

## 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