INTERIM REPORT

SALZGITTER AG
Stahl und Technologie

- Consolidated profits stable despite weak economy
- Improvement of order book situation in Tubes Division
- Further sales price increases for steel products pushed through

1st Half of 2003

Salzgitter Group

		1st half 2003	1st half 2002	Δ
Sales (consolidated)	€ m	2,508	2,367	6 %
Steel Division	€ m	764	748	2 %
Trading Division	€ m	1,022	865	18 %
Services Division	€ m	129	118	9 %
Processing Division	€ m	119	53	126 %
Tubes Division	€ m	474	583	-19 %
Flat rolled products	€ m	1,165	1,052	11 %
Sections	€ m	404	349	16 %
Tubes	€ m	634	707	-10 %
Shares of exports	%	53	54	
Income from ordinary operations	€ m	17	50	-67 %
Net income	€ m	9	49	-81 %
Balance sheet total	€ m	3,880	3,887	0 %
Fixed assets	€ m	1,936	1,985	-2 %
Current assets	€ m	1,944	1,902	2 %
Inventories	€ m	912	848	8 %
Shareholders´ equity	€ m	997	1,101	-9 %
Borrowings	€ m	2,883	2,786	3 %
Provisions	€ m	1,868	1,970	-5 %
Liabilities	€ m	1,015	816	24 %
Thereof due to banks	€ m	239	165	45 %
Capital expenditure[1)]	€ m	93	115	-19 %
Depreciation and amortization	€ m	110	111	-1 %
Employees				
Personnel expenses	€ m	470	445	6 %
Workforce (average of the period)		18,395	18,642	-1 %
Key figures				
Earnings before interest and taxes (EBIT)[2)]	€ m	29	60	-52 %
EBIT before depreciation and amortization (EBITDA)	€ m	139	171	-19 %
Cash flow from operating activities	€ m	98	41	140 %
Return on capital employed (ROCE)[3) 4)]	%	4,2	9,1	

Financial statements according to IAS

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

Management Report

Summary

Following a first quarter in which first the fears of war in Iraq and then its actual occurrence had influenced the global economic climate, few concrete signs of an economic recovery could be discerned in the second quarter, even after the situation in Iraq had eased. The first signs of recovery became evident at around mid-year in the USA, while overall economic performance in the countries of the European Union, and especially Germany, continued to stagnate.

In the second quarter, with its main sales markets in Europe stagnating at best, the Salzgitter Group further stabilized its consolidated profits.

On the one hand, the Steel Division benefited from increased sales prices, mainly for flat-rolled products but also to a lesser extent for plate and sections. On the other, long periods of extremely high scrap prices adversely affected the Division's results, particularly in the beam segment. In addition, an extraordinary burden for the results arose from the successful modernization of the hot-strip mill, which necessitated a 17-day stoppage of this production facility in May.

In the Tubes Division, the improvement in the orders situation in the second quarter was partly offset by the fact that the appreciation of the Euro against the US dollar and the Japanese yen imposed an increasing burden on the competitiveness of the European production plants. Although the shifting exchange rates led to a decrease in the Division's recorded earnings and therefore its sales, the Division nevertheless generated a positive pre-tax result.

The earnings situation in the Trading and Services Divisions was gratifying. The business situation in the Processing Division was in line with expectations determined by the prevailing economic environment, whereby the companies dependent on the construction industry had to cope with particular challenges.

Although the mood of consumers and industry in both the domestic market and the EU has improved somewhat, an economic recovery has still failed to materialize. In the current third quarter, the summer break of the industry in many European countries is making its presence felt. The resulting cautious order booking will lead to adjustments in rolled steel production, if necessary. The volume situation in the Tubes Division is likely to show an overall more advantageous trend, with exchange rates maintaining their pressure on revenues for the time being.

In the second half of 2003, Salzgitter AG expects to generate pre-tax earnings – before extraordinary effects – that roughly match those of the first six months of this financial year; this can be attributed primarily to the still unsatisfactory short-term overall economic outlook in several relevant sectors and regions. Although this corresponds to the pre-tax results in a medium, double-digit million range that was forecast in April, it takes account of the general economic and exchange rate developments. Most of the positive impact from the improved influxes of orders in the fourth quarter will be reflected in the earnings situation in 2004.

Key data for the first half of the financial year 2003:

- **Consolidated external sales: € 2.5 billion**
- **Pre-tax profits: € 16.6 million**
- **Net income: € 9.2 million**
- **EBT Steel Division: € 7.4 million**
- **EBT Tubes Division: € 1.6 million**
- **ROCE (annualized): 4.2 %**

Economic and market development
The latest economic data published in this country and abroad demonstrate that the global economy is only hesitantly overcoming the general downturn, which has persisted for three years. Now that the conflict-related uncertainty that dominated the early part of the year has subsided, the USA is proving to be the mainspring of this revival. The USA is also benefiting from the fall in the value of its currency. Indicators such as the consistently more buoyant mood on the global stock markets and a slow increase in industrial production are encouraging the belief that a global economic upturn could develop at around the end of the year. Admittedly, there were similar expectations in 2001 and 2002.

In the Euro zone, on the other hand, no positive trend could be discerned in the first half of the year. The second-quarter data that are currently available show that there has still been no perceptible growth. A significant obstacle is proving to be the 14 % appreciation of the Euro against the currencies of its most important trading partners, which resulted in a noticeable decline in export activity accompanied by increasing imports.

The German economy continues to stagnate. Following a small decline in overall economic performance in the first quarter, both the latest industrial production figures and early indicators are showing that stagnation is again the best that can be expected for the period from April to June. Industrial production, for example, again declined in May. The domestic downturn – shaped primarily by unfavorable income prospects and the general sentiment of uncertainty – is compounded by a decline in exports, previously the most dynamic sector of the German economy. As a logical consequence, the leading research institutes reduced their annual growth forecast to zero during the second quarter. In July a small ray of hope was provided by the third successive increase in the ifo business climate index; in the light of the institute's experience to date, this could indicate that an economic recovery is on the way.

Business situation within the Group
The Salzgitter Group again achieved a positive result in the second quarter of the financial year 2003, despite the continued absence of a general economic revival.

Consolidated Group sales in the first six months of 2003 amounted to € 2.5 billion. The 6 % growth rate compared with the first half of 2002 (€ 2.4 billion) was achieved thanks to, among other factors, the revenue-based increase in sales in the Trading Division, that compensated for the weaker trend in the Tubes Division. The expansion of the group of consolidated companies also contributed to the increase in sales revenues: although the subsidiaries Salzgitter Automotive Engineering (SZAE), Salzgitter Europlatinen (SZEP) and Salzgitter Bauelemente (SZBE) were consolidated in full for the first time with retroactive effect for the financial year 2002 as of December 31, they were not yet included in the figures for the first half of 2002. In addition, Salzgitter International Inc., Houston/USA (SIH) was included for the first time as at January 1, 2003.

Pre-tax profits (EBT) of € 10.4 million in the second quarter of 2003 represented a continuation of the stabilizing trend; this figure was slightly up on the results attained in the two previous quarters (fourth quarter 2002: € 4.6 million EBT; first quarter 2003: € 6.2 million EBT). Due to the absence of momentum on the Group's crucial selling markets, the pre-tax profits of € 16.6 million generated in the first half of 2003 failed to emulate the highly positive half-yearly result that the Group achieved in 2002 (€ 49.9 million EBT), which was based on high capacity utilization and adequate revenues for tubes. In comparing the half-yearly results, however, consideration should also be given to the fact that the financial statements for 2002 benefited from around € 7 million in non-operational earnings components. In the first half of 2003, on the other hand, the Group had to absorb almost € 9 million in non-recurring expenses that resulted from a production stoppage of several weeks' duration for modernization purposes, as well as from the sale of a smaller shareholding (Salzgitter Antriebstechnik GmbH & Co. KG).

The strongest divergence from the corresponding period last year was recorded in the Tubes Division. The difficult market environment and the strength of the Euro led to a significant decline in profits. On the other hand, results in the Steel Division, which were still negative in the first half of 2002, improved sharply again thanks to good earnings from flat rolled products and the pleasing sales price trend in the plate segment. One restraining factor was the persistently poor climate in the construction industry, which in turn adversely affected the beam production segment and the construction suppliers in the Processing Division. The high level of scrap prices further aggravated the situation in the beam segment.

After-tax earnings decreased to € 9.2 million, compared with € 48.9 million in the first half of 2002. EBIT at Group level amounted to € 28.8 million in the period under review (1st half 2002: € 60.4 million), with EBITDA coming to € 138.7 million (1st half 2002: € 171.2 million). Consolidated ROCE (the interest earned on invested capital) increased to 4.8 % in the second quarter, compared with 3.4 % in the first quarter, and reached 4.2 % at the half-year stage (1st half 2002: 9.1 %).

Investment in fixed assets amounted to € 93 million, lower than in the same period last year (€ 115 million), and remained, as in the first quarter, lower than depreciation and amortization amounting to € 110 million (1st half 2002: € 111 million).

The balance sheet total increased slightly to € 3.9 billion, € 73 million (+2 %) higher than December 31, 2002, as a result of the inclusion of SIH (€ 66 million) and Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück (€ 11 million) in the consolidated entity. Compared with the first quarter of 2003, the balance sheet total decreased by € 66 million (-2 %) due to the dividend paid out and a decreased in trade payables and liabilities to banks. While property, plant and equipment remained almost unchanged, fixed assets as a whole decreased as a result of the dividend payout from V&M. The conversion of the loan to V&M for financing the V&M Star acquisition into shareholders' equity led to a reduction in the financial assets, although the offsetting of the payout meant that there was no counter-item in respect of shareholdings in associated companies.

Net bank borrowings amounted to € 147 million at the end of the first half-year. The increase compared with the previous year (€ 94 million) resulted essentially from the first-time consolidation of SIH and higher proportionally consolidated liabilities outside of the Group financial entity (Europipe Group). Net borrowings decreased by € 35 million compared with the first quarter, primarily as a result of the income-impacting earnings inflow from the shareholdings in the seamless pipes segment. Consequently, the level of financial resources increased despite the distribution of dividends at the end of May.

Group Divisions

	Consolidated sales			
€ T	**2nd quarter 2003**	**2nd quarter 2002**	**1st half year 2003**	**1st half year 2002**
Steel Division	358,229	364,497	763,834	747,712
Trading Division	521,700	432,963	1,022,155	864,725
Services Division	63,565	62,029	128,776	118,262
Processing Division	64,220	28,856	118,919	52,625
Tubes Division	233,951	305,948	474,253	583,218
Others/Consolidation	0	0	0	0
Group	**1,241,665**	**1,194,293**	**2,507,937**	**2,366,542**

	Income from ordinary operations			
€ T	**2nd quarter 2003**	**2nd quarter 2002**	**1st half year 2003**	**1st half year 2002**
Steel Division	5,343	-12,515	7,402	-26,441
Trading Division	3,158	2,617	5,576	6,621
Services Division	3,699	4,628	6,711	6,860
Processing Division	-3,890	-3,802	-7,370	-4,911
Tubes Division	1,418	35,573	1,581	60,815
Others/Consolidation	695	3,350	2,711	7,001
Group	**10,423**	**29,851**	**16,611**	**49,945**

Segment data by Divisions

From an economic perspective – in consideration of the negative difference resulting from the consolidation of capital as well as of minority interests – the equity ratio amounted to 30 % (March 31, 2003: 31 %; December 31, 2002: 34 %).

Crude steel production in the Salzgitter Group in the first half of 2003, including the companies V&M Tubes, V&M Star and the attributable volume from the Hüttenwerke KruppMannesmann (HKM) plant, totaled 4.2 million tons (1st half 2002: 4.0 million tons – excluding V&M Star).

At the end of June 2003 the Group employed a regular workforce (excluding apprentices and trainees) of 18,286, 310 persons or 2 % fewer than on the same date last year. The decrease would have been more pronounced without the companies newly integrated into the consolidated entity with their almost 600 employees. As at June 30, 2003 there were 734 apprenticeships, compared with 689 as at June 30, 2002.

Steel Division

During the first half of 2003 the difficult global economic conditions exerted increasing influence on the European steel market. At the beginning of both the first and second quarters, however, urgently necessary price increases for flat steel products were pushed through. At the beginning of the second quarter, price increases were also achieved for the plate and beam product segments.

Demand for flat steel products declined towards the end of the half-year. Although deliveries remained comparatively stable, orders received showed a decline. This can be attributed to both the restrained booking behavior of the customers due to deteriorating export potential and increasing imports from non-EU countries. Although domestic demand for plate increased slightly, demand in the beam segment remained weak.

One positive development for the global steel market is the fact that the export bottleneck to China has now cleared up and sales prices in that country are increasing again. In the USA too, price increases have been announced for hot strip steel following a downward trend lasting several months in that segment.

In the first half of 2002, the Steel Division of Salzgitter AG produced 2.544 million tons of crude steel, including 2.026 million tons of LD steel and 518,000 million tons of electric steel. This volume almost matched the 2.555 million tons that were manufactured in the same period last year.

Production of rolled steel, including input products for processing, decreased by 2 % to 2.436 million tons. A similar decline was posted by shipments of rolled steel and processing products (2.478 million tons). This was caused mainly by the scheduled modification of the hot strip rolling mill in May.

Having been brought to a standstill for 17 days to permit the installation of essential machine components, Salzgitter Flachstahl GmbH's hot strip rolling mill was put back into operation successfully and without any major difficulties. From now on this key plant will be able to fulfill even the most difficult customer requirements in accordance with the latest technical standards.

Orders received fell by 9 % to 2.381 million tons compared with the first half of 2002. Orders in hand were 6 % down on the previous year but were still satisfactory at 1.234 million tons.

The contribution of the Steel Division to the Group's external sales increased by 2 % to € 764 million (1st half 2002: € 748 million) in the first six months of 2003. Total sales amounted to € 1,044 million, 6 % higher than in the previous year. This trend can be attributed to the increased use of the Group's own distribution channels.

While the very low level of prices led to negative pre-tax earnings of € -26.4 million in the Steel Division for the first half of 2002, the Division posted a pre-tax profit of € 7.4 million in the first half of 2003.

Despite lower shipment volumes, the considerably improved income situation in the flat steel segment led to a pronounced increase in sales and profits at Salzgitter Flachstahl GmbH compared with the same period last year. Sales to the automobile industry, in particular, remained gratifyingly stable in the first half of the year.

The production loss caused by the aforementioned production standstill at the hot-strip mill, however, burdened results to the tune of almost € 6 million.

For structural beams a loss could not be avoided due to the hesitant demand and scrap prices being at an all time high in the average of the period. Although revenues were increased and scrap prices started to fall again in May, orders received also slackened. In order to counter the strained earnings position, it was decided to take immediate steps in the area of materials and equipment costs and, in consensus with everyone involved, to achieve a swift reduction in weekly working hours and reduce the collectively agreed annual bonus; this will reduce pressure on costs in the second half of 2003.

Sales of quarto plates showed notably good results. Demand from the wind power sector was good, the readiness of traders who maintain their own stocks to plan was satisfactory and the remaining end consumer business was generally stable. The price trend remained on an upward path and made it possible to achieve a comparatively pleasing pre-tax profit.

Salzgitter Großrohr GmbH had a satisfying level in business activity to report. Despite a decline in sales compared with the same period last year, the company posted a balanced pre-tax result.

As at June 30, 2003 the Steel Division employed a total workforce of 6,893 (regular workforce, excluding apprentices and trainees), 106 employees fewer than on June 30, 2002.

The current large-scale investment projects “Initial operation of blast furnace C” and “Continuous caster 3” are proceeding according to plan. While the contractual negotiations are still being conducted for the initial operation of the blast furnace, all of the main contracts have already been awarded for the new continuous caster.

Trading Division

The weak state of the domestic and international economy was also reflected in the fact that overall demand for most products was only moderate at steel traders.

Despite the somewhat challenging situation – particularly in the German construction industry – the business activity of the Salzgitter Trading Group was relatively stable on the domestic market. Although the shipment volume was below that of the previous year, sales remained almost unchanged thanks to higher revenues. The Dutch companies reported satisfying demand and almost matched their previous year’s figures.

The business activity of Salzgitter International GmbH, Düsseldorf (SID) was hardly impaired by the difficult overall economic environment in the first half of 2003. The stagnating, and in some cases even declining, demand from North America and several Asian markets was largely offset by higher shipment levels to the Arab countries, China and several African countries, with the result that sales volume was only slightly below its previous year’s level. Salzgitter International Inc., Houston/USA (SIH), which was included in the consolidated entity for the first time on January 1, 2003, showed a highly pleasing trend. Despite the strained market situation in the USA, the company increased its sales volume and unit sales sharply by increasing its exports.

Total sales of the Salzgitter Trading Division increased quite sharply for consolidation and revenue reasons compared with the previous year, while pre-tax profits turned out slightly lower than the comparable period in the first half of 2003. Both of these items showed a positive trend from the first to the second quarter.

The steel service center groups Hövelmann & Lueg and Robert and the plate specialist Universal achieved slight overall increases in their sales volume and sales revenue figures compared with the corresponding period last year. Their respective pre-tax earnings hardly changed. In order to improve its competitive position, Hövelmann & Lueg GmbH & Co. KG started to build a new hall for an innovative cut-to-length plant for blanks; here the company will manufacture rectangular, trapezoidal, parallelogram and formed blanks from high-grade steel, stainless steel, aluminum and magnesium.

In the first half of 2003 the shipments by the Trading Division increased (SIH) by 9 % to 2.517 million tons as a result of the expansion of the group of consolidated companies . Without this effect the Division would have fallen slightly short of its previous year's volume of 2.300 million tons.

Consequently, the Division's sales revenues also showed a discernible increase over the comparable period due to the expansion of the group of consolidated companies. The higher income level meant that the increase in revenue was disproportionately high compared with the increase in sales volume. Total sales increased by 22 % to € 1.1 billion. External sales amounted to € 1.0 billion, an increase of 18 %.

Pre-tax profits, at € 5.6 million, remained almost constant compared the first half of 2002 (€ 6.6 million). The Trading Division kept the positive trend going in 2003, thanks particularly to the earnings contributions from SID and SIH, and has further increased its profits since the third quarter of 2002.

The regular workforce in the Division was reduced to 1,859 employees as of June 30, 2003 (June 30, 2002: 1,973 employees), primarily through the repositioning of international trading in the last financial year.

Services Division

In the first half of 2003 the external sales posted by the Services Division increased 9 % to € 129 million (1st half 2002: € 118 million). Total sales were up by 13 % to € 333 million. With quantities decreasing slightly, the markedly higher level of scrap prices brought about a sharp increase in the trading volume of the DEUMU.

Pre-tax earnings amounted to € 6.7 million, a similar result to that of the first six months of last year (€ 6.9 million). All of the companies generated positive half-yearly results.

The regular workforce in the Division hardly changed, with 3,828 employees on the payroll at the end of June 2003 compared with 3,823 as at June 30, 2002.

Processing Division

The Processing Division posted external sales of € 119 million and pre-tax earnings of € -7.4 million in the first half of 2003. The divergent situation in the companies persisted into the second quarter:

At the automobile industry suppliers Salzgitter Europlatinen GmbH and Salzgitter Automotive Engineering GmbH, that are consolidated within the Division, and the non-consolidated company Oswald Hydroforming GmbH & Co. KG, comparatively consistent buyer demand resulted in stable sales revenues and positive pre-tax profits in each case. Price competition on new orders intensified in some cases, however.

Due to the desolate state of the construction industry, the Division's construction suppliers were exposed to extremely fierce competition, which had an unfavorable impact on the earnings performance of these companies. The cost reduction measures were strictly implemented and led to initial successes. At HSP Hoesch Spundwand and Profil GmbH, spinning off sales and marketing to the newly established joint venture "ThyssenKrupp Bautechnik GmbH" will have a positive impact in the second half of 2003. The European antitrust authority has already granted its approval for the joint venture.

As a consequence of the downsizing of the workforce at HSP, the regular workforce in the Processing Division decreased by 30, compared with the beginning of the year, to 1,116 employees as at June 30, 2003.

Due to the expansion of the consolidated group of companies – the companies SZAE, SZEP and SZBE were fully included for the first time on December 31 with retroactive effect for the financial year 2002 – the figures for the first half of 2003 are not comparable to the sales revenues (€ 53 million), the pre-tax earnings (€ -4.9 million) and the regular workforce (560 employees) from the same period last year.

Taking commercial effect as at May 31, 2003, the stake in Salzgitter Antriebstechnik GmbH & Co. KG (SZAT), a company outside of the consolidated entity, was sold to Linamar GmbH, Frankfurt/Main, a subsidiary of the

Canadian automobile industry supplier Linamar Corporation, Guelph (Ontario). This decision, in accordance with the “best owner principle”, was taken because the further development of the company would have demanded medium-term considerable financial resources that the Salzgitter Group can invest more profitably elsewhere. The provisional earnings impact of the sale of SZAT amounts to € -3.2 million and was reported under “Miscellaneous/Consolidation”. The expenses will be ascertained precisely and allocated segment by segment when the process has been completed.

Tubes Division

Despite the swift conclusion of the Iraq conflict, the situation in the Tubes Division still showed no fundamental improvement in the period under review. Only in the USA and Brazil were the first signs of recovery evident by the end of the half-year. For that reason, the tube manufacturers’ plants were mostly occupied with existing orders at hand from the previous periods.

In the first half of 2003 the consolidated external sales posted by the Tubes Division decreased by 19 %, compared with the extraordinary high level achieved in the same period last year (€ 583 million), to € 474 million. This decline was caused by the generally hesitant demand for oil and pipeline tubulars due to the crisis in the Middle East, the flagging economy in the Western world and the pronounced appreciation in the value of the Euro. The Tubes Division nevertheless generated positive pre-tax earnings of € 1.6 million in the first six months of the financial year (1st half 2002: € 60.8 million). The relevant sub-markets, as well as the respective product areas within Mannesmannröhren Werke AG, nevertheless showed mixed trends:

In the seamless tubes product segment (V&M Tubes), the trend towards recovery on the US OCTG (oil country tubular goods) market continued. The number of active drilling rigs, for example, again rose to more than 1,000 at the beginning of May, an increase of around 25 % compared with the low level one year previously. In the second quarter, the increase in drilling activity and the building up of traders’ stocks led to a further increase in bookings at V&M STAR and V&M USA. In the second quarter of 2003, V&M do Brasil also continued with its positive trend from the first quarter. Altogether, orders received for seamless tubes in the first half of the year were above the adjusted figure for the previous year (including V&M Star). The level of orders on hand was again increased slightly compared with the beginning of the year. The less favorable currency parities, along with the a lower sales price level, were instrumental in the decrease in sales and earnings, despite satisfactory shipments.

On the market for precision steel tubes, no overall revival could yet be discerned in the mechanical engineering segment in the first half of 2003. Demand from the automobile industry, on the other hand, remained at a healthy level. In the first half of the year MHP Mannesmann Präzisrohr sharply increased its orders received compared with the previous year, with the result that capacity utilization for the rest of the financial year is virtually assured. The level of orders at hand remained almost constant. The sales trend was satisfactory, with a slight improvement in pre-tax profits.

Business activity on the stainless tubes market stubbornly remained at a low ebb. Even by the half-year point, there was still no improvement in demand on the US and European markets that are relevant for DMV Stainless. Orders received and orders at hand therefore decreased. Here too, pressure is being exerted by the strength of the Euro against the US dollar, since around one-third of its business is conducted on dollar markets. Shipments and sales revenues were correspondingly lower than in the previous year and led to a small pre-tax loss.

In the second quarter of 2003, the trend on the market for medium line pipes was weaker than in the previous quarters – basically a consequence of the restrained project business segment. As a result, the level of orders received decreased slightly compared with the first half of 2002. Since standard customer business as a whole was stable, Mannesmann Line Pipe GmbH and Röhrenwerke Gebr. Fuchs GmbH both managed to hold their sales volume and sales revenue almost constant and to achieve positive pre-tax earnings.

The market for large-diameter tubes showed the first signs of improvement in the second quarter. Europipe GmbH managed to book several major orders – although with comparatively low revenues due to prevailing exchange rates – in the second quarter, as a result of which capacity utilization will improve in the third quarter. The low utilization level during the first half of 2003 led to a pronounced decrease in shipments and sales compared with the same period last year. Despite adjustment measures, the pre-tax earnings contribution was negative. In the second half of the year, the management of Europipe France SA, a fully owned subsidiary of Europipe GmbH, will negotiate with representatives of the company's employees on a restructuring project for the Joeuf business unit; these negotiations will also cover the shutdown of the production plant. This decision is being taken in the light of the significant losses endured over the past few years by this business unit, which manufactures spirally welded pipes.

Consolidated orders received by the Tubes Division, at € 489 million in the first half of 2003, remained at around their previous year's level (€ 482 million). Consolidated orders at hand decreased to € 326 million from € 364 million as at June 30, 2002.

As at the end of June 2003, the regular workforce consisted of 4,478 employees, 13 % fewer than on the same date last year. As already reported, this resulted mainly from capacity adjustments at the Europipe Group, staff cutbacks at MRM and MHP as part of the restructuring program and the dissolution of Mannesmannröhren Service GmbH.

Outlook

Although the mood of consumers and industry in both the domestic market and the EU has improved somewhat, an economic recovery has still failed to materialize. Growth rates remain either negative or, at best, stagnant. In view of the seasonal factors affecting the third quarter, the fundamental overall conditions cannot be expected to show any improvement until the last quarter of this year at the earliest.

The focus of the Steel Division will therefore be on maintaining the existing revenue level for flat steel products, if necessary also by reducing planned production quantities. Such a reduction in output is unlikely to leave the previously satisfactory results unaffected. The "price before quantity" strategy should nevertheless prove to be advantageous by the time the expected recovery phase takes hold in 2004.

Since further increases in the price of plate products are regarded as attainable, the gratifying earnings trend should continue. Particular attention is being paid to improving the current unsatisfactory margin and revenue situation in the beam and sheet piling segments and the area of structural members made from coated flat steel, all of which are dependent on the construction industry.

While significant indicators point to a more buoyant tendency in the area of oil tubulars and pipeline projects, momentum from the trading, mechanical engineering and energy generation sectors has so far failed to emerge. The export earnings of the Tubes Division from deliveries from the Euro zone will depend on whether the recent strengthening of the US dollar will prove to be durable. The position of the companies with production facilities in North America and Brazil can be regarded as far more favorable.

More than 200 projects that make up the Group-wide earnings improvement program are being consistently implemented with the goal of increasing quality and productivity and reducing the commitment of funds.

In the second half of 2003, Salzgitter AG expects to generate pre-tax earnings – before extraordinary effects – that roughly match those of the first six months of this financial year; this can be attributed primarily to the still unsatisfactory short-term overall economic outlook in several relevant sectors and regions. Although this corresponds to the pre-tax results in a medium, double-digit million range that was forecast in April, it takes account of the general economic and exchange rate developments. Most of the positive impact from the improved influxes of orders in the fourth quarter will be reflected in the earnings situation in 2004.

Share price

After the situation on the stock markets of North America and Europe had been dominated in the first quarter of 2003 by further price falls and new index lows as a result of the intensifying situation in the Middle East, the commencement of the Iraq conflict ushered in a recovery on the stock markets. This upward trend – encouraged by the swift end to the conflict, a temporary fall in oil prices and expectations for a global economic recovery beyond the second half of 2003 – persists to this day. The German indices were up at the mid-year point. The DAX increased by +11 % compared with December 31, 2002 and the MDAX rose by +17 % in the same period.

The price of the Salzgitter share developed largely independently of the aforementioned events. Following a swift rise in the first quarter, peaking at € 7.59 on March 4, the share price remained in a sideways trend with a minimum price of € 6.40 and a maximum of € 7.50. In the second quarter, the shareholders' meeting on May 28 was followed by a dividend deduction of € 0.32. The closing Salzgitter share price on the XETRA was € 6.60 on June 30. With a price development of +10.2 % and a dividend yield of 5.3 % – both on the basis of the XETRA closing price of € 5.99 at the end of 2002 – the total yield of the Salzgitter share beat the performance of the European steel index and the DAX and almost matched that of the MDAX. In the ongoing third quarter too, the share remains on an upward trend.

The average daily turnover of the Salzgitter share on the German stock exchanges increased by 25 % compared with the first quarter and amounted to around 78,500 for the first six months as a whole. With this stock market turnover and a free float market capitalization of € 222 million as at the end of June, Salzgitter AG occupied 41st position in exchange turnover or 43rd position in marketcap among the 50 MDAX companies.

The financial statements for the financial year 2002 were presented to numerous analysts at conferences on April 16 in Frankfurt and on April 17 in London and discussed intensively with them. In the second quarter there were also road shows in Frankfurt and Hamburg and several visits to Salzgitter and Mülheim by analysts and investors. On July 15, the investor relations work performed by Salzgitter AG was awarded third place among the MDAX companies by the financial magazine CAPITAL.

In the first half of the current financial year, 37 research studies and/or recommendations for the Salzgitter share were issued by 21 research sources. The ratings were as follows: 11 Buy/Outperform, 7 Hold/Neutral, 3 Sell/Underperform (as at June 30, 2003).

Options/Own shares

At the end of the first half of the financial year 2003 873,400 subscription rights, each to one individual share in Salzgitter AG, were held by corporate officers and employees. These were issued as part of the stock option program for the Management Board and executive officers that was launched in 1998.

Treasury stock comprised 1,137,588 shares as at June 30, 2003. Compared with the amount as at December 31, 2002 (1,136,182 shares), this represents an increase of 1,406 shares. In accordance with the authorization granted by the shareholders' meeting of Salzgitter AG held on June 19, 2002 for the repurchase and use of treasury stock, 5,000 shares were acquired via the stock exchange during the first half of 2003 at an average price of € 6.52. 15 shares were issued to employees as a gratuity. 3,579 shares were used as an equivalent of payment for services availed of from third parties in the period under review; their average price was € 8.38.

Events of significance in the second quarter of 2003

Taking commercial effect on May 31, 2003, Salzgitter AG sold its stakes in Salzgitter Antriebstechnik GmbH & Co. KG (SZAT), Crimmitschau, and Salzgitter Antriebstechnik Verwaltungs-GmbH (SZAV), Crimmitschau, to Linamar GmbH, Frankfurt/Main, a subsidiary of the Canadian automobile industry supplier Linamar Corporation, Guelph (Ontario). The background to this process is described in the report on the Processing Division.

Both the Steel Division, at the Ilsenburg site, and the Tubes Division, at the Zeithain site, were affected by strike action in June during the course of the labor dispute concerning the introduction of a 35-hour week in the new federal states in eastern Germany.

Consolidated Income Statement

	2nd quarter		1st half	
T €	**2003**	**2002**	**2003**	**2002**
Sales	**1,241,665**	**1,194,293**	**2,507,937**	**2,366,542**
Increase or decrease in finished goods and work in progress and other own work capitalized	16,462	-32,985	-5,600	-37,671
Other operating income	31,916	51,808	65,097	78,671
Cost of materials	835,248	756,096	1,655,516	1,523,088
Personnel expenses	237,999	224,838	470,155	444,826
Depreciation	55,185	55,218	109,925	110,869
Other operating expenses	140,963	149,150	287,799	280,969
Income from shareholdings	1,388	1,183	1,426	1,306
Income from associated companies	11,576	24,896	17,334	48,651
Net interest income	-23,189	-24,042	-46,188	-47,802
Income from ordinary operations	**10,423**	**29,851**	**16,611**	**49,945**
Taxes	4,162	1,947	7,432	1,058
Consolidated net income for the year	**6,261**	**27,904**	**9,179**	**48,887**
Minority interests	-60	1,758	198	2,717
Consolidated net income accruing to Salzgitter AG shareholders	**6,321**	**26,146**	**8,981**	**46,170**
Earnings per share (in €)			**0.15**	**0.75**
Appropriation of profits				
Consolidated net income accruing to Salzgitter AG shareholders			8,981	46,170
Profit carried forward from previous year			20,000	28,014
Dividend payment			-19,604	-25,918
Appropriation to other retained earnings			1,122	-36,012
Net income of Salzgitter AG			**10,499**	**12,254**

Financial Statements

Consolidated Balance Sheet

Assets **(€ T)**	**30/06/2003**	**31/12/2003**	**30/06/2002**
Fixed assets			
Intangible fixed assets	-192,091	-218,721	-258,658
Goodwill/negative goodwill from capital consolidation	-213,758	-241,962	-275,142
Other intangible fixed assets	21,667	23,241	16,484
Tangible fixed assets	1,498,508	1,509,626	1,453,945
Financial assets	128,107	195,711	270,040
Associated companies	501,230	488,159	519,224
	1,935,754	**1,974,775**	**1,984,551**
Current assets			
Inventories	911,853	868,512	848,048
Receivables and other assets	924,448	844,668	971,220
Trade receivables	805,653	691,958	750,117
Other receivables and sundry assets	118,795	152,710	221,103
Current securities	7	392	392
Cash and cash equivalents	91,929	111,237	71,773
	1,928,237	**1,824,809**	**1,891,433**
Capitalized deferred taxes	**4,546**	**4,545**	**718**
Prepaid expenses	**11,460**	**2,496**	**10,786**
	3,879,997	**3,806,625**	**3,887,488**

Equity and liabilities (€ T)	30/06/2003	31/12/2003	30/06/2002
Shareholders´ equity			
Subscribed capital	159.523	159.523	159.523
Capital reserve	287.530	287.530	287.530
Retained earnings	546.710	566.450	648.070
Non-distributed income	10.499	20.000	12.254
	1.004.262	**1.033.503**	**1.107.377**
Own shares	-6.813	-6.802	-6.310
	997.449	**1.026.701**	**1.101.067**
Minority interests	**24.533**	**26.312**	**22.408**
Provisions			
Provisions for pensions and similar obligations	1.491.866	1.506.536	1.518.745
Tax provisions and other provisions	375.768	377.554	451.172
	1.867.634	**1.884.090**	**1.969.917**
Liabilities			
Bonds	2.263	2.263	3.640
Liabilities to banks	239.143	177.497	165.391
Trade payables	380.627	345.447	328.061
Other liabilities	356.322	343.143	288.460
	978.355	**868.350**	**785.552**
Deferred income	**12.026**	**1.172**	**8.544**
	3.879.997	**3.806.625**	**3.887.488**

Cash Flow Statement

€ T	01/01 – 30/06/2003	01/01 – 30/06/2002
Consolidated net income for the year	8,981	46,170
Write-downs (+)/write-ups (-) on fixed assets	108,090	109,308
Other non-payment-related expenses (+)/income (-)	64,741	-7,713
Interest expenses	53,737	54,987
Profit (-)/loss (+) on the disposal of fixed assets	2,228	-7,199
Increase (-)/decrease (+) in inventories	-31,742	27,565
Increase (-)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	-65,820	-112,300
Payment-related increase (+)/decrease (-) in provisions	-106,496	-94,026
Increase (+)/decrease (-) in trade payables and other liabilities not attributable to investment or financing activities	63,818	23,887
Cash flow from operating activities	**97,537**	**40,679**
Payments received from the disposal of fixed assets	4,877	4,342
Payments made on investments in intangible and tangible fixed assets	-85,309	-100,262
Payments received from the disposal of financial assets	8,585	0
Payments made on investments in financial assets	-15,314	-67,500
Cash flow from investment activities	**-87,161**	**-163,420**
Payments received (+)/made (-) due to the repurchase of own shares	11	-81
Dividend payments	-19,604	-25,918
Payments received (+)/made (-) resulting from the issue of bonds and take-up of loans	-2,781	151
Interests paid	-7,310	-6,307
Cash flow from financing activities	**-29,684**	**-32,155**
Cash and cash equivalents available at the beginning of the period	111,237	226,669
Variation in cash and cash equivalents	-19,308	-154,896
Cash and cash equivalents available at the end of the period	**91,929**	**71,773**

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 June 30, 2003 has been prepared as a condensed report with selected details annexed. The report has been compiled as before in accordance with the International Accounting Standards (IAS) published by the International Accounting Standards Board (IASB) in consideration of requirements contained in IAS 34 for condensed interim reports.

2. The quarterly report has been prepared pursuant to the same balance sheet reporting and valuation, accounting and consolidation methods as were applied to the annual financial statements to December 31, 2002.

3. In comparison with the annual financial statements to December 31, 2002, Mannesmannröhren Service GmbH, Mülheim an der Ruhr, which was previously fully consolidated, has been deconsolidated from the group of consolidated companies. In return, Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück, and Salzgitter International Inc., Houston/USA, were brought into the group of consolidated companies for the first time.

Statement of Changes in Equity

T €	Subscribed capital	Capital reserve	Retained earnings	Thereof deriving from currency conversion	Disposal/ repurchase of own shares	Fair value to IAS 39	Consoli- dated net income	Share- holders´ equity
At 01/01/2002	**159,523**	**287,530**	**572,201**	**-16,410**	**-6,225**	**44,206**	**28,014**	**1,085,249**
Net income for the year							46,170	46,170
Dividend							-25,918	-25,918
Fair value to IAS 39						9,028		9,028
Repurchase of own shares					-85			-85
Currency conversions			-4,947	-4,947				-4,947
Transfer by Salzgitter AG to retained earnings			36,012				-36,012	0
Changes to the group of consolidated companies			-8,452					-8,452
Others			22					22
At 30/06/2002	**159,523**	**287,530**	**594,836**	**-21,357**	**-6,310**	**53,234**	**12,254**	**1,101,067**
At 01/01/2003	**159,523**	**287,530**	**535,468**	**-89,140**	**-6,802**	**30,982**	**20,000**	**1,026,701**
Net income for the year							8,981	8,981
Dividend							-19,604	-19,604
Fair value to IAS 39						-4,905		-4,905
Disposal of own shares					-11			-11
Currency conversions			-17,646	-17,646				-17,646
Transfer by Salzgitter AG to retained earnings			-1,122				1,122	0
Changes to the group of consolidated companies			3,933					3,933
Others								0
At 30/06/2003	**159,523**	**287,530**	**520,633**	**-106,786**	**-6,813**	**26,077**	**10,499**	**997.449**

Selected notes to Financial Statements / Notes

Selected explanatory notes on the income statement

1. Sales by Divisions are illustrated in the segmental reporting section. The organization of the Group into the five Steel, Trading, Services, Processing and Tubes Divisions remains unchanged in relation to the annual financial statement.

2. Earnings per share are calculated pursuant to IAS 33. The undiluted earnings per share based on the weighted number of shares in Salzgitter AG amount to € 0.15.

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

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

Financial calendar

November 14, 2003
Interim Report 9 Months 2003

December 31, 2003
End of Fiscal Year 2003

Legal Disclaimer

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

The company undertakes no obligation to update any forward-looking statements.

Salzgitter AG
Eisenhüttenstraße 99
38239 Salzgitter
Germany
Tel.: +49 (0) 5341 21-01
Fax: +49 (0) 5341 21-2727

Investor Relations:
Tel.: +49 (0) 5341 21-3783
Fax: +49 (0) 5341 21-2570

Postal address:
38223 Salzgitter
Germany

www.salzgitter-ag.de

SALZGITTER AG
Stahl und Technologie