FINANCIAL REPORT for the 3rd quarter 2006

skw. metallurgie

A passion for perfection

Consolidated balance sheet as of September 30, 2006

ASSETS

	Sept. 30, 2006	Dec. 31, 2005
	kEUR	kEUR
Noncurrent assets		
Intangible assets	503	23
Property, plant and equipment	9,876	9,754
Investments in associates	3,504	3,603
Other noncurrent assets	299	273
Deferred tax assets	2,442	2,921
Total noncurrent assets	**16,624**	**16,574**
Current assets		
Inventories	22,963	25,774
Trade receivables	28,671	30,211
Other current assets	6,055	3,641
Cash and cash equivalents	4,569	1,362
Total current assets	**62,258**	**60,988**
Total assets	**78,882**	**77,562**

Consolidated balance sheet as of September 30, 2006

LIABILITIES AND EQUITY

	Sept. 30, 2006	Dec. 31, 2005
	kEUR	kEUR
Equity		
Common stock	3,325	25
Additional paid-in capital	0	1,000
Other accumulated equity	30,681	24,918
Total equity	**34.006**	**25,943**
Noncurrent liabilities		
Pension plans and similar commitments	1,306	1,217
Liabilities from finance leases	890	691
Total noncurrent liabilities	**2,196**	**1,908**
Current liabilities		
Accrued liabilities	791	926
Short term debt and current maturities of long term debt	15,712	21,024
Accounts payable	20,319	21,755
Tax liabilities	2,863	239
Other current liabilities	2,995	5,767
Total current liabilities	**42,680**	**49,711**
Total liabilities and equity	**78,882**	**77,562**

Consolidated income statement

	QI-III 2006	QI-III 2005	QIII 2006	QIII 2005
	kEUR	kEUR	kEUR	kEUR
Net sales	144,241	143,488	44,936	43,498
Increase/decrease in inventories of finished goods and work-in-progress	809	1,643	-197	-315
Capitalized service	451	0	451	0
Other operating income	2,649	2,428	1,405	413
Goods and services purchased	-115,211	-114,232	-34,993	-34,137
Personnel costs	-9,494	-8,677	-3,063	-2,949
Other operating expenses	-12,720	-14,297	-4,311	-4,151
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	**10,725**	**10,353**	**4,228**	**2,359**
Amortization of intangible assets within fixed assets and depreciation of property, plant and equipment	-1,391	-1,477	-470	-515
Earnings before interest and income taxes (EBIT)	**9,334**	**8,876**	**3,758**	**1,844**
Income from affiliates and associated companies	541	543	201	200
Other interest and similar income	112	22	46	9
Interest and similar expenses	-616	-508	-230	-186
Earnings before taxes (EBT)	**9,371**	**8,933**	**3,775**	**1,867**
Income tax expenses	-2,745	-2,193	-964	-218
Net income	**6,626**	**6,740**	**2,811**	**1,649**
Earnings per share (in EUR)	1.99			

Consolidated cash flow statement for the period from January 1 to September 30

	2006	2005
	kEUR	kEUR
1. Net income	6,626	6,740
2. Amortisation, depreciation and impairments	1,391	1,477
3. Increase/decrease in provisions for pensions	89	66
4. Change in at-Equity valuation (non-cash)	-151	-130
5. Gains on sales of fixed assets	-597	-8
6. Loss (previous year: gain) from currency conversion	468	-765
7. Deferred taxes	513	440
8. Income from elimination of intercompany profits	-169	-204
9. Capitalized service	-451	0
10. Other non-cash income/expenses	-719	-91
11. Gross cash flow	**7,000**	**7,525**
Change in working capital		
12. Increase/decrease in current provisions	-135	57
13. Increase/decrease in inventories (after advanced payments)	2,426	-6,447
14. Increase/decrease in trade receivables	798	-1,135
15. Increase/decrease in other receivables	-700	-655
16. Increase/decrease in other current assets	-972	-133
17. Increase/decrease in accounts payable	-2,155	1,478
18. Increase/decrease in accounts payable to affiliates	28	-616
19. Increase/decrease in other current liabilities	-154	2,763
20. Net cash provided by operating activities (net cash flow)	**6,136**	**2,837**
21. Proceeds from the sales of assets	1,063	951
22. Additions to intangible assets and property, plant and equipment	-1,870	-2,288
23. Net cash used in investment activities	**-807**	**-1,337**
24. Dividends paid to shareholder	0	-1,000
25. Prepayment of shareholder loans	-2,973	-1,277
26. Proceeds from finance leases	890	598
27. Repayment/increase in bank borrowings	-39	284
28. Net cash used in financing activities	**-2,122**	**-1,395**
29. Cash and cash equivalents at start of period	1,362	980
30. Net increase in cash and cash equivalents	3,207	105
31. Cash and cash equivalents at end of period	**4,569**	**1,085**

Statement of changes in total equity

in kEUR	Common stock	Additional paid-in capital	Other accumulated equity	Total-equity
January 1, 2005	25	1,000	13,518	14,543
Net income	0	0	6,740	6,740
Change in currency translation adjustment	0	0	978	978
September 30, 2005	25	1,000	21,236	22,261
January 1, 2006	25	1,000	24,918	25,943
Capital increase	3,300	-1,000	0	2,300
Net income	0	0	6,626	6,626
Change in currency translation adjustment	0	0	-863	-863
September 30, 2006	3,325	0	30,681	34,006

Consolidated interim financial statements as of September 30, 2006

SELECTED EXPLANATORY NOTES AS AT SEPTEMBER 30, 2006

SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany ("SSM Holding" or the "Company") has its registered office at Fabrikstrasse 6 in 84579 Unterneukirchen and is registered with Traunstein Local Court (registration number B 17037).

The business activities of the SKW Group comprise the acquisition, production and sale of chemical additives for hot metal desulphurization and steel refining as well as the associated technical application support for steel plants in these areas of application.

The consolidated interim financial statements have been prepared in the reporting currency EUR; EUR is the functional currency, as almost all group transactions are effected in this currency. As a rule, the amounts in the notes to the consolidated interim financial statements are in thousands of euros (EUR thousand) unless otherwise stated.

The total cost (type of expenditure) format has been used for the consolidated income statement. The consolidated balance sheet is classified by maturity. Assets and liabilities are regarded as being current if they are due within one year.

In order to improve the clarity of presentation, consolidated balance sheet items and consolidated income statement items are combined to the extent that this is reasonable and possible.

Summary of key accounting and valuation policies

This short version of the consolidated interim financial statements of SSM Holding was prepared in line with the provisions of IAS 34 "Interim financial information". The short version of the interim financial statements as of September 30, 2006 should be read in connection with the consolidated financial statements as of December 31, 2005. The consolidated financial statements as of December 31, 2005 were prepared in line with IFRS as these are to be applied in the European Union and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC).

The consolidated interim financial statements as of September 30, 2006 of the SKW Group have been prepared in line with the International Financial Reporting Standards (IFRS) that were applicable on the balance sheet date. In addition to the IASB and IFRIC standards that already had to be applied for the fiscal year 2005, the following standards required mandatory adoption for the first time for fiscal years beginning on January 1, 2006:

- Amendment to IAS 39 (The Fair Value Option)
- IFRS 6 (Mineral Resources)
- IFRIC 4 (Determining whether an arrangement contains a lease)
- IFRIC 5 (Interests in Decommissioning Funds)
- Amendment to IAS 19 (Actuarial Gains and Losses, Group Plans and Disclosures)
- Amendment to IAS 39 (Cash Flow Hedge Accounting)

- Amendment to IFRS 1 (First-time Adoption of IFRS)
- Amendment to IFRS 6 (Exploration for and Evaluation of Mineral Resources)
- Amendment to IAS 39 and IFRS 4 (Financial Guarantee Contracts)
- IFRIC 6 (Waste Electrical and Electronic Equipment)
- IAS 21 (The Effects of Changes in Foreign Exchange Rates)

These standards were reviewed with regard to their impact on the accounts of the SKW Group. Only the application of IAS 21 made a financial impact on these consolidated financial statements for the period ended September 30, 2006 in the amount of EUR 165 thousand.

The accounting and valuation methods used to prepare these consolidated interim financial statements as of September 30, 2006 have not changed compared with those used to prepare the consolidated financial statements as of December 31, 2005, except to take account of the application of IAS 21 just described.

Consolidated group and consolidation methods

The consolidated group and the consolidation methods applied have not changed compared with the 2005 consolidated financial statements.

SEASONALITY

The SKW Group's operating business is not subject to seasonal fluctuations. In spite of this, a comparison of periods of less than one year can be impacted by maintenance work to be carried out by customers and by active inventory management in the steel plants. However, these activities are not conducted in the same quarters each year.

EXTRAORDINARY FACTORS

The income before income taxes was materially impacted by the following extraordinary factors in the period from January 1 to September 30, 2006:

- Recognition of a net damages claim totalling EUR 659 thousand from the SKW/PEM arbitration proceedings concluded on July 25, 2006. In detail, this amount comprises an amount of damages totalling EUR 710 thousand according to the final ruling that has been made of the arbitration tribunal in Geneva less the deposit for the tribunal costs retained by the arbitration tribunal in the amount of EUR 51 thousand.
- By way of a notarized agreement dated September 29, 2006, an administrative building was sold by Affival S.A.S. to Arques Immobilien GmbH & Co. KG as part of the sale of land and buildings by the Arques Group. This sale generated a book income of EUR 593 thousand.

- Furthermore, a claim from the claims settlement of SKW La Roche de Rame S.A.S. asserted against the selling parties on the basis of the contract of sale dated August 30, 2004 was recognized in the third quarter of 2006 in the amount of EUR 500 thousand, after efforts to hold the condenser manufacturer liable had failed.
- As a result of the unfavourable development of the USD/EUR exchange rate between January 1 (USD/EUR exchange rate: 1.1797) and September 30, 2006 (USD/EUR exchange rate: 1.2660), there were non-cash losses in the SKW Group from foreign currency valuations on the balance sheet date of September 30, 2006 totalling EUR 468 thousand.

In contrast to 2006, the USD/EUR exchange rate developed very positively between January 1, 2005 (USD/EUR exchange rate: 1.3620) and September 30, 2005 (USD/EUR exchange rate: 1.2042), resulting in non-cash gains from foreign currency valuations on September 30, 2005 totalling EUR 765 thousand.

ESTIMATION METHODS APPLIED

In preparing these consolidated interim financial statements as of September 30, 2006, no estimation methods were used with the exception of the calculation of retirement benefit obligations. The change in pension provisions as of September 30, 2006 was taken from the actuarial opinion dated December 31, 2005.

CHANGE IN SHORT TERM DEBT AND CURRENT MATURITIES OF LONG TERM DEBT

The following tables show the change in short term debt and current maturities of long term debt for the period from January 1, 2006 to September 30, 2006 compared with the period from January 1, 2005 to September 30, 2005:

Period from January 1 to September 30, 2006	kEUR
Balance at January 1, 2006	21,024
Use of shareholder loans to increase capital (non-cash)	-2,300
Repayment of shareholder loans	-2,973
Bank borrowings	-39
Balance at September 30, 2006	15,712

Period from January 1 to September 30, 2005	kEUR
Balance at January 1, 2005	23,782
Dividends paid to shareholder	-1,000
Repayment of shareholder loans	-1,277
Bank borrowings	284
Balance at September 30, 2005	21,789

The SKW Group's borrowings fell between January and September 2006 by EUR 5,312 thousand (prior year period: EUR 1,993 thousand). Of this amount, EUR 3,012 thousand was reflected through income or loss. The Company's share capital was increased by EUR 2,300 thousand by way of a contribution in kind. To implement this capital increase by way of a contribution in kind, the sole shareholder transferred loan receivables in this amount to the Company. This was a non-cash transaction.

SEGMENT REPORTING

The SKW Group comprised the primary segments of Cored Wire and Powders and Granules on September 30, 2006, unchanged compared with the 2005 consolidated financial statements. For financial reporting purposes, the Eliminations segment is also used. This segment shows the holding company of the SKW Group as well as the intersegment business relationships.

The following tables show the changes in the segments in the first nine months of 2006 compared with January to September 2005.

Jan. 1 - Sep. 30, 2006	Cored Wire **kEUR**	Powders and Granules **kEUR**	Eliminations **kEUR**	Consolidated **kEUR**
Sales				
AGross sales	109,511	34,730	0	144,241
Intersegment sales	0	5,814	-5,814	0
Total sales	109,511	40,544	-5,814	144,241
Segment earnings/EBIT	**7,803**	**2,112**	**-581**	**9,334**

Jan. 1 - Sep. 30, 2006	Cored Wire **kEUR**	Powders and Granules **kEUR**	Eliminations **kEUR**	Consolidated **kEUR**
Sales				
Gross sales	103,243	40,245	0	143,488
Intersegment sales	0	11,761	-11,761	0
Total sales	103,243	52,006	-11,761	143,488
Segment earnings/EBIT	**6,843**	**2,967**	**-934**	**8,876**

CONTINGENCIES

There is a contingent liability from preferential payments in connection with the Chapter XI case of Bethlehem Steel from the 2001 fiscal year. If the court concerned upholds these facts and circumstances, a payment liability could arise for Affival Inc. in the amount of EUR 1,355 thousand. The probability of this occurring is fairly low.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The Company's Management Board is not aware of any significant events after the balance sheet date that could have a material impact on the Company's assets, financial position or the results of operations in the future. SKW Stahl-Metallurgie Holding AG is planning to go public in the fourth quarter of 2006.

Unterneukirchen, November 6, 2006

SKW Stahl-Metallurgie Holding AG
The Management Board

Notes on the earnings position of the SKW Group for the first nine months of 2006 compared with the first nine months of 2005

In the first nine months of the current fiscal year, sales were slightly higher than in the same period of the previous year. The change in inventories was down significantly at EUR 809 thousand compared with the first three quarters of 2005, when inventories increased by EUR 1,643 thousand. This difference is attributable to improved warehouse management in 2006. The capitalized services reported in the first nine months of 2006 relates to directly attributable development costs in connection with the no splash tip production method being developed.

Other operating income increased by EUR 221 thousand in the first nine months of 2006 compared with the same period in 2005. The Other operating income for the first three quarters of 2006 includes a compensation claim by the SKW Group from the SKW/PEM arbitration proceedings concluded on July 25, 2006 in the amount of EUR 710 thousand. Also reported are book gains from the disposal of property, plant and equipment at the subsidiary Affival S.A.S. amounting to EUR 593 thousand plus income from a guarantee by the previous owner of the SKW Group from the contract of sale dated August 30, 2004 amounting to EUR 500 thousand.

The goods and services purchased in the first three quarters of 2006 was up slightly compared with the same period in 2005. This is due to a trend towards using more expensive special alloys as feedstock.

Personnel costs increased from EUR 817 thousand year-on-year to EUR 9,494 thousand in the first nine months of 2006. This is primarily due to the fact that Affival Inc. has hired a large number of new employees since February 2006 in order to now perform tasks in-house that had previously been provided by external service providers. The new staff were hired in the areas of accounting, general administration, customer service, HR administration, purchasing, injector construction and maintenance. In order to help these employees move to Affival Inc. quickly, one-off bonuses were paid at the start of their employment with Affival Inc. This non-recurring factor and the larger number of employees are reflected in the higher personnel costs.

Other operating expenses fell substantially in the first three quarters of 2006 compared with the same period of the previous year from EUR 14,297 thousand in 2005 to EUR 12,720 thousand. This can be attributed to lower material costs and the termination of the service agreement at Affival Inc. mentioned above. In the first nine months of 2006, other operating expenses also include non-cash items from the balance-sheet date measurement of foreign currency loans (EUR 468 thousand).

EBITDA in the first three quarters of 2006 was EUR 10,725 thousand, thereby EUR 372 thousand higher than the figure for the same period in 2005 (EUR 10,353 thousand).

The financial result in the first nine months of 2006 was positive at EUR 37 thousand, down EUR 20 thousand on the figure from the previous year (EUR 57 thousand). Despite a downturn in liabilities at the Group, the interest charges totalling EUR 504 thousand were up EUR 18 thousand on the same period of the previous year. This development is due to the higher interest on borrowed capital in the first nine months of 2006. Income from affiliates and associated companies was at around the same level as in 2005 (EUR 541 thousand) at EUR 543 thousand.

Income tax expenses were up EUR 552 thousand on the first three quarters of 2005 at EUR 2,745 thousand (QI-III/2005: 2,193 thousand) and are broken down as follows:

	QI-III/2006 **kEUR** (unaudited)	**QI-III/2005** **kEUR** (unaudited)
Current tax expenses	2,232	1,753
Deferred tax expenses	513	440
Total tax expenses	2,745	2,193

The effective tax expense in the first nine months of 2006 increased by EUR 479 thousand compared with the previous year. This is due in particular to the fact that the losses carried forward at SKW GmbH had already been consumed by the end of the first quarter of 2006. Deferred tax liabilities in the first nine months of 2006 remained almost unchanged compared with the previous year.

Net income for the first three quarters of 2006 totalled EUR 6,626 thousand, down just EUR 114 thousand on the previous year (EUR 6,740 thousand). This difference is primarily attributable to the higher tax expense in the 2006 fiscal year.

MASTHEAD

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