

INTERIM REPORT



- No sign of economic upswing in the second half to date
- Steel Division back in the black
- Group financial and accounting strengths bolstered

9 months 2002

Key Data – Overview

9 months 2002

Salzgitter Group

		9 months 2002	9 months 2001	Δ
Sales (consolidated)	€ m	3,528	3,391	4 %
Steel Division	€ m	1,106	1,134	-2 %
Trading Division	€ m	1,304	1,275	2 %
Services Division	€ m	178	170	5 %
Processing Division	€ m	81	89	-9 %
Tubes Division	€ m	859	723	19 %
Flat rolled products	€ m	1,600	1,542	4 %
Sections	€ m	523	483	8 %
Tubes	€ m	1,022	913	12 %
Proportion of exports	%	55	54	
Employees				
Personnel costs	€ m	671	611	10 %
Average annual workforce		18,455	16,930	9 %
Result from ordinary activities	€ m	68	125	-46 %
Net income	€ m	59	112	-47 %
Balance sheet total	€ m	3,831	3,580	7 %
Fixed Assets	€ m	1,979	1,690	17 %
Current Assets	€ m	1,852	1,890	-2 %
Inventories	€ m	846	748	13 %
Shareholders' equity	€ m	1,083	1,050	3 %
Borrowings	€ m	2,748	2,530	9 %
Provisions	€ m	1,957	1,954	0 %
Liabilities	€ m	791	576	37 %
thereof to banks	€ m	139	85	64 %
Investments¹⁾	€ m	163	181	-10 %
Depreciation and amortization	€ m	162	155	5 %
Key figures				
Earnings before interest and taxes (EBIT) ²⁾	€ m	83	134	-38 %
EBIT before depreciation (EBITDA)	€ m	245	289	-15 %
Return on capital employed (ROCE) ^{3) 4)}	%	8.7	15.2	
Cash flow from operating activities	€ m	87	108	-19 %

Financial statements according to IAS

1) without financial assets; 2) EBT plus interest paid (excluding interest element in transfers to pension provisions); 3) EBIT in relations to the total of the shareholders' equity, minority equity interests and tax provisions (excluding deferred taxes) and interests bearing liabilities; 4) annualized

Summary

The global economy is currently in a difficult and uncertain situation. The expectations engendered at the beginning of the year 2002 of accelerating growth in the second half of the year 2002 have not been met in the third quarter. Following a recovery phase in the spring, renewed fears of developments towards stagnation or recession emerged again. This outlook of a double dip at the turn of the year, especially in Western economies, clouded the general business environment and put the brakes on market activities. The persisting uncertainty stemming from the political situation in the Near and Middle East proved an additional negative factor. On the stock exchanges worldwide share prices fathomed unprecedented index levels that had not been seen throughout an observation period spanning the last five years.

In spite of this unfavorable environment the Salzgitter Group has succeeded in posting satisfactory results. The Steel Division profited from a further recovery of sales especially with regard to flat steel products. Based on a comparatively good sales volume and order intake, price rises have resulted a further improvement of performance, with a return to the black in the third quarter.

Following a very successful first half-year the Tubes Division delivered – as anticipated – a somewhat weaker performance that was still in the double-digit positive range. Considering the general economic situation, the performance of the other Group Divisions were on the whole in line with expectations.

The renewed slowdown of the global economy, in connection with the already foreseeable additional burdens on the overall domestic economy, prompts Salzgitter AG to exercise more caution in estimating results over the coming months: While the increasingly stable situation in flat rolled steel is likely to continue, the reluctance of industry and the public sector to invest, in connection with a fierce competitive environment, give cause for a more low-key assessment of the short-term outlook for other Group products. Orders being booked for large-scale projects such as the pipeline from the Caspian Sea to the Mediterranean indicate something of a revival for spring 2003, however, the temporarily weak demand for large-diameter and seamless tubes will inevitably be reflected in the current business year's sales and results.

Salzgitter AG anticipates that the Group in 2002 will record pre-tax profits in the same region as the performance achieved to date.

Key data for the first nine months of the 2002 business year:

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|---|---|
| • Consolidated external sales: € 3.5 billion
(+4 % vs. 9 months 2001) | • EBT Steel Division: € -25 million |
| • Pre-tax profits: € 68 billion
(-46 % vs. 9 months 2001) | • EBT Tubes Division: € 74 million |
| • Net income for the period: € 59 billion
(-47 % vs. 9 months 2001) | • ROCE first 9 months 2002: 8.7 %
(9 months 2001: 15.2 % – in each case annualized) |

Market development

At the end of the first half of the year early indicators had still been pointing towards accelerating growth of the global economy in the second half of the year. During the third quarter it became evident that these expectations would not be met. Following a perceptible increase in the spring of 2002, growth in global production had slowed considerably around the middle of the year, whereby the weakening of market growth in the USA in particular played a major role in this context. From this point on the global economy was overshadowed by fears of backsliding into a phase of recession once again. The element of political uncertainty emanating from heightened tensions in connection with the Iraq crisis proved an additional burden. The ensuing increase in oil prices siphoned off global buying power and upped production costs in energy-intensive industries. Renewed nose-dives of stock market prices, translating as the lowest index values since five years, reflected the desolate mood of capital markets and engendered repercussions on investment and consumer behavior.

In the Euro-region, economic activity had also initially picked up at the beginning of the year. The increase in production proved relatively modest, and the rise in gross domestic product hovered at levels below the medium-term trends. Against the backdrop of decreasing capacity utilization as of mid-year and clouding sales and earnings perspectives for the further course of the year, corporate investment

policies shifted into reverse gear. The impulses stemming from last year's expansive monetary policies were not able to stay this trend. In the meantime, forecasts for growth of gross domestic product (GDP) in the Euro-Region in 2002 have been trimmed down to 0.8 %.

By comparison, economic performance in Germany was even more lackluster. Here too, the economy stabilized in the second half of the previous year after teetering on the brink of recession, but a self-sustaining upswing failed to materialize. Actual gross domestic product expanded slightly in the first half of the year, but overall economic capacity utilization continued to decline. Industrial order intake dipped by 1 % by comparison with the second quarter. Foreign demand was mainly responsible for the contraction in incoming orders, that were – seasonally adjusted – almost 2.5 % below the value of the same quarter last year. In domestic business the number of deals transacted edged up slightly over the level of the second quarter. The construction industry, a significant sector for the steel trade, failed to reverse its fortunes in the third quarter. By comparison with the poor previous year, the inflow of new orders had declined once again by 5 %. Against the background of the overall economic environment, the situation on the labor markets depreciated, causing consumers to tighten their purse strings. OECD economic researchers forecast domestic GDP growth of a mere 0.4 % for the ongoing year.

The autumn forecast issued by the Association of German Economic Research Institutes predicts economic growth of 1.4 % in Germany and 1.8 % in the European Union for the coming year.

In the meantime the corporate mood has clouded further still. The ifo business climate index gauging the sentiment in industry and commerce in the Western Federal States depreciated this October for the fifth time in a row. This decline relates to the expectations for the next six months. The slight improvement in assessments of the current business situation has remained steady by comparison.

Business situation within the Group

Although – as described – the economic situation has failed to improve as was originally expected, the Salzgitter Group has once again succeeded in achieving satisfactory performance given the current general conditions within the reporting period.

In the first three quarters the Salzgitter Group, together with V & M Tubes and including V & M Star and Hüttenwerke Krupp Mannesmann, produced a total of 6.1 million tons of crude steel, which is exactly on par with the output in the first nine months of 2001.

After the first nine months of the 2002 business year consolidated external sales totaled € 3.528 billion, thereby weighing in at 4 % above the reference period in 2001 (€ 3.391 billion). The increase is

attributable to the sales contributions by the companies Universal Eisen und Stahl GmbH (UES), Robert & Cie S.A.S. (Robert), DMV Stainless S.A.S. (DMV) and EUPEC GmbH (EUPEC) that had not been consolidated in the previous year. The exclusion of these companies would have resulted in a decline in external sales of around 5 %.

Up to the end of September 2002 pre-tax profits came in at € 68 million. By comparison with the exceptionally good reference period last year of € 125 million EBT, this year's figure was 46 % lower. Profits after tax stood at € 59 million. By comparison with last year's € 112 million EAT this represents a decline by 47 %.

The major cause for this was the Steel Division's poor market situation at the beginning of the business year due to the sluggish economic climate. Since the beginning of the second quarter the Division was able to realize two significant price increases, especially for flat rolled products. Due to the comparatively high share of long-term contracts and the influence of product specific throughput times, there is a resulting delay in the development of earnings. Consequently, it was only by the third quarter that a considerable improvement of the quarterly earnings became visible.

The performance of the Tubes Division, that is identical with the Mannesmannröhren Werke AG (MRW), lost momentum in the third quarter as expected, but nevertheless remained on a satisfactory level.

Management Report

Some € 10 million launching expenditures for two Processing Division companies not yet consolidated (Salzgitter Bauelemente GmbH and Salzgitter Antriebstechnik GmbH) were included in the Group's quarterly balance sheet as well as profits of around the same volume resulting from the reduction of interests in the US steel company Steel Dynamics Inc. (SDI). This will ease the strain on future results. The sale of shares reduces our interests in SDI to below 10 %.

In the first nine months Group EBIT (earnings before tax and interest) came in at € 83 million

(-38 % vs. 9 months 2001) and EBITDA (EBIT before depreciation) at € 245 million (-15 % vs. 9 months 2001).

These EBIT and EBITDA figures do not include the interest share of allocations to pension accruals; including this item results in EBIT of € 150 million and EBITDA of € 311 million.

The most important indicator of financial success of Salzgitter AG, the return on capital employed (ROCE) amounted to 8.7 % (9 months 2001: 15.2 %).

As of September 30, 2002 Salzgitter AG had net bank debts of € 38 million. By com-

parison with the end of the second quarter, the level of debt was trimmed by € 55 million. At the comparable period of the preceding year the Group had a positive balance of € 190 million vis-à-vis lending institutions. The changes in the consolidated entity, especially those relating to the companies of the UES as well as the DMV-Group, resulted in an increase in the level of debt by annual comparison of € 73 million. Moreover, the implementation of the internal and external growth strategy involving a high investment volume in the area of steel production necessitated considerable financial means during the course of the

year 2002. At € 163 million investments in fixed assets in the period under report were nevertheless lower than the year before (€ 181 million) and were on the same level as depreciation (€ 162 million). As reported, the Group's contribution to the acquisition of V & M Star (formerly North Star Steel Tubes Division) by our associate company Vallourec & Mannesmann Tubes S.A. (V & M) totaling € 67.5 million increased net indebtedness.

The increase in the balance sheet total by € 251 million (approximately 7 %) to € 3.831 billion compared with the figures as of September 30,

Group Divisions

Consolidated Sales				
€ T	3rd quarter 2002	9 months 2002	3rd quarter 2001	9 months 2001
Steel Division	358,559	1,106,271	359,808	1,134,087
Trading Division	439,431	1,304,156	433,091	1,275,082
Services Division	58,831	177,093	50,697	169,554
Processing Division	28,841	81,466	31,935	89,535
Tubes Division	276,168	859,386	232,807	722,929
Others/Consolidations	0	0	0	0
Group	1,161,830	3,528,372	1,108,338	3,391,187

Income from ordinary activities				
€ T	3rd quarter 2002	9 months 2002	3rd quarter 2001	9 months 2001
Steel Division	1,157	-25,284	358	40,912
Trading Division	397	7,018	2,918	6,431
Services Division	2,562	9,422	5,080	13,425
Processing Division	-2,219	-7,130	-1,371	-3,159
Tubes Division	13,116	73,931	32,988	69,330
Others/Consolidations	2,899	9,900	433	-2,269
Group	17,912	67,857	40,406	124,670

Segment data by Divisions

2001 is mainly attributable to the companies UES, Robert, DMV and EUPEC that were consolidated for the first time.

From an economic perspective – in consideration of the negative difference resulting from the consolidation of capital (negative goodwill or so-called badwill) as well as minority interests – the equity ratio lies at 33 % (reference period: 35 %).

At the end of the third quarter the Group employed a regular workforce of 18,082 employees, representing an additional 1,256 staff or a 7 % increase over the figure recorded at the end of the same period last year. This increase is due to the consolidation of Robert, DMV, UES and EUPEC. At the end of September there were 914 trainees engaged at the Group by comparison with 877 as of September 30, 2001.

Steel Division

Industrial production made a slow comeback from the trough in the first half of the year and lent only moderate impetus to steel consumption in the EU. Following on a modest revival in the second quarter of 2002, the seasonally adjusted further course of developments were characterized by declining growth rates in steel consumption. The positive figures, by comparison with last year's reference periods, were calculated on the foundation of low basic values and therefore did not reflect an actual economic upswing.

With regard to inventories, replenishment ordering was moderate in the first half of the

year. According to Eurofer, the European association of the iron and steel industry, the reduction in inventory levels that set in at the beginning of the second half of the year is likely to continue through to the end of the year.

In response to the still relatively low price level and the poor state of the European Union steel market, imports from third countries declined during the first half of the year. By the end of the year this trend may weaken in the case of a number of products due to further strengthening of prices and a worldwide increase in trade barriers. Shipments of EU manufacturers to the EU markets showed only a moderate increase due to the weak economic activity; this factor made a major contribution to the price hikes of flat rolled products since the spring.

During the first three quarters of the 2002 business year the Steel Division of Salzgitter AG produced a total of 3.856 million tons, including 3.099 million tons of LD steel and 0.757 million tons of electro-steel. This quantity is slightly above the volume turned out in the same period in 2001. The production of rolled steel including input stock for further processing stands at 3.592 million tons and is 7 % above the previous year's figures (3.413 million tons).

Shipments of rolled steel and processing products amounted to 3.709 million tons, representing a 7 % increase over the same period last year at 3.457 million tons. Shipments of rolled steel stood at 3.540 mil-

lion tons (+8 %), while processing products amounted to 169 Tt (-1 %).

The Steel Division posted external sales of € 1.106 billion, which are down by 2% on the same period last year (€ 1.134 billion). Total sales (excluding deliveries to companies within the Division) came in at € 1.458 billion and were thereby on par with last year's reference period (€ 1.443 billion). Salzgitter Flachstahl GmbH contributed sales of € 835 million, Peiner Träger GmbH € 324 million, while Ilsenburger Grobblech GmbH posted € 227 million and Salzgitter Großrohre GmbH € 72 million.

Profits of € 1.2 million were recorded once again in the third quarter of the 2002 business year. By comparison with the previous quarter this figure represents an increase in performance of € 13.7 million. The accumulated result of the first 9 months thereby improved slightly to € -25.3 million (9 months 2001: € 40.9 million).

After losses in the two preceding quarters Salzgitter Flachstahl GmbH once again showed decidedly positive performance in the third quarter. As in the first half of the year Salzgitter Großrohr GmbH also turned a profit. Peiner Träger GmbH and Ilsenburger Grobblech GmbH, however, returned slightly negative results, whereby production output at Ilsenburger Grobblech GmbH dropped below the levels of the other quarters of the year due to a planned three-week maintenance and modernization standstill period. The improved earnings situa-

tion of Salzgitter Flachstahl GmbH is mainly caused by the increase in revenue and the decline in procurement costs for raw materials and energy costs, for example. Further price rises at the beginning of the third quarter will incur positive effects on results in the coming months; due to the comparatively high share of long-term contracts and the influences of product specific throughput times, there is a certain time delay before price changes start impacting results.

In the steel sections and plates areas the disinclination to invest on the part of industrial clients and the public sector has depressed sales volume. Business with the construction industry in particular remains sluggish. Due to protectionist measures on global markets it has not been possible to compensate tepid domestic demand by export business.

The volume of orders received by the Steel Division was on a satisfactory level. At 3.862 million tons in the first nine months, order intake improved over last year (3.303 million tons) by 17 %. As of September 30, 2002 orders in hand for rolled steel and processed products amounted to 1.424 million tons, marking a 23 % increase over last year (September 30, 2001: 1.153 million tons). This volume is likely to assure a satisfactory employment level over the next months in most product lines.

As of the end of September 2002 the Steel Division had a total workforce of 6.989 employees (regular workforce

without trainees and interns). By comparison with the reference period last year with a regular workforce of 6.986 employees the number of staff has remained more or less unchanged.

A sub-project that is part of the large-scale investments in the hot strip mill has been postponed to the coming year due to unexpected problems arising at the respective supplier. This change in schedule has not incurred any disturbances in our operational sequences and all other projects have proceeded as planned.

Trading Division

The current market situation is also reflected by the business activities of the Trading Division.

In the first nine months steel sales of 3.375 million tons were up by 7 % over the same period last year (3.150 million tons). Adjusted by the companies UES and Robert that had not yet been consolidated in the last year, sales were down by some 10 %.

In the sector of the domestic, warehousing-based trade activities of the Salzgitter Handel Group of companies, sales came in below the previous year's volume, whereby the difficult situation of the construction industry in Germany was mainly responsible for this performance. By comparison, business developments of the Dutch companies were satisfactory with sales and turnover above the level of the previous year.

After relatively good developments in the first half of the year, the trading business of Salzgitter International GmbH was affected by the lackluster general environment: tepid demand from North America and many Asian markets resulted in relatively weak business development, while the situation in China, South Korea and Africa was better.

All in all, the sales figures posted by the steel service center Hövelmann & Lueg based in Schwerte, as well as those recorded by the French Robert Group remained stable. The plate specialist UES reported a moderate decline in sales volume.

In the first three quarters of the 2002 business year the Trading Division generated external sales of € 1.304 billion, marking a 2 % increase over last year's reference period (€ 1.275 million). The first-time consolidation of UES and Robert accounts for a total of € 111 million. Pre-tax profits amount to € 7.0 million, thereby representing a 9 % increase over the same period last year (€ 6.4 million).

As of September 30, 2002 the Division's workforce comprised 2,068 employees, an increase of 337 members of staff due to the above-mentioned consolidation.

Services Division

In the first nine months of the 2002 business year the Services Division recorded external sales of € 177 million, thereby slightly exceeding the previous year's figure of € 170

million. Total sales of € 440 million were 6 % above the level of last year's reference period. Pre-tax profits came in at € 9.4 million (9 months 2001: € 13.4 million). This decline is also attributable, among others, to a change in business policies with regard to intragroup pricing and settling. With the exception of PPS GmbH posting a nearly balanced result, the remaining companies of the Service Division were generating profits in the period under observation.

Processing Division

Up to the end of September 2002 the Processing Division generated external sales of € 81 million. This represents a decline by 9 % over the € 90 million recorded during the same period last year. The pre-tax result was € -7.1 million by comparison with € -3.2 million as of September 30, 2001. Among the companies of this Division, Hoesch Spundwand und Profil GmbH (HSP) remains the only consolidated firm to date. Over the past months HSP was especially impacted by the desolate situation of the domestic construction industry and the decline in public sector investment. A concrete program of measures geared to enhancing productivity has been approved and implemented. In addition to the almost completed modernization of production facilities, staff cutbacks are the key element of this program, and will incur additional expenditure in the fourth quarter.

The additional – currently not consolidated – companies assigned to this Division are

active as suppliers to the automotive industry. Salzgitter Europlatinen GmbH and Salzgitter Automotive Engineering GmbH achieved satisfactory, positive results. In July 2002 Salzgitter Magnesiumtechnologie GmbH successfully assumed production of magnesium sheet and is currently in the phase of running-up operations.

Tubes Division

Negative market factors are currently holding sway over the tubes sector. Although high oil prices – as are presently prevailing – generally exert a positive influence on the tubes business, general market activities have slowed down decidedly since the second quarter. This situation is due to the fact that the current high price level is not a reflection of strong demand, but the result of speculative surcharges of between 3 – 5 US-\$/bl based on the critical situation in the Near and Middle East regions. Consequently there are currently no stimulating effects within the oil and gas industry that would encourage investments in the exploration and production areas. In sales branches outside of the energy sector the oil price levels are exerting a contractive effect on business activities.

In the first nine months of the year consolidated external sales of the Tubes Division amounted to € 859 million. By comparison with the same period last year with sales of € 723 million, this represents an increase by 19 %. Sales growth is attributable to the first time consolidation of DMV

and EUPEC. Adjusted by all changes of the consolidated group, external sales stand at € 679 million. The Division's pre-tax earnings total € 73.9 million, representing a 7 % increase over last year (€ 69.3 million).

In the various product areas of Mannesmannröhren Werke AG the situation is as follows:

The weak demand for seamless tubes continued during the third quarter. Especially the demand for OCTG, particularly in the Far East and Near East, left much to be desired. By contrast, developments in the USA ran a somewhat better course. In Europe the discussions revolving around an increase in taxation on oil and gas production in Great Britain prevented a rise in consumption. In non-energy related areas slight improvements were recorded, as orders obtained from European wholesalers and mechanical engineering companies picked up slightly. Thanks to a large-scale project in Southeast Asia the situation in construction tubes was quite gratifying, whereby this segment only represents a small share of the production program within the overall context of V & M. Business activities of V & M do Brasil were clouded by the poor situation of the domestic economy. The company's performance reported in the Real, the Brazilian currency, was nevertheless satisfactory.

In the third quarter the order intake for seamless tubes at V & M Tubes SA was above the figures recorded in the first two quarters. This increase is

attributable to the first-time consolidation of V & M STAR as of July 1, 2002. Without this effect there is a decline over previous year's performance, especially due to the slowdown in OCTG business.

The precision tubes market continued to develop at a modest pace. This area was impacted by the low-key and/or stagnating domestic and foreign demand from the automotive industry and its suppliers, and particularly by weak demand from machine building and plant engineering customers. In spite of this, MHP Mannesmann Präzisionsrohr GmbH succeeded in outflanking the order intake recorded in the first nine months of 2001.

At DMV Stainless the third quarter failed to mark a recovery in the demand for stainless steel tubes. In addition to weak demand for cold-rolled tubes that has been evident since about half a year, business with hot-rolled tubes has recently also become more difficult. In spite of this situation, the order intake of the DMV Stainless group of companies was almost on par with last year's level during the period under review.

By contrast, Mannesmann Linepipe GmbH and Fuchsrohr GmbH experienced a strong upsurge in demand for medium line pipes in the third quarter. In this area a number of projects that had been put on hold are now moving ahead and generating a positive effect on the level of revenues. Orders from South Europe, North America and the Far

East are ensuring a satisfactory employment situation in the winter months. The order intake is slightly lower than last year's reference period.

All in all the market for large-diameter pipes was hotly contested. The awarding of contracts in a number of projects was delayed, thereby resulting in increased price pressure. Europipe GmbH, however, managed to book an impressive order in the third quarter. In September a large volume order for 125 Tt was booked in Turkey, and the respective production activities are scheduled mainly for the first half-year of 2003. This order is for a section of the 1,700-kilometer long pipeline extending from Baku on the Caspian Sea to Ceyhan in Turkey. In addition to this order for large-diameter pipes, Mannesmannröhren Mülheim GmbH will be delivering more than 200 pipe bends. In the third quarter of 2002 the order intake at Europipe exceeded the figures recorded in the first two quarters but was below the previous year's performance. The employment situation called for adjustment measures in the third quarter.

In the third quarter the consolidated order intake of Mannesmannröhren Werke AG (MRW) was on the average level recorded in the first two quarters. At € 727 million the volume of orders for the period from January through to September is 16 % above last year's figures. This increase is attributable to the consolidation of DMV and EUPEC. The adjusted figures undercut last year's figures by 15 %, which is mainly due to the lower order

intake at MHP and Europipe. At the end of September the Division's consolidated orders in hand dipped only slightly over last year's level to a current € 352 million.

As of September 30, 2002 the Tubes Division had a regular workforce of 4,722 employees (workforce without trainees and interns). In view of numerous changes in the company structure by the inclusion of DMV and EUPEC to the consolidated group of companies the previous year's figure of 3,787 employees is only comparable to a limited extent.

Outlook

The renewed slowdown of the global economy in the second half of the year has prompted Salzgitter AG to take a more cautious assessment of the course business developments will run over the next months:

One positive aspect is the fact that the increasingly stable situation in flat steel is likely to continue. This presupposes a sustained balanced relationship between steel consumption and market supply. Another round of modest price increases for the first quarter of 2003 was recently announced and is already being applied to orders booked. In the sections business segment there will be no additional impulses over the short term in view of the weak performance of the construction industry and the winter season interruption of construction activities. In the plates product market the comparatively satisfactory situation in the tube input material business is giving rise to moderate

optimism. Due to increasing trade restrictions barriers on international markets the potential for increasing prices and sales volume is currently limited. All in all, the earnings situation of the Steel Division is expected to improve further over the coming months.

In the steel trading area significant changes in the business situation are not anticipated at present, as here too, the domestic construction industry as key client will not be generating growth impulses over the short term. The Services Division is expected to continue to deliver constantly positive performance as has been the case to date. In the Processing Division the business situation of the assigned companies will result in a slight burden on results in the fourth quarter. The above-mentioned restructuring measures at HSP will necessitate additional financial expenditure.

In the Tubes Division there are two product areas in which a temporarily lower capacity situation will be arising in the fourth quarter:

In the seamless tubes area the lower volume of orders placed by oil companies, also a result of the political situation in the Near and Middle East, resulted in decreasing capacity utilization at the V & M plants. In view of the relatively stable pricing situation the earnings are likely to remain satisfactory, although lower than the previous quarters. An upswing is expected to set in as of the second quarter of 2003 at the latest.

With regard to Europe's large-diameter tubes business project delays also in the last quarter of the business year will result in temporary periods of employment adjustment at the plants. The booking of the large-scale order in September will bring the employment situation back to normal levels.

Other Division products are expected to show steady business developments. All in all, the temporary weakness in capacity utilization in the large-diameter tubes and seamless tubes area will not remain without effect on the sales and results the Tubes Division will be generating in the ongoing business year.

The earnings forecast issued this spring was based on the proviso that there would be no renewed depreciation in the economy and the specific market situation of individual Division companies. As such a depreciation of economic conditions as outlined above has set in, Salzgitter AG has decided to revise the forecast of annual performance for the 2002 financial year. Nevertheless, Salzgitter AG assumes that the Group will achieve pre-tax profits in the same volume as have been generated to date.

Shares

The dwindling prospects of a recovery of the global economy in the second half of the year, as well as persisting political uncertainty, exerted considerable pressure on the stock markets worldwide during the third quarter of the financial year. German stock exchanges

sustained substantial losses. While the Dow Jones and the FTSE 100 Index lost between 25 to 30 % since the beginning of the year up to September 30, losses on the DAX were in the region of 45 %, while the MDAX lost around 35 %. Salzgitter's shares were not immune to this negative trading environment. Share prices continued to weaken in the third quarter and Salzgitter stock closed in Frankfurt on September 30, 2002 at € 7.45. Given this price, however, Salzgitter shares had still outperformed the German indexes.

During the reporting period the turnover of shares on German stock markets averaged around 52,000 units daily, documenting a receding market that reflects the general economic situation. In terms of trading volume, Salzgitter AG holds place 70, while a market capitalization of € 465 million places Salzgitter at 67 in the DAX 100 listing of companies of Deutsche Börse AG; given these developments the company has succeeded in holding its MDAX ranking.

At the analyst conferences held on August 28 in Frankfurt and August 29 in London, the results of the first half of the 2002 business year were presented and discussed. In addition, the third quarter saw a corporate presentation in London, two road shows, as well as a number of rounds of talks with analysts. On September 4, 2002, the German financial magazine Capital ranked the investor relations work of Salzgitter AG at fourth place among MDAX companies. Since the beginning of the

financial year 29 research surveys and recommendations focusing on Salzgitter stock have appeared with the following rating: 22 Buy/Outperform, 6 Hold/Neutral; 1 Sell/Underperform (as of November 25, 2002).

Events of significance

As already stated in our half-year report production activities at MHP Mannesmann Presné Trubky s.r.o. in Chomutov (Czech Republic) were discontinued at the end of April 2002. All of the shares of the company held by Salzgitter AG were sold on July 10, 2002.

As of July 1, 2002 VAL-LOUREC & MANNESMANN TUBES acquired the steel tube activities of the US North Star Steel Company with production locations in Youngstown (Ohio) and Houston (Texas). The name of the newly founded company is V & M STAR and ranks as a leading manufacturer of high-quality seamless tubes in the diameter range between 5 and 10" for the oil and gas industry (OCTG tubes). V & M STAR employs around 560 members of staff and generated sales of US-\$ 328 million and pre-tax earnings of US-\$ 70 million.

On August 15, 2002 the company Salzgitter Handel Skandinavien AB (SHS) domiciled in Stockholm was founded. The company takes over part of the business activities and the respective employees from INEXA AB, who had been assigned with the sale of products of the Salzgitter Group to date.

In September 2002 the British Wescol plc. Group (Halifax, UK) opened bankruptcy proceedings. The steel construction and engineering company in which Salzgitter AG held minority interests (26,2 %) was part of the Processing Division. Mainly in the previous year, but also in the half-year Group balance sheet as of June 30, 2002, SZAG had already taken adequate measures for such an event.

Investigations concerning the acquisition of additional interests in the steel processing industry are being continued.

Financial Statements

Consolidated Income Statement (according to IAS)

January 1, 2002 to September 30, 2002

€ T	3rd quarter		9 months	
	01/07 – 30/09/02	01/07 – 30/09/01	01/01 – 30/09/02	01/01 – 30/09/01
Sales	1,161,830	1,108,338	3,528,372	3,391,187
Increase or decrease in finished goods and work in progress and other own work capitalized	14,313	-7,696	-23,358	1,899
Other operating income	42,230	32,815	120,901	95,336
Cost of materials	794,790	713,703	2,317,878	2,213,870
Personnel expenses	226,549	212,075	671,375	610,515
Amortization and depreciation on intangible and tangible assets	50,729	53,854	161,598	154,655
Other operating expenses	127,021	128,444	407,990	390,226
Income from shareholdings	731	259	2,037	285
Income from associated companies	20,757	35,554	69,408	67,092
Net interest income	-22,860	-20,788	-70,662	-61,863
Net operating income	17,912	40,406	67,857	124,670
Taxes	8,012	-895	9,070	12,403
Consolidated net income for the year	9,900	41,301	58,787	112,267
Net income due to minority shareholders	1,492	462	4,209	1,465
Net income due to shareholders of Salzgitter AG	8,408	40,839	54,578	110,802
Appropriation of income				
Net income due to shareholders of Salzgitter AG			54,578	110,802
Non-distributed income brought forward from previous year			28,014	46,011
Dividends			-25,918	-32,816
Transfer to/Withdrawal from other retained earnings			-37,954	-81,994
Non-distributed income to Salzgitter AG			18,720	42,003
Earnings per share (in €)			0.88	1.83

Cash Flow Statement (according to IAS 7)

January 1, 2002 to September 30, 2002

€ T	01/01 – 30/09/2002	01/01 – 30/09/2001
Net income for the year	54,578	110,802
Depreciation (+)/appreciation (-) on fixed assets	161,545	154,654
Other expenses (+)/income (-) not affecting payments	10,223	-32,174
Interest expenses	81,765	77,805
Profit (-)/loss (+) from disposal of fixed assets	-18,150	-630
Increase (-)/decrease (+) in inventories	29,640	7,573
Increase (-)/decrease (+) in trade receivables and in other assets that cannot be allocated to investment or financing activities	-44,973	-113,043
Increase (+)/decrease (-) in provisions	-156,776	-138,220
Increase (+)/decrease (-) in trade payables and in other liabilities that cannot be allocated to investment or financing activities	-31,201	41,380
Cash flow from operating activities	86,651	108,147
Payments received from disposals of fixed assets	5,974	3,491
Payments made for investments in intangible and tangible assets	-147,360	-180,698
Payments received from disposals of financial assets	30,229	608
Payments made for investments in financial assets	-75,303	-28,910
Cash flow from investment activities	-186,460	-205,509
Payments made for buy-back of own shares	-1,523	33,374
Dividend payments	-25,918	-32,816
Payments received from bond issues and amounts borrowed	47,824	0
Repayments of bond issues and amounts borrowed	-34,812	-76
Interest paid	-11,541	-9,260
Cash flow from financing activities	-25,970	-8,778
Cash and cash equivalents at beginning of period	226,669	380,954
Changes in cash and equivalents affecting payments	-125,779	-106,140
Cash and cash equivalents at end of period	100,890	274,814

Financial Statements

Consolidated Balance Sheet at September 30, 2002

Assets (€ T)	30/09/2002	30/09/2001
Fixed assets		
Intangible assets	-244,196	-303,776
Goodwill/negative goodwill from capital consolidation	-261,092	-318,963
Other intangible assets	16,896	15,187
Tangible assets	1,450,131	1,348,682
Financial assets	234,171	154,382
Shareholdings in associated companies	538,788	491,030
	1,978,894	1,690,318
Current assets		
Inventories	845,973	748,480
Receivables and other assets	896,211	845,233
Trade receivables	711,807	702,087
Other receivables and other assets	184,404	143,146
Trade securities	645	5,141
Cash and cash equivalents	100,890	274,814
	1,843,719	1,873,668
Prepaid expenses for deferred taxes	718	924
Prepaid expenses	7,475	14,850
	3,830,806	3,579,760

Shareholders' equity and liabilities (€ T)	30/09/2002	30/09/2001
Shareholders' equity		
Subscribed capital	159,523	159,523
Capital reserves	287,530	287,530
Retained earnings	625,229	567,201
Non-distributed income	18,720	42,003
	1,091,002	1,056,257
Treasury shares	-7,748	-6,237
	1,083,254	1,050,020
Minority interests	21,105	9,132
Provisions		
Provisions for pensions and similar obligations	1,513,071	1,536,312
Tax provisions and other provisions	444,349	417,872
	1,957,420	1,954,184
Liabilities		
Bonds	3,640	3,742
Liabilities to banks	139,218	84,707
Trade payables	330,527	312,402
Other liabilities	284,805	149,308
	758,190	550,159
Deferred income	10,837	16,265
	3,830,806	3,579,760

Selected notes to Financial Statements

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

1. The consolidated quarterly financial report of Salzgitter AG, Salzgitter, for the reporting period from January 1 to September 30, 2002, has been prepared as a condensed report with selected details annexed. The report has been prepared in accordance with the International Accounting Standards (IAS) published by the International

Accounting Standards Board (IASB) in consideration of the reduced 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 statement to December 31, 2001.

3. In comparison with the annual financial statement to December 31, 2001, two companies have been deconsolidated from the group of consolidated companies. One of these was a German, the other a foreign company, which had both previously been fully consolidated.

Selected explanations of the income statement

1. Sales by Divisions are illustrated under the heading

of segmental reporting. 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 have been calculated pursuant to IAS 33. The undiluted earnings per share based on the weighted number of shares in Salzgitter AG amounted to € 0.88.

Statement of Changes in Equity

T €	Subscribed capital	Capital-reserve	Retained earnings	Therof from currency translation	Buy-back of own shares	Fair value to IAS 39	Group net income for the year	Shareholders' equity
At 01/01/2001	159,523	287,530	455,773	-7,143	-37,937		46,011	910,900
Net income for the year							110,802	110,802
Dividend							-32,816	-32,816
Fair value to IAS 39			30,320					30,320
Buy-back of own shares					31,700			31,700
Currency translation			-711	-711			-175	-886
Transfer by Salzgitter AG to retained earnings			81,819				-81,819	0
Other								0
At 30/09/2001	159,523	287,530	567,201	-7,854	-6,237		42,003	1,050,020
At 01/01/2002	159,523	287,530	572,201	-16,410	-6,225	44,206	28,014	1,085,249
Net income for the year							54,578	54,578
Dividend							-25,918	-25,918
Fair value to IAS 39						-17,212		-17,212
Buy-back of own shares					-1,523			-1,523
Currency translation			-3,468	-3,468				-3,468
Transfer by Salzgitter AG to retained earnings			37,954				-37,954	0
Disposal through deconsolidation			-8,452					-8,452
Other								0
At 30/09/2002	159,523	287,530	598,235	-19,878	-7,748	26,994	18,720	1,083,254

Future reporting dates

December 31, 2002
Fiscal Year 2002 ends

March 13, 2003
Key Data for Fiscal Year 2002

April 15, 2003
Balance Sheet Press
Conference

April 16, 2003
Analysts Conference, Frankfurt

April 17, 2003
Analysts Conference, London

May 15, 2003
Interim Report on the first
quarter of 2003

May 28, 2003
General Meeting to consider
the Fiscal Year 2002

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