Growth with Substance

Financial Report for the 1st Half of 2010

The SKW Metallurgie World in Figures

Key Figures	Unit	H1 2010	H1 2009
Revenues	EUR mill.	188.8	93.2
EBITDA	EUR mill.	16.1	0.8
EBIT	EUR mill.	10.3	-2.2
EBT	EUR mill.	8.9	-3.5
Consolidated Net Result (before min.)	EUR mill.	5.8	-2.7
Consolidated Net Result (after min.)	EUR mill.	4.9	-2.6
EPS (6.544.930 shares)	EUR	0.75	-0.39
Gross margin		27.5%	26.4%
EBITDA margin		**8.5%**	**0.9%**
Depreciation/amort.	EUR mill.	5.8	2.9
Gross Cash Flow	EUR mill.	7.3	-0.7
Income from operating activities	EUR mill.	-3.9	18.4
		June 30, 2010	Dec. 31, 2009
Total assets	EUR mill.	288.5	231.7
Total equity (incl. min.)	EUR mill.	124.5	109.0
Equity ratio (incl. min.)		43.2%	47.0%
Net financial debt	EUR mill.	55.1	32.8

Interim management report for the SKW Metallurgie Group for the first six months of 2010

Underlying economic conditions

Global economy recovering faster than expected

According to information from the International Monetary Fund (IMF), the global economy is recovering faster than had been expected at the start of the year. The economists are forecasting that the global economy will grow by 4.2% in 2010. This growth is driven by historically low base rates, low inflation rates and politically motivated economic programs as well as dynamic growth in emerging nations in Asia. Economic output in emerging and developing nations is set to increase by 6.3% this year. The Organization for Economic Cooperation and Development (OECD) believes that China will clearly be the so-called “economic locomotive” in this region with its domestic product set to grow by 11.1%. India can also expect strong growth of 8.3%. The two other BRIC countries Brazil (+6.5%) and Russia (+5.5%) can expect a substantial upswing. Traditional industrial nations will also benefit from these countries’ high demand for industrial goods. According to the OECD, the US economy will grow by 3.2%, while Euro countries will grow by 1.2% overall. The experts have lifted their forecast for Germany from 1.1% to 1.9%. Japan’s economy should grow by 3.0% thanks to renewed booming exports in Asia. However, the economists believe that there are increasing risks for the emerging upswing. They are warning of economic growth overheating in emerging nations, and of the risks of overindebtedness for several governments.

Record-breaking steel production

The global economic recovery and the catch-up effects resulting from the very weak growth in the previous year mean that global steel production is expected to surpass the previous record-breaking figures in 2007. According to information from the World Steel Association (WSA), the quantity of steel produced world wide increased in the first half of 2010 by around 28% to 706 million tons. For the year as a whole, the WSA is forecasting global steel consumption to increase by 11% to more than 1.2 billion tons. Capacity uptake at steel producers also increased substantially in the first six months. After having totaled slightly more than 72% at the start of the year, steel producers were again reporting figures of more than 80% at the end of June. The recovery in 2010 is taking place to a particularly large extent in the key steel producing regions for SKW Metallurgie – in addition to Brazil – of Europe and North America. Growth rates of 14% are being forecast for the EU, and 24% for NAFTA countries. After the end of the first six months, the quantities produced in the 27 countries of the EU were 45% higher than the previous year’s figure, which was very weak. North America even recorded growth of 60%. However, underlying base effects mean that the dynamic growth is expected to slow in the second half of the year. In addition, the high percentage increases cannot hide the fact that the quantities of steel produced in the EU and North America are still lower than the levels prior to the crisis. BRIC countries (Brazil, Russia, India and China) can hope for a cumulative increase in demand of 8%. Experts believe that Brazil, which is becoming increasingly important for the SKW Metallurgie Group as a result of the Tecnosulfur acquisition, will enjoy a 24% increase in demand despite a lower downturn during the crisis.

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 quantities of top-quality steel produced in the relevant geographic markets.

Organization and company structure

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

The Group's shareholder structure continues to be characterized by being fully held in free float: As of June 30, 2010, none of the shareholders held an interest of 5% or more in SKW Stahl-Metallurgie Holding AG's share capital, which remained unchanged during the period under review.

Company and business growth

SKW Metallurgie enjoys clear on-track growth

The SKW Metallurgie Group's operating structure was mostly identical in the first six months of 2009 and 2010 and can thus be easily compared; the only exception is the plant in Brazil purchased in the fourth quarter of 2009 (acquisition of Tecnosulfur S/A).

Both in Brazil and in the SKW Metallurgie Group's longer-standing markets, from January to June 2010 operating business recovered significantly from the lows caused by the global economic and financial crisis. All of the major KPIs are substantially higher than the figures in the first six months of 2009. However, it has not yet been possible to meet all of the record-breaking figures from the period prior to the global recession.

As forecast, the SKW Metallurgie Group's earnings during 2010 to date have not suffered any so-called bad stock effect (one-off effects from the valuation of inventories of raw materials); such effects are not expected for the remainder of business year 2010 either. During the whole of 2009 EBITDA was still depressed by such extraordinary factors totaling EUR 9.5 million.

Revenues up significantly

The SKW Metallurgie Group's revenues more than doubled in the first six months of 2010 compared to the previous year – from EUR 93.2 million to EUR 188.8 million. This increase is due to the acquisition of Tecnosulfur and also the increased steel production in the SKW Metallurgie Group's former geographic core markets (European Union: +45%; USA: +69%). The SKW Metallurgie Group currently records more than 90% of its revenues with the steel industry, and thus depends to a great extent on its production volumes.

A particularly meaningful indicator for the SKW Metallurgie Group's operating performance is currently still its gross profit margin, or the difference between revenues and cost of materials to revenues. This increased significantly in the first six months to 27.5% compared to 26.4% in the first half of 2009. However, the increasing capital intensity and vertical integration (e.g., higher vertical integration as a result of the calcium silicon plant in Bhutan which is currently being constructed) in the SKW Metallurgie Group's economic activities mean that the gross profit margin will be less meaningful from 2011.

Possible changes to the prices of raw materials are reflected proportionately in changes to selling prices, with the result that the SKW Metallurgie Group's business success is mostly independent of changes in the prices of raw materials. The SKW Metallurgie Group continues to believe that the supply of all of its relevant raw materials is secure.

Personnel expenses in the first six months were clearly up on the previous year at EUR 18.6 million (EUR 11.3 million). This increase is due, in particular, to the following factors:

- As a result of the significant increases in revenues and earnings year-on-year, performance-related remuneration components have also increased.

- There has been no short-time work in the SKW Metallurgie Group in 2010; this relates to France in particular.

- The number of employees worldwide increased from 463 (June 30, 2009) to 734 (June 30, 2010). The increase in the number of employees is mostly due to the acquisition of Tecnosulfur and the re-hiring of employees in North America, whose jobs had to be cut as a result of the financial and economic crisis.

Other operating income was also significantly higher than in the previous year at EUR 5.3 million (EUR 2.9 million):

- This includes the substantially higher exchange rate gains (EUR 5.2 million) than in the same period of the previous year (EUR 1.5 million). However these are partially compensated for by corresponding currency translation losses which are included in other operating expenses. These currency translation losses totaled EUR 2.9 million (H1 2009: EUR 1.3 million), resulting in a positive net currency translation effect in the period under review of EUR 2.2 million (H1 2009: EUR 0.2 million). The SKW Metallurgie Group is active in a large number of currencies; the most important foreign currency for the Group is the US dollar. During the period under review, changes in the exchange rate of the Brazilian Real to the Euro were also of particular importance.

- The remaining other operating expenses are minimal, as the SKW Metallurgie Group focuses on its operating business.

Other operating expenses increased from EUR 14.2 million to EUR 24.3 million. This increase is due, in particular, to the exchange rate losses detailed above in the amount of EUR 2.9 million (H1 2009: EUR 1.3 million) and the high proportion of expenses not related to sales (e.g., outbound freight, and sales commission). The bulk of the production costs for Quab products continue to be disclosed as other operating expenses, as these services are purchased as part of a chemical park concept at the facility in Mobile, AL (USA) from the Evonik Group.

The income from associated companies which result exclusively from the Indian joint venture Jamipol, totaled EUR 0.5 million in the first six months of 2010. This is a slight improvement compared to H1 2009 (EUR 0.4 million) due to the economy.

EBITDA: Up substantially year-on-year

As a result of the strong increase in revenues in the SKW Metallurgie Group in the first half of the year, the SKW Metallurgie Group recorded EBITDA of EUR 16.1 million as of June 30, 2010 (previous year: EUR 0.8 million). All of the major Group companies contributed in this regard; the successful Brazilian company Tecnosulfur (Powder and Granules segment) was not yet included in the previous year's figures, as it has only formed part of the SKW Metallurgie Group since December 2009. In the second quarter alone, the Group recorded EBITDA of EUR 9.9 million, after recording negative EBITDA of EUR -1.2 million in the same period of 2009.

The EBITDA margin (EBITDA to revenues), which is a very meaningful KPI to gauge the SKW Metallurgie Group's performance, totaled 8.5% in the first six months of 2010, significantly higher than the previous year's figure, which was only slightly positive.

Amortization and depreciation in the period under review totaled EUR 5.8 million and this figure was thus significantly higher than the previous year's figure of EUR 2.9 million. This increase is due, in particular, to the depreciation of assets at the Brazilian company Tecnosulfur, which was acquired in the fourth quarter of 2009.

EBIT amounted to EUR 10.3 million in the first six months, thus up EUR 12.5 million compared to the crisis-hit 2009 figure of EUR -2.2 million.

Net interest totaled EUR -1.4 million in H1 2010, and thus practically on a par with the previous year's figure (EUR -1.3 million).

Taking the interest into account, EBT for the first six months totaled EUR 8.9 million (previous year: EUR -3.5 million).

Whereas there was still tax income of EUR 0.8 million in the first half of 2009, the SKW Metallurgie Group recorded income tax expenses of EUR 3.2 million in the period under review. This means that the SKW Metallurgie Group has a group tax rate (ratio of EBT to income taxes) of 35.4% in the first six months of 2010. The Group believes that a ratio of 30-35% is fitting for the current breakdown of its activities in various tax jurisdictions. In some countries in which the SKW Metallurgie Group operates, the total tax rate includes federal taxes and also taxes by states (e.g. in Brazil and in the USA) and other entities.

The consolidated net income for the period in the first six months totaled EUR 5.8 million, compared to a consolidated net loss of EUR 2.7 million in the first six months of 2009.

Of this total, EUR 4.9 million is due to shareholders of the parent company (previous year: EUR -2.6 million) and EUR 0.9 million (previous year: EUR -0.1 million) is due to minority interests.

In 2010 the proportion of the SKW Metallurgie Group's consolidated net income due to minority interests shows, in particular, the increasing importance of the activities in Brazil (SKW Metallurgie's interest in Tecnosulfur: two thirds) and Bhutan (SKW Metallurgie's interest: 51%) and the proportion of earnings from SKW Quab Chemicals due to third parties (SKW Metallurgie's interest: 90%).

The proportion of the consolidated net income for the period due to the parent company's shareholders and the 6,544,930 shares (number of shares on June 30, 2010) results in earnings per share (EPS) of EUR 0.75. The previous year's EPS, calculated using the same number of shares, totaled EUR -0.39.

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 six months of 2010 and at the end of business year 2009:

EUR million	June 30, 2010	Dec. 31, 2009
ASSETS	**288.5**	**231.7**
Non-current	141.3	116.7
Current	147.1	114.9
Thereof cash and cash equivalents	12.3	11.1
EQUITY AND LIABILITIES	**288.5**	**231.7**
Equity	124.5	109.0
Non-current liabilities	59.9	41.2
Thereof non-current financial liabilities	33.8	14.6
Current liabilities	104.0	81.5
Thereof current financial liabilities	33.5	29.2

The SKW Metallurgie Group's total assets increased from EUR 231.7 million (December 31, 2009) to EUR 288.5 million (June 30, 2010). Equity (including minority interests) increased from EUR 109.0 million at the end of 2009 to EUR 124.5 million. These two effects resulted in a slight downturn in the equity ratio (including minority interests) which the management had anticipated from 47.1% on December 31, 2009 to a continued very solid 43.2% as of June 30, 2010. The equity ratio is the ratio of equity (including minority interest) to total assets.

In particular, the increase in current liabilities (from EUR 81.5 million to EUR 104.0 million) is due to the increase in trade payables from EUR 32.5 million to EUR 43.8 million. This increase is mostly due to the positive growth in the Group's business.

The SKW Metallurgie Group's net financial debt (defined as current and non-current financial liabilities less cash and cash equivalents) totaled EUR 55.1 million on June 30, 2010, up EUR 22.3 million compared to December 31, 2009 (EUR 32.8 million). Non-current financial liabilities in particular increased from EUR 14.6 million to EUR 33.8 million as a result of the acquisition projects. Gearing, or the ratio of net financial debt to equity (including minority interests) increased correspondingly from 0.31 to 0.44, which is still very conservative for a manufacturing company.

Cash flow: Increase in working capital results from economic recovery

The following table shows the changes in the SKW Metallurgie Group's cash flow from January 1 to June 30, 2010 compared to the first six months of 2009:

EUR million	Jan. 1 - June 30, 2010	Jan. 1 - June 30, 2009
Consolidated net income for the period	5.8	-2.7
Non-cash income and expense	1.5	2.0
Gross cash flow	7.3	-0.7
Change in working capital	-11.2	19.1
Net cash flow	-3.9	18.4

The gross cash flow of EUR 7.3 million is substantially higher than the previous year's figure of EUR -0.7 million. This increase is mostly due to the significant increase in consolidated net income for the period.

The stronger demand for the SKW Metallurgie Group's products lead to working capital increasing strongly in the first six months of 2010 – in contrast to the first half of 2009. There were increases in particular in inventories by EUR 9.4 million (first half of 2009: decrease of EUR 19.0 million), trade accounts receivable of EUR 12.1 million (first half of 2009: decrease of EUR 13.9 million) and trade accounts payable of EUR 8.0 million (first half of 2009: decrease of EUR 10.4 million).

As a rule, there is a positive correlation between the amount of the SKW Metallurgie Group's working capital and the amount of revenues. As a result, the SKW Metallurgie Group thus also primarily increases working capital in the group companies which record sustained increases in revenues. For example, inventories are generally measured such that they cover the anticipated requirements for a fixed period; lower sales thus lead to lower inventories, rising sales to higher inventories. The valuation of inventories in Euros is also dependent on exchange rates (in particular USD/EUR).

In total the strong increase in working capital and the associated negative cash flow from operating activities are typical characteristics of an upswing after a crisis.

The period under review was also characterized by very strong capital expenditure (net cash used: EUR 12.1 million compared to EUR 3.7 million in the first half of 2009), in particular for the further construction of the plant in Bhutan..

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 the Quab business). Internal revenues between the segments are eliminated in the "Consolidation" column (see segment reporting in the note); internal revenues within a segment are already eliminated when the segment figures are disclosed.

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 period under review:

- The "Cored Wire" segment recorded segment EBITDA in the first six months of EUR 6.6 million (previous year: EUR 0.2 million) with significantly higher revenues with third parties as a result overcoming the economic and financial crisis (change from EUR 38.6 to EUR 88.0 million). This means that the EBITDA margin increased significantly from 0.5% to 7.5%. In particular the North American cored wire plants benefited from increased demand from the steel industry for high-quality cored wire in the period under review.

- In the "Powder and Granules" segment, revenues with third parties almost doubled from EUR 47.0 million to EUR 90.3 million during the first six months. Segment EBITDA lifted correspondingly from EUR 0.6 million to EUR 11.0 million. This means that the segment EBITDA has increased theoretically from 1.3% to 12.2%. This significant increase is due to the acquisition of the Brazilian company Tecnosulfur, and also to the positive business growth in the other areas of this segment.

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. The number of employees worldwide totaled 734 at the end of the first six months of 2010 – up significantly compared to the figure on June 30, 2009 (463). The increase in the number of employees is mostly due to the acquisition of Tecnosulfur (158 employees as of June 30, 2010) and the re-hiring of employees in North America, whose jobs had to be cut as a result of the financial and economic crisis.

During the remainder of 2010, the SKW Metallurgie Group expects that its staff numbers will continue to rise as a result of new hires at the new plants in Russia and, in particular, in Bhutan.

In the period 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.

The plants under construction in Bhutan and Russia will also contribute to expanding the SKW Metallurgie Group's technology competence. Construction progress in Bhutan has been slowed by an extraordinarily heavy monsoon, however work is still progressing. In Russia, the official licensing process continues to be highly complex and the timing remains difficult to forecast. As a result, the SKW Metallurgie Group continues to believe that both plants will open during the next twelve months.

Work has commenced in the USA to build an additional production line for specialty magnesium. The SKW Metallurgie Group's magnesium products continue to be mostly used for hot metal desulphurization in steel production. As was already the case, specialty magnesium products are also produced and marketed for use, for example, in diving torches or aviation.

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 2009 was further updated in the first and second quarters 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. The internal control system was further optimized.

Report on events after the balance sheet date

After the end of the period under review on June 30, 2010, there were no transactions and events of significance to the group which occurred before this interim management report was prepared.

Outlook

Global economy also set to grow in 2011

The continued dynamic growth in emerging and developing nations is expected to lead to a significant economic recovery in 2010 and 2011. The International Monetary Fund (IMF) is forecasting an increase in global economic output of 4.2% for this year, and 4.3% for the coming year. Emerging nations can expect growth of 6.3% and 6.5% in 2010 and 2011. China will continue to be the growth driver with its domestic product growing by more than 10% in both years. Despite increasing exports, industrial nations can only expect moderate growth due to the lack of domestic impetus from consumption. This growth will be 2.3% or 2.4%, with the USA (+3.2% and +2.6%) will enjoy above average growth and growth in the EU will be below average (+1.0% and +1.5%).

Global economic growth drives demand for steel up

The SKW Metallurgie Group records more than 90% of its consolidated revenues with customers in the steel sector. Correspondingly, the company's revenues will develop almost in parallel to the production of high-quality steel on the relevant geographic markets. The umbrella organization for the steel industry, the World Steel Association, is expecting 11% growth in global steel consumption in 2010 to 1.2 billion tons. Global steel consumption is set to grow by 5% in 2011. Europe and North America are particularly important sales regions for SKW Metallurgie, and they can expect above average growth in 2010 and 2011. Demand for steel is set to grow by +14% in 2010, and by +24% in North America. Industry experts are forecasting a further increase in consumption of 8% in the EU in 2011, and 7% in the NAFTA region. However, the high percentage increases cannot hide the fact that the quantities of steel produced in the EU and North America will continue to be lower than the levels prior to the crisis. Steel manufacturers in Brazil, which is becoming an increasingly important market for SKW Metallurgie as a result of the acquisition of Tecnosulfur, can expect an extraordinary economic situation for steel consumption (+24%) in 2010, and can also look to 2011 with confidence (+8%).

Guidance increased: EBITDA for 2010 at least EUR 24 million

Confirmed by the sound development in Q2-2010, the Executive Board expects for the SKW Metallurgie Group in business year 2010 an EBITDA of at least EUR 24 million. Thereby, the EBITDA guidance was increased during the year by 20% (heretofore: at least EUR 20 million), in order to reflcet the very positive course of the business activities of the SKW Metallurgie Group in H1-2010.

In business year 2011, significant positive contributions from the new plants in Bhutan and Russia are expected for the first time. Therefore, the Executive Board expects for 2011 an (operative) EBITDA margin of at least 9% (based on revenues of EUR 360 million), as has been guided for long.

Unterneukirchen (Germany), in August 2010

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee Gerhard Ertl

Consolidated income statement for the period from January 1 - June 30, 2010 and April 1 - June 30, 2010

EUR thousand	QI-II 2010	QI-II 2009	QII 2010	QII 2009
Revenues	**188,822**	**93,157**	**105,007**	**43,156**
Changes in stocks of finished goods and work in progress	1,242	-1,455	825	-158
Other operating income	5,289	2,863	2,549	1,308
Cost of materials	-136,820	-68,580	-75,995	-32,476
Personnel expenses	-18,621	-11,344	-9,741	-5,360
Other operating expenses	-24,333	-14,248	-13,039	-7,747
Income from associated companies	500	360	250	120
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**16,079**	**753**	**9,856**	**-1,157**
Amortization of intangible fixed assets and depreciation of property, plant and equipment	-5,805	-2,935	-3,094	-1,464
Earnings before interest and taxes (EBIT)	**10,274**	**-2,182**	**6,762**	**-2,621**
Net interest	-1,364	-1,297	-1,012	-690
Profit before tax	**8,910**	**-3,479**	**5,750**	**-3,311**
Income tax	-3,151	828	-1,756	597
Consolidated net profit/loss for the period	**5,759**	**-2,651**	**3,994**	**-2,714**
Thereof parent company	*4,885*	*-2,579*	*3,760*	*-2,670*
Thereof minority interests	*874*	*-72*	*234*	*-44*
Earnings per share in EUR*	0.75	-0.58	0.57	-0.60

* Calculation based on 6,544,930 shares in 2010 and 4,422,250 shares in 2009

Reconciliation to non-owner movements in equity from January 1 - June 30, 2010 and April 1 - June 30, 2010

EUR thousand	QI-II 2010	QI-II 2009	QII 2010	QII 2009
Consolidated net profit/loss for the period	**5,759**	**-2,651**	**3,994**	**-2,714**
Net investments in a foreign operation	3,525	-730	1,923	-1,225
Unrealized losses from derivatives (hedge accounting)	-43	405	86	446
Exchange rate fluctuations	6,229	-295	3,610	-1,782
Put option minority interests	0	0	0	56
Taxes on income and expenses carried directly under equity	17	-158	-33	-174
Income and expenses recognized directly under equity	**9,728**	**-778**	**5,586**	**-2,679**
Non-owner movements in equity	**15,487**	**-3,429**	**9,580**	**-5,393**
Thereof parent company	*13,819*	*-3,352*	*8,830*	*-5,298*
Thereof minority interests	*1,668*	*-77*	*750*	*-95*

Consolidated balance sheet as of June 30, 2010

Assets

EUR thousand	June 30, 2010	Dec. 31, 2009
Non-current assets		
Intangible assets	65,032	59,045
Property, plant and equipment	58,690	42,554
Interests in associated companies	5,306	4,477
Other non-current assets	834	601
Deferred tax assets	11,467	10,050
Total non-current assets	**141,329**	**116,727**
Current assets		
Inventories	59,565	45,922
Trade accounts receivable	63,747	46,780
Income taxes	1,531	2,037
Other assets	10,026	9,146
Cash and cash equivalents	12,269	11,052
Total current assets	**147,138**	**114,937**

Total assets	**288,467**	**231,664**

Consolidated balance sheet as of June 30, 2010

Equity and liabilities

EUR thousand	June 30, 2010	Dec. 31, 2009
Equity		
Subscribed capital	6,545	6,545
Share premium	50,741	50,741
Other accumulated equity	55,282	41,463
	112,568	**98,749**
Minority interest	11,945	10,277
Total equity	**124,513**	**109,026**
Non-current liabilities		
Pension obligations	1,951	1,854
Other provisions	60	170
Obligations from finance leases	0	27
Non-current financial liabilities	33,805	14,597
Income taxes	845	683
Deferred tax liabilities	17,295	15,411
Other noncurrent liabilities	5,977	8,436
Total non-current liabilities	**59,933**	**41,178**
Current liabilities		
Provisions	8,551	8,089
Obligations from finance leases	72	158
Current financial liabilities	33,520	29,236
Trade accounts payable	43,819	32,520
Other tax liabilities	4,176	302
Other current liabilities	13,883	11,155
Total current liabilities	**104,021**	**81,460**
Total equity and liabilities	**288,467**	**231,664**

Consolidated cash flow statement as of June 30, 2010

EUR thousand	Jan. 1, 2010 - June 30, 2010	Jan. 1, 2009 - June 30, 2009
1. Consolidated net income for the period	5,759	-2,651
2. Write-ups/write-downs for noncurrent assets	5,805	2,935
3. Increase/decrease in provisions for pensions	97	101
4. Net income from associates	-500	-360
5. Gains on the disposal of non-current assets	74	19
6. Result from currency conversion	-2,711	-248
7. Results from deferred taxes	-595	-107
8. Other non-cash income	-588	-392
9. Gross cash flow	**7,341**	**-703**
Change in working capital		
10. Increase/decrease in current provisions	151	905
11. Increase/decrease in inventories (after advance payments received)	-9,354	19,030
12. Increase/decrease in trade accounts receivable	-12,086	13,853
13. Increase/decrease in other receivables	573	4
14. Increase/decrease in other assets	-1,526	-7
15. Increase/decrease in trade accounts payable	8,041	-10,415
16. Increase/decrease in other liabilities	-141	-302
17. Increase/decrease in other equity and liabilities	3,131	-3,964
18. Net cash received from (+)/used by (-) operating activities (net cash flow)	**-3,870**	**18,401**
19. Payments for investments in fixed assets	-12,144	-3,721
20. Net cash provided by (+)/used in (-) investing activities	**-12,144**	**-3,721**
21. Decrease in liabilities from finance leases	-114	-114
22. Additions to equity from minority shareholders	386	0
23. Decrease/increase in financial liabilities	16,481	-10,599
24. Dividend payment - SKW Stahl-Metallurgie Holding AG	0	-2,211
25. Net cash provided by (+)/used in (-) financing activities	**16,753**	**-12,924**
26. Cash and cash equivalents – start of period	11,052	9,577
27. Change in cash and cash equivalents	739	1,756
28. Currency translation for cash and cash equivalents	478	0
29. Cash and cash equivalents – end of period	**12,269**	**11,333**

Statement of changes in consolidated equity for the period from January 1 - June 30, 2010

EUR thousand	Subscribed capital	Equity reserve	Other accumulated equity	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 loss for the period	0	0	-2,579	-2,579	-72	-2,651
Exchange rate fluctuations	0	0	-290	-290	-5	-295
Income and expense carried under equity (without exchange rate changes)	0	0	-483	-483	0	-483
Dividend payment	0	0	-2,211	-2,211	0	-2,211
Change from minority interests	0	0	0	0	284	284
Balance as of June 30, 2009	**4,422**	**29,144**	**42,628**	**76,194**	**2,292**	**78,486**
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	4,885	4,885	874	5,759
Exchange rate fluctuations	0	0	5,435	5,435	794	6,229
Income and expense carried under equity (without exchange rate changes)	0	0	3,499	3,499	0	3,499
Balance as of June 30, 2010	**6,545**	**50,741**	**55,282**	**112,568**	**11,945**	**124,513**

Notes to the interim report as of June 30, 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 June 30, 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 June 30, 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 June 30, 2010 amounted to EUR 288,467 thousand (December 31, 2009: EUR 231,664 thousand). The increase in total assets is mostly due to the investments in property, plant and equipment as part of setting up the new production facility in Bhutan, the increase in trade accounts receivable and the increase in inventories in connection with the increased business activities in the first six months of 2010.

The key items of current assets are, as was the case in the previous year, inventories totaling EUR 59,565 thousand or 20.6% of total assets and trade receivables in the amount of EUR 63,747 thousand or 22.1% of total assets.

Equity on June 30, 2010 totaled EUR 124,513 thousand (December 31, 2009: EUR 109,026 thousand), the Group's equity ratio fell from 47.1% as of December 31, 2009 to 43.2% on June 30, 2010 (all figures incl. minority interests). Current financial liabilities totaled EUR 33,520 thousand, up slightly compared to the previous year's figure (EUR 29,236 thousand). Non-current financial liabilities increased in 2010 by EUR 19,208 thousand to EUR 33,805 thousand compared to EUR 14,597 thousand in 2009. This is mostly due to taking out non-current loans in the amount of EUR 14,000 in connection with the acquisition of a 66.67% interest in Tecnosulfur S/A. Net debt increased in the first six months of 2010 by a total of EUR 22,275 thousand from EUR 32,781 thousand as of December 31, 2009 to EUR 55,056 thousand as of June 30, 2010. EUR 6,617 thousand of this amount is due to exchange rate effects on the balance sheet date.

Income statement

In the first six months of 2010, the SKW Metallurgie Group recorded revenues of EUR 188,822 thousand compared to EUR 93,157 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. This company did not form part of the consolidated group in the same period of 2009.

Of the other operating income of EUR 5,289 thousand (Q1 2009: EUR 2,863 thousand), EUR 5,154 thousand stems from exchange rate gains (Q1 2009: EUR 1,539 thousand). These are offset by corresponding currency translation losses, which are included in other operating expenses. The exchange rate losses in the first half of 2010 totaled EUR 2,917 thousand compared to the figure from the first half of 2009 of EUR 1,292 thousand, which, at the end of the day, resulted in a positive currency translation effect in the period under review of EUR 2,237 thousand compared to a positive net currency translation effect of EUR 247 thousand in H1 2009.

In total, expenses in 2010 increased compared to the previous year. During the first six months of the year, personnel expenses totaled EUR 18,621 thousand compared to EUR 11,344 thousand in the same period of the previous year. Other operating expenses were also higher in 2010 at EUR 24,333 thousand compared to the 2009 figure of EUR 14,248 thousand.

The financial result is down slightly year-on-year at EUR -1,364 thousand (previous year: EUR -1,297 thousand).

The consolidated net income for the period on June 30, 2010 totaled EUR 5,759 thousand compared to EUR -2,651 thousand last year. Minority interests in the first six months of 2010 totaled EUR 874 thousand compared to EUR -72 thousand in the same period of the previous year.

Cash flow statement

Gross cash flow is up significantly to EUR 7,341 thousand compared to the same period of the previous year (EUR -703 thousand).

The group recorded net cash used in operating activities totaled EUR -3,870 thousand compared to net cash provided by operating activities last year in the amount of EUR 18,401 thousand. This resulted in net cash used of EUR 11,211 thousand in the first six months of 2010 compared to net cash provided of EUR 19,104 thousand in the previous year as a result of the change in net working capital.

During the period under review, the SKW Metallurgie group recorded net cash used in investing activities in the amount of EUR 12,144 thousand compared to EUR 3,721 thousand in the previous year. The net cash provided by financing activities totaled EUR 16,753 thousand compared to net cash used in financing activities of EUR 12,924 thousand in the previous year.

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

- Interest paid to third parties totaling EUR 1,132 thousand
- Interest received from third parties totaling EUR 41 thousand
- Income tax payments totaling EUR 292 thousand
- Income tax refunds totaling EUR 1,010 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 for the first half of 2010 is shown in the following table:

Q1-2 2010 in EUR thousand	Cored Wire	Powder and Granulates	Other	Consolidation	Group
Revenues					
External revenues	87,971	90,330	10,521	0	188,822
Internal revenues	229	14,893	0	-15,122	0
Total revenues	**88,200**	**105,223**	**10,521**	**-15,122**	**188,822**
EBITDA	**6,588**	**10,968**	**-1,477**	**0**	**16,079**
Depreciation/amort.	-994	-4,291	-520	0	-5,805
EBIT	**5,594**	**6,677**	**-1,997**	**0**	**10,274**

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

Q1-2 2009 in EUR thousand	Cored Wire	Powder and Granulates	Other	Consolidation	Group
Revenues					
External revenues	38,623	47,030	7,504	0	93,157
Internal revenues	1	2,371	0	-2,372	0
Total revenues	**38,624**	**49,401**	**7,504**	**-2,372**	**93,157**
EBITDA	**241**	**594**	**-82**	**0**	**753**
Depreciation/amort.	-1,028	-1,393	-514	0	-2,935
EBIT	**-787**	**-799**	**-596**	**0**	**-2,182**

E. Translation effects on consolidated earnings

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

Q1-2 2010 in EUR thousand	exchange rate -5%	exchange rate	exchange rates +5%
Revenues	196.208	188.822	182.132
EBITDA	17.158	16.079	15.483

The following table shows the corresponding sensitivity analysis for the comparable period of the previous year:

Q1-2 2009 in EUR thousand	exchange rate -5%	exchange rate	exchange rates +5%
Revenues	96.616	93.157	90.031
EBITDA	801	753	708

F. Related parties

There were no major changes in key transactions with related parties in the first six months 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 six months 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 June 30, 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), in August 2010

SKW Stahl-Metallurgie Holding AG

The Executive Board

I. Kolmsee   G. Ertl

Ines Kolmsee   Gerhard Ertl

Declaration of the Managing Board

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 business year.

Unterneukirchen (Germany), in August 2010

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee Gerhard Ertl

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.

This report was published on August 13, 2010 and is available at www.skw-steel.com to download free of charge.

Financial Calender 2010 (remaining)

November 12, 2010
- Publication of business figures for Q3/2010

November 23, 2010
- Analysts' Conference ("Eigenkapitalforum")

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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