skw.
metallurgie

Growth with Substance

Report für the 1st Quarter 2011

The World of SKW Metallurgie in Figures

Key Figures	Unit	Q1 2011	Q1 2010
Revenues	EUR mill.	101.0	83.8
EBITDA	EUR mill.	10.0	6.2
EBITDA (adjusted)	**EUR mill.**	**8.2**	**6.2**
EBIT	EUR mill.	7.0	3.5
EBT	EUR mill.	6.5	3.2
Consolidated net profit (share of parent company's shareholders)	EUR mill.	4.3	1.2
EPS (6,544,930 shares)	EUR	0.65	0.18
Gross margin		28.6%	27.4%
EBITDA Margin (adjusted)		**8.1%**	**7.4%**
Depreciation/amortization	EUR mill.	3.0	2.7
Operating Cash Flow	EUR mill.	-1.1	-0.4
		Mar. 31, 2011	Dec. 31, 2010
Total assets/Total e&l	EUR mill.	290.6	275.8
Corporate equity	EUR mill.	122.9	122.3
Corporate equity ratio		42.3%	44.3%
Net financial debt	EUR mill.	59.5	47.3
Employees		912	790

Interim management report for the SKW Metallurgie Group for the first three months of fiscal year 2011

Economic Conditions

Solid global economic growth

The International Monetary Fund (IMF) believes that the global economy is on course for solid on-track growth. In the forecast dated April, 2011, the IMF's experts forecast global growth of 4.5% for the current year. In this development, the different paces of growth will continue, with a significant advantage for emerging economies. These already enjoyed much clearer growth than the industrial nations in the past year, and emerging nations are forecast to grow dynamically by 6.5% in 2011, whereas industrial nations will only enjoy moderate growth of 2.4%. The IMF is forecasting the emerging markets in South and South-East Asia to increase their economic output by 8.4%, and China is even expected go grow by 9.6%. The other BRIC countries of Brazil (+4.5%), Russia (+4.8%) and India (+8.2%) are also expected to enjoy strong growth. The increasing shift in public and private demand and the fact that the danger of a double-dip recession has now been banished have had a positive impact on industrial nations; however the high level of government debt is still resulting in substantial risks. According to the IMF, the USA can expect growth of 2.8% in 2011. The forecasts for Europe are for economic output to grow by 1.6%. Germany will play a special role as a result of its strong exports – growth in Germany is expected to substantially exceed the European average at 2.5%. The natural catastrophe on March 11, 2011 and its consequences have had a major impact on Japan. The IMF is thus forecasting the Japanese economy to only grow by 1.4%. Even though the impacts on the rest of the global economy are difficult to quantify, most experts are, however, not forecasting any lasting negative effects. It is not possible either to quantify the long-term impact of the substantial price cuts for key commodities for the global economy (such as crude oil) which started at the beginning of May 2011.

Steel industry set to enjoy new record-breaking year

Global economic growth is ensuring that demand for steel continues to be at a high level.

During the first quarter of 2011 steel production (based on statistics from the World Steel Association, which records more of 98% of steel production) increased by 6.9% in the EU quarter-on-quarter, and by 7.1% in the USA and 7.3% in Brazil. Steel production worldwide even increased by 8.8%, with the percentage growth in China being almost the same as in all of the other steel-producing nations put together. Customers from the steel industry continue to account for approx. 90% of the SKW Metallurgie Group's revenues. Sales of SKW Metallurgie's products correlate positively with the quantities of steel produced with regard to the Group's revenues with the steel industry. As a result, demand for the Group's products also grew positively in line with steel production.

During 2011 as a whole, the World Steel Association is forecasting global steel use to increase by 5.9% to 1.36 billion tonnes. In absolute figures, demand for steel developed differently in industrial nations and in emerging markets, in line with general economic developments. Although highly developed nations have forecast steel consumption of 392 million tonnes in 2011, demand on emerging markets will be more than double this amount at 967 million tonnes. North America will also record dynamic growth rates, as was already the case in the previous year. In this region, the impact of the economic and financial crisis still has to be compensated for. Growth in this region is driven by the recovering economy and also a large number of programs to subsidize improvements to infrastructure. As a result, a strong 10.9% increase in steel consumption is also being forecast for the NAFTA region, even though this will not yet reach the levels enjoyed prior to the crisis. Demand for steel in the EU will primarily be driven by Germany and France. Moderate growth of 4.9% is being forecast on the whole. After the strong growth in the previous years, the increase in demand in the BRIC countries of Brazil, Russia, India and China in 2011 will be more moderate – accumulated growth in these countries is forecast to total 5.7%. The world's largest single market is China, which has a market share of 44.5% (increase in demand in 2011: 5.0%). Activities to prevent the economy overheating on this market are putting the brakes on demand for new steel.

Customers from the steel industry continue to account for approx. 90% of the SKW Metallurgie Group's revenues. In terms of its revenues with the steel industry, sales of SKW Metallurgie's products correlate positively with the quantity of steel produced. This quantity generally grows in line with the growth in steel demand discussed above. As a result, demand for the Group's products is also forecast to grow positively in line with the forecast steel demand.

Organization and Company Structure

Three group companies were formed in the first quarter of 2011, and were thus consolidated in the SKW Metallurgie Group for the first time:

- One of these companies is a US subsidiary, as already announced in the 2010 annual report. The production of and expertise for specialty magnesium for non-steel industry customers are to be bundled in this company.
- Furthermore, two German technology companies were founded.

The total number of **consolidated group companies** thus amounted to 27 on March 31, 2011 (26 subsidiaries and the parent company), compared to 24 on December 31, 2010.

In the first quarter of 2011, the number of SKW Metallurgie **production facilities** (without the Jamipol joint venture) increased from 13 (December 31, 2010) to 15 (March 31, 2011):

- The Swedish subsidiary acquired in the fourth quarter of 2010 was renamed to become SKW Metallurgy Sweden AB during the period under review. As of February 1, 2011, this group company acquired a calcium carbide plant in Sweden and related assets and liabilities from a company in the AkzoNobel Group.
- The SKW Metallurgie Group's calcium silicon plant in Bhutan was opened in a celebration in March 2011 and will start production during the remainder of the fiscal year.

With effect from January 1, 2011, the Supervisory Board increased the size of the Executive Board from two to three members. On the same date, Mr. Reiner Bunnenberg, who had been with the SKW Metallurgie Group since September 2009, was appointed to the Executive Board as COO.

There were no other material changes to the organization and corporate structure during the period under review.

In particular, the Group's shareholder structure continues to be characterized by being held fully in free float: Since July 2007, no shareholder has held an interest of 10% or more in the share capital of SKW Stahl-Metallurgie Holding AG, which has remained unchanged since the capital increase in 2009. Only the banks engaged to execute the capital increase held stocks of more than 10% of SKW Metallurgie's shares in order to technically process the capital increase in 2009. However, they reduced these holdings to 0% when the capital increase was concluded in December 2009.

Corporate and Business Development

SKW Metallurgie enjoys clear on-track growth

The SKW Metallurgie Group's operating business enjoyed very positive growth from January to March 2011. All of the key performance indicators in the income statement are higher than the figures from the first quarter of 2010.

The operating structure of the SKW Metallurgie Group changed in the first quarter of 2011 compared to the first three months of 2010 in particular as a result of the new plants in Bhutan and Sweden. This should be taken into account when comparing figures from the quarter under review with the previous year's figures:

The calcium carbide plant in **Sweden** has been consolidated in the SKW Metallurgie Group since February 1, 2011 (pro rata temporis):

- This first-time consolidation has resulted in a bargain purchase which is reflected in EBITDA (income from the reversal of negative differences) in the amount of EUR 2.7 million.
- The operating contribution to EBITDA from the plant in Sweden is expected to be negative in the quarter under review and also in 2011 as a whole, as it will only be possible to rectify the investment backlog which had already been recognized prior to the purchase and which was reflected in the purchase price during the course of 2011 and 2012.
- In net terms, EBITDA from the first quarter of 2011 includes extraordinary factors from the new plant in Sweden in the amount of EUR 1.8 million.

The newly built calcium silicon plant in **Bhutan** went live in March 2011. However, the contribution to EBITDA made by the plant in Bhutan was negative in the quarter under review, and is expected to continue to be negative in the first half of 2011, as the first half of 2011 is characterized by start-up costs at the Bhutanese plant. These start-up costs were substantially lower in the first quarter of 2010.

Revenue up substantially

The SKW Metallurgie Group's revenues increased substantially in the first three months of 2011 compared to the first quarter of the previous year from EUR 83.8 million to EUR 101.0 million. This increase is due to the (pro rata) additional external sales from the acquisition of the customer base from the calcium carbide plant in Sweden (substantial increase in market position with customers from the gas industry and the Scandinavian steel industry). Steel production on the SKW Metallurgie Group's geographic core markets has also increased (European Union: +6.9%; USA: +7.1%), which has also had a positive impact on demand for SKW Metallurgie's products. The SKW Metallurgie Group records around 90% of its revenues with the steel industry, and depends to a great extent on the volume of steel produced.

A particularly meaningful figure for the SKW Metallurgie Group's operating performance to date has been the growth in the gross profit margin (gross margin), which is defined as the ratio of the difference between revenues and the cost of materials to revenues. This increased again during the period under review to 28.6% compared to the same period of the previous year (27.4%). The increasing capital intensity and vertical integration (e.g., increased vertical integration as a result of the calcium silicon plant in Bhutan) for the SKW Metallurgie Group's business activities will reduce the comparability of the gross profit margin for the SKW Metallurgie Group from 2011.

Possible changes to commodities prices are reflected proportionately in changes to selling prices, with the result that the SKW Metallurgie Group's earnings are mostly unaffected by changes in commodities prices. The SKW Metallurgie Group believes that the supply of all of the raw materials which are relevant for the Group continues to be secure.

Personnel expenses in the first three months of 2011 totaled EUR 10.6 million, and were thus clearly higher than in the previous year (EUR 8.9 million). This increase is due, in particular, to the following factors:

- The number of employees world wide has increased from 724 (March 31, 2010) to 912 (March 31, 2011). This increase in the number of employees is mostly due to the transfer of the workforce at the Swedish calcium carbide plant to the SKW Metallurgie Group and also to setting up the workforce in Bhutan.

- As a result of the substantial increases in revenues and earnings compared to the previous year, the performance-related remuneration components have also increased.

Other operating income was also substantially higher than in the previous year at EUR 4.7 million (EUR 2.7 million). The key factor in this regard was the bargain purchase from the acquisition of the calcium carbide plant in Sweden in the amount of EUR 2.7 million. After adjustment for this factor, other operating income would have totaled EUR 2.0 million, slightly lower than the previous year's level (EUR 2.7 million).

Other operating income includes currency translation gains of EUR 1.4 million (previous year: EUR 2.6 million). After netting with the currency translation losses included in other operating expenses of EUR 1.8 million (previous year: EUR 1.4 million), this results in a net currency translation loss of (rounded) EUR 0.5 million (previous year: net currency translation gain of EUR 1.2 million).

The remaining other operating income during the period under review is not of material importance.

Other operating expenses increased from EUR 11.3 million to EUR 14.1 million. This increase is due to the high percentage of non-revenue related expenses (e.g. outbound freight and sales commission).

Income from associated companies, which stems exclusively from the Indian joint venture Jamipol, were constant in the period under review at EUR 0.3 million compared to the same period of the previous year (EUR 0.3 million).

EBITDA: Right on track to meet whole-year forecast of EUR 32 million

The SKW Metallurgie Group's rising sales figures in the three month period and also the extraordinary factors from the acquisition of the calcium carbide plant in Sweden in the amount of EUR 1.8 million meant that the SKW Metallurgie Group recorded EBITDA of EUR 10.0 million as of March 31, 2011 (previous year: EUR 6.2 million). After adjustment for the extraordinary factors from the acquisition of the calcium carbide plant in Sweden in the amount of EUR 1.8 million, i.e., focusing on the comparable operating output of the SKW Metallurgie Group, EBITDA in the quarter under review totaled EUR 8.2 million.

The contributions to EBITDA from the new facilities in Bhutan and Russia were negative in the first quarter of 2011. A negative contribution is also forecast for the first half of 2011. This is due to the fact that significant revenues are only planned for the second half of 2011 (in the case of Bhutan these will mostly be internal revenues), but that start-up costs are incurred prior to these revenues being recorded. This effect will be significantly stronger in the first six months of 2011 compared to the first half of 2010. Positive contributions to EBITDA are forecast from Bhutan and Russia for the second half of 2011.

The new facility in Sweden (consolidated from February 1, 2011) also recorded negative EBITDA in the first quarter of 2011 (i.e., without considering the bargain purchase) and is expected to continue to do so for the remainder of 2011. This plant has been generating revenues since it was acquired, however the operating improvements that were recognized prior to the purchase and which were reflected in the purchase price will only be implemented during the remainder of 2011 and 2012.

On the whole, the SKW Metallurgie Group believes that the figures from the first quarter of 2011 confirm its guidance for the year as a whole (EBITDA) of EUR 32 million.

The **EBITDA margin** (ratio of EBITDA to revenues), which is a key performance indicator for the SKW Metallurgie Group's operating performance, has been calculated for Q1 2011 using EBITDA after adjustment for the extraordinary factors resulting from the acquisition of the calcium carbide plant in Sweden in the amount of EUR 1.8 million. This figure totaled 8.1% for the first three months of 2011, up on the Q1 2010 figure of 7.4%. When comparing the first quarter of 2011 with the first quarter of 2010 we must also note that EBITDA in the first quarter of 2010 includes a positive effect from currency translation (net currency translation gains) of EUR 1.2 million, whereas EBITDA in the first quarter of 2011 includes a negative effect from currency translation (net currency translation expenses) of EUR 0.5 million.

Amortization and depreciation during the period under review totaled EUR 3.0 million, slightly higher than in the previous year (EUR 2.7 million). Of the amortization and depreciation in the amount of EUR 3.0 million, EUR 1.5 million is due to the amortization of intangible assets; these are mostly due to purchase price allocations (PPA) from corporate acquisitions.

EBIT is higher than the previous year's earnings of EUR 3.5 million – both in terms of the figure disclosed (EUR 7.0 million) and also in terms of the figure after adjustment for the acquisition of the calcium carbide plant in Sweden in the amount of EUR 1.7 million (EUR 5.3 million.)

Net interest in the period under review was a net expense of EUR 0.5 million, which is roughly equivalent to the level in the same period of the previous year (net expense of EUR 0.4 million).

Taking interest into account, the earnings before taxes for the period under review totaled EUR 6.5 million (previous year: EUR 3.2 million).

During the period under review, the SKW Metallurgie Group's expenses for income taxes totaled EUR 1.8 million. Calculating the Group's tax rate (ratio of income taxes to EBT) is not particularly meaningful as a result of the particular tax treatment of the bargain purchase agreement in the first quarter of 2011. As a rule, the group believes that a ratio of 35-40% is representative 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 national taxes as well as significant taxes from sub-states (e.g., in Brazil and the USA) and other corporations.

Consolidated earnings for the period under review comprised consolidated net income of EUR 4.7 million. During the first three months of 2010 consolidated net income for the period was significantly lower at EUR 1.8 million. This increase is mostly due to the impact of the bargain purchase agreement. Of the net income for the period in Q1 2011, EUR 4.3 million is due to the parent company's shareholders (previous year: EUR 1.2 million) and EUR 0.4 million (previous year: EUR 0.6 million) is due to minority shareholders (so-called non-controlling interests).

The consolidated net income for the period due to the parent company's shareholders and the unchanged number of 6,544,930 shares result in earnings per share (EPS) of EUR 0.65 (previous year: EUR 0.18).

SKW Metallurgie Group's net assets continue to be very solid

The following table shows the key figures from the SKW Metallurgie Group's balance sheet at the end of the first three months of 2011 and the end of fiscal year 2010:

EUR million	March 31, 2011	Dec. 31, 2010
ASSETS	290.6	275.8
Non-current	148.4	147.9
Current	142.2	127.9
Thereof cash and cash equivalents	9.1	11.0
EQUITY AND LIABILITIES	290.6	275.8
Equity	122.9	122.3
Non-current liabilities	58.4	64.6
Thereof non-current financial liabilities	29.0	31.3
Current liabilities	109.6	88.9
Thereof current financial liabilities	39.6	27.0

The SKW Metallurgie Group's total assets increased from EUR 275.8 million (December 31, 2010) to EUR 290.6 million (March 31, 2011). The increase is due, in particular, to high-growth projects (primarily the acquisition of calcium carbide production in Sweden with corresponding working capital, further expansion of calcium silicon production in Bhutan). Equity increased to EUR 122.9 million at the end March 2011 compared to EUR 122.3 million at the end of 2010.

These two factors resulted in a slight reduction in the **equity ratio** which had been anticipated by management. The equity ratio is defined as the ratio of equity to total assets. It thus fell from 44.3% as of December 31, 2010 to a still very solid 42.3% on March 31, 2011.

Net financial debt (defined as current and non-current financial liabilities less cash and cash equivalents) at the SKW Metallurgie Group totaled EUR 59.5 million on March 31, 2011 and was thus higher than on December 31, 2010 (EUR 47.3 million). This increase is mostly due to the increase of current financial liabilities (up from EUR 27.0 million to EUR 39.6 million).

These are mostly used for working capital financing. Gearing, or the ratio of net financial debt to equity, thus increased correspondingly from 0.39 to 0.48, which is still very conservative for a manufacturing company.

Cash flow: Coined by expansion

The following table shows the changes in the SKW Metallurgie Group's cash flow from January 1 to March 31, 2011 compared to the corresponding three-month period in 2010:

EUR million	Jan. 1 – March 31, 2011	Jan. 1 – March 31, 2010
Consolidated net income for the period	4.4	1.8
Non-cash income and expense	-1.4	1.2
Gross cash flow	3.3	3.0
Changes in working capital	-4.4	-3.4
Net cash flow	-1.1	-0.4

In the first quarter of 2011, the gross cash flow of EUR 3.3 million roughly corresponded to the previous year's figure of EUR 3.0 million. The consolidated net income for the period under review disclosed is higher than the figure in the first quarter of the previous year; however, this effect is due, in particular to the non-cash bargain purchase.

The changes in working capital in the first quarter of 2010 were characterized by the upswing after the economic and financial crisis, which lead to substantial changes in inventories, trade receivables and trade payables and also, in total, to a cash outflow of EUR 3.4 million (increase in net working capital). The first quarter of 2011 was characterized by effects of a comparable quality from the increase of revenues in the first quarter of 2011 compared to the fourth quarter of 2010, as well as from working capital for the new facilities (in particular Sweden); in total the changes in working capital in the first quarter of 2011 totaled EUR -4.4 million (increase in net working capital).

As a rule, the amount of working capital in the SKW Metallurgie Group correlates positively with the amount of revenues. On the whole, the increase in working capital and the associated negative cash flow from operating activities are typical characteristics of a period of expansion and growth.

In addition, the period under review was also characterized by a continued strong capital expenditure (outflow of funds: EUR 12.5 million compared to EUR 5.7 million in Q1 2010). Of this total, EUR 9.9 million is due to payments for investments in non-current assets and EUR 2.6 million is due to payments for investments in current assets from acquisitions.

Segment reporting

The SKW Metallurgie Group currently comprises three segments: The two core segments of Cored Wire and Powder and Granules, and also the Other segment (including Quab business). Internal revenue between the segments is eliminated in the "elimination" column (see segment reporting in the notes); internal revenues within a segment are already eliminated in the disclosure of the segment figures.

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

Growth in the two core segments during the period under review was as follows:

- The Cored Wire segment recorded a substantial increase in external revenues in the first three months due to the positive growth on the target markets for the segment's products (up from EUR 36.8 million to EUR 47.8 million). This segment recorded EBITDA of EUR 3.3 million from these revenues (previous year: EUR 2.8 million). That means that this segment's EBITDA margin fell slightly from 7.6% to 6.9%; however this theoretical downturn is due, in particular, to the start-up costs in Bhutan and Russia.

- In the Powder and Granules segment, external revenues increased slightly during the three-month period from EUR 42.9 million to EUR 45.6 million. Segment EBITDA was disclosed in the amount of EUR 8.0 million (previous year: EUR 4.5 million); however, the figure from the first quarter of 2011 also includes extraordinary factors from the acquisition of the calcium carbide plant in Sweden in the amount of EUR 1.8 million. After adjustment for this effect, segment EBITDA in the first quarter of 2011 totaled EUR 6.2 million (previous year: EUR 4.5 million). This means that the adjusted EBITDA margin in this segment has increased substantially from 10.5% to 13.6%. This increase in segment EBITDA confirms the successful positioning of this segment's companies on their target markets.

Focus on further developing strong technical competence

Excellently trained, highly motivated employees were once again a key component of the SKW Metallurgie Group's successful business operations during the period under review. The number of employees worldwide totaled 912 at the end of the three-month period, significantly higher than the figure on December 31, 2010 (790). The increase in the number of employees is mostly due to new hires in Bhutan and also to taking over the employees at the acquired calcium carbide plant in Sweden.

During the remainder of 2011, the SKW Metallurgie Group is expecting a further increase in employee numbers due to additional hires for the new plants in Russia and Bhutan.

Research and development (R&D) were also a key USP for the Group during the period under review; the successful business policy from 2010 was also continued in this area. The new plants in Sweden, Bhutan and Russia will also contribute to increasing the SKW Metallurgie Group's technology competence.

An additional production line for specialty magnesium was taken into operations in the USA in April 2011 at an existing facility. The SKW Metallurgie Group's magnesium products are mostly used in hot metal desulfurization in steel production. As was the case in the past, in addition specialty magnesium products are produced and sold, for example, for use in diving torches or in the aviation sector. This area of business will be reinforced substantially by the new production line.

Using opportunities and limiting risks

At the SKW Metallurgie Group, managing opportunities and risks is an integral part of the company's management. Recognizing and evaluating opportunities and risks and also putting suitable activities in place to be able to make optimum use of opportunities and to limit risks is an ongoing process at the SKW Metallurgie Group. As a result, during the first quarter of 2011, the risk inventory performed in 2010 was updated in the form of a quarterly risk report. In particular, the Swedish calcium carbide plant acquired in the first quarter of 2011 was included. In the first quarter of 2011 the SKW Metallurgie Group also analyzed the opportunities and risks resulting from the natural catastrophe in Japan and the resulting nuclear accidents. As things stand at present, this will not result in any sustained large-scale negative impact for the SKW Metallurgie Group. In contrast, the pending work to rebuild Japan could lead to increased consumption of high-quality steel, and could thus revitalize the SKW Metallurgie Group's sales. The risk report did not otherwise include any major changes compared to the statements made on opportunities and risks made in the 2010 annual report.

Report on events after the balance sheet date

After the end of the period under review on March 31, 2011, and up to the date on which this interim management report was prepared, there were no events of particular importance for the SKW Metallurgie Group.

Outlook

Global economy to continue to grow in 2012

The primary driving force behind global economic growth will continue to be emerging and developing nations in 2012. Their economic output is forecast to grow at a substantially stronger rate (6.5%) than in industrial nations (2.6%). On the whole, the International Monetary Fund (IMF) is forecasting global economic output to grow by 4.5% in the coming year. There are risks in the fact that the impact of the natural catastrophe in Japan cannot yet be conclusively assessed, and also, in particular, in the high level of government debt for key industrial nations. The already high levels of inflation on many emerging markets and the start of price hikes in industrial nations are also causing uncertainty. In order to prevent additional inflationary tendencies, the European Central Bank increased European base rates slightly by 0.25 percentage points to 1.25% at the start of April.

Steel demand tracks global economic growth.

The SKW Metallurgie Group records around 90% of its revenues with customers from the steel industry. The company's consolidated income correlates closely with the general demand for steel. According to calculations by the World Steel Association, global steel consumption will increase by around 6.0% in 2012 to around 1.44 billion tonnes. Growth of 6.3% is being forecast for the NAFTA region, and 3.7% for the EU. This growth is roughly in line with the industry average. Europe and North America are key sales regions for SKW Metallurgie – it currently records around three quarters of its revenues there. Steel producers in BRIC countries can expect growth of 6.2%.

Guidance confirmed

As a result of the excellent business in the first quarter of 2011 and positive impetus from Q2 2011 to date, the SKW Metallurgie Group is confirming its guidance for the year as a whole for EBITDA of EUR 32 million.

Unterneukirchen (Germany), May 2011

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee Chairperson (CEO)	Gerhard Ertl	Reiner Bunnenberg

Consolidated income statement for the period from January 1 – March 31, 2011

EUR thousand	Q1 2011	Q1 2010
Revenues	100,997	83,815
Change in finished goods and work in progress	842	417
Other operating income	4,704	2,740
Cost of materials	-72,116	-60,825
Personnel expenses	-10,583	-8,880
Other operating expenses	-14,109	-11,294
Income from associated companies	250	250
EBITDA	**9,985**	**6,223**
Amortization of intangible assets and depreciation of property, plant and equipment	-2,979	-2,711
EBIT	**7,005**	**3,512**
Net interest	-520	-352
EBT	**6,485**	**3,160**
Income taxes	-1,798	-1,394
Consolidated net income for the period	**4,687**	**1,765**
Thereof shareholders of SKW Stahl-Metallurgie Holding AG	*4,255*	*1,190*
Thereof non-controlling interests	*432*	*575*
Earnings per share (in EUR)*	0.65	0.18

* Diluted earnings per share correspond to basic earnings per share.

Reconciliation to comprehensive income from January 1 to March 31, 2011

EUR thousand	Q1 2011	Q1 2010
Consolidated net income for the period	**4,687**	**1,765**
Net investments in a foreign operation	-1,596	1,602
Unrealized losses from derivatives (hedge accounting)	-18	-129
Exchange rate fluctuations	-2,441	2,619
Taxes on income and expenses carried directly under equity	7	50
Income and expenses recognized directly under equity	**-4,048**	**4,148**
Comprehensive income	**639**	**5,913**
Thereof parent company	*716*	*4,995*
Thereof non-controlling interests	*-77*	*918*

Consolidated balance sheet as of March 31, 2011

ASSETS IN EUR thousand	Mar. 31, 2011	Dec. 31, 2010
Non-current assets		
Intangible assets	60,730	64,868
Property, plant and equipment	69,181	63,852
Interests in associated companies	4,775	4,703
Other non-current assets	548	536
Deferred tax assets	13,207	13,893
Total non-current assets	**148,441**	**147,852**
Current assets		
Inventories	58,269	50,276
Trade receivables	59,556	53,489
Income taxes	2,172	2,161
Other assets	13,073	10,425
Non-current assets held for sale	0	598
Cash and cash equivalents	9,111	10,956
Total current assets	**142,181**	**127,905**
Total assets	**290,622**	**275,757**

EQUITY AND LIABILITIES IN EUR thousand	Mar. 31, 2011	Dec. 31, 2010
Equity		
Subscribed capital	6,545	6,545
Share premium	50,741	50,741
Other accumulated equity	47,270	46,554
	104,556	103,840
Minority interest	18,341	18,418
Total equity	**122,897**	**122,258**
Non-current liabilities		
Pension obligations	2,927	2,891
Other provisions	2,058	1,958
Obligations from finance leases	0	0
Non-current financial liabilities	29.013	31,336
Income taxes	0	0
Deferred tax liabilities	16,178	16,784
Other non-current liabilities	8,187	11,593
Total non-current liabilities	**58,363**	**64,562**
Current liabilities		
Other provisions	7,808	7,608
Obligations from finance leases	8	27
Current financial liabilities	39,634	26,966
Trade payables	40,814	37,988
Income taxes	1,559	789
Other current liabilities	19,539	15,559
Total current liabilities	**109.634**	**88,937**
Total equity and liabilities	**290,622**	**275,757**

Consolidated cash flow statement as of March 31, 2011

EUR thousand	Jan. 1, 2011 - Mar. 31, 2011	Jan. 1, 2010 - Mar. 31, 2010
1. Consolidated net income for the period	4,687	1,765
2. Write-ups/write-downs of non-current assets	2,979	2,711
3. Increase/decrease in provisions for pensions	36	33
4. Income from associates	-250	-250
5. Result from the disposal of non-current assets	-448	84
6. Result from currency conversion	240	-1,184
7. Result from deferred taxes	-341	-288
8. Income from the reversal of negative differences	-2,708	0
9. Other non-cash income/expense	-903	122
10. Gross cash flow	**3,292**	**2,993**
Change in working capital		
11. Increase/decrease in current provisions	300	839
12. Increase/decrease in inventories (after advance payments received)	-3,483	-9,683
13. Increase/decrease in trade receivables	-2,459	-4,493
14. Increase/decrease in other receivables	-242	-1,378
15. Increase/decrease in other assets	-2,517	-380
16. Increase/decrease in trade payables	1,425	10,564
17. Increase/decrease in other liabilities	770	-255
18. Increase/decrease in other equity and liabilities	1,819	1,361
19. Net cash received from (+)/used by (-) operating activities		
(Net cash flow)	**-1.095**	**-432**
20. Payments for investments in non-current assets	-9,888	-5,704
21. Payments for investments in current assets from acquisitions	-2,585	0
22. Net cash provided by (+)/used in (-) investing activities	**-12,473**	**-5,704**
23. Decrease in liabilities from finance leases	-18	-59
24. Additions to equity from minority shareholders	0	377
25. Dividend to non-controlling interests	304	0
26. Increase/decrease in financial liabilities	11.937	4,141
27. Net cash provided by (+)/used in (-) financing activities	**12,241**	**4,459**
28. Cash and cash equivalents – start of period	10,956	11,052
29. Change in cash and cash equivalents	-1,631	-1,677
30. Currency translation for cash and cash equivalents	-214	225
31. Cash and cash equivalents - end of period	**9,111**	**9,600**

Statement of changes in consolidated equity for fiscal years 2010 and 2011

EUR thousand	Subscribed capital	Equity reserve	Other accumulated equity	Consolidated equity of the controlling shareholder	Non-controlling interests	Total equity
Balance at Jan. 1, 2010	**6,545**	**50,741**	**41,463**	**98,749**	**10,277**	**109,026**
Consolidated net income for the period	0	0	1,190	1,190	575	1,765
Exchange rate fluctuations	0	0	2,276	2,276	343	2,619
Income and expense carried under equity (without exchange rate changes)	0	0	1,523	1,523	0	1,523
Total result 2010	**0**	**0**	**4,989**	**4,989**	**918**	**5,907**
Balance as of March 31, 2010	**6,545**	**50,741**	**46,452**	**103,738**	**11,195**	**114,933**
Balance at Jan. 1, 2011	**6,545**	**50,741**	**46,554**	**103,840**	**18,418**	**122,258**
Consolidated net income for the period	0	0	4,255	4,255	432	4,687
Exchange rate fluctuations	0	0	-1,932	-1,932	-509	-2,441
Income and expense carried under equity (without exchange rate changes)	0	0	-1,607	-1,607	0	-1,607
Total result 2011	**0**	**0**	**716**	**716**	**-77**	**639**
Balance as of March 31, 2011	**6,545**	**50,741**	**47,270**	**104,556**	**18,341**	**122,897**

Notes to the consolidated financial statements for the interim report as of March 31, 2011

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 Dec. 31, 2010 in Section „C. Key accounting policies“ also apply to this unaudited interim report as of March 31, 2011. The SKW Metallurgie Group‘s 2010 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, 2010, which form the basis for these interim financial statements.

The new and revised accounting standards for which application has been mandatory since fiscal year 2011 form an exception. In this regard, for the interim report as of March 31, 2011 please refer to the comments made in the notes to the consolidated financial statements as of December 31, 2010 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, 2010, 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 Wires 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 consolidation methods applied have not changed compared to the 2010 consolidated financial statements. The group of consolidated companies increased compared to 2010 by the following companies founded in 2011: ESM-SMT, USA; SKW Technology GmbH & Co. KG, Germany; and SKW Technology Management GmbH, Germany.

C. Information on acquisitions

At the start of February, 2011, as part of an asset deal, the SKW Metallurgie Group acquired a calcium carbide production plant in Sweden from the Dutch coatings and chemicals company AkzoNobel. It has acquired land, production facilities, inventories, receivables and liabilities.

The purchased price totaled EUR 5,599 thousand after the net working capital had been conclusively determined. The purchase price is broken down into the acquired assets, liabilities and contingent liabilities at fair values according to the purchase price allocation in IFRS 3 (2008).

This transaction substantially expands the SKW Metallurgie Group's European hot metal desulfurization activities along its value chain. It secures the Group's internal supply of raw materials. It also creates additional sales potential, in particular in Northern Europe, for the SKW Metallurgie Group for both calcium carbide-based hot metal desulfurization solutions and also for other Group products. In addition, the new plant will also sell calcium carbide products to the gas industry; the SKW Metallurgie Group has not previously supplied this market to any significant extent.

As a result of the purchase price allocation, there have been the following adjustments to assets and liabilities:

Adjustments to assets and liabilities In EUR thousand	Feb. 1, 2011
Non-tangible assets	-50
Equipment	-3,934
Inventories	-64
Liabilities	-358
Deferred taxes - net	808
	-2,883

The assets and liabilities were as follows:

Acquired net assets in EUR thousand	Carrying amounts	Adjustment	Fair value
ASSETS			
Intangible assets	**83**	**-50**	**34**
Property, plant and equipment	**6,827**	**-3,934**	**2,893**
Inventories	**4,606**	**-64**	**4,542**
Trade receivables	**3,617**	**0**	**3,617**
Receivables and other assets	**371**	**0**	**371**
Deferred tax assets	**0**	**19**	**19**
	15,504	**-4,029**	**11,475**
EQUITY AND LIABILITIES			
Trade payables	1,401	0	1,401
Other liabilities	621	357	978
Deferred tax liabilities	0	789	789
	2,022	**1,146**	**3,168**
Acquired net assets			**8,307**
Identification of goodwill			
Purchase price			5,599
Less net assets acquired measured at fair value			-8,307
Total goodwill			**-2,708**

This goodwill in the amount of EUR 2,708 thousand which arose through first consolidation is to be included in the P&L statement with its accruement and is hence included in „Other operating income."

From the date of acquisition through to March 31, 2011, revenues from the acquired calcium carbide business totaled EUR 4,016 thousand, EBITDA totaled EUR 1,805 thousand and net income amounted to EUR 1,947 thousand. The contribution to the SKW Metallurgie Group's earnings for the period from January 1 to January 31, 2011 would have totaled EUR 2,214 thousand in terms of revenues and EUR -261 thousand for EBITDA and EUR -353 thousand for net income. The figures shown do not include any PPA adjustments.

D. Financial position and results of operations

Balance sheet

The SKW Metallurgie Group's total assets on March 31, 2011 amounted to EUR 290,622 thousand (December 31, 2010: EUR 275,757 thousand). The increase in total assets is mostly due to investments in property, plant and equipment as part of establishing 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 three months of 2011.

The key items of current assets are, as was the case in the previous year, inventories totaling EUR 58,269 thousand or 20.0% of total assets and trade receivables in the amount of EUR 59,556 thousand or 20.5% of total assets.

Equity on March 31, 2011 totaled EUR 122,897 thousand (December 31, 2010: EUR 122,258 thousand); the consolidated equity ratio fell from 44.3% on December 31, 2010 to 42.3% on March 31, 2011 (all figures incl. non-controlling interests). Current financial liabilities totaled EUR 39,634 thousand, an increase compared to the previous year's figure (EUR 26,966 thousand) by EUR 12,668 thousand. Non-current financial liabilities fell by EUR 2,323 thousand in 2011 to EUR 29,013 thousand compared to EUR 31,336 thousand in 2010.

Net debt increased in the first three months of 2011 by a total of EUR 12,190 thousand from EUR 47,346 thousand as of December 31, 2010 to EUR 59,536 thousand as of March 31, 2011.

Income statement

In the first three months of 2011, the SKW Metallurgie Group recorded revenues of EUR 100,997 thousand compared to EUR 83,815 thousand in the same period of 2010. The revenue increase is mostly due to higher demand by steel manufacturers for the SKW Metallurgie Group's products.

Of the other operating income of EUR 4,704 thousand (Q1 2010: EUR 2,740 thousand), EUR 1,352 thousand stems from exchange rate gains (Q1 2010: EUR 2,632 thousand), EUR 442 thousand stems from the sale of land in Brazil and EUR 2,708 thousand stems from negative goodwill from the acquisition of the calcium carbide business in Sweden.

The currency translation gains are offset by corresponding currency translation losses, which are included in other operating expenses. The currency translation losses totaled EUR 1,848 thousand compared to the figure from the first three months of 2010 of EUR 1,448 thousand, which, at the end of the day, resulted in a negative currency translation effect in the period under review of EUR 496 thousand compared to a positive net currency translation effect of EUR 1,184 thousand in the previous year.

In total, expenses in 2011 increased compared to the previous year. Personnel expenses in the first three months totaled EUR 10,583 thousand compared to EUR 8,880 thousand for the same period of the previous year. Other operating expenses in 2011 were also significantly higher than the 2010 figure at EUR 14,109 thousand (EUR 11,294 thousand).

Net interest is lower year-on-year at EUR -520 thousand (previous year: EUR -352 thousand).

The consolidated net income for the period to March 31, 2011 totaled EUR 4,687 compared to EUR 1,765 last year. Non-controlling interests in the first three months of 2011 totaled EUR 432 thousand compared to EUR 575 thousand in the same period of the previous year.

Cash flow statement

Gross cash flow increased to EUR 3,292 thousand (previous year: EUR 2,993 thousand).

The Group recorded a cash flow from operating activities of EUR -1,095 thousand compared to EUR 432 thousand in the previous year. Entailed are changes of net working capital during the first three months resulting in net cash used of EUR 4,387 thousand in 2011 compared to EUR 3,425 thousand in the previous year.

During the period under review, the SKW Metallurgie group recorded net cash used in investing activities in the amount of EUR 12,473 thousand compared to EUR 5,704 thousand in the previous year. There was net cash provided by financing activities in the amount of EUR 12,241 thousand compared to EUR 4,459 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 94 thousand
- Interest received from third parties totaling EUR 3 thousand
- Income tax payments totaling EUR 483 thousand

E. Segment reporting

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

a) Cored Wire

b) Powder and Granules

c) Other

The segment information on the business segments in 2011 is as follows:

Q1 2011 in EUR thousand	Cored Wire	Powder and Granules	Other*	Elimination	Group
Revenues					
Third-party revenues	47,820	45,574	7,603	0	100,997
Internal revenues	2	7,336	0	-7,338	0
Total revenues	47,822	52,910	7,603	-7,338	100,997
EBITDA	**3,267**	**7,956**	**-1,238**	**0**	**9,985**
Depreciation/amortization	-497	-2,177	-306	0	-2,980
EBIT	**2,770**	**5,779**	**-1,544**	**0**	**7,005**

* The Other segment includes consolidation and reconciliation effects in the amount of EUR -455 thousand.

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

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

* The Other segment includes consolidation and reconciliation effects in the amount of EUR -117 thousand.

F. 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 three months of 2011 ceteris paribus:

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

Q1 2011 in EUR thousand	Average exchange rates 2011 -5%	Average exchange rates 2011	Average exchange rates 2011 +5%
Revenues	105,083	100,997	97,301
EBITDA	10,538	9,985	9,484

Q1 2010 in EUR thousand	Average exchange rates 2011 -5%	Average exchange rates 2011	Average exchange rates 2011 +5%
Revenues	87,125	83,815	80,817
EBITDA	6,612	6,223	5,871

G. Related parties

There were no major changes in key transactions with related parties in the period under review compared to the 2010 consolidated financial statements.

H. Contingent liabilities

The SKW Metallurgie Group's contingent liabilities did not change materially compared to December 31, 2010.

I. Key events after the balance sheet date

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

J. Shareholder structure

There were the following shareholdings in SKW Metallurgie that carry a reporting requirement according to the WpHG (German Securities Trading Act) (3% or more of total voting rights) on March 31, 2011:

Name	Head office	Stock	Shares held correspond to	Date	Remarks
BT Pension Scheme Trustees Limited/Hermes	London, United Kingdom	318,886	4.87%	Mar. 15, 2010	5 individual notifications for the same shareholding
LBBW Asset Management Investmentgesellschaft mbH	Stuttgart, Deutschland	331,599	5.067%	Sept. 23, 2010	
Otus Capital Management L. P.	London, United Kingdom	196,847	3.008%	Oct. 4, 2010	3 individual notifications for the same shareholding
Universal-Investment-Gesellschaft mbH	Frankfurt/M., Germany	201,515	3.08%	Jan. 5, 2010	
	Total	**1,048,847**	**16.025%**		

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.

The members of the Executive and Supervisory Boards together held less than 1% of SKW Metallurgie's shares on March 31, 2011.

The shareholder structure described above has not changed compared to December 31, 2010.

Unterneukirchen (Germany), May 2011

SKW Stahl-Metallurgie Holding AG
The Executive Board

Ines Kolmsee
Chairperson (CEO)

Gerhard Ertl

Reiner Bunnenberg

Financial Calendar 2011 (remaining)

May 16, 2011

- Publication of business figures first quarter 2011

June 8, 2011

- Annual General Meeting
  in Muenchen, Germany

August 16, 2011 (rescheduled from August 12, 2011)

- Publication of business figures first half 2011

November 14, 2011

- Publication of business figures first nine months 2011

November 2011

- Analysts' Conference
  at „Eigenkapitalforum“ in Frankfurt/M., Germany

May be subject to change.

Contacts

SKW Stahl-Metallurgie Holding AG
Fabrikstrasse 6
84579 Unterneukirchen
Germany

Phone: +49 8634 62720-0
Fax: +49 8634 62720-16
ir@skw-steel.com
www.skw-steel.com

Imprint

Publisher:

SKW Stahl-Metallurgie Holding AG
Fabrikstrasse 6
84579 Unterneukirchen
Germany

Editor:

Christian Schunck
Head of Investor Relations and Corporate Communications

Concept, Layout, Production:

Helmut Kremers
Cosimastrasse 111
81925 Muenchen
Germany
contact@helmut-kremers.com

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 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 Group brand 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.

This is the English translation of the German original of this report; 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 that may be 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 Public Limited Companies Act) without any further information relate to the German acts of law in their respective applicable version.

This report was published on May 16, 2011 and is available at www.skw-steel.com to download free of charge.

SKW Stahl-Metallurgie Holding AG

Phone +49 8634 62720-0, Fax +49 8634 62720-16, www.skw-steel.com