



## **Interim Report of Salzgitter AG**

First half 1999/2000

## Interim Report of Salzgitter AG for the first six months of the 1999/2000 fiscal year (October 1, 1999 – March 31, 2000)

### Salzgitter Group

		First half 1999/2000	First half 1998/99	Δ
<b>Production of Crude Steel</b>	<b>1,000 t</b>	2.515	2.181	334
<b>Sales (incl. internal sales)</b>	<b>Euro million</b>	1.933	1.666	267
Steel Production Division	Euro million	825	781	44
Steel Trading Division	Euro million	864	708	156
Raw Materials and Services Division	Euro million	244	177	67
Internal Sales	Euro million	432	360	72
Consolidated Sales	Euro million	1.501	1.306	195
<b>Pre-tax Profit</b>	<b>Euro million</b>	46,5	13,9	32,6
Steel Production Division	Euro million	32,6	8,2	24,4
Steel Trading Division	Euro million	6,7	5,1	1,6
Raw Materials and Services Division	Euro million	5,9	2,7	3,2
Other	Euro million	1,3	- 2,1	3,4
<b>Balance Sheet Total</b>	<b>Euro million</b>	1.840	1.649	191
Inventories	Euro million	520	473	47
Net Liabilities <sup>1)</sup>	Euro million	- 129	- 27	- 102
<b>Employees (as at March 31, 2000) <sup>2)</sup></b>		12.419	11.487	932
<b>Investments in Tangible Assets <sup>3)</sup></b>	<b>Euro million</b>	69	39	30
<b>Key Figures</b>				
Income before interest and tax (EBIT)	Euro million	64	26	38
EBIT before depreciation (EBITDA)	Euro million	122	79	43
Cash Earnings <sup>4)</sup>	Euro million	92	67	25

1) Including relations to affiliated companies (which include net liabilities due to banks - 143 million euros (1999/2000) and + 22 million euros (1998/1999) respectively;

2) Without trainees; 3) Including intangible assets; 4) 1998/99 according to the former cash flow definition in accordance with DVFA/SG.

## Market Development

The accelerating positive development of the world economy, having been evident since mid 1999, continued through the first quarter 2000. Newest estimates expect world trade to grow by 7 percent during the current calendar year, about twice as fast as in the previous year. The major Asian industrial countries, except Japan, are in a consolidation phase of their economic recovery, the US are in the 110th month of their economic upswing. Economic prognoses for Germany continue to be extremely positive. The economic growth is accelerating, private consumption and industrial investments are increasing. After their consolidation at the turn of the year, industrial incoming orders and production have risen significantly since February. German industrial exports benefited from the persistently weak euro. Declines of domestic new order bookings for consumer durables and consumer goods were compensated by more favorable developments in the capital goods sector.

The upward trend on the steel market continued to increase during the first half of the current fiscal year. Crude steel production of the member countries of the IISI increased as compared with the same period of fiscal 1998/99 by 39 million tonnes to 405 million tonnes. In Germany and the entire EU, consumption growth of the steel consuming industries surpassed the growth of the overall economy. Crude steel production in the EU amounted to more than 81 million tonnes, close to a seven percent rise as compared with the first half of the previous fiscal year. In Germany, production exceeded the previous October through March period (1998/99) by about 12.5 percent and reached 22.3 million tonnes.

## Production, Order Situation

Crude steel production of Salzgitter AG rose by 15 percent compared to the same period of the previous year and amounted to 2.52 million tonnes. This is the best

production performance of the last 25 years.

Incoming orders continued their positive development during the reporting period. After a vigorous demand for sections at the beginning of the fiscal year, the expected consolidation phase began during the first months of 2000. Business development for quarto plates, however, registered a marked upturn. New order bookings for cold rolled sheets and surface coated products continued on a high level. The processing sector suffered from the continued weakness of the large-diameter pipe business. A higher volume of the business in building elements contributed to the rise of incoming orders.

Higher prices could be realized for new order bookings of all products. The most sustained price recovery was registered for hot rolled coils and cold rolled flat products. Incoming

orders for rolled steel and processed products of the Steel Production Division amounted to 2.34 million tonnes (2.14 million tonnes during the first half 1998/99), and thus exceeded tonnage shipped by about 67 ktonnes (year-earlier period slightly lower). The order backlog at the end of the reporting period thus remained unchanged on the high level of 1.24 million tonnes.

The Steel Trading Division achieved another order improvement. The high demand from the major steel consuming industries continued. Prices on the purchasing and sales side alike are constantly on a high level.

## Shipment and Sales

Gross sales of 1.93 billion euros were significantly above the year-earlier period (+ 16 percent). The sales increase over the first half of the fiscal year 1998/99

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

	First half 1999/2000	First half 1998/99 <sup>1)</sup>
Sales	1.501	1.306
Change in inventories/own production capitalized	- 9	- 29
Total operating performance	1.493	1.277
Other operating income	22	31
Cost of materials	951	804
Personnel expenses	287	263
Amortization and depreciation	58	53
Other operating expenses	155	160
Income from shareholdings	0	- 2
Net interest result	- 17	- 12
<b>Pre-tax Provit</b>	<b>47</b>	<b>14</b>
Taxes	22	8
<b>Net income for the year</b>	<b>25</b>	<b>6</b>
<b>Net income for the year euros/share</b>	<b>0,40</b>	<b>0,10</b>

1) The first half 1998/99 numbers do not include the special effect from the first-time consolidation of VPS.

came predominantly from the trading sector. Consolidated sales amounted to 1.5 billion euros.

The Steel Production Division achieved sales of 825 million euros as compared with 781 million euros during the same period of the previous year (+ 6 percent). Hot rolled flat products and sections achieved high growth rates. Shipments of rolled steel and processed products reached approximately 2.3 million tonnes and thus exceeded the preceding year's level of 2.02 million tonnes considerably.

The Steel Trading Division increased its sales by 22 percent as compared with the same period of last year and achieved 864 million euros. Shipments rose to 2.32 million tonnes (first half previous fiscal year: 1.99 million tonnes). While this upward movement was predominantly supported by international trading during the months of October through December, domestic activities contributed significantly to this achievement in the new year.

The Raw Materials and Services Division registered distinct sales increases during the reporting period (almost 38 percent) and achieved 244 million euros. However, the first-time consolidation of Verkehrsbetriebe

Peine-Salzgitter GmbH (VPS) at the end of the fiscal year 1998/99 had a special effect and contributed sales of 30.8 million euros to total division sales during the first half of the current fiscal year. Nevertheless, even without this special item, division sales increased by almost 21 percent. This rise was achieved by sales increases of almost all Division companies.

### Operating Results

During the reporting period, the pre-tax profit amounted to 46.5 million euros (year-earlier period 14 million euros). Divisional income contributions were 32.6 million euros from Steel Production (previous year 8.2 million euros), 6.7 million euros from Steel Trading (previous year 5.1 million euros), and almost 6 million euros from Raw Materials and Services (previous year 2.7 million euros).

The income increase of Steel Production was primarily generated by rising revenues and higher capacity utilization. An even better result was mainly prevented by substantially rising purchasing costs. Moreover, some special one-time effects are significant, such as scheduled and non-scheduled line stoppages, write-downs on own stock, and

provisions for the compensation fund of the German industry. Significant contributions were provided by the Group earnings improvement program.

### Finance, Investments

As at March 31, 2000, the Group stated a net indebtedness of - 129 million euros (1998/99 - 27 million euros). Amounts owed to banks of - 143 million euros (previous year + 22 million euros) are partially offset by credit entries of 14 million euros. This change is essentially due to an expansion of the business volume. Furthermore, capital expenditure of 69 million euros during the reporting period was again substantially higher than during the year-earlier period (39 million euros), the reason being the continuation of the extensive program for modernization and optimization of plant and equipment. Current large investments were continued as planned. The continuous pickling line started operation. Optimization of operations progressed successfully. Commissioning of the new coil coating line is on schedule with currently 40 percent of the targeted performance. Steel construction for the building conversion and plant foundation work for the new hot dip galvanizing line are

under way. The manufacturing plant for building components is under construction. Another new and large project, the extension of the hot rolled coil mill, was started. First orders for the reheating furnace and the upsetting press were placed.

### Research and Development

Salzgitter AG consistently continued its strategy to provide tailor-made materials and services for its customers and their requirements. Building and manufacturing components and complete units, particularly for the automotive industry, are becoming more and more complex. Requirements as to forming, shaping, and properties for and during use are increasing. This is why we are continually working on further developing our materials. It is our aim to develop new steel grades which will even better meet the requirements of modern manufacturing processes and subsequent use of the finished product. We are, therefore, developing low tensile steel grades with excellent forming properties on the one hand, and high tensile qualities (above 1,200 Mpa) with special resistance on the other. Some of the newly developed materials are additionally isotropic. This property ensures

### Cash Flow Statement (million euros)

	First half 1999/2000	First half 1998/99 <sup>1)</sup>	Δ
Cash Earnings	92	67	25
Increase in cash from current operations	- 43	97	- 140
Cash used for investing activities	- 83	- 40	- 43
Cash used for financing activities	- 24	- 26	2
Change in liquid funds through change in consolidation	0	0	0
Liquid funds at beginning of year	49	- 40	89
Liquid funds at end of year	- 101	- 9	- 92

1) 1998/99 according to the former cash flow definition in accordance with DVFA/SG.

a uniform and controllable forming behavior. The development concepts are such that new materials will, in future, also be provided as hot dip galvanized and for exterior autobody parts, i.e. with special surface and corrosion resistance. This also involves attractive cost-savings.

After successful installation and practical application of 3 D CAD-systems in connection with FEM-tools, a state-of-the-art image processing system was installed as a new module. This enables us to quickly pick up our customers' forming processes for automatic evaluation and thus puts us in a position to provide even better support in respect of their material selection and choice and application of forming processes.

Salzgitter AG operates a successful large-diameter pipe mill. An important element of our research work is the permanent improvement of our pipe qualities. An international research committee under the technical management of Salzgitter AG is presently investigating and researching the safe application of spirally welded large-diameter pipes, made from hot rolled coils, for the transport of sour gas.

### **Employees**

On March 31, 2000, the Group had 12,419 employees (1998/99: 11,487). This increase is predominantly due to the inclusion of VPS-employees after the first-time consolidation at the end of the fiscal year 1998/99. The suggestion scheme of Salzgitter AG is enjoying active participation and success thanks to a multitude of qualified suggestions. During the first half of fiscal 1999/2000, a total of 1,256 suggestions for improvements were submitted, 5.1 percent more than during the same period of last year.

The number of suggestions awarded a prize also increased by 22.5 percent to 741. The net profit for the year generated by these suggestions amounts to 1.3 million euros.

In order to intensify the integration of the employees, a long-term employee participation in the capital and in the Company's commercial success is planned by means of purchase of stock. Therefore, employees of the Salzgitter Group will be in a position to purchase employee-stock as of summer 2000.

### **Personnel Changes on the Executive and Supervisory Boards**

Dipl.-Betriebswirt Wolfgang Leese was appointed as Member of the Executive Board of Salzgitter AG and simultaneously as Chairman of the Executive Board effective February 1, 2000.

The following personnel changes took place on the Company's Supervisory Board during the reporting period:

Retired Supervisory Board Members:  
Hans-Joachim Knieps, Wiesbaden (Member until March 15, 2000)

New Supervisory Board Members:  
Bernd Lange, Burgdorf (Member since February 23, 2000)

Prof. Dr. rer. pol. Hans-Jürgen Krupp, Hamburg (Member according to MontanMitbestG = Codetermination Act for the Steel and Mining Industry, since March 15, 2000)

### **Options, Own Shares**

At the end of the first half of the fiscal year 1999/2000, there

existed 1,515,800 subscription rights by Members of the Board and employees for one share each of Salzgitter AG. They had been issued within the 1998 stock option program for Members of the Executive Board and senior executives.

Implementing an authorization by the Shareholder's Meeting of March 16, 1999, the Executive Board started in February 2000, with the consent of the Supervisory Board, to buy back own shares at the stock exchange. The stock is meant to be used for the acquisition of companies and participations within the Group's strategic growth concept. These moves shall initiate and continue sound long-term relations to the Company's strategic partners. Moreover, it is envisaged to gain new domestic and foreign shareholders for a wide spread of the Company's stock. Part of the stock shall be applied to a future stock option arrangement for executives of the Salzgitter Group.

Salzgitter AG's portfolio of own stock amounted to 3,904,739 shares on March 31, 2000. This represented 9,982,306.74 euros of the capital stock, its percentage share was 6.26 percent of the capital stock. Between February 18, 2000 and March 23, 2000, the Company purchased 3,899,100 own shares at an average price of 9.35 euros each. 6,375 shares of the acquired stock were presented as acknowledgment for special efforts to Company employees.

Since February 2000, several updated analyses were published, in which steel analysts are confirming their positive assessments as to the positioning of Salzgitter AG among its competition and as to the Company's strategy. A total of eleven research reports was published within the last six months. Eight thereof gave clear buying signals because of above-average price

potential, the remaining three reports recommend to put the share on hold, as they are expecting a price performance in line with market conditions.

### **Events of Special Significance**

Negotiations took place with Thyssen Krupp Steel AG as to an acquisition of all shares in Hoesch Spundwand und Profil GmbH (HSP) - annual sales of 125 million euros, 600 employees. The signing of the contracts is scheduled for the end of May.

A basic agreement was reached with the owners of K.F.Z.-Projektmanagement GmbH regarding the purchase of abt. 74.9 percent of the shares. The contracts are being negotiated at the moment. The initialling is scheduled yet in May.

The market for the renewal and preservation of buildings has become the driving force of the building industry with above-average growth rates. The Technical University of Brunswick is offering a new future orientated direction "building preservation" in order to provide constructive and strategic solutions in research and science. This opening market is also of considerable economic importance to Salzgitter AG. Salzgitter AG will therefore endow a professorship within this socially important problem area in order to investigate the application of steel products for building preservation and find practical solutions.

Salzgitter AG has decided to participate voluntarily in the German industry fund for the compensation of forced laborers. Salzgitter AG will make a contribution of 2.6 million euros (DM 5 million) towards this fund.

### Current Events

A crisis management-team was set up in connection with the damage to the electrolytic galvanizing line caused by fire on March 7, 2000. The threat of serious repercussions, e.g. interruptions of production at our customers, was averted. Among others, we placed some job galvanizing tonnages with competitors. Possible line stoppages at our automotive customers could, so far, be avoided. Repair work progressed satisfactorily and trial runs had already started. However, another fire on May 15, 2000 created a set-back of our efforts. The electrolytic line will therefore be inoperative for a further, yet undetermined period of time. Certain parts of the hot dip galvanizing line were also damaged by the fire. Neither fire caused any bodily injuries. The property damage and breakdowns are covered by insurance.

Salzgitter AG and Mannesmann AG agreed on the acquisition of Mannesmann's tube branch by Salzgitter AG. Therefore, 99,3 percent of the Mannesmann-

röhren-Werke AG stock will be transferred to Salzgitter AG, after all corporate approvals and the authorization of the cartel authorities are at hand. Mannesmannröhren-Werke, together with their subsidiaries and shareholdings, are in a leading position on international markets for seamless and welded line pipes and precision steel tubes. Consolidated sales during 1999 amounted to 1.73 billion euros, the number of employees was 10,220. The acquisition of Mannesmannröhren-Werke is a major step for Salzgitter AG towards realizing its growth strategy introduced in 1999. Maintaining its sound balance sheet structure and financial stability, Salzgitter AG will develop a new dimension for its activities. Mannesmannröhren-Werke will have sound financial resources, a major guarantee for the planned offensive strategy of these new core activities of Salzgitter AG. Asset and earnings quality of the Salzgitter Group will advance considerably due to this new configuration – an added value for the Company's shareholders.

### Outlook

Considering the positive development of the world economy, we expect price hikes during the second half of the fiscal year for major parts of our production program. These price increases will probably be more moderate than those of the first half year. The tonnage situation should stabilize on the present high level, it may yet improve for certain products. The European steel industry is already working to capacity in most areas, so that significant production increases seem hardly possible. Further price rises are to be expected on the purchasing side, which will mainly be caused by the strong US dollar, which in turn provides continued export opportunities for the steel consuming as well as for the steel producing industries. Moreover, exports from third countries will be predominantly directed towards the markets of the dollar area, so that the exchange rate situation should be proving advantageous on the bottom line. Inventories of domestic steel trading companies are normal in view of the simultaneously high shipments. Imports from third countries increased, remaining, however, on an unprecarious level.

In view of the favorable scenario, we expect Group results to improve further during the second half of the current fiscal year.

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