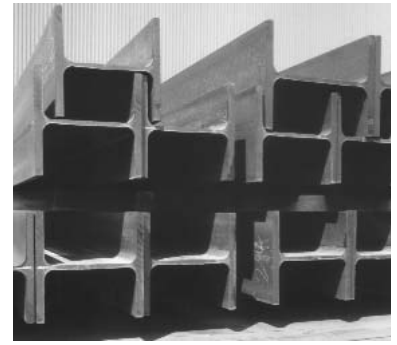


Interim Report | 9 Months 2007



## Salzgitter Group in Figures

		9 Months 2007	9 Months 2006	Δ
<b>Sales (consolidated)</b>	€ million	7,501	6,207	21 %
Steel Division	€ million	2,168	1,793	21 %
Tubes Division	€ million	1,343	1,161	16 %
Trading Division	€ million	3,262	2,871	14 %
Services Division	€ million	390	316	24 %
Technology Division	€ million	246		
Others/Consolidation	€ million	91	67	36 %
of which flat rolled products	€ million	3,177	2,887	10 %
of which sections	€ million	1,048	755	39 %
of which tubes	€ million	2,023	1,701	19 %
of which export share	%	51	56	
<b>EBT from operations</b>	€ million	980	662	48 %
<b>Earnings before tax (EBT)</b>	€ million	980	1,568 <sup>1)</sup>	-37 %
<b>Net income</b>	€ million	595	1,348	-56 %
<b>Balance sheet total</b>	€ million	8,440	6,919	22 %
<b>Fixed assets</b>	€ million	2,115	1,614	31 %
<b>Current assets</b>	€ million	6,326	5,305	19 %
Inventories	€ million	2,019	1,548	30 %
<b>Equity</b>	€ million	3,936	3,307	19 %
<b>Liabilities</b>	€ million	4,504	3,612	25 %
Non-current liabilities	€ million	2,420	2,095	15 %
Current liabilities	€ million	2,084	1,517	37 %
of which due to banks	€ million	130	172	-24 %
<b>Capital expenditure<sup>2)</sup></b>	€ million	228	147	55 %
<b>Depreciation and amortization<sup>2)</sup></b>	€ million	160	147	9 %
<b>Employees</b>				
Personnel expenses	€ million	848	736	15 %
Period-average core workforce		19,362	16,988	14 %
Period-average total workforce		20,822	18,308	14 %
<b>Crude steel production<sup>3)</sup></b>	kt	5,459	5,495	-1 %
<b>Key figures</b>				
Earnings before interest and tax (EBIT) <sup>4)</sup>	€ million	1,011	1,588 <sup>1)</sup>	-36 %
EBIT before depreciation and amortization (EBITDA)	€ million	1,170	1,735 <sup>1)</sup>	-33 %
Earnings per share (undiluted)	€	10.38	23.66	-56 %
Return on capital employed (ROCE) <sup>5) 6)</sup>	%	29.0	54.9	
Operating cash flow	€ million	675	340	98 %

Disclosure of financial data in compliance with IFRS

<sup>1)</sup> Including €907 million profit from the sale of the Vallourec stake (17.2 %) in the third quarter of 2006

<sup>2)</sup> Excluding financial assets

<sup>3)</sup> In regard of the participations in Hüttenwerke Krupp Mannesmann (and Vallourec in 2006)

<sup>4)</sup> EBT plus interest paid (excluding interest element in allocations to pension provisions)

<sup>5)</sup> EBIT in relation to the total of shareholders' equity (without calculation of accrued and deferred taxes), tax provisions, interest-bearing liabilities (excluding pension provisions) and liabilities from financial leasing, forfeiting and asset-backed securitization

<sup>6)</sup> Annualized

## Summary

### Sales and profit remain on track for new record highs at the end of the first nine months of 2007

Against the background of persistently high demand for steel and tubes products in Europe and in most overseas markets in the third quarter of 2007, the **Salzgitter Group** achieved new benchmarks in sales and operating profit for a nine-month period. All divisions, especially Steel and Trading, contributed to lifting consolidated external sales. Another contributing factor was the first-time consolidation of Klöckner-Werke and Vallourec Précision Etirage (VPE), which were acquired at the start of the third quarter. Earnings before tax, generated solely through operations, considerably outperformed the previous year's figure.

The **Steel Division** achieved new record levels in both total sales and pre-tax profit. This success was attributable to a higher volume of shipments in conjunction with average selling prices which were higher than those of the previous year. Nearly all steel companies performed outstandingly.

Total sales of the **Tubes Division** rose on the back of firmer prices and the first-time consolidation of VPE. Thanks to all product segments raising their profit, above all in the large-diameter and stainless steel tubes segment, earnings before tax almost doubled year on year.

A robust German business and growth in trading activities lifted the total sales of the **Trading Division** significantly in comparison to the previous year's period. Pre-tax profit was again considerably higher than the previous year's record levels.

Total sales of the **Services Division** advanced again, driven by brisk demand for raw materials and services both from Group companies and external customers. The pre-tax profit of the Division was positively impacted by a waiver of receivables within the Group by the interim holding company Salzgitter Mannesmann GmbH in favor of Salzgitter Automotive Engineering GmbH & Co. KG (SZAE).

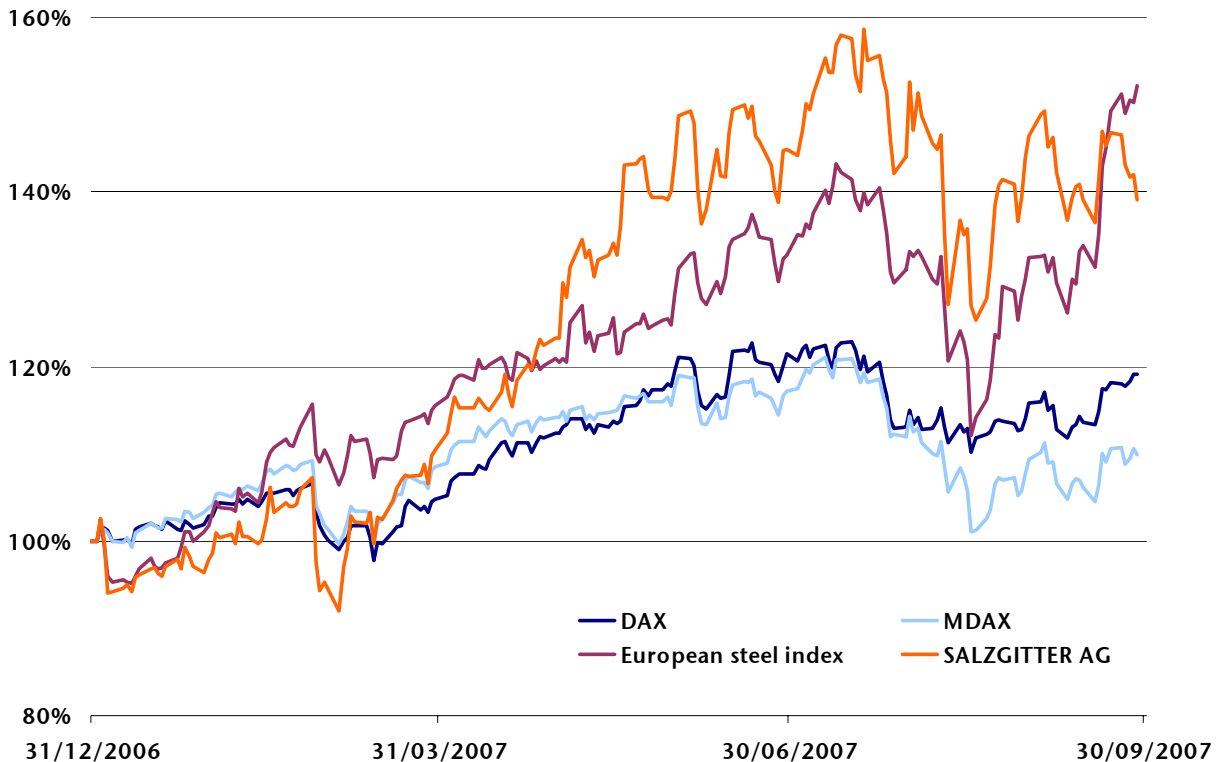
The new **Technology Division**, which consists primarily of the majority holding in the Klöckner-Werke Group, recorded rising sales thanks to the healthy level of orders in the filling and packaging technology segment. Earnings before tax, which has been included in the consolidated financial statements, comprised a negative first-time consolidation effect due to the purchase price allocation required by IFRS.

In the period under review, total sales of the **Others segment** generated by business in semi-finished goods with subsidiaries and external parties expanded. The pre-tax result of Others/Consolidation was burdened by the aforementioned waiver of receivables in favor of SZAE.

**Forecast:** The environment in which the Salzgitter Group operates can currently be described as very satisfactory overall. For this reason, business as a whole should generally hold the level achieved. However, this presupposes sustained stable economic growth in Germany and Europe. New turmoil on the international financial markets or a steady appreciation of the euro might well put a damper on the economy. **All in all**, based on current information and in view of expectations of the development of the procurement and sales markets as well as of the general conditions, and taking account of the effects of the Profit Improvement Program, **we expect the Salzgitter Group to generate earnings before tax of around € 1.2 billion in the current year.** Express reference is made to the fact that opportunities and risks arising, for instance, from currently unforeseeable trends in sales prices, input materials and capacity level developments, as well as changes in the currency parity, may affect performance in the course of the remaining financial year 2007.

## Investor Relations

### Capital market and the performance of the Salzgitter stock



Sources: Xetra closing prices DBAG, Datastream STEELEU

Although the underlying sentiment was very positive over longer periods, the **stock markets** saw sharp fluctuations in the first nine months of the financial year 2007 owing to disruptive events that occurred in the regional financial markets. After a temporary crash on the Chinese stock exchange in February, stock prices moved initially in an uptrend over the course of the first half of the year. In the third quarter, stock prices tumbled again due to the so-called sub-prime crisis in the US which triggered a liquidity crunch in the money markets and a great deal of lasting uncertainty. The interest rate cut on September 18, 2007, by the Federal Reserve and other supporting activities enabled a discernible recovery but the optimism of market participants had nonetheless taken a considerable blow. All in all, the DAX has risen by around 19 % and the MDAX by 10 % since the start of the year.

Despite its basically positive trend, the **Salzgitter share** was also affected by the price fluctuations on the markets. In the first weeks, the share moved in line with the overall market. The release of the key data for the financial year 2006 and the announcement of the purchase of the participation in Klöckner-Werke AG on March 8 led to a sustained uptrend in the share price which, upon publication of the results of the first quarter of 2007, accelerated as from mid-May. On July 13, the share was quoted at € 158.90, which was a new record high in Xetra trading. The aforementioned market turmoil caused the Salzgitter share price to fluctuate sharply in a range of between € 120 and € 150 in the third quarter. In September, the share price stabilized at a level of € 140. With an increase in the share price totaling 39 % (as per the end of September), the Salzgitter share again outperformed the DAX and the MDAX significantly. Taking into account the dividend deduction of € 2.00, the overall performance of the Salzgitter share came to around 41 %.

Although, in the period under review, the **average daily turnover** of the Salzgitter share on German stock exchanges, which came to 465,000, was below the exceptional results posted in the year-earlier period

## Investor Relations

(540,000), turnover was still at a very high level. As per September 30, 2007, **free float market capitalization** came to just under six billion euros. With this size, the Salzgitter Group ranks among Germany's 30 largest stock corporations. In the current MDAX ranking list of Deutsche Börse AG the Salzgitter AG took second place in terms of both, turnover on the stock exchange and market capitalization.

Since the start of 2007, Salzgitter AG has presented itself at four investor conferences in Frankfurt and Munich as well as in road shows in Germany and abroad as part of its **capital market communication**. In addition, analysts and investors visited Group companies in Salzgitter, Mülheim and Düsseldorf. Moreover, the results for the respective periods were discussed intensively subsequent to their announcement at well-attended analyst conferences in Frankfurt and London, as well as by way of telephone conferences.

The Salzgitter AG capital market communication received acclaim for its excellence and was awarded in connection with two surveys conducted among financial analysts and institutional investors. The company took second place in the MDAX category of the **“Investor Relations Preis 2007”** sponsored by the magazine **“Capital”** and the **“DVFA”**, the German association for financial analysis and asset management, and third in the **“Deutschen Investor Relations Preis 2007”** of Thomson, the world's largest supplier of financial information, in cooperation with **“DIRK”**, the German investor relations association.

Since the beginning of the financial year, a total of 154 company reports and recommendations on the Salzgitter share have been published by 33 banks, along with financial publications with the following current **ratings** (as per September 30, 2007): 21 buy/outperform, 9 hold/neutral, 3 sell/underperform.

### Treasury shares

As per September 30, 2007, Salzgitter AG held **6,321,832 treasury shares**. In comparison with the status as per December 31, 2006 (6,321,277 units), the number of shares had increased by 555 units. All in all, 710,167 shares were granted during the period under review and used as follows: 124 shares at an average price of € 103.36 were used in lieu of payment for the services of third parties, 379,827 units were exchanged for 2,000,000 shares of Klöckner-Werke AG and 900,000 shares of RSE Grundbesitz und Beteiligungs-AG, 330,050 shares at an average price of € 95,44 to win new shareholders, as well as 166 shares which were issued to the workforce for free or as a bonus. Conversely, a total of 710,722 shares were purchased, mainly in the second quarter, at an average price of € 120.58 in accordance with the authorization given by the General Meeting of Shareholders on June 8, 2006.

### Information for investors

		<b>9M 2007</b>	<b>9M 2006</b>
Nominal capital as of 30/09/	€ million	161.6	161.6
Number of shares as of 30/09/	million	63.2	63.2
Number of shares outstanding as of 30/09/	million	56.9	56.9
Market capitalization as of 30/09/ <sup>1)2)</sup>	€ million	7,837	4,217
<b>Price as of 30/09/<sup>1)</sup></b>	<b>€</b>	<b>137.74</b>	<b>74.11</b>
High 01/01/ - 30/09/ <sup>1)</sup>	€	158.90	75.15
Low 01/01/ - 30/09/ <sup>1)</sup>	€	88.13	45.21
Security identification number	620200		
ISIN	DE0006202005		

<sup>1)</sup> All data based on prices from XETRA trading

<sup>2)</sup> Calculated on the basis of the respective closing price at the end of the period multiplied by the number of shares outstanding per this date

## Interim Management Report

### Earnings, Financial Position and Net Worth

#### Economic environment

The growth of the **global economy** in the first half year of 2007 was extremely sound. In the course of the third quarter, the US sub-prime crisis, coupled with the concurrent spiraling decline in real estate prices in the US, caused massive distortions in the international financial markets and put a considerable damper on the US economy. Although this occurrence impaired the general sentiment, the effect of events on the development of other economies in real terms was limited in the period under review. Growth rates in China, for instance, were at their highest level since the mid-90's, and both India and South Korea continued to experience vigorous growth. Similarly, the expansion in Russia and in the other Eastern European countries held steady. Only in Japan did domestic demand slow, which put a brake on the economy. The International Monetary Fund left its growth expectation in its latest forecast at +5.2 % for 2007 as a whole.

In the first nine months of the year 2007, the **Euro zone** recorded healthy economic developments, although the turmoil on the financial markets clouded the initially very optimistic expectations here as well. A healthy labor market provided notable stimulus for private consumption, which virtually compensated for the slowdown seen in residential construction in the course of the year. Owing to the uncertainty concerning future economic development triggered by events in the US and the ensuing potential reluctance to invest in the second half of the year, a number of economic research institutes have lowered their growth forecasts for 2007 as a whole from +3.0 % to +2.6-2.7 %, which is the status recorded at the end of the first quarter.

The hike in value added tax in **Germany**, which came into force on 1 January, placed a burden on the economy in the first few months of the year. By the second quarter, however, private consumption had recovered as the positive situation on the labor market persisted. Driven by robust export business, the demand for capital goods remained at a high level. Aside from ramping up capacity and modernizing facilities, however, upfront investments (due to a change in depreciation and amortization standards as from 2008) also could have impacted the growth. In the course of the year, domestic demand developed into the mainstay of economic activity in Germany. The leading German economic research institutes predicted growth rates of +2.6 % (at mid-year: +2.8 %) for 2007 as a whole in their autumn forecasts.

## Interim Management Report

### Earnings situation within the Group

		Q3 2007	Q3 2006	9M 2007	9M 2006
Crude steel production <sup>1)</sup>	kt	1,879	1,808	5,459	5,495
<b>External sales</b>	<b>€ million</b>	<b>2,778</b>	<b>2,173</b>	<b>7,501</b>	<b>6,207</b>
EBITDA <sup>2)</sup>	€ million	380.9	1,424.0	1,170.4	1,735.1 <sup>7)</sup>
EBIT <sup>2)</sup>	€ million	324.4	1,376.4	1,010.7	1,588.3 <sup>7)</sup>
<b>EBT from operations</b>	<b>€ million</b>	<b>316.8</b>	<b>223.6</b>	<b>980.4</b>	<b>661.5</b>
<b>Earnings before tax (EBT)</b>	<b>€ million</b>	<b>316.8</b>	<b>1,369.7</b>	<b>980.4</b>	<b>1,568.5<sup>7)</sup></b>
<b>Net income</b>	<b>€ million</b>	<b>196.2</b>	<b>1,218.4</b>	<b>594.9</b>	<b>1,348.4</b>
<b>ROCE<sup>3) 4)</sup></b>	<b>%</b>	<b>28.0</b>	<b>142.7</b>	<b>29.0</b>	<b>54.9</b>
Capital expenditures <sup>5)</sup>	€ million	85.1	60.7	227.8	147.3
Depreciation and amortization <sup>5)</sup>	€ million	56.5	47.8	159.7	146.8
Operating cash flow	€ million	605.9	348.1	674.5	340.2
<b>Net position to banks<sup>6)</sup></b>	<b>€ million</b>			<b>2,122</b>	<b>2,198</b>
Equity ratio	%			46.6	47.8

<sup>1)</sup> Calculated on the basis of the shareholdings in Huettenwerke Krupp Mannesmann (and Vallourec in 2006)

<sup>2)</sup> EBIT = EBT plus interest paid (excluding interest element in allocations to pension provisions); EBITDA = EBIT plus depreciation and amortization

<sup>3)</sup> EBIT in relation to the total of shareholders' equity (without calculation of accrued and deferred taxes), tax provisions, interest-bearing liabilities (excluding pension provisions) and liabilities from financial leasing, forfeiting and asset-backed securitization

<sup>4)</sup> Annualized

<sup>5)</sup> Excluding financial assets

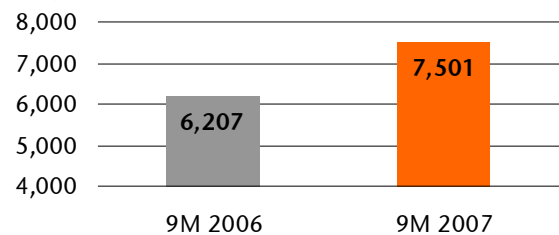
<sup>6)</sup> Including securities and structured investments

<sup>7)</sup> Including €907 million profit from the sale of the Vallourec stake (17.2 % in the third quarter of 2006)

During the third quarter of 2007, demand for steel and tubes products remained brisk, not only in Germany but also throughout the rest of Europe and in most overseas markets. In this very positive environment, the **Salzgitter Group** set new record highs in its sales and operating profit in the first nine months of the year.

All divisions of the Group, especially Steel and Trading, contributed to lifting consolidated **external sales** by € 1.29 billion to a total of € 7.50 billion. Moreover, another factor was the first-time consolidation of the Klöckner-Werke Group in the Technology Division and Vallourec Précision Etirage (VPE) in the Tubes Division, which together contributed a total of € 324 million to the sales growth.

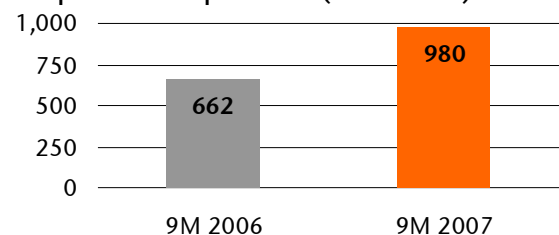
**Group-External Sales (in € million)**



Furthermore, the greater use of distribution channels within the Group resulted in a notable increase of consolidated **inter-group sales**, which rose € 554 million to € 2.66 billion (9 months 2006: € 2.10 billion).

**Earnings before tax** of € 980.4 million, generated solely through operations, outperformed the previous year's figure of € 661.5 million by 48 %. The total EBT of € 1.57 billion for the first nine months 2006 included proceeds of € 907 million from the sale of the Vallourec participation in August 2006.

**Group-EBT from operations (in € million)**



## Interim Management Report

The Steel Division was the mainstay of earnings (with a profit share of 58 %), ahead of the Tubes Division (21 %) and the Trading Division (18 %). The contribution to the result from the first-time consolidation was to a considerable extent burdened by the accounting effect of the preliminary purchase price allocation required by IFRS 3, came to € -12,5 million.

In the period under review, **after-tax profit** stood at € 594.9 million; **earnings per share** came in at € 10.38. Return on capital employed (**ROCE**) posted 29.0 %.

### Steel Division

		Q3 2007	Q3 2006	9M 2007	9M 2006
Order bookings	kt	1,231	1,303	4,063	4,400
Order backlog as of 30/09/	kt			1,103	1,302
Crude steel production	kt	1,461	1,439	4,223	4,249
LD steel (SZFG)	kt	1,180	1,165	3,393	3,473
Electric steel (PTG)	kt	281	274	830	776
Rolled steel production	kt	1,318	1,344	4,190	4,130
<b>Shipments</b>	<b>kt</b>	<b>1,328</b>	<b>1,292</b>	<b>4,229</b>	<b>4,114</b>
<b>Total Sales<sup>1)</sup></b>	<b>€ million</b>	<b>973</b>	<b>814</b>	<b>3,021</b>	<b>2,467</b>
<b>External sales</b>	<b>€ million</b>	<b>703</b>	<b>594</b>	<b>2,168</b>	<b>1,793</b>
<b>Earnings before tax (EBT)</b>	<b>€ million</b>	<b>192.2</b>	<b>97.8</b>	<b>569.5</b>	<b>301.3</b>

<sup>1)</sup> Incl. sales to other corporate divisions

Strong global economic growth boosted global **demand** for rolled steel products in the first nine months of 2007. The most dynamic growth took place in the emerging markets of Asia and in Eastern Europe. In most western industrialized nations, and most particularly in the European Union, however, the healthy capacity utilization of manufacturing companies ensured that demand for steel continued to run at a high level. Only in the United States the steel business was in decline due to higher inventory levels, a consolidation in construction activities and the general slowdown in economic growth. By contrast, the expanding steel exports from China are a factor that is becoming increasingly significant for global steel trading and regional market conditions. In this context, the abolition of export subsidies by the Chinese government is likely to ease excess volume problems only in the medium term. The price hikes of imports have already resulted in a slight relief of the pricing situation on the European market.

During the entire reporting period, the EU **steel prices** moved at an extremely high level by international comparison. The attractiveness of the European market for imports from countries outside the EU increased, also owing to the weaker US dollar. Accordingly, steel imports into the EU and the number of import licenses issued were at a very high level. Consequently, the **inventories**, especially in commodity products, of steel traders rose steadily and had reached record levels by the end of the period under review. Due to high steel consumption by the processing industries, however, average lead times to replenish across all steel products did not rise by the same extent. A closer look reveals that the market conditions for individual products and grades varied from excellent to below-average. In the case of hot-dipped galvanized steel strip, for instance, there was an oversupply in the market at the end of the period under review that caused order activity for these products to decline. By contrast, demand for heavy beams and high-quality plate in particular was extremely brisk during the entire reporting period.



## Interim Management Report

Driven by the high level of global demand, **prices for raw materials** rose overall, as did related **freight costs**, in the first nine months of 2007. Lead negotiation agreements fixed the increase in the price of iron ore at between 7 % and 10 % free shipping port as early as the start of the year depending on the type and provenance. Over the course of the year, iron ore prices rose sharply in the spot market. The same applied to coking coal where the annual contract prices for the contractual year starting April 2007 initially had dropped by 16 %. The current price trend of these two most important raw materials suggests that there will be sizeable increases next year. As against the start of the year, the freight rates for the shipping of iron ore and coal climbed considerably due to the great demand for cargo hold and problems in some lading ports, and new record highs were reached on the spot market towards the end of the reporting period: Freight costs per ton were partly higher than the value of the goods to be shipped. After a hike at the beginning of the year, scrap prices ranged at a high level. The cost trend of the alloy metals primarily sourced in the spot market was disparate: The price of so-called commodity alloys such as ferro manganese soared, whereas that of nickel and zinc declined in comparison with the speculation-induced record quotations of the previous year. From the procurement standpoint of European steel producers, the favorable dollar trend was nonetheless unable to compensate for the price hikes of the materials and freight capacities that are negotiated on a dollar basis.

In the first nine months of 2007, the business of the steel producing companies of the Salzgitter Group developed most gratifyingly owing to the very satisfactory status of capacity utilization and an advantageous selling price trend:

**Salzgitter Flachstahl GmbH (SZFG)** manufactured with a high utilization over the whole period under review. The scheduled four-week shutdown of the Blast Furnace B in March for maintenance work on the top part of the lining of the furnace caused an only marginal decline in the production of crude and rolled steel production in a year-on-year comparison. The shipment volume remained unchanged. By contrast, order intake and orders on hand of SZFG declined considerably in comparison with the excellent figures of the first nine months of 2006 as, owing to the aforementioned market situation, fewer orders for hot-dipped galvanized steel material and other products were booked in the third quarter. The volume produced in the fourth quarter is therefore likely to be lower in a year-on-year comparison. At the start of the year, significant price increases were implemented for long-term contracts with the automotive industry, its suppliers and other customer groups. Against the backdrop of stable demand, improvements in the selling prices of the quarterly business were achieved in the first half-year as well. Despite the slowing of demand due to seasonal influences and inventory-related cyclicalities, the price structure also remained stable in the third quarter of 2007. The sales of SZFG were 15 % above the previous year's figure, and earnings before tax rose even higher.

The gratifyingly upbeat business performance of **Ilseburger Grobblech GmbH (ILG)** also persisted during the reporting period, as the heavy plate market proved to be stable, particularly with regard to the ILG product range. The plate-processing sectors, such as the tubes industry or the machine building and plant construction sector, are currently in an extremely robust condition and thus enjoy order books which are so full that many customers sourcing high-quality grades would like to see an increase in the delivery volumes in 2008. At the same time, imports by non-EU member states of commodity steel products also grew, with the result that the competitive situation in this product segment became tighter. High inventory levels in these products did not, however, cause ILG customers to generally hold back in the period under review. Production reached a new record high in the first nine months in connection with concurrent excellent sales price quality. This is reflected by the performance: Sales and pre-tax profit, which were significantly higher than the 2006 figures, set new benchmarks for a nine-month period. Order intake and orders on hand were extremely satisfactory, although they were below the record levels of the previous year's period, as sales activities were focused more strongly on achieving a higher revenue quality rather than on volume.

## Interim Management Report

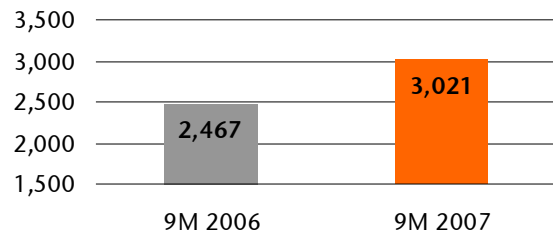
Good capacity utilization in the European and German construction industry kept demand for section products at a high level in the period under review. Ailing residential and owner-builder housing construction had no noteworthy impact as typically less steel is used for these activities. Over the course of the second quarter there was a partly import-induced slowdown in the demand for sections of smaller dimensions, which, however, did not have significant effect on **Peiner Träger GmbH** owing to the company's healthy order book. Due to the numerous new construction projects in power plant, industrial building and hydraulic engineering, the market situation for medium and heavy sections was thoroughly satisfactory. In the first half-year, this enabled PTG to implement price increases for its entire product range, which have also remained stable over the summer months at least. The selling price for heavy sections even remained in an uptrend. Driven by the positive selling price development and high shipment volumes, sales of PTG climbed 38 % and pre-tax profit was as much as five times higher in comparison with the year-earlier figure. Consequently, the company set new record highs in its history. Order intake and orders on hand also established new benchmarks for the first nine months of a financial year.

Based on the persistently positive environment for civil engineering, **HSP Hoesch Spundwand und Profil GmbH** raised shipments and sales considerably as against the previous year's figures. Earnings before tax also rose sharply in a year-on-year comparison. **Salzgitter Bauelemente GmbH** also lifted its shipment volume and sales also on the back of higher prices for input materials. Pre-tax profit remained stable. Despite a marginal decline in shipments and sales, **Salzgitter Europlatinen GmbH** was nonetheless able to keep pre-tax profit at the level of the previous year.

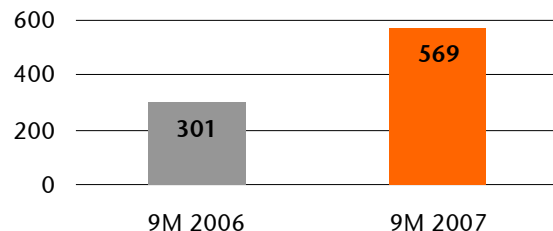
In the period under review, the consolidated **order intake** of the Division fell 8 % as compared with its record 2006 figure; **orders on hand** dropped 15 %. In the first nine months of 2007, the shipment of the Steel Division's rolled steel and processed products outperformed the excellent previous year's volume and even the record figure of 2004. **Total and external sales** of the Division also attained new record highs, as the average product selling prices were considerably higher than the year-earlier figures.

Thanks to the outstanding performance of SZFG, ILC and PTG, the Steel Division's **earnings before tax**, which came to € 569.5 million, was 89 % higher year on year. The result marks an absolute record for the producing steel activities of the Salzgitter Group in a nine-month period.

Steel-Total Sales (in € million)



Steel-EBT (in € million)



## Interim Management Report

### Tubes Division

		Q3 2007	Q3 2006	9M 2007	9M 2006
Order bookings	€ million	634	703	1,798	1,659
Order backlog as of 30/09/	€ million			1,798	1,509
<b>Total Sales<sup>1)</sup></b>	<b>€ million</b>	<b>692</b>	<b>523</b>	<b>1,870</b>	<b>1,600</b>
<b>External sales</b>	<b>€ million</b>	<b>459</b>	<b>333</b>	<b>1,343</b>	<b>1,161</b>
<b>Earnings before tax (EBT)</b>	<b>€ million</b>	<b>71.3</b>	<b>46.3</b>	<b>210.2</b>	<b>184.3</b>

<sup>1)</sup> Incl. sales in own segment (excluding intra-company sales in the SMP Group, DM V Group, EP Group and MFR Group) and to other corporate divisions

In the first nine months of the year 2007, the international **steel tubes market** was in an excellent condition, as demand continued to run at an unabatedly high level. Strong stimulus came from the energy sector in particular where the demand for steel tubes for exploration, the transport of oil and gas and the building of power plants was very strong. The prospering mechanical engineering and plant building sector, the automotive industry, which is manufacturing at a high level, and the construction industry all contributed to the good capacity utilization. Exports of commodity products from China rose sharply, but have so far been almost fully absorbed by the markets.

Against this backdrop, the companies comprised by Tubes Division performed extremely well in the first three quarters of 2007, with the individual product segments developing as follows:

Europipe GmbH (EP) and Salzgitter Großrohre GmbH (SZGR), both companies producing **large-diameter tubes**, and pipe bends and plate supplier Mannesmannröhren Mülheim GmbH (MRM) benefited from the good market conditions. At EP, a sound basic capacity utilization has been secured for the next two years owing to the awarded contract for the 1,200 km long Nord Stream pipeline which is to transverse the Baltic Sea (see "Events of Significance"). The order books of all companies cover the period up until and into the year 2008. Whereas shipments, sales and pre-tax profit of EP remained slightly below the figures in the first nine months of 2006 owing to factors connected with the reporting date and projects, the key financials of SZGR rose substantially. At MRM, earnings before tax tripled, boosted by a higher volume of shipments, business expanding with external parties, and due to price adjustments in the Group's internal and external business.

The business situation of Mannesmann Fuchs Rohr GmbH, a company which manufactures **HFI-welded pipes**, benefited from an increase in shipments and an improvement in the sales price quality. Revenues and pre-tax profit were considerably higher than those of the previous year's period. Order intake and orders on hand remained stable.

There were structural changes in the **precision tubes** product segment in the third quarter of 2007 owing to the inclusion of Vallourec Précision Etirage S.A.S. (VPE) and the hot-rolling tube mill in Zeithain into the existing precision tubes activities: Together with Mannesmann Präzisrohr GmbH (MHP), VPE and the newly named Mannesmannrohr Sachsen GmbH (MRS) in Zeithain will operate under the umbrella of the interim holding company Salzgitter Mannesmann Precision GmbH (SMP). SMP emanated from Mannesmannring Sachsen GmbH, which has not yet been consolidated and whose operations were integrated into MRS. In operational terms, MHP and Mannesmann Robur B.V., the companies, which had previously operated in this segment, achieved sizeable increases in shipments, sales and pre-tax profit. Order activity and orders on hand also rose. Even taking account of the in total marginal effects of the purchase price allocation required by IFRS, the new companies MRS and VPE made satisfactory sales and profit contributions in the first consolidated quarter.

## Interim Management Report

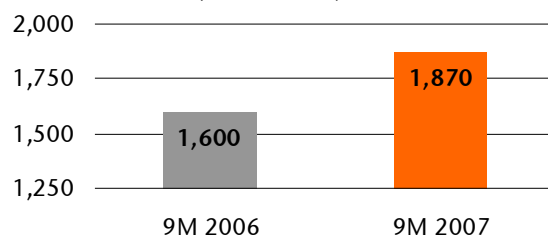
In the first nine months of 2007, the **stainless steel tubes and pipes** manufacturer Mannesmann DMV Stainless GmbH lifted its sales, which were boosted by high demand. An additional effect came from the high price of alloying agents which, after a temporary spell in decline, rose sharply again. The pre-tax profit more than doubled in comparison with the year-earlier figure due to the extremely high level of selling prices. On September 30, 2007, order intake and orders on hand were notably above the previous year's figures, above all due to the selling price effect.

**Total sales** of the Tubes Division in the reporting period grew by 17 % overall to € 1.87 billion as against the first nine months of 2006 owing to firmer selling prices and the first-time consolidation of the new precision tubes companies. From an operational standpoint, this increase was mainly attributable to the large-diameter pipes and stainless steel tubes product segments. The increase in **external sales** was slightly lower due to the greater use of distribution channels within the Group.

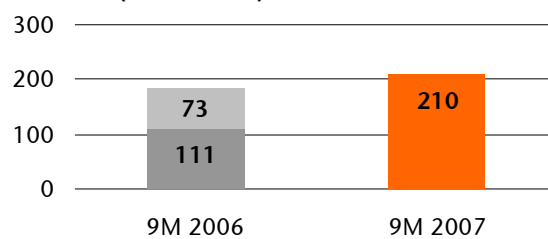
The **pre-tax result** climbed 14 % to € 210.2 million. Excluding the profit contribution of € 73 million incurred in the first half-year 2006 from the Vallourec participation subsequently sold, earnings before tax almost doubled.

The consolidated **order intake** of the Tubes Division came to € 1.80 billion on September 30, 2007, which is around 8 % higher in a year-on-year comparison. This increase was based mainly on developments in the large-diameter tubes, stainless steel tubes and precision tubes product segments – here, however, also owing to the expansion of the group of consolidated companies. **Orders on hand** rose 19 %, and also to € 1.80 billion compared with the level posted on September 30, 2006.

Tubes-Total Sales (in € million)



Tubes-EBT (in € million)



### Trading Division

		Q3 2007	Q3 2006	9M 2007	9M 2006
Shipments	kt	1,758	1,832	5,107	4,974
<b>Total Sales<sup>1)</sup></b>	<b>€ million</b>	<b>1,376</b>	<b>1,264</b>	<b>3,764</b>	<b>3,248</b>
<b>External Sales</b>	<b>€ million</b>	<b>1,216</b>	<b>1,113</b>	<b>3,262</b>	<b>2,871</b>
<b>Earnings before tax (EBT)</b>	<b>€ million</b>	<b>55.1</b>	<b>70.7</b>	<b>176.5</b>	<b>149.2</b>

<sup>1)</sup> Incl. sales in own segment and to other corporate divisions

In the first nine months of 2007, a growing global economy provided positive stimulus for international **steel trading** as well, with the strongest demand still emanating from the Asian and Eastern European markets. Despite the imports-induced increase in inventories, the situation on the European markets proved to be very robust. The main drivers of the high demand for steel were the excellent order books in the export-oriented industries along with a German economy that benefited from flourishing building activities and firm private consumption. By contrast, demand for steel consolidated in North America owing to a weak construction industry impacted by the sub-prime mortgage market crisis and excessively high inventory levels.

## Interim Management Report

Buoyed by the economic environment, the companies of **Salzgitter Mannesmann Handel Group (SMHD)** recorded new record highs in shipments, sales and profit for the first nine months of a financial year. The steel **stockholding trade** in Germany and in the Benelux countries benefited from the healthy order books of steel processing companies and lively building activities in Europe. The increase in the imports of flat steel products did not have a negative impact on trading activities during the reporting period, as the market was able to absorb the additional volume. SMHD companies operating in **international trading** experienced disparate trends in the first three quarters of 2007: Whereas key data in the international project business, especially with Asian customers, developed well in comparison with the year-earlier period, the companies operating in North America sustained a decline in shipments, sales and profit owing to the market conditions described above.

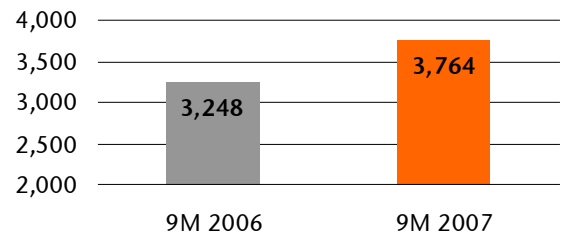
In the period under review, **Universal Eisen und Stahl GmbH (UES)** benefited from the sustained uptrend in the plate market. Owing to the very robust core business, coupled with the steadily rising utilization of steel processing capacities, the volume of shipments and sales of UES grew in the first nine months of the financial year 2007 in a year-on-year comparison. The pre-tax profit rose sharply.

The steel service center **Hövelmann & Lueg GmbH** raised its shipments and sales considerably in the first three quarters of 2007 as against the previous-year period. Pre-tax profit advanced mainly owing to an improvement in the margins for hot-rolled and coated plate.

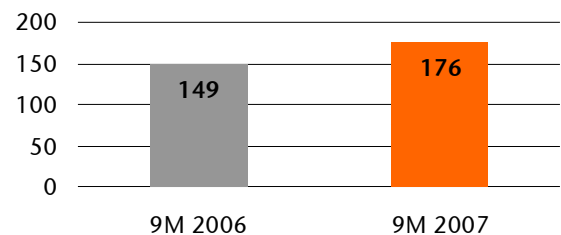
Robust German business and brisker trading activities lifted the **total sales** of the Trading Division by 16 % to € 3.76 billion as against the previous year's figure. **External sales** grew 14 % to € 3.26 billion.

Buoyed by the excellent situation of steel stockholding trade, above all in beams and plate, as well as the project business in international trading, **pre-tax profit** stood at € 176.5 million, thus once again considerably exceeding the record profit of the year-earlier period.

Trading-Total Sales (in € million)



Trading-EBT (in € million)



## Interim Management Report

### Services Division

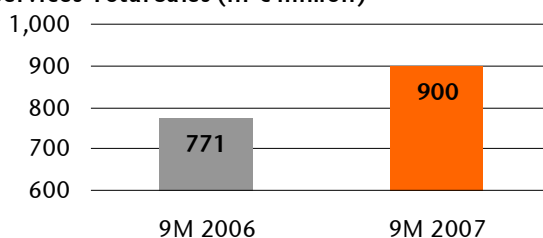
		Q3 2007	Q3 2006	9M 2007	9M 2006
<b>Total Sales<sup>1)</sup></b>	<b>€ million</b>	<b>297</b>	<b>266</b>	<b>900</b>	<b>771</b>
<b>External sales</b>	<b>€ million</b>	<b>127</b>	<b>110</b>	<b>390</b>	<b>316</b>
<b>Earnings before tax (EBT)</b>	<b>€ million</b>	<b>33.3</b>	<b>4.5</b>	<b>47.6</b>	<b>16.6</b>

<sup>1)</sup> Incl. sales in own segment and to other corporate divisions

With demand for raw materials and services running high, both from within the Salzgitter Group and by external customers, business of the Services Division companies was very brisk during the period under review.

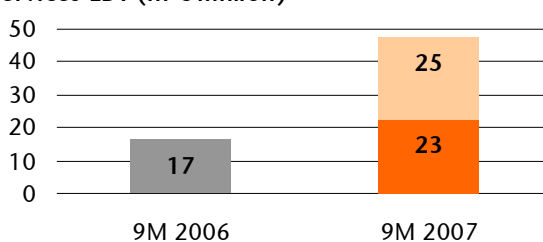
In the first nine months of 2007, **total sales** climbed to a record figure of € 900 million. DEUMU Deutsche Erz- und Metallunion GmbH, a company trading in raw materials, was the main driver of this gratifying trend, as it benefited first and foremost from the high level of prices for scrap and non-ferrous metals. **External sales** rose by 24 % to € 390 million in comparison with the year-earlier period.

Services-Total Sales (in € million)



The **pre-tax result** of the Division came to € 47.6 million on September 30, 2007 (9 months 2006: € 16.6 million). The sizeable hike was mainly attributable to a waiver of receivables worth € 25 million within the Group by the interim holding company Salzgitter Mannesmann GmbH in favor of Salzgitter Automotive Engineering GmbH & Co. KG. Adjusted for this effect, pre-tax profit for the period rose by around 37 % as against the year-earlier figure, which was mainly attributable to the contribution of DEUMU, Verkehrsbetriebe Peine-Salzgitter GmbH and Hansaport Hafenbetriebsgesellschaft mbH.

Services-EBT (in € million)



### Technology Division

		Q3 2007	Q3 2006	9M 2007	9M 2006
<b>Total Sales<sup>1)</sup></b>	<b>€ million</b>	<b>278</b>		<b>278</b>	
<b>External sales</b>	<b>€ million</b>	<b>246</b>		<b>246</b>	
<b>Earnings before tax (EBT)</b>	<b>€ million</b>	<b>-9.9</b>		<b>-9.9</b>	

<sup>1)</sup> Incl. sales in own segment and to other corporate divisions

This interim report provides information for the first time on the new Technology Division, which consists primarily of **Klößner-Werke AG (KWAG)**, a machine building and systems manufacturing group acquired at the start of July. Having exercised the purchase agreement with WCM and concluded a voluntary, public offer, Salzgitter AG currently holds around 86 % of the shares of KWAG. The 73 % stake in **RSE Grundbesitz und Beteiligungs-AG** was also assigned to the new division. (For information on the current squeeze-out process, see the section on “Events of Significance”.)

## Interim Management Report

At the beginning of the third quarter of 2007, in addition to RSE, 16 of the more than 60 companies and holdings of KWAG (see "Notes") were included in the group of consolidated companies of the Salzgitter Group in accordance with the consolidation principles of Salzgitter AG. Discrepancies in comparison with the sales, employee and other figures published for Klöckner-Werke AG result from the different group of consolidated companies.

The **market environment for machine building** is currently excellent. The slowdown in the economic activities of some countries has not had any impact so far and the order books are at an extraordinarily high level, especially as growth in a number of emerging markets has even accelerated. The companies of the Klöckner-Werke Group used the advantageous environment to raise sales and the operating result in the first nine months of 2007, in part considerably by comparison with the previous year's period. The **Filling and Packaging Technology segment**, in which KWAG subsidiary KHS AG operates, benefited from the rising demand for packaged beverages in particular. Alongside the order intake of the KHS Group, sales and pre-tax profit improved sizeably in the first three quarters of 2007 as against the previous year's period. The **other industrial holdings** of Klöckner DESMA Elastomertechnik GmbH, Klöckner DESMA Schuhmaschinen GmbH and Klöckner Hänsel Processing GmbH developed well in response to the positive market conditions.

The **external sales** of the Technology Division stood at € 246 million in the first quarter after its inclusion in the consolidated financial statements of Salzgitter AG. **Total sales** of all companies of the Division, including sales generated internally, reached € 278 million. The **pre-tax result** of € -9.9 million disclosed in the consolidated financial statements of the Salzgitter Group comprised a first-time consolidation effect of € -12.5 million due to the preliminary purchase price allocation required by IFRS 3. In this context, a revaluation of assets and liabilities was carried out, among other measures. Inventories, for instance, were marked up owing to higher market values at the time of the transfer. This has resulted in higher production costs in accounting terms and therefore a negative effect on income, which should, however, cease to be applicable by the end of 2007.

More information on the Klöckner-Werke and the performance of the Group can be found under [www.kloecknerwerke.de](http://www.kloecknerwerke.de).

### Others/Consolidation

		Q3 2007	Q3 2006	9M 2007	9M 2006
<b>Total Sales<sup>1)</sup></b>	€ million	116	102	325	225
<b>External sales</b>	€ million	25	24	91	67
<b>Earnings before tax (EBT)</b>	€ million	-25.1	1,150.4	-13.4	917.0

<sup>1)</sup> Incl. sales in own segment and to other corporate divisions

In the period under review, the **total sales** of the Others segment generated by business in semi-finished goods with subsidiaries of the Group and external parties grew to € 325 million driven by both volume and prices. **External sales** rose to € 91 million for the same reason.

The **pre-tax result**, which came to € -13.4 million, was impaired by the amount of € 25 million owing to the aforementioned waiver of receivables by SMG in favor of SZAE. The previous year's result (€ 917.0 million) comprised € 907 million in proceeds from the sale of Vallourec SA in the third quarter of 2006. Adjusted for these special effects, the pre-tax result of the Others/Consolidation Division was higher than the year-earlier figure.

## Interim Management Report

### Explanations on the Financial Position and Net Worth

In the first nine months of 2007, the **total assets** of the Salzgitter Group grew by € 1.46 billion to € 8.44 billion (December 31, 2006: € 6.98 billion). Whereas **fixed assets** rose by € 484 million to € 2.11 billion (December 31, 2006: € 1.63 billion), **current assets** climbed by € 979 million to € 6.33 billion (December 31, 2006: € 5.47 billion).

The main reason for these major changes was the aforementioned **expansion of the group of consolidated companies**: On July 1, 2007, the newly acquired precision tube plants and 16 companies of Klöckner-Werke AG were included in the group of consolidated companies of Salzgitter AG for the first time. The main effects on assets were as follows: Disclosure of a residual enterprise value of € 19 million following the preliminary purchase price allocation, € +99 million in other intangible assets, € +209 million in property, plant and equipment, € +27 million in investment property, € +33 million in financial assets, € +42 million in deferred tax assets, € +224 million in inventories, € +392 in trade receivables as well as € +71 million in other current receivables and assets.

In addition, the greater volume of **operational business** and the higher prices of steel and tubes products and raw materials led to both inventories and trade receivables rising. Cash and cash equivalents in the reporting period were charged with the following: € 114 million in dividend payment, € 287 million worth of funds tied up in inventories and receivables, € 642 million worth of investments in fixed assets and financial assets and € 86 million for the share buy-back. Owing to the high level of funds inflow, cash and cash equivalents decreased by only € 186 million.

On the liabilities side, profit for the period raised **shareholders' equity** by € 479 million to € 3.94 billion (December 31, 2006: € 3.46 billion). **Long-term liabilities** climbed by € 233 million to € 2.42 billion (December 31, 2006: € 2.19 billion) and **current liabilities** grew by € 750 million to € 2.08 billion (December 31, 2006: € 1.33 billion).

**Changes in the group of consolidated companies** had the following main effects: € +164 million in pension provisions, € +76 million in deferred tax liabilities, € +33 million in long-term financial liabilities, € +54 million in other short-term provisions, € +33 million in short-term financial liabilities, € +93 in trade payables and € +230 million in other current liabilities.

Furthermore, **operations** resulted in an increase of € 99 million in trade payables. In addition, current income tax liabilities advanced by € 163 million.

The excellent performance in the first nine months of 2007 is reflected in the **operating cash flow** which doubled to € 675 million (9 months 2006: € 340 million).

The **net position to banks**, including deposits which are not disclosed under cash and cash equivalents, had fallen by the end of the reporting period to € +2.12 billion (December 31, 2006: € +2.28 billion; September 30, 2007: € +2.20 billion). The decrease of € -161 million over the period from December 31, 2006 to September 30, 2007 was thus considerably lower than the sum total of funds disbursed (€ 612 million) for the acquisition of Klöckner-Werke AG/RSE AG/VPE, dividend payment and the share buy-back.



## Interim Management Report

### Investments

**Investments in property, plant and equipment**, including intangible assets, totaling € 228 million as per September 30, 2007, were around € 68 million higher than depreciation and amortization within the Group during the period under review. This development was mainly attributable to brisk investment activities in the Steel and Tubes divisions (€ 151 million and € 44 million respectively).

A number of major projects are currently progressing in the **Steel Division**. The “**Continuous Pickling Line 2**” project has been proceeding as scheduled, and work on the assembly of plant machinery has recently been completed by the deadline. The facility is scheduled to go into operation in March 2008. Work continued on the modernization of the power plant (“**Power Plant 2010**” project). Orders for all major project phases have meanwhile been placed. Some of the construction work is already under way. All other projects in the implementation phase are also on schedule and within budget. Intensive planning is currently under way for the new “**Steel 2012**” growth concept. The awarding of the main parts of the capacity increases in metallurgy and the hot-rolled strip line is currently being prepared. Moreover, technical discussions on the expansion of the electric steel works in Peine are in the final stage.

In the **Tubes Division**, extending the product range of Mannesmann Fuchs Rohr GmbH (“**24" plant**”) is currently in implementation. The main facilities began with the production of simple products in the third quarter of 2007, and the last plant components are currently being installed. Production of construction tubes at **Tubos Soldados Atlântico**, the Brazilian large-diameter tubes joint venture, has started. The approval of the quality manual by the American Petroleum Institute (API) has been obtained, and the final API certification is expected to take place in December 2007 or at the start of 2008. The mill will then start to manufacture oil and gas pipeline tubes. In connection with plans for the large-diameter mill of Europipe subsidiary **Berg Steel Pipe Corp.**, the development of the site in Mobile, Alabama (USA) was completed and the construction work on the industrial buildings began in the period under review.

### Research and Development

**Salzgitter Mannesmann Forschung GmbH** is the central research company of the Salzgitter Group. The R&D activities are concentrated mainly on the key areas of materials development and processing, application and coating technologies, as well as test engineering. Along with the companies of Salzgitter AG, external companies, for instance from the automotive industry, the machine building and plant construction sector, as well as energy technology and the construction industry, are customers.

The extremely strong and, at the same time, ductile **HSD® steels** (High Strength and Ductility) with their high manganese content, remain one of the core activities of materials development. Application technology testing is currently being carried out on a select alloy variant. In the process of these tests, impressive results were achieved that will achieve weight reductions of customer components, thereby opening up tremendous market potentials. Belt strip technology will be used to manufacture these HSD® steels. To this end, in connection with the “**Steel 2012**” growth concept, an industrial scale pilot facility is being designed for the Peine location.

As part of the **SCALIGHT** project, a number of Salzgitter Group companies are currently engaged in close cooperation with automotive manufacturer Wilhelm Karmann GmbH and other steel users in the development of a scalable car body architecture, which is enabling the realization of a wide range of vehicle series. Together with our partners, we presented important milestones in the development of new materials and the reduction of car

## Interim Management Report

bodywork weight at the international automobile fair IAA. Automotive manufacturers and suppliers showed great interest in the Salzgitter and Karmann technology partnership. In this partnership, the currently most advanced, leading edge industrially produced materials of Salzgitter AG form the basis for safe and light bodywork components of tomorrow's bodyshells. These materials consist primarily of dual and other multi-phase steels with outstanding ductile properties and strength.

### Employees

	30/09/2007	31/12/2006	Change
Total workforce	25,829	18,419	7,410
Apprentices, students, trainees	1,454	1,030	424
Passive age-related part-time employment	417	497	-80
<b>Core workforce</b>	<b>23,958</b>	<b>16,892</b>	<b>7,066</b>
of which Steel Division	6,792	6,830	-38
of which Tubes Division	5,925	4,191	1,734
of which Trading Division	1,863	1,835	28
of which Services Division	4,068	3,916	152
of which Technology Division	5,174	0	5,174
of which Others	136	120	16

The **core workforce** of the Salzgitter Group came to 23,958 employees on September 30, 2007. The increase of 42 % since the start of the year, which corresponds to 7,066 employees, is primarily attributable to the first-time inclusion of the Technology Division and the expansion of the Tubes Division in the third quarter.

Given the 16 newly consolidated companies of the **Klöckner-Werke Group** a total of 5,174 employees have joined the Salzgitter Group. Allocation of employees:

- Klöckner-Werke AG, Duisburg (Holding): 24
- KHS Group, Dortmund: 4,621
- Klöckner DESMA Elastomertechnik GmbH, Fridingen: 216
- Klöckner DESMA Schuhmaschinen GmbH, Achim: 181
- Klöckner Hänsel Processing GmbH, Hannover: 132

The workforce of the Tubes Division increased by 41 %, mainly owing to the inclusion of **Vallourec Precision Etirage S.A.S.** (1,184 employees), **Mannesmann Sachsen GmbH** in Zeithain (381 employees) and **Salzgitter Mannesmann Precision GmbH** (39 employees) in the group of consolidated companies of the Salzgitter Group.

The increase of 424 **apprentices, students and trainees** was first and foremost the result of changes to the group of consolidated companies (281 trainees in the Technology Division and 45 in the new precision tubes activities), as well as new apprentices in the Services Division of the Group.

## Interim Management Report

### Forecast, Opportunities and Risks Report

The general environment in which the **Salzgitter Group** operates can currently be described as very satisfactory overall. For this reason, business as a whole should generally hold the level achieved. The prerequisite is, however, that economic growth in Germany and Europe remains stable on a sustained basis. New turmoil in the international financial markets or a steady appreciation of the euro might well put a damper on the economy.

In the **Steel Division**, European manufacturers' restraint on production should have a positive impact in normalizing the situation of overstocked inventories of flat steel in the coming months. A necessary precondition is, however, that the situation concerning imports eases. The beams and plate business is likely to continue to develop well in future. The healthy demand for rolled steel and the rising price of raw materials should ensure that selling prices remain stable for the most part. Higher prices are also feasible for some products.

The favorable business climate for the **Tubes Division** is set to persist. High capacity utilization of the mills has been guaranteed by the level of orders up until the end of the year and, in the case of large-diameter tubes, way into 2008 – and, taking account of the awarded order for the Nord Stream pipeline, even beyond.

The advantageous situation in the **Trading Division** is basically likely to continue given the strong demand for steel in Germany and Europe and a booming international project business. Gross earnings will, however, steadily normalize owing to the increase in replacement costs. Moreover, the winter period might have a braking effect on the steel stockholding trade. Other risks remain inherent in the US economy weakening further, as well as the persistently high volume of steel imports into Europe and the possibility of political tensions escalating, especially in the Middle East.

The condition of the **Services Division** is set to remain robust, boosted by the stable demand of internal and external customers.

In spite of competitive pressure and a slight slowing of international economic activity, all operating companies of our new **Technology Division** anticipate that business will develop well in the remaining weeks of the year. For detailed information, please see the Interim Report of Klöckner-Werke AG of November 8, 2007.

**All in all**, based on current information and in view of expectations of the development of the procurement and sales markets, as well as of the general conditions, and taking account of the effects of the Profit Improvement Program, we expect the **Salzgitter Group** to generate an **operating EBT of around € 1.2 billion in the current year**.

Express reference is made to the fact that **opportunities and risks** arising from currently unforeseeable trends in sales prices, input materials and capacity level developments, as well as changes in the currency parity, may affect performance in the course of the remaining financial year 2007. The statements made in the Annual Report 2006 on the opportunities (pg. 152) and risks (pg. 134) are still valid.

## Interim Management Report

### Events of Significance

#### **Acquisition of Vallourec Précision Etirage, France, completed successfully**

On July 2, 2007, Salzgitter AG completed the acquisition of Vallourec Précision Etirage S.A.S., Saint Florentin/Frankreich (VPE) as well as a plant for the production of hot rolled tubes and hollows in Zeithain. The precision tubes activities of VPE with its five plants in France will lastingly strengthen this segment within Salzgitter Group.

#### **Acquisition of shareholdings in Klöckner-Werke AG and RSE Grundbesitz und Beteiligungs-AG**

Upon fulfillment of the mandatory requirements, particularly approval of the takeover by the EU Commission, Salzgitter AG took over another 77.83 % of the shares of **Klöckner-Werke AG** on July 5, 2007. For the purpose of acquiring the remaining shares in free float, a voluntary public offer to buy the shares for € 15 per share in cash was submitted on April 30, 2007, to the shareholders of Klöckner-Werke AG. The regular deadline for acceptance expired on July 9, 2007, and a second deadline for acceptance pursuant to Section 16 para. 2 sentence 1 of the German Securities Acquisition and Takeover Act (WpÜG) ended on July 30, 2007.

All in all, a takeover offer for 1,179,655 shares of Klöckner-Werke AG was accepted. This corresponds to a share of around 2.57 % in the share capital and in the voting rights of Klöckner-Werke AG. All in all, the Salzgitter Group now holds roughly 86 % of the share capital and the voting rights.

Also on July 5, 2007, shares of **RSE Grundbesitz und Beteiligungs-AG**, Frankfurt am Main, were acquired so that Salzgitter AG now owns directly or indirectly through Klöckner-Werke AG a total of 99.6 % of RSE shares. The purchase price for the KWAG and RSE shareholdings was € 333 million. Based on the preliminary purchase price allocation, some € 66.9 million were allocated to intangible assets and € 26.7 million to other assets and liabilities after the deduction of the acquired equity, resulting in a goodwill of € 18.6 million.

#### **Squeeze out initiated at RSE Grundbesitz- und Beteiligungs-AG**

On October 4, 2007, the Salzgitter Group informed the management of RSE Grundbesitz- und Beteiligungs-AG that it meanwhile holds around 99.6 % of the RSE stocks. Moreover, the intention is to have the transfer of the stocks of the remaining shareholders to Salzgitter Mannesmann GmbH (SMG), as part of a **squeeze-out** process pursuant to Section 327 a, para. 1 of the German Stock Corporation Act, resolved upon at RSE's next General Meeting of Shareholders. RSE will hold an extraordinary Shareholders Meeting for this issue on December 20, 2007.

## Interim Management Report

### **Supply contract for North Stream pipeline awarded – Europipe to deliver 75 % of the tubes**

On November 8, 2007, Nord Stream AG, principal and operator of the planned gas pipeline from Russia to Germany, and Europipe GmbH announced the signing of a contract for the delivery of 860,000 tons of tubes by the start of 2010. The sales volume amounts to more than € 1 billion and is the largest single contract in the history of Europipe, the world market leader for longitudinal welded pipeline tubes. The company has thus won around three quarters of the project volume of the 1,200 km pipeline. The whole volume will be produced in the large-diameter tube plant in Mülheim a. d. Ruhr and will take up 40 % of the production capacity over a period of 18 months.

### **Acquisition of a precision tube plant in Mexico**

Salzgitter AG acquired Mexican Bresmex Tuberia S.A. de C.V. on October 31, 2007. The company manufactures with its 98 employees welded and cold drawn precision tubes for the automotive industry, the main focus of its business being the production of tubes for shock absorbers. The annual capacity of this plant with its advanced, leading edge production facilities currently stands at around 12,000 tons. Following the acquisition, the company, located in Guadalajara in the Federal State of Jalisco, is now operating under the name of **Mannesmann Precision Mexico S.A. de C.V.** and is a part of the Salzgitter Mannesmann Precision Group.

Salzgitter AG continues to investigate **acquisition possibilities** in Germany and abroad.

## Interim Financial Statements

### I. Consolidated Income Statement

in T€	3rd Quarter 2007	3rd Quarter 2006	9 Months 2007	9 Months 2006
Sales	2,777,546	2,173,373	7,500,629	6,207,499
Increase or decrease in finished goods and work in process and other own work capitalized	110,363	54,165	202,454	14,395
	2,887,909	2,227,538	7,703,083	6,221,894
Other operating earnings	41,126	1,103,606	119,306	1,203,768
Cost of materials	1,945,982	1,532,893	5,110,020	4,220,085
Personnel expenses	334,689	256,639	848,464	736,080
Amortization and depreciation	56,495	47,840	159,660	146,802
Other operating expenses	284,177	118,512	735,992	794,634
Income from shareholdings	-24	249	2,241	1,458
Income from associated companies	1,120	521	2,213	74,258
Write-downs of financial assets	0	8	0	200
Financing income	35,446	17,850	93,708	37,237
Financing expenses	27,393	24,195	86,004	72,353
<b>Earnings before tax (EBT)</b>	<b>316,841</b>	<b>1,369,677</b>	<b>980,411</b>	<b>1,568,461</b>
Income taxes	120,668	151,291	385,529	220,038
<b>Consolidated net income</b>	<b>196,173</b>	<b>1,218,386</b>	<b>594,882</b>	<b>1,348,423</b>
<b>Appropriation of profit</b>				
Consolidated net income	0	0	594,882	1,348,423
Profit carried forward from the previous year			126,500	64,500
Minority interests			2,885	2,194
Dividend payment			114,183	56,897
Appropriation to other retained earnings			-509,314	-1,303,557
<b>Unappropriated retained earnings</b>	<b>0</b>	<b>0</b>	<b>95,000</b>	<b>50,275</b>
<b>Undiluted earnings per share (in €)</b>	<b>3.44</b>	<b>21.39</b>	<b>10.38</b>	<b>23.66</b>
<b>Diluted earnings per share (in €)</b>	<b>3.44</b>	<b>21.39</b>	<b>10.38</b>	<b>23.66</b>

## II. Consolidated Balance Sheet

Assets in T€	30/09/2007	31/12/2006
<b>Fixed assets</b>		
Intangible assets		
Goodwill	18,556	0
Other intangible assets	118,308	18,803
	136,864	18,803
Property, plant and equipment	1,689,912	1,423,389
Investment property	26,530	0
Financial assets	97,434	61,904
Associated companies	75,690	74,208
Deferred tax assets	85,580	49,101
Other receivables and other assets	2,494	3,348
	<b>2,114,504</b>	<b>1,630,753</b>
<b>Current assets</b>		
Inventories	2,019,030	1,653,099
Trade receivables	1,734,230	1,108,260
Other receivables and other assets	298,965	176,277
Income tax assets	96,898	23,950
Securities	17,619	27,691
Cash and cash equivalents	2,159,007	2,344,989
	<b>6,325,749</b>	<b>5,334,266</b>
Non-current assets held for sale	0	12,559
	<b>6,325,749</b>	<b>5,346,825</b>
	<b>8,440,253</b>	<b>6,977,578</b>
<b>Equity and liabilities in T€</b>	<b>30/09/2007</b>	<b>31/12/2006</b>
<b>Equity</b>		
Subscribed capital	161,615	161,615
Capital reserve	295,343	295,343
Retained earnings	3,562,728	3,023,931
Unappropriated retained earnings	95,000	126,500
	4,114,686	3,607,389
Treasury shares	-227,834	-160,354
	3,886,852	3,447,035
Minority interests	49,346	9,666
	<b>3,936,198</b>	<b>3,456,701</b>
<b>Long-term liabilities</b>		
Provisions for pensions and similar obligations	1,846,257	1,714,837
Deferred tax liabilities	109,819	43,870
Income tax liabilities	172,111	170,758
Other provisions	183,716	167,405
Financial liabilities	107,697	89,649
	<b>2,419,600</b>	<b>2,186,519</b>
<b>Current liabilities</b>		
Other provisions	274,780	237,737
Financial liabilities	89,740	102,635
Trade payables	793,722	602,007
Income tax liabilities	217,469	49,150
Other liabilities	708,744	342,829
	<b>2,084,455</b>	<b>1,334,358</b>
	<b>8,440,253</b>	<b>6,977,578</b>

### III. Statement of Income and Accumulated Earnings

in T€	3rd Quarter 2007	3rd Quarter 2006	9 Months 2007	9 Months 2006
<b>Changes recorded directly under equity</b>				
Changes resulting from currency translation	-359	10,373	1,341	11,608
Changes in the value of the reserve from hedging transactions				
Changes in current value reported directly under equity	3,755	5,191	3,168	10,568
Recognition of settled hedging transactions in the income statement	0	0	-1,486	-6,376
Changes in the value of financial assets in the available-for-sale assets category				
Changes in current value reported directly under equity	-6,488	1,201	-1,079	-465
Recognition of the sale of securities in the income statement	0	-156	0	-3,552
Actuarial gains and losses	0	0	0	0
Deferred tax on changes without effect on income	-193	-666	3,620	-870
Goodwill according to IFRS 3	-19,263	0	-19,263	0
Other changes without effect on income	-9,113	-2,156	-2,084	-1,372
	<b>-31,661</b>	<b>13,787</b>	<b>-15,783</b>	<b>9,541</b>
<b>Consolidated net income for the period</b>	<b>196,173</b>	<b>1,218,386</b>	<b>594,882</b>	<b>1,348,423</b>
<b>Total profit pursuant to IAS 1.97 in conjunction with IAS 19.93B</b>	<b>164,512</b>	<b>1,232,173</b>	<b>579,099</b>	<b>1,357,964</b>
Total profit due to Salzgitter AG shareholders	172,793	1,231,547	576,214	1,355,770
Total profit due to minority interests	568	626	2,885	2,194
	<b>173,361</b>	<b>1,232,173</b>	<b>579,099</b>	<b>1,357,964</b>



## IV. Cash Flow Statement

in T€	9 Months 2007	9 Months 2006
Earnings before tax (EBT)	980,411	1,568,461
Depreciation, write-downs (+)/write-ups (-) on fixed assets	159,660	146,001
Income tax paid	-107,967	-97,793
Other non-payment-related expenses (+)/income (-)	-10,425	-664
Interest expenses	86,004	72,353
Profit (-)/loss (+) from the disposal of fixed assets	-18	-930,342
Increase (-)/decrease (+) in inventories	-141,679	-110,251
Increase (-)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	-145,595	-230,005
Use of provisions affecting payments, excluding income tax provisions	-166,204	-214,553
Increase (-)/decrease (+) in trade payables and other liabilities not attributable to investment or financing activities	20,331	137,032
<b>Cash flow from operating activities</b>	<b>674,518</b>	<b>340,239</b>
Cash inflow from the disposal of tangible and intangible fixed assets	7,962	10,168
Cash outflow for investments in tangible and intangible fixed assets	-229,714	-150,244
Cash inflow (+)/outflow (-) for short-term loans against borrower's notes/bonds	-25,000	0
Cash inflow from the disposal of financial assets	20,678	1,242,712
Cash outflow for investments in financial assets	-412,411	-10,460
<b>Cash flow from investment activities</b>	<b>-638,485</b>	<b>1,092,176</b>
Cash inflow (+)/outflow (-) as a result of sale and repurchase of treasury shares	-85,704	-75
Cash outflow in payments to company owners and minority shareholders	-114,183	-56,897
Cash inflow (+)/outflow (-) as a result of the issuing of bonds, borrowings and other financial liabilities	-2,109	-4,356
Interest paid	-20,019	-10,375
<b>Cash flow from financing activities</b>	<b>-222,015</b>	<b>-71,703</b>
Cash and cash equivalents at the start of the period	2,344,989	884,897
Change in cash and cash equivalents	-185,982	1,360,712
<b>Cash and cash equivalents at the end of the period</b>	<b>2,159,007</b>	<b>2,245,609</b>

## V. Statement of Changes in Equity

in T€	Subscribed capital	Capital reserve	Purchase/ repurchase of treasury shares	Other retained earnings	Reserve from currency translation
<b>As of December 31, 2005</b>	<b>161,615</b>	<b>295,343</b>	<b>-160,283</b>	<b>1,819,755</b>	<b>-19,571</b>
Net income					
Dividend					
Disposal of own shares			59		
Repurchase of own shares			-134		
Currency translation					11,608
Change in value pursuant to IAS 39					
Group transfers to retained earnings				1,303,557	
Deferred taxes on changes without effect on income					
Other				-3,796	
<b>As of June 30, 2006</b>	<b>161,615</b>	<b>295,343</b>	<b>-160,358</b>	<b>3,119,516</b>	<b>-7,963</b>
<b>As of December 31, 2006</b>	<b>161,615</b>	<b>295,343</b>	<b>-160,354</b>	<b>3,204,464</b>	<b>-15,991</b>
Goodwill according to IFRS 3				-19,263	
Net income					
Dividend					
Disposal of own shares			18,224		
Repurchase of own shares			-85,704		
Currency translations					1,341
Change in value pursuant to IAS 39					
Group transfers to retained earnings				509,314	
Changes to the Group of consolidated companies					
Deferred taxes on changes without effect on income					
Other				-4,026	
<b>As of June 30, 2007</b>	<b>161,615</b>	<b>295,343</b>	<b>-227,834</b>	<b>3,690,489</b>	<b>-14,650</b>

Valuation reserve from hedging transactions	Valuation reserve from available for sale	Other equity changes without effect on income	Unappropriated retained earnings	Equity (excl. minority interests)	Minority interests	Equity
1,948	7,332	-168,243	64,500	2,002,396	9,232	2,011,628
			1,346,229	1,346,229	2,194	1,348,423
			-56,897	-56,897	-1,212	-58,109
				59		59
				-134		-134
				11,608		11,608
4,192	-4,017			175		175
			-1,303,557	0		0
		-870		-870		-870
		-1,372		-5,168	-248	-5,416
6,140	3,315	-170,485	50,275	3,297,398	9,966	3,307,364
3,434	4,962	-172,938	126,500	3,447,035	9,666	3,456,701
				-19,263		-19,263
			591,997	591,997	2,885	594,882
			-114,183	-114,183		-114,183
		49,292		67,516		67,516
				-85,704		-85,704
				1,341		1,341
1,682	-1,079			603		603
			-509,314	0		0
				0	36,795	36,795
		3,620		3,620		3,620
		-2,084		-6,110		-6,110
5,116	3,883	-122,110	95,000	3,886,852	49,346	3,936,198

## VI. Segment Reporting

in T€	Steel		Tubes	
	9M 2007	9M 2006	9M 2007	9M 2006
Sales	3,447,060	2,853,000	2,168,813	1,822,606
Sales in own segment	425,901	385,664	404,902	318,437
Sales to other segments	853,492	674,335	420,635	342,986
External sales	2,167,667	1,793,001	1,343,276	1,161,183
Earnings before tax (by divisions)	569,458	301,343	210,157	184,348
of which from associated companies	[2,778]	[696]	[-565]	[73,562]
Profit on the sale of shares in associated companies	0	0	0	0
Earnings before tax (EBT)	569,458	301,343	210,157	184,348
Interest income	91	47	2,548	976
Interest expenses	8,472	7,244	5,832	6,912
of which interest portion of allocations to pension provisions	[5,693]	[5,781]	[3,562]	[3,099]
Investments in tangible and intangible fixed assets	151,084	104,594	44,140	19,254
Depreciation/amortization of tangible and intangible fixed assets	108,179	105,593	18,751	15,937
Earnings before interest and tax (EBIT)	588,574	323,659	221,619	194,747
EBIT before depreciation and amortization (EBITDA)	696,752	429,252	240,371	210,684
Period-average core workforce	6,788	6,936	4,811	4,201

Trading		Services		Technology		Others/ Consolidation		Group	
9M 2007	9M 2006	9M 2007	9M 2006	9M 2007	9M 2006	9M 2007	9M 2006	9M 2007	9M 2006
3,764,092	3,247,912	900,321	771,207	277,594		324,887	225,012	10,882,767	8,919,737
129,005	147,424	12,280	10,957	31,383		0	0	1,003,471	862,482
372,806	229,850	497,711	444,489	0		234,023	158,096	2,378,667	1,849,756
3,262,281	2,870,638	390,330	315,761	246,211		90,864	66,916	7,500,629	6,207,499
176,472	149,172	47,601	16,586	-9,923		-13,354	10,051	980,411	661,500
[0]	[0]	[0]	[0]	[0]		[0]	[0]	[2,213]	[74,258]
0	0	0	0	0		0	906,961	0	906,961
176,472	149,172	47,601	16,586	-9,923		-13,354	917,012	980,411	1,568,461
7,257	5,693	586	486	1,307		81,695	29,934	93,484	37,136
10,913	13,134	9,407	8,969	3,295		48,085	36,094	86,004	72,353
[2,041]	[2,155]	[8,177]	[7,445]	[1,702]		[34,507]	[34,084]	[55,682]	[52,564]
7,789	9,530	16,513	13,651	6,915		1,387	232	227,828	147,261
8,082	8,529	15,275	15,235	5,148		4,225	1,508	159,660	146,802
196,716	166,321	50,362	19,260	-8,318		-38,220	884,263	1,010,733	1,588,250
204,798	174,851	68,500	34,494	-3,169		-36,859	885,773	1,170,393	1,735,054
1,850	1,760	4,054	3,970	5,174		132	120	19,362	16,988

## Notes

### 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, 2007, has been prepared as a condensed report with selected notes. The report has been drawn up as before in accordance with the International Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) in consideration of requirements contained in IAS 34 for condensed interim reports.
2. In comparison with the annual financial statements as at December 31, 2006, no changes have been made in the accounting, valuation, calculation and consolidated methods in the interim financial statements for the period ended September 30, 2007.
3. Due to the acquisitions described under „Events of Significance“, the following companies were fully consolidated for the first time:
  - Salzgitter Mannesmann Precision GmbH, Zeithain,
  - Mannesmannrohr Sachsen GmbH, Zeithain,
  - Vallourec Précision Etirage S.A.S., Saint Florentin (Frankreich),
  - Klöckner-Werke AG, Dortmund,
  - KHS AG, Dortmund,
  - IRKAS Beteiligungs GmbH & Co. Vermietung-KG, München,
  - KHS USA Inc. (USA),
  - KHS Industria de Máquinas Ltda. (Brasilien),
  - KHS China GLM2 Co. Ltd. (China),
  - KHS Mexico S.A. de C.V. (Mexiko),
  - KHS Machinery Pvt. Ltd. (Indien),
  - KHS Pacific Pty. Ltd. (Australien),
  - KHS Manufacturing Pty. Ltd. (Südafrika),
  - KHS RUS OOO (Rußland),
  - Klöckner Mercator Maschinenbau GmbH, Duisburg,
  - Klöckner DESMA Elastomertechnik GmbH, Fridingen,
  - Klöckner DESMA Schuhmaschinen GmbH, Achim,
  - Klöckner Hänsel Processing GmbH, Hannover,
  - RSE Grundbesitz und Beteiligungs-Aktiengesellschaft, Frankfurt.

### Selected explanatory notes on the income statement

1. Sales by division are shown in the respective section.
2. Earnings per share are calculated pursuant to IAS 33. The **undiluted earnings per share** based on the weighted number of shares of Salzgitter AG came to **€ 10.38** in the period under review

Dilution of the earnings per share occurs if the average number of shares is increased by the addition of the potential shares to be issued on the basis of the options and conversion rights. There were no such options and conversion rights outstanding as of September 30, 2007. Therefore, **diluted earnings per share** equaled undiluted earnings per share and amounted to **€ 10.38**.

### Related Party Disclosures

In addition to business relationships with companies that are consolidated fully and proportionately in the consolidated financial statements, relationships also exist with associated companies and shareholdings that must be designated as related companies in accordance with IAS 24.

All business transactions with related companies are conducted on terms that also customarily apply among third parties. Deliveries and services rendered for related companies primarily concern deliveries of sheet piling to ThyssenKrupp GfT Bautechnik GmbH for resale and crude steel products supplied for processing.

The deliveries and services received essentially comprise deliveries of input material for the manufacture of large-diameter pipes and precision tubes.

For further information please see the disclosures in the Annual Report 2006 (pg. 244).

### Declaration according to § 37w Abs. 5 WpHG

The interim financial statements and interim management report at hand have not been subjected to an auditor's scrutiny.

### Financial calendar

December 31, 2007	End of financial year 2007
March 6, 2008	Key data for financial year 2007
March 27, 2008	Annual press conference
March 28, 2008	Analyst conference in Frankfurt/Main
March 31, 2008	Analyst conference in London
May 15, 2008	Interim report for the first quarter 2008
May 21, 2008	Ordinary Shareholders' Meeting
August 14, 2008	Interim report for the first half 2008
August 14, 2008	Analyst conference in Frankfurt/Main
August 15, 2008	Analyst conference in London
November 14, 2008	Interim report for the first nine months 2008
December 31, 2008	End of financial year 2008

### 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. The official financial report for the period under review in this document is the German-language hardcopy version of the Salzgitter AG Interim Report. In case of ambiguity between this document and any other version of the interim report, information provided in the German-language hardcopy version shall supersede information provided in any other form.

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