Interim Report | 1st Half 2004




SALZGITTER AG
Stahl und Technologie

Salzgitter Group in Figures

		1st Half 2004	1st Half 2003	Δ
Sales (consolidated)	€ mil.	**2,766**	2,508	10%
Steel Division	€ mil.	**820**	764	7%
Trading Division	€ mil.	**1,232**	1,022	21%
Services Division	€ mil.	**152**	129	18%
Processing Division	€ mil.	**104**	119	-13%
Tubes Division	€ mil.	**458**	474	-4%
thereof flat rolled products	€ mil.	**1,411**	1,215	16%
thereof sections	€ mil.	**364**	354	3%
thereof tubes	€ mil.	**606**	634	-4%
thereof export share	%	**52**	53	
Income form ordinary operations	€ mil.	**82**	17	392%
Net income for the year	€ mil.	**58**	9	529%
Balance sheet total	€ mil.	**3,901**	3,880	1%
Fixed assets	€ mil.	**1,875**	1,936	-3%
Current assets	€ mil.	**2,026**	1,944	4%
Inventories	€ mil.	**899**	912	-1%
Shareholders' equity	€ mil.	**1,027**	997	3%
Borrowings	€ mil.	**2,874**	2,883	0%
Provisions	€ mil.	**1,898**	1,868	2%
Liabilities	€ mil.	**976**	1,015	-4%
thereof due to banks	€ mil.	**207**	239	-13%
Capital expenditure[1]	€ mil.	**82**	93	-12%
Depreciation and amortization[1]	€ mil.	**114**	110	4%
Employees				
Personnel expenses	€ mil.	**462**	470	-2%
Workforce (annual average)		**17,746**	18,395	-4%
Personnel expenses per employee	T €	**26.0**	25.6	2%
Crude steel production[2]	kt	**4,291**	4,222	2%
Key figures				
Earnings before interest and taxes (EBIT)[3]	€ mil.	**92**	29	219%
EBIT before depreciation and amortization (EBITDA)	€ mil.	**206**	139	48%
Return on capital emplyed (ROCE)[4] [5]	%	**13.2**	4.2	
Cashflow	€ mil.	**100**	98	3%

Disclosure of financial data in compliance with IFRS

1) Excluding financial assets
2) Incl. MRW-/V&M-share in Hüttenwerke Krupp Mannesmann, V&M France, V&M do Brasil and V&M Star
3) EBT plus interest paid (excluding interest element in allocations to pension provisions)
4) EBIT in relation to the total of shareholders' equity (without calculation of accrued and deferred taxes), minority equity interests, interest-bearing tax provisions and interest-bearing liabilities
5) Annualized

Summary

Yield at Salzgitter Group on satisfactory level in the first half-year of 2004

The buoyant worldwide demand for rolled steel products and tubes enabled the Salzgitter Group to considerably expand its business activities in the first half of 2004. The **Group** increased external sales noticeably, whereby the Trading Division made an exceptional contribution. By comparison with the relatively weak figures of the previous years, profit before and after tax was up by a notable measure. In addition to the trading activities, the Tubes and Steel Divisions also put in a strong performance. After two difficult years, the interest earned on capital employed (ROCE) returned to a level of profitability that satisfies the demands of the capital market.

External sales and total sales generated by the **Steel Division** increased over the previous year's figures. By comparison with the lower level of activities in the first half-year of 2003, sales and turnover figures of flat steel and beams were especially gratifying. The in part drastic price hikes in energy sources and raw materials necessitated higher sales prices that were asserted on the markets in several steps. The Steel Division achieved a significant improvement of pre-tax profit over the previous year. In connection with the upturn of its sales markets, the **Tubes Division** continued its positive development. Overall shipments improved, while external sales remained below the previous year’s figures. By contrast, sales of the seamless tubes producers consolidated at-equity increased due to the higher volumes achieved, which had no effect on Group sales. By comparison with the previous year that had been impacted by crisis, pre-tax profit was on a satisfying level. Thanks to firm demand the **Trading Division** was able to assert price increases and also profited from inventory procured at favorable prices, the sale of which sparked a leap in results, especially in the second quarter. External sales and pre-tax profit increased by a sizable measure.

External sales at the **Services Division** also exceeded the previous year's figures. These gains were mainly attributable to the scrap trading company DEUMU expanding sales activities with clients outside of the Group. The pre-tax result was up over the same period last year. In the period under review the **Processing Division** recorded declining external sales and reported pre-tax losses. Business activities were impacted by strong increases in input stock prices and persistent competitive pressure. The Processing Division also conducted write-downs that have been offset by the Holding waiving claims of the same figure. Due to these special effects, the result of consolidation and other activities was negative.

The **prospects** of the global economy remaining on its expansive course in the second half of the year are increasingly likely. More restrictive monetary policies in western industrial nations and in China, however, may somewhat dampen the pace of growth. The extreme hikes in raw materials and energy prices, as well as the persisting crisis in the Near and Middle East represent latent risk factors. In the second half of the year the markets in the euro zone and in Germany are likely to be uplifted by firm export situation, while domestic demand is expected to remain weak. All in all, the environment for the business activities of the Salzgitter Group is expected to develop favorably.

Forecast: Based on current information and expectations concerning the development of the procurement and sales markets, as well as the general conditions and with consideration given to the effects generated by the profit improvement program, the **Salzgitter Group** expects to achieve a **pre-tax profit** for the financial year 2004, excluding special effects, that will be close to the good performance of the year 2001. In view of the exceptional situation of the procurement and sales markets, the bandwidth of opportunities and risks impacting the Group's performance is considerably wider than in previous years.

Management Report

Economic and market development

The global economy is currently experiencing an upturn. Since the middle of last year, industrial production indicators in all of the world's principal regions have followed a growth trend which continued to strengthen in the first half of 2004. In particular the USA, Japan and China have recorded positive development in their national economies. If the **world** economy remaining favorable, Japan could actually succeed in doubling its economic growth in 2004 to 4.6% compared with the year before. Since the start of the second quarter, however, the Chinese government has been pursuing a markedly more restrictive economic policy in order to counter potential overheating. The change in policy in this region, which until now has been the major force behind world economic growth, combined with sharply rising raw material, oil prices and an increase in US interest rates, fueled fears that the second half of the year might witness a slowdown in the international economy. Nevertheless, market observers still expect over 4.5% growth in 2004, one of the highest rates in the last thirty years.

Economic performance in **Europe** improved during the period under review, though there were differences between the previous 15 members of the EU and the ten new member states. In the first quarter the Euro zone recorded surprisingly positive GDP growth of 0.6% against the previous quarter. However, the recovery weakened slightly to 0.5% in the second quarter, according to current estimates by the ifo Institute. For the year 2004 as a whole, leading economic research organizations anticipate moderate growth of just 2% in the Euro zone with exports remaining the principal driver. This contrasts with a strong, sustained upswing in the ten new EU member states for whom economic growth of around 4% is forecast.

In **Germany** the mild recovery evident in the first quarter was carried over into the second. The growth in the economy was supported mainly by exports, which continued to improve in the second quarter. Even after the positive trend already recorded in order books, there was an unexpectedly sharp rise in industrial production. However, domestic demand continues to provide no more than minimal impetus. In view of the favorable export situation, most German economic research institutes increased their forecasts for the year 2004 to 1.8% towards the end of the reporting period.

Business situation within the Group

		Q2 2004	Q2 2003	H1 2004	H1 2003
Crude steel production[1]	mt	**2.1**	2.1	**4.3**	4.2
Sales	€ mil.	**1,870**	1,542	**3,501**	3,114
External sales	€ mil.	**1,466**	1,242	**2,766**	2,508
EBITDA	€ mil.	**123.5**	71.6	**205.5**	138.7
EBIT	€ mil.	**60.2**	16.4	**91.7**	28.8
Earnings before taxes (EBT)	€ mil.	**55.5**	10.4	**81.7**	16.6
Net income	€ mil.	**37.6**	6.3	**57.7**	9.2
ROCE (annualized)	%			**13.2**	4.2
Capital expenditures	€ mil.			**82**	93
Depreciation and amortization	€ mil.			**114**	110
Net liabilites to banks	€ mil.			**-47**	-147
Cashflow	€ mil.			**100**	98
Equity ratio	%			**30**	30
Core workforce	as of 30/06/			**17,655**	18,286
Apprentices, students, trainees	as of 30/06/			**738**	734

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

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

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

[4] Annualized

[5] Excluding financial assets

In the first half of the year, the boom like upsurge in worldwide demand for steel enabled the Salzgitter Group to achieve a notable expansion of its business activities. **Consolidated external sales in the Group** totaled € 2.77 billion in the first half of 2004, an increase of 10% over the first six months of 2003. This can be attributed to the Trading Division benefiting particularly strongly from the boom on the steel markets. The Steel and Services Divisions, too, developed pleasingly and increased their sales. The positive trend in the Tubes Division strengthened during the course of the year, although product mix alterations and exchange rate effects kept the Division's sales slightly below those of the previous year. In the Processing Division, the desperate state of the domestic construction industry and cost-cutting measures by the auto manufacturers led to a reduction in sales.

Consolidated pre-tax earnings were highly satisfactory, totaling € 81.7 million – a substantial increase compared with the poor first half of 2003. Not only the outstanding Trading Division, but also the Steel and Tubes Divisions made significant contributions to this notable result. The Services Division also increased its profits, while the increase in input stock prices further aggravated the already difficult situation in the Processing Division and led to another pre-tax loss. The positive earnings trend is based not only on the generally favorable market environment, but also on the implementation of the group-wide profit improvement program, which progresses as planned. Consolidated earnings in the first half of 2004 contained a profit of € 5.8 million in the Steel Division that resulted from the reduction in its shareholding in the US-based company Steel Dynamics Inc. A negative effect on results arose from on-balance sheet measures amounting to € 15 million, which were taken in the Processing Division. These were balanced by waivers of claims in the same amount by the Holding. As a result, earnings from 'Consolidation and others' were negative.

Management Report

Consolidated after-tax earnings increased strongly to 57.7 million (first half of 2003: € 9.2 million). The interest earned on capital employed (**ROCE**) reached a satisfactory annualized level of 13.2%, compared with 4.2% in the same period last year. Consequently, the Salzgitter Group emerged from two difficult years with a level of profitability that satisfies the capital market.

The **balance sheet total** increased by 6% to € 3.90 billion in the first six months of 2004 (December 31, 2003: € 3.67 billion). While fixed assets remained almost constant, current assets increased by € 232 million to € 2.03 billion. The expansion of business activities and the sharp increases in selling prices led to a substantial rise in accounts receivable, particularly at Salzgitter Flachstahl GmbH, Salzgitter Stahlhandel GmbH and Salzgitter International GmbH.

The **operating cash flow** improved strongly in the second quarter thanks to the positive corporate trend and the dividend inflow from the holdings in the seamless tubes segment. The inflow was € 163 million after € -63 million in the first three months. Cash and cash equivalents increased by € 116 million compared to the end of the first quarter. N**et debt to banks** decreased to € 47 million (December 31, 2003: € 56 million; June 30, 2003: € 147 million) by the end of the reporting period.

Crude steel production in the Group increased by 2%. Excluding the extraordinary effect of a blast furnace relining in Salzgitter that proceeded as scheduled, this growth rate would have been even higher.

The Salzgitter Group's **regular workforce** comprised 17,655 employees as at the end of June 2004. Compared with the end of 2003 (17,825), this represents a decrease of 170 employees or 1%. Employee numbers in the individual segments developed as follows: Steel -372; Trading -78, Processing -11, Services +546, Tubes -257 and Holding +2.

The increase in the Services Division resulted in part from the restructuring of Salzgitter Mannesmann Forschung GmbH, which was countered by corresponding decreases in the Steel and Tubes Divisions. The rest of the increase resulted from the addition of employees from the Steel Division under pre-retirement part-time working arrangements and trainees at Salzgitter Service und Technik GmbH. The sharp decrease in the regular workforce by 631 compared with June 30, 2003 resulted primarily from various personnel measures implemented in the financial year 2003 that were continued in the reporting period. (For further information on this subject, compared the Salzgitter AG Annual Report 2003, pages 54ff.)

Steel Division

		Q2 2004	Q2 2003	**H1 2004**	H1 2003
Order bookings	kt	**1,203**	1,060	**2,724**	2,381
Order backlog	kt	**1,501**	1,235	**1,501**	1,235
Crude steel production	kt	**1,140**	1,287	**2,455**	2,544
LD steel (SZFG)	kt	**879**	1,025	**1,929**	2,026
Electric steel (PTG)	kt	**261**	262	**526**	518
Rolled steel production	kt	**1,317**	1,135	**2,616**	2,436
Shipments (incl. processed product)	kt	**1,377**	1,137	**2,718**	2,478
Rolled steel	kt	**1,345**	1,079	**2,644**	2,371
Processed product	kt	**32**	58	**74**	107
Sales	€ mil.	**617**	489	**1,178**	1,044
External sales	€ mil.	**419**	358	**820**	764
Earnings before taxes (EBT)	€ mil.	**18.0**	5.3	**29.5**	7.4
Core workforce	as of 30/06/			**6,669**	6,893

The **European steel market** developed positively in the first half of 2004. Demand increased only moderately at the beginning of the year and the price increases for rolled steel products that were announced as per January 1 met with only limited acceptance from customers. As the year progressed, however, the strong growth in steel demand in Germany and abroad led to an excess of demand over supply, particularly in the **flat rolled sector**. In some instances the markets were perceiving a global steel shortage. In the **plates segment**, too, the commercial position was highly positive, a consequence of high capacity utilization, particularly in the shipbuilding and piping industries in Germany and abroad. Plant standstills and input stock shortages turned the market for plates into a seller's market. In the **beams segment**, the situation was characterized primarily by declining construction activity in most of the EU markets. Demand mainly derived from speculative buys and stockbuilding. On the other hand, strong real consumption stimulated demand in the UK, Spain and the new EU accession countries. Against this background, it was possible to assert further necessary price increases for all rolled steel products without any delays at the beginning of the second quarter. The low level of imports from non-EU countries into the EU throughout the first half of the year proved to be beneficial in this context.

In the **procurement** area, the growing scarcity and rising cost of raw materials (iron ore, coking coal, coke and alloying additions) and slabs, combined with an exorbitant increase in sea freight rates, led in the first quarter to significant cost increases that were offset only partly by the persistently low US dollar exchange rate that benefited raw materials purchasing. The prices of scrap, which had fallen temporarily during the second quarter due to the restraint of Asian raw materials buyers, and freight rates rose sharply again as early as the mid-year point; as a result, there can still be no assumption that procurement markets are easing.

Sales posted by **Salzgitter Flachstahl GmbH** (SZFG) increased despite the blast furnace repair work in May, which was carried out successfully and on schedule, and pre-tax earnings in the first half of the year were significantly higher that in the comparable period last year. Orders received continued to show a pleasing trend, and plant capacity utilization could be secured until well into the second half of the year in combination with increased sales prices. The realization of the large-scale investment projects “Initial operation of Blast Furnace C” and “Continuing Casting Plant 3” progressed as planned.

Management Report

While the sales posted by **Peiner Träger GmbH** increased, earnings in the reporting period were again negative. This unsatisfactory situation was caused by the procurement prices for scrap, which reached new record levels during the first three months, and poor sales in the same period. The successful implementation of the scrap surchage in the previous year and its increasing acceptance on the market led to a noticeable reduction in the loss from the second quarter onwards, with the consequence that in June results returned to break-even again. It is being assumed that this results trend will persist over the coming months.

At **Ilsenburger Grobblech** GmbH (ILG), sales increased due to the advantageous market situation and a pleasing trend in selling prices. Since sharp increases in input stock prices had to be endured in the first half of 2004, profits therefore stagnated at around the level of the comparable period last year. ILG is expecting a sustained positive business trend over the next few months.

In the first six months of the financial year there was no significant improvement in the business conditions at **Salzgitter Großrohr GmbH**, which were characterized the unfavorable competitive situation created by the weak US dollar. Sales remained below the previous year's level. Earnings reached break-even level.

Thanks to improved sales revenues, the **Steel Division** increased its aggregate sales by 13% compared with the same period last year, with shipments increasing by 10%. As the Group made increased use of its own internal sales organization, **external sales** grew by only 7%. Compared with the first half of 2003, **pre-tax earnings** quadrupled to € 29.5 million. This figure contains extraordinary income of € 5.8 million from the sale of shares in the US-based company Steel Dynamics Inc.

Increases of 14% in **orders received** and 22% in **orders on hand** have secured adequate capacity utilization for the coming months.

As of June 30, 2004, the Division employed a **regular workforce** of 6,669 – 224 fewer than one year before. The main reasons for this decrease were, firstly, the transfer of employees in pre-retirement part-time working arrangements at SZST, and secondly the redeployment of 81 employees of the SZFG materials center in the new company SZMF in the Services Division.

Trading Division

		Q2 2004	Q2 2003	**H1 2004**	H1 2003
Shipments	kt	**1,369**	1,267	**2,630**	2,517
Sales	€ mil.	**705**	551	**1,282**	1,077
External Sales	€ mil.	**663**	522	**1,232**	1,022
Earnings before taxes (EBT)	€ mil.	**31.8**	3.2	**43.0**	5.6
Core workforce	as of 30/06/			**1,749**	1,859

The current strength of the global economy has been exercising a positive influence on the market environment in which the steel trading companies operate. The strong demand for steel products due among other factors to the low stocks held by many steel consumers has to some extent prompted price increases, which must, however, be viewed in the context of similarly sharp rising purchasing costs. In this context and in contrast to last year, in the first half of 2004 the companies of the Trading Division were able to pass on higher producer prices to the end customer without suffering a time lag. Moreover the other Divisions of the Salzgitter Group have been making more use of the Group's own distribution channels.

Salzgitter Stahlhandel GmbH (SSH), based in Düsseldorf, found itself operating in a German market characterized by short supply and high prices. While shipments in the first six months of 2004 lingered at last year's level, the value of sales rose markedly and pre-tax profits jumped. Since many products had been bought in at low purchase prices, however, this excellent development in results is to a large extent being driven by inventory effects which will not persist in the long term. At the companies in the Netherlands stagnating sales volumes likewise contrasted with improvements in turnover and profits.

Developments in the international trading were mixed in the period under review. On the one hand, the strong US economy provided considerable momentum for business in the NAFTA area, while on the other, demand from the Middle and Far East and Africa tailed off slightly in the second quarter. Both **Salzgitter International GmbH** in Düsseldorf and **Salzgitter International Inc.** in Houston profited from the high demand from North America. These two companies recorded growth in external sales and results. The Canadian market developed more slowly than its US counterpart, with the result that in the first six months of 2004 **Salzgitter Trade Inc.**, Vancouver, had to report a decline in shipments and sales in comparison with the same period in 2003. The higher sales prices caused a satisfactory earnings level.

As a result of these positive developments at its subsidiaries, **Salzgitter Handel GmbH** was able to post a noticeable rise in sales and an exceptional surge in its pre-tax result in the reporting period.

Likewise, plate specialist **Universal Eisen und Stahl GmbH** and the steel service centers **Hövelmann & Lueg GmbH & Co. KG** and **Ets. Robert et Cie S.A.S.** recorded significant improvements in sales and profits in comparison with the first two quarters of 2003. These companies also posted double-digit increases shipments.

Overall in the first half of 2004 the **Trading Division** succeeded in hiking **external sales** by 21% in comparison with the same period last year, while **pre-tax profits** rose by a factor of more than six to € 43.0 million. The **regular workforce** employed by the Division as of June 30, 2004, stood at 1,749. In comparison with June 30, 2003, this represented a reduction of 110, due primarily to personnel downsizing at SSH.

Management Report

Services Division

		Q2 2004	Q2 2003	**H1 2004**	H1 2003
Sales	€ mil.	**210**	165	**413**	333
External sales	€ mil.	**75**	64	**152**	129
Earnings before taxes (EBT)	€ mil.	**5.0**	3.7	**9.8**	6.7
Core workforce	as of 30/06/			**4,059**	3,828

The most significant change at the Services Division during the first half of this year was the integration of the newly established company **Salzgitter Mannesmann Forschung GmbH** (SZMF) with effect from January 1, 2004. SZMF amalgamates the research activities of the Mannesmann Forschungsinstitut and significant elements of the Materials Center operated by Salzgitter Flachstahl GmbH. In addition, with effect from May 1, PPS has been trading under the new name of Salzgitter Service und Technik GmbH (SZST).

In the first half of 2004 the **Services Division** recorded marked increases in orders and pre-tax profits in comparison with the same period last year. The 18% rise in **external sales** is attributable primarily to the higher selling prices achieved by the scrap trading company DEUMU and to the transfer of SZMF. The **pre-tax result** improved by 46% in comparison with the first six months of 2003, thanks mainly to better results from port operator Hansaport Hafenbetriebsgesellschaft and telcat-Group, as well as the integration of SZMF. All of the companies in this Division ended the reporting period on a profitable note.

The **regular workforce** employed by the Services Division as of June 30, 2004, had risen by 231 in comparison with the same date last year. In comparison with the 2003 year-end figure, the rise amounted to 546 persons. This was essentially the result of the integration of 161 employees from the Tubes Division and a further 81 from the Steel Division as part of the transfer of SZMF as described above. In addition, SZST took on 133 former trainees at the start of the year, while a number employees from the Steel Division transferred into age-related part-time employment.

Processing Division

		Q2 2004	Q2 2003	**H1 2004**	H1 2003
Sales	€ mil.	**61**	68	**111**	128
External sales	€ mil.	**57**	64	**104**	119
Earnings before taxes (EBT)	€ mil.	**-8.1**	-3.9	**-18.8**	-7.4
Core workforce	as of 30/06/			**1,034**	1,116

The strained situation in the construction industry in combination with higher prices for input material as well as cost savings initiatives of automobile manufacturers had a negative effect on the business activity of the companies in the Processing Division in the reporting period.

In the first two quarters of 2004, the companies **HSP Hoesch Spundwand und Profil GmbH** (HSP) and **Salzgitter Bauelemente GmbH** (SZBE), which belong to the **construction segment**, continued to suffer from the fierce competitive pressure generated by the persistently difficult market conditions. This situation was accentuated further by the substantial increase in the cost of procuring input stock. Although HSP managed to increase its shipments via the distribution joint venture ThyssenKrupp GfT Bautechnik GmbH, which has been in existence since last year, revenues decreased and losses increased compared to the results of last year result at. SZBE too was only partially able to pass on its feed stock price increases to customers due to sluggish demand. The company again posted a loss with sales decreasing in comparison with the first half of 2003.

In the **automotive segment**, the weak demand for prototypes and series parts that resulted from cost-cutting measures by the German auto manufacturers led to a noticeable drop in sales at **Salzgitter Automotive Engineering GmbH & Co. KG**. The company concluded the half-year with a pre-tax loss. In contrast to the other companies in the Division, **Salzgitter Europlatinen GmbH** posted a gratifyingly positive trend in sales and pre-tax profits.

In the first six months of 2004, **external sales** in the **Division** were down by 13% compared with the same period last year, and the Division remained in the red throughout the period. Due to the continuing difficult market situation, HSP and SZBE conducted extraordinary write-downs (€ 15 million) which were offset by a waiver of claims in the same amount by the Holding.

The **regular workforce** in the Processing Division comprised 1,034 employees as at June 30, 2004 – 82 fewer than June 30, 2003, mainly as a result of the downsizing of the workforce at HSP.

Management Report

Tubes Division

		Q2 2004	Q2 2003	H1 2004	H1 2003
Order bookings	€ mil.	**399**	251	**712**	489
Order backlog	€ mil.	**664**	326	**664**	326
Sales	€ mil.	**276**	269	**517**	532
External sales	€ mil.	**252**	234	**458**	474
Earnings before taxes (EBT)	€ mil.	**20.1**	1.4	**25.7**	1.6
Core workforce	as of 30/06/			**4,027**	4,478

The recovery in the **international steel tubes market** – first evident in the second half of 2003 – continued in the first half of 2004. The upturn in the economy fueled an increasing level of investment activity in some of the major tube processing sectors, and tube manufacturers proceeded to book a gratifyingly high order intake. The situation was further influenced by customers buying stock in anticipation of rising prices and the potential prospect of steel shortages. Due to the limited availability of input material the increased demand could not be fully satisfied, with the result of excess demand.

For the most part, this environment proved positive for the **Tubes Division**. The accelerating demand made it possible to implement increases in selling prices, which were urgently needed to offset rising input material costs. Due to this circumstance, the competitive disadvantage at which European companies found themselves as a result of the weak dollar has partially been evened out.

As a result of changes in the product mix, disadvantageous foreign exchange effects and the transfer of SZMF to the Services Division, the consolidated sales recorded by the **Mannesmannröhren-Werke Group** (MRW) lagged slightly behind the same period last year. Nevertheless MRW generated a satisfactory pre-tax result of € 25.7 million.

The consolidated **order intake** as of June 30, 2004, was no less than 46% up on the closing figure for the first half of last year. **Orders on hand** had actually doubled, which will secure a sufficient capacity utilization in the coming months. Developments in the individual business segments at MRW were as follows:

The **seamless tubes** segment profited in the first half of 2004 from the excellent demand situation. Rising volumes and improving sales prices contributed to noticeably higher revenues than in the same period last year at Vallourec & Mannesmann Tubes S.A., which is integrated on an at-equity basis. Orders continued to climb in the course of the reporting period. Since the companies are consolidated at equity, these revenue increases have no impact on the external sales of the Division.

In the **precision tubes** segment, the positive trend in the first quarter of 2004 was likewise maintained in the second quarter. MHP Mannesmann Präzisrohr GmbH and Robur Buizenfabriek B.V. hiked their sales in comparison with the first six months of 2003 both in terms of value and volume. Not least thanks to the successful implementation of cost-cutting measures in recent years, pre-tax profits were significantly improved, while the development in orders received was highly positive.

In the second quarter of 2004, **stainless tubes** specialist DMV Stainless B.V. accomplished the turnaround. The main reasons were rising demand and an advantageous product structure, which led to a high level of capacity utilization at all plants. With sales stronger than in the first half of 2003, partly due to an increase in the price for alloying additions, DMV achieved a largely balanced result in the first six months of 2004. There were increases in both the value and volume of orders received.

In the field of **medium line pipes** the companies Mannesmann Line Pipe GmbH and Röhrenwerk Gebr. Fuchs GmbH reported positive order activity during the second quarter, however, due to the limited availability of input material this was not reflected in increased sales in comparison with the first half of 2003. Profits were likewise on a par with last year, whereby it should be considered that the result took full account of the significantly higher input material prices.

Large-diameter pipes manufacturer Europipe (EP) won an increased share of the pipeline contracts placed in the first two quarters of 2004 and recorded a significant rise in orders received and on hand. Nevertheless, due to the change in order structure with a considerably higher proportion of uncoated pipes and an ongoing disadvantageous dollar weakness, the export-oriented EP was compelled to accommodate a decrease in the value of sales in the first half of 2004 in relation to the comparable timeframe of the previous year. These circumstances also prevented the company from achieving a balanced result.

The **regular workforce** employed by the Tubes Division as of June 30, 2004, had declined by 451 in comparison with the same date last year, and by 257 in comparison with December 31, 2003. The transfer of 161 employees to the Services Division and changes within the Europipe Group constituted the principal reasons for the variation in the first half of 2004. The difference in comparison with the end of the same period last year was attributable to personnel downsizing at Mannesmannröhren Mülheim GmbH and EP.

Management Report

Outlook

The prospects of the **world economy** remaining its expansive course are becoming more likely. Towards the end of the year increasingly restrictive monetary policies in western nations and in China may put a slight damper on the pace of growth. The extreme hikes in raw materials and energy prices, as well as the persisting crisis in the Near and Middle East remain latent risk factors. An upturn in domestic demand in connection with a possible light decline in export activities at the end of the year are forecast for the Euro zone. In Germany, the business cycle in the second half of the year is likely to be mainly driven by solid export demand and industrial production output, while the domestic markets are not expected to be generating any notable impulses in the near future. All in all, the environment for the business activities of the Salzgitter Group is likely to develop favorably.

Since the beginning of the ongoing quarter the rolled steel market is characterized by the upturn in demand emanating from China that has already fueled the respective price increases in scrap, other raw materials and sea freight rates. These renewed price rises in connection with the seasonal decline in steel consumption due to the holiday shutdown at major steel producers may burden the result of the **Steel Division** in the third quarter of 2004. Consequently, the further development of the Steel Division will also hinge on the price rises announced for the fourth quarter.

In the tubes sector the satisfactory demand, especially from the energy branch is likely to benefit the manufacturers of seamless and line tubes in particular. In this respect, the strained situation on the energy markets also entails positive business aspects apart from the general risks. In the second half of 2004, the key criterion for the performance of the **Tubes Division** – similar to the steel activities – will be the successful assertion of price rises in all product areas in order to compensate for the negative influence of rising input stock prices and the persistent weakness of the US dollar.

At the **Trading Division** the additive effect ensuing from the sales of stock purchased at favorable prices will diminish due to renewed procurement at current market prices over the next months. Given the overall satisfactory demand, pre-tax profit should stabilize at a satisfying level.

The current figures would suggest that the **Services Division** will be posting a solid result on par with the good performance achieved in the first half of the year. As the somewhat difficult situation in the construction industry and the automobile industry is likely to remain unchanged – at least over the short term – the unsatisfactory situation the **Processing Division** is undergoing will only improve gradually over time.

The **profit improvement program** that currently comprises 272 individual measures will be consistently implemented in an ongoing process. The effects will stabilize the earnings developments in all Group areas and divisions in a sustained manner.

Based on current information and expectations concerning the development of the procurement and sales markets, as well as the general conditions and with consideration given to the effects generated by the profit improvement program, the **Salzgitter Group** expects to achieve a **pre-tax profit** for the financial year 2004, excluding special effects, that will be close to the good performance of the year 2001. In view of the exceptional situation of the procurement and sales markets, the bandwidth of opportunities and risks impacting the Group's performance is considerably wider than in previous years.

Consolidated Income Statement

in T€	**2nd Quarter 2004**	2nd Quarter 2003	**1st Half 2004**	1st Half 2003
Sales	**1,466,480**	1,241,665	**2,766,026**	2,507,937
Increase or decrease in finished goods and work in process and other own work capitalized	**-86,473**	16,462	**-64,956**	-5,600
	1,380,007	1,258,127	**2,701,070**	2,502,337
Other operating earnings	**34,807**	31,916	**95,485**	65,097
Cost of materials	**927,031**	835,248	**1,828,787**	1,655,516
Personnel expenses	**233,158**	237,999	**462,151**	470,155
Ammortization and depreciation	**63,269**	55,185	**113,799**	109,925
Other operating expenses	**137,941**	140,963	**298,491**	287,799
Income from shareholdings	**2,770**	1,388	**3,044**	1,426
Income from associated companies	**22,883**	11,576	**30,946**	17,334
Write-downs on financial assets	**124**	0	**124**	0
Net interest income	**-23,472**	-23,189	**-45,520**	-46,188
Profit on ordinary activities	**55,472**	10,423	**81,673**	16,611
Taxes on profits	**15,685**	2,036	**19,918**	3,111
Other taxes	**2,222**	2,126	**4,058**	4,321
Consolidated net income for the year	**37,565**	6,261	**57,697**	9,179
Minority interest	**-395**	-60	**-408**	198
Consolidated net income accruing to Salzgitter AG shareholders	**37,960**	6,321	**58,105**	8,981
Undiluted earnings per share (in €)	**0.62**	0.11	**0.95**	0.15
Diluted earnings per share (in €)	**0.62**	0.11	**0.95**	0.15

Application of profits in T€				
Consolidated net income accruing to Salzgitter AG shareholders			**58,105**	8,981
Profit carried forward from previous year			**16,780**	20,000
Dividend payment			**-15,317**	-19,604
Appropriation to other retained earnings			**-44,588**	1,122
Profit shown on the balance sheet after appropriation to or transfers from reserves			**14,980**	10,499

Consolidated Balance Sheet

Assets in T€	30/06/2004	31/12/2003
Fixed assets		
Intangible fixed assets	**-137,254**	-169,441
Goodwill/negative goodwill from capital consolidation	**-159,172**	-189,387
Other intangible assets	**21,918**	19,946
Tangible fixed assets	**1,419,628**	1,457,682
Financial assets	**74,019**	78,279
Associated companies	**519,087**	512,594
	1,875,480	1,879,114
Current assets		
Inventories	**898,659**	918,553
Receivables and other assets	**950,559**	731,989
Trade receivables	**844,583**	628,283
Other receivables and sundry assets	**105,976**	103,706
Current securities	**4,177**	54
Cash and cash equivalents	**159,518**	139,964
	2,012,913	1,790,560
Capitalized deferred taxes	**1,295**	1,295
Prepaid expenses	**11,393**	2,156
	3,901,081	3,673,125

Equity and liabilities in T€		
Equity		
Subscribed capital	**159,523**	159,523
Capital reserve	**287,530**	287,530
Retained earnings	**574,344**	525,907
Profit shown on the balance sheet after appropriation to or transfers from reserves	**14,980**	16,780
	1,036,377	989,740
Own shares	**-9,472**	-9,494
	1,026,905	980,246
Minority interest	**13,703**	16,168
Provisions		
Provisions for pensions and similar obligations	**1,506,082**	1,507,699
Tax provisions	**107,193**	96,443
Other provisions	**284,476**	287,832
	1,897,751	1,891,974
Liabilities		
Bonds	**2,171**	2,171
Liabilities to banks	**206,734**	196,237
Trade payables	**401,635**	325,286
Other liabilites	**339,813**	260,131
	950,353	783,825
Deferred income	**12,369**	912
	3,901,081	3,673,125

Cash Flow Statement

in T€	1st Half 2004	1st Half 2003
Consolidated net income for the year	**58,105**	8,981
Deprecreciations, write-downs (+)/write-ups (-) on fixed assets	**113,923**	108,090
Other non-payment-related expenses (+)/income (-)	**32,091**	64,741
Interest expenses	**50,838**	53,737
Increase (-)/decrease (+) on the disposal of fixed assets	**-4,753**	2,228
Increase (-)/decrease (+) in inventories	**18,350**	-31,742
Increase (-)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	**-238,505**	-65,820
Payment-related increase (+)/decrease (-) in provisions	**-100,569**	-106,496
Increase (-)/decrease (+) in trade payables and other liabilities not attributable to investment or financing activities	**170,768**	63,818
Cash flow from operating activities	**100,248**	97,537
Payments received from the disposal of fixed assets	**2,907**	4,877
Payments made on investments in intangible and tangible fixed assets	**-85,682**	-85,309
Payments received from the disposal of fixed assets	**14,710**	8,585
Payments made on investments in financial assets	**-2,338**	-15,314
Cash flow from investment activities	**-70,403**	-87,161
Payments received (+)/made (-) as a result of sales and repurchases of own shares	**21**	11
Dividend payments	**-15,317**	-19,604
Payments received (+)/made (-) as a result of the issue of bonds, take-up of loans and other financial liabilites	**11,681**	-2,781
Interests paid	**-6,676**	-7,310
Cash flow from financing equivalents	**-10,291**	-29,684
Cash and cash equivalents available at the beginning of the period	**139,964**	111,237
Variation in cash and cash equivalents	**19,554**	-19,308
Cash and cash equivalents available at the end of the period	**159,518**	91,929

Statement of Changes in Equity

in T€	Subscribed capital	Capital reserves	Retained earnings	Thereof from currency conversions	Thereof other changes without effect on income	Repurchase of own shares	Valuation reserve IAS 39 from hedging relationships	Valuation reserve IAS 39 from available for sale	Consoli-dated net income	Share-holders' equity
Status December 31, 2002	**159,523**	**287,530**	**535,468**	**-89,140**	**3,303**	**-6,802**	**18,017**	**12,965**	**20,000**	**1,026,701**
Net income for the year									8,981	8,981
Dividend									-19,604	-19,604
Disposal of own shares										0
Repurchase of own shares						-11				-11
Change in value of own shares										0
Currency conversions			-17,646	-17,646						-17,646
Change in value IAS 39 investments							1,844			1,844
Change in value IAS 39 from hedging relationships								-6,749		-6,749
Withdrawals by Salzgitter AG from retained earnings			-1,122						1,122	0
Group transfers to retained earnings										0
Changes to the group consolidated			3,933							3,933
Deferred taxes on changes without effect on income										0
Others										0
Status June 30, 2003	**159,523**	**287,530**	**520,633**	**-106,786**	**3,303**	**-6,813**	**19,861**	**6,216**	**10,499**	**997,449**
Status December 31, 2003	**159,523**	**287,530**	**511,365**	**-128,722**	**3,301**	**-9,494**	**4,458**	**10,084**	**16,780**	**980,246**
Net income for the year									58,105	58,105
Dividend									-15,317	-15,317
Disposal of own shares						22				22
Repurchase of own shares										0
Change in value of own shares										0
Currency conversions			568	568						568
Change in value IAS 39 investments								-3,276		-3,276
Change in value IAS 39 from hedging relationships							146			146
Withdrawals by Salzgitter AG from retained earnings										0
Group transfers to retained earnings			44,588						-44,588	0
Changes to the group consolidated										0
Deferred taxes on changes without effect on income			3,792		3,792					3,792
Others			2,619		-1,481					2,619
Status June 30, 2004	**159,523**	**287,530**	**562,932**	**-128,154**	**5,612**	**-9,472**	**4,604**	**6,808**	**14,980**	**1,026,905**

Segment Reporting

in T€	**2nd Quarter 2004**	2nd Quarter 2003	**1st Half 2004**	1st Half 2003
Consolidated sales				
Steel	**419**	358	**820**	764
Trading	**663**	522	**1,232**	1,022
Services	**75**	64	**152**	129
Processing	**57**	64	**104**	119
Tubes	**252**	234	**458**	474
Others/Consolidation				
Group	**1,466**	1,242	**2,766**	2,508

in T€	**2nd Quarter 2004**	2nd Quarter 2003	**1st Half 2004**	1st Half 2003
Income from ordinary operations				
Steel	**18.0**	5.3	**29.5**	7.4
Trading	**31.8**	3.2	**43.0**	5.6
Services	**5.0**	3.7	**9.8**	6.7
Processing	**-8.1**	-3.9	**-18.8**	-7.4
Tubes	**20.1**	1.4	**25.7**	1.6
Others/Consolidation	**-11.3**	0.7	**-7.5**	2.7
Group	**55.5**	10.4	**81.7**	16.6

Selected Notes to the Consolidated Financial Statements

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

1. The consolidated financial report of Salzgitter AG, Salzgitter, for the reporting period from January 1 to June 30, 2004, has been prepared as a condensed report with selected details annexed. The report has been compiled as before in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) in consideration of 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 Dec. 31, 2003.

3. In comparison with the annual financial statements to December 31, 2003, UNIVERSAL OCEL spol. s.r.o., Prague, which was previously fully consolidated, has been deconsolidated from the group of consolidated companies.

4. Effective as of January 1, 2004 Salzgitter Mannesmann Forschung GmbH has joined the Services Division and is no longer assigned to the Tubes Division.

Selected explanatory notes on the income statement

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

2. Earnings per share are calculated pursuant to IAS 33. The undiluted earnings per share based on the weighted number of shares in Salzgitter AG amount to € 0.95.

   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.

Events of significance

As of May 1, 2004, the PPS Personal-, Produktions- und Servicegesellschaft mbH, Salzgitter was renamed as SZST Salzgitter Service und Technik GmbH, Salzgitter.

In July 2004, Salzgitter AG signed an agreement to acquire the 50% share of Röhrenwerk Gebr. Fuchs GmbH, Siegen formerly held by ThyssenKrupp Stahl AG, to be economically effective as of January 1, 2004. The transaction still requires the approval of the cartel authorities as well as the respective supervisory bodies. Concurrently, the remaining 0.7% share of the equity of Mannesmannröhren-Werke AG held by ThyssenKrupp AG will also be acquired.

Investor Relations

The capital market and the performance of the Salzgitter share

The somewhat more optimistic mood, which had pervaded the **stock markets** as the global economy began to strengthen with effect from the second half of 2003, persisted in the first half of 2004, until curtailed by the terrorist attacks in Madrid on March 11. Following a renewed upward trend in early April, during the second quarter of 2004 there was a lack of uniformity in market developments. In the first half-year the DAX marked time, rising just 3%, while the MDAX put on over 14% in comparison with the beginning of the year.

After ending the year 2003 at € 8.79, the price of **Salzgitter stock** showed a positive development. The share price reached its first-half high on April 8 of € 10.65. However, as the markets underwent a general consolidation with effect from the end of April, the Salzgitter share price too was unable to continue its resurgence and tended sideways. The closing price of € 9.85 on June 30, 2004, marked an increase of 12% in the first half of the current year. Taking into account the ex-dividend markdown of € 0.25 following the annual general meeting on May 26, the overall performance was 15% for the first six months of 2004, thereby not only exceeding the gains recorded by the DAX and the European Steel Index, but also that of the MDAX.

The average **volume** of Salzgitter stock **traded daily** on the stock markets in Germany stood at 141,000 during the reporting period, well up on the previous year. With this order of trading and a **free float market capitalization** of € 360 million, at the end of June Salzgitter AG occupied 44th and 39th position respectively in the MDAX rankings prepared by Deutsche Börse AG.

Since the beginning of the year, as part of its **capital markets communication** program, Salzgitter AG has made presentations at two investor conferences. In addition, there have been roadshows in Frankfurt, London and Munich during the reporting period, as well as several meetings with analysts and investors in Salzgitter and Mülheim. The results for the financial year 2003 were presented in mid April at well-attended analyst conferences in Frankfurt and London.

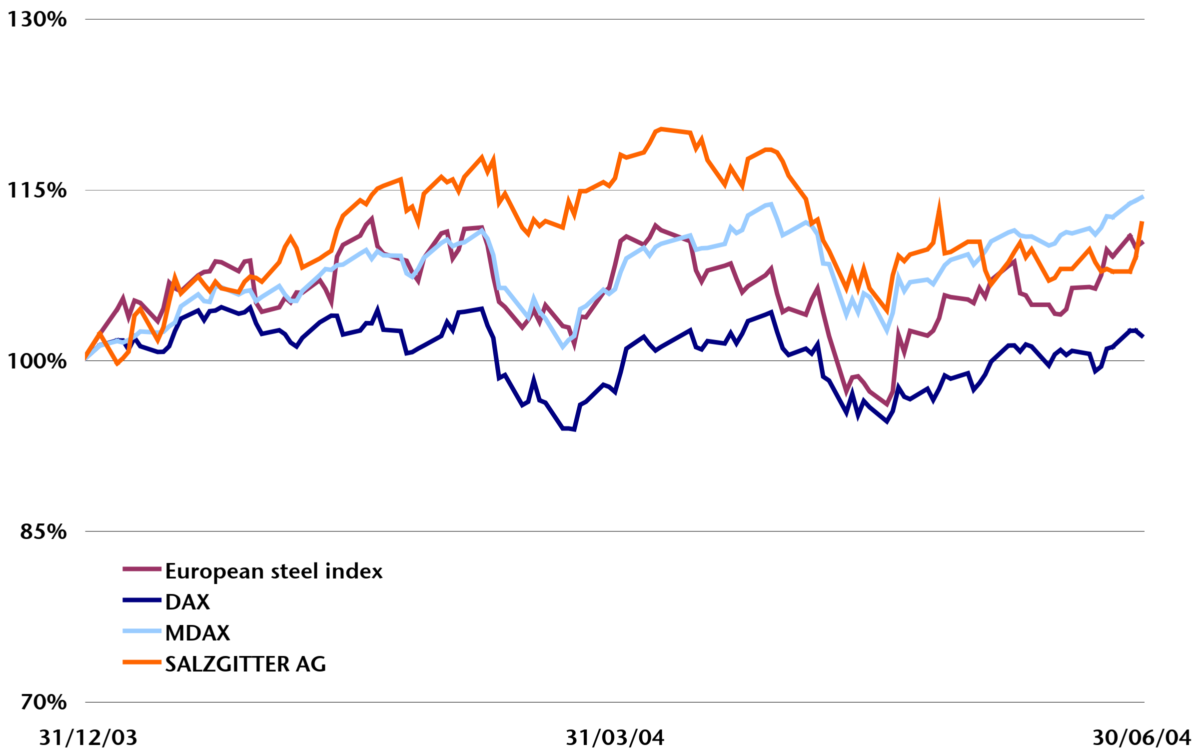
In total since the beginning of the financial year some 77 research studies and recommendations in respect of Salzgitter stock had been published by 30 research sources with the following current **ratings** (status June 30, 2004): 22 Buy/Outperform, 8 Hold/Neutral, 0 Sell/Underperform.

Information for investors

		H1 2004	H1 2003
Nominal capital	€ mil.	**159.5**	159.5
Number of shares	million	**62.4**	62.4
Market capitalization as of June, 30[1]	€ mil.	**614.6**	411.8
Price as of June, 30[1]	€	**9.85**	6.60
Stock market high[1]	€	**10.65**	7.59
Stock market low[1]	€	**8.72**	5.88
Security identification number	620200		
ISIN	DE0006202005		

[1] Information based on XETRA trading prices in Frankfurt

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



Sources: Xetra closing prices DBAG, Datastream STEELEU

Options/own shares

At the end of the first half-year of the 2004 business year there were a total of 861,400 stock rights held by Group employees entitling to one Salzgitter AG share respectively. These stock rights had been issued in connection with the share option program of 1998 for members of the managing board and executives.

As of June 30, 2004, treasury stock amounted to 1,131,751 shares. By comparison with December 31, 2003 (1,134,317 shares) this marks a decrease of 2,566 shares. According to the authorization by the Shareholders' Meeting of May 28, 2003 a total of 2,560 shares at an average price of EUR 8.37 were used as payment equivalent for services rendered by third parties in the period under review. Six shares were issued to members of staff as a bonus.

Financial calendar

November 12, 2004	Interim report 9 Months 2004
December 31, 2004	End of financial year 2004

Legal disclaimer

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

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