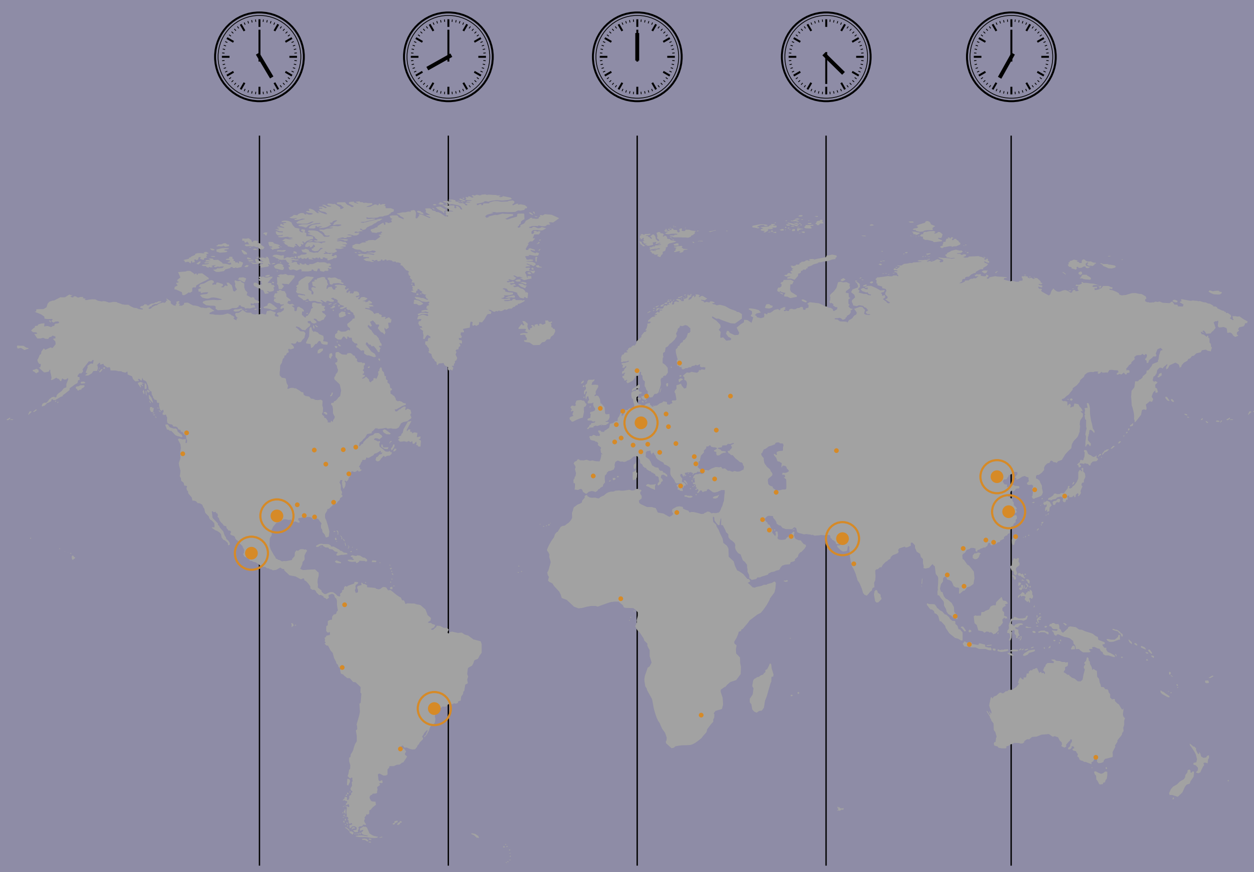

Annual Report 2010

About us

Salzgitter AG ranks as one of Germany's companies rooted in a long tradition. Our business activities are concentrated on steel and technology. Through its sustainable organic and external growth, our company has advanced to take its place as one of Europe's leading steel and technology groups – with external sales of more than € 8 billion in 2010, a crude steel capacity of approximately 8 million tons and a workforce of around 23,000 employees. The primary objective of our company – now and in the future – is the preservation of our independence through profitability and growth.

Our Group comprises almost 200 domestic and international subsidiaries and holdings and is structured into the Steel, Trading, Tubes, Services and Technology divisions.

The share of Salzgitter AG is listed on the MDAX index of Deutsche Börse AG.

The Salzgitter Group in Figures

		FY 2010	FY 2009	FY 2008	FY 2007	FY 2006
External sales	**€ m**	**8,305**	**7,818**	**12,499**	**10,192**	**8,447**
Steel Division	€ m	2,269	1,674	3,002	2,852	2,440
Trading Division	€ m	2,958	3,039	5,622	4,385	3,971
Tubes Division	€ m	1,736	2,045	2,172	1,815	1,510
Services Division	€ m	413	303	519	504	425
Technology Division[1]	€ m	873	718	1,038	513	–
Other/Consolidation	€ m	56	41	146	123	101
Earnings before tax (EBT)	**€ m**	**49**	**–496**	**1,003**	**1,314**	**1,855**[2]
EBT by division						
Steel Division	€ m	–101	–374	546	749	434
Trading Division	€ m	71	–128	151	213	201
Tubes Division	€ m	60	104	312	303	263
Services Division	€ m	26	8	24	40	15
Technology Division[1]	€ m	–30	–210	4	4	–
Other/Consolidation	€ m	22	103[3]	–32[3]	5	942[2]
Net income for the year	**€ m**	**30**	**–387**	**677**	**905**	**1,510**
Balance sheet total	**€ m**	**8,689**	**8,052**	**8,701**	**8,406**	**6,978**
Non-current assets	**€ m**	**3,447**	**3,184**	**2,918**	**2,168**	**1,631**
Current assets	**€ m**	**5,242**	**4,868**	**5,783**	**6,238**	**5,347**
Inventories	€ m	1,730	1,466	2,551	2,084	1,653
Shareholders' equity	**€ m**	**3,846**	**3,904**	**4,346**	**4,246**	**3,457**
Liabilities	**€ m**	**4,843**	**4,147**	**4,355**	**4,160**	**3,521**
Non-current liabilities	€ m	3,033	2,553	2,380	2,380	2,187
Current liabilities	€ m	1,810	1,595	1,975	1,780	1,334
of which due to banks	€ m	83[4]	95[4]	132	119	140
Investments[5]	**€ m**	**497**	**677**	**653**	**385**	**236**
Depreciation and amortization[5]	**€ m**	**377**	**543**	**278**	**225**	**201**
Employees						
Personal expenses	€ m	1,424	1,397	1,472	1,232	1,014
Annual average core workforce[6]	empl.	23,190	23,769	23,866	20,072	16,949
Annual average total workforce[7]	empl.	25,124	25,639	25,628	21,648	18,352
Crude steel production[8]	**kt**	**6,755**	**4,918**	**6,901**	**7,325**	**7,363**
Key figures						
EBIT before depreciation and amortization (EBITDA)[9,10]	€ m	540	157	1,362	1,581	2,102
Earnings before interest and tax (EBIT)[9,11]	€ m	160	–411	1,072	1,351	1,901
Return on capital employed (ROCE)[12]	%	2.2	–10.5	21.9	28.0	47.8
Cash flow	€ m	209	1,190	547	781	488

1) Companies of the Technology Division consolidated as from July 1, 2007; EBT incl. effects from purchase price allocation
2) Incl. income from disposal/hedging VLR shares € 907 million
3) Incl. goodwill amortization
4) Current and non-current bank liabilities
5) Excl. financial investments
6) Excl. trainee contracts and excl. age-related part-time work
7) Incl. trainee contracts and incl. age-related part-time work
8) Incl. changed shareholding in HKM
9) Definition changed as per 01/01/2010; adjusted retrospectively for 2009
10) EBIT excl. depreciation and amortization (EBITDA) = EBT + interest expenses/– interest income + depreciation and amortization
11) Earnings before interest and tax (EBIT) = EBT + interest expenses/ – interest income
12) Return on capital employed (ROCE) = EBIT (= EBT + interest expenses excl. interest portion in transfer to pension provisions) divided by the sum of shareholders' equity (excl. calculation of deferred tax), tax provisions, interest-bearing liabilities (excl. pension provisions) and liabilities from finance leasing, forfaiting

Annual Report 2010

Financial Year from January 1 to December 31, 2010

SALZGITTER AG
Stahl und Technologie

Highlights of the Financial Year 2010

01 January

On January 22, Nord Stream AG based in Zug, Switzerland, mandates our EUROPIPE joint venture with the delivery of 65 % of the large-diameter tubes required for the second section of the Baltic Sea pipeline, thereby reserving a large part of the global leader's production capacity well into the year 2011.

02 February

"Continuity through Progress" was the heading of Salzgitter AG's first Corporate Responsibility Report. The report provides extensive information on the ecological, economic and social performance of the Group. It serves to highlight that sustainability is a fundamental principle underlying all our actions, which is reflected in many aspects of how the company is positioned: features include being progressive and innovative in the markets, rooted in our regions, anchored in sustainable structures and geared towards profitable growth.

03 March

At the Annual Results Press Conference, which took place on March 26, the Executive Board presents the 2009 Annual Report. It subsequently engaged in extensive dialog with the capital market at well-attended analyst conferences in Frankfurt am Main and London. The year 2009 has gone down as one of the most difficult financial years in the 150-year history of the Salzgitter Group. Thanks to the sound and broad business base and the healthy financial position of the company, as well as a program of swiftly implemented measures, all the challenges posed by the crisis were competently mastered.

Revolution in global iron ore price negotiations: The Brazilian mining company Vale and Australian BHP Billiton dispense with the system of annual ore price negotiations which has been in force for 40 years in favor of adopting short-term pricing mechanisms. This change exposes the international steel industry to a hitherto unknown volatility in raw materials procurement and the challenge of having to adjust steel product sales structures to accommodate this change.

04 April

The Salzgitter Group conducts extensive discussions with customers and partners: companies from the Steel, Trading and Tubes divisions exhibit at Tube, the world's leading tube trade fair, BAUMA as the largest exhibition of the construction machinery sector, and HANNOVER MESSE, the world's most important industrial trade show.

The steel market shows clear signs of recovery: order intake and spot market prices for flat steel products and plate rise swiftly.

EUROPIPE commences the production and delivery of tubes for the second section of the Baltic Sea pipeline.

05 May

Publication of the financial report on the first quarter of 2010 on May 12: the ongoing economic upswing boosts new orders and capacity utilization, and business prospects brighten. External sales of € 1,924.8 million nonetheless fall short of the year-earlier figure owing to hesitant recovery in the market in the first months of the year.

The consolidated pre-tax result of € –17.1 million includes provisions formed for streamlining measures and impairment.

06 June

Almost 1,000 shareholders and shareholder representatives attend the regular General Meeting of Shareholders of the Salzgitter Group, held on June 8 in the Town Hall of Braunschweig. Presence corresponded to more than 33 million shares, which is 55 % of voting capital.

All items on the agenda, including dividend payment of € 0.25 per share, were approved by a large majority.

07 July

Salzgitter opts for continuity: In an extraordinary meeting of the Supervisory Board of Salzgitter AG, Prof. Dr.-Ing. Heinz Jörg Fuhrmann is unanimously appointed as the successor of Prof. Dr.-Ing. h. c. Wolfgang Leese who will be withdrawing from the Executive Board in 2011 to go into retirement.

The increase in new orders enables Salzgitter Flachstahl GmbH to take blast Furnace C into operation again.

08 August

The Salzgitter Group releases its financial report on the first half of 2010 on August 12: the Group's positive performance holds steady in the second quarter, delivering a pre-tax profit.

Salzgitter Flachstahl GmbH commissions SMS Siemag AG to build a belt casting line. The contract marks the first time a production concept for the casting of wholly innovative high-strength steels has been realized on an industrial scale.

The advantages of belt casting technology reside in considerable savings on energy and CO_2 emissions in comparison with conventional steel manufacturing. The door to the industrial production of HSD® steels (High Strength and Ductility) is now open.

On August 25 the Annual General Meeting of the shareholders of Klöckner-Werke AG, in which Salzgitter Mannesmann GmbH (SMG) holds a stake of more than 95 %, approves a resolution through which the shares of all the remaining shareholders are to be transferred to SMG in return for compensation of € 14.33 per share.

09 September

The ramping up phase of Peiner Träger GmbH's second electric arc furnace commences. The new facilities are part of the "Salzgitter Steel 2012" strategic investment program aimed at securing the future of steelworks in Lower Saxony.

The ZF Group, one of the world's leading automotive suppliers, confers awards on its top suppliers: assessment criteria include premium quality, outstanding technology, efficient logistics processes and competitive cost structures. Awards go to Salzgitter AG in 2010 in the production material category, to Salzgitter Flachstahl GmbH for flat steel and to Salzgitter Mannesmann Precision GmbH for steel tubes.

10 October

A large number of subsidiaries belonging to the Salzgitter Group demonstrate their product expertise for the automotive industry at the sixth International Suppliers Fair (IZB) in Wolfsburg. The Group also dialogues with customers and partners through presentations and discussion panels at the EuroBLECH Trade Fair in Hanover.

Salzgitter AG issues a bond which is exchangeable into the shares of Aurubis AG: the issuance serves to diversify funding sources with proceeds being used for general corporate purposes, and the annual coupon is fixed at 2 %.

11 November

The Group publishes its Interim Report on the first nine months of 2010 on November 12: The Salzgitter Group has reaped discernable benefit from the general economic recovery and returned to profitability. Pre-tax profit for the period comes to € 5.7 million and external sales to € 6,192.6 million.

KHS, a leader in beverage filling technology, exhibits at Brau Beviale Trade Fair 2010 in Nuremberg. The new Innocheck EBI empty bottle inspector attracts a great deal of attention at the trade fair stand. Contracts are signed while the exhibition is still running.

12 December

The Supervisory Board of Salzgitter AG makes personnel decisions of great importance in its regular meeting: Prior to the meeting, Prof. Dr.-Ing. h. c. Wolfgang Leese had put forward a request to relinquish his management of the Group earlier than originally planned. Prof. Dr.-Ing. Heinz Jörg Fuhrmann is therefore appointed to the position of new Chief Executive Officer and Chairman of the Executive Board of Salzgitter AG, effective at the earlier date of February 1, 2011.

At the same time, Mr. Burkhard Becker, formerly Chief Financial Officer of KHS GmbH and Board member of Klöckner-Werke AG, is appointed as Professor Fuhrmann's successor responsible for corporate finance and as a member of Salzgitter AG's Executive Board.

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C Further Information

Preface by the Executive Board

Ladies and Gentlemen,

In line with our expectations, 2010 was a year of transition for Salzgitter AG, a return from the dramatic crisis of 2009 to normality. The nature of this normality, however, is decidedly different from the phase also deemed "normal" prior to the steel boom that commenced back in 2004.

Today we are confronted with the extreme price volatility of raw materials needed for our rolled steel and tubes production, which is presenting us with new challenges. As opposed to the financial sector, which was able to pass the major share of the gigantic burden of its own making on to the public sector and thus to taxpayers, not all sectors relevant for Salzgitter AG have emerged from the crisis. One example is the European construction industry which is, to all appearances, suffering greatly from tight budget restrictions now that stimulus programs have expired. On a brighter note, firstly the German automotive industry, followed a little later by the engineering sector and its customers, as well as the global beverage industry, made gratifying contributions to the capacity utilization of our Group companies.

And this brings us to the prospects for Salzgitter AG, which speak for themselves: Well positioned with high-grade products, cutting-edge production facilities, highly qualified employees and a strong financial base, we will take on this decade's megatrends and play our part in shaping them. There is more potential for further developing and optimizing the Group; our tenet is to recognize this potential and implement the requisite measures.

The internationalization of Salzgitter AG is a key component: In 1998, we only had 125 employees outside Germany, whereas this number has risen to more than 3,400 today. As this growth is set to progress in the future – while we remain firmly rooted in our tradition and in our values as a German industrial enterprise – the motto of this year's Annual Report which is "24 hours at Salzgitter" can well be interpreted as a programmatic statement.

Discover today's entrepreneurial and cultural diversity at Salzgitter AG. To give you an insight, we paid a visit to a selection of German and international locations from the five divisions and spent a day with the employees working there. This has made the Group's ceaseless activities more of a tangible experience. When the working day in Germany is drawing to an end, a new day is dawning for our subsidiaries in other parts of the world.

It is with deep concern that we observe a growing threat to the global competitiveness of our steel production locations from the – in an international comparison – high energy costs and unilateral commitments of the European Union to environmental and climate protection. We, the Executive Board of Salzgitter AG, therefore expect answers from policymakers on how they intend to counteract the aforementioned burdens on domestic steel production, the industrial

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


HOUSTON
EL SALTO
SÃO PAULO
SALZGITTER
DÜSSELDORF
ILSENBURG
MÜLHEIM
OSNABRÜCK
PEINE
AHMEDABAD
BEIJING
WUXI

value chain and the ensuing relocation of jobs to countries not subject to such covenants and directives. Policies on climate protection have to be crafted in a joint effort by the international community; one-sided commitments and elimination of energy-intensive production will not ultimately be in the interest of global climate. They will merely serve to endanger Germany as an industrial location, and thereby incur severe economic, social and socio-political consequences.

Back to the financial year 2010: Having staged a return to the profit zone, we are able to raise dividend to € 0.32 per share, which is one third higher than in 2009. The increase is a reflection of the Group's steadily rising profitability without its financial base being overtaxed in these changeable times.

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 – through thick and thin – in our company.

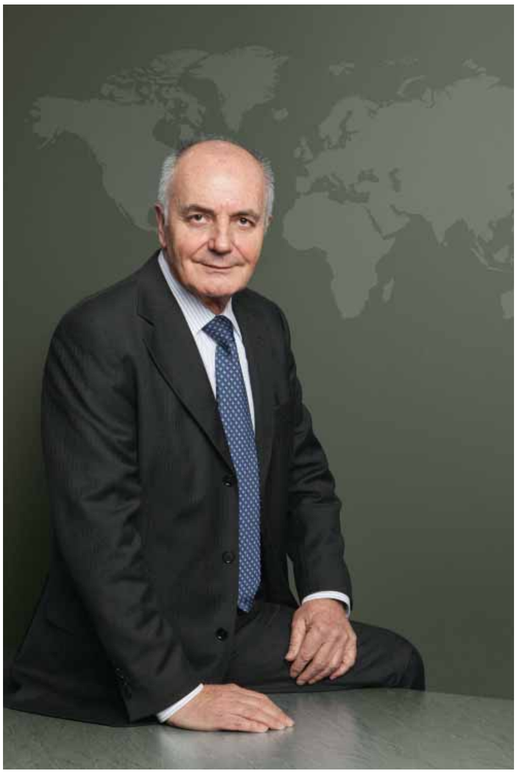
Sincerely,

Prof. Dr.-Ing. Heinz Jörg Fuhrmann   Burkhard Becker   Wolfgang Eging

Heinz Groschke   Johannes Nonn   Peter-Jürgen Schneider

Report of the Supervisory Board

Following the year 2009 with the huge challenges presented by the global financial and economic crisis, Salzgitter AG staged a steady recovery and resumed its positive performance trend over the course of the financial year 2010. The concerted efforts of the past financial year, as well as Europe's ongoing economic recovery, particularly in Germany, contributed to this development.



Rainer Thieme, Chairman of the Supervisory Board

However, the year ended presented us with new challenges which had profound consequences for the entire steel industry: The dramatic increase in the price of raw materials, compounded by raw material suppliers rejecting annual price fixing rounds in favor of quarterly contracts, resulted in the sales component of our traditional business model being fundamentally called into question. Accordingly, we were required to renegotiate our contractual structures with key customer groups.

Despite the difficult environment and persistent uncertainty prevailing in the capital markets, the Salzgitter Group succeeded in boosting its performance steadily over the course of the financial year. Both capacity utilization and selling prices improved notably in most Group companies. It was, however, not possible to achieve the pre-crisis level, and the situation with regard to raw materials costs exerted sustained pressure on margins.

In cases where our management believed that business segments might suffer for extended periods from the consequences of the economic crisis and where performance remained unsatisfactory despite signs of improvement, we initiated programs to improve structures, partly involving reducing personnel, and have already implemented these measures to a great extent. The extensive investment programs launched in recent years to secure the future of the company continued to run their course and have already been concluded in part.

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

In the financial year ended we also regularly and carefully supervised and advised the Executive Board in the exercise of its management duties with a view to legality, expediency and compliance and agreed on key measures designed to promote the company's sustainable development. Our Board received both detailed written and oral 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 economic risks of the company and on divergences between the planned and actual course of business and goals. The causes of such divergences were thoroughly explained and discussed. We were always 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 meetings and one extraordinary meeting in which the Supervisory Board of Salzgitter AG 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. Two Supervisory Board members took part in two and one meeting respectively. In addition, there were nine meetings of the Presiding Committee and four meetings of the Audit Committee. The Nomination Committee met once.

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 the current situation of the company, its development and material transactions with him.

Focus of the Consultations of the Supervisory Board

The consultations of the Supervisory Board were essentially focused on the efforts of companies belonging to the Group to return to profitability in the wake of the general economic recovery and on the challenges emerging from changes in the framework conditions for procuring raw materials. Moreover, we also obtained information on the implementation status of current investment projects, especially in the Steel Division.

We approved the issuance of a bond with a total volume of € 296 million exchangeable into shares and placed at very favorable conditions in the market.

Alongside issues relating to operations, the Supervisory Board also made a decision on successorship with regard to the positions of Chief Executive Officer and Chief Financial Officer.

Audit of the Annual Financial Statements of Salzgitter AG and of the Consolidated Financial Statements

In our meeting on March 24, 2011, we examined the annual financial statements of Salzgitter AG and of the Group, both drawn up as of December 31, 2010, as well as the joint management report on the company and the Group for the financial year 2010. Prior to this, the independent auditor PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, selected by the General Meeting of Shareholders, reviewed both sets of financial statements and issued an unqualified auditor's opinion. 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 also ascertained that the Executive Board had taken the steps required by the German Stock Corporation Act (AktG) for the early recognition of risks that could endanger the company as a going concern.

Moreover, the Audit Committee of the Supervisory Board had the Executive Board and the auditor explain the details of the financial statements at an earlier point in time and discussed the 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 unappropriated retained earnings, as well as the auditor's reports were available to the members of the Supervisory Board for examination. The representatives of the auditor took part in the discussions of the annual financial statements and the consolidated financial statements at the Supervisory Board meeting on March 24, 2011, 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 therefore gave our approval to the findings of the auditor's review and ratified the separate annual financial statements and the consolidated annual financial statements. The annual financial statements are hereby adopted. After due consideration, we gave our approval to the proposal made by the Executive Board on the appropriation of unappropriated retained earnings.

Changes to the Supervisory Board and the Executive Board

Dr. Lothar Hagebölling, Head of the State Chancellery of Lower Saxony up until the end of June 2010, laid down his Supervisory Board mandate on August 18, 2010, having left the service of the Federal State to join the Office of the Federal President. His successor is Mr. Hartmut Möllring, Lower Saxony's Minister of Finance, appointed by way of court order on September 6, 2010. The Supervisory Board elected Mr. Möllring with effect from September 23, 2010, as a member of the Presiding Committee, the Strategy Committee and the Nomination Committee.

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.

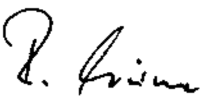
After eleven years of service to the company, Prof. Dr.-Ing. h. c. Wolfgang Leese withdrew from the Executive Board on January 31, 2010, to go into retirement. The Supervisory Board thanks Prof. Leese for his long-standing and successful contribution to the development of the company which is geared to sustainability, profitability and the preservation of its independence. Events of particular note during his period of office were the acquisition of the Tubes and the Technology divisions and the transition of the management structure from a group headed by the parent company to a management holding.

Professor Dr.-Ing. Heinz Jörg Fuhrmann was appointed to the position of new Chief Executive Officer and Chairman of the Executive Board of Salzgitter AG with effect from February 1, 2011. The Supervisory Board appointed Dipl.-Volkswirt Burkhard Becker to the Executive Board as an additional member responsible for corporate finance.

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 2010.

Salzgitter, March 24, 2011

The Supervisory Board



Rainer Thieme
Chairman

Corporate Governance Report

Declaration on the Management of the Company in the Financial Year 2010 and Corporate Governance Report

The Executive Board and the Supervisory Board of Salzgitter AG give high priority to good, responsible management and control geared to creating sustainable value added for the company. The two executive bodies have worked closely together to develop the existing structures and mechanisms of corporate governance throughout the entire Group and to adjust them to new requirements.

The respective provisions prevailing under the German Stock Corporation Act (AktG) and the recommendations of the German Corporate Governance Code form the basis for corporate governance as practiced in Salzgitter AG. Specifically, these were the following:

- the rights of the shareholders and the general meetings of shareholders,
- 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.

More about the recommendations can be read online under www.corporate-governance-code.com.

On December 16, 2010, 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 'German Commission of the German Corporate Governance Code' (GCGC) published by the German Ministry of Justice in the official part of the electronic German Federal Gazette (Bundesanzeiger) have been complied with at Salzgitter AG with the exception of Code Item 5.4.1 GCGC, a recommendation that was newly added in 2010 relating to specifying concrete objectives regarding the composition of the Supervisory Board.
>
> When making election proposals to the General Meeting of Shareholders for the election of shareholder representatives for the Supervisory Board, and for the election of the further member, the Supervisory Board complies with all statutory regulations and all of the Code's recommendations relating to personal requirements for supervisory board members. The focus in this context is on potential male and female candidates' specialist and personal expertise, taking into account the specifics of the enterprise so that the members of the Supervisory Board as a group possess the knowledge, ability and expert experience to properly complete its tasks if the proposed candidates are elected. When assessing expertise, the Supervisory Board also takes into account the company's international activities, potential conflicts of interest, the fixed age limit for supervisory board members and diversity. In doing so, it does not currently regard the specifying of concrete objectives as necessary."

Beyond the recommendations laid down in the Code, employees of the company developed a set of corporate guidelines, our Corporate Mission, back in 2001 determining ethical standards for the entire Group which were subsequently approved by the Executive Board. These corporate guidelines also set standards for the company and its employees, formulated under the five bywords of "Partners, Products, Processes, Personnel, Profit".

You can view the Corporate Mission on the website of our company under www.salzgitter-ag.de/en/Konzern/Leitbild_5P.

In the financial year 2010, 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 and submit relevant motions, as well as to vote. Fundamental decisions affecting the company, such as amendments to the Articles of Incorporation, appropriation of the annual unappropriated retained earnings, 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. We have enabled our shareholders to exercise their voting rights without having to personally attend the General Meeting of Shareholders: They can appoint a proxy of the company and give him instructions on how they wish their voting rights to be exercised.

The adopted annual financial statements as at December 31, 2009, the consolidated financial statements, the joint management report on the company and the Group and the report of the Supervisory Board were presented to the regular General Meeting of Shareholders of Salzgitter AG held on June 8, 2010. Prior to the General Meeting, the documents were posted on our website for viewing by the shareholders.

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

- appropriation of unappropriated retained earnings (dividend of € 0.25 per share),
- discharge of the Executive and Supervisory boards,
- selection of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, as the independent auditor for the financial year 2010,
- authorization for the purchase, sale and retraction of the companies company’s own shares,
- authorization to issue bonds with warrants, convertible bonds, profit participation rights and/or profit sharing stock,
- amendments to the Articles of Incorporation.

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 Salzgitter AG was made up of six members in the financial year 2010, some of whom had functional, others divisional competences. They are liable to the company for any potential dereliction of duty. The assignment of duties among the members of the Executive Board is set out in a schedule specifying the allocation of tasks. The Supervisory Board has established bylaws for the purpose of regulating cooperation at Executive Board level and involving the Supervisory Board in business management transactions.

In filling management functions within the company, the Executive Board takes account of diversity in addition to basing their choice on requirements dictated by the position and gives appropriate consideration to women in the process.

The entire Supervisory Board decides on 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. As already announced in the Declaration of Conformity dated December 10, 2009, an appropriate deductible was included in the D&O insurance policy with effect from January 1, 2010.

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 also appoints Executive Board members and plans their successors on a long-term basis.

The Board is involved in material decisions affecting the company which require its approval. Moreover, it 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. When making election proposals to the General Meeting of Shareholders, the Supervisory Board complies with all statutory regulations and all of the Code's recommendations relating to personal requirements placed on supervisory board members. The focus in this context is on potential candidates' specialist and personal expertise, taking into account the specifics of the enterprise, so that the persons put forward for election possess the knowledge, ability and expert experience to properly complete their tasks if elected. When assessing expertise, the Supervisory Board also factors in the company's international activities, potential conflicts of interest, the fixed age limit for supervisory board members and diversity. At present, it does not regard the specifying of concrete objectives to be necessary.

The Supervisory Board provides detailed information on its activities and decisions in the financial year 2010 in a separate report made to the General Meeting of Shareholders. It did not receive any reports of conflicts of interest, neither from the members of the Executive Board nor from members of the Supervisory Board.

The remuneration system of the Supervisory Board is disclosed in the Group Management Report starting on page 41.

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 to aid them in successfully performing their management and control duties.

The essential instruments of the Supervisory Board include in particular:

- obligation of the Executive Board to submit regular, timely and comprehensive reports to the Supervisory Board,
- regular discussion of the planning, business development and the strategy with the Executive Board,
- specifying of business activities and measures of the Executive Board which may only be carried out with Supervisory Board approval,
- obligation of the Executive Board to submit longer-term corporate plans on an annual basis and to report on the execution of such plans and
- 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 the individual Executive Board member.

For its current term of office, the Supervisory Board has set up a Presiding Committee, an Audit Committee, a Strategy Committee and a Nomination Committee for the preparation of its consultations and resolutions.

The Presiding Committee undertakes the preparatory work in connection with the appointing of Executive Board members and, in place of the full Supervisory Board, 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 and the quarterly financial statements,
- the internal control system and 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. It does not meet regularly but only when necessary.

The Nomination Committee, which is exclusively made up of representatives of the shareholders, proposes suitable candidates to the Supervisory Board for the latter to present its proposals to the General Meeting of Shareholders for the election of Supervisory Board members. Its main period of activity falls due in the run-up to a re-election of the Supervisory Board.

The Executive Board uses a range of management and control instruments which also include the following:

- 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 guideline,
- 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 2010. It continued to develop 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 if necessary.

Corporate Compliance as Part of Corporate Governance

Corporate compliance means adherence to the legal provisions and internal guidelines relevant for 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. To this end, all superiors are called upon to give their staff clear instructions as to their tasks and areas of responsibilities and to 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 in the financial year 2010 as well; 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 financial statements 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 results 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 am Main and London. Finally, the Executive Board ensures that information which could have a considerable impact on the share price is published immediately in the form of 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 2010, 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, that exceeds 1%. There are currently no share option programs or similar security-based incentive systems implemented in the Salzgitter Group.

Salzgitter, March 24, 2011

The Executive Board

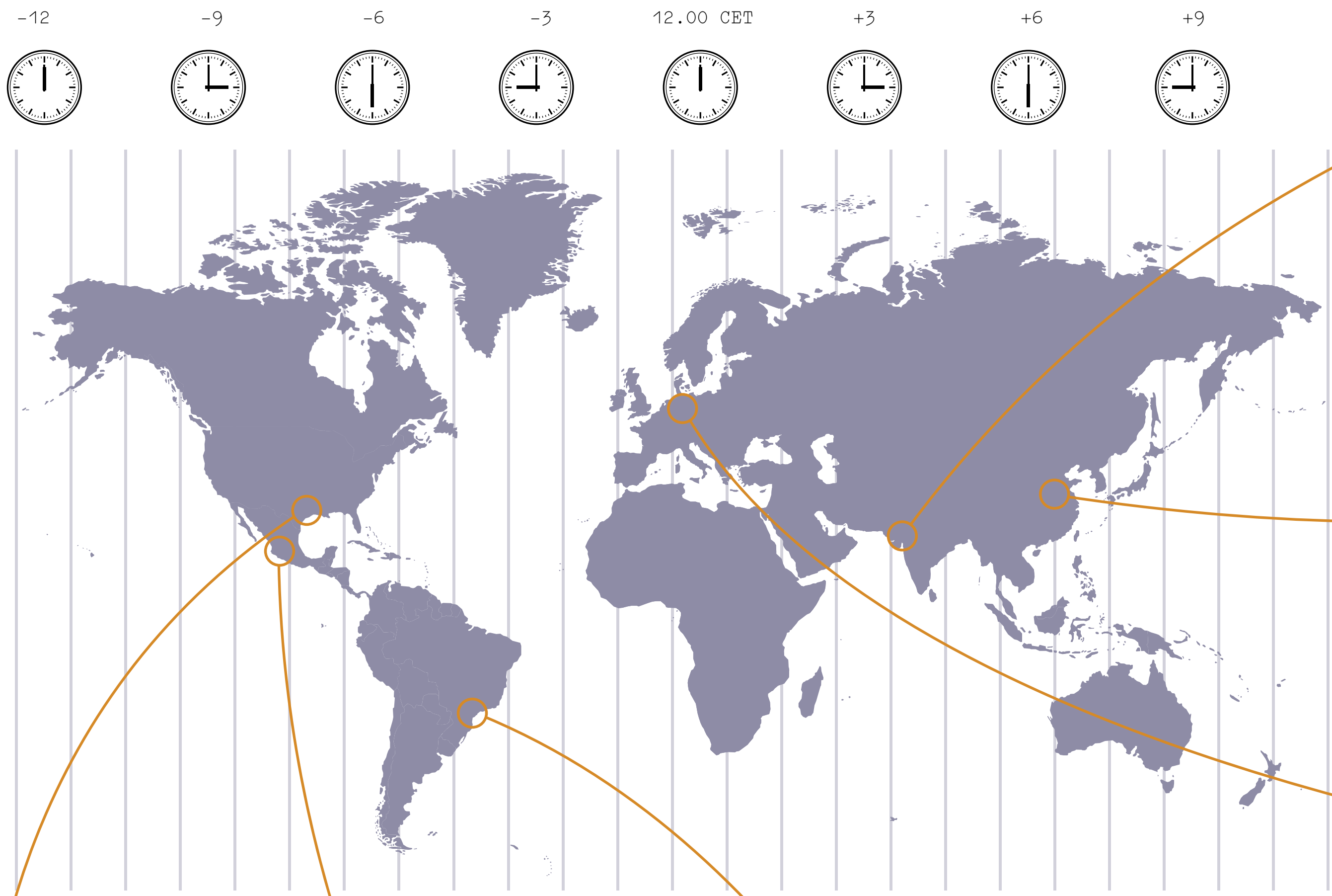
Prof. Dr.-Ing. Heinz Jörg Fuhrmann
Chairman

The Supervisory Board

Rainer Thieme
Chairman

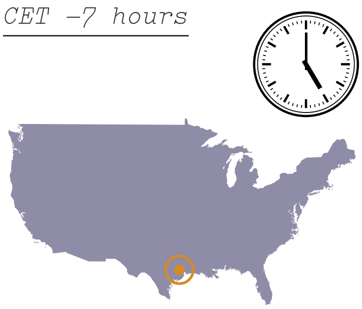
24 hours at Salzgitter:

Salzgitter AG is an international enterprise with a large number of locations, Group companies and participating interests worldwide. Thanks to the nature of our divisions and the time zones in which we operate, there is always something happening in the world of Salzgitter – day in, day out, around the clock. In this year's annual report, we would like to highlight this ceaseless activity. Let us introduce you to a selection of sites we observed over a 24-hour period.



USA

CET –7 hours



Company:
Salzgitter Mannesmann International Inc.
City: **Houston**
Division: **Trading**
Product: **Rolled steel products and tubes**

Mexico

CET –7 hours

Company:
Salzgitter Mannesmann Precisión S.A. de C.V.
City: **El Salto**
Division: **Tubes**
Product: **Welded precision steel tubes**

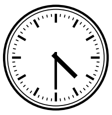
Brazil

CET –4 hours

Company:
KHS Indústria de Máquinas Ltda.
City: **São Paulo**
Division: **Technology**
Product: **Packaging and filling machinery**

India

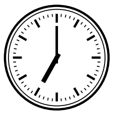
CET +4.5 hours



Company: KHS Machinery Pvt. Ltd.
City: Ahmedabad
Division: Technology
Product: Packaging and filling machinery

China

CET +7 hours



Company: Salzgitter Mannesmann Trade Co. Ltd.
City: Beijing
Division: Trading
Product: Rolled steel products and tubes

Company: DESMA Rubber Injection Machinery Co. Ltd.
City: Wuxi
Division: Technology
Product: Injection molding plants

Germany

CET

Company: Salzgitter Flachstahl GmbH
City: Salzgitter
Division: Steel
Product: Flat rolled steel

Company: Salzgitter Mannesmann Grobblech GmbH
City: Mülheim
Division: Tubes
Product: Large-diameter tubes

Company: Peiner Träger GmbH
City: Peine
Division: Steel
Product: Sections

Company: Salzgitter Mannesmann Handel GmbH
City: Düsseldorf
Division: Trading
Product: Rolled steel products and tubes

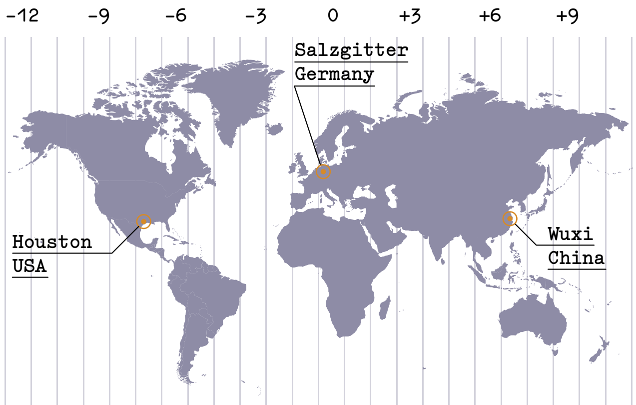
Company: Ilsenburger Grobblech GmbH
City: Ilsenburg
Division: Steel
Product: Plate

Company: Salzgitter Automotive Engineering GmbH & Co. KG
City: Osnabrück
Division: Services
Product: Small series production

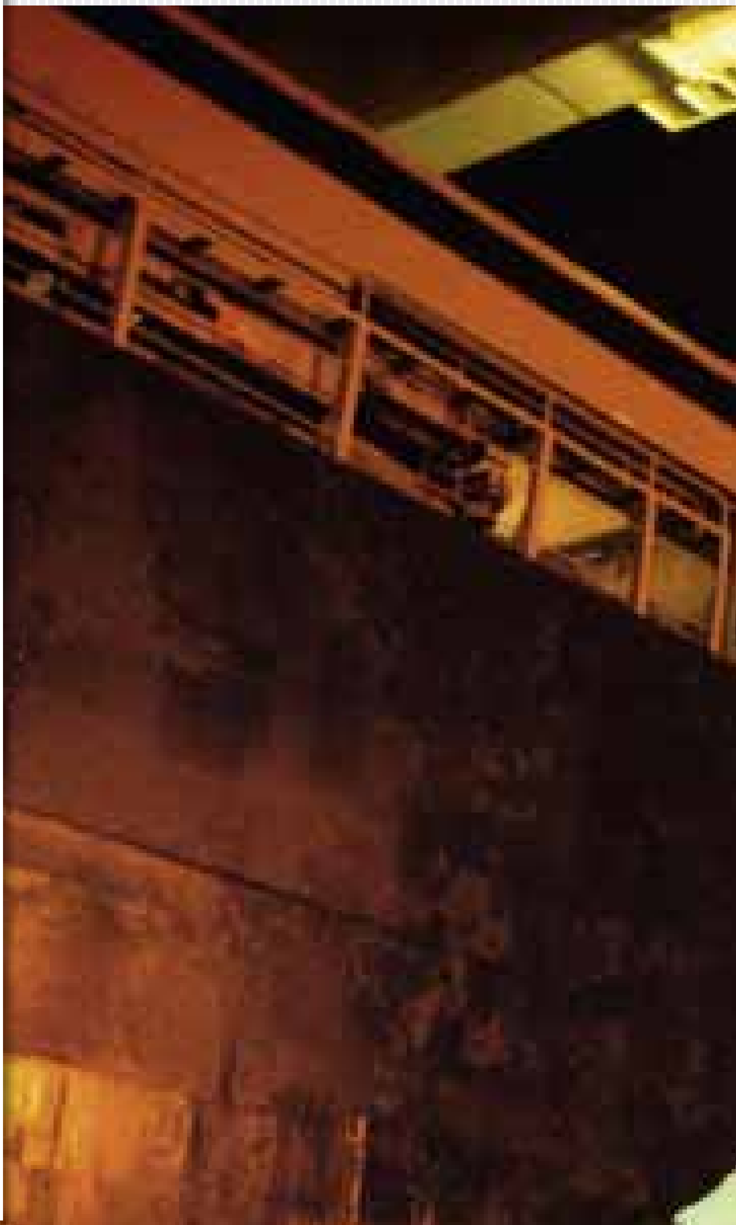
Company: EUROPIPE GmbH
City: Mülheim
Division: Tubes
Product: Large-diameter tubes

24 hours at Salzgitter:

02.00 CET



While the working day in Wuxi is just beginning, the team at the Houston office is heading home – only the port and some suppliers continue to work through the night. It's the middle of the night in Salzgitter – but the machines are never idle here: Some 4,300 employees work shifts around the clock.



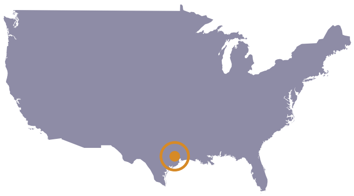
Houston, USA, 19.00:

A cargo ship has just been offloaded at Dock 23 in the port of Houston. Cargo Superintendent Wally Nugent checks the tubes that have arrived for transport damage. Nothing escapes him: Born 64 years ago in Jamaica, he has worked for Salzgitter for 17 years and draws on 37 years' experience in the steel trade.

Houston

USA

Local time 19.00



Company: Salzgitter Mannesmann International Inc.

Division: Trading

Product: Rolled steel products and tubes

Managing Director Claus Gundlach is finishing up. His working day began at 6 a.m. – that's the only time he can reach his business partners in Asia and Germany.

Salzgitter

Germany

Local time 02.00

Company: Salzgitter Flachstahl GmbH

Division: Steel

Product: Flat rolled steel

On the casting platform in Salzgitter, molten steel is cast into slabs. The workers wear fireproof clothing – the temperature of the steel is 1,500 °C.

Casting operator Dennis Heidrich takes a sample of the still glowing steel to the lab where the chemical composition is checked.

Wuxi

China

Local time 09.00

Company: DESMA Rubber Injection Machinery Co. Ltd.

Division: Technology

Product: Injection molding plants

In DESMA's 2,000 square meter assembly hall in Wuxi the 34 employees put together injection molding machines for rubber and silicone production.

An injection molding machine is made up from around 3,000 individual parts. Some 80 % of the components used by DESMA are manufactured locally.

Mercury Threading, one of Houston's processing companies, specializes in cutting threads. Today José Juarez is working the night shift – here he is checking the thread on an oil-drilling pipe.

A few meters away the flame cutting machine is cutting the concast into slabs.

In the slab store, each slab is signed: the character and numerical code enables precise tracking at all times.

Technician Wang Hongxiang is working on the mold clamping unit of the 250 ton machine – this is the best-selling model.

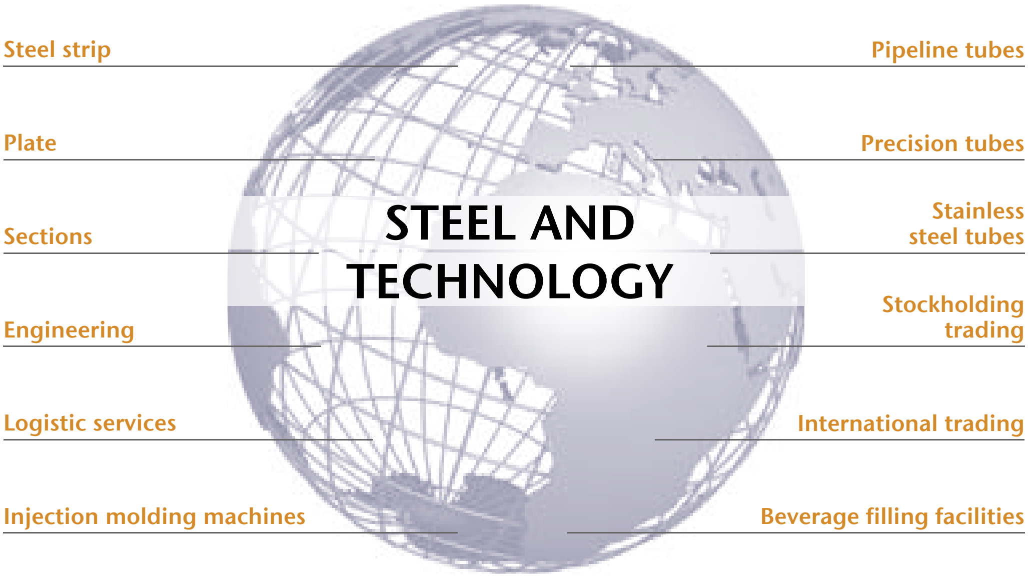
Assembly worker and chess player Lu Jianguo enthuses on the design of the machines: "Assembling them is like creating a work of art."

I. Business and Organization

1. Group Structure and Operations

With external sales posting € 8 billion and a crude steel capacity of some 8 million tons, the Salzgitter Group ranks among Europe's leading steel technology and plant engineering groups. The Group comprises more than 200 subsidiaries and associated companies and has a workforce of around 23,000 employees. The Group is structured into the five divisions of Steel, Trading, Tubes, Services and Technology all under the management of Salzgitter AG as the holding company. The share of Salzgitter AG is listed on the MDAX index of Deutsche Börse AG.

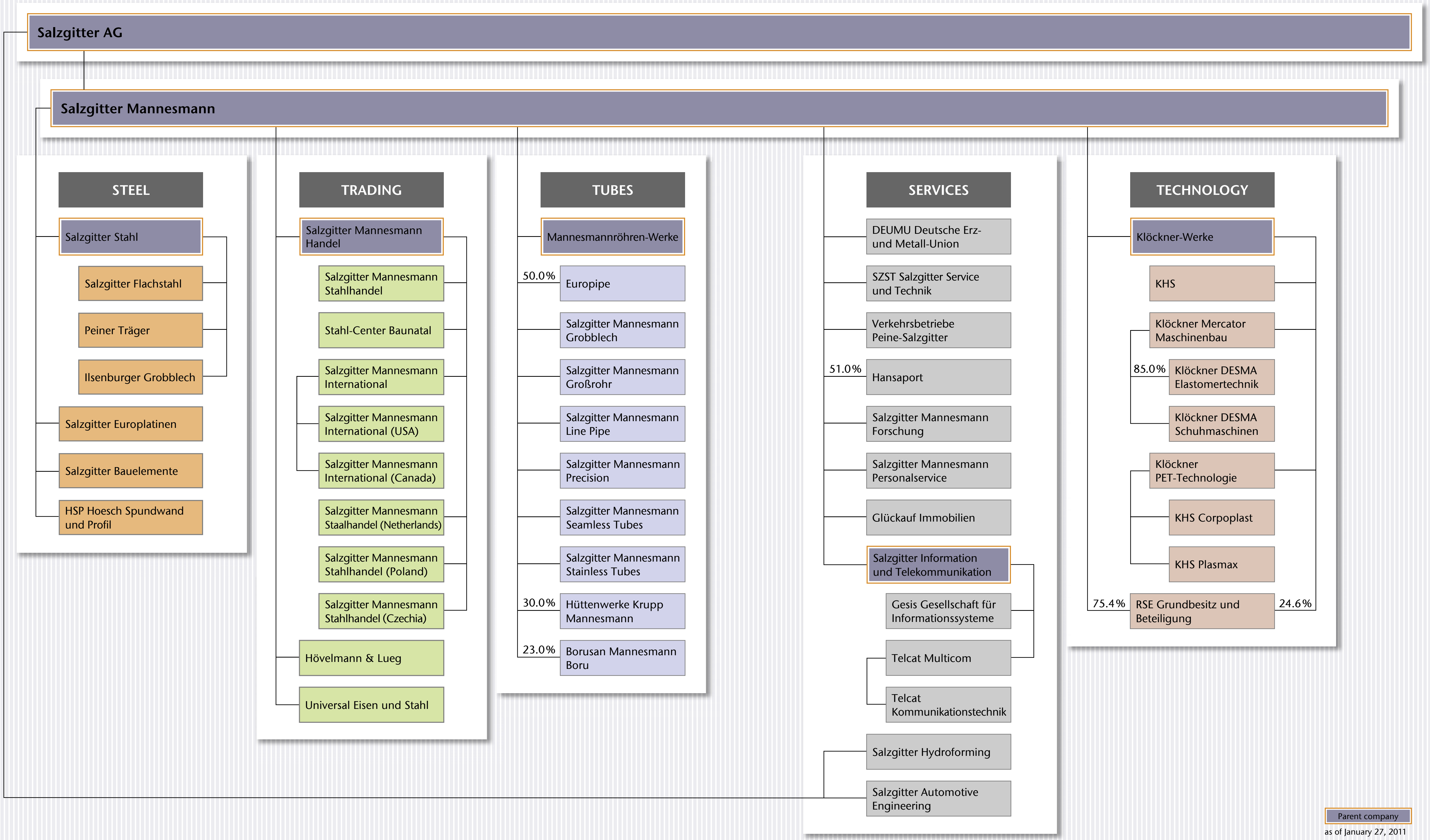
Our core competences reside in the production of rolled steel and tubes products and their processing, trading in these products, special machinery and plant engineering.



All important companies of the Salzgitter Group are combined under Salzgitter Mannesmann GmbH (SMG) as an interim holding. This structure, among other things, enables us to operate financial management for the Group on a centralized and unrestricted basis. As the management holding, Salzgitter AG manages SMG as well as all associated companies. The Management Board of SMG is made up of the same persons as the Executive Board of Salzgitter AG. The management and control of the Group is therefore carried out by the executive and supervisory 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 within the holding.

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

Divisions


Salzgitter AG
Salzgitter Mannesmann
STEEL
Salzgitter Stahl
Salzgitter Flachstahl
Peiner Träger
Ilsenburger Grobblech
Salzgitter Europlatinen
Salzgitter Bauelemente
HSP Hoesch Spundwand und Profil
TRADING
Salzgitter Mannesmann Handel
Salzgitter Mannesmann Stahlhandel
Stahl-Center Baunatal
Salzgitter Mannesmann International
Salzgitter Mannesmann International (USA)
Salzgitter Mannesmann International (Canada)
Salzgitter Mannesmann Staalhandel (Netherlands)
Salzgitter Mannesmann Stahlhandel (Poland)
Salzgitter Mannesmann Stahlhandel (Czechia)
Hövelmann & Lueg
Universal Eisen und Stahl
TUBES
Mannesmannröhren-Werke
50.0%
Europipe
Salzgitter Mannesmann Grobblech
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
DEUMU Deutsche Erz- und Metall-Union
SZST Salzgitter Service und Technik
Verkehrsbetriebe Peine-Salzgitter
51.0%
Hansaport
Salzgitter Mannesmann Forschung
Salzgitter Mannesmann Personalservice
Glückauf Immobilien
Salzgitter Information und Telekommunikation
Gesis Gesellschaft für Informationssysteme
Telcat Multicom
Telcat Kommunikationstechnik
Salzgitter Hydroforming
Salzgitter Automotive Engineering
TECHNOLOGY
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 Beteiligung
24.6%
Parent company
as of January 27, 2011

The five divisions are composed of independently operating companies which are decentralized and operate with a great deal of discretionary scope, carrying out their market-, location- and product-related business activities under their own responsibility.

With their high-quality branded and special steels, the companies of the **Steel Division** constitute the core competence of our Group. They develop and produce a broad range of steel products (flat steel and sections, plates, sheets piling, components for roofing and cladding and tailored blanks) for constantly evolving new application areas. The product portfolio caters especially for flat steel products geared to premium steel grades and qualities for use in increasingly 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 our strong customer orientation, we are in a position to tap future market potential through creative and innovative products on an ongoing basis.

Upon completion of an extensive investment program, more than 6 million tons of crude steel a year are to be smelted in the integrated steel works in Salzgitter and in the Peine mini mill in future. Thanks 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 corporation 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 major customers as well as smaller and medium-sized end clients alike.

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

The SMHD Group has three companies which operate in the German stockholding steel trade from fifteen locations, eleven of which are warehouses. Six companies engage in steel trading in European countries, with an additional four active agencies. International trading is mainly handled by nine independent companies and four locations abroad managed as representative offices.

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.

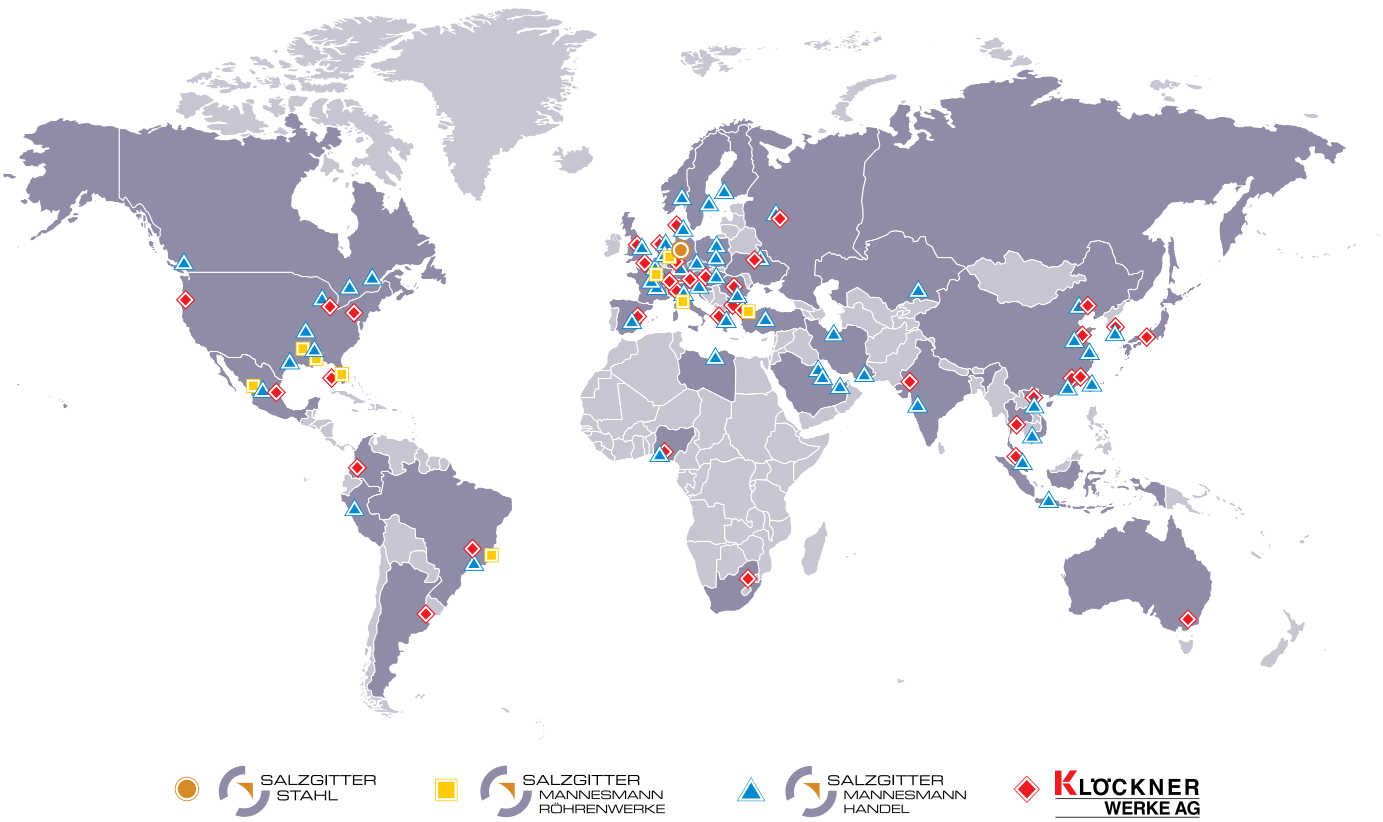
The companies and holdings of the **Tubes Division**, headed by Mannesmannröhren-Werke GmbH (MRW), offer their customers a wide range of steel tubes. The scope of products comprises in particular longitudinally and spiral-welded large-diameter pipes, HFI (high-frequency inductive) welded line pipes, 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 the market and also rank as global leaders in a number of segments.

The division has secured its own crude steel supply in the form of a 30-percent stake in steel producer Hüttenwerke Krupp Mannesmann GmbH ([HKM], technical crude steel capacity of 6 million tons) through its own cutting-edge plate mill and the production of semi-finished material for the manufacturing of seamless tubes. This division also makes intensive use of our trading organization, both for the sale of its products and for the sourcing of semi-finished products.

The range of services provided by the **Services Division** is primarily focused on requirements within the Group. However, we also offer services to external customers to generate additional contributions to the Group's profit. This serves to ensure that the know-how of the companies is constantly benchmarked against market requirements. On this basis, the companies conceive and realize attractive service offerings within a wide spectrum, ranging from the supply of raw materials, logistics and plant technology through to researching and developing materials as well as complete IT solutions. This is supplemented by services and products for the automotive industry.

The product and services range of the **Technology Division** is focused first and foremost on machinery and plants for the filling and packaging of beverages. The business activities of this division are concentrated in Dortmund-based KHS GmbH (KHSDE). With its production facilities and almost 50 service and sales outlets, the KHS Group, managed from Dortmund, is present on all continents. 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.

Global Presence



The structure of the Salzgitter Group with its broad-based business has proven its competitive ability over the economic cycle. Along with the operational flexibility of each individual division, which fosters proximity to the market and our customers, this structure, with its decentralized competences and responsibilities, serves to promote the development of the respective company. Our management structure is flexible with regard to requirements for change and adjustment, making it compatible with our growth strategy, as new tiers in the value chain or divisions can be integrated into this structure relatively smoothly.

The holdings are listed in the Notes to the Consolidated Financial Statements starting on page 176.

As the Group's industrial production is mainly located in Germany, both production and the associated business are subject to the legal provisions prevailing in this country. These legal factors of influence especially include tax rules and regulations and legislation on environmental protection under German and EU law.

2. Management and Control

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 represents and heads up the company and manages the company's business 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 2010, the following members belonged to the Executive Board of Salzgitter AG:

Prof. Dr.-Ing. h. c. Wolfgang Leese
until January 31, 2011
Chairman
a) ■ Mannesmannröhren-Werke GmbH (Chairman) until January 31, 2011
■ Salzgitter Mannesmann Handel GmbH (Chairman) until January 31, 2011
■ Salzgitter Stahl GmbH (Chairman) until January 31, 2011
■ MAN Nutzfahrzeuge AG
■ Aurubis AG

Prof. Dr.-Ing. Heinz Jörg Fuhrmann
Vice Chairman
until January 31, 2011
Chairman since February 1, 2011
Finance until January 31, 2011
Technology Division
a) ■ Klöckner-Werke AG (Chairman)
■ KHS GmbH (Chairman)
■ Salzgitter Mannesmann Handel GmbH (Chairman since February 1, 2011)
■ Mannesmannröhren-Werke GmbH (Chairman since February 1, 2011)
■ Aurubis AG
■ Salzgitter Stahl GmbH (Chairman since February 1, 2011)
■ Salzgitter Flachstahl GmbH until January 31, 2011
■ EUROPIPE GmbH
■ Öffentliche Lebensversicherung Braunschweig
■ Öffentliche Sachversicherung Braunschweig
■ TÜV Nord AG
■ Nord/LB Kapitalanlagegesellschaft AG
b) ■ EUROPIPE GmbH (Shareholders' Committee)
■ Ets. Robert et Cie S.A.S. (Comité de Surveillance)
■ Nord/LB Capital Management GmbH

Burkhard Becker
since February 1, 2011
Finance
Member of the Executive Board of Klöckner-Werke AG
a) ■ Salzgitter Stahl GmbH since February 1, 2011
■ Salzgitter Flachstahl GmbH since February 1, 2011
■ Salzgitter Mannesmann Handel GmbH since February 1, 2011
■ Mannesmannröhren-Werke GmbH since February 1, 2011

Wolfgang Eging
Tubes Division
Chairman of the Executive Board of Mannesmannröhren-Werke GmbH
a) ■ Hüttenwerke Krupp Mannesmann GmbH
■ EUROPIPE GmbH
■ Salzgitter Mannesmann Präzisrohr GmbH (Chairman)
■ Salzgitter Mannesmann Line Pipe GmbH (Chairman)
■ Salzgitter Mannesmann Grobblech GmbH (Chairman)
■ Salzgitter Mannesmann Handel GmbH

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

b) ■ Hüttenwerke Krupp Mannesmann GmbH (Shareholders' Committee, Chairman)
■ EUROPIPE GmbH (Shareholders' Committee)
■ Borusan Mannesmann Boru Yatirim Holding A.S. (Board of Directors, Vice Chairman)
■ Salzgitter Mannesmann Précision Etirage S.A.S. (Conseil d'Administration)
■ Salzgitter Mannesmann Forschung GmbH (Steering Committee, Vice Chairman)

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 GmbH
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)

Johannes Nonn
Steel Division
Chairman of the Executive Board of Salzgitter Stahl GmbH
a) ■ Salzgitter Flachstahl GmbH (Chairman)
■ Ilsenburger Grobblech GmbH (Chairman)
■ Peiner Träger GmbH (Chairman)
■ Hüttenwerke Krupp Mannesmann GmbH
■ Salzgitter Mannesmann Handel GmbH
b) ■ ThyssenKrupp GfT Bautechnik GmbH (Advisory Council)
■ Salzgitter Mannesmann Forschung GmbH (Steering Committee, Chairman) since January 1, 2010

Peter-Jürgen Schneider
Personnel
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 GmbH
■ Salzgitter Mannesmann Handel GmbH
b) ■ Hansaport Hafenbetriebsgesellschaft mbH (Supervisory Board, Chairman)
■ Projekt Region Braunschweig GmbH (Supervisory Board)
■ Wohnungsbaugesellschaft mbH Salzgitter (Supervisory Board) since February 17, 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

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
First Chairman of Industriegewerkschaft Metall, retired
a) ■ Volkswagen AG (Vice Chairman) until May 2010

Manfred Bogen
Chairman of the Works Council of EUROPIPE GmbH
a) ■ EUROPIPE GmbH

Hasan Cakir
Chairman of the Works Council of Salzgitter Flachstahl GmbH
a) ■ 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 GmbH
■ MATERNUS-Kliniken AG

Hannelore Elze
Secretary of Industriegewerkschaft Metall – Management Board
a) ■ Hydro Aluminium Deutschland GmbH (Vice Chairwoman)
■ NORSK Hydro Deutschland Verwaltungs-GmbH (Vice Chairwoman)
■ AluNorf GmbH

Dr. Lothar Hagebölling
until August 18, 2010
Secretary of State, Head of the State Chancellery of Lower Saxony until June 2010
a) ■ E.ON Energy from Waste AG

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

Ulrich Kimpel
Chairman of the Works Council of Hüttenwerke Krupp Mannesmann GmbH
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
Chairman of the Executive Board of Aachener Rückversicherung AG, retired
a) ■ alfabet AG (Chairman)
■ Business Keeper AG (Chairman)
b) ■ FIL Investment Management GmbH (Supervisory Board)
■ Fidelity Funds, Luxembourg (Board of Administration)

Hartmut Möllring
since September 6, 2010
Minister of Finance of the Federal State of Lower Saxony
a) ■ Norddeutsche Landesbank (Chairman)
■ Bremer Landesbank
■ Deutsche Messe AG
b) ■ Kreditanstalt für Wiederaufbau (Board of Administration)
■ JadeWeserPort Logistic Zone GmbH & Co. KG (Supervisory Board)
■ JadeWeserPort Realisierungs GmbH & Co. KG (Supervisory Board)

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

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

Prof. Dr. Hannes Rehm
Spokesman of the Steering Committee
of the Financial Market Stabilization Agency
(SoFFin)
President of the Hanover Chamber of
Industry and Commerce (IHK)
Chairman of the Executive Board of
Norddeutsche Landesbank Girozentrale, retired
■ No membership in other governing bodies

Dr. Rudolf Rupprecht
Chairman of the Executive Board of MAN AG,
retired
a) ■ MAN AG
■ Demag Cranes AG
■ Bilfinger & Berger AG until October 8, 2010

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

Dr. Werner Tegtmeier
State Secretary, retired, of the Federal Ministry
of Labor and Social Affairs
a) ■ Mannesmannröhren-Werke GmbH

Dr. Johannes Teyssen
Chairman of the Board of Directors of E.ON AG
since May 1, 2010
a) ■ Deutsche Bank AG
■ E.ON Energie AG
■ E.ON Ruhrgas AG
■ E.ON Energy Trading SE until June 2010
b) ■ E.ON Nordic AB (Board of Directors)
until June 2010
■ E.ON Sverige AB (Board of Directors)
until September 2010
■ E.ON Italia S.p.A. until September 2010
■ E.ON US Investments Corp.
(Supervisory Board, Chairman)
since May 2010

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

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

Helmut Weber
Chairman of the Works Council of KHS GmbH
a) ■ Klöckner-Werke AG
■ KHS GmbH

Prof. Dr. Martin Winterkorn
Chairman of the Executive Board of
Volkswagen AG
Chairman of the Board of Directors of
Porsche Automobil Holding SE
a) ■ AUDI AG (Chairman)
■ Scania AB (Chairman)
■ FC Bayern München AG
■ Dr. Ing. h. c. F. Porsche AG
since December 15, 2009
b) ■ Porsche Holding GmbH, Salzburg
(Austria) since December 18, 2009
■ Porsche Ges.m.b.H., Salzburg (Austria)
■ Other mandates within the
Volkswagen Group

Committees of the Supervisory Board

Presiding Committee:
Rainer Thieme, Chairman
Dr. Lothar Hagebölling until August 18, 2010
Hartmut Möllring from September 23, 2010
Jürgen Peters
Christian Schwandt

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

Strategy Committee:
Rainer Thieme, Chairman
Manfred Bogen
Dr. Lothar Hagebölling until August 18, 2010
Hartmut Möllring from September 23, 2010
Jürgen Peters
Prof. Dr. Hannes Rehm
Christian Schwandt

Nomination Committee:
Dr. Lothar Hagebölling until August 18, 2010
Hartmut Möllring from September 23, 2010
Rainer Thieme

Remuneration of the Executive Board and of the Supervisory Board

Remuneration of the Executive Board

The remuneration of the members of the 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, the success and the outlook of the company and the level of remuneration customarily paid in the business environment.

Along with a fixed remuneration 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.

In addition, the company has agreed pension payments with members of the Executive Board. Over the respective time horizon, pension payments are capped at a maximum of 60% of fixed remuneration. In the event of premature termination of Executive Board member activities due to a change of control, the Board members are entitled to settlement in the amount of overall remuneration for the remaining term of their contracts of employment. This settlement is, however, capped to a maximum amount. In other cases where Executive Board activities are terminated prematurely, no other commitments have been made.

No benefits were granted or pledged by external parties to the individual members of the Executive Board in the financial year 2010 or in 2009 for their activities as Executive Board members.

Remuneration received by the individual Members of the Executive Board

In €	Annual payment in 2010 (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 (720,000)	50,359 (49,012)	840,000 (780,000)	1,000 (1,100)	1,611,359 (1,550,112)
Prof. Dr.-Ing. Heinz Jörg Fuhrmann, Vice Chairman	516,000 (516,000)	27,084 (27,861)	602,000 (559,000)	71,359 (61,850)	1,216,443 (1,164,711)
Wolfgang Eging	420,000 (420,000)	20,715 (19,014)	490,000 (455,000)	900 (900)	931,615 (894,914)
Hans Fischer until December 31, 2009	(420,000)	(25,171)	(455,000)	(1,500)	(901,671)
Heinz Groschke	420,000 (420,000)	44,417 (23,127)	490,000 (455,000)	31,155 (26,363)	985,572 (924,490)
Johannes Nonn since January 1, 2010	420,000	23,283	490,000	1,600	934,883
Peter-Jürgen Schneider	420,000 (420,000)	37,798 (36,315)	490,000 (455,000)	34,813 (34,113)	982,611 (945,428)
Sum total	**2,916,000 (2,916,000)**	**203,656 (180,500)**	**3,402,000 (3,159,000)**	**140,827 (125,826)**	**6,662,483 (6,381,326)**

Moreover, for reason of his leaving the company on January 31, 2011, Prof. Dr.-Ing. h.c. Leese received a one-off bonus of € 237,979.95 for his service to Salzgitter AG and a second overall amount of € 510,000 in fulfillment of his contractual claims at the end of 2010.

Pension Entitlement

In €

	Annual payment upon pension eligibility as per 31/12/2010 (as per 31/12/2009)	Transfers to pension provisions in FY 2010 (2009)
Prof. Dr.-Ing. h.c. Wolfgang Leese, Chairman[1)]	432,000 (432,000)	894,289 (802,836)
Prof. Dr.-Ing. Heinz Jörg Fuhrmann, Vice Chairman[1)]	309,600 (309,600)	458,120 (377,813)
Wolfgang Eging[1)]	252,000 (252,000)	476,852 (442,493)
Hans Fischer until December 31, 2009[2)]	(91,213)	(108,424)
Heinz Groschke[1)]	252,000 (252,000)	473,133 (424,096)
Johannes Nonn since January 1, 2010	252,000 (–)	799,365 (–)
Peter-Jürgen Schneider[3)]	103,824 (103,824)	237,728 (39,742)
Sum total	**1,601,424 (1,440,637)**	**3,339,487 (2,195,404)**

1) Including a former employer's pension commitment taken over against compensation

2) Taking account of contract termination as per 31/12/2009

3) Pension entitlement as per end of contract (final age: 66)

Remuneration of the Supervisory Board

In accordance with a resolution passed by the General Meeting of Shareholders on June 8, 2010, each member of the Supervisory Board will receive an amount in annual remuneration with retrospective effect as of January 1, 2009, which consists of a fixed and a variable component. The latter depends on the scope of activity and the responsibility of the individual Supervisory Board members and the financial position and success of the company. The fixed remuneration component comes to € 40,000 for each member of the Supervisory Board. The variable component is geared to the success of the company in the longer term and comes to € 300 per full € 5 million on the portion of the pre-tax result – prior to deduction of minority interest in the consolidated financial statements of the company (EBT) – which exceeds € 150 million on average over the last three financial years (including the year when remuneration is paid).

The Chairman of the Supervisory Board receives double and the Vice Chairman one and a half times the amount from the addition of the respective remuneration components. The sum total of both remuneration components paid annually is limited to € 160,000 for the Chairman of the Supervisory Board, to € 120,000 for the Vice Chairman of the Supervisory Board, and to € 80,000 for all other Supervisory Board members. Beyond this, compensation is paid for membership of the committees of the Supervisory Board as well as attendance fees.

Annual Remuneration received by the individual Supervisory Board Members

In €	Annual payment in 2010 (2009[1)])				
	Fixed remuneration	Performance-based remuneration	Commitee remuneration	Attendance fees	Total
Rainer Thieme, Chairman	80,000 (80,000)	4,200 (54,600)	15,000 (15,000)	9,500 (4,500)	108,700 (154,100)
Jürgen Peters, Vice Chairman	60,000 (60,000)	3,150 (40,950)	5,000 (5,000)	7,000 (3,500)	75,150 (109,450)
Manfred Bogen	40,000 (40,000)	2,100 (27,300)		2,500 (1,250)	44,600 (68,550)
Hasan Cakir	40,000 (40,000)	2,100 (27,300)		2,500 (1,250)	44,600 (68,550)
Ulrich Dickert	40,000 (40,000)	2,100 (27,300)		2,000 (1,250)	44,100 (68,550)
Karl Ehlerding	40,000 (40,000)	2,100 (27,300)		2,500 (750)	44,600 (68,050)
Hannelore Elze	40,000 (40,000)	2,100 (27,300)	5,000 (5,000)	4,500 (1,750)	51,600 (74,050)
Dr. Lothar Hagebölling until August 18, 2010	26,667 (40,000)	1,400 (27,300)	6,667 (10,000)	2,500 (3,750)	37,234 (81,050)
Prof. Dr.-Ing. Dr. h.c. Jürgen Hesselbach	40,000 (40,000)	2,100 (27,300)		2,000 (1,250)	44,100 (68,550)
Ulrich Kimpel since January 16, 2009	40,000 (40,000)	2,100 (27,300)		2,500 (1,250)	44,600 (68,550)
Dr. Dieter Köster	40,000 (40,000)	2,100 (27,300)		2,500 (1,000)	44,600 (68,300)
Dr. Arno Morenz	40,000 (40,000)	2,100 (27,300)		2,500 (1,000)	44,600 (68,300)
Hartmut Möllring since September 6, 2010	13,333	700	1,667	2,500	18,200
Udo Pfante	40,000 (40,000)	2,100 (27,300)		2,500 (1,250)	44,600 (68,550)
Prof. Dr. Hannes Rehm	40,000 (40,000)	2,100 (27,300)	10,000 (10,000)	4,000 (1,750)	56,100 (79,050)
Dr. Rudolf Rupprecht	40,000 (40,000)	2,100 (27,300)		2,000 (1,250)	44,100 (68,550)
Christian Schwandt	40,000 (40,000)	2,100 (27,300)	5,000 (5,000)	6,500 (3,500)	53,600 (75,800)
Dr. Werner Tegtmeier	40,000 (40,000)	2,100 (27,300)		2,500 (1,000)	44,600 (68,300)
Dr. Johannes Teyssen	40,000 (40,000)	2,100 (27,300)		1,000 (1,000)	43,100 (68,300)
Friedrich-Wilhelm Tölkes until January 15, 2009	(3,333)	(2,275)			(5,608)
Dr. Hans-Jürgen Urban	40,000 (40,000)	2,100 (27,300)		2,500 (1,000)	44,600 (68,300)
Helmut Weber	40,000 (40,000)	2,100 (27,300)	5,000 (5,000)	4,000 (2,000)	51,100 (74,300)
Prof. Dr. Martin Winterkorn	40,000 (40,000)	2,100 (27,300)		500 (750)	42,600 (68,050)
Total	**900,000** **(903,333)**	**47,250** **(616,525)**	**53,333** **(55,000)**	**70,500** **(36,000)**	**1,071,083** **(1,610,858)**

[1)] Adjustment with retrospective effect in accordance with the resolution passed by the Annual General Meeting of Shareholders on June 8, 2010

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

In €	Annual payment in 2010 (2009)				
	Fixed remu-neration	Performance-based remuneration	Commitee remuneration	Attendance fees	Total
Manfred Bogen (MRW) since June 9, 2010	5,833			200	6,033
Hasan Cakir (SZS)	10,000 (10,000)			400 (400)	10,400 (10,400)
(SZFG)	8,000 (8,000)			400 (400)	8,400 (8,400)
Karl Ehlerding (KWAG)	20,000 (20,000)		14,042 (10,000)	2,750 (2,000)	36,792 (32,000)
(KHS)	5,113 (5,113)				5,113 (5,113)
Udo Pfante (SMHD)	10,000 (10,000)			400 (400)	10,400 (10,400)
Christian Schwandt (SZST)	5,000 (5,000)			400 (400)	5,400 (5,400)
Dr. Werner Tegtmeier (MRW)	10,000 (10,000)			300 (300)	10,300 (10,300)
Dr. Hans-Jürgen Urban (SZS)	15,000 (15,000)			400 (400)	15,400 (15,400)
Helmut Weber (KWAG)	20,000 (20,000)		10,000 (10,000)	2,000 (2,500)	32,000 (32,500)
(KHS)	5,113 (5,113)				5,113 (5,113)
Total	**114,059 (108,226)**	**– (–)**	**24,042 (20,000)**	**7,250 (6,800)**	**145,351 (135,026)**
Sum total	**1,014,059 (1,011,559)**	**47,250 (616,525)**	**77,375 (75,000)**	**77,750 (42,800)**	**1,216,434 (1,745,884)**

3. Corporate Governance and Declaration of Conformity

Explanations on how companies were managed are part of and synonymous with the declaration in the Corporate Governance Report (starting on page 18) and can be accessed under www.salzgitter-ag.de/en/Investor_Relations/Corporate_Governance/ at any time.

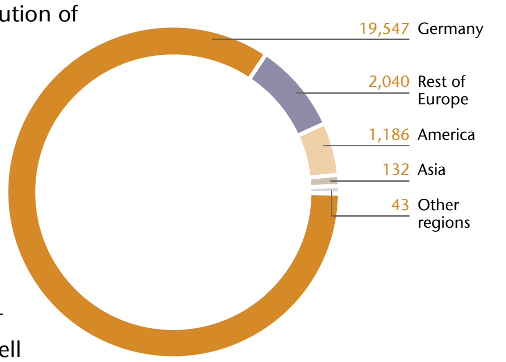
4. Employees

Our employees are critical to the success and development of the Salzgitter Group as it is they who shape the present and the future of the company. We have therefore made it our goal to ensure that our employees have a working environment which is motivating, conducive to performance and healthy, an increasingly important task against the background of demographic change. It is an undisputed fact today that our society is ageing and that the population is shrinking, as is the recognition that workforces are also set to change. Just as Salzgitter AG is required to adapt to changes in market conditions, the cost of raw materials or energy prices, responding appropriately to demographic change is also the order of the day. This is the only viable approach to securing the competitive edge and innovative ability of our company on a sustainable basis and to ensuring a working environment for our employees which supports their endeavors in creating value added right through to retirement age.

Slight decline in workforce numbers – sharp reduction in short-time work

As per December 31, 2010, the core workforce of the Salzgitter Group numbered 22,948 employees. In comparison to 2009, the figure has therefore declined by 430 members of staff, equaling 1.8 %, which is mainly due to restructuring measures. The regional distribution of our workforce is shown in the chart.

Regional distribution of workforce



At year-end, we employed 1,190 temporary staff outsourced, which corresponds to 4.9 % of the sum total of the core workforce and temporary employees. Personnel expenses came to € 1,423.8 million. The slight increase in costs comparison to 2009 was the result of wage increases from collective bargaining and restructuring costs. In contrast, the number of employees in short-time work which, by May 2009, had risen to more than 8,500, fell steadily throughout the year. By the end of the year, only 447 persons were still affected.

At the end of the reporting period, the number of young people with training contracts came to 1,452, virtually unchanged from the previous year. By adopting this approach, the Group is meeting the challenge posed by the demographic changes anticipated, as well as making a societal contribution by maintaining a share of trainees that is higher than necessary.

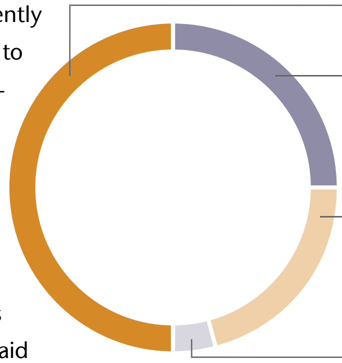
Core workforce[1]	31/12/2010	31/12/2009	Change
Group	**22,948**	**23,378**	**–430**
Steel Division	6,869	6,816	53
Trading Division	1,910	1,931	–21
Tubes Division	5,528	5,791	–263
Services Division	4,067	4,181	–114
Technology Division	4,408	4,513	–105
Holding	166	146	20

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

Collective wage agreements in West Germany's steel industry

A wage bargaining agreement for the west German steel industry was concluded on September 30, 2010. The agreement was subsequently extended to cover the tariff area in the east. The agreement applies to almost 50% of the Group's domestic workforce. The agreement provides for a one-off payment of € 150 in September 2010, a 3.6% increase in wages and salaries as from October 1, 2010, as well as a rise in training allowances of € 40 a month. The agreement will run for 14 months until October 31, 2011. Moreover, under a collective bargaining agreement for the payment of temporary employees outsourced, employers are required to work towards ensuring that temporary staff outsourced in the steel industry are paid by their agencies in an amount which corresponds to the wages and salary tables valid in the steel industry.

Breakdown of tariffs within Group



A collective bargaining agreement was reached on February 18, 2010, for employees in the metal and electrical industry in North Rhine-Westphalia under which a one-off payment of € 320 will be made for the period from May 2010 to March 2011. As per April 1, 2011, wages will rise here by 2.7%, an increase which can be brought forward or postponed by two months. The agreement is valid until March 31, 2012, and has been accepted by other tariff areas.

The challenge of demographic change

Under its "GO – Generation Campaign 2025" project, which has been running since March 2005, the Salzgitter Group has taken timely measures to ensure that it remains innovative and competitive with a larger proportion of its workforce in higher age brackets, while at the same time remaining an attractive employer in the growing competition for young talent. Taking stock after five years of "GO" reveals that a large part of the necessary steps have already been implemented in the companies or are currently under way. To widen the basis for potential junior staff and to incorporate sociological and political aspects, we have identified specific areas which we intend to address more intensively and to

integrate appropriately into the "GO Project". Such areas also include promoting women, achieving a balance between career and family and the integration of (young) migrants. The Group is therefore on the right path to mastering the challenges ahead and to preserving its sustainability for the future. The implementation of activities under GO will be consistently pursued in the coming years.

Company pension scheme as a core component of an innovative personnel policy

No one can say with certainty how high the government pension will be in 20, 30 or 40 years time. However, one thing is certain: It will not be possible to maintain the standard of living which the majority of citizens are used to through a government pension alone. Making provisions for retirement is therefore imperative to ensure our livelihood when we are older. We view this as reason enough to offer our employees additional security through an effective company pension tailored to meet individual needs. With the "Salzgitter pension" financed by the employer as a basis, our employees qualify for pension units for each year of service within the Group which is then paid out as a monthly pension when the qualifying age is reached or in the event of occupational disability. In addition to this, there are also models of employee-financed pension schemes on offer which are promoted by the legislator and the Salzgitter Group. These models require employees to initially waive payment of part of their remuneration. In return, they purchase claims to an additional company pension. There are two forms that this can take: either a direct benefit scheme ("SZAG model") or a direct insurance. With the goal of having customized advisory services and a simplified settlement in mind, our choice fell on MetallRente GmbH as a service provider in 2010. MetallRente was founded by the two large social partner organizations of Gesamtmetall and IG Metall with the aim of offering companies and employees the best possible options for their retirement plans and to cover the event of occupational disability.

Occupational health and safety management – high-priority corporate objectives

Occupational safety has been classified as a high-priority corporate objective by the Salzgitter Group alongside profitability, productivity and quality. The significance of occupational safety is anchored in our duty and care for the well-being of all our employees and the knowledge that an awareness of safety in both thought and action contributes to the success of the Group. Our aim is to avoid all accidents to the greatest extent possible, thereby securing the health of our own workforce as well as that of employees from partner companies, customers and visitors. Guaranteeing and documenting this safety philosophy is carried out by way of a certified occupational safety management system which has already been set in place by a large majority of the Group companies. To give the employees of the Salzgitter Group a fulfilling and value-creating working life through to retirement while, at the same time, securing the competitiveness and innovative ability of our company, also given the changed demographic conditions, the concept of comprehensive operational health management is implemented in an ongoing manner. By this we mean a holistic approach which has the core objective of helping employees to take care of their health. In this context, all parameters affecting the health of our employees are subject to in-depth analysis which subsequently form the basis for the realization of numerous measures. The comprehensive introduction of the SZAG health check was one of the key components. This check provides employees with a swift and extensive overview of the most important risk factors to which they are exposed and suggests solutions for promoting individual health care.

International personnel development program launched

At the start of 2010, we launched two new development components under the name of “Salzgitter International Management Development Program” for managers and “Salzgitter International Training Program” for individuals embarking on their career. The growing internationalization of the Salzgitter Group is taken into account by these two programs. In terms of their content, they are designed on the basis of the tried-and-tested development programs in the German language, supplemented by the key component of intercultural aspects and informal talks with Executive Board members.

Communication

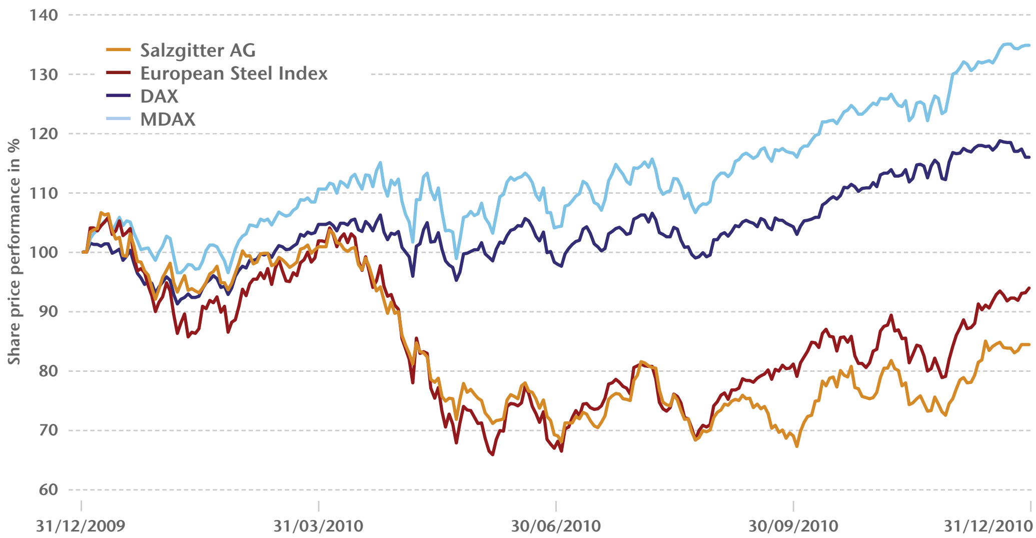
In May of this reporting year, the Group Forum of Salzgitter AG took place in the Hanover Congress Center under the motto of “Ziele verfolgen” (pursuing objectives). On the first day, a total of 300 board members, managing directors and senior executives from all Group companies in Germany and abroad 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 innovative projects and topics from the Steel, Trading, Tubes and Technology divisions. A keynote speech was given by Christian Wulff, former First Minister of Lower Saxony and today’s Federal President.

5. The Salzgitter Share

Capital Market and Price Performance of the Salzgitter Share

The equity market rally, which commenced in the first quarter of 2009, initially faltered in the year 2010 as it came under pressure from Greece's sovereign debt crisis and differing opinions as to how sustainably robust the economic recovery really was. A series of phases alternating between uptrends and consolidation followed on in quick succession and, despite the increasingly positive economic indicators over the course of the year, no clearly recognizable trend emerged over the period through to late summer. At the start of September the fundamentally flat trend finally gave way to an upturn in the leading indices which held steady until the end of the year. The mainstays of this development were, on the one hand, positive news from the goods industry and, on the other, the persistently low level of interest rates which made investments in the stock market appear relatively attractive. Both the DAX and the MDAX recorded sharp growth rates in the fourth quarter on the back of the bull market. Accordingly, the DAX closed on December 31, 2010, with an increase of 16 % and the MDAX by as much as 35 % in comparison with year-end 2009.

Salzgitter AG Share Price Performance vs the European Steel Index, MDAX and DAX in 2010

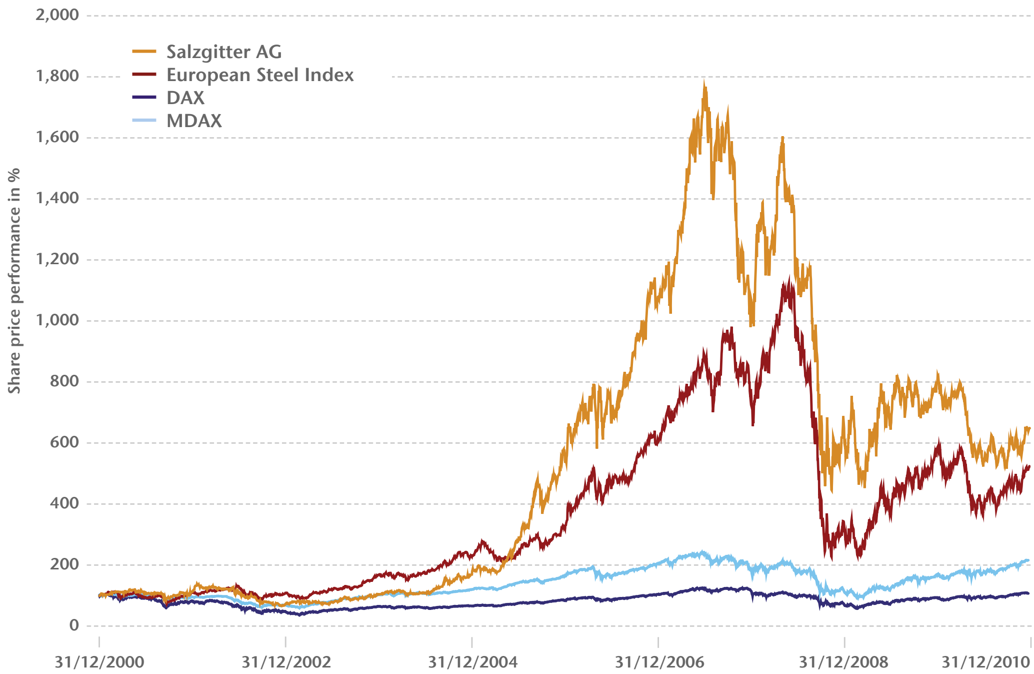


Sources: XETRA closing prices on Deutsche Börse AG, Datastream STEELEU

The price performance of steel equities in 2010 was impacted by the decision of raw materials producers in the spring to terminate the tried-and-tested system of annual pricing rounds for iron ore and coking coal practiced for around half a century. This triggered a wave of uncertainty among companies and investors which resulted in significant price corrections affecting almost all steel equities in the period from April to June.

The Salzgitter share put in a dynamic start to 2010 and reached its highest price of € 74.32 for the year on January 11. The share subsequently tracked the DAX through to the end of the first quarter. Following the discontinuation of the traditional raw materials pricing system and the resulting downturn, the share trended sideways over a period of three months. From the fall onwards, steel equities began to rally although most of them were unable to fully make up for the losses sustained in April and the following months before the end of the year. Our share price nonetheless gained 26 % in the fourth quarter in comparison with its absolute low for the year. With a closing price of € 57.77, the Salzgitter share delivered an overall performance of –16 %.

Salzgitter AG Share Price Performance vs the European Steel Index, MDAX and DAX from 2001 to 2010



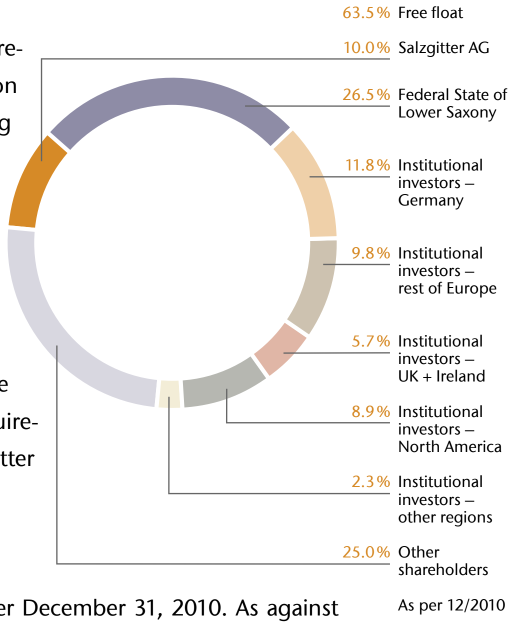
Sources: XETRA closing prices on Deutsche Börse AG, Datastream STEELEU

From a long-term standpoint, the Salzgitter share continued to considerably outperform the DAX, MDAX and European Steel Index, as it has done throughout the past decade. Whereas the DAX only improved by a mere 7 % in comparison to its closing price on December 31, 2000, the MDAX and European Steel Index recorded significantly higher increases of +117 % and +424 % respectively. In a 10-year comparison our share price has increased by +549 % and, taking account of an overall dividend of € 10.31 distributed over this period, by as much as +665 %.

Following the decision of Deutsche Börse AG to replace Salzgitter AG by HeidelbergCement AG in the DAX from June 21, 2010, onwards in line with the framework applicable to index composition, and to list Salzgitter AG in the MDAX instead, the average daily turnover of our shares fell to around 510,000 units as against the year-earlier figure (2009: 720,000 units). All in all, 131 million shares changed hands. The proportion of transactions carried out via XETRA electronic trading and floor trading in Frankfurt rose to 98.1 % (2009: 92.0 %). With a trading volume of just under € 7.5 billion as per December 31, 2010, our share ranked 31st in the order book volume ranking of Deutsche Börse AG. Free float market capitalization amounted to around € 2.1 billion on the same date, which put us in 43rd place measured by market capitalization.

Shareholder structure

According to a survey commissioned in December 2010, the shareholder structure of Salzgitter AG has changed slightly in comparison with year-end 2009. Shareholders registered in Germany, including the Federal State of Lower Saxony as a major investor, held at least 48.3 %, which is a higher proportion of shares in comparison with the previous year's survey (2009: 44.0 %). German institutional investors raised their stake by just under 4 % to 11.8 % (2009: 7.9 %). The share of foreign institutional investors declined to 26.7 % (2009: 28.3 %), while 25.0 % of our investors could not be identified. These are likely to be private domestic and foreign private investors, as well as institutional investors with no reporting requirements, such as insurance companies and trust foundations. Salzgitter shares in free float amount to 63.5 %.



Treasury Shares

Salzgitter AG's portfolio of treasury shares came to 6,009,700 as per December 31, 2010. As against December 31, 2009 (5,795,252 units), the number of shares has therefore increased by 214,448 units. Fifteen shares were received by members of the workforce as a bonus for improvement suggestions and partners. In a countermeasure, we purchased 214,463 shares at an average price of € 47.79 predominately in the third quarter.

Information for Investors

		FY 2010	FY 2009	FY 2008	FY 2007	FY 2006
Share capital[1]	€ m	161.6	161.6	161.6	161.6	161.6
Number of shares[1]	m	60.1	60.1	60.1	63.2	63.2
Number of shares outstanding[1]	m	54.1	54.3	54.1	56.9	56.9
Stock market capitalization[1, 2]	€ m	3,124.6	3,716.4	2,974.8	5,806.3	5,635.7
Year-end closing price[1, 3]	€	57.77	68.44	55.00	102.05	99.05
Stock market high[3]	€	74.32	73.40	143.88	158.90	100.96
Stock market low[3]	€	45.76	40.22	37.80	88.13	45.21
Earnings per share (EPS)[4]	€	0.55	–7.10	12.11	15.83	26.50
Cash flow per share (CPS)[4]	€	21.96	22.75	9.83	13.70	8.57
Dividend per share (DPS)	€	0.32[5]	0.25	1.40	3.00	2.00
Total dividend	€ m	19.3[5]	15.1	84.1	189.7	126.4

Securities code number: 620200, ISIN: DE0006202005

[1] All data as per December 31
[2] Calculated on the basis of the respective year-end a closing price multiplied by the number of shares outstanding as per December 31
[3] All data relate to prices in XETRA trading
[4] Calculated by taking account of the weighted number of average shares outstanding
[5] Subject to approval by the General Meeting of Shareholders

Dividend

The Executive and Supervisory Boards propose that the General Meeting of Shareholders approve a basic dividend payment of € 0.32 per share for the financial year 2010. Based on the nominal share capital of € 161.6 million, the total dividend distribution proposed comes to € 19.3 million.

Investor Relations

The capital markets continued to require a great deal of information in 2010, also owing to the new raw materials pricing system introduced in the steel industry. Consequently, lively use was made of our communication services. Alongside well-attended analyst conferences in Frankfurt am Main and London where we presented and discussed the results of the financial year 2009 and the first half year of 2010, we made presentations on the Salzgitter Group at investor conferences and road shows in Europe, Australia, Japan and the USA. The results of the first quarter and the first nine months were explained in detail to the capital markets by way of extremely popular telephone conferences. Visits to our production locations were also well received: these occasions enabled a large number of institutional investors and financial analysts to gain an insight into the structures, processes and products and to discuss the business and the potential of our Group with members of the Executive Board and other managers.

Private investors used the opportunity of participating in events arranged by the “Freundeskreis der Aktionäre der Salzgitter AG” (circle of friends of the Salzgitter AG shareholders) to speak personally to representatives of the Group and inform themselves about the company and the economic situation.

At least 129 recommendations and company reports on Salzgitter AG were issued by 30 banks and financial publications in the financial year 2010. At year-end their ratings were:

- 8 buy/outperform
- 15 hold/neutral
- 7 sell/underperform

One financial institution took up the coverage of our company in 2010.

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

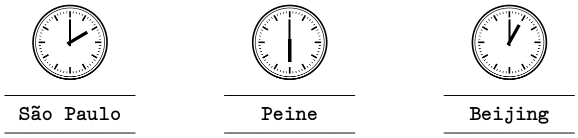
Alster Research	Kepler Equities
Bankhaus Lampe	Landesbank Baden-Württemberg
Berenberg Bank	MM Warburg
BHF Bank	MainFirst
Cheuvreux	Merck Fink
Citigroup	Merrill Lynch
Commerzbank	Metzler
Credit Suisse	NORD/LB
Deutsche Bank	Nomura
DZ-Bank	Sal. Oppenheim
Equinet	Steubing
EXANE BNP Paribas	UBS
Goldman Sachs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

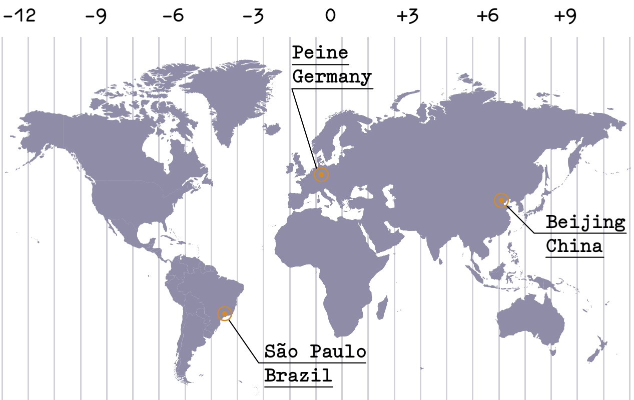
Exchangeable Bond

On October 28, 2010, Salzgitter Finance B.V. (SZFBV), a wholly-owned subsidiary of Salzgitter AG, placed a bond with a nominal volume of € 295.5 million exchangeable into a proportion of the shares held in Aurubis AG (NAAG) and guaranteed by Salzgitter AG. Settlement took place on November 8, 2010. The term of the bond is seven years, and it may be returned by the investor after five years. The bond may be converted into the shares of NAAG and features an annually payable coupon of 2.0% p.a. Based on a reference price of € 37.52 (rounded) per share in NAAG, fixed when the bond was issued, a premium of 25% results in an exchange price of € 46.90 (rounded). The issue serves to diversify the Salzgitter Group's sources of finance. We intend to use the funds for general company purposes.

24 hours at Salzgitter:

06.00 CET





In São Paulo the team are working the night shift. The Peine plant is also bustling at this early hour: Around a million tons of steel are produced here each year – including Peiner beams. Developed and patented in 1914, these beams are synonymous with the plant and well known to experts the world over. While the workers in Peine are looking forward to breakfast, the members of the Beijing team are already sitting down to lunch.

Beijing, China, 13.00:
The whole team in Beijing are eating lunch together. Chief Representative Phillip Meiser regards this as very important: “We really feel like a family.” Shared meals are part of Chinese culture: business meetings also usually involve sharing a meal – sometimes several times in succession if the day’s schedule is a busy one.

Night shift at KHS: Lathe turner Ademilson Ferreira dos Santos is working on the filler tube for a filling machine. He prefers working nights – this allows him to take his children to school, and there is less traffic.

São Paulo

Brazil

Local time 02.00

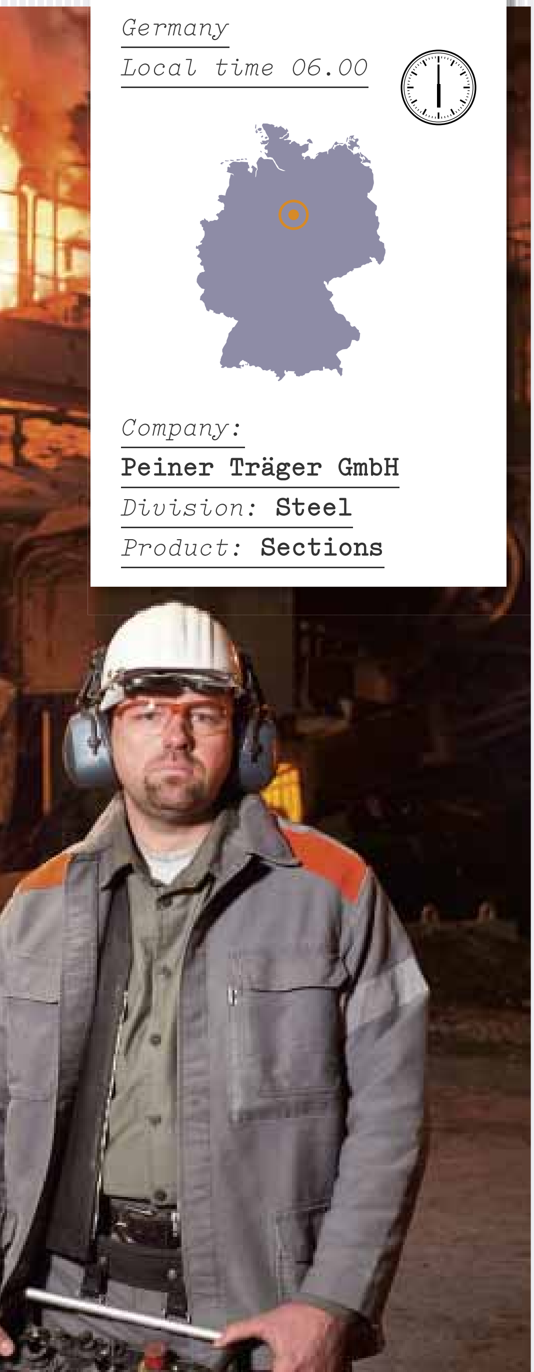
Company: **KHS Indústria de Máquinas Ltda.**

Division: **Technology**

Product: **Packaging and filling machinery**

His colleagues are taking their break, playing "truco" – a very popular card game in Brazil.

54 year-old Ömer Kozu mans the control console of the heavy beam mill. His breakfast is already waiting in the coat rack area behind him.



Peine

Germany

Local time 06.00

Company:

Peiner Träger GmbH

Division: Steel

Product: Sections

Joanna Ma has worked her way up from receptionist to sales assistant. In China the industry is dominated by men – but at Salzgitter the ratio of men to women is more or less even.

Beijing

China

Local time 13.00

Company:

Salzgitter Mannesmann Trade Co. Ltd.

Division: Trading

Product: Rolled steel products and tubes

Adrian Zhang, Vice President Sales Stainless Tube, is reading the “China Chemical Industry News”. The 41 year-old is always on the look out for new business areas – the competition is fierce.

Furnace operative Lars Meier controls the crane for the electric arc furnace. Using electrical as well as chemical energy, the furnace reaches a tapping temperature of 1,600 °C.

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, we place pivotal emphasis on securing the company's sustainable and successful performance to the benefit of all its stakeholders. This approach is reflected in our strategic goals and has been consistently implemented in recent years through an appropriate business policy and a number of measures to promote development. It is our innermost conviction that the stability and consistency of the way in which our company is managed constitutes a key success factor, that is not least reflected in the multiple increase in our share price achieved over the last decade. The alignment of Salzgitter AG towards its overriding goal – namely that of preserving its entrepreneurial independence through profitability and growth – therefore remains unchanged.

The focus over the two last years has been on securing the stability of the Group. Our intention is now to proceed with developing our company through selective, profit-oriented growth, as practiced successfully in the years preceding the most recent global economic crisis. Expanding our activities is, however, 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. Return on capital employed (ROCE) is a key ratio in measuring how successful we are in this respect.

Within the context of containing entrepreneurial risk, our financial stability and a sound balance sheet are indispensable prerequisites, as they are doubtless the most important foundation for the long-term success of a company, in particular given the changeable framework conditions described above.

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

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

In order to achieve a top-down/bottom-up synthesis between our corporate goals and the environment in which our operating units are embedded, and to safeguard a systematic method of procedure, we use a range of tried-and-tested management tools.

We are aware that the valuable contributions of our employees in all areas of the Group are a cornerstone for the realization of our goals. This is why we view the future-oriented professional development, the systematic fostering of the qualifications of our workforce and acquisition of highly-qualified junior staff as a crucial, strategic task.

The environmental compatibility of our products and production processes, combined with the prudent use of all resources, has always been an accepted and a natural basis for all our activities.

Management and Control System

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, generally defined as five years.

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

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

EBIT (earnings before interest and tax) is the result before interest and tax 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 2010**	**FY 2009**
EBT	48.9	–496.5
+ Interest expense	139.0	118.7
– Interest expenses for pension provisions	–85.0	–90.3
= EBIT	**102.9**	**–468.1**

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 2010**	**FY 2009**
Balance sheet total	8,689	8,052
– Pension provisions	–1,926	–1,858
– Other provisions excluding tax provisions	–754	–693
– Liabilities excluding bonds, bank liabilities and notes payable, liabilities from finance leasing and forfaiting	–1,210	–915
– Deferred tax claims	–202	–129
= Capital employed	**4,596**	**4,457**

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.

The components which make up the ratios are drawn from the figures in the financial statements. The calculation is always based on figures disclosed in the financial statements as of the end of the reporting period.

Since 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 factored in by the medium-term plan – in their updated form whenever necessary.

Over the entire period from 2001 to 2010, we exceeded our profitability target by delivering an ROCE of 18.4 %. Even in periods that were profoundly affected by the crisis we nonetheless achieved a sound 13.4 %. This figure reflected the consequences of the financial and economic crisis on our company and the pressure on the margins of many products caused by the raw material price trend. ROCE stood at 2.2 % in 2010 (2009: –10.5 %). Upon elimination of the net cash investment held at banks, ROCE from industrial operations came to 2.7 % (2009: –17.3 %).

Strategy

Growth strategy

The internal and external objectives formulated in 2007 to promote the growth envisaged are still valid:

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

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

By harnessing these growth-generating building blocks, we are striving to achieve consolidated external sales in the region of between € 13 and 15 billion in the medium term. Moreover, we require each sub-project and each individual company to make a sustainable contribution to achieving an average ROCE of 15 % targeted at Group level over the steel cycle, which is still the main economic cycle determined for our Group.

The progress of companies towards greater growth always entails entrepreneurial risk, as far-reaching decisions for the future are made on the basis of empirical data, insights and experience and the commitment of considerable financial resources. The repercussions of the global financial and economic crisis were still exerting considerable influence on general market conditions in the financial year 2010. This was reflected above all in changes at short notice and wide variations in the parameters influencing decisions, which greatly hampered predictability. For this reason, and as in 2009, we gave precedence to measures geared to securing the future of the Group over our external growth targets.

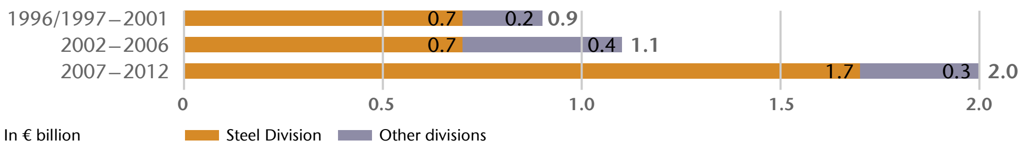
It is our fundamental intention to use potential processes of consolidation to actively shape developments in our core businesses of steel, trading, tubes and technology in the future as well, without being pressured into action. We will, however, not be taking part in “bidding wars” and will not pay unrealistically high prices for acquisitions.

Our foresighted building up of liquidity reserves enabled us to forge ahead with extensive investment. There was only one exception where we decided to delay investment and, having achieved clarity as to the relevant market conditions, we subsequently moved ahead swiftly with the implementation of work planned. Having made very good progress with all our undertakings in 2010, we have set our sights on completing the remaining projects by the financial year 2012.

The examination and assessment of the Group's investment measures are always subject to conservative assumptions and standards. We are therefore confident that the internal growth initiatives expedited in our core businesses of steel, trading, tubes and technology have left us well equipped and able to achieve the 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 serve to promote our long-term growth objectives.

Within the current five-year period, groupwide projects worth € 2.0 billion in total have already been partly completed or will have been implemented by 2012.

Groupwide Investment Volume 1996/1997 – 2012



Strategy of the divisions

In 2010, the strategic focus was on raising the competitive ability of all units forming part of the Group. To this end, stringent measures such as closing down locations and reducing personnel were initiated (see "Divisions" in the section entitled "Profitability, Financial Position and Net Assets" starting on page 102).

The Steel Division concentrated on proceeding with implementing the extensive investment program launched in 2007, the volume of which will have reached an amount of approximately € 1.7 billion by the year 2012. The investment measures initiated or already completed in our three steel locations will enable us to:

- supplement our product range,
- reduce our costs due to enhanced facilities efficiency and
- significantly lower the volume of input material purchased externally and scale back outsourced processing in the Steel and Tubes divisions.

For more detailed explanations please see the "Investments" section on page 66. In addition, decisive improvement potential is to be released through the restructuring program now under way at Peiner Träger GmbH (PTG).

The Trading Division will coordinate its stockholding distribution of steel closely with the export business of our production companies in order to release synergies through a joint development of the market. In addition, its position in the strategic growth segment of higher quality grades is to be reinforced and its pre-processing capacity expanded in line with the market. International Trading will concentrate on strengthening its customer relationships and continue to support the steel mills in purchasing input material.

The Tubes Division's business is largely geared to infrastructure projects, which means that it is in essence late in the economic cycle. This is explained by its proximity to the energy sector which, in turn, is geared towards long-term changes in energy requirements. In addition to their advantageous competitive position, the Group's subsidiaries, which deliver to the markets for the transportation of agents (media such as gas) reliant on pipelines, are set to benefit from the fact that access to energy and water are indispensable prerequisites underpinning society's prosperity. The Tubes Division will continue to sharpen its profile by rounding off its product range and optimizing its existing activities.

The aim of the strategy pursued by the companies belonging to the Technology Division is to offer customers all over the world solution expertise from a single source and the opportunity of benefiting from a seamless and coordinated product portfolio. In future, even greater emphasis will be placed on providing customers with comprehensive solutions encompassing the entire production cycle of plants and facilities, from planning right through to final decommissioning and recycling. Furthermore, the restructuring process initiated to optimize internal workflows is being consistently implemented.

The primary task of the Services Division is to support the Group's producing companies. As before, the aim is to enhance the efficiency of its services on an ongoing basis and also to field these services and compete on external markets, thereby optimizing the division's business success wherever possible.

Management and Control Instruments

In order to manage the process geared to our objective of boosting the competitiveness of the Salzgitter Group, the company deploys a range of management and control instruments, alongside the regular coordination of goals at Executive Board level, flanked by the respective reporting to the supervisory and controlling bodies:

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

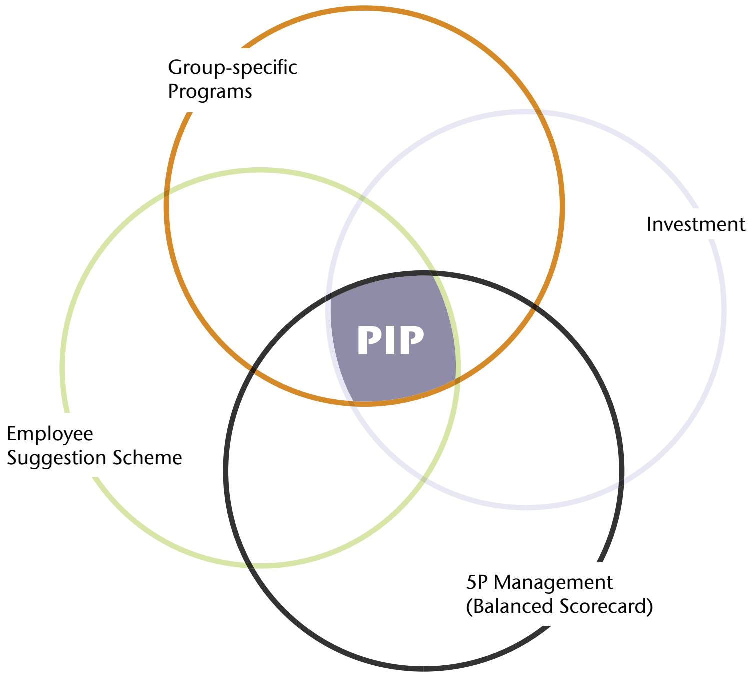
Profit Improvement Program (PIP)

We view the ongoing optimization of value-added processes as an important management task which makes a major contribution to conserving the Group's sustainable competitive edge. 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 (PIP) as a groupwide, uniform management instrument into the Salzgitter Group back in 1996. PIP combines all the explicitly defined measures designed to improve the performance and results of Group's companies, the impact of which are assessable and measurable based on a set of financial ratios. All projects are subject to a stringently systematic procedure for measuring success to which binding and identical assessment criteria are applicable.

Employees play an active part in PIP

In contrast to pure top-down approaches, the commitment of all involved under the PIP concept ensures the successful implementation of the steps agreed. Accordingly, our employees' suggestions for improvement are also incorporated into PIP. The acceptance of the program, which relies mainly on our employees' initiative rather than being driven by consultants, and their willingness to use the structures and mechanisms established to consistently improve the profitability of their own projects therefore remains very high. Consequently, we regard PIP as an ongoing task that permeates all levels of management.



Successful project contributions

To date, the relaunch aspect and the resulting limited time horizon of four years has been a core PIP feature. The year 2010 saw the scheduled completion of the third PIP relaunch (PIP 3) which commenced in 2007.

New ideas and sustainably effective measures were once again integrated into the project catalog, provided that they stood the stringent test of the PIP criteria. With 329 active projects and 81 ideas the number of measures was comparable with that of the previous year. The full-year effect (FYE) of € 175 million also stayed at the 2009 level.

This overall effect results from a number of different areas: activities in sales markets based on products with a higher value added and the extension of the network of sales channels delivered an FYE of € 187 million. Moreover, 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 € 86 million.

A precondition for achieving the goals set for the Group partly involves an increase in expenses, such as those incurred by investments. An annual amount of € 98 million was therefore taken into account to cover depreciation and amortization, interest and other expenses.

Current Status of PIP 3

In € m	**FYE**
Increase in overall operating performance	187
Savings on expenses	86
Depreciation and amortization/interest/non-personnel expenses	–98
Profit-related effect before tax	**175**

Launch of the new PIP

In response to the economic environment of recent years, the subsidiaries have meanwhile launched additional programs with structures similar to PIP, which, however, have not yet been incorporated into PIP given the input involved in the necessary double entry and associated administration.

The completion of the Group’s third PIP relaunch now presents an opportunity to optimize and create a standardized catalog of criteria for use by all companies. Key aspects include a flexible base year and the implementation of a continuous program with no time restriction. In order to provide additional support, we will be moving away from our current IT system to create an IT environment more suited to the new conditions. In the process, the name PIP will not be changed, as the core criteria will be retained and the three letters have become anchored in the Group’s corporate culture. They are synonymous with efficient and sustainable business conducted with initiative.

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

As a measure to supplement PIP, we launched an immediate action program in 2009 designed to secure profit and liquidity in the short term so as to counteract the impact of a notable downturn in capacity utilization. The effectiveness of this measure has convinced us to retain a number of components in 2010. Indeed it proved to be a thorough success in 2010 as shown by the practically full realization of an effect on profits worth € 235 million. Around half of the measures under the program are likely to have a permanent effect.

"5P Management"

In connection with "5P Management" goals are formulated whose impact may be difficult to ascertain in financial terms, but which nonetheless exert a positive influence on the company's performance. The structure of the "5P corporate guideline dimensions" comprises goals such as supplying customers by the respective deadline and in the right quality, ensuring that production processes are up and running seamlessly with minimum unscheduled interruption, as well as promoting the continuous professional development of employees in all areas of the company.

"5P Management", a balanced scorecard system based on our corporate guidelines and in place since 2004, has meanwhile been implemented in the majority of companies belonging to the Salzgitter Group. This tool enables the identification and pursuit of operational goals and measures derived from the respective corporate strategy for the individual organization units. The structure mirrors the "5P" corporate guideline dimensions defined as "Partners", "Processes", "Products", "Personnel" and "Profit". Examples of goals which are measurable on the basis of defined criteria and ultimately designed to exert a positive impact on overall company profit are as follows:

- raising the proportion of premium specification integrity across all production levels on an ongoing basis,
- guaranteeing necessary precautions for occupational safety and
- assessing and analyzing customer satisfaction.

These operational goals constitute the basis for formulating agreements on objectives between superiors and executives and non-tariff employees in the relevant area of responsibility.

Agreeing Individual Objectives for Executives and Non-tariff Employees

Agreements on objectives serve to transmit corporate goals and cascade them down to the level of each individual employee's personal endeavors. Salzgitter AG divides these objectives up into individual targets for executives and non-tariff employees and a collective, quantitative component reflecting the Group's goal of achieving a return on capital employed (ROCE) of at least 15 %. Part of this process is to define a target for each individual subsidiary. Individual objectives are agreed between a superior and his staff and derived from the goals of the next organization unit up in the hierarchy. Beyond this, we take care to ensure that the interaction between the various targets of the employees in their entirety has a positive impact on achieving the overriding objective of our company, which is "preserving our independence through profitability and growth".

2. Investments

As in previous years, investments of the Salzgitter Group focused on the Steel Division in the financial year 2010. The most important projects are explained in the detailed sections on the individual divisions.

Additions to non-current assets from investments totaled € 504 million (2009: € 717 million). At € 497 million, the volume of investment capitalized in property, plant and equipment and intangible assets was significantly above the level of depreciation and amortization (€ 377 million). The financial assets rose by € 8 million.

Investments/Depreciation and Amortization[1)]

	Investments		Depreciation/ amortization[2)]	
In € m	**Total**	**Of which Steel Div.**	**Total**	**Of which Steel Div.**
2006	236	161	201	145
2007	385	246	225	147
2008	653	454	278	154
2009	677	541	543	308
2010	497	410	377	275
Total	**2,447**	**1,812**	**1,624**	**1,029**

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 2010, € 409.8 million was attributable to the Steel Division, € 36.5 million to the Tubes Division and € 4.0 million to the Trading Division. The Services and Technology divisions invested € 25.2 million and € 20.9 million respectively.

Investments in Property, Plant and Equipment and Depreciation and Amortization on Property, Plant and Equipment by Division

	Investments[1)]		Depreciation/ amortization[1, 2)]	
In € m	**FY 2010**	**FY 2009**	**FY 2010**	**FY 2009**
Steel	409.8	541.0	275.0	307.9
Trading	4.0	12.9	10.4	17.5
Tubes	36.5	55.2	41.7	73.3
Services	25.2	39.0	22.3	23.5
Technology	20.9	27.3	25.9	98.0
Other/Consolidation	0.3	1.6	1.8	22.3
Group	**496.6**	**677.0**	**377.1**	**542.6**

1) Including intangible assets
2) Scheduled and unscheduled write-downs

In 2010, Salzgitter Flachstahl GmbH (SZFG) comprised under the **Steel Division** continued to work on projects started in previous years. As before, activities centered around the “Salzgitter Steel 2012” and the “Power Plant 2010” investment programs.

The Continuous Casting Line 4, which is part of the “SZS 2012” project, commenced testing. The first 350 mm thick slab was cast in May. All key installations and conversions on the hot strip mill went into production, and the first 2,000 mm-wide coils were successfully produced. By the end of the year, four of the seven main drives planned for the finishing line had been replaced. The remaining three driver units will follow on in the year 2011. Once these measures have been completed, SZFG’s hot strip mill will be operating one of the world’s most powerful production lines.

The major “Power Plant 2010” project focused mainly on commissioning both new blocks. From 2011 onwards, they will raise SZFG’s own supply of electricity by up to 30%.

The “sintering plant’s process gas purification” also came on stream in the first quarter of 2010. This investment in environmental protection harnesses cutting-edge technology to secure very low emission levels.

Approval was given for a top gas recovery turbine for Blast Furnace B in 2010. The respective contract has already been awarded. As from the second quarter of 2012, the pressure energy of top gas resulting from the blast furnace process will be used for energy-efficient power generation.

Work on the “Belt Casting Technology” project progressed towards implementation. As part of this undertaking, which is also part-funded by the German Federal Ministry of the Environment, an ultramodern strip casting line is to be built to an industrial scale in the Peine steelworks. These facilities will be able to produce new steel grades under particularly energy-efficient conditions.

The aforementioned major projects are supplemented by numerous middle-range and smaller projects aimed mainly at enhancing efficiency, scaling back energy requirements and complying with environmental protection standards.

Ilsenburger Grobblech GmbH (ILG) concentrated, along with the necessary replacement activities, primarily on strategically important projects, which were mainly the processing of 350 mm slabs into thick plate and ongoing streamlining measures.

Owing to the greater demand for input materials within the Group and the rising cost of buying in these materials, the Executive Board made the decision at the start of March 2010 to continue the “PTG 2010” project in order to enable parallel operation of both electric arc furnaces in future. The new electric arc furnace was fired up as early as July and the first charge generated. Full production is due to start in the spring of 2011.

HSP Hoesch Spundwand und Profil GmbH (HSP) installed an additional roll stand as part of thoroughly modernizing its rolling mill. This measure enables the company to fulfill all requirements in the market through extending its product range to include the Z profile series. The roll stand is currently in the ramp-up phase. Contingent on more successful trial rolls, deliveries are due to be made to customers from the start of 2011 onwards.

The investment activities of the **Trading Division** were concentrated predominantly on modernizing existing facilities. The relocation of the warehouse of Salzgitter Mannesmann Stahlhandel GmbH (SMSD) from Lauchhammer to Zeithain, completed for the most part in 2009, permitted work to be commenced in the financial year 2010. The location fulfills all the requirements placed on state-of-the-art flame-cutting and warehouse facilities, thereby ensuring that it retains its competitive edge in the future as well. The objective is also to release the potential inherent in the geographical proximity to the markets of Central Europe and to tap their rising need for flame-cuttings.

Alongside the replacement of facilities, the investments of the **Tubes Division** in the financial year 2010 were carried out with the primary goal of optimizing product quality. The following projects were completed by the Tubes Division in 2010:

The Europipe Group invested mainly in replacing obsolete equipment, improving occupational safety and streamlining measures.

At the turn of the year 2010/2011, work began on exchanging the old hydrotester for new and more efficient facilities at the Siegen location of Salzgitter Mannesmann Line Pipe GmbH (MLP). Together with the first construction phase that comprised the renewal of the non-destructive testing facilities, the preconditions for continuing to secure the high product quality of HFI-welded line pipes were set in place.

As part of its process of strategic realignment, the Salzgitter Mannesmann Precision Group initiated the restructuring of its Saint Florentin (France) pipe mill in the year under review. The improved mill efficiency and materials flow will considerably enhance productivity.

The persistently difficult economic situation in the seamless stainless tube segment prompted an internal review of the investment projects planned. As a result, the Salzgitter Mannesmann Stainless Tubes Group concentrated on replacement investments and measures to improve quality in the financial year ended. At the Montbard (France) site, the Group invested in a new automated external parts grinding machine with a correspondingly higher grinding capacity with the aim of avoiding production bottlenecks as far as possible. Plans for major maintenance work to be carried out on the extrusion press of the Remscheid plant were postponed until the shutdown scheduled for summer 2011.

The **Services Division** invested mainly in the following:

- Extending the scrap yard of DEUMU Deutsche Erz- und Metallunion GmbH (DMU) in Salzgitter and purchasing transshipment equipment
- Purchasing new locomotives for the transport operations of Verkehrsbetriebe Peine-Salzgitter GmbH (VPS)

The investment activities of the **Technology Division** were again modest in the financial year 2010. To respond appropriately to the after-effects of the crisis on the plant construction and mechanical engineering sectors in 2008 and 2009, and after due consideration, only investments delivering a high degree of economic benefit were approved and carried out.

The main aim of investments in property, plant and equipment was to lower manufacturing costs. Purchasing activities therefore focused on new machines and equipment that make production more efficient. The largest proportion was accounted for by the KHS Group which also made a number of structural alterations in the process of streamlining and integrating its locations in 2010. The Technology Division also invested in optimizing its products and processes on an ongoing basis. One of the key areas was the topic of environmental compatibility to be realized first and foremost through reducing the division’s consumption of energy and resources.

3. Research and Development

All business activities of Salzgitter AG are focused on delivering customer satisfaction at all times. The primary prerequisite of an aspiration such as "Leveraging Research – Creating Competitive Advantage for the Customer" is genuine innovation, alongside the ongoing development of our products and processes. This is how we, as a niche supplier, intend to achieve our goal of ranking among the best in steel and technology, now and in the future.

Salzgitter Mannesmann Forschung GmbH (SZMF), one of Europe's leading steel research institutes, is the central coordinator responsible for ensuring our innovative capability and for product development in the Steel and Tubes divisions. The company emerged from the combination of Salzgitter Flachstahl GmbH's (SZFG) Technical Development Department, based in Salzgitter, and Mannesmann Forschungsinstitut GmbH in Duisburg in 2004. The know-how of more than 75 years of research and development work (R&D) is now concentrated under this company. SZMF works for the companies of Salzgitter AG and – especially at the Duisburg location – for a large number of external customers in the steel processing industry and the automotive sector, as well as serving clients in the machinery and plant engineering, energy technology and construction industries.

With its concerted customer and process orientation and its sophisticated innovation management, SZMF creates a synthesis between knowledge about products, processes and applications within the Group and the latest scientific trends from fundamental research, its own application-oriented R&D and market requirements.

We systematically foster our tight network with renowned universities, other research organizations and industrial partners, most particularly in the form of numerous national and international research projects. We view the resulting research cooperations 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.

SZMF's R&D philosophy extends far beyond the conventional development of existing products and processes: Roadmaps illustrate the relationship between market requirements and corporate goals, products and technologies, as well as the necessary resources and form the basis of a systematically managed process. This process covers an entire spectrum of activities, from trend analysis through to generating ideas and assessing them for their strategic and financial significance, patents analysis, the actual R&D activities and all the way through to the ultimate implementation of the results at an operational level. Moreover, we support our customers in analyzing and optimizing their processes by applying sophisticated testing procedures and mathematical-statistical methods, as well as actively shaping and designing the relevant norms and standards.

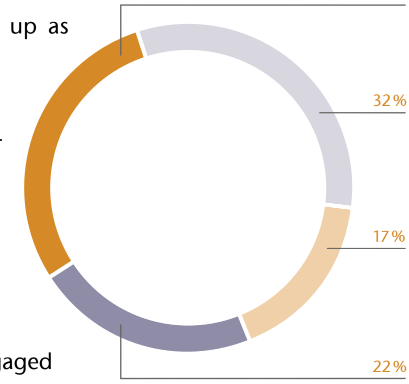
Tradition and innovation go hand in hand in the Technology Division. R&D in the division also serves to underpin the future viability and sustainability of the products. The innovation and product development processes are consistently geared to customer and market requirements. The emphasis is on maintaining technological leadership with high quality and cost-efficient products. The Technology Division's subsidiaries are not only focused developing individual pieces of machinery, but also on providing comprehensive, integrated system solutions from a single source.

In the financial year 2010, Klöckner-Werke AG (KWAG) delivered proof of its innovative strength as evidenced by 77 new patents and patent applications. By the end of 2010, the company therefore owned some 3,100 industrial property rights (including new applications) as well as 320 registered trademarks. These included, the whole Group held more than 3,600 registered patent rights and some 1,100 trademark rights by the end of 2010.

R&D Expenses

In the financial year 2010, the Salzgitter Group dedicated a budget totaling € 92.4 million to research and development and activities relating to this field, of which external customers accounted for € 14.0 million. This amount was divided up as shown by the adjacent chart:

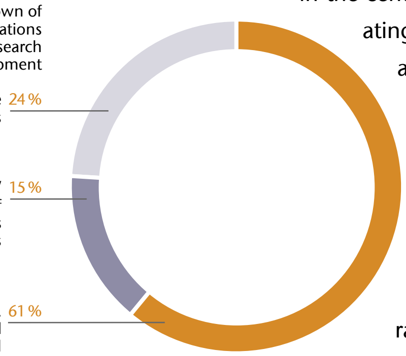
R&D expenses by division



Moreover, Salzgitter AG invested an amount of around € 199 million in cooperation projects with other market participants and research and development institutions. R&D-related expenses contributing to value added within the Group came to 4.9 % (2009: 9.0 %).

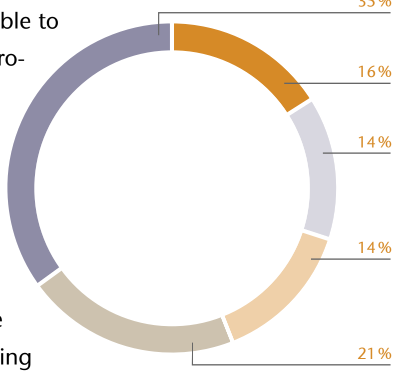
As per December 31, 2010, 972 employees in our Group were engaged in research and development and related activities. Of this number 315 work in the central research and development company SZMF and 657 in the operating companies. This allocation underscores how strongly our R&D activities are oriented towards processes – and therefore towards our customers. The marginal increase in the number of employees in central development in the year 2010 (+ 4 employees) is primarily the result of accelerated activities in the field of developing materials and engineering technology. The highly qualified experts active at both SZMF locations are equipped with an extensive range of technical equipment in accredited and certified cutting-edge laboratories in close vicinity to customers, while also maintaining informal customer contacts. This enables us to ensure a high degree of efficiency, effectiveness and flexibility.

Breakdown of qualifications in central research and development



Activities at the Salzgitter location are concentrated on the development and optimization of new steels and coatings in the hot-rolled and cold-rolled product segment. They cover the entire process chain of steel production, coating and processing. In order to be able to offer not only steel but also full-line solutions, the complex further processing sequences of customers are incorporated right through to final component engineering. Duisburg concentrates on the tube, section and plate segments. The company's range of expertise in the tubes segment covers welded and seamless precision tubes and line pipes right through to large pipelines. In this segment as well, numerical simulations and experimental trials are harnessed in developing new steels and processing know-how across the complex process chain. Other areas of expertise comprise engineering analyses of materials and building component mechanics with a view to

R&D expenses by area of activity



further processing by customers, structural mechanical and metal forming tests along with the development and construction of non-destructive testing facilities. The range on offer is rounded off by patent law services and active expert contributions in standardization committees.

R&D Focus Areas in 2010

Alongside the development of materials, the optimization of processes based on statistical process data analysis (data mining) was a focus of R&D activities in 2010. The drive towards conserving resources not only places more demands on product features, such as greater strength, but also has an impact on our production processes.

We would like to explain the four following examples, taken from the Steel and Tubes divisions, in more detail:

Optimized furnace control at the hot-dip galvanization plant of Salzgitter Flachstahl GmbH

The annealing treatment in the hot-dip galvanization process has a decisive influence on the mechanical-technological parameters and surface properties of the galvanized sheet. Conventional furnace controls do not return satisfactory results when processing unfavorable strip geometries (thick-walled narrow strip or thin-walled broad strip). Based on methods of statistic process data analysis, Salzgitter Flachstahl GmbH (SZFG) and SZMF calculated the burners' energy input in the steel sheet to be galvanized along the furnace section and used these results to develop a new control system. This system allows the thermal energy input to be optimized for the respective material while taking account of the specific process conditions. The measures have enhanced products significantly. We intend to transfer the results of our work to other furnace controls operating in SZFG's strip mills.

Stroncoat® – a new generation of corrosion protection coatings

SZFG and SZMF have developed a new zinc-based corrosion protection coating in a three-year successful cooperation with the steel manufacturer Corus (now Tata Steel Europe). A considerably reduced aluminum and magnesium content achieves a significantly higher degree of corrosion protection in connection with the same processing properties, permitting a reduction in coating thickness or other corrosion protection measures. We have been manufacturing this coating on a commercial scale at SZFG's hot-dip galvanization Plant 1 since February 2010 and marketing it under the name of Stroncoat®. The primary focus is on coiled and coated material for the construction sector. However, we also consider household appliances and the automotive industry as application areas benefiting from this innovation.

Ongoing development of the High Frequency Induction (HFI) welding process

The HFI welding process is employed in the production of longitudinally welded precision steel tubes for use in automotive construction, for example, as cardans and camshafts, shock absorber tubes and hydroformed hollow elements. Engaging in a project with SZMF, Salzgitter Mannesmann Precision GmbH (SMP) has improved the mechanical-technological properties of welded seams in the HFI welding process. As part of the project, a welding simulator has been set up that allows the process to be closely monitored. As a result, the welding process has become even more robust. In addition, methods for evaluating welded seam quality have been developed.

"SPASS", a swift testing facility control system in precision tubes production

In SMP's production of precision tubes, the tubes are checked consecutively for defects and compliance with specifications. In order to guarantee checking speeds of up to 3 m/s, the seamless inspection in end-by-end operation as well as the detection of errors to the exact millimeter, SZMF has implemented a new control system which monitors and controls both the checking process in the required precision and manages the data gleaned from this process. The status of the plant can be ascertained at any time and the process of eliminating malfunctions has been considerably simplified. Thanks to its universal design, the system can be easily adapted to different testing tracks and changing requirements. The first facilities were successfully taken into operation at the Holzhausen mill, and the gradual implementation of the system in all mills of the precision tubes group has been planned.

In the financial year 2010, we focused on the following fields of R&D in the Technology Division:

New forward-looking operating concept for filling and packaging plants

In close cooperation with the Fraunhofer-Institut IAO, KHS GmbH (KHSDE) has developed a new Human Machine Interface (HMI) that is used to monitor and control the process sequences. A decisive advantage of HMI is the unification of formerly heterogeneous user interfaces of the machines belonging to a production line with a view to finding a homogenous solution. It is now possible to monitor and control individual machinery and entire production lines for the first time by way of a single interface. Effective communication between man and machine is the key factor for the development of the interface: The optimal combination of ergonomics, navigation and design depicts and maps complex processes in a readily comprehensible manner. Convenient operator input is supported with the help of icons, colored views and interactive instructions. Electronic staff IDs are deployed to access user-based profiles that display the relevant user data. In future, mobile handsets will enable operating and diagnostic actions independent of the location in future. KHSDE won the coveted "red dot: best of the best 2010" quality award in the "Interface Design" category for the conception and design of the innovative user interfaces. The "red dot design award" ranks as one of the world's most renowned design competitions.

New empty bottle inspection

Innocheck EBI, the new inspection system for glass bottles developed by KHSDE, provides the utmost security in the precision tracking of sidewall, bottle base, bottle mouth, thread and double residual liquid inspections. KHS's innovative image processing with its excellent imaging quality is able to dependably identify the tiniest flaws in bottles, reaching even the most difficult spots. Software, specially developed by KHSDE, ensures optimal tracking precision for identifying damaged threads.

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 but, above and beyond this, to make a positive contribution to conserving our environment and using the resources we need sparingly. To mention a few examples, one of our top priorities is on developing new high-strength but nonetheless very ductile flat steels for lightweight vehicle construction, cyrogenic tube steels with optimized media resistance for transporting agents such as liquid and gaseous sources of energy, high-temperature boiler tubes optimized for media resistance to facilitate the construction of efficient fossil-fired power plants and system solutions for offshore wind farms.

We commit considerable funds to continuously improving our own processes in terms of environmental compatibility and conserving resources. At the same time, our intention is 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, while also factoring in environmental aspects.

We will continue to reduce energy consumption in the Technology Division by developing energy-conserving processes, machinery and facilities in their entirety. Individual product families are to be increasingly standardized with the aid of platform strategies and the resulting synergy effects leveraged. The modular interconnectivity of products will be a key area where options and flexibility can be created for customers to switch or upgrade individual pieces of machinery and facilities. Successful harmonization projects, such as in the filling, labeling and packaging technology, are to be progressed and implemented on a larger scale. The goal towards achieving customized series production lines will be pursued in the future as well.

Multi-year Overview of R&D

		FY 2010[3]	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	78	81	80	60	58	58	57	58	47	48
R&D employees	empl.	972	916	983	725	688	706	701	670	400	400
R&D ratio[1]	%	0.9	1.2	0.6	0.6	0.7	0.8	1.0	1.2	1.0	1.0
R&D intensity[2]	%	4.9	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 GmbH fully consolidated
[4] First-time inclusion of research-related expenses (employees) MRW

4. Environmental Protection

The relevance of steel production for the environment and steadily growing pressure on costs due to rising energy and raw materials prices prompted the Salzgitter Group at an early stage to address issues of its own resource efficiency in a focused and sustained manner. The bulk of costs in steel production are incurred by input materials such as ore, scrap, reducing agents such as coking coal and energy. Consequently, efficient production processes have always ranked as a key objective at Salzgitter AG, from both an economic and an environmental standpoint. We view the protection of the environment and responsible use of our facilities as an investment in our future.

Steel products – a valuable contribution to climate protection

Climate protection measures determine the debates on environmental policies. On the one hand, this pertains to CO_2 emissions from production processes which are primarily discussed in the context of pan-European emission trading. On the other hand, the emphasis of the public, in our view – irrespective of whether and to what extent there is a connection between climate change and CO_2 emissions – must equally be placed on the contribution the use of our products makes to enhancing macroeconomic energy efficiency.

Emissions that invariably arise from chemical-physical processes, and which therefore cannot be reduced further, will have to be included adequately in future approaches to climate protection regimes as well: If, under the legal framework of an emission trading system restricted to Europe, CO_2 rights were not allocated free of charge to steel companies in Germany for the minimum of what is technically achievable, these companies would face the threat of a considerable cost structure-induced disadvantage in comparison with competitors outside Europe. Against this backdrop, Salzgitter AG has engaged in the political discussion process, especially recently, advocating a free allocation of CO_2 certificates based on ambitious, but nonetheless technically achievable CO_2 benchmarks.

We believe it important that CO_2 issues are not narrowed down to our own production in a one-dimensional manner. Sensible progress can only be made through the knowledge-based linking and integrating of processes and products. This is a huge opportunity for the products of Salzgitter AG in the context of the climate protection debate: In harnessing our developments in the area of near net-shape casting we are able, for instance, to offer new ground-breaking steel grades for the automotive industry which open up additional potential in lightweight car body design. Salzgitter AG undertakes responsibility here in developing and promoting technological improvements which will result in notable energy savings and emission reduction, a prime example being the decision to build the belt casting line at the Peine steelworks.

Environmental organization and management – making the best possible use of decentralized competences

The Salzgitter Group relies on decentralized responsibilities in matters affecting environmental protection. The Group’s Executive Board has called upon all Group companies to continuously improve performance in environmental and energy efficiency by setting goals. Management decisions such as investment undertakings are checked at an early stage in terms of their environmental impact.

Our environmental protection activities are based on an established organization structure empowered to act. Here Salzgitter AG relies on the established and specific environmental competences of its employees on location, at the individual companies. In order to guarantee uniform and legally compliant standards of environmental protection while retaining these decentralized local competences, we strive to implement environmental management systems and achieve certification under ISO 14001 at our various locations. We have placed initial priority on the Group's large production companies and smaller companies with areas of activity and general conditions that are environmentally sensitive. In accordance with this procedure, Hansaport Hafenbetriebsgesellschaft mbH (HAN), the Brumby and Crimmitschau locations of Salzgitter Hydroforming GmbH & Co. KG (SZHF) and Salzgitter Bauelemente GmbH (SZBE) were successfully certified in 2010. This has positioned SZBE as the first full-line supplier of steel building components in Germany to achieve certification under ISO 14001.

Investment in environmental protection

Following the approval procedure and completion of all conversion measures, the new process gas purification facility at the sintering plant of Salzgitter Flachstahl GmbH (SZFG) was successfully taken into operation. The results to date show that all emission levels specified in the official approval were safely complied with. The upgrading of the sintering plant is a major contribution in terms of improving the status of emissions at the Salzgitter location.

A second waste gas heat recovery facility was installed in the hot rolled strip mill at the Salzgitter site. This facility will enable the waste gas from additional furnace capacities to be used to increase process steam generation. The process steam is stored in the mill's grid, thereby resulting in considerable savings on the use of primary energy.

Steel recycling – a contribution to conserving resources

Steel as a material is characterized by its exceptional suitability for recycling with virtually no loss of quality. Having been put to use in different products, subsequently recycled and redeployed in metallurgy, steel becomes steel again. The scrap steel available in the global market is therefore almost fully reintroduced into the economic cycle at a very low loss rate.

Salzgitter AG is committed to the sustainable use of scrap steel in the production of crude steel, as underscored by the construction of a second electric furnace in the Peine steelworks. Subsequent to commissioning, these facilities raised the recycling share[1)] in the Steel Division by around 7%. As part of project planning and implementation, we involved our neighbors and decision makers in the local community in the undertaking, took their suggestions into account in the plans, and reported on work progress. We are convinced that Salzgitter AG is on the right path in pursuing this open and transparent approach.

[1)] Scrap volume used per crude steel volume in relation to available production capacities

Prudent use of water

Around 85% of water requirements in the Steel and Tubes divisions are accounted for by the integrated steel works of SZFG. Water recycling plays an important role, particularly in the context of efficient resource utilization. Thanks to the recycling and optimized management of process water which is mainly used for cooling purposes this represents a virtually closed loop. The share of fresh water required and added to the volume of water recycled is less than 2%. Moreover, it is used an average of 45 times before leaving the system as waste water. In order to secure its own supply, SZFG operates three ground water works in the region which provide potable water. Sourcing these volumes of water means that we bear special responsibility for the surrounding area and for the prudent use of water as a resource. We fulfill this responsibility through comprehensive, ongoing monitoring and documentation of the respective environmental impact.

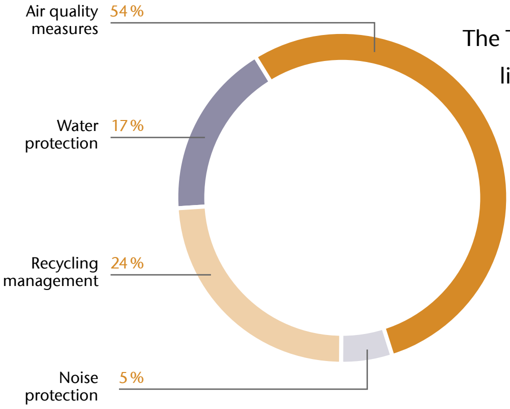
Technology Division – focus on energy efficiency

In recent years rising energy costs have resulted in sharp hikes in the operating expenses of the Technology Division's customers. Accordingly, the Division's focus is also on developments geared to conserving energy and resources. At the request of its customers, KHS GmbH (KHSDE) lends its support in creating energy concepts at an early stage, when drawing up its offer or on award of a contract. This concept includes, for instance, advice on energy which helps to identify large consumers of energy and savings potential. As part of the energy supply concepts, the utilization of renewable energies and cogeneration play a special role. In addition, KHSDE offers energy monitoring for conversion measures. The consumption volumes resulting from these calculations form the basis of providing customers with targeted improvement measures that are tailored to the respective location – to the benefit of the environment and the customer.

Environmental Protection Spend

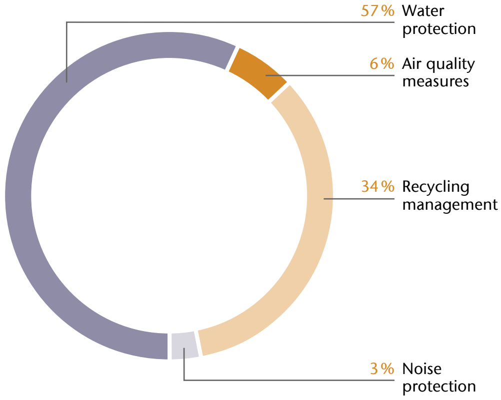
Environmental protection spend Steel Division 2010

The total spend of the Steel Division on environmental protection, allocated as shown in the chart on the left, amounted to some € 161 million:



The Tubes Division's companies based in Germany spent around € 12 million on environmental protection as shown in the chart right:

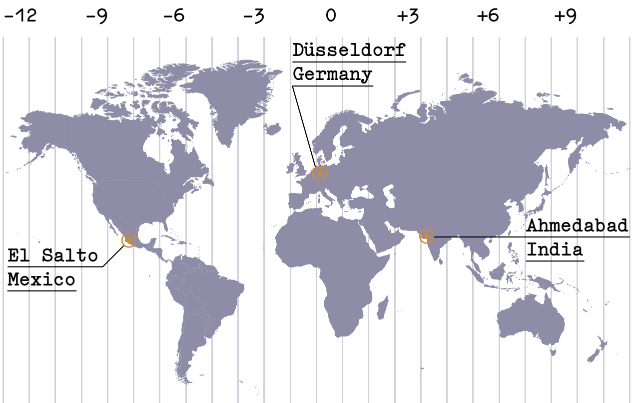
Environmental protection spend by domestic companies of the Tubes Division 2010



24 hours at Salzgitter:

10.00 CET

El Salto | Düsseldorf | Ahmedabad



The night shift are on duty at the Mexican tube works – the machines never stop. Just like the phones at the trading offices in Düsseldorf: Here, the 293 employees sell Salzgitter steel products to customers the world over. Meanwhile the atmosphere is relaxed in Ahmedabad – the workers have just had their lunch break.

Ahmedabad, India, 14.30:
Naimesh Patel and André Laube were a dream team for the four weeks they worked together at KHS in Bad Kreuznach. Now André is in Ahmedabad for a month – here he is helping to assemble a servomotor.

Night shift in Mexico: The 140 workers on the shop floor are producing welded precision steel tubes for the automotive sector and supplier industries.

In preparation for further processing, Miguel Angel Orozco Flores submerges the tubes into an oil lubrication bath heated to a temperature of 60 °C.

The tubes were heated to a temperature of 910 °C in the heat treatment furnace. The metallurgical properties of the material are now homogenized.

El Salto

Mexico

Local time 03.00

Company:
Salzgitter Mannesmann Precisión S.A. de C.V.

Division: **Tubes**

Product: **Welded precision steel tubes**

Carmen López gives the finished tubes a final check before they are ready for dispatch.

Outsourcing is the rule: The four KHS halls are given over exclusively to assembly work – 100% of the components are sourced from subcontractors within a radius of 10 kilometers.

In front of the factory, the 130 workers at KHS in Ahmedabad pass by the company logo carved in wood. The extensive green spaces are a rarity around Indian commercial buildings.

The sculpture in front of the trading offices in Düsseldorf symbolizes the close bonds with principal supplier Peiner Träger.

Düsseldorf

Germany

Local time 10.00

Company: **Salzgitter Mannesmann Handel GmbH**

Division: **Trading**

Product: **Rolled steel products and tubes**

Tuncer Aslan works in the Tube Sales West department: As a fan of the "German Touring Car Masters", he once got to meet Salzgitter-sponsored driver Gary Paffett in person.

Later on, the company in Düsseldorf will be making a presentation to a client. Team leader Carsten Schwarzkopf and Christian Hilbertz go over the details one more time.

Ahmedabad

India

Local time 14.30

Company: **KHS Machinery Pvt. Ltd.**

Division: **Technology**

Product: **Packaging and filling machinery**

No building in India is complete without a shrine – and the testing department at KHS in Ahmedabad is no exception.

Here, waste is separated before disposal. An unusual practice at an Indian factory.

III. Performance Report

1. General Business Conditions[1)]

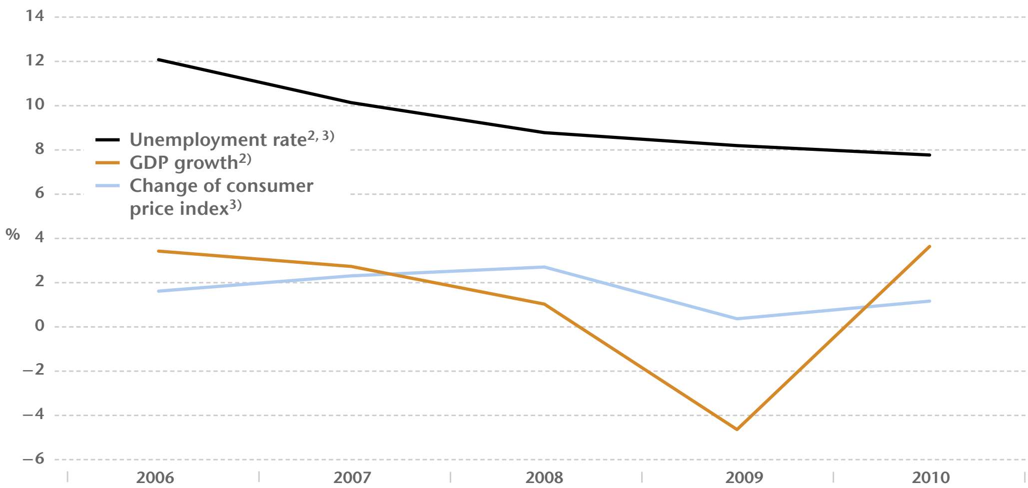
Global economy on the path to recovery

The **global economy** recovered unexpectedly rapidly over the first half of 2010 from its slump the year before, with markets varying in the pace at which they picked up momentum, depending on the region. The emerging markets were the main drivers, headed by China and India. Industrial production in these countries returned at an early stage to the path of robust growth seen in recent years. The majority of the established economies fell far short of making up ground to cover crisis-induced losses sustained over the course of 2010. Slackening impetus due to inventory levels, coupled with the waning impact of global economic stimulus packages, caused the economic upswing to falter from the fall onwards, resulting in slowing economic momentum in both emerging and industrial nations. According to the International Monetary Fund (IMF), the global economy expanded rapidly by 5.0% over the course of the year as a whole (2009: –0.6%).

The recovery process in the **European Union** (EU), which achieved an increase in real gross domestic product of 1.8% (2009: –4.1%), was comparatively hesitant. Moreover, there were huge differences between the individual member states. The situation in the peripheral countries continued to be strongly impacted by the recession. France and Great Britain also recorded growth which was significantly below the average in a long-term comparison.

In contrast, the **German economy** developed unexpected momentum in 2010 and expanded swiftly by 3.6% (2009: –4.7%). Having been particularly hard hit by the slump in international trading at the turn of the year 2008/2009, the German economy was now reaping the benefit of its strong export orientation. Furthermore, its recovery became more broad-based as the year progressed: The domestic economy rallied and both consumer spending and capital expenditure recorded notable increases. The improved and – in comparison with other countries – robust constitution of the labor market bolstered domestic demand.

Overall Economic Indicators Germany



[1)] If not otherwise indicated, the general business conditions were researched mainly on the basis of the following sources: International Monetary Fund World Economic Outlook Update (January 2011); steel forecast 2011, 2012 of the German Steel Federation (Wirtschaftsvereinigung Stahl; December 2010); Eurofer Economic and Steel Market Outlook 2011, 2012 (February 2011)

[2)] Source: German Federal Statistical Office

[3)] Source: German Central Bank

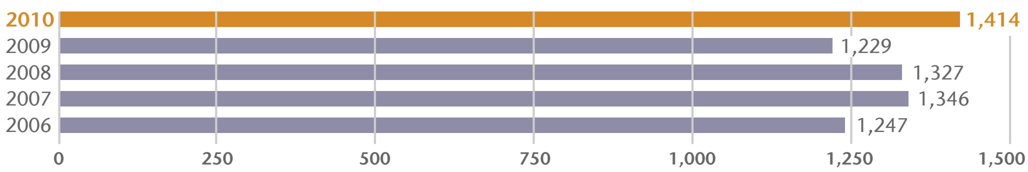
Record level of global crude steel production

The **global production of crude steel** expanded by 15% in 2010 to reach a new record high of 1.414 billion tons. In the EU, Japan and the NAFTA markets, the increase in production was above average as these regions experienced a particularly severe slump in 2009 (base effect). China raised its output substantially again, thereby exceeding the pre-crisis level posted in 2007 by almost 30%. However, in the late summer the growth rates in the global markets slowed in an annual comparison, a development due to the waning influence of base- and inventory-induced effects and the deceleration of the global economy.

Over the reporting period the recovery in the **EU steel market** was much more modest than in the German sub-market. The European rolled steel market supply (deliveries within the EU and imports [149 million tons]) and the production of crude steel (173 million tons) recorded an increase of approximately 21% and 25% respectively in 2010. The level was therefore significantly below that of previous years, while capacity utilization came to a nominal 67% which is also below the long-term average of 80%. Imports remained relatively slack throughout the entire year, which was due not only to a generally weaker euro exchange rate but also more particularly attributable to the lack of willingness on the part of European traders and consumers to enter into risks from placing orders in phases of high volatility and long delivery times from countries outside their own.

The **German** steel economy decoupled from the recession in 2010 at a much swifter pace than originally expected a year ago. The production of crude steel, for example, climbed by 34% to just under 44 million tons; capacity utilization posted 83%, thus virtually re-attaining its long-term average. The rolled steel market supply where volumes amounted to almost 37 million tons (+27%) returned to the level of the year 2005. Especially the flat steel market (including heavy plate), with its strong orientation towards the processing industry, primarily the automotive sector, staged a remarkable recovery in Germany. The output of flat steel was recorded at more than 25 million tons (+40%), which also put it at the level of 2005.

Crude Steel Production World



in m tons

Source: Worldsteel Association

Broad-based upswing in global steel trading

Alongside the high-growth countries of China, India and Brazil, the African markets also proved to be robust and exerted a stabilizing influence on global steel trading. In comparison, requirements in the oil and gas industry in North America as well as the Middle East grew only moderately. The economic recovery in Europe gained momentum, although the pace varied depending on the sector: Whereas the export-oriented industries developed well, the construction sector generally continued to stagnate.

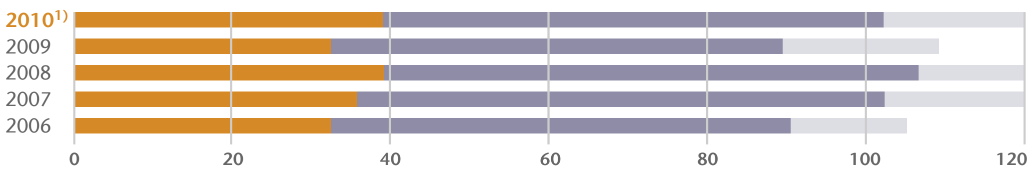
Subsequent to the steel price hikes caused by the price of raw materials and demand-induced increases, especially in the second quarter, Europe's stockholding steel traders were partly successful in generating considerably improved margins again. The uptrend in demand was primarily attributable to the traders and consumers replenishing their depleted stocks. Over the course of the year prices nonetheless came under increasing pressure and began to show signs of falling towards year-end.

Buoyed by the upswing in the important customer sectors of steel trading, Germany experienced positive developments, benefiting above all from a gratifying increase in export activity.

Sharp recovery in the global demand for steel tubes

Following the slump in 2009, the global demand for steel tubes made a stronger recovery than assumed at the start of the year. An output of 124 million tons in 2010 corresponds to a 13 % increase. Having raised their production by 9.5 % to 58 million tons, Chinese steel tube producers continued their dynamic growth trend and accounted for 46 % of the entire output. In the rest of the world, production climbed by 17 % to 67 million tons in comparison to 2009 which is stronger in percentage terms but significantly below the peak figure of almost 80 million tons achieved in the boom year 2008.

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

There was a distinct recovery in the market for seamless steel tubes that achieved a growth of 19 % to approximately 39 million tons. In contrast, the product segments of small welded tubes (up to 406 mm outer diameter) and welded large-diameter tubes each grew by only 11 %. Thanks to the increase in oil prices and despite gas prices coming under pressure, the energy sector was once again the driving force behind this recovery, followed by demand in the automotive sector and – with the time lag – mechanical engineering.

EU production of steel tubes came to 13 million tons which is some 13 % above the year-earlier level. German output, which did not suffer such a drastic downturn owing to the good capacity utilization situation of large-diameter tubes manufacturers in the crisis year of 2009, had to be content with a 10 % increase to slightly more than 3 million tons in 2010.

Tailwind for mechanical engineering

Business in the German mechanical engineering sector rapidly picked up pace on the back of the improved economic environment in 2010. New orders of the industry as a whole were 36 % higher than the previous year’s figures. Both foreign demand (+39 %) and domestic business (+29 %) expanded swiftly. The strongest stimulus emanated from the large emerging markets such as China, India and Brazil. Order activity in Russia, Poland, Turkey and Switzerland was also brisker. Irrespective of this upturn, the setbacks sustained in 2009 were not fully compensated for.

The market for filling and packaging machinery, which accounts for 90% of the Technology Division's sales revenues, was already showing signs of recovery by the fourth quarter of 2009, a development which held steady in 2010. The backlog from the extreme reluctance to invest which prevailed throughout 2009 eased gradually and was reflected in a substantial increase in the volume of business. According to calculations by the German Engineering Federation (VDMA), new orders for food and packaging machinery climbed by 25% and sales rose by 7% in 2010.

Steady consumer spending in the markets serviced by KHS resulted in a notable increase in the global consumption of packaged beverages in the financial year 2010. The emerging markets were the regional drivers behind this development. In contrast, the requirements of established sales territories such as Central Europe or America were predominantly for replacement investments and services.

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

2. Overall Statement by Management on the Performance

Having staged a successful turnaround, the Salzgitter Group returns to a stable uptrend

The Salzgitter Group benefited notably from the economic upswing in 2010. As a result, capacity utilization across all product segments returned to a high level and the selling prices of many products gradually recovered. Steady progress was made with the extensive 1.7 billion-euro investment program of the Steel Division, with all major projects being lead to completion. The programs implemented to optimize costs and raise performance had a gratifying impact. Acting on the basis of an extremely sound financial position and a healthy balance sheet, with an equity ratio of 44% and € 1.3 billion in net cash, the Salzgitter Group – having achieved turnaround this year – considers itself to be well equipped to exploit market opportunities to the full and master future challenges successfully.

Having boosted external sales to € 8,304.6 million (2009: € 7,818.0 million; +6%), the Group closed the financial year with a pre-tax profit of € 48.9 million, and has thus resumed its successful path (2009: € –496.5 million). Adjusted by an overall € 14.9 million for effects from impairment, streamlining costs and other non-recurrent income and expenses, the result net of special items comes to € 63.8 million. Profit after tax stood at € 30.0 million (2009: € –386.9 million).

3. Comparison between Actual and Forecasted Performance

The reverberations of the subsiding financial crisis were still tangible at the time our 2009 annual financial statements were published. The ensuing jitteriness in the relevant sales and procurement markets were the reason why we refrained from giving a detailed, quantified forecast for consolidated profit in the financial year 2010 at the Annual Results Press Conference in March of 2010. By that time, however, an improvement in the business situation of most of the Group companies had already become discernible. All in all, we expected our Group to generate a positive pre-tax result in the double-digit million euro range. At the same time, however, we made reference to the existing risks: Alongside the foreseeable increase in the cost of raw materials, the recovery of the steel and mechanical engineering markets was still subject to considerable uncertainty.

The ongoing economic recovery in the first quarter of the financial year 2010 was beneficial not only in terms of improved order intake and capacity utilization but also for the future prospects of our Group. Irrespective of higher operating results, the first three months closed with a pre-tax loss due to extensive accounting-related measures. The tremendous fluctuations in the prices of raw materials at short notice burdened the entire period under review and severely curtailed planning certainty. In May, we nonetheless affirmed our forecast of the probability of achieving breakeven in the financial year 2010.

The uptrend in results held steady in the second quarter as reflected by a pre-tax profit. This was achieved through the satisfactory capacity utilization situation of most product segments and a considerable widening of steel trading margins. In addition, the majority of leading indicators gave rise to a more confident assessment of the outlook for the second half of the year, leading us to believe that a pre-tax profit above breakeven might be achieved.

Our company continued to reap the benefits of the general economic recovery in the summer months' quarter as well. Although the Group was also called upon to absorb the surging costs of raw materials and burdens from currency-induced valuations, it nonetheless closed the first nine months of the year 2010 with a pre-tax profit (€ 5.7 million). This development permitted us to give a more detailed forecast and redefine our profit target in the lower double-digit million range.

As the generally pleasing development held steady through to the end of the year, despite occasionally weak phases, a pre-tax profit of € 48.9 million was generated in the financial year 2010. Our company therefore performed better than originally anticipated.

In connection with the statements we released we made repeated reference to the opportunities and risks which could impact the accounts for the financial year 2010. We explained that potentially additional positive or negative effects could emanate from changes of a structural and methodological nature and take on considerable proportions, either to the positive or to the negative, especially with regard to measurement under IFRS standards and their application. For instance, the financial statements include impairments, provisions for onerous contracts, provisions for streamlining measures and various positive non-recurrent effects. The accounting-related precautionary measures taken in the year 2010 will make a major contribution to easing the burden on future periods.

As the capacity utilization prospects of the most important steel processing sectors had stabilized by the beginning of the year and as further increases in selling prices had been announced, the **Steel Division** anticipated a recovery in sales. At the same time, however, the procurement costs of iron ore and coal were expected to climb, with the result that predictions on breakeven could on no account be taken as certain. In terms of operational business, this projection was accurate although it differed depending on the individual product groups: Whereas flat steel and plate were again recording satisfactory capacity utilization and an improved selling price trend from the second half year onwards, the merely modest recovery in the commercial construction and civil engineering sector continued to burden the section and sheet piling product segments. Pre-tax profit nonetheless improved considerably as against the year-earlier figure. Excluding non-recurrent effects and impairment write-downs of € 80 million, the Steel Division delivered a relatively small loss, as anticipated.

The **Trading Division** forecasted a significant improvement in its business situation in 2010. In conjunction with expanding margins, better business was to deliver a positive result. Our forecast proved to be accurate in this case as well: The Trading Division benefited from restocking in almost all customer sectors. The sharp increase in margins, triggered by a pronounced upswing in selling prices in the second quarter, boosted the European stockholding steel business especially, enabling these operations to deliver an extremely pleasing pre-tax profit thanks to the turnaround.

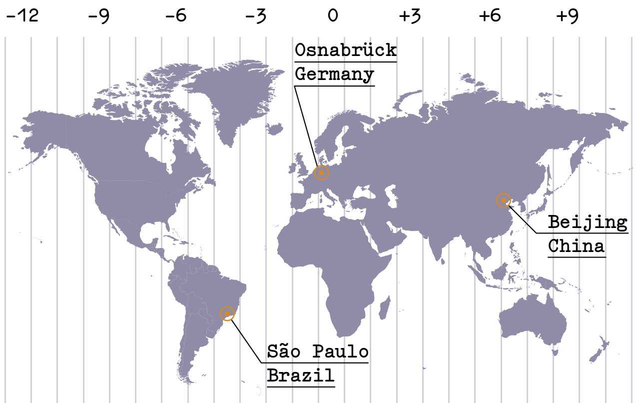
Based on the selling price level, which was impacted in 2009 by orders remaining from the boom, the **Tubes Division**'s forecast envisaged a decline in average selling prices and a substantial downturn in results. Subject to the premise of raw material price hikes not having too strong an impact on the profitability of major projects, we were striving to achieve around breakeven. Despite the drastic increases in the price of input materials and a notably dampening effect from longer-term delivery agreements negotiated at fixed prices in the project and automotive business, the division performed better than the above forecast.

As predicted, the **Services Division**'s business, which depends mainly on capacity utilization in the Steel Division, accelerated sharply: The higher volume of steel scrap and brisker freight traffic incurred by greater crude steel output resulted in a notable increase in sales. The pre-tax profit achieved was therefore considerably above the previous year's figure.

In view of the improvement envisaged in the sales market and the increasing effect of measures implemented to streamline processes and enhance efficiency filtering through, the **Technology Division** also predicted that results would stage a notable recovery in the form of a significant reduction in pre-tax loss. This proved to be accurate: Although there was a sharp increase in new orders in 2010, price-led competition for projects remained fierce. The effects of the extensive reorganization and cost-cutting program and good income generated by replacement parts and service operations were nonetheless unable to compensate for the lower level of selling prices in the project business.

24 hours at Salzgitter:

13.00 CET



While the workers at KHS in São Paulo are drinking their morning coffee, the early shift at the automotive works in Osnabrück are looking forward to clocking off: The shift is set to change in half an hour. In Beijing too, the Salzgitter Mannesmann Trade team have mostly gone home for the night – there are only two desks where the lights are still burning.

São Paulo, Brazil, 09.00:

Paulo Rogerio is a field service engineer with KHS. He is responsible for checking and servicing the machines that KHS produces. This morning he is inspecting the KHS bottling machinery at the Coca-Cola plant in Jundiaí, 100 kilometers from São Paulo.

São Paulo

Brazil

Local time 09.00

Company: KHS Indústria de Máquinas Ltda.

Division: Technology

Product: Packaging and filling machinery

Wellington Gomes is working on a component of a filling machine. In his free time the 48 year-old family father teaches courses at a technical school.

Osnabrück

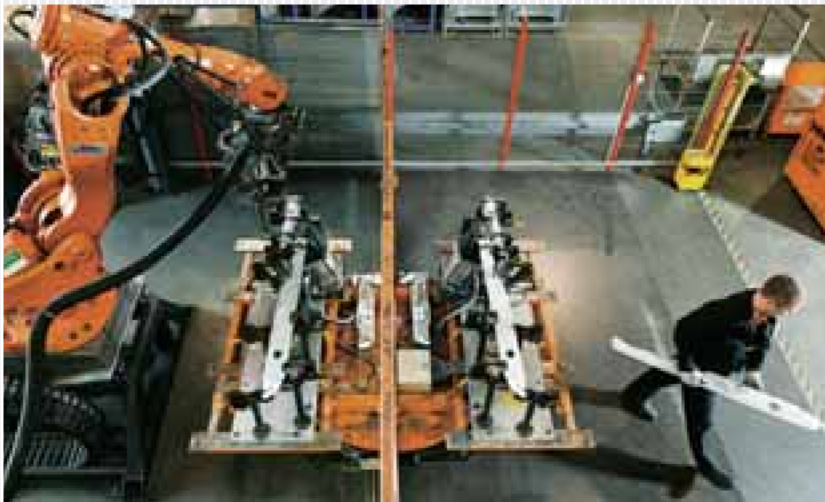
Germany

Local time 13.00

Company: Salzgitter Automotive Engineering GmbH & Co. KG

Division: Services

Product: Small series production



The robot spot welder at the plant in Osnabrück is welding reinforcements for car window slots. Ulrich Riddering checks the accuracy of the robot's work.

Beijing

China

Local time 20.00

Company: Salzgitter Mannesmann Trade Co. Ltd.

Division: Trading

Product: Rolled steel products and tubes

Phillip Meiser and Victor Huang are still at the office – due to the different time zones, telephone calls to Germany often take place late in the evening.

53 year-old Senior Sales Manager Huang has been in the business for almost three decades – an institution in his own right.

Almir Alves dos Santos is examining a tube. A master of taekwondo, he enjoys working at the factory – he spends five evenings a week taking welding and metallurgy courses.

Finished filling machine tanks stand ready for shipment on the factory floor.

Mathias Leewe is adjusting a smoothing machine: Its job is to machine a prototype tool casting – in other words, to smooth it into shape.

Jürgen Rechtien is working on a prototype tool. Manufacturing prototypes is a sensitive business – utmost confidentiality and secrecy are paramount.

It's rare to find Chief Representative Phillip Meiser in the office – the 40 year-old is always on the move: "Big deals are done in person."

IV. Profitability, Financial Position and Net Assets

1. Profitability of the Group

The broad-based business activities of the Salzgitter Group reaped tangible benefits from the general economic recovery over the course of the financial year 2010. Although the Group had to absorb the surging costs of raw materials and expenses incurred by restructuring and impairments, it nonetheless succeeded in bringing the financial year elapsed to a close with a profit. The Trading, Tubes and Services divisions all made positive contributions to this result, and the Steel and Technology divisions achieved considerable improvements even though results remained negative. The use of provisions formed in 2009 and the contribution to profit by the Aurubis holding were factors supporting the consolidated result. The program initiated the year before aimed at cutting costs at short notice had a notably easing effect on the financial year ended.

The external sales of the **Salzgitter Group** recovered and climbed to € 8,304.6 million (2009: € 7,818.0 million, +6 %).

Compared with the previous year which was impacted by capacity utilization running at catastrophically low levels, the contribution of the **Steel Division** to consolidated sales rose by 36% to € 2,268.6 million. The share in consolidated sales came to 27%. Whereas the upbeat development in the automotive industry boosted demand to high levels, the merely modest recovery in the construction sector was insufficient to provide stimulus for the sections business.

Despite the slump in demand in international trading, the **Trading Division** again contributed the lion's share of € 2,958.2 million (36%) to the external sales of the Group, with shipment tonnage remaining generally constant.

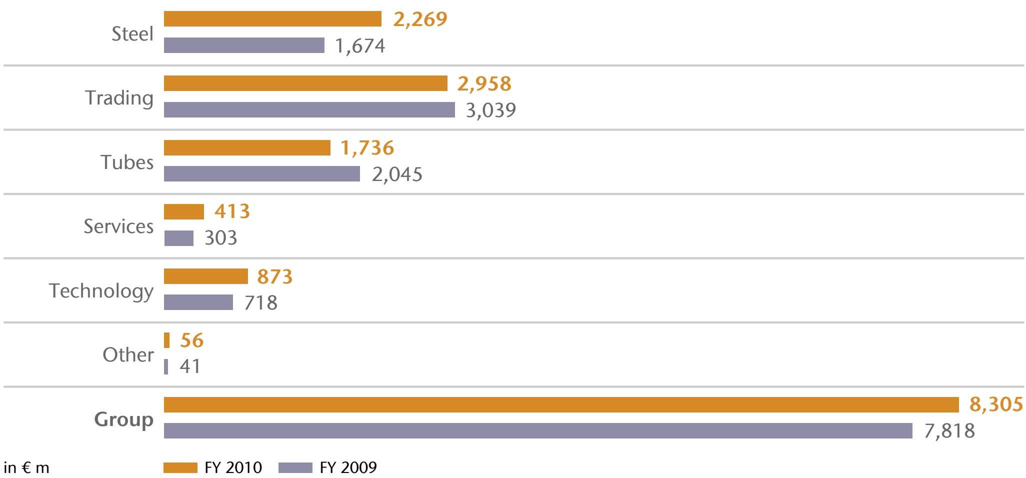
The steel tubes industry was hit relatively late in 2010 by the difficult macroeconomic conditions. Consequently, the share of the **Tubes Division** in consolidated sales fell to 21% (€ 1,736.1 million).

The **Services Division** was buoyed by business of the Steel Division's key customers returning to normal levels. External sales grew to € 413.1 million (share at Group level: 5%).

The **Technology Division** also felt the effects of a rallying economy. Its sales came to € 872.9 million, marking a considerable increase (share at Group level: 11%).

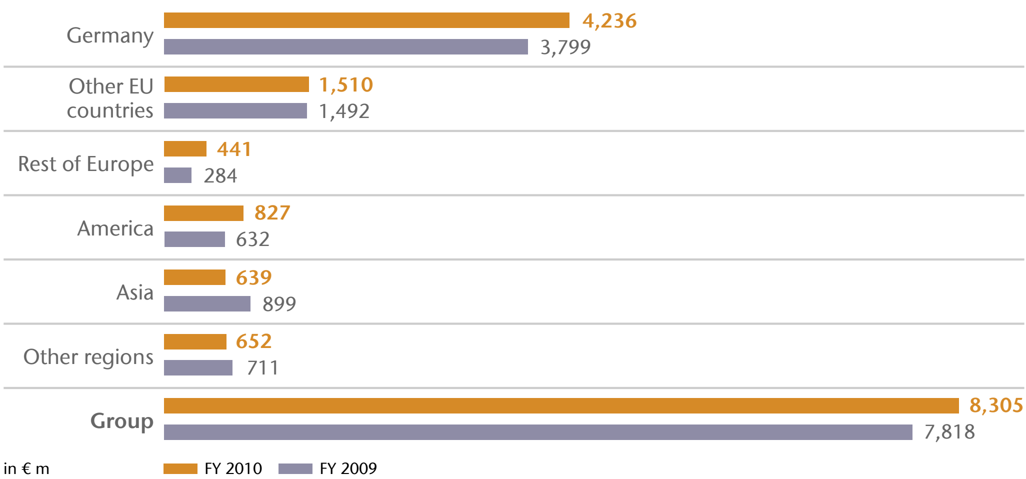
The external sales of the **Other/Consolidation** segment advanced by 38% to € 55.8 million.

Consolidated Sales by Division



As before, the business activities of the Salzgitter Group focused on the European Union (€ 5.7 billion, 69 % share of sales). Germany remained the largest single market with sales of € 4.2 billion. Foreign sales posted € 4.1 billion, which represents a higher share of total sales than a year ago.

Consolidated Sales by Region



Having written a heavy pre-tax loss in the previous year (€ –496.5 million), the **Salzgitter Group** staged a leap back to the profit zone with € 48.9 million. Adjusted by an overall € 14.9 million for the negative effects from streamlining costs, impairment and other non-recurrent income and expenses, the result net of special items comes to € 63.8 million.

The divisions recorded the following developments:

The **Steel Division** posted a pre-tax loss (€ –100.6 million). This result was affected by impairment in the sections product segment of € 80.0 million and by other non-recurrent effects. Adjusted for the special measures, the segment delivered a relatively low loss.

In the course of steadily brightening economic framework conditions, the companies of the **Trading Division** generated a profit of € 71.4 million, thereby writing black figures again. The stockholding steel trade achieved a significant growth in gross earnings as opposed to international trading which experienced very little impetus of any note.

In 2010, the companies of the **Tubes Division** were unsuccessful in matching the outstanding results of the previous year. The division nonetheless delivered a pre-tax profit of € 59.9 million. Especially companies with a high share of project business sustained considerable declines in profit. The result includes € 6.1 million on balance from non-recurrent effects and expenses for streamlining measures.

Mainly driven by the improvement in the capacity utilization of the steel companies, the **Services Division**'s pre-tax profit came to € 26.2 million.

Despite the notable increase in business volume, extremely stiff competition in the project and plant engineering business of the KHS Group was the main reason for unsatisfactory margins. High margins in the replacement parts and service business and stronger capacity utilization, along with organizational change, were unable to fully cushion shrinking profit margins in the project business. The **Technology Division**'s loss comes to € 30.3 million. This result includes € 11 million, which is the balance of write-ups of receivables due from WCM AG and non-recurrent expenses for risk provisioning relating to holdings.

The **Other/Consolidation** segment delivered a pre-tax profit of € 22.3 million, which includes a contribution of € 34.0 million from the Aurubis investment. This was offset by the compounding effect from the convertible bond.

Results by Division and Consolidated Net Income for the Year

In € m	FY 2010	FY 2009
Steel	–100.6	–373.5
Trading	71.4	–128.0
Tubes	59.9	104.0
Services	26.2	8.2
Technology	–30.3	–210.4
Other/Consolidation	22.3	103.3
Earnings before tax	**48.9**	**–496.5**
Tax	18.9	–109.6
Consolidated net income[1)]	**30.0**	**–386.9**

[1)] Including minority interests

Development of Selected Income Statement Items

Explanations on the consolidated income statement, disclosed in detail in the “Notes to the Consolidated Financial Statements”, starting on page 164, are as follows:

The higher amount disclosed under the “Increase/decrease in goods and work in process/other own work capitalized” item was primarily attributable to the sharp rise in the reporting date-related level of the Steel and Tubes divisions’ product inventories. The development of other operating income is the outcome of the valuation of derivatives, among other factors. Moreover, the significantly lower liquidation level of provisions and income from the disposal of assets were the reason behind the decline in other operating income. The rise in material expenses reflects higher capacity utilization and the climbing prices of raw materials, semi-finished goods and steel products purchased externally. Income from associated companies includes the very pleasing after-tax profit contribution of Aurubis AG (NAAG).

Adjusted for € 18.9 million in tax expenses, consolidated profit comes to € 30.0 million.

Multi-year Overview of Earnings

	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
EBT	48.9	–496.5	1,003.4	1,313.9	1,854.8	940.9	322.8	42.5	72.5	160.3
EBIT I[1]	102.9	–468.1	1,072.1	1,350.7	1,900.5	970.0	345.6	60.8	92.6	178.8
EBIT II[2]	159.8	–411.3	1,026.9	1,312.4	1,891.6	1,017.4	411.1	132.2	168.1	247.4
EBITDA I[1]	482.7	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]	539.7	156.9	1,317.2	1,543.1	2,092.9	1,233.5	732.1	380.9	390.0	457.8
EBT margin	0.6	–6.4	8.0	12.9	22.0	13.2	5.4	0.9	1.5	3.5
EBIT margin I[1]	1.2	–6.0	8.6	13.3	22.5	13.6	5.8	1.3	2.0	3.9
EBIT margin II[2]	1.9	–5.3	8.2	12.9	22.4	14.2	6.9	2.7	3.6	5.4
EBITDA margin I[1]	5.8	1.3	10.9	15.5	24.9	16.6	11.2	6.4	6.6	8.5
EBITDA margin II[2]	6.5	2.0	10.5	15.1	24.8	17.3	12.3	7.9	8.2	10.0
ROCE %	2.2	–10.5	21.9	28.0	47.8	38.9	24.4	4.6	7.3	13.6
ROCE % from industrial operations[3]	2.7	–17.3	26.9	46.9	55.1	49.4	–	–	–	–

[1] Excluding interest expenses for pension provisions
[2] Including net interest
[3] Adjusted for the net cash position and interest income thereon

Value Added in the Salzgitter Group

The operational value added of the Group amounted to € 1,592 million in 2010 and was therefore 53.1 % higher than a year ago. Of this amount, the part attributable to the employees remained virtually unchanged at € 1,509 million. The public sector received 1.2 % in the form of taxes and levies (2009: –10.5 %). Lenders accounted for a portion of 2.0 % which was marginally lower than the year-earlier figure (2.3 %); there was, however, an increase in absolute terms. The shareholders (including treasury shares) will receive 1.2 % of value added in the form of dividend for this financial year (2009: 1.5 %). As opposed to the years from 2004 to 2008, when a total of € 3.7 billion from the value added remained within the Group, the difficult course of business and impairments eroded € 376 million in 2009. In 2010, the improved situation allowed € 13 million to be kept within the Group and raise its value.

Value Added

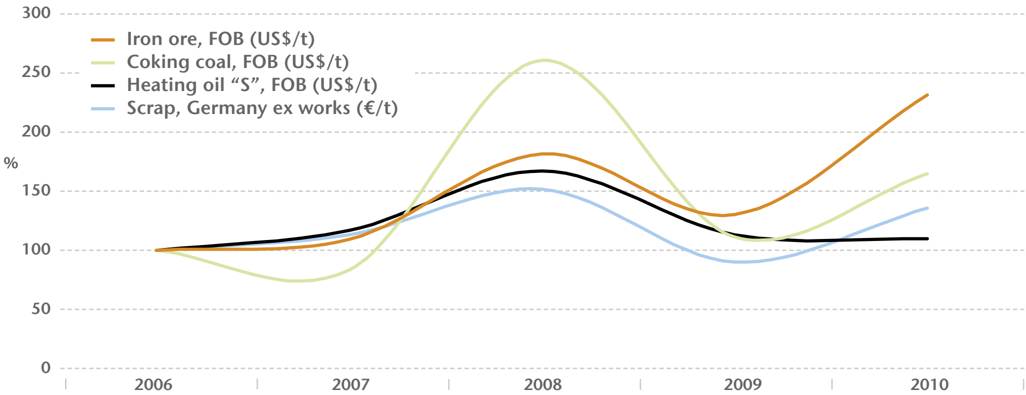
	31/12/2010		31/12/2009	
	in € m	%	in € m	%
Sources				
Group outputs	8,897	100.0	8,069	100.0
Inputs	7,305	82.1	7,029	87.1
Value added	**1,592**	**17.9**	**1,040**	**12.9**
Allocation				
Employees	1,509	94.8	1,487	143.0
Public sector	19	1.2	–110	–10.5
Shareholders (dividend)	19	1.2	15	1.5
Lenders	32	2.0	24	2.3
Group	13	0.8	–376	–36.2
Value added	**1,592**	**100.0**	**1,040**	**100.0**

2. Procurement and Distribution Structures

Procurement

In 2010, the world economy recovered steadily from the impact of the global financial and economic crisis. The international procurement markets were greatly influenced by Asia's dynamic developments, with China in particular playing the role of key driver again. Chinese output of crude steel scaled new heights and drove up the prices of raw materials all over the world.

Price Development of Selected Raw Materials and Energy Sources



Iron ore contracts undergo a paradigm shift

The new pricing system, which was established on a quarterly basis and replaced the traditional annual benchmark round of contractual negotiations, exerted a profound influence on the global iron ore market. Since the expiration of the annual contracts at the end of March 2010, iron ore has been priced mainly on the basis of Chinese spot market prices. Only one European pellet producer has concluded price agreements on an annual basis with some of its major customers. Strong demand for iron ore from Asia caused spot market prices to spiral upwards to an unprecedented high in mid-April (USD 186 per dry metric ton [dmt] CFR China). Following a correction phase in the summer, prices stabilized at a level of around 160 USD/dmt over the course of the year. The quarterly prices derived from this benchmark for the Carajas fine ore reference grade averaged around 135.48 USD/dmt FOB Brazil over the last nine months of 2010 and were therefore 103 % above the previous year's benchmark of 66.63 USD/dmt FOB Brazil. In 2011, further increases are anticipated in comparison with the average prices recorded for the second through to the fourth quarter of 2010.

Price hikes and switchover to new price fixing method determine the coking coal market

The huge demand for coking coal, fueled by the massive interest of Chinese steelworks in buying at the start of the year, drove spot market prices up sharply in the first quarter, causing availability shortfalls. This market trend determined pricing in the second quarter: Similar to the iron ore market, contractual prices have since been ascertained on a quarterly basis and no longer fixed for a twelve-month period. In comparison to the prices of 128 USD/t FOB Australia for the Goonyella reference grade fixed for contracts the year before, prices determined in the second through to the fourth quarter of 2010 rose to an average 210 USD/t FOB Australia (+64 %). The new quarterly contract terms do not change the method of benchmark price fixing for coking coal. This benchmark price is agreed by way of a pilot round of contractual negotiations between the Australian suppliers and the Asian steel industry instead of being derived from price averages quoted daily on the spot market. The rainfall in the eastern part of Australia since December has caused the worst flooding for 50 years in Queensland and considerable damage to the coal industry and the infrastructure. This development has driven coking coal prices on the spot market to a level of more than 300 USD/t FOB and will be a key factor in determining prices in 2011.

Sea freight rates very disparate

The international sea freight market experienced extreme volatility in 2010. Following a phase when demand dominated the market at the end of 2009 and prices quoted around 20 USD/t for the Tubarão–Rotterdam reference rate, this reference rate began the new year at 15 USD/t. Having declined in the first months of the year, rates climbed again in May to just under 18 USD/t, only to fall to their lowest point to date of 10 USD/t a short while after in July. Late summer saw a global recovery in rates on the largest trading route which was followed, however, by another trend reversal in the fourth quarter. New shipping capacities flooding the market are likely to exert due pressure on freight rates in 2011.

Price fluctuations in metals and ferro-alloys

The situation on the international metal and alloy markets varied greatly over the course of 2010. Whereas, in the first six months of 2010, the prices of bulk and quality alloys climbed sharply, bolstered by the improved economic environment and the huge increase in global demand for raw materials, they were extremely volatile in the second half of the year.

Materials listed on the stock exchange, such as zinc, nickel, aluminum and copper, declined substantially in the first half of 2010 only to rise again swiftly in the second half of the year.

Stable prices for liquid reduction agents

The prices of liquid reduction agents (heavy heating oil and substitute reduction agents) used in blast furnaces remained at a very consistent level in 2010, fluctuating only within a relatively narrow band. Prices quoted were above the level of the previous year, but still way below those of 2008. The end of the year saw crude oil prices climb, driven mainly by speculation. The effect on procurement prices in euros was, however, limited due to a renewed downturn in the USD exchange rate.

Steel scrap prices very volatile

Higher steel production at the beginning of the year 2010 automatically triggered a sharp increase in scrap prices until a decline in order volumes from consumers abroad caused prices to fall again through to July. A renewed phase of price increases in September was then followed by another downturn in October which was mainly attributable to the poor market conditions for manufacturers of structural steel. Another surge in demand by Turkish steelworks and European steel producers replenishing their inventories caused a price trend reversal. This situation was exacerbated by the traditionally more hesitant propensity of steel trading to sell merchandise at the end of the year. As a result, prices climbed again through to the end of the year, with old scrap grades soaring by 60 €/t and new scrap grades advancing by 40 €/t.

Electricity costs remain unchanged

The supply of electricity within the Group is determined by the aspiration of securing full coverage, while taking fluctuations in the Group's own generation of electricity into account. The options of structured procurement are used to cater for differing requirements. The average price of electricity for the associated mills of Salzgitter Flachstahl GmbH/Peiner Träger GmbH (SZFG/PTG) (energy plus charges imposed by the German Renewable Energies Act [EEG] and the Combined Heat and Energy Act [KWKG] and grid utilization) fell slightly as against the 2009 annual average. Here, the development of the individual components making up the electricity price varied greatly: The pure energy price rose marginally, the regular EEG surcharge rose swiftly in contrast to the actual charge levied under the EEG, which fell. This was due to the significantly higher proportion of hardship cases eligible for relief under the EEG resulting from the sum total of SZFG's lower consumption (hardship clause not applicable) and the concurrently higher level of PTG's consumption (hardship clause applies). Whereas charges under the Combined Heat and Energy Act remained unchanged, there was a decline in grid usage costs. In comparison to 2010, the price of electricity in 2011 is expected to increase in the mid-single-digit percentage range.

Slight decrease in the cost of natural gas

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. The relevant heating oil prices remained unchanged as against 2009. The average price of natural gas purchased for the SZFG/PTG interlinked plants nonetheless fell by 4.5 % thanks to securing a fixed volume at a lower price. A fixed price was also negotiated for part of the volume in 2011.

Prices for operating supplies on the rise

Following the crisis year of 2009, the market for operating supplies across the whole range of procured materials has recovered since the start of 2010. Manufacturers have been attempting to implement higher prices in the market since the year began. Many producers partly idled or even scaled back their production facilities in 2009. Relatively healthy demand, which climbed by leaps and bounds in 2010, was not always covered as and when it arose which caused significant delays in the delivery of many products.

In line with changing market conditions, the procurement strategy has been adjusted in many cases since the start of the year to annual price agreements instead of prices fixed on a short-term basis.

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

Not all the companies of the Salzgitter Group maintain their own metallurgy operations, which means that they are dependent on externally sourcing continuously casted 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 the volume that 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 upbeat development in the entire steel market in the first months of the year also influenced slab requirements. Demand and prices recovered quickly and peaked in the early months of the year, almost matching pre-crisis levels. The highest prices were recorded in eastern Asia in April, followed by the regions of the Black Sea and Latin America four weeks later. Demand had already slipped by the end of the second quarter, accompanied by a downtrend in prices. Over the course of the second half-year, however, the market stabilized again at an average level. A notable recovery in demand, coupled with a decline in supply which triggered significant price hikes, characterized business at the end of the year.

As a result of a strategic change in the procurement of input material initiated in 2010, two key options are open to the companies of the Tubes Division: The delivery volume of Hüttenwerke Krupp Mannesmann GmbH (HKM) earmarked for Salzgitter Mannesmann GmbH (SMG) is used to supply Salzgitter Mannesmann Grobblech GmbH (MGB) with slabs for its plate production for the manufacturing of longitudinally seam-welded large-diameter tubes and to provide the precision tube companies with tube rounds for the production of seamless precision tubes. The tube companies' requirements for hot-rolled strip are mainly covered by the Group's own hot strip mill belonging to SZFG.

Higher production levels also resulted in an increase in the Technology Division's procurement volume in comparison with the previous year. Raw materials purchase prices were still trending sideways at the beginning of 2010. From the second quarter onwards, prices began to soar again, especially for stainless steel materials. Supplier capacity utilization also rose gradually over the course of the year. Phases of delivery bottlenecks were counteracted by optimizing ordering activity.

A key concern of all the companies of the Klöckner Group was to focus on tapping procurement savings potential. These efforts involved reviewing processes again on the one hand, and concentrating on procurement conditions and the possibilities offered by the international procurement market on the other. The KHS Group in particular stepped up its activities to improve purchasing prices through intensifying global procurement sources such as those in Eastern Europe and China (global sourcing).

Distribution 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 businesses and needs of the individual customers. In the financial year ended, adjusting price fixing terms on the procurement side entailed considerable changes in the way in which Salzgitter Group's supplier relationships are set up and structured. The various forms are differentiated as follows:

Monthly and quarterly contracts

A major part of the Steel Division's delivery volumes is sold to customers by way of quarter-year contracts. Both the base prices as well as dimension- and grade-related markups are generally announced every quarter by the respective rolled steel manufacturers, negotiated with customers and then implemented through the relevant order bookings. The Salzgitter Group produces finished materials virtually exclusively on the basis of orders. The proportion of quarterly contracts in the total delivery volume of the Steel Division rose notably in 2010, with prices partly even being adjusted on a monthly basis.

Longer-term contracts

SZFG generates part of its sales through contracts by which prices are fixed in regular negotiations for a period of time exceeding one quarter. Customer groups typical of this type of supplier relationship include the automotive industry and its suppliers, specialized manufacturers of cold rolled strip and steel service centers. The aforementioned curtailment of contractual terms (duration) relating to raw materials procurement necessitated the adjustment of shipment volumes subject to longer-term contracts in respect of both volumes and terms. For this reason, no further annual contracts have yet been concluded on the basis of fixed prices in renegotiations on delivery agreements, and an excellent balance between procurement and shipment contracts has been achieved, taking as full account as possible of customer wishes. Ilsenburger Grobblech GmbH (ILG) sold up to a quarter of its output through supplier agreements based on prices agreed over longer terms to wind tower manufacturers, plant engineering companies and shipyards. The company also began to pare down volumes committed under such terms in the financial year 2010. PTG has always sold only small tonnages under contracts with longer durations. The precision tube companies belonging to the Steel Division were originally committed to longer-term price agreements for a large share of their deliveries, as the automotive industry and its suppliers are a key customer sector. Over the course of the financial year ended, the proportion of such contracts has been significantly reduced. Furthermore, various index-based pricing mechanisms were implemented.

Spot market transactions

A spot market is defined as a market in which a business transaction consisting of delivery, acceptance and payment of a defined volume of products is settled directly. The Trading Division transacts most of its shipments through such short-term supply agreements, whereby this type of relationship with key customers in Germany and abroad may well be of a long-standing nature and fostered over many years. Medium and smaller steel traders which operate independently, steel construction companies, as well as mechanical and plant engineering companies are typical customer sectors here.

Project deliveries

The Tubes Division supplies its customers mainly via project contracts. Alongside international pipeline projects, deliveries for newly constructed power plants and chemical plants are also taken under this type of contract. The same applies to the products of the Steel Division, first and foremost to sheet piling and trapezoidal profiles which are used in major civil engineering undertakings. The Trading Division 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. Agreements on amendments and price adjustment clauses will play an increasingly important role here in the future. The products of the Technology Division are manufactured solely upon request by customers or produced in small batch series, which also come 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.

The benefits of the Salzgitter Group's very well-balanced and diversified mix of customer relationships, which remained virtually unchanged in the financial year 2010, are twofold: On the one hand, the Group is able to use advantages in the market at short notice and, on the other, it has greater visibility with regard to the scope of orders in a number of segments. Customers belong to a wide variety of sectors where economic cycles do not move in parallel or even partly run counter to one another. All in all, 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 of Steel, Trading, Tubes, Services and Technology. In the following, the business performance of these divisions in the financial year 2010 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 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 Annual Financial Statements starting on page 164.

Steel Division

Key data		FY 2010	FY 2009
Order intake	**kt**	**5,017**	**4,190**
Order book[1]	**kt**	**1,155**	**1,082**
Shipments	**kt**	**4,928**	**3,873**
SZFG[2]	kt	3,046	2,260
PTG	kt	947	778
ILG	kt	730	662
HSP	kt	111	99
SZBE	kt	37	31
SZEP	kt	72	46
Consolidation	kt	–14	–1
Division sales[3]	**€ m**	**3,173.6**	**2,436.0**
SZFG	€ m	2,509.9	1,812.9
PTG	€ m	526.8	402.0
ILG	€ m	534.7	534.1
HSP	€ m	87.6	81.8
SZBE	€ m	42.5	34.0
SZEP	€ m	69.3	45.6
Consolidation	€ m	–597.2	–474.5
Internal sales	**€ m**	**905.0**	**762.4**
External sales[4]	**€ m**	**2,268.6**	**1,673.6**
Division earnings before tax (EBT)	**€ m**	**–100.6**	**–373.5**
SZS	€ m	–2.8	–3.6
SZFG	€ m	127.8	–137.3
PTG	€ m	–173.6	–250.4
ILG	€ m	–26.6	36.1
HSP	€ m	–26.0	–20.7
SZBE	€ m	2.2	0.4
SZEP	€ m	3.9	1.9
Other/Consolidation	€ m	–5.6	–
EBITDA[5]	**€ m**	**262.4**	**–4.6**
EBIT[5]	**€ m**	**–12.6**	**–312.5**
Investments[6]	**€ m**	**410**	**541**

[1] Definition changed as per 01/01/2010 (disclosure incl. finished goods SZFG); adjusted with retrospective effect
[2] SZFG excluding inter-company deliveries in the Steel Division
[3] Including sales with other divisions in the Group
[4] Contribution to consolidated external sales
[5] Definition changed as per 01/01/2010; adjusted with retrospective effect
[6] Excluding financial assets

The Steel Division comprises six production sites and an intermediate holding company. The production sites in Salzgitter, Peine, Ilsenburg and Dortmund are equipped with cutting-edge plant and equipment technology that is optimized on an ongoing basis to ensure their efficiency and the quality of their products. More information on the structure and competences of the division can be found in the section on “Group Structure and Operations”, see page 30 onwards. The companies assigned to this division are listed in the Notes to the Consolidated Financial Statements, starting on page 176, and have remained unchanged from the previous year.

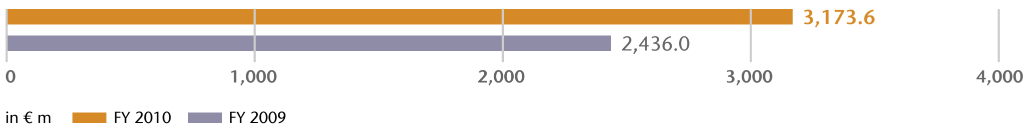
The product range includes the following in particular:
- rolled steel in the form of coils (rolled strip), also known as hot-rolled coil (HRC) or cold-rolled coil (CRC),
- longitudinally slit HRC,
- cut-to-length plate manufactured from HRC,
- surface-coated HRC and CRC (galvanized, organically coated),
- 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 by modernizing their production facilities with a targeted emphasis on product qualification and quality enhancement. Salzgitter Flachstahl GmbH (SZFG) is focused on surface-coated products such as Stroncoat®, which was developed jointly with Salzgitter Mannesmann Forschung GmbH (SZMF) and in cooperation with Corus (now: Tata Steel Europe). This innovative zinc-magnesium hot-dip coating provides better protection against corrosion than customary hot-dip zinc coating. Ilsenburger Grobblech GmbH (ILG) supplemented its delivery program in the segment of pressure vessel plates and offshore grades thanks to the use of up to 350 mm thick slabs as feed material from SZFG’s new continuous casting line. Peiner Träger GmbH (PTG) has the technical prerequisites in place for the production of special sections through the conversion of medium section mill. In addition, Peine also manufactures slabs, alongside blooms and beam blanks, earmarked for the supply of sheet piling production in Dortmund. HSP Hoesch Spundwand und Profil GmbH (HSP) is preparing to manufacture Z piles and discontinuing the production of hot-rolled bulb flats.

Capacity utilization in the global – and particularly in the German – steel industry recovered more swiftly in 2010 than originally thought (see the section on “General Business Conditions” starting on page 82). The development of the Steel Division’s business reflected this upturn accordingly although the situation varied greatly depending on the product group. Capacity utilization in the flat steel and plate product segments reattained satisfactory capacity utilization levels and, since mid-year, a positive trend in selling prices in comparison with a year ago. In contrast, the extremely hesitant recovery in the construction and civil engineering sector was insufficient to provide stimulus for the sections and sheet piling segment.

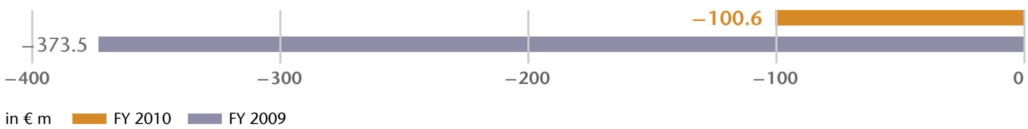
Consolidated **order intake**, which posted 5,017 ktons, was 20 % higher than in the previous reporting year. The **order book** had improved to 1,155 ktons by the end of the year (+7 %). In response to the greater number of orders placed, the division significantly ramped up its **crude steel production**. The steel mills in Salzgitter and Peine produced 5,201 ktons of crude steel in the financial year 2010, which is a quarter more than a year ago. Groupwide, a total of 6,755 ktons of crude steel were smelted, a figure which also takes account of the pro-rata production (1,554 ktons) of the Hüttenwerke Krupp Mannesmann (HKM) joint venture. HKM is assigned to the Tubes Division, which is why the figures on crude steel of the Group and the Steel Division deviate. The **production of rolled steel** by the Steel Division came to 4,895 ktons, up from 3,820 ktons in 2009, which is an increase of 28 %.

Sales



The Steel Division's **segment sales** (€ 3,173.6 million) and **external sales** (€ 2,268.6 million) were appreciably higher owing to greater **shipment tonnage**, accompanied by an increase in selling prices.

EBT



The higher selling prices commanded did, however, not fully compensate for the hikes in the price of ores, coal and scrap. Despite persistently low capacity utilization in the sections and sheet piling segment, the **pre-tax result** (€ – 100.6 million) improved notably against the year-earlier figure. Excluding € 80 million in impairment in the sections product segment and other non-recurrent effects, the Steel Division delivered a relatively small loss. The accounting-related measures already implemented will ease the burden on future periods.

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

		FY 2010	FY 2009	FY 2008	FY 2007	FY 2006
Pig iron (SZFG)	kt	4,020	3,149	3,985	4,220	4,277
Crude steel	kt	5,201	4,073	5,340	5,663	5,693
of which SZFG	kt	4,322	3,369	4,319	4,562	4,645
of which PTG	kt	878	704	1,021	1,101	1,047
SZFG						
hot rolling mill: hot-rolled coil (HRC)	kt	3,228	2,393	3,153	3,296	3,195
cold rolling mill: cold-rolled coil (CRC)	kt	1,590	1,248	1,512	1,525	1,432
galvanizing plants: galvanized HRC/CRC	kt	1,232	1,001	1,219	1,248	1,332
strip coating plants: coated HRC/CRC	kt	191	195	218	228	249
PTG: sections/beams	kt	931	796	1,188	1,306	1,262
of which heavy beam-making mill: large sections	kt	381	371	527	556	521
of which medium section mill: other sections	kt	550	426	660	750	740
ILG: plate	kt	739	658	816	822	780
HSP: sheet piling, mine support sections, hot-rolled bulb flats	kt	109	94	259	295	264
SZBE: profiled sheet and sandwich elements	m^2 m	3.2	2.6	4.3	4.2	4.1
SZEP: tailored blanks, patchwork panels and stamped blanks	kt	72	45	52	59	65

[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").

The swift recovery starting back in mid-2009 in the European **flat steel market** held steady in the period under review. The positive development in the automotive and mechanical engineering industries was the predominantly determinant factor for the overall trend. Stockpiling and upfront buying at the beginning and end of the year in anticipation of the rising prices induced by raw material costs triggered additional demand. Flat steel market prices initially recorded a steady uptrend over the course of the year that came to a halt in late summer and then closed the final quarter of the year 2010 in a downtrend.

Against the backdrop of these general conditions, **new orders** for the warm and cold flat products of **Salzgitter Flachstahl GmbH** (SZFG) were almost 25 % higher than in the previous year. **Orders in hand** were also above the tonnage recorded a year ago, which underscores the sustainability of the recovery. As proof of the good capacity utilization situation, both larger blast furnaces have been running at their capacity limits since the fall of 2009, and the smaller blast furnace was taken into operation again in mid-July 2010. Accordingly, the production of **crude** (4,322 ktons) and **rolled steel** (3,115 ktons) was raised by around a third in comparison with the previous year's volume. **Shipments**, which posted 4,095 ktons, also recorded a notable increase and had approached the figures of 2007 and 2008 by the end of the year. Average net selling prices were moderately higher than in the previous year which partly included contracts signed during the boom. The steady increase in sales over the course of the quarters is therefore primarily due to the exceptional recovery in shipment tonnage. Including earnings generated through by-products, **sales** came to € 2,509.9 million. The marked improvement in capacity utilization as against 2009 was the driving force behind the successful return to the profit zone, bringing **pre-tax profit** to € 127.8 million.

After a modest start, the **heavy plate market** enjoyed a massive upturn at the beginning of the second quarter in terms of volume, which was primarily driven by steel traders' purchasing activities, prompted by more upbeat expectations of the economy and, on the price front, by the sharp increase in raw material prices. The advent of the European summer vacation put an end to this uptrend, again attributable to the steel trade which attempted to secure shipments in phases of weak demand and normal inventory levels on the basis of lower prices. Following the summer break, stable demand on the part of consumers, for instance in machine, boiler and container construction, triggered a slight improvement in selling prices. In contrast, many mills processing basic grades in mid-range thicknesses were not running at full capacity and sought to gain business by lowering their prices.

The end consumer and project business of **Ilsenburger Grobblech GmbH** (ILG) ran an increasingly steady course as the year progressed. The more sophisticated product ranges were much more in demand than commodity steel. In the upper thickness range, the "Thick Plate" sub-project, which became operational at mid-year as part of the "SZS 2012" investment program, opened up interesting prospects. Both **order intake** and **orders in hand** made a significant recovery against levels posted a year ago. The increase in the order volume boosted the **production of rolled steel** to 739 ktons. **Shipment volumes** of 730 ktons also exceeded the weak year-earlier figure, impacted by short-time work, by more than a month's output. **Sales** settled at the previous year's level. The drastic hikes in the price of raw materials from the second quarter onwards and weak selling prices recorded in the first half of the year caused average gross earnings to fall, leading to a negative **result** (€ –26.6 million) despite significant cost reductions.

Due to the continued recession in the construction industry, the **European sections market** proved to be very volatile in 2010 as regards market prices and shipment volumes. Developments throughout the year, particularly at year-end, were characterized by ordering patterns subject to extreme short-termism and influenced by speculation. As, after the first six months, demand was showing no signs of notable improvement, steel traders closed any inventory gaps at the start of the third quarter in anticipation of rising prices. September order intake was nonetheless already reflecting the low level of real demand. The downtrend expected for scrap prices prompted southern European manufacturers in particular to offer discounts in an attempt to ease customer out of their reticence. A renewed uptrend in scrap and producer prices finally ensured another trend reversal in the order flow at the turn of the year.

All in all, the year 2010 was a difficult one for **Peiner Träger GmbH** (PTG). Along with sharp fluctuations in input costs and the speculative behavior of stockholding steel traders, the failure of commercial construction to stage a recovery were the main reasons. The company was nonetheless successful in outperforming the weak figures recorded in the financial year 2009: **Order intake** and **orders in hand** settled at around 10 % above the year-earlier tonnage. **Crude steel output** (878 ktons), which was greatly impacted in 2009 by short-time work due to the lack of orders and high input material inventories, climbed by around a quarter. The **production** (931 ktons) and **shipment** (947 ktons) of **rolled steel** were significantly higher than the previous year's figures, albeit still 20% below the average posted over the period from 2001 to 2008. **Sales** rose by a third to € 526.8 million, primarily due to the volume of shipments. As the huge increase in scrap costs was not compensated by a moderate improvement in selling prices there was a notable contraction in margins. In contrast, the growth in volume and first cost reductions from the implementation of the PTG structural program served to cushion the erosive effect on profit. Despite € 80.0 million in impairment write-downs and restructuring expenses burdening the result, the company recorded a **pre-tax loss** of € 173.6 million, which is an improvement on the result posted in 2009.

The PTG structural program forms the core of a concept for action aimed at reducing costs. The pillars of this concept lie in enhancing productivity, reducing products and services outsourced and maintenance costs, raising the product profitability, improving output in all areas and lowering energy consumption. These measures will gradually take their full effect in the near term.

Given its strong dependency on infrastructure projects financed by the public sector, the budget restrictions on the cards since the fourth quarter of 2008 triggered a massive plunge in demand in the sheet piling market. This slump meant that the capacity of production facilities of **HSP Hoesch Spundwand und Profil GmbH** (HSP) was only partly utilized in 2010. As in the previous year, the company responded by making more extensive use of the tool of short-time work. The low level of **orders in hand** as per December 31, 2010, put a strain on production management. In comparison to the year-earlier period, the level of **shipment tonnage** (111 ktons) was raised only marginally. Selling prices, however, fell in the face of fierce competition, permitting an only moderate **increase in sales** to € 87.6 million. The **pre-tax loss** recorded for the financial year ended stood at € 26.0 million.

The German automotive industry as one of the most important customers of **Salzgitter Europlatinen GmbH** (SZEP) emerged more swiftly from the crisis than expected. Capacity utilization was again running at a high level. Against this backdrop, SZEP lifted its **order intake**. **Sales** climbed to € 69.3 million thanks to **shipments** which advanced by 50%, thus reattaining the level of 2008. Additional cost cutting measures, such as raising the degree of automation, enabled the company to generate a pleasing **pre-tax profit** of € 3.9 million.

Boosted by investment activity which recovered from a low level, **new orders** and **orders in hand** of **Salzgitter Bauelemente GmbH** (SZBE) were appreciably higher than the previous year's figures. On the back of an improved order situation, the **shipment volumes** of roof and cladding components in industrial construction climbed around 19% in a year-on-year comparison. In conjunction with slightly higher selling prices, **sales** recovered and posted growth of around 25% (€ 42.5 million). Given these framework conditions, there was a notable improvement in **pre-tax profit** which came to € 2.2 million.

Trading Division

Key data		FY 2010	FY 2009
Shipments	**kt**	**4,244**	**4,322**
SMHD Group	kt	3,844	3,968
UES	kt	146	159
HLG	kt	267	211
Consolidation	kt	–14	–15
Division sales[1]	**€ m**	**3,108.7**	**3,127.6**
SMHD Group	€ m	2,797.1	2,840.9
UES	€ m	153.1	177.3
HLG	€ m	170.0	120.8
Consolidation	€ m	–11.5	–11.3
Internal sales	**€ m**	**150.5**	**89.0**
External sales[2]	**€ m**	**2,958.2**	**3,038.7**
Division earnings before tax (EBT)	**€ m**	**71.4**	**–128.0**
SMHD Group	€ m	62.9	–66.9
UES	€ m	7.0	–29.7
HLG	€ m	1.6	–31.5
EBITDA[3]	**€ m**	**91.1**	**–90.1**
EBIT[3]	**€ m**	**80.3**	**–109.1**
Inventories	€ m	266	299

[1] Including sales with other divisions in the Group
[2] Contribution to consolidated external sales
[3] Definition changed as per 01/01/2010; adjusted with retrospective effect

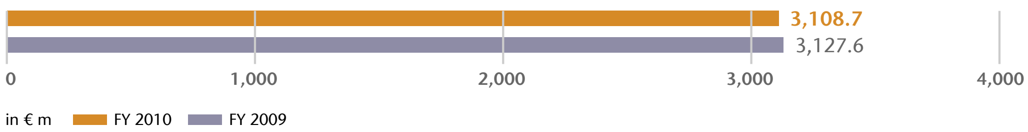
Alongside a well-developed organization of stockholding steel trading subsidiaries in Europe, the Trading Division comprises two steel service center (SSC) companies, one specialized in flat steel products and one in plate, and operates a globalized international trading network. Apart from the rolled steel and tubes products of the Salzgitter Group, it also sells the products of other manufacturers in Germany and abroad and procures semi-finished products for the Group and external customers in the international markets. More information can be found in the section on “Group Structure and Operations” starting on page 30. The individual consolidated companies are listed in the Notes, see page 176.

Given that the process of streamlining inventories was virtually completed in almost all industries in 2010, export activities, which picked up momentum in the spring, led to a recovery in demand by the most important steel processing sectors. After a few initial weather-induced hitches, the construction sector also benefited from a slight recovery in the second quarter. From the third quarter onwards, however, the underpinning influence of replenishing inventories and stimulus from economic programs gradually began to lose their effect, resulting in demand declining towards the end of the year.

The economic upswing was greatly beneficial to European steel trading in particular, as opposed to international trading which continued to suffer from the impact of the economic crisis. Following an initial rise in spot market selling prices, the end of the second quarter saw a slew of corrections and stagnation set in over the remainder of the year. Consequently, many customers held back on placing orders, speculating on prices falling again. Prices subsequently tumbled in the European stockholding steel trade when the year came to a close.

The economic development had the corresponding effect on the activities and the overall result of the Trading Division. The downturn in international trading was virtually fully compensated by a recovery in stockholding business, so that **shipments** of 4.2 million tons and **segment sales** totaling € 3,108.7 million almost reached the year-earlier levels. **External sales** posted € 2,958.2 million.

Sales



The increase in volume and the sharp widening of margins of the European stockholding trade in the second quarter enabled **pre-tax profit**, which came to an extremely gratifying € 71.4 million, to significantly outperform the previous year's figure (€ –128.0 million).

EBT

The **Salzgitter Mannesmann Handel Group** (SMHD Group) performed well throughout 2010 as a whole, especially at the start of the second quarter. Although shipment tonnage and sales fell slightly short of the year-earlier figures owing to the difficult environment in international trading, pre-tax profit was much higher than a year ago.

The development of the **European stockholding steel trade** varied widely: Whereas the German stockholding trade raised shipments in Western Europe, the situation in the market and the competition prevailing in the Netherlands caused shipment volumes and sales figures to fall. At the same time, companies in Eastern Europe expanded their business as against the previous year. Thanks to notable improvement in gross earnings, the result of significant windfall effects and an increase in price levels in the second quarter, profit generated over the reporting period was far above the average.

With economic, tax-related and legal considerations in mind, the Dutch companies Deltastaal B.V. (DSO) and Friesland Staal B.V (FSD) were combined with Salzgitter Mannesmann Handel B.V. (SHN) with effect from September 1, 2010. As part of the transaction, SHN as the absorbing company was renamed as Salzgitter Mannesmann Staalhandel B.V. (SMNL). The brand names of "Deltastaal" and "Friesland Staal" will continue to be used externally for image purposes.

International trading benefited from the brisker activities in the South American market, deliveries to the Middle East, as well as consistently good business in Africa. In contrast, project bookings which remained moderate and ailing demand in North America had a dampening effect so that, overall, downturns were sustained in both shipments and sales. The pre-tax result was, however, above the year-earlier level due to healthier margins.

At the start of 2010, the plate market initially recovered only slowly as against the difficult situation in 2009. Manufacturers nonetheless raised their selling prices gradually as from the spring to take account of raw materials pricehikes; **Universal Eisen und Stahl GmbH** (UES) was, however, only partially successful in passing these price increases on to consumers. The still relatively slack business of customers meant that they only procured the material they needed at short notice, with the result that margins failed to recover in the long term. Selling prices were further eroded in the autumn months, causing shipments and sales to fall short of figures recorded in 2009. In conjunction with higher earnings of subsidiaries, however, the division delivered a pre-tax profit again.

Business of the steel service center **Hövelmann & Lueg GmbH** (HLG) developed well over the course of the year. Stepping up sales activities lifted both shipments and sales in comparison with a year ago. The pre-tax result returned to the profit zone.

Tubes Division

Key data		FY 2010	FY 2009
Order intake	**€ m**	**2,090**	**1,146**
Order book	**€ m**	**955**	**761**
Shipments	**kt**	**1,169**	**1,171**
EP Group (50%)	kt	615	593
MGR	kt	45	113
MLP	kt	220	236
SMP Group incl. MSE	kt	270	201
MST Group	kt	19	29
Consolidation	Tt	–1	–
Division sales[1]	**€ m**	**2,001.1**	**2,428.4**
EP Group (50%)	€ m	672.3	812.3
MGB	€ m	561.9	697.3
MGR	€ m	51.3	145.3
MLP	€ m	228.0	310.5
SMP Group incl. MSE	€ m	459.1	357.1
MST Group	€ m	228.1	354.0
Consolidation	€ m	–199.6	–248.2
Internal sales	**€ m**	**265.0**	**383.7**
External sales[2]	**€ m**	**1,736.1**	**2,044.6**
Division earnings before tax (EBT)	**€ m**	**59.9**	**104.0**
EP Group (50%)	€ m	51.9	56.9
MGB	€ m	37.3	106.1
MGR	€ m	–3.6	18.1
MLP	€ m	–10.9	13.8
SMP Group incl. MSE	€ m	–14.9	–106.1
MST Group	€ m	8.1	26.5
Consolidation	€ m	–8.0	–11.4
EBITDA[3]	**€ m**	**115.4**	**215.9**
EBIT[3]	**€ m**	**72.5**	**121.2**

[1] Including sales with other divisions in the Group
[2] Contribution to consolidated external sales
[3] Definition changed as per 01/01/2010; adjusted with retrospective effect

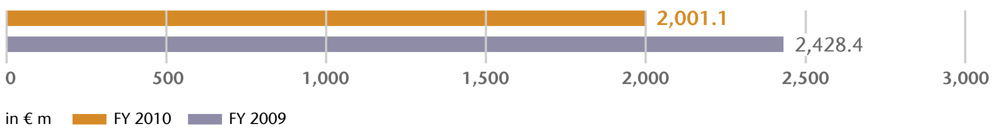
The Tubes Division has a large number of subsidiaries and associated companies which manufacture and process welded and seamless steel tubes on four continents. The product portfolio comprises mainly pipelines of all diameters, ranging from gas pipelines through to injection tubes for diesel engines, stainless oil field and boiler tubes, precision tubes and cold-finished tubes for the automotive and machine building industries, as well as construction tubes in a variety of profiles. More information can be found in the section on "Group Structure and Operations" from page 30 onwards. The individual companies are listed in the Notes to the Consolidated Financial Statements, starting on page 176.

During the year 2010, the Tubes Division suffered from the partly drastic increases in the price of raw materials needed for steel production (particularly ore and coking coal). As a result, margins mainly for orders booked in the previous year at fixed prices contracted notably. Only in the second half of the year were the companies increasingly successful in pricing these higher costs into new order bookings. Projects which were cancelled or delayed, predominantly in the segment of spirally-welded large-diameter tubes and HFI-welded tubes, caused a temporary lack of orders and idle capacity which were counteracted by introducing short-time work.

In 2010, the **order intake** of the division almost doubled to € 2,090 million (+82%) in a year-on-year comparison, boosted above all by the successful acquisition of the major Nord Stream II and North European gas pipeline (NEL) contracts by EUROPIPE GmbH (EP). The other product segments also recorded increases. Consolidated **orders in hand** exceeded the figure posted on December 31, 2009, by a quarter, with precision tubes contributing in particular.

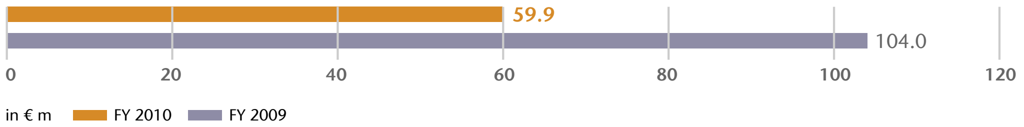
Tubes shipments, which came in at 1,169 ktons, matched the year-earlier level, the **segment sales**, which posted € 2,001.1 million, were 18% lower due to selling prices. The precision tubes segment recorded volume-induced growth as opposed to the other product segments, which sustained partly notable declines. **External sales** dropped to € 1,736.1 million (–15%).

Sales



The Tubes Division generated € 59.9 million in **pre-tax profit** which is lower in comparison with the previous year's figure, and was fully generated in the large-diameter pipes business. The overall result includes € 6.1 million from non-recurrent effects and expenses for streamlining measures.

EBT



Excluding the precision tubes segment, which was already affected by the ailing market back at the start of 2009, all other product segments disclosed declines in the double-digit million range.

The individual product segments reported the following developments:

Buoyed by a healthy order book, the **large-diameter pipes** product segment only came under pressure from the economic and financial crisis with a delay that ushered in a massive decline in the selling prices of booked orders. The awarding of the major Nord Stream II and NEL projects to the **EUROPIPE GmbH** (EP) joint-venture helped to almost double the order intake in the large-diameter tubes segment. Along with the processing of these two undertakings, EP's financial year 2010 was predominantly influenced by the booking of additional, higher margin orders from Russia.

The shipment volume of the **Europipe Group** was again slightly above the previous year's level. Due to unsatisfactory selling price level negotiated for major contracts, however, sales fell short of the 2009 figure. Also owing to the use of accounting-related precautionary measures from the previous year, the share in the pre-tax profit of € 51.9 million included in segment result was only marginally lower than the year-earlier figure.

Plate producer **Salzgitter Mannesmann Grobblech GmbH** (MGB) was unable to repeat the level of sales achieved in 2009. Pre-tax profit of € 37.3 million also failed to match the previous year's figure. This is mainly attributable to lower plate prices, above all with the key customer EP, and limited availability of input material, compounded by further price hikes.

The consequences of the economic crisis also only filtered through to impact **Salzgitter Mannesmann Großrohr GmbH** (MGR) in the financial year ended. Whereas, in the first half of the year, surplus orders from 2009 kept capacity utilization at an almost sufficient level, a two-month phase of short-time work became unavoidable in the summer. Weak capacity utilization was also the reason for the significant decline in shipments and sales in comparison with 2009 and caused the result before tax to deteriorate to € –3.6 million in a year-on-year comparison.

In view of the significant decline in orders in 2009, which came to almost 50 %, demand for the **HFI-welded tubes** of **Salzgitter Mannesmann Line Pipe GmbH** (MLP) was still not running at a satisfactory level in the financial year 2010. Although both order intake and orders in hand rose compared with a year ago, they did not reach the levels required to ensure normal capacity utilization in the mills. Through to the third quarter of 2010, the tubes business saw prices rise sharply owing to the soaring prices of raw materials. Selling prices nonetheless came under pressure again in the fall, hampered by generally weak demand in the standard and projects business and idling capacity of manufacturers. Against the background of these general conditions, shipment volumes and sales revenues were below figures posted in the previous year, which were still benefiting from the effects of surplus orders from 2008. Consequently, the company delivered a negative pre-tax result of € –10.9 million in 2010 despite ongoing measures to improve cost structures and liquidity.

As early as the end of the first quarter of the financial year, there were signs that the market for **precision tubes** was recovering. The upswing was bolstered not only by strong demand from the automotive industry but also increasingly by domestic and international mechanical engineering. New orders received by the **Salzgitter Mannesmann Precision Group** were twice as high as the 2009 figure; orders in hand therefore also rose significantly, putting an end to short-time work in all plants in April. From the second quarter onwards, strong demand in the domestic plants even necessitated extra shifts. The volume-induced increase in sales and the implementation of savings measures enabled the German companies to return to the profit zone. The resulting pre-tax result came to € –14.9 million, thereby posting a significant improvement as against the previous year, but nonetheless remained in the red given the burdens the French companies placed on the results due to restructuring and other extraordinary costs.

As regards orders placed for the **seamless stainless tubes** of the **Salzgitter Mannesmann Stainless Tubes Group**, there was still no sign of a sustained improvement and return to the pre-crisis figures, despite good additional bookings on occasion. Although incoming orders and orders in hand rose again, there was a significant shortfall in sales measured against the year-earlier figure. Shipments remained at their extremely low level as major projects acquired in the oil and gas segment are not to be carried out until 2011. Compared with the previous year which recorded an extremely good result, cushioned by a healthy order book and profitable orders still outstanding, the persistently difficult market conditions in 2010 and enormous pressure on margins, coupled with fierce competition, took their toll. Including extraordinary effects, such as reporting-date related revaluations of inventories and liquidation of provisions, pre-tax profits stood at € 8.1 million.

Services Division

Key data		FY 2010	FY 2009
Division sales[1]	**€ m**	**1,072.8**	**752.2**
DMU	€ m	623.3	336.1
SZST	€ m	130.9	124.2
VPS	€ m	105.8	92.6
TELCAT Group[2]	€ m	51.5	50.3
GES	€ m	44.0	42.4
HAN	€ m	38.5	32.0
SZAE/SZAI/SZAB	€ m	20.3	18.8
SZHF[3]	€ m	30.8	22.4
SZMF	€ m	35.0	33.4
GIG[4]	€ m	10.9	17.5
Consolidation	€ m	–18.2	–17.6
Internal sales	**€ m**	**659.7**	**449.3**
External sales[5]	**€ m**	**413.1**	**302.9**
Division earnings before tax (EBT)	**€ m**	**26.2**	**8.2**
DMU	€ m	4.6	–5.9
SZST	€ m	0.7	–4.2
VPS	€ m	2.5	–2.1
TELCAT Group[2]	€ m	2.5	2.9
GES	€ m	3.2	3.0
HAN	€ m	9.8	7.5
SZAE/SZAI/SZAB	€ m	–0.9	–3.4
SZHF[3]	€ m	2.6	2.5
SZMF	€ m	0.2	1.3
GIG[4]	€ m	1.4	7.1
Other/Consolidation	€ m	–0.4	–0.3
EBITDA[6]	**€ m**	**49.9**	**35.9**
EBIT[6]	**€ m**	**27.6**	**12.4**

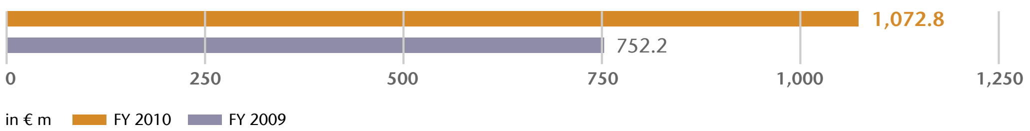
[1] Including sales with other divisions in the Group
[2] Excluding TBM
[3] First-time consolidation in 2009
[4] Formerly GWG
[5] Contribution to consolidated external sales
[6] Definition changed as per 01/01/2010; adjusted with retrospective effect

The range of services offered by the Services Division is mainly aligned to the requirements of the Group itself. Beyond this, services are also offered to external customers. The companies conceive and realize a wide range of attractive, competitive services, from the supply of raw materials and logistics across IT and personnel services and automotive products through to research and development. The individual companies of the division are listed in the Notes to the Consolidated Financial Statements from page 176 onwards. More information on the companies can be found under the “Group Structure and Operations” section, starting on page 30.

The activities of the division's companies depend greatly on the capacity utilization situation in the steel producing units. Buoyed by the improved economic environment and by the production activities of the steel companies, which have returned to normal levels, the Services Division recorded a notable recovery in 2010. In comparison with a year ago, **segment sales** advanced by 43 % to € 1,072.8 million, thereby exceeding the billion threshold once again.

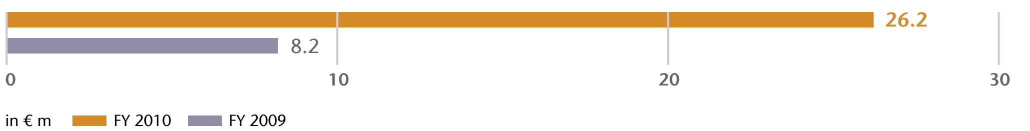
Growth was mainly attributable to the higher trading volume and improved steel scrap prices of **DEUMU Deutsche Erz- und Metallunion GmbH** (DMU). On the back of the increase in the production of crude steel, resulting in higher volumes of freight traffic, **Hansaport Hafenbetriebsgesellschaft mbH** (HAN) and **Verkehrsbetriebe Peine-Salzgitter GmbH** (VPS) also succeeded in raising their sales. **Salzgitter Hydroforming GmbH & Co. KG** (SZHF) recorded a notable increase thanks to a surge in demand from non-automotive customers as well. Over the course of the year, the market and competitive environment of **Salzgitter Automotive Engineering GmbH & Co. KG** (SZAE) eased somewhat, although later than anticipated. As a result, capacity utilization improved in the second half of the year as against levels posted a year ago, and sales were lifted accordingly. The **external sales** of the Services Division grew by 36 % to € 413.1 million.

Sales



The division generated a **pre-tax profit** of € 26.2 million which is a substantial increase in a year-on-year comparison. Stronger demand for scrap steel and healthy margins in user steel trading helped **DMU** to raise profits appreciably. Greater capacity utilization in the steel producing companies was also reflected in the positive results achieved by **SZST Salzgitter Service und Technik GmbH** (SZST) and **VPS**, as well as in the profit delivered by **HAN**. **SZAE** has not yet achieved a turnaround. **SZHF** made a gratifying contribution. The result of **Glückauf Immobilien GmbH** (GIG) returned to normal levels compared with the 2009 figure, which included income from the sale of residential real estate. With effect from July 2010, "Glückauf" Wohnungsgesellschaft mbH (GWG) was renamed as Glückauf Immobilien GmbH.

EBT



Technology Division

Key data		FY 2010	FY 2009
Order intake	**€ m**	**987**	**708**
Order book	**€ m**	**353**	**235**
Division sales[1]	**€ m**	**873.7**	**718.1**
KHS Group (consolidated)	€ m	792.8	648.4
KDE	€ m	34.9	18.6
KDS	€ m	34.2	28.7
KHP[2]	€ m	–	16.8
RSE	€ m	5.7	2.0
Other	€ m	11.1	7.1
Consolidation	€ m	–5.0	–3.6
Internal sales	**€ m**	**0.8**	**0.5**
External sales[3]	**€ m**	**872.9**	**717.6**
Division earnings before tax (EBT)	**€ m**	**–30.3**	**–210.4**
KHS Group (consolidated)	€ m	–27.7	–172.7
KDE	€ m	–1.0	–8.2
KDS	€ m	1.9	–0.5
KHP[2]	€ m	–	–1.1
RSE	€ m	7.8	0.5
Other/Consolidation	€ m	–11.3	–28.4
EBITDA[4]	**€ m**	**7.8**	**–99.8**
EBIT[4]	**€ m**	**–19.2**	**–200.7**

[1] Including sales with other divisions
[2] Until Oct. 31, 2009
[3] Contribution to consolidated external sales
[4] Definition changed as per 01/01/2010; adjusted with retrospective effect

Under the roof of Klöckner-Werke AG (KWAG), the Technology Division comprises internationally operating machine building companies with production sites on four continents. The product range predominantly includes machinery and plants for the filling and packaging of beverages. KHS GmbH (KHSDE), the largest subsidiary, offers a fully-fledged portfolio: from machinery for the manufacturing of PET bottles across bottling plants through to ready-for-dispatch packaging technology. Other companies of the Klöckner Group sell special machinery for the plastics processing industry, for example. Moreover, RSE Grundbesitz und Beteiligungs-AG (RSE), a company developing and managing commercial real estate in Germany, is also assigned to the Technology Division. More information on the companies can be found under the “Group Structure and Operations” section starting on page 30. The individual companies are listed in the Notes from page 176 onwards.

Owing to a majority holding of Salzgitter Mannesmann GmbH (SMG) in the financial year 2010, KWAG was a company dependent on Salzgitter AG (Section 17 German Stock Corporation Act [AktG]) and to be viewed as a Group company (Section 18 German Stock Corporation Act [AktG]). As there was no domination and profit transfer agreement concluded between SMG and KWAG there was a de facto group relationship. Accordingly, the Management Board of KWAG acts independently and under its own responsibility in the interests of the company and the shareholders and does not receive instructions from the Executive Board of Salzgitter AG. Another consequence is the restriction on Salzgitter AG's right to information consisting in the Executive Board of Salzgitter AG only receiving the information from the companies that it requires to fulfill its statutory obligations under the law.

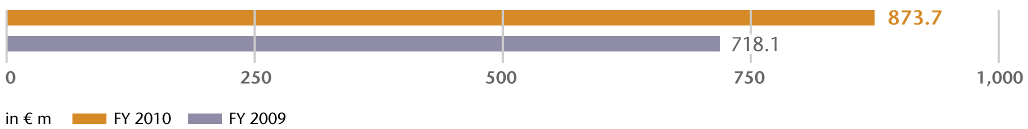
On August 25, 2010, KWAG's Annual General Meeting of Shareholders approved the transfer of the shares of minority shareholders to Salzgitter Mannesmann GmbH (SMG) as the majority shareholder owning more than 95.776 % of the shares in KWAG (squeeze-out). The resolution provided for a cash settlement of € 14.33 per share to be paid to the minority shareholders of KWAG. The effectiveness of the resolution has been contested by a shareholder who has brought recission and, alternatively, a nullity and declaratory action. This resulted in the company making a request to the Higher Regional Court in Düsseldorf for establishment that the action did not stand in the way of entering the resolution into the Commercial Register (approval procedure). The request was granted on January 17, 2011, which permitted the resolution to be entered into the Commercial Register on January 27, 2011, irrespective of the current legal proceedings. The squeeze-out became effective through this entry and KWAG a wholly-owned subsidiary of SZAG/SMG. Trading in the shares of KWAG on the stock markets was terminated on the same day (see the section entitled "Significant Events after the Reporting Date" starting on page 148).

As one of the industrial sectors hardest hit by the recession, German mechanical engineering has now returned to its growth path. A strong upswing in orders has been in evidence since the start of the year 2010. According to the German Engineering Federation (VDMA), the entire mechanical engineering sector recorded a growth of 8.8 %, after having been impacted by a decline of almost a quarter in 2009. Consequently, only part of the losses sustained in the previous year could be made up.

The companies of the Technology Division have recovered from the crisis which hit the mechanical engineering industry in 2009. Competition for new projects nonetheless remained fierce. **Order intake** climbed steeply to € 987.4 million (+ 39 %), and **orders in hand** settled at € 353.3 million.

A 90 % share of the Technology Division's business is determined by the selling prices of the KHS Group, which is one of the three market leaders in filling and packaging technology. The more favorable situation in the market, based mainly on strong international demand, was reflected in **segment sales** which climbed by 22 % to € 873.7 million and in **external sales** of € 872.9 million. Greater willingness to invest, particularly on the part of customers from the automotive sector and industrial engineering, boosted the business of Klöckner DESMA Elastomertechnik GmbH (KDE) notably. Klöckner DESMA Schuhmaschinen GmbH (KDS) was also successful in winning new orders, above all from the high-growth Asian markets.

Sales



Although the situation of all companies belonging to the division had improved in comparison with a year ago, pre-crisis levels were not matched. While margins increased slightly in 2010 as against the previous year, they have not yet reached a satisfactory level. The result of the KHS Group was especially burdened by fierce price competition in the project and plant engineering business. Satisfactory earnings from the replacement parts and service segment and effects from the extensive streamlining and cost cutting program were unable to fully compensate for the low level of selling prices in the project business.

For this reason, the Technology Division closed the reporting year 2010 with a **pre-tax loss** of € 30.3 million, and a performance which was therefore a significant improvement in comparison with the previous year. The overall result includes income of € 11.0 million from write-ups of receivables from WCM AG and non-recurrent expenses for risk provisioning in respect of participating investments.

EBT

The companies of the Technology Division forged ahead swiftly in 2010 with their efforts to enhance efficiency and achieved a notable reduction in fixed costs through a package of measures introduced back in 2009. Processes and organization structures were again reviewed and consistently improved. Adjustments in the area of personnel, the centralization of project management and reorganizing sales and technology units were other key projects.

More information on Klöckner-Werke and its performance can be obtained from the company website at the following address: www.kloecknerwerke.de

Other/Consolidation

The Other/Consolidation segment comprises activities that are not directly allocated to an operating division. Specifically, this includes the business of the holding companies Salzgitter AG 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.

Sales in the Other/Consolidation segment, which are mainly based on business in semi-finished products with subsidiaries and external parties, remained virtually unchanged at € 186.7 million during the reporting period (2009: € 192.4 million). In contrast, there was a selling-price-induced increase in **external sales** to € 55.9 million (2009: € 40.6 million).

Pre-tax profit came in at € 22.3 million, which includes income of € 34.0 million from the Aurubis investment. This was offset by the compounding effect of the convertible bond.

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 conducted 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.

Following on from the successful issuance of a convertible bond in 2009, October 2010 saw the successful placement of a bond with a total volume of € 296 million exchangeable into a proportion of the shares held in Aurubis AG (NAAG) in the market. The bond, which matures in November 2017, pays an annual coupon of 2%.

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 (4.25%), they came to € 1,926 million (2009: € 1,858 million at 4.75%).

Cash Flow Statement

The cash flow statement (detailed disclosure in the section on the "Consolidated Annual Financial Statements" starting on page 164) 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 2010	FY 2009
Cash inflow from operating activities	208.6	1,190.0
Cash outflow from investment activities	–672.3	–185.3
Cash inflow from financing activities	242.3	201.8
Change in cash and cash equivalents	**–221.4**	**1,206.5**
Changes to the group of consolidated companies/ changes in exchange rates	2.7	–5.6
Cash and cash equivalents on the reporting date	**1,574.3**	**1,793.0**

The Group generated a positive cash flow of € 209 million from operating activities (2009: € 1,190 million); here the higher level of working capital to cover the expansion in business activities necessitated the utilization of the Group's liquid funds. The increase in cash outflow from investment activities resulted from the reallocation of funds invested (€ –214 million) as well as disbursement for investments in property, plant and equipment and in tangible assets (€ –446 million) under the Steel Division's investment program.

In the financial year 2010, the cash flow from financing activities stood at € 242 million. We paid out € 14 million or € 0.25 per share to the shareholders of Salzgitter AG for the financial year 2009; the placement of an exchangeable bond resulted in a cash inflow for the company of € 296 million.

From a financial standpoint, tax-induced investments and marketable securities are assigned to cash and cash equivalents. The modified cash and cash equivalents at the start of the period are raised by € 160 million to € 1,953 million through the addition of this position, up from € 1,793 million. When viewing the cash flow in the light of the above, there are also effects mainly on the fund outflow from investment activites. This outflow contracted by € 214 million to € –458 million from € –672 million. Taking account of marketable securities, an extremely sound cash and cash equivalents base of € 1,952 million was recorded on the reporting date.

Higher working capital resulted in a significantly lower level of net cash investments held at banks of € 1,272 million (2009: € 1,561 million) despite the improved earnings trend. Cash investments of € 1,952 million, including securities as per the end of 2010, were set off by higher liabilities owed to banks of € 680 million (2009: € 392 million) as per the reporting date. The latter also include € 597 million in obligations attached to convertible and exchangeable bonds.

The liquidity and debt-to-equity ratios in the financial year 2010 are described in the following:

Multi-year Overview of the Financial Position

	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
Solvency I (%)[1]	192	211	157	211	252	150	100	91	97	116
Solvency II (%)[2]	287	302	281	317	365	253	187	187	185	210
Dynamic debt burden (%)[3]	30.1	406.8	64.9	−304.5	−95.5	41.3	20.2	12.5	8.3	6.8
Gearing (%)[4]	125.9	106.2	100.3	98.0	101.9	169.1	278.0	268.7	261.4	244.3
Cash flow (€ m) from operating activities	209	1,190	547	781	488	468	352	223	157	117
Net debts to banks (€ m)[5]	−1,272	−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

Asset Position

At the end of the reporting period, the Group’s total assets had risen by 7.9 % to € 8,689 million compared with a year ago (2009: € 8,052 million). Current assets reported an increase in inventories (€ +265 million). The ongoing implementation of the investment program resulted in a rise in non-current assets to € 263 million (+8.3 %). Despite the financing of inventories and investments, cash and cash equivalents/securities remained virtually unchanged at € 1,952 million (2009: € 1,953 million). This was attributable to funds of € 296 million received from the issuance of a bond exchangeable into shares in Aurubis AG (NAAG) at the end of 2010.

Asset and Capital Structure

In € m	31/12/2010	%	31/12/2009	%
Non-current assets	3,447	39.7	3,184	39.5
Current assets	5,242	60.3	4,868	60.5
Assets	**8,689**	**100.0**	**8,052**	**100.0**
Equity	3,846	44.3	3,904	48.5
Non-current liabilities	3,033	34.9	2,553	31.7
Current liabilities	1,809	20.8	1,595	19.8
Equity and liabilities	**8,689**	**100.0**	**8,052**	**100.0**

As part of non-current assets, property, plant and equipment and intangible assets were up due to investments (€ 497 million) exceeding depreciation and amortization (€ 377 million).

Working capital climbed to € 2,193 million (+10.7 %), the main influencing factor here being the volume and value-based increase in inventories.

The equity ratio stands at 44.3 %, which is below the previous year's figure (48.5 %). The actuarial interest rate of 4.25 % applied to the calculation of pension provisions was lower as per the reporting date (2009: 4.75 %); the implications of the crisis in the financial market were appropriately taken account of. On the liabilities side, pension provisions increased for this reason. Group equity declined accordingly.

Obligations arising from pension commitments are therefore fully included in the balance sheet, as in the previous year. The generally annual adjustment of the actuarial rate applied to the calculation of pension provisions, which are of a long-term nature, is carried out in accordance with the valid interpretation of the pertinent IFRS standards. Our affirmation of the meaningfulness of the aforementioned is not necessarily a corollary.

Multi-year Overview of the Assets Position

	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
Asset utilization ratio (%)[1)]	39.7	39.5	33.5	25.8	23.4	35.1	45.3	51.3	52.1	48.4
Inventory ratio (%)[2)]	19.9	18.2	29.3	24.8	23.7	26.6	25.5	25.0	22.8	23.1
Depreciation/amortization ratio (%)[3)]	14.2	21.3	11.7	11.7	13.9	14.5	22.6	16.8	14.3	14.3
Debtor days[4)]	51.7	49.3	48.4	54.5	47.9	44.9	55.4	47.4	53.3	54.9
Capital employed	4,596	4,457	4,886	4,829	3,974	2,496	1,418	1,308	1,258	1,311
Working capital	2,193	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)] $\frac{\text{trade receivables x 365}}{\text{sales}}$

Profitability, Financial Position & Net Assets

5. Annual Financial Statements of Salzgitter AG

The annual financial statements of Salzgitter AG for the financial year 2010 have been drawn up for the first time in application of the accounting policies and valuation methods as amended under the German Accounting Law Modernization Act (BilMoG) of the German Commercial Code, taking account of the supplementary provisions set out under 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. Operational activities 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. There is, however, a contractual arrangement for the voluntary assumption of SMG's losses by Salzgitter AG.

Salzgitter AG Balance Sheet (summarized)

In € m	31/12/2010	%	31/12/2009	%
Non-current assets	**43.2**	**4.0**	**43.6**	**2.9**
Property, plant and equipment[1]	20.8	1.9	21.8	1.5
Financial assets	22.4	2.1	21.8	1.5
Current assets	**1,043.2**	**96.0**	**1,444.7**	**97.1**
Trade receivables and other assets[2]	1,043.1	96.0	1,444.6	97.1
Cash and cash equivalents	0.1	–	0.1	–
Assets	**1,086.4**	**100.0**	**1,488.3**	**100.0**

In € m	31/12/2010	%	31/12/2009	%
Shareholders' equity	388.6	35.8	743.9	50.0
Special reserves with equity portion	–	–	10.2	0.7
Provisions	397.4	36.6	434.9	29.2
Liabilities	300.3	27.6	299.2	20.1
due to banks	[–]	–	[–]	–
Shareholders' equity and liabilities	**1,086.4**	**100.0**	**1,488.3**	**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 (€ 917 million) provided to the subsidiary SMG as part of a groupwide cash management. The treasury shares are disclosed separately from equity in accordance with the regulations prescribed by the German Accounting Law Modernization Act (BilMoG). This is also the reason for the decline in total assets and equity capital.

Besides equity, the liabilities side of the balance sheet reports pension obligations of € 359 million and repayment obligations vis-à-vis the Dutch issuer of the convertible bond. The equity ratio currently posts 35.8 % (2009: 50.0 %).

Salzgitter AG Income Statement (summarized)

In € m	FY 2010	FY 2009
Other operating income	35.3	121.8
Personnel expenses	22.0	27.1
Depreciation and amortization[1)]	1.2	1.4
Other operating expenses	22.2	27.9
Income from shareholdings	52.1	0.1
Net interest result	–29.0	–11.4
Earnings before tax (EBT)	**13.0**	**54.2**
Tax	4.7	–0.3
Extraordinary result	0.1	–
Net profit for the year	**17.8**	**53.9**

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

Other operating income includes gains from the levying of a Group contribution and from the writing back of provisions.

Income from shareholdings is almost exclusively related to the earnings contributions received by SMG.

The company's workforce was made up of 166 employees as of December 31, 2010, which is an increase of 20 as against the previous year. This increase was the result of taking over employees from a subsidiary.

Disclosures pursuant to Sections 289 4 para./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 capital stock 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 (6,009,700 units), and the members of the Executive and Supervisory boards were not entitled to any voting rights from their shares 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 four 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 capital stock 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 participating bonds 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 new no-par bearer shares (5.9% of the shares issued) excluding the shareholder subscription rights with conversion rights that may be exercised on or before September 27, 2016. By the reporting date there had been no shares issued since May 27, 2009, from the Authorized Capital.
- Moreover, upon approval by the Supervisory Board, the Executive Board may issue bonds in a total nominal amount of up to € 1 billion on or before June 7, 2015, and grant the holders of the respective bonds conversion rights to shares of the company in a total amount of up to 26,498,043 units (Contingent Capital 2010). 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 2,459,243 shares 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 capital stock, 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.
- Moreover, the Executive Board may issue up to 3,550,457 new shares provided that the holders of the convertible bonds, issued by the company on October 6, 2009, have made use of their conversion rights which may be exercised on or before September 27, 2016. By the reporting date, no holder of convertible bonds had yet exercised their conversion rights.
- The Executive Board is authorized to purchase the company's own shares equivalent to a proportion of the capital stock of up to 10 % in the period on or before June 7, 2015, 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 employees contingent on a takeover offer.

Appropriation of the Profit of Salzgitter AG

Salzgitter Aktiengesellschaft reported a net income of € 17.8 million for the financial year 2010. Taking retained earnings brought forward (€ 1.5 million) into account, unappropriated retained earnings amount to € 19.3 million.

The Executive Board and the Supervisory Board will propose to the General Meeting of Shareholders that these unappropriated retained earnings (€ 19.3 million) be used to fund payment of a dividend of € 0.32 per share (based on the capital stock of € 161.6 million divided into 60,097,000 shares) and that the remaining amount be carried forward to new account.

The proposed appropriation of earnings will be adjusted 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

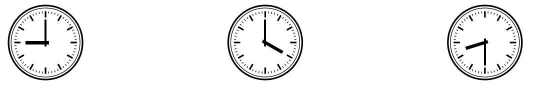
The Salzgitter Group has reaped notable benefit from the general economic recovery.

Despite being called upon to absorb the surging costs of raw materials as well as expenses relating to restructuring and impairments, the Salzgitter Group closed the financial year with a profit. The Trading, Tubes and Services divisions contributed to this with positive earnings as well as the Steel and Technology divisions with significantly better, but nonetheless negative results.

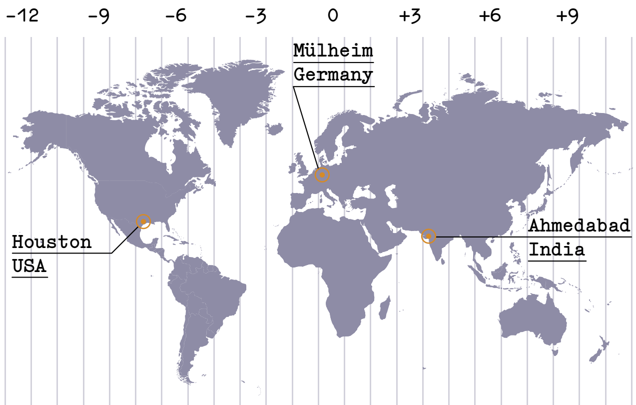
With € 1.95 billion in cash and cash equivalents and an equity ratio of almost 44.3 %, the Salzgitter Group enjoys a very healthy financial base and a sound balance sheet which grants sufficient leeway to shape the future with confidence. In this spirit, we will also bring our investment program to a successful completion. The focus over the two last years has been on securing the stability of the Group. Our intention now returns to advancing our company's further development through selective, profit-oriented growth. Our Profit Improvement Program, with its long-term horizon, and the flexible implementation of supplementary short-term measures, have made radical groupwide restructuring measures mostly superfluous to date. We will continue to implement the structural measures initiated in parts of the Group in a low-key and consistent manner.

24 hours at Salzgitter:

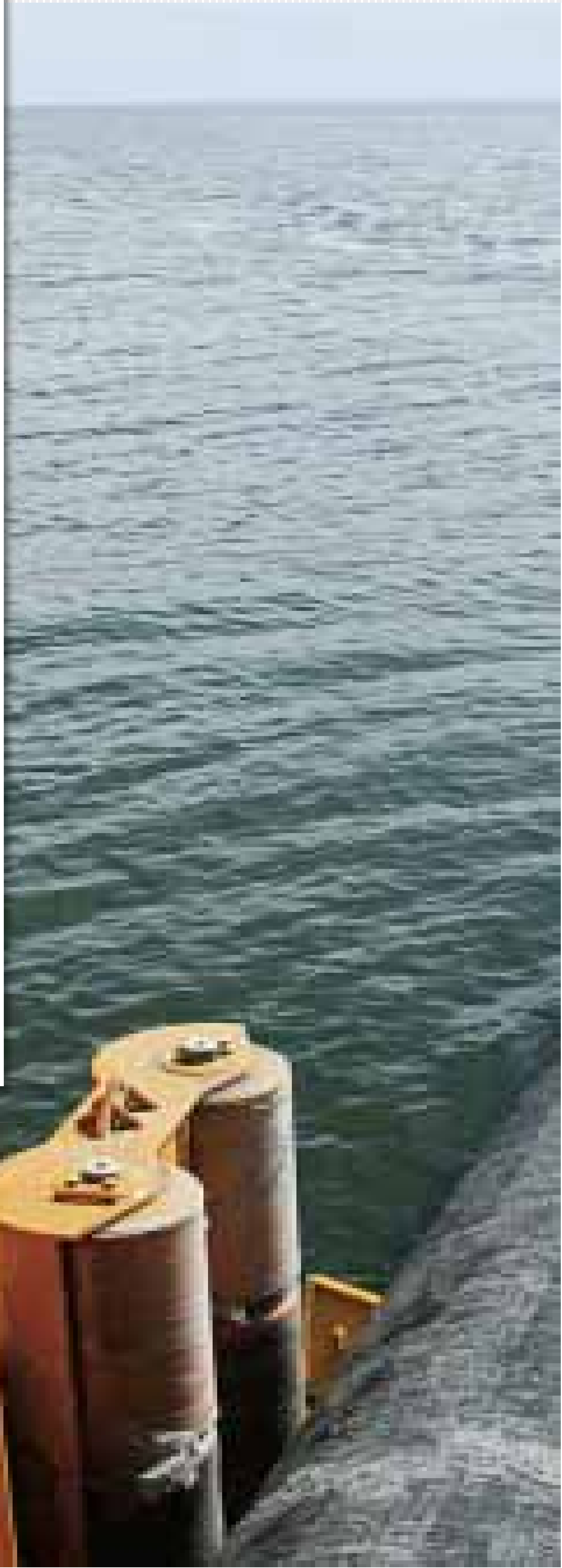
16.00 CET



Houston | Mülheim | Ahmedabad

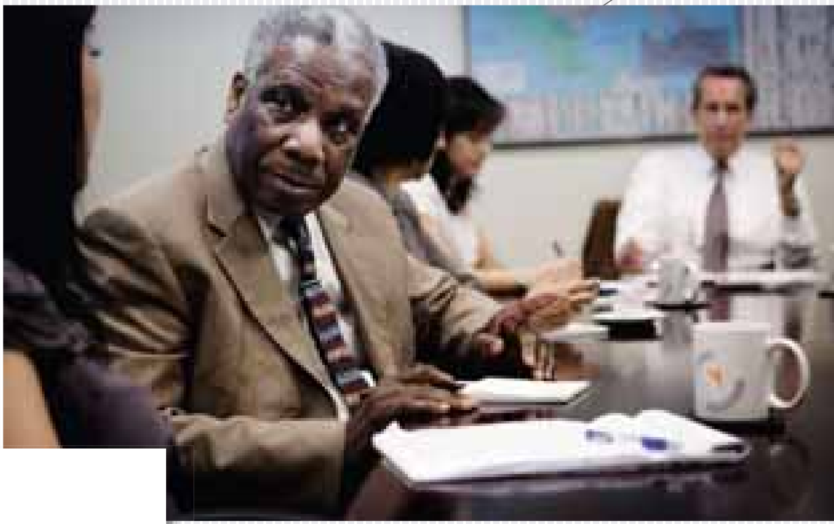


In Houston the offices of Salzgitter Mannesmann International Inc. are busy despite the early hour: The day's business meeting has just kicked off. Meanwhile, pipe production at EUROPIPE in Mülheim has been running at full speed for hours now. Around 153,500 of these pipes will soon be lying on the floor of the Baltic Sea, carrying natural gas from Russia to Europe via the Nord Stream pipeline. By this time, there is no one left at work at KHS in Ahmedabad – only the KHS bottling line at the Coca-Cola plant 30 kilometers away is still operating.



Baltic Sea, Germany, 16.00:
Here we are onboard the Castoro Dieci, one of three pipe-laying vessels working on the Nord Stream pipeline. This is where the EUROPIPE products from Mülheim are welded together and lowered to the seabed.

The whole team in Houston have assembled for the quarterly business meeting. Between them, the company's 24 members of staff account for 10 nationalities and speak 9 languages.



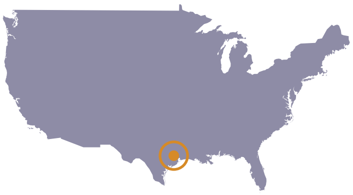
Out front Roberto Flores is putting a shine on the company's nameplate. He is 66 years old and has been the building engineer here for 19 of them.

Each year Salzgitter hosts a beer festival in Houston in true German style.

Houston

USA

Local time 09.00



Company:

Salzgitter Mannesmann International Inc.

Division: **Trading**

Product: **Rolled steel products and tubes**

Here at Delta Steel, one of Houston's suppliers, Derrick Moten, is adjusting the plasma cutting machine. The machine will be cutting between 50 and 100 tons of steel to size today.

Mülheim

Germany

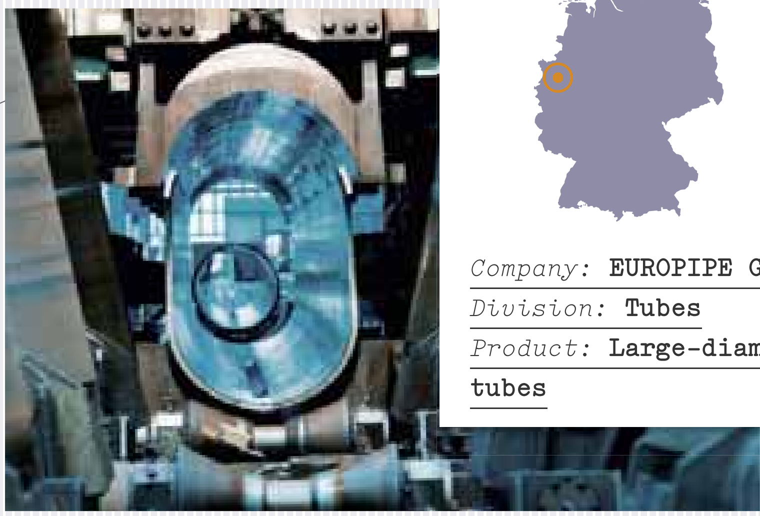
Local time 16.00

Company: **EUROPIPE GmbH**

Division: **Tubes**

Product: **Large-diameter tubes**

In Mülheim – like a ceaseless roll of thunder – the presses bend steel sheets into shape with a force roughly equal to the weight of 12,000 elephants. Another 50 Nord Stream pipes must be ready by the end of the day.



Ahmedabad

India

Local time 20.30

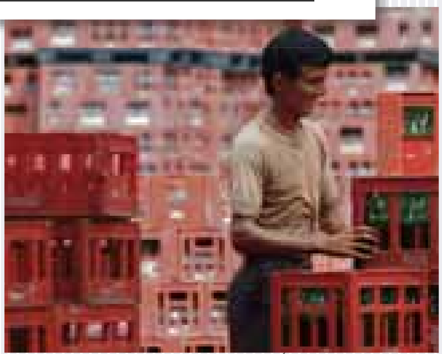
Company:

KHS Machinery Pvt. Ltd.

Division: **Technology**

Product: **Packaging and filling machinery**

In the yard at the Coca-Cola plant in Goblej, 30 kilometers from KHS Ahmedabad, the truck drivers take a break before making their deliveries.



A Coca-Cola worker gives the goods a final check by eye before the drivers start loading.

The small plastic blank bottom left is “blown” to form the familiar PET bottle.

The KHS bottling plant – a 26,000 PET bottle line – works so well that the makers of the brown brew have ordered a second line for the site next door.

In Mukran on the island of Rügen, finished pipes are encased in concrete. That’s the only way to ensure that they are heavy enough to lie securely on the seabed.

Out at sea, the pipe-laying vessels are being resupplied with new pipes.

V. Risk Report

1. Risk and Opportunities Management System

Our risk management has proven its worth and effectiveness also in light of the severe economic downturn we have just put behind us, persistent turbulence in the financial markets, a far greater degree of volatility in the goods industry and a recovery fraught by uncertainties.

While taking account of the opportunities and risks, we comment on expectations on the medium-term development of the economy and their potential impact on our company in the section on "Significant Events after the Reporting Date and Forecast" starting on page 148.

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 manageable and kept within limits 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 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 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 under Section "Management and Control of the Company, Goals and Strategy" from page 62.

Organizational permeation

All fully consolidated companies in the Steel, Trading and Services divisions and, in addition, a number of non-consolidated companies incorporated on principle into our risk management. Alongside the fully consolidated companies combined under the Tubes Division, jointly held EUROPIPE GmbH (EP) and its subsidiaries have been integrated in accordance with Salzgitter AG's guidelines. This is also the case with RSE Grundbesitz und Beteiligungs-Aktiengesellschaft (RSE), a company belonging to the Technology Division that is also integrated into our risk management. In the reporting year 2010, we fulfilled 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 put guidelines in place that constitute the basis on which a uniform and adequate consideration and communication of risks can be ensured throughout the Group. We convey the concept to the companies through risk guidelines. These guidelines lay down the principles through which we harmonize groupwide risk inventories and ensure the informative value for our Group. We will continue to develop our risk management system in line with requirements on an ongoing basis.

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 various procedures, rules, regulations and tools. As a result of the high degree of transparency achieved with regard to developments that 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 that complement one another. 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.

We use our groupwide reporting system to ensure that management is provided with all the necessary and pertinent information. The Group companies report on the risk situation in monthly controlling reports or ad hoc directly to the Executive Board. Almost all companies subject to reporting requirements use the Group database developed specially to facilitate the effective handling of data. 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 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.

Evaluation aspects

A distinction is drawn between improbable and probable risks determined by the likelihood of their occurrence. Improbable risks are events that, after careful commercial, technical and legal consideration of the circumstances, are deemed unlikely to occur. 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. In the case of probable risks, loss accruing to the company from an 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 impairments 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 simultaneously, the Group would not be endangered as a going concern.

Measures to overcome risk

Measures which would need to be taken for the evaluation and overcoming of each respective risk are documented and reported on.

2. Individual Risks

Sectoral risks

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

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

In order to minimize 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 financial or political measures affecting international business.

Along with efforts to set in place healthy sales structures with sectoral and geographical diversification, we are especially committed to developing new steel materials, optimizing manufacturing processes and promoting the targeted growth of our Group. 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 and tubes markets by having a decentralized group structure enabling swift decision-making processes which allow us to adapt rapidly to new market conditions. 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 purchasing essential raw materials

In comparison with the financial year 2009, the year 2010 marked significant changes affecting the duration of contracts and the cost of buying in raw materials. The changes in the contractual structures of Salzgitter AG's most important raw materials of iron ore and coking coal initially resulted in an imbalance of now near-term variable raw materials costs on the one hand, and partly longer term price agreements in shipment contracts on the other. We met this challenge by swiftly and fully bringing about transparency on purchasing and sales structures tailored to the new situation throughout the whole Group. With this as a basis, we were subsequently successful in establishing an almost balanced relationship between volumes and prices contractually agreed on the purchasing and on the sales side in the following quarters. On the procurement side, more than 50 % of iron ore sourced by the Steel Division was secured on the basis of annual contracts, as before; on the sales side, existing annual contracts were replaced for the most part by nearer-term contracts, thereby minimizing the economic risk arising from short-term commodity price fluctuations. Despite a time lag, the commodity price risk was compensated for the most part through adjustments to selling prices. If further economically-induced price increases become discernable we will identify these risks at an early stage and incorporate them into our profit forecast.

In principle, we still believe that there is potential for raising the selling prices of our products which will either fully or at least partly compensate for any additional expenses of input material, as has been the case in previous years. This is ultimately the result of the fact that our peer competitors are also subject to similar procurement structures in respect of raw materials. In as much, we expect performance volatility as a result of the raw materials situation described above, but do not anticipate any material risks which could endanger our results.

Procurement risks

We counteract the fundamental risk from supply shortfalls of important raw materials (iron ore, coal) and energy (electricity, gas) by safeguarding their procurement firstly by way of long-term framework contracts and secondly through ensuring our supply from several regions and/or a number of suppliers. In addition, we also operate an appropriate inventory management. Our assessment of our supply sources confirms our opinion that the medium-term availability of these raw materials in the desired quantity and quality is ensured. We source our electricity mainly on a contractually secured basis if our needs exceed our own generating capacity. In order to contain the risks of further electricity price hikes, two new 105 megawatt power-generating units have been built at the Salzgitter location which will largely serve to cover the electrical power requirements of Salzgitter Flachstahl GmbH (SZFG). The commissioning of these new units took place in December of 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 transport running regularly to the greatest possible extent. Another viable 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 also 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 2011 under the section entitled “Significant Events after the Reporting Date and Forecast” starting on page 148.

We counteract the general risk to our company as a going concern by maintaining a diversified portfolio of products, customer sectors and regional sales markets.

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

Production downtime risks

We counteract 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 investment. In order to contain other potential loss or damage, with the associated production downtime, as well as other conceivable compensation and liabilities claims, we have concluded insurance policies which guarantee that the potential financial consequences are curtailed, if not fully excluded.

The scope and content of insurance cover is reviewed on an ongoing basis and adjusted, if necessary. We consider the probability of events occurring that are not covered by appropriate insurance – and the associated potential loss – to be low.

Legal risks

In order to counteract risks arising from any potential breach of the manifold fiscal, environmental, competition-related rules and regulations and other legal provisions we require our employees' strict compliance. We seek extensive legal advice from our experts as well as, on a case-by-case basis, from qualified external specialists.

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

In our opinion, there are no 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 reported to SMG by the respective subsidiaries. SMG will then decide on hedging measures, taking account of the Group's exposure at the time. On principle, we permit financial and currency risks only in conjunction with processes typical to steel production and trading (please also see the sections on "currency risks" and "interest rate risks").

In relation to the operating risks, these risks are 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 the effects are mutually counteracting, the need for dollars for procurement activities predominates, owing to the business volumes which vary greatly. We generally set off all EUR-USD denominated cash flows within the consolidated group, a process known as netting, thereby minimizing the risk potential.

To limit the volatility of financial risks, we conclude derivative financial instruments with terms which reflect the planning period of the Group, the value of which develops counter to our operational business. The development of the market value of all derivative financial instruments is ascertained on a monthly basis. 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 "Consolidated Annual Financial Statements/Notes" starting on page 164).

Default risks

We limit around two thirds of our receivables risks with the aid of trade credit insurance and other collateral. The notable curtailment of limits or even full retraction of cover by trade credit insurers in 2010, measures which, from our perspective, affected first and foremost the automotive supplier sector and customers in Eastern Europe, increasingly returned to normal levels over the course of the current financial year. We generally counteract default risks by having a stringent internal system for exposure management in place. Supported by a task force which spans the Group and was specially created for this purpose, we monitor and assess developments, particularly those of unsecured positions, very carefully and take these developments 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 preventative 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 system defines internal credit lines for the subsidiaries. If subsidiaries have their own credit lines they are responsible for minimizing the associated risk themselves and for reporting on potential risks in the context of Group management and controlling structures. Risks may also arise from the necessary capital and liquidity measures taken on behalf of the subsidiaries and holdings if their business should develop unsatisfactorily in the longer term. We do not, however, 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 subsidiaries. We counteract this risk by way of rolling financial planning. In view of the cash and credit lines available, we see no danger to our Group as a going concern at this time.

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. In order to keep check on the interest rate risk, we regularly conduct interest rate analyses the results of which are directly incorporated into investment decisions. Long-term structural interest rate risk may arise from a persistent gap between the deposit interest rate and interest- and income-induced developments in pension obligations. This type of risk is currently not discernable; if – unexpectedly from today's standpoint – it should arise, the Group's robust balance sheet constitutes a good basis for corrective measures.

Tax risks

The recording and documenting of tax risks are carried out by the companies integrated into the tax group in close coordination 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 conducted on their tax groups. Beyond this, companies with independent tax liability are responsible for their own provisioning.

In the context of former government aid to border regions, the EU Commission requires Salzgitter AG to make back payments of € 17.8 million (including interest) on – from our standpoint – the legal and legitimate tax advantages accruing prior to 1995. In 2008, the European Court of Justice made a decision which went largely against the company in the second instance, but has nonetheless referred the case back to the court of first instance. The verdict of this court is anticipated in 2011 at the earliest. Contingent on the success of our case, we have already remitted payment of the amount 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 measures designed to develop its personnel. To this end, specialist career paths have been explicitly introduced with the aim of creating appropriate career prospects for our specialists. In our knowledge transfer, which is applied groupwide, we have developed an instrument which, in the case of successor staff, ensures continuity in the transfer of all knowledge-based information, contacts and business connections pertaining to the respective professional activity. Moreover, we also 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 responding in good time to the impact of this development on our Group, thereby securing our innovative strength and competitiveness also in the long term. The project is focused on the systematic preparation of all employees for a longer working life. Given our manifold measures, we believe that we are well prepared in this area of risk (see the section on "Employees" starting on page 45).

Product and environmental risks

We meet the challenge of product and environmental risks with a series of measures aimed at securing quality. Examples include:

- certification in accordance with international standards,
- continuous modernization of all plants,
- ongoing development of our products and
- extensive environmental management.

More information can be found under the section on "Environmental protection", see page 75.

We have appointed an environmental officer for the Group whose task it is to centralize and coordinate environmental and energy policies across all companies, to represent the Group externally 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 clean-up duties. In terms of financial precautions, appropriate amount 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 knowledge base within the Group in the form of IT services in our subsidiaries. This ensures that we always remain at the forefront of technological progress.

The appropriate authority and competence granted to Group IT management in matters of general policy in this area ensures the ongoing development of our groupwide IT systems and forms the basis for the economic deployment of the required investment funds.

The consistent replacement of our hard- and software resources in line with the latest technology ensures that availability, maintenance and IT security are kept at the highest levels. The historically evolved, heterogeneous IT structures in the Group are being gradually streamlined. The risks from 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 "typical" economic cycle in the steel industry by expanding our holdings portfolio on a selective basis.

To secure our future earnings strength, we have been investing considerable sums in our Group locations in Salzgitter and Peine since 2007. Projects were – or are being – realized despite the economic situation, in some instances with a delay. More detailed information is contained in the sections entitled "Management and Control of the Company, Goals and Strategy" starting on page 58 and "Investments", page 66.

We limit the risks arising from joint ventures in which we do not hold a majority stake by way of suitable reporting and consultation structures, through participation in supervisory committees and through contractual arrangements. Members of Salzgitter AG's Executive Board are, for instance, 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 company KWAG, we ensured our objective in the reporting year 2010 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

Having reviewed the overall risk of the Salzgitter Group, we can conclude that there were no risks endangering either the individual companies or the entire Group as going concerns at the time when the 2010 financial statements were drawn up. The overall risk situation, aggregated from the various individual risks, has thus remained virtually unchanged from the previous year in respect of our Group as a going concern.

Following the significant economic downturn in 2009 and the resulting temporary, problematic earnings situation of the Group, we staged a return to profitability in 2010. We view our prospects in the financial year 2011 with cautious optimism. At the same time, the planning security achievable, also in respect of short and medium-term developments, has not reattained the pre-crisis level. This development is primarily due to the adjusting of key delivery contracts for iron ore and coking coal to contracts concluded on a quarterly basis and a considerably lower degree of accuracy in forecasting sales owing to the abolishing of the long-term agreements on delivery prices. This has also impaired the predictability of individual risks. We nonetheless consider ourselves well equipped in the current situation to master the considerably greater challenges placed on opportunity and risk management during this phase. Our business policy, which takes due account of risks and is geared towards sustainability, and our 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 international rating agencies recognized in the capital market. From our perspective, there is currently no need for such a rating as, despite our strong, self-funded growth achieved over the years from 2004 to 2008, we have achieved an excellent financial standing in a peer comparison and have maintained this position also in the face of the financial and economic crisis.

In October 2009, we were successful in placing a significantly oversubscribed convertible bond with a nominal volume of € 296.5 million in the market at benchmark conditions. Furthermore, in November 2010, we issued a bond with a total volume of € 295.5 million exchangeable into a proportion of the shares held in Aurubis AG (NAAG) with a coupon of 2 % p. a. Our own rating assessment, which was performed taking account of the customary quantitative requirements, has delivered results which are virtually identical to the ratings ascertained internally by our banks. We can therefore assume that an external valuation would place us firmly in the investment-grade category, despite 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 item 5 German 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.

The aim is to use control mechanisms implemented to sufficiently ensure that, despite potential risks, the consolidated financial statements are drawn up in accordance with rules and regulations.

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 as 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.

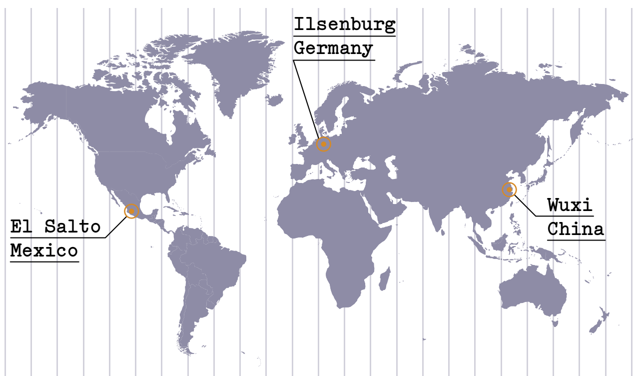
The application of uniform, standardized measurement criteria to impairment tests is ensured by way of centralized processing for the – from the Group's perspective – individual cash generating units.

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

24 hours at Salzgitter:

19.00 CET

El Salto | Ilsenburg | Wuxi



In sunny El Salto the early shift at the tube works are enjoying their lunch break. Meanwhile, in Ilsenburg the sun has long since set – but the plant is as busy as ever: The rolling mill works shifts to produce around 800,000 tons of plate each year. The team in Wuxi don't normally work shifts. But it's not a problem when the order situation demands it.

Wuxi, China, 02.00:

20 year-old Pan Dongdong is one of the youngest team members. His job is to paint outsourced components – naturally, after they have undergone rigorous incoming quality control.

El Salto

Mexico

Local time 12.00

Company:

Salzgitter Mannesmann Precisión S.A. de C.V.

Division: **Tubes**

Product: **Welded precision steel tubes**

Visitors to the tube works are greeted by the figure of Our Lady of Guadalupe – the patron saint of Mexico.

The tubes made in El Salto are supplied in Mexico and to the USA.

Ilsenburg

Germany

Local time 19.00

Company:

Ilsenburger Grobblech GmbH

Division: **Steel**

Product: **Plate**

The four-high rolling mill in Ilsenburg works around the clock, rolling plate for structural applications, tanks and boilers as well as the wind power industry.

Carsten Duderstedt monitors and controls the roller table at the four-high rolling mill.

Wuxi

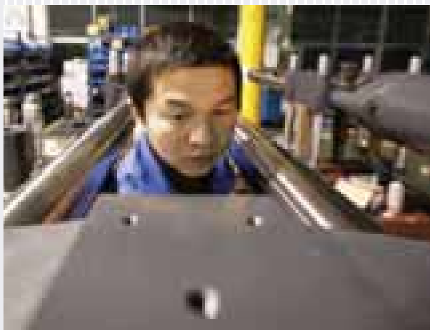
China

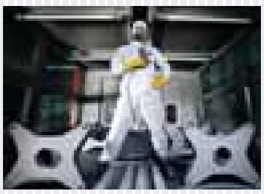
Local time 02.00

Company: **DESMA Rubber Injection Machinery Co. Ltd.**

Division: **Technology**

Product: **Injection molding plants**





At DESMA the lights are still burning: The company makes injection molding machinery for the electrical and automotive industries.

Assembly worker Qiao Gang has been employed here for just one year. But the 29 year-old is convinced that his young team will have a great future.

Gerardo Camarena González is a member of the works fire department. Training offerings are made available to workers in the furnace area in particular.

Abraham Tapia is a tool specialist. Besides cleaning, polishing and sorting tools, he also repairs the machines.

At the cooling bed inspector Alexander Haberlag checks the dimensions of the still hot plate. He also keeps an eye out for surface defects.

Crane operator Marcel Buttenstedt assembles a customer order in the cutting and shipping area.

The assembly specialists enjoy a break at the company canteen.

VI. Significant Events after the Reporting Date and Forecast

1. Significant Events after the Reporting Date

By way of a decision dated January 17, 2011, the Higher Regional Court of Düsseldorf granted the request of Klöckner-Werke AG (KWAG) to establish whether the filing of legal action against the resolution passed by the General Meeting of Shareholders for the transfer of minority shareholders' shares to Salzgitter Mannesmann GmbH (SMG) as the major shareholder would stand in the way of entering this resolution into the Commercial Register. Upon application by KWAG, the resolution of the General Meeting of Shareholders was subsequently entered into the Commercial Register on January 27, 2011. The shares of the minority shareholders have thus been effectively transferred to SMG. In compensation, SMG paid a cash settlement to the shareholders relinquishing their shares of € 14.33 per share, which is approximately € 32 million in total. Trading in the shares of KWAG on the stock markets has been terminated. The shareholder has withdrawn his action for annulment of the decision.

On January 29, 2011, a serious rail accident occurred in which a freight train of Verkehrsbetriebe Peine-Salzgitter GmbH (VPS) collided with suburban passenger train on a single track in the region of Magdeburg. Ten people died and 23 people sustained partly serious injuries. We were deeply dismayed and shocked at this news. May we offer the victims of this tragic accident – presumably caused by human error – and their relatives our heart-felt condolences.

2. General Business Conditions in the next two Financial Years

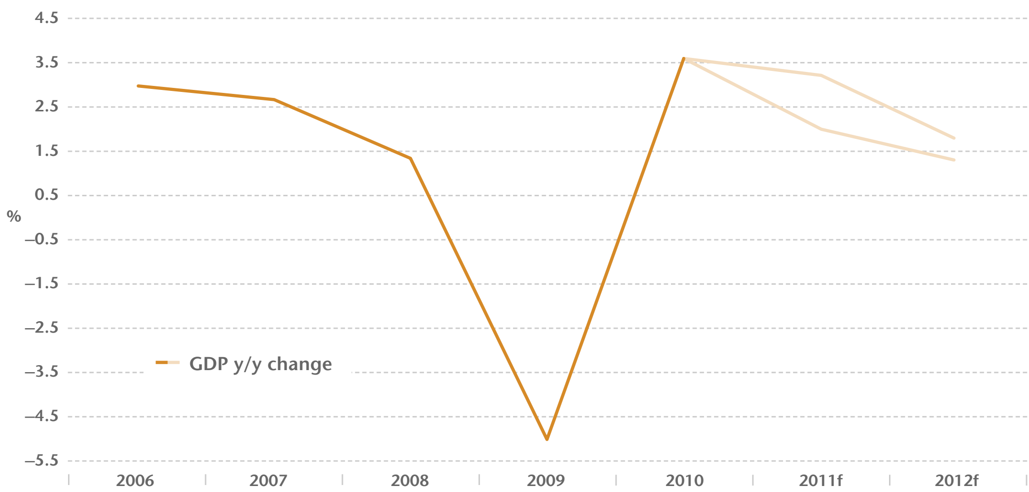
Sustained economic upswing

The slower phase of recovery seen since the fall of 2010 is likely to persist in 2011. Although the momentum of the **global economy** over the period covered by the forecast is set to slow somewhat, the general uptrend should hold steady. Nonetheless, the upswing will be beset by many risks and will vary in terms of its pace depending on the region: Whereas a repeat of strong growth rates can be expected in the emerging and developing countries, expansion in the industrialized nations is likely to be slower, hampered by the high level of sovereign debt and pending reforms in the financial sector. The International Monetary Fund (IMF) anticipates a more moderate global growth of 4.4 % in 2011, which is still above average. In the year 2012 and beyond, forecasts envisage a growth rate of 4.5 %.

The European Commission has predicted a gradual improvement in the economic situation of the **European Union** (EU) in the years 2011 and 2012. Accordingly, economic activity in 2011, forecast at 1.7 %, will initially be lower than in 2010 as opposed to 2012 when it will pick up pace again (+2 %) thanks to an acceleration in the recovery of the domestic economy. However, the development of the economy will also remain disparate in this region as structural problems, such as the sharp increase in unemployment and pressure on the governments of some countries in Europe to shore up their public budgets, will persist. Not until 2012 are positive growth rates assumed in all member countries. The gross domestic product (GDP) of the majority of EU countries is unlikely to regain pre-crisis levels in the next two years.

Since the second quarter of 2010, **Germany** has been experiencing an acceleration in domestic demand and an increasingly self-perpetuating upswing. This trend should firm up in 2011: In all likelihood, given good capacity utilization and relatively favorable financing conditions, progress will be seen in the process of catching up on investments. Moreover, positive developments in the labor market form a good basis for a swift increase in consumer spending. For 2011, most institutions are anticipating GDP growth in excess of 2 %. Growth of this magnitude also seems feasible in 2012 provided that the global economy continues to recover in line with expectations.

GDP Germany: Forecast Range 2011/2012



Source: BDA
as of 09/02/2011
(f = forecast)

Steel market steadily returning to normal levels

Following record expansion in 2010, growth rates in the **global steel market** are expected to return to normal levels in 2011. According to the German Steel Association, the market supply of rolled steel is set to rise by an anticipated 4 % to 1,331 million tons and crude steel output by 5 % to 1,479 million tons. Growth rates in 2012 are then likely to be around 7 % respectively. China is expected to see robust demand-driven growth, as before, although the substantial stockpiling in the last two years will have a braking effect, and the markets will therefore expand considerably more slowly than in previous years. Apart from China, the emerging markets, first and foremost, will be the drivers of global demand in 2011 and 2012. It is therefore feasible that India will take its place as the world's third-largest steel market in 2011, after China and the USA.

The tense situation in the **EU market** can be expected to ease moderately and real demand to predominantly determine the course of 2011. Under these conditions, market supply in the EU is set to rise by 4.4 % (155 million tons) in 2011 and by another 4.1 % (162 million tons) in 2012, along with an increase in crude steel output of around 4 % in both these years. Over the forecasting horizon, there is a good chance of a sustained upturn in **Germany**'s steel industry. Against the backdrop of moderate inventory levels at year-end 2010, the ongoing recovery in real demand will necessitate inventory replenishment. According to the German Steel Association, market supply is likely to come to some 39 million tons (+ 5 %) in 2011 and reach the 40-million-ton threshold in 2012 (+ 4 %). Due to greater import pressure expected in 2011 and 2012, the expansion in crude steel production is likely to be moderate at best; output volumes are nonetheless expected to resume their long-term trend.

Demand for steel tubes expected to grow

Irrespective of the financial and economic risks, set to persist in the future as well, demand for steel tubes is expected to improve steadily in 2011, boosted by significant improvement in global real economy and still moderate inventory levels across the value chain. Chinese production of steel tubes is likely to expand at a slower rate and be driven principally by domestic demand. The recovery process will be ongoing in the rest of the world as well, although pre-crisis levels will continue to remain out of reach.

Assuming stable oil and gas prices, the energy sector's investment activities are expected to remain high, with greater requirements placed on safety aspects. Strategically important pipeline projects subject to strong political influence may well reach the decision-making stage. In contrast, there is no obvious recovery in power plant construction, also over the forecasting horizon, except in the emerging markets. Demand in the automotive industry is expected to stabilize at the level of 2010 in contrast to mechanical engineering, which will continue to rapidly regain lost ground.

In the year 2012, the aforementioned trends are expected to hold steady although, excepting China, there will be no possibility of matching the levels recorded in the boom years of 2007/2008.

Positive outlook for German mechanical engineering

The outlook for German mechanical engineering, including the sub-segment of filling and packaging technology, suggests a positive year. In their current forecast, experts from the German Engineering Federation (VDMA) anticipate even stronger growth rates (10 %) than in 2010, but without a return to the levels seen in 2008 before the advent of the crisis.

The beverage industry anticipates that global demand will grow by 3.4 % a year up until 2013. Demand in the highly-developed economies, such as Central Europe or America, will predominantly consist of replacement investments and services, as the beverage markets are saturated. In comparison, the growing populations and greater prosperity in the emerging and developing nations, such as Brazil, India or China, will boost order activities for food production and packaging technologies. Consumers' willingness to spend in the eastern European region, in the key market of Russia in particular, has largely recovered and stabilized from the previous year's plunge.

Mechanical engineering companies serving the plastics processing industry will also participate in the general global economic upturn.

Leading indicators specific to the company

In order to identify the risks and opportunities which could impact the operations of the companies within our Group at an early stage and respond to them in an appropriate manner, we screen and analyze the most important markets where changes may exert a considerable influence on the future profit potential of the Group on an ongoing basis. To this end, we use general economic data as well as the specialized knowledge of our employees in the subsidiaries who have detailed information on the respective markets through their contacts with customers and other market participants.

The information collated from the aforementioned sources form the basis of sales forecasts. These forecasts are used, together with other tools, to prepare the internal, annually adjusted enterprise planning for the individual companies, as well as for planning aggregated to the level of the individual divisions and for the Salzgitter Group as a whole. Depending on the market, information is researched as required and specifically on the individual countries, regions and customer sectors in order to enable separate strategies for the individual product market segments to be derived.

The shipment and sales figures anticipated by the Steel Division, and by tubes companies that have 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 from the Steel and Tubes divisions are strongly affected by developments in the construction, chemical and mechanical engineering sectors. Business activities in the mechanical engineering sector naturally have a direct impact on the future capacity utilization situation of the Technology Division.

Beyond this, important indicators, for instance the assumed performance of the global oil and gas markets depending on the oil price, the number of active boreholes (the so-called “rig count”) and the total scope of exploratory drillings, not forgetting the consumption of OCTG (oil country tubular goods) products, are important for our large-diameter tubes companies.

Given the partly pronounced cyclical nature of some of the Group activities, a basic differentiation must be made between indicators with short-term informative value and those with a long-term horizon: Situations may arise in which there may be a short- to medium-term imbalance in supply and demand, for example 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.

In view of the plethora of factors exerting an influence and the complexity of their interaction, it is not possible to provide reliable detailed predictions with long-term of validity for the Group as a whole.

Opportunities and opportunities management

The ongoing screening and analysis of the relevant markets and competitors is carried out centrally by the holding, as well as decentrally by the subsidiaries. This procedure forms the basis for swiftly recognizing opportunities and subsequently deriving suitable strategies to leverage any potential for boosting the success of the company. The existing strengths and core competences of the companies within our Group are incorporated into the preparations underlying strategic decisions. Discernible risks are also taken account of in a responsible manner.

Salzgitter AG has prepared itself well through investments in existing and new production facilities, especially in the Steel Division, to successfully take advantage of perceived opportunities by adjusting its product mix, through the selective ramping up of capacity, 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 considered a matter of course for our corporate success.

The following individual projects and measures in particular give rise to concrete opportunities for raising sales and profit:

- The major “Power Plant 2010” project will raise the supply of Salzgitter Flachstahl’s (SZFG) own electricity by 30% which will reduce the company’s dependency on electricity sourced externally.

- Thanks to the production of slab thicknesses of up to 350 mm on SZFG’s new continuous casting line, Ilsenburger Grobblech GmbH (ILG) is able to supplement its product range and tap new market segments.

- Greater requirements for input material within the Group can be largely covered through production by the new electric arc furnace (“PTG 2010” project) which will serve to reduce the volume of slabs purchased externally.

- HSP Hoesch Spundwand und Profil GmbH (HSP) has installed an additional roll stand which will enable the company to extend its range of sheet piling sections.

- The investment measures carried out in the Tubes, Trading and Technology divisions are geared first and foremost to optimizing product quality and raising productivity.

All in all, the aggregated effect of the aforementioned measures on profit – assuming that the economic environment remains friendly – may very well be in a double-digit or as much as a lower triple-digit million range. More detailed information on the projects described above can be found in the section on “Investments” starting on page 66.

In addition to the projects initiated to promote organic growth, we also fundamentally review external growth options at all times in terms of their suitability.

More detailed explanations can be found in the section entitled “Goals and Key Factors for Success” from page 58 onwards.

3. Strategic Direction of the Group

As in the past, our Group strategy is geared towards retaining its independence through profitability and growth and has therefore been shaped and refined to deliver a steady increase in enterprise value. We intend to adhere to this characteristic of our business policy in the years ahead as well. In this context, the organic development of proven and profitable structures always enjoys a higher priority over external growth through acquisitions. We nonetheless analyze any opportunities arising in terms of their success potential and their compatibility with the Group as it stands. In past years, we have repeatedly delivered proof of our ability to successfully exploit the opportunities that arise thanks to flexible decision-making processes and our sound financial base. Safeguarding our Group's sound balance sheet and financial stability has overriding priority at all times.

As a matter of principle, our companies will concentrate their activities on established sales markets. This process may, however, involve a shift in the focus at regional or sectoral levels. The shape that this will take will ultimately depend on market developments, the positioning of the companies and careful consideration of the opportunities and risks involved.

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

In order to reinforce their market position as manufacturers of high-grade rolled steel products and steel tubes, the companies of the Steel and the Tubes divisions plan and realize investments to ensure the ongoing optimization of the various production stages. The key aims, alongside reducing costs, are mainly product qualification and quality enhancement, tenets that are also valid for the Technology Division. This said, the portfolio of the Salzgitter Group is likely to comprise numerous "new" products in the years ahead that offer a qualitative step forwards and additional application possibilities thanks to ongoing further developments. Here, we make reference to the detailed information in the sections on "Research and Development" starting on page 70 and "Investments", page 66.

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

4. Expected Earnings

As a matter of principle, the corporate planning of Salzgitter AG takes account of the strategic goals and comprises its own set of entrepreneurial measures with action embedded in the general economic environment. Consequently, it forms the basis for a realistic assessment of earnings, but, at the same time, takes account of the long-term aspects relating to investments and the securing of a sound balance sheet and financial stability. For this reason, market expectations prevailing at the time when the plan is drawn up, as well as envisaged entrepreneurial measures, are incorporated into the plan. The plan is drawn up in a process involving the whole Group. 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 entire Group. The underlying boundaries of the Group that were, by definition, the status quo at the time, may not necessarily accord with the structure of the Group at the end of the planning period. This extremely sophisticated Group planning process is conducted once before the start of each new financial year, generally starting in August and ending with the presentation of the insights gained that is delivered at the last meeting of the Group's Supervisory Board in the respective financial year.

In view of most economic research institutes' predictions for a sustained economic recovery and given a considerable increase in the volume supplied to the Tubes Division, the **Steel Division** is anticipating a higher level of orders in 2011. The production of crude steel, flanked by the start to parallel operation of the two electric arc furnaces in Peine, is expected to expand, and both shipments and sales are set to rise. The division has budgeted for a pre-tax profit again in 2011. The success of the business of Salzgitter Flachstahl GmbH (SZFG) depends greatly on the capacity of the flat steel markets to absorb price fluctuations triggered by the cost volatility of raw materials. Based on the expected expansion of shipments and an improvement in the capacity utilization of the rolling mills, positive results are expected. In contrast, Peiner Träger GmbH (PTG) is unlikely to return to the profit zone in 2011 mainly due to the hesitant recovery of the beams market. The success achieved by the structure program should, however, contribute greatly to reducing the loss sustained in the financial year ended. Ilsenburger Grobblech GmbH (ILG) anticipates better sales through the expansion of its delivery program due to the 350 mm thick slabs, and believes that it will be possible to achieve a positive result.

The **Trading Division** expects rising shipment tonnage in both stockholding steel trading as well as in international trading, which will serve to boost sales. Beyond this, a swift acceleration in selling prices, above all in the stockholding steel trading business, should secure higher gross earnings. Assuming a firm steel market, achieving a profit in the mid-double-digit million range appears feasible in 2011.

Irrespective of expectations for a greater shipment volume and better selling prices in a number of individual product segments, the **Tubes Division** anticipates a lower level of profit, with the large-diameter tubes segment generally predicting a considerable decline in results. Selling prices are expected to fall on average, pressured by the project business, both on the European and on the US markets. Moreover, the volume of longitudinally welded tubes in particular is expected to contract in the USA. The HFI-welded tubes operations expect the project business to pick up momentum, which should be reflected in a moderate upturn in the results. The precision tube companies believe that, with demand continuing to run at high levels, it will achieve breakeven in its pre-tax result due to the non-recurrence of special items burdening the result. A moderate recovery in the market could underpin an improvement in the results of the stainless steel tubes segment.

The **Services Division** is set to benefit again from the generally good business of the steel companies in 2011. Consequently, sales and pre-tax profit will be around the level achieved in the financial year ended.

In connection with brisker project business, accompanied by an anticipated recovery in margins, the rising volume of the replacement parts and service business, and the increasing effect of measures implemented to improve processes and enhance efficiency, the earnings situation of the **Technology Division** should continue to recover in comparison with the year ended. A return to breakeven appears possible in the financial year 2011.

The accuracy of the **Salzgitter Group**'s planning is restricted by the volatile cost of raw materials and shorter contractual durations, both on the procurement and on the sales side. Moreover, the risks remain considerable, as before: alongside the foreseeable increase in the cost of raw materials, the sustainability of the recovery in the steel and mechanical engineering markets is still subject to uncertainties. Based on the developments forecast by the individual divisions for our Group, we anticipate an increase in sales of between 15 % and 20 % as against 2010 and a pre-tax profit which is more than double.

As in recent years, we make reference to the fact that opportunities and risks from currently unforeseeable trends in selling prices, input materials and capacity level developments, as well as changes in the currency parity, may considerably affect performance in the course of the financial year 2011. 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 12 million tons of steel products sold by the Steel, Trading and Tubes divisions, an average € 25 contraction in the margin per ton is sufficient to cause a variation in the annual result of more than € 300 million.

The **medium- and long-term outlook** is considered to be relatively intact in respect of all Group companies. Given a steady market recovery, the consolidated sales and pre-tax result should continue to rise in 2012. As, at the current point in time, there is no reliable information available whatsoever about how the relevant framework conditions will develop in the future, no quantifiable outlook can be made for the financial year 2012.

5. Anticipated Financial Position

As the implementation of the extensive investment program in the Steel Division is on the threshold of completion, we have set the Group's investment budget in the financial year 2011 at a figure below that of the previous year (€ 558 million). Together with follow-up investments already approved in previous years, the cash-related portion of the 2011 budget of between € 400 and € 450 million is likely to be substantially lower than the 2010 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, financial resources required for the financial year 2011 will in any case be higher than depreciation and amortization, with the result that the excess amount – depending on developments with regard to the price of raw materials and working capital – will have to be funded by the cash from operating activities and by cash investments. This is feasible from the standpoint of Group management, as sufficient leeway is given.

The financial position of our Group should be comparatively sound at the end of the year, especially in view of the financial transactions effected in 2010. External financing measures, such as borrowing, are not currently envisaged. However, measures of this kind may become feasible 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

The Group anticipates that the general economic framework conditions will stabilize further in 2011. The resulting continuing improvement in business activities should enable the majority of companies to better their performance. It is, however, likely that some individual companies may not be successful in returning to the profit zone as, along with external factors, streamlining measures and investments in particular have not yet been able to take full effect. We expect our Group to generate a pre-tax result of at least € 100 million. The Steel Division is likely to make the largest contribution to improving profit. The Tubes and Trading divisions are unlikely to be able to match the results of the year 2010 owing to the lower level of margins. The Technology Division should improve its result noticeably. There are still fundamentally considerable risks such as another hike in the price of raw materials or regulations imposed by environmental and energy policies.

From today's standpoint, no reliable quantified outlook for sales and the result of the Salzgitter Group can be given for 2012. We nonetheless assume that the economic upswing will continue by and large with the corresponding effect on the pre-tax profit.

Our financial reserves will be used partly to finance the major investments currently being implemented and to raise working capital. The projects will be completed for the most part in 2011, which will expand our entrepreneurial potential in the future. Considering the currently considerable risks inherent in economic development and policies, we believe it imperative to keep cash and cash equivalents in the mid triple-digit million range available. By adopting this approach, we wish to avert the predicament of having to tap the capital market for funds to finance our operations in a potential crisis situation. The experience of other companies during the all too recent economic crisis have shown that such measures are only possible at extremely unfavorable interest rates.

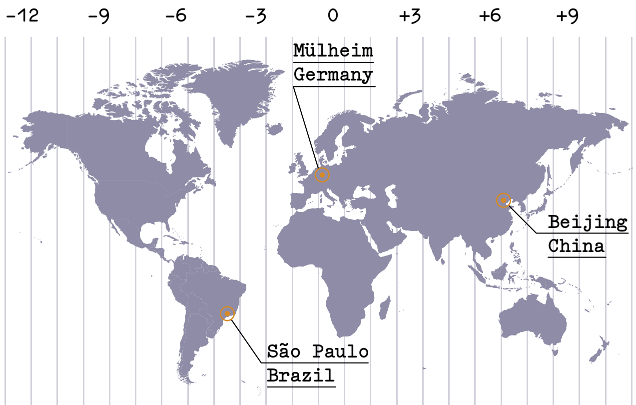
The Profit Improvement Program, which was also stringently pursued in boom times, has so far dispensed with the need for hectic cost-cutting and restructuring measures. The relaunch of the Profit Improvement Program will deliver additional contributions to the economic performance of the company in the coming years.

In conclusion, proof has been delivered that, owing to its broad-based business, sound financial base and its flat and efficient organizational structures, the Salzgitter Group is comparatively well prepared to meet challenging phases. We will continue to adhere to this approach in the future.

As before, the amount of dividend will be geared to the profit trend. The cyclical fluctuations typical of the sector are by nature reflected in the results of the Group on the one hand, and in its share price, on the other. 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 – removed from volatile reporting-date related influences – based on the pre-requisite of achieving actual operating profit. Such payment does not necessarily have to fully reflect the cyclicality of the earnings performance.

24 hours at Salzgitter:

23.00 CET



While few people are up and about in early-morning Beijing, the night shift started work one hour ago at the plate mill in Mülheim. In fact, Christmas and New Year are the only times the machines ever idle. In the meantime, there is a touch of romance in the evening air in São Paulo: The entire KHS team are celebrating with colleagues Karina Viotti and Renato Sampaio who are getting married in two days' time.

Mülheim, Germany, 23.00:

In the Mülheim control room, Jörg Barmscheidt and Kurt Huhn are in charge of the rolling mill: While Jörg operates the drive systems, his colleague Kurt checks and adjusts the roll settings. The plate rolled here is used mainly to produce oil and gas line pipes – for the Nord Stream pipeline beneath the Baltic, for example.

São Paulo

Brazil

Local time 19.00

Company: **KHS Indústria de Máquinas Ltda.**

Division: **Technology**

Product: **Packaging and filling machinery**

KISS fan Rogerio Dourado (in grey) is an assembly worker at KHS. In the evenings he studies mechanical engineering – he wants to become an engineer.

Karina Viotti and Renato Sampaio drink a toast with colleagues – on their last day at work before their wedding. They are the third couple to meet and marry at KHS.

The slabs are heated to over 1,000 °C before being rolled with a force of around 6,000 tons on the rolling stand.

Mülheim

Germany

Local time 23.00

Company: **Salzgitter Mannesmann Grobblech GmbH**

Division: **Tubes**

Product: **Large-diameter tubes**

Beijing

China

Local time 06.00

Company: **Salzgitter Mannesmann Trade Co. Ltd.**

Division: **Trading**

Product: **Rolled steel products and tubes**

Cleaner Li Dongying enjoys the early morning peace in the office – her old job as a shop assistant was too stressful and decidedly not good for her blood pressure.

A few meters further on, the rolled slabs are left to cool. Shift foreman Frank Hartmann gives his colleague in the control console the thumbs up: The slabs are OK. At weekends he takes to the stage – as the drummer with a rock 'n' roll cover band.

Early riser Mao Xuemei is also already at her desk: As assistant to the Chief Representative, she uses the time to keep up to date with events.

Apart from these two early birds, Beijing's Sunflower Tower is still empty at this hour.

Overview of Consolidated Financial Statements

B Consolidated Financial Statements

I. Consolidated Income Statement

In € m	Note	FY 2010	FY 2009
Sales	[1]	8,304.6	7,818.0
Increase/decrease in finished goods and work in process/other own work capitalized	[2]	159.7	–245.0
		8,464.3	**7,573.0**
Other operating income	[3]	348.2	409.3
Cost of materials	[4]	5,887.7	5,456.1
Personnel expenses	[5]	1,423.8	1,396.9
Amortization and depreciation	[6]	377.1	542.6
Other operating expenses	[7]	1,040.0	1,030.1
Income from shareholdings	[8]	11.3	1.1
Income from associated companies	[9]	67.5	56.7
Impairment losses on financial assets	[10]	2.7	25.7
Finance income	[11]	28.0	33.5
Finance expenses	[11]	139.0	118.7
Earnings before tax		**48.9**	**–496.5**
Income tax	[12]	18.9	–109.6
Consolidated net income/loss for the financial year		**30.0**	**–386.9**
Consolidated net income/loss for the financial year due to Salzgitter AG shareholders		29.8	–383.7
Minority interests	[13]	0.2	–3.2

Appropriation of profit in € m	Note	FY 2010	FY 2009
Consolidated net income/loss for the financial year		30.0	–386.9
Profit carried forward from the previous year		15.1	84.2
Minority interests		0.2	–3.2
Dividend payment		–13.6	–75.7
Appropriation to other retained earnings		–12.0	–
Allocation from other retained earnings		–	390.4
Unappropriated retained earnings		**19.3**	**15.1**

Basic earnings per share (in €)	[14]	**0.55**	**–7.10**
Diluted earnings per share (in €)	[14]	**0.55**	**–7.10**

II. Statement of Recognized Income and Expenses

In € m	FY 2010	FY 2009
Consolidated net income/loss for the financial year	**30.0**	**–386.9**
Changes in currency translation	10.4	2.2
Change from hedging transactions		
Changes in current value recorded directly in equity	–3.3	13.6
Recognition of settled hedging transactions with effect on income	2.6	–11.0
Changes in current value recorded directly in equity of financial assets in the “Available-for-sale” assets category	–4.3	11.7
Actuarial gains and losses	–95.1	–96.8
Deferred tax on current changes without effect on income	33.8	28.1
Other changes without effect on income	–5.2	3.2
Changes in the financial year recorded directly in equity	**–61.1**	**–49.0**
Total comprehensive income	**–31.1**	**–435.9**
Total comprehensive income due to Salzgitter AG shareholders	–31.4	–432.7
Total comprehensive income due to minority interests	0.3	–3.2
	–31.1	**–435.9**

III. Consolidated Balance Sheet

Assets in € m	Note	31/12/2010	31/12/2009
Non-current assets			
Intangible assets	[15]	121.8	123.8
Property, plant and equipment	[16]	2,529.2	2,423.5
Investment property	[17]	24.2	25.9
Financial investments	[18]	78.9	77.4
Associated companies	[19]	488.4	400.8
Deferred income tax assets	[20]	201.6	129.0
Other receivables and other assets	[21]	3.1	3.3
		3,447.2	**3,183.7**
Current assets			
Inventories	[22]	1,730.1	1,465.6
Trade receivables	[23]	1,175.9	1,056.6
Other receivables and other assets	[24]	248.1	283.7
Income tax assets	[25]	135.6	109.4
Securities	[26]	377.5	159.5
Cash and cash equivalents	[27]	1,574.3	1,793.0
		5,241.5	**4,867.8**
		8,688.7	**8,051.5**

Equity and liabilities in € m	Note	31/12/2010	31/12/2009
Equity			
Subscribed capital	[28]	161.6	161.6
Capital reserve	[29]	238.6	238.6
Retained earnings	[30]	3,785.5	3,835.4
Unappropriated retained earnings	[31]	19.3	15.1
		4,205.0	**4,250.7**
Treasury shares	[30]	–369.7	–359.4
		3,835.3	**3,891.3**
Minority interests	[32]	10.6	13.0
		3,845.9	**3,904.3**
Non-current liabilities			
Provisions for pensions and similar obligations	[33]	1,926.3	1,857.6
Deferred tax liabilities	[20]	48.3	3.8
Income tax liabilities	[25]	193.6	200.5
Other provisions	[34]	274.1	184.8
Financial liabilities	[35]	591.0	306.0
		3,033.3	**2,552.7**
Current liabilities			
Other provisions	[34]	444.2	515.3
Financial liabilities	[36]	128.2	81.4
Trade payables	[37]	713.3	541.3
Income tax liabilities	[25]	46.1	75.3
Other liabilities	[38]	477.7	381.2
		1,809.5	**1,594.5**
		8,688.7	**8,051.5**

(42) Cash Flow Statement

In € m	FY 2010	FY 2009
Earnings before tax (EBT)	48.9	–496.5
Depreciation, write-downs (+)/write-ups (–) on non-current assets	379.7	568.2
Income tax paid	–51.3	–2.2
Other non-payment-related expenses (+)/income (–)	132.6	155.6
Interest expenses	139.0	118.7
Increase (–)/decrease (+) from the disposal of non-current assets	10.1	–2.1
Increase (–)/decrease (+) in inventories	–264.5	1,093.2
Increase (–)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	–132.4	518.3
Use of provisions affecting payments, excluding use of tax provision	–259.6	–263.3
Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	206.1	–499.9
Cash inflow from operating activities	**208.6**	**1,190.0**
Cash inflow from the disposal of fixed assets	27.4	0.8
Cash outflow for investments in intangible and fixed assets	–445.5	–653.2
Cash inflow for short-term loans against borrower's note/bonds	–	500.0
Cash outflow for funds	–214.4	–
Cash inflow from the disposal of financial assets	3.2	6.8
Cash outflow for investments in financial assets	–43.0	–39.7
Cash outflow from investment activities	**–672.3**	**–185.3**
Cash inflow (+)/outflow (–) as a result of selling and repurchasing treasury shares	–10.3	13.8
Cash outflow in payments to company owners	–13.6	–75.7
Cash inflow (+)/outflow (–) as a result of the issuing of bonds, borrowings and other financial liabilities	282.3	280.7
Interest paid	–16.1	–17.0
Cash inflow from financing activities	**242.3**	**201.8**
Cash and cash equivalents at the start of the period	1,793.0	592.1
Cash and cash equivalents relating to changes of the consolidated group	–	–5.8
Gains and losses from changes in foreign exchange rates	2.7	0.2
Payment-related changes in cash and cash equivalents	–221.4	1,206.5
Cash and cash equivalents at the end of the period	**1,574.3**	**1,793.0**

V. Statement of Changes in Equity

(28 to 32) Statement of Changes in Equity

In € m	Subscribed capital	Capital reserve	Purchase/ 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 01/01/2009	**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	–	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**
Goodwill resulting from the acquisition of minority interests	–	–	–	–0.6	–	–	–	–	–	–0.6	–0.1	–0.8
Total income	–	–	–	–0.1	10.4	–0.7	–4.3	–66.5	29.8	–31.5	0.3	–31.1
Dividend	–	–	–	–	–	–	–	–	–13.6	–13.6	–	–13.6
Disposal of treasury shares	–	–	–	–	–	–	–	–	–	–	–	–
Repurchase of treasury shares	–	–	–10.3	–	–	–	–	–	–	–10.3	–	–10.3
Appropriation to capital reserve from convertible bond	–	–	–	–	–	–	–	–	–	–	–	–
Group transfers to retained earnings	–	–	–	12.0	–	–	–	–	–12.0	–	–	–
Other	–	–	–	–0.1	–	–	–	–	–	–0.1	–2.6	–2.7
Status 31/12/2010	**161.6**	**238.6**	**–369.7**	**4,108.1**	**–14.5**	**–0.3**	**–6.1**	**–301.8**	**19.3**	**3,835.3**	**10.6**	**3,845.9**

(43) Segment Reporting

In € m	Steel		Trading		Tubes		Services		Technology		Total segments	
	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009
External sales	2,268.6	1,673.6	2,958.2	3,038.7	1,736.1	2,044.6	413.1	302.9	872.9	717.6	8,248.9	7,777.4
Sales to other segments	905.0	761.3	150.5	80.5	264.4	383.1	655.8	443.5	0.6	0.3	1,976.3	1,668.7
Sales to Group companies that cannot be allocated to an operating segment	–	1.1	–	8.4	0.6	0.6	3.9	5.8	0.2	0.2	4.7	16.1
Segment sales	3,173.6	2,436.0	3,108.7	3,127.6	2,001.1	2,428.4	1,072.8	752.2	873.7	718.1	10,229.9	9,462.2
Interest income (consolidated)	2.9	1.4	6.8	6.9	1.4	1.8	0.8	0.6	2.8	3.0	14.7	13.7
Interest income from Group companies that cannot be allocated to an operating segment	0.4	0.3	0.8	–	1.9	1.3	14.4	12.6	0.3	0.1	17.8	14.3
Segment interest income	3.3	1.7	7.6	6.9	3.3	3.1	15.2	13.2	3.1	3.1	32.5	28.0
Interest expenses (consolidated)	23.2	12.3	10.6	8.8	7.5	8.2	14.4	15.0	11.6	11.2	67.3	55.5
Interest expenses to Group companies that cannot be allocated to an operating segment	68.0	50.5	5.7	17.1	8.5	12.2	2.2	2.4	2.5	1.6	86.9	83.8
Segment interest expenses	91.2	62.8	16.3	25.9	16.0	20.4	16.6	17.4	14.1	12.8	154.2	139.3
Scheduled depreciation of property, plant and equipment and amortization of intangible assets (excluding impairment costs in accordance with IAS 36)	195.0	168.9	10.4	11.4	41.7	43.4	22.3	23.5	25.9	30.8	295.3	278.0
Unscheduled write-downs (impairment costs in accordance with IAS 36) on tangible assets and amortization of intangible assets[1]	80.0	139.0	–	6.1	–	29.9	–	–	–	67.2	80.0	242.2
Unscheduled write-downs (impairment costs in accordance with IAS 36) on financial assets[1]	–	–	0.4	1.5	1.2	21.4	–	–	1.1	2.8	2.7	25.7
Result for the period in the segment	–100.6	–373.5	71.4	–128.0	59.9	104.0	26.2	8.2	–30.3	–210.4	26.6	–599.7
of which income from associated companies	0.8	3.4	–	–	–0.5	–6.9	–	–	–	–	0.3	–3.5
Material non-cash items	24.2	31.1	33.8	12.2	21.4	51.0	26.1	19.7	36.8	77.0	142.3	191.0
Segmental operating assets	2,852.1	2,434.6	883.0	863.5	1,269.1	1,368.5	596.6	563.6	815.1	880.6	6,415.9	6,110.9
of which shares in associated companies	1.1	1.4	–	–	95.3	87.0	–	–	–	–	96.4	88.4
Investments in property, plant and equipment and intangible assets	409.8	541.0	4.0	12.9	36.5	55.2	25.2	39.0	20.9	27.3	496.4	675.4
Segmental operating liabilities	2,042.9	1,903.6	880.5	796.8	1,011.9	950.0	545.5	485.7	1,122.0	1,108.0	5,602.8	5,244.1

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

Analysis of Fixed Assets 2010

In € m	Acquisition and production costs							Valuation allowances								Book values	
	01/01/2010	Currency translation differences	Changes in the consoli-dation group	Additions	Disposals	Transfers to other accounts	31/12/2010	01/01/2010	Currency translation differences	Changes in the consoli-dation group	Write-up	Deprecia-tion in the financial year[1]	Disposals	Transfers to other accounts	31/12/2010	31/12/2010	31/12/2009
Intangible assets																	
Goodwill	51.6	–	–	–	–	–	51.6	51.6	–	–	–	–	–	–	51.6	–	–
Concessions, industrial property rights and similar rights and assets, including licenses to such rights and assets	292.2	0.3	–	8.3	3.0	–	297.8	171.8	0.1	–	–	13.8	2.7	–	183.0	114.8	120.4
Payments on account	3.4	–	–	0.3	–	3.3	7.0	–	–	–	–	–	–	–	–	7.0	3.4
	347.2	**0.3**	**–**	**8.6**	**3.0**	**3.3**	**356.4**	**223.4**	**0.1**	**–**	**–**	**13.8**	**2.7**	**–**	**234.6**	**121.8**	**123.8**
Property, plant and equipment																	
Land, similar rights and buildings, including buildings on land owned by others	1,256.2	3.8	–	59.2	0.8	100.2	1,418.6	704.8	0.6	–	–	51.9	0.8	–0.2	756.3	662.3	551.4
Plant equipment and machinery	4,698.9	5.6	–	335.9	93.9	416.3	5,362.8	3,499.9	2.4	–	–	280.4	70.3	0.9	3,713.3	1,649.5	1,199.0
Other equipment, factory and office equipment	321.4	0.9	–	22.2	9.3	4.8	340.0	236.5	0.5	–	–	29.4	8.5	–	257.9	82.1	84.9
Payments made on account and equipments under construction	591.0	0.2	–	70.6	–	–524.6	137.2	2.8	–	–	–	–	–	–0.9	1.9	135.3	588.2
	6,867.5	**10.5**	**–**	**487.9**	**104.0**	**–3.3**	**7,258.6**	**4,444.0**	**3.5**	**–**	**–**	**361.7**	**79.6**	**–0.2**	**4,729.4**	**2,529.2**	**2,423.5**
Investment property	**30.6**	**–**	**–**	**0.1**	**–**	**–**	**30.7**	**4.7**	**–**	**–**	**–**	**1.6**	**–**	**0.2**	**6.5**	**24.2**	**25.9**
Financial investments																	
Shares in affiliated companies	42.5	–	–	0.4	1.0	–	41.9	12.3	–	–	–	1.6	–	–	13.9	28.0	30.2
Shareholdings	33.2	–	–	1.1	0.3	–	34.0	21.9	–	–	–	1.1	–	–	23.0	11.0	11.3
Loans to affiliated companies	5.5	–	–	–	0.3	–	5.2	–	–	–	–	–	–	–	–	5.2	5.5
Non-current securities	21.2	–	–	4.3	0.8	–	24.7	–	–	–	0.1	–	–	–	–0.1	24.8	21.2
Other loans	9.8	0.5	–	1.7	1.5	–	10.5	0.6	–	–	–	–	–	–	0.6	9.9	9.2
	112.2	**0.5**	**–**	**7.5**	**3.9**	**–**	**116.3**	**34.8**	**–**	**–**	**0.1**	**2.7**	**–**	**–**	**37.4**	**78.9**	**77.4**
	7,357.5	**11.3**	**–**	**504.1**	**110.9**	**–**	**7,762.0**	**4,706.9**	**3.6**	**–**	**0.1**	**379.8**	**82.3**	**–**	**5,007.9**	**2,754.1**	**2,650.6**

[1] The composition of the impairments shown herein (unscheduled depreciation/amortization) is shown under Note 6 of the Notes to the Consolidated Financial Statements.

Analysis of Fixed Assets 2009

In € m	Acquisition and production costs							Valuation allowances								Book values	
	01/01/2009	Currency translation differences	Changes in the consolidation group	Additions	Disposals	Transfers to other accounts	31/12/2009	01/01/2009	Currency translation differences	Changes in the consolidation group	Write-up	Depreciation 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 equipments 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 shown herein (unscheduled depreciation/amortization) is shown under Note 6 of the Notes to the Consolidated Financial Statements.

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
–2.2	**–13.5**	**–169.8**	**84.2**	**4,318.8**	**27.3**	**4,346.1**
				12.5		12.5
–	–	–	–	3.0	–8.0	–5.0
2.6	11.7	–65.5	–383.8	–432.7	–3.2	–435.9
–	–	–	–75.7	–75.7	–	–75.7
–	–	–	–	15.5	–	15.5
–	–	–	–	–2.1	–	–2.1
–	–	–	–	54.4		54.4
–	–	–	390.4	–	–	–
–	–	–	–	–2.4	–3.1	–5.5
0.4	**–1.8**	**–235.3**	**15.1**	**3,891.3**	**13.0**	**3,904.3**
–	–	–	–	–0.6	–0.1	–0.8
–0.7	–4.3	–66.5	29.8	–31.5	0.3	–31.1
–	–	–	–13.6	–13.6	–	–13.6
–	–	–	–	–	–	–
–	–	–	–	–10.3	–	–10.3
–	–	–	–	–	–	–
–	–	–	–12.0	–	–	–
–	–	–	–	–0.1	–2.6	–2.7
–0.3	**–6.1**	**–301.8**	**19.3**	**3,835.3**	**10.6**	**3,845.9**

(43) Segment Reporting

In € m	Steel		Trading	
	FY 2010	FY 2009	FY 2010	FY 2009
External sales	2,268.6	1,673.6	2,958.2	3,038.7
Sales to other segments	905.0	761.3	150.5	80.5
Sales to Group companies that cannot be allocated to an operating segment	–	1.1	–	8.4
Segment sales	3,173.6	2,436.0	3,108.7	3,127.6
Interest income (consolidated)	2.9	1.4	6.8	6.9
Interest income from Group companies that cannot be allocated to an operating segment	0.4	0.3	0.8	–
Segment interest income	3.3	1.7	7.6	6.9
Interest expenses (consolidated)	23.2	12.3	10.6	8.8
Interest expenses to Group companies that cannot be allocated to an operating segment	68.0	50.5	5.7	17.1
Segment interest expenses	91.2	62.8	16.3	25.9
Scheduled depreciation of property, plant and equipment and amortization of intangible assets (excluding impairment costs in accordance with IAS 36)	195.0	168.9	10.4	11.4
Unscheduled write-downs (impairment costs in accordance with IAS 36) on tangible assets and amortization of intangible assets[1)]	80.0	139.0	–	6.1
Unscheduled write-downs (impairment costs in accordance with IAS 36) on financial assets[1)]	–	–	0.4	1.5
Result for the period in the segment	–100.6	–373.5	71.4	–128.0
of which income from associated companies	0.8	3.4	–	–
Material non-cash items	24.2	31.1	33.8	12.2
Segmental operating assets	2,852.1	2,434.6	883.0	863.5
of which shares in associated companies	1.1	1.4	–	–
Investments in property, plant and equipment and intangible assets	409.8	541.0	4.0	12.9
Segmental operating liabilities	2,042.9	1,903.6	880.5	796.8

Tubes		Services		Technology		Total segments	
FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009
1,736.1	2,044.6	413.1	302.9	872.9	717.6	8,248.9	7,777.4
264.4	383.1	655.8	443.5	0.6	0.3	1,976.3	1,668.7
0.6	0.6	3.9	5.8	0.2	0.2	4.7	16.1
2,001.1	2,428.4	1,072.8	752.2	873.7	718.1	10,229.9	9,462.2
1.4	1.8	0.8	0.6	2.8	3.0	14.7	13.7
1.9	1.3	14.4	12.6	0.3	0.1	17.8	14.3
3.3	3.1	15.2	13.2	3.1	3.1	32.5	28.0
7.5	8.2	14.4	15.0	11.6	11.2	67.3	55.5
8.5	12.2	2.2	2.4	2.5	1.6	86.9	83.8
16.0	20.4	16.6	17.4	14.1	12.8	154.2	139.3
41.7	43.4	22.3	23.5	25.9	30.8	295.3	278.0
–	29.9	–	–	–	67.2	80.0	242.2
1.2	21.4	–	–	1.1	2.8	2.7	25.7
59.9	104.0	26.2	8.2	–30.3	–210.4	26.6	–599.7
–0.5	–6.9	–	–	–	–	0.3	–3.5
21.4	51.0	26.1	19.7	36.8	77.0	142.3	191.0
1,269.1	1,368.5	596.6	563.6	815.1	880.6	6,415.9	6,110.9
95.3	87.0	–	–	–	–	96.4	88.4
36.5	55.2	25.2	39.0	20.9	27.3	496.4	675.4
1,011.9	950.0	545.5	485.7	1,122.0	1,108.0	5,602.8	5,244.1

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

Analysis of Fixed Assets 2010

In € m	Acquisition and production costs						
	01/01/2010	Currency translation differences	Changes in the consoli-dation group	Additions	Disposals	Transfers to other accounts	31/12/2010
Intangible assets							
Goodwill	51.6	–	–	–	–	–	51.6
Concessions, industrial property rights and similar rights and assets, including licenses to such rights and assets	292.2	0.3	–	8.3	3.0	–	297.8
Payments on account	3.4	–	–	0.3	–	3.3	7.0
	347.2	**0.3**	**–**	**8.6**	**3.0**	**3.3**	**356.4**
Property, plant and equipment							
Land, similar rights and buildings, including buildings on land owned by others	1,256.2	3.8	–	59.2	0.8	100.2	1,418.6
Plant equipment and machinery	4,698.9	5.6	–	335.9	93.9	416.3	5,362.8
Other equipment, factory and office equipment	321.4	0.9	–	22.2	9.3	4.8	340.0
Payments made on account and equipments under construction	591.0	0.2	–	70.6	–	–524.6	137.2
	6,867.5	**10.5**	**–**	**487.9**	**104.0**	**–3.3**	**7,258.6**
Investment property	**30.6**	**–**	**–**	**0.1**	**–**	**–**	**30.7**
Financial investments							
Shares in affiliated companies	42.5	–	–	0.4	1.0	–	41.9
Shareholdings	33.2	–	–	1.1	0.3	–	34.0
Loans to affiliated companies	5.5	–	–	–	0.3	–	5.2
Non-current securities	21.2	–	–	4.3	0.8	–	24.7
Other loans	9.8	0.5	–	1.7	1.5	–	10.5
	112.2	**0.5**	**–**	**7.5**	**3.9**	**–**	**116.3**
	7,357.5	**11.3**	**–**	**504.1**	**110.9**	**–**	**7,762.0**

Valuation allowances								Book values	
01/01/2010	Currency translation differences	Changes in the consolidation group	Write-up	Depreciation in the financial year[1]	Disposals	Transfers to other accounts	31/12/2010	31/12/2010	31/12/2009
51.6	–	–	–	–	–	–	51.6	–	–
171.8	0.1	–	–	13.8	2.7	–	183.0	114.8	120.4
–	–	–	–	–	–	–	–	7.0	3.4
223.4	**0.1**	**–**	**–**	**13.8**	**2.7**	**–**	**234.6**	**121.8**	**123.8**
704.8	0.6	–	–	51.9	0.8	–0.2	756.3	662.3	551.4
3,499.9	2.4	–	–	280.4	70.3	0.9	3,713.3	1,649.5	1,199.0
236.5	0.5	–	–	29.4	8.5	–	257.9	82.1	84.9
2.8	–	–	–	–	–	–0.9	1.9	135.3	588.2
4,444.0	**3.5**	**–**	**–**	**361.7**	**79.6**	**–0.2**	**4,729.4**	**2,529.2**	**2,423.5**
4.7	**–**	**–**	**–**	**1.6**	**–**	**0.2**	**6.5**	**24.2**	**25.9**
12.3	–	–	–	1.6	–	–	13.9	28.0	30.2
21.9	–	–	–	1.1	–	–	23.0	11.0	11.3
–	–	–	–	–	–	–	–	5.2	5.5
–	–	–	0.1	–	–	–	–0.1	24.8	21.2
0.6	–	–	–	–	–	–	0.6	9.9	9.2
34.8	**–**	**–**	**0.1**	**2.7**	**–**	**–**	**37.4**	**78.9**	**77.4**
4,706.9	**3.6**	**–**	**0.1**	**379.8**	**82.3**	**–**	**5,007.9**	**2,754.1**	**2,650.6**

[1] The composition of the impairments shown herein (unscheduled depreciation/amortization) is shown under Note 6 of the Notes to the Consolidated Financial Statements.

Analysis of Fixed Assets 2009

In € m	Acquisition and production costs						
	01/01/2009	Currency translation differences	Changes in the consoli-dation group	Additions	Disposals	Transfers to other accounts	31/12/2009
Intangible assets							
Goodwill	51.6	–	–	–	–	–	51.6
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
Payments on account	1.8	–	–	2.4	–	–0.8	3.4
	332.2	**–0.1**	**1.4**	**12.6**	**2.3**	**3.4**	**347.2**
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
Plant equipment and machinery	4,341.8	–1.6	36.2	283.9	135.6	174.2	4,698.9
Other equipment, factory and office equipment	305.0	0.1	0.8	26.1	16.3	5.7	321.4
Payments made on account and equipments under construction	502.1	–0.1	1.1	312.4	2.1	–222.4	591.0
	6,329.7	**–2.1**	**57.1**	**664.3**	**177.6**	**–3.9**	**6,867.5**
Investment property	**32.1**	–	–	–	**2.0**	**0.5**	**30.6**
Financial investments							
Shares in affiliated companies	50.3	–	–	5.2	12.1	–0.9	42.5
Shareholdings	37.9	–0.7	–	17.9	22.8	0.9	33.2
Loans to affiliated companies	18.5	–	–	1.0	14.0	–	5.5
Non-current securities	24.1	–	–	15.1	18.0	–	21.2
Other loans	12.5	–0.3	–	0.7	3.1	–	9.8
	143.3	**–1.0**	–	**39.9**	**70.0**	–	**112.2**
	6,837.3	**–3.2**	**58.5**	**716.8**	**251.9**	–	**7,357.5**

Valuation allowances								Book values	
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
31.0	–	–	–	20.6	–	–	51.6	–	20.6
96.6	–	0.1	–	77.5	2.4	–	171.8	120.4	182.2
–	–	–	–	–	–	–	–	3.4	1.8
127.6	**–**	**0.1**	**–**	**98.1**	**2.4**	**–**	**223.4**	**123.8**	**204.6**
635.6	−0.1	0.9	–	75.6	7.0	−0.2	704.8	551.4	545.2
3,274.9	−0.9	4.5	–	330.3	108.9	–	3,499.9	1,199.0	1,066.9
216.8	–	0.6	–	34.6	15.5	–	236.5	84.9	88.2
3.0	–	–	–	–	–	−0.2	2.8	588.2	499.1
4,130.3	**−1.0**	**6.0**	**–**	**440.5**	**131.4**	**−0.4**	**4,444.0**	**2,423.5**	**2,199.4**
0.5	**–**	**–**	**–**	**4.0**	**0.2**	**0.4**	**4.7**	**25.9**	**31.6**
10.8	–	–	–	11.3	9.8	–	12.3	30.2	39.5
9.7	–	–	–	14.4	2.2	–	21.9	11.3	28.2
–	–	–	–	–	–	–	–	5.5	18.5
–	–	–	–	–	–	–	–	21.2	24.1
0.7	–	–	0.1	–	–	–	0.6	9.2	11.8
21.2	**–**	**–**	**0.1**	**25.7**	**12.0**	**–**	**34.8**	**77.4**	**122.1**
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 shown herein (unscheduled depreciation/ amortization) is shown under Note 6 of the Notes to the Consolidated Financial Statements.

List of Shareholdings

	Abbre-viation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
1. Consolidated group companies							
a) Domestic							
Salzgitter Stahl GmbH, Salzgitter	SZS	EUR		100.00	240,024	0	P&L A.
Salzgitter Flachstahl GmbH, Salzgitter	SZFG	EUR	5.05	94.95	185,287	0	P&L A.
Peiner Träger GmbH, Peine	PTG	EUR	5.18	94.82	54,930	0	P&L A.
Ilsenburger Grobblech GmbH, Ilsenburg	ILG	EUR	5.37	94.63	26,213	0	P&L A.
Salzgitter Bauelemente GmbH, Salzgitter	SZBE	EUR		100.00	1,013	0	P&L A.
HSP Hoesch Spundwand und Profil GmbH, Dortmund	HSP	EUR		100.00	14,724	0	P&L A.
Salzgitter Europlatinen GmbH, Salzgitter	SZEP	EUR		100.00	4,886	0	P&L A.
Hövelmann & Lueg GmbH, Schwerte	HLG	EUR	5.10	94.90	2,999	0	P&L A.
Salzgitter Mannesmann Handel GmbH, Düsseldorf	SMHD	EUR	5.10	94.90	75,211	0	P&L A.
Salzgitter Mannesmann International GmbH, Düsseldorf	SMID	EUR		100.00	10,312	0	P&L A.
Salzgitter Mannesmann Stahlhandel GmbH, Düsseldorf	SMSD	EUR		100.00	22,892	0	P&L A.
Stahl-Center Baunatal GmbH, Baunatal	SCB	EUR		100.00	5,583	0	P&L A.
Universal Eisen und Stahl GmbH, Neuss	UES	EUR	5.10	94.90	14,975	0	P&L A.
Salzgitter Mannesmann Großrohr GmbH, Salzgitter	MGR	EUR	5.10	94.90	7,029	0	P&L A.
Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr	MRW	EUR		100.00	1,018	0	P&L A.
Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr	MGB	EUR		100.00	10,633	0	P&L A.
Salzgitter Mannesmann Präzisrohr GmbH, Hamm	MPR	EUR		100.00	38,356	0	P&L A.
Salzgitter Mannesmann Rohr Sachsen GmbH, Zeithain	MRS	EUR		100.00	14,665	0	P&L A.
Salzgitter Mannesmann Precision GmbH, Mülheim an der Ruhr	SMP	EUR		100.00	50,515	0	P&L A.

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
Salzgitter Mannesmann Line Pipe GmbH, Siegen	MLP	EUR		100.00	19,838	0	P&L A.
Salzgitter Mannesmann Stainless Tubes GmbH, Mülheim an der Ruhr	MST	EUR		100.00	15,118	0	P&L A.
Salzgitter Mannesmann Stainless Tubes Deutschland GmbH, Remscheid	MSTD	EUR		100.00	33,805	0	P&L A.
Klöckner-Werke AG, Duisburg	KWAG	EUR		95.78	160,767	–84,060	
KHS GmbH, Dortmund	KHSDE	EUR		100.00	223,618	0	P&L A., change of legal form
Klöckner Mercator Maschinenbau GmbH, Duisburg	KMM	EUR		100.00	102,320	0	P&L A.
Klöckner DESMA Elastomertechnik GmbH, Fridingen	KDE	EUR		85.00	3,835	0	P&L A.
Klöckner DESMA Schuhmaschinen GmbH, Achim	KDS	EUR		100.00	5,113	0	P&L A.
RSE Grundbesitz und Beteiligungs-Aktiengesellschaft, Frankfurt am Main	RSE	EUR		100.00	28,146	7,379	
Klöckner PET-Technologie GmbH, Frankfurt am Main	SMPET	EUR		100.00	97,946	7,319	
KHS Corpoplast GmbH, Hamburg	BEVCP	EUR		100.00	47,800	0	P&L A., change of legal form
KHS Plasmax GmbH, Hamburg	BEVPX	EUR		100.00	1,534	0	P&L A.
DEUMU Deutsche Erz- und Metall-Union GmbH, Peine	DMU	EUR	5.10	94.90	10,699	0	P&L A.
Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter	VPS	EUR	5.10	94.90	19,784	0	P&L A.
Hansaport Hafenbetriebsgesellschaft mbH, Hamburg	HAN	EUR		51.00	5,156	0	P&L A.
Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Osnabrück	SZAB	EUR	100.00		12,966	45	
SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter	SIT	EUR		100.00	26	0	P&L A.
Salzgitter Hydroforming GmbH & Co. KG, Crimmitschau	SZHF	EUR	100.00		9,808	2,104	
Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück	SZAE	EUR		100.00	2,181	–1,481	

	Abbre-viation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück	SZAI	EUR		100.00	271	113	
GESIS Gesellschaft für Informationssysteme mbH, Salzgitter	GES	EUR		100.00	2,626	0	P&L A.
TELCAT KOMMUNIKATIONS-TECHNIK GmbH, Salzgitter	TCG	EUR		100.00	526	0	P&L A.
Glückauf Immobilien GmbH, Peine	GIG	EUR	5.19	94.81	30	0	P&L A., Change of name
SZST Salzgitter Service und Technik GmbH, Salzgitter	SZST	EUR		100.00	250	0	P&L A.
Salzgitter Mannesmann Forschung GmbH, Salzgitter	SZMF	EUR		100.00	804	0	P&L A.
TELCAT MULTICOM GmbH, Salzgitter	TMG	EUR		100.00	2,996	0	P&L A.
Salzgitter Mannesmann GmbH, Salzgitter	SMG	EUR	100.00		2,342,831	42,633	
b) Abroad							
Salzgitter Mannesmann Staalhandel B.V., Oosterhout	SMNL	EUR		100.00	70,016	8,282	Change of name
Salzgitter Mannesmann International (Canada) Inc., Vancouver	SMIV	CAD		100.00	23,528	719	
Salzgitter Mannesmann Stahlhandel s.r.o., Prag	SMCZ	CZK		100.00	46,452	545	
Salzgitter Mannesmann Stahlhandel sp.z.o.o., Slupca	SMPL	PLN		100.00	15,146	5,691	
Salzgitter Mannesmann International (USA) Inc., Houston	SMIH	USD		100.00	6,956	3,306	
Salzgitter Mannesmann Précision Etirage SAS, Chéu	MPE	EUR		100.00	–2,893	–15,081	
Salzgitter Mannesmann Seamless Tubes B.V., Helmond	MSE	EUR		100.00	9,107	367	
Salzgitter Mannesmann Stainless Tubes France SAS, Montbard	MSTF	EUR		100.00	37,359	785	
Salzgitter Mannesmann Stainless Tubes Italia S.r.l., Costa Volpino	MSTI	EUR		100.00	14,193	–1,949	
Salzgitter Mannesmann Stainless Tubes USA, Inc., Houston	MSTU	USD		100.00	14,663	–2,936	

	Abbre-viation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
KHS USA Inc., Waukesha	KHSUS	USD		100.00	52,715	–371	Annual financial statement IFRS
KHS Industria de Máquinas Ltda., São Paulo	KHSBR	BRL		100.00	4,377	20	Annual financial statement IFRS
KHS Mexico S.A. de C.V., Zinacantepec	KHSME	MXN		100.00	133,215	14,345	Annual financial statement IFRS
KHS Machinery Pvt. Ltd., Ahmedabad	KHSIN	INR		94.50	475,705	133,003	Annual financial statement IFRS
KHS Pacific Pty. Ltd., Tullamarine	KHSAU	AUD		100.00	3,215	3,015	Annual financial statement IFRS
KHS Manufacturing (South Africa) (Pty.) Ltd., Kramerville	KHSSA	ZAR		100.00	26,746	11,947	Annual financial statement IFRS
KHS RUS OOO, Moskau	KHSRU	RUB		99.00	35,244	20,308	Annual financial statement IFRS
Salzgitter Finance B.V., Oosterhout	SZFBV	EUR	100.00		2,204	201	
2. Non-consolidated group companies							
a) Domestic							
SESTA Stahl GmbH, Düsseldorf	SSG	EUR		100.00	51	0	P&L A., Financial year 30/09/2010, Financial statement not testified
SBH Stahlblechhandel GmbH, Neuss	SBH	EUR		100.00	34	1	Financial year 31/12/2009, Financial statement not testified
Hildesheimer Stahlhandel GmbH & Co. KG, Hildesheim	HSH	EUR		100.00	36	–296	Financial year 31/12/2009
Stahlhandel GmbH, Hildesheim	STI	EUR		100.00	29	2	Financial year 31/12/2009
MRW-Qualifizierungsgesellschaft mbH, Mülheim an der Ruhr	MQG	EUR		100.00	26	0	P&L A., Financial year 31/12/2009
RSE Projektentwicklungs-GmbH, Frankfurt am Main	RSEPE	EUR		100.00	25	0	P&L A., Financial year 31/12/2009
SEITZ ENZINGER Noll GmbH, Bad Kreuznach	SEN	EUR		100.00	27	0	Financial statement not testified

	Abbre-viation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
Holstein und Kappert GmbH, Dortmund	KD	EUR		100.00	25	0	Financial year 30/09/2010, Financial statement not testified
KHS Hensen Packaging GmbH, Verden	HPC	EUR		100.00	220	–385	Financial statement not testified
Phoenix Immobilienverwaltungs-gesellschaft mbH & Co. KG, Frankfurt am Main	PHOI	EUR		100.00	18,007	–1,597	Financial year 31/12/2009
RSE Phoenix Holding GmbH, Frankfurt am Main	PHOH	EUR		100.00	29	0	Change of name, Financial year 31/12/2009
Phoenix Office Garden GmbH, Frankfurt am Main	PHOG	EUR		100.00	26	2	Financial year 31/12/2009
Gewerbepark Am Borsigturm GmbH, Berlin	GAB	EUR		100.00	–3,416	–375	Financial year 31/12/2009
GVG Grundbesitz- und Vermögensverwaltungsgesellschaft mbH, Duisburg	GVGG	EUR		100.00	105	3	Financial year 31/12/2009
RSE Falkenhagen GmbH, Frankfurt am Main	RSEFH	EUR		100.00	494	–9	Financial year 31/12/2009
RSE Borsiggelände GmbH, Frankfurt am Main	RSEBG	EUR		100.00	292	–22	Financial year 31/12/2009
RSE Projektmanagement Holding-Verwaltungs-GmbH, Frankfurt am Main	RSEGG	EUR		94.00	23	1	Financial year 31/12/2009
RSE Projektmanagement Holding GmbH & Co. KG, Frankfurt am Main	RSEPM	EUR		100.00	12	–32	Financial year 31/12/2009
RSE Projektmanagement GmbH, Frankfurt am Main	RSEPA	EUR		100.00	–13,636	–1,070	Change of legal form, Financial year 31/12/2009
Klöckner PET- International GmbH, Frankfurt am Main	PETIG	EUR		100.00	23	0	Financial year 31/12/2009
RSE Grundstücksverwaltungs-GmbH, Frankfurt am Main	RSEGV	EUR		100.00	27	2	Change of name, Financial year 31/12/2009
KHS Corpoplast Verwaltungsgesellschaft mbH, Hamburg	CVG	EUR		100.00	26	1	Financial year 31/12/2009
VPS Infrastruktur GmbH, Salzgitter	VPSI	EUR		100.00	25	0	P&L A., Financial year 31/12/2009

	Abbre-viation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
BSH Braunschweiger Schrotthandel GmbH, Braunschweig	BSH	EUR		100.00	–615	–374	Change of name, Financial year 31/12/2009
Salzgitter Hydroforming Verwaltungs GmbH, Crimmitschau	SZHV	EUR	100.00		48	3	Financial year 31/12/2009
Salzgitter Magnesium-Technologie GmbH, Salzgitter	SZMT	EUR		100.00	9,251	–305	Financial year 31/12/2009
Salzgitter Automotive Engineering Verwaltungsgesellschaft mbH, Osnabrück	SZAW	EUR		100.00	33	2	Financial year 31/12/2009
Salzgitter Automotive Engineering Immobilien Verwaltungsgesellschaft mbH, Osnabrück	SZEV	EUR		100.00	41	2	Financial year 31/12/2009
Salzgitter Mannesmann Personalservice GmbH, Mülheim an der Ruhr	SZMP	EUR		100.00	1,049	0	P&L A., Financial year 31/12/2009
betterCALL GmbH, Salzgitter	BCG	EUR		100.00	262	28	Financial year 31/12/2009
TELEFONBAU MARIENFELD GmbH & Co. KG, Essen-Kettwig	TBM	EUR		100.00	4,907	657	Financial year 31/12/2009
NorthStar Telecom GmbH, Salzgitter	NST	EUR		100.00	256	139	Financial year 31/12/2009
Salzgitter Mannesmann Dritte Verwaltungsgesellschaft mbH, Salzgitter	SMDV	EUR		100.00	26	0	P&L A., Change of name, Financial year 31/12/2009
Salzgitter Mannesmann Technik GmbH, Salzgitter	SMTG	EUR		100.00	25	0	Financial year 31/12/2009
b) Abroad							
Salzgitter Mannesmann (Scandinavia) AB, Lulea	SMSC	SEK		100.00	4,195	–5,388	Financial year 31/12/2009
Salzgitter Mannesmann International (México) S.A. de C.V., Mexico D.F.	SMIM	MXN		100.00	6,552	–8,563	Financial year 31/12/2009
UNIVERSAL STEEL HOLLAND B.V., SK Papendrecht	USN	EUR		100.00	9,750	562	Financial statement not testified
UNIVERSAL Aciers Sarl, Couzon au Mont d'Or	UAC	EUR		100.00	2,283	455	Financial year 31/12/2008
UNIVERSAL OCEL spol. s.r.o., Prag	UOC	CZK		100.00	160,183	3,658	
UNIVERSAL Stal sp. z.o.o., Ruda Slaska	USP	PLN		100.00	41,317	2,667	
UNIVERSAL STEEL AMERICA, Inc., Houston	USA	USD		100.00	–12,597	–776	Financial year 31/12/2009

	Abbre-viation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
UNIVERSAL STEEL AMERICA HOUSTON, Inc., Houston	USH	USD		100.00	18,073	1,655	Financial year 31/12/2009
UNIVERSAL STEEL AMERICA CHICAGO, Inc., Gary	USC	USD		100.00	5,483	–1,058	Financial year 31/12/2009
Salzgitter Mannesmann (Italia) S.R.L., Milano	SMIT	EUR		100.00	955	–140	Financial year 31/12/2009, Financial statement not testified
Salzgitter Mannesmann (France) S.A.R.L., Saint Mandé	SMFR	EUR		100.00	1,510	–53	Financial year 31/12/2009
Salzgitter Mannesmann (UK) Ltd., Harrogate	SMUK	GBP		100.00	484	–2,763	Financial year 31/12/2009
Salzgitter Mannesmann (España) S.A., Madrid	SMSP	EUR		100.00	–136	–343	Financial year 31/12/2009, Financial statement not testified
Salzgitter Mannesmann International (Asia) Pte. Ltd., Singapur	SMSG	USD		100.00	4,782	664	Financial year 31/12/2009
Salzgitter Mannesmann Trade (Beijing) Co. Ltd., Beijing	SMCN	CNY		100.00	41	36	Financial year 31/12/2009
Salzgitter Mannesmann International (HK) Ltd., Hongkong	SMHK	EUR		100.00	8,049	128	Financial year 31/12/2009
Salzgitter Mannesmann Acélkereskedelmi Kft., Budapest	SMHU	HUF		100.00	2,459,893	–511,670	Financial year 31/12/2009
Salzgitter Mannesmann International Tehran (Private Joint Stock Company), Teheran	SMIR	IRR		100.00	–451,797	184,381	Financial year 31/12/2009
Salzgitter Mannesmann Distributie S.R.L., Bukarest	SMRO	RON		100.00	9,700	10,756	Financial year 31/12/2009
Salzgitter Mannesmann Pentasteel International (India) Pvt. Ltd., Mumbai	SMPI	INR		51.00	58,569	29,079	Financial year 31/03/2010
Salzgitter Mannesmann Precisión S.A. de C.V., El Salto	MPM	USD		100.00	–5,592	–4,057	Financial year 31/12/2009, Financial statement not testified
KHS China GLM2 Co. Ltd., Shantou City	KHSGL	CNY		70.00	138,480	4,227	
KHS Asia Pte. Ltd., Singapur	KHSSI	EUR		100.00	467	382	Annual financial statement IFRS
KHS UK Ltd., Solihull	KHSGB	GBP		100.00	714	265	Financial year 31/12/2009

	Abbre-viation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
KHS Japan Corporation, Osaka	KHSJA	JPY		100.00	180,182	8,110	
KHS Machine & Equipment (Qinhuangdao) Co., Ltd., Quinhuangdao	KHSC	CNY		100.00	4,316	2,825	Annual financial statement IFRS
KHS Machines Nigeria Limited, Lagos	KHSNI	NGN		100.00	116,532	14,080	Annual financial statement IFRS
Klöckner Holstein Seitz S.A., Sant Cugat del Valles	KHSSP	EUR		100.00	467	99	Financial statement IFRS, Financial statement is not testified
KHS Skandinavien ApS, Albertslund	KHSDK	DKK		100.00	–102	–512	Annual financial statement IFRS
KHS Benelux B.V., Breda	KHSNL	EUR		100.00	312	294	
KHS S.A.R.L., Torcy	KHSFR	EUR		100.00	554	157	Financial statement not testified
KHS s.r.o., Ceské Budejovice	KHSTS	CZK		100.00	5,602	1,655	Financial statement IFRS, Financial statement is not testified
KHS GmbH, Wolfwil	KHSCH	CHF		100.00	1,146	677	Financial statement IFRS, Financial statement is not testified
KHS Austria GmbH, Wiener Neudorf	KHSÖS	EUR		100.00	129	–201	Financial statement not testified
KHS Makine Sanayi VE Ticaret Limited Sirket, Istanbul	KHSTK	TRY		100.00	53	17	Financial statement not testified
KHS Italia S.r.l., Pero	KHSIT	EUR		99.00	58	9	Financial statement not testified
KHS Ukraine OOO, Kiew	KHSUK	UAH		100.00	–487	–307	Financial statement IFRS, Financial statement is not testified
KHS Sibiu S.R.L., Sibiu	KHSRO	RON		100.00	205	–36	Financial statement IFRS, Financial statement is not testified

	Abbre-viation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
KHS VIETNAM COMPANY LIMITED, Ho Chi Minh City	KHSVN	VND		100.00	–671,961	–1,244,061	Foundation or purchase in the financial year, Financial statement IFRS, Financial statement is not testified
KHS Andes Limitada, Bogotá	KHSCO	COP		100.00	–115,790	–177,925	Financial statement IFRS, Financial statement is not testified
Kisters Limited, Redditch	KIGB	GBP		100.00	254	0	
Klöckner DESMA Machinery Pvt., Ahmedabad	KDEIN	INR		100.00	206,139	52,545	Financial year 31/03/2010
DESMA USA, Inc., Hebron	KDEUS	USD		100.00	3,319	440	Change of name
DESMA Slovakia s.r.o., Povazska Bystrica	KDEDL	EUR		90.00	955	–658	Financial year 31/12/2009
DESMA Machinery & Engineering Co. Ltd., Guangzhou	KDEC	CNY		100.00	1,606	511	Financial year 31/12/2009
DESMA Rubber Injection Machinery (Wuxi) Co. Ltd., Wuxi	DRIM	CNY		100.00	2,487	938	Financial year 31/12/2009
KHS Argentinia S.A., Buenos Aires	KHSAR	ARS		100.00	432	89	
KHS AG Korea Co., Ltd., Seoul	KHSSK	KRW		100.00	534,529	–254,473	Financial statement not testified
DESMA ASIA LIMITED, Wanchai	DESA	HKD		100.00	129	–128	Financial year 31/12/2009
KHS Corpoplast Argentina S.A., Buenos Aires	BEVAR	ARS		100.00	884	–213	Financial year 31/12/2009
KHS Corpoplast Trading (Shanghai) Co., Ltd., Shanghai	BEVCN	CNY		100.00	8,619	3,261	Financial year 31/12/2009
KHS Corpoplast (UK) Ltd., Houghton Le Spring	BEVUK	GBP		100.00	153	–19	Financial year 31/12/2009
KHS Corpoplast España SL, Barcelona	BEVSP	EUR		100.00	192	–31	Financial year 31/12/2009
KHS Corpoplast North America Inc., Flemington	BEVUS	USD		100.00	4,788	628	Financial year 31/12/2009
Salzgitter Hydroforming s.r.o., Chomutov	HFCZ	CZK		100.00	950	–1,707	Foundation or purchase in the financial year, Financial statement is not testified

	Abbre-viation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
3. Joint Ventures proportionately consolidated							
a) Domestic							
EUROPIPE GmbH, Mülheim an der Ruhr	EP	EUR		50.00	182,950	4,314	
Mülheim PIPECOATINGS GmbH, Mülheim an der Ruhr	MPC	EUR		100.00	24,599	6,498	
b) Abroad							
Europipe France S.A., Grande Synthe	EPF	EUR		100.00	6,064	907	
Berg Steel Pipe Corporation, Wilmington	BSPC	USD		100.00	105,836	33,824	
eb Pipe Coating Inc., Wilmington	EBPC	USD		100.00	12,331	7,351	
Berg Spiral Pipe Corporation, Wilmington	BSPM	USD		100.00	50,204	27,142	
BERG EUROPIPE HOLDING CORP., New York	BEHC	USD		100.00	221,425	62,425	
4. Associated companies at equity							
a) Domestic							
ThyssenKrupp GfT Bautechnik GmbH, Essen	TKBT	EUR		30.00	500	0	Financial year 30/09/2009
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	HKM	EUR		30.00	170,439	32	Financial year 31/12/2009
Aurubis AG, Hamburg	NAAG	EUR		25.00	808,993	89,754	Financial year 30/09/2010
5. Other Shareholdings							
a) Domestic							
ERZKONTOR RUHR GMBH, Essen	ERE	EUR		33.33	107	0	Financial year 30/09/2010
Beck & Co. Industriebedarf GmbH & Co. KG, Mönchengladbach	BIG	EUR		51.25	103	6	Financial year 30/09/2010
Bahners GmbH, Mönchengladbach	BGN	EUR		50.00	35	0	Financial year 30/09/2010
EUROPIPE 1. Verwaltungsgesellschaft mbH, Mülheim an der Ruhr	EPV	EUR		100.00	10	–3	Financial year 31/12/2009
EUROPIPE Projekt GmbH, Mülheim an der Ruhr	EPP	EUR		100.00	5	–4	Financial year 31/12/2009
Klöckner Mercator Versicherungsvermittlung GmbH & Co. KG, Dortmund	KMVV	EUR		50.00	86	279	Financial year 31/12/2009

	Abbre-viation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
MEDICO-Management & Service GmbH & Co. Senioren Pflegeheim KG, Hanover	MMS	EUR		41.90	2,142	414	Financial year 31/12/2009
DEUTRANS Rohstoff- und Recycling-Logistik GmbH, Braunschweig	DRRL	EUR		50.00	28	0	Financial year 31/12/2009
GVZ Entwicklungsgesellschaft Salzgitter mbH, Salzgitter	GVZ	EUR		21.43	36	1	Financial year 31/12/2009
Wohnungsbaugesellschaft mbH Salzgitter, Salzgitter	WBG	EUR		25.05	43,124	5,231	Financial year 31/12/2009
WBV Wohnbau Betreuungs & Verwaltungs GmbH, Salzgitter	WBV	EUR		100.00	26	0	P&L A., Financial year 31/12/2009
b) Abroad							
TAPIOMETALL Müszaki Kereskedelm Kft., Tápiószele	TMK	HUF		29.40	234,311	47,287	Financial year 31/12/2006, Financial statement not testified
Salzgitter (West Africa) Ltd., Lagos	SWA	NGN		40.00	49	0	No business activity, Financial year 30/09/1993, statement not testified
Tubos Soldados Atlántico Ltda, Serra	TSA	BRL		70.27	94,883	–5,985	Financial year 31/12/2009
Borusan Mannesmann Boru Yatirim Holding A.S., Istanbul	BMB	TRY		23.00	81,418	4,863	Financial year 31/03/2010
Berg Europipe Corp., Wilmington	BEC	USD		100.00	7	1,454	
KHS Zagora AD, Stara Zagora	KHSBU	BGN		50.00	589	24	Financial statement not testified
Impuls, Gabrovo	I98	BGN		15.20	3,018	448	Financial year 31/12/2008
KHS AG (Thailand) Ltd., Bangkok	BEVTH	THB		49.00	39,678	7,487	Financial year 31/12/2009

Accounting Principles

The consolidated financial statements of Salzgitter AG (SZAG) were prepared in accordance with the accounting principles the International Accounting Standards Board (IASB) that were rendered mandatory on the reporting date by EU Directive No. 1606/2002 and are based on the principle of historical acquisition cost, with the exception of certain financial instruments which are shown at fair value. The requirements of the applied standards and interpretations (SIC/IFRIC) were satisfied without exception and convey a true and fair view 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
IFRIC 12	Service Concession Arrangements	30/03/2009	yes	none
IFRIC 15	Agreement for the Construction of Real Estate	01/01/2010	yes	none
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	01/07/2009	yes	none
IFRIC 17	Distributions of Non-cash Assets to Owners	01/11/2009	yes	none
IFRIC 18	Transfers of Assets from Customers	01/11/2009	yes	none
	Improvements 2009[2]	01/01/2010	yes	no material effects
IFRS 3 / IAS 27	Business Combinations	01/07/2010	yes	modified presentation of business combinations
IAS 39	Financial Instruments — Amortized costs and Impairment — Eligible Hedged Items — revision	01/07/2010	yes	none
IFRS 1	First-time Adoption of IFRS	01/01/2010	yes	none
IFRS 1	Additional Exemptions for First-time Adopters	01/01/2010	yes	none
IFRS 2/ IFRIC 11	Group Cash-settled Share-based Payment Transaction	01/01/2010	yes	none

[1] as of 31/12/2010

[2] Slight alterations to many 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 the resultant consequences.

Standards not applied early:

Standards/Interpretation		Mandatory date	Adoption by EU commission[1]	Likely effects
IAS 32	Financial Instruments: Presentation	01/02/2010	yes	none
IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	01/07/2010	yes	none
	Improvements 2010[2]	01/07/2010	no	no material effects
IAS 24	Related Party Disclosures	01/01/2011	yes	none
IFRIC 14	Prepayments of a Minimum Funding Requirement – Amendment	01/01/2011	yes	none
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	01/07/2010	yes	none
IFRS 7	Financial Instruments: Disclosures – Amendment	01/07/2011	no	Notes to the financial statements
IFRS 1	Severe Hyperinflation – Amendment	01/07/2011	no	none
IAS 12	Deferred Tax: Recovery of Underlying Assets – Amendment	01/01/2012	no	not foreseeable
IFRS 9	Financial Instruments (replacement of IAS 39)	01/01/2013	no	not foreseeable

[1] as of 31/12/2010

[2] Slight alterations to many standards (IFRS 3, IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 27, IAS 88, IAS 34, IAS 40, IFRIC 13) and the resultant consequences.

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 under HRB 9207, has its headquarters in Salzgitter. The address of the Executive Board of Salzgitter AG is Eisenhüttenstraße 99, 38239 Salzgitter.

The consolidated financial statements and the Group Management Report were approved by the Executive Board on March 3, 2010 for submission to the Supervisory Board.

The financial year of Salzgitter AG and its subsidiaries included in the consolidated financial statements generally corresponds to the calendar year. Two 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 not otherwise indicated, the amounts are stated in millions of euros (€ m). There may be deviations from the unrounded amounts.

On December 16, 2010, the Executive Board and the Supervisory Board issued the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG) and made it permanently available to shareholders on the company's website (www.salzgitter-ag.de). The Declaration of Conformity is also printed in the "Corporate Governance Report" section of the Annual Report.

Consolidation Principles and Methods

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

The consolidated financial statements include all 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 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 consolidated 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. 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. In the case of acquisitions which are less than 100%, there is an option to disclose fully the goodwill from an acquisition in accordance with the full goodwill method, i.e. also in the amount of the proportion attributable to the minority interests. Any costs incurred in connection with the business combination must be recorded in full 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 reported as appropriate under profit or loss. 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 always be reported at the exchange rate prevailing on the cut-off date when the acquisition was realized. Exchange rates are hedged as a matter of principle.

Intercompany sales, expenses and income, 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.

Consolidated Group

In addition to the annual financial statements of the parent company, the consolidated financial statements include the annual financial statements of 46 (2009: 46) domestic and 18 (2009: 20) foreign affiliated companies, all prepared as of the same reporting date.

Two domestic (2009: two) and five foreign (2009: five) 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 income items (excluding income from shareholdings, net interest income and tax) are attributable to the Group on the basis of its shares in the respective joint ventures:

In € m	FY 2010	FY 2009
Non-current assets	96.0	103.4
Current assets	238.6	297.6
Non-current liabilities	39.2	32.6
Current liabilities	78.0	127.5
Income	364.9	713.7
Expenses	389.5	534.1

In the reporting year, three domestic shareholdings (2009: 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 34 (2009: 33) domestic and 55 (2009: 57) 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 31/12/2009	Additions	Disposals	Status 31/12/2010
Consolidated subsidiaries	**66**	**–**	**2**	**64**
of which domestic	46	–	–	46
of which foreign	20	–	2	18
Joint ventures	**7**	**–**	**–**	**7**
of which domestic	2	–	–	2
of which foreign	5	–	–	5
Associated companies	**3**	**–**	**–**	**3**
of which domestic	3	–	–	3
of which foreign	–	–	–	–

The disposals result from the business combination of three companies in the Trading Division into a single organizational unit.

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 rates 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 countries 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. Income and expenses are translated at annual average exchange rates, while changes in reserves are translated at the rate prevailing on the reporting date.

The most important 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	**31/12/2010**	**31/12/2009**	**FY 2010**	**FY 2009**
Australian dollar	1.3136	1.6008	1.4423	1.7727
Brazilian real	2.2177	2.5113	2.3314	2.7674
Indian rupee	59.7580	67.0400	60.5878	67.3611
Canadian dollar	1.3322	1.5128	1.3651	1.5850
Mexican peso	16.5475	18.9223	16.7373	18.7989
Polish zloty	3.9750	4.1045	3.9947	4.3276
Russian ruble	40.8200	43.1540	40.2629	44.1376
South African rand	8.8625	10.6660	9.6984	11.6737
Czech koruna	25.0610	26.4730	25.2840	26.4350
US dollar	1.3362	1.4406	1.3257	1.3948

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. Assets are always 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 which 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 a 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; marketable securities are reported at their market prices. If intangible assets are identified, either recourse is taken to an independent expert report by an external valuation specialist or, depending on the type of intangible asset and the complexity of determining its fair value, the fair value is ascertained internally by applying an internationally recognized valuation technique which is generally based on the forecast of the aggregate anticipated future cash flow. These valuations are closely related to the assumptions that the management has made with regard to the future development of the respective assets' values and the assumed changes in the applicable discount rate.

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 individual cases, 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 sectors 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 incorrect.

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 necessitates 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 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 to, among other things, assess the tax benefits that arise from the available tax strategies and future taxable income, and to take other positive and negative factors into account. The deferred tax assets reported can decrease if the estimates of planned taxable income and the tax benefits attainable using the available tax strategies are reduced or if changes to current tax laws restrict the time framework or the scope of realizability of future tax benefits.

f) Employee benefits

Pensions and other 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 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 5 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 if the acquisition or production costs can be measured with accuracy. 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 economic useful lives:

Useful economic lives	
Buildings, including investment property	10 to 50 years
Plant equipment and machinery	5 to 30 years
Factory and office equipment	3 to 25 years

Borrowing Costs
Borrowing costs which are directly connected with the acquisition, construction or manufacturing of qualifying assets (assets which require a considerable period of time to bring them up to usable or saleable condition) are added to the production costs of these assets up until such time as 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 is applicable, 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 installments are discounted as liabilities.

If assets are utilized in a finance lease agreement, 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 10 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, is derived from those prices. The substantial part of the property portfolio is valued regularly by independent experts (max. every 5 years).

Financial Assets — Categorization

a) Financial assets held for trading

In the Salzgitter Group, only 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 receivables and other assets.

c) Held-to-maturity financial investments

Held-to-maturity financial 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 2010, 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 of the other categories described above.

Financial Assets – Measurement

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

All purchases and sales of financial assets made on customary market terms are always recognized as of the settlement date in the Salzgitter Group. This is 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 fair value plus their transaction costs.

Financial instruments in the "Available-for-sale financial assets", "Derivatives with documented hedging arrangements" and "Financial assets held for trading" categories are reported in the subsequent valuation at fair value. The subsequent valuation of "Loans and receivables originated by the company" and "Held-to-maturity investments" is carried out at amortized cost using the effective yield method.

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

Forward exchange contracts are valued using the Group's own calculations. The outright rates applicable 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 residual term.

The other derivatives are always valued on the basis of calculations made by the issuing banks using recognized methods (e.g. Black-Scholes, Heath-Jarrow-Morton). Embedded derivatives are valued with the help of the Black-Scholes method, with the calculation parameters being based on data from observable markets.

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.

Financial Assets — Value Adjustment and Writing Off

Changes in the fair values of derivative financial instruments that do not qualify for hedge accounting are shown directly in the income statement.

As of every balance sheet date, financial assets that do not belong to the "Financial assets held for trading" category are examined to ascertain whether there are any objective indications of impairment in the respective financial asset or group of financial assets.

Impairment of financial instruments in the "Loans and receivables originated by the company" and "Held-to-maturity investments" categories are recorded with effect on income, as are write-ups.

In the case of financial instruments which are classified in the "Available-for-sale financial assets" category, a significant or permanent decline in their fair value is recorded with effect on income as impairment. Impairments of equity instruments which have been posted to the income statement are reversed with no effect on income. Impairments of debt instruments are reversed with effect on income.

Financial instruments are written off if the rights to payments from the investment have expired or were transferred and the Group has essentially transferred all risks and opportunities associated with their ownership.

Financial Assets — Hedge Accounting

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 or a liability reported in the balance sheet (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).

a) 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.

b) 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 disclosed in the income statement until the underlying transaction is ultimately recognized. If the forecast transaction is no longer expected to take place, the cumulative gains or losses that were recorded directly in equity must be transferred immediately to the income statement. Movements in the reserve for cash flow hedges in equity are disclosed in the statement of changes in equity and the statement of recognized income and expense.

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 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:

	31/12/2010	31/12/2009
Actuarial rate	4.25 %	4.75 %
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, as in the previous year, not to take bonds outside of an appropriate yield band into consideration when deducing the yield curve to be used. For this purpose, all corporate bonds contained in the iBoxx € Corporate AA 10+ Index whose yield as of the balance sheet date deviated from the weighted average yield of the bonds listed in the index by more than one and a half times the standard deviation (2009: by the standard deviation) were eliminated. As a result of this change in the procedure, more bonds will be included in the considerations. The average yield that emerged after this adjustment had been made, taking account of the durations of the obligations assessed, was rounded down to the next quarter of a percentage point, and therefore to an actuarial rate of 4.25 %.

The application of an actuarial rate of 4.5 % would have reduced the level of pension provisions by around €55 million. Due to the offsetting of actuarial gains and losses with no effect on income, the actuarial losses would have been reduced by the same amount and equity would have increased accordingly.

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, 2010, 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 provided 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 (20).

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), only this category contains 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 income from the sale of goods are recognized when performance has been rendered or assets have been furnished, and thus when the risk has been passed, in other words material opportunities and risks of ownership have devolved to the purchaser and the amount of realizable sales can be estimated reliably. Sales from services are recorded as soon as the service has been rendered. No sales are reported if there are material risks regarding the receipt of the counterperformance or a possible return of the goods. Apart from that, sales are reported after deduction of reductions in selling prices such as bonuses, cash discounts and/or rebates.

In the case of customized construction contracts, sales are realized in accordance with the percentage-of-completion method.

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

IAS 20 stipulates that grants may not be reported in the balance sheet until the necessary claim prerequisites have been fulfilled and it can be anticipated that the grants will actually be paid out. Grants related to assets are always 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 guidelines 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 Group is examined 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. of the Group Management Report, “Financial Position and Net Assets”.

Notes to the Income Statement

(1) Sales

In € m	FY 2010	FY 2009
Breakdown by product category		
Flat rolled products	3,264.4	2,713.1
Sections	758.7	653.6
Pipes	2,203.2	2,767.2
Filling and packaging machinery	798.8	644.9
Other	1,279.5	1,039.2
	8,304.6	**7,818.0**
Breakdown by region		
Domestic	4,236.2	3,799.1
Other EU	1,509.6	1,492.2
Other Europe	440.8	283.9
America	826.7	632.1
Asia	639.5	899.5
Other	651.8	711.2
	8,304.6	**7,818.0**

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 € 359.3 million (2009: € 276.0 million).

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

In € m	FY 2010	FY 2009
Changes in the inventory of finished goods	143.5	–259.7
Other own work capitalized	16.2	14.7
	159.7	**–245.0**

Compared with the previous year, finished goods and work in process increased substantially. This increase relates to both value and volume.

(3) Other Operating Income

In € m	FY 2010	FY 2009
Reversal of provisions and allowances	118.8	170.0
Income from rights	48.4	16.0
Income from exchange rate fluctuations	31.3	62.9
Reimbursements from Bundesanstalt für Arbeit	22.3	6.0
Income from write-downs of receivables	16.7	15.0
Income from the valuation of financial derivatives and foreign currency positions	15.5	29.1
Ancillary operating income	14.1	12.6
Subsidies	8.8	3.8
Charged-on costs	9.7	3.5
Refund from previous years	9.2	2.6
Insurance compensation	7.2	6.6
Rental, lease and licensing income	6.0	9.2
Write-ups on short-term securities	2.9	8.4
Income from the disposal of fixed assets	1.9	17.8
Income from the sale of securities held as current assets	1.8	1.6
Other income	33.6	44.2
Other operating income	**348.2**	**409.3**

Sundry other operating income comprises a large number of individual transactions for minor amounts consolidated companies.

(4) Cost of Materials

In € m	FY 2010	FY 2009
Cost of raw materials, consumables, supplies and purchased goods	5,534.0	5,091.7
Cost of purchased services	353.7	364.4
Cost of materials	**5,887.7**	**5,456.1**

The cost of raw materials, consumables and supplies relates primarily to expenses for materials used, consumables and supplies, spare parts, energy supply and plant equipment.

The cost of purchased services consists essentially of sales-related contract processing and intercompany transport costs.

The increase in the cost of materials can be attributed primarily to higher raw materials prices and the growth in sales.

(5) Personnel Expenses

In € m	FY 2010	FY 2009
Wages and salaries	1,174.3	1,118.9
Social security, pension and other benefits	249.5	278.0
of which pension plans and retirement benefits	[117.8]	[137.1]
Personnel expenses	**1,423.8**	**1,396.9**

In the financial year 2010, the defined contribution plan payments in the Salzgitter Group totaled €104.3 million (2009: €122.4 million). The decrease in the costs of pensions and retirement benefits resulted primarily from the sharp year-on-year fall in premium payments to 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 2010	FY 2009
Wage labor	14,419	14,799
Salaried employees	8,771	8,971
Group core workforce	**23,190**	**23,770**

(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 because they reflect the discounted future cash inflows that are currently anticipated:

In € m	FY 2010	FY 2009
Intangible assets	–	79.5
Land and buildings	23.2	49.1
Plant equipment and machinery	55.6	125.9
Other equipment, factory and office equipment/equipment under construction	1.2	4.5
Investment property	–	3.7
Impairment	**80.0**	**262.7**

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 status 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 an interest rate of 6.3 % (2009: 7.2 %) for the Technology Division and 7.4 % p.a. (2009: 8.5 % p.a.) for the other divisions.

In 2010, the valuation allowances carried out were mostly connected with continued restructuring measures in the Steel Division's sections product segment.

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 € 13.9 million or, respectively, an increase of € 13.5 million in total impairment.

(7) Other Operating Expenses

In € m	FY 2010	FY 2009
External services and provisioning	325.6	327.4
Selling expenses	283.0	274.9
Administrative expenses including insurance costs, fees, charges and consulting costs	95.7	98.6
Advertising/information and travel expenses	57.2	57.4
Expenses from the valuation of financial derivatives and foreign currency positions	52.9	56.7
Exchange losses	40.1	35.2
Rent and leases	34.1	36.3
Valuation allowances for doubtful accounts	29.5	33.9
EDP costs	18.8	18.7
Welfare-related personnel and non-personnel expenses	17.4	18.2
Selling of power contracts	13.6	–
Other taxes	12.7	13.5
Loss on the disposal of fixed assets	12.5	14.2
Financial/monetary transfer expenses	9.9	10.2
Other expenses	37.0	34.9
Other operating expenses	**1,040.0**	**1,030.1**

The "Administrative expenses including insurance costs, fees, charges and consulting costs" item includes insurance costs of € 29.5 million, expenses for fees, charges and appraisals amounting to € 15.0 million and consulting costs of € 11.3 million. This item also includes a large number of individual transactions involving minor amounts at consolidated companies.

(8) Income from Shareholdings

In € m	FY 2010	FY 2009
Income from profit transfer agreements	1.2	0.7
of which affiliated companies	[1.2]	[0.7]
Income from shareholdings	10.1	1.0
of which affiliated companies	[7.5]	[0.2]
Expenses from the assumption of losses	–	0.6
of which affiliated companies	[–]	[0.6]
Income from shareholdings	**11.3**	**1.1**

(9) Income from Associated Companies

In € m	FY 2010	FY 2009
Income from associated companies	67.5	56.7

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 2010	FY 2009
Impairment losses on financial assets	2.7	25.7

The impairment losses on financial assets in the financial year under review result primarily from the fair value of shares in eight 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 status 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 2010	FY 2009
Income from loans from financial assets	0.1	0.7
Other interest earned and similar income	27.9	32.8
of which affiliated companies	[1.2]	[1.6]
Finance income	**28.0**	**33.5**

Despite the slight increase in interest rates towards the end of the year, the average interest rate in 2010 was below that of the previous year. As a result, net interest income decreased in the financial year ended.

In € m	FY 2010	FY 2009
Interest component from allocation to pension provisions	85.0	90.3
Other Interest and similar expenses	54.0	28.4
of which affiliated companies	[1.4]	[1.3]
Finance expenses	**139.0**	**118.7**

The increase in other interest can be attributed in particular to the higher interest rate on borrowings as of the reporting date and the present-value assessments of future outflows of economic benefits associated with that.

(12) Income Tax

In € m	FY 2010	FY 2009
Income tax		
current tax expenses/tax income (+/–)	18.5	77.4
deferred tax expenses/tax income (+/–)	0.4	–187.0
	18.9	**–109.6**
of which unrelated to the reporting period	[–5.0]	[–6.7]
Total	**18.9**	**–109.6**

The income tax amounting to €18.9 million relates to the result from ordinary activities. Of the income tax unrelated to the reporting period, €7.5 million relates to deferred tax income which is offset by tax expenses for previous years amounting to €2.5 million.

The decrease in current income tax from €77.4 million to €18.5 million results first and foremost from the decrease in the income tax assessment bases in Germany. As a result, domestic income tax amounted to €11.3 million. The increase in deferred taxes to €0.4 million was caused primarily by the price- and volume-induced increase in liabilities-side temporary differences in relation to inventories, which are essentially offset by asset-side temporary differences from the reassessment of capitalized benefits for valuation differences and deferred tax assets on current tax carryforwards.

Future dividend payments will not incur any consequences as far as income tax is concerned. Claims amounting to €1.1 million (2009: €1.2 million) are reported in the balance sheet for German companies' corporate income tax reduction credits.

Deferred taxes amounting to €124.3 million (2009: €90.5 million) were recorded for business transactions that influenced equity directly. The change in deferred taxes with no effect on income relates in particular to actuarial gains and losses (€28.5 million).

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	31/12/2010		31/12/2009	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	8.4	11.5	5.3	11.8
Property, plant and equipment	53.9	167.1	42.2	141.4
Financial investments	0.6	2.7	4.3	2.8
Current assets	49.6	110.6	34.6	46.5
Pension provisions	164.3	–	135.6	–
Other provisions	109.5	1.6	70.2	10.4
Special account including reserves	–	9.2	–	10.1
Liabilities	31.3	18.1	25.3	1.6
Other items	44.4	5.2	38.3	8.6
Total	**462.0**	**326.0**	**355.8**	**233.2**

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

In € m	31/12/2010	31/12/2009
Corporate income tax	15.0	1.9
Trade tax	2.3	0.7
Capitalized tax savings	**17.3**	**2.6**

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

In € m	FY 2010	FY 2009
Capitalized tax savings, January 1	2.6	20.0
Changes to the consolidated group	–	1.2
Capitalization of tax savings from losses carried forward	16.4	3.9
Valuation allowances from losses carried forward	–0.5	–18.5
Use of losses carried forward	–1.2	–4.0
Capitalized tax savings, December 31	**17.3**	**2.6**

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 €1.2 million.

For a number of domestic companies, no deferred taxes were capitalized for trade tax loss carryforwards amounting to €1,770.5 million (2009: €1,643.9 million) and corporate income tax loss carryforwards amounting to €2,167.3 million (2009: €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 €128.0 million (2009: €112.7 million). Of this amount, €113.0 million (2009: €101.8 million) can be utilized for an unlimited period and €15.0 million (2009: €10.9 million) within the next 20 years. In addition, no deferred tax assets were formed for deductible temporary differences amounting to €35.5 million (2009: €34.9 million) for domestic companies.

Deferred tax assets amounting to €48.2 million (2009: €3.3 million) were capitalized on the grounds of expected future taxable income at domestic Group companies which incurred tax losses in the financial year under review.

Transition from anticipated to actual income tax expenses:

In € m	FY 2010	FY 2009
Consolidated net income for the year before income tax	**48.9**	**–496.5**
Expected income tax expenses (tax rate 30.2%)	14.8	–149.9
Tax share for:		
differences between tax rates	4.3	–5.4
effects of changes in statutory tax rates	–0.6	–1.5
tax credits	–	–0.6
tax-free income	–42.7	–34.6
badwill amortization/goodwill write-down	–	6.2
non-deductible tax expenses and other permanent differences	27.2	20.3
temporary differences excluding deferred taxes	38.4	39.9
effects of temporary differences and losses		
adjustments in value of capitalized benefits	–14.6	18.5
utilization of benefits not previously capitalized	–1.2	–3.9
tax expenses and income unrelated to the reporting period	–5.0	–6.7
other deviations	–1.7	8.1
Actual income tax expenses	**18.9**	**–109.6**

The actual income tax expenses of €18.9 million deviates by a total of €4.1 million from the expected income tax expenses of €14.8 million. This results primarily from tax-deductible temporary differences for which no deferred taxes were included in the balance sheet and from additions of non-tax-deductible expenses, countered by effects from tax-free income and the reassessment of capitalized benefits.

(13) Minority Interests

In € m	FY 2010	FY 2009
Minority interests	0.2	–3.2

The portion of minority interests in the net result for the year is 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 as per IAS 33 therefore amounted to €0.55 (2009: € –7.10) per share.

A dilution would occur if the earnings per share were reduced by issuing potential shares from option and conversion rights. As of the balance sheet date, such rights existed in a convertible bond. If these are taken into account, however, earnings per share from continuing operations increases, which in turn results in no dilution for these option and conversion rights. The diluted earnings per share therefore also amount to €0.55 (2009: € –7.10).

	Shares issued	Treasury shares	Shares in circulation	Potential diluting shares
Beginning of financial year	60,097,000	5,795,252	54,301,748	3,550,457
Acquisition of treasury shares	–	214,463	–	–
Disposal of treasury shares	–	15	–	–
End of financial year	60,097,000	6,009,700	54,087,300	3,550,457
Weighted number of shares	**60,097,000**	**5,902,722**	**54,197,278**	**3,550,457**

Earnings per share		FY 2010	FY 2009
Consolidated net loss/income for the financial year	in € m	30.0	–386.9
Minority interests	in € m	0.2	–3.2
Amount due to Salzgitter AG shareholders	in € m	29.8	–383.7
Earnings per share – basic	(in €)	0.55	–7.10
Diluted result	in € m	39.5	–383.7
Earnings per share – diluted	(in €)	0.55	–7.10

Notes to the Consolidated Balance Sheet

Non-current Assets

(15) Intangible Assets

The development of the individual items under intangible assets is shown in the analysis of fixed assets.

Of the entire capitalized development costs, € 0.1 million was amortized regularly (2009: € 3.5 million regularly and € 12.2 million in a non-scheduled procedure). Total research and development costs in the reporting year amounted to € 92.4 million (2009: € 93.5 million) including € 14.0 million (2009: € 12.8 million) for external services.

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

(16) 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	31/12/2010	31/12/2009
Land and buildings	662.2	551.4
Plant equipment and machinery	1,649.5	1,199.0
Other equipment, factory and office equipment	82.1	84.9
Equipment under construction/payments made on account	135.3	588.2
Property, plant and equipment	**2,529.2**	**2,423.5**

The additions to plant equipment and machinery result primarily from the Steel Division’s investment program and the payments made on account in the previous year.

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

In € m	31/12/2010	31/12/2009
Buildings	1.5	1.8
Plant equipment and machinery	71.5	26.2
Other equipment, factory and office equipment	1.1	1.5
Assets capitalized as finance leases	**74.1**	**29.5**

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

Restraints on the right of ownership or disposal as of the balance sheet date amounted to € 14.4 million (2009: € 7.7 million).

Government subsidies amounting to € 3.0 million were deducted from the acquisition costs of property, plant and equipment.

(17) Investment Property

The investment property comprises undeveloped and developed land which is 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	31/12/2010	31/12/2009
Klöckner-Werke AG	19.8	21.3
RSE Grundbesitz und Beteiligungs-AG	2.0	2.1
Klöckner Mercator Maschinenbau GmbH	2.4	2.5
Investment property	**24.2**	**25.9**

Rental income amounted to € 0.6 million (2009: € 0.8 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 € 0.3 million (2009: € 0.4 million).

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

(18) Financial Investments

The development of the individual items in financial investments is shown in the analysis of fixed assets.

Breakdown of financial investments:

In € m	31/12/2010	31/12/2009
Shares in affiliated companies	28.1	30.2
Shareholdings	10.9	11.3
Non-current securities	24.7	21.2
Other loans	15.2	14.7
Financial investments	**78.9**	**77.4**

The decrease in shares in affiliated companies relates to non-scheduled amortization of financial assets in non-consolidated companies.

The other loans are accounted for primarily by loans to non-consolidated companies and interest-bearing housing loans to employees.

(19) Associated Companies

In € m	FY 2010	FY 2009
Opening balance, 1/1	400.8	341.7
Result of current financial year	67.5	56.7
Capital increase	12.0	12.8
Additions	22.9	8.0
Dividends	–11.2	–19.8
Other changes in equity	–3.6	1.4
Book value, 31/12	**488.4**	**400.8**

The figure reported for at-equity holdings in associated companies increased by € 87.6 million compared with the previous financial year. This resulted primarily from the companies' positive results for the year. The fair value of Aurubis AG as of December 31, 2010, was € 451.4 million.

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

2010 in € m	Assets	Debt	Income	Profit	Share (%)
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	1,035.3	717.8	2,612.0	–1.5	30.0
Aurubis AG, Hamburg	4,134.7	2,724.0	10,572.9	302.3	25.0

2009 in € m	Assets	Debt	Income	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

(20) Deferred Income Tax Assets

If it is likely that tax benefits will be realized, they must be capitalized. Clearing is possible only if the deferred tax assets and liabilities have matching maturities and relate to the same tax authority. After offsetting, the deferred tax assets and liabilities for the financial year 2010 are as follows:

In € m	31/12/2010	31/12/2009
Deferred income tax assets	**201.6**	**129.0**
Realization within 12 months	16.9	42.2
Realization after more than 12 months	184.7	86.8
Deferred income tax liabilities	**48.3**	**3.8**
Realization within 12 months	42.8	0.4
Realization after more than 12 months	5.5	3.4
Balance of deferred tax assets and deferred tax liabilities	**153.3**	**125.2**

(21) Other Receivables and Other Assets

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

In € m	31/12/2010	31/12/2009
Total gross investment	3.4	2.9
Unrealized finance income	0.3	0.2
Book value	**3.1**	**2.7**

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 in 2009 relate to foreign tax receivables.

Current Assets

(22) Inventories

In € m	31/12/2010	31/12/2009
Raw materials, consumables and supplies	677.5	521.1
Unfinished products	408.3	294.2
Unfinished goods or services	8.9	7.1
Finished products and goods	602.6	579.3
Payments on account	32.8	63.9
Inventories	**1,730.1**	**1,465.6**

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 year this led to a write-up of € 4.8 million (2009: € 12.4 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 € 325.0 million in the reporting year (2009: € 469.7 million).

The inventories recorded at fair value in the previous period were consumed almost in their entirety in the reporting year.

Impairments of inventories amounting to € 31.1 million (2009: € 65.4 million) were posted to expenses.

As in the previous year, there are no restrictions on the ownership or disposal of the inventories reported.

(23) Trade Receivables

In € m	31/12/2010	31/12/2009
Receivables from third parties	1,143.2	1,023.9
Receivables from affiliated companies	25.8	16.7
Receivables from companies in which the company has a participating interest	6.9	16.0
Trade receivables	**1,175.9**	**1,056.6**

Impairments on trade receivables amounting to € 16.9 million (2009: € 22.8 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 € 11.0 million (2009: € 19.8 million). These are largely accounted for by the forfaiting of receivables. For further details, please refer to Note (38) “Other Liabilities”.

Trade receivables include the following receivables from contract production recognized using the percentage-of-completion method:

In € m	31/12/2010	31/12/2009
Production costs including result from construction contracts	221.9	221.1
Payments received on account	–120.1	–142.1
Receivables from construction contracts	**101.8**	**79.0**

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.

(24) Other Receivables and Other Assets

In € m	31/12/2010	31/12/2009
Other receivables from affiliated companies	49.9	52.4
of which other receivables	[49.8]	[49.8]
of which loans	[0.1]	[2.6]
Other receivables from participating interests	7.0	16.4
of which other receivables	[7.0]	[16.4]
Other tax refund claims	31.2	50.1
Subsidies for age-related part-time employment	22.3	6.0
Assets available for sale	12.7	17.7
Advances on company pensions	8.7	8.7
Derivatives	8.3	13.2
Deferred expenses	7.2	7.2
Other assets	100.8	112.0
Other receivables and other assets	**248.1**	**283.7**

The other receivables and other assets also include the sum of € 22.3 million (2009: € 6.0 million) that did not become legally effective until after the reporting date.

There are no restrictions on the ownership or disposal for other receivables.

The current receivables from finance leases consist of the following:

In € m	31/12/2010	31/12/2009
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.

Under operating leases, the Group essentially leases out real estate which is used commercially. The future minimum rental earnings from these contracts are:

Future rental revenues in € m	31/12/2010	31/12/2009
up to 1 year	3.7	2.0
1 to 5 years	7.8	5.0
over 5 years	2.2	3.5
Total	**13.7**	**10.5**

In the income for the reporting year, € 1.7 million (2009: € 0.6 million) was reported as conditional rental income.

(25) Income Tax Assets

The income tax refund claims of € 135.6 million (2009: € 109.4 million), which existed as of December 31, 2010, relate essentially to capital yields withholding tax claims by two domestic Group companies. This is offset by non-current income tax liabilities of € 193.6 million (2009: € 200.5 million) and current income tax liabilities of € 46.1 million (2009: € 75.3 million).

Refund claims are set off against tax liabilities if there is an enforceable right to set off the reported amounts against each other and the intention is to offset them in net terms. The prerequisites for this are that the tax refund claim and the tax liability both relate to the same tax authority and that the tax authority allows their offsetting.

(26) Securities

Under securities, shares are reported as current financial investments or commercial papers and funds with an aggregate amount of € 377.5 million (2009: € 159.5 million). The increase compared with the previous year resulted largely from the acquisition of commercial papers and funds.

(27) Cash and Cash Equivalents

The cash and cash equivalents consist of the following:

In € m	31/12/2010	31/12/2009
Cash at banks	1,574.0	1,792.7
Checks, cash in hand	0.3	0.3
Cash and cash equivalents	**1,574.3**	**1,793.0**

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.

All of the shares were acquired in accordance with Section 71 para. 1 no. 8, German Stock Corporation Act (AktG), on the basis of an authorization given by the General Meeting of Shareholders (2,487,355 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, 214,463 shares authorized on June 8, 2010), so that they can be used for, in particular, 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.

3,000 shares were acquired in June of the reporting year for a price of € 47.79 per share, 211,461 in July at a price of € 47.83 per share and 2 shares in December at a price of € 51.23 per share in order to use them for future acquisitions, the fulfillment of option or conversion rights and for distribution to employees. All in all, these account for € 576,743 of the share capital (= 0.36%). 15 shares (€ 40.34 of the share capital) were presented to employees as gratuities to reward them for particularly good improvement proposals.

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 as of 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.

The Executive Board can also issue up to 3,550,457 new shares if the holders of the convertible bonds that the Company issued on October 6, 2009, make use of their conversion right which can be exercised up to September 27, 2016.

In addition, the Executive Board is authorized by a resolution of the General Meeting of Shareholders from June 8, 2010, to acquire treasury shares to a maximum proportion of 10% of the share capital in the period up to June 7, 2015. No use was made of this authorization in the financial year 2010.

(29) Capital Reserve

Of the capital reserve, which still amounted to € 238.6 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 € –14.5 million (2009: € –24.9 million). The valuation reserve from the financial assets/financial instruments reported in the balance sheet amount to € –6.4 million (2009: € –1.4 million). This change results from the decline 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 € 421.3 million (2009: € 326.2 million), after deduction of deferred taxes, were recorded directly under equity.

From the associated companies there have been changes in equity not measured through profit or loss amounting to € – 5.4 million (2009: € – 1.8 million).

As of the balance sheet date, Salzgitter AG held 6,009,700 treasury shares (2009: 5,795,252 shares). These account for € 16,161,527.33 (= 10.00 %) of the share capital (2009: € 15,584,823.32 [= 9.64 %]).

The treasury shares were deducted directly from equity in the amount of € 369.7 million (2009: € 359.4 million).

(31) Unappropriated Retained Earnings

Under the German Commercial Code (HGB), dividend payments to shareholders in Salzgitter AG depend 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 2010 of € 0.32 per share (= € 19.3 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 Salzgitter share's closing XETRA price of € 57.77 on December 30, 2010, the dividend yield amounts to 0.6 % (2009: 0.4 %).

If the company holds treasury shares on the day of the General Meeting of Shareholders, the proposed appropriation of profits will be adjusted accordingly since treasury shares are not eligible for dividend.

(32) Minority Interests

This item contains the minority interests in the subscribed capital, the general reserves and the profits and losses of the Group companies reported. The minority interests in equity relate to

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

In the income statement, the result is reported proportionately under “Minority interests”.

Non-current Liabilities

(33) Provisions for Pensions and Other Obligations

In Germany there is a contribution-related basic employee pension scheme embodied in law under which pension payments are made on the basis of income and contributions. Once the company has paid the relevant contributions to the state social insurance authority and to pension funds constituted under private law, it has no obligation to pay further benefits. The ongoing contribution payments are reported as expenses in the relevant period.

In the Salzgitter Group there are also defined benefit pension commitments, of which a small proportion is fund-financed. The Group's plan assets in this area consist mainly of life insurance and reinsurance policies.

With regard to the non-fund financed pension commitments, there are collective and individual commitments in Germany. 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 dependants 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 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 actuarial gains (–) and losses (+) developed as follows:

In € m	FY 2010	FY 2009
Status 1/1	326.2	228.4
Changes in the consolidated group	–	–0.5
Change in financial year	95.1	98.3
Status 31/12	**421.3**	**326.2**

The differences between the expected and actual trend (experience adjustment) are as follows (gains +/losses –):

In € m	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006
Status 31/12	**6.5**	**0.3**	**–8.0**	**–12.8**	**–13.6**

The expenses incurred for defined benefit plans in the result for the period were as follows:

In € m	FY 2010	FY 2009
Current service costs (personnel expenses)	13.5	14.7
Financing expenses (interest paid)	85.0	90.3
	98.5	**105.0**

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	31/12/2010	31/12/2009	31/12/2008	31/12/2007	31/12/2006
Present value of fund-financed obligations	9.8	7.9	6.7	5.4	5.4
Fair value of plan assets	–7.6	–6.1	–5.4	–4.3	–4.3
	2.2	**1.8**	**1.3**	**1.1**	**1.1**
Present value of fund-financed obligations	1,924.1	1,855.8	1,785.7	1,790.7	1,713.7
Reported pension provisions	**1,926.3**	**1,857.6**	**1,787.0**	**1,791.8**	**1,714.8**

The plan assets have developed as follows:

In € m	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006
Opening balance, 1/1	6.1	5.4	4.3	4.3	3.9
Changes in the consolidated group	–	–	0.8	–	–
Expected return on plan assets	0.2	0.1	0.1	0.2	0.2
Acturial gains/losses	0.8	0.2	–0.1	–0.6	–
Allocations	0.5	0.5	0.5	0.4	0.4
Used	–	–0.1	–0.2	–	–0.2
Closing balance, 31/12	**7.6**	**6.1**	**5.4**	**4.3**	**4.3**

The provisions for pensions have developed as follows:

In € m	FY 2010	FY 2009
Opening balance, 1/1	**1,857.6**	**1,787.0**
Transfer	–	1.7
Transfer to other accounts	–	–0.1
Changes in the consolidated group	–	–7.1
Used	–124.9	–127.2
Reversal	–10.0	–2.2
Acturial gains/losses	95.1	98.3
Allocations	23.5	16.9
Interest added	85.0	90.3
Closing balance, 31/12	**1,926.3**	**1,857.6**

The pension provisions encompass the entire projected value of the entitlements. They contain € 1,775.5 million (2009: € 1,711.8 million) in pension commitments with a remaining term of more than one year.

(34) Other Provisions

The development of the other current and non-current provisions is shown in the following table:

In € m	Status 01/01/2010	Currency translation differences	Addition/Disposals from changes in consolidated group	Transfer	Transfers to other accounts	Used	Reversal	Allocation	Interest added	Status 31/12/2010
Other taxes	**11.1**	**–**	**–**	**–**	**–**	**–1.2**	**–0.4**	**2.9**	**–**	**12.4**
Personnel	**172.2**	**0.3**	**–**	**2.0**	**–**	**–55.4**	**–4.2**	**68.9**	**1.7**	**185.5**
of which anniversary provisions	[47.0]	[–]	[–]	[–]	[–]	[–3.8]	[–0.1]	[6.3]	[0.5]	[49.9]
of which for the social plan/age-related part-time employment/demographics fund	[84.0]	[0.1]	[–]	[–]	[1.0]	[–39.7]	[–2.3]	[46.4]	[0.3]	[89.8]
Operating risks	**148.3**	**0.3**	**–**	**–**	**–**	**–8.8**	**–3.0**	**11.3**	**11.8**	**159.9**
Other risks	**368.5**	**1.7**	**–**	**–**	**0.1**	**–71.2**	**–101.5**	**162.8**	**0.1**	**360.5**
of which markdowns/complaints	[118.3]	[0.4]	[–]	[–]	[0.1]	[–31.1]	[–44.3]	[61.8]	[–]	[105.2]
of which risks from pending transactions	[55.6]	[0.6]	[–]	[–]	[–]	[–12.2]	[–23.1]	[48.6]	[–]	[69.5]
Total	**700.1**	**2.3**	**[–]**	**2.0**	**0.1**	**–136.6**	**–109.1**	**245.9**	**13.6**	**718.3**

The comparable figures for the previous year were as follows:

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 added	Status 31/12/2009
Other taxes	**10.3**	**–**	**0.0**	**–**	**–**	**–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]
of which risks from pending transactions	[26.4]	[0.4]	[1.2]	[–]	[–0.7]	[–5.8]	[–7.8]	[41.9]	[–]	[55.6]
Total	**687.9**	**1.9**	**–0.8**	**–4.8**	**0.1**	**–134.4**	**–153.2**	**299.1**	**4.3**	**700.1**

The restructuring expenses incurred during the year, which largely affected two companies, come to a total of € 26.9 million, of which € 15.9 million can be attributed to an increase in the provision for social plans while € 1.9 million was reported in 2010 as current expenses from the social plan. Also allocated to the restructuring provisions were € 8.7 million, of which € 8.3 million affected a French precision tubes plant. An amount of € 0.4 million was recorded as current restructuring expenses in 2010. The reversals from restructuring provisions totaled € 12.7 million in 2010.

The non-current other provisions were discounted at a rate of 4.00 % p.a. (2009: 4.75 %).

The allowances for employees leaving the company under the terms of semi-retirement employment contracts are capitalized as an asset worth € 14.7 million (2009: € 6.0 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 31/12/2010	Short-term	Long-term
Other taxes	12.4	12.4	–
Personnel	185.5	55.9	129.6
of which anniversary provisions	[49.9]	[–]	[49.9]
of which for the social plan/age-related part-time employment/demographics fund	[89.8]	[38.3]	[51.5]
Operating risks	159.9	15.4	144.5
Other risks	360.5	360.5	–
of which markdowns/complaints	[105.2]	[105.2]	[–]
of which risks from pending transactions	[69.5]	[69.5]	[–]
Total	718.3	444.2	274.1

In € m	Total 31/12/2009	Short-term	Long-term
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]	[–]
of which risks from pending transactions	[55.6]	[55.6]	[–]
Total	700.1	515.3	184.8

(35) Non-current Financial Liabilities

In € m	31/12/2010	31/12/2009
Bonds	515.5	240.5
Liabilities to banks	5.5	27.3
Liabilities from finance lease agreements	69.9	27.1
Other borrowings	0.1	11.1
Financial liabilities	**591.0**	**306.0**

Salzgitter Finance B.V., Oosterhout (Netherlands), a wholly-owned subsidiary of Salzgitter AG, issued a bond with a volume of € 295.5 million on November 8, 2010. The bond can be converted into existing ordinary Aurubis AG bearer shares. The exchangeable note is guaranteed by Salzgitter AG.

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	31/12/2010 Total
Minimum lease payments	36.8	55.5	92.3
Finance costs	12.3	10.1	22.4
Present value of minimum lease payments	**24.5**	**45.4**	**69.9**

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**

The non-current liabilities from lease transactions relate essentially to the leasing of plant equipment and machinery.

Current Liabilities

(36) Current Financial Liabilities

In € m	31/12/2010	31/12/2009
Liabilities to banks	77.6	67.9
Liabilities		
to affiliated companies	31.7	6.4
to participating interests	–	3.3
Liabilities from finance lease agreements	6.6	3.8
Other borrowings	12.3	–
Current financial liabilities	**128.2**	**81.4**

The liabilities from finance leases reported under current financial liabilities are shown in the following table:

In € m	31/12/2010	31/12/2009
Minimum lease payments	10.6	5.2
Finance costs	4.0	1.4
Present value of minimum lease payments	**6.6**	**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	31/12/2010	31/12/2009
Liabilities		
to third parties	684.2	499.9
to affiliated companies	7.6	9.9
to participating interests	21.5	31.5
Trade payables	**713.3**	**541.3**

Trade payables include the following payables from contract production recognized using the percentage-of-completion method.

In € m	31/12/2010	31/12/2009
Payments received on account	78.3	78.6
Less production costs including result from construction contracts	52.9	49.6
Payables from construction contracts	**25.4**	**29.0**

The payables from construction contracts include 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	31/12/2010	31/12/2009
Other liabilities		
to affiliated companies	22.4	28.6
to participating interests	0.5	0.5
Other liabilities	454.8	352.1
of which payments received on account	[177.7]	[141.1]
of which to employees	[75.5]	[65.6]
of which tax	[30.8]	[38.8]
of which social security contributions	[17.0]	[21.7]
of which from forfaiting	[10.7]	[18.5]
of which derivatives	[83.8]	[13.9]
of which customer credit	[7.5]	[7.7]
of which interest	[1.7]	[0.8]
of which other liabilities	[50.1]	[44.0]
Other liabilities (current)	**477.7**	**381.2**

Of the sum total of liabilities, some € 53.2 million (2009: € 64.2 million) is secured by liens and similar rights.

Of the other liabilities, € 10.7 million (2009: € 18.5 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 € 7.7 million (2009: € 6.5 million), and reported the funds received as liabilities. In addition, Salzgitter Mannesmann International (USA) Inc., Houston, sold receivables worth the equivalent of € 3.0 million as of December 31, 2010 (2009: € 12.0 million) 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 balance sheet date. Their aggregate amount is € 140.2 million (2009: € 141.4 million).

The contingencies include sureties and guarantees amounting to € 100.5 million (2009: € 107.8 million) and bill commitments totaling € 0.5 million (2009: € 1.1 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	31/12/2010		31/12/2009	
	Short-term	Long-term	Short-term	Long-term
Purchase commitments	178.9	52.0	275.3	43.6
Obligations from long-term rental agreements	40.1	284.5	37.6	235.0
Other financial obligations	705.5	545.2	439.8	558.0
Total	**924.5**	**881.7**	**752.7**	**836.6**

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	31/12/2010	31/12/2009
up to 1 year	40.1	37.6
1 to 5 years	93.4	73.5
over 5 years	191.1	161.5
Total	**324.6**	**272.6**

(41) Financial Instruments

As of the balance sheet date December 31, 2010, the transition of the balance sheet items to the various categories of financial instruments was as follows:

FY 2010 in € m	Book value			Valuation according to IAS 39			Valuation according to IAS 17	Fair value
	31/12/2010	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 investments	78.9	15.2	63.7	–	–	–	–	78.9
Other non-current receivables and assets (acc. to balance sheet € m 3.1); of which financial instruments	3.1	–	–	–	–	–	3.1	3.2
Trade receivables	1,175.9	1,175.9	–	–	–	–	–	1,175.9
Other receivables and other assets (acc. to balance sheet € m 248.1); of which financial instruments	161.4	138.7	12.7	7.8	0.5	–	1.7	161.6
Securities	377.5	150.0	185.9	41.6	–	–	–	377.5
Cash and cash equivalents	1,574.3	–	1,574.3	–	–	–	–	1,574.3
Assets financial instruments		**1,479.8**	**1,836.6**	**49.4**	**0.5**	**–**	**4.8**	
Equity and liabilities								
Non-current financial liabilities	591.0	–	–	–	–	521.1	69.9	583.8
Current financial liabilities	128.2	–	–	–	–	121.6	6.6	131.9
Trade payables	713.3	–	–	–	–	713.3	–	713.3
Other payables (acc. to balance sheet € m 477.7); of which financial instruments	156.0	–	–	83.1	0.8	72.1	–	156.0
Equity and liabilities financial instruments		**–**	**–**	**83.1**	**0.8**	**1,428.1**	**76.5**	

Within the “Securities” item, the money market funds acquired during the financial year are reported in the category “Financial assets available for sale”.

As of the reporting 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	Fair value
	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 investments	77.4	14.7	62.7	–	–	–	–	77.4
Other non-current receivables and assets (acc. to balance sheet € m 3.3); of which financial instruments	2.7	–	–	–	–	–	2.7	2.8
Trade receivables	1,056.6	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	217.6
Securities	159.5	50.0	–	109.5	–	–	–	159.5
Cash and cash equivalents	1,793.0	–	1,793.0	–	–	–	–	1,793.0
Assets financial instruments		**1,306.1**	**1,873.3**	**122.1**	**0.6**	**–**	**4.4**	
Equity and liabilities								
Non-current financial liabilities	306.0	–	–	–	–	278.9	27.1	305.9
Current financial liabilities	81.4	–	–	–	–	77.6	3.8	82.8
Trade payables	541.3	–	–	–	–	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	–	96.5
Equity and liabilities financial instruments		**–**	**–**	**13.7**	**0.2**	**980.4**	**30.9**	

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 tables. 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.

The category "Financial assets available for sale" contains financial assets totaling € 63.7 million (2009: € 62.7 million) which are not listed on the market and for which no reliable fair value can be ascertained. In this category there are also cash and cash equivalents totaling € 1,574.3 million (2009: € 1,793.0 million).

Fair value calculation assets:

In € m	31/12/2010			
	Available for sale	Financial instruments held for trading	Derivates with documented hedging arrangements	Total
Level 1	198.6	41.6	–	240.2
Level 2	–	7.8	0.5	8.3
Level 3	–	–	–	–
Total	**198.6**	**49.4**	**0.5**	**248.5**

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	31/12/2010		
	Financial instruments held for trading	Derivates with documented hedging arrangements	Total
Level 1	–	–	–
Level 2	83.1	0.8	83.9
Level 3	–	–	–
Total	**83.1**	**0.8**	**83.9**

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	31/12/2010		31/12/2009	
	Maximum default risk	Secured default risk	Maximum default risk	Secured default risk
Trade receivables	1,175.9	672.8	1,056.6	633.6
Other receivables	138.7	6.7	184.8	22.4
Financial investments	15.2	0.4	14.7	0.4
Securities	150.0	–	50.0	–
Total	**1,479.8**	**679.9**	**1,306.1**	**656.4**

There are also default risks in respect of financial assets held for trading in the amount of the positive market values of the derivatives and with lease receivables in the amount of the reported values for which the default risk is not secured.

The analysis of the ages of the financial instruments which are overdue, but not impaired, amounting to € 145.7 million (2009: € 161.7 million) as of the reporting date produced the following result:

31/12/2010 in € m	overdue for				
	< 30 days	31–60 days	61–90 days	91–180 days	> 180 days
Loans and receivables originated by the company	95.2	21.1	4.9	8.9	15.0

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

A sum of € 59.9 million (2009: € 66.6 million) comprising overdue, non-impaired financial assets in the “Loans and receivables originated by the company” category is safeguarded with credit insurance.

Sums which are not value-adjusted and 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 € 29.5 million (2009: € 33.9 million) and reversals of write-downs in the amount of € 25.3 million (2009: € 12.1 million).

An impairment of financial assets in the category “Loans and receivables originated by the company” is carried out as soon as there are any objective indications of impairment, for example substantial financial difficulties of the debtor or breach of contract. The impairments are recognized with effect on income under other operating expenses. Reversals of impairment losses are recognized under other operating income.

No trade receivables (2009: € 1.0 million) were subjected to value adjustment in the financial year 2010 simply because their payment periods were prolonged.

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 2010	FY 2009
Assets/liabilities held for trading	–38.6	–1.1
Loans and receivables originated by the company	18.6	25.1
Available for sale	11.4	–24.0
Financial liabilities measured at amortized cost	–28.1	–26.2
Total	**–36.7**	**–26.2**

The net result in the "Assets/liabilities held for trading" category primarily contains income and expenses from the balance sheet date valuation of embedded derivatives, current securities and forward exchange transactions. The "Loans and receivables originated by the company" and "Financial assets available for sale" categories include interest income amounting to € 24.5 million (2009: € 31.1 million). Interest expenses amounting to € 31.9 million (2009: € 23.5 million) are allocated to the "Financial liabilities measured at amortized cost" category. These categories also include effects from currency translation and impairment.

In the reporting year, profits of € 0.1 million (2009: € 0) were generated from the disposal of non-consolidated companies valued at acquisition cost. There were no losses from disposals in the financial year (2009: € 1.4 million). Valuation allowances of € 2.7 million (2009: € 25.7 million) with effect on income were recorded for the assets in the "Financial assets available for sale" category in the reporting year.

For financial instruments not measured at fair value through profit and loss, the expenses incurred in financial and monetary transactions amounted to € 9.9 million (2009: € 10.2 million); these were immediately recognized with effect on income.

Changes in the valuation reserve for financial instruments in the “available for sale” category developed as follows:

In € m	FY 2010	FY 2009
Status 1/1	–1.8	–13.5
Write-up without effect on the income	1.1	11.7
Disposal	0.5	–
Write-down without effect on the income	4.9	–
Status 31/12	**–6.1**	**–1.8**

The change in value of € 4.9 million in the financial year 2010 relates primarily to the shares in an Indian manufacturing company in the tubes industry.

In the financial year 2010, 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	31/12/2010	31/12/2009
Forward exchange contracts — cashflow hedges	0.5	0.6

Negative market values in € m	31/12/2010	31/12/2009
Forward exchange contracts — cashflow hedges	0.8	0.2

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 cash flow hedge reserve, which was posted to equity with no effect on income, developed as follows:

In € m	FY 2010	FY 2009
Status 1/1	0.4	–2.2
Addition	–	1.1
Disposals	0.7	–1.5
Status 31/12	**–0.3**	**0.4**

The effectiveness of the hedging arrangements is examined as of every reporting date. This involves comparing the cumulative changes in the value of the underlying transaction with the cumulative changes in the value of the hedging transaction. In the financial 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 always 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 (%)	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009
1 month	0.7820	0.4530	0.5925	0.5150	0.2606	0.2309
3 months	1.0060	0.7000	0.7575	0.6050	0.3028	0.2506
6 months	1.2270	0.9940	1.0500	0.8394	0.4559	0.4297
1 year	1.5070	1.2480	1.5094	1.2475	0.7809	0.9844
2 years	1.6010	1.8230	1.4880	2.0010	0.8130	1.4600
4 years	2.2450	2.5310	2.3150	3.1040	1.7740	2.6190
10 years	3.3310	3.5850	3.5550	4.1300	3.4140	4.0090

The liquidity structure of all the financial liabilities was as follows:

31/12/2010 in € m	up to 1 year	1 to 5 years	over 5 years
Trade payables	713.3	–	–
Financial liabilities	132.1	556.6	15.4
Lease liabilities	10.6	36.8	55.5
Other liabilities	74.2	–	–

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	–	–

As of December 31, 2010, disbursements from derivatives amounting to € 798.4 million (2009: € 574.4 million) are offset by payment contributions amounting to € 788.7 million (2009: € 564.3 million).

Sensitivity Analysis

IFRS 7 stipulates that to ensure a systematic presentation of the market risks to which the company in question is exposed as of the reporting date, a sensitivity analysis must be prepared.

The objective of this sensitivity analysis is to determine the impact of hypothetical changes in relevant risk variables on the company's result and equity. To determine the impact of these risk variables on the financial instruments, the effects of hypothetical changes in the risk variables on the market values and 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 financial year as a whole.

31/12/2010 in € m	affecting result	affecting equity	Total	affecting result	affecting equity	Total
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
USD	–23.5	–	–23.5	15.6	–	15.6
GBP	0.3	–	0.3	–0.3	–	–0.3
Other currencies	1.9	–1.3	0.6	–2.4	1.3	–1.1
Currency sensitivities	**–21.3**	**–1.3**	**–22.6**	**12.9**	**1.3**	**14.2**
Degree of sensitivity	+100 bp	+100 bp	+100 bp	–100 bp	–100 bp	–100 bp
Interest rate sensitivities	**0.2**	–	**0.2**	**–0.1**	–	**–0.1**
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
Other price sensitivities	**–13.7**	–	**–13.7**	**11.9**	–	**11.9**

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**

(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 2010 and 2009, 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, income from fixed asset disposals has been eliminated. Interest income amounted to € 20.8 million (2009: € 29.3 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 associated companies.

The payments for financial investments were made for various money market and pension funds.

Interest paid is attributed solely to financing activities.

Income received from shareholdings during the financial year 2010 amounted to € 22.4 million (2009: € 20.9 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. 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 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 companies in the Services Division do most of their work for 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, € 2,621.2 million (2009: € 2,436.7 million) was accounted for by Germany and € 175.5 million (2009: € 166.8 million) by non-EU countries. A further € 448.9 million (2009: € 370.5 million) relates to consolidated units not assigned to a segment.

In the financial year 2010, 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 2010**	**FY 2009**
Total sales of the segments	10,229.9	9,462.2
Other sales	55.9	40.6
Elimination of the sales with other segments	–1,976.5	–1,668.7
Elimination of the sales with Group companies not assigned to a segment	–4.7	–16.1
Sales	**8,304.6**	**7,818.0**

In € m	**FY 2010**	**FY 2009**
Total results for the period of the segments	26.6	–599.7
Other results for the period	22.3	103.3
Earnings before tax	**48.9**	**–496.4**

In € m	**31/12/2010**	**31/12/2009**
Segment operating assets	6,415.9	6,110.9
Other assets	1,928.4	1,695.1
Income tax assets	135.6	109.4
Deferred income tax assets	201.6	129.0
Deferred expenses	7.2	7.1
Statement of financial position total	**8,688.7**	**8,051.5**

In € m	**31/12/2010**	**31/12/2009**
Segment operating liabilities	5,602.8	5,244.1
Other liabilities	–1,061.1	–1,386.3
Tax liabilities	288.0	279.5
Group equity	3,845.9	3,904.3
Deferred expenses	13.1	9.9
Statement of financial position total	**8,688.7**	**8,051.5**

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 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 2010	FY 2009	FY 2010	FY 2009
ThyssenKrupp GfT Bautechnik GmbH, Essen	103.4	77.8	–	–
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	25.8	19.2	495.4	396.9

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	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
ThyssenKrupp GfT Bautechnik GmbH, Essen	4.8	8.8	–	–
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	7.1	6.7	21.0	29.0

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 € 42.1 million (2009: € 43.8 million).

Remuneration paid to members of the management in key positions:

In € m	FY 2010	FY 2009
Salary and other current payments	11.5	11.5
Payments after termination of the employment relationship	1.1	1.0
Total	**12.6**	**12.5**

(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 2010	FY 2009
Audits	2.1	2.3
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 (2009: € 0.5 million) for the auditing of the annual financial statements of consolidated German-based companies and in the amount of € 0.1 million (2009: € 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 264 b, 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 Immobilien GmbH, 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 € 6.7 million (2009: € 6.4 million) in the financial year. Of this total, € 3.4 million (2009: € 3.2 million) was accounted for by performance-related remuneration components. In addition, the Chairman of the Executive Board of Salzgitter AG who left the company as of January 31, 2010, received a one-off bonus for his meritorious work for Salzgitter AG amounting to € 0.2 million, as well as a further sum of € 0.5 million to fulfill his contractual entitlements.

Provisions for pension obligations to members of the Executive Board amounted to € 19.4 million (2009: € 16.7 million) in the financial year. Former members of the Executive Board and their surviving dependants received a total of € 1.4 million for the financial year (2009: € 1.5 million). Pension provisions totaling € 19.0 million (2009: € 19.6 million) have been set aside to cover obligations to former Executive Board members and their surviving dependants.

Supervisory Board members received a total of € 1.2 million (2009: € 1.7 million). The amount for 2009 was adjusted by € 0.9 million in accordance with the resolution adopted by the General Meeting of Shareholders on June 8, 2010.

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, 2011

The Executive Board

Fuhrmann Becker 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, 2010. 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, 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed	signed
Thomas Stieve	Prof. Dr. Mathias Schellhorn
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(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 investments, disinvestments 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.

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 capital stock that is freely traded on the stock market.

I

IAS/IFRS

"International Accounting Standards"/"International Financial Reporting Standards":
Standards to ensure international comparability in the preparation of accounts.

Impairment

Unscheduled depreciation and amortization of assets, such as, for instance, property, plant and equipment and intangible assets, in the amount by which amortized costs exceed the recoverable amount in the market.

Internal sales

The portion of total sales accounted for by transactions with 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

NAFTA (North American Free Trade Agreement)

The North American Free Trade Agreement, signed on January 1, 1994, is an agreement creating a trilateral trade bloc between Canada, the USA and Mexico, and constitutes a free trading zone on the North American continent.

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 (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.

Profit and loss transfer agreement

A profit and loss transfer agreement is an affiliation agreement under which one company commits itself to transferring its entire profit to another company (Section 291 I German Stock Corporation Act [AktG]). The other contractual partner undertakes to compensate any annual net loss (assumption of loss pursuant to Section 302 I German Stock Corporation Act [AktG]) during the term of the agreement.

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 hollows 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 mixer
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
Uncoated steel sheet that has a thickness of less than 3 mm and is usually produced in a cold-rolling process.

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 products
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 plates continuously through several successive inductor coils to heat these to a temperature of 1,200 °C.

L

LD steel
Oxygen steel produced out of pig iron by the **L**inz-**D**onawitz process (top blowing process).

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 at least 3 mm in thickness. Plate is required mainly in the construction industry, for mechanical engineering and equipment manufacturing, ship building and large-diameter pipes.

Precision tubes
Seamless or welded steel tubes used predominantly in mechanical engineering and the automotive 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 for cold rolling or to other production plants.

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.

Rolled steel
The sum total of all end products to emerge from rolling mills.

S

Sections
Long products, such as beams and sheet piles, used primarily in building construction and civil engineering.

Semi-finished goods/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 sinter 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: www.stahl-online.de

II. Financial Calendar of Salzgitter AG for 2011

March 7, 2011	Key data for the financial year 2010
March 25, 2011	Publication of consolidated financial statements for 2010 Annual Results Press Conference
March 28, 2011	Analysts' Conference in Frankfurt/Main
March 29, 2011	Analysts' Conference in London
May 12, 2011	Interim report for the first quarter of the financial year 2011
May 26, 2011	General Meeting of Shareholders in 2011
August 11, 2011	Interim report for the first half of the financial year 2011 Analysts' Conference in Frankfurt/Main
August 12, 2011	Analysts' Conference in London
November 11, 2011	Interim report for the first nine months of the financial year 2011

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Some of the statements made in this report possess the character of forecasts or may be interpreted as such. They are made upon the best of information and belief, and by their nature are subject to the proviso that no unforeseeable deterioration occurs in the economy or in the specific market conditions pertaining to the companies of the various divisions, but rather that the underlying bases of plans and outlooks prove to be accurate as expected in terms of their scope and timing. The Company undertakes no obligation to update any forward-looking statements.

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 German. In the event of any discrepancies, the German version shall prevail.