



## Annual Report 2005

Financial Year from January 1 to December 31, 2005



# Key Figures for the Financial Year 2005

## Crude Steel Production



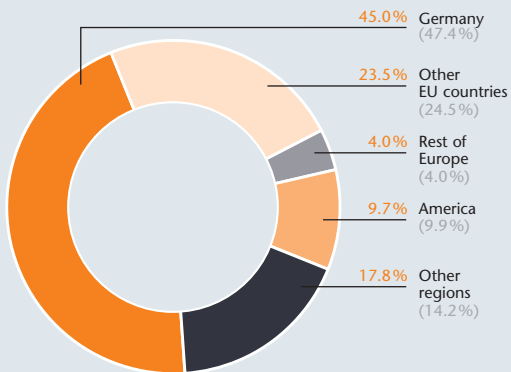
in kt ■ FY 2005 ■ FY 2004

## Consolidated Sales

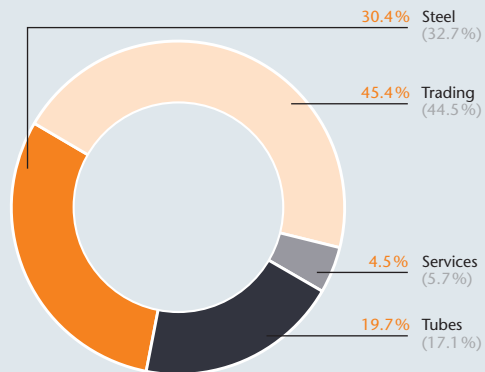


in € mil. ■ FY 2005 ■ FY 2004

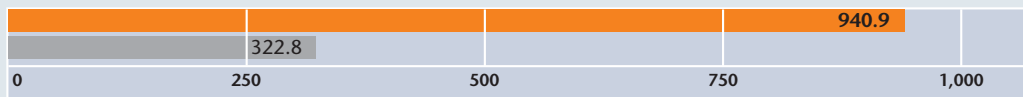
## External Sales by Regions 2005 (2004)



## External Sales by Divisions 2005 (2004)

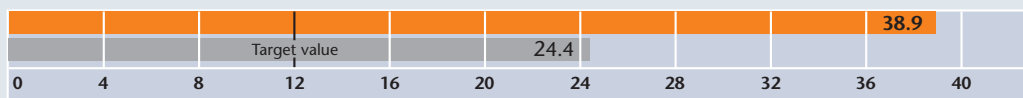


## Earnings before Taxes (EBT)



in € mil. ■ FY 2005 ■ FY 2004

## Return on Capital Employed (ROCE)



in % ■ FY 2005 ■ FY 2004

## Salzgitter Group in Figures

		FY 2001	FY 2002	FY 2003	FY 2004 <sup>1)</sup>	FY 2005
<b>Sales (consolidated)</b>	€ mil.	4,593	4,741	4,842	5,942	7,152
Steel Division	€ mil.	1,397	1,430	1,432	1,946	2,177
Tubes Division	€ mil.	985	1,121	921	1,016	1,407
Trading Division	€ mil.	1,877	1,729	2,027	2,642	3,244
Services Division	€ mil.	216	232	241	338	324
Processing Division	€ mil.	118	229	221	–	–
of which flat rolled products	€ mil.	1,948	2,049	2,409	3,013	3,379
of which sections	€ mil.	909	809	596	794	793
of which tubes	€ mil.	1,227	1,308	1,236	1,284	1,908
of which export share	%	54	54	52	53	55
<b>Income from ordinary operations (EBT)<sup>2)</sup></b>	€ mil.	160	72	42	323	941
<b>Net income for the year</b>	€ mil.	144	66	28	247	842
<b>Balance sheet total</b>	€ mil.	3,809	3,807	3,673	4,236	5,414
<b>Noncurrent assets<sup>3)</sup></b>	€ mil.	1,843	1,975	1,879	1,918	1,900
<b>Current assets<sup>4)</sup></b>	€ mil.	1,966	1,832	1,794	2,318	3,514
Inventories	€ mil.	879	869	919	1,081	1,439
<b>Shareholders' equity<sup>5)</sup></b>	€ mil.	1,085	1,027	980	1,121	2,012
<b>Borrowings<sup>6)</sup></b>	€ mil.	2,724	2,780	2,693	3,115	3,402
Noncurrent debts <sup>7)</sup>	€ mil.	1,947	1,884	1,892	1,902	2,079
Current debts <sup>8)</sup>	€ mil.	777	896	801	1,213	1,323
of which due to banks	€ mil.	178	177	196	175	178
<b>Capital expenditure<sup>9)</sup></b>	€ mil.	285	251	191	228	262
<b>Depreciation and amortization<sup>9)</sup></b>	€ mil.	210	220	248	313	206
<b>Employees</b>						
Personnel expenses	€ mil.	843	940	935	926	994
Workforce (annual average)		17,664	18,872	18,154	17,625	17,583
Personnel expenses per employee	T €	48	50	51	53	57
<b>Crude steel production<sup>10)</sup></b>	kt	8,151	8,209	8,562	6,932	7,142
<b>Key figures</b>						
Earnings before interest and taxes (EBIT) <sup>11)</sup>	€ mil.	179	93	61	346	970
EBIT before depreciation and amortization (EBITDA) <sup>12)</sup>	€ mil.	389	313	309	667	1,186
Return on capital employed (ROCE) <sup>13)</sup>	%	13.6	7.3	4.6	24.4	38.9
Cash flow	€ mil.	117	157	223	352	468

<sup>1)</sup> Values for FY 2004 adjusted to the new Group structure and balance sheet reporting regulations

<sup>2)</sup> Earnings before taxes

<sup>3)</sup> Fixed assets until 2003

<sup>4)</sup> Current assets until 2003

<sup>5)</sup> Including minority interests from 2004 onwards

<sup>6)</sup> Excluding minority interests from 2004 onwards

<sup>7)</sup> Provisions until 2003

<sup>8)</sup> Liabilities until 2003

<sup>9)</sup> Excluding financial investments

<sup>10)</sup> Since 2001 SZFG, PTG and MRW-/V&M interests in Hüttenwerke Krupp Mannesmann (HKM) and V&M France and V&M do Brasil, from July 2002 also including V&M Star; from 2004 calculated on the basis of the changed shareholdings in HKM and Vallourec

<sup>11)</sup> EBT plus interest expenses (excluding the interest portion of allocations to pension provisions)

<sup>12)</sup> From 2004 including amortization of financial assets

<sup>13)</sup> EBIT divided by the sum of shareholders' equity, tax provisions and interest-bearing liabilities (from 2003 excluding deferred tax assets and liabilities); from 2005 including liabilities from financial leasing, forfeiting and asset-backed securitization

## Highlights of the Financial Year 2005

### January 1, 2005

As part of the Trading Division of the Salzgitter Group, Salzgitter Handel GmbH integrates the "Mannesmann" brand name into the company and takes over the international sale and distribution of products of the Tubes Division. As from January 1, 2005, the company operates under the name of Salzgitter Mannesmann Handel GmbH. Headed by this company, around 20 international trading companies and agencies, along with stockholding companies in Poland, Hungary, the Czech Republic and Romania, will be renamed to include the "Mannesmann" brand name. They will also market and sell large-diameter and medium-line pipes.

### March 9, 2005

Salzgitter AG publishes its figures for the financial year 2004: Against the backdrop of booming global demand for rolled steel and tubes, the Group achieved outstanding, above-average results in the financial year 2004. Sales climbed to € 5.9 billion (2004: € 4.8 billion) and, along with profit before tax of € 322.8 million (2004: € 42.5 million), reached a new high, also in a long-term comparison.

### March 31, 2005

The Annual Report 2004 of the Group is published and presented to the financial press at its annual results press conference. In the days following this event, we continue our dialogue with the financial community at well attended analysts' conferences in Frankfurt and London.

### April 1, 2005

As part of the process of realigning the Group structure, the Processing Division is closed down on April 1 and the companies formerly operating in this division reassigned to the Steel and Services Divisions.

### April 11 – 15, 2005

15 subsidiaries belonging to the Salzgitter Group present projects at the Hanover Trade Exhibition Industry involving groupwide and group-overarching cooperation with customers. Highlighting five topic areas, processes for system solutions are demonstrated.

### May 13, 2005

Due to brisk demand and prices which rose gradually to a generally comfortable level, the Salzgitter Group recorded an exceptional increase in sales before tax to € 1.8 billion (2004: € 1.3 billion), as well as profit before tax to € 253.5 million (2004: € 26.2 million) in the first quarter of 2005.

### May 26, 2005

The General Meeting of the Shareholders of Salzgitter AG ratifies the proposal of the Executive and Supervisory Boards and approves a dividend of € 0.40 per share which, based on the year-end 2004 share price, equates to a dividend yield of 2.8%. As in previous years, this yield exceeds the DAX and MDAX averages.

### June 23, 2005

Salzgitter AG and Vallourec S.A. combine and concentrate their seamless tube activities under Vallourec. As part of this transaction, the 45% stake in Vallourec & Mannesmann Tubes S.A. is transferred to Vallourec as the French joint venture partner. The stake of Salzgitter AG in Vallourec remains unchanged at around 23%.

#### **August 12, 2005**

In the first six months of the financial year 2005, Salzgitter AG achieves outstanding growth in both sales and profit. With external sales posting € 3.6 billion (2004: € 2.8 billion), the Salzgitter Group considerably outperformed the previous year's figure. A consolidated profit before tax of € 463.4 million (2004: € 81.7 million) is a new benchmark for a semi-annual interim result.

#### **September 25, 2005**

After only 89 days of downtime, Salzgitter Flachstahl GmbH's Blast Furnace A is blown again. In the process of relining, the blast furnace is equipped with a larger hearth, a new refractory lining, as well as a number of technical improvements. The amount invested comes to € 57 million.

#### **October 4, 2005**

Salzgitter AG and Corus cooperate in the development and use of HSD® (high strength and ductility) steel grades in selected market segments. These types of steel, which have a high manganese content, are vastly superior to conventional steel thanks to their great strength combined with high ductility.

#### **October 4, 2005**

Salzgitter AG and Wilhelm Karmann GmbH develop and create concepts for car bodies of the future under the SCALIGHT joint project. The latest materials currently produced on an industrial scale by Salzgitter AG form the basis for the safe and lightweight components of the vehicle bodies of the future. In addition, Salzgitter AG makes available its know-how in processing production methods under the SCALIGHT project. Karmann's contribution to the basic concept and assembly methods is its experience in building vehicles.

#### **November 14, 2005**

With business in rolled steel and tubes developing satisfactorily, Salzgitter AG sets new sales and profit records for the first nine months of the current financial year thanks to the outstanding results of the first half year and a better-than-expected third quarter. The 25% increase in consolidated external sales to € 5.4 billion (2004: € 4.3 billion) and a pre-tax profit of € 595.2 million (2004: € 157.2 million) deliver sound proof of the current performance of the Salzgitter Group.

#### **November 17, 2005**

An extraordinary General Meeting of the Shareholders of Salzgitter AG resolves that the Group structure be realigned under corporate law for financial reasons. Combining all the major companies of the Salzgitter Group under Salzgitter Mannesmann GmbH, as an intermediate holding company based in Salzgitter, enables the utilization of tax loss carryovers and the implementation of unrestricted centralized financial management for the Group.

The approval of the requisite spin-off and transfer agreement concerning the companies above is legally challenged by one of the shareholders. The case is still pending.

#### **December 22, 2005**

Salzgitter AG and the Arcelor Group sign a non-binding Letter of Intent on the takeover of Schwerte-based Flachform Stahl GmbH by Hövelmann & Lueg GmbH, also located in Schwerte.

One of Germany's most high-performance steel service centers will emerge from this transaction.

## 1 Salzgitter AG: Profile, People, Philosophy

## 2 Group Management Report and Management Report on Salzgitter AG

### Contents

- 1.1 Preface by the Executive Board 10
- 1.2 Company Profile and Group Structure 12
- 1.3 Executive Board 16
- 1.4 Corporate Strategy 19
- 1.5 Environmental Protection 24
- 1.6 The Salzgitter Share 27
- 1.7 Supervisory Board 31
- 1.8 Report of the Supervisory Board 34
- 1.9 Corporate Governance Report 39
- 1.10 Remuneration of the Executive Board and the Supervisory Board 46
- 2.1 Economic Situation 50
  - General Business Conditions 50
  - Purchasing 54
  - Employees 58
  - Investments 63
  - Earnings 67
  - Divisions 74
  - Profitability Improvement Program 92
  - Financial Position 94
  - Asset Position 96
  - General Statement on the Economic Situation 98
  - Performance Report 99
- 2.2 Annual Financial Statements of Salzgitter AG 102
- 2.3 Research and Development 108
- 2.4 Significant Events after the Reporting Date 114
- 2.5 Risk Report 116
  - Opportunities and Risk Management System 116
  - Individual Risks 117
  - Overall Statement on the Risk Position 120
- 2.6 Forecast 122
  - General Market Conditions 122
  - Strategic Direction of the Group 123
  - Expected Earnings 126
  - Expected Financial Position 129
  - Opportunities 130
  - Anticipated Developments and Trends 131

## 3 Consolidated Annual Financial Statements/Notes

- 3.1 Consolidated Income Statement 136
- 3.2 Consolidated Balance Sheet 137
- 3.3 Statement of Income and Accumulated Earnings 138
- 3.4 Cash Flow Statement 139
- 3.5 Notes 142

Statement of Changes in Equity 142

Segment Reporting 144

Consolidated Fixed Assets 146

Substantial Shareholdings of Salzgitter AG 148

Accounting Principles 150

Consolidation Principles and Methods 152

Consolidated Group 154

Currency Translation 155

Accounting and Valuation Principles 156

Notes to the Income Statement 170

Notes to the Consolidated Balance Sheet 181

Contingencies 203

Other Financial Obligations 203

Financial Instruments 204

Notes to the Cash Flow Statement 208

Notes on Segment Reporting 209

Related Party Disclosures 212

Fees for the Auditor of the Consolidated Financial Statements 214

Significant Events occurring after the Reporting Date 214

Waiver of Disclosure in Accordance with Section 264, Para. 3 or Section 264b, German Commercial Code (HGB) 215

Supervisory Board and Executive Board 216

- 3.6 Independent Auditor's Report 218

## 4 Further Information

- 4.1 List of Company Abbreviations 222
- 4.2 Glossary 224
- 4.3 Financial Calendar of Salzgitter AG for 2006 232
- 4.4 Imprint and Contact 234

## 1.1 Preface by the Executive Board

Ladies and Gentlemen,

2005 was another exceedingly good year for steel – the second in succession. Burgeoning growth, particularly in China, of a magnitude beyond the expectations of almost every expert in economics in general and the industry in specific, created an imbalance in the energy and raw materials markets, which in turn ensured that the outstanding business in rolled steel products continued into the first half of 2005. The temporary peak was followed by a brief cyclical downturn, after which demand and prices firmed up at a still gratifying level. By contrast, the tubes business has almost without exception remained remarkably stable throughout the whole of 2005 and until the present day.

Thus 2005 was once again an exceptional year for Salzgitter AG. Our pre-tax profit of € 940.9 million was almost three times the figure for 2004, which itself had already set a long-term record. Even after eliminating profits on disposals resulting from the restructuring of our seamless tubes commitments, Group profit advanced to more than twice the previous year's figure.

There can be no doubt that this success is in large measure attributable to mutually supportive influences deriving from the markets in which we buy and into which we sell. And it is equally obvious that the diversified approach and the comparatively broad product portfolio which we have consistently favored for Salzgitter AG has proven to have the edge over competitors who have concentrated on a single range of products or a limited number of bulk consumers.

Sustainable and consistent corporate management is our motto, both internally and externally. It is integral to our philosophy that even in times of optimum economic performance, the groupwide Profitability Improvement Program continues to be implemented and enhanced with wholehearted dedication.

It is our intention to avoid hasty maneuvers of the kind that are generally good for grabbing headlines but bad for business; we intend instead to prudently pursue our course of independence, profitability and growth.

In addition to numerous projects designed to optimize our production and our range of products, we intend, as in the past, to resolutely take advantage of opportunities for external growth, provided that there is rational justification for so doing. In the present circumstances, which are characterized on the one hand by an overheating in this industry and on the other by a global oversupply of investment capital, it is difficult to create genuine added value through large-scale acquisitions. We will be utilizing this phase to profit from and enhance our efficient structures and consolidate our position through selective action.

The streamlining of our commitment in the seamless tubes sector should be viewed in this context. The sale of a 45% stake in the joint venture Vallourec & Mannesmann Tubes to our partner Vallourec has earned rewards for both companies in the capital markets. The subsequent cautious reduction in our participating interest in

Vallourec has yielded some extremely gratifying additional earnings. We intend to stand by the position we have now reached, given that the resulting industrial and financial outlook appears better and more reliable than any currently conceivable alternative engagements.

In the course of the year 2005, the price of Salzgitter stock rose by 220%, putting us in a lead position in every comparative performance rating.

The proposed increase in the dividend to two and a half times its previous level is in line with the development in results. At the same time we will be reinforcing the solidity of the Salzgitter AG balance sheet.

This is entirely appropriate, for the recent exceptionally good times should not be regarded as cause for excessive exuberance. As always, in the segments in which we source our supplies and sell our products, the market economy will ensure convergence between supply and demand. On the raw materials side, there are major development projects underway; the associated transport and logistics infrastructure is being expanded accordingly. The outlook for sustained growth in global steel consumption enhances the attraction of projects aimed at increasing capacities.

From a realist perspective this prospect is neither surprising, nor yet negative. On the contrary, it motivates us to actively construct a future in which Salzgitter AG will remain an independent enterprise noted for above-average profitability. The financial year 2006 has likewise begun well. Even though the extraordinary profits of last year are unlikely to be repeatable, without ignoring the conceivable impact of for example political or currency-related risks, the immediate outlook nevertheless gives cause for confidence.

On this note, in our own name and on behalf of the committed men and women who comprise our workforce, we thank you, our shareholders and business partners, for your valued cooperation over the past financial year and we look forward to our continued future partnership.



Wolfgang Leese



Wolfgang Eging



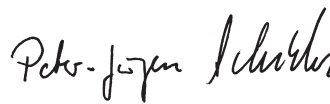
Hans Fischer



Dr. Heinz Jörg Fuhrmann



Heinz Groschke



Peter-Jürgen Schneider

## 1.2 Company Profile and Group Structure

12

The Salzgitter Group comprises more than 80 national and international subsidiaries and associated companies combined under Salzgitter AG as the holding company.

With external sales in excess of € 7 billion, an annual production of more than 7 million tons of crude steel, and a workforce of over 17,000, the Salzgitter Group is one of Europe's leading steel technology groups. In some of its segments, the Tubes Division is a global leader, and the company ranks among Europe's top 5 in the flat carbon steel and profiles sectors. As a company listed on the MDAX, Salzgitter AG is, on the basis of its placing within the index, one of the 50 leading German stock corporations.

As the management holding company, Salzgitter AG coordinates the four divisions Steel, Tubes, Trading and Services. These divisions are composed of independent operating companies which enjoy a high degree of decentralized decision-making freedom and are able to develop market-, location- and product-related business activities on their own responsibility.

During the process of realigning the corporate structure, the Processing Division was dissolved on April 1 of this financial year, with retrospective effect for the whole financial year, and the companies formerly operating under this division were assigned to the Steel Division (HSP Hoesch Spundwand GmbH [HSP], Salzgitter Bauelemente GmbH [SZBE], Salzgitter Europlatinen GmbH [SZEP]) and the Services Division (Salzgitter Automotive Engineering GmbH & Co. KG [SZAE], Salzgitter Magnesium-Technologie GmbH [SZMT], Oswald Hydroforming GmbH & Co. KG [OHC]). As part of these restructuring efforts, Salzgitter Großrohre GmbH (SZGR), formerly belonging to the Steel Division, was integrated into the Tubes Division.

Accordingly, this report on the financial year 2005 will concentrate on the segments under the new structure, which consists of four divisions. To this end, the figures from the previous year used for the purpose of comparison have also been adjusted to reflect the new Group structure.

Furthermore, upon a proposal by the Executive and Supervisory Boards, an extraordinary General Meeting of Shareholders resolved on November 17, 2005, that the structure of the Group should be realigned under corporate law for financial reasons. Combining all the major companies of the Salzgitter Group under Salzgitter Mannesmann GmbH (SMG), an intermediate holding company based in Salzgitter, enables the utilization of existing tax loss carryforwards and the implementation of unrestricted centralized financial management for the Group.

The management and control of this company and all associated companies will be carried out by Salzgitter AG as a holding company, with the executive body of SMG being identical to the Executive Board of Salzgitter AG. The Group will be managed, as before, by the executive bodies of Salzgitter AG (Executive Board, Supervisory Board).

The approval of the General Meeting of Shareholders on November 17, 2005, concerning the requisite spin-off and transfer agreement between Salzgitter AG and Salzgitter Mannesmann GmbH was legally challenged by one of the shareholders; the case is still pending. Until the case is closed, the new Group structure under corporate law will not be legally effective.

Henceforth, the Steel Division comprises the operating steel companies Salzgitter Flachstahl GmbH (SZFG), Peiner Träger GmbH (PTG) and Ilsenburger Grobblech GmbH (ILG), all headed by the intermediate holding company Salzgitter Stahl GmbH (SZS), as well as Salzgitter Bauelemente GmbH (SZBE), Salzgitter Europlatinen GmbH (SZEP)

and HSP Hoesch Spundwand und Profil GmbH (HSP). With their high-quality special and branded steels, these companies make a particular contribution to the success of steel. In line with our “Steel and Technology” aspiration, they develop and produce a broad range of steel products (flat steel and profiles, plates, sheet piles, components for roofing and cladding, blanks and tailored blanks) for constantly evolving and new areas of application. Thanks to intensive research and development and strong customer orientation, the potential of steel for new and creative product developments will continue to be developed in the future.

The companies of the Tubes Division, grouped under Mannesmannröhren-Werke GmbH and now supplemented by Salzgitter Großrohre GmbH (SZGR) assigned to this entity in the financial year 2005, offer their customers a virtually complete range of steel tubes. The Division’s product portfolio includes, in particular, large-diameter pipes (Europipe GmbH [EP] Salzgitter Großrohre GmbH [SZGR]), HFI-welded line pipes (Mannesmann Line Pipe GmbH [MLP], Röhrenwerk Gebr. Fuchs GmbH [RGF]), precision tubes (MHP Mannesmann Präzisionsrohr GmbH [MHP], Mannesmann Robur B.V. [ROB]) stainless steel tubes (DMV Stainless B.V. [DMV]) and is rounded off by seamless tubes (Vallourec S.A. [VLR]). With their international reputation for recognized quality, the companies of this division generally occupy leading positions and rank as world market leaders in a number of segments.

The Trading Division comprises a dense European sales network, as well as trading companies and agencies worldwide. This combination underpins the successful, extensive market presence of the Salzgitter Group and supports the optimal marketing of its products and services. Through this combination the company ensures that it reaches not only large-scale consumers but also smaller and medium-sized end customers.

The companies of Salzgitter Mannesmann Handel-Gruppe operating under the management company Salzgitter Mannesmann Handel GmbH (SMHD) and the plate specialist Universal Eisen und Stahl (UES), as well as the two steel service centers Hövelmann & Lueg GmbH (HLG) and Ets. Robert et Cie S.A.S. (RSA) have been assigned to this division.

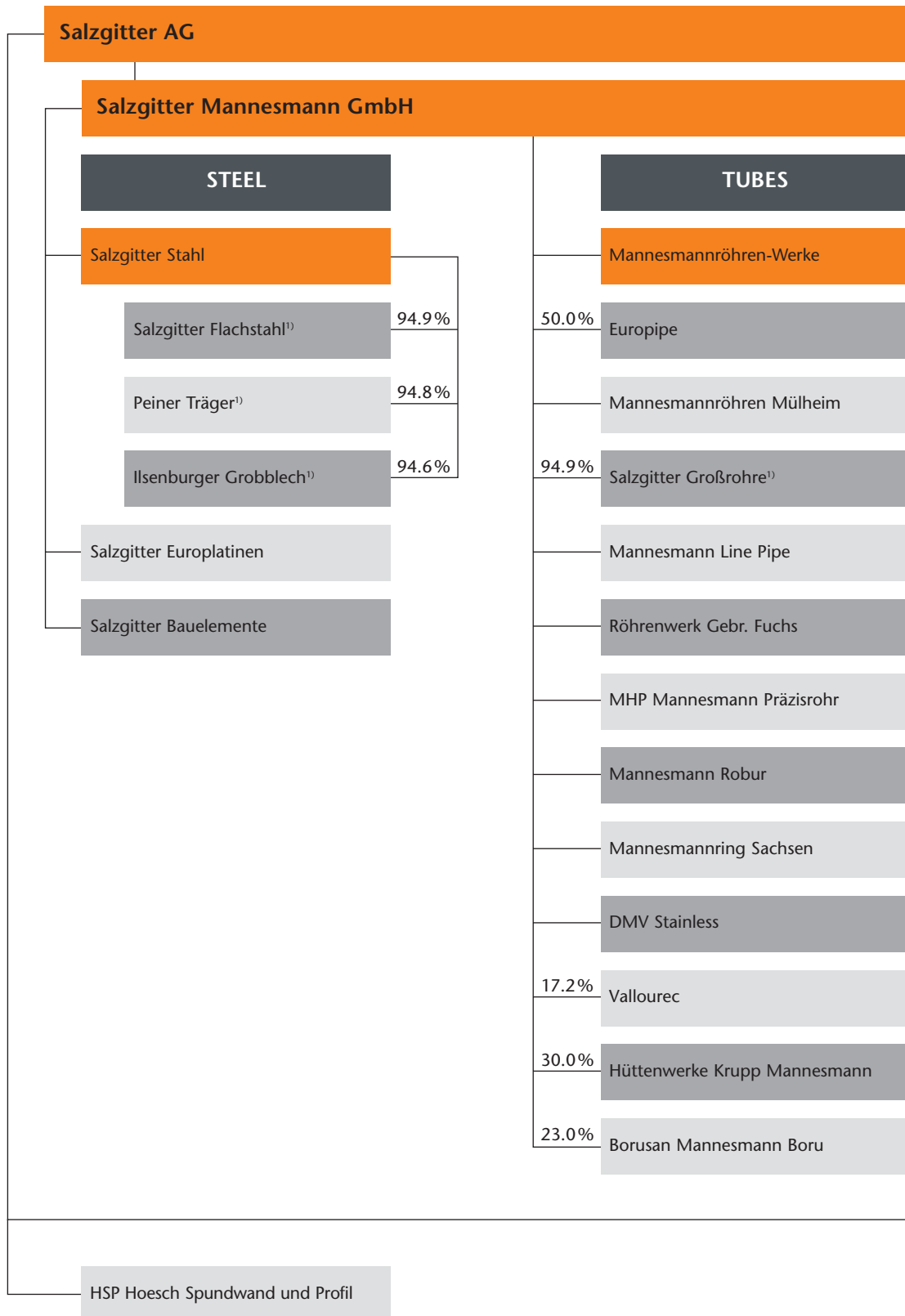
The SMHD Group operates 14 steel stockholding companies in Germany, similarly 14 in Europe, and 9 international trading companies.

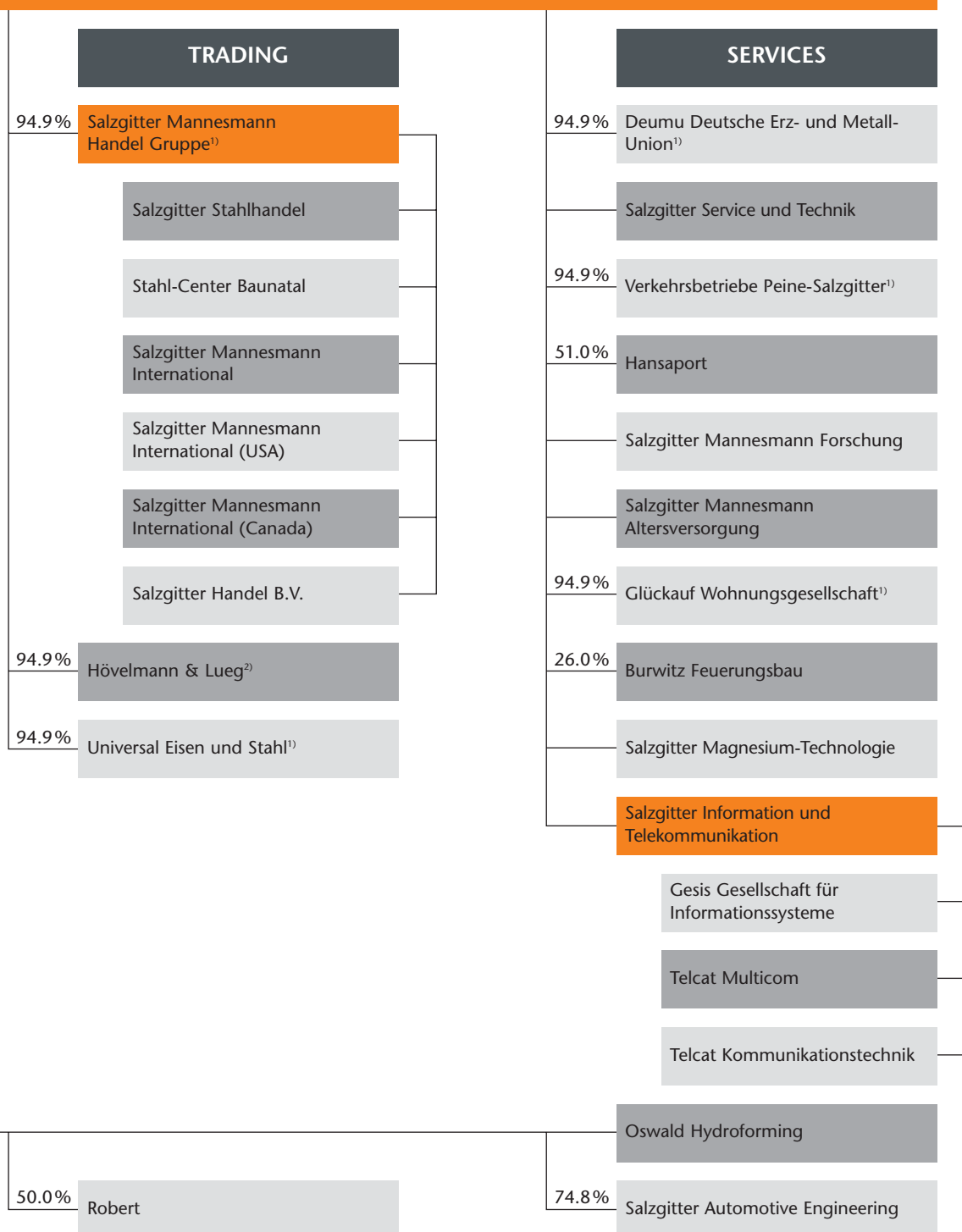
The activities of the Service Division are primarily focused on requirements within the Group. Beyond that, the services of the companies of this division are also offered to external customers to generate an additional source of profit for the Group. Their skills and know-how are constantly measured against the requirements of the market and consistently refined. On this basis, they are able to create and realize a wide range of attractive services, extending from raw materials supplies and logistics and systems engineering through to complete IT solutions. The range is supplemented by services and products for automotive development and production.

The structure of the Group has proven itself to date, both in terms of the management process and market competition. Besides enhancing the ability of the divisions to operate in a market-oriented manner, by promoting decentralized competence and responsibility, this structure also fosters the development of each individual company. In addition, the management concept is flexible enough to accommodate requirements for change and adjustment and is compatible with our corporate growth strategy, as new links in the value chain or new divisions can be relatively easily integrated into the structure.

## Divisions

The new Group structure under corporate law is not yet legally effective (see explanations on page 12).





Unless otherwise indicated, the shareholding = 100%  
As of 31/12/2005

<sup>1)</sup> Remaining shares held by Salzgitter AG

<sup>2)</sup> Remaining shares held by Salzgitter AG/ third parties

## 1.3 Executive Board

### Wolfgang Leese

Chairman

- a) ■ Mannesmannröhren-Werke GmbH (Chairman)
  - Salzgitter Stahl GmbH (Chairman)
  - Salzgitter Flachstahl GmbH from June 21, 2005 until January 13, 2006 (Chairman from June 29, 2005 until January 13, 2006)
  - Salzgitter Mannesmann Handel GmbH since May 27, 2005 (Chairman since June 8, 2005)
  - Peiner Träger GmbH (Chairman)
  - MAN Nutzfahrzeuge AG
- b) ■ Vallourec S.A. (Conseil de Surveillance)
  - HSP Hoesch Spundwand und Profil GmbH (Supervisory Board) since May 27, 2005 (Supervisory Board Chairman since September 6, 2005)

### Wolfgang Eging

Tubes Division

Chairman of the Executive Board of Mannesmannröhren-Werke GmbH

- a) ■ Hüttenwerke Krupp Mannesmann GmbH (Supervisory Board), Chairman since March 23, 2005 (Shareholders' Committee)
  - Europipe GmbH (Supervisory Board, Shareholders' Committee)
  - MHP Mannesmann Präzisrohr GmbH (Chairman)
  - Salzgitter Mannesmann Handel GmbH
- b) ■ Vallourec & Mannesmann Tubes S.A. (Conseil d'Administration) until June 23, 2005
  - DMV Stainless B.V. (Supervisory Board, Chairman)
  - DMV Stainless S.A.S. (Conseil de Surveillance, Chairman)
  - Mannesmannröhren Mülheim GmbH (Supervisory Board, Chairman)
  - Mannesmann Line Pipe GmbH (Advisory Council, Chairman)

a) Membership in other statutory Supervisory Boards within the meaning of Section 125 of the German Stock Corporation Act [AktG]

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

- Borusan Mannesmann Boru Yatirim Holding A.S. (Board of Directors, Vice Chairman)
- Vallourec S.A. (Conseil de Surveillance) since March 8, 2005

### Hans Fischer

Member of the Executive Board of Salzgitter AG since January 1, 2006

Steel Division

Chairman of the Executive Board of

Salzgitter Stahl GmbH since June 21, 2005

Chairman of the Management Board of Salzgitter Flachstahl GmbH until December 31, 2005

- a) ■ Peiner Träger GmbH
  - Ilsenburger Grobblech GmbH (Chairman) since June 21, 2005 (Chairman since June 24, 2005)
  - Salzgitter Flachstahl GmbH since January 24, 2006
  - Hüttenwerke Krupp Mannesmann GmbH since September 16, 2005

### Dr.-Ing. Heinz Jörg Fuhrmann

Finance

- a) ■ Mannesmannröhren-Werke GmbH
  - Salzgitter Mannesmann Handel GmbH (Vice Chairman)
  - Salzgitter Stahl GmbH
  - Salzgitter Flachstahl GmbH
  - Europipe GmbH (Supervisory Board, Shareholders' Committee) since September 9, 2005
  - Öffentliche Lebensversicherung Braunschweig
  - Öffentliche Sachversicherung Braunschweig
- b) ■ Vallourec & Mannesmann Tubes S.A. (Conseil d'Administration) until June 23, 2005
  - Ets. Robert et Cie S.A.S. (Comité de Surveillance) Chairman since June 8, 2005
  - Hansaport Hafenbetriebsgesellschaft mbH (Supervisory Board)
  - HSP Hoesch Spundwand und Profil GmbH (Supervisory Board) since May 27, 2005

The Executive Board (from left): Wolfgang Eging, Wolfgang Leese, Dr. Heinz Jörg Fuhrmann, Peter-Jürgen Schneider.



- ThyssenKrupp GfT Bautechnik GmbH (Advisory Council) since May 17, 2005
- Vallourec S.A. (Conseil de Surveillance) since December 15, 2005

### Heinz Groschke

Member of the Executive Board of Salzgitter AG since January 1, 2006

Trading Division

Chairman of the Executive Board of Salzgitter Mannesmann Handel GmbH

Chairman of the Management Board of Salzgitter Stahlhandel GmbH until December 31, 2005

- a) ■ Ilseburger Grobblech GmbH
  - Europipe GmbH since June 1, 2005
- b) ■ Salzgitter Mannesmann International (HK) Ltd. (Board of Administration)
  - Salzgitter Mannesmann International (Asia) Pte. Ltd. (Board of Administration)
  - Salzgitter Mannesmann (Scandinavia) AB (Board of Administration)
  - Salzgitter Mannesmann (Italia) S.r.l. (Board of Administration)
  - Salzgitter Mannesmann (España) S.A. (Board of Administration)

### Michael B. Pfitzner

Trading Division until March 31, 2005

Member of the Executive Board of

Salzgitter Stahl GmbH until March 31, 2005

- a) ■ Peiner Träger GmbH until May 12, 2005
  - Salzgitter Mannesmann Handel GmbH (Chairman) until May 12, 2005
  - Europipe GmbH until May 12, 2005
- b) ■ HSP Hoesch Spundwand und Profil GmbH (Supervisory Board) until May 12, 2005
  - Ets. Robert et Cie S.A.S. (Comité de Surveillance, Chairman) until May 31, 2005

a) Membership in other statutory Supervisory Boards within the meaning of Section 125 of the German Stock Corporation Act [AktG]

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

- ThyssenKrupp GfT Bautechnik GmbH (Advisory Council) until May 12, 2005
- Borusan Mannesmann Boru Yatirim Holding A.S. (Board of Directors) until June 30, 2005

### Peter-Jürgen Schneider

Personnel and Services Division

- a) ■ Mannesmannröhren-Werke GmbH since May 27, 2005
  - Salzgitter Flachstahl GmbH since June 21, 2005
  - Peiner Träger GmbH since June 21, 2005
  - Ilseburger Grobblech GmbH
  - Verkehrsbetriebe Peine-Salzgitter GmbH (Chairman)
  - SZST Salzgitter Service und Technik GmbH (Chairman)
  - MHP Mannesmann Präzisrohr GmbH
- b) ■ Hansaport Hafenbetriebsgesellschaft mbH (Supervisory Board, Chairman)
  - Projekt Region Braunschweig GmbH (Supervisory Board) since February 9, 2005

### Dr.-Ing. Volker P.H. Schwich

Steel and Processing Divisions

until April 30, 2005

Chairman of the Executive Board of Salzgitter Stahl GmbH until April 30, 2005

Chairman of the Management Board of Peiner Träger GmbH until April 30, 2005

- a) ■ Salzgitter Flachstahl GmbH (Chairman) until April 30, 2005
  - Ilseburger Grobblech GmbH (Chairman) until April 30, 2005
- b) ■ HSP Hoesch Spundwand und Profil GmbH (Supervisory Board, Chairman) until April 30, 2005
  - MPI Max-Planck-Institut für Eisenforschung GmbH (Board of Administration)

As a listed company, Salzgitter AG depends on the acceptance of the capital market in the sourcing of the equity and debt financing needed for its long-term strategic development. This is also a dimension from which the primary goals of the Salzgitter Group are derived. Key objectives are to secure the company in its stand-alone position by selective, earnings-oriented growth, with an adequate rate of return on capital employed, as well to ensure a sound financial position.

Achieving these objectives entails making on-time quality deliveries of attractive products to customers at competitive conditions, securing jobs with adequate remuneration of our employees, and ensuring the compatibility of production and the environmental concerns, in connection with a prudent use of material resources.

The strategic further development of the Salzgitter Group, with its focus on the growth sectors of steel, tubes and trading, has made headway in the financial year 2005. As a part of this focus, the Processing Division was dissolved on March 31, 2005, and the companies formerly belonging to it were reassigned to the Steel and Services Divisions.

As a result of this realignment, the product range of the Steel Division was complemented by the integration of components for roofing and cladding (SZBE), blanks/tailored blanks (SZEP) and sheet piles (HSP). Including these companies in the Steel Division which, up until this point, was the supplier of input materials for some of them, is a sound basis for their sustained further development.

The Services Division now comprises not only Salzgitter Mannesmann Forschung GmbH (SZMF) but also the technology companies Salzgitter Automotive Engineering (SZAE), Salzgitter Magnesium-Technologie GmbH (SZMT) and Oswald Hydroforming GmbH & Co. KG (OHC). The measure of closely integrating these companies is expected to deliver a lasting improvement in their competitive ability.

There have been a series of changes in the Tubes Division which are aimed at sharpening the division's competitive edge and at focusing operations on the welded tubes product segment.

Since the start of 2005, for instance, Mannesmann Line Pipe GmbH and Röhrenwerk Gebr. Fuchs GmbH have operated in the market under the joint brand name of "Mannesmann Fuchs Rohr". At the same time, intensive preparations were initiated for a merger between the two companies which is planned for 2006. The combination of the two firms, which partly target the same markets with their products, is expected to result in considerable synergy effects.

On April 1, 2005, SZGR was transferred from the Steel Division to the Tubes Division. The company produces around 100,000 tons of spiral-welded pipes a year for the transport of oil and gas.

Moreover, the sale of the 45% stake in Vallourec & Mannesmann Tubes S.A. (V&M) to the French joint venture partner Vallourec S.A. was completed on June 23, 2005. Salzgitter participated in the capital increase of Vallourec S.A., which took place on July 13, 2005, in proportion to the amount of its participating interest of 22.6% at that time. As per December 31, 2005, the holding stood at 17.2%

following the sale of shares. As a result of double voting rights, the proportion of voting rights came to 29.9%.

As part of the V&M transaction, MRW raised its stake in the steel producer Hüttenwerke Krupp Mannesmann GmbH (HKM) from 20% to 30%.

All in all, these measures represent a cautious reduction of engagement in the seamless tubes segment, while, at the same time, opening up potential for strengthening the welded pipes product segment.

In the past financial year, Salzgitter Mannesmann Handel took on the task of marketing tubes itself, in particular the sale of HFI-welded line and large-diameter pipes which was formerly conducted via the ThyssenKrupp Mannex trading organization. This move gives Salzgitter Mannesmann Handel and, under its auspices, international trading in particular, the option of selling these products under the "Mannesmann" brand.

To invigorate the Mannesmann brand the companies of Salzgitter Mannesmann Handels Group incorporated the brand name into their own company names at the start of the year.

Shortly before the end of the year (December 22, 2005), Salzgitter AG and the Arcelor Group signed a non-binding Letter of Intent on the takeover of Schwerte-based Flachform Stahl GmbH by Hövelmann & Lueg GmbH (HLG), also based in Schwerte. The transaction will give HLG its own slitting capacities, thereby creating one of the most effective steel service centers in Germany.

In the financial year 2005, the Steel Division continued to pursue its policy, initiated in previous years, of promoting internal growth through investment, improving internal processes and organization as well as enhancing the quality of its products.

Salzgitter Flachstahl GmbH (SZFG) put its Blast Furnace C and its third continuous casting line successfully into operation. This facilitated the repair and relining of Blast Furnace A which was concluded in the fall of 2005 within a very short time frame, and adjusted to market conditions.

During the summer break, Peiner Träger GmbH (PTG) carried out full renovation of its continuous bloom casting line. Weak construction activity in Germany and in many countries of western Europe prompted PTG to change its production strategy. The company has supplemented its product range by adding special profiles which meet higher demands for dimensional accuracy and strength.

The newly constructed logistics building with plate cutting machines at Ilsenburger Grobblech GmbH (ILG) became operational at the start of 2005, which puts the Ilsenburg plant in a position to fulfill additional customer requirements. Another benefit is that the steady increase in truck loads is easier to handle.

HSP Hoesch Spundwand und Profil GmbH (HSP), newly assigned to this division, has continued to work on the development of newer and lighter sheet piling types and has already successfully placed part of these products in the market.

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 more than 12% over an economic cycle.

The company's medium-term growth target in the next 5 years is to generate sales worth € 10 billion.

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

$$\text{ROCE (in \%)} = \frac{\text{EBIT}}{\text{Capital employed}} \times 100 = \frac{\text{€ mil. 970}}{\text{€ mil. 2,496}} \times 100 = 38.9\%$$

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

Interest income remains part of EBIT as it is considered to be part of the result of ordinary activities and thus contributes to ROCE.

<b>in € mil.</b>	<b>31/12/2005</b>
EBT	941
+ Interest expenses	+ 107
– interest expense for pension provisions	– 78
<b>= EBIT</b>	<b>= 970</b>

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.

<b>in € mil.</b>	<b>31/12/2005</b>
Balance sheet total	5,414
– Pension provisions	– 1,725
– Other provisions excluding tax provisions	– 373
– Liabilities excluding bonds Bank liabilities and bills and notes payable and liabilities arising from finance leasing, forfaiting and asset-backed securitization	– 731
– Deferred tax on the assets side	– 89
<b>= Capital employed</b>	<b>= 2,496</b>

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

The ratio is made up of figures taken from the Consolidated Financial Statements. In principle, figures from the financial statements as per the reporting date are used for calculations.

As the ROCE target (12%) is to be achieved within the Group as an average over an economic cycle, it is more of a medium- to long-term target.

Strategic objectives are derived from this target for each individual division and each company. These objectives and related measures were approved in the Basic Strategy and taken account of in the medium-term plan in their updated form.

In the financial year 2004, we had already achieved the profitability target for the average of the previous four years. Including this year, determined by the outstanding result which, along with demand running at an exceptionally high level, was also due to improvements in internal performance – we have succeeded in considerably outperforming this target.

Taking account of a sales volume of more than € 7 billion generated in the financial year 2005, the Group has seen sharp growth when compared with its point of departure. This growth was achieved externally through acquisitions and internally through investments in plants, equipment and processes. With an expansion of this magnitude we have reached the limit of our organic growth. Additional effective growth can therefore only be generated through acquisitions, especially in the Group's core segments of steel, tubes and trading.

	Growth strategy	Growth/ acquisition	Integration/ strategy check	Consolidation/ focusing			
	1999	2000	2001	2002	2003	2004	2005
<b>Consolidated sales:</b>	SFY	€ 4.6 billion	€ 4.7 billion	€ 4.8 billion	€ 5.9 billion	€ 7.2 billion	
<b>GDP (D):</b>	+2.0%	+2.9%	+0.6%	+0.2%	-0.1%	+1.6%	+0.9%

Source: Federal Statistical Office

Following a period of consolidation and realignment at some divisions, we are now investigating the option of external growth. We wish to use the consolidation taking place in steel, tubes and trading on a global scale in our most important areas of operation, as an opportunity to actively shape the process, without coming under pressure to act. The commercial prerequisites for more effectively realizing our corporate objectives, which are preserving our independence and promoting profitability and growth, must, however, be in place for us to follow this course of action.

The aim of refining our tools for management and control within the Group and in its operating companies is to enhance our competitiveness. The introduction of our "5P Management" (Profit, Partners, Personnel, Processes and Products), initiated in 2004, has meanwhile been concluded and will undergo a trial phase with the necessary fine tuning over the course of this year. 5P Management is

essentially based on the balanced scorecard approach adapted to the Salzgitter Group and is designed to implement the objectives set by the company in a series of operational, measurable steps. A stringent application of 5P Management enables strategic controlling to take place at the same time. Upon completion of the trial phase, the plan is to combine this management tool with the individual objectives agreed with the executive and non-tariff employees of the Group.

Whereas classical controlling defines the financial targets and tracks the path to their achievement, 5P Management includes targets which are not necessarily of a financial nature. The pursuit of the latter also contributes to the success of the company, even if the value of their contribution is not always measurable.

These targets cover both customers (timely deliveries in the right quality, inclusion in product development) and employees (future-oriented training, promoting junior employees and managers) and processes (environmental protection, prudent utilization of material resources).

With a view to supplementing and extending our Basic Strategy for delivering additional earnings potential, we introduced synergy management as an additional management tool in 2005.

Quantitative and qualitative results, in particular by consistently taking advantage of possibilities for cooperation between the individual divisions and companies of the Salzgitter Group, are expected to be achieved.

Synergy management will be instrumental in forging ahead with the identification and evaluation of synergies in close cooperation with the operating units of the Group.

The measures derived from all management tools converge, in as much as they are financially assessable, in the Profitability Improvement Program of the Group which, with its quarterly controlling, makes a successful contribution to discernibly enhancing the Group's competitive capabilities.

## 1.5 Environmental Protection

24

At Salzgitter AG environmental protection is an integral part of its corporate responsibility and is one of the core tasks of management. For the general public the production of steel often conjures up images of days gone by when chimneys belched smoke and the steel works lay in the shadow of dark clouds. But these images are things of the past. Of course, we still have complex metallurgic processes today, but they are centrally controlled, enclosed and filtered. The high environmental and energy conserving standards we have achieved on the path from ore to high-tech steel products are clear proof of the creative power of our employees.

With a view to involving our employees more closely in environmental issues arising from production, we are pressing ahead with the introduction of an environmental management system as defined by DIN EN ISO 14001. The integrated Salzgitter iron and steel works is being certified in stages, as scheduled. To date more than 50% of all employees work in certified plants. Our environmental management as part of this process is an integrated system which also combines occupational health and safety as well as quality issues. Along with other Group companies, Salzgitter Flachstahl GmbH will energetically pursue this path.

In addition to the introduction of the management system, our Group companies are committed to systemizing their environmental concerns. In the meantime for instance, Hamm-based Mannesmann



Certificate of  
Salzgitter Flachstahl  
GmbH  
(Steel Division)

Line Pipe GmbH is participating alongside HSP Hoesch Spundwand und Profil GmbH, Dortmund, in "ÖKOPROFIT", an ecological project run at regional level to promote the internalization of environmental technology. The main emphasis of this project, involving companies from different sectors, is to assess environmental issues, provide consultancy services and further qualifications in all areas of environmental protection at company level. The aim is to reduce the amount of resources used, thus contributing to sustainably reducing environmental burdens, while saving operational costs at the same time.

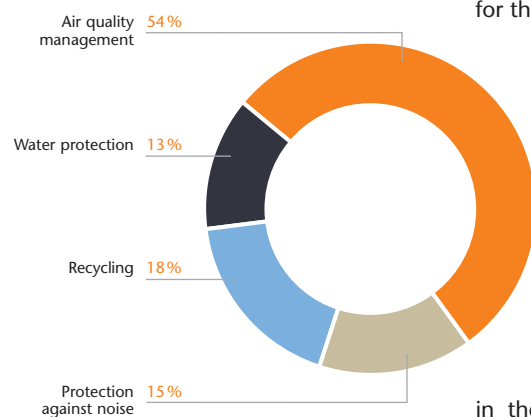
On January 1, 2005, trading in CO<sub>2</sub> emission allowances was launched throughout Europe. In recent months there has been lively discussion about the rising price of electricity relating to emission trading. Salzgitter AG is also taking an active part in these discussions which are aimed at achieving a best possible decoupling of emission trading and the electricity market in favor of energy-intensive industries. Apart from CO<sub>2</sub> emission trading, Salzgitter AG actively supports other measures for climate protection. Salzgitter Flachstahl GmbH, for example, has signed a self-commitment declaration of the VIK (Association of Industrial Energy and Power Users) for the reduction of sulphur hexafluoride (SF<sub>6</sub>), one of the gases covered by the Kyoto protocol.

The EU's plans for modernizing and systemizing its policy on chemicals has been the subject of wide debate in the discussions on the environment in 2005. A central part of this approach is the so-called REACH regulatory framework which addresses the **Registration, Evaluation and Authorization of Chemicals**. The driving concept behind this directive is to call on industry to provide proof: Whereas up until now it was the task of the authorities to request information on the identification of risks and problems connected with the use of chemicals, it is now up to the manufacturers and importers to keep systematic proof of the safety of the substances they put into circulation. Like other well-known European steel manufacturers, Salzgitter AG is expressly committed to the protection of the environment and consumers and to ensuring healthy working conditions. The proposal of the EU Commission has, however, led to a considerable imbalance in competition for Europe's steel industry. We therefore joined the discussion on chemical policies at an early stage. Our intention was to contribute to the discussion and thus avoid a great deal of unnecessary and costly investigation work being performed on materials which are known to have been in use for many decades in the steel industry without causing damage. This entails, for example, excluding ores from the obligation to register, as well as a targeted recording of the many different steel alloys. Thanks to the proposed amendments approved in the first reading before the European Parliament, which took place mid-November 2005, and the gradually emerging common ground shared by EU member states, we believe that viable compromises can be found from the standpoint of the steel industry.

The year 2005 saw the implementation of the ambitious requirements laid down in the ordinances on storing and depositing waste, and entailed changes which caused considerable upheaval in waste management in Germany. The known consequence of this new directive on communal waste management was the closure of large numbers of waste sites, which has driven up costs for waste disposal services. The requirements of these ordinances also apply to the steel industry. We have set ourselves the special goal of being able to continue to operate our residual materials recycling sites which are essential to the future existence of our company. The preparatory work of many years on technical adjustment had, for instance, reached the stage where the authorities gave their approval for us to continue operating our iron and steel works residual materials recycling center for an unlimited period of time. This center processes around a third of all by-products and waste produced at Salzgitter's iron and steel works, and if these substances cannot be recycled or sold, stores them in an environmentally compatible way.

A path-breaking project has been initiated in Ilsenburg with the goal of rejuvenating industrial and commercial land and property which has been lying vacant for years. The whole undertaking will run for three to four years. At the same time, core areas of the former copper mill, located in close proximity to Ilsenburger Grobblech GmbH, are being dismantled by a municipal company (Ilsenburger Grundstücksentwicklung mbH – IGG), which was founded in 2003. This opens up the possibility of expanding the ILG mill at the level of production flow. Other industrial and commercial enterprises

Steel Division  
environmental expenses  
data 2005

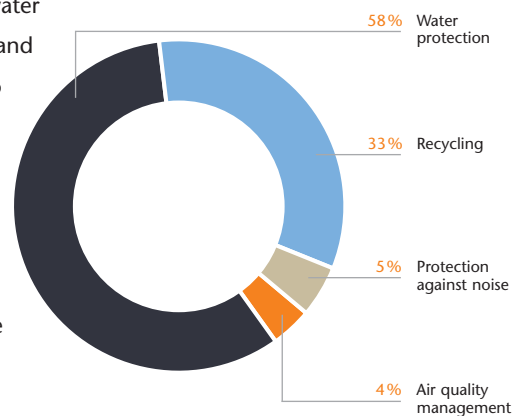


choosing to locate in the neighboring industrial park to be developed by IGG is another example of how resources are used prudently. This project delivers future development potential for ILG as well as for the City of Ilsenburg.

The total expenditure of the Steel Division on environmental protection came to € 120 million in the financial year 2005. This amount breaks down as follows: 54% for reducing air pollution, 13% for preventing water pollution, 18% for recycling and waste management and 15% for noise prevention.

At the domestic companies in the Tubes Division, expenditure on environmental protection measures amounted to some € 11 million. 4% of this sum was allocated to air quality management, 58% to water protection, 33% to recycling and waste management and 5% to noise prevention measures.

Tubes Division  
domestic companies  
environmental  
expenses data 2005

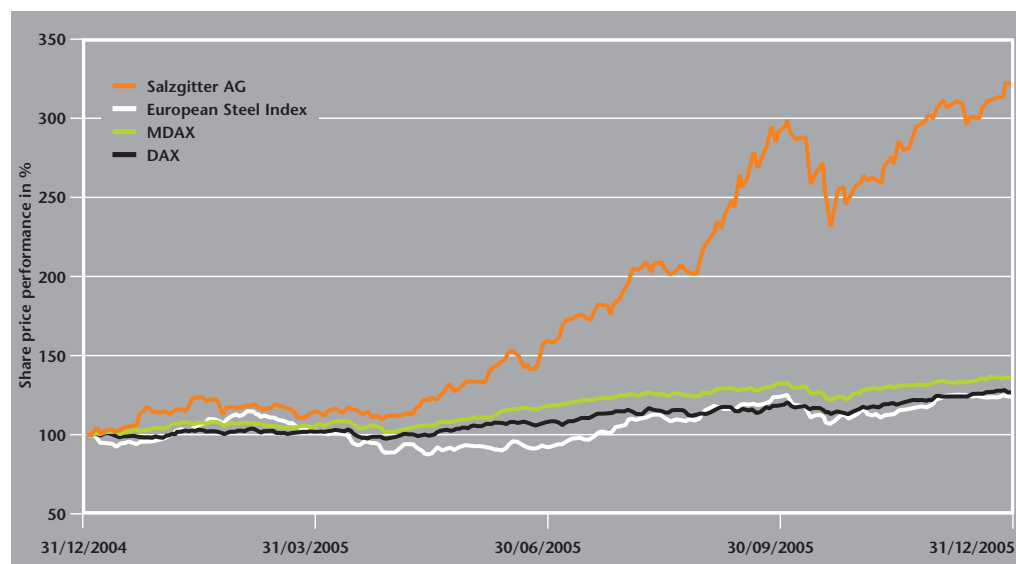


### The Capital Market and Performance of the Salzgitter Share

The year 2005 saw the stock markets rally. Following price gains in the second half of 2004, prices initially trended sideways in the first weeks of 2005 through until the end of April.

Upbeat signals from the major economies and an appreciation in the US dollar favorable to German exports then triggered an uptrend, during the course of which the DAX and the MDAX broke through the psychologically significant marks of 5,000 points and 7,000 points respectively.

### Salzgitter AG Share Price vs. the European Steel Index, MDAX and DAX in 2005



Source: DBAG Xetra closing price, Datastream STEELEU

The annual performance of the DAX blue-chip index came to around 27% whereas the MDAX, comprising second-tier stocks, climbed by 36% in 2005. With a few exceptions, steel stocks, hampered by a market environment with rising inventories of major steel consumers and declining revenues, were only able to perform moderately in comparison to the pace set by the leading indices over most of the year 2005. This was the reason why the European Steel Index was only able to narrow the gap to the DAX towards the end of the year.

In 2005 the performance of the Salzgitter share was unparalleled. It began upon the company's announcement of its intention to sell the 45% stake in Vallourec & Mannesmann Tubes on January 21, 2005. Boosted by good quarterly results, which partly considerably exceeded analyst expectations, as well as the share buy-back program announced on July 7, the share price rose more or less steadily until the start of October. Following a short phase of consolidation in the wake of profit taking and

unfounded rumors on the market concerning the trend in the steel industry and the role of China in the global steel market, the share price was able to match its former performance in the last few months of the year. It closed at year-end at a price of € 45.61, close to the all-time high of € 45.95 which was also reached on December 30, 2005. With a gain over the year of 220%, the price performance of the Salzgitter share takes a top position, way ahead of the 80 DAX and MDAX companies.

The daily turnover of the Salzgitter share on German stock exchanges in 2005 averaged 421,000 shares per trading day, which means that the volume of shares traded has more than doubled as against the previous year (2004: 193,000 shares/day). The total number of shares traded posted around 109 million in 2005, with 94.9% accounted for by XETRA electronic trading and the Frankfurt Stock Exchange (2004: 92.5%).

Salzgitter’s MDAX ranking at Deutsche Börse AG improved considerably as a result of the increase in its share price. With a trading volume of € 2,774 million, the company was placed 11th among the 50 companies comprised by the MDAX at year-end. In the “MarketCap” category, Salzgitter came in at 13th place, with a free float market capitalization of € 1,791 million on December 31, 2005. This ranking positions Salzgitter in the league of the Top 50 listed companies in Germany.

Shareholder structure



There were two significant changes in the shareholder structure in the financial year 2005. At the start of the year, NORD/LB sold the rest of its stake in Salzgitter AG. In addition, the Executive Board of Salzgitter AG made use of the authorization by the General Meeting of Shareholders and launched a share buy-back program with the aim of enabling shareholders to participate in the outstanding financial position of the company (see below). As per December 31, 2005, the number of Salzgitter shares in free float stood at 64.8%.

Over the course of the year 2005, the shareholder structure was analyzed twice by external parties. These analyses showed that the number of international investors, mainly from Great Britain, the USA and the Scandinavian countries, had grown again year-on-year, up from 18.2% to 28.9%. Shareholders registered in Germany, including Salzgitter AG, held at least 47.9% of the share

Status: December 31, 2005

capital. A total of 23.2% of shareholders could not be identified but are most likely accounted for by private domestic and foreign investors as well as institutional investors with no reporting requirements, such as insurance companies and trust foundations.

## Own Shares\*

The portfolio of own shares stood at 6,321,528 units on December 31, 2005. In comparison with the portfolio status as per December 31, 2004 (1,129,497), there has been an increase in the number of units of 5,192,031. In line with the authorization given by General Meeting of Shareholders held on May 26, 2004, 2,551 shares at an average price of € 20.84 were used in lieu of payment for the services of third parties during the reporting period. Some 184,736 shares were issued to members of the workforce for free or as a bonus. Furthermore, 5,379,337 shares at an average price of € 28.33 were purchased during the reporting period.

As a result of the conversion of the remaining subscription rights, the portion of own shares in the increased subscribed capital (€ 161,615,273.31 or 63,218,400 units) came to just under 10% at year-end.

\*The "Options" section has been assigned to the "Corporate Governance Report".

## Information for Capital Investors

		FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Nominal capital <sup>1)</sup>	€ mil.	159.5	159.5	159.5	160.9	161.6
Number of shares <sup>1)</sup>	million	62.4	62.4	62.4	62.9	63.2
Number of shares outstanding <sup>1)</sup>	million	61.7	61.3	61.3	61.8	56.9
Market capitalization <sup>1)2)</sup>	€ mil.	590.6	367.0	538.5	880.8	2,595.1
Year-end closing price <sup>1)3)</sup>	€	9.57	5.99	8.79	14.25	45.61
Stock market high <sup>3)</sup>	€	10.85	12.65	9.35	15.76	45.95
Stock market low <sup>3)</sup>	€	6.65	5.85	5.88	8.72	14.17
Earnings per share (EPS) <sup>4)</sup>	€	2.28	1.05	0.52	3.99	14.09
Cash flow per share (CPS) <sup>4)</sup>	€	1.93	2.55	3.64	5.75	7.83
Dividend per share (DPS)	€	0.42	0.32	0.25	0.40	1.00
Total dividends	€ mil.	26.2	20.0	15.6	25.2	63.2

<sup>1)</sup> All figures as of 31/12

<sup>2)</sup> Calculated on the basis of the respective year-end price multiplied by the number of shares outstanding as per 31/12

<sup>3)</sup> All data based on prices from XETRA trading

<sup>4)</sup> Calculated in consideration of the weighted number of the average of shares outstanding

Securities Identification Number: 620200, ISIN: DE0006202005

## Dividend

The Executive and Supervisory Boards propose that the General Meeting of Shareholders resolves to pay a basic dividend for the financial year 2005 of € 0.50 per share. Furthermore, the proposal has been put forward that, in view of the outstanding result and extraordinary income accruing from the withdrawal from the commitment to Vallourec S.A./Vallourec & Mannesmann Tubes S.A., an additional bonus of € 0.50 be paid.

Based on the nominal share capital of € 161.6 million, the proposed payment totals € 63.2 million.

Tax invoice	€/share
Cash dividend	0.79
Creditable capital gains tax and solidarity surcharge	0.21
<b>Dividend</b>	<b>1.00</b>

## Investor Relations

In response to the more lively interest in the steel industry in general and in Salzgitter AG in particular, the company's Investor Relations activities were stepped up again in 2005. In addition to analysts' conferences held in Frankfurt and London upon publication of the company's report on the financial year 2004 and the results of the first half of 2005, Salzgitter AG made presentations at a number of investor conferences and at many road shows held in Germany and abroad. During the year, more than 120 discussions took place with financial analysts and institutional investors in Germany, Europe and the USA.

The financial press and a large number of private investors received information on the development of Salzgitter AG through contacting the company directly. To ensure that investors have access to full and timely information, the Investor Relations website was extended. Furthermore, the work of the "Freundeskreis der Aktionäre der Salzgitter AG" (circle of friends of Salzgitter AG shareholders) received intensive support. In a series of well-attended events, the "Freundeskreis" informed its audience about the Salzgitter Group and the company environment, and won a considerable number of new members.

As in previous years, guided tours of the plants of the Steel and Tubes Divisions and an intensive exchange of views with members of the Executive Board helped to give analysts and investors a detailed, lively impression of the structures, processes, products and potential of the Salzgitter Group. We believe that this is an important prerequisite for a discerning assessment and valuation of the Salzgitter share.

At this time, the following institutions report regularly on Salzgitter AG:

Bankhaus Lampe	Kepler Equities
BHF-Bank	Landesbank Baden-Württemberg
Commerzbank	Landesbank Rheinland-Pfalz
Deutsche Bank	MM Warburg
DZ-Bank	NORD/LB
Goldman Sachs	Sal. Oppenheim
HSBC	Steubing AG
HypoVereinsbank	WestLB

In total, at least 172 company reports or recommendations on Salzgitter AG were made in the financial year 2005 by some 34 banks and financial publications. At year-end, their ratings were: 15 buy/outperform, 12 hold/neutral, 7 sell/underperform.

In July 2005, the investor relations work of Salzgitter AG was awarded second place among the 50 MDAX-listed companies at the "Capital Investor Relations Preis 2005" event organized by the Deutsche Vereinigung für Finanzanalyse und Asset Management (DVFA) and the magazine Capital.

### Dr. Wilfried Lochte

Chairman

Chairman of the Executive Board of  
MAN Nutzfahrzeuge AG, retired

Member of the Executive Board of  
MAN Aktiengesellschaft, retired

- a) ■ KNORR-Bremse AG (Vice Chairman)
  - KNORR-Bremse Systeme für Nutzfahrzeuge GmbH (Vice Chairman)
  - Schmitz Cargobull AG (Honorary Chairman) since January 1, 2005

### Jürgen Peters

since January 1, 2005

Vice Chairman since March 30, 2005

1st Chairman of the IG Metall

- a) ■ Volkswagen AG (Vice Chairman)
  - Mannesmannröhren-Werke GmbH (Vice Chairman) until March 11, 2005

### Dr. Dieter Brunke

until September 15, 2005

Member of the Executive Board of Preussag AG,  
retired

- b) ■ JC INSITU Beteiligungsgesellschaft mbH (Supervisory Board)
  - Solyp Informatik GmbH (Advisory Council, Chairman)

### Hannelore Elze

Secretary of the IG Metall – Executive Board

- a) ■ V&M DEUTSCHLAND GmbH
  - Hydro Aluminium Deutschland GmbH (Vice Chairwoman)
- b) ■ NORSK Hydro Deutschland Verwaltungs-GmbH (Vice Chairwoman)

### Hermann Eppers

Member of the Parliament of Lower Saxony

- a) ■ ALSTOM-LHB GmbH

### Kurt van Haaren

Deceased on July 14, 2005

Chairman of the German Post Office Labor Union,  
retired

No membership in other governing bodies

### Prof. Dr.-Ing. Heinz Haferkamp

Professor at the University of Hanover

- a) ■ ALSTOM-LHB GmbH
- b) ■ PZH Produktionstechnisches Zentrum GmbH

### Prof. Dr. Rudolf Hickel

Professor of Economics, specializing in Finance, at  
the Economics Faculty of the University of Bremen

- a) ■ GEWOBA – Aktiengesellschaft Wohnen und Bauen
  - Howaldtswerke-Deutsche Werft AG
  - ALLIANZ AG

### Dr. Gunther Krajewski

Head of Ministry Department, Department Head  
at the Ministry of Finance of Lower Saxony

- a) ■ Flughafen Hannover-Langenhagen GmbH
  - Öffentliche Lebensversicherung, Braunschweig
  - Öffentliche Sachversicherung, Braunschweig
- b) ■ Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale (Supervisory Board) since January 1, 2005

### Prof. Dr. Hans-Jürgen Krupp

President of the Landeszentralbank in der  
Freien Hansestadt, Hamburg, Mecklenburg-  
Vorpommern und Schleswig-Holstein, retired  
No membership in other governing bodies

a) Membership in other statutory Supervisory Boards within the meaning of Section 125 of the German Stock Corporation Act [AktG]

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

**Hans-Jürgen Ladberg**

until August 22, 2005

Chairman of the Central Works Council of  
V&M DEUTSCHLAND GmbH

Vice Chairman of the Group Works Council  
of Salzgitter AG until August 30, 2005

a) ■ V&M DEUTSCHLAND GmbH

**Bernd Lange**

until August 26, 2005

Management Executive

No membership in other governing bodies

**Dr. Arno Morenz**

Vice President of DSW Deutsche Schutz-  
vereinigung für Wertpapierbesitz e.V.

a) ■ alfabet AG (Chairman)

■ Flossbach & von Storch Vermögensmanage-  
ment AG (Vice Chairman) until April 30, 2005

b) ■ Fidelity Funds, Luxembourg  
(Board of Administration)

**Dr. Hannes Rehm**

Chairman of the Executive Board of Nord-  
deutsche Landesbank Girozentrale

a) ■ Bankgesellschaft Berlin AG

b) ■ Bremer Landesbank Kreditanstalt Oldenburg-  
Girozentrale (Supervisory Board)

■ LBS Norddeutsche Landesbausparkasse  
Berlin-Hannover (Supervisory Board)

■ Provinzial Lebensversicherung Hannover  
(Supervisory Board)

■ DeKaBank Deutsche Girozentrale  
(Board of Administration)

■ Nord/LB Luxembourg S.A.

(Board of Administration, Chairman)

**Dr. Rudolf Rupprecht**

Chairman of the Executive Board of  
MAN Nutzfahrzeuge, retired

a) ■ MAN AG since June 3, 2005

■ SMS AG (Chairman)

■ KME AG since November 27, 2005

■ MAN B&W Diesel AG (Chairman)  
until January 31, 2005

■ Walter Bau-AG until February 21, 2005

b) ■ MAN B&W Diesel A/S (Board of Directors)

■ Novelis (Board of Directors)

since January 1, 2005

■ Bayerische Staatsforsten (Supervisory Board)

since July 14, 2005

**Ernst Schäfer**

Chairman of the Groups Works Council  
of Salzgitter AG

Chairman of the Works Council of  
Salzgitter Flachstahl GmbH

a) ■ Salzgitter Flachstahl GmbH

**Christian Schwandt**

Chairman of the Works Council of  
SZST Salzgitter Service und Technik GmbH

a) ■ SZST Salzgitter Service und Technik GmbH

**Walter Skiba**

since September 8, 2005

Chairman of the Works Council of

Salzgitter Mannesmann Handel GmbH

a) ■ Salzgitter Mannesmann Handel GmbH

a) Membership in  
other statutory  
Supervisory Boards  
within the mean-  
ing of Section 125  
of the German  
Stock Corporation  
Act [AktG]

b) Membership in  
comparable  
domestic and  
foreign governing  
bodies of commer-  
cial enterprises

**Michael Sommer**

since September 8, 2005

Chairman of the DGB (German Federation of Trade Unions)

- a) ■ Deutsche Telekom AG
  - Deutsche Postbank AG (Vice Chairman)
  - DGB Rechtschutz GmbH
- b) ■ Kreditanstalt für Wiederaufbau  
(Advisory Council)

**Dr. Johannes Teysen**

since September 16, 2005

Chairman of the Executive Board of E.ON Energie AG and member of the Executive Board of E.ON AG

- a) ■ E.ON Bayern AG (Chairman)
  - E.ON Hanse AG (Chairman)
- b) ■ E.ON Nordic AB (Board Member)
  - E.ON Sverige AB (Board Member)

**Rainer Thieme**

Chairman of the Management Board of Wilhelm Karmann GmbH, retired

- a) ■ Köster AG
  - Oldenburgische Landesbank AG
  - SCHMITZ Cargobull AG
  - ZF Friedrichshafen AG (Chairman)
- b) ■ Leopold Kostal GmbH & Co. KG  
(Advisory Council)

**Friedrich-Wilhelm Tölkes**

Chairman of the Works Council of Hüttenwerke Krupp Mannesmann GmbH

- a) ■ Mannesmannröhren-Werke GmbH

**Hartmut Tölle**

Chairman of the DGB (German Federation of Trade Unions) for Lower Saxony/Bremen and Saxony-Anhalt

No membership in other governing bodies

**Prof. Dr. Martin Winterkorn**

Chairman of the Executive Board of Audi AG

Member of the Executive Board of Volkswagen AG

- a) ■ FC Bayern München AG
  - Infineon Technologies AG
- b) ■ SEAT S.A.
  - Lamborghini Holding S.p.A.

**Prof. Dr. Ulrich Zachert**

since September 8, 2005

Professor for Labor Law at the University of Hamburg

No membership in other governing bodies

## 1.8 Report of the Supervisory Board

Boosted by the stable growth of the global economy and the ensuing healthy demand for rolled steel products and tubes, Salzgitter AG delivered an outstanding result in the financial year 2005. Factors contributing to this success were the systematic strategic focus of the company along with the measures for improvement consistently pursued in recent years. To strengthen the company's competitive capabilities, selected investments have been made in improving production facilities, extending the range of products and in customer-oriented product development.

### Monitoring Management and Advising the Executive Board

The Supervisory Board monitored the Executive Board in its management of the company and assisted the Board in an advisory capacity in all major decisions. It kept itself informed about the course of business and the situation of the company, which included the corporate planning, further strategic development, the profitability of the company and the risks, on a regular, timely and comprehensive basis by means of written and verbal reports. The Supervisory Board was involved in all decisions that were of particular strategic significance for the company. Divergences between the planned and the actual course of business and the causes thereof were discussed.

There were five meetings in which the Supervisory Board discussed the situation and the development of the company on the basis of the reports provided by the Executive Board. The Supervisory Board discussed important transactions in detail, in particular those requiring its approval. The most important matters to be discussed and approved were as follows:

- the sale of the 45% stake in Vallourec & Mannesmann Tubes S.A. and the reduction of the holding in Vallourec S.A.,
- the purchase of the plant premises of Hövelmann & Lueg GmbH in Schwerte,
- the safeguarding of the electricity supply of Salzgitter Flachstahl GmbH,
- changes to the continuous pickling line investment concept of Salzgitter Flachstahl GmbH,
- construction of an accelerated cooling line, including a cold plate leveler, at Ilsenburger Grobblech GmbH,
- research and development activities of the Group,
- the optimization of the Group structure for fiscal reasons.

In its meeting on December 15, 2005, the Supervisory Board dealt in detail with the corporate plans submitted by the Executive Board, including investment, finance and personnel planning for the financial years 2006 to 2008. The Supervisory Board approved the investment planning and related financing for the Group for the financial year 2006.



The Presiding Committee of the Supervisory Board met once to prepare decisions on Executive Board matters. The Strategy Committee discussed core issues relating to the strategy of the company in a meeting with the Executive Board. The Personnel Committee of the Supervisory Board did not have to be called upon in the financial year 2005. No further committees were formed by the Supervisory Board.

The Chairman of the Supervisory Board also held many individual discussions with the Chairman of the Executive Board on the position of the company and its further development outside of the meetings of the executive body.

The Supervisory Board received no reports of conflicts of interest from any member of the Executive Board or the Supervisory Board in the financial year 2005.

#### **Annual Financial Statements and Consolidated Financial Statements as at December 31, 2005**

In its meeting on March 30, 2006, the Supervisory Board dealt in detail with the annual financial statements of Salzgitter AG and the consolidated financial statements, both as at December 31, 2005, as well as the joint management report on the company and the Group for the financial year 2005. Prior to this, the auditor PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, selected by the General Meeting of Shareholders, reviewed both sets of financial statements and granted them the unqualified auditors' certificate. The auditor thereby confirmed that the balance sheet accounting, valuation and consolidation carried out in the consolidated financial statements complied with the International Financial Reporting Standards (IFRS). As part of its assessment of the risk management system, the auditor also established 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 continued existence of the company.

The annual financial statements, the consolidated financial statements, the joint management report for the company and the Group and the Executive Board's proposal on appropriation of the balance sheet profit, as well as the auditor's reports, were available to the members of the Supervisory Board for examination. Representatives of the auditor took part in the discussions of the annual financial statements and the consolidated financial statements at the Supervisory Board meeting on March 30, 2006, and elaborated upon the most important findings of their audit.

On the basis of its own examination of the annual financial statements, the consolidated financial statements and the associated management reports, which did not lead to any objections, the Supervisory Board approved the findings of the auditor's review and ratified the annual financial statements

and the consolidated financial statements. The financial statements were thereby adopted. The Supervisory Board agreed with the proposal made by the Executive Board on the appropriation of the balance sheet profit.

#### **Changes to the Executive Board**

On March 31, 2005, Mr. Michael B. Pfitzner (Trading Division and member of the Executive Board of Salzgitter Stahl GmbH) and on April 30, 2005, Dr. Volker P. H. Schwich (Steel and Processing Divisions, Chairman of the Executive Board of Salzgitter Stahl GmbH and Chairman of the Management Board of Peiner Träger GmbH) withdrew from the Executive Board of Salzgitter AG. The Supervisory Board wishes to thank both gentlemen for their commitment to the well-being of the company and, in particular, for their active contribution in reorganizing the Group into a holding structure.

On January 1, 2006, the Supervisory Board appointed Mr. Hans Fischer, Chairman of the Executive Board of Salzgitter Stahl GmbH, and Mr. Heinz Groschke, Chairman of the Executive Board of Salzgitter Mannesmann Handel GmbH, members of the Executive Board of Salzgitter AG. As board members, Mr. Fischer is responsible for the Steel Division and Mr. Groschke for the Trading Division.

#### **Changes to the Supervisory Board**

Mr. Kurt van Haaren (employee representative), Chairman of the German Post Office Labor Union, retired, passed away on July 14, 2005. In his place, the District Court of Braunschweig appointed Mr. Michael Sommer, Chairman of the DGB (German Federation of Trade Unions), to the Supervisory Board effective September 8, 2005.

Mr. Hans-Jürgen Ladberg (employee representative), Chairman of the Central Work's Council Representative of V&M Deutschland GmbH, laid down his mandate on August 22, 2005. In his place, the District Court of Braunschweig appointed Mr. Walter Skiba, Chairman of the Works Council of Salzgitter Mannesmann Handel GmbH, to the Supervisory Board effective September 8, 2005.

Mr. Bernd Lange (employee representative), formerly a member of the European Parliament, laid down his mandate on August 26, 2005. In his place, the District Court of Braunschweig appointed Prof. Dr. Ulrich Zachert, Professor of Labor Law at the University of Hamburg, to this executive body effective September 8, 2005.

Finally, Dr. Dieter Brunke (shareholder representative), member of the Executive Board of Preussag AG, retired, laid down his mandate on September 15, 2005. In his place, the District Court of Braunschweig appointed Dr. Johannes Teyssen, Chairman of the Executive Board of E.ON Energie AG and member of the Executive Board of E.ON AG, to the Supervisory Board effective September 16, 2005.

The Supervisory Board wishes to thank all former members for their partly long years of cooperation. Each of the new members appointed to this executive body for its term of office by the District Court was ratified by the extraordinary General Meeting of Shareholders, which took place on November 17, 2005.

The Supervisory Board would like to thank the Executive Board and all of the Group employees for their commitment in the financial year 2005.

Salzgitter, March 30, 2006

The Supervisory Board

A handwritten signature in black ink, appearing to read 'Wilfried Lochte', written in a cursive style.

Dr. Wilfried Lochte  
Chairman

The German Corporate Governance Code comprises essential legal provisions anchored in German law on the management and supervision of listed stock corporations and contains a set of additional recommendations for conduct. These recommendations affect the General Meeting of Shareholders, the Executive Board, the Supervisory Board, the cooperation between these two executive bodies, transparency, as well as accounting standards and the auditing of financial statements. The corporate management and the corporate culture of the Salzgitter Group comply with the law and, with a few exceptions, with the recommendations of the German Corporate Governance Code.

### **Corporate Governance at Salzgitter**

Salzgitter AG has always been firmly committed to a responsible corporate policy geared towards increasing the value of the company. It regards good corporate governance as an integral part of its success, perceiving it as a standard that encompasses all areas of the company and its activities. Over the past year as well, Salzgitter AG has continued to dedicate much time and effort to developing its corporate governance. During this process, it has in particular implemented additional recommendations of the German Corporate Governance Code, as documented by the submission of its Declaration of Compliance by the Executive Board and the Supervisory Board on December 15, 2005, pursuant to Section 161 of the German Stock Corporation Act (AktG).

To monitor observance of the recommendations of the Code, the Executive Board of Salzgitter AG has appointed a coordination unit which reports to it directly and regularly.

### **The Shareholders of Salzgitter AG**

The shareholders of Salzgitter AG basically exercise their rights at the General Meeting of Shareholders. In particular, they decide on the appropriation of profit, the discharge of the Executive Board and the Supervisory Board, the election of shareholder representatives to the Supervisory Board, changes to the Articles of Incorporation and significant commercial steps. Every shareholder in Salzgitter AG is entitled to participate in the General Meeting of Shareholders, to address the Meeting about items on the agenda, to ask pertinent questions and submit relevant motions. Salzgitter AG facilitates the process of its shareholders exercising their rights personally. By the participation of a proxy at hand during the General Meeting of Shareholders, it enables the shareholders to have their voting rights exercised in accordance with their instructions.

The adopted financial statements as at December 31, 2004, the consolidated financial statements, the joint management report on the company and the Group and the report of the Supervisory Board were presented at the General Meeting of Shareholders of Salzgitter AG held on May 26, 2005, in

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

- appropriation of the balance sheet profit (€ 0.40 per share),
- discharge of the Executive and the Supervisory Boards,
- selection of the auditor in 2005 (PricewaterhouseCoopers AG),
- authorization for the acquisition of own shares,
- approval of control and profit transfer agreements.

The applications for resolution submitted by the Executive and Supervisory Boards were approved by a great majority.

In the extraordinary General Meeting of Shareholders of Salzgitter AG, held on November 17, 2005, in Braunschweig, the following applications for resolution were among the items on the agenda:

- approval of a spin-off and transfer agreement between Salzgitter AG and Salzgitter Mannesmann AG concerning the transfer of participations as well as the choice of an auditor for the statements of Salzgitter AG as at November 30, 2005,
- by-election of Supervisory Board members,
- amendments to the Articles of Incorporation and
- new regulations governing the remuneration of the Supervisory Board.

The applications for resolution submitted by the Executive and Supervisory Boards were approved by a great majority. The approval of the requisite agreement concerning the spin-off and transfer has been legally challenged by one of the shareholders. The case is still pending.

Salzgitter AG reports to its shareholders on the development of business and the financial and earnings position on a quarterly basis in accordance with dates published in its financial calendar. In addition, information that has the potential to influence the share price significantly is published immediately in the form of ad-hoc reports. The reports and ad hoc information are simultaneously made available on Salzgitter AG's website ([www.salzgitter-ag.de](http://www.salzgitter-ag.de)).

#### **The Executive Board of Salzgitter AG**

The Executive Board manages the company on its own responsibility. In doing so, it is bound by the interests of the company and obliged to increase the value of the company. It strives to achieve the highest possible return on capital employed within the scope of the corporate purpose. The tasks of

the Executive Board also comprise the strategy and further development of the company, including the Group companies, in coordination with the Supervisory Board. The Executive Board of Salzgitter AG currently consists of six members, whereby in the financial year 2005 there were temporarily only five and then four, in part with functional and in part with divisional competence. The members of the Executive Board are liable to the company for any dereliction of duties.

During the period under review, two members of the Executive Board resigned their office and left Salzgitter AG. With effect from January 1, 2006, the Supervisory Board appointed Mr. Hans Fischer and Mr. Heinz Groschke, both plenipotentiaries at Salzgitter AG since April 2005, to the position of new members of the Executive Board. Mr. Hans Fischer is responsible for the Steel Division and Mr. Heinz Groschke for the Trading Division.

The Supervisory Board has established rules of procedure for the Executive Board for the purpose of regulating cooperation in the Executive Board and involving the Supervisory Board in business transactions. The allocation of duties among the members of the Executive Board is set out under a schedule for the allocation of tasks.

The remuneration granted to the members of the Executive Board of Salzgitter AG is regulated in their contracts of employment. The structure of the Executive Board remuneration system and the remuneration of each individual Board member are shown in the section on "Remuneration of the Executive Board and the Supervisory Board".

### **The Supervisory Board of Salzgitter AG**

The task of the Supervisory Board is to advise and supervise the Executive Board in the management of the company. It is involved in decisions of fundamental significance for the company. Particular transactions that are defined in detail in the rules of procedure for the Executive Board of Salzgitter AG require the approval of the Supervisory Board. In addition, the Supervisory Board appoints and dismisses members of the Executive Board. Its scope of influence has been defined in rules of internal procedures.

Pursuant to the provisions of the Coal and Steel Industry Codetermination Act of 1951 that applies to the company, in conjunction with Section 7 of its Articles of Incorporation, the Supervisory Board consists of 21 members: 10 shareholders' representatives and 10 employee-elected representatives, plus one further member who is proposed by the other 20 members to the General Meeting of Shareholders for election. In order to prepare for its decisions, the Supervisory Board of Salzgitter AG has constituted a presiding committee and committees for personnel and strategy issues.

Since the General Meeting of Shareholders of Salzgitter AG, held on May 26, 2005, four members have left the Supervisory Board. In their place the District Court of Braunschweig has appointed new members based upon application by the company. These new members were confirmed in their office by a great majority of the extraordinary General Meeting of Shareholders on November 17, 2005, in a process of individual election until the end of the term of office of the Supervisory Board. The composition of the Supervisory Board, which is made up of expert members with sufficient independency, forms the basis for the Supervisory Board to conduct its work effectively in future as well.

By way of resolution passed by the extraordinary General Meeting of Shareholders of Salzgitter AG, held on November 17, 2005, the remuneration of the members of the Supervisory Board of Salzgitter AG has been newly regulated. In particular, fixed compensation, coupled with a performance-related component, was determined with a view to satisfying the recommendation set down in Code item 5.4.7 of the German Corporate Governance Code. The structure of the remuneration system and the remuneration of each individual Supervisory Board member are shown in the section on "Remuneration of the Executive Board and the Supervisory Board".

Among other things, the Supervisory Board of Salzgitter AG examined the effectiveness of its activities in its meeting on December 15, 2005. The tasks and information and working methodologies were reviewed in a plenary discussion to identify potential for more improvement.

The Supervisory Board will provide information about its activities and its decisions in the financial year 2005 separately in its report to the General Meeting of Shareholders. The Supervisory Board did not receive any reports of conflicts of interest, neither from the Executive Board nor from the Supervisory Board.

Pursuant to Section 7, Item 2 of the Articles of Incorporation of Salzgitter AG, the term of office of the Supervisory Board is expected to end upon conclusion of the General Meeting of Shareholders in 2008.

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

In German stock corporations, the executive board and supervisory board work as separate bodies allocated different tasks. A member of the executive board cannot be a member of the supervisory board at the same time.

In practice, to ensure successful corporate governance at Salzgitter AG, the Executive Board and the Supervisory Board avail themselves of a set of instruments in performing their management and control responsibilities.

The essential instruments of the Supervisory Board include:

- the obligation of the Executive Board to submit regular, timely and comprehensive reports to the Supervisory Board,
- regular discussion of the corporate plans, the business trend and the strategy with the Executive Board,
- definition of business activities and measures of the Executive Board that may only be carried out with Supervisory Board approval,
- the obligation of the Executive Board to submit annual long-term corporate plans and to report on the execution of such plans,
- agreement on variable components when determining the remuneration of the members of the Executive Board, oriented towards the commercial success of the company and the overall performance of the respective Executive Board member.

The instruments for management and control used by the Executive Board comprise the following:

- definition of reporting obligations and authorization requirements for individual areas in Group guidelines and the statutes of the Group companies,
- definition of the principles for the management of the Group in a Group guideline on management and organization,
- preparation of strategic plans for all divisions and business segments, as well as the regular updating and the monitoring of their success,
- obligation of all Group companies to prepare annual sales, investment, financial and personnel plans, as well as monitoring their progress,
- regular internal audits and special audits by an internal audit department,
- establishment and continuous updating of a groupwide monitoring system for early risk detection (risk management),
- agreement on targets and a performance-related component of the remuneration for the managing directors of Group companies and management executives.

In the financial year 2005, the Executive Board developed and optimized the strategy of the Salzgitter Group in particular in trusting cooperation with the Supervisory Board. Proceeding on this basis, the Executive Board initiated and pursued numerous measures to implement the strategic goals. The development of the various Group companies was monitored in a timely fashion on the basis of regular target/performance comparisons of their key data, then dealt with in controlling discussions with the management of the Group companies on a quarterly basis and corrected if necessary.

## Transparency

Salzgitter AG informs its shareholders and investors promptly about current events and developments within the Group by making all press releases and other publications available on its website.

The dates of all major, regularly occurring publications are announced in a financial calendar, also to be found on the website.

In the financial year 2005, the company received the following information on the purchase or sale of shares of Salzgitter AG by the members of the Executive or Supervisory Boards of the company or other persons with management tasks who have regular access to insider information on the company and who are authorized to make major entrepreneurial decisions, as well as those who are closely related to such persons:

- November 17, 2005, Wolfgang Leese, sale of 40,000 units
- November 17, 2005, Christiane Fuhrmann, sale of 4,980 units.

In the financial year 2005, the stock option plan, launched in 1998, for members of the Executive Board and management executives of the Salzgitter Group expired. The existing 280,000 subscription rights to one share each of Salzgitter AG were exercised by those entitled after the ambitious exercise hurdle had been exceeded. As a result, the number of shares issued by Salzgitter AG rose from 62,938,400 to 63,218,400 and the subscribed capital increased accordingly, from € 160,899,464.67 to € 161,615,273.31. There are currently no stock option programs or similar securities-based incentive systems running in the Salzgitter Group.

## Declaration of Compliance for 2005

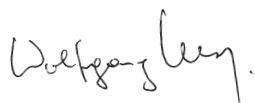
The Executive Board and the Supervisory Board of Salzgitter AG submitted their Declaration of Compliance with the recommendations of the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG):

“Salzgitter AG complies with all recommendations of the Government Commission on the German Corporate Governance Code in the version of June 2, 2005, which was published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, and has complied with all the recommendations set down in the Code in the period from December 16, 2004 to July 20, 2005 (Code version dated May 21, 2003), and from July 21, 2005, up until the present time (Code version dated June 2, 2005, published on July 20, 2005), apart from the following exceptions:

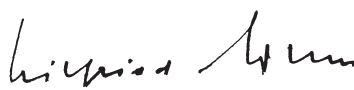
- Code item 3.8 para. 2 (deductible for D&O insurance): The Executive Board and the Supervisory Board do not regard the agreement on a deductible within the scope of a consequential loss insurance as being necessary for members of the governing bodies (D&O insurance) to compel members of the Executive and Supervisory Board to practice duty-bound behavior.
- Code item 4.2.4 (disclosure of individual remuneration of the members of the Executive Board): This recommendation is to be complied with in future, for the first time in the 2005 Annual Report.
- Code item 5.3.2 (establishment of an Audit Committee of the Supervisory Board): The Supervisory Board has overall responsibility for the review of the annual financial statements and the consolidated financial statements, and the mandating of an auditor. As an executive body, in its entirety, it intensively reviews the documents submitted, while drawing upon the auditor's findings before they are formally approved in accordance with Section 171 of the German Stock Corporation Act (AktG). In the opinion of the Executive Board and the Supervisory Board, this central obligation of the governing bodies should not be delegated to a committee.
- Code item 5.4.1 (age limit for Supervisory Board members): In the opinion of the Executive Board and the Supervisory Board, suitability for being a Supervisory Board member does not depend on a rigid age limit.
- Code item 5.4.5 paragraphs 1 and 2 (Supervisory Board remuneration): Upon a resolution of the extraordinary General Meeting of Shareholders of Salzgitter AG held on November 17, 2005, new, fundamental regulations were passed on the remuneration of the members of the Supervisory Board. Accordingly, the members of the Supervisory Board will now receive fixed and performance-related remuneration. The portion based on the success of the company is, in turn, partly determined by indicators which go beyond the defined period and thus contains components which are geared to the long-term success of the company.

The Executive Board and the Supervisory Board wish it to be noted that, in their opinion, a Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) is not effectively binding for the future. In as much as, in the course of daily business, discrepancies arise in relation to the recommendations of the currently valid German Corporate Governance Code, these will be published in the annual Declaration of Compliance and, if necessary, explained."

Salzgitter, March 30, 2006



Wolfgang Leese  
The Executive Board



Dr. Wilfried Lochte  
The Supervisory Board

## 1.10 Remuneration of the Executive Board and the Supervisory Board

The individual members of the Executive Board receive remuneration based on their individual tasks, their personal performance and on the economic situation of the company. The remuneration comprises a basic fixed component and a variable component. The variable component will be divided up into a performance-related portion, calculated according to ROCE, and a qualitative portion, the calculation of which is based on the overall performance of the individual Board member. The performance-related portion is capped, which has the effect of creating a long-term incentive. In addition, the members of the Executive Board receive a pension commitment which is a percentage portion of between 50 and 60% of the fixed remuneration component, and does not therefore depend on the variable component. No other payments have been pledged to any Board member in the event that his service to the company should end. The Supervisory Board reviewed the structure of the Executive Board's remuneration in 2005.

Remuneration received by the individual Executive Board members in 2005 (in €):

in €	Annual payment			Total <sup>3)</sup>	Pension claim (annual payments) as per 31/12/2005
	Fixed remuneration	Remuneration in kind	Performance-related remuneration <sup>1)</sup>		
Wolfgang Leese (Chairman)	480,000	40,851	480,000	1,000,851	239,285 <sup>2)</sup>
Wolfgang Eging	300,000	7,670	300,000	607,670	97,280 <sup>2)</sup>
Dr.-Ing. Heinz Jörg Fuhrmann	341,675	24,742	300,000	666,417	115,200 <sup>2)</sup>
Peter-Jürgen Schneider	300,000	27,373	300,000	627,373	40,000

<sup>1)</sup> Provision amounts; determined by way of resolution by the Presiding Committee of the Supervisory Board once the annual financial statements have been drawn up

<sup>2)</sup> Including a pension commitment taken over against compensation by the prior employer

<sup>3)</sup> Members of the Executive Board who left the company in the year under review received remuneration in the amount of € 1,287,342 million; as approval for the itemized disclosure of remuneration has not been given, this information was not disclosed

Remuneration with long-term incentive was neither granted nor pledged to the individual members of the Executive Board in 2005. Similarly, no benefits relating to their activities as members of the Executive Board were pledged or granted by third parties.

The members of the Supervisory Board receive remuneration which reflects their tasks and the economic situation of the company. The remuneration comprises a basic fixed component and two performance-related components. One of these performance-related components is based on the dividend paid to the shareholders in the respective financial year. In this case, remuneration is only granted if the dividend distributed for the year exceeds € 0.20 per share. The other component depends on the average consolidated result (EBT) of the last three financial years and is thus geared to the long-term performance of the company. It is only payable if the result is higher than an average of € 150 million. The Chairman of the Supervisory Board receives double and the Vice Chairman one and a half times the amount resulting from the addition of the respective remuneration components. In addition, compensation for membership of the committees of the Supervisory Board is paid, as well as attendance fees.

Remuneration received by the members of the Supervisory Board in 2005 (in €):

in €	Fixed remuneration	Performance-based remuneration based on		Committee remuneration	Attendance fees	Total <sup>2)</sup>
		annual performance <sup>1)</sup>	long-term company performance <sup>2)</sup>			
Dr. Wilfried Lochte, Chairman	24,000	64,000	16,066	2,000	1,500	107,566
Jürgen Peters, Vice Chairman (since March 2005)	17,000	45,333	10,035	1,000	1,500	74,868
Dr. Dieter Brunke (until Sep 2005)	9,000	24,000	6,024		500	39,524
Hannelore Elze	12,000	32,000	8,031		1,250	53,281
Hermann Eppers	12,000	32,000	8,031		1,250	53,281
Kurt van Haaren (until July 2005)	7,000	18,667	4,660		500	30,827
Prof. Dr. Heinz Haferkamp	12,000	32,000	8,031		1,250	53,281
Prof. Dr. Rudolf Hickel	12,000	32,000	8,031		1,250	53,281
Dr. Gunther Krajewski	12,000	32,000	8,031	1,000	1,500	54,531
Prof. Dr. Hans-Jürgen Krupp	12,000	32,000	8,031		1,250	53,281
Hans-Jürgen Ladberg (until Aug 2005)	8,000	21,333	5,354		500	35,187
Bernd Lange (until August 2005)	8,000	21,333	5,354		250	34,937
Dr. Arno Morenz	12,000	32,000	8,031		1,250	53,281
Dr. Hannes Rehm	12,000	32,000	8,031	1,000	1,000	54,031
Dr. Rudolf Rupprecht	12,000	32,000	8,031		1,250	53,281
Ernst Schäfer	12,000	32,000	8,031	1,000	1,500	54,531
Christian Schwandt	12,000	32,000	8,031		1,250	53,281
Walter Skiba (since Sep 2005)	4,000	10,667	2,677		750	18,094
Michael Sommer (since Sep 2005)	4,000	10,667	2,677		750	18,094
Dr. Johannes Teyssen (since Sep 2005)	4,000	10,667	2,677		750	18,094
Rainer Thieme	12,000	32,000	8,031		1,000	53,031
Friedrich-Wilhelm Tölkes	12,000	32,000	8,031	1,000	1,500	54,531
Hartmut Tölle	12,000	32,000	8,031		1,250	53,281
Prof. Dr. Martin Winterkorn	12,000	32,000	8,031		750	52,781
Prof. Dr. Ulrich Zachert (since Sep 2005)	4,000	10,667	2,677		750	18,094
<b>Total</b>	<b>269,000</b>	<b>717,334</b>	<b>178,666</b>	<b>7,000</b>	<b>26,250</b>	<b>1,198,250</b>

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

in €	Fixed remuneration	Performance-based remuneration based on		Committee remuneration	Attendance fees	Total
		annual performance	long-term company performance			
Jürgen Peters (until May 2005)	7,500	–	–	–	75	7,575
Ernst Schäfer	7,167	–	–	–	300	7,467
Christian Schwandt	5,000	–	–	–	400	5,400
Friedrich-Wilhelm Tölkes	10,833	–	–	–	375	11,208
Walter Skiba (since Sep 2005)	8,751	–	–	–	250	9,001
<b>Total</b>	<b>39,251</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,400</b>	<b>40,651</b>
<b>Overall total</b>	<b>308,251</b>	<b>717,334</b>	<b>178,666</b>	<b>7,000</b>	<b>27,650</b>	<b>1,238,901<sup>2)</sup></b>

<sup>1)</sup> The amounts presuppose that the General Meeting of Shareholders 2006 will approve the dividend proposal by the Executive and Supervisory Boards

<sup>2)</sup> The amounts correspond to the provisions which had been formed in the financial statements of Salzgitter AG on the basis of estimated Group results for 2005, and deviate slightly from the amounts that will apply after the financial statements are adopted on March 30, 2006