

Interim Report | 1st Quarter 2005

Salzgitter Group in Figures

		1st Quarter 2005	1st Quarter 2004	Δ
Sales (consolidated)	€ million	1,765	1,300	36 %
Steel Division	€ million	525	401	31 %
Trading Division	€ million	797	569	40 %
Services Division	€ million	77	77	0 %
Processing Division	€ million	57	47	20 %
Tubes Division	€ million	309	206	50 %
thereof flat rolled products	€ million	874	667	31 %
thereof sections	€ million	189	175	8 %
thereof tubes	€ million	420	284	48 %
thereof export share	%	52	51	
Income from ordinary operations	€ million	254	26	868 %
Net income for the year	€ million	174	20	762 %
Balance sheet total	€ million	4,747	3,798	25 %
Non-current assets	€ million	2,087	1,883	11 %
Current assets	€ million	2,660	1,915	39 %
Inventories	€ million	1,303	936	39 %
Equity¹⁾	€ million	1,440	1,004	43 %
Non-current liabilities	€ million	1,924	1,750	10 %
Current liabilities	€ million	1,382	1,044	32 %
thereof due to banks (current and non-current)	€ million	195	226	-14 %
Capital expenditure²⁾	€ million	34	38	-11 %
Depreciation and amortization²⁾	€ million	49	51	-4 %
Employees				
Personnel expenses	€ million	236	229	3 %
Workforce (annual average) ³⁾		17,298	17,479	-1 %
Crude steel production⁴⁾	kt	2,326	2,240	4 %
Key figures				
Earnings before interest and taxes (EBIT) ⁵⁾	€ million	259	31	736 %
EBIT before depreciation and amortization (EBITDA)	€ million	308	82	276 %
Earnings per share (undiluted)	€	2.79	0.33	745 %
Return on capital employed (ROCE) ^{6) 7)}	%	56.5	9.3	
Cashflow	€ million	23	-63	

Disclosure of financial data in compliance with IFRS

¹⁾ Including minority interest

²⁾ Excluding financial assets

³⁾ Excluding passive age-related part-time employment arrangements

⁴⁾ Incl. MRW-/V&M -share in Hüttenwerke Krupp Mannesmann, V&M France, V&M do Brasil and V&M Star

⁵⁾ EBT plus interest paid (excluding interest element in allocations to pension provisions)

⁶⁾ EBIT in relation to the total of shareholders' equity (without calculation of accrued and deferred taxes), minority equity interests, interest-bearing tax provisions and interest-bearing liabilities

⁷⁾ Annualized

Summary

Salzgitter Group reports a leap in profits in Q1 2005

Thanks to a strong global demand and the generally satisfactory level of prices – achieved in stages since the beginning of last year – for rolled steel products and tubes, in the first quarter of 2005 the **Salzgitter Group** recorded exceptional rises in external sales and profits over Q1 2004 which had marked the start of the present favorable situation in the steel market. In a clear illustration of the exceptionally positive business climate, the annualized return on capital employed (ROCE) reached a new high.

In the first quarter of 2005, external sales and pre-tax profits at the **Steel** Division developed remarkably. Additional improvements in prices of intra-quarter sales, especially for plate, combined with higher revenues from long-term contracts effective from January were sufficient to produce these excellent results despite the decline in shipments of beams and flat rolled products in comparison with last year.

The **Tubes** Division also substantially increased its external sales in the first three months of 2005. These gains were caused by the significant price increases in all product segments resulting from the buoyant worldwide demand for tubes, as well as from a marked rise in shipments of large-diameter pipes and stainless tubes. The non-consolidated seamless tube producers also recorded strong demand and a similar increase in sales. Thanks to the prevailing beneficial environment, pre-tax profits rose substantially, in spite of sharply increased input material costs.

As a result of higher steel prices and a rise in volumes, external sales at the **Trading** Division were also well up on the same period in 2004. However, these increases in sales and the doubling of pre-tax profits should be viewed against the background of a market which in Q1 2004 had yet to achieve entirely satisfactory status. External sales at the **Services** Division in the first quarter of 2005 remained constant in comparison with Q1 2004. Nevertheless there was a further increase in pre-tax results.

In the new financial year the **Processing** Division has continued to suffer from the stagnation in the construction industry and the sustained competitive pressures on suppliers to the automotive industry. Selling price increases lifted the value of external sales. Thanks to the extensive action taken in preceding periods to reduce costs, as well as to last year's financial restructuring, there was also an improvement in the pre-tax result, although rises in input material costs could only be passed on with delays. Income from consolidation and other sources was negative, due among other factors to the cessation of goodwill amortization.

Forecast: On the basis of current information and expectations regarding the development in the input and output markets and the situation in general, and taking into account the effects of the profitability improvement program, **for the current year the Salzgitter Group should return a pre-tax result in the mid three-digit million range.** We expressly point out that opportunities and risks resulting from at present unforeseeable variations in product revenues, input material prices and capacity utilization as well as exchange rate fluctuations may have a significant effect on developments in the financial year 2005, especially in the second half. Other positive or negative effects may derive from the valuation of inventories in accordance with modified IFRS standards or from the application of the latter. The resulting fluctuation margin in consolidated pre-tax earnings resulting from all mentioned factors likewise falls within a triple-digit million spread.

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Economic and market development

The positive development in the **global economy** continued in the first quarter of 2005, albeit at what is likely to prove a slightly reduced pace. The substantial price increases in a variety of raw materials – in particular oil – have evidently begun to put a brake on demand. In the USA, the world's largest economy, rising interest rates and concerns over inflation are also having a damping effect on consumption. Nevertheless the US is expected to record further substantial growth in gross domestic product (GDP) with current estimates by the International Monetary Fund (IMF) standing at + 3.6 % for the year as a whole. Moves by the Chinese government to impose a more restrictive economic policy have thus far had little impact. It is therefore likely that Eastern Asia will again prove to be the world's most dynamically expanding region this year, closely followed by the Commonwealth of Independent States (CIS). Overall the IMF is forecasting 4.3 % growth in global economic output in 2005 – down from 5.1 % in 2004.

In the **euro zone** the rising prices of oil and other raw materials have been partially offset by a further increase in the value of the euro against the US dollar, however this has also made exports from euro zone countries more expensive for foreign consumers. The European Commission in its spring forecast anticipates reduced growth for 2005, averaging 1.6 % in the euro zone and 2.0 % in the EU. In addition to an undeviating expansionary monetary policy, exports remain the mainstay of the economy. In the course of the year – thanks to increased investments of the corporate sector and a gradual recovery in personal consumption – internal demand is also expected to improve. Within the European Union, the new member states in East and Southeast Europe – albeit of lesser significance in an overall context – along with Finland, Ireland and Luxembourg are on course to achieve growth in GDP in excess of 3 %, whereas the remaining states are expected to record rates of 0.8 % and 3.0 %.

In the first quarter of 2005, thanks to an improvement in industrial production, the **German economy** has more than compensated for the slight decline in GDP in the fourth quarter of 2004. Strong foreign trade was again the major contributor to this renewed growth, whereas domestic demand still provided no notable momentum. Production recovered mainly in the chemical industry and in mechanical engineering, while the situation in the construction sector remained tense, however. In the absence of a sustained recovery in the domestic economy the mood in the corporate sector failed to brighten, with the Ifo Business Climate Index actually falling further. As a result of the clouds hanging over the economic horizon, the majority of market watchers reduced their growth forecasts for Germany to 0.8 % for 2005 as a whole. In their current spring forecasts, the leading German economic research institutions are anticipating growth of just 0.7 % in GDP.

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Business situation within the Group

		Q1 2005	Q1 2004
Crude steel production ¹⁾	mt	2.3	2.2
External sales	€ million	1,765	1,300
EBITDA	€ million	308.4	82.0
EBIT	€ million	259.1	31.5
Earnings before taxes (EBT)	€ million	253.5	26.2
Net income	€ million	173.5	20.1
ROCE (annualized)	%	56.5	9.3
Capital expenditures	€ million	34	38
Depreciation and amortization	€ million	49	51
Net liabilities to banks	€ million	21	-182
Cashflow	€ million	23	-63
Equity ratio	%	30	30
Core workforce	as of 31/03/	17,260	17,731
Apprentices, students, trainees	as of 31/03/	837	804

¹⁾ Incl. MRW-/V&M-share in Hüttenwerke Krupp Mannesmann, V&M France, V&M do Brasil and V&M Star

²⁾ EBT plus interest paid (excluding interest element in allocations to pension provisions)

³⁾ EBIT in relation to the total of shareholders' equity (without calculation of accrued and deferred taxes), minority equity interests, interest-bearing tax provisions and interest-bearing liabilities

⁴⁾ Annualized

⁵⁾ Excluding financial assets

Thanks to strong global demand and the generally satisfactory level of prices – achieved in stages since the beginning of last year – for rolled steel products and tubes, the Salzgitter Group recorded exceptional rises in sales and profits in the first quarter of 2005 over the same period in 2004 which had marked the start of the present favorable situation in the steel market.

Consolidated **external Group sales** rose 36 % to € 1.76 billion. Approximately half the increase was accounted for by the Trading Division, with Steel and Tubes also making substantial contributions. The Processing Division also generated higher external sales, while Services posted a figure on a par with last year.

Group profits of € 253.5 million **before taxes** were at a new quarterly high. As a result of a revision in international financial reporting standards (IFRS), there has been a change in the valuation of inventories with the primary effect being felt at the Steel Division. In comparison with the LIFO method applied in 2004, this led to an increase of € 35.6 million in pre-tax profits. Among the individual business segments, the outstanding contributor to the overall result was the Steel Division, followed by Tubes and Trading. The Services Division posted a slight increase over last year's performance, while the Processing Division trimmed its losses substantially. The consolidated result also includes profits of € 2.4 million arising from a reduction in the stake held by the Steel Division in US steel company Steel Dynamics Inc. Income from consolidation and other sources was negative, due among other factors to the cessation of goodwill amortization following a change in IFRS.

In addition to the strong market, all of the Divisions experienced positive effects from the Group-wide **profitability improvement program** which by now comprises some 302 projects. This program has

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progressively developed and is an instrument which supports the continuous and sustained optimization of structures, processes and products throughout the Salzgitter Group.

Profits of € 173.5 million **after tax** and an annualized return on capital employed (**ROCE**) of 56.5 % plainly illustrate the exceptionally positive business situation in comparison with the first three months of last year.

The **balance sheet total** increased by 12 % in the first quarter of 2005 to stand at € 4.75 billion (December 31, 2004: € 4.24 billion). The breakdown of balance sheet items has been modified in line with the specifications contained in the revised IAS 1 (2003) which calls for balance sheet items to be reported by maturity. Principally as a result of the increase in the item headed "Associated Companies" and the reclassification of the remaining "negative goodwill from capital consolidation" (badwill), amounting to € 134.5 million (accrued as of December 31, 2004), as retained earnings, non-current assets rose to € 2.09 billion (December 31, 2004: € 1.92 billion). The rise in current assets to € 2.66 billion (December 31, 2004: € 2.32 billion) was essentially attributable to the increase in inventories brought about by higher prices for raw materials, input stock and finished products, as well as to the stockpiling of slabs in preparation for the relining of Blast Furnace A in the third quarter of 2005. With the change commencing January 1, 2005, in the valuation of inventories pursuant to IAS 2 from the LIFO to the average cost method, the price effect was particularly marked. The rise of € 312 million in retained earnings resulted mainly from the allocation of € 166.5 million from net-of-tax earnings for the first quarter of 2005 as well as from the reclassification of badwill as detailed above.

Financing the increased working capital caused operating cash flow to decline perceptibly in comparison with previous quarters to € 23 million. Nevertheless this substantially exceeded the figure for the same period last year which was affected by the difficult operating environment. Since the outflow of funds expended on investment activities exceeded the **cash flow from operations**, as of March 31, 2005, cash and cash equivalents had declined to € 216 million (December 31, 2004: € 246 million). However, the **net position vis-à-vis banks** remained positive at + € 21 million (March 31, 2004: net liabilities € 182 million; December 31, 2004: net deposits € 71 million). As a result of the change in balance sheet structure, in addition to bonds and bank borrowings the new item "Financial Liabilities" now also includes liabilities arising from financing arrangements with affiliates and non-consolidated associated companies as well as liabilities resulting from financing and finance leasing agreements, all of which were previously included under the heading of "Other Liabilities". The extent of this change amounted to some € 29.9 million.

At the end of March 2005 the **core workforce** employed by the Salzgitter Group amounted to some 17,260 persons. Since January 1, 2005, non-working persons in the second phase of early retirement are no longer included within the core workforce in the interests of achieving a more precise overview of the number of persons in actual employment. On the same basis rather than the workforce of 17,577 as reported for December 31, 2004, the number of actual employees at the beginning of the quarter amounted to 17,261, and remained virtually constant over the period under review. A breakdown by divisions reveals the following changes: Steel -21, Trading -14, Processing -24, Services +66, Tubes -7 and the Holding Company -1. The rise at the Services Division is essentially due to the transfer of former trainees to full-time employment at Salzgitter Service und Technik GmbH SZST.

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Steel Division

		Q1 2005	Q1 2004
Order bookings	kt	1,120	1,521
Order backlog	kt	1,148	1,675
Crude steel production	kt	1,392	1,315
LD steel (SZFG)	kt	1,165	1,050
Electric steel (PTG)	kt	227	265
Rolled steel production	kt	1,264	1,299
Shipments (incl. processed product)	kt	1,186	1,341
Rolled steel	kt	1,155	1,299
Processed product	kt	31	42
Sales ¹⁾	€ million	744	561
External sales	€ million	525	401
Earnings before taxes (EBT)	€ million	167.7	11.5
Core workforce	as of 31/03/	6,634	6,889

¹⁾ Incl. sales to other corporate divisions

In the course of the first quarter of 2005, the situation in the European **steel market** has stabilized at a high level. Processors of flat rolled products and plate continued to enjoy brisk business due to the generally buoyant economic environment. However, even after the turn of the year the construction industry has provided no more than weak momentum, with the result that the beams business managed only a marginal recovery after the seasonally weak preceding quarter. Orders received by the European steel industry remained well below last year's exceptionally high levels. In addition to a noticeable reticence by steel traders and steel service centers to book further orders in view of the above-average level of current inventories, the situation was exacerbated by increased imports from non-EU countries attracted by the comparatively high European price levels.

After protracted negotiations between major steel producers and global operators in the raw materials sector, new prime contracts were concluded during the reporting period which will lead to exorbitant increases in the cost of procuring **raw materials**. For example with effect from January the US \$ prices for various types of **iron ore** rose by between 70 % and 90 %, while **coking coal** prices in the new coal year commencing April 2005 are rising by around 120 %. In anticipation of these purchasing cost hikes – the ultimate extent of which nevertheless exceeded all expectations – the selling prices for flat rolled products and plate were increased at the start of the year. In the case of beams, the easing in the price of scrap was passed on to customers via a reduction in the scrap surcharge, however base prices remained virtually unchanged. Price and volume adjustments for the second quarter have been tailored to the situation in the specific markets for individual products.

Sales at **Salzgitter Flachstahl GmbH (SZFG)** rose strongly in comparison with the same period last year due both to the higher revenues from long-term contracts effective from January onwards and to the improvement in prices for intra-quarter business. The result for the quarter under review reached an extremely satisfactory level well above the same period in 2004. Thanks to the continuing strong order book, production capacity utilization at SZFG was again at a high level. However the influx of new orders was perceptibly down on the steel boom of year before. Blast Furnace C and Continuous Casting Line 3 commissioned in November 2004 after twelve months of construction work achieved their planned production capacities without difficulty. The additional

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quantities produced have been stockpiled in preparation for the scheduled hundred-day shutdown of Blast Furnace A commencing in August 2005.

Ilsenburger Grobblech GmbH (ILG) continued to profit in the new year from lively demand in its product segment. Sales put on a welcome increase over both the preceding quarter and Q1 2004 and pre-tax profits reached a new high. Thanks to the extremely strong order situation, production capacities were utilized up to the limit and are likely to remain so in the current quarter.

Sales at **Peiner Träger GmbH** (PTG) also improved in comparison with the first three months of last year. This on the one hand reflected the continuing high level of scrap prices, while on the other hand mirroring also the positive trend in sales prices in the second half of last year. As in the last quarter of 2004, PTG again reported moderate operating pre-tax profits. The order intake rose once more after the very weak preceding quarter but was well short of the strong figures for Q1 2004. Overall given the lack of any recovery in the construction sector the sectional products business remained unsatisfactory with orders being placed at very short notice. An improvement cannot be expected until the end of the first half at the earliest once consumers have reduced their excess inventories.

Both the volume and value of sales recorded by **Salzgitter Großrohre GmbH** lagged behind last year's figures, as pipes manufactured in February and March will not be dispatched until the second quarter. Nevertheless the pre-tax result broke even. Thanks to the satisfactory order intake in the reporting period and the comparatively high level of orders on hand, plant capacity utilization is assured until well into the second half of the year.

Despite lower shipments, **total sales** at the Steel Division rose by 33 % in comparison with the same period last year thanks to the positive development in product revenues in the course of 2004 and the adjustment effective January 1, 2005, in prices for both short- and long-term business. **External sales** improved proportionately by 31 %. There was also an exceptionally sharp rise in **pre-tax profits**, as in Q1 2004 there had not yet been time to fully adjust sales pricing levels to offset that year's increases in the costs of raw materials and scrap.

The **order intake** in the reporting period was down by 26 %. Likewise **orders on hand** were lower than in Q1 2004, which in terms of the order situation marked the high point of last year.

The **core workforce** at the Steel Division as of March 31, 2005, amounted to a total of 6,634 employees. This represented a reduction of 255 in comparison with the same time last year. In comparison with December 31, 2004, the decline amounted to some 21 persons. The fall in comparison with the year before was due mainly to the transfer of employees taking early retirement to Salzgitter Service und Technik GmbH.

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Trading Division

		Q1 2005	Q1 2004
Shipments	kt	1,463	1,261
Sales ¹⁾	€ million	922	577
External Sales	€ million	797	569
Earnings before taxes (EBT)	€ million	26.3	11.2
Core workforce	as of 31/03/	1,698	1,738

¹⁾ Incl. sales in own segment and to other corporate divisions

The Trading Division companies in the first quarter of 2005 succeeded in maintaining the highly satisfactory trend recorded in the last year. However, towards the end of the period in some areas of the **market** the previously favorable climate showed signs of cooling off. Sales prices for almost all products remained stagnant, albeit at the same high level as in the fourth quarter of 2004. Similarly, very pronounced regional variations in demand continued to cause heterogeneous price structures in the steel markets of the world. The sales price level in the Far East, for example, was lower than in the NAFTA countries or in Europe.

In the first three months of 2005 the **Salzgitter Mannesmann Handel Group (SZMH)** increased both the volume as well as the value of sales and profits over the same period last year. Business in the **stockholding segment** remained largely stable. In terms of results, a decline in the volume of shipments was compensated for by sales prices which were up on last year. The **international trading business** showed better developments. It became the driving force behind the improvement of results at SZMH during last year after the effect of reselling stocks bought at lower prices tapered off. The companies operating in this field – especially those based in North America – took advantage of the favorable market environment and significantly expanded both sales and profits in comparison with the first quarter of 2004. In addition, the trading business profited from a rise in demand from the Middle East. In the course of the first quarter, orders booked by the companies in North America normalized. By comparison with the first three months of the previous year, purchasing of input material for companies with operating activities in other Group divisions were considerably expanded.

During the period under review **Universal Eisen und Stahl GmbH**, which specializes in domestic and international trading in plate, recorded a noticeable rise in the volume and value of sales and indeed of profits in comparison with the first quarter of last year. In addition to higher shipments, the sales price increases introduced in the course of the past year were responsible for this gratifying development. However, towards the end of the first quarter of 2005 especially the domestic markets began to quieten down. The steel service centers **Hövelmann & Lueg** and **Robert** also registered a slowdown in the previously brisk market climate. High stocks held by customers combined with steel prices far above the recent years' average negatively affected demand. Nevertheless, in a comparison with results for the same period last year, this situation was offset by the positive trend in sales prices.

In consequence of the higher level of steel prices and the expanded sales to Group companies, **total sales** of the Trading Division grew in the period under review by 60 % in comparison with the same period in 2004; **external sales** were up by 40 %. These increases in sales and the doubling of **pre-tax profits** should however be viewed against the background of a market which in Q1 2004 had yet to achieve entirely satisfactory status.

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A modified consideration of passive age-related part-time employments and adjustments in staffing levels in the domestic stockholding segment were the main factors which caused the **core workforce** at the Trading Division to decline to 1,698, some 40 less than on March 31, 2004, and 35 less than on December 31, 2004.

Services Division

		Q1 2005	Q1 2004
Sales ¹⁾	€ million	220	203
External sales	€ million	77	77
Earnings before taxes (EBT)	€ million	5.7	4.8
Core workforce	as of 31/03/	3,750	3,848

¹⁾ Incl. sales in own segment and to other corporate divisions

In the past quarter the companies which comprise the Services Division profited above all from the wider scale of activities at the other divisions.

Total sales by this segment in the first quarter of 2005 grew by 8 % in comparison with the same period last year. This increase was essentially attributable to DEUMU which benefited from the substantially increased scrap prices. Since the start of the 2005 financial year, however, there has been evidence of a consolidation in the price of scrap. **External sales** remained stable in comparison with the year before.

Pre-tax profits totaling € 5.7 million were up by 19 % on the first quarter of 2004, with positive contributions coming from all companies with the exception of Verkehrsbetriebe Peine-Salzgitter GmbH which were virtually at break even. The main contributors to this result were Hansaport, TELCAT and DEUMU, along with non-recurrent income in the amount of € 1.2 million at Glückauf Wohnungsgesellschaft mbH resulting from the sale of real estate surplus.

The **core workforce** at the Services Division as of March 31, 2005, had increased by 66 over the count on December 31, 2004, adjusted for passive age-related part-time employment arrangements. This increase is mainly due to trainees offered full-time employment at SZST. The reduction of the workforce by comparison with March 31, 2004 was primarily attributable to the previously mentioned deduction of passive age-related part-time employment arrangements from the core workforce.

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Processing Division

		Q1 2005	Q1 2004
Sales ¹⁾	Mio. €	61	50
External sales	Mio. €	57	47
Earnings before taxes (EBT)	Mio. €	-3.4	-10.7
Core workforce	Stand 31.03.	945	1,038

¹⁾ Incl. sales in own segment and to other corporate divisions

The majority of the companies in the Processing Division found their business activities affected in the first quarter of 2005 by a challenging **market environment**. Once again, the construction industry failed to show any signs of recovery. As in the preceding year, the situation facing the suppliers to the automotive industry was strained by the cost cutting measures enacted by major carmakers.

The companies serving the construction industry, **Hoesch Spundwand und Profil GmbH (HSP)** and **Salzgitter Bauelemente GmbH (SZBE)** improved their results in the course of the first quarter of 2005,. The key factors were the extensive cost cutting activities implemented and the financial restructuring undertaken last year. Despite higher input material costs and a downturn in the volume of sales resulting from stiff competition, HSP boosted the value of its sales in comparison with Q1 2004 and cut pre-tax losses perceptibly. At SZBE the increase in both shipments and turnover enabled the company to return to a break-even quarterly result once again.

In the automotive area, as in the last financial year, **Salzgitter Automotive Engineering (SZAE)** continued to suffer in the first three months of 2005 under strong competitive pressure. In connection with stable, albeit low order intake, sales declined over the same period last year. The pre-tax loss posted by the company declined compared to the first quarter of 2004. **Salzgitter Europlatinen GmbH (SZEP)** increased both sales and profits, even though it too was affected by significantly higher input material costs.

External sales at this Division grew by 20 % in the first quarter of the current financial year. The main contributors to this increase were HSP and SZBE, whereas external sales recorded by SZAE weakened. All companies improved their individual pre-tax result, thereby reducing this segment's losses before taxes markedly versus the first quarter of 2004.

At the end of March the **core workforce** at the Processing Division amounted to a total of 945 employees. This equates to a reduction of 93 in comparison with March 31, 2004, and of 24 persons in comparison with December 31, 2004. The bulk of these changes was caused by adjustments in staffing levels at SZAE.

In view of the sustained recession in the construction industry and the considerably intensified competition among automotive industry suppliers, Salzgitter AG no longer regards steel processing as a strategic growth area within the Group. For this reason the Processing Division has been dissolved with effect from April 1, 2005. In future HSP, SZBE and SZEP will come under the auspices of the Steel Division, while SZAE and the non-consolidated companies Oswald Hydroforming GmbH and Salzgitter Magnesium Technologie GmbH will be part of the Services Division. Based on their respective given potentials, the companies will be further developed along individual lines.

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Tubes Division

		Q1 2005	Q1 2004
Order bookings	€ million	400	313
Order backlog	€ million	1,042	512
Sales ¹⁾	€ million	408	277
External sales	€ million	309	206
Earnings before taxes (EBT)	€ million	77.0	5.6
Core workforce	as of 31/03/	4,115	4,101

¹⁾ Incl. sales in own segment (excluding intra-company sales in the DMV Group and the EP Group) and to other corporate divisions

Following the gratifying developments in the second half-year of 2004 the international **steel tubes industry** is still experiencing an upswing. The strong demand for steel tubes, especially from the energy producing and transporting industry, is substantially driven by high oil and gas prices. According to the International Monetary Fund, current energy price levels are likely to be sustained for at least another two years. Likewise the demand for tubes in additional industrial sectors, such as large-scale plant construction, for example, is currently at a gratifying level. Nevertheless, in addition to the sharply risen input material prices the trend in exchange rates continues to exert a disadvantageous effect. Although a slight relaxation of the situation has been emerging over the past weeks, European tube manufacturers are still at a disadvantage when selling into US dollar markets.

Under the favorable circumstances pertaining in the past quarter, the **Tubes Division** companies have stabilized revenues at a high level. Mannesmannröhren-Werke which at the start of the financial year changed its title and status from a stock corporation (AG) to a limited liability company (GmbH), increased its **external sales** by 50 % in comparison with Q1 2004. The bulk of this development was accounted for by the companies in the stainless and large-diameter tubes business sectors. **Pre-tax profits** in this segment reached a highly satisfactory € 77 million. All companies in the Division contributed to this result with the greatest improvements recorded in seamless and stainless tubes. The individual product areas developed as follows:

In the period under review the consolidated **order intake** of the MRW-Gruppe rose by 28 %, while **orders at hand** doubled over the first quarter of 2004. The individual product areas developed as follows:

In the **seamless tubes** sector the companies Vallourec SA and Vallourec & Mannesmann Tubes SA profited from a continuing strong order intake and rising selling prices. In comparison with the first three months of 2004, sales and results improved significantly. As a result of the at equity consolidation of both companies, the rise in sales is not reflected in the Division's external sales and in Group sales. On January 21, 2005, Vallourec SA and Salzgitter AG announced their intention to concentrate seamless tubes activities at Vallourec. In this context please refer to the information contained in the chapter on "Events of Significance".

The **precision tubes** product area with its companies MHP Mannesmann Präzrohr GmbH and Robur Buizenfabriek B.V. recorded buoyant order activity over the past quarter. The present order book ensures that full plant capacity will be largely taken up for the rest of the year. Increased shipments and higher product revenues were reflected in enhanced sales and profits.

Following a difficult phase in the previous year period, **stainless tube** manufacturer DMV Stainless also recorded a satisfactory first quarter in 2005, thereby continuing the pleasing trend. Thanks to the continuing strength of the market, order activity moved up markedly over the same period last year in terms of both volume and value.

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In this product area likewise, sales prices have improved perceptibly since last year with a corresponding positive effect on sales and results.

The companies Mannesmann Line Pipe GmbH and Röhrenwerk Gebr. Fuchs GmbH which operate in the **medium lines pipes** sector have since the beginning of the year been trading under the joint brand name Mannesmann Fuchs Rohr. Despite being unable to match the exceptionally good order intake in the first quarter of 2004, they nevertheless recorded satisfactory order activity. Shipments and sales, on the other hand, were affected by bottlenecks in the supply of input materials. However as a result of higher selling prices the profit posted by this product area showed an increase over the prior year quarter.

In comparison with the outstanding figures recorded in the previous year, the Europipe Group (EP) which specializes in the manufacture of **large-diameter pipes** registered a downturn in orders in the first quarter of 2005. This was in consequence of the increase in selling prices necessitated by the drastic rises in input material costs. Nevertheless orders on hand stand at a high level, the capacity utilization of manufacturing facilities is more or less secured up to the end of the year. By comparison with previous quarters the volume of sales remained gratifyingly strong and stable, considerably exceeding the figures for Q1 2004 which were adversely affected by transport difficulties. Accordingly, the value of sales and results posted by EP followed a satisfactory trend.

As of March 31, 2005, the **core workforce** at the Tubes Division had declined marginally by seven employees in comparison with December 31, 2004, to stand at 4,115. In comparison with March 31, 2004, this represented a rise of 14. The variations are within the bounds of normal fluctuation.

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Outlook

The positive regional development in the North American and East Asian regions remains the main motor powering the global economy. So far there is no end in sight to this situation; however, rising US interest rates and restrictive economic policies in China are generally expected to put a damper on growth. Nevertheless it is likely that exports will continue to be the driving force behind the economies of Europe and of Germany, since internal domestic demand is not expected to contribute any substantial momentum, also in the further course of the year.

The leap in prices for coking coal and iron ore will push costs at the **Steel** Division substantially above last year's level. For this reason the Salzgitter Group is responding to the restrained demand from individual consumer sectors – in particular the construction industry – by moderating production volumes. In the second quarter of 2005 production of hot-dip galvanized and strip-coated flat rolled products will be reduced by around 100,000 t. In Q3, the output of crude steel from the Steel Division will be temporarily restricted as a result of the scheduled shutdown of Blast Furnace A for repair work. However, the shortfall will be compensated for by the additional output from the new blast furnace C which is now operating smoothly and productively, as well as by adjusting the level of bought-in supplies of slabs. Despite these factors, business at the Steel Division is expected to develop satisfactorily.

The **Tubes** business is generally expected to continue at a brisk level. Thanks to the strong order book and lively demand from the project based business, a high level of capacity utilization is assured at plants both in Germany and abroad. While the availability of input material is anticipated to return to normal, the high euro exchange rate continues to hamper export prospects for European tube producers.

In the **Trading** segment the generally satisfactory pattern of business is expected to continue. The effects of reduced activity in the domestic construction sector are likely to be offset by more favorable developments in other industries and stable foreign demand for steel. Likewise, a positive overall trend can be anticipated for the **Services** Division.

With effect from April 1, 2005, the companies of the **Processing** Division have been assigned to the Steel and Services Divisions. Due to the improvement in the earnings situation at the affected processing companies, there will be no substantial change in prospects at the two mentioned divisions.

On the basis of current information and expectations regarding the development in the input and output markets and the situation in general, and taking into account the effects of the profitability improvement program, **for the current year the Salzgitter Group should return a pre-tax result in the mid three-digit million range.** We expressly point out that opportunities and risks resulting from at present unforeseeable variations in product revenues, input material prices and capacity utilization as well as exchange rate fluctuations may have a significant effect on developments in the financial year 2005, especially in the second half. Other positive or negative effects may derive from the valuation of inventories in accordance with modified IFRS standards or from the application of the latter. The resulting fluctuation margin in consolidated pre-tax earnings resulting from all mentioned factors likewise falls within a triple-digit million spread.

Management Report

Events of significance

On January 21, 2005, Salzgitter AG and Vallourec S.A. published a non-binding Memorandum of Understanding (MOU) to **reorganize the corporate structure** of their **seamless tubes activities**. The MOU foresees the sale of the 45 % stake in V&M Tubes S.A. (V&M), thus far held by Mannesmannröhren-Werke GmbH (MRW) to French joint venture partner Vallourec S.A. at a price of € 545 million. Fully amalgamating the shares in V&M under the Vallourec umbrella will serve to streamline the presently highly complex corporate structures and decision-making processes within the Vallourec Group. This will enable the company to respond more directly and more efficiently to the future challenges posed by global competition. Salzgitter AG, which currently holds around 23 % of Vallourec stock, intends to remain a major shareholder and participate on a pro rata basis in the planned increase in capital. In connection with this transaction MRW will extend its present 20 % stake in steel producer Hüttenwerke Krupp Mannesmann GmbH (HKM) in Duisburg to 30 % with the acquisition of 10 % of HKM stock held by V&M. This will enable the Salzgitter Group to strengthen its position at this significant German steel manufacturer. The final contracts are presently being negotiated and applications prepared for submission to the relevant antitrust authorities. The transaction is expected to be completed at the latest by July 31, 2005. The proceeds from the sale of the shares in V&M will substantially broaden the financial scope available to Salzgitter AG to continue the strategic expansion of the Group.

On January 18, 2005, the proportion of voting stock held by Norddeutsche Landesbank (**NORD/LB**) fell below the 5 % threshold. Since then, the bank has divested its remaining Salzgitter shares according to a press release from May 3, 2005. Over recent years NORD/LB has been reducing its **shareholding** in a manner calculated to protect both the market and the share price. Currently some 74.7 % of Salzgitter stock is in free float. The State of Lower Saxony still has a holding of 25.3 %.

As part of the **continuing development of our corporate structure**, with effect from April 1, 2005, the companies which previously comprised the Processing Division are being assigned to the Steel Division (Salzgitter Bauelemente GmbH, Salzgitter Europlatinen GmbH, HSP Hoesch Spundwand und Profil GmbH) and the Services Division (Salzgitter Automotive Engineering GmbH & Co. KG, Salzgitter Magnesium-Technologie GmbH, Oswald Hydroforming GmbH & Co. KG).

With the expiry of the contracts with Dipl.-Volkswirt Michael B. Pfitzner (Member of the Executive Board, Trading) and Dr.-Ing. Volker Schwich (Member of the Executive Board, Steel), the **Executive Board** is reduced from six to four members. Heinz Groschke, Chairman of the Board of Management of Salzgitter Mannesmann Handel GmbH, and Dipl.-Ing. Hans Fischer, Chairman of the Board of Management of Salzgitter Flachstahl GmbH, are awarded general powers of attorney for Salzgitter AG. As part of the streamlining of management structures, they will, at Group level, attend to the interests of the Trading and Steel Divisions in future.

Matters of **“synergy management”** have been incorporated among the responsibilities of Dipl.-Betriebswirt Wolfgang Eging (Member of the Executive Board, Tubes). Due to their material coherence, the sales and procurement policy functions previously assigned to other departments are now concentrated within his extended area of responsibility.

Consolidated Income Statement

in T€	1st Quarter 2005	1st Quarter 2004
Sales	1,764,779	1,299,546
Increase or decrease in finished goods and work in process and other own work capitalized	132,214	21,517
	1,896,993	1,321,063
Other operating earnings	42,109	60,678
Cost of materials	1,238,670	901,756
Personnel expenses	235,652	228,993
Ammortization and depreciation	49,266	50,530
Other operating expenses	195,544	160,550
Income from shareholdings	92	274
Income from associated companies	55,582	8,063
Net interest income	-22,107	-22,048
Profit on ordinary activities	253,537	26,201
Taxes on profits	78,005	4,233
Other taxes	2,031	1,836
Consolidated net income for the year	173,501	20,132
Minority interest	394	-13
Consolidated net income accruing to Salzgitter AG shareholders	173,107	20,145
Undiluted earnings per share (in €)	2.79	0.33
Diluted earnings per share (in €)	2.78	0.33
Application of profits in T€		
Consolidated net income accruing to Salzgitter AG shareholders	173,107	20,145
Profit carried forward from previous year	26,400	16,780
Appropriation to other retained earnings	-166,507	-15,725
Profit shown on the balance sheet after appropriation to or transfers from reserves	33,000	21,200

Consolidated Balance Sheet

Assets in T€	31/03/2005	31/12/2004
Fixed assets		
Intangible fixed assets		
Goodwill/negative goodwill from capital consolidation	1,224	-133,316
Other intangible assets	20,222	21,819
	21,446	-111,497
Property, plant and equipment	1,345,533	1,362,593
Financial assets	64,495	64,750
Associated companies	651,062	596,308
Other receivables and other assets	3,238	4,342
Deferred tax assets	996	996
	2,086,770	1,917,492
Current assets		
Inventories	1,303,397	1,080,998
Trade receivables	1,022,922	901,965
Other receivables and other assets	109,931	77,358
Securities	2,667	3,679
Cash and cash equivalents	215,651	245,871
Income tax assets	5,217	8,242
	2,659,785	2,318,113
	4,746,555	4,235,605
Equity and liabilities in T€		
Equity		
Subscribed capital	161,206	160,899
Capital reserves	293,815	292,670
Retained earnings	949,875	638,302
Unappropriated retained earnings	33,000	26,400
	1,437,896	1,118,271
Treasury shares	-7,897	-9,453
	1,429,999	1,108,818
Minority interest	9,898	11,819
	1,439,897	1,120,637
Non-current liabilities		
Provisions for pensions and similar obligations	1,622,919	1,627,788
Income tax liabilities	26,919	26,896
Deferred tax liabilities	69,004	41,486
Other Provisions	134,811	131,254
Financial liabilities	70,530	74,168
	1,924,183	1,901,592
Current liabilities		
Other provisions	203,995	200,246
Financial liabilities	154,645	116,744
Trade payables	560,422	503,903
Income tax liabilities	74,085	27,330
Other liabilities	389,328	365,153
	1,382,475	1,213,376
	4,746,555	4,235,605

Cash Flow Statement

in T€	1st Quarter 2005	1st Quarter 2004
Consolidated net income for the year	173,107	20,145
Depreciations, write-downs (+)/write-ups (-) on fixed assets	49,266	50,530
Other non-payment-related expenses (+)/income (-)	55,631	87
Interest expenses	25,818	25,677
Increase (-)/decrease (+) on the disposal of fixed assets	-3,001	-4,068
Increase (-)/decrease (+) in inventories	-222,399	-19,033
Increase (-)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	-127,452	-208,871
Payment-related increase (+)/decrease (-) in provisions	-52,079	-44,585
Increase (-)/decrease (+) in trade payables and other liabilities not attributable to investment or financing activities	124,309	117,464
Cash flow from operating activities	23,200	-62,654
Payments received from the disposal of fixed assets	3,872	1,866
Payments made on investments in intangible and tangible fixed assets	-41,153	-40,466
Payments received from the disposal of fixed assets	4,015	12,182
Payments made on investments in financial assets	-12,985	-1,245
Cash flow from investment activities	-46,251	-27,663
Payments received (+)/made (-) as a result of sales and repurchases of own shares	0	15
Payments received (+)/made (-) as a result of the issue of bonds, take-up of loans and other financial liabilities	-3,638	-2,078
Interests paid	-3,531	-3,606
Cash flow from financing equivalents	-7,169	-5,669
Cash and cash equivalents available at the beginning of the period	245,871	139,964
Variation in cash and cash equivalents	-30,220	-95,986
Cash and cash equivalents available at the end of the period	215,651	43,978

Statement of Changes in Equity

in T€	Subscribed capital	Capital reserves	Retained earnings	Thereof from currency conversions	Thereof other changes without effect on income	Repurchase of own shares	Valuation reserve IAS 39 from hedging relationships	Valuation reserve IAS 39 from available for sale	Consolidated net income	Shareholders' equity	Minority interest	Equity
Status December 31, 2003	159,523	287,530	511,365	-128,722	3,301	-9,494	4,458	10,084	16,780	980,246	16,168	996,414
Net income for the year									20,145	20,145	-13	20,132
Repurchase of own shares						15						15
Currency conversions			614	614						614		614
Change in value IAS 39 investments								-3,702		-3,702		-3,702
Change in value IAS 39 from hedging relationships							-705			-705		-705
Group transfers to retained earnings			15,725						-15,725	0		0
Deferred taxes on changes without effect on income			1,427		1,427					1,427		1,427
Others			-10,150		-4,815					-10,150		-10,154
Status March 31, 2004	159,523	287,530	518,981	-128,108	-87	-9,479	3,753	6,382	21,200	987,890	16,151	1,004,041
Status December 31, 2004	160,899	292,670	636,767	-144,393	-74,536	-9,453	-4,428	5,963	26,400	1,108,818	11,819	1,120,637
Adjustment as a result of IFRS 3 (negative goodwill)			134,540							134,540		134,540
Net income for the year									173,107	173,107	394	173,501
Dividend										0	-2,315	-2,315
Exercise of warrant-linked bonds	307	1,145	7		7	1,556				1,452		1,452
Disposal of own shares										1,563		1,563
Currency conversions			1,969	1,969						1,969		1,969
Change in value IAS 39 investments								-2,210		-2,210		-2,210
Change in value IAS 39 from hedging relationships							9,655			9,655		9,655
Group transfers to retained earnings			166,507						-166,507	0		0
Deferred taxes on changes without effect on income			-1,601		-1,601					-1,601		-1,601
Others			2,706		2,600					2,706		2,706
Status March 31, 2005	161,206	293,815	940,895	-142,424	-73,530	-7,897	5,227	3,753	33,000	1,429,999	9,898	1,439,897

Segment Reporting

€ million	1st Quarter 2005	1st Quarter 2004
Consolidated sales		
Steel	525	401
Trading	797	569
Services	77	77
Processing	57	47
Tubes	309	206
Group	1,765	1,300
Income from ordinary operations		
Steel	167.7	11.5
Trading	26.3	11.2
Services	5.7	4.8
Processing	-3.4	-10.7
Tubes	77.0	5.6
Others/Consolidation	-19.8	3.8
Group	253.5	26.2

Selected Notes to the Consolidated 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 March 31, 2005, has been prepared as a condensed report with selected explanatory details annexed. The report has been compiled as before in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), in consideration of the requirements contained in IAS 34 for condensed interim reports.
2. In comparison with the annual financial statements to December 31, 2004, the quarterly report to March 31, 2005, contains the following changes in balance sheet reporting and valuation, accounting and consolidation methods:
 - The breakdown of balance sheet items has been modified in line with the specifications contained in the revised IAS 1 (2003) which calls for balance sheet items to be broken down by maturities.
 - The differential resulting from capital consolidation (badwill) accrued as of December 31, 2004, has been reclassified as other retained earnings without affecting the operating result.
 - Effective as of January 1, 2005, Salzgitter AG has implemented a change in the valuation of inventories pursuant to IAS 2. Inventories will accordingly no longer be valued by the LIFO method. The reported book value is based on a provisional calculation which will be finalized in the remaining months of the financial year 2005. According to current information, only a minor variation is likely to occur. A retroactive adjustment will be made once the facts have been conclusively evaluated.

Selected explanatory notes on the income statement

1. Sales by Divisions are illustrated in the segmental reporting section. The organization 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 in the reporting period to **€ 2.79**.

Earnings per share are diluted when the average number of shares is increased by the addition of the potential shares to be issued on the basis of the option and conversion rights 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. The prerequisites for the exercise of conversion rights were fulfilled in the reporting period, with the result that the **diluted earnings** pursuant to IAS 33 amount to **€ 2.78 per share**.

Investor Relations

The capital market and the performance of the Salzgitter stock

The generally encouraging trend which characterized the German **stock market** in the second half of the year 2004 continued during the first quarter of 2005. In January the DAX, in common with other international indices, underwent a short-term period of consolidation before rising moderately over the next two months in a calm news environment. The DAX ended the quarter two percent higher, with the MDAX putting on a spurt of just under six percent. Following an indifferent performance, the European Steel Index remained virtually unchanged at the end of the period under review.

From a closing price of € 14.25 at the end of 2004, **Salzgitter stock** continued to pursue a positive trend in the new financial year. Following the announcement on January 21, 2005, of the non-binding Memorandum of Understanding to concentrate Vallourec & Mannesmann Tubes SA's seamless tubes activities with joint venture partner Vallourec SA and the reduction of Norddeutsche Landesbank's shareholding to below 5 %, the share price took off markedly. On February 14, 2005, a new all-time high of € 17.81 was reached in XETRA trading. From then onwards, however, fresh speculation regarding an end of the worldwide steel boom led to profit-taking which affected all quoted steel stocks. Nevertheless with a closing price of € 16.46 on March 31, Salzgitter stock put on 15.5 % during the reporting period, well ahead of both DAX and MDAX as well as the European Steel Index. In this context it should be mentioned that with the current number of shares issued, from a share price of € 15.86 on Salzgitter AG can point to a market capitalization of over € 1 billion. This in turn should make the stock markedly more attractive to large institutional investors.

The **average volume** of Salzgitter stock **traded daily** on German stock markets in the first quarter stood at 320,000, representing an increase of more than 180,000 over the same period last year. With the very high trading volume over the past 12 months and a free float market capitalization of € 781 million as of March 31, 2005, Salzgitter AG currently holds 24th and 28th position respectively in the MDAX rankings prepared by Deutsche Börse AG.

As part of its **capital markets communication program**, Salzgitter AG made presentations at two investor conferences in Frankfurt in the first three months of 2005. In addition roadshows were held in Frankfurt and New York and analysts and investors were invited to tour plants in Salzgitter and Mülheim. Early in April the results for financial year 2004 were intensively discussed at very well attended analyst presentations in Frankfurt and London.

In the first quarter of 2005 two banks included Salzgitter AG in their coverage for the first time. A total of 47 studies and recommendations regarding Salzgitter stock have appeared since the start of the financial year, published by 23 banks and financial publications. The current **ratings** are: 16 Buy/Outperform, 7 Hold/Neutral, 0 Sell/Underperform (status March 31, 2005).

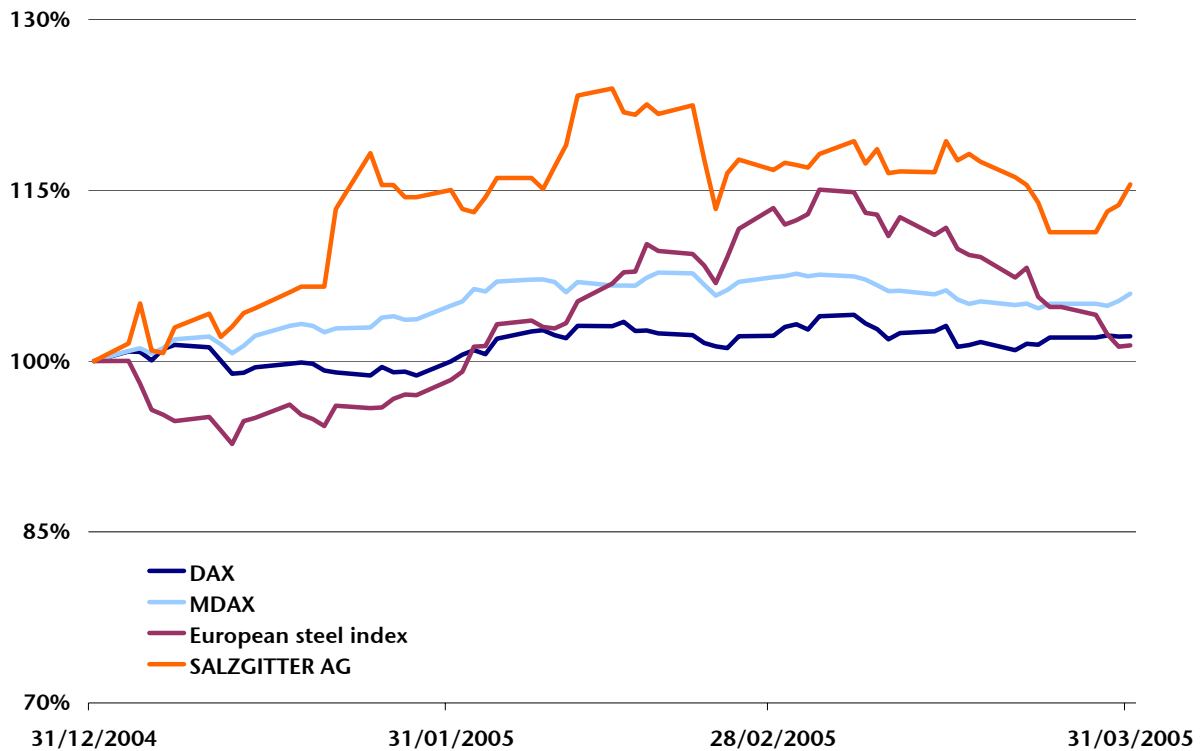
Information for investors

		Q1 2005	Q1 2004
Nominal capital	€ million	161.2	159.5
Number of shares	million	63.1	62.4
Market capitalization as of March 31 ¹⁾	€ million	1,037.9	636.5
Price as of March 31 ¹⁾	€	16.46	10.20
Stock market high ¹⁾	€	17.81	10.49
Stock market low ¹⁾	€	14.17	8.72
Security identification number		620200	
ISIN		DE0006202005	

¹⁾ Information based on XETRA trading prices

Investor Relations

Performance of Salzgitter AG vs. European steel index, DAX and MDAX



Sources: Xetra closing prices DBAG, Datastream STEELEU

Options

As of March 31, 2005, Group employees held some 160,000 rights to subscribe for individual Salzgitter AG shares. These were issued as part of the 1998 share option program for the top management. Following on from the 538,400 subscription rights exercised in the fourth quarter of 2004, between January 20 and March 04, 2005, a further 120,000 options were converted into new Salzgitter AG shares. The number of Salzgitter shares issued thereby rose from 62,938,400 at the beginning of the financial year to 63,058,400 at the end of the period under review. Subscribed capital increased accordingly from € 160,899,464.67 to € 161,206,239.81.

Financial calendar

May 26, 2005	Ordinary Shareholders' Meeting
August 12, 2005	Interim report for the first half 2005
August 12, 2005	Analyst conference in Frankfurt/Main
August 15, 2005	Analyst conference in London
November 14, 2005	Interim report for the first nine months 2005
December 31, 2005	End of financial year 2005

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 unforeseeable 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 as expected in terms of their scope and timing. The company undertakes no obligation to update any forward-looking statements.

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