skw. metallurgie

Growth with Substance

Financial Report for the 1st quarter of 2010

The SKW Metallurgie World in Figures

Key Figures	Unit	Q1 2010	Q1 2009
Revenues	EUR mill.	83.8	50.0
EBITDA	EUR mill.	6.2	1.9
EBIT	EUR mill.	3.5	0.4
EBT	EUR mill.	3.2	-0.2
Consolidated Net Result (before min.)	EUR mill.	1.8	0.1
Consolidated Net Result (after min.)	EUR mill.	1.2	0.1
EPS	EUR	0.18	0.02
Gross margin		27.4%	27.8%
EBITDA margin		**7.4%**	**3.8%**
Depreciation/amort.	EUR mill.	2.7	1.5
Gross Cash Flow	EUR mill.	3.0	1.0
Operating Cash Flow	EUR mill.	-0.4	6.5
		Mar. 31, 2010	Dec. 31, 2009
Total assets	EUR mill.	254.7	231.7
Total Equity (incl. min.)	EUR mill.	114.9	109.0
Equity ratio (incl. min.)		45.1%	47.0%
Net financial debt	EUR mill.	38.5	32.8

Interim management report for the SKW Metallurgie Group for the first quarter of 2010

Underlying economic conditions 2010

Economic recovery stabilizes

The recovery of the global economy in 2010 is on an ever firmer footing, according to information from the International Monetary Fund. Against a background of low base lending rates, limited inflation worries and positive stimuli from economic programs, as well as catch-up effects following the end of the most serious global recession in more than 60 years, the organization has lifted its forecast for world economic growth this year from 3.9% to 4.2%. Both the developed economies and the emerging nations are seeing increasingly dynamic growth. The industrial nations are now expected to expand by 2.3% in 2010 (prior forecast 2.1%) The economic performance of the emerging and developing countries is expected to increase by 6.3% - previously 6.0% forecast. The Asian growth countries can expect above average growth, as in prior years. China's economic output is set to rise by 10.0%, and India's by 8.8%. The remaining 'BRIC' countries Brazil (+5.5%), and Russia (+4.0%) can also face the new year with confidence. The upswing will be distinctly more moderate in Western industrial nations. According to the IMF, the US economy will grow by 3.1%, while Euro countries will grow by only 1.0% overall. The IMF has even downgraded expectations for Germany's economic performance slightly from +1.5% to +1.2%. The organization is similarly restrained in respect of the other large European countries. Japan's economy should grow by 1.9% thanks to renewed booming exports in Asia. The price increases for commodities associated with the revival should prove to be a drop of bitterness for the upturn. Thus the price of oil rose by about 10% from the beginning of 2010 up to mid-April. IMF's experts expect the trend to continue to year-end. In the case of some metals, too, there were already very distinct price peaks.

Steel demand rises again distinctly in 2010

Driven by improving underlying economic conditions, demand in the steel industry is rising distinctly too. In its latest outlook in April 2010, the World Steel Association is expecting a rise in international demand for steel of 10.7% to over 1.24 billion tons. Aside from the general global cyclical recovery, the positive effects of economic programs, in particular in the area of the infrastructure, as well as catch-up demand owing to the runoff of inventories in 2009, play a key role here. Capacity utilization at steel producers is expected to rise correspondingly to at least 75-80%. The recovery in 2010 is expected to be particularly marked in the traditional European and North American steel regions still important to the SKW Metallurgie Group, in spite of expansion into the newly industrialized countries. Growth rates of 13.7% for the EU and even of 23.5% for the NAFTA countries are forecast here. The BRIC countries (Brazil, Russia, India and China) can hope for a cumulative increase of 8.0%. For Brazil, which country is becoming increasingly important for the SKW Metallurgie Group owing to the acquisition of Tecnosulfur, the experts anticipate a boom of +23.8% in demand. The award to Brazil of important major events such as the 2014 men's football (soccer) world championship and the 2016 Summer Olympics are making themselves increasingly noticeable here.

Given the fact that the SKW Metallurgie Group generates over 90% of its sales with customers from the steel industry, demand for the company's products will grow approximately in proportion to the demand for steel.

Organization and company structure

The company's organization and structure did not change materially during the quarter under review.

The Group's shareholder structure continues to be characterized by being fully held in free float. As of the end-of-quarter, no shareholder holds a stake of 5% or more in the share capital of SKW Stahl-Metallurgie Holding AG, which was unchanged in the quarter under review.

Company and business growth

Impact of the global economic crisis has been overcome

The SKW Metallurgie Group's operating structure was mostly identical in the first quarters of 2009 and 2010; the only exception is the plant in Brazil purchased in the fourth quarter of 2009 (acquisition of Tecnosulfur S/A). The course of business in the months of January through March 2010, both in Brazil as well as in the SKW Metallurgie Group's traditional geographical markets, clearly shows that the SKW Metallurgie Group has overcome the effects of the global economic and financial crisis; all important key ratios in the income statement lie above the figures for the first quarter of 2009. As forecast, SKW Metallurgie Group's results in the first quarter of 2010 suffered no bad stock effect or other special effects; no such effects are anticipated for the further course of the 2010 business year either.

Revenues up significantly

The SKW Metallurgie Group's revenues were up significantly in the first three months of 2010 compared to the previous year – from EUR 50.0 million to EUR 83.8 million. This rise is especially attributable to the acquisition of Tecnosulfur and also to increased steel production in the SKW Metallurgie Group's existing core geographical markets (European Union and the USA). The SKW Metallurgie Group generates over 90% of its sales with customers from the steel industry and is thus particularly dependent on their production volumes.

A figure which has been particularly relevant for the SKW Metallurgie Group's operating output is the development of its gross margin. With 27.4% in the quarter under review, this was kept close to the level of the corresponding quarter (27.8%). With the increasing capital intensity and value-added depth (vertical integration due to the calcium silicon works in Bhutan) of SKW Metallurgie Group's economic activities, the informative value of the gross margin will be less in the SKW Metallurgie Group in future.

Personnel expenses in the first quarter were up significantly compared to the previous year at EUR 8.9 million (EUR 6.0 million). This increase is attributable in particular to increased variable compensation components and also to a distinct increase in the workforce. The increase in the workforce is primarily due to the acquisition of Tecnosulfur and also to the rehiring of employees in North America who were required to leave the company on the outbreak of the financial and economic crisis.

Other operating income at EUR 2.7 million was distinctly above the prior year (EUR 1.6 million), which is mainly due to distinctly higher currency translation gains (EUR 2.6 million) than in the prior year quarter (EUR 0.8 million). However these are partially compensated for by corresponding currency translation losses which are included in other operating expenses. These currency translation losses amounted to EUR 1.4 million (prior quarter: EUR 0.7 million), resulting ultimately in a positive currency translation effect of EUR 1.2 million (prior quarter: EUR 0.1 million) in the quarter under review.

Other operating expenses increased from EUR 6.5 million to EUR 11.3 million. This increase is due, in particular, to the high proportion of currency translation losses, the other operating expenses for Tecnosulfur and the high proportion of non-revenue related expenses (e.g., freight and sales commission).

The income from associated companies which result exclusively from the Indian joint venture Jamipol, totaled EUR 0.3 million in Q1 2010. This difference to Q1 2009 is due entirely to rounding and currency differences (EUR 0.2 million).

EBITDA significantly positive

Owing to the SKW Metallurgie Group's strong sales figures in the quarter under review, and also to the Brazilian Tecnosulfur subsidiary's significant contribution to EBITDA, the SKW Metallurgie Group achieved earnings before interest, taxes, depreciation and amortization (EBITDA) amounting to EUR 6.2 million (prior year: EUR 2.0 million). The distinct rise in EBITDA results in particular from the Brazilian Tecnosulfur company (part of the Powder and Granules segment) and also from the Cored Wire segment.

The EBITDA margin, a highly informative ratio for the SKW Metallurgie Group's operating performance, at 7.4%, lies distinctly above the prior year's figure of 3.8%.

Depreciation and amortization of EUR 2.7 million in the period under review lay distinctly above the prior year's figure of EUR 1.5 million. The increase is attributable in particular to depreciation and amortization by the Brazilian Tecnosulfur company, which was acquired in the fourth quarter of 2009.

EBIT amounted to EUR 3.5 million, thus up significantly compared to the crisis-hit 2008 figure of EUR 0.4 million.

Net interest consists in the quarter under review, as in the corresponding quarter, of a net interest expense (interest expenses exceed interest income). However, this net expense fell from EUR 0.6 million to EUR 0.4 million as interest income increased significantly from EUR 0 (rounded) to EUR 0.4 million. This interest income results above all from capital investments in Brazil.

Taking interest into account, a result from ordinary activities (EBT) of EUR 3.2 million (prior year: EUR 0.2 million) emerges.

Whereas tax income amounting to EUR 0.2 million was still obtained in the first quarter of 2009, the SKW Metallurgie Group spent EUR 1.4 million on income taxes in the quarter under review.

The Group result for the period consists in the quarter under review, as in the corresponding quarter, of a Group surplus for the period (positive result), which with EUR 1.8 million in the quarter under review lies distinctly above that of the first quarter of 2009 (EUR 0.1 million).

Of this, EUR 1.2 million relate to the shareholders of the parent company (prior year: EUR 0.1 million) and EUR 0.6 million (prior year: EUR 0 rounded) to minority shareholders. The share in the Group results for the period in the SKW Metallurgie Group which relates to minority shareholders is due to the increasing significance of activities in Brazil and in Bhutan, as minority shareholders participate in the Group companies in these countries and who profit from the results of these companies in accordance with their shareholdings.

The portion of the Group net income for the period which relates to the parent company's shareholders and the number of shares, 6,544,930, result in earnings per share (EPS) of EUR 0.18. The prior year's EPS amount to EUR 0.02 (calculated on the number of shares at that time).

SKW Metallurgie Group's assets continue to be solid

The following table shows the SKW Metallurgie Group's KPIs from its balance sheet at the end of the first three months of 2010 and at the end of business year 2009:

in million Euros	Mar. 31, 2010	Dec. 31, 2009
ASSETS	**254.7**	**231.7**
Non-current	126.6	116.7
Current	128.1	114.9
Thereof cash and cash equivalents	9.6	11.1
EQUITY AND LIABILITIES	**254.7**	**231.7**
Equity	114.9	109.0
Non-current liabilities	44.2	41.2
Thereof non-current financial liabilities	18.0	14.6
Current liabilities	95.6	81.5
Thereof current financial liabilities	30.2	29.2

Equity (including minority interests) increased slightly to EUR 114.9 million from EUR 109.0 million during the quarter under review compared to December 31, 2009. Furthermore, the SKW Metallurgie Group's total assets increased from EUR 231.7 million (as of December 31, 2009) to EUR 254.7 million (as of March 31, 2010). These two factors resulted in a slight downturn in the equity ratio (including minority interests) from 47.1% as of December 31, 2009 to a still very solid 45.1% as of March 31, 2010.

In particular, the increase in current liabilities (from EUR 81.5 million to EUR 95.6 million) is due to the increase in trade payables from EUR 32.5 million to EUR 43.1 million. This increase results on the one hand from the positive business development and on the other from trade payables connected with the expansion projects.

The SKW Metallurgie Group's net financial debt on March 31, 2010 totaled EUR 38.5 million, up EUR 5.7 million compared to December 31, 2009 (EUR 32.8 million). Non-current financial liabilities in particular increased from EUR 14.6 million to EUR 18.0 million as a result of the acquisition projects.

Solid cash flow

The following table shows the changes in the SKW Metallurgie Group's cash flow from January 1 to March 31, 2010 compared to the first corresponding quarter of 2009:

in million Euros	Jan. 1 - Mar. 31, 2010	Jan. 1 - Mar. 31, 2009
Consolidated net income for the period	1.8	0.1
Non-cash income and expense	1.2	0.9
Gross cash flow	3.0	1.0
Change in working capital	-3.4	5.5
Net cash provided by operating activities	-0.4	6.5

The gross cash flow of EUR 3.0 million is substantially lower than the previous year's figure of EUR 1.0 million. This downturn is mostly due to the significant reduction in consolidated net income for the period as a result of the financial and economic crisis.

The stronger demand for the SKW Metallurgie Group's products led to the working capital developing distinctly contrary to the first quarter of 2009 in the first quarter of 2010. Thus inventories increased by EUR 8.9 million (corresponding quarter: decrease amounting to EUR 9.1 million), trade receivables by EUR 4.5 million (corresponding quarter: decrease amounting to EUR 7.9 million) and trade payables by EUR 10.6 million (corresponding quarter: decrease amounting to EUR 10.1 million).

Segment reporting

The SKW Metallurgie Group currently comprises three segments: the two core segments of "Cored Wire" and "Powder and Granules" as well as the "Other" segment (including Quab business). Intra-group sales between the segments are eliminated in the Consolidation column (see Segment Reporting in the Notes).

The two core segments "Cored Wire" and "Powder and Granules" mostly include products and services for the steel industry.

The two core segments grew as follows during the quarter under review:

- The "Cored Wire" segment recorded segment EBITDA in the first quarter of EUR 2.8 million (previous year: EUR 0.8 million) with higher revenues with third parties as a result overcoming the economic and financial crisis (change from EUR 20.7 to EUR 36.8 million). This means that the EBITDA margin increased significantly from 3.9% to 7.6%. In particular, the works in the NAFTA countries (cored wire works in the USA and Mexico) profited in the quarter under review from the steel industry's increased demand for high-quality cored wires.

- In the "Powder and Granules" segment, revenues with third parties increased from EUR 25.1 million to EUR 42.9 million during the first three months. Segment EBITDA lifted from EUR 1.1 million to EUR 4.5 million. Thus the calculated segment EBITDA rose from 4.4% to 10.5%. This distinct improvement is mainly attributable to the acquisition of the Brazilian company Tecnosulfur.

Focus on further development of high technical competence

Well-trained, highly motivated employees were again a key foundation for the SKW Metallurgie Group's successful business activities during the period under review. Owing to the acquisition of the Brazilian company Tecnosulfur in December 2009 the workforce at the end of the first quarter of 2010 (724) lay clearly above that at the end of the first quarter of 2009 (510). In the remaining course of 2010, the SKW Metallurgie Group anticipates a further increase in the workforce owing to hires for the new works in Russia and especially in Bhutan.

In the quarter under review, research and development (R&D) was once again a key USP for the Group; the successful business policy employed in 2009 was also continued in this division.

Realizing opportunities – limiting risks

Managing opportunities and risks is an integral part of the SKW Metallurgie Group's management. Recognizing and evaluating opportunities and risks, and putting suitable activities in place if required to make optimum use of opportunities and limit risks is an ongoing process in the SKW Metallurgie Group. As a result, the risk inventory performed in 2008 was further updated in the first quarter of 2010 in the form of the quarterly risk report. The risk report did not result in any material changes compared to the statements on opportunities and risks made in the 2009 annual report.

Report on events after the balance sheet date

After the end of the quarter under review on March 31, 2010, there were no transactions and events of significance to the group which occurred before this interim management report was prepared.

Outlook

Economic recovery set to continue in 2011

The International Monetary Fund, IMF, expects a distinct recovery in global economic performance in 2010 and 2011, driven by a strong growth dynamic in the newly industrialized and developing countries. Growth is expected to be around 4.2% this year and around 4.3% in the coming calendar year. The industrial nations can only expect moderate expansion of 2.3% and 2.4% respectively, whereby the USA (+3.1% and +2.6%) can be disproportionately more and the EU (+1.0% and +1.5%) less optimistic. The newly industrialized countries can expect similar growth of 6.3% and 6.5% respectively for the two years. In both years, China, with a social product expansion of 10%, remains an essential driver of global growth.

Optimism on steel demand also in 2011

Given the fact that the SKW Metallurgie Group generates over 90% of its revenues with customers from the steel industry, demand for metallurgy products will grow approximately in proportion to the demand for steel. For 2010, the World Steel Association anticipates global steel demand growth by 10.7% to 1.24 billion tons. Despite the Group's further expansion in the BRIC countries, the European and North American regions retain special relevance for the SKW Metallurgie Group. Here, the experts envisage a disproportionate growth dynamic of +13.7% and +23.5% respectively. In Brazil, home of the new SKW Metallurgie production location, steel demand is also expected to grow by nearly a quarter. Industry experts are also optimistic for 2011. World steel demand is expected to increase by a further 5.3%. Steel producers in the EU (+7.9%), the NAFTA region (+7.2%) and also Brazil (+7.9%) can be especially optimistic for the coming year too.

Dynamic group growth forecast for 2010 and 2011

Against the background of distinctly improving underlying conditions and increasing earnings contributions from the new production locations (completion of the new works in Russia and Bhutan still expected for end-2010), the SKW Metallurgie Group is very optimistic about this and the coming business year. The new affiliated company in Brazil (Tecnosulfur) will be consolidated for a full year for the first time and make a corresponding contribution to revenues and earnings. The company is expecting sales well over EUR 30 million here and an EBITDA margin significantly higher than the Group average. Unlike prior years, no extraordinary effects on earnings are foreseeable either.

In the light of accelerated expansion and the planned completion of the new production locations in Russia and Bhutan, a high level of investment is anticipated once again in 2010, but is expected, from today's perspective, to decline significantly in 2011.

Should these forecasts prove to be true, the resumption of a positive dividend recommendation to the Annual General Meeting is proposed for the 2010 business year (payout in 2011), in order to allow shareholders to participate adequately in the Company's success.

Guidance: 2010 EBITDA at least EUR 20 million

Confirmed by the excellent growth in the period under review, the SKW Metallurgie Group's Executive Board is forecasting EBITDA of at least EUR 20 million for business year 2010, with revenues significantly higher than 2009.

Full-year earnings contributions from the locations in Bhutan and Russia entering production in 2010 are expected for the first time in the 2011 business year. The sales forecast for 2011 lies correspondingly higher at EUR 360 million, whereby sales remain a slightly unsuitable indicator for the assessment of the SKW Metallurgie Group's operating result, owing to the dependence of selling prices on raw materials buying prices. More informative is the (operational) EBITDA margin, which, as forecast for some time now, is expected to reach at least 9%.

Unterneukirchen (Germany), May 2010

SKW Stahl-Metallurgie Holding AG

The Executive Board

I. Kolmsee G. Ertl

Ines Kolmsee Gerhard Ertl

Consolidated income statement for the period from January 1 to March 31, 2010

TEUR	Q1 2010	Q1 2009
Revenues	83,815	50,001
Changes in stocks of finished goods and work in progress	417	-1,297
Other operating income	2,740	1,555
Cost of materials	-60,825	-36,104
Personnel expenses	-8,880	-5,984
Other operating expenses	-11,294	-6,501
Income from associated companies	250	240
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**6,223**	**1,910**
Amortization of intangible fixed assets and depreciation of property, plant and equipment	-2,711	-1,471
Earnings before interest and taxes (EBIT)	**3,512**	**439**
Other interest and similar income	374	18
Interest and similar expenses	-726	-625
Profit before tax	**3,160**	**-168**
Income tax	-1,395	231
Net loss/net income for the period	**1,765**	**63**
Thereof parent company	*1,190*	*91*
Thereof minority interests	*575*	*-28*
Earnings per share (in EUR)	0.18	0.02

Reconciliation to non-owner movements in equity from January 1 to March 31, 2010

TEUR	Q1 2010	Q1 2009
Consolidated net income for the period	**1.765**	**63**
Net investments in a foreign operation	1,602	495
Unrealized losses from derivatives (hedge accounting)	-129	-41
Exchange rate fluctuations	2,619	1,487
Put option minority interests	0	-56
Taxes on income and expenses carried directly under equity	50	16
Income and expenses recognized directly under equity	**4,142**	**1,901**
Non-owner movements in equity	**5,907**	**1,964**
Thereof parent company	*4,989*	*1,946*
Thereof minority interests	*918*	*18*

Consolidated balance sheet as of March 31, 2010

ASSETS IN TEUR	Mar. 31, 2010	Dec. 31, 2009
Noncurrent assets		
Intangible assets	60,844	59,045
Property, plant and equipment	49,875	42,554
Interests in associated companies	5,066	4,477
Other non-current assets	653	601
Deferred tax assets	10,114	10,050
Total non-current assets	**126,552**	**116,727**
Current assets		
Inventories	54,797	45,922
Trade accounts receivable	51,268	46,780
Income taxes	3,325	2,037
Other assets	9,118	9,146
Cash and cash equivalents	9,600	11,052
Total current assets	**128,108**	**114,937**
Total equity and liabilities	**254,660**	**231,664**

EQUITY AND LIABILITIES IN TEUR	Mar. 31, 2010	Dec. 31, 2009
Equity		
Subscribed capital	6,545	6,545
Share premium	50,741	50,741
Other accumulated equity	46,452	41,463
	103,738	**98,749**
Minority interest	11,195	10,277
Total equity	**114,933**	**109,026**
Non-current liabilities		
Pension obligations	1,887	1,854
Other provisions	50	170
Obligations from finance leases	19	27
Non-current financial liabilities	17,964	14,597
Income taxes	420	683
Deferred tax liabilities	15,596	15,411
Other noncurrent liabilities	8,237	8,436
Total non-current liabilities	**44,173**	**41,178**
Current liabilities		
Provisions	9,049	8,089
Obligations from finance leases	107	158
Current financial liabilities	30,161	29,236
Trade accounts payable	43,084	32,520
Other tax liabilities	3,574	302
Other current liabilities	9,579	11,155
Total current liabilities	**95,554**	**81,460**
Total equity and liabilities	**254,660**	**231,664**

Consolidated cash flow statement as of March 31, 2010

	Jan. 1, 2010 - Mar. 31, 2010	Jan. 1, 2009 - Mar. 31, 2009
1. Consolidated net income for the period	1,765	63
2. Write-ups/write-downs for noncurrent assets	2,711	1,471
3. Increase/decrease in provisions for pensions	33	71
4. Net income from associates	-250	-240
5. Gains on the disposal of non-current assets	84	-2
6. Result from currency conversion	-1,184	-122
7. Results from deferred taxes	-288	107
8. Other non-cash income/expenses	122	-353
9. Gross cash flow	**2,993**	**995**
Change in working capital		
10. Increase/decrease in current provisions	839	-181
11. Increase/decrease in inventories (after advance payments received)	-9,683	9,091
12. Increase/decrease in trade accounts receivable	-4,493	7,948
13. Increase/decrease in other receivables	-1,378	4
14. Increase/decrease in other assets	-380	827
15. Increase/decrease in trade accounts payable	10,564	-10,108
16. Increase/decrease in other liabilities	-255	-621
17. Increase/decrease in other equity and liabilities	1,361	-1,494
18. Net cash received from (+)/used by (-) operating activities (net cash flow)	**-432**	**6,461**
19. Payments for investments in fixed assets	-5,704	-1,723
20. Net cash provided by (+)/used in (-) investing activities	**-5,704**	**-1,723**
21. Decrease in liabilities from finance leases	-59	-55
22. Additions to equity from minority shareholders	377	0
23. Decrease/increse in financial liabilities	4,141	-2,778
24. Net cash provided by (+)/used in (-) financing activities	**4,459**	**-2,833**
25. Cash and cash equivalents – start of period	11,052	9,576
26. Change in cash and cash equivalents	-1,677	1,905
27. Currency translation for cash and cash equivalents	225	20
28. Cash and cash equivalents – end of period	**9,600**	**11,501**

Statement of changes in consolidated equity for business years 2009 and 2010

TEUR	Subscribed capital	Equity reserve	Othee accumulated	Consolidated equity of the controlling shareholder	Minority interests	Total equity
Balance at Jan. 1, 2009	**4,422**	**29,144**	**48,191**	**81,757**	**2,085**	**83,842**
Consolidated net income for the period	0	0	91	91	-28	63
Exchange rate fluctuations	0	0	1,441	1,441	46	1,487
Income and expense carried under equity (without exchange rate changes)	0	0	414	414	0	414
Balance as of March 31, 2009	**4,422**	**29,144**	**50,137**	**83,703**	**2,103**	**85,806**
Balance as of Jan. 1, 2010	**6,545**	**50,741**	**41,463**	**98,749**	**10,277**	**109,026**
Consolidated net income for the period	0	0	1,190	1,190	575	1,765
Exchange rate fluctuations	0	0	2,276	2,276	343	2,619
Income and expense carried under equity (without exchange rate changes)	0	0	1,523	1,523	0	1,523
Balance as of March 31, 2010	**6,545**	**50,741**	**46,452**	**103,738**	**11,195**	**114,933**

Notes to the interim report as of March 31, 2010

A. Basis of presentation

SKW Stahl-Metallurgie Holding AG prepares its interim report according to International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). This interim report of SKW Stahl-Metallurgie Holding AG was prepared in line with International Financial Reporting Standards (IFRS) as these are to be applied in the European Union and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC). The information provided in the notes to the consolidated financial statements as of December 31, 2009 in Section “C. Key accounting policies” also apply to this unaudited interim report as of March 31, 2010. The SKW Metallurgie Group’s 2009 annual report can be found online at www.skw-steel.com. For further information on the accounting and valuation principles applied, please refer to the consolidated financial statements as of December 31, 2009 which form the basis for these interim financial statements.

The new and revised accounting standards for which application has been mandatory since business year 2010 form an exception. In this regard, for the interim report as of March 31, 2010 please refer to the comments made in the notes to the consolidated financial statements as of December 31, 2009 in Section “A. General Information and Presentation of the Consolidated Financial Statements”.

With regard to the methods used for estimates the comments in the notes to the consolidated financial statements as of December 31, 2009, Section “B. Consolidated Group and Consolidation Methods” apply. In addition, there may be differences in the tables in the notes to the consolidated financial statements as a result of rounding differences.

The SKW Metallurgie Group’s operating business in the Cored Wire and Powder and Granules segments is not subject to seasonal fluctuations. In spite of this, however, a comparison of periods during the course of the year can be impacted by maintenance work to be conducted by the customers and active inventory management in the steel plants. However, these activities are not conducted in the same quarters each year.

B. Consolidated group

The group of consolidated companies and the consolidation methods applied have not changed compared to the 2009 consolidated financial statements.

C. Financial position and results of operations

Balance sheet

The SKW Metallurgie Group’s total assets on March 31, 2010 amounted to EUR 254,660 thousand (December 31, 2009: EUR 231,664 thousand). The increase in total assets is mostly due to investments in property, plant and equipment as part of setting up the new production facility in Bhutan and increasing inventories.

The key items of current assets are, as was the case in the previous year, inventories totaling EUR 54,797 thousand or 21.52% of total assets and trade receivables in the amount of EUR 51,268 thousand or 20.13% of total assets.

Equity on March 31, 2010 totaled EUR 114,933 thousand (December 31, 2009: EUR 109,026 thousand). The group's equity ratio fell from 47.1% on December 31, 2009 to 45.1% as of March 31, 2010 (incl. minority interests). Although current financial liabilities of EUR 30,161 thousand were almost unchanged compared to the previous year at EUR 29,236 thousand, non-current financial liabilities increased to EUR 17,964 thousand on March 31, 2010 compared to EUR 14,597 thousand on December 31, 2009. Net debt increased in the first three months of 2010 by a total of EUR 5,744 thousand from EUR 32,781 thousand as of December 31, 2009 to EUR 38,525 thousand as of March 31, 2010.

Income statement

In the first three months of 2010, the SKW Metallurgie Group recorded revenues of EUR 83,815 thousand compared to EUR 50,001 thousand in the same period of 2009. The increase in revenues is mostly due to higher demand for the SKW Metallurgie Group's products from steel producers, and to the Brazilian company Tecnosulfur S/A, which was acquired in December 2009 and which did not form part of the consolidated group in the first quarter of 2009.

Of the other operating income of EUR 2,740 thousand (Q1 2009: EUR 1,555 thousand), EUR 2,632 thousand stems from exchange rate gains (Q1 2009: EUR 830 thousand). These are offset by corresponding currency translation losses, which are included in other operating expenses. The exchange rate losses totaled EUR 1,448 thousand compared to the figure from the first quarter of 2009 of EUR 708 thousand, which, at the end of the day, resulted in a positive currency translation effect in the quarter under review of EUR 1,184 thousand compared to a positive net currency translation effect of EUR 122 thousand in Q1 2009.

In total, expenses in 2010 increased compared to the previous year. In the first quarter of 2010, personnel expenses totaled EUR 8,880 thousand compared to EUR 5.985 thousand in the first quarter of 2009. Other operating expenses were also up in the first quarter of 2010 at EUR 11,294 thousand compared to the Q1 2009 figure of EUR 6,501 thousand.

The financial result is down year-on-year at EUR -352 thousand (previous year: EUR -607 thousand).

The consolidated net income for the period on March 31, 2010 totaled EUR 1,765 thousand compared to EUR 63 thousand last year. Minority interests in the first three months of 2010 totaled EUR 575 thousand compared to EUR -28 thousand in the same period of the previous year.

Cash flow statement as of March 31, 2010

Gross cash flow is up significantly to EUR 2,993 thousand compared to the same period of the previous year (Q1 2010: EUR 995 thousand).

The group recorded net cash used in operating activities totaled EUR 432 thousand compared to net cash provided by operating activities last year in the amount of EUR 6,461 thousand. This resulted in net cash used of EUR 3,425 thousand in the first quarter of 2010 compared to net cash provided of EUR 5,466 thousand in the previous year as a result of the change in net working capital.

During the first quarter, the SKW Metallurgie group recorded net cash used in investing activities in the amount of EUR 5,704 thousand. Financing activities provided net cash totaling EUR 4,459 thousand.

During the period under review, the cash flow from operating activities included the following payments:

- Interest paid to third parties totaling EUR 167 thousand
- Interest received from third parties totaling EUR 23 thousand
- Income tax payments totaling EUR 153 thousand

D. Segment reporting

At present the SKW Metallurgie Group is broken down into business segments in line with the regulations under IFRS 8. These segments correspond to the SKW Metallurgie Group's internal organization and reporting structure. As a result, three segments with a reporting segment have been identified within the SKW Metallurgie Group:

a) Cored Wire

b) Powder and Granules

c) Other

The segment information on the business segments in 2010 is as follows:

Q1 2010 in EUR thousand	Cored Wire	Powder and Granulates	Other	Consolidation	Group
Revenues					
External revenues	36,761	42,909	4,145	0	83,815
Internal revenues	84	9,884	0	-9,968	0
Total revenues	**36,845**	**52,793**	**4,145**	**-9,968**	**83,815**
EBITDA	**2,770**	**4,504**	**-1,051**	**0**	**6,223**
Depreciation/amort.	-488	-1,977	-246	0	-2,711
EBIT	**2,282**	**2,527**	**-1,297**	**0**	**3,512**

The following table shows the corresponding primary segment information for the previous year:

Q1 2009 in EUR thousand	Cored Wire	Powder and Granulates	Other	Consolidation	Group
Revenues					
External revenues	20,671	25,113	4,217	0	50,001
Internal revenues	0	1,385	0	-1,385	0
Total revenues	**20,671**	**26,498**	**4,217**	**-1,385**	**50,001**
EBITDA	**811**	**1,105**	**-6**	**0**	**1,910**
Depreciation/amort.	-513	-706	-252	0	-1,471
EBIT	**298**	**399**	**-258**	**0**	**439**

E. Translation effects on consolidated earnings

The following table shows the translation effects on revenues and EBITDA given a change of +/-5% in the EUR/USD exchange rate compared to the actual average exchange rate in the first quarter of 2010 ceteris paribus:

Q1 2010 in EUR thousand	exchange rate -5% (EUR/USD 1.3138)	exchange rate (EUR/USD 1.3829)	exchange rates +5% (EUR/USD 1.4520)
Revenues	86,243	83,815	81,619
EBITDA	6,389	6,223	6,072

Die entsprechenden Werte für das erste Quartal 2009 lauten wie folgt:

Q1 2009 in EUR thousand	exchange rate -5% (EUR/USD 1.2378)	exchange rate (EUR/USD 1.3029)	exchange rates +5% (EUR/USD 1.3680)
Revenues	51,527	50,001	48,620
EBITDA	1,978	1,910	1,849

F. Related parties

There were no major changes in key transactions with related parties in the first quarter compared to the 2009 consolidated financial statements.

G. Contingent liabilities

The SKW Metallurgie Group’s contingent liabilities did not change materially compared to December 31, 2009.

H. Key events after the balance sheet date

There were no events of particular importance for the Group after the end of the first quarter and before this interim report was prepared.

I. Shareholder structure

There were the following shareholdings in SKW Metallurgie that carry a reporting requirement according to the WpHG (German Securites Trading Act) (3% or more of total voting rights) on March 31, 2010:

Name	Head office	Shares held	Shares held correspond to	Date	Remarks
BriTel Fund Nominees Limited	London, United Kingdom	318,886	4.87%	Mar. 15, 2010	5 individual notifications for the same shareholding
Universal-Investment-Gesellschaft mbH	Frankfurt/M., Germany	201,515	3.08%	Jan. 5, 2010	
LBBW Asset Management Investmentgesell-schaft mbH	Stuttgart, Germany	299,403	4.58%	Dec. 7, 2009	
Total		**819,804**	**12.53%**		

The shareholdings only relate to the stated date; any possible subsequent changes only have to be reported if a reporting limit within the meaning of the Wertpapierhandelsgesetz (German Securities Trading Act) is reached, exceeded or fallen below.

The interests stated can include allocable votes according to the German Securities Trading Act. As the same votes can, in certain cases, be allocated to more than one person, these voting rights can be included in more than one notification of voting rights.

Both of these characteristics of notifications of voting rights significantly restrict the meaningfulness of the totals included in the above table.

Unterneukirchen (Germany), May 2010

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee   Gerhard Ertl

Financial Calender 2010 (remaining)

June 9, 2010

- Annual General Meeting in Muenchen (Germany)

August 13, 2010

- Publication of business figures for Q2/2010

November 2010

- Publication of business figures for Q3/2010
- Analysts' Conference

December 31, 2010

- Close of business year 2010

May be subject to changes
The current financial calendar may be found at:www.skw-steel.com

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Disclaimer and notes

This report contains statements about forthcoming developments that are based on currently available information and that entail risks and uncertainties. This may result in deviations between the actual situation in the future and the forward-looking statements. These risks and uncertainties include, for example, unpredictable changes in political and economic conditions, particularly in the steel and paper industry, the competitive situation, interest and currency risks, technological development as well as other risks and unexpected circumstances. SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany) and its group companies do not accept any responsibility to update such forward-looking statements.

When reference is made in this report to groups of people who factually or potentially include both genders (such as “shareholders” or “employees”) or when gender neutral references are made to a single person (such as “the responsible officer”), the report usually only quotes one gender. This is solely done in the interest of improved readability (translator’s note: in most instances this not only applies to the German original, since there are no distinct terms in English for male or female shareholders, experts, employees, etc.).

SKW Stahl-Metallurgie Holding AG’s proprietary name for the Group that is used externally is “SKW Metallurgie”. For this reason “SKW Metallurgie” and “SKW Metallurgie Group” are used in this report.

Names such as “SKW Metallurgie”, “Quab” and “SDAX” that are used in this report may be registered trademarks whose use by third parties for their purposes could infringe the rights of the proprietors.

The number of employees is based on the respective national definitions (e.g., for whether or not to include in calculations executive body members or trainees). Due to the low number of part-time employees in the group and the different definition and calculation standards, the group refrains from breaking the headcount figure down into the pure number of employees (heads) and the number of full-time equivalents.

This report is also published as an English translation; in case of any discrepancies the German version prevails. In addition, for technical reasons (e.g., the conversion of electronic formats) there may be differences between the accounting documents included in this report and those submitted to the electronic company register.

For several cities quoted in this report, different names and/or transcriptions into the Latin alphabet are in use. The use of a certain name or transcription is for information only and is not intended to imply any political statement. Maps contained in this report are for illustration only and are not intended to induce any political statements, such as the legitimacy of borders. In this report, the term “China” refers to the PR of China without its two Special Administrative Regions. In this report, the term “Hong Kong” refers to the PR of China’s Special Administrative Region of Hong Kong.

References to acts of law (e.g. the German Public Limited Companies Act) without any further information relate to the German acts of law in its respective applicable version.

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