skw. metallurgie

2nd Financial Report for the Quarter of 2007

Growth with **Substance**

Key Figures

	Unit	HI 2007	HI 2006	QII 2007	QII 2006
Turnover	€ thousand	106,033	99,304	56,050	50,346
Total operating performance	€ thousand	107,947	100,310	56,838	49,722
EBITDA	€ thousand	11,837	6,838	5,181	4,275
EBIT	€ thousand	10,532	5,917	4,470	3,828
EBT	€ thousand	10,497	5,596	4,445	3,677
Consolidated net income	€ thousand	8,440	3,815	3,157	2,592
Earnings per share	€	1.91	n/a	0.72	n/a
Gross margin		23.6%	20.0%	24.3%	21.3%
EBIT margin		9.9%	6.0%	8.0%	7.6%
Depreciation, amortization and impairments	€ thousand	1,305	921	711	447
Employees (average)		234	224	233	224
Gross cash flow	€ thousand	5,764	4,726		

	Unit	30 June 2007	31 Dec. 2006
Total assets	€ thousand	131,370	112,109
Consolidated equity	€ thousand	76,758	66,769
Equity ratio		58.4%	59.6%
Net financial assets	€ thousand	8,758	19,408

Interim Report of the SKW Metallurgie Group for the Second Quarter of the 2007 Financial Year

Economic Conditions

World economy's pace of growth continues to accelerate

The positive assessment of the key economic research institutes for the development of the global economy further strengthened in 2007. In an analysis at the end of July, the International Monetary Fund (IMF) raised its forecast for world economic growth in 2007 from the previous 4.9% to 5.2%. Expectations were lifted in particular for China (+11.2%, up from 10.0%) and India (+9.0% up from 7.3%). Experts are also very confident for the Euro zone. The Organisation for Economic Cooperation and Development (OECD), for example, anticipates growth of 2.7% for this region. Europe has superseded the USA as the driver of the global economy. This trend is primarily fuelled by a sound upward development in Germany. The economists also expect US growth to cool slightly to +2.1%. According to the IMF, the Japanese economy is also set to perform better than originally expected thanks to a 2.6% increase in GNP. For the central and eastern European countries, +5.7% is considered possible; in particular, the Russian economy is expected to grow by around 7%.

Steel industry shows strong production increase in the first half of the year

The most important customer industry for SKW Metallurgie's products is the steel industry. Following a temporary decrease in production figures during the first quarter, their growth picked up again in the second quarter driven by the sound general economic environment, particularly in East Asia. According to statistics from the International Iron and Steel Institute (IISI), around 8.4% more crude steel was generated in the first half of the year at 652 million tonnes compared with the same period of the previous year. The positive trend is expected to continue in the second half of the year, even if the growth rates are no longer on an even level. The boom on the Chinese steel market has lasted. From January to June 2007, just under 18% more steel was produced at 237 million tonnes than in the previous year. While EU steel production increased by almost 3%, figures for the NAFTA region were somewhat more muted at -2% which is primarily due to stock levels that remain high. Quality products from SKW Metallurgie are needed in steel production, especially to produce high and higher-grade steel. The growth in the production quantities of these steel types, particularly in emerging economies such as India or China, still exceed the growth in the overall steel production volumes of these countries. This development highlights the importance of SKW Metallurgie's regional expansion in these emerging economies.

Demand for SKW Metallurgie products still high

Driven by the positive trend described in the steel industry and the fast-growing production in almost all industries, the demand for key metallurgical products is rising. In particular, the trend in emerging economies shows signs of moving upwards and confirms the regional expansion strategy pursued by the SKW Metallurgie Group. This also applies to the activities of the ESM Group, the acquisition of which was announced by SKW Metallurgie in July 2007 and which is described in the Report on Post-Balance Sheet Date Developments.

Finally, the customer industries of the "Quab" segment – i.e. primarily companies producing industrial starch for the paper industry – reveal positive growth rates, albeit at a more modest level than the steel industry.

Organisation and Company Structure

The organisation and company structure have remained largely unchanged since the last quarterly report. The Group's Supervisory Board decided to reduce the Executive Board of the SKW Metallurgie Group from three to two members effective 30 April 2007. On the same date, J. Klaus Frizen 's membership in the Executive Board ended. Since 1 May 2007, the Group's Executive Board has consisted of Ines Kolmsee as the CEO and Gerhard Ertl as the CFO.

After the end of the reporting period, the signing for the acquisition of the US-based ESM Group and the full retreat of the former majority shareholder ARQUES Industries AG, were announced. Details of these can be found in the Report on Post-Balance Sheet Date Developments.

Corporate and Business Development in the Quarter Under Review

Previous year's performance clearly exceeded

The SKW Metallurgie Group's business development in the quarter under review was very positive. For instance, all significant financial indicators show a better performance than in the corresponding quarter of the previous year. A comparison of the first six months of the current year with the first half of the previous year also shows an improvement in all key figures. In particular, the Group's operating profit was up substantially on the previous year.

Turnover up at the SKW Metallurgie Group

The SKW Metallurgie Group posted a turnover of €56.1 million for the quarter under review. This figure is substantially higher than the previous year's figure of €50.3 million. After adjustment for foreign currency effects, the increase in turnover would be even higher.

The total operating performance during the quarter under review (2007: €56.8 million; 2006: €49.7 million) increased more sharply than the cost of materials and services (2007: €43.1 million; 2006: €39.1 million). Consequently, the gross margin rose significantly from 21.3% to 24.3%.

Personnel expenses rose from €3.3 million to €3.9 million. This is firstly due to the number of employees[1] which rose from 223 to 236. Secondly, the sound turnover and earnings figures in the first half of 2007 led to higher performance-related pay components.

1 The figures represent the headcount (not full-time equivalents) at the end of the quarter and are based on the respective national definitions (e.g. the members of the executive bodies are not included for Germany).

At €0.8 million, other operating income was down slightly on the previous year (€1.0 million). In the quarter under review, this income was largely the result of adjustments to the bargain purchase from the "Quab" acquisition (€0.7 million). In the previous year, there was a €0.6 million (net) income from damages in relation to the "SKW/PEM" arbitration proceedings concluded on 25 July 2006.

Other operating expenses rose from €4.1 million to €5.6 million. This amount includes the passing on of consulting fees of at €0.2 million in connection with the Executive Board member J. Klaus Frizen. The majority of the remaining rise can be attributed to the new "Quab" segment.

Income from associates, which results solely from the Indian joint venture Jamipol, amounted to €0.1 million in the quarter under review. Apart from rounding differences, this corresponds to the same quarter of the previous year.[2]

Operating EBITDA rises by over 30%

Earnings before interest, taxes, depreciation and amortisation (EBITDA) totalled €5.2 million, up significantly on the previous year's figure of €4.3 million. This includes several one-time effects both in the quarter under review and the same period of the previous year. In the second quarter of 2007, these are mainly €0.7 million from adjustments to the bargain purchase from the "Quab" acquisition and €0.2 million from passing on of consulting fees of in connection with the former Executive Board member J. Klaus Frizen. The EBITDA of the second quarter in 2006 includes €0.6 million from damages obtained from the "SKW/PEM" arbitration proceedings concluded on 25 July 2006.

The six-month comparison also shows a sharp increase in EBITDA year-on-year by approximately 75% from €6.8 million to €11.8 million.

The depreciation and amortisation expense figure during the quarter under review of €0.7 million was above the previous year's figure of €0.4 million. Despite this, earnings before interest and taxes (EBIT), at €4.5 million, improved significantly on the previous year's figure of €3.8 million.

Taking interest into account[3], this results in earnings before taxes (EBT) of €4.4 million (previous year: €3.7 million). In the quarter under review, interest income and expenses almost offset each other which represents an improvement against the net interest expenses of the same quarter of the previous year (€0.2 million).

Income tax expense totalled €1.3 million in the quarter under review. This may be a slight increase year-on-year in absolute figures (€1.1 million) but the tax ratio (taxes in relation to EBT) fell slightly to 29% (previous year: 29.5%).

Consolidated net income in the quarter under review accordingly amounted to €3.2 million (of which a portion that can only be posted as a rounding difference is attributable to minority shareholders) compared with €2.6 million (no minority shareholders) in the same quarter of the previous year.

Earnings per share (EPS) amounted to €0.72 in the quarter under review. It is not possible to make a meaningful year-on-year comparison, as the company was not yet organised as a stock corporation for the overall comparison period.

2 In the management report for the 2006 financial year, it is stated that investment earnings are not included in the EBITDA and EBIT figures carried there. However, in this interim report, investment earnings are included in the stated figures in the interest of further improved transparency.

3 Income from associates is not considered interest income, but is contained in EBITDA.

Based on the entire first half of 2007, the SKW Metallurgie Group generated earnings per share of €1.91.

Profit of global SKW Metallurgie influenced by exchange rate developments

The SKW Metallurgie Group generated approximately 39% of its turnover in the US region during the first half of 2007. The development of the exchange rate between the US dollar and the euro is important for this reason, especially for translation of the income generated and expenses incurred in the US region. The average US$/€ exchange rate weakened from US$ 1.23 per euro in HI 2006 to US$ 1.33 per euro in HI 2007. Taking the average rate for the first half of 2006 as a basis also for the first half of 2007, the SKW Metallurgie Group would have generated a higher turnover by approximately €3.4 million (+3.2%) and higher EBIT by €0.4 million (+ 3.9%).

Net asset position of the SKW Metallurgie Group still extremely sound

The following table shows the key balance sheet data of the SKW Metallurgie Group at the end of the second quarter of 2007 and at the end of the 2006 financial year:

In € million	30/06/2007	31/12/2006
ASSETS	131.4	112.1
Non-current	29.9	18.9
Current	101.5	93.3
EQUITY & LIABILITIES	131.4	112.1
Equity	76.8	66.7
Non-current liabilities	2.2	2.2
Current liabilities	52.4	43.2

The full consolidated balance sheet can be found in the financial section of this interim report.

Significant changes in the balance sheet are due to the acquisition of “Quab” and were explained in more detail in the interim report for the first quarter.

Net financial assets at June 30, 2007 amounted to €8.8 million (31 December 2006: €19.4 million).

Positive cash flow from operating activities

The following table shows the change in the gross cash flow of the SKW Metallurgie Group in the first half of 2007 compared with the first half of 2006:

In € million	01/01-30/06/2007	01/01-30/06/2006
Consolidated net income	8.4	3.8
Non-cash income and expenses	-2,6	0.9
Gross cash flow	5.8	4.7

At €5.8 million, the gross cash flow, i.e. consolidated net income adjusted for non-cash income and expenses, was up significantly on the previous year’s figure of €4.7 million. The largest non-cash income item in the period under review is the bargain purchase from the Quab acquisition (income from the dissolution of negative goodwill).

Focus on Technical Competence

Well-educated and motivated employees were again a key basis for the successful activities of the SKW Metallurgie Group in the quarter under review. On average for the quarter, the Group had 233 employees (previous year: 224), and had 236 employees (previous year: 223) at the end of the quarter.[4]

The human capital in research and development (R&D) as well as in technical consulting remains a key factor in the Group's success. The research results yielded in the Group were prepared for patent application in the quarter under review to the extent that this was useful and possible.

Segment Reporting

The SKW Metallurgie Group continues to be structured into three operating segments. The remaining activities, in particular the parent company as a strategic management holding company with no turnover of its own, are posted as "other". Internal turnover is included in the "Elimination" column (see segment report in the Notes).

The performance in the three operating segments in the quarter under review is set out below:

- In the "Cored Wire" segment, turnover totalled €37.5 million (previous year: €39 million) and earnings (EBIT) totalled €3.3 million (previous year: €3.1 million). After eliminating the damages payment obtained from the "SKW/PEM" arbitration proceedings of €0.6 million (net) concluded on 25 July 2006, the operating comparable EBIT of the previous year quarter amounts to €2.5 million. The "Cored Wire" segment thus posted an increase of 32% in the EBIT compared with the same quarter of the previous year. The combination of a slight fall in turnover and significantly higher earnings underlines the management's successful strategy of focusing the Group on margin growth instead of volume growth and on technically demanding products.

  The positive performance is apparent in all the main submarkets of the segments. A significant turnover increase in various South American countries is particularly worthy of mention.

- In the Powder&Granules segment, external turnover was raised from EUR 11.3 million to EUR 11.9 million. The segment EBIT climbed by more than 25% (from €660 thousand to €836 thousand). The quarter under review was dominated by increased freight rates and higher procurement costs, particularly on the Chinese market. Excluding these effects, the segment result would have been more positive still.

- The "Quab" segment was for the first time fully consolidated in the SKW Metallurgie Group during the quarter under review (first consolidation: 16 January 2007). The integration of "Quab" into the SKW Metallurgie Group went as planned and has largely been concluded. With turnover of €6.7 million, "Quab" posted a segment result (EBIT) of €0.9 million. There are no comparable previous year figures due to the first consolidation.

4 The figures represent the headcount (not full-time equivalents) and are based on the respective national definitions (e.g. the members of the executive bodies are not included for Germany).

Risk Management and Reporting Systems Improved Further

As already reported, the SKW Metallurgie Group introduced standard software to support the Group-wide risk management process in 2007. In the quarter under review, all the milestones of this project were achieved as planned. The entire new system is due to be in full operation by the end of the third quarter.

The risk inventory in the new “Quab” segment which was mentioned in the interim report for the first quarter produced the following main results:

- The production facility could be significantly damaged, e.g. by a natural disaster, and this could result in a loss of production and reconstruction costs. The likelihood of this risk occurring can be considered very low due to the construction method of the facility. The Group also has sufficient insurance cover, also against damage caused by natural hazards.

- There is furthermore a risk that there could be a shortage of critical raw materials. However, the likelihood of this procurement risk in the case of “Quab” is considered low.

- The “Quab” segment is also dependent on macroeconomic development and the cyclical nature of its customer industries. However, this economic and industry risk is low. In particular, only limited “Quab” production capacity is available worldwide; the creation of additional capacities is not expected anytime soon. As a result, customers may only fall back on other providers to a limited extent.

- On the currency side, purchasing and sales in the “Quab” segment are both primarily in US dollars with the result that transaction risks are low. Translation risks may arise when converting earnings from US dollars into euro.

The statements made in the 2006 Annual Report on risks and rewards continue to apply.

Outlook

Global economic growth unbroken again in 2008

The Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF) both remain very optimistic for 2008. In 2008, the accumulated GDP of the OECD member countries is set to grow by 2.7% against the prior period. In view of the larger number of countries included in its forecast, the IMF even expects global economic growth of 5.2%. The economists of the OECD expect the economy in the USA to rally quickly and forecast economic growth of 2.5% in 2008. According to the IMF, the Euro zone is also set to grow to a similar extent. As in previous years, the strongest growth stimuli are again likely to emerge from South-East and East Asia, led by China (+10.5%) and India (+8.4%) as well as from Eastern Europe with a continuously fast-growing Russian economy (+6.8%).

Steel industry benefits from sound economic conditions

The trend in the steel industry generally correlates closely to the performance of the world economy. As the signs for the latter also point towards an upswing again for 2008, the production figures of the steel industry are likely to rise further. Higher-grade steel in particular could see increased demand in the coming years. Experts see average annual growth in demand of 3.7% until 2015 for flat steel, for example. An average annual increase of 6.1%[5] is forecast for the premium area, i.e. flat steel of the highest quality. SKW Metallurgie – as a supplier focused on this customer group – should also benefit.

Given the sound performance expected for almost all industries, the positive outlook also applies to the "Quab" segment.

Guidance for 2007: optimistic expectations confirmed

The Executive Board of the SKW Metallurgie Group maintains its optimistic guidance for the 2007 financial year. If the economic conditions develop as forecast, Group management believes that net profit (EBITDA) of between €18.5 million and €19.5 million (previous year: €13.6 million) is possible. The annual turnover underlying this result is likely to be between €210 million and €230 million (previous year: EUR 185.8 million). The acquisition of the ESM Group described in the Report on Post-Balance Sheet Date Developments is not yet included in these figures, because ESM's first consolidation can only occur with the closing of the deal, which is expected for the third quarter of 2007. The Executive Board announced that on the occasion of announcing the figures for the third quarter, it would be releasing a new guidance which will then include the turnover and earnings contribution of the ESM Group.

Report on Post-Balance Sheet Date Developments

After the end of the quarter under review on 30 June 2007, the following transactions and events of significance to the Group occurred before this interim report went to print:

Venturing into new dimensions through acquisition of the ESM Group

The SKW Metallurgie Group announced on 12 July 2007 that it had acquired 100% of the shares in the ESM Group from Platinum Equity, LLC.

The US-based ESM Group, headquartered in Amherst, NY (USA), is the market leader in the field of hot metal desulphurisation in North America. This makes SKW Metallurgie the global market leader in this segment. The ESM Group's business areas also include secondary metallurgy, where the company is one of the largest providers in North America, and the fields of caster maintenance, project planning for desulphurisation plants and specialty magnesium. ESM currently has six sites which – except for one in China – can all be found in the USA and Canada. In the middle of 2007, ESM employed around 250 staff. Until quite recently, both ESM and SKW Metallurgie were affiliate companies of Degussa[6]. In 2005, ESM was sold to the US corporation Platinum Equity, LLC while SKW Metallurgie[7] was acquired by ARQUES Industries AG in 2004 and successfully taken public in 2006.

The cash component of the purchase price amounts to approximately US$ 60 million. At the same time, a working capital loan of approximately US$ 15 million was assumed. The final purchase price will not be definitively determined until the transaction is closed; it is financed from the existing liquidity of SKW Metallurgie and by an acquisition loan. The company will be first consolidated after the transac-

5 Source: Presentation ThyssenKrupp, 10th German Corporate Conference, Deutsche Bank, 21 Juni 2007.

6 Today part of the RAG Group.

7 Excluding the "Quab" segment which SKW Metallurgie did not acquire from Degussa until later.

tion is closed, expected for the third quarter of 2007. The transaction is subject to the approval of the responsible antitrust authorities.

The acquired annual turnover amounts to around US$ 150 million[8]. The profitability of the ESM Group (not taking into account special effects from the first consolidation) is in line with the figures for the SKW Metallurgie Group.

100% free float makes admission to the SDAX more likely

On 20 July 2007, the previous majority shareholder ARQUES Industries AG headquartered in Starnberg, Germany, reported that its interest in the SKW Metallurgie Group had been reduced to 0%. At the time this interim management report went to print, no shareholder had reported a holding of 5% or more. This full free float makes it more likely that SKW Metallurgie's shares, which are already listed in the Prime Standard, will be admitted to Deutsche Börse's SDAX index.

Disclaimer

This interim report contains statements on future developments that are based on currently available information and involve risks and uncertainties that could cause the actual results to differ from these forward-looking statements. These risks and uncertainties include, for example, unforeseeable changes to political and economic conditions, in particular in the steel production industry, the competitive situation, the development of interest rates and exchange rates, technological developments and other risks and unexpected circumstances. SKW Stahl-Metallurgie Holding AG and its Group companies accept no obligation to update such forward-looking statements.

Unterneukirchen (Germany), in August 2007

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee Gerhard Ertl

8 Approximately US$ 10 million of this figure is to be declared as internal turnover in the future.

Consolidated Income Statement for 1 Jan - 30 Jun and 1 Apr - 30 Jun

	QI-II 2007 € thousand	QI-II 2006 € thousand	QII 2007 € thousand	QII 2006 € thousand
Turnover	106,033	99,304	56,050	50,346
Change in the inventories of finished goods and work in progress	1,914	1,006	788	-624
Other operating income	4,773	1,245	834	961
Purchased goods and services	-82,442	-80,218	-43,052	-39,145
Personnel expenses	-7,401	-6,431	-3,942	-3,311
Other operating expenses	-11,400	-8,409	-5,624	-4,101
Income from associates	360	341	127	149
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**11,837**	**6,838**	**5,181**	**4,275**
Depreciation, amortization and impairments of intangible assets and property, plant and equipment	-1,305	-921	-711	-447
Earnings before interest and taxes (EBIT)	**10,532**	**5,917**	**4,470**	**3,828**
Other interest and similar income	554	65	268	26
Interest and similar expenses	-589	-386	-293	-177
Profit from ordinary activities	**10,497**	**5,596**	**4,445**	**3,677**
Income tax expenses	-2,057	-1,781	-1,288	-1,085
Consolidated net income	**8,440**	**3,815**	**3,157**	**2,592**
Of which attributable to the parent company	*8,414*	*3,815*	*3,146*	*2,592*
Of which attributable to minority interests	*26*	*0*	*11*	*0*
Earnings per share in €	1.91	n/a	0.72	n/a

Consolidated Balance Sheet as at 30 June 2007

ASSETS	30/06/2007 € thousand	31/12/2006 € thousand
Non-currents assets		
Intangible assets	6,091	989
Property, plant and equipment	15,768	9,690
Investments in associates	3,905	3,679
Other non-current assets	471	431
Deferred tax assets	3,664	4,064
Total non-current assets	**29,899**	**18,853**
Current assets		
Inventories	29,173	26,284
Trade receivables	40,105	27,113
Income tax receivables	730	196
Other assets	3,636	4,758
Cash and cash equivalents	27,827	34,905
Total current assets	**101,471**	**93,256**
Total assets	**131,070**	**112,109**

EQUITY AND LIABILITIES	30/06/2007 € thousand	31/12/2006 € thousand
Equity		
Subscribed capital	4,422	4,422
Capital reserve	29,144	29,144
Accumulated other comprehensive income	41,553	33,165
Minority interest	1,639	38
Total equity	**76,758**	**66,769**
Non-current liabilities		
Pension obligations	1,476	1,333
Obligations from finance leases	742	847
Total non-current liabilities	**2,218**	**2,180**
Current liabilities		
Provisions	952	873
Financial liabilities	19,069	15,497
Trade payables	23,902	21,305
Tax liabilities	1,331	1,903
Deferred tax liabilities	2,982	415
Other liabilities	4,158	3,167
Total current liabilities	**52,394**	**43,160**
Total equity and liabilities	**131,070**	**112,109**

Consolidated Cash Flow Statement as at June 30 2007

		01/01/ – 30/06/07 € thousand	01/01/ – 30/06/06 € thousand
1.	Consolidated net income	8,440	3,815
2.	Depreciation, amortization and impairments, and reversals of impairments of non-current assets	1,305	921
3.	Increase/decrease in provisions for pensions	144	104
4.	Adjustments to the carrying amounts of investments accounted for at equity	-127	-149
5.	Gains on disposal of non-current assets	36	0
6.	Foreign exchange gains	224	455
7.	Income from deferred taxes	285	283
8.	Income from reversal of negative goodwill	-4,188	0
9.	Other non-cash expenses/income	-355	-616
10.	**Brutto-Cashflow**	**5,764**	**4,726**
	Changes in working capital		
11.	Increase/decrease in short-term provisions for pensions	12	-66
12.	Increase/decrease in inventories (after advanced payments received)	-111	1,830
13.	Increase/decrease in trade receivables	-7,111	963
14.	Increase/decrease in receivables from subsidiaries	38	0
15.	Increase/decrease in other receivables	0	0
16.	Increase/decrease in other assets	15	342
17.	Increase/decrease in trade payables	1,761	-1,362
18.	Increase/decrease in trade payables to subsidiaries	69	170
19.	Increase/decrease in other payables	0	0
20.	Increase/decrease in other equity & liabilities	83	-944
23.	**Net cash from/used in operating activities (net cash flow)**	**520**	**5,659**
24.	Proceeds (= income) from asset disposals	0	363
25.	Payments for investments in non-current assets	-1,305	-1,644
26.	Purchase price paid for business acquisitions	-3,862	0
27.	Cash and cash equivalents acquired in business acquisitions	0	0
28.	**Net cash from/used in investing activities**	**-5,167**	**-1,281**
29.	Redemption of shareholder loans	-1,415	-3,064
30.	Cash inflows from borrowing of bank loans	0	0
31.	Payment for the redemption of loans	-1,024	-427
33.	**Net cash from/used in financing activities**	**-2,439**	**-3,491**
34.	Cash and cash equivalents at the beginning of the period	34,905	1,362
35.	Change in cash and cash equivalents	-7,086	887
36.	Currency translation of cash held	8	0
37.	**Cash and cash equivalents at the end of the period**	**27,827**	**2,249**

Statement of Changes in Consolidated Equity from 1 January to 30 June

€ thousand	Issued capital	Capital reserves	Earnings of current year	Other reserves	Consolidated equity of the controllin shareholder	Minority interests	Total equity
As at 01/01/2006	**25**	**1,000**		**24,918**	**25,943**	**0**	**25,943**
Consolidated net profit for 06	0	0	3,815	3,815	3,815	0	3,815
Changes in exchange rates	0	0		-468	-468	0	-468
Other changes	1,300	-1000		0	300	0	300
Total equity as at 30/06/06	**1,325**	**0**		**28,265**	**29,590**	**0**	**29,590**
As at 01/01/2007	**4,422**	**29,144**		**33,165**	**66,731**	**38**	**66,769**
Consolidated net profit for 07	0	0	8,414	8,414	8,414	26	8,440
Changes in exchange rates	0	0		-1,027	-1,027	-2	-1,029
Other changes	0	0		1,001	1,001	1,577	2,578
Total equity as at 30/06/07	**4,422**	**29,144**		**41,553**	**75,119**	**1,639**	**76,758**

Notes to the Consolidated Financial Statements for the Interim Report as at 30 June 2007

Notes to the Interim Report as at 30 June 2007

A. Basis of accounting

The interim report of SKW Stahl-Metallurgie Holding AG was prepared in accordance with the provisions and rules of International Financial Reporting Standards (IFRS) as adopted in the European Union and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). The explanations provided under section "B. Summary of the Main Accounting Policies" in the Notes to the Consolidated Financial Statements for the year ended 31 December 2006 also apply to this unaudited Interim Report as at 30 June 2007.

The 2006 Annual Report of the SKW Metallurgie Group can be found on the Internet at http://www.skw-steel.com.

For more detailed information on the accounting policies applied, please refer to the Consolidated Financial Statements as at 31 December 2006 which constitute the basis for these Interim Financial Statements.

With regard to the methods used for estimates, the explanations provided under section "C. Consolidated Group and Methods" in the Consolidated Financial Statements for the year ended 31 December 2006 apply. In addition, differences may arise in the tables found in the Notes to the Consolidated Financial Statements due to figures being rounded up or down.

The operations carried out by the SKW Metallurgie Group are not subject to seasonal fluctuations. Nevertheless, a comparison of periods within a year can be influenced by maintenance measures to be implemented by the customers and by active inventory management in the steelworks. However, these measures are not carried out in the same quarters from year to year.

B. Details of the consolidated group

The consolidated group and the consolidation methods applied have remained unchanged from the 2006 Consolidated Financial Statements.

C. Information on the "Quab" business acquired in the first quarter

In 2006, SKW Stahl-Metallurgie Holding AG acquired 90% of the shares in Arques Chemicals Inc. as part of a share deal. As at 16 January 2007, this Company – which now trades under the name SKW Quab Chemicals Inc. – acquired the "Quab" business from Degussa Corporation (which belongs to the RAG Group) in an asset deal. Following the final calculation of the working capital, the final purchase price amounts to €10,009 thousand including the incidental costs of acquisition incurred in the amount of €132 thousand. The purchase price is allocated by acquired assets, liabilities and contingent liabilities at fair value as part of purchase price allocation in accordance with IFRS 3.

In the course of the purchase price allocation process, there were some changes as against the prior quarter in the amounts recognised for the customer base and the inventories. The table below shows the current adjustments to assets and liabilities:

Adjustments to assets and liabilities in € thousand	30 June 2007
Software licences	-4
Customer base	5,398
Buildings	-36
Equipment	2,730
Inventories	76
Provisions	-68
Deferred taxes, net	-3,265
	4,831

A useful life of 15 years was applied to the customer base. The table below shows the goodwill calculation:

Calculation of goodwill (€ thousand)	30 June 2007
Purchase price	10,009
Less acquired net assets measured at fair value	-14,197
Total goodwill	**-4,188**

Due to the adjustments in the purchase price allocation process, the 90% interest held by the SKW Metallurgie Group in SKW Quab Chemicals Inc. (formerly Arques Chemicals Inc.) results in a calculated quarter-on-quarter increase of €723 thousand. It now totals €4,188 thousand. The bargain purchase for the 90% interest of €4,188 thousand was recognised in the Consolidated Income Statement under other operating income.

The assets and liabilities acquired are as follows:

Net assets acquired (€ thousand)	Carrying amount	Fair value
ASSETS		
Intangible assets	4	5,398
Property, plant and equipment	3,577	6,271
Deferred tax assets	0	115
Inventories	2,213	2,289
Trade receivables	5,881	5,881
Receivables and other assets	246	246
	11,921	20,200
EQUITY & LIABILITIES		
Trade payables	855	855
Other liabilities	123	123
Deferred tax liabilities	0	3,380
Provisions	0	68
	978	4,426
Net assets	**10,943**	**15,774**
Minority interest		-1,577
Net assets acquired		**14,197**

D. Net assets, financial position and results of operations

Balance sheet

The total assets of the SKW Metallurgie Group amounted to €131,370 thousand as at 30 June 2007 (31 December 2006: €112,109 thousand). The increase is primarily related to the acquisition of the “Quab” business. As in the previous year, the main assets are inventories of €29,173 thousand or 22.3% of total assets, trade receivables of €40,105 thousand or 30.6% of total assets and cash and cash equivalents of €27,827 thousand or 21.2% of total assets. The 20.3% reduction in cash and cash equivalents from €34,905 thousand to €27,827 thousand is mainly due to the payment of €3,862 thousand for acquisition of the “Quab” business and the increase in working capital.

The Group’s equity ratio decreased only slightly from 59.6% as at 31 December 2006 to 58.4% as at the reporting date for the period (including minority interest).

Financial liabilities rose from €15,497 thousand (as at 31 December 2006) to €19,069 thousand as at 30 June 2007. The rise is primarily due to financing the acquisition of the “Quab” business by borrowing funds as at the date of acquisition.

Income statement

Consolidated net income for the period amounts to €8,440 thousand as at 30 June 2007 (comparable prior-year period: €3,815 thousand). Other operating income of €4,773 thousand (first half of 2006: €1,245 thousand) includes income of €4,188 thousand from the dissolution of negative goodwill arising from the acquisition of the “Quab” business.

Other operating expenses of €11,400 thousand (first half of 2006: €8,409 thousand) include passed on consulting fees of of €590 thousand for the Executive Board member J. Klaus Frizen.

At €-35 thousand, net finance costs were up substantially on the previous year’s figure of €-321 thousand. The reason for the enormous year-on-year improvement is due to the fact that significantly more cash and cash equivalents were available in the current period under review and this meant that higher interest income was generated.

Cash flow statement

At €5,764 thousand, the gross cash flow, i.e. consolidated net income adjusted for non-cash income and expenses, is up significantly on the previous year’s figure of €4,726 thousand.

The Group recorded net cash from operating activities of €520 thousand. This cash flow is primarily impacted by trade receivables and payables.

The SKW Metallurgie Group recorded net cash used in investing activities of €5,167 thousand. This was primarily due to the purchase price payment for the acquisition of the “Quab” business. Financing activities used net cash of €2,439 thousand. The net cash used was solely the result of payments to repay shareholder and bank loans.

In the period under review, the cash flow from operating activities included the following payments: interest paid to third parties of €383 thousand, interest received from third parties of €287 thousand and income taxes paid in the amount of €1,505 thousand.

E. Segment reporting

The Group is currently subdivided into business segments – in line with the provisions of IAS 14. As a result of the “Quab” business acquisition, the number of primary segments rose from two to three since a separate segment was created for the “Quab” business.

The primary business segments are broken down as follows:

a) Cored Wire
b) Powder&Granules
c) Quab

The “Other” segment still contained SKW Quab Chemicals Inc. (formerly Arques Chemicals Inc.) as at December 2006. Following acquisition of the “Quab” business, this now constitutes a separate segment. The segment information for the primary business segments in 2007 are listed below:

	Cored Wire QI-II 2007 € thousand	Powder and Granules QI-II 2007 € thousand	Quab QI-II 2007 € thousand	Other QI-II 2007 € thousand	Elimination QI-II 2007 € thousand	Consolidated QI-II 2007 € thousand
Turnover						
External turnover	70,370	23,632	12,031	0	0	106,033
Internal turnover	0	5,657	0	0	-5,657	0
Total turnover	70,370	29,289	12,031	0	-5,657	106,033
Segment result (EBIT)	**5,439**	**1,801**	**4,720**	**-1,426**	**-2**	**10,532**

	Cored Wire QII 2007 € thousand	Powder and Granules QII 2007 € thousand	Quab QII 2007 € thousand	Other QII 2007 € thousand	Elimination QII 2007 € thousand	Consolidated QII 2007 € thousand
Turnover						
External turnover	37,478	11,922	6,650	0	0	56,050
Internal turnover	0	2,911	0	0	-2,911	0
Total turnover	34,478	14,833	6,650	0	-2,911	56,050
Segment result (EBIT)	**3,348**	**836**	**895**	**-607**	**-2**	**4,470**

In the period under review, the segment result for "Other" includes costs of €590 thousand from passed on consulting fees of in connection with the Executive Board member J. Klaus Frizen as well as expenses for projects accumulated in connection with the regional expansion.

The corresponding primary segment information for the previous year is presented in the table below:

	Cored Wire QI-II 2006 € thousand	Powder and Granules QI-II 2006 € thousand	Quab QI-II 2006 € thousand	Other QI-II 2006 € thousand	Elimination QI-II 2006 € thousand	Consolidated QI-II 2006 € thousand
Turnover						
External turnover	75,987	23,317	0	0	0	99,304
Internal turnover	0	3,760	0	0	-3,760	0
Total turnover	75,987	27,077	0	0	-3,760	99,304
Segment result (EBIT)	**4,209**	**1,740**	**0**	**-32**	**0**	**5,917**

	Cored Wire QII 2006 € thousand	Powder and Granules QII 2006 € thousand	Quab QII 2006 € thousand	Other QII 2006 € thousand	Elimination QII 2006 € thousand	Consolidated QII 2006 € thousand
Turnover						
External turnover	39,001	11,344	0	0	0	50,345
Internal turnover	0	1,759	0	0	-1,759	0
Total turnover	39,001	13,103	0	0	-1,759	50,345
Segment result (EBIT)	**3,050**	**660**	**0**	**-9**	**127**	**3,828**

F. Related party transactions

In material transactions with related parties, the following significant changes to the 2006 consolidated financial statements and the interim report as at 31 March 2007 arose:

€757 thousand was invoiced by ARQUES Industries AG, Starnberg, Germany, in the first half of 2007 for consultation services, €590 thousand of which was attributable to the Executive Board member J. Klaus Frizen for his services until the end of 30 April 2007. Further information on the compensation of the Executive and Supervisory Board and shares held by them as well as reportable transactions can be found in the Corporate Governance Report which is published as part of the Annual Report.

G. Contingent liabilities

There were no significant changes to the contingent liabilities of the SKW Metallurgie Group as against 31 December 2006.

H. Stock option plan

The SKW Metallurgie Group has established a stock option plan for members of the Executive Board and upper management. This plan resulted in expenses of €21 thousand for the second quarter of 2007.

I. Significant events after the balance sheet date

After the end of the period under review, the following transactions and events of significance to the Group occurred before this interim report went to print:

The SKW Metallurgie Group announced on 12 July 2007 that it had acquired 100% of the shares in the US-based ESM Group from Platinum Equity, LLC. The cash component of the purchase price amounts to approximately US$ 60 million; furthermore, a working capital loan of approximately US$ 15 million was assumed. The final purchase price will not be definitively determined until the transaction is closed; it is financed from SKW Metallurgie's existing liquidity and by borrowings. The first consolidation of the company (purchase price allocation) will be conducted after the transaction is closed, which is expected in the third quarter of 2007. The transaction is subject to the approval of the responsible antitrust authorities. The acquired annual turnover amounts to around US$ 150 million, of which approximately US$ 10 million is to be declared as internal turnover in future. The profitability of the ESM Group is estimated at around 7-8% (EBITDA margin); this margin does not include effects from the first consolidation.

On 20 July 2007, the previous majority shareholder ARQUES Industries AG headquartered in Starnberg, Germany, reported that its interest in the SKW Metallurgie Group had been reduced to 0%. Since this date, all the shares of SKW Stahl-Metallurgie Holding AG have been held in free float.

J. Profit and loss transfer agreement

On 18 June 2007, the Annual General Meeting of SKW Stahl-Metallurgie Holding AG approved the conclusion of a profit and loss transfer agreement between SKW Stahl-Metallurgie Holding AG as the parent company and SKW Stahl-Metallurgie GmbH as the affiliated company, retroactively to 1 January 2007. This agreement was concluded after the end of the period under review and submitted for entry into the Commercial Register. The retroactive application was already taken into account when determining the tax expense in this interim report.

Unterneukirchen (Germany), in August 2007

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee Gerhard Ertl

Responsibility Statement by the Management

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Unterneukirchen (Germany), in August 2007

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee Gerhard Ertl

Ines Kolmsee
CEO

Gerhard Ertl
CFO

Financial Calendar

12 November 2007

Publication of business figures for 3rd quarter 2007, new guidance

31 December 2007

End of financial year 2007

Subject to modifications

The current financial calendar can be found at **www.skw-steel.com**

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Publisher:
SKW Stahl-Metallurgie Holding AG
Fabrikstrasse 6
84579 Unterneukirchen
Germany

Editorial Office:
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Head of Investor Relations
and Corporate Communications

Design, Layout, Production:
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This interim report was published in German and English on 14 August 2007 and may be downloaded free of charge at our internet site www.skw-steel.com.

The interim report is generally produced as an update to the annual report. The interim report should therefore be read in conjunction with the annual report published for the 2006 financial year, and the quarterly report published for the first quarter of 2007.

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