skw. metallurgie

3rd Financial Report for the Quarter of 2007

Growth with Substance

Key Figures

	Unit	QI-III 2007	QI-III 2006	QIII 2007	QIII 2006
Turnover	€ thousand	158,512	144,241	52,479	44,936
Total operating performance	€ thousand	159,289	145,501	51,342	45,190
EBITDA	€ thousand	15,839	11,266	4,002	4,429
EBIT	€ thousand	13,877	9,875	3,345	3,959
EBT	€ thousand	13,972	9,371	3,475	3,775
Consolidated net income	€ thousand	10,689	6,626	2,249	2,811
Earnings per share	€	2.42	n/a	0.51	0.64
Gross margin		25.0%	20.8%	30.0%	22.1%
EBIT margin		8.6%	6.8%	7.6%	9.9%
Depreciation, amortization and impairments	€ thousand	-1,962	-1,391	-657	-470
Employees (average)		234	226	235	231
Gross cash flow	€ thousand	9,390	7,000		

	Unit	30 Sept. 07	31 Dec. 06
Total assets	€ thousand	135,503	112,109
Consolidated equity	€ thousand	77,201	66,769
Equity ratio		57.0%	59.6%
Net financial assets	€ thousand	6,875	19,408

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

Economic Conditions

World economic growth despite subprime crisis in the USA

Leading economic researchers continue to regard the worldwide economic growth as positive, but expect a slowdown effect from the US subprime crisis of late summer 2007. The International Monetary Fund (IMF) is maintaining its forecast from October 2007 of 5.2%[1] growth for 2007, although it has substantially reduced its estimates for 2008. The emerging economies continue to foster the positive development in 2007. The drivers of this growth are China[2] and India, up 11.5% and 8.9% respectively. The prospect of above-average growth of 5.8% is held for the central and eastern European states. Russia clearly lies above the average at 7.0%. However, expectations for the large, traditional industrial nations are less optimistic. According to the Organisation for Economic Co-operation and Development (OECD), while the Euro zone can expect economic growth of 2.6% for 2007, Japan and the USA may well be affected much more strongly by the recent capital market turbulence. The IMF economists also expect US growth to cool slightly to 1.9%. The Japanese economy will perform only slightly better with an increase of 2.0%.

Demand for steel at new record levels for 2007

The most important customer industry for SKW Metallurgie's products remains the steel industry. According to the IISI (International Iron and Steel Institute), the industry can expect a new record year. The industrial federation expects a leap in demand of 6.8% to almost 1.2 billion tons in comparison with 2006. Driving this growth is the economic boom in the so-called BRIC countries (Brazil, Russia, India and China), from whom a growth momentum of over 12.8% is expected. These countries therefore have a 41% share of the world's steel demand; China has the majority at 35 percentage points. Excluding the BRIC countries (Brazil, Russia, India and China), the world's steel demand would increase by 2.7% in the current year. This moderate positive development is driven primarily by the European Union (up 4.0%). By contrast, a decline in demand of 4.9% is forecast for the NAFTA countries.

The demand for high and higher-grade steel is growing substantially faster compared to these growth figures. This applies especially to emerging economies such as India or China. It is exactly in this segment that SKW Metallurgie's quality products are applied. Accordingly, the focus of the Group's expansion strategy is directed towards these countries.

In addition to the producers of body care products, the customer industries of the „Quab" segment are primarily companies producing industrial starch for the paper industry. These industries are also posting global positive growth rates, particularly in the emerging economies, albeit at a more modest level than the steel industry.[3]

1 The macro-economic growth rates referred to in this section relate to the growth in annual gross domestic product.

2 In this management report, 'China' refers to the People's Republic of China, not the Republic of China (Taiwan).

3 In a document published by the German Ministry for the Environment, the economic growth rate for the paper industry is put at 3% annually.

Demand for SKW Metallurgie products still high

Driven by the positive trend in the steel industry and the fast-growing production in almost all industries, the demand for key metallurgical products from SKW Metallurgie 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.

Demand in „Quab“ specialty chemicals also reflects the overall positive global economic development.

Organisation and Company Structure

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%. Based on the legally required voting rights notifications, no shareholder now has reached or exceeded the threshold of 5% of SKW Metallurgie shares; the SKW Metallurgie shares have therefore been entirely in free float since 20 July 2007.

The organisation and company structure have otherwise remained largely unchanged since the last Interim Report. To optimise the Group’s effective tax rate, a profit and loss transfer agreement was concluded between SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH, both in Unterneukirchen (Germany), during the reporting period effective retroactively from 1 January 2007.

After the acquisition of the US-based ESM Group was announced on 12 July 2007 (signing), closing of the transaction took place in October 2007 after the end of the reporting period. Details of this can be found in the Report on Post-Balance Sheet Date Developments.

On 27 August 2007 (signing), Affival S. A. S. (a SKW Metallurgie Group company) acquired from STL, Hong Kong (Chinese Special Administrative Region Hong Kong), the company Tianjin Hong Long Metals Co. Ltd, Tianjin (PR of China); closing of the transaction occurred after the end of the reporting period in October 2007. The purchase price amounts to ca. US$190 thousand; the final amount will be determined during the post-closing process.

Corporate and Business Development

Previous year’s performance clearly exceeded

The SKW Metallurgie Group’s business development in the period between January and September 2007 was extremely pleasant; all relevant financial indicators have improved, in some cases significantly. The already favourable trend of the first half-year was continued in the third quarter with sound operating performance.

SKW Metallurgie Group increases turnover and earnings

The SKW Metallurgie Group’s turnover and earnings rose in the first nine months of 2007 from €144.2 million (2006 nine-month period) to €158.5 million. Applying last year’s exchange rate to the turnover in US dollars, the increase in turnover would have been even €5.6 million higher. Despite the increase in turnover, the SKW Metallurgie Group continues to pursue its philosophy of focusing on high-margin products and therefore primarily on operating profit rather than on turnover.

This philosophy includes a strategic re-evaluation of the product mix in favour of innovative products that are technically sophisticated. As a consequence of this optimisation, the gross margin rose significantly from 20.8% to 25.0%.

At €10.8 million, staff costs were clearly above the previous year’s level (€9.5 million). This rise is primarily due to variable salary components, which the Group used to let its employees benefit from the good turnover and earnings figures.

At €4.8 million, other operating income was clearly above that of the previous year (€2.6 million). During the reporting period, this income is almost exclusively due to the bargain purchase from the „Quab“ acquisition explained in the Interim Reports on the first and second quarters. One-time effects of a net total of €1.8 million in the Cored Wire segment are included in the other operating income of the previous year. These are composed on the one hand of €0.7 million (net) from damage claims in relation to SKW/PEM arbitration proceedings concluded on 25 July 2006; the figure quoted is split between the second and third quarters of 2006, but must predominantly (€0.6 million) be allocated to the second quarter of 2006. On the other hand, the earnings of the Cored Wire segment for the third quarter of 2006 entail €0.6 million (net) from the sale of a property in France not required for operating purposes and €0.5 million from the claims for the SKW La Roche de Rame company (France).

Other operating expenses rose from €12.7 million to €18.8 million. The rise from €6.1 million can be traced back largely (€5.0 million) to the newly added „Quab“ segment. The „Quab“ production site in Mobile, AL (USA) is adjacent to production sites of the Evonik Group. A large part of the plant infrastructure is used cooperatively to make optimal use of synergies. The expenses for this plant infrastructure constitute other operating expenses for SKW Metallurgie. An additional €0.6 million from the passing on of consulting fees in connection with the Executive Board member J. Klaus Frizen are included in other operating expenses.[4]

At €0.7 million, the income from associates, which results exclusively from the Indian Jamipol (short for Jamshedpur Injection Powder Ltd. in Jharkhand, India) joint venture, was clearly above that of the previous year (€0.5 million) in the period under review.

Operating EBITDA increased by 28%

Earnings before interest, taxes, depreciation and amortisation (EBITDA) totalled €15.8 million, up by 40% on the previous year’s figure of €11.3 million. This includes several one-time effects both in the period under review and the same period of the previous year. In the 2007 reporting year, this constitutes income from the bargain purchase of the „Quab“ acquisition (€4.2 million) and opposing expenses (€0.6 million) from the previously mentioned passing on of consulting fees. In the EBITDA of the comparable period of the previous year, the already explained amount of €1.8 million from extraordinary other operating income is included. After adjustment, i.e. focusing on the Group’s operating performance, SKW Metallurgie generated an EBITDA of €12.2 million in the first nine months of 2007, thereby increasing operating performance by 28% (comparative value: €9.5 million).

The figure of €2.0 million for depreciation, amortisation, and impairments during the period under review was above the previous year’s figure of €1.4 million; nevertheless, earnings before interest and taxes (EBIT), at €13.9 million, improved significantly on the previous year’s figure of €9.9 million.

Taking interest into account, this results in earnings before taxes (EBT) of €14.0 million (previous year: €9.4 million). During the reporting period, the Group achieved positive net interest income of €0.1 million (previous year: negative net interest income of €0.5 million). This development is the result of higher interest income from IPO proceeds not yet reinvested.

Income tax expense totalled €3.3 million in the period under review. This may be a slight increase in comparison with the previous year’s nine-month period in absolute figures (€2.7 million), but the tax ratio (taxes in relation to EBT) clearly fell to 23.5% (2006: 29.3%). As explained in

4 Mr J. Klaus Frizen was a member of the Executive Board until the end of 30 April 2007.

the Notes, effects of the German Corporation Tax Reform are already included in these figures.

Consolidated net income in the nine-month period amounted to €10.7 million compared with €6.6 million in the previous year.[5]

Based on the approximate number of 4.4 million shares issued, earnings per share (EPS) amounted to €2.42 in the 2007 nine-month period. 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.

Third quarter continues positive development of the first half-year – turnover increased by 17% and operating EBITDA by 25%

Looking at the quarter, consolidated turnover rose between 1 July and 30 September 2007 by 17% from €44.9 million (2006) to €52.5 million.

The EBITDA in the third quarter amounted to €4.0 million (2006: €4.4 million). However, one-time effects were posted in the Cored Wire segment of €1.2 million during the third quarter of 2006. This sum includes €0.6 million (net) from the sale of a property in France not required for operating purposes and €0.5 million from the claims of the company SKW La Roche de Rame (France). An additional €0.1 million is included as a residual amount from the SKW/PEM arbitration proceedings explained in the Interim Report on the second quarter.

In terms of operations, i.e. adjusted for the described non-operating one-time effects of 2006, the EBITDA rose by 25% (from €3.2 million to €4.0 million).

Turnover and earnings affected by weak US dollar

During the period under review, the SKW Metallurgie Group realised approximately 40% of its turnover in US dollars. This means that the development of the exchange rate between the US dollar and the euro is particularly important, especially for translation of the income generated and expenses incurred in the US dollar region. The average US$/€ exchange rate changed from US$ 1.24 per euro in the first nine months of 2006 to US$ 1.34 per euro in the 2007 nine-month period. Taking the average rate for the 2006 nine-month period as a basis also for 2007, the SKW Metallurgie Group would have generated a €5.6 million higher turnover and an approximately €0.5 million higher EBIT.

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 first nine months of 2007 and at the end of the 2006 financial year:

In € million	30 Sept. 07	31 Dec. 06
ASSETS	135.5	112.1
Non-current	29.1	18.9
Current	106.4	93.3
EQUITY & LIABILITIES	135.5	112.1
Equity	77.2	66.8
Non-current liabilities	2.2	2.2
Current liabilities	56.1	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

5 In 2007, a share of €85 thousand of the consolidated net income for the period is attributable to minority shareholders, leaving €10.6 million with the parent company. In 2006, there were no minority shareholders in the SKW Metallurgie Group's companies.

in the Interim Report for the first quarter. The material effects of the acquisitions of the ESM Group and of Tianjin Hong Long Metals Co., Ltd on the balance sheet will only become apparent in the fourth quarter of 2007.

Net financial assets as at 30 September 2007 amounted to €6.8 million (31 December 2006: €19.4 million).

Significant increase of gross cash flow

The following table shows the change in the gross cash flow of the SKW Metallurgie Group from 1 January to 30 September 2007 in comparison with the 2006 nine-month period:

In € million	1 Jan. – 30 Sept. 07	1 Jan. – 30 Sept. 06
Consolidated net income	10.7	6.6
Non-cash income and expenses	-1.3	0.4
Gross cash flow	9.4	7.0

At €9.4 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 €7.0 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) amounting to €4.2 million.

Focus on development of high 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. Both on average for the quarter and at the end of the quarter, the Group had 235 employees (previous year: 231).[6]

The human capital in research and development (R&D) as well as in technical consulting remains a key factor in the Group's success. To the extent that it was useful and possible, the research results yielded in the Group were prepared for patent application, and expiring patents were renewed.

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 reporting in the Notes).

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

- In the third quarter, the Cored Wire segment was characterised by maintenance work (common for the industry) at important clients, in particular in the USA. However, since such maintenance work does not take place in the same quarter every year, the nine-month comparison is significantly more informative than a single quarterly comparison. Here, the turnover may at first glance appear to have decreased from €109.5 million to €102.0 million, but at €7.1 million the operating EBIT is clearly above the previous year's figure of €6.1 million (following deduction of the one-time effects from 2006 of €1.8 million previously described). The combination of a slight fall in turnover and significantly higher earnings underlines the management's successful strategy of focusing the Group on margin instead of turnover growth and on technically demanding products. It is planned to allocate the newly acquired Tianjin Hong Long Metals Co., Ltd to the Cored Wire segment.

6 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).

- In the Powder and Granules segment, external turnover was raised from €34.7 million to €36.5 million during the nine-month period. The segment EBIT rose from €2.7 million to over €2.8 million. This improvement is primarily due to the Indian Jamipol joint venture belonging to the segment. It is planned to allocate the newly acquired ESM Group to the Powder and Granules segment as well.

- From the beginning of the consolidation (16 January 2007) to 30 September 2007, the „Quab" segment generated an EBIT of €6.0 million, of which €1.8 million was operating (following deduction of the bargain purchase). At a turnover of €20.0 million, „Quab" has entirely fulfilled the Group Executive Board's expectations.[7] Especially in the third quarter, „Quab" demonstrated an excellent business and earnings performance.

Realising opportunities – limiting risks

The SKW Metallurgie Group attaches great importance to the constant recognition and evaluation of opportunities and risks, and to the implementation of appropriate measures where necessary to best realise those opportunities and best limit those risks. The financial software designed inter alia for the optimisation of the risk management process has been implemented throughout the Group during the quarter under review. In addition, the Group will install a risk control system, with which the ESM Group's opportunities and risks will also be recorded.

The statements made in the 2006 Annual Report and in the Interim Reports on the first and second quarters on risks and rewards continue to apply in principle.

Outlook

Global economic growth slowing in 2008

For 2008, the economic research institutes may continue to assume solid growth in the global economy, but the expectations have been drastically reduced from those of previous forecasts in view of the latest developments on the subprime market. The International Monetary Fund (IMF) anticipates just 4.8%[8] growth in the global economy in its forecast of October 2007; in July 2007, this figure was still 5.2%. The slowing effect of the real estate crisis on the US economy is decisive in this context, where expectations have now been significantly revised from a previous 2.8% to a current 1.9%. The Euro zone may still be able to expect growth of 2.1%, but this is 40 basis points less than in July 2007. Japan's growth will also suffer from the financial crisis with 1.7% (previously 2.0%), according to the IMF. Although this may also apply to the emerging economies, these remain the drivers for solid global growth in 2008. China should again realise a double-digit increase of 10%. Economic growth of 8.4% is expected for India, and 5.2% for the central and eastern European region. Russia should again increase above-average by 6.5%.

Steel industry continuing on sound growth course in 2008

The trend in the steel industry – the most important customer industry for SKW Metallurgie – generally correlates closely to the performance of the world economy. Despite the slightly cautious forecast for the global economy, steel experts see the industry continuing on a solid course of growth in 2008. The umbrella organisation IISI (International Iron and Steel Institute), expects a growth rate of the level seen last year in worldwide steel consumption (increase of 6.8% to around 1.28 billion tonnes). The BRIC countries will again be generating the majority of the economic momentum (+11.1%). The growth in EU steel demand is likely to decrease to 1.4%. However, the NAFTA region is expected to experience a recovery (up

7 There are no comparable previous year figures due to the first consolidation on 16 January 2007.

8 The macro-economic growth rates referred to in this section relate to growth in annual gross domestic product.

4.0%). Experts also anticipate a further rise in demand for the metallurgy industry in 2008.

Given the sound performance expected for almost all industries, the positive outlook also applies to customers in the „Quab“ segment, and their demand for „Quab“ specialty chemicals.

The ESM Group will be allocated to the Powder and Granules segment.

On October 1, 2007 closing occurred for the acquisition of Tianjin Hong Long Metals Co. Ltd; the company will be consolidated in the „Cored Wire“ segment as of the fourth quarter of 2007.

Report on Post-Balance Sheet Date Developments

After the end of the quarter under review on 30 September 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 5 October 2007 that the acquisition process for the purchase of 100% of the shares in the US-based ESM Group has been concluded.

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 production sites in the USA (4), the People’s Republic of China, and Canada.

The purchase price amounts to approximately €56.2 million, including the acquisition of working capital. The acquisition is financed from the existing liquidity of SKW Metallurgie and by an acquisition loan.

Guidance for 2007: Ambitious goals to be achieved in full

For the 2007 financial year, the Executive Board of the SKW Metallurgie Group had forecast a net profit (EBITDA) (excluding ESM) of between €18.5 million and €19.5 million (previous year: €13.6 million). In view of the figure of €15.8 million (previous year: €11.3 million) already achieved by 30 September 2007, the Executive Board maintains its guidance. Turnover should also meet expectations. The Executive Board had also announced that when the figures for the third quarter were announced, it would be releasing new guidance which would then include the turnover and earnings contribution of the ESM Group. As a result of the acquisition, there will be one-time effects in the disclosed profit in the fourth quarter and probably, though to a lesser extent, also in the first quarter of 2008. The positive operating earnings contribution of the ESM Group must be offset by opposing extraordinary effects from the first consolidation. These effects arise from the required inventory revaluation of raw materials, specifically from the purchase of magnesium at favourable conditions concluded before the acquisition by SKW Metallurgie. While the Group will generate turnover and cash flow from the sale of magnesium-based products in the fourth quarter, the revaluation of the inventories required following the acquisition by SKW Metallurgie leads, on the basis of today’s clearly higher quotation for magnesium, to the earnings contribution of the ESM Group turning out below the actually achieved level on the basis of the realised lower purchase prices, up until the consumption of those inventories purchased at favourable conditions. For the SKW Metallurgie Group, this means an unchanged earnings forecast (EBITDA) for 2007, despite first consolidation of the ESM Group, of

€18.5 million to €19.5 million at a turnover which should amount to €235 million depending on the exchange rate development of the US dollar.

Disclaimer

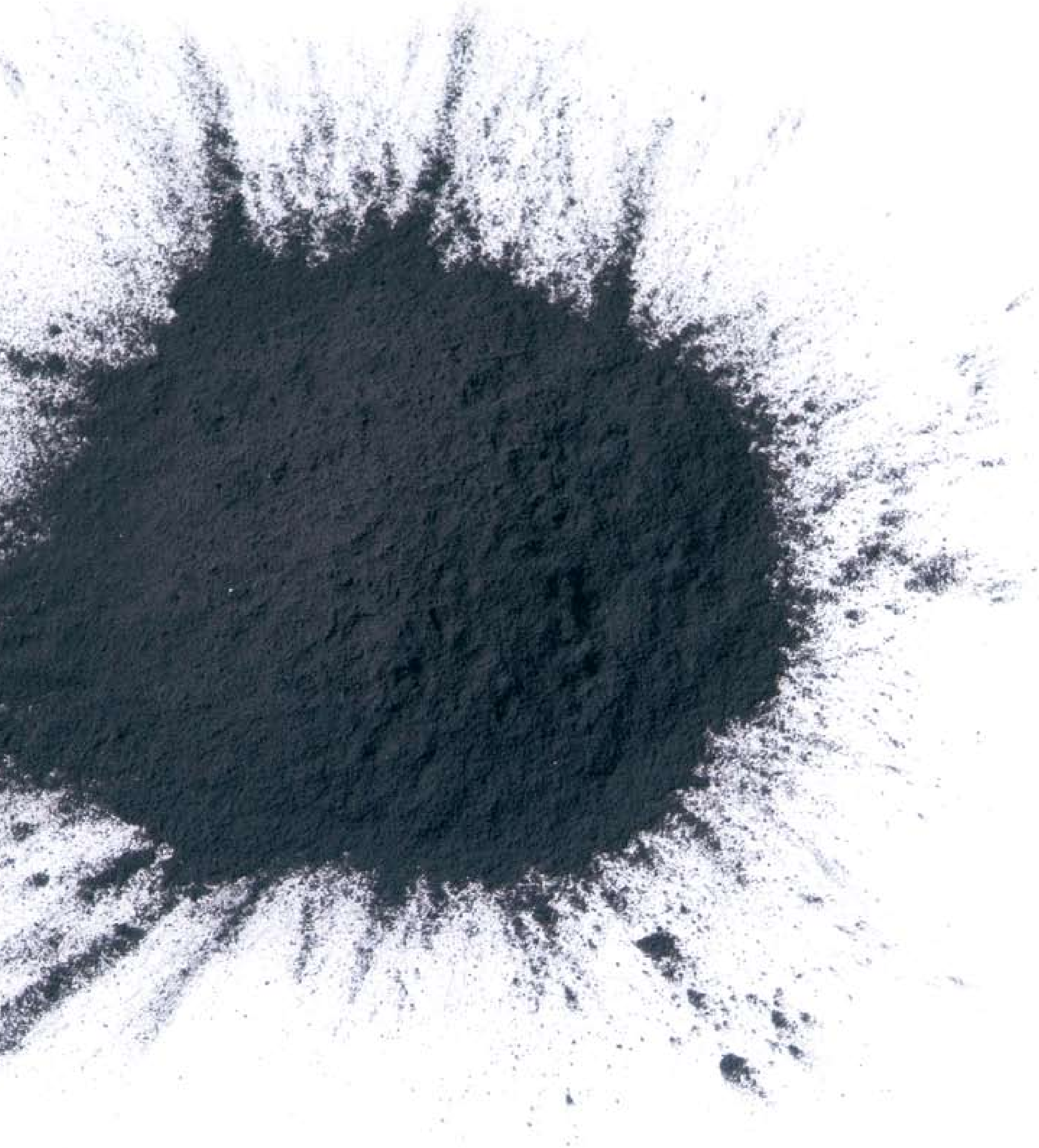
This Interim Report contains statements on future developments that are based on currently available information and involve risks and uncertainties that could cause the actual results to differ from these forward-looking statements. These risks and uncertainties include, for example, unforeseeable changes 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 November 2007

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee Gerhard Ertl



Consolidated Income Statement for 1 Jan. – 30 Sept. and 1 July – 30 Sept.

	QI-III 2007 € thousand	QI-III 2006 € thousand	QIII 2007 € thousand	QIII 2006 € thousand
Turnover	158,512	144,241	52,479	44,936
Change in the inventories of finished goods and work in progress	777	809	-1,137	-197
Company-produced additions to plant and equipment	0	451	0	451
Other operating income	4,832	2,649	59	1,405
Purchased goods and services	-119,417	-115,211	-36,975	-34,993
Personnel expenses	-10,750	-9,494	-3,349	-3,063
Other operating expenses	-18,847	-12,720	-7,447	-4,311
Income from associates	732	541	372	201
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**15,839**	**11,266**	**4,002**	**4,429**
Depreciation, amortization and impairments of intangible assets and property, plant and equipment	-1,962	-1,391	-657	-470
Earnings before interest and taxes (EBIT)	**13,877**	**9,875**	**3,345**	**3,959**
Interest and similar income	803	112	249	46
Interest and similar expenses	-708	-616	-119	-230
Profit from ordinary activities	**13,972**	**9,371**	**3,475**	**3,775**
Income tax expenses	-3,283	-2,745	-1,226	-964
Consolidated net income	**10,689**	**6,626**	**2,249**	**2,811**
Of which attributable to the parent company	*10,604*	*6,626*	*2,190*	*2,811*
Of which attributable to minority interests	*85*	*0*	*59*	*0*
Earnings per share in €	2.42	n/a	0.51	0.64

Consolidated Balance Sheet as at 30 September 2007

ASSETS	30/09/2007 € thousand	31/12/2007 € thousand
Non-currents assets		
Intangible assets	5,783	989
Property, plant and equipment	15,147	9,690
Investments in associates	4,076	3,679
Other non-current assets	411	431
Deferred tax assets	3,706	4,064
Total non-current assets	**29,123**	**18,853**
Current assets		
Inventories	34,810	26,284
Trade receivables	37,300	27,113
Income tax receivables	862	196
Other assets	3,500	4,758
Cash and cash equivalents	29,908	34,905
Total current assets	**106,380**	**93,256**
Total assets	**135,503**	**112,109**

EQUITY AND LIABILITIES	30/09/2007 € thousand	31/12/2007 € thousand
Equity		
Subscribed capital	4,422	4,422
Capital reserve	29,144	29,144
Accumulated other comprehensive income	41,996	33,165
Minority interest	1,639	38
Total equity	**77,201**	**66,769**
Non-current liabilities		
Pension obligations	1,501	1,333
Obligations from finance leases	690	847
Total non-current liabilities	**2,191**	**2,180**
Current liabilities		
Provisions	1,336	873
Financial liabilities	23,033	15,497
Trade payables	22,224	21,305
Tax liabilities	2,542	1,903
Deferred tax liabilities	3,379	415
Other liabilities	3,597	3,167
Total current liabilities	**56,111**	**43,160**
Total equity and liabilities	**135,503**	**112,109**

Consolidated Cash Flow Statement as at 30 September 2007

	01/01 – 30/09/07 € thousand	01/01 – 30/09/06 € thousand
1. Consolidated net income	10,689	6,626
2. Depreciation, amortization and impairments, and reversals of impairments of non-current assets	1,962	1,391
3. Increase in provisions for pensions	117	89
4. Adjustments to the carrying amounts of investments accounted for at equity	-319	-151
5. Gains/losses on disposal of non-current assets	23	-597
6. Foreign exchange gains/losses	-146	468
7. Income from deferred taxes	419	513
8. Income from reversal of negative goodwill	-4,188	0
9. Other non-cash expenses/income	833	-1339
10. Gross Cash Flow	**9,390**	**7,000**
Changes in working capital		
11. Increase/decrease in short-term provisions	396	-135
12. Increase/decrease in inventories (after advanced payments received)	-6,238	2,426
13. Increase/decrease in trade receivables	-4,308	798
14. Increase/decrease in receivables from subsidiaries	0	0
15. Increase/decrease in other receivables	-231	-700
16. Increase/decrease in other assets	163	-972
17. Increase/decrease in trade payables	65	-2,155
18. Increase/decrease in trade payables to subsidiaries	0	28
19. Increase/decrease in other payables	0	0
20. Increase/decrease in other equity & liabilities	787	-154
21. Net cash from/used in operating activities (net cash flow)	**24**	**6,136**
22. Proceeds (= income) from asset disposals	0	1,063
23. Payments for investments in non-current assets	-1,951	-1,870
24. Purchase price paid for business acquisitions	-5,480	0
25. Cash and cash equivalents acquired in business acquisitions	0	0
26. Net cash from/used in investing activities	**-7,431**	**-807**
27. Redemption of shareholder loans	0	-2,973
28. Cash inflows from financial leasing	0	890
29. Proceeds from raising financial liabilities	5,583	0
30. Payment for the redemption of loans	-3,148	-39
31. Net cash from/used in financing activities	**2,435**	**-2,122**
32. Cash and cash equivalents at the beginning of the period	34,905	1,362
33. Change in cash and cash equivalents	-4,972	3,207
34. Currency translation of cash held	-25	0
35. Cash and cash equivalents at the end of the period	**29,908**	**4,569**

Statement of Changes in Consolidated Equity from 1 January to 30 Sept.

in € thousand	Issued capital	Capital reserves	Other reserves	Consolidated equity of the controlling 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			6,626	**6,626**	0	**6,626**
Changes in exchange rates			-863	**-863**	0	**-863**
Capital increase	3,300	-1,000		**2,300**	0	**2,300**
Total equity as at 30/09/06	**3,325**	**0**	**30,681**	**34,006**	**0**	**34,006**
As at 01/01/2007	**4,422**	**29,144**	**33,165**	**66,731**	**38**	**66,769**
Consolidated net profit for 06			10,604	**10,604**	85	**10,689**
Changes in exchange rates			-1,046	**-1,046**	-39	**-1,085**
Other changes			-727	**-727**	1,555	**828**
Total equity as at 30/09/07	**4,422**	**29,144**	**41,996**	**75,562**	**1,639**	**77,201**

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

Notes to the Interim Report as at 30 September 2007

A. Basis of accounting

The Interim Report of SKW Stahl-Metallurgie Holding AG was prepared in accordance with the provisions and rules of the 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 September 2007.

The 2006 Annual Report of the SKW Metallurgie Group has been published 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 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 the Degussa Corporation, which belongs to the Evonik Group (trading at the time as the RAG Group), in an asset deal. 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 no changes in the amounts as compared to the second quarter of 2007. The final purchase price allocation will take place within the scope of the 2007 consolidated financial statements.

D. Net assets, financial position and results of operations

Balance sheet

The total assets of the SKW Metallurgie Group amounted to €135,503 thousand as at 30 September 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 €34,810 thousand or 25.6% of total assets, trade receivables of €37,300 thousand or 27.5% of total assets and cash and cash equivalents of €29,908 thousand or 22.0% of total assets.

The Group’s equity ratio decreased only slightly from 59.6% as at 31 December 2006 to 57.0% as at the reporting date for the period (including minority interest). Financial liabilities rose from €15,497 thousand (as at 31 December 2006) to €23,033 thousand as at 30 September 2007. The rise is primarily due to financing the acquisition of the „Quab“ business by borrowing funds as at the date of acquisition and from purchases of goods which were paid for in advance to secure better conditions.

Income statement

Consolidated net income for the period amounts to €10,689 thousand as at 30 September 2007 (comparable 2006 period: €6,626 thousand). Other operating income of €4,832 thousand (comparable 2006 period: €2,649 thousand) includes income of €4,188 thousand from the dissolution of negative goodwill arising from the acquisition of the „Quab“ business.

Other operating expenses amounted to €18,847 thousand (comparable 2006 period: €12,720 thousand). The increase is primarily due to the recently added „Quab“ business (€4,962 thousand). Another €590 thousand from the passing on of consulting fees for the former Executive Board member J. Klaus Frizen is also included.

At €95 thousand, net interest income was up substantially on the previous year’s figure of €-504 thousand. The reason for the material year-on-year improvement is due to the fact that significantly more cash and cash equivalents were available in the current period under review (from IPO proceeds not yet reinvested) and this meant that higher interest income was generated.

Cash flow statement

At €9,390 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 €7,000 thousand.

The Group recorded net cash from operating activities of €24 thousand. This cash flow is primarily impacted by changes in inventories and by trade receivables and payables. Net cash used for inventories results primarily from large purchases of goods which were paid for in advance to secure better conditions.

The SKW Metallurgie Group posted net cash used in investing activities of €7,431 thousand. This was essentially due to the purchase price payment for the acquisition of the „Quab“ business.

Financing activities brought net cash of €2,435 thousand. Proceeds of €4,525 thousand from raising bank liabilities are due to the acquisition of the „Quab“ business (vendor loan). At the same time, one of the loans of a former shareholder of €3,148 thousand has been repaid.

In the period under review, the cash flow from operating activities included the following payments: interest paid to third parties of €476 thousand, interest received from third parties of €647 thousand and income taxes paid in the amount of €1,645 thousand.

E. Segment reporting

In line with the provisions of IAS 14, the Group is currently subdivided into business segments. 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 structured as follows:

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

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

Turnover	Cored Wire QI-III 2007 € thousand	Powder and Granules QI-III 2007 € thousand	Quab QI-III 2007 € thousand	Other QI-III 2007 € thousand	Elimi-nation QI-III 2007 € thousand	Consolidated QI-III 2007 € thousand
External turnover	101,999	36,473	20,040	0	0	158,512
Internal turnover	0	6,872	0	0	-6,872	0
Total turnover	101,999	43,345	20,040	0	-6,872	158,512
Segment result (EBIT)	**7,104**	**2,830**	**5,950**	**-2,007**	**0**	**13,877**
(of which bargain purchase)			(4,188)			

	Cored Wire QIII 2007 € thousand	Powder and Granules QIII 2007 € thousand	Quab QIII 2007 € thousand	Other QIII 2007 € thousand	Elimi-nation QIII 2007 € thousand	Consolidated QIII 2007 € thousand
Turnover						
External turnover	31,629	12,841	8,009	0	0	52,479
Internal turnover	0	1,215	0	0	-1,215	0
Total turnover	31,629	14,056	8,009	0	-1,215	52,479
Segment result (EBIT)	**1,665**	**1,029**	**1,230**	**-581**	**2**	**3,345**

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

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

	Cored Wire QI-III 2006 € thousand	Powder and Granules QI-III 2006 € thousand	Quab QI-III 2006 € thousand	Other QI-III 2006 € thousand	Elimi-nation QI-III 2006 € thousand	Consolidated QI-III 2006 € thousand
Turnover						
External turnover	109,511	34,730	0	0	0	144,241
Internal turnover	0	5,814	0	0	-5,814	0
Total turnover	109,511	40,544	0	0	-5,814	144,241
Segment result (EBIT)	**7,803**	**2,653**	**0**	**-581**	**0**	**9,875**
(of which one-time effects)	(1,752)					

	Cored Wire QIII 2006 € thousand	Pulver and Granules QIII 2006 € thousand	Quab QIII 2006 € thousand	Other QIII 2006 € thousand	Elimi-nation QIII 2006 € thousand	Consolidated QIII 2006 € thousand
Turnover						
External turnover	33,524	11,413	0	0	0	44,937
Internal turnover	0	2,054	0	0	-2,054	0
Total turnover	33,524	13,467	0	0	-2,054	44,937
Segment result (EBIT)	**3,594**	**913**	**0**	**-549**	**0**	**3,959**
(of which one-time effects)	(1,093)					

F. Related party transactions

In material transactions with related parties, the following significant changes to the 2006 Consolidated Financial Statements and the Interim Reports for the first and second quarters of 2007 arose:

Related parties (legal entities):

On 20 July 2007, ARQUES Industries AG, Starnberg (Germany), relinquished all its remaining shares in SKW Stahl-Metallurgie Holding AG. From 21 July 2007, ARQUES Industries AG is therefore no longer a party related to SKW Stahl-Metallurgie Holding AG. From 1 January 2007 until now, ARQUES Industries AG has invoiced €773 thousand for consulting services, €590 thousand of which was attributable to the former Executive Board member J. Klaus Frizen for his services until the end of 30 April 2007.

Earnings from the interest in Jamshedpur Injection Powder Ltd amounted to €732 thousand in the first nine months of 2007; the income from the service agreement with this company was around the previous year's level.

Related parties (individuals):

Directors' dealings were published according to the regulations of the German Securities Trading Act. Further information on individuals' related party interest in the Group as well as on the compensation of the Executive and Supervisory Boards 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 €61 thousand until the third 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:

On 4 October 2007, SKW Stahl-Metallurgie Holding AG completed the acquisition of the US-based ESM Group Inc., headquartered in Amherst, NY (USA), following unrestricted approval from the competent competition authorities. The seller is Platinum Equity, LLC. The purchase price amounts to approximately €56.2 million, including the acquisition of working capital. Financing was realized with the existing liquidity of SKW Metallurgie and with an acquisition loan. The consolidation and the related purchase price allocation of the ESM Group within the SKW Metallurgie Group will take place from the fourth quarter of 2007.

On October 1, 2007 closing occurred for the acquisition of Tianjin Hong Long Metals Co. Ltd; the company will be consolidated in the „Cored Wire“ segment as of the fourth quarter of 2007.

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 contract was concluded and entered into the Commercial Register during the period under review. The retroactive application was already taken into account when determining the tax expense in this Interim Report.

K. Voting rights notifications

Notifications were made to the Company during the quarter under review which must be reported according to Article 160 Section 1 No. 8 of the German Stock Corporation Act. All notifications about transgressions of the thresholds, either up or down, of the German Securities Trading Act have already been published and entered into the Companies Register in accordance with the regulations stipulated by this act.

The notifications which for the reporting date identify a share of at least 3% of the Company read as follows:

- On July 27, 2007 , UBS AG Zürich, Switzerland has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, ISIN: DE000SKWM013, WKN: SKWM01, have exceeded the 3% limit of the Voting Rights on July 24, 2007 and now amount to 3.11% (this corresponds to 137393 Voting Rights). According to Article 22, Section 1, Sentence 1, No. 1 of the WpHG, 0.75% of the Voting Rights (this corresponds to 32947 Voting Rights) is to be attributed to the company.

- On September 7, 2007, Allianz Global Investors Kapitalanlagegesellschaft mbH, Frankfurt/M., Germany, informed us according to § 21 section 1 sentence 1 WpHG (German Securities Trading Act) that on August 29, 2007, their Voting Rights on SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, ISIN: DE000SKWM013, German WKN: SKWM01, via shares exceeded the 3% limit of the Voting Rights and now amounts to 3.39% (corresponding to 149811 of a total of 4422250 Voting Rights). 2.28% of the total Voting Rights of SKW Stahl-Metallurgie Holding AG (corresponding to 101000 of a total of 4422250 Voting Rights) count pursuant to § 21 section 1 sentence 1 WpHG in accordance with § 32 section 2 sentence 3 InvG (German Investment Act) as those of Allianz Global Investors Kapitalanlagegesellschaft mbH. Of the Voting Rights of Allianz Global Investors Kapitalanlagegesellschaft mbH, 1.10% of the total voting rights of SKW Stahl-Metallurgie Holding AG (corresponding to 48811 of a total of 4422250 Voting Rights) are to be attributed to Allianz Global Investors Kapitalanlagegesellschaft mbH pursuant to § 22 section 1, sentence 1, no. 6 WpHG (shares are held in special funds administered by Allianz Global Investors Kapitalanlagegesellschaft mbH).

- On September 26, 2007, Universal-Investment-Gesellschaft mbH, Frankfurt/M., Germany, informed us according to §§ 21 section 1, 22 section 1 sentence 1 no. 6 WpHG (German Securities Trading Act) that on September 24, 2007, their Voting Rights on SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, ISIN: DE000SKWM013, German WKN: SKWM01, via shares exceeded the 3% limit of the Voting Rights and now amounts to 3.04% (corresponding to 134500 Voting Rights). 0.64% of the total voting rights of SKW Stahl-Metallurgie Holding AG (corresponding to 28500 Voting Rights) are held directly by Universal-Investment-Gesellschaft mbH; 2.40% of the total voting rights of SKW Stahl-Metallurgie Holding AG (corresponding to 106000 Voting Rights) are to be attributed to Universal-Investment-Gesellschaft mbH pursuant to § 22 section 1 sentence 1 no. 6 WpHG (German Securities Trading Act) (shares held in special funds).

- On October 24, 2007, Berenberg Lux Invest S. A., Luxemburg, Luxembourg informed us according to § 21 section 1 WpHG (German Securities Trading Act) that on September 14, 2007, their Voting Rights for the account of special fund Berenberg Funds - European Small and Mid Caps on SKW Stahl-Metallurgie Holding AG exceeded the 3% threshold and amounted to 3.45% (152500 Voting Rights) effective that day, and have amounted to 4.22% (corresponding to 186500 Voting Rights) since October 23, 2007. Correction of the announcement dated Oct. 23, 2007, published on Oct. 24, 2007: On October 30, 2007, Berenberg Lux Invest S. A., Luxemburg, Luxembourg informed us according to art. 21 section 1 WpHG (German Securities Trading Act) that on September 14, 2007, their Voting Rights on SKW Stahl-Metallurgie Holding AG exceeded the 3% threshold and amounted to 3.45% (152500 Voting Rights) effective that day. Thereof, 3.45% (152500 Voting Rights) are to be attributed to Berenberg Lux Invest S. A. pursuant to art. 22 section 1 sentence 1 no. 6 WpHG (German Securities Trading Act).

The above overview includes notifications which were received in the fourth quarter, but which relate to the third quarter.

Current percentages of shares can only partly be determined from the notifications, since not all changes are reportable in accordance with the German Securities Trading Act; only figures which meet, exceed or fall below the threshold are subject to such a duty of disclosure.

L. Impact of the 2008 German Corporation Tax Reform

In this Interim Report, the tax rates from the German Corporation Tax Reform applicable in Germany from 1 January 2008 are taken into consideration for the first time upon determination of deferred taxes. Consideration of the changed tax rates led to a higher deferred tax expense of €253 thousand (net) in the third quarter of 2007. This additional tax expense is primarily a result of the write-downs of deferred tax assets now necessary on the loss carryforwards which can be used from 2008.

Unterneukirchen (Germany), in November 2007

SKW Stahl-Metallurgie Holding AG

Der Vorstand

Ines Kolmsee   Gerhard Ertl

Financial Calendar

18 March 2008

Publication of business figures for the year 2007

15 May 2008

Publication of business figures for the 1st quarter of 2008

04 June 2008

Annual General Meeting

14 August 2008

Publication of business figures for the 2nd quarter of 2008

14 November 2008

Publication of business figures for the 3rd quarter of 2008

31 December 2008

End of business year 2008

Subject to modifications

The current financial calendar may be found at:
www.skw-steel.com.

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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 reports published for the first and second quarter sof 2007.

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When reference is made in this report to a group of people who actually or potentially belong to different genders, or when reference is made to a single person of unknown gender, usually only one gender is quoted; this is done solely in the interest of improved readability.