skw. metallurgie

REPORT FOR THE FIRST HALF OF 2012

SKW Metallurgie Key Figures

Key figures	Unit	H1 2012	H1 2011
Revenues	EUR mill.	219.9	215.6
EBITDA (reported)	EUR mill.	13.5	19.7
EBITDA (without Bargain Purchase)	**EUR mill.**	**13.5**	17.0
EBIT	EUR mill.	8.6	13.0
EBT	EUR mill.	6.6	11.9
Consolidated net profit (share of parent company's share-holders)	EUR mill.	4.3	7.4
EPS (6,544,930 shares)	EUR	0.66	1.13
Gross margin		28.2%	28.4%
EBITDA margin (reported)		6.1%	9.1%
EBITDA margin (without Bargain Purchase)		**6.1%**	7.9%
Depreciation/amortization	EUR mill.	4.9	6.7
Operating Cash Flow	EUR mill.	15.0	-1.6

		06/30/2012	12/31/2011
Total assets/total equity and liabilities	EUR mill.	328.4	315.7
Corporate equity	EUR mill.	127.6	128.4
Corporate equity ratio		38.9%	40.7%
Net financial debt	EUR mill.	83.4	77.9
Employees	heads	1,022	1,025

Interim management report for the SKW Metallurgie Group for the first six months of fiscal year 2012

Economic conditions

Increasing slowdown in global economic growth

In its forecast, which it updated in mid-July, the International Monetary Fund (IMF) is only predicting a hesitant revitalization of the global economy in 2012, with increasing risks for growth in Europe and North America. Experts are forecasting growth of 3.5% for the global economy this year. In view of a deep recession in some member countries such as Greece, Italy, Spain or Portugal as a result of their massive sovereign debt, the eurozone is headed for a minus of 0.3% for 2012. Although Germany's economy is expected to grow by 1.0% as a result of its continued high exports, the economies in Italy (-1.9%) and Spain (-1.5%) caused increasing concern in view of the need for additional massive savings programs. In the USA the recovery is also expected to be significantly more moderate than had been forecast in April despite stable growth in private demand, which was up 2.0%. According to the IMF, Japan's economy can expect growth of 2.4% after the slump in the previous year caused by natural disasters.

The pace of growth in emerging nations is also expected to fall to 5.6% this year. China's economy is expected to grow again by 8.0% in 2012; however, the growth rate is thus significantly lower than in previous years. In addition, the pace of growth has decreased successively in the past few quarters. The other so-called BRIC countries - Brazil (up 2.5%), Russia (up 4.0%), and India (up 6.1%) - are also only providing little additional impetus at present.

In view of the unresolved debt issues in the eurozone (and also in North America), the IMF believes that the global economy is also increasingly subject to risks. The requisite financial stability is far from being present despite many measures having been announced. Even now, the efforts being made may still fail, or the European Union or eurozone may still break up. The resulting consequences for the real economy would be dramatic and could lead the global economy into a prolonged recession. As a result, central banks and those in charge of public budgets are expected to take further massive steps to limit risks.

Increase in steel production is slowing

The SKW Metallurgie Group records around 90% of its revenues with customers in the steel industry. Sales of the SKW Metallurgie Group's products to this customer industry (and thus also to a material extent its revenues) thus primarily depends on the quantity of steel produced (which mostly develops in parallel to steel demand). The quantity of steel produced fluctuates less strongly over the short term than other economic indicators; however, it has a positive correlation with changes in the global economy. The weakening upswing in the global economy in the second quarter is thus also reflected in the growth in steel production in 2012 to date. As a result, steel production in the first six months

only grew by a conservative 0.9% to a global quantity of 766.9 million tons according to information from the World Steel Association. Without China, which only plays a minor role for SKW Metallurgie Group's sales, global steel production only increased marginally in the first half of 2012 compared to the first half of 2011. Taken alone, in the second quarter growth was just 0.7% (without China 0.2%). Growth was very varied in the regions which are particularly relevant for the SKW Metallurgie Group (USA/Canada and the EU), where the company records around three quarters of its revenues. Whereas steel production in the USA expanded dynamically in the first six months by 8.4% (Q1-2012: +8.3%), it fell by 4.6% in the EU (Q1-2012: -3.9%). The Brazilian steel industry, which is relevant for the SKW Metallurgie Group company Tecnosulfur, recorded a weak second quarter in 2012, compared to a very strong first six months in 2011, and at the end of the first half of the year figures were 2.5% down year-on-year (Q1-2012: +2.4%). Even in China, which is the world's largest steel nation with a market share of 46.6%, growth in steel production slowed to 1.8% (Q1-2012: +2.5%); China continues to play a minor role for the SKW Metallurgie Group due to its market structures.

Given this background and in view of the fact that, for example, the European Steel Association is forecasting steel consumption in Europe to fall by 5% in 2012 as a whole, we expect that the World Steel Association will have to downsize its forecasts for the year as a whole that it made at the end of April 2012. To date, the industry association had forecast global steel consumption to grow by 3.6% to 1.42 billion tons, and thus for revitalization in the second half of the year in particular, which may now fail to materialize. At the end of April, the association forecast steel consumption to fall by 1.2% in the European Union, and to grow by 5.7% in the USA. The forecasts may need to be corrected down for Europe and up for the USA. Emerging nations will continue to be a critical factor for global steel consumption, where demand is expected to lift by 4.6%. Steel consumption in the four BRIC nations is expected to increase by 4.3% in total.

The SKW Metallurgie Group records approx. 10% of its revenues with customers outside the steel industry. Around half of these revenues stem from "Quab" specialty chemicals, which are mostly sold to manufacturers of industrial starch (pre-product for paper production). The other half is due to products which are technically related to those for the steel industry (e.g. calcium carbide for the gas industry, and cored wire for the copper and foundry industries).

Organization and company structure

SKW Stahl-Metallurgie Holding AG's Annual General Meeting was held on June 14, 2012 in Muenchen (Germany). The management's proposals were all accepted with more than 99% of votes cast. In particular, a dividend of EUR 0.50 (before taxes) per dividend-entitled share was resolved and was paid on the banking day following the day of the General Meeting.

There were no material changes to the organization and company structure in the quarter under review.

In particular there were no changes to the group of consolidated companies in the first half of 2012 compared to December 31, 2012. The total number of **consolidated group companies** was thus still 27 as of June 30, 2012 (26 subsidiaries and the parent company).

The number of SKW Metallurgie **production facilities** (without the joint venture Jamipol with two plants in India) remained constant in the first half of 2012 compared to December 31, 2011 with 16 plants (including one plant with activities of two group companies) in ten countries. All of the investments relating to production in 2012 are being made in existing locations, with the result that completion of these projects is not to change the number of production facilities.

The Group's shareholder structure continues to be characterized by the shares being fully held in free float: Since the capital increase in 2009, none of the shareholders has held an interest of 10% or more in the unchanged share capital of SKW Stahl-Metallurgie Holding AG.

Corporate and business development

SKW Metallurgie on growth track

The SKW Metallurgie Group's operating business enjoyed positive aspects from January to June 2012; however, the figures were depressed on the whole by the start-up costs from the new plants and the tentative global economy.

Business figures in the first six months of 2011 and 2012 can only be compared to a limited extent, as the structure of the SKW Metallurgie Group changed as follows due to the new plants in particular:

- The newly established calcium silicon plant in **Bhutan** is characterized by start-up costs, as is standard practice for new facilities of this size; however, these were lower in the second quarter of 2012 than in the first quarter. The SKW Metallurgie Group is expecting the Bhutanese group company to make positive contributions to EBITDA during the second half of 2012; however, over 2012 as a whole the contribution to EBITDA is expected to be negative.

- Deliveries of high-quality cored wire produced in Russia were started for customers in **Russia** in the first quarter of 2012. The quantities produced and sold have been and will be increased on schedule, step-by-step, during the course of 2012.

In addition, a plant in **Sweden** was acquired in the first quarter of 2011. When comparing the first half of 2012 with the first half of 2011, the following aspects must be considered with regard to Sweden in particular:

- The first-time consolidation resulted in a non-cash bargain purchase reflected in EBITDA (income from the reversal of negative goodwill) in the amount of EUR 2.7 million in the first quarter of 2011 (one-off effect).

- The operating contribution to EBITDA from the plant in Sweden was negative, as was already the case in the short fiscal period in 2011, as it will only be possible during the second half of 2012 to fully rectify the investment backlog already recognized prior to the purchase and reflected in the purchase price.

Revenues in H1 higher than in previous year

The SKW Metallurgie Group's **revenues** increased slightly in the first six months of fiscal year 2012 compared to the first half of 2011 from EUR 215.6 million to EUR 219.9 million. However, revenue growth in the two quarters differed: Whereas revenues in the first quarter of 2012 increased significantly, they fell in the second quarter of 2012 from EUR 114.6 million (Q2 2011) to EUR 106.7 million.

This development is due to the following factors, in particular:

- The increase in the first quarter includes the additional external revenues in January 2012 from the acquisition of customers belonging to the calcium carbide plant in Sweden (significant expansion to the market position with customers from the gas industry and from the Scandinavian steel industry). These customers were not part of the SKW Metallurgie Group in January 2011.

- Despite the positive growth in the USA, the SKW Metallurgie Group's sales were impacted by the downturn in steel production in the first half of 2012 in key geographic markets for the SKW Metallurgie Group (Brazil: -2.5%; EU: -4.6%), which slowed demand for SKW Metallurgie's products. The SKW Metallurgie Group records approx. 90% of its revenues with customers in the steel industry and depends, in particular, on the quantities of steel that they produce.

The **gross margin**, which is defined as the ratio of the difference between revenues and the cost of materials to revenue, has fallen only slightly to 28.2% despite a challenging market environment in the six-month period (H1 2011: 28.4%); however, it is still slightly higher than the figure for 2011 as a whole (27.6%).

Possible changes to the price of raw materials used in the SKW Metallurgie Group's production are included proportionately in changes to the sales prices, with the result that the success of the SKW Metallurgie Group's business is mostly independent of changes in the price of raw materials. The SKW Metallurgie Group believes that there is a secure, constant supply of all of the raw materials that are relevant for the Group. Possible changes to the price of raw materials that are not used in the SKW Metallurgie Group's production (e.g., iron ore) do not have any significant impact on the SKW Metallurgie Group's business either.

Personnel expenses in the first six months totaled EUR 23.5 million, and thereby were higher than in the previous year (EUR 21.5 million). This increase is due, in particular, to the increase in the number of global employees from 972 (June 30, 2011) to 1,022 (June 30, 2012). The increase in the number of employees is mostly due to increasing staff in connection with expansion projects.

Other operating income totaled EUR 5.6 million and was significantly lower than in the previous year (EUR 7.8 million).The key reason for this downturn is the bargain purchase from the acquisition of the calcium carbide plant in Sweden in the amount of EUR 2.7 million as a one-off factor in the first quarter of 2011.

Other operating income includes exchange rate gains in the amount of EUR 4.2 million (previous year: EUR 2.7 million); when netted with the exchange rate losses included in other operating expenses in the amount of EUR 4.8 million (previous year: EUR 3.1 million) this results in net exchange rate losses of EUR 0.6 million (previous year: EUR 0.5 million). In the period under review, these net

exchange rate losses are almost exclusively due to non-realized currency translation effects; the realized currency translation effects totaled (net) practically EUR 0.

Other operating expenses climbed from EUR 29.3 million to EUR 32.8 million. In addition to revenue-related expenses (e.g. outbound freight and sales commission), other operating expenses also include the exchange rate losses described above.

In addition, RG Steel, a key steel producer in the USA, applied for Chapter XI in the quarter under review; as a result, SKW Metallurgie Group's receivables from this customer had to be written down. The corresponding expenses are also included in other operating expenses.

Income from associated companies, which exclusively results from the Indian joint venture company Jamipol, totaled EUR 0.4 million after rounding, and is thus constant compared to the same period of the previous year (EUR 0.4 million).

EBITDA: Solid earnings despite start-up costs and hesitant economy

Despite the improved revenue figures for the SKW Metallurgie Group in the six-month period, the Group recorded EBITDA of EUR 13.5 million, which was thus lower than the previous year's figure while taking the bargain purchase into account (EUR 17.0 million without bargain purchase). The downturn relates to both the first and second quarter of 2012; the primary reasons are start-up costs for new plants, in particular in Bhutan, as well as the weaker economy in the steel industry compared to the first half of 2011 in the EU and, in the second quarter, also in Brazil.

Amortization and depreciation totaled EUR 4.9 million, lower than the previous year's figure (EUR 6.7 million) in particular due to the lower amortization of intangible assets. During the remainder of 2012, as a result of the fact that equipment in the new facilities will be taken into operation (and thus the start of depreciation for this equipment), there will be a slight increase in depreciation compared to the period under review.

EBIT totaled EUR 8.6 million, and was thus EUR 4.4 million lower than in the same period of the previous year (EUR 13.0 million). After adjustment for the bargain purchase of EUR 2.7 million, the difference to the first half of 2011 is significantly lower at EUR 1.7 million, and is explained, in particular, by the start-up costs for the new plants.

Net interest in the period under review was a net expense of EUR 2.0 million, and was significantly higher than the figure in the first half of the previous year (net expense of EUR 1.1 million). This is due to the increased average net financial debt compared to the previous year; in addition the net interest for the first quarter includes one-off expenses similar to interest of EUR 0.7 million from the optimization of borrowing (in particular from the removal of existing financing models as part of the remodeling of the group's financing). This effect becomes clear to see, in particular, if we take an isolated look at the second quarter, which no longer includes these one-off effects: Despite a significant increase in net financial debt, net interest expenses fell from EUR 0.6 (Q2 2011) million to EUR 0.5 million.

Taking interest into account, this results in EBT of EUR 6.6 million for the six months under review (previous year: EUR 11.9 million; without bargain purchase: EUR 9.2 million); if we take the second

quarter on its own, EBT fell from EUR 5.5 million (Q2 2011) to EUR 4.6 million. This downturn was due, as already discussed, to the higher start-up costs for new plants and the weaker economy in the steel industry in the EU as well as in the second quarter in Brazil.

During the six months under review, the SKW Metallurgie Group's income tax expenses totaled EUR 2.9 million (previous year: EUR 3.9 million), which corresponds to a tax rate of 43.5% (previous year: 32.6%). The relatively low tax rate in the first six months of 2011 was due, in particular, to the tax treatment of the bargain purchase (one-off extraordinary effect).

As a rule, the SKW Metallurgie Group continues to believe that a rate of 35-40% is representative for the current distribution of its activities across various tax jurisdictions. In some countries in which the SKW Metallurgie Group operates, the entire tax rate includes federal taxes as well as significant taxes from federal states (e.g., in Brazil and in the USA) and other administrative units, with the result that comparing the nominal tax rates at a federal level alone is not particularly meaningful.

The **consolidated net income for the period** totaled EUR 3.7 million in the period under review; in the first six months of 2011 consolidated net income of EUR 8.0 million was recorded, also as a result of the non-cash bargain purchase.

Of the consolidated net income for the first six months of 2012, EUR 4.3 million is due to shareholders of the parent company (previous year: EUR 7.4 million) and EUR -0.6 million (previous year: EUR 0.7 million) is due to minority shareholders (so-called non-controlling interests). These third party shares are due, in particular, to the non-group shareholders in the Brazilian subsidiary Tecnosulfur (third-party ownership: one third) and the group company in Bhutan (third-party ownership: 49%). In the first six months of 2012, the ongoing positive contribution from Brazil was overcompensated for by start-up costs in Bhutan, which led to a net downturn in third-party interests in the consolidated earnings.

Earnings per share (EPS) of EUR 0.66 (previous year: EUR 1.13) resulted from the consolidated net income for the period due to shareholders of the parent company and the unchanged number of 6,544,930 shares.

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

The following tables show the key balance sheet figures for the SKW Metallurgie Group at the end of the first six months of 2012 and at the end of fiscal year 2011:

EUR million	06/30/2012	12/31/2011
ASSETS	328.4	315.7
Non-current	174.6	163.3
Current	153.8	152.4
Thereof cash and cash equivalents	16.3	10.4

EUR million	06/30/2012	12/31/2011
EQUITY AND LIABILITIES	328.4	315.7
Equity	127.6	128.4
Non-current liabilities	82.7	57.5
Thereof non-current financial liabilities	60.7	34.8
Current liabilities	118.1	129.9
Thereof current financial liabilities	39.0	53.6

The SKW Metallurgie Group's total assets increased from EUR 315.7 million (December 31, 2011) to EUR 328.4 million (June 30, 2012).

Equity (December 31, 2011: EUR 128.4 million) remained practically constant compared to the end of 2011, at EUR 127.6 million.

The increase in total assets with equity remaining almost constant resulted in a slight downturn in the **equity ratio** (equity to total assets) from 40.7% on December 31, 2011 to a still very solid 38.9% on June 30, 2012. This downturn had been anticipated by management in this form.

Net financial debt (defined as current and non-current financial liabilities less cash and cash equivalents) in the SKW Metallurgie Group totaled EUR 83.4 million on June 30, 2012, higher than the level on December 31, 2011 (EUR 77.9 million). **Gearing** (ratio of net financial debt to equity) thus increased from 0.61 (December 31, 2011) to 0.65 (June 30, 2012), which is still conservative for a manufacturing company. Compared to March 31, 2012, the changes in net financial debt and gearing are low.

However, there was a significant improvement in maturity matching compared to December 31, 2011. This was achieved by optimizing the borrowing structure in the first quarter, including with a promissory note loan.

Cash flow: Investment phase mostly completed

The following table shows the changes in the SKW Metallurgie Group's cash flow from January 1 to June 30, 2012 compared to the corresponding six-month period of 2011:

EUR million	01/01/-06/30/2012	01/01/-06/30/2011
Consolidated net income for the period	3.7	8.0
Non-cash income and expense	2.6	2.4
Gross cash flow	6.3	10.4
Changes in working capital	8.7	-12.0
Cash flow from operating activities	15.0	-1.6

In the first six months the **gross cash flow** totaled EUR 6.3 million and was lower than in the previous year (EUR 10.4 million). This includes the start-up costs for the new plants and consolidated income for the period, which is characterized by macroeconomic charges, as well as non-cash income and expense. These differ in particular as a result of the bargain purchase from the acquisition in Sweden (EUR 2.7 million in the first quarter of 2011), for which there is no corresponding counterposition in the first quarter of 2012. In addition, amortization and depreciation in the first half of 2012 totaled EUR 4.9 million and was lower than that in the first six months of 2011 at EUR 6.7 million; this downturn is due, in particular, to the end of the amortization/depreciation period (not the contractual term) for an advantageous contract that was acquired as part of a corporate acquisition.

The **changes in working capital** were contradictory in the first six months of 2011 and 2012. Although working capital increased in 2011 (net cash used of EUR 12.0 million), optimized working capital management in the first half of 2012 caused working capital to decrease (net cash provided of EUR 8.7 million).

As a rule, the amount of working capital continues to correlate positively with the level of revenues in the SKW Metallurgie Group.

The period under review was, as announced, characterized by a lower level of **investing activities**. Net cash used in the first half of 2012 totaled EUR 17.1 million and was thus only slightly lower than in the first half of 2011 (EUR 18.7 million); however, in the first six months of 2012 EUR 8.0 million of the total net cash used was due to subsequent purchase price payments (so-called earn-out payments due to the positive income situation at the Brazilian company) for the two-thirds interest in the Brazilian company Tecnosulfur acquired in 2009. The SKW Metallurgie Group does not anticipate any further purchase price payments in this connection.

For 2012 as a whole, the SKW Metallurgie Group is forecasting investments at a significantly lower level than in 2011.

Investments in the first half of 2012 were mostly financed from the positive cash flow from operating activities, with the result that the net cash provided by **financing activities** (netted with the change in cash and cash equivalents) was just EUR 2.0 million.

Segment reporting

The SKW Metallurgie Group currently comprises three segments: the two core segments “Cored Wire” and “Powder and Granules”, as well as “Other” (including Quab business). Internal sales between the segments are eliminated in the consolidation column (see Segment Reporting in the Notes to the Consolidated Financial Statements); internal revenues within a segment are already eliminated in the disclosure of segment figures.

The two core segments “Cored Wire” and “Powder and Granules” mostly include products and services for the steel industry, and here in turn for hot metal desulfurization and secondary metallurgy.

The growth in the two core segments in the period under review is set out below:

- The **Cored Wire segment** recorded a slight increase in third-party revenues despite hesitant demand on the European market (increase from EUR 101.2 million to EUR 102.0 million). The segment recorded EBITDA of EUR 2.6 million from these revenues (previous year: EUR 6.8 million). As a result, the EBITDA margin in the segment has fallen; however, this notional downturn is due, in particular, to the start-up costs in Bhutan and Russia.

- In the **Powder and Granule**s segment, third-party revenues increased significantly in the six-month period under review from EUR 98.5 million to EUR 103.4 million which is due to factors including third-party revenues by the new plant in Sweden (revenues only consolidated from February 1 in fiscal year 2011) and also to the positive growth in steel production in North America. Segment EBITDA was recorded in the amount of EUR 10.2 million (previous year: EUR 14.6 million, without bargain purchase: EUR 11.9 million). The downturn in the segment EBITDA disclosed is due, in the amount of EUR 2.7 million, to the bargain purchase from the acquisition of the calcium carbide plant (Q1 2011), and otherwise to the hesitant second quarter 2012 in Brazil.

Focus on further developing a high level of technological competence

Excellently trained, motivated employees were also key foundations for the success of the SKW Metallurgie Group's business activities in the period under review. The number of employees worldwide totaled 1,022 at the end of the six month period, on a par with the figure on December 31, 2011 (1,025).

Research and development (R&D) was also a key USP for the Group during the period under review; the successful business policy employed in 2011 was also continued in this area. The new plants in Sweden (calcium carbide furnace), Bhutan (calcium silicon furnace and cored wire production) and Russia (cored wire production) contributed to expanding the SKW Metallurgie Group's technological competence.

Realizing opportunities – limiting risks

Managing opportunities and risks is an integral component of the SKW Metallurgie Group's management. Recognizing and evaluating opportunities and risks, and implementing appropriate measures where necessary to best realize those opportunities and best limit those risks is an ongoing process in the SKW Metallurgie Group. As a result, in the second quarter of 2012 the risk inventory performed at the end of 2011 was updated in the form of a quarterly risk report. This took into account, in particular, the possible impact of a substantial deterioration in the underlying macroeconomic conditions. The risk report did not otherwise result in any material changes compared to the statements made on opportunities and risks in the 2011 annual report and the report on the first quarter of 2012.

Report on events after the balance sheet date

After the end of the period under review on June 30, 2012, there were no transactions and events of significance for the SKW Metallurgie Group which occurred before this management report was prepared.

Outlook: Experts skeptical about global growth

In view of the slowing economic growth in emerging nations and the continued high risks from the unresolved euro and sovereign debt crisis, the International Monetary Fund (IMF) is being increasingly cautious with regard to 2012 and 2013. Whereas forecasts for global growth for this year were reduced slightly to +3.5% in its most recent update from the middle of July (April forecast: +3.6%), the experts are only forecasting a moderate improvement in 2013 to 3.9% (April forecast: 4.1%). GDP in industrialized nations is forecast to increase by 1.9% in 2013. The economy in the eurozone is expected to grow again slightly, up 0.7%; however, the IMF continues to be skeptical with regard to key countries such as Italy (-0.3%) and Spain (-0.6%). In the USA, experts are forecasting growth to accelerate compared to 2012 by 2.3%, and the economy in Japan is forecast to grow by 1.5%. The IMF is forecasting opportunities for growth of 5.9% in emerging and developing nations, and China's economy is expected to grow by 8.5%. However, according to this United Nations specialized agency, achieving these growth rates is dependent on politicians, supported by the central banks, getting control of the euro and sovereign debt crisis by 2013, and that this situation does not become more intense. Otherwise a global economic collapse into recession cannot be ruled out.

Growth in the steel industry with increasing risks

Production volumes in the steel industry play a key role in determining demand for the SKW Metallurgie Group's products - the Group generates roughly 90% of its revenue with customers in this industry. Depending on the further expansion of the global economy, the World Steel Association is expecting growth in the steel industry to accelerate to 4.5% again in 2013 - compared to a forecast +3.6% in 2012. The forecast for this apparent steel use (which correlates closely with steel production) is, however, based on estimates that the association made at the end of April 2012, and could soon have to be adjusted downwards. This expectation is also shared by EUROFER, the European Steel Association, which is currently forecasting growth in the European steel industry to slow in the second half of 2012. On the other hand, reserved growth in 2012 will allow a significant percentage increase in 2013 as a result of catch-up effects. The European Union and NAFTA countries are particularly relevant sales regions for the SKW Metallurgie Group, and the World Steel Association is currently forecasting growth rates of 3.3% or 5.1% for 2013 as a whole. Demand for steel in emerging nations should grow by 5.1%, and by 4.6% in BRIC countries.

Guidance characterized by global economic growth

Estimates by experts for global economic growth in general and steel production in particular are characterized by hesitant optimism and increasing macroeconomic uncertainties.

As a result of this general economic situation and the start-up costs for the new plants in the first six months of 2012, the SKW Metallurgie Group is continuing to forecast that in 2012 it will be able to achieve operating results on a par with the excellent figures recorded in 2011, however that the EBITDA disclosed will fall short of the previous year's figures of EUR 31.7 million. Full contributions to earnings from the new plants (plant expansions in Brazil and the USA, plant acquired in Sweden, plants newly built in Russia and Bhutan) are still expected for 2013. Then the SKW Metallurgie Group is expected to record a positive free cash flow, which is to be used to repay net financial debt (borrowing) and to disburse dividends to shareholders as equity investors.

The SKW Metallurgie Group continues to regard itself as being a dividend-bearing stock, and intends to allow its shareholders to participate to a reasonable extent in the company's increased earnings via corresponding dividends.

Unterneukirchen (Germany), August 2012

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee
Chairperson (CEO)

Oliver Schuster

Reiner Bünnenberg

Consolidated income statement for the period from January 1 - June 30, 2012

EUR thousand	Q1-2 2012	Q1-2 2011
Revenues	219,940	215,635
Change in finished goods and work in progress	1,684	1,165
Own work capitalized	42	0
Other operating income	5,632	7,808
Cost of materials	-157,916	-154,470
Personnel expenses	-23,530	-21,481
Other operating expenses	-32,825	-29,334
Income from associated companies	442	411
EBITDA	**13,469**	19,733
Amortization of intangible non-current assets and depreciation of property, plant and equipment	-4,852	-6,705
EBIT	8,617	13,029
Net interest	-2,048	-1,093
Result from ordinary business activities	6,569	11,935
Income taxes	-2,860	-3,889
Consolidated net income/loss for the period	**3,709**	8,047
Thereof shareholders of SKW Stahl-Metallurgie Holding AG	4,331	7,379
Thereof non-controlling interests	-622	668
Earnings per share (in EUR)*	0.66	1.13

* Basic earnings per share (EPS) correspond to diluted EPS.

Reconciliation to comprehensive income from January 1 - June 30, 2012

EUR thousand	Q1-2 2012	Q1-2 2011
Consolidated net income/loss for the period	**3,709**	8,047
Net investments in a foreign operation	-7	-2,105
Unrealized losses from derivatives (hedge accounting)	442	109
Exchange rate fluctuations	-1,435	-2,917
Taxes on income and expenses carried directly under equity	-173	-43
Income and expenses recognized directly under equity	**-1,173**	-4,956
Comprehensive income	**2,536**	3,091
Thereof shareholders of SKW Stahl-Metallurgie Holding AG	3,680	2,718
Thereof non-controlling interests	-1,144	373

Consolidated income statement for the period from April 1 - June 30, 2012

EUR thousand	Q2 2012	Q2 2011
Revenues	106,744	114,638
Change in finished goods and work in progress	554	323
Own work capitalized	31	0
Other operating income	2,657	3,104
Cost of materials	-74,909	-82,354
Personnel expenses	-11,461	-10,898
Other operating expenses	-16,343	-15,225
Income from associated companies	229	161
EBITDA	**7,502**	9,748
Amortization of intangible non-current assets and depreciation of property, plant and equipment	-2,406	-3,726
EBIT	5,096	6,024
Net interest	-507	-573
Result from ordinary business activities	4,589	5,450
Income taxes	-963	-2,091
Consolidated net income/loss for the period	**3,626**	3,360
Thereof shareholders of SKW Stahl-Metallurgie Holding AG	3,483	3,124
Thereof non-controlling interests	143	236
Earnings per share (in EUR)*	0.53	0.48

* Basic earnings per share (EPS) correspond to diluted EPS.

Reconciliation to comprehensive income from April 1 - June 30, 2012

EUR thousand	Q2 2012	Q2 2011
Consolidated net income/loss for the period	**3,626**	3,360
Net investments in a foreign operation	761	-509
Unrealized losses from derivatives (hedge accounting)	4	127
Exchange rate fluctuations	-114	-476
Taxes on income and expenses carried directly under equity	-2	-50
Income and expenses recognized directly under equity	**649**	-908
Comprehensive income	**4,275**	2,452
Thereof shareholders of SKW Stahl-Metallurgie Holding AG	4,540	2,002
Thereof non-controlling interests	-265	450

Consolidated balance sheet as of June 30, 2012

Assets in EUR thousand	06/30/2012	12/31/2011
Non-current assets		
Intangible assets	62,548	58,146
Property, plant and equipment	91,359	85,297
Interests in associated companies	4,849	4,514
Other non-current assets	682	623
Deferred tax assets	15,182	14,728
Total non-current assets	**174,620**	163,308
Current assets		
Inventories	67,240	65,100
Trade receivables	58,656	62,848
Income taxes	6,655	3,564
Other current assets	4,942	10,546
Cash and cash equivalents	16,318	10,382
Total current assets	**153,811**	152,440
Total assets	**328,431**	**315,748**

Consolidated balance sheet as of June 30, 2012

Equity and Liabilities in EUR thousand	06/30/2012	12/31/2011
Equity		
Subscribed capital	6,545	6,545
Share premium	50,741	50,741
Other comprehensive income	53,870	53,462
	111,156	110,748
Non-controlling interests	16,464	17,608
Total equity	**127,620**	128,356
Non-current liabilities		
Pension obligations	3,598	3,363
Other provisions	2,647	2,415
Non-current financial liabilities	60,747	34,753
Deferred tax liabilities	15,638	15,743
Other non-current liabilities	84	1,236
Total non-current liabilities	**82,714**	57,510
Current liabilities		
Other provisions	2,191	2,482
Current financial liabilities	38,960	53,562
Trade payables	54,081	45,462
Income taxes	1,283	2,614
Other current liabilities	21,582	25,762
Total current liabilities	**118,097**	129,882
Total equity and liabilities	**328,431**	**315,748**

Statement of changes in consolidated equity for the period from January 1 - June 30, 2012

EUR thousand	Subscribed Capital	Share premium	Other comprehensive income	Consolidated equity of majority shareholders	Non controlling interests	Total equity
Balance at Jan. 1, 2011	6,545	50,741	46,554	103,840	18,418	122,258
Consolidated net income/ loss for the period	0	0	7,379	7,379	668	8,047
Exchange rate fluctuations	0	0	-2,622	-2,622	-295	-2,917
Income and expense carried under equity (without exchange rate changes)	0	0	-2,039	-2,039	0	-2,039
Total result 2011	0	0	2,718	2,718	373	3,091
Non-controlling interest in capitalization of a shareholder loan	0	0	0	0	15	15
Request of return of dividend from non-controlling interests	0	0	0	0	178	178
Dividend payment to shareholders of SKW Stahl-Metallurgie Holding AG	0	0	-3,272	-3,272	0	-3,272
Balance as of June 30, 2011	**6,545**	**50,741**	**46,000**	**103,286**	**18,984**	**122,270**
Balance at Jan. 1, 2012	6,545	50,741	53,462	110,748	17,608	128,356
Consolidated net income/ loss for the period	0	0	4,331	4,331	-622	3,709
Exchange rate fluctuations	0	0	-661	-661	-774	-1,435
Income and expense carried under equity (without exchange rate changes)	0	0	10	10	252	262
Total result 2012	0	0	3,680	3,680	-1,144	2,536
Dividend payment to shareholders of SKW Stahl-Metallurgie Holding AG	0	0	-3,272	-3,272	0	-3,272
Balance as of June 30, 2012	**6,545**	**50,741**	**53,870**	**111,156**	**16,464**	**127,620**

Consolidated cash flow statement for the period from January 1 - June 30, 2012

EUR thousand		01/01/2012 - 06/30/2012	01/01/2011 - 06/30/2011
1.	Consolidated net income/loss for the period	**3,709**	8,047
2.	Write-ups/write-downs of non-current assets	4,852	6,705
3.	Increase/decrease in provisions for pensions	236	165
4.	Income from associated companies	-442	-411
5.	Result from the disposal of non-current assets	-5	-477
6.	Result from currency conversion	**627**	97
7.	Result from deferred taxes	**-862**	-726
8.	Income from the reversal of negative differences	0	-2,708
9.	Income from the capitalization of interest on borrowing	-877	-269
10.	Other non-cash expense	-934	-28
11.	**Gross cash flow**	**6,304**	10,395
	Change in working capital		
12.	Increase/decrease in current provisions	-60	134
13.	Increase/decrease in inventories (after advance payments received)	-2,226	-9,835
14.	Increase/decrease in trade receivables	2,537	-8,346
15.	Increase/decrease in other receivables	-3,110	-1,750
16.	Increase/decrease in other assets	5,567	2,192
17.	Increase/decrease in trade payables	8,619	4,308
18.	Increase/decrease in other liabilities	-1,331	1,190
19.	Increase/decrease in other equity and liabilities	-1,259	114
20.	**Net cash received from (+)/used by (-) operating activities (Net cash flow)**	**15,041**	-1,598
21.	Income from the disposal of assets	158	506
22.	Payments for investments in non-current assets	-9,228	-15,626
23.	Payments for investments in current assets from acquisitions	0	-2,585
24.	Downstream purchase price for corporate acquisitions	-8,004	-1,026
25.	**Net cash provided by (+)/used in (-) investing activities**	**-17,074**	-18,731
26.	Decrease in liabilities from finance leases	0	-27
27.	Increase/decrease in financial liabilities	11,260	22,299
28.	Dividend payments to non-controlling interests	0	-304
29.	Dividend payment to shareholders of the parent company	-3,272	-3,272
30.	**Net cash provided by (+)/used in (-) financing activities**	**7,988**	18,696
31.	Cash and cash equivalents – start of period	10,382	10,956
32.	Change in cash and cash equivalents	5,955	-1,633
33.	Currency translation for cash and cash equivalents	-19	-222
34.	**Cash and cash equivalents – end of period**	**16,318**	9,101

Notes to the consolidated financial statements for the quarterly report as of June 30, 2012

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 comments in the notes to the consolidated financial statements as of December 31, 2011, Section "C. Key Accounting and Valuation Principles " also apply for this unaudited interim report as of June 30, 2012. The SKW Metallurgie Group's 2011 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, 2011, which form the basis for these interim financial statements.

The new and revised accounting standards for which application has been mandatory since fiscal year 2012 form an exception. In this regard, for the interim report as of June 30, 2012 please refer to the comments made in the notes to the consolidated financial statements as of December 31, 2011 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, 2011, Section "C. Key Accounting and Valuation Principles" 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 2011 consolidated financial statements.

C. Net assets, financial position and results of operations

Balance sheet

The SKW Metallurgie Group's total assets on June 30, 2012 amounted to EUR 328,431 thousand (December 31, 2011: EUR 315,748 thousand). The increase in total assets is mostly due to additions to assets and the increase in cash and cash equivalents.

The key items of current assets are, as was the case in the previous year, inventories totaling EUR 67,240 thousand or 20.5% of total assets and trade receivables in the amount of EUR 58,656 thousand or 17.9% of total assets.

Equity on June 30, 2012 totaled EUR 127,620 thousand (December 31, 2011: EUR 128,356 thousand); the consolidated equity ratio fell from 40.7% on December 31, 2011 to 38.9% on June 30, 2012 (all figures incl. non-controlling interests). Current financial liabilities totaled EUR 38,960 thousand, a reduction of EUR 14,602 thousand compared to the previous year's figure (EUR 53,562 thousand). Non-current financial liabilities increased by EUR 25,994 thousand in 2012 to EUR 60,747 thousand compared to EUR 34,753 thousand as of December 31, 2011. These changes reflect the result of the realignment of financing, which aimed to give financing a greater long-term orientation. Net financial debt increased in the first six months of 2012 by a total of EUR 5,456 thousand from EUR 77,933 thousand as of December 31, 2011 to EUR 83,389 thousand as of June 30, 2012.

Income statement

In the first six months of 2012, the SKW Metallurgie Group recorded revenues of EUR 219,940 thousand compared to EUR 215,635 thousand in the same period of 2011. 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 5,632 thousand (H1 2011: EUR 7,808 thousand), EUR 4,232 thousand stem from exchange rate gains (H1 2011: EUR 2,664 thousand). The currency translation gains are offset by corresponding currency translation losses, which are included in other operating expenses. The currency translation losses totaled EUR 4,817 thousand compared to the figure from the first six months of 2011 of EUR 3,142 thousand, which, at the end of the day, resulted in a negative currency translation effect in the period under review of EUR 585 thousand (previous year: EUR 478 thousand).

In total, expenses in 2012 increased compared to the previous year. Personnel expenses in the first six months totaled EUR 23,530 thousand compared to EUR 21,481 thousand for the same period of the previous year. Other operating expenses at EUR 32,825 thousand in 2012 were also significantly higher than the 2011 figure (EUR 29,334 thousand).

Net interest expense totaled EUR 2,048 thousand, higher than the previous year's figure of EUR 1,093 thousand. This is due, in particular, to one-off expenses similar to interest in connection with the realignment of the SKW Metallurgie Group's financing and the increase in financial liabilities, including in connection with investment financing for the companies in Brazil, Bhutan and Sweden.

The consolidated net earnings for the period to June 30, 2012 totaled EUR 3,709 compared to EUR 8,047 in the previous year. Non-controlling interests in the first six months of 2012 totaled EUR -622 thousand compared to EUR 668 thousand in the same period of the previous year.

Cash flow statement

Gross cash flow totaled EUR 6,304 thousand, lower than the previous year's figure of EUR 10,395 thousand.

The SKW Metallurgie Group recorded a cash flow from operating activities of EUR 15,041 thousand compared to a cash outflow of EUR 1.598 thousand in the previous year. The change in net current assets in the first six months of 2012 resulted in net cash provided in the amount of EUR 8,737 thousand compared to net cash used of EUR 11,993 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 17,074 thousand compared to EUR 18,731 thousand in the previous year. There was net cash provided by financing activities in the amount of EUR 7,988 thousand compared to EUR 18,696 thousand in the previous year.

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

- Interest paid to third parties totaling EUR 1,717 thousand
- Interest received from third parties totaling EUR 10 thousand
- Income tax payments totaling EUR 2,002 thousand
- Income tax refunds totaling EUR 5 thousand

D. Segment reporting

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

a) Cored Wire

b) Powder and Granules

c) Other

The segment information on the business segments in 2012 is as follows:

Q1-2 2012 in EUR thousand	Cored Wire	Powder and Granules	Other*	Consoli-dation	Group
Revenues					
Third-party revenues	102,019	103,400	14,521	0	219,940
Internal revenues	159	8,690	0	-8,849	0
Total revenues	102,178	112,090	14,521	-8,849	219,940
EBITDA	**2,568**	**10,195**	**706**	**0**	**13,469**
Amortization/depreciation	-1,166	-2,992	-694	0	-4,852
EBIT	**1,402**	**7,203**	**12**	**0**	**8,617**

* The Other segment includes consolidation and reconciliation effects (EBITDA: in the amount of EUR 1.076 thousand).

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

Q1-2 2011 in EUR thousand	Cored Wire	Powder and Granules	Other*	Consoli-dation	Group
Revenues					
Third-party revenues	101,246	98,525	15,864	0	215,635
Internal revenues	36	14,389	0	-14,425	0
Total revenues	101,282	112,914	15,864	-14,425	215,635
EBITDA	**6,762**	**14,551**	**-1,579**	**0**	**19,733**
Amortization/depreciation	-1,025	-5,078	-602	0	-6,705
EBIT	**5,737**	**9,473**	**-2,181**	**0**	**13,029**

* The Other segment includes consolidation and reconciliation effects (EBITDA: in the amount of EUR -740 thousand).

E. Translation effects on consolidated earnings

The following table shows the translation effects on revenues and EBITDA given a change of +/-5% in all exchange rates compared to the actual average exchange rate in the first six months of 2012 ceteris paribus:

EUR thousand	Average exchange rates Q1-2 2012 -5%	Average exchange rates Q1-2 2012	Average exchange rates Q1-2 2012 +5%
Revenues	229,200	219,940	211,571
EBITDA	14,082	13,469	12,914

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

EUR thousand	Average exchange rates Q1-2 2011 -5%	Average exchange rates Q1-2 2011	Average exchange rates Q1-2 2011 +5%
Revenues	224,245	215,635	207,845
EBITDA	20,770	19,733	18,796

F. Related party disclosures

There were no major changes in key transactions with related parties in the period under review compared to the 2011 consolidated financial statements.

G. Contingent receivables and liabilities

On January 16, 2012, the contingent liability which still existed in 2011 from a guarantee indemnification granted in connection with the acquisition of the Quab business expired and was removed. The SKW Metallurgie Group's contingent receivables and liabilities did not otherwise change materially compared to December 31, 2011.

H. 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.

I. Shareholder structure

There were the following shareholdings in SKW Metallurgie that carry a reporting requirement according to the Wertpapierhandelsgesetz (German Securities Trading Act) (3% or more of total voting rights) on June 30, 2012:

Name	Registered office	Number of shares	Shares held correspond to	Date	Remarks
LBBW Asset Management Investmentgesellschaft mbH	Stuttgart, Germany	331,599	5.067%	September 23, 2010	
Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte	Tuebingen, Germany	210,000	3.21%	September 28, 2011	
N más Uno IBG, S.A.	Madrid, Spain	207,714	3.174%	February 3, 2012	two notifications for the same shareholding
LRI Invest S.A./ Mellinckrodt 1	Munsbach, Luxembourg	327,532	5.004%	June 1, 2012	
EQMC Europe Development Capital Fund plc.	Dublin, Ireland	204,374	3.12%	June 8, 2012	

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.

The members of the Executive and Supervisory Boards together held less than 1% of SKW Metallurgie's shares on June 30, 2012.

Unterneukirchen (Germany), August 2012

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee
Chairperson (CEO)

Oliver Schuster

Reiner Bunnenberg

Declaration of the Executive Board

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the fiscal year.

Unterneukirchen (Germany), August, 2012

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee
Chairperson (CEO)

Oliver Schuster

Reiner Bunnenberg

Financial Calendar 2012 (remaining)

November 12, 2012

during “Eigenkapitalforum“ (Equity Forum) in Frankfurt/M., Germany

- Analysts‘ Conference

November 15, 2012

- Publication of business figures first nine months 2012

May be subject to change.

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 August 16, 2012 and is available at www.skw-steel.com to download free of charge.

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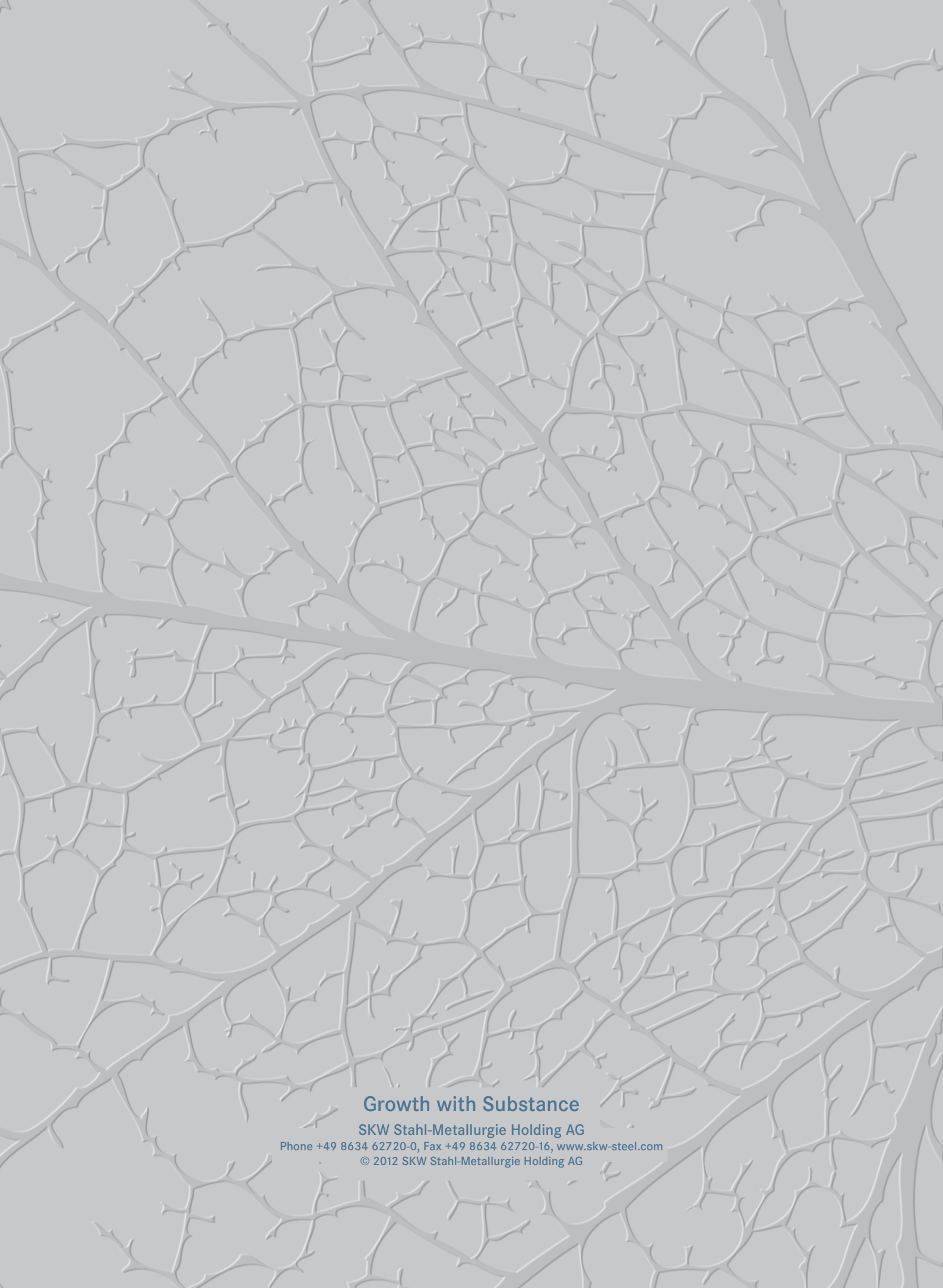

Growth with Substance

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