

INTERIM REPORT



- Increase of Group earnings in Q3
- Sales prices of steel products stable despite difficult market situation
- Exchange rate influence negatively affects Tubes division results

9 Months 2003

Key Data – Overview

9 Months 2003

Salzgitter Group

		9 Months 2003	9 Months 2002	Δ
Sales (consolidated)	€ m	3,698	3,528	5 %
Steel Division	€ m	1,071	1,106	-3 %
Trading Division	€ m	1,589	1,304	22 %
Services Division	€ m	184	177	4 %
Processing Division	€ m	173	81	113 %
Tubes Division	€ m	681	859	-21 %
Flat rolled products	€ m	1,833	1,600	15 %
Sections	€ m	456	523	-13 %
Tubes	€ m	964	1,022	-6 %
Shares of exports	%	53	55	
Income from ordinary operations	€ m	33	68	-51 %
Net income	€ m	22	59	-62 %
Balance sheet total	€ m	3,823	3,831	0 %
Fixed assets	€ m	1,942	1,979	-2 %
Current assets	€ m	1,881	1,852	2 %
Inventories	€ m	909	846	7 %
Shareholders' equity	€ m	996	1,083	-8 %
Borrowings	€ m	2,827	2,748	3 %
Provisions	€ m	1,865	1,957	-5 %
Liabilities	€ m	962	791	22 %
Thereof due to banks	€ m	237	139	70 %
Capital expenditure¹⁾	€ m	132	163	-19 %
Depreciation and amortization	€ m	164	162	1 %
Employees				
Personnel expenses	€ m	699	671	4 %
Workforce (average of the period)		18,306	18,455	-1 %
Key figures				
Earnings before interest and taxes (EBIT) ²⁾	€ m	51	83	-39 %
EBIT before depreciation and amortization (EBITDA)	€ m	215	245	-12 %
Cash flow from operating activities	€ m	143	87	65 %
Return on capital employed (ROCE) ^{3) 4)}	%	5.0	8.7	

Financial statements according to IAS

1) Excluding financial assets; 2) EBT plus interest paid (excluding interest element in allocations to pension provisions); 3) EBIT in relation to the total of shareholders' equity, minority equity interests, tax provisions (excluding deferred taxes) and interest-bearing liabilities; 4) Annualized

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Summary

In the third quarter of financial year 2003, the Salzgitter Group achieved a modest improvement in its results compared with the first and second quarters of the year, despite the fact that no concrete improvement in the economic situation has been evident so far throughout the EU. Moreover, seasonal declines in orders had to be absorbed in several sectors during the summer months.

Consolidated external sales increased in the first nine months of financial year 2003 compared with the equivalent prior-year reporting period primarily as a result of the widening of the group of consolidated companies. With external sales in Steel Division remaining almost unchanged, a noticeable decline in sales in Tubes Division was more than offset by the expansion of activity in Trading Division. External sales also increased in Processing Division, while they remained almost constant in Services Division.

The contributions to earnings made by the Divisions show two divergent trends. The continuous improvement in the market situation in the flat rolled sector, combined with a stable business development in the plates segment, contrasted with a problematic situation in the sections segment, which had to endure difficulties with its sales volume and higher prices for scrap, its most important raw material. In Tubes Division, an unfavorable US-Dollar-Euro exchange rate put persistent pressure on margins while the orders situation slowly improved. While Trading and Services Divisions developed positively, Processing Division was still badly affected by the desolate state of the construction industry in Germany. The third-quarter result contains a profit from the reduction of the stake in the US steel company Steel Dynamics Inc., although this was offset by the similar level of expenses that was incurred for production stoppages.

Following increasing signs that an economic upturn is on the way, the level of orders received in the internationally active Tubes Division has already shown a tendential improvement, where as there has hardly been any positive momentum for the domestic construction industry. While the favorable trend in demand for flat rolled products and plates is opening up potential for improved sales prices, the earnings trend over the coming months will also be influenced by higher raw materials and energy prices and exorbitant increases in ocean freight charges. Scrap prices have recovered from their temporary weakness and have started to rise again.

The Group-wide profitability improvement program comprising more than 200 projects is already contributing to cost reduction as well as quality and productivity improvements in the current year. The effectiveness of these measures will increase again in financial year 2004.

Salzgitter AG confirms the forecast of pre-tax earnings of around € 35 million, before extraordinary factors, that was previously announced for financial year 2003.

Key data for the first nine months of financial year 2003:

• Consolidated external sales:	€ 3.7 billion	• EBT Steel Division:	€ 19.3 million
• Pre-tax profits:	€ 32.9 million	• EBT Tubes Division:	€ 1.6 million
• Net income:	€ 22.3 million	• ROCE (annualized):	5.0 %

Economic and market development

In the third quarter of 2003, the upturn in the global economy was noticeably stronger than in the two preceding quarters. The United States – thanks to the depreciation of the US-Dollar and an increase in consumption on the back of higher public spending and tax reductions – was the mainspring of this trend. High levels of economic dynamism were also evident in China, the Southeast Asian countries and Russia. Signs of recovery, such as higher than expected industrial production in September, are also discernible in Japan. The International Monetary Fund forecasts that the global economy will grow by 4.1 % in 2004, compared with an estimated 3.2 % in 2003.

In the Euro zone, on the other hand, stagnation continued to hold sway in the third quarter with a continued absence of visible growth. The persistent strength of the Euro against the US-Dollar impeded economic recovery in the EU, while expansive fiscal policies were made almost impossible by low tax revenues resulting from the downturn and high levels of state indebtedness in many countries. Despite this, companies' sentiment with regard to 2004 has improved. The EU Commission is therefore anticipating economic growth of just below 2 % for next year.

In 2003, Germany looks set to post zero growth for the first time in ten years. The expected marginal increase in German gross national product (GDP) in the third and fourth quarters will probably only offset the decrease in GDP in the first half of 2003. Despite the appreciation of the Euro, German industry benefited from the revival in the global economy. In August, for example, it more than compensated for lower domestic demand by increasing its volume of orders from abroad. The export sector, according to the leading German economic research institutes' autumn report, will again be the driving force for the domestic economy in 2004. Although a growth rate of 1.7 % is forecast for next year, 0.6 % of that will be accounted for by the increase in the number of working days compared with 2003. For that reason – as the institutes state – this trend cannot be regarded as an "upturn". They see the major risks in a further appreciation of the Euro and a delay in the reform process in Germany. The expectation of a modest improvement is also shown in the latest increase – the sixth in succession – in the October business climate index issued by the Institute for Economic Research (Ifo). Some economists of German banks, however, do not regard this as evidence of a sustained upturn.

Business situation within the Group

In the third quarter of the financial year 2003 the Salzgitter Group improved its results slightly compared with the preceding quarters, despite the fact that the economic situation throughout the EU has yet to show any improvement. Moreover, seasonal declines in orders had to be absorbed in several sectors during the summer months.

In the first nine months the Group's consolidated external sales increased to € 3.7 billion, an improvement of 5 % compared with the prior-year period (€ 3.5 billion) that resulted primarily from the widening of the group of consolidated companies: the companies Salzgitter Automotive Engineering (SZAE), Salzgitter Europlatinen (SZEP) and Salzgitter Bauelemente (SZBE) were consolidated fully for the first time as of December 31, 2002 with retroactive effect for the financial year 2002. However, they were not yet covered in the interim report 9 Months 2002. In addition, Salzgitter International Inc., Houston/USA (SIH), was included for the first time as of January 1, 2003. The noticeable decrease in sales in the Tubes Division was more than offset by a pleasing expansion of the Group's trading activities. Due primarily to seasonal factors, external sales decreased by 4 % to € 1,191 million in the third quarter of 2003.

Pre-tax earnings (EBT) amounted to € 16.3 million in the third quarter of 2003, which, combined with the pre-tax earnings of € 16.6 million from the first half of the year, results in accumulated EBT of € 32.9 million. This result from the first three quarters of the financial year nevertheless fell short of the Group's very good prior-year result (9 Months 2002: € 67.9 million EBT), although the latter was achieved against the background of far better general conditions, particularly in the tubes segment.

The results for the third quarter contain profits of € 4.7 million from the reduction in the company's stake in the US steel company Steel Dynamics Inc., although this was offset by the similar level of expenses that was incurred in the production stoppages at the Peine and Ilsenburg plants. While the temporary cutback in

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production in Peine was caused by the depressed state of the construction industry, the Ilsenburg plant was shut down as planned for maintenance purposes. Profits after tax amounted to € 22.3 million in the first nine months of the financial year (9 Months 2002: € 58.8 million).

Based on the pre-tax result, EBIT (earnings before interest and taxes) was € 50.9 million (-39 % vs. 9 Months 2002), with EBITDA (EBIT before depreciation and amortization) coming in at € 214.6 million (-12 % vs. 9 Months 2002). The EBIT and EBITDA figures do not include the interest component of the appropriations to the pension accruals.

Consolidated ROCE (return on capital employed), including the third quarter, amounted to an annualized 5.0 %; it therefore remained below the prior-year figure of 8.7 %, despite a positive trend over the course of the year.

Investment in property, plant and equipment in the period under review, at € 132 million, was lower than the amortization and depreciation of € 164 million; a large-scale project, the modernization of the hot strip mill of Salzgitter Flachstahl (Steel Division), was completed in the ongoing financial year. (9 Months 2002: investment € 163 million; amortization and depreciation € 162 million).

The balance sheet total amounted to € 3.8 billion, an increase of only € 17 million compared with December 31, 2002. The widening of the group of consolidated companies, balanced against the disposals of financial assets that this involved, led to a balance sheet extension of € 52 million. A balance sheet contraction resulted from the lower assigned values for financing instruments in accordance with IAS 39 and for tax receivables. Fixed assets decreased alongside the reduction in property, plant and equipment mainly as a result of the profit distribution at V&M Tubes. Current assets, on the other hand, increased due to a small increase in inventories and an increase in accounts receivable as of the balance sheet date.

Compared with the end of the second quarter of 2003, the balance sheet total decreased by € 57 million. With fixed assets remaining almost unchanged, current assets decreased by € 63 million. This trend resulted from sharply reduced trade accounts receivable, particularly in Steel Division, reduced assigned values for financing instruments in accordance with IAS 39 and a slight decrease in financial resources.

Group Divisions

€ T	Consolidated sales			
	3rd Quarter 2003	3rd Quarter 2002	9 Months 2003	9 Months 2002
Steel Division	307,082	358,559	1,070,916	1,106,271
Trading Division	566,928	439,431	1,589,083	1,304,156
Services Division	55,288	58,831	184,064	177,093
Processing Division	54,329	28,841	173,248	81,466
Tubes Division	206,877	276,168	681,130	859,386
Others/Consolidation	0	0	0	0
Group	1,190,504	1,161,830	3,698,441	3,528,372

€ T	Income from ordinary operations			
	3rd Quarter 2003	3rd Quarter 2002	9 Months 2003	9 Months 2002
Steel Division	11,864	1,157	19,266	-25,284
Trading Division	4,727	397	10,304	7,018
Services Division	3,384	2,562	10,094	9,422
Processing Division	-5,053	-2,219	-12,423	-7,130
Tubes Division	28	13,116	1,609	73,931
Others/Consolidation	1,352	2,899	4,062	9,900
Group	16,302	17,912	32,912	67,857

Segment data by Divisions

The net bank borrowings hardly changed in the quarter under review, amounting to € 152 million as of September 30, 2003. Compared with the prior-year figure this represents an increase of € 114 million, caused largely by the aforementioned changes in the group of consolidated companies.

From an economic perspective – in consideration of the negative difference resulting from the consolidation of capital and of minority interests – the equity ratio amounted to 30 % on September 30, 2003, the same figure as in the previous quarter (December 31, 2002: 32 %).

Within the Salzgitter Group, including the companies V&M Tubes, V&M Star and the attributable volume from Hüttenwerke KruppMannesmann (HKM), a total of 6.4 million t of crude steel was produced in the first nine months of the financial year 2003 (9 Months 2002: 6.1 million t – excluding V&M Star in the first half of 2002).

The regular workforce employed by the Group (excluding apprentices and trainees) decreased to 18,063 as of the end of September 2003 – 19 employees or 0.1 % lower than the comparable prior-year figure. Without the companies what were consolidated for the first time, contributing a combined workforce of almost 600 employees, the reduction would have been more pronounced. The workforce decreased by 223 employees between the second and third quarters. As of September 30, 2003 there were 938 trainees engaged in the Group, compared with 914 on September 30, 2002.

Steel Division

The European steel market was characterised by the cyclical situation and seasonal effects in the third quarter of 2003. The various sub-segments and companies of Steel Division developed as follows.

Demand for rolled products in Europe declined over the summer months. The reasons for this, besides the usual plant vacations at large steel consumers, particularly in Southern Europe, can be found in the new models that various automobile manufacturers are planning to launch in the autumn. On average, however, revenues from flat rolled products in Central Europe have remained almost constant, since the dominant suppliers on the market cut back their production during that time. Imports to Europe were limited by the strong demand from China, firmer steel prices in the USA and the continuation of the EU anti-dumping measures, which in turn had a positive impact on the stability of revenues. On the costs side, expenditure on raw materials and ocean freight remained high. The sales posted by Salzgitter Flachstahl GmbH in the third quarter were slightly below those of the previous quarter. Thanks to a strong first half-year, however, sales in the first nine months of 2003 were higher than those of the same period in 2002. Pre-tax earnings developed positively. The order level increased towards the end of the period under review.

The situation in the beams segment hardly changed. Ordering activity from the European construction industry remained cautious, with Germany still the weakest market. At Peiner Träger GmbH, lower demand led to a temporary decrease in production and a corresponding drop in sales in the third quarter. Furthermore, the material costs situation was intensified over the past few months by the ongoing increase in the price of scrap. Despite the cost reduction measures that were initiated and a slight increase in revenues, higher expenditure on input stock again led to a discernible loss in the period under review. Towards the end of the period, the order level improved as a result of export orders being won, which will lead to another increase in production in the ongoing quarter.

The quarto plate market developed positively in the first nine months of 2003. The European plate producers benefited from a satisfactory level of orders received from the wind power sector, the shipbuilding and mechanical engineering sectors and pipe producers. In August, the annual maintenance shutdown at Ilseburger Grobblech GmbH caused sales to decline compared with the previous months. In the first nine months of 2003, however, sales remained higher than those of the same period in 2002. Thanks to another increase in selling prices, positive pre-tax earnings were generated in the third quarter despite the decrease in sales. The solid level of orders on hand will guarantee a positive level of capacity utilization in the fourth quarter of 2003.

The Central European market for large-diameter tubes recorded a subdued ordering activity from the gas and oil pipeline sector in the third quarter of 2003. Competition for projects was correspondingly fierce. Against

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the background of a significant competitive disadvantage caused by the strength of the Euro, Salzgitter Großrohr GmbH recorded a satisfactory business development. Although sales between January 1 and September 30, 2003 remained well behind the excellent figures achieved in the comparable prior-year period, the company still achieved a positive result. The level of orders on hand will guarantee adequate capacity utilization until the end of the year.

In the first nine months of 2003, the Steel Division of Salzgitter AG produced 3,839 Tt of crude steel. Although the production of LD steel remained constant compared with the prior-year period at 3,100 Tt, electric steel production fell to 739 Tt, 18 Tt below its prior-year level.

The “price before quantity” strategy pursued by Salzgitter AG again in the third quarter and the modernization-related shutdown of the hot strip mill in May with subsequent run-up phase led to a decrease in rolled steel production and shipments. The quantity of rolled steel produced, including input stock for processing, was 3,575 Tt, 3 % lower than during the first nine months of 2002. Shipments of rolled steel and products for processing decreased by 4 % to 3,542 Tt.

In the first three quarters of 2003 Steel Division contributed € 1,071 million to the group’s external sales, almost the same amount as in the comparable period in 2002. At the same time, aggregate sales increased by 3 % to € 1,497 million as a result of the increased use of internal distribution channels.

In spite of a temporary decrease and continued cost pressure in the beams segment, pre-tax profits were further stabilized at € 11.9 million in the third quarter. The accumulated result in the first nine months therefore amounted to € 19.3 million, € 44.6 million higher than in the prior-year period, which closed with a pre-tax loss of € -25.3 million. The results for the third quarter contain profits of € 4.7 million from the reduction in the company’s stake in the US steel company Steel Dynamics Inc., although this was offset by the similar level of expenses that was incurred in the mentioned production stoppages at the Peine and Ilsenburg plants.

In the first nine months of 2003, consolidated orders received in Steel Division decreased by 7 % to 3,574 Tt compared with the prior-year period. The consolidated level of orders on hand declined by 4 % to 1,365 Tt. Having hit rock bottom in the second quarter, orders received started to increase again over the past few months.

As of September 30, 2003, Steel Division had a total workforce of 7,050, 61 employees more than on September 30, 2002 and 157 more than on June 30, 2003. This increase resulted from the site-related regrouping of employees from Services Division into Steel Division. The regular workforce would otherwise have been reduced by 100 compared with the prior year.

The large-scale investment projects “Commissioning of Blast Furnace C” and “Continuous Caster 3” are progressing according to plan. The main contracts for the refurbishment of the blast furnace were awarded in the third quarter. In the meantime, the construction work for the new continuous casting plant has already begun.

Trading Division

In the third quarter of 2003, the business trend shown by the companies in Trading Division again reflected the economic conditions that prevailed in their respective markets – as already explained.

In Germany, shipments and sales generated by Salzgitter Trading Group (SHD) stagnated at the level of the previous quarter. The sales quantity in the first nine months of 2003 remained marginally below that of the first nine months of 2002, although turnover slightly exceeded the prior-year figure thanks to higher prices. Results hardly changed.

Despite lower shipments of sections in the third quarter, the Dutch companies managed to sustain their sales and profits at the satisfactory levels achieved in the two prior quarters. In the period under review, as in the first half of 2003, both figures remained at around their previous year’s level.

Salzgitter International GmbH, Düsseldorf (SID), continued to benefit from a positive level of demand from China, the Arab countries and several other Asian and African countries. While sales volume went up only slightly compared with the first nine months of 2002, sales and pre-tax earnings showed gratifying increases. The latter trend can be attributed not only to higher prices for flat rolled products, but also to substantial increases in shipments of large-diameter tubes that were required to fulfill the major order from Turkey (Baku-Ceyhan pipeline). This large-scale order was acquired through SID for Europipe in the third quarter of 2002.

The business activities of Salzgitter International Inc., Houston/USA (SIH), was adversely affected in the third quarter by the difficult market situation for steel products in the NAFTA countries. Tepid demand and the continuing fierce competition among US steel suppliers ensured that the business trend was comparatively weak. Despite lower sales, the company achieved a positive quarterly result.

In the first nine months of 2003, the gratifying trend at SID and the integration of SIH into the group of consolidated companies as of January 1, 2003 led to a healthy increase in shipments, sales and profits for SHD compared with the comparable period last year. Thanks to the favorable order structure, pre-tax earnings showed an even higher increase.

In overall terms, the steel service center groups Hövelmann & Lueg and Robert and the plates specialist Universal achieved small overall increases in their shipments and sales revenues. Results were corresponding with those of the first nine months of 2002.

The contribution from SHD led to a discernible improvement in Trading Division's nine-month figures compared with the prior-year reporting period. The total volume of steel sales increased by 13 % to 3,823 Tt until the end of September (9 Months 2002: 3,375 Tt). Total sales revenues in the first nine months of 2003 amounted to € 1,652 million – an increase of 24 % compared with the comparable figure in 2002. External sales increased by 22 % to € 1,589 million (9 Months 2002: € 1,304 million).

The positive earnings trend in Trading Division also persisted into the third quarter of 2003. Pre-tax profits of € 10.3 million were generated in the period January to September 2003. This represents an increase of 47 % compared with the same period in 2002, in which a break-even result was produced in the third quarter.

The regular workforce in the Division was reduced slightly to 1,849 as of September 30, 2003 (September 30, 2002: 1,910).

Services Division

In the first nine months of the financial year 2003, Services Division posted external sales of € 184 million, an increase of 4 % compared with the previous year's figure of € 177 million. Aggregate sales, at € 489 million, were 9 % higher than in the comparable period. The growth in the Division's sales is attributable primarily to the growth in the trading activities of DEUMU, which benefited from the high scrap prices. During the third quarter there was a site-based regrouping of PPS employees to Steel Division, which led to a slight decrease in the company's sales and earnings compared with the previous quarter.

Pre-tax earnings from January to September 2003 amounted to € 10.1 million, an improvement of 7 % on the earnings of € 9.4 million that were posted in the first nine months of 2002. With the exception of PPS, all of the companies made positive contributions to earnings in the period under review.

The Division's regular workforce decreased by 6 % to 3,568 as of September 30, 2003, equaling a reduction of 222 employees over the end of September 2002. Some 161 members of staff were redeployed in Steel Division. The remaining decrease can be attributed mainly to age-related fluctuation and the expiration of term contracts.

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Processing Division

In the first nine months of 2003, Processing Division generated external sales of € 173 million and posted a pre-tax loss of € -12.4 million. The widening of the group of consolidated companies – the companies SZAE, SZEP and SZBE were consolidated fully for the first time as of December 31, 2002 with retroactive effect for the financial year 2002 – means that these figures are not comparable with the sales revenues (€ 81 million) and pre-tax earnings (€ -7.1 million) from the equivalent prior-year period.

In the construction industry, the main source of sales for Hoesch Spundwand und Profil GmbH (HSP) and Salzgitter Bauelemente GmbH (SZBE), no improvement in capacity utilization was evident between January and September 2003. The companies therefore continued to face great competitive pressure. At the end of the period under review, the sales and marketing joint venture with ThyssenKrupp Group, ThyssenKrupp GfT Bautechnik GmbH, that HSP entered into in the second quarter of 2003, had its first positive impact. At the same time, the restructuring measures that were initiated at the end of 2002 continued. HSP and SZBE posted pre-tax losses in the first nine months of 2003.

The companies that supply customers in the automobile industry achieved mixed results in the period under review. While Salzgitter Europlatinen GmbH (SZEP) succeeded in posting a further increase in its volume and reported a satisfactory sales trend and earnings situation, the intensified competition for development and production orders led to a deterioration in sales and pre-tax earnings at Salzgitter Automotive Engineering GmbH & Co. KG (SZAE). Combined, the two companies made a positive overall contribution to earnings between January and September 2003.

The regular workforce decreased by 93 (8 %) to 1,053 employees between the beginning of the year and the end of September 2003.

Tubes Division

With the global steel tubes markets having suffered a period of weakness for cyclical and geopolitical reasons in the first half of 2003, the third quarter produced the first, albeit inconsistent, signs of recovery. Although the still comparatively high price of oil was a stimulant, this was countered by the dampening effect – particularly on European producers' operations – that resulted from the weakness of the US-Dollar and seasonal factors. Demand from the energy and petrochemicals sectors showed a noticeable revival, although other areas remained cautious in view of the general economic situation. In the product segments of Mannesmannröhren-Werke Group (MRW), the situation was as follows:

In the seamless tubes segment (Vallourec & Mannesmann Tubes SA/V&M Tubes), there was a recovery in the order intake from the energy-dependent sectors such as oil and natural gas exploration, energy transport and power station construction. Demand for oil tubulars on the US market continued to increase. The US subsidiary V&M Star, however, benefited only marginally from this development, since most of the demand was for welded tube types that are not part of its product range. In the third quarter of 2003, V&M do Brasil reported an order book situation that was up on the preceding quarters. The non-energy-dependent customer groups' situation was mixed. Although the order intake for tubes destined for mechanical engineering and dealer stocks remained subdued, the level of orders for construction tubes was quite satisfactory. Orders received and orders on hand at V&M Tubes showed an overall increase in the first nine months of 2003 compared with the prior-year period. Despite the pleasing overall trend in demand, the seamless tubes segment also suffered from the competitive distortions on some international markets that resulted from exchange rate factors. Although sales and profits in the first quarters of the financial year 2003 were unable to keep up with the excellent figures from 2002, they remained highly satisfactory.

The sales volume of precision steel tubes, as in the previous quarters, remained gratifying. Although order behavior from the mechanical engineering sector and for dealer stocks was subdued, the level of demand from the automobile industry was positive. As a result, MHP Mannesmann Präzisrohr GmbH increased its sales and pre-tax profits in the first nine months of the year.

Shipments of stainless tubes remained low in the ongoing financial year, since there was still no sign of any revival in demand on the relevant sales markets. The earnings situation at the stainless tube producer DMV Stainless SA was burdened additionally in the period under review by the unfavorable US-Dollar-Euro exchange rate. Shipments, sales and earnings therefore declined in comparison with the first nine months of 2002.

Although the market for medium line pipes weakened slightly in the third quarter, Mannesmann Line Pipe GmbH and Röhrenwerke Gebrüder Fuchs GmbH managed to increase the volume and value of their sales compared with the first nine months of 2002. Pre-tax profits also exceeded those of the comparable period.

With the global economic situation improving and the political situation stabilizing, the project bottleneck in the large-diameter pipes segment slowly started to clear up towards the end of the third quarter. For European suppliers, the strength of the Euro led to an intensification of price competition for international pipeline projects. For that reason, shipments and sales at the Europipe group declined compared to the first nine months of 2002. The difficult background conditions led to a negative pre-tax result in the period under review.

Consolidated external sales in the Tubes Division amounted to € 681 million in the first nine months of 2003. This represents a decrease of 21 % compared with the comparable prior-year period (€ 859 million). The decline in sales had two causes: firstly, the hesitant recovery in demand for large-diameter pipes, and secondly the negative revenue effects of the weak US-Dollar in all of the Division's export transactions to dollar markets.

The difficult situation of some MRW-companies was also reflected in pre-tax results, which nevertheless reached break-even in the third quarter, thus contributing to a positive accumulated result of € 1.6 million for the first nine months of 2003 (9 Months 2002: € 74.0 million EBT).

The consolidated order intake in the Division came to € 740 million in the period under review, a slight improvement on the figure posted in the comparable period in 2002. Consolidated orders on hand as of September 30, 2003 declined by 6 % from their prior-year level (September 30, 2002: € 352 million) to € 331 million.

Tubes Division had a regular workforce of 4,427 employees as of September 30, 2003. This represents a reduction of 6 %, or 295 members of staff, compared with the first three quarters of 2002 (4,722 employees).

Outlook

In the ongoing quarter, the signs of recovery in the global economy have become stronger. On the stock markets, the expectation that growth will accelerate in 2004 has already caused share prices to resume their upward path, after widespread uncertainty about the economic situation had led to a consolidation at the beginning of the third quarter. In the meantime, the early indicators, which are driven mainly by expectations and indicate that the situation is improving, are being increasingly supported by facts. The United States, as in the past, is leading the way in the recovery, with economic growth and the labor market situation showing an unexpectedly strong upward trend. Positive signs are also emanating from other regions of the world. In the European Union, an economic recovery – albeit delayed and weakened – should also establish itself over the next few months. The general framework conditions for the Salzgitter Group are therefore likely to improve. At the same time, however, several sector-specific detrimental factors are emerging.

Although the favorable trend in demand for flat rolled products and plates is opening up potential for improved sales prices, the earnings performance over the coming months will also be influenced by higher raw material and energy prices as well as exorbitant increases in ocean freight charges. The price of scrap in particular, the most important primary material in the production of sections, has recovered from its temporary weakness and has begun to rise again. Since hardly any positive momentum can be expected from the domestic construction sector in the short term, margins in the beams segment will continue to come under pressure despite the currently implemented price increase. Other product categories that the Group supplies to the construction sector will continue to suffer from the particularly depressed situation in that sector.

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Orders received in the internationally active Tubes Division have recently improved tendentially, which should lead to a continued recovery in the utilization of the plants. This trend is being supported by the cyclical increase in global energy demand, combined with a stabilization of oil and gas prices at a comparatively high level. The earnings position of the Division, however, will be influenced considerably by the future trend in the US-Dollar-Euro exchange rate. A strengthening of the US-Dollar would cause a positive effect.

The Group-wide profitability improvement program comprising more than 200 projects is already contributing to cost reduction and quality and productivity improvements in the current year. The effectiveness of these measures will increase again in the financial year 2004.

Salzgitter AG confirms the forecast of pre-tax earnings of around € 35 million, before extraordinary factors, that was previously announced for the financial year 2003.

Shares

The brighter stock market trend that was already evident in the first half of 2003 persisted into the third quarter. The stabilization of the global economy, the first signs of the general economic recovery – particularly in the United States – and expectations of stronger economic growth next year led to further share price rises until the beginning of September. This was followed by a slight consolidation up to the end of the third quarter. In the first nine months of 2003 the DAX rose by +13 %, and the MDAX by +31 % compared with December 31, 2002. The indices are still rising in the ongoing quarter.

Until the reporting date, Salzgitter AG shares also benefited from the general market recovery. Following the positive trend in the first three months of 2003 and the subsequent sideways movement in the second quarter, another upward trend commenced at the start of the third quarter. The trend in Salzgitter AG shares price was roughly parallel to that of the MDAX and reached a new annual high of € 8.88 on September 8. There followed a consolidation, parallel to the MDAX, until the end of September and further price rises in the current quarter. On September 30 the Salzgitter share closed at € 7.70 on the XETRA, which represented an increase of 28.6 % in the first nine months of 2003 compared with the annual closing price of € 5.99 for 2002. If the dividend of € 0.32 distributed in the second quarter – representing a dividend yield of 5.3 % on the annual closing price – is added, the aggregate return on Salzgitter AG shares easily outperformed those of the European steel index and the DAX and even slightly exceeded that of the MDAX.

The average daily turnover in the Salzgitter AG shares on Germany's stock exchanges increased, reaching the highly satisfactory level of 106,000 in the third quarter. Average daily turnover in the first nine months of 2003 thus amounted to 88,000. With this stock market turnover and a free float market capitalization of € 258 million, Salzgitter AG occupied 44th and 43rd position among the 50 MDAX companies.

In mid-August, as part of its capital market communication activities, the company presented and explained its half-yearly results for 2003 at analysts' conferences in Frankfurt and London. In the third quarter, as well as receiving visits from analysts in Salzgitter and holding discussions with investors in Frankfurt, the company staged roadshows in London and Düsseldorf. On July 15, Salzgitter AG's investor relations work was awarded third place among the MDAX companies by the renowned financial magazine CAPITAL.

Since the beginning of the financial year, 55 research studies and/or recommendations for the Salzgitter AG shares have been issued by 25 research sources. The ratings were as follows: 14 Buy/Outperform, 6 Hold/Neutral, 5 Sell/Underperform (as of September 30, 2003).

Consolidated Income Statement

T €	3rd Quarter		9 Months	
	2003	2002	2003	2002
Sales	1,190,504	1,161,830	3,698,441	3,528,372
Increase or decrease in finished goods and work in progress and other own work capitalized	39,095	14,313	33,495	-23,358
Other operating income	34,181	42,230	99,278	120,901
Cost of materials	817,129	794,790	2,472,645	2,317,878
Personnel expenses	228,704	226,549	698,859	671,375
Depreciation	53,818	50,729	163,743	161,598
Other operating expenses	139,085	127,021	426,884	407,990
Income from shareholdings	614	731	2,040	2,037
Income from associated companies	14,204	20,757	31,538	69,408
Net interest income	-23,560	-22,860	-69,748	-70,662
Income from ordinary operations	16,302	17,912	32,913	67,857
Taxes	3,170	8,012	10,602	9,070
Consolidated net income for the year	13,132	9,900	22,311	58,787
Minority interests	-1,843	1,492	-1,645	4,209
Consolidated net income accruing to Salzgitter AG shareholders	14,975	8,408	23,956	54,578
Earnings per share (in €)			0.39	0.88
Appropriation of profits				
Consolidated net income accruing to Salzgitter AG shareholders			23,956	54,578
Profit carried forward from previous year			20,000	28,014
Dividend payment			-19,604	-25,918
Appropriation to other retained earnings			-11,872	-37,954
Net income of Salzgitter AG			12,480	18,720

Financial Statements

Consolidated Balance Sheet

Assets (€ T)	30/09/2003	31/12/2002	30/09/2002
Fixed assets			
Intangible fixed assets	-180,845	-218,721	-244,196
Goodwill/negative goodwill from capital consolidation	-199,992	-241,962	-261,092
Other intangible fixed assets	19,147	23,241	16,896
Tangible fixed assets	1,486,641	1,509,626	1,450,131
Financial assets	125,590	195,711	234,171
Associated companies	510,792	488,159	538,788
	1,942,178	1,974,775	1,978,894
Current assets			
Inventories	908,721	868,512	845,973
Receivables and other assets	875,264	844,668	896,211
Trade receivables	766,307	691,958	711,807
Other receivables and sundry assets	108,957	152,710	184,404
Current securities	259	392	645
Cash and cash equivalents	84,863	111,237	100,890
	1,869,107	1,824,809	1,843,719
Capitalized deferred taxes	4,545	4,545	718
Prepaid expenses	7,538	2,496	7,475
	3,823,368	3,806,625	3,830,806

Equity and liabilities (€ T)	30/09/2003	31/12/2002	30/09/2002
Shareholders' equity			
Subscribed capital	159,523	159,523	159,523
Capital reserve	287,530	287,530	287,530
Retained earnings	543,671	566,450	625,229
Non-distributed income	12,480	20,000	18,720
	1,003,204	1,033,503	1,091,002
Own shares	-6,800	-6,802	-7,748
	996,404	1,026,701	1,083,254
Minority interests	22,032	26,312	21,105
Provisions			
Provisions for pensions and similar obligations	1,489,194	1,506,536	1,513,071
Tax provisions and other provisions	375,496	377,554	444,349
	1,864,690	1,884,090	1,957,420
Liabilities			
Bonds	2,233	2,263	3,640
Liabilities to banks	237,187	177,497	139,218
Trade payables	323,552	345,447	330,527
Other liabilities	369,628	343,143	284,805
	932,600	868,350	758,190
Deferred income	7,642	1,172	10,837
	3,823,368	3,806,625	3,830,806

Financial Statements

Events of significance in the third quarter of 2003

After approval by the European anti-trust authority on July 3, 2003, the joint venture ThyssenKrupp Gft Bautechnik GmbH (TKBT) began its operation of distributing HSP sheet piling. After concluding the due diligence and the interim report as at June 30, 2003, the acquisition of 30 % of TKBT shares by HSP became legally effective as at 30.09.2003.

Cash Flow Statement

€ T	01/01 – 30/09/2003	01/01 – 30/09/2002
Consolidated net income for the year	23,956	54,578
Write-downs (+)/write-ups (-) on fixed assets	162,882	161,545
Other non-payment-related expenses (+)/income (-)	56,557	10,223
Interest expenses	80,881	81,765
Profit (-)/loss (+) on the disposal of fixed assets	-3,250	-18,150
Increase (-)/decrease (+) in inventories	-28,610	29,640
Increase (-)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	-12,966	-44,973
Payment-related increase (+)/decrease (-) in provisions	-149,380	-156,776
Increase (+)/decrease (-) in trade payables and other liabilities not attributable to investment or financing activities	12,960	-31,201
Cash flow from operating activities	143,030	86,651
Payments received from the disposal of fixed assets	4,840	5,974
Payments made on investments in intangible and tangible fixed assets	-137,586	-147,360
Payments received from the disposal of financial assets	25,225	30,229
Payments made on investments in financial assets	-21,671	-75,303
Cash flow from investment activities	-129,192	-186,460
Payments received (+)/made (-) due to the repurchase of own shares	2	-1,523
Dividend payments	-19,604	-25,918
Payments received (+)/made (-) resulting from the issue of bonds and take-up of loans	-2,810	13,012
Interests paid	-17,800	-11,541
Cash flow from financing activities	-40,212	-25,970
Cash and cash equivalents available at the beginning of the period	111,237	226,669
Variation in cash and cash equivalents	-26,374	-125,779
Cash and cash equivalents available at the end of the period	84,863	100,890

Selected notes to Financial Statements

Principles of accounting and consolidation, balance sheet reporting and valuation methods

1. The consolidated financial report of Salzgitter AG, Salzgitter, for the reporting period from January 1 to September 30, 2003, has been prepared as a condensed report with selected details annexed. The report has been compiled as before in accordance with the International Accounting Standards (IAS) published by the International Accounting Standards Board (IASB) in consideration of requirements contained in IAS 34 for condensed interim reports.
2. The quarterly report has been prepared pursuant to the same balance sheet reporting and valuation, accounting and consolidation methods as were applied to the annual financial statements to December 31, 2002.
3. In comparison with the annual financial statements to December 31, 2002, Mannesmannröhren Service GmbH, Mülheim an der Ruhr, which was previously fully consolidated, has been deconsolidated from the group of consolidated companies. In return, Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück, and Salzgitter International Inc., Houston/USA, were brought into the group of consolidated companies for the first time.

Statement of Changes in Equity

T €	Subscribed capital	Capital reserve	Retained earnings	Thereof deriving from currency conversion	Disposal/ repurchase of own shares	Fair value to IAS 39	Consoli- dated net income	Share- holders' equity
At 01/01/2002	159,523	287,530	572,201	-16,410	-6,225	44,206	28,014	1,085,249
Net income for the year							54,578	54,578
Dividend							-25,918	-25,918
Fair value to IAS 39						-17,212		-17,212
Repurchase of own shares					-1,523			-1,523
Currency conversions			-3,468	-3,468				-3,468
Transfer by Salzgitter AG to retained earnings			37,954				-37,954	0
Changes to the group of consolidated companies			-8,452					-8,452
Others								0
At 30/09/2002	159,523	287,530	598,235	-19,878	-7,748	26,994	18,720	1,083,254
At 01/01/2003	159,523	287,530	535,468	-89,140	-6,802	30,982	20,000	1,026,701
Net income for the year							23,956	23,956
Dividend							-19,604	-19,604
Fair value to IAS 39						-20,254		-20,254
Disposal of own shares					2			2
Currency conversions			-14,397	-14,397				-14,397
Transfer by Salzgitter AG to retained earnings			11,872				-11,872	0
Changes to the group of consolidated companies								0
Others								0
At 30/09/2003	159,523	287,530	532,943	-103,537	-6,800	10,728	12,480	996,404

Selected notes to Financial Statements / Notes

Selected explanatory notes on the income statement

1. Sales by Divisions are illustrated in the segmental reporting section. The organisation of the Group into the five divisions Steel, Trading, Services, Processing and Tubes remains unchanged in relation to the annual financial statement.
2. Earnings per share are calculated pursuant to IAS 33. The undiluted earnings per share based on the weighted number of shares in Salzgitter AG amount to € 0.39.

Earnings per share are diluted when the average number of shares is increased by the addition of the potential shares issued on the basis of the option and conversion rights that were issued by Salzgitter AG. In principle, option and conversion rights dilute earnings when the prerequisites for the conversion right are fulfilled.

The dilution effect of option rights that are not exercised would occur on the basis of a subscription price of € 12.10 per share. In the year under review, the share price always remained below the subscription price of € 12.10, with the result that no dilution effect arising from conversion rights is reported.

Financial calendar

December 31, 2003	End of financial year 2003
March 11, 2004	Key data for financial year 2003
April 15, 2004	Publication of consolidated financial statements for 2003 Balance sheet press conference
April 16, 2004	Analyst conference Frankfurt
April 19, 2004	Analyst conference London
May 14, 2004	Interim report 1st Quarter 2004
May 26, 2004	Annual shareholders' meeting for financial year 2003
August 12, 2004	Interim report 1st Half 2004
August 12, 2004	Analyst conference Frankfurt
August 13, 2004	Analyst conference London
November 12, 2004	Interim report 9 Months 2004
December 31, 2004	End of financial year 2004

Legal Disclaimer

Some of the statements made in this report possess the character of forecasts or may be interpreted as such. They are made upon the best of information and belief and by their nature are subject to the proviso that no further deterioration occurs in the economy or in the specific market situation pertaining to the Division companies, but rather that the underlying bases of plans and outlooks prove to be accurate in terms of their scope and timing. The company undertakes no obligation to update any forward-looking statements.

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