



SMAX Interim-Report 1999/00

October 1, 1999 to June 30, 2000

Interim Report of Salzgitter AG for the First Three Quarters of the 1999/2000 Fiscal Year from October 1, 1999 to June 30, 2000

Salzgitter Group		1st-3rd quarter 1999/2000 year-to-date	1st-3rd quarter 1998/1999 year-to-date	Δ
Production of Crude Steel	1,000 t	3,796	3,434	+ 362
Sales (incl. internal sales)	euro million	3,088	2,513	+ 575
Steel Production Division	euro million	1,253	1,160	+ 93
Steel Trading Division	euro million	1,364	1,079	+ 285
Raw Materials and Services Division	euro million	380	274	+ 106
Industrial Shareholdings	euro million	91	0	+ 91
Internal Sales	euro million	665	535	+ 130
Consolidated Sales	euro million	2,423	1,978	+ 445
Pre-tax Profit	euro million	67,3	22,0	+ 45,3
Steel Production Division	euro million	50,3	12,3	+ 38,0
Steel Trading Division	euro million	11,8	8,7	+ 3,1
Raw Materials and Services Division	euro million	8,5	2,6	+ 5,9
Other	euro million	-3,3	-1,5	-1,8
Balance Sheet Total	euro million	1,971	1,639	+ 332
Inventories	euro million	608	480	+ 128
Net Liabilities ¹⁾	euro million	-97	-48	-49
Employees (June 30, 2000)²⁾		13,019 ⁵⁾	12,272 ⁶⁾	+ 747
Investments in Tangible Assets³⁾	euro million	121	59	+ 62
Key Figures				
Earnings before Interest and Tax (EBIT)	euro million	93	40	+ 53
EBIT before Depreciation (EBITDA)	euro million	189	120	+ 69
Cash Earnings ⁴⁾	euro million	146	95	+ 51

¹⁾ Including own shares and relations to affiliated companies (which include net liabilities due to banks - 151 million euros (1999/2000) and - 27 million euros (1998/1999) respectively); ²⁾ Without trainees; ³⁾ Including intangible assets; ⁴⁾ 1998/1999 according to the former cash flow definition in accordance with DVFA/SG; ⁵⁾ Including HSP; ⁶⁾ Including VPS

Market Development

The strong worldwide economic upswing continued during the fiscal year. The economic trend in major industrial countries as well as in the developing countries indicates that an intense economic upturn is taking place worldwide at the present time and is expected to last through 2001.

Growth of industrial production in the euro-zone increased significantly during the course of the year 2000. The monthly industrial confidence index determined by the European Commission within its industry and consumer polls reached its highest level since its introduction in 1985. This is mainly based on an optimistic assessment of the order situation and the expectation of a favorable production development. Attended by this favorable international and European scenario, the German economy developed strong driving forces supported particularly by international activities. The prevailing development and the positive economic indicators confirm a vigorous economic growth in Germany of approximately 3 percent during the year 2000. The same situation is generally acknowledged to also apply to Western Europe.

The steel market situation is in line with the overall economic development. Steel consumption in the EU has increased significantly since the beginning of the year and is likely to have grown by another 4 percent during the April to June 2000 period as compared with the first quarter of the year. Worldwide crude steel production rose again, namely from 202 million tonnes during the first quarter to almost 211 million tonnes during the second quarter 2000. In the EU, crude steel production during the April to June 2000 period was 42 million tonnes, up 1 million tonnes on the previous quarter. In Germany, production during the same period increased to 11.7 million tonnes, slightly more than during the previous quarter.

Production, Order situation

The favorable state of the economy also had its positive effects on the activities of the Salzgitter Group. Order situation and capacity utilization in all divisions were improved. Crude steel production of Salzgitter AG during the reporting period rose by 10.6 percent over the year-earlier period and reached almost 3.8 million tonnes. Both steel plants were working to capacity. Production was up 7 percent on the quarterly average of the previous year.

Incoming orders for rolled steel and processed products of the Steel Production Division amounted to 3.41 million tonnes (previous year 3.32 million tonnes) and thus exceeded tonnage shipped by about 60 ktonnes. The order backlog at the end of the reporting period thus remained nearly unchanged as compared with the high level of the previous quarter. As the building elements activities were spun off into a separate company on April 1, 2000, their data is no longer included in the processing activities of the division. Made comparable, a comparison with the previous quarter shows a strong increase of new order bookings, primarily due to an upturn of the large diameter pipe business. After the strong growth at the beginning of the year, the expected slowdown set in during the second quarter. Additionally, incoming orders were negatively affected by the fires on the electrolytic galvanizing line on March 7 and May 15, 2000. New order bookings for cold rolled sheets and surface coated products had to be curbed. It was possible to realize significant price increases for all products, helped by the positive market trend. The most substantial price hike could be achieved for quarto plates, which had been trailing behind during the second fiscal quarter. Further

price rises for sections and hot rolled coils, which had been leading the upward price trend, can now only be expected in small increments.

The business situation at the Steel Trading Division was also positive. International trading activities were considerably expanded.

A slowdown in demand, caused by inventory cycles, was registered in North America and in Southeast Asia since May this year. West European producers were spared this development with the help of the US-dollar, whose high value against the euro prevented the inflow of imports from third countries. Consequently, there was no interference in the pricing of the West European mills, which benefited mostly the heavy plates sector.

Shipment and Sales

Group gross sales of 3.09 billion euros were significantly above the year-earlier period (2.51 billion euros). Included in the sales figure are 91 million euros from the first-time consolidation of HSP Hoesch Spundwand und Profil GmbH (HSP), Dortmund, during the third quarter. Consolidated sales increased from 1.98 billion euros during the first three quarters of the previous fiscal year to 2.42 billion euros during the same period of the current fiscal year.

During the reporting period, sales of the Steel Production Division amounted to 1.25 billion euros, up 7.7 percent from the 1.16 billion euros of the same period last year. Shipments of rolled steel and processed products of 3.35 million tonnes exceeded prior year's volume of 3.09 million tonnes. An even more significant increase was prevented because of the change of the product mix following the fire damage to the galvanizing lines.

The Steel Trading Division increased its sales of nearly 1.08 billion euros during the first three quarters of fiscal 1998/1999 to 1.36 billion euros during the current year. Domestic activities as well as international trading contributed to this improvement. Salzgitter International (SID), which is conducting most of Salzgitters trading outside the EU, achieved record earnings during the third fiscal quarter.

The Raw Materials and Services Division posted substantial sales increases during the reporting period, namely + 38.7 percent as compared with the year-earlier period and reached 380 million euros. Approximately a third of this improvement is, however, resulting from the first-time consolidation of Verkehrsbetriebe Peine-Salzgitter GmbH (VPS) at the end of the fiscal year 1998/1999. Nevertheless, even without this special effect there is a division sales increase of 27.4 percent.

**Consolidated Income Statement
of the Salzgitter Group (in million euros)**

	1st-3rd quarter 1999/2000 year-to-date	1st-3rd quarter 1998/1999¹⁾ year-to-date
Sales	2,424	1,978
Change in inventories / own production capitalized	6	-28
Total operating performance	2,430	1,950
Other operating income	41	44
Cost of materials	1,563	1,249
Personnel expenses	453	397
Amortization and depreciation	96	80
Other operating expenses	266	227
Income from shareholdings	1	0
Net interest result	-25	-19
Pre-tax profit	67	22
Taxes	29	14
Net income for the year	38	8
Net income for the year euros/share	0,61	0,13

¹⁾ The 1998/1999 three quarter figures do not include the effects of the first-time consolidation of VPS and HSP

Operating Results

Group pre-tax profit during the reporting period amounted to 67.3 million euros (year-earlier period 22 million euros). Profit contribution was almost 50.3 million euros from the Steel Production Division (year-earlier period 12.3 million euros); 11.8 million euros from the Steel Trading Division (year-earlier period 8.7 million euros); and almost 8.5 million euros from the Raw Materials and Services Division (year-earlier period 2.6 million euros). The item "other profit" is primarily a result from positive industrial shareholdings and from a value adjustment of the portfolio of own stock.

The income increase of the Steel Production Division was mainly generated by rising revenues and higher capacity utilization. The result was negatively affected by increasingly rising purchasing prices, particularly for ore, scrap, coking coal, oil, and zinc.

Finance, Investments

As at June 30, 2000, the Group stated a net indebtedness of - 97 million euros (previous year - 48 million euros). The indebtedness is essentially due to an expansion of the business volume with a corresponding increase of current assets. However, considerably higher investments are also calling for additional liquid funds.

Extensive modernizing measures and current large investments were continued as planned. The slab upsetting press and the new crop shears for the extension of the hot strip mill were ordered. The new coil coating line is already producing abt. 60 percent of its targeted capacity. A further performance increase was delayed by reduced material supply due to fire damage to the electrolytic and hot dip

galvanizing lines which supply the ingoing material for coil coating. Construction of the building conversion for the hot dip galvanizing line No. 2 is under way. Plant assembly of the entry section and of the pretreatment installation was started. Construction of the production building for the building elements manufacturing plant is on schedule.

Cash Flow Statement (million euros)	1st-3rd quarter 1999/2000 year-to-date	1st-3rd quarter 1998/1999¹⁾ year-to-date	Δ
Cash earnings	146	95	+ 51
Increase in cash from current operations	3	95	-92
Cash used for investing activities	-136	-60	-76
Cash used for financing activities	-24	-26	+ 2
Change in liquid funds through change in consolidation	34	0	+ 34
Liquid funds at beginning of the period	49	-39	+ 88
Liquid funds at the end of the period	-74	-29	-45

¹⁾ 1998/1999 according to the former cash flow definition in accordance with DVFA/SG.

Research and Development

Salzgitter AG is promoting its strategy of marketing sophisticated quality products by means of a consistent R & D policy.

The main focus is on steel production. Aside from developing new steelmaking technologies, the development and application of new steel qualities is being constantly advanced. A chrome and vanadium alloyed steel grade was tested successfully. Hard constituents make this steel extremely abrasion resistant and suitable for highly stressed autobody parts. Further organic surface coatings were developed and introduced to the markets. Electrolytic and hot dip galvanized sheets are used as base material for these thin film coatings.

Our main laboratories, responsible for production development and control, continued to improve the automation of processes and testing methods and expanded computerized systems. The laboratory for metallography changed from analog to digital image technology. This makes it possible to collect and record microstructures of steel and layer structures of coated sheets. An integrated analyzing system then provides quantitative information on material microstructures with valuable evidence as to the condition of the steel.

Employees

The consolidated total workforce of the Salzgitter Group on June 30 was 13,599. The increase on last year is almost entirely due to the first-time consolidation of HSP Hoesch Spundwand und Profil GmbH (615 employees), to the inclusion of the employees of Salzgitter Europlatinen GmbH (SZEP), and to the newly formed Salzgitter Bauelemente GmbH. Consolidation of VPS was effected at the end

of fiscal 1998/99, retroactively to the beginning of the fiscal year, so that the numbers of employees for the year-earlier period were also restated under inclusion of VPS.

After initial offerings of employee-stock last year, which enabled employees to participate in the Company's success, further employee-stock was made available to the employees at special prices in the summer of this year. This campaign was in anticipation of the future provisions program presently being negotiated. Aside from the issuance of employee-stock, this consists of a company pension scheme, long-term worktime accounts, and a profit-sharing plan based on certain operative data. The company pension scheme can be stabilized on the present level by means of the envisaged private participation of employees and the expenses of Group companies could be reduced. Further positive effects would be increased identification with the Company, improved performance and motivation, and encouragement towards thinking in an economic way.

Personnel Changes on the Executive and Supervisory Boards did not arise during the third fiscal quarter.

Events of Special Significance

On May 26, 2000, Salzgitter AG and Mannesmann AG reached an agreement as to the take-over of the TUBES Division. Early June, the supervisory boards of both companies approved the agreement of Salzgitter AG's acquisition of 99.3 percent of Mannesmannröhren-Werke AG (MRW), Mülheim a. d. Ruhr. The approval of the cartel authorities is still pending. It is expected early September. With last year's consolidated sales of abt. 1.7 billion euros and a present workforce of abt. 10,000 employees, the MRW Group is among the leading steel pipe manufacturers worldwide.

On May 29, 2000, the agreement with Thyssen Krupp Steel AG as to the acquisition of all shares in HSP Hoesch Spundwand und Profil GmbH (HSP), Dortmund, was signed after the cartel authorities approved the take-over early May. The economic transfer to Salzgitter AG will be effected retroactively to October 1, 1999. Simultaneously, agreements were signed concerning the renting of company land, media information, and railroad connections. The integration of HSP into the Salzgitter Group was taken up. Salzgitter is thus holding a leading position for sheet piling in the European market.

On May 30, 2000, the agreement regarding the acquisition of 74.7 percent in K.F.Z.-Projektmanagement GmbH, Wolfsburg, was signed. Simultaneously, the company name was changed to Salzgitter Automotive Engineering GmbH, Wolfsburg. The objective of this new investment of Salzgitter AG is a fuller and earlier integration into automotive developments, a better knowledge of material selection for new models, and a faster exchange of information covering technical details.

On April 1, 2000, Salzgitter Bauelemente GmbH was organized. The increasing importance of this business segment necessitated a gradual transfer of Salzgitter AG's entire trapezoidal cladding profiles activities to an individual corporate unit with own personnel. The investment program is on schedule, the occupation of the new building and the start-up of the production facilities are planned for the first quarter 2001.

The stoppage of the electrolytic galvanizing line caused by two fires on March 7 and May 15, 2000, was largely compensated by some job galvanizing and to a certain extent by additional purchases. Production of the hot dip galvanizing line was resumed early July. The stoppage of the electrolytic galvanizing line is continuing. Serious problems of supplying our customers were so far avoided.

Start-up of the electrolytic galvanizing line is scheduled for early September. Financial repercussions of the fire damage are largely covered by fire and operational breakdown insurances.

Outlook

In view of the good economic scenario, we expect a continuing high steel consumption. The favorable steel market situation should go on into the next year, albeit at slower growth rates. The continuity of full capacity utilization in all product sectors is ensured. The large-diameter pipe sector of the Salzgitter Works is benefiting particularly from booking a large order with positive effects on capacity utilization and earnings. Rising revenues in partial areas are allowing for compensation of products for which prices have peaked. The strong US-dollar is supporting sales but makes imports more difficult and is still leading to higher prices on the purchasing side. We expect positive results in all divisions for the entire fiscal year. The fourth quarter will produce an even better result from current operations than the previous quarters and thus contribute positively to a good year-end Group result.