skw. metallurgie

1st Financial Report for the Quarter of 2007

Growth with Substance

Key Figures

	Unit	Q1 2007	Q1 2006
Revenue	€ thousand	49,983	48,958
Total operating revenue	€ thousand	51,109	50,588
EBITDA	€ thousand	6,656	2.563
EBIT	€ thousand	6,062	2,089
EBT	€ thousand	6,052	1,919
Consolidated net income	€ thousand	5,283	1,223
Earnings per share	€	1.19	n/a
Gross margin		22.9%	18.8%
EBIT margin		11.9%	4.1%
Operating Gross Cash flow	€ thousand	2,465	2,055
Depreciation of property, plant and equipment	€ thousand	-594	-474
		31 March 2007	**31 Dec. 2006**
Total assets	€ thousand	129,697	112,109
Consolidated equity	€ thousand	73,300	66,769
Equity ratio		56.5%	59.6%
Net financial assets	€ thousand	7,126	19,408
Gearing		9.7%	29.1%
Employees		234	224

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

Economic Conditions

Global Economic Growth Continues in 2007

The International Monetary Fund (IMF) forecasts a 4.9% rise in global economic output for the 2007 financial year. Once again, the emerging economies of Asia are set to post the fastest growth here. Experts envisage a continuation of the economic boom for China (10.0%) and India (7.3%). There are already warnings of overheating of the Chinese economy. In contrast, a significant cooling of economic output is expected for the USA. For instance, growth is likely to slow down to 2.2%. The Organisation for Economic Cooperation and Development (OECD) also expects growth of 2.2% for the euro zone. This trend is to be driven by the performance of the German economy. The leading German research institutes forecast growth of 2.4% for Europe's biggest economy for 2007. According to the IMF, the Japanese economy is also likely to perform similarly well at 2.3%. Growth of 5.0% is expected for the Central and Eastern European states. Russia's economic output could follow up the dynamic performance of previous years with an increase of 6.5%.

Steel Industry Growth More Moderate than in Previous Year

The most important customer sector for SKW Metallurgie's products is the steel industry. After this sector enjoyed a boom year in 2006 with growth of just under 9%, experts expect a somewhat more moderate upward trend for this financial year. The International Iron and Steel Institute (IISI) forecasts a 5.9% rise in steel demand to 1.2 billion tonnes. At regional level, there could be sharp differences in performance. Whilst steel demand should increase moderately in the EU, declining figures are expected for NAFTA. In contrast, Asia's growth trend is likely to strengthen even further. Here, experts envisage a 9.2% rise in demand, with as much as 13% in China. As a result of this ultimately positive performance of steel markets, the metallurgy industry is also likely to benefit from the generally positive economic performance in 2007.

The environment for “Quab” products, i.e. the industrial starch and paper industries in particular, is also likely to benefit from the generally good economic climate. Speculation that demand for paper may fall due to new communication technologies proved wide of the mark. For instance, according to the European Association of Paper Manufacturers, paper production has been growing by 3% a year since 1991. Demand for bodycare products, which is also important for “Quab” products, is also relatively slump-resistant and is growing strongly in emerging economies.

Organisation and Company Structure

Starting from the 2007 financial year, in addition to the two existing operating segments “Powder & Granules” and “Cored Wire”, the acquisition “Quab” will be carried as a third operating segment. This segmentation was announced in the management report for the 2006 financial year and will be implemented in 2007 as planned. The business activities of the “Quab” segment are mostly conducted in the US company SKW Quab Chemicals Inc., in which the SKW Metallurgie Group holds a 90% stake.

The brand family of the SKW Metallurgie Group has been supplemented by the product brand Quab Chemicals for the new “Quab” segment; the product brands for the two existing segments (SKW Metallurgie for “Powder & Granules” and Affival for “Cored Wire”) as well as the company brand SKW Metallurgie for the entire Group remain unchanged.

In the new “Quab” segment, high-quality specialised chemical products are manufactured at the Mobile location (Alabama, USA) from the chemical epichlorohydrin and other raw materials; production capacity was almost fully utilised in the reporting period. The products of the “Quab” segment are sold from New Jersey, USA, to more than 40 countries worldwide. The customers are international starch producers, who in turn sell so-called cationic starch to the paper industry. Other customers for the segment’s products are bodycare product manufacturers.

Corporate and Business Development in the Quarter Under Review

Quarterly Financial Statements Continue Positive Development of the Previous Year

The SKW Metallurgie Group’s business development in the quarter under review was encouraging. For instance, better figures were posted for all financial key ratios than in the same quarter of the previous year. However, performance trends differed in the individual segments. Further details can be found in the “Segment Reporting” section.

Revenue up at the SKW Metallurgie Group

For the quarter under review, the SKW Metallurgie Group posted revenue of €50.0 million, thus exceeding the previous year’s figure of €49.0 million. Adjusted for foreign currency effects, the Group would have actually posted revenues of €51.5 million in the first quarter of 2007, equivalent to a 5% increase on the same quarter of the previous year.

Inventory built-up was reduced from €1.6 million to €1.1 million as a result of the optimised inventory management described in the management report of the 2006 annual report. No work performed by the enterprise was capitalised in the assessed quarters. Consequently, at €51.1 million, total operating revenue in the period under review was also up on the same quarter of the previous year (€50.6 million). If currency effects are taken into account, total operating revenue in the quarter under review was as much as €52.6 million.

Despite the increase in total operating revenue, the cost of materials fell, causing the gross margin to improve significantly from 18.8% to 22.9%.

At a staff level of 233 instead of 220, staff costs rose from €3.1 million to €3.5 million.

Other operating income, up from €0.3 million to €3.9 million, particularly includes the “bargain purchase” arising from the acquisition of the “Quab” business for €3.5 million. The „bargain purchase“ is an accounting value that shows the difference between the sum of the fair values and liabilities on the one hand and the costs of acquisition on the other.

Other operating expenses rose from €4.3 million to €5.8 million. This amount includes the passing on of consulting cost of €0.4 million in connection with the Executive Board member Mr J. Klaus Frizen. The new “Quab” segment accounted for €1 million.

Income from associates, which results solely from the Indian joint venture Jamipol, amounted to €0.2 million in the quarter under review. Apart from rounding differences, this corresponds to the same quarter of the previous year.[1]

Significant Improvement in Earnings: EBIT at 290% of Previous Year

Earnings before interest, taxes, depreciation and amortisation (EBITDA) totalled €6.7 million, up significantly on the previous year’s figure of €2.6 million.

As the depreciation and amortisation expense figure of €0.6 million was only slightly above the previous year’s figure of €0.5 million in the quarter under review, earnings before interest and taxes (EBIT), at €6.1 million, were up significantly on the previous year’s figure of €2.1 million.

All three operating segments contributed to the positive earnings before interest and taxes (EBIT). Earnings of the two existing segments rose significantly from €2.2 million to €3.1 million.[2] The increased success of the margin-oriented strategy in the “Cored Wire” segment is particularly reflected here.

Taking interest into account[3], this results in profit from ordinary activities (EBT) of €6.1 million (previous year: €1.9 million). Apart from rounding differences, EBIT and EBT were identical in the year under review. This is because interest income and expenses almost cancelled each other out.

Income tax expense totalled €0.8 million in the quarter under review. Apart from rounding differences, this equates to a slight increase compared to previous year (€0.7 million). The tax rate (taxes in relation to EBT) is down in arithmetical terms. However, it must be borne in mind that the earnings as described above include a “bargain purchase” arising from the “Quab” acquisition, which has already been posted as other operating income with adjustment for deferred taxes.

Consolidated net income in the quarter under review amounted to €5.3 million (of which a portion that can only be posted as a rounding difference is attributable to minority shareholders) compared with €1.2 million (no minority shareholders) in the same quarter of the previous year.

Earnings per share (EPS) amounted to €1.19 in the quarter under review. It is not possible to make a meaningful year-on-year comparison, as the company was not yet organised as a stock corporation in the corresponding quarter of the previous year. If the number of shares of the quarter under review is also used as basis for the same quarter of the previous year, this results in earnings per share of €0.28 for the previous year.

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

2 The figures stated are the sum of the net segment results, excluding “other” and “elimination” (cf. the “Segment Reporting” section).

3 Income from associates is not regarded as interest income here. Instead, it is already included in EBITDA.

Net Asset Situation of the SKW Metallurgie Group a Sound Basis for Growth

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

€ million	31 March 2007	31 December 2006
ASSETS	129.7	112.1
Non-current	28.9	18.9
Current	100.8	93.3
EQUITY & LIABILITIES	129.4	112.1
Equity	73.3	66.8
Non-current liabilities	2.2	2.2
Current liabilities	54.2	43.2

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

The increase in property, plant and equipment from €9.7 million to €15.7 million is particularly attributable to the acquisition of the "Quab" business.

Financial liabilities rose from €15.5 million to €22.4 million. This is particularly due to the vendor's loan taken out in connection with the purchase of the "Quab" business. This loan is to be repaid in the 2007 financial year by net current assets acquired in the context of the asset deal. Net financial assets at March 31, 2007 amounted to €7.1 million (Dec. 31, 2006: €19.4 million); this results in a gearing (net financial assets in relation to consolidated equity of 9.7% (Dec. 31, 2006: 29.1%).

Cash Flow Development Shaped by "Quab" Purchase

The following table shows the key cash flow data of the SKW Metallurgie Group at the end of the first quarter in the year under review and the previous year:

€ million	1 January – 31 March 2007	1 January – 31 March 2006
Consolidated net income	5.3	1.2
Non-cash income and expenses	-2.5	0.9
Net cash from/used in operating activities	2.5	2.1

At €2.5 million, 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 €2.1 million.

The Group posted net cash used in operating activities of €9.2 million. The main factors in this cash flow were trade receivables, other assets and the increase in net working capital arising from the purchase of the "Quab" business. Only €7.4 million (80%) of the net cash used relates to the acquisition of the "Quab" business.

The SKW Metallurgie Group posted net cash used in investing activities of €3.1 million. This is chiefly due to the purchase price payment for purchase of the "Quab" business of €2.4 million net. Financing activities generated net cash of €7.0 million. Almost all of this net cash resulted from the raising of financial liabilities in connection with the acquisition of the "Quab" business.

Employees Remain a Pillar of the Group

Well-educated and motivated employees were again a key basis for the successful operating activities of the SKW Metallurgie Group in the quarter under review. On average for the quarter, the Group had 233 employees (previous year: 220), and had 234 employees (previous year: 224) at the end of the quarter.[4]

The human capital in research and development (R&D) as well as in technical advice remains a key factor in the Group's success. For instance, three patents were prepared by the Group's R&D team in the USA alone in the quarter under review.

Segment Reporting

The SKW Metallurgie Group is divided into three operating segments (cf. the "Organisation and Company Structure" section). The remaining activities, in particular the parent company as a strategic management holding company with no revenue of its own, are posted as "other". Internal revenue, in particular sales from the "Powder & Granules" segment to the "Cored Wire" segment as a result of bundling of the Group-wide procurement expertise for strategic raw materials, is shown as "elimination".

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

- In the "Cored Wire" segment, revenue totalled €32.9 million (previous year: €37 million) and earnings (EBIT) totalled €2.1 million (previous year: €1.2 million). The combination of an overall fall in revenue and significantly higher earnings underlines the management's successful strategy of focusing the Group on margin growth instead of volume growth. This positive performance was apparent in all key parts of the segment, particularly in Europe and North America. Performance in Asia was also very pleasing. For instance, revenue in Japan exceeded that of the same quarter of the previous year by approx. 30%.

  In Dangjin, South Korea, production has been moved to a new, state-of-the-art location. Efficiency has thus been increased, and the production foundations for further expansion of the Group in East Asia have been laid. At the same time, the Group has fulfilled its corporate responsibility by again improving its workplace health and safety and environmental standards.

- With a slight decline in external revenue, the "Powder & Granules" segment generated EBIT of €1.0 million (corresponding quarter of the previous year: €1.1 million). This decrease primarily results from a slightly changed customer and product mix.

- In the quarter under review, the "Quab" segment is being reported for the first time. Since first consolidation on Jan. 16, 2007, it has entailed the special chemicals business "Quab," which was bought at the end of 2006 (signing). Integration of the acquisition into the SKW Metallurgie Group has progressed as scheduled. With revenue of €5.4 million, the new segment generated a segment result (EBIT) of €3.8 million, with the "bargain purchase" accounting for €3.5 million of this. Adjusted by this effect, EBIT amounted to approx. 7%, and met the expectations of Group management. Due

4 The figures represent the headcount (no full-time equivalents) and are based on the respective national definitions (e.g. the members of the executive bodies are not included for Germany).

to the first-time consolidation, there are no comparable figures for the previous year. Further details can be found in the “Quab: Diversification Boosts Group Effectiveness” section.

Risk Management and Reporting Systems Improved Further

In the quarter under review, the SKW Metallurgie Group started to extend its risk management, as announced in the management report for the 2006 financial year. In the context of the risk inventory performed in the first quarter of 2007, the focus was on the newly purchased “Quab” business. Information on risk management and the material risks and rewards of the Group can be found in the management report for the 2006 financial year.

Quab: Diversification Boosts Group Effectiveness

As reported in the report on post-balance sheet date developments for the 2006 financial year, closing for the purchase of the “Quab” business took place in the quarter under review (16 January 2007). The final purchase price was USD 12.8 million. Of this, USD 10.5 million were compensation for assets required for the ordinary course of business; USD 2.3 million were paid for surplus working capital at the time of purchase. Financing stemmed from IPO proceeds and from borrowing in the form of a “vendor’s loan”. This partial external financing is largely rooted in the value and liquidity of the working capital of “Quab”, which gives cause to expect repayment of the loan in 2007. As a result of purchasing within the core competency of “specialised chemicals”, the activities of the Group have been further diversified and are thus less dependent on sector risk. For the USA, there are significant synergy effects with the “Cored Wire” segment, particularly through the shared use of support functions.

Outlook

Positive Economic Climate Continues

Experts expect the globally strong economic climate to continue. Along that line, IMF predicts a 2008 growth figure of 4.9% for the global eceonomy. Experts are also optimistic for the key customer sectors of the SKW Metallurgie Group, namely the global steel industry (in particular producers of higher-quality steel types) as well as starch producers as suppliers to the paper industry.

The growth projects of the SKW Metallurgie Group, through development of new production sites and through further acquisitions, will be continued. The main target markets are still Asia, Latin America and the NAFTA region.

Outlook 2007: Optimistic Expectations for SKW Metallurgie

The Executive Board of the SKW Metallurgie Group maintains its optimistic estimate for the 2007 financial year. If the economic conditions develop as forecast, Group management believes that EBITDA of between €18.5 million and €19.5 million (previous year: €13.6 million) is possible. The annual revenue underlying this result is likely to be between €210 million and €230 million (previous year: €185.8 million).

Report on Post-Balance Sheet Date Developments

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

The Group's Supervisory Board has decided to reduce the Executive Board of the SKW Metallurgie Group from three members to two. Consequently, Mr J. Klaus Frizen stepped down from the Executive Board on 30 April 2007. Since 1 May 2007, the Group's Executive Board has consisted of Ms Ines Kolmsee (Chairman of the Executive Board) and Mr Gerhard Ertl (CFO).

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.

Consolidated Income Statement for 1 January – 31 March 2007

	QI 2007 € thousand	QI 2006 € thousand
Revenue	49,983	48,958
Change in the inventories of finished goods and work in progress	1,126	1,630
Other operating income	3,939	284
Cost of materials	-39,390	-41,073
Staff costs	-3,459	-3,120
Other operating expenses	-5,776	-4,308
Income from associates	233	192
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**6,656**	**2,563**
Amortisation of intangible assets and depreciation of property, plant and equipment	-594	-474
Earnings before interest and taxes (EBIT)	**6,062**	**2,089**
Other interest and similar income	286	39
Interest and similar expenses	-296	-209
Profit from ordinary activities	**6,052**	**1,919**
Income tax expense	-769	-696
Consolidated net income	**5,283**	**1,223**
Of which attributable to the parent company	*5,268*	*1,223*
Of which attributable to minority interests	*15*	*0*
Earnings per share in €	1.19	n/a

Consolidated Balance Sheet as at 31 March 2007

ASSETS	3/31/07 € thousand	12/31/06 € thousand
Non-current assets		
Intangible assets	4,799	989
Property, plant and equipment	15,693	9,690
Investments in associates	3,721	3,679
Other non-current assets	431	431
Deferred tax assets	4,259	4,064
Total non-current assets	**28,903**	**18,853**
Current assets		
Inventories	28,376	26,284
Trade receivables	36,470	27,113
Claims from income tax expense	431	196
Other assets	5,944	4,758
Cash and cash equivalents	29,573	34,905
Other current assets	**100,794**	**93,256**
Total assets	**129,697**	**112,109**

EQUITY & LIABILITIES		
Equity		
Issued capital	4,422	4,422
Capital reserves	29,144	29,144
Other reserves	38,192	33,165
Minority interest	1,542	38
Total equity	**73,300**	**66,769**
Non-current liabilities		
Pension obligations	1,391	1,333
Obligations from finance leases	786	847
Total non-current liabilities	**2,177**	**2,180**
Current liabilities		
Provisions	853	873
Financial liabilities	22,447	15,497
Trade payables	22,309	21,305
Tax liabilities	5,197	2,318
Other liabilities	3,414	3,167
Total current liabilities	**54,220**	**43,160**
Total equity & liabilities	**129,697**	**112,109**

Consolidated Cash Flow Statement as at 31 March 2007

		1/1/07 - 3/31/07	1/1/06 - 5/31/06
		TEUR	TEUR
1.	Consolidated net income	5,283	1,223
2.	Write-downs/reversals of write-downs of non-current assets	594	474
3.	Increase/decrease in provisions for pensions	58	82
4.	Income from equity measurement	0	0
5.	Gains on disposal of non-current assets	23	0
6.	Foreign exchange gains	43	117
7.	Income from deferred taxes	-38	313
8.	Income from reversal of negative goodwill	-3,465	0
9.	Other non-cash expenses/income	-33	-154
10.	**Gross cash flow**	**2,465**	**2,055**
Changes in working capital			
11.	Increase/decrease in short-term provisions for pensions	-20	-203
12.	Increase/decrease in inventories (after advanced payments received)	608	1,858
13.	Increase/decrease in trade receivables	-4,129	1,442
14.	Increase/decrease in receivables from subsidiaries	38	-29
15.	Increase/decrease in other receivables	0	0
16.	Increase/decrease in other assets	-1,255	150
17.	Increase/decrease in trade payables	-383	-1,440
18.	Increase/decrease in trade payables to subsidiaries	534	114
19.	Increase/decrease in other payables	-89	-30
20.	Increase/decrease in other equity & liabilities	395	-1,168
22.	Increase/decrease in net working capital from business acquisition	-7,362	0
23.	**Net cash from/used in operating activities (net cash flow)**	**-9,198**	**2,749**
24.	Proceeds (= income) from asset disposals	0	0
25.	Payments for investments in non-current assets	-634	-816
26.	Purchase price paid for business acquisitions	-3,862	0
27.	Cash and cash equivalents acquired in business acquisitions	1,411	0
28.	**Net cash from/used in investing activities**	**-3,087**	**-816**
29.	Redemption of shareholder loans	-1,519	-1,906
30.	Proceeds from raising bank liabilities	2,458	407
31	Proceeds from raising financial liabilities for business acquisitions	6,011	0
32.	**Net cash from/used in financing activities**	**6,950**	**-1,499**
33.	Cash and cash equivalents at the beginning of the period	34,905	1,362
34.	Change in cash and cash equivalents	-5,335	434
35.	Currency translation of cash held	3	0
36.	**Cash and cash equivalents at the end of the period**	**29,573**	**1,796**

Statement of Changes in Consolidated Equity in Financial Years 06 and 07

€ thousand	Issued capital	Capital reserves	Earnings of current year	Other reserves	Consolidated equity of the controlling shareholder	Minority interests	Total equity
As at 1 January 2006	**25**	**1,000**		**24,918**	**25,943**	**0**	**25,943**
Consolidated net profit for 2006	0	0	1,223	1,223	1,233	0	1,223
Changes in exchange rates	0	0		-73	73	0	73
Other changes	0	0		-564	-564	0	-564
Total equity as at 3/31/06	**25**	**1,000**		**25,504**	**27,752**	**0**	**27,752**
As at 1 January 2007	**4,422**	**29,144**		**33,165**	**66,731**	**38**	**66,769**
Consolidated net profit for 2007	0	0	5,283	5,268	5,268	15	5,283
Changes in exchange rates	0	0		-880	-880	-1	-881
Other changes	0	0		639	639	1,490	2,129
Total equity as at 3/31/07	**4,422**	**29,144**		**38,192**	**71,758**	**1,542**	**73,300**

Notes to the Consolidated Financial Statements for the Interim Report

Notes to the Interim Report as at 31 March 2007

A. Basis of accounting

The interim report of SKW Stahl-Metallurgie Holding AG was prepared in accordance with the provisions and rules of International Financial Reporting Standards (IFRSs) 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 31 March 2007.

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

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

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

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

B. Details of the consolidated group

The consolidated group and the consolidation methods applied 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 RAG Group) in an asset deal. Production facilities, inventories, receivables and liabilities were all acquired but no land. "Quab" is a specialised chemical product that is primarily used in the global production of industrial starch for the paper industry. Following the final calculation of the working capital, the final purchase price amounts to USD 12,774 thousand plus the incidental costs of acquisition incurred in the amount of USD 84 thousand. The purchase is price is broken down by acquired assets, liabilities and contingent liabilities at fair value as part of purchase price allocation in accordance with IFRS 3.

The following adjustments to assets and liabilities were required as a result of purchase price allocation:

Adjustments to assets and liabilities (€ thousand)	31 March 2007
Brands	-4
Customer base	3,922
Buildings	-36
Equipment	2,730
Provisions	-68
Deferred taxes, net	-2,591
	3,953

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

Calculation of goodwill (€ thousand)	31 March 2007
Purchase price	9,877
Incidental costs of acquisition	65
Total purchase price	**9,942**
Less net assets measured at fair value (90% interest)	13,407
Goodwill of the 90% interest	**-3,465**
Goodwill of the 10% minority interests	**-1,490**
Total goodwill	**-4,955**

The 90% interest of the SKW Metallurgie Group in SKW Quab Chemicals Inc. produces a numerical interest in the negative goodwill (Bargain Purchase) of €3,465 thousand. The remaining interest of €-1,490 thousand can be attributed to minority interests. The negative goodwill for the 90% interest of €3,465 thousand was recognised in the Consolidated Income Statement under other operating income.

Net assets acquired (€ thousand)	Carrying amount	Adjust-ment	Fair value
ASSETS			
Intangible assets	5	3,918	3,923
Property, plant and equipment	3,577	2,694	6,271
Deferred tax assets	0	115	115
Inventories	2,213	0	2,213
Trade receivables	5,881	0	5,881
Receivables and other assets	647	0	647
	12,323	6,727	19,050
EQUITY & LIABILITIES			
Non-current liabilities	9,877	0	9,877
Current liabilities	993	0	993
Deferred tax liabilities	0	2,706	2,706
Provisions	0	68	68
	10,870	2,774	13,644
Net assets acquired	**1,453**	**3,953**	**5,406**

From the date of acquisition until 31 March 2007, the “Quab” business’ revenue amounted to €5,382 thousand and earnings before interest and taxes (EBIT) totalled €360 thousand. The Group’s profit contribution cannot be presented for the period from 1 January to 15 January 2007 because of missing data transmission on the part of the seller.

D. Net assets, financial position and results of operations

Balance sheet

The total assets of the SKW Metallurgie Group amounted to €129,697 thousand as at 31 March 2007 (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 €28,376 thousand or 21.9% of total assets, trade receivables of €36,470 thousand or 28.2% of total assets and cash and cash equivalents of €29,573 thousand or 22.8% of total assets. The 15.3% reduction in cash and cash equivalents from €34,905 thousand to €29,573 thousand is mainly due to the payment of €3,862 thousand for acquisition of the “Quab” business.

The Group’s equity ratio only decreased slightly to 56.5%, down from 59.6% as at 31 December 2006 (including minority interest). Financial liabilities amounted to €22,447 thousand, up from €15,497 thousand in the previous year. The rise is primarily due to financing the acquisition of the “Quab” business by borrowing funds of €6,011 thousand. Overall, the acquisition of the “Quab” business was represented by a gearing ratio of 60.5%.

Income statement

Consolidated net profit for the period amounted to €5,283 thousand as at 31 March 2007, up from €1,233 thousand in the previous year and includes the following items: other operating income of €3,939 thousand (previous year: €284 thousand) includes income of €3,465 thousand from the reversal of negative goodwill arising from the acquisition of the “Quab” business. Furthermore, the other operating income of the period under review includes remeasurement gains of €210 thousand from the first-time application of IAS 21 to the JPY loan of the Affival SAS subsidiary in France.

Other operating expenses of €5,776 thousand as against €4,308 thousand in the previous year include passed on fees and commissions paid to consultants of €395 thousand for the period from 1 January 2007 to 31 March 2007 in connection with the Executive Board member J. Klaus Frizen.

At €-10 thousand, net finance costs were up substantially on the previous year’s figure of €-170 thousand. The reason for the enormous year-on-year improvement is due to the fact that significantly more cash and cash equivalents were available in the current period under review, particularly from the IPO, and this meant that higher interest income was generated.

Cash flow statement

At €2,465 thousand, the gross cash flow, i.e. consolidated net income adjusted for non-cash income and expenses, was up substantially on the previous year’s figure of €2,055 thousand.

The Group recorded net cash used in operating activities of €9,198 thousand. This cash flow was primarily impacted by trade receivables, other assets and an increase in net working capital from the acquisition of the “Quab” business. €7,362 thousand alone (corresponds to 80%) of the net cash used relates to the acquisition of the “Quab” business. As a result of a turnover increase in comparison to Q4/2006, the debtors and other assets rose by €1,836 thousand.

The SKW Metallurgie Group recorded net cash used in investing activities of €3,087 thousand. This was primarily caused by the purchase price payment for the acquisition of the “Quab” business. Financing activities brought net cash of €6,950 thousand. Inflows result almost exclusively from raising financial liabilities in connection with the acquisition of the “Quab” business.

In the period under review, the cash flow from operating activities included the following payments: interest paid to third parties of €112 thousand, interest received from third parties of €116 thousand and income taxes paid in the amount of €86 thousand.

E. Segment reporting

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

The primary business segments are broken down as follows:

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

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

	Cored Wire Q1 2007 € thousand	Powder and Granule Q1 2007 € thousand	Quab Q1 2007 € thousand	Sonstige Q1 2007 € thousand	Elimi-nierungen Q1 2007 € thousand	Konsolidiert Q1 2007 € thousand
Revenue						
External revenue	32,892	11,709	5,381	0	0	49,982
Internal revenue	0	2,746	0	0	-2,746	0
Total revenue	32,892	14,455	5,381	0	-2,746	49,982
Segment result (EBIT)	**2,091**	**965**	**3,825**	**-819**	**0**	**6,062**
(Thereof income from the reversal of negative goodwill)	0	0	(-3,465)	0	0	(-3,465)

The segment result of the holding (contained in “Other”) includes costs of €395 thousand from passed on fees and commissions paid to consultants in connection with the Executive Board member J. Klaus Frizen.

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

	Cored Wire Q1 2007 € thousand	Powder and Granule Q1 2007 € thousand	Quab Q1 2007 € thousand	Sonstige Q1 2007 € thousand	Elimi-nierungen Q1 2007 € thousand	Konsolidiert Q1 2007 € thousand
Revenue						
External revenue	36,986	11,973	0	0	0	48,959
Internal revenue	0	2,001	0	0	-2,001	0
Total revenue	36,986	13,974	0	0	-2,001	48,959
Segment result (EBIT)		**1,159**	**1,079**	**0**	**-23**	**-126**

F. Related party disclosures

The significant changes below to the 2006 consolidated financial statements arose in the quarter under review in material transactions with related parties.

As mentioned in the Report on Post-Balance Sheet Date Developments for financial year 2006, the Company issued a guarantee exemption declaration for over USD 10,000 thousand to ARQUES Industries AG, Starnberg, Germany in the course of acquiring the “Quab” business from RAG Group member Degussa. To protect against any contingent liabilities arising from this, the Company concluded a corresponding environmental pollution policy with a deductible of USD 100 thousand.

€467 thousand was paid to ARQUES Industries AG, Starnberg, Germany, in the quarter under review for consultation services, €395 thousand of which was attributable to the Executive Board member J. Klaus Frizen for his employment until the end of 31 March 2007. Further information on the compensation of the Executive and Supervisory Board and shares held by them as well as reportable transactions can be found in the Corporate Governance Report which is published as part of the Annual Report.

G. Contingent liabilities

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

H. Stock option plan

The SKW Metallurgie Group began to set up a stock option plan in the first quarter of 2007. The measurement and disclosure requirements arising from this in accordance with IFRS 2 will be reported for the first time in the half-yearly report.

I. Significant events after the balance sheet date

The significant occurrences and events for the Group below became known after the end of the quarter under review and before these notes to the financial statements were finalised.

The Group’s Supervisory Board decided to reduce the Executive Board of the SKW Metallurgie Group from three to two members. At the same time, J. Klaus Frizen terminated his Executive Board employment at the end of 30 April 2007. Since 1 May 2007, the Group’s Executive Board has comprised Ines Kolmsee as the Chairwoman of the Executive Board and Gerhard Ertl as the CFO.

Financial Calendar

18 June 2007
Annual General Meeting in Munich, Germany

14 August 2007
Publication of business figures, 2nd quarter 2007

12 November 2007
Publication of business figures, 3rd quarter 2007

31 December 2007
End of financial year 2007

Subject to modifications.

The current financial calendar can be found at:
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Publisher:
SKW Stahl-Metallurgie Holding AG
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84579 Unterneukirchen
Germany

Editorial Office:
Christian Schunck
Head of Investor Relations and
Corporate Communications

Design, Layout, Production:
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This interim report was published in German and English on 15 May 2007 and may be downloaded free of charge at our internet site www.skw-steel.com.

The interim report is generally produced as an update to the annual report. The interim report should therefore be read in conjunction with the annual report published for the 2006 financial year.

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