	–	**–2.7**

31/12/2008 in €m	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**

(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 2009 and 2008, 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 and cash at banks.

In the cash flow from operating activities, earnings from fixed asset disposals have been eliminated. Interest income amounted to € 29.3 million (2008: € 133.9 million).

The investments reported under cash flow for investment activities comprise the additions to intangible assets, property, plant and equipment and financial investments.

In addition to numerous investments in rationalization and replacements aimed primarily at improving, renewing and preserving production plant and data processing systems, various large-scale investments were made, such as the program in the Steel Division aimed at enhancing product quality and broadening the product range.

The payments for investment in the financial assets relate in particular to a capital increase at HKM GmbH and the purchase of further shares in Aurubis AG.

The payments for short-term loans against promissory notes/bonds result from repayments for loans against a promissory notes and the redemption of a short-term loan from an associated company.

Interest paid is attributed solely to financing activities.

Income received from shareholdings during the financial year amounted to € 20.9 million (2008: € 17.7 million).

(43) Notes on Segment Reporting

In its segment reporting, the Salzgitter Group applies IFRS 8 (“Operating Segments”), which was adopted by the European Union in November 2007.

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. The companies’ allocation to the respective divisions is presented in the list of Salzgitter AG’s material participations. Salzgitter AG as the management holding company, the intermediate holding company Salzgitter Mannesmann GmbH, Salzgitter Finance B.V. and Aurubis AG are not assigned to any division.

The Steel Division manufactures high-quality branded steel 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 constitute the basis of 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.

The sales are allocated geographically by the domicile of the invoice recipient.

Of the non-current assets, € 2,436.7 million (2008: € 2,290.8 million) are accounted for by Germany and € 166.8 million (2008: € 164.5 million) by non-EU countries. A further € 370.5 million (2008: € 321.9 million) relate to consolidated units not assigned to a segment.

In the financial year 2009, 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 €m	FY 2009	FY 2008
Total sales of the segments	9,462.2	15,860.0
Other sales	40.6	146.0
Elimination of the sales with other segments	–1,668.6	–3,293.8
Elimination of the sales with Group companies not assigned to a segment	–16.2	–213.0
Sales	**7,818.0**	**12,499.2**

In €m	FY 2009	FY 2008
Total results of the segments for the period	–599.7	1,035.9
Other results for the period	103.3	–32.5
Earnings before tax	**–496.5**	**1,003.4**

The other results for the period under review include, among other things, goodwill amortization amounting to € 20.6 million.

In €m	31/12/2009	31/12/2008
Segment operating assets	6,110.9	7,343.4
Other assets	1,695.1	1,238.6
Goodwill	–	20.6
Income tax assets	109.4	75.1
Deferred income tax assets	129.0	15.7
Deferred expenses	7.1	8.0
Statement of financial position total	**8,051.5**	**8,701.4**

In €m	31/12/2009	31/12/2008
Segment operating liabilities	5,244.1	5,974.4
Other liabilities	–1,386.3	–1,972.8
Tax liabilities	279.6	346.8
Group equity	3,904.3	4,346.1
Deferred expenses	9.8	6.9
Statement of financial position total	**8,051.5**	**8,701.4**

The remaining sales, results for the period under review, assets and liabilities are accounted for by the companies Salzgitter AG, Salzgitter Mannesmann GmbH and Salzgitter Finance B.V., which cannot be assigned to any operating segment. The shareholdings in Aurubis AG (formerly Norddeutsche Affinerie AG) and Salzgitter Magnesium Technologie GmbH were likewise not allocated to any operating segment.

(44) 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.

Material delivery and service relationships between companies in the consolidated group and companies related to the Salzgitter Group are depicted in the following table:

In €m	Sale of goods and services		Purchase of goods and services	
	FY 2009	FY 2008	FY 2009	FY 2008
ThyssenKrupp GfT Bautechnik GmbH, Essen	77.8	246.6	–	–
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	19.2	45.0	396.9	510.8

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 €m	Trade receivables		Trade payables	
	31/12/2009	31/12/2008	31/12/2009	31/12/2008
ThyssenKrupp GfT Bautechnik GmbH, Essen	8.8	4.5	–	0.5
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	6.7	1.0	29.0	27.6

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 € 43.8 million (2008: € 83.7 million) vis-à-vis non-consolidated affiliated companies.

Remuneration paid to members of the management in key positions:

In € m	FY 2009	FY 2008
Salary and other current payments	11.5	13.6
Payments after termination of the employment relationship	1.0	1.0
Total	**12.5**	**14.6**

(45) 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 € m	FY 2009	FY 2008
Audits	2.3	2.4
Other certification or assessment services	0.1	0.1

In addition, expenses relating to other auditors were incurred in the amount of € 0.5 million for the auditing of the annual financial statements of consolidated German-based companies and in the amount of € 0.1 million for other consulting services rendered for German-based Group companies.

(46) Significant Events Occurring after the Reporting Date

Significant events occurring after the reporting date are explained in the Management Report.

(47) 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
- Salzgitter Hydroforming GmbH & Co. KG, Crimmitschau

(48) Supervisory Board and Executive Board

For the discharge of their duties, the members of the Executive Board received the sum of € 6.4 million (2008: € 7.3 million) in the financial year. Of this total, € 3.2 million (2008: € 4.1 million) was accounted for by performance-related remuneration components.

Provisions for pension obligations to members of the Executive Board amounted to € 16.7 million (2008: € 14.5 million). Former members of the Executive Board and their surviving dependants received a total of € 1.5 million for the financial year (2008: € 1.6 million). Pension provisions totaling € 19.6 million (2008: € 19.1 million) have been set aside to cover obligations to former Executive Board members and their surviving dependants.

Supervisory Board members received a total of € 0.8 million for the financial year (2008: € 2.0 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.

(49) 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 3, 2010

The Executive Board

Leese Fuhrmann Eging

Groschke Nonn Schneider

VII. Auditor’s Report

“Independent Auditor’s Report

We have audited the consolidated financial statements – consisting of income statement, statement of recognized income and expense, balance sheet, cash flow statement, statement of changes in equity 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, 2009. 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 4, 2010

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed	signed
Thomas Stieve Wirtschaftsprüfer (German Public Auditor)	Prof. 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 the implementation of 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 the 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 share capital 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.

Impairment

Unscheduled depreciation and amortization of assets, such as property, plant and equipment and intangible assets, in the amount by which amortized costs exceed the amount recoverable on the market.

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 mixing plant
Production facility for chilling pig iron that is not intended for immediate further processing. The plant serves to optimize production processes at the blast furnaces.

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

Heating furnace
Metallurgic furnace for heating semi-finished products to rolling temperature.

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 plate 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).

Lot size
A lot size is defined as the volume of products commissioned under a production order which go through the stages of production as a closed batch.

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 3 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.

Reel
Technical facility for coiling long steel strip in preparation for shipping to other production plants or customers.

Relining
Cladding the blast furnace with refractory material, a process repeated at 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.

Sinter plant

It is the function of the sintering plant to process fine grain raw material into coarse grained iron ore sinter for charging the blast furnaces. To begin with, meticulously prepared mixtures are created consisting of fine ore, concentrates, extras and undersizes arising from screening lumpy burden components at the blast furnace. Ferriferous fine grain discharges from the production chain of the entire steel works are also put into the mixture. By igniting suitable fuel, iron ore sinter is produced by down draft process. Normally, coke breeze from screening lump coke at the blast furnace is used as fuel.

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.

Total supply
The most common form of energy supply where a customer sources all energy needs (electricity or natural gas) from a single supplier. A total supply contract defines the energy price which depends on the volume purchased but not the exact scope and intervals when energy is bought within a delivery period. The advantage is the comparatively low expense.

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.

Further information can be accessed under the website: stahl-online.de

II. Financial Calendar of Salzgitter AG for 2010

March 5, 2010	Key data for the financial year 2009
March 26, 2010	Publication of consolidated financial statements for 2009 Annual Results Press Conference
March 29, 2010	Analysts' conference in Frankfurt/Main
March 30, 2010	Analysts' conference in London
May 12, 2010	Interim report for the first quarter of the financial year 2010
June 8, 2010	General Meeting of Shareholders in 2010
August 12, 2010	Interim report for the first half of the financial year 2010 Analysts' conference in Frankfurt/Main
August 13, 2010	Analysts' conference in London
November 12, 2009	Interim report for the first nine months of the financial year 2010

III. Editorial Details and Contact

Contact:
SALZGITTER AG
Eisenhüttenstraße 99
D-38239 Salzgitter

Phone: +49 (0) 53 41/21-01
Fax: +49 (0) 53 41/21-27 27

Postal Address:
D-38223 Salzgitter

Public Relations:
Phone: +49 (0) 53 41/21-23 00
Fax: +49 (0) 53 41/21-23 02

Investor Relations:
Phone: +49 (0) 53 41/21-37 83
Fax: +49 (0) 53 41/21-25 70

Interactive Annual Report:
www.salzgitter-ag.de/gb2009

Publisher:
SALZGITTER AG

Concept and Design:
BUTTER. Agentur für Werbung,
Düsseldorf

Editorial Office:
SALZGITTER AG, Investor Relations

Photography:
Marcus Pietrek (pp. 11, 14)
Christian Stoll (pp. 24/25, 52/53, 76/77, 88/89, 128/129, 142/143)
Markus Meuthen (pp. 26/27, 54/55, 78/79, 90/91, 130/131, 144/145)

Lithography:
Publication Partners Medienkompetenz GmbH,
Willich

Printed by:
Rasch, Druckerei und Verlag, Bramsche

Translation:
Baker & Harrison, Munich

Production:
BUTTER. Agentur für Werbung,
Düsseldorf

For computational reasons, rounding-off differences of +/– one unit (€, % etc.) may occur in the tables.

The Annual Report of Salzgitter AG is also available in English. In the event of any discrepancies, the German version shall prevail.