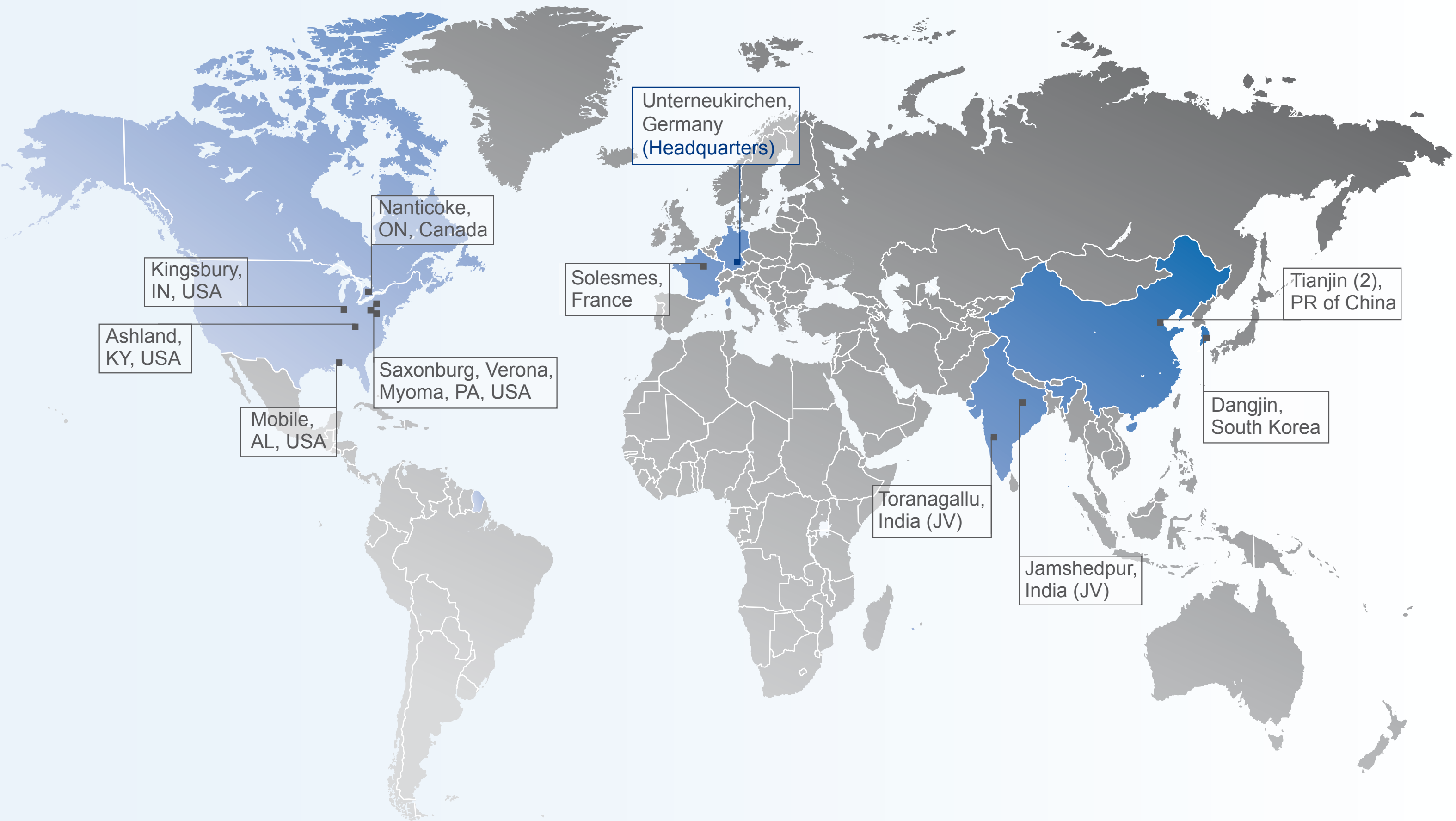
ANNUAL REPORT 2007

skw. metallurgie

GROWTH WITH SUBSTANCE



Shown are the locations of the production plants and of corporate headquarters, as at December 31, 2007.

SKW METALLURGIE CONTINUES TO GROW

Key figures	Unit	2007	2006
Sales	€ thousand	238,989	185,828
Total output	€ thousand	241,436	186,054
EBITDA	€ thousand	21,057	14,316
EBIT	€ thousand	17,689	12,457
EBT	€ thousand	16,910	12,015
Net income for the year	€ thousand	12,404	9,233
EPS	€	2.78	2.09
Gross margin		24.2%	21.5%
EBITDA margin		8.8%	7.7%
Amortization and depreciation	€ thousand	3,368	1,859
Employees (average)		316	226
Gross cash flow	€ thousand	14,422	9,838
		12/31/2007	**12/31/2006**
Total assets	€ thousand	181,329	112,109
Consolidated equity	€ thousand	76,170	66,769
Equity ratio		42.0%	59.6%
Net financial assets	€ thousand	-41,759	19,408


Steel plate (deck material)
Desulphurization of iron
providing enhanced ductlity
and improved surface quality

...IN EXPANDING MARKETS

BUSINESS SEGMENT **Powder and Granules**

Hardly a moment passes in which we are not in close contact with steel - from the parts of a chair one may be sitting on, the pen one is holding, the glasses one wears to the steel girders in the concrete under one‘s feet. Indeed, the diversity of iron and steel is the basis for our modern human existence.

Iron ore and coke, which naturally contain sulphur, are principal ingredients in the steel making process. That process requires desulphurization, which is mainly done by technologies based on carbide or magnesium. This so-called hot metal desulphurization is a main business activity of SKW Metallurgie’s segment “Powder and Granules.” The segment is globally present with two product brands: SKW Metallurgie (marketed mainly in Central Europe; identical to the corporate brand), and the ESM brand marketed mainly in North America. Both brands represent sophisticated specialty chemicals and complex technological solutions required for steel production in the “hot metal desulphurization” and “secondary metallurgical treatment” production steps. In addition, ESM provides technology-oriented services (such as caster maintenance and engineering services) as well as specialty magnesium (e. g. for diver torches). The segment also comprises the Group’s shares in the Indian joint venture Jamipol, the leader on the Indian market for carbide-based hot metal desulphurization.


Stainless Steel Components
Cr and **Ti**
for corrosion resistance
Unexposed body parts
PAPCAL for
enhanced ductility
Wire mesh
CaSi
for improved
surface quality

...WITH UNIQUE PRODUCTS

BUSINESS SEGMENT **"Cored Wire"**

In steel making, secondary metallurgy is the step in which the properties of the specific steel type are determined. Here, crude steel is ennobled into specialty steel through precise addition of specialty chemicals; such specialty steel is used, for example, for applications in extreme climates.

The leading secondary metallurgical treatment is the cored wire method. In the cored wire market, the SKW Metallurgie Group is the global market leader through its quality brand Affival. Increased recycling of steel has enhanced the importance of Affival cored wire, since successful recycling is only possible with secondary metallurgical treatment. Affival cored wire is well positioned for a continuation of its role as quality partner of the global steel industry in order to satisfy the growing demand for quality steel.

QUAB-342
a unique product used in the production of specialty conditioners

...AND LEADING BRANDS

QUAB-151
found in low-salt cationic starches used in paper manufacture

BUSINESS SEGMENT **"Quab"**

As long as hair grows, the world will need QUAB. As long as the written word is delivered on paper, and paper is produced with starches, the world will need QUAB.

Quab is a quality brand of the SKW Metallurgie Group and represents specialty chemicals, which are globally used in the production of modified industrial starches and hair care products.

Quab specialty chemicals neutralize the natural charge of paper fibers, resulting in quality papers which are, for example, used for annual reports.


3.5

TABLE OF CONTENTS

11 Report of the Executive Board

15 SKW Metallurgie Shares

19 Corporate Governance Report

25 Combined Management Report of SKW Stahl-Metallurgie Holding AG and the SKW Metallurgie Group

49 Consolidated Financial Statements of SKW Stahl-Metallurgie Holding AG

54 Notes to the Consolidated Financial Statements of SKW Stahl-Metallurgie Holding AG

99 Declaration of the Executive Board

100 Auditor's Report

101 Supervisory Board Report

103 Financial Calender

103 Contacts

103 Imprint

104 Disclaimer and Notes

REPORT OF THE EXECUTIVE BOARD

Dear Sir/Madam,
Dear Shareholders of our Company,

In business year 2007, the SKW Metallurgie Group continued the international expansion course taken with its IPO and generated significantly higher sales and earnings. The acquisition of the ESM Group in the “Powder and Granules” segment and “Quab”, enhanced the Group’s market power and further expanded its global market leadership, e.g. in dual method hot metal desulphurization.

In our “Cored Wire” and “Powder and Granules” segments in 2007, we prepared the ground for further expansion into the high-growth emerging economies. Among other projects, we are planning the construction of cored wire plants in Mexico and Russia as well as a plant for manufacturing hot metal desulphurization compounds in Brazil. In Central Asia, we intend to erect and operate an integrated calcium-silicon plant in Bhutan with a joint venture partner. In addition, we will further strengthen the profitability of all our activities by launching new innovative products and securing access to strategically important raw materials and primary products through vertical integration.

The activities of the “Quab” segment were acquired in January 2007 from the Evonik Group (formerly the RAG Group). “Quab” manufactures specialty chemicals that are primarily used in the production of modified starch for paper production. A dedicated plant in the USA makes “Quab” an ideal diversification within our “specialty chemicals” core competence, and it is now a fully integrated and successful component of our Group.

Further growth potential for our products for steel refinement

As to our further corporate development, our “Cored Wire” and “Powder and Granules” segments will continue to benefit from the dynamic development of worldwide steel production. Economic cycles have always been characterized by a rise and fall in the market price of steel. Crucial for our business, however, is the production volume, which has steadily grown in recent years and we believe will also increase further in the future.

Furthermore, we have benefited from the worldwide trend for higher grade steel. For steel refinement, our products are an indispensable raw material and provide a very low contribution to the total steel production cost, but have a strong impact on the improvement of steel quality.

Internal targets in 2007 exceeded

The operating business performance in the period under review not only fulfilled our targets and expectations, but exceeded them. For instance, we not only boosted sales from €185.8 million to €239.0 million, but exceeded the guidance of €235 million, which had already been increased during the year. We improved the gross margin, an especially convincing indicator for our raw material-intensive business, from 21.5% in 2006 to 24.2% at present.

EBITDA grew substantially from €14.3 million to €21.1 million and was significantly above the target set of between €18.5 million to €19.5 million. In terms of operations, i.e. after adjustment for one-time effects, EBITDA grew by almost 40% from €12.4 million to €17.3 million. We significantly improved the operating EBITDA margin from 6.7% to 7.2%.

We believe that post-tax earnings (after minorities) of €12.3 million (previous year: €9.2 million) and earnings per share of €2.78 (previous year: €2.09) are a very sound basis for our further corporate development. In the short and medium term, our priority is to reinvest the profits in strategic growth projects to boost profitability and our enterprise value on a sustainable basis. In addition, and in agreement with the Supervisory Board, we intend to propose to the Annual General Meeting to distribute a dividend for the first time; the amount intended for resolution is €0.50 per share.

In view of the continued sound capacity utilization of the steelworks, the full consolidation of ESM and the ongoing expansion projects, we are extremely confident that we will also be able to generate substantial improvement in sales and earnings in 2008. Our benchmark for 2011 is still €360 million for sales and 9% for the EBITDA margin.

SKW Metallurgie shares largely in free float

2007 was characterized by the complete sale of the majority interest in our company by ARQUES Industries AG. Since July 21, 2007, there has been no investor holding 10% or more of our Company's capital. Thus our shares are held largely in free float. The related increase in stock exchange turnover and free float market capitalization mean that the admission of our shares to Deutsche Börse's SDAX index remains an important objective.

Today, as a company, the SKW Metallurgie Group is positioned strategically, operationally, organizationally and financially for further profitable growth steps on the world markets for steel refinement and for "Quab" specialty chemicals. This is the result of a remarkable cooperation of all employees driven by the support of our customers and business partners, the interest and trust of our shareholders, and the professionalism of our Supervisory Board.

We personally would like to thank everyone who has contributed to the successful development of the SKW Metallurgie Group in the past year for their effort, loyalty and fair partnership.

We will do everything possible to justify this trust in the future through successful corporate development, which secures employment, and which through growth and income, creates added value for everyone.

Unterneukirchen (Germany), on March 10, 2008

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee | Gerhard Ertl

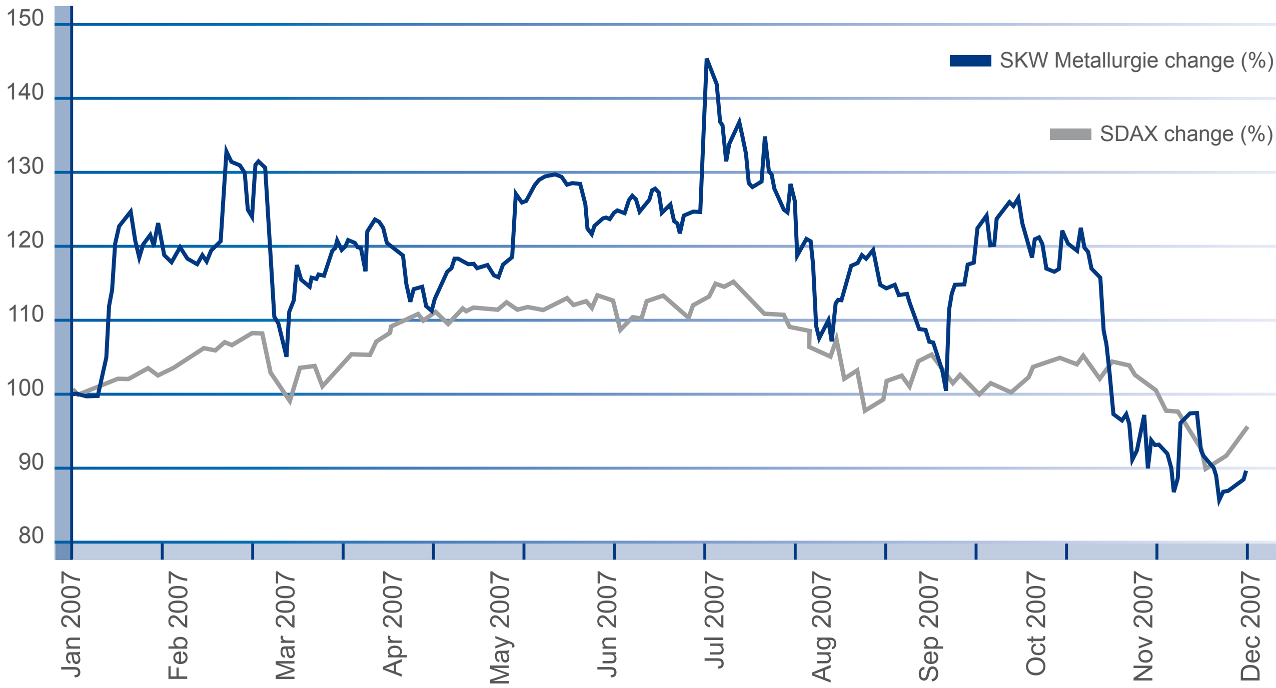
SKW METALLURGIE SHARES

2007 a challenging year on the stock exchange for small-cap stocks

2007 was a very challenging year on the stock exchanges, particularly for smaller stock corporations. However, the start to the year was very encouraging for both blue-chip stocks, and mid-cap and small-cap companies, thanks to sound economic trends. All indices recorded correspondingly good price gains of substantially more than 10% through the middle of the year. In mid-July, the US subprime crisis and the recession fears that set in as a result, provided for significant price losses in some cases. Bigger corporations, such as those on the DAX 30, managed to recover from this setback by the end of the year. With a price increase of approximately 22%, the German leading share index enjoyed a very positive end result and closed at 8,067 points. In contrast, the MDAX gained just under 5% and the SDAX of smaller stocks lost around 7% over the 12 month period. The performance of the leading international stock exchanges was also mixed in 2007. While the Dow Jones and the EURO Stoxx 50 both closed at 7% above the previous year, the Japanese Nikkei lost more than 11% of its value.

SKW Metallurgie shares: price gains through mid-year

SKW Metallurgie's share price performance has reflected the trend of small-cap German stocks. By the middle of the year, the price of the shares had climbed from the XETRA closing rate of €29.25 in 2006 to €42 in the middle of July. In doing so, it reached an annual high of €42.55 on July 16. SKW Metallurgie thus saw its share price rise 45% subannually. This promising trend was primarily due to the Group's outstanding operating performance which led to financial market experts seeing price potential for the share beyond €50. In addition, the acquisition of the US company ESM caused share price expectations. With the growing concerns on the capital market regarding the effects of the US subprime crisis, institutional investors in particular sold their holdings in smaller stock corporations in the second half of the year, including some of them portions of their holdings in SKW Metallurgie. The SKW Metallurgie share price fell to under €30 by the end of September. The general market recovery again provided for an increase in the share price to over €36. However, the tendency among investors at the end of the year to exchange small caps for blue chips led to share prices declining once more through the end of December. SKW Metallurgie securities ended the year on December 28 at €25.30 and thus performed at -13% over the year.



The average daily trading volume in 2007 was approximately 22,403 shares. When interpreting this figure, it should be taken into account that the stock exchange turnover in the second half of the year was significantly higher than in the first half of 2007.

SKW Metallurgie shares largely in the free float

ARQUES Industries AG in Starnberg (Germany), which counted SKW Metallurgie among its participating interests, placed all of its remaining 50.3% of the SKW Metallurgie capital with institutional investors in the middle of July 2007. The placement was highly oversubscribed and shares were placed at €37 each. Prior to this, roadshows following the recently announced acquisition of the ESM Group by SKW Metallurgie had indicated an exceptionally high demand for SKW Metallurgie shares among institutional investors. For this reason, ARQUES Industries AG placed the rest of its SKW Metallurgie interest in July, which was planned for the second half of 2007 anyway. The shares were placed by a syndicate made up of the investment banks M. M. Warburg & Co. and Viscardi.

Since this divestment step was taken, most of SKW Metallurgie's shares have been in the free float. On December 20, 2007, the British pension fund BriTel Fund Nominees Limited – which had long been invested in SKW Metallurgie – increased its participating interest to 5.6% of the share capital. SKW Metallurgie is not aware of any other shareholders holding more than 5% of the voting rights in 2007.

The Company's shares are mainly held by institutional investors in the UK, France, Switzerland, Germany and other Western European countries. Private investors (predominantly from Germany) are likely to hold less than 10%. As detailed in the Corporate Governance Report, members of SKW Metallurgie's Executive and Supervisory Boards held 30,600 SKW Metallurgie shares as of early 2008.

SKW Metallurgie shares – Key figures in 2007	
Number of shares	4,422,250
High	€42.55
Low	€24.75
Closing at year-end	€25.30
Market capitalization at year-end	€111.9 million
Earnings per share	€2.78

SKW Metallurgie shares – Basic information	
Exchanges	XETRA, floor trading in Frankfurt am Main (Germany), open market on other German stock exchanges
WKN (German security code)	SKWM01
ISIN	DE000SKWM013

Consolidated net income primarily used for further profitable growth

SKW Metallurgie wants its shareholders to participate in the Company's success. This includes both an increase in the share price and an appropriate dividend. In view of the fact that the company has identified major growth potential in developing new global markets such as Mexico, Russia, China, India and Brazil and in expanding its product range, the Company intends to use parts of its surplus for 2007 for the related investments necessary. For the other part, it is intended to propose to the Annual General Meeting to distribute a dividend in the amount of €0.50 per share.

Internet a key information medium for our shareholders

The overriding objective of our investor relations activities is to ensure that all capital market participants are informed comprehensively, quickly and simultaneously. For this reason, SKW Metallurgie conducted numerous roadshows and individual meetings with investors within and outside Germany and further intensified the active and transparent dialogue with its investors. In addition to direct address, our website (www.skw-steel.com) is an important communication medium. It provides a large range of information that is available to all shareholders and interested parties online or to download. In addition, you can, of course, contact our Investor Relations department directly at all times:

SKW Stahl-Metallurgie Holding AG

Christian Schunck
Head of IR and Corporate Communications

Fabrikstrasse 6
84579 Unterneukirchen
Germany

Phone: +49 8634-617596
Fax: +49 8634-617594

ir@skw-steel.com
www.skw-steel.com

CORPORATE GOVERNANCE REPORT

Management and Supervision Oriented to Long-Term Value Creation

Corporate governance involves responsible corporate management and supervision with a view to create sustainable value. Cooperation between the Executive Board and the Supervisory Board, clear rules, the observance of shareholder interests, and open, transparent corporate communications, are key aspects of effective corporate governance. SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), is internally and externally oriented to the provisions contained in Article 161 of the German Stock Corporation Act and regards corporate governance as a process that is constantly being developed and improved.

The declaration of conformity with the German Corporate Governance Code for 2007 in accordance with Article 161 of the German Stock Corporation Act has been made permanently available to shareholders and reads as follows: "Executive Board and Supervisory Board of SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), declare that, in the 2007 business year, all recommendations of the Government Commission on the German Corporate Governance Code in the version in force at the respective time, were complied with, subject to the following exceptions, and that it is intended to continue to do so in the current business year.

German Corporate Governance Code Extensively Implemented

The SKW Metallurgie Group has followed virtually all the recommendations of the German Corporate Governance Code in the year under review. Deviations from the German Corporate Governance Code in the applicable version[1] were made only to the extent detailed in the following. The significant reduction in the number of deviations in comparison with the previous year demonstrates the high value that the SKW Metallurgie Group places on good corporate governance.

D&O insurance

Deviating from Section 3.8 of the Code, no general deductible has been agreed upon for the D&O insurance policy for the Executive Board and Supervisory Board. However, there is a deductible for specific cases, e.g. insurance claims relating to the US. The Company believes that these partial deductibles in combination with the exceptions and upper limits generally applicable to D&O insurance appropriately reflect the individual responsibility of the management.

Annual General Meeting on the Internet

In deviation from Section 2.3.4 of the Code, the Company does not communicate the entire Annual General Meeting via modern communication media such as the Internet. In comparison to the expected benefit, the Company does not regard the technical effort and the cost of a law-conforming transmission of the Annual General Meeting as justifiable.

1 Some points of the German Corporate Governance Code were revised as at June 14, 2007.

Succession planning and age limit

In deviation from Section 5.1.2 of the Code, there is currently no long-term succession plan for the members of the Executive Board. Due to the size of the Company, an internal succession plan for the Executive Board is only possible to a limited extent. In deviation from Sections 5.1.2 and 5.4.1, an age limit for the members of the Executive Board and the Supervisory Board has not yet been specified. The Company regards this as part of its equality principles, according to which personal characteristics such as age are of no relevance to the Company.

Supervisory Board committees

In deviation from Section 5.3, the Supervisory Board has not formed committees thus far. In the case of a non-co-determined Supervisory Board with only three members, the formation of committees has thus far not been deemed necessary by the Company.

Modern Management and Control Structure

As a German stock corporation, the Company has a dual management and control structure. The members of the Executive Board are appointed by the Supervisory Board and manage the Group on their own responsibility. Since the resignation of J. Klaus Frizen as of April 30, 2007, the Executive Board has been comprised of two members: Ines Kolmsee as Chairwoman of the Executive Board (CEO) and Gerhard Ertl as CFO. The Supervisory Board advises the Executive Board and monitors its corporate management. It is comprised of three members and represents the shareholders. More detailed information on the members of the Executive Board and Supervisory Board and their mandates in executive committees of other commercial enterprises can be found from in Note E.33 of the Notes to the Consolidated Financial Statements. Structural details of the work of the Executive and Supervisory Boards are laid out in the bylaws of the Executive and Supervisory Boards.

As the highest decision-making body, the Shareholders' Meeting was convened once during the reporting year, at the Annual General Meeting on June 18, 2007 in Muenchen (Germany). Among other things, the Annual General Meeting makes decisions concerning the Company's Articles of Association.

Compensation Report: Performance-related Compensation Structures

The Company has informed the relevant persons, in particular the members of the Executive and Supervisory Boards, of the provisions of Article 15a of the WpHG (German Securities Trading Act; Directors' Dealings). All notices regarding directors' dealings received during the reporting period related to purchases of SKW Metallurgie shares (DE000SKWM013) by members of the Executive and Supervisory Boards.[2]

These purchases were distributed as follows:

Name*	Position	Number of shares
Ines Kolmsee	CEO	5,600
Gerhard Ertl	CFO	2,000
Markus Zöllner	Chairman of the Supervisory Board	4,000
Dr. Martin Vorderwülbecke	Deputy Chairman of the Supervisory Board	13,000

* Dr. Obermeier and Mr. Frizen did not submit any notifications during the reporting period.

To date, the Company has received the following notifications for the financial year 2008, which exclusively concern purchases of SKW Metallurgie shares:[3]

Name*	Position	Number of shares
Ines Kolmsee	CEO	1,000
Dr. Martin Vorderwülbecke	Deputy Chairman of the Supervisory Board	5,000

According to the directors' dealings notifications, the members of the Executive and Supervisory Boards own a total of 24,600 shares of the Company as of December 31, 2007, and a total of 30,600 shares at the time of this report. This means that the sum of holdings of all members of the Executive Board and Supervisory Board does not exceed 1% within the meaning of Section 6.6 of the German Corporate Governance Code.

The share option plan for members of the Executive Board is described in the Compensation Report. To the best of the Company's knowledge, the Executive and Supervisory Boards do not own any other financial instruments related to shares of the Company.

Compensation Report: Performance-related Compensation Structures

The compensation structures in the entire SKW Metallurgie Group are governed by the principles of appropriateness, performance and transparency. This particularly applies to compensation for the Executive Board and Supervisory Board. The option to waive publication of the Executive Board's compensation permitted by Section 4.2.4 of the Code was deliberately not proposed to the Annual General Meeting by the Executive and Supervisory Boards. In detail, the compensation of the Executive and Supervisory Boards comprise the following components:

2 The full text of the notices can be seen at www.skw-steel.com.
3 The full text of the notices can be seen at www.skw-steel.com.

1. Supervisory Board:

The compensation of the Supervisory Board was determined by the Annual General Meeting of June 18, 2007 as follows:

> The Supervisory Board receives fixed and variable compensation, which is paid out on the day of the Annual General Meeting. Compensation is paid to the Supervisory Board with any VAT incurred on such a payment.
>
> Each member of the Supervisory Board receives annual fixed compensation of €10,000. The Chairman of the Supervisory Board receives annual fixed compensation of €15,000.
>
> The variable compensation is subdivided into compensation of €500 per meeting and compensation linked to the Company's performance, which is calculated from the percentage increase in the Company's share price. In this respect, half of the fixed compensation of each Supervisory Board member is used as the assessment basis in each case. The reference value for calculating the share price increase is the average of the Company's share price during the last 30 days before the Annual General Meeting. The settlement value is the average of the Company's share price during the last 30 days before the next Annual General Meeting. The XETRA closing rate of the Frankfurt Stock Exchange during the last 30 trading days is used to calculate the average share price of the last 30 days before the Annual General Meeting.

The following accruals for the compensation of the Supervisory Board were formed for the reporting year on the basis of this resolution:

€ thousand	Fixed compensation	Variable compensation*	Total
Markus Zöllner	15,000	2,500	17,500
Dr. Martin Vorderwülbecke	10,000	2,500	12,500
Dr. Georg Obermeier	10,000	2,500	12,500
Total	35,000	7,500	42,500

* Participation in 5 meetings during the reporting year was used a basis for the variable compensation for each member of the Supervisory Board. For the part of the variable compensation linked to the share price, no accruals were formed on the basis of the share price as at the balance sheet date.

In addition to the totals given in the above table, the Supervisory Board was entitled to the following benefits during the reporting year:

- In the year under review, the Supervisory Board was entitled to reimbursement of business travel expenses. The amount is at the maximum equivalent to the amounts permitted for income tax purposes. Business entertainment expenses could also have been reimbursed in the amount evidenced. At the time of publication, no such reimbursements had been applied for or granted.

- In addition, the Company bore the cost of D&O insurance, which protects members of the Executive and Supervisory Boards and other executive members of the Company. The total premium for the persons named amounted to €20 thousand during the reporting period.

- The Company also bears any VAT that may be due on payments to members of the Supervisory Board in accordance with the applicable law.

There are no advances, loan or contingent liabilities to the benefit of the members of the Supervisory Board.

2. Executive Board:

The tasks and contribution of each individual member of the Executive Board to the overall performance of the Group were taken into account when determining the compensation of the Executive Board.

€590 thousand was paid in consulting fees to ARQUES Industries AG in Starnberg (Germany) for the consulting services of J. Klaus Frizen, who was part of the Executive Board until April 30, 2007.

In the year under review, the compensation of Ines Kolmsee and Gerhard Ertl was composed as follows::

- Fixed compensation
- Variable compensation
- Employer contributions in accordance with the Sozialgesetzbuch (SGB – German Social Code)
- Compensation in kind (only for Mr. Ertl)
- Company pension plan (only for Mr. Ertl)
- Stock option plan (only for Mr. Ertl)

The abovementioned components are explained in more detail in the following:

During the reporting year, fixed compensation, compensation in kind and variable compensation were structured as follows:

€ thousand	Ines Kolmsee	Gerhard Ertl	Total
Fixed compensation	144	120	264
Variable compensation*	567	149	716
Compensation in kind	0	5	5
Total	**711**	**274**	**985**

* The variable compensation for the 2007 business year is shown in the amount in which it has been included in the Company's annual financial statements. The portion of the variable compensation paid out in 2007 for the 2006 business year is a part of the 2006 Compensation Report and is therefore not included in the above table.

The **fixed compensation** was paid out monthly as a salary. The **variable compensation** was made up of a bonus payment that was agreed individually in each case and primarily based on the EBTDA for the year under review. Part of this variable compensation was already paid out in the year under review and the remaining portion is due in 2008 and has been incorporated into the 2007 Annual Financial Statements in the form of accruals.

The Company pays **employer contributions** in accordance with the **Sozialgesetzbuch** (SGB – German Social Code) for the members of the Executive Board (essentially contributions toward medical insurance); during the reporting period, this amounted to €2 thousand for Ines Kolmsee and €5 thousand for Gerhard Ertl.

There is an employer-financed company pension for Mr. Ertl; in the year under review €26 thousand (IFRS-based) was allocated to the accrual formed for this pension commitment.

Mr. Ertl participates in a **stock option plan**, which was launched on March 6, 2007 with a term of 1.73 years (until November 30, 2008) and 10,000 subscription rights based on an issue price of €29 per share. Expense (cash method) for this plan, totaling €14 thousand was incurred during the reporting year. Based on the measurement date of December 28, 2007, a fair value of €2.91 was calculated per subscription right (equivalent to a total value of €44 thousand).

In addition to the payments described above, the Executive Board was entitled to the following payments in the year under review:

» In the year under review, the Executive Board was entitled to reimbursement of business travel expenses. The amount is at the maximum equivalent to the amounts permitted for income tax purposes. Business entertainment expenses were also reimbursed in the amount evidenced.

» In addition, the Company bore the cost of D&O insurance, which protects members of the Executive and Supervisory Boards and other executive members of the Company. The total premium for the persons named amounted to €20 thousand during the reporting period.

» The Company also bore any VAT due on payments to ARQUES Industries in connection with J. Klaus Frizen in line with the applicable tax law.

There are no advances, loan or contingent liabilities to the benefit of the members of the Executive Board.

The disclosed compensation covers all of the activities of the Executive Board members within the Group and the payments from all Group companies. To the extent that compensation was provided for functions in subsidiaries held by members of the Group's Executive Board, these were either unpaid or offset at Group level.

The substantive content of severance award obligations from the Company for Executive Board members does not differ significantly from those granted to non-Board employees.

3. Former members of the Executive and Supervisory Boards and their surviving dependants:

There are no former members of the Supervisory Board within the Company.

The only former member of the Company's Executive Board has been J. Klaus Frizen, since May 1, 2007. Mr. Frizen did not receive a company pension commitment for himself or his surviving dependants. Accordingly, Mr. Frizen received no payments during the reporting year, which go beyond that for his active service described under item 2.

Disclosures on Stock Option Plans and Similar Incentive Systems

A share option plan was introduced during the reporting year within the SKW Metallurgie Group for members of the Executive Board and other executive employees. This plan is based on an issue price of €29 per share.

Details of the share options for members of the Executive Board are described in the Compensation Report.

Expense (equity method) for eligible non-Executive Board members totaling €61 thousand was incurred during the reporting year.

More details on the share option plan can be found in Note E.40 of the Notes to the Consolidated Financial Statements in the Annual Report.

Additional Information on Corporate Governance at SKW Stahl-Metallurgie

Comprehensive information on the activities of the Supervisory Board and the cooperation between the Supervisory Board and the Executive Board can be found in the Supervisory Board's Report.

Details of current developments and key information, such as ad-hoc disclosures, the financial calendar, press releases and information on the Annual General Meeting are also published on the Company's website at www.skw-steel.com.

Combined Management Report of SKW Stahl-Metallurgie Holding AG and the SKW Stahl-Metallurgie Group for Business Year 2007

Economic Conditions

Global economy on growth course in 2007 despite strains

The global economy again recorded an economic growth year in 2007.[1] This was confirmed by leading economic experts[2] despite the considerably more reserved forecasts seen during the year with regard to the effects of the subprime crisis[3] in the USA. The International Monetary Fund (IMF) forecast global economic growth of 4.9% in January 2008, for example, but this figure was below its expectations from October 2007. In addition to the strains that arose from the subprime crisis in the USA for the respective national economies and companies, sharply increasing prices on the energy and commodity markets as well as for agricultural products also had to be compensated for. The price per barrel[4] of crude oil climbed by more than 50% within the year to a new record high of over USD 95. Inflation rates rose accordingly to a substantially higher level, reaching 2.2% in Germany for example and 4.1% in the USA according to the NY Times. The US central bank countered the risk of an imminent recession in the USA between August 2007 and the end of the period under review by cutting interest rates four times, reducing the key interest rate from 5.25% to 3.50%. With regard to currencies, the value of the US dollar fell against the euro year-on-year, from 1.32 to 1.47 US dollars per euro (year-end rates in each case). This had a negative impact on many export-oriented companies in Europe, but the SKW Metallurgie Group[5] was barely affected by this impact in terms of transactions as it not only sells in US dollars, but also purchases and produces in this currency, all of which has a natural hedging effect. In contrast, the weak US dollar led to lower steel imports into the USA with higher exports at the same time, with the result that the capacity utilization of US steelworks and thus the demand for SKW Metallurgie's products were positively stimulated from a currency perspective during the period under review and ultimately fluctuated at a high level, albeit with modest increases compared with the previous year.

Overall, the global economic climate in the period under review was healthy. Once again, it was driven by the dynamic develop-

1. This management report contains statements on future developments that are based on currently available information and involve risks and uncertainties that could cause the actual results to differ from these forward-looking statements. These risks and uncertainties include, for example, unforeseeable changes to political and economic conditions, in particular in the steel and paper production industry, the competitive situation, the development of interest rates and exchange rates, technological developments and other risks and unexpected circumstances. SKW Stahl-Metallurgie Holding AG in Unterneukirchen (Germany) and its Group companies accept no obligation to update such forward-looking statements.
2. When reference is made in this management report to groups of people who factually or potentially include both genders (such as „shareholders") or when gender-neutral references are made to a single person, the report usually only quotes one gender. This is solely done in the interest of improved readability (translator's note: in most instances, this footnote only applies to the German original, since there are no distinct terms in English for male or female shareholders, experts, employees etc.).
3. The subprime crisis is based on financial derivatives relating to real estate financing of low credit standing (subprime).
4. A barrel holds 159 liters.
5. SKW Stahl-Metallurgie Holding AG's proprietary name for the Group that is used externally is "SKW Metallurgie". For this reason, "SKW Metallurgie" and "SKW Metallurgie Group" are also used in this report. Names such as "SKW Metallurgie," "Quab," and "Affival" that are used in this management report may be registered trademarks whose use by third parties for their purposes could infringe the rights of the proprietors.

ment in the emerging economies of Asia and Eastern Europe. Economic performance increased by 11.4% in China[6] and 8.8% in India. In contrast, Japan lagged behind with growth of 1.9% according to the Organization for Economic Cooperation and Development (OECD). In comparison, the Central and Eastern European countries saw a substantial year-on-year rise with growth of 5.5% according to the IMF. The high income from the oil industry also provided for dynamic growth in the countries of the Middle East. Latin America also continued the upward trend of previous years.

Thanks to high export figures, the euro zone also saw solid growth of 2.6% according to the OECD. The German Federal Statistical Office reported GNP growth of 2.5% for Germany. In the USA in contrast, the subprime crisis meant that the economy cooled down somewhat but the country still enjoyed growth of 2.2%.

SKW Metallurgie as a quality partner of the global steel and paper industries

The crude steel volume produced globally plays a crucial role in the demand for products of the SKW Metallurgie Group in the "Cored Wire" and "Powder and Granules" segments.

The demand for products of the SKW Metallurgie Group in the "Quab" segment is influenced by the production output of the global paper industry since a large part of "Quab" production finds its way into the production of modified industrial starch, which in turn is required for paper production.

Steel demand enjoys record level in 2007

According to the International Iron and Steel Institute (IISI), the steel industry performed at a record level in 2007. The industry association expected worldwide steel production to climb 7.5% versus 2006 to 1.34 billion metric tons. The growth was driven by the dynamic performance of the BRIC countries (Brazil, Russia, India and China). In Asia, production increased by around 12% overall. China stood out as the largest steel producer worldwide with growth of almost 16%. In line with this, the country's share of global steel production jumped from 34% to 36% within the year. The trend in the regions of the Middle East, Central and Eastern Europe and South America was also encouraging. The European Union only recorded a modest rise in production of 1.7%. Germany – the largest steel-producing nation within this region, and SKW Metallurgie's domestic market – stood out with growth of 2.8%. In North America, steel production only increased by 0.4%. This change in the geographical share of steel production output underlines SKW Metallurgie's strategy of becoming more heavily involved in the BRIC countries and other emerging economies.

Demand in the submarket for higher-grade steels is growing at a significantly higher pace to some extent compared to the figures for total steel production.[7] This applies especially to emerging economies such as India or China. It is exactly in this segment that SKW Metallurgie's quality products are applied.

Unlike the steel volume, steel prices do not have a direct effect on the demand for SKW Metallurgie's products. The impact of steel prices on the demand of the Group's products is also low indirectly as the demand for steel remains relatively steady in the short term, even if steel prices fluctuate (low price elasticity of demand).

Paper production on the rise worldwide

In addition to the producers of body care products, the "Quab" segment's customer industry is primarily modified industrial starch production for the paper industry. These industries also show positive growth rates globally, albeit at a more modest level than the steel industry.

In a document published by the German Ministry for the Environment, the global growth rate for the paper industry is estimated at 3% p. a. The European paper industry association cites average annual growth of 2.6% for Europe, which accounts for 27% of worldwide paper production. In North America (28% of worldwide paper production), new office technologies ("paperless office") did not lead to a reduction in the paper demand. In Asia (35% of worldwide paper production) and other emerging economies, the significantly positive economic development also led to growing demand for paper. In these countries, particularly in Thailand and Brazil, SKW Metallurgie is an important supplier of "Quab" specialty chemicals.

SKW Metallurgie on growth course

Driven by the positive trends described in the steel and paper industries as well as the fast-growing production levels in almost all industries, the demand for SKW Metallurgie's key products is also rising in all three segments. In particular, the trend in emerging economies shows signs of moving upwards and supports the regional expansion strategy pursued by the SKW Metallurgie Group.

6 In this management report, "China" refers to the People's Republic of China excluding its two special administrative regions.

7 For instance, annual growth of 3.7% is forecast for simple flat steel until 2015 but growth of 6.1% p.a. is forecast for high-quality steels (premium products) (source: ThyssenKrupp presentation, 10th German Corporate Conference, Deutsche Bank, June 21, 2007).

The strong demand in the year under review for products of the SKW Metallurgie Group meant that both sales and EBITDA not only significantly exceeded the previous year's figures, but also the guidance.

The acquisition of the ESM Group and the trend in the US dollar provided important stimuli in the year under review. The weak US dollar in relation to the euro made steel imports into the USA more unattractive while at the same time making US steel exports more competitive. Through this, the US steelworks important to SKW Metallurgie were almost operating at full capacity in the period under review. The negative effects of the subprime crisis were not felt at SKW Metallurgie; forecasts for 2008 expect the level of US steel production to remain high.

The acquisition of the ESM Group has turned the SKW Metallurgie Group into the global market and technology leader in hot metal desulphurization. The competence of the ESM Group in the operation of complete systems and processes as well as in specialized engineering services, has enabled SKW Metallurgie to diversify vertically to a significant extent.

This puts the Group in a good position for 2008 and subsequent years to further grow profitably and create added value for its shareholders.

Organization and Company Structure

Group parent company as a strategic management holding company

SKW Stahl-Metallurgie Holding AG, domiciled in Unterneukirchen (Germany) is the parent company of the SKW Metallurgie Group, which develops, produces and distributes chemical additives for hot metal desulphurization and steel refining as well as "Quab" specialty chemicals. SKW Stahl-Metallurgie Holding AG is a strategic management holding company whose Executive Board is actively involved in managing the directly and indirectly held equity interests. The aim is to develop and help implement the optimum corporate strategy alongside the managers of the individual equity interests.

The Company's legal bodies are the Annual General Meeting, the Supervisory Board elected[8] by the meeting and the Executive Board appointed by the Supervisory Board. In the year under review, the Supervisory Board decided to reduce the Executive Board from three to two members effective April 30, 2007. The Executive Board has been comprised of Ines Kolmsee as the Chairwoman of the Executive Board (CEO) and Gerhard Ertl as the CFO since May 1, 2007.

The Group operates worldwide under the proprietary name for the Group "SKW Metallurgie".[9] On the capital market, the name "SKW Metallurgie" stands for "growth with substance".

To optimize the Group's effective tax rate, a profit and loss transfer agreement was concluded between the Group company SKW Stahl-Metallurgie GmbH in Unterneukirchen (Germany) as the affiliated company and SKW Stahl-Metallurgie Holding AG as the Group parent during the reporting period effective retroactively from January 1, 2007.

Extensive free float makes admission to the SDAX more likely

The previous majority shareholder ARQUES Industries AG headquartered in Starnberg (Germany) reduced its interest in the SKW Metallurgie Group to 0% on July 20, 2007. As a result, the SKW Metallurgie Group has no longer been consolidated in the ARQUES Group since July 21, 2007.

Based on the legally required voting rights notifications, no other shareholder reached or exceeded the threshold of 10% of SKW Metallurgie shares; only one shareholder exceeded the 5% threshold for part of the year under review. Thus SKW Metallurgie shares have largely been in free float since July 21, 2007.

This extensive free float of SKW Metallurgie shares increases the likelihood that the security listed in the Prime Standard will be admitted to the SDAX. The market capitalization of the free float as well as the stock exchange turnover, which correlates positively with the level of the free float, are especially important for this. The Company's Executive Board and Supervisory Board are upbeat about admission to the SDAX.

In the year under review, the Company's first post-IPO Annual General Meeting was held in Muenchen (Germany) on June 18, 2007. 70.45%[10] of the share capital was represented; all the items on the agenda were put to a vote and received the majorities required. There were no countermotions or actions to rescind. The next Annual General Meeting is scheduled for June 4, 2008 in Muenchen (Germany).

8. Exceptions are possible in special situations, e.g. a replacement member can also be appointed by a court.
9. This proprietary name is used simultaneously as a product brand for part of the "Powder and Granules" segment.
10. The figure refers to the initial presence.

Information on equity in accordance with Article 289 (4) and Article 315 (4) of the Handelsgesetzbuch (HGB – German Commercial Code)

The subscribed capital of SKW Stahl-Metallurgie Holding AG is composed of 4,422,250 no-par value common bearer shares, each with a notional interest of €1 in the share capital. Shares have not been issued in different share classes; the Company has not issued any shares with special rights. The shares are freely transferable to the extent permitted by law.[11] The Company was not aware of any participating interests on the balance sheet date that exceeded 10% of voting rights. If employees hold an interest in the capital, they exercise their voting rights in the same way as any other shareholder except as otherwise expressly provided in the law.[12]

Subject to their approval, the members of the Executive Board are appointed and dismissed by the Supervisory Board. The Executive Board manages the Company in accordance with the law and the Articles of Association and within the scope of the Executive Board bylaws. Own shares may only be bought back in accordance with the resolution granting the authorization to acquire and utilize own shares which was passed by the Annual General Meeting on June 18, 2007. The resolution is worded as follows:

a) In accordance with Article 71 (1) No. 8 of the Aktiengesetz (AktG – German Stock Corporation Act), the Company is authorized to acquire own shares amounting to no more than 10% of the share capital until November 30, 2008 for purposes other than securities trading. The authorization may be exercised in full or in part on one or several occasions. Acquisition shall be via the stock exchange. The acquisition price may not exceed or be below the average unit price of the shares in the XETRA closing auction on the Frankfurt Stock Exchange on the three trading days prior to acquisition in each case by more than 10%. Shares acquired on the basis of this authorization may also be sold other than via the stock exchange for cash if the own shares acquired are sold at a price that is not significantly below the quoted market price of the Company's shares with the same features at the time of sale. In this case, the number of shares to be sold together with new shares issued on the basis of an authorization to increase capital while disapplying subscription rights in accordance with Article 186 (3) Clause 4 of the AktG may not, altogether, exceed 10% of the share capital. The subscription rights of shareholders from these shares shall be removed in this respect.

b) The Executive Board is also authorized to sell shares acquired outside of the stock exchange while disapplying the subscription rights of the shareholders, provided that this is for the purpose of (a) acquiring companies, participating interests in companies, operating assets, industrial property or licenses or (b) avoiding fractional share entitlements or (c) issuing to employees.

c) The Executive Board is also authorized, with the approval of the Supervisory Board, to withdraw own shares from circulation without an additional Annual General Meeting resolution.

As of the balance sheet date, it was only possible to issue shares by way of a capital increase in accordance with a resolution of the Annual General Meeting on June 18, 2007. The resolution is worded as follows:

The Executive Board is authorized to raise the share capital against cash and/or non-cash contributions with the approval of the Supervisory Board in the period until November 30, 2010 on one or several occasions by up to €2,200,000 by issuing new no-par value bearer shares (Authorized Capital 2007/I). In so doing, shareholders should be granted subscription rights.

The Executive Board is authorized, with the approval of the Supervisory Board, to decide on the contents of the share rights and the conditions of issue and to determine details of implementing the capital increase.

The Executive Board is authorized, with the approval of the Supervisory Board, to removed the legal subscription rights of the shareholders in the following cases:

a) if the capital is increased against cash contributions and the amount of the share capital attributable to the new shares does not exceed 10% of share capital when the new shares are issued and the issue amount of the new shares is not significantly below the quoted market price of the shares of the same class and with the same features already listed when the final issue amount is determined by the Executive Board as defined in Article 203 (1) and (2) and Article 186 (3) of the AktG,

b) insofar as it is necessary to disapply subscription rights in order to grant bearers of convertible bonds/loans or warrants issued by the Company subscription rights to the extent that they would be entitled after exercising their warrants or conversion rights or after fulfilling conversion obligations,

c) if the capital is increased against non-cash contributions or mergers for the purpose of acquiring companies, parts of companies or participating interests in companies or for issuing shares to employees,

d) for fractional amounts.

11 The Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) provides for limitations, particularly for insiders.

12 Insofar as the term "employer" as used in Articles 289 and 315 of the HGB also comprises members of the Executive Board, it is legally stipulated, for example, that they may not cast a vote in votes approving their own actions.

In accordance with Article 11 of the Company's Articles of Association, the Supervisory Board is entitled to resolve amendments to the Articles of Association that relate solely to their wording.[13] Any other amendments to the Articles of Association require a resolution by the Annual General Meeting.

There are no provisions within the meaning of No. 8 and No. 9 of Section 289 (4) and Section 315 (4) of the HGB.

Four strong product brands stand for quality and perfection worldwide

The Company is divided into three operating segments: "Cored Wire," "Powder and Granules" and "Quab." Central Group functions are reported in the "Other" column in segment reporting.

Affival cored wire for high-quality steels

affival®

High-quality cored wire for secondary metallurgy is offered under the brand name **"Affival"** in the **"Cored Wire"** segment. In this production step of steel manufacturing, crude steel receives the desired properties for special applications through the precisely adjusted addition of specialty chemicals. For example, Affival cored wire enables the production of ductile steel that can be easily formed into complex shapes or that can withstand extreme temperatures especially well. Affival is produced at sites in France, the USA and South Korea. A sales company in Japan also assists the Group's further expansion into Asia.

The high product quality of Affival cored wire is an important unique selling point in the cored wire competitive arena and is a non-financial performance indicator for the entire Group.

The Chinese company Hong Long which was acquired in the year under review is a strategically important element block for further developing and penetrating the Chinese market for cored wire.

In the global market for cored wire used in steel refinement, the SKW Metallurgie Group is the market leader with a market share of approximately 35%. The next two smaller providers – Rio Doce Wire and Injection Alloys – are each likely to have a market share of less than 10%.[14]

Dual method technology leadership in hot metal desulphurization

The "Powder and Granules" segment includes the following three divisions:

skw. metallurgie

- The Group subsidiary SKW Stahl-Metallurgie GmbH offers sophisticated technological solutions for carbide and magnesium-based hot metal desulphurization and for secondary metallurgical treatments under the product brand of the same name as the Group **"SKW Metallurgie,"** among Central European steel manufacturers.

- With its two production facilities in India, the Indian joint venture Jamipol[15] is the market leader in the Indian market for carbide-based hot metal desulphurization. Since SKW Metallurgie's interest in Jamipol is less than 50%, the Indian company operates under its own name ("Jamipol") on the market.

ESM GROUP

- The US-based ESM Group was acquired in the year under review. The acquisition which has been consolidated since October 4, 2007 has enabled the segment to grow considerably and to be operated with fully-owned production capacity for the first time. High quality products for magnesium-based hot metal desulphurization and for secondary metallurgy are offered under the **"ESM"** product brand. These two areas account for over 75% of ESM's sales. ESM is also a leading provider of caster maintenance, metallurgical engineering and maintenance services and specialty magnesium for non-metallurgical applications (e.g. for diver torches).

The SKW Metallurgie Group is the leader in hot metal desulphurization on the global market with a market share of approximately 20%. The Group has even achieved a share of 30% of the Central European market, while its share in North America is over 50%.[16] The Group will further strengthen its position in hot metal desulphurization through the planned construction of plants in emerging economies.

Combining the core competency of SKW Stahl-Metallurgie GmbH in carbide-based hot metal desulphurization with the core competence of the ESM Group in magnesium-based hot metal desulphurization has formed a dual method technological leadership in hot metal desulphurization in the "Powder and Granules" segment which

13 This responsibility is delegated to the Supervisory Board through application of Article 179 (1) Clause 2 of the AktG.
14 The market shares mentioned are based on the market estimates of the SKW Metallurgie Group.
15 In this management report, "Jamipol" is the shortened form for Jamshedpur Injection Powder Ltd. in Jharkhand (India).
16 The details of market shares are based on the SKW Metallurgie Group's market estimates.

enables the Group to develop and market successfully customized solutions in mono injection (single powder) as well as co-injection and tri-injection (multiple powders).

Global diversification in specialty chemicals

QUAB CHEMICALS

The **"Quab"** segment was first formed in the year under review. The **"Quab"** business which has been consolidated since January 16, 2007 is represented here. Specialty chemicals that are primarily used in the production of modified industrial starch for paper manufacturing are sold under the brand name "Quab". "Quab" products are also key ingredients in personal care products such as conditioning shampoos and are sold worldwide in around 40 countries, particularly in the EU, Brazil, Thailand and the USA.

"Quab" is manufactured in a plant belonging to the Group which is located in the US state of Alabama. The production facilities are part of a chemical park operated by the Degussa Group (part of the Evonik Group). This cooperation enables specific central functions to be jointly shared, thus leveraging cost synergies.

Backward integration secures magnesium procurement in the long term

Secure supply of high-quality raw materials is essential to the success of the SKW Metallurgie Group.

- In acquiring the key raw materials required by the "Cored Wire" segment, the Group's management pursues a strategy aimed at countering the risk of becoming dependent on one individual producer or an individual producing country by entering into multiple strategic alliances. As things stand, these measures are expected to secure the segment's raw material supply in the short and medium term.
- The "Powder and Granules" segment's procurement activities are focused on ensuring the availability of magnesium and carbide-based hot metal desulphurization materials. Magnesium procurement was secured in the long term during the period under review by backward integration. This substantial improvement in the Group's strategic procurement position was thanks to the acquisition of the ESM Group, to which a subsidiary in China with direct access to magnesium belongs. The main supplier of carbide-based hot metal desulphurization materials in the year under review was the AlzChem Group, which is part of the Evonik Group. This supply contract is currently being renegotiated for a period beginning in 2009 since it was terminated by the supplier as of December 31, 2008. At the same time, the Group is cultivating its relationships with other suppliers in order to avoid excessive dependence on this source of raw material.
- The supply of raw materials in the "Quab" segment (main raw materials: epichlorohydrin and trimethylamine) is secured by corresponding framework contracts with price adjustment clauses.

The careful selection of suppliers and regular spot checks conducted by independent experts ensure that the raw materials acquired are of a high quality.

All in all, no significant bottlenecks whatsoever are envisaged for the SKW Metallurgie Group in the supply of raw materials, especially not in the short term. The volatility of commodity prices is taken into account through relevant clauses in the Group's contracts with its suppliers and customers; the demand of customers is relatively inflexible in terms of price. Changes in commodity prices may thus influence the Group's sales but are not a crucial threat to the Group's earnings.

Global production and close proximity to customers

The SKW Metallurgie Group has organized both production and sales globally. This enables great proximity to the most important customers and a choice between the most favorable production site in each case for specific customer queries. Production in various currency zones also provides natural hedging against exchange rate fluctuations. Carbide-based hot metal desulphurization materials are limited in their transportability which would make it impractical to supply all countries from only one site.

Overall, the Group operated four cored wire production facilities (France, USA, South Korea and China) and a "Quab" production facility (USA) as of the balance sheet date. The "Powder and Granules" segment includes six ESM plants (USA, Canada and China) and two plants in India belonging to the joint venture Jamipol:

- In the "Cored Wire" segment, cored wire is produced in France, the USA and South Korea in according to same high quality standards.
- In the "Powder and Granules" segment, production capacity was substantially boosted by acquisition of the ESM Group. The German subsidiary SKW Stahl-Metallurgie GmbH is now also in a position, unlike in the previous year, to obtain part of its products from in-house production. The ESM Group has six production facilities overall, four of which are in the USA, one in Canada and one in China. The joint venture Jamipol in India has its own production facilities at two locations: Jamshedpur in Jharkand state, in close proximity to its key customer The Tata Iron and Steel Company Limited, and Toranagallu in Karnataka state, which is close to another key customer, JSW Steel Ltd. Calcium carbide-based desulphurization mixes are produced at these sites.
- In the "Quab" segment, the Group operates its own production facilities in the US state of Alabama for "Quab" specialty chemicals.

In the year under review, the production facilities in South Korea were relocated to a new site. Through this, environmental and social standards were further raised and the efficiency of the production processes was significantly boosted. Since the new site is only a few kilometers away from the old production facilities, the relocation did not lead to a loss of employees in key positions.

The production costs in the plants of the SKW Metallurgie Group are primarily determined by the cost of materials. Since the procurement prices for some raw materials fluctuate wildly, this also results in sharp fluctuations in production costs without the underlying processes changing.

In the year under review, there were no significant interruptions of production in the Group's plants.

Corporate management geared towards shareholder value

All operating units and senior managers in the SKW Metallurgie Group are managed and assessed using uniform criteria. The focus here is on long-term shareholder value, i.e. securing and creating value for the owners of the Group. The Group strives in the long term to offer the owners an attractive return on the capital employed that suitably reflects the corporate risk. The two most important factors for shareholder value are the long-term trend in the dividend and the share price.

In order to gear all the Group units towards this goal, the Group uses **EBTDA** (earnings before taxes, depreciation and amortization) as a central parameter.

The EBTDA target was €18.3 million in the year under review; this benchmark was substantially exceeded at €20.3 million.

The most important external factor for the "Cored Wire" and "Powder and Granules" segments is the growth in volume of raw steel production, particularly for higher quality steels. Substantial growth has also been forecast in these areas for the next few years, especially in the emerging economies. A meaningful internal indicator for the performance of the SKW Metallurgie Group is the trend in the gross margin. In contrast, the Group does not have any order books in the traditional sense. A large number of customer contracts are concluded for the long term but in comparison, individual quantities and specifications are determined for the short term.

Corporate and Business Development

Guidance for 2007 exceeded substantially

Business performance in 2007 was extremely encouraging for the entire SKW Metallurgie Group. The guidance of €235 million[17] for sales and €18.5 million to €19.5 million for EBITDA was not only achieved, but exceeded (sales: €239.0 million compared with €185.8 million in the previous year, EBITDA: €21.1 million compared with €14.3 million in the previous year).[18]

In the "Cored Wire" and "Powder and Granules" segments, the market shares in all existing markets were largely maintained and several new market segments were gained. In particular, test applications with PapCal cored wire demonstrated the superiority of this product innovation in practical application among additional customers in the "Cored Wire" segment. PapCal is part of the strategy initiated over the last few years to readapt from sales to margin products. In the "Powder and Granules" segment, the acquisition of the ESM Group has primarily boosted the global market leadership in hot metal desulphurization. Additional global expansion, particularly in the emerging economies, was advanced as planned and will continue in 2008 and 2009 in both the "Cored Wire" and "Powder and Granules" segment.

Demand for SKW Metallurgie's products is essentially non-seasonal in the "Cored Wire" and "Powder and Granules" segments. Nonetheless, experience shows that there is a quarter every year (unidentifiable in advance) in which key customers carry out maintenance work or reduce stock levels and thus require fewer products from SKW Metallurgie for a short period of time. In the year under review, this effect was mainly seen in the third quarter.

The demand for the SKW Metallurgie Group's products developed positively overall in the year under review in both Central Europe and North America. Steel customers in the USA benefited from the weak US dollar, which made steel imports more unattractive in the USA while at the same time increasing the competitiveness of US steel on international markets.

The "Quab" business became part of the Group on January 16, 2007. This means that no previous year figures were available for "Quab" and that all the figures for the year under review relate to the period beginning January 16, 2007. The acquisition of "Quab" enabled the Group to diversify further horizontally within its core competence of specialty chemicals and leverage cost synergies in the case of the support functions in the USA. The acquisition resulted in a one-time effect during the period under review of a positive bargain purchase (income from the reversal of nega-

17 This amount was communicated in November 2007 and already exceeds the range of €210-230 million communicated in May 2007.

18 All previous year's figures are adjusted figures. This relates to the income from the participating interest in Jamipol – the amount of which is unchanged – which was reported under net financial income/loss in the 2006 management report. Beginning with the interim report for the first quarter of 2007, SKW Metallurgie has further increased transparency and reported the operating income from participating interests as operating performance in the "Powder and Granules" segment.

tive goodwill) in the amount of €4.4 million. With an operating segment EBITDA of €2.8 million, “Quab” also reports very sound earnings – particularly in relation to the purchase price and the cash flow of the segment – for the abridged business year.

Production in the year under review developed as planned and successfully at all production sites: All the plants were operating at almost full capacity. There is nothing to prevent sales being expanded in the “Cored Wire” and “Powder and Granules” segments since the Group is planning new plants in emerging economies and an additional production shift can be introduced at the Affival plant in France without staff costs increasing disproportionately. A significant increase in the production output is not planned in the “Quab” segment.

SKW Metallurgie Group on growth course worldwide

Substantial sales increase despite weak US dollar

The SKW Metallurgie Group generated sales in the amount of €239.0 million in the year under review, up 28.6% on the prior-period figure of €185.8 million. Sales in 2007 would have been €9.8 million higher – without substantial changes to margins – if an unchanged average US$/€ exchange rate against the previous year had been applied to the year under review.

» While sales in the “Cored Wire” segment of €134.8 were slightly below the same level of the previous year (€139.7 million), this decrease is due to the above-mentioned exchange rate effect and the continued strategic focus on high-margin products instead of high-sales products.
» The annual sales of the “Powder and Granules” segment (rising from €46.1 million to €77.3 million) were influenced by the proportionate sales (from October 4, 2007) of the recently acquired ESM Group. However, segment sales also rose by more than 6% from a pro forma perspective (excluding ESM) compared with the previous year. The Group’s sales figures do not include sales from the Indian joint venture Jamipol since SKW Metallurgie’s holds an interest of less than 50% in the company.
» The “Quab” segment generated sales of €26.9 million from January 16 to December 31, 2007.

Geographically, approximately 42% (previous year: 43%) of sales (translated into euro) were generated by customers in the NAFTA countries, approximately 44% (previous year: 47%) of sales by customers in Europe and the rest were primarily generated by customers in Asia. The initial success of the Group’s strategy – of boosting the sales share in countries outside of NAFTA and Europe, i.e. primarily the share of sales attributable to the emerging economies – can be seen.

Finished goods and work in progress rose in the year under review by a net amount of €2.2 million (previous year: €-0.6 million) which is manly due to the additional finished goods and work in progress resulting from company acquisitions and changes in commodity prices.

In the year under review, the Group’s income statement also included own work capitalized of €0.2 million (previous year: €0.8 million).

Total operating performance (sales plus increases/decreases in finished goods and work in progress and own work capitalized) in the year under review of €241.4 million (previous year: €186.1 million).

Higher gross margin shows operating strength of the Group

Despite the substantially higher sales, the Group also pursued a more earnings-oriented than sales-oriented strategy in the year under review. The improved product mix compared with the previous year meant that the gross margin increased from 21.5% to 24.2%.[19]

Gross margin, which primarily takes into account the high percentage of the Group’s costs attributable to the cost of materials, is a very informative indicator for the operating performance of the SKW Metallurgie Group. From a pure sales perspective, fluctuating commodity prices carry the risk that simply passing on these changes is interpreted as a material change to the underlying business.

Staff participate in Company’s success

At €17.6 million, staff costs in the year under review were up significantly year-on-year (previous year: €12.9 million). This is primarily attributable to the number of employees more than doubling in the fourth quarter due to the acquisition of the ESM Group. Overall, staff costs in 2007 for other Group companies were slightly above the previous year as the number of employees had risen and the Group allowed most of its employees to participate in the sound sales and earnings figures through variable compensation components.

19 The gross margin is the difference between sales and the cost of materials in relation to sales.

Earnings after adjustment soar almost 40%

At €5.8 million, other operating income in the year under review was clearly above the previous year (€4.1 million). In the year under review, €4.4 million of this income was due to the bargain purchase explained in detail in the Notes to the Consolidated Financial Statements that is attributable to the "Quab" segment. In the previous year, the "Cored Wire" segment reported one-time effects totaling a net amount of €1.9 million[20] which is also included in other operating income.

In the year under review, other operating expenses climbed substantially from €17.7 million in the previous year to €28.4 million. The change is primarily attributable to the new "Quab" segment (€5.2 million) and to the other operating expenses of the ESM Group since first-time consolidation (€4.4 million). The "Quab" production facilities in Mobile in the US state of Alabama are located adjacent to the production facilities of the Evonik Group. A large part of the plant infrastructure is jointly used in a chemical park concept to make optimal use of synergies. The expenses for this plant infrastructure constitute other operating expenses for SKW Metallurgie. The other operating expenses also include a one-time effect of €0.6 million from passing on consulting fees for the former Executive Board member J. Klaus Frizen ("Other" segment). Only the remaining other operating expenses of €18.2 million can be appropriately compared with the previous year's figure of €17.7 million. The remaining increase of €0.5 million comprises two opposite effects: While the "Powder and Granules" segment posted bad debt allowances and writedowns charged on receivables of €0.9 million in the fourth quarter of 2007, miscellaneous other operating expenses fell slightly overall compared with the previous year.

In total, the year under review saw one-time effects of €3.8 million (previous year: €1.9 million).

The Group's operating profit after adjustment for these one-time effects (adjusted EBITDA) thus soared almost 40% from €12.4 million to €17.3 million.[21]

The EBITDA margin[22] is calculated at 8.8% (previous year: 7.7%). In terms of operating performance, the Group improved substantially from 6.7% to 7.2%.

EBITDA guidance substantially exceeded

Earnings before interest, taxes, depreciation and amortization (EBITDA) of €21.1 million not only fulfils the guidance of €18.5 million to €19.5 million but is once again 8.2% higher than the upper end and 14.1% above the lower end of the range forecast. The previous year's figure of €14.3 million was surpassed by almost 50%. All three operating segments contributed to the extremely positive earnings; the individual development of the segments in detailed in "Segment Reporting."

EBIT rises significantly

Despite depreciation of €3.4 million (increased compared to 2006 at €1.9 million) earnings before interest and taxes (EBIT), at €17.7 million, were up substantially versus the previous year's figure of €12.5 million. The increase in depreciation is due to the newly added ESM Group as well as "Quab."

Net interest expenses climbed from €0.4 million year-on-year to €0.8 million. This includes two opposite effects in the year under review: The Group generated net interest income of €0.1 million during the first three quarters of 2007 since all the proceeds from the capital increase linked to the IPO had not yet been reinvested. The acquisition of the ESM Group on October 4, 2007, which was mainly financed with the above-mentioned IPO proceeds and from debt capital, led the Group to post a net interest loss in the fourth quarter, resulting in net interest expenses on a full-year basis.

The profit/loss on ordinary activities (EBT) of €16.9 million was 40.7% higher year-on-year, surpassing the figure amounted to €12.0 million in 2006.

Earnings per share €2.78

In line with the increase in pre-tax profit, the income tax expense in the year under review also surged from €2.8 million to €4.5 million. Since the share of pre-tax profit taxable at an average of more than 30% in the USA rose as a result of the "Quab" and ESM acquisitions, the Group tax rate also jumped from 23.2% to 26.6% in the year under review. The effects of the German corporate tax reform from January 1, 2008 have already been taken into account in the deferred taxes but do not significantly impact the Group due to the Group's comparatively low volume of business in Germany and the extensive use of tax loss carryforwards in Germany.

20 The total of €1.9 million arises if the sales expenses from the sale included therein of a property not required for operating purposes are not taken into account. If the sales expenses are netted against the sales proceeds, this results in the figure of €1.8 million reported in the interim report for the third quarter instead of €1.9 million.

21 The previous year's figure of €12.4 million is the result of the reported figure of €14.3 million less the explained one-time effects in 2006 of €1.9 million.

22 The EBITDA margin is defined as the ratio of EBITDA to sales. The operating performance figures are calculated as a ratio of the EBITDA after adjustment for one-time effects mentioned to sales.

The consolidated net income for the year of €12.4 million in 2007 was up 34.3% on the previous year (€9.2 million).

€0.1 million (previous year: 0) of this net income for the year is attributable to minority interests.

The net income for the year attributable to shareholders of the parent company totaling €12.3 million (previous year: €9.2 million) and the 4,422,250 shares result in basic earnings per share (EPS) of €2.78. Based on the number of shares as of December 31, 2006, the EPS in the previous year was €2.09. The earnings generated per share thus rose by more than 33%.

For this reason, the Executive Board and the Supervisory Board intend to propose a dividend of €2,211,125 (equal to €0.50 per common share) for business year 2007 to the Annual General Meeting and to carry forward the remaining amount of €2,483,021.07 to next year's account.

Segment reporting

The SKW Metallurgie Group was divided into three operating segments in the period under review. The remaining activities, in particular the parent company as a strategic management holding company with no sales of its own, are posted as "Other". Internal sales are included in the "Elimination" column (see segment reporting in the Notes to the Consolidated Financial Statements).

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

» Sales in the **"Cored Wire"** segment fell slightly at €134.8 million compared with €139.7 million in the previous year but at €11.8 million, operating EBITDA (after deducting the one-time effects in 2006 already mentioned of €1.9 million) was up substantially on the previous year's figure of €9.3 million. The combination of slightly lower sales with significantly higher operating earnings emphasizes the positive performance of the segment overall and highlights the Management's successful strategy of focusing the group on margin growth instead of sales growth and on technically sophisticated products.

» In the **"Powder and Granules"** segment, external sales were significantly improved in the period under review from €46.1 million to €77.3 million. The segment EBITDA rose substantially from €3.6 million to €4.3 million. The largest share of this increase, particularly in sales, is due to the consolidation of the ESM Group from October 4, 2007. The joint venture Jamipol, which is part of this segment, also performed positively (earnings contribution of €1.0 million compared with €0.7 million year-on-year which already includes EBITDA). Since the participating interest of the SKW Metallurgie Group in Jamipol is less than 50%, the interest is carried at equity in SKW Stahl-Metallurgie GmbH and, above all, is not included in the sales figures.

» From the beginning of the consolidation (January 16, 2007) to December 31, 2007, the **"Quab"** segment generated an EBITDA of €7.2 million, of which €2.8 million was operating (following deduction of the bargain purchase in the amount of €4.4 million). With sales of €26.9 million, "Quab" has completely fulfilled the Group Executive Board's return expectations. These positive segment earnings were mainly helped by the second half of 2007, due to disproportionately high freight charges and expenses that were incurred for converting service contracts as a result of the acquisition during the first six months.

Very sound net assets and financial position of the Group as the basis for further growth

The table below shows the net assets and financial position for the entire Group on the balance sheet dates of December 31, 2007 and December 31, 2006:

ASSETS in € thousand	12/31/2007	12/31/2006
Noncurrent assets	64,593	18,853
Current assets	116,736	93,256
Thereof cash and cash equivalents	6,811	34,905
Total assets	181,329	112,109

SHAREHOLDERS' EQUITY & LIABILITIES in € thousand	12/31/2007	12/31/2006
Shareholders' equity	76,170	66,769
Noncurrent liabilities	41,068	2,595
Thereof long-term financial liabilities	29,525	0
Current liabilities	64,091	42,745
Thereof short-term financial liabilities	19,045	15,497
Total shareholders' equity & liabilities	181,329	112,109

The total assets of the SKW Metallurgie Group rose by €69.2 million in business year 2007 from €112.1 million to €181.3 million, which is primarily due to the acquisition of the ESM Group. Despite the acquisition-related decrease in the Group's equity ratio from 59.6% to 42.0%, equity and debt capital in the Group were still in healthy relation to each other. The Group's net financial debt[23] changed in the year under review from a net asset surplus (i. e. positive net financial debt) of €19.4 million to net financial debt of €41.8 million. The company acquisitions made in the year under review are primarily reflected in this change of €61.2 million.

The Group's liquidity position is still positive. The current ratio (defined as current assets divided by current liabilities) fell from 218.2% to 182.1%. However this was as planned, particularly as a result of investing the funds received from the capital increase as part of the IPO.

Working capital – defined as current assets (excluding cash and cash equivalents) less current liabilities (excluding financial liabilities) – amounted to €64.9 million at the balance sheet date (previous year: €31.1 million). The higher working capital is mainly due to the acquisition of the "Quab" business and the ESM Group.

Derivative financial instruments are also employed within the SKW Metallurgie Group as part of risk management. As of the balance sheet date, the instruments used were currency forwards for currency hedging with a fair value of €12 thousand (assets) and €102 thousand (shareholders' equity & liabilities). In the previous year, the Group had not employed any derivative financial instruments whatsoever as of the balance sheet date.

The SKW Metallurgie Group's net assets and financial position are not insignificantly influenced by exchange rate changes. In particular, translation effects[24] from changes in the exchange rate of the US dollar to the euro arose and impacted sales by €9.8 million in the period under review.

The SKW Metallurgie Group's existing external financing has been concluded under terms in line with the market, including sufficient credit lines in the event of a further need for debt capital. Changes to the general interest rate level may also lead to changes in the average interest rate of the Group. The year under review was particularly dominated by higher long-term external financing compared with the previous year which is attributable to the acquisition of the ESM Group. Further details on the amount and interest of the debt capital can be found in the Notes to the Consolidated Financial Statements, mainly under note E 26. SKW Stahl-Metallurgie Holding AG and its subsidiaries had sufficient funds at all times in the year under review. This also applies unchanged to all foreseeable transactions in 2008 and 2009.

The further development of the Group's net assets and financial position will primarily be influenced by the additional expansion in emerging economies.

Cash flow of the SKW Metallurgie Group improves further

The following table shows key items in the cash flow statement of the year under review and the previous year for the entire Group:

€ thousand	01/01/-12/31/07	01/01/-12/31/06
Consolidated net income for the year	12,404	9,233
Gross cash flow	14,422	9,838
Net cash from/net cash used in operating activities (net cash flow)	11,725	10,444
Net cash from/net cash used in investing activities	-65,299	-1,384
Net cash from/net cash used in financing activities	25,502	24,474
Cash and cash equivalents at the end of period	6,811	34,905

Based on a consolidated net income for the year of €12.4 million (previous year: €9.2 million), the Company generated net cash from/net cash used in operating activities of €11.7 million in the year under review (€10.4 million).

The net cash from/net cash used in operating activities (or operating cash flow) indicates the surplus cash generated by the operating activities in the period under review.

A large portion of the net cash from/net cash used in investing activities of €65.3 million (previous year: €1.4 million) is attributable to the three acquisitions explained in the following section. The debt capital transactions underlying the proceeds from raising bank loans and overdrafts in the year under review of €34.1 million (previous year: €0.3 million) are also largely due to the acquisitions mentioned.

The cash and cash equivalents account item of €6.8 million (previous year: €34.9 million) is composed of cash on hand and current bank balances. The sharp change against the previous year is due primarily to the proceeds generated in 2006 from the capital increase related to the IPO and the investments of these funds that have now been made.

23 Net financial debt is defined as the amount by which financial liabilities exceed cash and cash equivalents.

24 "Translation effects" mean book-entry effects that arise when translating key financial amounts from subsidiaries into foreign currency or when translating key transaction amounts denominated in foreign currency into the euro reporting currency. One example is the effects that arise from translating sales in the US subsidiaries into Euro.

Important acquisitions confirm technology leadership of SKW Metallurgie

In addition to investments for replacement and maintenance measures, investments in the year under primarily related to the following three company acquisitions[25]:

- “Quab” segment: on January 16, 2007, SKW Quab Chemicals Inc., Wilmington, Delaware (USA), in which the SKW Metallurgie Group holds a 90% interest, acquired the “Quab” business from the RAG Group (today trading as the Evonik Group) as part of an asset deal. Following the final calculation of the working capital, the final purchase price amounted to US$ 12.9 million (€9.9 million). “Quab” is a specialty chemical that is primarily used in the production of modified industrial starch.
- “Cored Wire” segment: on October 1, 2007, Affival S. A. S. in Solesmes (France), which is an SKW Metallurgie company, acquired the Chinese company Tianjin Hong Long Metals Co. Ltd., Tianjin (China), as part of a share deal. The final purchase price was US$ 0.2 million (€0.1 million). In acquiring Hong Long, the Group has taken a strategically important step towards further penetrating China’s cored wire market.
- “Powder and Granules” segment: on October 4, 2007, SKW Metallurgie USA, Inc., Wilmington, Delaware (USA), which is an SKW Metallurgie company, acquired the ESM Group (which has one company each in the USA, Canada and China) as part of a share deal. The preliminary final purchase price is US$ 81.8 million (€56.1 million). The ESM Group is a global leader in magnesium-based hot metal desulphurization and in technology-oriented services for the global steel industry. Like most of the other parts of the SKW Metallurgie Group, the ESM Group was part of the former Degussa Group (today part of the Evonik Group) until 2004 and has also jointly operated service functions (e. g. accounting) with SKW Metallurgie beyond that year. As a result of this long history together with just a brief separation, the Group expects smooth integration and significant cost synergies in the short term. In the fourth quarter of the year under review, the foundation was laid for concrete measures that are to be implemented in 2008 and aim to link the ESM with the other Group divisions in the best possible way.

The significant expenses of the Group for research and development can also be seen as investments since they prepare the ground for the Group’s continued technology leadership.

In the year under review, the foundation was also laid for the future expansion of the Group in emerging economies. In 2008 and 2009, Mexico and Russia’s cored wire markets are to be developed more intensely. The construction of a plant in Turkey is planned for manufacture of hot metal desulphurization compounds. For this purpose, a company was established in Turkey (SKW Celik Metalürji Üretim Ticaret SLS) and land acquired. A joint venture is planned in Bhutan to construct an integrated calcium-silicon plant and a joint venture contract to this effect was signed on January 18, 2008.

Central financial and liquidity management

In order to minimize the cost of capital, external borrowings, Group-wide financial and liquidity equalization and interest rate, exchange rate and raw material price risks were coordinated centrally by the Group parent company in the year under review. As part of this centralized financial planning, rolling projections and short-term liquidity forecasts were carried out.

To secure SKW Metallurgie’s financial stability and flexibility, the Group aims to strike a balance between equity and debt capital. In so doing, the expected returns of the shareholders and the rating requirements are taken into account. The equity ratio at the end of the period under review was 42.0% (previous year: 59.6%). The funds borrowed to partially finance the acquisition of the ESM Group are primarily reflected in this change. Since the Company has not issued any bonds to date and does not plan to do so for the foreseeable future, no formal rating was made by one of the large rating agencies.

Exchange rate risk arising from the Group’s operating activities (transaction risk) were reduced by natural hedging, e. g. by entering into same foreign-currency purchase and sale transactions. Group companies also hedged any exposure arising from the relevant foreign-currency forecasts at specific points after consulting Group management. In this respect, the Group held a small number of currency forwards as of the balance sheet date which were concluded by SKW Stahl-Metallurgie GmbH and Affival S. A. S. This means that the risks entered into for the Group are low. Further details of these transactions are presented in the Notes to the Consolidated Financial Statements. In principle, derivative financial instruments are only employed to a limited extent in the Group and only for the purpose of hedging operating transactions; thus the Group is not involved in pure financial speculation. The primary hedging aim is to hedge those parts of transactional currency risk that cannot be covered by natural hedging.

The translation risks resulting from the transfer of income and expenses recorded by subsidiaries in other currency areas into euros are not hedged. The most important currencies for the Group by far were its reporting currency (euro) and the US dollar. Other currencies of importance to the Group were the currencies of those non-Euro countries in which the Group has operating companies (South Korea, Japan, China, India and Canada).

25 All purchase prices are presented exclusive of the incidental costs of acquisition.

The SKW Metallurgie Group also employs collateral to optimize finance. Of the total inventories of €56.4 million, inventories of €31.9 million (previous year: €12.7 million) are assigned as part of master loan agreements in the USA and Germany. Receivables within Germany of €10.3 million (previous year: €4.1 million) are assigned as a result of master loan agreements. Furthermore, €3.1 million of the tangible assets have been provided to a local bank by Affival Inc. as collateral for one of its credit lines.

The SKW Metallurgie Group utilized new debt capital in the year under review – mainly to fund partially the acquisition of the ESM Group – while at the same repaying liabilities that were incurred before the period under review or at the start of 2007. Repayments were mainly for loans that had been granted by the former majority shareholder ARQUES Industries AG and the Evonik Group (the RAG Group at the time) in its position as seller of the "Quab" business (vendor's loans).

Possible debt capital requirements in the future are secured at market interest rates through corresponding credit lines with several international banks for both the Group parent company and for all Group subsidiaries.

SKW Stahl-Metallurgie Holding AG – Financial Statements in Accordance with the Handelsgesetzbuch (HGB – German Commercial Code)

Sound results of operations for the Group parent

As the parent company of the SKW Metallurgie Group, SKW Stahl-Metallurgie Holding AG is a strategic management holding company that aims to cover its costs.

The Company is an Aktiengesellschaft (stock corporation) under German law. The year under review was the first full year in which the Company operated on the capital market in this legal form and with a stock exchange listing in the Prime Standard (segment with the highest transparency requirements). As a result, Group interim reports were drawn up and published at the end of the first, second and third quarters in the year under review.

For SKW Stahl-Metallurgie Holding AG, business year 2007 was marked by the further expansion of the first-tier and second-tier operating subsidiaries belonging to the Group, primarily due to the acquisition of the ESM Group by a subsidiary of the parent company and the ensuing loans granted by SKW Stahl-Metallurgie Holding AG to ESM Group Inc.

As of the balance sheet date, the Company held direct investments in seven companies. These were

- the parent company of the "Cored Wire" segment – SKW France S. A. S. in Solesmes (France),
- the parent company of the "Powder and Granules" segment excluding ESM – SKW Stahl-Metallurgie GmbH in Unterneukirchen (Germany),
- the parent company of the ESM Group – SKW Metallurgie USA Inc. in Wilmington, Delaware (USA),
- the parent company of the "Quab" segment – SKW Quab Chemicals Inc. in Wilmington, Delaware (USA),[26]
- SKW Hong Kong Co. Ltd. in Hong Kong (Chinese special administrative region of Hong Kong),
- Quab Chemicals Belgium BVBA in Antwerpen (Belgium) and
- SKW Verwaltungs GmbH in Unterneukirchen (Germany).[27]

SKW France S. A. S. and SKW Stahl-Metallurgie GmbH were both operating interests of the Company in the previous year. SKW Metallurgie USA Inc. is a strategic management holding established in the year under review for the part of the "Powder and Granules" segment trading under the name "ESM". The three operating companies of the ESM Group (one each in the USA, Canada and China) are directly or indirectly affiliated with it. SKW Quab Chemicals Inc. (formerly Arques Chemicals Inc.) had no operating business in the previous year. In the year under review, it acquired the "Quab" business. The remaining three direct participating interests of SKW Stahl-Metallurgie Holding AG were established in the year under review to support expansion of the Group but had no operations until the end of the period under review and held no participating interests in other companies. No write-downs were required on the participating interests in the year under review, and none were charged either.

The expenses of €2.3 million (net) associated with the IPO were posted separately as extraordinary net income/loss in the 2006 income statement. The other items of the income statement in the year under review are therefore comparable with the prior-period figures.

Other operating income in the period under review totaled €1.0 million (previous year: €1.8 million) and primarily included charges passed on to subsidiaries for consulting services. The year-on-year decrease comprised two opposite effects: firstly, income from charges passed on to subsidiaries rose from €0.6 million to €1.0 million and secondly, the comparative figure from 2006 includes prior-period one-time income of €1.2 million (2007: €0).

The Company's staff costs in business year 2007 climbed from €0.7 million to €1.3 million. €0.4 million of the €0.6 million increase is attributable to higher variable payments. The costs also include compensation for two Executive Board members during the entire reporting year; in 2006, the Executive Board/Management of a GmbH comprised only one person for most of the year.

26 As of the balance sheet date, the SKW Metallurgie Group held a 90% interest in this company.
27 SKW Verwaltungs GmbH was recorded in the Commercial Register only after the end of the year under review.

The number of employees who are not representatives on executive bodies rose from two to five (each on the balance sheet date of 2006 and 2007). Staff turnover, which is an important non-financial performance indicator, amounted to 0% in the year under review, as in the previous year.[28]

Other operating expenses decreased in 2007 from €0.4 million (previous year) to €1.9 million. This increase is primarily due to consulting fees of €1.1 million (previous year: €0.1 million). It includes the consulting fees of €0.6 million that were passed on by ARQUES Industries AG in connection with the Executive Board member J. Klaus Frizen, who left on April 30, 2007. The remaining consulting fees rose from €0.1 million to €0.5 million.

Interest income in the year under review totaled €1.5 million (previous year: €0.3 million) and is mainly attributable to interest income from temporarily holding the proceeds from the IPO-related capital increase which were not invested until during 2007. This figure also includes interest income of €0.7 million (previous year: €0.2 million) from intragroup financing of subsidiaries and second-tier subsidiaries. The interest income is offset by interest expenses of €0.1 million (previous year: €0.2 million).

The net income for the year in 2007 was €4.7 million (previous year: €0.1 million).

First-time proposal of a dividend

SKW Stahl-Metallurgie Holding AG increased income from participating interests (through the dividend payments of the subsidiaries, and profit distribution under the profit and loss transfer agreement) to €5.7 million (previous year €1.6 million) in the year under review.

The Executive Board and the Supervisory Board of SKW Stahl-Metallurgie Holding AG intend to propose to the Annual General Meeting that a dividend of €2,211,125 (equal to €0.50 per common share) be distributed for business year 2007 and that the remaining amount of €2,483,021.07 be carried forward to new account.

Net asset and financial position of the Group parent company

The total assets of the parent company SKW Stahl-Metallurgie Holding AG amounted to €41.7 million as of December 31, 2007 and thus remained almost unchanged against the previous (€40.9 million). The equity ratio as of the balance sheet date was 95.6%. The Executive Board considers the financing for the investments planned in business years 2008 and 2009 to be secured.

The composition of the total assets primarily changed as follows against the previous year: the financial assets as of the balance sheet date were €28.8 million (previous year: €2.6 million). These assets were composed of shares in affiliated companies of €9.5 million and loans to affiliated companies (particularly long-term loans to the ESM Group) of €19.3 million. Receivables from affiliated companies rose from €4.9 million to €8.0 million, mainly as a result of short-terms loans to the ESM Group of €2.1 million (previous year: €0) and claims from the profit and loss transfer agreement with SKW Stahl-Metallurgie GmbH of €2.8 million (previous year: €0). Furthermore, the value of other assets rose from €0.6 million to €1.2 million, which is primarily attributable to increased tax receivables due to the fiscal entity that the Company forms with SKW Stahl-Metallurgie GmbH. The loans to affiliated companies described are matched by a decrease in cash and cash equivalents from €32.8 million to €3.6 million. At €4.7 million, the unappropriated surplus was well below the previous year's level of €37 thousand and equity increased accordingly due to the unappropriated surplus. Payables to affiliated companies (in 2006 mainly to ARQUES Industries AG) fell from €4.9 million to €0.6 million.

Research and Development: Further Developing A High Level Of Technological Competence

Research and development is a strategically important unique selling point for the SKW Metallurgie Group and helps to contribute towards the Group's market leadership by providing customers with high-quality technical advice, as well as developing new products. For this reason, the SKW Metallurgie Group makes sustainable investments in research and development.

In the year under review, €1.0 million (previous year: €1.5 million) was spent on research and development. This strategically important area had 15 employees on average during the year who worked closely together with laboratories, external research institutions and customers.

The SKW Metallurgie Group has organized its research and development in cross-country and cross-company networks. During 2007, the innovative Affival product, PapCal (which has already been launched successfully), was further developed within this network according to customer specifications in order to make it useable for additional applications. The globally patented PapCal cored wire, whose basic concept is to provide a delayed melting of the steel shell encasing the metallic powder, is only marketed under the product brand "Affival". This enables the cored wire to penetrate deeper into the liquid steel, which in turn leads to higher recovery of the metal added.

28 This figure refers to the regular staff (excluding executive body representatives and employees in their probationary periods).

The Group's successful activities in research and development led to own work capitalized of €0.2 million in the year under review (previous year: €0.8 million).

The Group is not aware of any competitors with comparable activities in research and development. This unique selling point confirms the SKW Metallurgie Group's claim of being the world leader in the markets that it serves.

In the year under review, the Group prepared applications for patents and trademark rights worldwide as well as filing applications for them and renewing them in order to protect the Group's intellectual property as fully as possible. The Group's technological competence mainly includes innovative methods for the use of specialty chemicals in steel production.

Corporate Responsibility for the Environment, People and Society

The SKW Metallurgie Group is committed to the principle of ensuring equal living opportunities for present and future generations through a development policy that integrates ecological, economical and social aspects in a sustainable manner. Sustainable corporate action is a central element of the SKW Metallurgie Group's business policy and helps to secure the Company's long-term success. This sustainability approach takes into account factors such as the environment, people and society, as well as economic success. The SKW Metallurgie Group is planning to become increasingly involved in developing countries and emerging economies, and believes that it has a special responsibility here. At the same time, the Group is of the conviction that it makes a positive contribution to the development of these countries through its commitment.

In order to implement these principles in the everyday environmental practice of a production company, the SKW Metallurgie Group has established an environmental centre of excellence at its site in Solesmes (France).

To date, none of the SKW Metallurgie Group's production sites have been subject to contamination or other site-related risk. Nevertheless, constant workforce training and awareness campaigns have focused attention on the relevant expertise and the human and environmental risk associated with using dangerous materials such as lead at the environmental centre of excellence. Bundling responsibilities and expertise in this manner serves to improve the management, monitoring and, in particular, the minimization of environmental risk.

Raw materials for the production and finished products of SKW Metallurgie are transported worldwide. The carriers employed for this are predominantly outside the Group. The Group carefully selects its logistic partners, but the responsibility for environmental perils that may arise from transportation lies with the transport companies. The SKW Metallurgie Group prefers environmentally-friendly forms of transport, such as rail or vessel where possible, thus contributing to the reduction of CO_2 emissions from road transport.

The SKW Metallurgie Group also places a high emphasis on sustainability and reducing harmful emissions in the case of electricity consumption.

The SKW Metallurgie Group meets and, in some cases, exceeds all of the applicable statutory requirements and provisions applicable to it throughout the world. Here, the Group sees environmental protection not as a restriction, but as an opportunity to implement responsible corporate action.

As a leading specialty chemical company, the SKW Metallurgie Group participates actively in the European REACH process based on this philosophy. REACH is a European Union regulation (EC 1907/2006) on chemicals and their safe use which came into effect on June 1, 2007 and stands for **R**egistration, **E**valuation, **A**uthorization and restriction of **CH**emical substances.

REACH aims to improve the protection of human health and the environment through better and earlier identification of the intrinsic properties of chemical substances. At the same time, it should enhance the innovative capability and competitiveness of the EU chemicals industry.

Motivated Employees as a Success Factor

Highly international employee structure

One of the key pillars of the SKW Metallurgie Group's success is the knowledge and commitment of each of its employees.

In the year under review, the SKW Metallurgie Group (excluding the Indian joint venture Jamipol) employed an average of 316 employees around the world (previous year: 226)[29] and 563 employees as of the balance sheet date (previous year: 225).[30] Most of these are full-time employees.[31] However, the Group is fundamentally amenable to the concept of part-time employment, also for a better balance between work and family life. The majority of employees at the production sites are industrial workers.

As of the year-end, employees were distributed across the segments and regions as follows:

29 In 2007, the number of employees fluctuated sharply during the year; this was taken into account when calculating the average by means of a weighting.

30 The number of employees is based on the respective national definitions (e.g. for whether or not to include in calculations executive body members or trainees).

31 Due to the small number of part-time employees in the Group and the different definition and calculation standards, the Group refrains from breaking the headcount figure down into the pure number of employees (heads) and the number of full-time equivalents.

	Cored Wire	Powder and Granules	Quab	Other	Total
USA and Canada	62	258	3		323
France	133				133
Germany		14		5	19
East Asia	38	50			88
Total	**233**	**322**	**3**	**5**	**563**

As of the balance sheet date, over 50% of SKW Metallurgie's employees worked in the USA and Canada, where particularly high significance is attached to a non-discriminating working environment. This issue is also becoming more and more important in Europe and 2007 was the first full year in which the Allgemeines Gleichbehandlungsgesetz (AGG – General Equal Treatment Act) was in force in Germany. The entire SKW Metallurgie Group also emphasizes the equal opportunity employer principle. This means that regardless of any legal provisions, SKW Metallurgie hires and promotes staff based on their qualifications and their achievements and does not in any way discriminate based on personal features such as gender, age, religion, sexual orientation, disability, nationality or race. Rather, the SKW Metallurgie Group promotes the equal treatment of the genders and is also otherwise in favor of a diverse workforce.

Total staff costs (including Executive Board compensation) amounted to €17.6 million in the year under review. Approximately 11% of this figure is attributable to the variable compensation components through which the Group enables most of its employees to participate in the Company's success.

Market-oriented compensation systems

Employees of the SKW Metallurgie Group are compensated in line with the standard market conditions of the respective country. The majority of the Group's employees in France are covered by collective wage agreements for the chemical industry.

Statutory and other contractual or voluntary social security contributions also reflect the standard market conditions of the respective country. The SKW Metallurgie Group promotes protection against employee healthcare and retirement benefit risk above and beyond the minimum statutory requirements. Accordingly, some of the employees in Germany are members of a closed, defined-benefit superannuation scheme. The benefits granted to existing employees under this scheme are covered by accruals for pensions. In the USA, a large number of employees are offered protection against healthcare and retirement benefit risk, e.g. (for retirement) in the form of a standard local 401 (k) plan. All the costs arising from this for the Group are incurred directly and do not lead to unsecured obligations in future periods.

Successful partnership with employees

The SKW Metallurgie Group was not obliged to implement employee co-determination in the year under review as its low number of employees means that it was neither subject to the general statutory provisions on co-determination (translator's note: co-determination means employee representatives in the Supervisory Board; this is a common concept in larger German companies), nor is it an iron or steel producer within the meaning of the Montanmitbestimmungsgesetz (MontanMitbestG – German Coal, Iron and Steel Industry Co-determination Act). The Company did not voluntarily participate in any co-determination in 2007 either.

Some local employee and union representatives were appointed at SKW Metallurgie in the year under review in accordance with the respective national provisions. Cooperation with these committees is marked by mutual understanding and solutions in the interests of both parties. Although the SKW Metallurgie Group is active in several countries of the European Union, it was not a "Community-scale undertaking" within the meaning of the Europäisches Betriebsräte-Gesetz (EBRG – German Act on European Works Councils) in the year under review. Overall, there were no cross-border employee representative bodies within the Group in 2007.

Furthermore, in the SKW Metallurgie Group in 2007 there was neither a representation of senior managers within the meaning of the Sprecherausschussgesetz (SprAuG – German Representative Bodies for Executive Staff Act) nor any other representative bodies for senior managers.

No working days were lost to strikes or lock-outs in the year under review.

In the year under review, no workplace accidents occurred at the SKW Metallurgie Group resulting in death, serious injury or impairment of health. The topic of workplace health and safety is given a high priority at the SKW Metallurgie Group, and the Company strives to exceed the minimum statutory requirements.

On the whole, employee relationships in the SKW Metallurgie Group are characterized by mutual respect and trust.

Employees directly share in corporate earnings

The Executive Board of the SKW Metallurgie Group welcomes employee investment in the Company's share capital. In the year under review, shareholders also supported the introduction of an employee equity compensation program when the capital represented at the Annual General Meeting passed the authorization to acquire own shares – for issue to employees, among other things – by a clear majority. So far, no in-house employee equity compensation program has been introduced that extends beyond the stock option plan introduced in 2007 for selected senior managers.

However, most employees receive additional performance-related payments in line with corresponding statutory or contractual provisions, and thus participate directly in the commercial success of the Company.

Positive working environment

The turnover among permanent and regular staff in the SKW Metallurgie Group is very low (under 10% in 2006 and 2007 respectively). This important non-financial performance indicator underlines management's philosophy of creating an attractive working environment with the aim of generating a competitive advantage for the Company as a result of employee satisfaction.

Well-educated employees are a key factor in the SKW Metallurgie Group's success. The Group companies work in close cooperation with metallurgy-oriented universities such as the Institut National Polytechnique de Lorraine in France, as well as support and promote the specialized doctoral studies of employees. The continued and further education of the entire workforce, including management, is an integral part of the SKW Metallurgie Group's corporate philosophy. In France, for example, approximately 2% of total salaries (substantially more than is required by law), is spent on employee training.

Corporate management measured by results

The compensation structures in the entire SKW Metallurgie Group are governed by the principles of appropriateness, performance and transparency. This primarily applies to compensation for the Executive Board and Supervisory Board.

Basic structures of Supervisory Board compensation

The compensation of the Supervisory Board was determined by the Annual General Meeting of June 18, 2007 as follows:

> The Supervisory Board receives fixed and variable compensation, which is paid out on the day of the Annual General Meeting. Compensation is paid to the Supervisory Board with any VAT incurred on such a payment.
>
> Each member of the Supervisory Board receives annual fixed compensation of €10,000. The Chairman of the Supervisory Board receives annual fixed compensation of €15,000.
>
> The variable compensation is subdivided into meeting compensation of €500 per meeting and compensation linked to the Company's performance which is calculated from the percentage increase in the Company's share price. In this respect, half of the fixed compensation of each Supervisory Board member is used as the assessment basis in each case. The reference value for calculating the share price increase is the average of the Company's share price during the last 30 days before the Annual General Meeting. The settlement value is the average of the Company's share price during the last 30 days before the next Annual General Meeting. The XETRA closing rate of the Frankfurt Stock Exchange during the last 30 trading days is used to calculate the average share price of the last 30 days before the Annual General Meeting.

In the year under review, the Supervisory Board was also entitled to reimbursement of business travel expenses. The amount is equivalent to the maximum of the amounts permitted for income tax purposes. Business entertainment expenses could also be reimbursed in the amount evidenced. In addition, the Company bore the cost of D&O insurance, which also protects members of the Supervisory Board.

Basic structures of Executive Board compensation

The tasks and contribution of each individual member of the Executive Board to the overall performance of the Group were taken into account when determining the compensation of the Executive Board.

The SKW Metallurgie Group paid fees and commissions for consulting services of €590 thousand (plus VAT) to ARQUES Industries AG in Starnberg (Germany) for J. Klaus Frizen, who was part of the Executive Board until April 30, 2007. Mr. Frizen was compensated by ARQUES Industries AG and received no direct payments from the SKW Metallurgie Group.

In the year under review, the compensation of Ines Kolmsee and Gerhard Ertl was composed as follows:

» Fixed compensation
» Variable compensation
» Employer contributions in accordance with the Sozialgesetzbuch (SGB – German Social Code)
» Compensation in kind (only for Mr. Ertl)
» Employer-financed company pension (only for Mr. Ertl)
» Stock option plan (only for Mr. Ertl)

The fixed compensation was paid out monthly as a salary. The variable compensation was made up of a bonus payment that

was agreed individually in each case and primarily based on the EBTDA of the year under review. Part of this variable compensation was already paid out in the year under review and the remaining portion is due in 2008 and has been incorporated into the 2007 Annual Financial Statements in the form of accruals. Mr. Ertl participates in a stock option plan which was launched on March 6, 2007 with a term of 1.73 years (until November 30, 2008) and 10,000 subscription rights based on an issue price of €29 per share.

In addition to the payments described above, the entire Executive Board was entitled to the following payments in the year under review:

» Business travel expenses were reimbursed to the maximum of the amounts permitted for income tax purposes, and business entertainment expenses were also reimbursed in the amount evidenced.
» In addition, the Company bore the cost of D&O insurance, which also protects members of the Executive Board.

To the extent that compensation was provided for seats in other subsidiaries held by members of the Group's Executive Board, these were either not paid or offset at Group level.

Further details on the compensation actually paid to the members of the Executive Board and Supervisory Board can be found in the Notes to the Consolidated Financial Statements.

Realizing Opportunities – Limiting Risks

The SKW Metallurgie Group attaches great importance to the constant recognition and evaluation of opportunities and risks, and to the implementation of appropriate measures where necessary to best realize those opportunities and best limit those risks.

Professional risk and opportunity management for the highest level of transparency

At the SKW Metallurgie Group, opportunities and risk are an accepted element of corporate activity. As in every company, the Group's future business development is characterized by both risks and opportunities. The objective of the Group's risk policy is to leverage the available opportunities while using suitable instruments to limit the related risk. SKW Metallurgie aims to achieve a neutral risk position with an appropriate risk/reward balance. The Group's risk policy is geared towards systematically and continuously increasing the enterprise value. This is to be achieved with the help of a value-oriented management approach and an active portfolio management, particularly of the product portfolio.

Risk management in the SKW Metallurgie Group is composed of a comprehensive system encompassing all the Company's activities and areas that includes a systematic process with elements of risk identification, analysis, assessment, management, documentation and communication based on a defined risk strategy. A target-performance comparison is carried out in monthly reports, which help provide a detailed analysis of product results on a year-on-year or target-actual basis. Analysis meetings are held between members of the Group's Executive Board and executives of the Group companies in a timely manner on the basis of these monthly reports, and the strategy of the current year is adapted promptly as required. Keeping the Executive Board and top-level management informed on a timely basis means that essential packages of measures can be quickly devised and implemented. Another element of risk management is regular strategy meetings involving the directors and top-level management at which the current status of various aspects of the Company's position as well as the opportunities and risks of the subsidiaries in the form of risk inventories are discussed. These meetings are regularly held every two months.

The comprehensive risk management system of the SKW Metallurgie Group also includes a personalized risk handbook and a software tool customized for the Group. Both the handbook and software tool were developed and implemented in the period under review and thus ensure professional risk management compared with the previous year that is independent of the former majority shareholder ARQUES Industries AG. This facilitates both identification of risks at an early stage and solution-oriented analysis of risks as well as making it easier to promptly initiate corresponding measures. The classification and assessment of the individual risk classes is performed on a uniform, Group-wide basis, and may take into account quantitative or qualitative aspects.

The Executive Board is provided with regular reports on the risk management information stored in the system. In addition, when an individual risk is identified, an immediate report must be submitted to the Executive Board as soon as the respective risk exceeds a predetermined threshold. This threshold is when a risk amounting to at least 20% of the respective Group company's standard net income exists while there is a 30% likelihood of the risk occurring. All the rules and processes for risk management in the SKW Metallurgie Group are regularly reviewed by an internal risk manager and adapted if necessary. Adherence to the risk management provisions is controlled through targeted internal assessments. In the context of the audit, the auditor of SKW Stahl-Metallurgie Holding AG also performs an annual examination of the suitability of the risk management system for the early recognition of risks that could endanger the continued existence of the Company within the meaning of section 91 (2) of the AktG. These components for the early identification of risk help ensure that those risks and changes to them which could jeopardize Company's respective situation and its continued existence are recorded.

Individual risks

Through SKW Metallurgie's extensive risk management system, the business policy risks listed below were identified for SKW Stahl-Metallurgie Holding AG and its Group companies. The order in which the risks are presented does not reflect the weighting or importance of the individual risks or the likelihood of their occurrence. The listed risks include all material risks that are currently identifiable. Other risks and uncertainties that are not currently known to the Company or that the Company currently considers to be immaterial could also have a significant impact on the Company's operations and a long-term detrimental effect on the business prospects and the net asset, financial position and results of operations of the SKW Metallurgie Group.

Economic risk

The SKW Metallurgie Group is dependent on macroeconomic development and the cyclical nature of its specific customer industries. The macroeconomic situation and the development of the markets served by the Group have a direct impact on demand for the Group's products and a significant effect on the Company's business situation. These customer industries are exposed to economic fluctuations that indirectly affect the SKW Metallurgie Group. For instance, this can lead to a loss of customers, e.g. through insolvencies or customers may reduce their level of demand through aggressive price policies from local competitors. Several Group companies effect a large part of their sales with relatively few customers, with the result that a loss of such a customer or a change in its payment behavior could have significant effects on a Group company. The SKW Metallurgie Group examines and assesses each customer relationship individually; there are no Group-wide guidelines, e.g. for reminder periods or credit periods. Risks from changes in prices are of lesser importance to the Group since purchase prices and sales prices generally show a positive correlation.

The SKW Metallurgie Group also employs collateral to optimize finance. Of the total inventories of €56.4 million, inventories of €31.9 million (previous year: €12.7 million) are assigned as part of master loan agreements in the USA and Germany. Receivables within Germany of €10.3 million (previous year: €4.1 million) are assigned as a result of master loan agreements. Further details on this can be found in the Notes to the Consolidated Financial Statements, particularly notes E 17-18. Furthermore, €3.1 million of the tangible assets have been provided to a local bank by Affival Inc. as collateral for one of its credit lines.

The products produced by the SKW Metallurgie Group in the two **"Cored Wire"** and **"Powder and Granules"** segments, which are distributed primarily in Europe, North America and individual Asian countries, are used – directly or indirectly – almost exclusively in the steel production industry. Only ESM serves a considerable amount of customers outside the steel industry (e.g. special magnesium for diver torches). Demand for high-quality steel products in the automotive, shipping and mechanical engineering industries and plant engineering for the chemical and petrochemical industries is particularly important for the SKW Metallurgie Group.

In the **"Quab"** segment, the Group manufactures additives for the production of modified industrial starch that are mainly used in the paper industry. Although the emergence of electronic communication was predicted to bring an end to or at least a decline in the use of paper, this has proved not to be the case. In contrast, sales in the paper industry over the past few years have increased roughly in line with general economic output; this trend can also be expected to continue over the coming years. Another customer industry for "Quab" products is the personal care products markets, where Quab is used in shampoos, conditioners and shower gels. This industry is also relatively resistant to economic slowdowns, and is posting above-average growth in emerging economies such as India and China.

Procurement risk

Secure supply of high-quality raw materials is essential to the success of the SKW Metallurgie Group.

In obtaining the key raw materials required by the **"Cored Wire"** segment, the Group's management pursued a strategy aimed at countering the risk of becoming dependent on one producer or production country by entering into multiple strategic alliances. As things stand, this global procurement strategy is expected to secure the segment's raw material supply in the short and medium term.

The **"Powder and Granules"** segment's procurement activities are focused on ensuring the availability of magnesium and carbide-based hot metal desulphurization materials. Magnesium procurement was secured in the long term by backward integration. This substantial improvement in the Group's strategic procurement position was thanks to the acquisition of the ESM Group, to which a subsidiary in China with direct access to magnesium belongs.

The main supplier of carbide-based hot metal desulphurization materials in the year under review was the AlzChem Group, which is part of the Evonik Group. This supply contract was terminated by the supplier as of December 31, 2008 and is currently being renegotiated for a period beginning in 2009. At the same time, the Group is cultivating its relationships with other suppliers in order to avoid excessive dependence on this source of raw material.

In the case of calcium silicon, the Group attaches particular important to developing supplier relationships with providers outside of Europe due to a reduction in the production output of the sole supplier within Europe.

The supply of raw materials in the **"Quab"** segment is secured by corresponding framework contracts with price adjustment clausess.

Potential increases in the prices of commodities may largely be passed on to the customer via price adjustments, which can be seen from the trend already described in the gross margin, for example.

All in all, no significant bottlenecks whatsoever are envisaged for the SKW Metallurgie Group in the supply of raw materials. It is likely that any limitations in the case of individual sources of raw materials are able to be compensated for by using alternative procurement channels.

Human resources risk

The SKW Metallurgie Group's success is dependent to a large extent on its employees in management positions, research and development and consulting. In the Company's opinion, one of the reasons for its current market position is that it performs its own research and development, as well as the fact that it offers its customers production-related metallurgical advice for hot metal desulphurization and steel refining using chemical additives. Both of these areas require highly qualified employees that must have the required metallurgy expertise and the ability to precisely assess the characteristics of the Group's products within the steel production process on the basis of their experience. The Group's streamlined structure and the personalized nature of some elements of its business mean that it is dependent on key employees. In order to counteract this dependence partially at least, the Group's management has implemented a succession model for the levels below the Executive Board.

Financial risk

The Company's financial position is sound, which can mainly be seen in its comparatively low net indebtedness as of the balance sheet date in the amount of €41.8 million. Despite this, the Company is exposed to financial risk, and in particular currency and commodity price risk.

The currency risks from the operating business (transaction risks) are reduced by natural hedging, but cannot always be completely offset. Natural hedging arises when both the Group's purchases and sales are usually settled in the same currency other than euro. In order to optimize the remaining currency risks, Group companies also hedge any exposures arising from the relevant foreign-currency forecasts at specific points after consulting Group management. SKW Metallurgie also employed derivative financial instruments for this purpose as of the balance sheet date. The related risks at Group level are considered low; details can be found in the Notes to the Consolidated Financial Statements, particulars in notes E 38 ff. The translation risks resulting from the transfer of income and expenses recorded by subsidiaries in other currency areas into euros are not hedged. These translation risks comprise both sales and earnings.

The most important currencies for the Group by far were its reporting currency (euro) and the US dollar. An unexpected change in the exchange rate between these two currencies can result in significant translation risks since it is likely that more than half of the Group's sales in 2008 and 2009 will be generated in US dollars.

Risk in connection with investigations by government authorities

Since the start of 2007, the European Commission has been investigating the calcium carbide sector on suspicion of a breach of legal antitrust obligations. Following a search of SKW Metallurgie Group's companies in January 2007, the European Commission continued its investigations in the form of two written requests for information. It is currently impossible to say whether and, if so, to what extent companies of the SKW Metallurgie Group might have to pay fines. The Executive Board still believes that the allegations made against companies of the SKW Metallurgie Group are unfounded. The examination carried out internally within the Group in 2007 did not lead to any new findings. For this reason, the Executive Board does not expect these ongoing proceedings to be of any significance to the annual financial statements of SKW Stahl-Metallurgie Holding AG and for the consolidated financial statements of the SKW Metallurgie Group.

In the business year 2005, the US government's Department of Homeland Security searched the premises of ESM Group Inc., which was not part of the SKW Metallurgie Group at the time. This search was triggered by the allegation that the special magnesium resold by the ESM Group Inc. had not been correctly cleared through customers when imported into the USA. However, ESM was not the importer and had obtained this material from a supplier. Therefore ESM was not responsible for clearance of the material through customs. Based on the facts depicted above, the Executive Board does not believe that financial liability by ESM Group Inc. is to be expected.

Risk from expanding the value chain

By acquiring the ESM Group, the value chain was expanded, in particular into service and construction. In this context, ESM bears the responsibility for the result of certain production steps in steel production. With this responsibility for results and with construction, risks, in particular increased warranties, are associated.

Overall assessment of the risk matrix

The overall assessment of the aforementioned risk areas shows that the Group is primarily subject to both sale- and procurement-side market risk relating to economic price and volume development. The level of financial risk is manageable.

All in all, it can be concluded that the present risks to which the SKW Metallurgie Group is exposed are limited and that they do not pose a threat to the continued existence of the Company. Similarly, there is no evidence of any risks that could endanger its continued existence.

Recognizing and leveraging opportunities

In particular, the Executive Board of the SKW Metallurgie Group has identified the opportunities described below for its future operating activities.

Consolidation of the steel industry as an opportunity for the SKW Metallurgie Group

The Group's management believes that the concentration of customers and their purchasing functions that is currently taking place offers an opportunity for it to expand its business in the markets it already supplies and to develop additional market potential. In the future, the steadily growing global steel conglomerates will cluster their suppliers on the basis of their ability to serve them internationally. The SKW Metallurgie Group's unique international presence in its market means that this development offers additional growth potential. The SKW Metallurgie Group's high degree of technical expertise and strong focus on R&D means that the Group is well equipped to position itself even more distinctly than before as an international partner for global steel conglomerates. This opportunity is reinforced by the fact that competitors perform no or only minimal research and development.

New high-growth markets as an opportunity for SKW Metallurgie

In some emerging economies such as Russia, India or China, steel production is also set to post above-average growth over the next few years. However, the general increase in steel production is not the only important factor in the market prospects of SKW Metallurgie. Even more crucial is the rise in the production of high-quality and higher-quality steels. In the above-mentioned countries, this segment is set to post above-average growth. Consequently, demand for products such as those provided by the SKW Metallurgie Group should also post above-average growth. To service this increasing demand, the Group is planning to establish new plants in the "Powder and Granules" segment as well as additional cored wire production facilities in Mexico and Russia. The appropriate steps were taken in the year under review. Furthermore, the existing involvement in China is to be extended further, at the same time securing the protection of the Group's intellectual property. In addition, the Group wants to take advantage of its experience in the hot metal desulphurization business in the Indian-based Jamipol so as to become the leading provider in this country for secondary metallurgy.

In Turkey a plant for the manufacture of hot metal desulphurization compounds is planned as is a joint venture for constructing an integrated calcium-silicon plant in Bhutan.[32]

As a result of this expansion, the Group's leading global position will be expanded, both in hot metal desulphurization and also for cored wire in secondary metallurgy. Typical for the new markets in the emerging economies are low initial levels of sales volume, strong growth, above-average margins and low labor costs for local staff.

Growth by expanding the value chain

Backward integration was realized for magnesium with the acquisition of the ESM Group in the year under review. In the context of its identified growth strategy, the Group is now planning to increase its real net output ratio by developing or acquiring its own raw material production also for other substances. This would not only allow higher margins, but also makes the Group less dependent on external suppliers.

Hot metal desulphurization allows additional growth opportunities with vertical integration (both an increased level of backward integration in the materials area and further forward integration e.g. in plant construction and services). These business areas, offered primarily by the ESM Group, make it possible to realize addition real net output potential and increase customer loyalty.

Margin growth through innovative products

In the "Cored Wire" segment, the intensified sale of higher margin products is set to increase the average margin over the next few years. For instance, the PapCal product, patented until 2023, has significant market potential, which is likely to be realized fully over the next few years. The main characteristic of PapCal product is that it is three to five times more effective than conventional calcium-filled core wire. The resultant savings are shared between customers and the Affival Group, making it highly attractive to both parties.

In addition, the Group's international research and development team is also working on further improving product quality and production efficiency of various other Group products. Both research topics are set to lead to a further increase in margin, partly through the possibility of achieving higher sales prices and partly through further cost reduction.

32 A joint venture contract to this effect was signed on January 18, 2008.

Report on Post-Balance Sheet Date Developments

After the end of the year under review on December 31, 2007, there were no transactions and events of significance to the Group which occurred before this management report went to print.

Optimistic Outlook for 2008 and 2009

General conditions: signs pointing to growth in 2008 and 2009

Despite concern about a trend to recession in North America and the resulting potentially negative impact on the global economy, economic experts anticipate that 2008 and 2009 will again bring solid growth rates for the global economy. However, at the beginning of 2008, forecasts have been becoming more cautious. Thus the International Monetary Fund (IMF) anticipates 4.1% growth in the global economy. On the other hand skepticism prevails for the USA. There are many indications of a recession in this region. However, the IMF is still anticipating a 1.5% rise in US GDP. For the Euro zone 1.6% growth is expected for 2008, with Germany's economic output growing at a similar level and the Japanese economy expanding by roughly 1.5%.

In 2008, the hopes of the global economy again lie with the emerging economies, even though they are also likely to suffer from the impact of the US subprime crisis.

According to the Organization for Economic Cooperation and Development (OECD), China's GDP could increase by 10.7%, that of India by 8.6%.

According to information from the IMF, Central and Eastern Europe can plan a 4.6% increase in economic performance, with Russia playing a central role in these regions.

Currently forecasts are much more difficult for 2009. At the end of 2007, the OECD anticipated that the negative effects from the US subprime crisis would gradually ease. For the USA, the experts consider growth of 2.2% realistic. GDP in the euro zone should expand by 2.0%, that of Germany by 1.6%. Japan's economy could expand by 1.8%. In 2009, decisive impulses should again emerge from the economies of South-East and East Asia. For China, the OECD anticipates an economic upturn of 10.1% and for India 8.4%.

At the time the management report was prepared, the Executive Board assesses the overall economic situation largely unchanged in comparison to the end of the period under review. Thus the US central bank continued its policy of the second half of 2007, reducing interest rates further to 3.00% in January 2008. For the remainder of 2008 and for 2009, the Executive Board expects the positive macroeconomic development to continue, especially in the emerging countries.

Steel and paper industries expect further growth

The development of the steel industry, the most important industry segment for SKW Metallurgie, correlates positively with the global economic development. Despite the slightly cautious forecast for the global trend, the IISI (International Iron and Steel Institute) experts see the industry continuing on a solid course of growth in 2008. Thus global steel consumption is set to rise by 6.8%, in line with the growth generated in 2007. The so-called BRIC countries will again be generating the majority of the economic momentum (+11.1%). On the other hand, growth in EU steel demand is likely to decrease to +1.4%. The NAFTA region is expected to post a considerable increase (+4.0%). Forecasts for the US steel industry are close to full plant utilization.

For the paper industry which is important to the "Quab" segment, experts continue to forecast 2008 growth at approximately the level of general economic growth.

For the business year 2009, no common reliable forecast is evident. However, if the global economiy continues to grow, as expected by some economic experts, the steel and paper industries are also likely to benefit as a result.

SKW Metallurgie remains on growth course

The Executive Board continues to assess the economic situation in 2008 as stable, both at SKW Stahl-Metallurgie Holding AG and the SKW Metallurgie Group. Key factors impacting the economic development of the Group will be the global production output of crude steel, the exchange rate between the US dollar and the euro and the described expansion projects in the emerging countries.

Overall, the Executive Board expects that in 2008 Group sales and EBITDA will be above the figures of the year under review. This trend should also continue in 2009.

Ambitious guidance for 2011 confirmed

At the time the management report was prepared, the Group's capital market guidance is as follows:

» In the business year 2007, the Group announced its annual forecast on May 15, 2007 of sales between €210 million and €230 million and EBITDA of between €18.5 million and €19.5 million. The sales forecast was raised on November 12, 2007 to €235 million. With actual sales of €239.0 million and an EBITDA of €21.1 million, the Group clearly exceeded its targets in the year under review.

» For the business year **2008**, no formal guidance had been released up to the time when this management report was prepared. The Executive Board expects that Group sales and EBITDA in 2008 will be beyond 2007 figures. This trend is going to continue in 2009.

» For business year **2011**, the SKW Metallurgie Group Executive Board had forecast sales of €360 million and an EBITDA margin of 9%. These objectives remain the benchmarks for the success of the Group.

Dependent Company Report

In accordance with section 312 of the AktG, SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), prepared a separate report on its relationships with affiliated companies in the business year 2007. To July 20, 2007, affiliated companies included ARQUES Industries AG, Starnberg (Germany), and affiliated companies of the same outside the SKW Metallurgie Group. From July 21, 2007 to the end of the period under review on December 31, 2007, there was no controlling company for the SKW Metallurgie Group in the sense of Article 312 AktG. The report concludes with the following declaration of the Executive Board: "In all the legal transactions described in the dependent companies report, our Company received appropriate compensation. The Company was not disadvantaged by the legal transactions stated in this report. In the business year, there were no measures which were reportable. This assessment is made on the basis of the circumstances known to us at the time of the reportable transactions."

Unterneukirchen (Germany), on March 10, 2008

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee

Gerhard Ertl

SKW Stahl-Metallurgie Holding AG: Consolidated Income Statement for 1 January - 31 December 2007

€ thousand	Note	2007	2006
Sales	**1**	**238,989**	**185,828**
Change in the inventories of finished goods and work in progress		2.201	-614
Own work capitalized		246	840
Other operating income	2	5,765	4,108
Cost of raw materials, supplies and merchandise	3	-181,074	-145,914
Personnel costs	4	-17,614	-12,911
Other operating expenses	5	-28,442	-17,737
Income from affiliated companies	7	986	716
EBITDA		**21,057**	**14,316**
Amortization and depreciation of fixed intangible and tangible assets	6	-3,368	-1,859
EBIT		**17,689**	**12,457**
Other interest and similar income	8	898	274
Interest and smiliar expenses	9	-1,677	-716
EBT		**16,910**	**12,015**
Taxes on income	10	-4,506	-2,782
Consolidated net profit for the period		**12,404**	**9,233**
Of which attributable to the parent company	11	12,309	9,233
Of which attributable to minority interests		95	0
Earnings per share in € (not weighted)*	12	2.78	2.09

* The earnings per share weighted corresponds to the earnings per share not weighted.

SKW Stahl-Metallurgie Holding AG: Consolidated Balance Sheet as at 31 December 2007

ASSETS in € thousand	Note	12/31/2007	12/31/2006
Fixed assets			
Intangible assets	13	31,618	989
Tangible assets	14	25,522	9,690
Shares in affiliated companies	15	3,946	3,679
Other long-term assets		385	431
Deferred tax assets	16	3,122	4,064
Total long-term assets		**64,593**	**18,853**
Current assets			
Inventories	17	56,373	26,284
Trade receivables	18	46,900	27,113
Claims from income tax expense	19	1,464	196
Other assets	19	5,188	4,758
Cash and cash equivalent	20	6,811	34,905
Total short-term assets		**116,736**	**93,256**
Total assets		**181,329**	**112,109**

EQUITY AND LIABILITIES in € thousand	Note	12/31/2007	12/31/006
Equity	21		
Subscribed capital		4,422	4,422
Capital reserves		29,144	29,144
Other reserves		40,924	33,165
		74,490	**66,731**
Minority interest		1,680	38
Total equity		**76,170**	**66,769**
Long-term liabilities			
Accruals for pensions obligations	23	1,462	1,333
Obligations from finance leases	24	642	847
Financial liabilities	26	29,525	0
Deferred tax liabilities		9,100	415
Other liabilities	28	339	0
Total long-term liabilities		**41,068**	**2,595**
Short-term liabilities			
Accruals	25	397	873
Financial liabilities	26	19,045	15,497
Trade payables	27	26,249	21,305
Other liabilities of which taxes		1,493	1,903
Other liabilites of which short-term liabilities	28	16,907	3,167
Total short-term liabilities		**64,091**	**42,745**
Total equity & liabilities		**181,329**	**112,109**

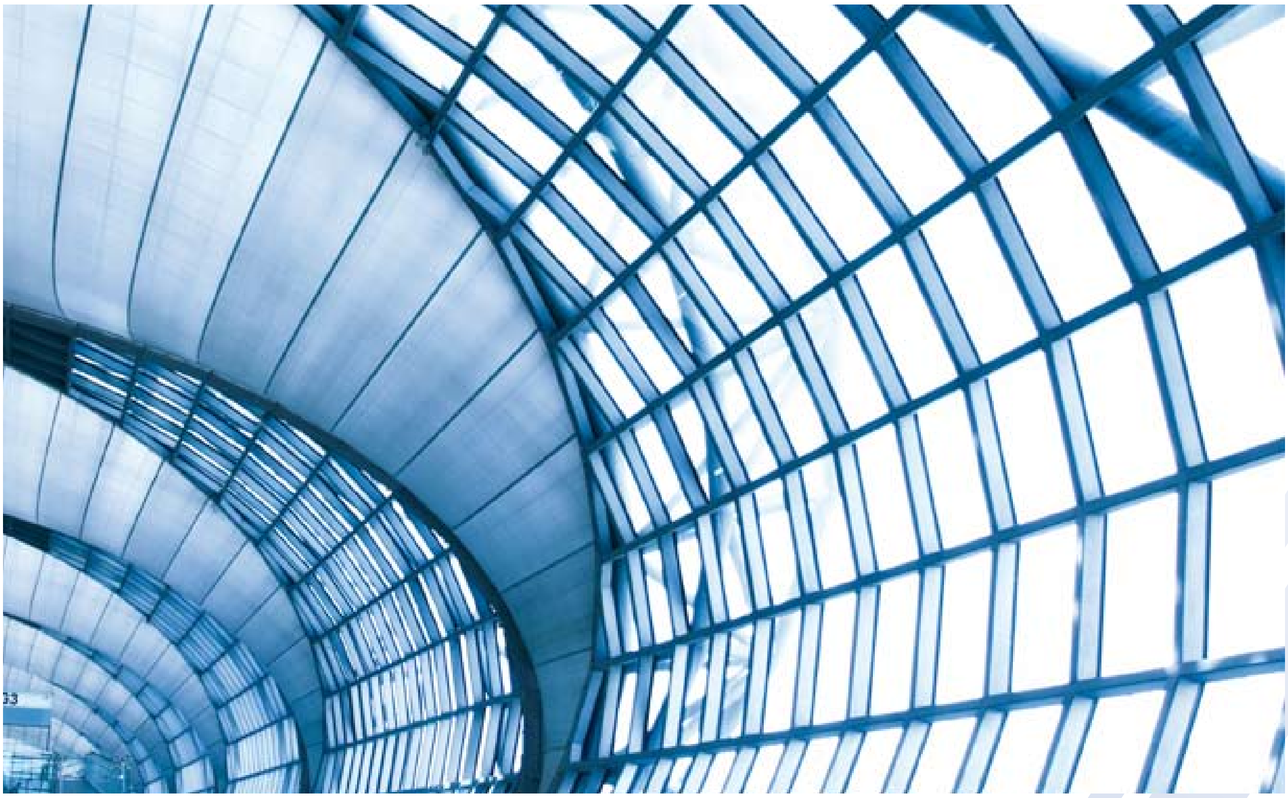
SKW Stahl-Metallurgie Holding AG: Consolidated Cash Flow Statement as at 31 December 2007

€ thousand	Note 30	01/01/07-12/31/2007	01/01/06-12/31/2006
1. Net income of the year		12,404	9,233
2. Depreciation of fixed assets		3,368	1,859
3. Increase/decrease in accruals for pensions		171	116
4. Income from equity accounted investments		-370	-326
5. Gains / losses on the disposal of tangible assets		22	-596
6. Foreign exchange losses		636	655
7. Expenses from deferred taxes		1,154	46
8. Own work capitalized		-246	-840
9. Bargain Purchase		-4,381	0
10. Expenses from declined trade receivables		886	58
11. Net increase / decrease of other expenses / income		778	-367
12. Gross cash flow		**14,422**	**9,838**
Changes in working capital			
13. Increase / Decrease in short-term accruals		-543	-54
14. Increase / Decrease in inventories (after advanced payments received)		-1,252	-766
15. Increase / Decrease in trade receivables		-1,295	3,330
16. Increase / Decrease in receivables from affiliated companies		0	-948
17. Increase / Decrease in other receivables		31	38
18. Increase / Decrease in other assets		1,461	-365
19. Increase / Decrease in trade payables		-3,521	-468
20. Increase / Decrease in trade payables to affiliated companies		0	17
21. Increase / Decrease in other liabilities		-410	390
22. Increase / Decrease in other equity & liabilities		2,832	-568
23. Net cash from / used in operating activities (net cash flow)		**11,725**	**10,444**
24. Proceeds (= income) from the disposal of assets		104	1,069
25. Payments for investments of in fixed assets		-3,411	-2,468
26. Purchase price paid for business acquisitions		-62,866	0
27. Cash and cash equivalent acquired in business acquisitions		874	15
28. Net cash from / used in investing activities		**-65,299**	**-1,384**
29. Decrease in finance lease payables		-213	0
30. Proceeds from capital increase		0	30,184
31. IPO costs		0	-2,483
32. Repayment of shareholder's loan		-3,170	-3,576
33. Proceeds from raising liabilities to banks		34,100	349
34. Payments of the repayment of loans		-5,215	0
35. Net cash from / used in financing activities		**25,502**	**24,474**
36. Cash and cash equivalents at the beginning of the period		34,905	1,362
37. Change in cash and cash equivalents		-28,072	33,534
38. Currency Translation of cash held		-22	9
39. Cash and cash equivalents at the end of the period		**6,811**	**34,905**

SKW Stahl-Metallurgie Holding AG:
Statement of Changes in Consolidated Equity in Financial Years 2006 and 2007

Note 21 in € thousand	Issued Capital	Capital Reserves
As at 1 January 2006	**25**	**1,000**
Changes in exchange rates	0	0
Other changes	0	0
Expenses and income recognised in equity	**0**	**0**
Consolidated net profit for 2006	0	0
Total expenses and income for the period	**0**	**0**
Capital increase from assets in kind	2,300	0
Increase in issued capital from corporate funds	1,000	-1,000
IPO	1,097	30,723
IPO transaction costs after taxes	0	-1,579
Total equity as at 31 December 2006	**4,422**	**29,144**
As at 1 January 2007	**4,422**	**29,144**
Changes in exchange rates	0	0
Stock-oriented compensation	0	0
Exchange rate differences according to IAS 21		
Other changes	0	0
Expenses and income recognised in equity	**0**	**0**
Consolidated net profit for 2007	0	0
Total expenses and income for the period	**0**	**0**
Total equity as at 31 December 2007	**4,422**	**29,144**

Other Reserves	Consolidated Equity of the Controlling Shareholder	Minority Interests	Total Equity
24,918	**25,943**	**0**	**25,943**
-1,376	-1,376	0	-1,376
390	390	38	428
-986	**-986**	**38**	**-948**
9,233	9,233	0	9,233
8,247	**8,247**	**38**	**8,285**
0	2,300	0	2,300
0	0	0	0
0	31,820	0	31,820
0	-1,579	0	-1,579
33,165	**66,731**	38	**66,769**
33,165	**66,731**	**38**	**66,769**
-2,313	-2,313	-52	-2,365
61	61	0	61
-1,236	-1,236	0	-1,236
-1,062	-1,062	1,599	537
-4,550	**-4,550**	**1,547**	**-3,003**
12,309	12,309	95	12,404
7,759	**7,759**	**1,642**	**9,401**
40,924	**74,490**	**1,680**	**76,170**



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR BUSINESS YEAR 2007

A. GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), "SKW Metallurgie" or "the company" for short, is a stock corporation under German law. The registered office of the company is at Fabrikstrasse 6 in 84579 Unterneukirchen, Germany, and the company is entered in the commercial register at the Traunstein Local Court (HRB 17037).

The shares of the company have been traded in the Prime Standard of the regulated market of the Frankfurt/Main (Germany) stock exchange ("Geregelter Markt"; "Regulierter Markt" since Nov. 1, 2007).

The business activities of the SKW Metallurgie Group are the acquisition, production and distribution of chemical additives for hot metal desulphurization and steel refining as well as the related applications-oriented support of the steelworks in these areas of use. In addition, the "Quab" segment produces and sells specialty chemicals for the manufacture of modified industrial starch and body care products.

The consolidated financial statements were prepared using euro (€) as the reporting currency. Euro is the functional currency as most of the Group's transactions are based on this currency. The amounts in the notes to the consolidated financial statements are generally in thousands of euro (€ thousand), unless otherwise stated. Differences may arise in the tables found in the notes to the consolidated financial statements due to figures being rounded up or down.

The nature of expense method has been used for the consolidated income statement. The consolidated balance sheet is structured by term. Assets and liabilities that are due within a year are considered to be current. Assets and liabilities with a term of more than one year are classified as non-current.

To improve the clarity of presentation, items of the consolidated balance sheet and of the consolidated income statement have been combined where practical and possible. These items are subdivided in the notes to the consolidated financial statements and explained accordingly.

The consolidated financial statements of SKW Metallurgie have been supplemented by a separate presentation of other material components of the net assets, financial position and results of operations. These components include the company's reportable segments: "Cored Wire", "Powder and Granules", "Quab" and "Others".

Unless stated otherwise, the figures in the notes refer to the consolidated financial statements.

SKW Stahl-Metallurgie Holding AG has compiled these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements of SKW Metallurgie were prepared in accordance with the International Financial Reporting Standards as they are to be applied in the European Union and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The consolidated financial statements were compiled on the basis of the historical cost approach, limited by the recognition of derivative financial instruments and other financial instruments which are measured at fair value.

All the mandatory IFRSs and IASs for business year 2007 and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) were complied with. The consolidated financial statements were supplemented by a Group management report and additional disclosures required in accordance with Article 315a (1) of the Handelsgesetzbuch (HGB – German Commercial Code) and the Aktiengesetz (AktG – German Stock Corporation Act). The financial statements included of all fully-consolidated domestic and foreign companies that must be audited in line with national provisions or voluntarily audited were checked by an independent auditor or checked from an auditing perspective. The consolidated financial statements are prepared under the assumption that the company is a going concern.

Application of the following IASB or IFRIC standards is mandatory for the first time for business years beginning on January 1, 2007:

» IAS 1 (Presentations of Financial Instruments – Capital Disclosure)
» IFRS 7 (Financial Instruments: Disclosures)
» IFRIC 7 (IAS 29 Financial Reporting in Hyperinflationary Economics)
» IFRIC 8 (IFRS 2 Share-based Payment)
» IFRIC 9 (Reassessment of Embedded Derivatives)
» IFRIC 10 (Interim Financial Reporting and Impairment)

The above standards were examined as to their impact on the accounting of the SKW Metallurgie Group. Information on IAS 1 can be found under note 22. Information in line with IFRS 7 can be found under notes 37 and 39. The aim of the information in the notes under IFRS 7 is to provide details relevant to decision-making on the amount, timing and probability of future cash flows resulting from financial instruments and an assessment of the risks arising from financial instruments. The other new standards listed had no effect on the SKW Metallurgie Group. The adoption of these standards therefore led to no adjustments.

The following standards and interpretations have been published but are not yet mandatory and have not been applied by SKW Metallurgie:

IFRS 8 (Operating Segments), published by the IASB in November 2006 and adopted by the EU by way of resolution dated November 14, 2007, must be applied to reporting periods beginning on or after January 1, 2009. In particular, IFRS 8 provides for the application of the management approach to reporting on the business development of segments. SKW Metallurgie has refrained from voluntary adoption of IFRS 8 and its segment reporting in these consolidated financial statements is in line with IAS 14.

Amendments to IAS 1 (Presentation of Financial Statements) were published in September 2007. The amendments essentially regulate the presentation of changes in equity and uniform designations for annual financial statement components to facilitate the analysis and comparison of annual financial statements. The amendments to IAS 1 must be applied to reporting periods beginning on or after January 1, 2009. Its impact on the consolidated financial statements of the SKW Metallurgie Group is limited to changes in the presentation of annual financial statement components.

The amendment to IAS 23 (Borrowing Costs) published in March 2007 revoked the option to immediately recognize such borrowing costs as an expense that relate to assets that take a substantial period of time to get ready for use or sale. The amendments to IAS 23 must be applied to reporting periods beginning on or after January 1, 2009. On account of its ongoing expansion strategy in 2008 and 2009, the amendments to IAS 23, which are mandatory from January 1, 2009, are expected to affect the consolidated financial statements of the SKW Metallurgie Group.

Published in November 2006, IFRIC 11 (IFRS 2 – Group and Treasury Share Transactions) regulates the recognition of share-based remuneration within groups and treasury share transactions. It must be applied to reporting periods beginning on or after March 1, 2007.

Also published in November 2006, IFRIC 12 (Service Concession Arrangements) regulates the recognition of rights and obligations arising from service concession arrangements in light of existing IFRS and must be applied to reporting periods beginning on or after January 1, 2008.

IFRIC 13 (Customer Loyalty Programs) was published in June 2007 and regulates the recognition of the bonuses that customers receive when they buy other goods and services. It clearly states that these are multi-component transactions. IFRIC 13 must be applied to reporting periods beginning on or after July 1, 2008.

IFRIC 14 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction), which was published in July 2007, provides clear guidelines to determine the upper limit for a pension fund surplus that can be carried as an asset under IAS 19. It also explains the effects of minimum funding requirements on assets and liabilities in connection with pensions. IFRIC 14 must be applies to reporting periods beginning after July 1, 2008.

B. CONSOLIDATED GROUP AND CONSOLIDATION METHODS

The consolidated financial statements of SKW Stahl-Metallurgie Holding AG as of December 31, 2007 comprise the annual financial statements of the Group parent company and the annual financial statements of the subsidiaries included in the Group.

Subsidiaries are all companies in which the Group has a controlling influence over their financial and operating policies and are generally accompanied by a minimum 50 % share in voting rights. When assessing whether there is a controlling influence, the existence and effect of any potential voting rights that may currently be exercised or converted is taken into account where applicable. Subsidiaries are included in the consolidated financial statements (fully-consolidated) from the date on which control was passed on to the Group. They are deconsolidated on the date on which control ends.

The capital consolidation of subsidiaries is carried out under IAS 27 (Consolidated and Separate Financial Statements) in conjunction with IFRS 3 (Business Combinations) by offsetting the carrying amount of the participating interest against the revalued equity of the subsidiary on the date of acquisition (revaluation method). The cost of the acquisition corresponds to the fair value of the assets given up, the equity instruments issued and the liabilities that arise or are assumed on the transaction date (date of exchange) plus the costs directly attributable to the acquisition. Assets, liabilities and contingent liabilities that can be identified in a business combination are measured at their fair values on the date of acquisition upon first-time consolidation, irrespective of

the extent of the minority interests. Any excess of the cost of the acquisition over the interest of the Group in the net assets measured at fair value is carried as goodwill. If the costs of acquisition are lower than the net assets of the acquired subsidiary that are measured at fair value, the difference is reported directly in the income statement after being checked once more. The interests of minority shareholders are reported under the portion of the fair values of the assets and liabilities recognized that corresponds to the minority interest.

The profits/losses of subsidiaries acquired or sold in the course of the year are included in the consolidated income statement from the date on which the controlling influence begins or ends. These were all shares in ESM Group Inc., Wilmington (USA), and all shares in Tianjin Hong Long Metals Co., Ltd., Tianjin (China). No companies were sold within the SKW Metallurgie Group in business year 2007. Intragroup transactions, balances and unrealized profits from transactions between Group companies are eliminated. Unrealized losses are also eliminated, unless the transaction indicates impairment of the asset transferred.

Interests in consolidated shareholder's equity and consolidated net income for the year attributable to minority shareholders are reported separately from the interests attributable to the parent company.

Jamshedpur Injection Powder Ltd., Jamshedpur (India), "Jamipol" for short was carried at equity in the consolidated financial statements.

The reporting dates of the companies included – except the company carried at equity – are the same as the reporting date for the annual financial statements of the parent company. Jamipol's balance sheet date is March, 31.

The list of shareholdings can be seen in part F of these notes.

Associates

Associates are those companies over which the Group exerts a significant influence, but do have any control and are usually accompanied by a 20 % – 50 % share of voting rights. Participating interests in associates are recognized for using the equity method. In line with this, differences from first-time consolidation are treated according to the principles of consolidation and initially carried at cost. The Group's interest in associates includes the goodwill that arose upon acquisition.

The Group's interest in the profit and loss of associates is reported in the income statement from the date of acquisition and the interest in changes to reserves in the Group reserves. The cumulative changes after acquisition are offset against the carrying amount of the participating interest.

Segment reporting

A business segment is a group of assets and operating activities that provides products and services which are different to those of other operations in terms of their risks and rewards. A geographical segment provides products or services within a specific economic environment, the risks and rewards of which differ from other economic environments.

In segment reporting, operations are structured by main activities (primary segmentation) and by geographical characteristics (secondary segmentation). The primary segments in the SKW Metallurgie Group are the "Cored Wire", "Powder and Granules", "Quab" and "Others" areas. Segments are reported at carrying amount and in line with the accounting methods of the underlying IFRS consolidated financial statements. Intrasegment consolidations were performed. The amortization of intangible assets and the depreciation of tangible assets belonging to the segment are reported as segment amortization and depreciation.

The annual financial statements of the companies included in the consolidated financial statements were based on the same accounting policies. The main accounting policies that were applied when preparing these consolidated financial statements are presented below.

C. KEY ACCOUNTING POLICIES

Recognition of sales and expenses

Sales are measured at the fair value of the consideration received or to be received and constitute amounts that are to be received for goods and services in the ordinary course of business. Sales of goods are recognized as soon as the material risks and rewards of ownership have transferred to the buyer and the amount of sales that can be realized can be reliably determined and the collectability of the receivable can be assumed. Sales from services are recognized as soon as the service has been performed. No sales are reported if there are material risks regarding the receipt of consideration or the possibility of the goods being returned. In addition, sales are reported net of sales allowances such as bonuses, discounts and rebates as well as other taxes related to the sale.

Non-capitalizable expenses are recognized in the income statement when they are incurred.

Long-term construction contracts

Sales and expenses from long-term construction contracts are recognized in line with the percentage-of-completion method. The percentage of completion is calculated as the ratio of contract costs incurred for work performed to date to the estimated total contract costs. Construction contracts recognized in line with the percentage-of-completion method are measured in line with the contract costs incurred as of the reporting date plus the pro rata profit for the percentage of completion achieved. In the balance sheet, these sales are recognized net of any customer advances under receivables. Changes to the order, claims or bonuses are included to the extent that there is a corresponding binding agreement with the customer. If the income from a construction contract cannot be reliably measured, the sales that can probably be generated are recorded up to the amount of the costs incurred. Contract costs are recognized as an expense in the period in which they are incurred. If the total order costs are expected to exceed the order proceeds, the anticipated loss is reported directly as an expense.

Net financial income/loss

Interest income is recognized an accrual basis, taking into account the outstanding loan amount and the interest rate to be applied. The interest rate to be applied is precisely the interest rate which discounts the estimated future cash flows over the term of the financial asset at its net carrying amount.

Dividend income from financial assets is recognized when the shareholder's right to receive payment is established.

Borrowing costs

Borrowing costs are recognized in the Group in line with the benchmark method. Borrowing costs are recognized as an expense in the period during which they are incurred.

Income taxes

The income tax expense constitutes the total of the current tax expense and deferred taxes.

The current tax expense is calculated on the basis of the taxable income for the year. The taxable income differs from the net income for the year in the income statement as it excludes expenses and income that are never taxable, taxable in later years or that are deductible for tax purposes. The liability of the Group for the current tax expense is calculated on the basis of the tax rates applicable or adopted by the balance sheet date.

Deferred tax obligations that arise due to temporary differences in connection with participating interests in subsidiaries and associates are recognized unless the timing of the reversal of temporary differences can be controlled by the Group and it is likely that the temporary differences will not reverse in the foreseeable future.

Deferred taxes are the tax benefits or tax burdens to be expected from the differences between the carrying amounts of assets and liabilities in the IFRS annual financial statements and the corresponding tax value. Furthermore, deferred taxes can arise on consolidation transactions as well as on losses brought forward that are likely to be generated. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets if it is likely that there will be taxable gains for which the deductible temporary differences can be used. Such assets and liabilities are not considered if the temporary difference arises from a non-deductible company value or a first-time consideration (except for mergers) of other assets and liabilities, resulting from events that are neither related to the taxable income nor the net profit. Deferred tax receivables and liabilities are offset if they are to/from the same taxation authorities and have matching terms.

The carrying amount of the deferred tax assets is checked and reduced every year on the balance sheet date if it is no longer likely that sufficient taxable income is available to collect the claim in part or in full. Deferred taxes are calculated on the basis of the tax rates already adopted which apply at the time that the liability is settled or the asset is generated. Deferred taxes are generally recognized in the income statement, except for those items that are charged directly to equity.

The 2008 corporation tax reform is expected to reduce the total corporation and trade tax expenses of corporations by one quarter. Effective January 1, 200, new taxation policies apply to corporations in Germany. On the one hand, the corporation tax rate will be reduced from 25 % to 15 %, and on the other the trade tax index figure will be reduced from 5 % to 3.5 %, which entails the discontinuation of the deduction of operating expenses for trade tax. The effects of these reforms have already been taken into account in the calculation of deferred taxes in the 2007 consolidated financial statements.

Intangible assets

Intangible assets with a limited useful life are carried at cost and written down on a straight-line basis over a period of normally three to 20 years depending on their estimated useful life. The useful life is reviewed annually and adjusted to any changes in future expectations where necessary.

Expenditure for research activities is recognized as an expense. An internally generated intangible asset that arises from the development of the Group is only recognized as an asset if it meets the criteria of IAS 38. If an internally generated intangible asset cannot be recognized under IAS 38, the development costs are recognized as expenses in the period in which they are incurred.

Intangible assets with an unlimited useful life, such as goodwill, are carried at cost and tested for impairment annually and whenever there are indications of a possible impairment at other times. Impairment is recognized under other operating expenses.

Patents, licenses (including software) and trade marks

Purchased patents, licenses and trade marks are recognized at historical cost. They have specific useful lives and are measured at cost less any cumulative amortization.

If there are indications of impairment, the intangible assets are tested and, if necessary, reduced to their recoverable amount as defined under IAS 36.

Amortization is charged on a straight-line basis over an expected useful life that was determined as standard for the following intangible assets:

» Patents, utility models, trade marks, publishing titles, copyrights, rights to benefits: 10 years
» Brands, corporate logos, ERP software and Internet domain names: 5 – 10 years
» Copyrighted software: 3 years

Tangible assets

All tangible assets are measured at their historical cost less depreciation. Cost includes the additional costs directly attributable to the acquisition. Subsequent costs are only recognized as part of the cost of the asset if it is likely that the future economic benefits from it will accrue to the Group and the costs of the asset can be reliably determined. All other repairs and maintenance are recognized as expenses in the income statement in the business year in which they are incurred.

Land is not depreciated. For all other assets, depreciation is charged on a straight-line basis. The cost is depreciated over the expected useful life of the assets to the remaining carrying amount as follows:

» Factory buildings: 15 – 20 years
» Office buildings: 15 – 20 years
» Other buildings: 7 years
» Operating facilities: 7 – 10 years
» Technical equipment and machinery: 3 – 10 years
» Furniture and fixtures: 5 – 10 years
» Office equipment: 3 – 10 years

The remaining carrying amounts and the economic useful lives are examined on each balance sheet date and adjusted if applicable. If the carrying amount of an asset exceeds its estimated recoverable amount, it is immediately depreciated to the latter. Gains and losses from disposals of assets are calculated as the difference between the proceeds on disposal and the carrying amount and recognized in income.

Impairment of non-financial assets

Assets that have an indefinite useful life are not depreciated/amortized but tested for impairment. Assets that are depreciated/amortized are only tested for impairment if corresponding events or changes to the circumstances indicate that it may no longer be possible to recover the carrying amount. An impairment loss is recognized at the carrying amount exceeding the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal or the value in use. For the impairment test, assets are summarized at the lowest level for which cash flows can be separately identified (cash generating units).

If impairment is then reversed, the carrying amount of the asset (of the cash generating unit) is increased to its estimated recoverable amount. In so doing, the increase in the carrying amount is limited to the value that would have been determined if no impairment loss had been recognized for the asset (cash generating units) in previous years. A reversal of the impairment loss is recognized immediately in income. Impairment losses charged on goodwill is not reversed.

Leases

Leases are classified as finance leases if all the risks and rewards incident to ownership are substantially transferred to lessee. All other leases are classified as operating leases.

Fixed assets that were rented or leased and the economic ownership of which lies with the respective Group company (finance leases) are capitalized at the present value of lease installments or at a lower fair value in accordance with IAS 17 and depreciated over their useful lives. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the shorter of the lease term or its useful life.

The corresponding liability to the lessor is reported in the balance sheet as an obligation from a finance lease. Lease payments are divided across interest expenses and a reduction of the lease obligation such that the interest rate is constantly charged on the remaining liability.

Lease payments under an operating lease are recognized as an expense in the income statement on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the lessee's benefit.

The Group was a party to finance leases and operating leases in the period under review. The Company is only the lessee.

Inventories

Inventories are measured at the lower of cost and net realizable value. Costs include direct material costs and, if applicable, prime costs as well as those overheads that have been incurred to bring the inventories to their present condition at their present location. The costs are calculated using the weighted average method. The net realizable value is the estimated selling price less the costs for marketing, sale and distribution.

Trade receivables

Trade receivables are initially carried at their fair value and then at amortized cost using the effective interest method and deducting write-downs. Write-downs are charged on trade receivables if there is objective evidence that the receivable amounts due cannot be collected in full. The amount of the write-down is determined as the difference between the carrying amount of the receivable and the present value of estimated future cash flows from this receivable, discounted at the effective interest rate. The write-down is recognized in income. If the reasons for write-downs in earlier periods no longer exist, they are reversed.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, other current highly-liquid financial assets with a maximum original term of three months and bank overdrafts. Bank overdrafts used are shown in the balance sheet as bank loans and overdrafts under current financial liabilities.

Non-current financial assets

Financial assets are subdivided into the following categories: assets measured at fair value through profit or loss, loans and receivables, assets held to maturity and available for sale assets. The classification depends on the respective purpose for which the financial asset was acquired. The Management determines the classification of the financial assets when they are recognized for the first time and checks the classification on each balance sheet date.

(a) Assets measured at fair value through profit or loss
This category has two categories: financial assets that are classified as held for trading from the start, and those which were initially classified as at fair value through profit or loss. A financial asset is allocated to this category if it was primarily acquired with an intention to sell it in the short term or the financial asset was designated accordingly by the Management. Derivatives also belong in this category. Assets in this category are reported as current assets if they are either held for trading or likely to be realized within twelve months of the balance sheet date. Changes in the fair value of assets in this category are recognized in income in the period in which they arise.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. They are initially carried at fair value and then at amortized cost using the effective interest method and deducting write-downs. If the remaining term is longer than twelve months they are reported as non-current assets. They are considered current assets provided that their maturity does not exceed twelve months of the balance sheet date or – if their term does exceed twelve months – they are regularly transshipped in ordinary operations.

(c) Investments held to maturity
Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed terms in the case of which the Group's management intends and is in a position to hold to maturity. Financial investments held to maturity are carried at amortized cost in line with the effective interest method.

(d) Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that were either allocated to this category or were not allocated to any of the other categories presented. They are classified as non-current assets if the management does not intend to sell them within twelve months of the balance sheet date.

All purchases and sales of financial assets are recognized on the trading date on which the Group undertook to purchase or sell the asset. Financial assets that do not belong to the at fair value through profit or loss category are initially carried at their fair value plus transaction costs. They are derecognized when the rights to payments from the investment have expired or were transferred and the Group has substantially transferred all risks

and rewards incident to ownership. Available-for-sale financial assets and assets in the at far value through profit or loss category are measured at their fair value after initial recognition.

Realized and non-realized gains and losses from the change in the fair value of assets in the at fair value through profit or loss category are recognized in profit or loss in the period in which they arise. Unrealized gains from the change in the fair value of non-monetary securities under the available-for-sale financial assets category are charged to equity. If securities of the category available-for-sale financial assets are sold or written down, the adjustments to the fair value accumulated in equity are recognized in income as gains or losses from financial assets in the income statement.

Impairment

At each balance sheet date, the SKW Metallurgie Group tests the carrying amounts of intangible assets, tangible assets and financial investments held to maturity for indications that they may be impaired. In such cases, the recoverable amount of the asset concerned is calculated to determine the extent of any write-downs required. The recoverable amount is the greater of the fair value net of selling costs and the value in use. The value in use is the present value of the expected cash flows. An interest rate in line with market conditions before taxes is used as the discounting interest rate. If the recoverable amount cannot be estimated for an individual asset, the recoverable amount is calculated for the smallest identifiable group of assets (cash generating unit) to which the asset in question can be assigned.

Goodwill resulting from company acquisitions is assigned to the identifiable groups of assets (cash generating units) expected to benefit from the synergies from the acquisition. Such groups are the lowest reporting level in the Group at which management monitors goodwill for internal controlling purposes. The recoverable amount of a cash generating unit, which includes its goodwill, is regularly checked for impairment each year and at other times when there are indications of possible impairment.

If the recoverable amount of an asset is less than its carrying amount the asset is immediately written down in income. In the event of impairment in connection with cash generating units that contain goodwill, this goodwill is reduced first. If the impairment requirement exceeds the carrying amount of the goodwill, the difference is generally distributed proportionately over the remaining non-current assets of the cash generating unit.

If, after recognizing impairment, the recoverable amount of the asset or cash generating unit rises at a later date, impairment is reversed to the maximum of the recoverable amount. The reversal is limited to the amortized carrying amount that would have been if no impairment had been recognized. This reversal of impairment is recognized in income. Goodwill impairment cannot be reversed.

Shareholders' equity

Ordinary shares are classified as equity. Costs that can be directly attributed to the issue of new shares or options are reported in equity at their net amount after taxes as a deduction from the issue proceeds. Costs that can be directly attributed to the issue of new shares or options or costs relating directly to a company acquisition are included in the cost of the respective acquisition as a component of the consideration for the acquisition.

Accruals

Accruals are recognized if the Group has a present legal or constructive obligation resulting from a past event; it is more likely than not that settling the obligation will impact assets and that the amount of the accrual can be reliably determined. If there are a number of similar obligations, the likelihood of an impact on assets is calculated on the basis of the group of these obligations. Long-term accruals are discounted – to the extent that the effect is significant.

Employee benefits

Pension obligations

The occupational pension plans are based on corresponding company agreements or the regulations of individual agreements and are of a defined benefit arrangement. The amount of the retirement benefit is proportionate to the number of years of service and depends on the upper limit of assessment for contributions under the statutory pension scheme. The pensionable income is based on the income of the last 24 months before the pension is drawn for the first time. The actuarial valuation of the pension accruals for occupational pension plans is performed in line with the projected unit credit method prescribed under IAS 19 (Employee Benefits). An actuarial valuation is carried out on every balance sheet date. In the projected unit credit method, the pensions known on the balance sheet date and the acquired benefits and the salary and pension increases expected in future are taken into account. These assumptions can change and are subject to an estimate as their future development is not foreseeable. Actuarial gains or losses arising at year-end between actuarially calculated pension obligations or plan assets and the actual defined benefit obligation or plan assets are only reported if they are outside a 10% range of the obligation amount or plan assets. In this case, they are distributed from the following year onwards over the average remaining working life of the employees participating in the plan and recognized as income or expenses. The interest portion of the addition to accruals contained in the pension expenses is shown as interest cost in the income statement.

Termination benefits

Termination benefits are paid if an employee is dismissed before the normal retirement age whilst receiving a settlement or if an employee accepts voluntary redundancy in exchange for a severance payment. The Group recognizes severance payments if it is demonstrably committed to terminate the employment of present employees in line with a detailed formal plan that cannot be reversed or if it has to demonstrably make severance payments when employees voluntarily terminate their employment. Payments that fall due more than twelve months after the balance sheet date are discounted to their present value.

Profit participation and bonus plans

A liability and an expense based on a measurement procedure that takes into account the profit attributable to the Group shareholders after adjustments are recognized for bonus payments and profit participation. The Group recognizes an accrual as a liability in cases where there is a contractual obligation or a constructive obligation due to a business practice in the past.

Share-based compensation

In 2007, the SKW Metallurgie Group established a stock option plan for members of the Executive Board and senior management. In line with IFRS 2, share-based compensation distinguishes between cash and equity-settled transactions. The fair value as of the grant date is calculated for cash-settled transactions at each balance sheet date. For equity-settled transactions the fair value is calculated once as of the grant date. The latter is the distributed as a compensation expense over the term within which the employee has an unrestricted claim to the instruments. This is recognized in equity. Cash-settled commitments are revalued at fair value at each balance sheet dated until settled. Changes in measurement are recognized in income as an accrual. A Monte Carlo simulation is used to calculate the fair values of the share-based compensation plan.

Foreign currencies

Functional currency and reporting currency

The items included in the financial statements of each Group company are measured on the basis of the currency that corresponds to the currency of the primary economic environment in which the company operates (functional currency). The consolidated financial statements have been prepared in euro which constitutes the functional currency and the reporting currency of the Company.

Transactions and balances

Foreign currency transactions are translated at the exchange rates on the transaction date into the functional currency of the reporting company. Monetary items must be translated at the closing rate on the balance sheet date and the gains and losses resulting from such transactions being fulfilled and from the translation at the closing rate of monetary assets and liabilities managed in the foreign currency are recognized in the income statement. Non-monetary items are translated at the rate on the transaction date. Non-monetary items that are measured using the revaluation model must be translated at the rate on the revaluation date. Exchange differences must be recognized using the method for recognizing gains and losses as part of revaluation.

Group companies

The earnings and balance sheet items of all Group companies with a functional currency that differs from the (Group) reporting currency are translated as follows into the (Group) reporting currency:

» assets and liabilities are translated at the closing rate for each balance sheet date; in contrast, equity is translated at historical rates.

» income and expenses are translated at the average rate for each income statement, and

» any exchange differences arising are recognized separately under equity.

The foreign exchange rates of the key currencies used as a basis for currency translation changed as follows (equivalent of €1.00):

		Closing rate		Average rate	
€ 1		12/31/2007	12/31/2006	2007	2006
India	INR	58.0818	58.2021	56.6091	56.8700
Japan	JPY	164.9300	156.9300	161.2526	146.0625
South Korea	KRW	1,377.9600	1,224.8100	1,272.9878	1,198.1483
USA	USD	1.4721	1.3170	1.3705	1.2557

Legal disputes and compensation claims

As part of general business operations, the companies of the SKW Metallurgie Group are involved in legal proceedings that are insignificant for the earnings position of the Group. In such legal proceedings it is also possible that the SKW Metallurgie Group will be ordered to award damages. Even if the outcome of the individual proceedings cannot be predicted with certainty in view of the unpredictability with which legal disputes are fraught, it is not more than 50% likely that the pending processes will result in damages being awarded. In line with this, no accruals were recognized as of the balance sheet date for compensation payments to be expected.

Liabilities

The financial liabilities comprise bank loans and overdrafts, liabilities from derivative financial instruments, payables due to the former majority shareholder and trade payables. Liabilities, including trade payables, are measured at amortized cost. This means that current liabilities are carried at their repayment amount or settlement amount. Non-current liabilities and financial liabilities are reported at amortized cost in accordance with the effective interest method. Liabilities from financial leases are reported at the present value of the minimum lease payments.

Under IAS 32, equity only exists from the company's perspective if there is no obligation to repay the capital or to provide other financial assets instead. Repayment obligations from the company assets may exist if (minority) shareholders are entitled to withdraw and at the same time exercising this right justifies a claim to compensation against the company. Such capital provided by minority shareholders is reported as a liability, even if this is considered equity according to the country's legal provisions.

The current items reported are those with a remaining maturity of less than one year; non-current items have a remaining maturity of more than one year.

Derivative financial instruments

Derivative financial instruments, such as currency forwards and interest rate swaps, are carried at fair value. The instruments not intended for hedge accounting are classified as held for trading. Changes in the fair value of derivative financial instruments are reported on an accrual basis either in the income statement or, if it is a cash flow hedge, under equity after consideration of deferred taxes.

Accounting assumptions and estimates

When preparing the consolidated financial statements, assumptions and estimates had to be made to a certain extent which affected the amount and the disclosure of the reported assets and liabilities, income and expenses and contingent liabilities of the reporting period. They primarily relate to assessing the impairment of intangible assets, establishing economic useful lives Group-wide for tangible and intangible assets and accounting for accruals. The assumptions and estimates are based on conditions relating to the information currently available in each case. In particular, the circumstances at the time the consolidated financial statements were prepared as well as the realistically assumed future development of the environment were used as a basis for the expected future business performance. As a result of developments in these conditions that differ from the assumptions and are beyond the management's control, the amounts assumed may differ from the estimates originally expected.

At the time the consolidated financial statements were prepared, the assumptions and estimates were not subject to any significant risks with the result that at present the reported carrying amounts of the assets and liabilities in the consolidated balance sheet are not expected to be adjusted substantially in the following year.

Recognition of acquisitions

Goodwill is reported in the consolidated balance sheet as a result of acquisitions. On first-time consolidation of an acquisition, all identifiable assets, liabilities and contingent liabilities are reported at fair value at the acquisition date. One of the most significant estimates relates to the determination of the fair values of these assets and liabilities as of the acquisition date. Land, buildings and office equipment are generally measured on the basis of independent expert opinions, while marketable securities are carried at their market price. If intangible assets are identified, depending on the type of the intangible asset and the complexity of the procedure to calculate its fair value, either an independent expert opinion is used or the fair value is calculated internally using appropriate measurement techniques, the basis of which is normally the forecast of the total expected future cash flows. These measurements are closely tied to the assumptions made by management as to the future value development of the respective assets and the changes assumed in the applicable discounting rate.

Goodwill

As shown in the basic principles of these notes, the SKW Metallurgie Group tests goodwill for impairment each year and at other times when there are indications of possible impairment. The recoverable amount of the cash generating unit is then estimated. This is the greater of the fair value net of selling costs and the value in use. Determining the value in use involves adjustments and estimates to the forecast and discounting of the future cash flow. Although management assumes that the assumptions used to calculate the recoverable amount are appropriate, unforeseen changes in these assumptions could lead to an impairment loss with a negative impact on the net assets, financial position and results of operations.

Impairment of assets

At each balance sheet date, the SKW Metallurgie Group must asses whether there are indications that the carrying amount of a tangible asset, a financial investment held to maturity or an intangible asset could be impaired. In such cases the recoverable amount of the asset in question is estimated.

This is the greater of the fair value net of selling costs and the value in use. To calculate the value in use the discounted future cash flows of the asset in question must be determined. The estimate of the discounted future cash flows includes key assumptions including in particular those regarding future sale prices and sales volumes, costs and discounting interest rates. Although management assumes that the estimates of the relevant expected useful lives, the assumptions regarding the general economic conditions and the development of the industrial sectors in which the SKW Metallurgie Group operates and the estimates of the discounted future cash flows are appropriate, a change in the assumptions or circumstances could require a change of the analysis. This could result in additional impairment losses or reversals in future if the trends identified by the management reverse of if the assumptions and estimates prove to be incorrect.

Sales recognition for contract manufacturing

Sales and expenses from contract manufacturing are recognized in line with the percentage-of-completion method if the earnings can be reliably determined. The proceeds and costs are recognized in line with the percentage of completion at the balance sheet date. This is generally calculated as the ratio of contract costs incurred for work performed to date to the estimated total contract costs unless this would lead to a distortion in the presentation of the percentage of completion. Payments for changes in overall orders, claims and bonuses are included in the order proceeds. The Group reports a receivable for all ongoing contract manufacturing transactions with a positive balance in respect of customers in which the costs incurred plus the profits recognized exceed the total deductions. The Group reports a liability for all ongoing contract manufacturing transactions with a negative balance in respect of customers in which the total deductions exceed the costs incurred plus the profits recognized. If the earnings cannot be reliably determined, proceeds are only recognized in the amount of the costs incurred that can probably be reimbursed; contract costs are recognized as an expense in the period in which they are incurred. If it is likely that the total order costs will exceed the total proceeds, the expected loss is recognized immediately as an expense.

The required disclosures for ongoing projects as of the balance sheet date are as follows:

€ thousand	12/31/2007
Total of the costs incurred and profits reported (less any reported losses)	10,102
Customer advances	3,258
Customer retentions	34

As of the balance sheet date, construction contracts with a positive balance amounted to €143 thousand and contracts with a negative balance amounted to €3,948 thousand. There were no construction contracts in the previous year 2006.

Taxes on income

As the SKW Metallurgie Group operates and generates income in a number of countries, it is subject to a number of tax laws in different tax jurisdictions. Key assessments are therefore required to determine the Group's global tax liabilities. Although management assumes that it has made a reasonable assessment of tax imponderables there can be no assurance that the actual outcome of these imponderables will be in line with the original assessment. Any differences could have an effect on tax liabilities and deferred taxes in the period in which the matter is ultimately decided.

At each balance sheet date, the SKW Metallurgie Group assess whether it is sufficiently likely that it will be able to recognize future tax benefits in order to report its deferred tax assets. Among other things, this requires that the management assesses the tax benefits arising from the available tax strategies and the future taxable income and the consideration of other positive and negative factors. The reported deferred tax assets may be reduced if the estimates of the planned taxable income and the tax benefits possible from the available tax strategies are lowered or if changes in current tax legislation restrict the timeframe in which or the extent to which future tax benefits can be realized.

Employee benefits

Pensions and similar obligations are recognized in line with actuarial measurements. These measurements are based on statistical and other factors to anticipate future events. On account of changing market and economic conditions, these actuarial assumptions can differ considerably from actual developments and therefore lease to a significant change in pension and similar obligations and the associated future expense.

Accruals

The determination of accruals is largely associated with estimates. Thus, it may become necessary to adjust the amount of an accrual on account of new developments and changes in estimates. Changes to estimates and premises over time can have a material impact on the future earnings situation. It cannot be ruled out that the SKW Metallurgie Group will incur further expenses in addition to its recognized accruals that have a significant effect on the company's net assets, financial position and results of operations.

D. ACQUISITIONS

Acquisition of "Quab" business

In 2006, SKW Stahl-Metallurgie Holding AG acquired 90 % of the shares in Arques Chemicals Inc. as part of a share deal. As of 16 January 2007, this company – now called SKW Quab Chemicals Inc. – acquired the "Quab" business from the Degussa Corporation, a company of the RAG Group (now known as the Evonik Group), in an asset deal. Following the final calculation of the working capital, the final purchase price amounts to €10,009 thousand including the incidental costs of acquisition incurred in the amount of €132 thousand. The purchase price was paid in cash. The purchase price is allocated to the acquired assets, liabilities and contingent liabilities at fair value as part of purchase price allocation in accordance with IFRS 3.

In the course of the purchase price allocation process, there were some changes in the amounts recognized for the customer base and the inventories. The table below shows the current adjustments to assets and liabilities:

Adjustments to assets and liabilities in € thousand	12/31/2007
Software licenses	-4
Customer base	5,738
Buildings	-36
Equipment	2,730
Inventories	76
Accruals	-67
Deferred taxes, net	-3,391
	5,046

Due to the adjustments in the purchase price allocation process, the 90 % interest held by the SKW Metallurgie Group in SKW Quab Chemicals Inc. (formerly Arques Chemicals Inc.) results in a total notional share of goodwill of €4,381 thousand. The remaining share of €1,599 thousand is assigned to the minority interests whose share in the company amounts to 10 %. The negative goodwill for the 90 % interest of €4,381 thousand was recognized in the consolidated income statement under other operating income.

The assets and liabilities acquired are as follows:

Net assets acquired in € thousand	Carrying amount	Fair value
Assets		
Intangible assets	4	5,738
Tangible assets	3,577	6,271
Deferred tax assets	0	115
Inventories	2,213	2,289
Trade receivables	5,881	5,881
Receivables and other assets	246	246
	11,921	20,540
Equity & Liabilities		
Trade payables	855	855
Other liabilities	123	123
Deferred tax liabilities	0	3,506
Accruals	0	67
	978	4,551
Net assets	**10,943**	**15,989**
Minority interests		-1,599
Net assets acquired		**14,39**

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

Calculation of goodwill in € thousand	12/31/2007
Purchase price	10,009
Less acquired net assets measured at fair value	-14,390
Total goodwill	**-4,381**

Cash and cash equivalents of €402 thousand were acquired. From the date of acquisition to December 31, 2007, the sales of the “Quab” business were €26,893 thousand, its EBITDA €2,838 thousand and its net income for the year €948 thousand (not including bargain purchase). The contribution to Group earnings for the period from January 1 to January 15, 2007 cannot be shown as data has not been transmitted by the seller.

Acquisition of the ESM Group

As of October 4, 2007, the company owned by the SKW Metallurgie Group, SKW Metallurgie USA, Inc., Wilmington (USA), acquired all shares in the ESM Group (which has one company in each of the USA, Canada and China) as part of a share deal. The purchase price to date is €57,222,716 (including incidental costs of acquisition of €1,082,998). This figure can still change as the final working capital has not yet been determined. The purchase price was paid in cash. The purchase price is allocated to the acquired assets, liabilities and contingent liabilities at fair value as part of purchase price allocation in accordance with IFRS 3.

Adjustments to assets and liabilities in € thousand	12/31/2007
Customer base	2,614
Brand name	6,889
Other intangible assets	1,728
Land	720
Buildings	764
Equipment	4,668
Inventories	-23
Deferred taxes, net	-5,678
	11,728

The assets and liabilities acquired are as follows:

Net assets acquired in € thousand	Carrying amount	Fair value
Assets		
Intangible assets	642	11,873
Tangible assets	4,628	10,780
Deferred tax assets	1,083	723
Other assets	40,342	40,365
Total	46,695	63,741
Equity & Liabilities		
Liabilities to Platinum	1,357	1,357
Other liabilities	14,974	14,974
Deferred tax liabilities	0	6,401
Total	16,331	22,732
Net assets		**41,009**

Calculation of goodwill in € thousand	12/31/2007
Purchase price	57,223
Less acquired net assets measured at fair value	-41,009
Total goodwill	**16,214**

As a result of its acquisition of the ESM Group, the Group became the world market and technology leader for hot metal desulphurization and now also has significant vertical integration thanks to the expertise of the ESM Group in operating full facilities and processes and in specialized engineering services. The combination of the core competence of SKW Stahl-Metallurgie GmbH in carbide-based hot metal desulphurization with the core competence of the ESM Group in magnesium-based hot metal desulphurization created technology leadership in the “Powder and Granules” segment for both methods of hot metal desulphurization, with which the Group is developing and successfully marketing mono-injection, co-injection and tri-injection customer-oriented solutions. The acquisition of the ESM Group is allowing the SKW Metallurgie Group to further expand its global presence, particularly in hot metal desulphurization. The Group has also increased its market share and profitability by taking on the associated vertical integration.

Cash and cash equivalents of €441 thousand were acquired. From the date of acquisition to December 31, 2007, the sales of the ESM Group amounted to €28,383 thousand, its EBITDA to €931 thousand and its net loss for the year €397 thousand. The contribution to Group earnings for the period from January 1 to October 3, 2007 would have amounted to sales of €92,655 thousand, EBITDA of €7,808 thousand and net income for the year of €2,678 thousand.

Tianjin Hong Long Metals Co. Ltd.

As of October 1, 2007, the company owned by the SKW Metallurgie Group, Affival S.A.S., Solesmes (France), wholly acquired the Chinese company Tianjin Hong Long Metals Co. Ltd., Tianjin (China), as part of a share deal. The final purchase price was €159,429 (including incidental costs of acquisition of €26,931). The purchase price was paid in cash. As a result of the application of IFRS 3, the fair values are the carrying amounts of the company.

Cash and cash equivalents of €31 thousand were acquired. From the date of acquisition to December 31, 2007, the sales of Tianjin Hong Long Metals Co. Ltd. amounted to €367 thousand, its EBITDA to €18 thousand and its net profit for the period to €17 thousand. The contribution to Group earnings for the period from January 1 to September 30, 2007 cannot be shown as data has not been transmitted by the seller.

E. INCOME STATEMENT AND BALANCE SHEET DISCLOSURES

The figures for the income statement shown below relate to the entire calendar year for the reporting years 2007 and 2006 unless stated otherwise (e.g. “Quab” segment figures).

1. Sales

The Group’s sales relate solely to the sale of merchandise and goods and are distributed over the following regions:

€ thousand	2007	2006
Germany	28,173	24,242
Europe	77,481	63,935
NAFTA	100,807	79,591
Asia	18,885	12,900
Rest of the World	13,643	5,160
Total	**238,989**	**185,828**

For the breakdown of sales by the “Cored Wire”, “Powder & Granules”, “Quab” and “Others” segments, please see segment reporting below. Sales include proceeds from long-term construction contracts of €705 thousand (previous year: €0 thousand).

2. Other operating income

€ thousand	2007	2006
Income of the reversal of provisions	0	74
Income from exchange rate changes	343	187
Income from passing on charges to unrelated parties	0	233
Income from passing on charges to subsidiaries	0	910
Royalties (in 2007 relating to other periods)	11	100
Income from the disposal of non-current assets	14	705
Income from the appreciation of current assets	0	268
Income from compensation in the SKW / PEM arbitration proceedings	0	723
Income from claims – SKW La Roche de Rame S.A.S.	0	500
Income from purchase of the Quab business (Bargain Purchase)	4,381	0
Income from insurance benefit	375	0
Income from the affiliated company Jamipol	56	86
Miscellaneous other operating income	585	322
Total	**5,765**	**4,108**

As against the previous year, the other operating income essentially includes income from the acquisition of the “Quab” business and the resulting bargain purchase of €4,381 thousand.

3. Cost of materials

€ thousand	2007	2006
Raw materials, consumables and supplies	125,846	96,434
Goods purchased and held for resale	52,270	48,997
Services purchased	1,632	174
Other	1,326	309
Total	**181,074**	**145,914**

The cost of materials primarily relates to the “Cored Wire” segment at an amount of €101,530 thousand (previous year: €107,222 thousand).

4. Staff costs

€ thousand	2007	2006
Wages and salaries	13,974	10,387
Social security contributions and expenses for pensions and other benefits	3,640	2,524
Total	**17,614**	**12,911**

Staff costs in the period under review primarily relate to the “Cored Wire” segment at an amount of €11,264 thousand (previous year: €10,915 thousand), the majority of which is accounted for by the French and US Affival companies. The stock option program resulted in expenses of €74 thousand in the reporting period.

5. Other operating expenses

€ thousand	2007	2006
Freight outwards/transport costs	10,369	6,748
Administration costs	2,327	2,268
Commissions	2,317	2,363
Expenses for land/buildings	1,385	1,360
Expenses from exchange rate changes	962	842
Expenses for the IPO	0	750
French taxes chargeable as expenses (tax professionelle)	497	511
Fees and commissions paid to consultants	1,558	433
Marketing and representation expenses	1,344	303
Loss from asset disposals	36	109
Value adjustment on receivables	886	58
Research and Development (material costs)	308	131
Repairs and maintenance	1,452	360
Insurances	929	771
Operating safety	146	70
Other	3,926	660
Total	**28,442**	**17,737**

The change as against the previous year is mostly due to the new “Quab” segment (€5.2 million) and the other operating expenses of the ESM Group since its first-time consolidation (€4.4 million).

6. Amortization and Depreciation

For more information on changes in the depreciation of tangible assets and amortization of intangible assets, please refer to the appendix statement of changes in fixed assets.

7. Income from affiliated companies

Income from affiliated companies of €986 thousand (previous year: €716 thousand) results solely from the company Jamshedpur Injection Powder Ltd., Jamshedpur (India).

8. Other interest and similar income

Other interest and similar income of €898 thousand (previous year: €274 thousand) results from the interest on current bank balances of €878 thousand (previous year: €139 thousand) as well as invoiced default interest from customers of €20 thousand (previous year: €122 thousand).

9. Interest and similar expenses

The interest and similar expenses of €1,677 thousand (previous year: €716 thousand) relates to the interest on financial loans from ARQUES Industries AG, Starnberg (Germany), in the amount of €259 thousand (previous year: €371 thousand) and interest expenses from companies in connection with short-term liabilities to banks of €1,222 thousand (previous year: €260 thousand), with other third parties in the amount of €196 thousand.

10. Taxes on income

The income tax expense of €4,506 thousand (previous year: €2,782 thousand) reported in the year under review breaks down as follows:

€ thousand	2007	2006
Current tax expenses	3,353	2,735
Deferred tax expenses	1,802	1,717
Deferred tax income	-649	-1,670
Deferred tax expense, total	1,153	47
Total income tax expense/income	**4,506**	**2,782**

The figure shown in the table as the current tax expense is the net figure for current tax expenses and current tax income. The deferred tax expenses essentially relate to the use of tax losses brought forward at the French company SKW France S.A.S and the German parent company SKW Stahl-Metallurgie Holding AG. The utilization of tax losses brought forward in Germany was positively influenced when the profit transfer agreement concluded with SKW Stahl-Metallurgie GmbH became effective as of January 1, 2007.

The differences between the current tax expense posted and the expected tax expense are reported in the statement of reconciliation below. The expected income tax expense arises from the earnings before taxes multiplied by the expected tax rate. The expected income tax rate includes German corporate income tax, the solidarity surcharge and the trade tax and was unchanged in the period under review at 37 %.

€ thousand	2007
Earnings before taxes	16,910
Tax rate	37.00 %
Expected income taxes	6,257
Tax rate changes	4
Tax free income from the negative difference from the consolidation of investments (Bargain Purchase)	-1,621
Tax allocations and deductions	175
Valuation of deferred taxes	524
Effect from different income tax rates	-542
Expenses of actual taxes in relation to previous accounting periods	79
Income from affiliated company	-365
Other tax effects	-5
Reported income tax expense/income	**4,506**
Effective tax rate	26.65 %

11. Consolidated net profit attributable to minority interests

The consolidated net profit for the period of €12,404 thousand includes minority interests of €95 thousand (previous year: €0 thousand).

12. Earnings per share

The earnings per share (EPS) are derived by dividing the consolidated net income for the year attributable to the parent company by the number of no-par bearer shares issued (4,422,250 as of December 31, 2007). Earnings per share for the reporting period amounted to €2.78 per share.

€ thousand	2007	2006
Consolidated earnings	12,404	9,233
Less: minority interests	-95	0
Earnings attributable to shareholders of SKW Stahl-Metallurgie Holding AG	12,309	9,233
Number of shares outstanding as of the balance sheet date in thousands	4,422	4,422
Earnings per share	2.78	2.09

Earnings per share are calculated on the basis of the unweighted number of shares to provide a true and fair view as SKW Stahl-Metallurgie Holding AG did not have the legal form of a stock corporation for the whole of 2006. If the weighted number of shares had been used as the basis of calculation, it would not have been possible to compare 2007 and 2006. The diluted earnings per share are equal to the basic earnings per share. The number of shares issued by SKW Metallurgie did not change throughout the whole of 2007.

13. Intangible assets

In the reporting year, research and development costs of €263 thousand were capitalized, €246 thousand of which was own work capitalized in line with IAS 38 (previous year: €840 thousand). Total R&D expenses of €963 thousand were recognized by the Group (previous year: €1,500 thousand).

The development costs were capitalized at Affival S.A.S and relate to various small projects.

€ thousand	Concessions, industrial and similar rights and assets	Company value, immaterial assets	Other assets	Pre-payments rendered	Total
Asset costs as at January 1, 2007	**118**	**0**	**929**	**0**	**1,047**
Additions to consolidated group	0	16,342	18,458	0	34,800
Disposals from consolidated group	0	0	0	0	0
Currency Translation	0	-1,722	-1,991	0	-3,713
Additions	76	0	263	0	339
Disposals	0	0	0	0	0
Reclassification	448	-99	-375	0	-26
As at December 31, 2007	**642**	**14,521**	**17,284**	**0**	**32,447**
Amortization on January 1, 2007	**-57**	**0**	**0**	**0**	**-57**
Currency Translation	0	0	50	0	50
Additions	-85	0	-737	0	-822
Disposals	0	0	0	0	0
As at December 31, 2007	**-142**	**0**	**-687**	**0**	**-829**
Net carrying amount as at December 31, 2006	61	0	929	0	990
Net carrying amount as at December 31, 2007	**500**	**14,521**	**16,597**	**0**	**31,618**

The rise in other intangible assets is essentially due to the acquisitions in the reporting period. Based on the dates of acquisition, the customer bases of “Quab” and ESM were capitalized in the amount of €8,479 thousand and the “ESM” brand name in the amount of €7,030 thousand.

Changes in the previous year were as follows:

€ thousand	Concessions, industrial and similar rights and assets	Internally generated intangible assets	Other assets	Advance payments	Total
Asset costs as at January 1, 2006	**54**	**0**	**0**	**0**	**54**
Additions to consolidated group	0	0	0	0	0
Disposals from consolidated group	0	0	0	0	0
Currency Translation	0	0	-21	0	-21
Additions	14	0	950	50	1014
Disposals	0	0	0	0	0
Reclassification	50	0	0	-50	0
As at December 31, 2006	**118**	**0**	**929**	**0**	**1047**
Amortization on January 1, 2006	**-31**	**0**	**0**	**0**	**-31**
Currency Translation	0	0	0	0	0
Additions	-26	0	0	0	-26
Disposals	0	0	0	0	0
As at December 31, 2006	**-57**	**0**	**0**	**0**	**-57**
Net carrying amount as at December 31, 2005	23	0	0	0	23
Net carrying amount as at December 31, 2006	**61**	**0**	**929**	**0**	**990**

Goodwill impairment

Impairment losses on goodwill are reported under other operating expenses. The annual impairment test for 2007 on the goodwill acquired in the acquisition of the ESM Group did not identify any impairment requirement in the ESM Group cash generating unit, which is assigned to the Powder & Granules segment, as the recoverable amount exceeded the carrying amount. The recoverable amount was determined by calculating the value in use using the discounted cash flow method. The projected cash flows from the bottom-up five-year plan were used. The value in use is generally calculated on the basis of expected inflation for the country and the estimated sales growth rate of 3 %. Both past data and the forecast market performance were used in this calculation. A discount rate of 12.5 % was used to calculate the value in use. The value in use calculated thus exceeded the carrying amount as of December 31, 2007. The consideration of a significantly higher depreciation rate would not lead to an impairment at the CGU ESM Group.

14. Tangible assets

€ thousand	Buildings, including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and assets under development	Total
Asset costs as at January 1, 2007	**1,777**	**9,824**	**1,309**	**587**	**13,498**
Additions to consolidated group	2,180	11,927	2,267	174	16,548
Disposals from consolidated group	0	0	0	0	0
Currency Translation	363	-2,191	-160	-89	-2,077
Additions	257	1,419	289	1,399	3,364
Disposals	-2	-238	-644	0	-884
Reclassification	102	773	26	-974	-73
As at December 31, 2007	**4,677**	**21,514**	**3,087**	**1,097**	**30,376**
Amortization on January 1, 2007	**-223**	**-3,154**	**-430**	**0**	**-3,808**
Currency Translation	4	1,027	119	0	1,150
Additions	-203	-2,266	-447	0	-2,916
Reclassification	0	0	0	0	0
Disposals	2	97	621	0	720
As at December 31, 2007	**-420**	**-4,296**	**-137**	**0**	**-4,854**
Net carrying amount as at December 31, 2006	**1,554**	**6,669**	**879**	**587**	**9,690**
Net carrying amount as at December 31, 2007	**4,257**	**17,218**	**2,950**	**1,097**	**25,522**

The tangible assets of €25,522 thousand include leased tangible assets of €885 thousand overall, the beneficial ownership of which can be attributed to the Group as the economic owner due to the arrangement of the underlying leases (finance leases). €257 thousand of this is attributable to buildings and €628 thousand to technical equipment. A substantial portion of the amount reported for finance leases can be attributed to the PapCal facility at Affival S.A.S. €3,061 thousand of tangible assets are still used as collateral for a line of credit at Affival Inc. from a local bank.

Changes in the previous year were as follows:

€ thousand	Buildings, including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and assets under development	Total
Initial costs on January 1, 2006	**1,478**	**8,604**	**1,028**	**873**	**11,983**
Additions to consolidated group	0	0	0	0	0
Disposals from consolidated group	0	0	0	0	0
Currency Translation	0	-310	-81	-24	-415
Additions	30	696	361	1,099	2,187
Disposals	-186	-71	0	0	-257
Reclassification	455	904	2	-1,361	0
As at December 31, 2006	**1,777**	**9,824**	**1,309**	**587**	**13,498**
Amortization on January 1, 2006	**-164**	**-1,815**	**-250**	**0**	**-2,229**
Additions to consolidated group	0	0	0	0	0
Disposals from consolidated group	0	0	0	0	0
Currency Translation	0	91	17	0	108
Additions	-137	1,499	-197	0	-1,833
Reclassification	0	0	0	0	0
Disposals	78	68	0	0	146
As at December 31, 2006	**-223**	**-3,154**	**-430**	**0**	**-3,808**
Net carrying amount as at December 31, 2005	**1,314**	**6,789**	**778**	**873**	**9,754**
Net carrying amount as at December 31, 2006	**1,554**	**6,669**	**879**	**587**	**9,690**

15. Investments in associates

The shares (30.22 % of share capital) in the associate Jamshedpur Injection Powder Ltd., Jamshedpur (India) are reported equity. As it was not possible to prepare separate interim financial statements as of December 31, 2007, the company was consolidated based on estimated earnings as of December 31 2007. Translated using the average rate for 2007, the company generated sales of €12,089 thousand and net income for the year of €2,699 thousand in the business year from April 1, 2006 to March 31, 2007. Total assets in the financial statements as of March 31, 2007 amounted to €8,207 thousand with equity of €6,546 thousand and liabilities €1,661 thousand. Jamipol had no contingent liabilities as of the end of the business year.

The at-equity-approach was applied as follows in business year 2007:

€ thousand	2007	2006
As at January 1, 2007	**3,678**	**3,603**
Proportionate interest in net profit	986	716
Exchange rate differences	-16	-194
Income taxes	-86	-56
Recognized profit distribution	-616	-390
As at January 1, 2007	**3,946**	**3,679**

16. Deferred tax assets

The deferred tax assets reported on December 31, 2007 are due to deferred tax assets from tax losses brought forward in the past and deferred tax assets from temporary differences between the IFRS and tax base carrying amounts. The remaining unused losses brought forward amount to €1,073 thousand. Deferred taxes were recognized on all temporary differences. These primarily relate to accruals, receivables and liabilities. Taking the target earnings for fiscal 2008 into account, €722 thousand of the deferred tax assets on tax losses brought forward can be classified as current, i.e. can be used in the next twelve months.

The deferred tax assets and liabilities as of December 31, 2007 result from the following balance sheet items:

€ thousand	Deferred tax assets 12/31/2007	Deferred tax assets 12/31/2006	Deferred tax liabilities 12/31/2007	Deferred tax liabilities 12/31/2006
Intangible assets	28	56	6,216	148
Tangible assets	-86	0	3,283	182
Non-current financial assets	3	74	29	0
Inventories	1,027	253	1	36
Other assets	469	300	8	99
Accruals for pensions	230	102	0	68
Other accruals	245	101	0	0
Other equity and liabilities	897	320	327	6
Tax losses brought forward	1,073	2,982	0	0
Gross amount	**3,886**	**4,188**	**9,864**	**539**
Offsetting	-764	-124	-764	-124
Balance sheet amount	**3,122**	**4,064**	**9,100**	**415**

Of the deferred tax assets in the amount of €3,122 thousand (previous year: € 4,064 thousand), €3,052 thousand (prev. year €1,865 thousand) are considered long-term and €70 thousand (previous year €2,199 thousand) short-term. Of the deferred tax liabilities in the amount of €9,100 thousand (previous year €415 thousand), €9,073 thousand (previous year €415 thousand) are considered long-term and €27 thousand (previous year €0) short-term.

17. Inventories

€ thousand	12/31/2007	12/31/2006
Raw materials, consumables and supplies	25,027	14,090
Finished goods and goods for sale	26,594	12,100
Advance payments	1,183	94
Production Order	3,569	0
Total	**56,373**	**26,284**

In each case, inventories are measured at the lower of cost and the net selling price realizable on the balance sheet date less costs to be incurred.

€22,225 thousand of inventories (previous year: €22,989 thousand) relates to the “Cored Wire” segment and in particular to Affival Inc. and Affival S.A.S., €32,030 thousand (previous year: €3,295 thousand) relates to the “Powder and Granules” segment and €2,118 thousand to the “Quab” segment. Of the total inventories of €56,373 thousand, inventories of €31,892 thousand (previous year: €12,666 thousand) are assigned as collateral for master loan agreements in the USA and Germany. In the year under review, a net write-down of €245 thousand (previous year: €32 thousand) was charged on the inventories due to lower market prices.

18. Trade receivables

€ thousand	12/31/2007	12/31/2006
Receivables before adjustments	47,787	26,903
Appreciation	0	268
Depreciation	-887	-58
Book value of the receivables	**46,900**	**27,113**

€18,802 thousand (previous year: €17,559 thousand) of the trade receivables as of the balance sheet date (€46,900 thousand) is attributable to the “Cored Wire” segment and €25,281 thousand relates to the “Powder and Granules” segment. Receivables within Germany of €4,600 thousand (previous year: €4,133 thousand) are assigned as collateral in master loan agreements in the “Powder & Granules” segment plus €5,672 thousand in the “Cored Wire” segment. Receivables from the associate Jamipol are also included in the amount of €36 thousand (previous year: €22 thousand).

19. Other assets

The other assets reported include the following amounts:

€ thousand	12/31/2007	12/31/2006
Tax receivables	2,739	2,263
Receivables from affiliated companies	0	948
Prepaid expenses	2,321	677
Employee receivables	0	32
Receivables from insurances	526	0
Receivables from Stelco	298	0
Other Receivables	768	1,034
Total	**6,652**	**4,954**

The rise in the prepaid expenses from €677 thousand in the previous year to €2,321 thousand in the current year is due to the acquisition of ESM Group Inc. Tax receivables include €1,464 thousand (previous year: €196 thousand) of income tax assets.

20. Cash and cash equivalents

Cash on hand and bank balances with a term of less than three months and financial instruments with an original maturity of less than three months are reported under this item. €485 thousand of this (previous year: €426 thousand) relates to the "Cored Wire" segment, €2,309 thousand (previous year: €1,684 thousand) to the "Powder and Granules" segment, €336 thousand to the "Quab" segment and €3,681 thousand to the "Others" segment.

21. Shareholders' equity

Subscribed capital

As of the balance sheet date, the subscribed capital of the Group amounted to €4,422,250 and is divided into 4,422,250 no-par bearer shares [statement in line with Sections 160 (1) no. 3 AktG], each with a pro rata amount of €1.00 per share. Each share bears one vote. The number of fully paid in shares is the number of issued shares.

Capital reserve

The capital reserve of €29,144 thousand contains the premium and the costs recognized in equity in connection with the IPO. The IPO costs recognized in equity in 2006 resulted in a tax effect of €927 thousand.

Authorized capital

The authorized capital [statement in line with Section 160 (1) no. 4 AktG] includes the subscribed capital of €4,422,250. In addition, the Annual General Meeting on June 18, 2007 passed the following resolution:

1. Article 4 (4) of the Articles of Association (Authorized Capital 2006/II) and the authorization it includes for the Executive Board to increase the share capital, with the approval of the Supervisory Board, by issuing new bearer shares against cash and/or non-cash contributions on one or several occasions by up to a total of €1,650,000 is revoked.

2. The Executive Board is authorized to increase the share capital with the approval of the Supervisory Board in the period until June 30, 2012 against cash or non-cash contributions on one or several occasions by up to €2,200,000 by issuing new bearer shares (Authorized Capital 2007/I). Shareholders are to be granted subscription rights.

3. The Executive Board is authorized, with the approval of the Supervisory Board, to decide the content of share rights and the conditions of the share issue and to determine the details of the performance of the capital increase.

4. The Executive Board is authorized, with the approval of the Supervisory Board, to disapply the subscription right of shareholders in the following cases:

a) when the capital increase is against cash contributions and the pro rata amount of share capital attributable to the new shares does not exceed 10% of the share capital that exists at the time the new shares are issued and the issue amount of the new shares is not significantly less than the market price of shares of the same type and features already listed at the time of the final determination of the issue amount by the Executive Board as defined by Sections 203 (1) and (2), 186 (3) AktG;

b) if it is necessary to disapply the subscription right to grant bearers of convertible bonds, loans or option notes issued by the Company a subscription right in the amount that would be owed to them after exercising the option or conversion right or after fulfillment of the conversion duty;

c) if the capital increase is against non-cash contribution or mergers for the purpose of the acquisition of companies, parts of companies or participating interests in companies or to issue shares to employees;

d) for fractional amounts.

A corresponding change in the Articles of Association was implemented; other than that, the authorization of the Annual General Meeting was not used in the reporting period.

Changes in exchange rates

The changes in the reporting period of €2,365 thousand arise from changes in the exchange rates of the euro (EUR) to the US dollar (USD), the Japanese yen (JPY) and the South Korean won (KWD). The currency changes are essentially due to the USD, which changed from USD 1.3170 per euro as of December 31, 2006 to USD 1.4721 per euro as of December 31, 2007.

Furthermore, equity includes translation differences from net investments in foreign operations in the amount of €1,236 thousand. These resulted partly from a total of three USD loans provided by SKW Stahl-Metallurgie Holding AG to SKW Quab Chemicals Inc. and ESM Group Inc. and partly from a JPY loan provided to Affival KK by Affival S.A.S.

Dividend proposal

The Executive Board and the Supervisory Board shall propose to the Annual General Meeting the distribution of a dividend of €0.50 per entitled share from the unappropriated surplus of SKW Stahl-Metallurgie Holding AG for business year 2007 as calculated in line with the principles of the German Commercial Code (HGB). This would result in a total dividend distribution of €2,211 thousand.

22. Additional information on capital management

SKW Metallurgie has an obligation to maintain a strong financial profile that allows the Company to achieve its growth and portfolio optimization goals through financial flexibility. The shareholders' equity and total assets as of December 31 in 2007 and 2006 were as follows:

€ thousand	12/31/2007	12/31/2006	Change in %
Shareholders' equity	**76,170**	**66,769**	**14%**
as a percentage of total capital	42%	60%	
Current liabilities	64,091	42,745	
Non-current liabilities	41,068	2,595	
Borrowed capital	**105,159**	**45,340**	**132%**
as a percentage of total capital	58%	40%	
Total capital (shareholders' equity plus borrowed capital)	**181,329**	**112,109**	**62%**

In business year 2007, shareholder's equity increased by 14 % as against the previous year. This resulted primarily from the rise in capital reserves. Borrowed capital climbed significantly by 132 % as against the previous year. This rise was essentially due to the acquisitions of ESM Group Inc. and the Quab business. Overall, this led to an increase in borrowed capital to 58 % in business year 2007 after 40 % in the previous year. The ratio of equity to total capital dropped from 60 % in business year 2006 to 42 % in business year 2007.

23. Pension obligations

Accruals for pensions were recognized at a total of four Group companies. In particular, the total accrual amount of €1,462 thousand (previous year: €1,333 thousand) relates to the following companies:

- SKW Stahl-Metallurgie GmbH (€876 thousand/previous year: €741 thousand),
- Affival S.A.S. (€426 thousand/previous year: €463 thousand)

The defined benefit obligation developed as follows as of the balance sheet date:

€ thousand	2007	2006
Defined benefit obligation as at January 1	2,352	1,968
Current service costs	105	85
Interest cost	104	83
Pension payments	-122	-73
Plan adjustments	0	29
Actuarial gains/losses	-517	270
Currency translation	0	-10
Defined benefit obligation as at December 31	**1,922**	**2,352**

Changes in fund assets were as follows:

€ thousand	12/31/07	12/31/06
Current value of fund assets at January 1	363	348
Expected income of fund assets	15	15
Pension payment	-86	0
Actuarial gains/losses	-7	0
Current value of fund assets at December 31	**285**	**363**

The fund assets relate to the benefit plan in France. The actual income from plan assets amounts to around €7 thousand. The plan assets consist of a fund set up by the Company to serve its pension obligations. The expected return is equal to the interest anticipated from the fund.

€ thousand	12/31/07	12/31/06
Plans covered by fund assets	285	912
Plans not covered by fund assets	1,637	1,440
Total	**1,922**	**2,352**

€ thousand	12/31/07	12/31/06
Defined benefit obligation of the pension obligations	1,922	2,352
Non-recognized actuarial gains	-175	-657
Current value of fund assets	-285	-363
Total	**1,462**	**1,333**

The following was reported under pension expense in the business year:

TEUR	2007	2006
Current service cost	105	85
Accrued interest of the expected pension obligations	104	83
Actuarial gain	-29	-33
Effects from plan adjustments	0	29
Expected return on plan assets	-15	-15
Total	**165**	**149**

The calculation is based on the following actuarial assumptions:

	12/31/07	12/31/06
Discounting rate	5.7	4.5
Salary trend	2.5 – 3.0	2.5 – 3.0
Pension trend	1.25	1.25 – 1.5
Expected return on plan assets	2.5	4.0

Fluctuation probabilities based on age and gender were used as the basis of actuarial calculations.

	12/31/07	12/31/06
Defined benefit obligation of the pension obligations	1,922	2,352
Assets of funds	285	363
Difference	1,637	1,989

In the coming year, payments by the employer are estimated at €122 thousand.

24. Obligations from finance leases

In the 2007 reporting period, the Group's tangible assets included technical equipment and machinery of which the Group is the economic owner on account of the arrangement of the underlying leases (finance leases). The Group's lease obligations for finance leasing for the 2007 reporting and thereafter can be seen in the following table:

€ thousand	Total future minimum lease payments	Discount amount	Present value
Residual term of less than 1 year	257	32	225
Residual term of 1 to 5 years	628	211	417
Total	**885**	**243**	**642**

The reported obligations from finance leases are primarily due to the finance lease regarding the PapCal production facility set up at Affival S.A.S. in business year 2004. The underlying lease has a term of five years.

The following table shows the figures for the previous year:

€ thousand	Nominal amount	Discount amount	Present value
Residual term of less than 1 year	271	59	212
Residual term of 1 to 5 years	714	79	635
Total	**985**	**138**	**847**

25. Accruals

Other accruals developed as follows:

€ thousand	As at 01/01/07	Utilization	Addition	Reversal	As at 12/31/07
Accruals	873	-40	374	-810	397

Accruals (including pension accruals) contain various smaller items. Their maturities are as follows:

€ thousand	2007	2006
Long-term accruals	1,462	1,333
Short-term accruals	397	873
	1,859	**2,206**

The long-term accruals relate solely to accruals for pensions and similar obligations.

26. Financial liabilities

The financial liabilities in the amount of €48,570 thousand (previous year: €15,497 thousand) essentially result from bank loans and overdrafts of €41,568 thousand (previous year: €7,333 thousand), liabilities to ARQUES Industries AG of €4,274 thousand (previous year: €8,148 thousand) and to Degussa Corp., owned by the Evonik Group, of €2,728 thousand.

Interest on financial liabilities ranges between 2.375 % and 7.5 % (previous year: 0.96 % and 7.75 %) per annum. This range is due to the different interest rates of the currencies on which finance is based. The lower end of the range arises from the interest conditions for the financing in Japanese yen and the upper end from interest conditions for US dollar financing. The interest conditions for EUR financing are within the range.

Composition of financial liabilities by currency

€ thousand	2007	2006
Euro	9,337	9,287
US dollar	37,869	4,776
Japanese yen	1,364	1,434
Total	**48,570**	**15,497**

Remaining terms of liabilities

€ thousand	2007 < 1 year	2007 1 – 5 years	2007 > 5 years	2006 < 1 year	2006 1 – 5 years	2006 > 5 years
Bank loans and overdrafts	13,541	21,234	6,793	7,333	0	0
Liabilities to other third-parties	5,504	1,498	0	8,164	0	0
Financial liabilities	**19,045**	**22,732**	**6,793**	**15,497**	**0**	**0**

27. Trade payables

The trade payables of €26,249 thousand (previous year: €21,305 thousand) as of the balance sheet date were primarily to third parties. The current trade payables are carried at their nominal amount or repayment amount and are due in full within a year.

28. Other liabilities

	12/31/07	12/31/06
Miscellaneous taxes	933	698
Social security contributions	747	702
Wages and salaries	3,492	1,273
Interest liability	499	19
Advanced payments received	239	195
Production order	7,111	0
derivative financial instruments	102	0
Outstanding invoices	310	0
Liabilities against Platinum	1,311	0
Miscellaneous other liabilities	2,502	280
Total	**17,246**	**3,167**

The rise in other liabilities primarily results from the acquisition of ESM Group Inc.; this also entailed the first-time recognition of construction contracts.

The liabilities from derivative financial instruments include the negative fair values of currency derivatives.

29. Segment reporting

In line with the provisions of IAS 14, the Group is currently subdivided into business segments. These areas form the basis of segment reporting. The "Quab" segment was added in 2007. The figures for this segment comprise the period from January 16 to December 31, 2007.

The primary business segments are broken down as follows:
a) Cored Wire
b) Powder and Granules
c) Quab

The activities of the Affival Group, which include the global market leadership regarding the use of cored wire for steel refining, are combined in the "Cored Wire" segment. The Affival Group includes SKW France S.A.S. and its subsidiaries and SKW Hong Kong Co. Ltd. The "Powder and Granules" segment includes SKW Stahl-Metallurgie GmbH, SKW Celik Metalürji Üretim Ticaret SLS, SKW Metallurgie USA Inc. and its subsidiaries (ESM Group) and the Indian production company, which is included at equity. This segment operates in both hot metal desulphurization and steel refining. The profit recognized in line with the 30.22% share in the company Jamipol amounted to €986 thousand in the period under review. SKW Quab Chemicals Inc., which sells special chemical reagents known as cationizing reagent in over 40 countries, and Quab Chemicals Belgium BVBA are assigned to the "Quab" segment. The "Others" segments includes SKW Stahl-Metallurgie Holding AG and one other non-operating company that does not form an independent segment and the consolidation activities carried out at Group level.

The segment information for the primary business segments in 2007 are listed below:

2007 in € thousand	Cored Wire	Powder and Granules	Quab	Other	Elimination	Consolidated
Sales						
External sales	134,796	77,300	26,893	0	0	238,989
Internal sales	73	9,472	0	0	-9,545	0
Total sales	134,869	86,772	26,893	0	-9,545	238,989
EBITDA	**11,816**	**4,312**	**7,218**	**-2,289**	**0**	**21,057**
Depreciation	-1,827	-712	-802	-27	0	-3,368
EBIT	**9,989**	**3,600**	**6,416**	**-2,316**	**0**	**17,689**
Dividends from subsidiaries	0	0	0	2,900	-2,900	0
Profit transfer	0	-2,754	0	2,754	0	0
Interest income	19	56	47	1,454	-678	898
Interest cost	-627	-1,186	-458	-84	678	-1,677
Profit/Loss before taxes	**9,381**	**-284**	**6,005**	**4,708**	**-2,900**	**16,910**
Income tax expense						-4,506
Consolidated net profit for the period						**12,404**
Balance sheet						
Assets						
Segment assets	54,448	99,098	17,561	41,020	-39,330	172,797
Shares in affiliated companies	0	3,946	0	0	0	3,946
Group assets						**176,743**
Equity and liabilities						
Segment liabilities	27,955	86,197	7,393	1,813	-28,791	94,567
Group liabilities						**94,567**
Other information						
- Number of employees as at date of balance	233	322	3	5		563
- Ongoing capital expenditure (Property, plant and equipment, intangible assets)	2,011	909	385	106		3,411

For the first time in 2007, the segment breakdown of assets and liabilities does not include income tax assets and liabilities. As can be seen from the elimination column, there are a number of trade relationships between the segments of the SKW Metallurgie Group. The Group transfer prices used here are based on the resale price method.

The segment information on the secondary business segments is shown in the following table:

2007 in € thousand	Europe	NAFTA	Other	Elimination	Consolidated
Sales – external customers	116,442	109,008	13,539	0	238,989
Sales – intersegment	12,843	9,487	1,438	-23,768	0
Sales – total	**129,285**	**118,495**	**14,977**	**-23,768**	**238,989**
Capital expenditure	695	2,147	569	0	3,411
Segment assets	92,027	113,774	9,280	-38,338	176,743
Segment liabilities	29,281	85,361	6,509	-26,584	94,567

In calculating the sales for the secondary business segments, the allocation of sales to a region is based on the head office of the Group companies and not the customer.

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

2006 in € thousand	Cored Wire	Powder and Granules	Quab	Other	Elimination	Consolidated
Sales						
External sales	139,729	46,099	0	0	0	185,828
Internal sales	0	8,090	0	0	-8,090	0
Total sales	139,729	54,189	0	0	-8,090	185,828
EBITDA	**11,186**	**3,614**	**0**	**-320**	**-164**	**14,316**
Depreciation	-1,832	-13	0	-2	-12	-1,859
EBIT	**9,354**	**3,601**	**0**	**-322**	**-176**	**12,457**
Dividends from subsidiaries	0	0	0	1,550	-1,550	0
Interest income	15	165	0	311	-217	274
Interest cost	-514	-215	0	-209	222	-716
Profit/Loss before taxes	**8,855**	**3,551**	**0**	**1,330**	**-1,721**	**12,015**
Income tax expense						-2,782
Consolidated net profit for the period						**9,233**
Balance sheet						
Assets						
Segment assets	58,852	16,883	0	42,296	-9,601	108,430
Shares in affiliated companies	0	3,679	0	0	0	3,679
Group assets						**112,109**
Equity and liabilities						
Segment liabilities	32,770	13,814	0	5,711	-6,956	45,339
Group liabilities						**45,339**
Other information						
- Number of employees as at date of balance	209	15	0	1		225
- Ongoing capital expenditure (Property, plant and equipment, intangible assets)	3,191	8	0	2		3,201

The segment information on the secondary business segments of the previous year is shown in the following table:

2006 in € thousand	Europe	NAFTA	Other	Elimination	Consolidated
Sales – external customers	105,314	67,345	13,169	0	185,828
Sales – intersegment	13,433	356	2,932	-16,721	0
Sales – total	**118,747**	**67,701**	**16,101**	**-16,721**	**185,828**
Capital expenditure	1,332	1,772	97	0	3,201
Segment assets	96,668	21,309	6,751	-12,619	112,109
Segment liabilities	33,205	12,691	5,154	-5,711	45,339

30. Cash flow statement

The cash flow statement shows how the SKW Metallurgie Group's cash and cash equivalents changed in the year under review and in the previous year. In accordance with IAS 7, the cash flows are broken down into net cash from/used in operating activities, investing activities and financing activities.

Adjusted for currency effects of €-22 thousand (previous year: €9 thousand), the Group's cash and cash equivalents in the amount of €6,811 thousand (previous year: €34,905 thousand) correspond to the balance sheet item "Cash and cash equivalents", which is composed of cash and current bank balances.

The cash flow statement starts with the consolidated net profit for the period. The gross cash flow of €14,422 thousand shows the excess of income over expenses before any utilization of funds. The income from equity accounted investments of €-370 thousand is due to the net income from the participating interest in Indian production company Jamipol for 2007 of €986 thousand less the distribution received in 2007 of €616 thousand. Net cash from operating activities also includes changes in working capital. The rise in sales of 28.6% in the year under review (2007 sales: €238,989 thousand) as against the previous year (2006 sales: €185,828 thousand) also entailed the increase in additional working capital. Accordingly, net cash from operating activities amounted to €11,725 thousand.

Net cash from investing activities includes cash and cash equivalents of €874 thousand acquired in company acquisitions arising from the acquisition of the "Quab" business as part of an asset deal, the acquisition of the ESM Group and the acquisition of Tianjin Hong Long Metals Co. Ltd. The purchase prices paid for these acquisitions amounted to €62,866 thousand. Following net cash used in investing activities of €-65,299 thousand, the SKW Metallurgie Group reported free cash flow after investments of €-53,574 thousand for the year under review.

€34,100 thousand was borrowed in the reporting year to finance acquisitions. At the same time, a former shareholder loan of €3,170 thousand was repaid. In addition, bank loans of €5,215 thousand were repaid. The remaining cash flow after the measures described, which amounted to €-28,072 thousand, was reported as a change in cash and cash equivalents as against the previous year.

The period under review includes interest payments of €932 thousand and interest received of €1,127 thousand. €2,476 thousand was paid in taxes.

31. Other financial obligations

There were other financial obligations as of the balance sheet date, particularly from rental agreements and leases for buildings. There were other obligations arising from lease agreements for office equipment. The total future payments for non-cancelable agreements break down by term as follows:

€ thousand	12/31/07	12/31/06
Rent and lease obligations, due		
- in less than a year	1,715	1,403
- between 2 and 5 years	4,513	4,504
- more than 5 years	3,168	4,438
Other obligations, due		
- in less than a year	51,152	11,048
- between 2 and 5 years	14	40
- more than 5 years	122	0

The other financial obligations totaling €51,288 thousand result almost exclusively to purchase obligations from the long-term supply agreements of SKW Stahl-Metallurgie GmbH in the amount of €50,702 thousand.

32. Contingent receivables and liabilities

As of the balance sheet date, the following contingent receivable existed within the SKW Metallurgie Group:

ESM Group Inc. lost a full load of magnesium in a shipping accident in 2005. The freight insurance company Tai Ping Insurance Company refused to pay out even though an insurance policy was in place. ESM Group Inc. therefore brought an action against Tai Ping Insurance Company. The value of the case is USD 1,205,500. The legal dispute was ongoing at the time of the acquisition. The management feels it will be difficult to assert its claims.

As of the balance sheet date, the following contingent liabilities existed within the SKW Metallurgie Group:

Affival Inc.

At Affival Inc. there is a contingent liability from preferential payments in connection with Bethlehem Steel going into Chapter 11 in business year 2001. If the court concerned with the matter considers this to be given, a payment obligation of € 1,167 thousand may arise for Affival Inc. The likelihood of such a payment obligation occurring is classified as less than 50%.

Quab business

In the course of the purchase of the Quab business from Degussa Corporation Inc., which is owned by the Evonik Group (RAG Group at the time), the company issued a guarantee for ARQUES Industries AG, Starnberg, Germany, in the amount of USD 10.0 million. To hedge the resulting contingent liability, the Company bought corresponding environmental liability insurance with a deductible of USD 100,000.

Acquisition of the ESM Group

In addition, as part of the acquisition of ESM on October 4, 2007, the parent company provided the financing bank with a joint liability agreement in the amount of the term loan (amount of loan as of December 31, 2007: USD 35.0 million). The joint liability of the parent company is limited to USD 20.0 million. In line with agreed repayment of USD 5.0 million per year, this joint liability will continue until December 31, 2010.

ESM Group Inc. is involved in a standing maritime law dispute with carriers and the owner of the freight ship "Rickmers Genua". On March 8, 2005, this ship collided with the ship "Sun Cross". The load that was on the ship was damaged considerably. As a result, there was a series of actions against the owner of the "Rickmers Genua", the owner of the "Sun Cross", and against ESM as well. The claims against ESM Group Inc. and ESM Tianjin are all based on the claim that the load of super-Sul Mg-89 must be declared as hazardous goods but that ESM did not do so due to insufficient labeling. ESM has already taken active steps to defend itself against the claims made by the plaintiffs. The civil plaintiffs are claiming USD 4.2 million plus interest of 5.58% p.a. from March 10, 2005 to the day the verdict is read. ESM has stated that the claims made against it are without merit. ESM feels it relatively unlikely that this dispute will end negatively and has also taken out sufficient insurance in this regard.

In business year 2005, the Department of Homeland Security of the USA government searched the premises of ESM Group Inc. This search was triggered by the accusation that the special magnesium sold on by ESM Group Inc. was not properly cleared by customs on its introduction to the USA. However, ESM was not the importer and procured this material from an upstream supplier. Thus, ESM was not responsible for having the material cleared by customs. The maximum damages from the civil suit that has been initiated amount to around USD 14 million. On account of the matter described above, the Executive Board feels that availment of the ESM Group Inc. is not likely.

33. Executive bodies of the company

Supervisory Board

- Markus Zöllner, Bichl
  Executive Board of ARQUES Industries AG*
  Chairman of the Supervisory Board (since April 20, 2006)

- Dr. Martin Vorderwülbecke, Muenchen
  Chairman of the Executive Board of ARQUES Industries AG**
  Deputy Chairman of the Supervisory Board (since April 20, 2006)

- Dr. Georg Obermeier, Maisach
  Managing Director of Obermeier Consult GmbH
  (since April 20, 2006)

  * The appointment of Mr. Markus Zöllner as a member of the Executive Board of ARQUES Industries AG ended as of the balance sheet date.

  ** The appointment of Dr. Martin Vorderwülbecke as a member of the Executive Board of ARQUES Industries AG ended as of January 31, 2008.

Executive Board

- Ines Kolmsee, Tutzing
  Chairwoman of the Executive Board of
  SKW Stahl-Metallurgie Holding AG (since August 16, 2006)
  Member of the Executive Board (since May 26, 2006)

- J. Klaus Frizen, Mettmann
  Chairman of the Executive Board of SKW Stahl-Metallurgie Holding AG (from November 2, 2006 to April 30, 2007)

- Gerhard Ertl, Garching a. d. Alz
  CFO of SKW Stahl-Metallurgie Holding AG
  (since August 16, 2006)

Supervisory Board:

The Supervisory Board of the Company was legally formed before the year under review. There were no changes in its structure or members in the reporting year. In the reporting year, the capital owners were represented on the Supervisory Board by:

- Mr. Markus Zöllner, Chairman of the Supervisory Board, industrial engineer

- Dr. Martin Vorderwülbecke, Deputy Chairman, lawyer

- Dr. Georg Obermeier, business graduate (MBA)

As the Supervisory Board is not co-determined there were no employee representatives on the Board in the year under review.

All other mandates of the members of the Supervisory Board lie outside the SKW Metallurgie Group. They essentially comprise mandates within the ARQUES Group, in which SKW Metallurgie was consolidated until July 20, 2007.

Dr. Martin Vorderwülbecke

Supervisory Board	Registered office
ARQUANA International Print & Media AG (Chairman; until January 5, 2007)	Starnberg
ARQUES Austria Invest AG (Deputy Chairman)	Wien, Austria
ARQUES Industries AG (Deputy Chairman)	Wien, Austria
ddp media holding AG (until January 31, 2008)	
(formerly: WS 3022 Vermögensverwaltung AG)	Starnberg
Evotape S.p.a. (until February 8, 2008)	San Pietro Mosezzo, Italy
MDI Mediterranean Direct Invest AG (until January 31, 2008)	Starnberg
tiscon AG (Chairman)	Neu-Ulm
SOMMER Holding AG (Chairman; until January 31, 2008)	Bielefeld
XERIUS AG (until February 8, 2008)	Starnberg
	(formerly: Bremen)
TEK Consulting AG	Karlsruhe
Executive Board	
Arques Industrie Asset AG (until January 31, 2008)	Starnberg
Arques Industrie Wert Beteiligungs AG (until January 31, 2008)	Starnberg
ARQUES Industries AG (until January 31, 2008)	Starnberg
Arques Industries Capital AG (until January 31, 2008)	Starnberg
ddp media holding AG (until April 27, 2007)	
(formerly: WS 3022 Vermögensverwaltung AG)	Starnberg
"Imandros" Vermögensverwaltungs-AG (until April 23, 2007)	Starnberg
Zugspitze 66. V V AG (until January 31, 2008)	Muenchen
High Definition Industries AG	Muenchen
Managing director	**Registered office**
Actebis GmbH (formerly: Arques Invest Consult GmbH) (until December 31, 2007)	Starnberg
Actebis Peacock GmbH (formerly: Arques Capital GmbH) (until December 31, 2007)	Starnberg
Arques Asset Invest GmbH (until January 28, 2008)	Starnberg
Arques Asset Verwaltungs GmbH (formerly: Arques Invest GmbH) (until January 28, 2008)	Starnberg
Arques Commercial GmbH (until January 28, 2008)	Starnberg
Arques Finanz GmbH (until January 28, 2008)	Starnberg
Arques Immobilien Verwaltungs-GmbH (until January 28, 2008)	Starnberg
Arques Immobilien Wert Beteiligungs GmbH	
(until January 28, 2008)	Starnberg
Arques Industrie Finanz GmbH (until January 28, 2008)	Starnberg
Arques Invest GmbH (until January 28, 2008)	Starnberg
Arques Invest Beteiligungs GmbH	
(until January 28, 2008)	Starnberg
Arques Invest Verwaltungsgesellschaft mbH (until January 28, 2008)	Starnberg
Arques Süd Beteiligungs GmbH (until January 28, 2008)	Starnberg
Arques Wert Central GmbH (until January 28, 2008)	Starnberg
Arques Wert Finanz GmbH (until January 28, 2008)	Starnberg
Arques Wert Industrie GmbH (until January 28, 2008)	Starnberg
ddp Deutscher Depeschendienst GmbH (until April 27, 2007)	Berlin
dfd Deutscher Fotodienst GmbH	
vormals: getaklik Medien GmbH (until April 27, 2007)	Starnberg
Fritz Berger GmbH (formerly: Arques Asset Beteiligungs GmbH) (until September 11, 2007)	Neumarkt
Imandros Vermögensverwaltungs-GmbH (until January 28, 2008)	Starnberg
Oxiris Chemicals GmbH (formerly: Arques Wert Industriebeteiligungs GmbH)	Ludwigshafen
Schierholz-Translift Holding GmbH (formerly: Arques Investment GmbH) (until January 28, 2008)	Starnberg
Troncone GmbH (formerly: Arques Invest Central) (until January 28, 2008)	Starnberg
WS 2018 Vermögensverwaltung GmbH (until January 28, 2008)	Starnberg
Rotfuchs GmbH	Starnberg
EMG Holding	Berlin
HDO High Definition Oberhausen Atelier Betriebsgesellschaft für neue Film- und Videoproduktionstechniken GmbH	Muenchen
TDWB GmbH	Muenchen
U & P Tauchnitz GmbH (Liquidator)	Woerth-Schaidt

Markus Zöllner

Supervisory Board	Registered office
ARQUANA International Print & Media AG (until September 7, 2007)	Starnberg
ARQUES Austria Invest AG (until November 30, 2007)	Wien, Austria
Arques Industrie Asset AG (Deputy Chairman; until December 21, 2007)	Starnberg
Arques Industrie Wertbeteiligungs AG (Deputy Chairman; until December 21, 2007)	Starnberg
ARQUES Industries AG (until November 30, 2007)	Wien, Austria
Arques Industries Capital AG (Deputy Chairman; until December 21, 2007)	Starnberg
ddp media holding AG (formerly: WS 3022 Vermögensverwaltung AG) (until December 21, 2007)	Starnberg
GOLF HOUSE Direktversand GmbH	
(member of the Advisory Board, until January 1, 2008)	Hamburg
MDI Mediterranean Direct Invest AG (until December 21, 2007)	Starnberg
Reichard Schöps & Co. AG until December 19, 2007)	Wien, Austria
SOMMER Holding AG (Deputy Chairman; until December 21, 2007)	Bielefeld
WOCO Michelin AVS B.V. (until January 14, 2008)	Amsterdam, The Netherlands
XERIUS AG (until December 21, 2007)	Starnberg (formerly: Bremen)
Zugspitze 66. VV AG (Deputy Chairman; until December 21, 2007)	Muenchen
Executive Board	
ARQUES Corporate Revitalization AG (Präsident VR, bis 20.12.2007)	Baar, Switzerland
ARQUES Industries AG (until December 31, 2007)	Starnberg
“Imandros” Vermögensverwaltungs-AG (until April 23, 2007)	Starnberg
MDI Mediterranean Direct Invest AG (until December 31, 2007)	Starnberg
tiscon AG (until January 30, 2007)	Neu-Ulm
WS 3021 Vermögensverwaltung AG (until December 12, 2006)	Starnberg
Evotape S.p.a. (President; until January 14, 2008)	San Pietro Mosezzo, Italy
Rohner AG Pratteln (until December 5, 2007)	Pratteln, Switzerland
Managing director	
Arques Finanz GmbH (until December 20, 2007)	Starnberg
Arques Sport Handelsgesellschaft mbH (until January 1, 2008)	Starnberg
Arques Wert Consult GmbH (now: Missel Verwaltungs GmbH) (until December 21, 2007)	Starnberg
Arques Wert Invest GmbH (until July 2, 2007)	Starnberg
four two na GmbH	Bichl

Dr. Georg Obermeier

Member of the Administrative Board	Registered office
Kühne & Nagel International AG	Schindellegi, Switzerland
Member of the Supervisory Board	
Bilfinger Berger Industrial Services AG	Muenchen
ARQUES Industries AG, Vorsitzender	Starnberg
Member of the Advisory Board	
Illbruck Elements GmbH	Muenchen-Unterföhring
Energie-Control Gesellschaft mbH	Wien, Austria
Österreichische Regulierungsbehörde für Strom & Gas	Wien, Austria

Executive Board:

As of the end of the reporting year, the Executive Board of the Company consisted of:

» Ms. Ines Kolmsee, Chairwoman, Dipl.-Ingenieurin (engineering graduate)
» Mr. Gerhard Ertl, business graduate (MBA)

In the reporting period, Ms. Kolmsee and Mr. Ertl did not hold any mandates outside the SKW Metallurgie Group.

Within the Group, they held the following mandates in the reporting period:

Ines Kolmsee

» Affival Inc, Chairman
» SKW Quab Chemicals Inc., Vice President (since January 16, 2007)
» SKW Metallurgie USA, Inc., President (since October 3, 2007)
» SKW Metallurgie Inc., President (from July 3, 2007 to October 4, 2007)
» ESM Group Inc, Chairman (since October 4, 2007)
» SKW Hong Kong Co. Ltd., Chairman (since November 9, 2007)
» Quab Chemicals Belgium BVBA, Managing Director (since January 24, 2007)
» SKW Verwaltungs GmbH, Managing Director (since December 10, 2007)

Gerhard Ertl

» Affival Inc, Board member (since September 19, 2007)
» SKW Quab Chemicals Inc., Vice President (since January 16, 2007)
» SKW Metallurgie USA, Inc., Executive Vice President and Secretary (since October 3, 2007)
» SKW Metallurgie Inc., Secretary (from July 3, 2007 to October 4, 2007)

» ESM Group Inc, Board member (since October 4, 2007)
» SKW Hong Kong Co. Ltd., Board member (since November 9, 2007)
» Quab Chemicals Belgium BVBA, Managing Director (since January 24, 2007)

From January 1 to April 30, 2007, Mr. J. Klaus Frizen, lawyer, was also a member of the Executive Board.

During this time, Mr. Frizen held the following mandates:

» Deutsche Bank AG, Frankfurt/M. (Germany): member of the Advisory Board, Central region
» Talanx AG, Hannover (Germany): member of the Gerling Advisory Board West
» Wirtschaftsvereinigung Stahl, Betriebswirtschaftliches Institut Stahl, Duesseldorf (Germany): Chairman of the Organization and IT Committee

34. Remuneration of the executive bodies

The compensation structures in the entire SKW Metallurgie Group are governed by the principles of commensurateness, performance and transparency. This primarily applies to compensation for the Executive Board and Supervisory Board. In detail, the compensation of the Executive and Supervisory Boards comprise the following components:

1. Supervisory Board:

The compensation of the Supervisory Board was determined by the Annual General Meeting of June 18, 2007 as follows:

“The Supervisory Board receives fixed and variable compensation, which is paid out on the day of the Annual General Meeting. Compensation is paid to the Supervisory Board with any VAT incurred on such a payment.

Each member of the Supervisory Board receives annual fixed compensation of €10,000. The Chairman of the Supervisory Board receives annual fixed compensation of €15,000.

The variable compensation is subdivided into compensation of €500 per meeting on the one hand and compensation linked to the Company’s performance which is calculated from the percentage increase in the Company’s share price on the other. In this respect, half of the fixed compensation of each Supervisory Board member is used as the assessment basis in each case. The reference value for calculating the share price increase is the average of the Company’s share price during the last 30 days before the Annual General Meeting. The settlement value is the average of the Company’s share price during the last 30 days before the next Annual General Meeting. The XETRA closing rate of the Frankfurt Stock Exchange during the last 30 trading days is used to calculate the average share price of the last 30 days before the Annual General Meeting.”

The following accruals for the compensation of the Supervisory Board were formed for the reporting year on the basis of this resolution:

€	Markus Zöllner	Dr. Martin Vorderwülbecke	Dr. Georg Obermeier	Total
Fixed compensation	15,000	10,000	10,000	**35,000**
Variable compensation*	2,500	2,500	2,500	**7,500**
Total	**17,500**	**12,500**	**12,500**	**42,500**

* Participation in five meetings during the reporting year was used a basis for the variable compensation for each member of the Supervisory Board. For the part of the variable compensation linked to the share price, no accruals were formed on the basis of the share price as at the balance sheet date.

In addition to the totals given in the above table, the Supervisory Board was entitled to the following benefits during the reporting year:

» In the year under review, the Supervisory Board was entitled to reimbursement of business travel expenses. The amount is at maximum equivalent to the amounts permitted for income tax purposes. Business entertainment expenses could also be reimbursed in the amount evidenced. At the time of preparation, no such reimbursements had been applied for or given.

» In addition, the Company bore the cost of D&O insurance, which protects members of the Executive and Supervisory Boards and other executive members of the Company. The total premium for the persons named amounted to €20 thousand during the reporting period.

» The Company also bears any VAT that may be due on payments to members of the Supervisory Board in accordance with applicable tax law.

There are no advances, loan or contingent liabilities to the benefit of the members of the Supervisory Board.

2. Executive Board:

The tasks and contribution of each individual member of the Executive Board to the overall performance of the Group were taken into account when determining the compensation of the Executive Board.

€590 thousand was paid in consulting fees to ARQUES Industries AG in Starnberg (Germany) for the consulting services of J. Klaus Frizen, who was part of the Executive Board until April 30, 2007.

In the year under review, the compensation of Ms. Ines Kolmsee and Mr. Gerhard Ertl was composed as follows:

» Fixed compensation
» Variable compensation
» Employer contributions in accordance with the Sozialgesetzbuch (SGB – German Social Code)
» Compensation in kind (only for Mr. Ertl)
» Employer-financed company pension (only for Mr. Ertl)
» Stock option plan (only for Mr. Ertl)

The above components are explained in more detail below:

During the reporting year, fixed compensation, compensation in kind and variable compensation were structured as follows:

€ thousand	Ines Kolmsee	Gerhard Ertl	Total
Fixed compensation	144	120	**264**
Variable compensation*	567	149	**716**
Compensation in kind	0	5	**5**
Total	**711**	**274**	**985**

* The variable compensation for the 2007 business year is shown in the amount in which it has been included in the Company's annual financial statements. The portion of the variable compensation paid out in 2007 for the 2006 business year is a part of the 2006 Compensation Report and is therefore not included in the above table.

The *fixed compensation* was paid out monthly as a salary. The variable compensation was made up of a bonus payment that was agreed individually in each case and primarily based on the EBTDA of the year under review. Part of this variable compensation was already paid out in the year under review and the remaining portion is due in 2008 and has been incorporated into the 2007 Annual Financial Statements in the form of accruals.

The Company pays *employer contributions* in accordance with the *Sozialgesetzbuch* (SGB – German Social Code) for the members of the Executive Board (essentially contributions toward health insurance); during the reporting period, this amounted to €2 thousand for Ines Kolmsee and €5 thousand for Gerhard Ertl.

There is an employer-financed company pension for Mr. Ertl; in the year under review €26 thousand was allocated to the accrual formed for this pension commitment. Mr. Ertl participates in a *stock option plan* which was launched on March 6, 2007 with a term of 1.73 years (until November 30, 2008) and 10,000 subscription rights based on an issue price of €29 per share. Expense (cash method) for this totaling €14 thousand was incurred during the reporting year. Based on the measurement date of December 28, 2007, a fair value of €2.91 was calculated per subscription right (equivalent to a total value of €44 thousand).

In addition to the payments described above, the Executive Board was entitled to the following payments in the year under review:

» The Executive Board was entitled to reimbursement of business travel expenses. The amount is at maximum equivalent to the amounts permitted for income tax purposes. Business entertainment expenses were also reimbursed in the amount evidenced.

» In addition, the Company bore the cost of D&O insurance, which protects members of the Executive and Supervisory Boards and other executive members of the Company. The total premium for the persons named amounted to €20 thousand during the reporting period.

» The Company also bore the cost of any VAT due on payments to ARQUES Industries in connection with J. Klaus Frizen in line with applicable tax law.

There are no advances, loan or contingent liabilities to the benefit of the members of the Executive Board.

The disclosed compensation covers all of the activities of the Executive Board members within the Group and the payments from all Group companies. To the extent that compensation was provided for seats in other subsidiaries held by members of the Group's Executive Board, these were either not paid or offset at Group level.

The substantive content of severance awards from the Company for Executive Board members does not differ significantly from the awards granted to other employees.

3. Former members of the Executive and Supervisory Boards and their surviving dependants:

There are no former members of the Supervisory Board within the Company.

The only former member of the Company's Executive Board has been J. Klaus Frizen, since May 1, 2007. Mr. Frizen did not receive a company pension commitment for himself or his surviving dependants. Accordingly, Mr. Frizen received no payments during the reporting year which go beyond that described under item 2 for his active service.

35. Related party transactions

In accordance with IAS 24, persons or companies defined as related are those that directly or indirectly control the company, that are controlled by the company or are under common control, that hold an interest in the company which grants them significant influence or who/which are jointly involved in the management of the company. This also includes persons in key positions within the company or the parent company and close members of their family. The following reportable related party relationships in accordance with IAS 24 exist for the SKW Metallurgie Group:

Related (legal) party disclosures

Income from associates in € thousand	2007	2006
Jamshedpur Injection Powder Ltd. (income from participating interest)	986	716
Jamshedpur Injection Powder Ltd. (service agreement)	56	86

Along with the subsidiaries included in the consolidated financial statements, SKW-Stahl-Metallurgie Holding AG deals directly or indirectly with non-subsidiaries, non-consolidated companies and non-associates in performing its ordinary business activities. In the period under review, this was the Indian company Jamshedpur Injection Powder Ltd.; SKW Stahl-Metallurgie GmbH mainly performed consulting services for a fixed fee, which is settled quarterly, based on a consultation agreement dated January 1, 2005 with Jamshedpur Injection Powder Ltd. As part of its ordinary course of business, all sales and service contracts with companies not included in the group of consolidated companies were carried out under the standard market terms and conditions as is and would be customary for unrelated parties.

All related companies that are controlled by SKW Stahl-Metallurgie Holding AG, or on which the Group can exert a significant influence, are recorded in the list of shareholdings (part F of these notes).

Until July 20, 2007, ARQUES Industries AG, Starnberg (Germany), was the majority shareholder of the listed SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany). Since July 21, 2007, the participating interest of ARQUES Industries AG in SKW Stahl-Metallurgie Holding AG has no longer been reportable; at the time the majority participating interest was given up it amounted to 0%.

ARQUES Industries AG extended three loans to Group companies. The details of these and the amounts including interest incurred are as follows:

Borrower	12/31/07 € thousand	12/31/06 € thousand	Interest rate p. a.
SKW Stahl-Metallurgie Holding AG	0	60	4%
SKW Stahl-Metallurgie Holding AG	0	3.997	1-Month –Euribor+0.5%
SKW Stahl-Metallurgie GmbH	4,274	4,091	1-Month –Euribor+0.5%

The remaining loan is to be repaid in two installments in 2008. The first installment of €2,000 thousand is due as of June 30, 2008 and the remainder is due as of December 31, 2008.

Service level agreement

Before the start of the period under review, SKW Stahl-Metallurgie Holding AG concluded a service level agreement as the beneficiary with a legal predecessor of ARQUES Industries AG, Starnberg, as the provider relating to the acquisition of consulting services in the fields of management, communication, marketing and general consulting.

The agreement ended by way of termination in the year under review.

On the basis of this agreement, services by the former member of the Executive Board Mr. J. Klaus Frizen were invoiced in the amount of €590 thousand in particular.

Overall, €773 thousand was generated in the period under review based on the above service level agreement.

Guarantee declaration

In 2006, as part of its acquisition of the "Quab" business from the Evonik Group (RAG Group at the time), SKW Stahl-Metallurgie Holding AG issued ARQUES Industries AG with a guarantee exemption declaration for USD 10.0 million. This guarantee exemption declaration also existed in the reporting period but was not utilized. To hedge the resulting contingent liability, the Company bought corresponding environmental liability insurance with a deductible of USD 100,000.

IPO costs

The costs of the IPO of SKW Stahl-Metallurgie Holding AG were initially borne in full by the issuer. Through the cost assumption declaration of November 1, 2006, ARQUES Industries AG declared that it was prepared to assume the costs of the company's IPO in the amount of ARQUES Industries AG' share in the proceeds from the IPO. Based on this declaration, SKW Stahl-Metallurgie Holding AG charged Arques Industries AG an amount of €910 thousand in 2006. The calculation of IPO costs was adjusted in the reporting period. As a result, the above invoice amount was reduced by €79 thousand to €831 thousand.

Real estate rental

The administrative building of Affival S.A.S., Solesmes (France), in Solesmes (France) was owned by ARQUES Immobilien GmbH & Co. KG in the reporting period. Before the reporting period, a ten-year rental agreement was concluded between Affival S.A.S. and ARQUES Immobilien GmbH & Co. KG with an annual, standard market rent of €70 thousand. This agreement was carried out accordingly in the reporting period.

Related (natural) party disclosures

In accordance with IAS 24, SKW Stahl-Metallurgie Holding AG also reports on transactions between these and related natural persons and relatives. The members of the Executive Board and the Supervisory Board and their relatives were identified as natural related persons.

There were no significant transactions between SKW Stahl-Metallurgie Holding AG and related natural persons in business year 2007 that are not stated under note 34 "Remuneration of the executive bodies".

36. Employees

In business year 2007, an average of 316 people (previous year: 226) were employed in the Group. 171 of these were hourly-paid workers (previous year: 127) and 145 were salaried employees (previous year: 99). As of the balance sheet date, the number of employees was 563 (previous year: 225). 302 of these were hourly-paid workers and 261 were salaried employees. The rise in employees as of the balance sheet date of 338 is essentially due to the acquisitions in 2007. As a result of acquisitions, the number of employees rose by 329 as of the balance sheet date.

37. Additional information on financial instruments

This section provides a comprehensive overview of the significance of financial instruments for the SKW Metallurgie Group and provides additional information on balance sheet items that include financial instruments.

The following table shows the fair values and the carrying amounts of financial assets and liabilities which are measured at cost or amortized cost.

	12/31/2007		12/31/2006	
€ thousand	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Financial assets				
Assets held to maturity	58	58	65	65
Loans and receivables	47,236	47,236	27,513	27,513
Financial assets held for trading	0	0	0	0
Derivative financial instruments	12	12	0	0
Financial liabilities				
Financial liabilities at amortized cost	75,960	75,960	37,668	37,668
Financial liabilities held for trading	0	0	0	0
Derivative financial instruments	102	102	0	0

The following table shows the reconciliation of the individual balance sheet items on the assets side of the balance sheet to the measurement categories as of December 31, 2007 in € thousand.

Assets	Carrying amount	Loans and receivables	Assets held to to maturity	Available for sale financial assets	Assets measured at fair value through profit or loss	Fair value
		Amortized cost	Amortized cost	Fair Value	Fair Value	
Financial assets	385	327	58	0	0	385
Trade receivables	46,900	46,900	0	0	0	46,900
Other receivables	9	9	0	0	0	9
Derivative financial instruments	12	0	0	0	12	12

The figures for the previous year as of December 31, 2006 in € thousand are as follows:

Assets	Carrying amount	Loans and receivables	Assets held to to maturity	Available for sale financial assets	Assets measured at fair value through profit or loss	Fair value
		Amortized cost	Amortized cost	Fair Value	Fair Value	
Financial assets	431	366	65	0	0	431
Trade receivables	27,113	27,113	0	0	0	27,113
Other receivables	34	34	0	0	0	34
Derivative financial instruments	0	0	0	0	0	0

The following table shows the reconciliation of the individual balance sheet items on the equity and liabilities side of the balance sheet to the measurement categories as of December 31, 2007 in € thousand.

Equity and liabilities	Carrying amount	Financial liabilities carried at amortized cost	Derivatives designated as hedge instruments	Finance lease liabilities	Assets measured at fair value through profit or loss	Fair value
		Amortized cost	Fair Value	Amortized cost	Fair Value	
Financial liabilities	48,570	48,570	0	0	0	48,570
Trade payables	26,249	26,249	0	0	0	26,249
Finance lease liabilities	642	0	0	642	0	642
Other liabilities	499	499	0	0	0	499
Derivative financial instruments	102	0	102	0	0	102

The figures for the previous year as of December 31, 2006 are as follows:

Equity and liabilities	Carrying amount	Financial liabilities carried at amortized cost	Derivatives designated as hedge instruments	Finance lease liabilities	Assets measured at fair value through profit or loss	Fair value
		Amortized cost	Fair Value	Amortized cost	Fair Value	
Financial liabilities	15,497	15,497	0	0	0	15,497
Trade payables	21,305	21,305	0	0	0	21,305
Finance lease liabilities	847	0	0	847	0	847
Other liabilities	19	19	0	0	0	19
Derivative financial instruments	0	0	0	0	0	0

38. Derivative financial instruments

In the context of risk management, derivative financial instruments can be used to limit the risks mainly arising from exchange and interest rate fluctuations and credit risks. As of the balance sheet date, SKW Metallurgie only had derivative financial instruments used to hedge exchange rates.

Derivative financial instruments for hedging exchange rates

Derivative financial instruments were used to hedge risks arising from fluctuations in foreign currency receivables and liabilities. These instruments are currency forwards. The fair values of these transactions were:

	2007		2006	
€ thousand	Assets	Equity & liabilities	Assets	Equity & liabilities
Currency forwards	12	102	0	0

These currency forwards were classified as fair value hedges. Accordingly, all currency forwards are recognized at fair value in the consolidated balance sheet (under financial assets or other liabilities). Changes in their fair value are taken directly to income, as are changes in the fair value of receivables and liabilities.

39. Management of financial risks

Financial market risks

Market price fluctuations can result in significant cash flow and earnings risks for the SKW Metallurgie Group. Changes in exchange rates, interest rates and share prices influence both global operations and financing activities. In order to optimize the allocation of financial resources within the Group and ensure the highest possible return for its shareholders, the SKW Metallurgie Group identifies, analyzes and controls the associated financial market risks in a forward-looking manner. The Company primarily attempts to manage and monitor these risks in the context of its ongoing business and financing activities. If necessary, risks are also controlled with derivative financial instruments. Managing financial market risks is a central task of the SKW Metallurgie Executive Board. This part of the overall risk management system is the responsibility of the CFO. The SKW Metallurgie Executive Board bears ultimate overall responsibility and delegated responsibility to the risk manager and the financial departments of the individual Group companies for operating and business reasons in close coordination with the Group's CFO. The Executive Board of SKW Stahl-Metallurgie Holding AG has the authority to establish guidelines. Their implementation is the responsibility of the local financial units.

To achieve this, the SKW Metallurgie Group implemented a Group-wide risk management system that focuses on unforeseen developments on the finance markets and aims to minimize the potential negative effects on the Group's financial situation. It allows the risk manager to identify the risk items of the individual Group units and to receive a quantitative and qualitative risk analysis at the same time. The risk analyses and the potential economic impact thereof are assessments. They are based on assumptions that unfavorable market changes could arise. The actual impact on the income statement may differ from these significantly on account of the actual changes in global markets.

Foreign currency risks

Transaction risks and foreign currency management

On account of its international orientation, the SKW Metallurgie Group is exposed to currency risks in its ordinary operations. The SKW Metallurgie Group uses various strategies that can allow for the use of derivative financial instruments to limit or eliminate these risks. If necessary, the Group companies use futures contracts that are concluded with the respective local banks.

Currency fluctuations can lead to undesirable and unpredictable volatilities in earnings and cash flow. Each Group unit is exposed to risks in connection with currency changes if it concludes transactions with international partners and cash flows arise from this in the future that are not in the functional currency of the respective Group unit (usually the appropriate national currency). The SKW Metallurgie Group reduces the risk by mainly invoicing transactions (sales and purchases of products and services and investment and financing activities. In addition, foreign currency risks are partially offset by the fact that goods, raw materials and services are purchased in the corresponding foreign currency and produced in the local markets.

The aim when hedging currencies is to fix prices on the basis of hedging rates to protect against future unfavorable currency developments. The hedging periods are generally based on the term of the hedged item.

Group units are not permitted to borrow or invest funds in foreign currency for speculative reasons. Intragroup financing and investments are preferably carried out in the respective functional currency.

The sensitivity analysis makes it possible to identify the risk items of the individual business units. It approximately quantifies the risk that can arise under the given assumptions if certain parameters are changed to a defined degree. The selected risk assessment assumes a simultaneous, parallel change in the euro against all foreign currencies in the consolidated financial statements by +10% and -10%. The potential economic impact is an assessment. This is based on the assumption that that favorable and unfavorable market changes assumed in the sensitivity analysis arise. The actual impact on the consolidated income statement may differ from these significantly on account of the actual changes in global markets. The following table provides an overview of the impact on sales and EBITDA of changes in all Group currencies:

€ thousand	Average rate 2007 -10%	Average rate 2007	Average rate 2007 +10%
Sales	252,600	238,989	227,848
EBITDA	22,326	21,057	20,018

The changes are essentially due to the EUR/USD exchange rate. If a depreciation of the euro against the dollar of -10% is assumed with all other foreign currencies remaining constant, sales increase from €238,989 thousand to €250,942 thousand and EBITDA rises from €21,057 thousand to €22,220 thousand. Conversely, assuming an appreciation of the euro against the dollar by +10% with all other currencies remaining constant, sales would decline from €238,989 thousand to €229,202 thousand and EBITDA would drop from €21,057 thousand to €20,104 thousand.

The analysis in the previous year produced the figures shown below:

€ thousand	Average rate 2006 -10%	Average rate 2006	Average rate 2006 +10%
Sales	194,774	185,828	178,508
EBITDA	15,076	14,316	13,694

Effects of translation-related currency risks

A number of Group units are outside the euro zone. As the reporting currency of the SKW Metallurgie Group is the euro, the financial statements of these companies are translated to euro in the consolidated financial statements. The translation-related effects that arise when the value of net asset items translated into euro change on account of currency fluctuations are recognized in equity in the consolidated financial statements.

Interest rate risks

The interest rate risk in the SKW Metallurgie Group mainly relates to the financial liabilities. The SKW Metallurgie Group reserves the right to reduce this risk by using derivative instruments by exchanging fixed-rate payments into floating rate payments and thereby hedging against changes in fair value. There were no open positions from interest rate derivatives as of the reporting date.

The cash flow risks were determined as part of an interest rate analysis. Refinancing and variable financial instruments are subject to a cash flow risk that expresses the uncertainty of future interest payments. The cash flow risk is measured using a cash flow sensitivity analysis.

The interest rate analysis assumes a parallel shift in interest rate curves by +100/-100 basis points as of December 31, 2007 for all interest rates. This produced the risks (negative value) and rewards (positive value) shown in the table below.

	Change in all interest rate curves as of December 31, 2007	
€ thousand	+100 basis points	-100 basis points
Cash flow risk	-365	+365

There were no significant variable items in 2006. These were only established by the acquisitions performed in 2007. As a result, there is no interest rate analysis for the previous year.

Credit risk

A credit risk is the unexpected loss of cash and cash equivalents or income. This arises when the customer is no longer able to meet its obligations within the appropriate time frame, when the assets serving as collateral lose value or when projects in which the SKW Metallurgie Group invests are not successful. The maximum risk of default is therefore the amount of the positive fair value of the financial instrument in question. Generally, the SKW Metallurgie Group only concludes financial instruments with counterparties of excellent credit standing, and therefore the risk of default can be considered very low.

Of the total receivables of €46,900 thousand, €22,979 thousand were due but not impaired. In 2007, receivables of €886 thousand were impaired.

Liquidity risk

The liquidity risk for the Company is the risk that it may not be able to meet its financial obligations, such as the repayment of financial liabilities, the payment of purchase obligations or finance lease obligations. The SKW Metallurgie Group limits this risk with effective net working capital and cash management and access to lines of credit from banks, particularly for the Group's operating units.

In addition to the above instruments to ensure its liquidity, the SKW Metallurgie Group tracks the financing options that arise on the finance markets on an ongoing basis. In addition, developments are observed in terms of their availability and costs. A key goal of this is to ensure the financial flexibility of the SKW Metallurgie Group and to limit inappropriate refinancing risks.

The following table shows all the fixed payments for interest and other repayments arising from the financial liabilities recognized as of December 31, 2007, including derivative financial instruments with a negative fair value. The derivative financial instruments are reported at fair value. The discounted cash outflows are not stated for other obligations. The cash outflows for financial liabilities without a fixed amount or period, including interest, are based on conditions as of December 31, 2007:

€ thousand	< 30 days	30 - 90 days	90 - 180 days	180 < days < 360	> 360 days	Total
Bank loans and overdrafts	7,558	0	1,698	1,704	30,608	41,568
Liabilities to other third-parties	19	19	2,019	3,448	1,497	7,002
Trade payables	9,399	15,424	468	64	894	26,249
Finance lease liabilities	14	42	56	114	416	642
Other liabilities	499	0	0	0	0	499
Derivative financial liabilities	13	50	14	25	0	102

The cash flow risk in the table is not limited to cash outflows.

The following table shows the same overview for the previous year 2006.

€ thousand	< 30 days	30 - 90 days	90 - 180 days	180 < days < 360	> 360 days	Total
Bank loans and overdrafts	2,130	0	0	637	4,566	7,333
Liabilities to other third-parties	0	0	0	0	8,164	8,164
Trade payables	9,610	11,667	0	0	28	21,305
Finance lease liabilities	13	39	53	107	635	847
Other liabilities	19	0	0	0	0	19
Derivative financial liabilities	0	0	0	0	0	0

The overall analysis of liquidity and debt is determined by calculating net liquidity and net debt and is used for internal financial management and external communications with financial investors and analysts. The net liquidity of net debt is the result of the total cash and cash equivalents and current financial assets available for sale less the bank loans and overdrafts, liabilities to other third-parties and finance lease liabilities, as reported in the balance sheet.

€ thousand	12/31/2007	12/31/2006
Cash and cash equivalents	6,811	34,905
Current financial assets available for sale	0	0
Total liquidity	**6,811**	**34,905**
Current financial liabilities	19,045	15,497
Non-current financial liabilities	29,525	0
Total financial liabilities	**48,570**	**15,497**
Net debt/net financial assets	**-41,759**	**19,408**

The financial resources of the SKW Metallurgie Group comprise cash and cash equivalents, current financial assets available for sale and cash inflows from operating activities. In contrast, its capital requirements comprise the repayment of financial liabilities and interest payments, investments and ongoing finance for operating activities.

The SKW Metallurgie Group was capable of satisfying all its payment obligations from loan liabilities throughout the entire reporting period. There were no payment disruptions or violations of agreements in this context.

Please see the management report for further information on risks that may arise from financial instruments.

40. Share-based compensation

In 2007, the SKW Metallurgie Group introduced an employee program for some of the Executive Board (grant date: March 6, 2007) and key employees (grant date: June 25, 2007) in the form of stock options. On account of the varying set-ups from company to company, the subscription rights have a number of unusual features compared to standard options that must be taken into consideration in the measurement of the options. Those entitled to options can demand delivery of a certain number of common shares in SKW Stahl-Metallurgie Holding AG. The number of SKW Metallurgie shares to be delivered on the measurement and delivery date is determined on the basis of the positive performance of SKW Metallurgie shares since the starting date. The delivery date is November 30, 2008. If the share price performs negatively, no shares will be delivered. The option issuer, represented solely by the Supervisory Board, has the right to meet the claims of the option recipients by paying a cash amount instead of delivering shares (cash settlement). The company is planning to exercise this right for the Executive Board tranche and settle their claims in cash, the key employees are to receive shares. The average price of shares in XETRA trading over a period of ten trading days weighted by trading volume will be used to measure performance as of the delivery date.

A Monte Carlo simulation will be used to measure subscription rights. This involves a simulation of the lognormal distribution process for the price of SKW Metallurgie shares to determine their performance between the issue price and the price on the date of delivery. The corresponding relevant average price is simulated as of the measurement and delivery date.

The measurement of the Executive Board tranche as of the measurement date December 28, 2007 is based on the following input parameters:

	Assumptions as of 12/28/2007
Issue price	€29.00
Delivery reference date	Nov. 30, 2008
Closing price of SKW shares	€25.30
Risk-free interest rate	3.97%
Expected volatility	40.91%
Expected dividend yield	0.00%
Fair value of subscription rights	**€2.91**

The expected volatility was calculated on the basis of the historic, daily closing prices of SKW Metallurgie shares. The term of the subscription rights was used as the window for calculation.

he following table shows the development of the stock options:

	Number of subscription rights 2007
Number at start of year	0
Granted in business year	25,000
Subscription rights exercised in business year	0
Subscription rights lapsed/forfeited in business year	0
Number at end of year	**25,000**

The options outstanding at the end of the year have an average weighted remaining term of eleven months. The exercise price is €29.00.

The total expense of the employee program in 2007 was €74 thousand, €60 thousand of which relates to the equity-settled tranche for key employees. A corresponding accrual was recognized for the remaining €14 thousand, which relates to the cash tranche.

41. Significant events after the balance sheet date

There were no reportable events.

42. Voting right notifications

At the start of the year under review, the only reported participating interest was that of ARQUES Industries AG, Starnberg (Germany); this participating interest ended on July 20, 2007 (see actual notification as of July 20, 2007 in list below).

The Company received the following notifications as defined by Section 160 (1) no. 8 AktG relating to the year under review. This includes notifications received after the end of the year under review:

July 5, 2007
(all notifications relate to the same holdings):

On July 17, 2007, Absolute European Catalyst Fund Limited George Town, Grand Cayman, the Cayman Islands, notified us in accordance with Section 21 (1) WpHG that its share of the voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, ISIN: DE000SKWM013, SCN: SKWM01, exceeded the 3% threshold of voting rights by way of shares on July 5, 2007 and now amounts to 3.470% (153,457 voting rights).

On July 17, 2007, Absolute Capital Management Holdings Limited George Town, Grand Cayman, the Cayman Islands, notified us in accordance with Section 21 (1) WpHG that its share of the voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, ISIN: DE000SKWM013, SCN: SKWM01, exceeded the 3% threshold of voting rights by way of shares on July 5, 2007 and now amounts to 3.470% (153,457 voting rights).

In line with Section 22 (1) sentence 1, no. 1 WpHG, 3.470% of the voting rights (153,457 voting rights) are attributable to the company from Absolute European Catalyst Fund Limited.

July 16, 2007
(all notifications relate to the same holdings):

On July 20, 2007, Absolute European Catalyst Fund Limited George Town, Grand Cayman, the Cayman Islands, notified us in accordance with Section 21 (1) WpHG that its share of the voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, ISIN: DE000SKWM013, SCN: SKWM01, fell below the 3% threshold of voting rights by way of shares on July 16, 2007 and now amounts to 1.570% (69,448 voting rights).

On July 20, 2007, Absolute Capital Management Holdings Limited George Town, Grand Cayman, the Cayman Islands, notified us in accordance with Section 21 (1) WpHG that its share of the voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, ISIN: DE000SKWM013, SCN: SKWM01, fell below the 3% threshold of voting rights by way of shares on July 16, 2007 and now amounts to 1.570% (69,448 voting rights).

In line with Section 22 (1) sentence 1, no. 1 and no. 6 WpHG, 1.570% of the voting rights (69,448 voting rights) are attributable to the company.

July 20, 2007:
On July 23, 2007, ARQUES Industries AG Starnberg, Germany, notified us in accordance with Section (1) WpHG that its share of voting rights SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, ISIN: DE000SKWM013, SCN: SKWM01 fell below the thresholds of 50%, 30%, 25%, 20%, 15%, 10%, 5% and 3% of voting rights by way of shares on July 20, 2007 and now amounts to 0% (0 voting rights).

July 23, 2007:

On July 27, 2007, UBS Global Asset Management (Germany) GmbH, Frankfurt/M., Germany, notified us in accordance with Section 21 (1) WpHG that its share of the voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, ISIN: DE000SKWM013, SCN: SKWM01, exceeded the 3% threshold of voting rights by way of shares on July 23, 2007 and now amounts to 3.494% (154,500 voting rights).

July 24, 2007:

On July 27, 2007, UBS AG Zurich, Switzerland notified us in accordance with Section 21 (1) WpHG that its share of the voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, ISIN: DE000SKWM013, SCN: SKWM01, exceeded the 3% threshold of voting rights by way of shares on July 24, 2007 and now amounts to 3.11% (137,393 voting rights).

In line with Section 22 (1) sentence 1, no. 1 WpHG, 0.75% of the voting rights (32,947 voting rights) are attributable to the company.

August 29, 2007:

On September 7, 2007, Allianz Global Investors Kapitalanlagegesellschaft mbH, Frankfurt/M., Germany, notified us in accordance with Section 21 (1) WpHG that its share of the voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, ISIN: DE000SKWM013, SCN: SKWM01, exceeded the 3% threshold of voting rights by way of shares on August 29, 2007 and now amounts to 3.39% (149,811 of a total of 4,422,250 voting rights).

In accordance with Section 21 (1) sentence 1 WpHG in conjunction with Section 32 (2) sentence 3 InvG, 2.28% of the total voting rights of SKW Stahl-Metallurgie Holding AG (101,000 of a total of 4,422,250 voting rights) are considered as those of Allianz Global Investors Kapitalanlagegesellschaft mbH.

In accordance with pursuant to Section 22 (1) sentence 1, no. 6 WpHG, of the share of voting rights of Allianz Global Investors Kapitalanlagegesellschaft mbH, 1.10% of the total voting rights of SKW Stahl-Metallurgie Holding AG (48,811 of a total of 4,422,250 voting rights) are attributable to Allianz Global Investors Kapitalanlagegesellschaft mbH (shares are held in special fund managed by Allianz Global Investors Kapitalanlagegesellschaft mbH).

September 18, 2007:

On September 19, 2007, Universal-Investment-Gesellschaft mbH, Frankfurt/M., Germany, notified us in accordance with Sections 21 (1) 22 (1) sentence 1, no. 6 WpHG that its share of the voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, ISIN: DE000SKWM013, SCN: SKWM01, exceeded the 3% threshold of voting rights by way of shares on September 18, 2007 and now amounts to 3.01% (133,100 of a total of 4,422,250 voting rights).

In accordance with Section 22 (1) sentence 1 no. 6 WpHG, 0.77% of the total voting rights of SKW Stahl-Metallurgie Holding AG (34,100 of a total of 4,422,250 voting rights) are held directly by Universal-Investment-Gesellschaft mbH; 2.24% of the total voting rights of SKW Stahl-Metallurgie Holding AG (99,000 of a total of 4,422,250 voting rights) are attributable to Universal-Investment-Gesellschaft mbH (shares held in a special fund).

September 21, 2007:

On September 24, 2007, Universal-Investment-Gesellschaft mbH, Frankfurt/M., Germany, notified us in accordance with Sections 21 (1) 22 (1) sentence 1, no. 6 WpHG that its share of the voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, ISIN: DE000SKWM013, SCN: SKWM01, fell below the 3% threshold of voting rights by way of shares on September 21, 2007 and now amounts to 2.996% (132,500 voting rights).

In accordance with Section 22 (1) sentence 1 no. 6 WpHG, 0.758% of the total voting rights of SKW Stahl-Metallurgie Holding AG (33,500 voting rights) are held directly by Universal-Investment-Gesellschaft mbH; 2.239% of the total voting rights of SKW Stahl-Metallurgie Holding AG (99,000 voting rights) are attributable to Universal-Investment-Gesellschaft mbH (shares held in a special fund).

September 24, 2007:

On September 29, 2007, Universal-Investment-Gesellschaft mbH, Frankfurt/M., Germany, notified us in accordance with Sections 21 (1) 22 (1) sentence 1, no. 6 WpHG that its share of the voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, ISIN: DE000SKWM013, SCN: SKWM01, exceeded the 3% threshold of voting rights by way of shares on September 24, 2007 and now amounts to 3.04% (134,500 voting rights).

In accordance with Section 22 (1) sentence 1 no. 6 WpHG, 0.64% of the total voting rights of SKW Stahl-Metallurgie Holding AG (28,500 voting rights) are held directly by Universal-Investment-Gesellschaft mbH; 2.40% of the total voting rights of SKW Stahl-Metallurgie Holding AG (106,000 voting rights) are attributable to Universal-Investment-Gesellschaft mbH (shares held in a special fund).

September 27, 2007:

On October 8, 2007, UBS Global Asset Management (Germany) GmbH Frankfurt/M., Germany, notified us in accordance with Section 21 (1) WpHG that the share of the voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, ISIN: DE000SKWM013, SCN: SKWM01, held by its public fund fell below the 3% threshold of voting rights by way of shares on September 27, 2007 and now amounts to 2.70% (119,500 voting rights).

November 21, 2007 (all notifications relate to the same holdings and were only published in the original English):

Hermes Pensions Management Limited ('HPML') of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG, that on 21 November 2007 the voting interest held by HPML in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, exceeded the 3% threshold of § 21 para. 1 WpHG and amounted to 3.31% voting rights, i. e. 146,500 shares with voting rights, at this day.All of these 3.31% of the voting rights (146,500 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to HPML pursuant to § 22 para. 1 sent. 1 no. 6 WpHG in connection with § 22 para. 1 sent. 2 WpHG. All of these voting rights were directly held by BriTel Fund Nominees Limited.

BriTel Fund Nominees Limited (‘BFNL’) of London, United Kingdom, gave notice pursuant to § 21 WpHG, that on 21 November 2007 the voting interest held by BFNL in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, exceeded the 3% threshold of § 21 para. 1 WpHG and amounted to 3.31% of the voting rights, i. e. 146,500 shares with voting rights, at this day. All of these voting rights were directly held by BFNL.

BriTel Fund Trustees Limited (‘BFTL’) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG, that on 21 November 2007 the voting interest held by BFTL in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, exceeded the 3% threshold of § 21 oara. 1 WpHG and amounted to 3.31% of the voting rights, i. e. 146,500 shares with voting rights, at this day.All of these 3.31% of the voting rights (146,500 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to BFTL pursuant to § 22 para. 1 sent. 1 no. 1 WpHG via its subsidiary BriTel Fund Nominees Limited (‘BFNL’) and also pursuant to § 22 para. 1 sent. 1 no. 6 WpHG in connection with § 22 para. 1 sent. 2 WpHG. All of these voting rights were directly held by BFNL.

Hermes Equity Ownership Services Limited (‘HEOS’) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG, that on 21 November 2007 the voting interest held by HEOS in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, exceeded the 3% threshold of § 21 para. 1 WpHG and amounted to 3.31% of the voting rights (i. e. 146,500 shares with voting rights) at this day.All of these 3.31% of the voting rights (146,500 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to HEOS pursuant to § 22 para. 1 sent. 1 no. 6 WpHG. All of these voting rights were directly held by BriTel Fund Nominees Limited.

BT Pension Scheme Trustees Limited (‘BTPSTL’) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG, that on 21 November 2007 the voting interest held by BTPSTL in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, exceeded the 3% threshold of § 21 para. 1 WpHG and amounted to 3.31% voting rights, i. e. 146,500 shares with voting rights, at this day.All of these 3.31% of the voting rights (146,500 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to BTPSTL pursuant to both § 22 para. 1 sent. 1 no. 6 WpHG in connection with § 22 para. 1 sent. 2 WpHG and § 22 para. 1 sent. 1 no. 1 WpHG via its subsidiaries BriTel Fund Trustees Limited and BriTel Fund Nominees Limited (‘BFNL’). All of these voting rights were directly held by BFNL.

December 20, 2007 (all notifications relate to the same holdings and were only published in the original English):

BT Pension Scheme Trustees Limited (‘BTPSTL’) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG, that on 20 December 2007 the voting interest held by BTPSTL in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, exceeded the 5% threshold of § 21 para. 1 WpHG and amounted to 5.60% voting rights, i. e. 247,464 shares with voting rights, at this day.All of these 5.60% of the voting rights (247,464 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to BTPSTL pursuant to both § 22 para. 1 sent. 1 no. 6 WpHG in connection with § 22 para. 1 sent. 2 WpHG and § 22 para. 1 sent. 1 no. 1 WpHG via its subsidiaries BriTel Fund Trustees Limited and BriTel Fund Nominees Limited (‘BFNL’). All of these voting rights were directly held by BFNL.

BriTel Fund Nominees Limited (‘BFNL’) of London, United Kingdom, gave notice pursuant to § 21 WpHG, that on 20 December 2007 the voting interest held by BFNL in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, exceeded the 5% threshold of § 21 para. 1 WpHG and amounted to 5.60% of the voting rights, i. e. 247,464 shares with voting rights, at this day. All of these voting rights were directly held by BFNL.

BriTel Fund Trustees Limited (‘BFTL’) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG, that on 20 December 2007 the voting interest held by BFTL in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, exceeded the 5% threshold of § 21 oara. 1 WpHG and amounted to 5.60% of the voting rights, i. e. 247,464 shares with voting rights, at this day.All of these 5.60% of the voting rights (247,464 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to BFTL pursuant to § 22 para. 1 sent. 1 no. 1 WpHG via its subsidiary BriTel Fund Nominees Limited (‘BFNL’) and also pursuant to § 22 para. 1 sent. 1 no. 6 WpHG in connection with § 22 para. 1 sent. 2 WpHG. All of these voting rights were directly held by BFNL.

Hermes Pensions Management Limited (‘HPML’) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG, that on 20 December 2007 the voting interest held by HPML in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, exceeded the 5% threshold of § 21 para. 1 WpHG and amounted to 5.60% voting rights, i. e. 247,464 shares with voting rights, at this day.All of these 5.60% of the voting rights (247,464 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to HPML pursuant to § 22

para. 1 sent. 1 no. 6 WpHG in connection with § 22 para. 1 sent. 2 WpHG. All of these voting rights were directly held by BriTel Fund Nominees Limited.

Hermes Equity Ownership Services Limited ('HEOS') of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG, that on 20 December 2007 the voting interest held by HEOS in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, exceeded the 5% threshold of § 21 para. 1 WpHG and amounted to 5.60% of the voting rights (i. e. 247,464 shares with voting rights) at this day.All of these 5.60% of the voting rights (247,464 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to HEOS pursuant to § 22 para. 1 sent. 1 no. 6 WpHG. All of these voting rights were directly held by BriTel Fund Nominees Limited.

December 21, 2007:

On December 28, 2007, UBS AG, Zurich, Switzerland, notified us in accordance with Section 21 (1) WpHG that its share of voting rights in SKW Stahl-Metallurgie Holding AG (ISIN DE000SKWM013) fell below the 3% threshold on December 21, 2007 and amounted to 2.98% (131,612 voting rights) on this date.

In line with Section 22 (1) sentence 1, no. 1 WpHG, 2.62% of the voting rights (116,012 voting rights) are attributable to UBS AG.

December 27, 2007:

On January 3, 2008, UBS AG, Zurich, Switzerland, notified us in accordance with Section 21 (1) WpHG that its share of voting rights in SKW Stahl-Metallurgie Holding AG (ISIN DE000SKWM013) exceeded the 3% threshold on December 27, 2007 and amounted to 3.62% (160,115 voting rights) on this date.

In line with Section 22 (1) sentence 1, no. 1 WpHG, 2.62% of the voting rights (116,012 voting rights) are attributable to UBS AG.

The Company also received voting right notifications for the year under review from Berenberg Lux Invest S. A., Luxemburg (Luxemburg). However, a correction notification dated January 23, 2008 showed that Berenberg Lux Invest S. A. did not hold a reportable participating interest in the Company at any time in the year under review.

The above notifications indicate the following participating interests as defined by Section 160 (1) no. 8 AktG as of December 31, 2007:

Name	Registered office	Number of shares	Date	Comments
Allianz Global Investors Kapitalanlagegesellschaft mbH	Frankfurt/M., Germany	149,811	08/29/2007	
Universal-Investment-Gesellschaft mbH	Frankfurt/M., Germany	134,500	09/24/2007	
BriTel Fund Nominees Limited	London, UK	247,464	12/20/2007	Five individual notifications relating to the same holding
UBS AG	Zuerich, Switzerland	160,115	12/27/2007	
		691,890		

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

43. Auditor's fee

The auditor's fee for fiscal 2007 amounted to €178 thousand and comprises the expenses for the audit of €146 thousand (previous year: €146 thousand) and for other consultation services of €32 thousand (previous year: €303 thousand).

44. Utilization of Section 264 (3) HGB

Retroactively to January 1, 2007, the parent company SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany) concluded a profit transfer agreement with its subsidiary SKW Stahl-Metallurgie GmbH, Unterneukirchen (Germany). On account of this, the exemptive provision in accordance with Section 264 (3) sentence 1 no. 4 HGB is exercised for the subsidiary SKW Stahl-Metallurgie GmbH.

45. Declaration of compliance for business year 2007

The Executive Board and Supervisory Board of SKW Stahl-Metallurgie Holding AG issued their annual declaration of compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" on February 11, 2008 in accordance with Section 161 AktG and made it permanently accessible to the shareholders on the Company's Internet website (www.skw-steel.com) on February 22, 2008.

46. Approval of the consolidated financial statements in accordance with IAS 10.17

The Executive Board approved these consolidated financial statements for publication on March 10, 2008.

F. LIST OF SHAREHOLDINGS

The companies ESM Group Inc. and ESM Metallurgical Products Inc. had a broken business year in 2007 due to the change in ownership. For ESM (Tianjin) Co. Ltd. and Tianjin Hong Long Metals Co. Ltd. the following chart includes figures as of December 31, 2006.

List of shareholdings of SKW Stahl-Metallurgie Holding AG

FULLY CONSOLIDATED SUBSIDIARIES (as of December 31, 2007 in € thousand) Name	Registered office	Capital share in %	Equity	Subscribed capital	Earnings for business year	Segment
SKW Stahl-Metallurgie GmbH	Unterneukirchen, Germany	100	2,730	25	0*)	Powder and Granules
SKW France S.A.S.	Solesmes, France	100	7,594	6,504	3,902	Cored Wire
SKW Quab Chemicals Inc.	Wilmington, Delaware, USA	90	6,591**)	34	948**)	Quab
SKW Metallurgie USA Inc.	Wilmington, Delaware, USA	100	5,434	5,434	0	Powder and Granules
SKW Verwaltungs GmbH	Unterneukirchen, Germany	100	25	25	0	Other
Quab Chemicals Belgium BVBA	Antwerpen, Belgium	100	18	19	-1	Quab
SKW Hong Kong SAR	Hong Kong, Hong Kong	100	3	1	2	Cored Wire
SKW Celik Metalürji Üretim Ticaret Ve Sanayi Limited Sirketi	Taksim, Beyoglu, Turkey	99	3	3	0	Powder and Granules
ESM (Tianjin) Co. Ltd.	Tianjin, PR China	100	792	0	-18	Powder and Granules
Tianjin Hong Long Metals Co. Ltd.	Tianjin, PR China	100	54**)	54	0	Cored Wire
ESM Group Inc.	Wilmington, Delaware, USA	100	5.100	0	-359**)	Powder and Granules
ESM Metallurgical Products Inc.	Nanticoke, Ontario, Canada	100	1,963	1	-59**)	Powder and Granules
Affival S.A.S.	Solesmes, France	100	18,235	5,483	4,807	Cored Wire
Affival Inc.	Williamsville, New York, USA	100	7,923	1	2,735	Cored Wire
Affival Korea Co Ltd.	Dangjin, South Korea	100	1,031	771	86	Cored Wire
Affival K.K.	Tokyo, Japan	100	719	152	272	Cored Wire

*) Profit transfer agreement with SKW Stahl-Metallurgie Holding AG

**) IFRS figure

ASSOCIATED COMPANIES (as of December 31, 2007 in € thousand) Name	Registered office	Capital share in %	Equity	Subscribed capital	Earnings for business year	Segment
Jamshedpur Injection Powder Ltd ***)	Jamshedpur, India	30.22	6,546	1,937	2,699	Powder and Granules

NON-CONSOLIDATED SUBSIDIARIES (as of December 31, 2007 in € thousand) Name	Registered office	Capital share in %	Equity	Subscribed capital	Earnings for business year	Segment
Affival do Brasil Ltda. ****)	Rio de Janeiro, Brasil	99.99	-10	0	N/A	N/A
SKW La Roche de Rame S.A.S.*****)	La Roche de Rame, France	100	N/A	3,160	N/A	N/A

***) The company operates on a business year different to the calendar year (April 1 to March 31). Hence, no current financial statements were available as of the balance sheet date. The figures for the income statement were translated using the average rate for 2007 and the figures for the balance sheet with the rate as of the balance sheet date December 31, 2007. Therefore, the figures from the annual financial statements as of March 31, 2007 are reported in this list.

****) Balance sheet for 2006 (not consolidated on account of subordinate importance for the Group)

*****) In liquidation (not consolidated on account of subordinate importance for the Group)

Unterneukirchen (Germany), March 10, 2008

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee

Gerhard Ertl

DECLARATION OF THE EXECUTIVE BOARD

To the best of our knowledge we declare that, according to the applicable principles of accounting, the corporate accounts represent the net assets, financial position and results of operations of the Group according to the factual conditions, and that the business development including business results and the situation of the Group are presented in the management report in a way that communicates a true description of the factual conditions and that characterizes all significant opportunities and risks of the foreseeable development.

Unterneukirchen (Germany), on March 10, 2008

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee

Gerhard Ertl

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the SKW Stahl-Metallurgie Holding AG, Unterneukirchen, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report of SKW Stahl-Metallurgie Holding AG, Unterneukirchen, which is a joint report with the management report for the individual company, for the business year from Jan. 1, 2007 to Dec. 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and supplementary provisions of the articles of association are the responsibility of the Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of association and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Muenchen, March 11, 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftspruefungsgesellschaft

Franz Wagner	ppa. Gregor Schwarzfischer
Wirtschaftspruefer	Wirtschaftspruefer
(German Public Auditor)	(German Public Auditor)

SUPERVISORY BOARD REPORT

Dear Shareholders,

The successful year enjoyed by the SKW Metallurgie Group in 2007 was dominated by the successful acquisition of the ESM Group in the USA and the initialization of the SKW Metallurgie Group's worldwide expansion.

Activities of the Supervisory Board

The Supervisory Board performed the duties assigned to it by law and the Articles of Association in the business year under review, including supporting and monitoring the activities of the Executive Board. In particular, the Executive Board regularly informed the Supervisory Board in a timely and comprehensive manner of all issues concerning the Company's planning and strategic development, business development and the financial position of the Group, including budgeting, risks and risk management, both orally and in writing.

The main subjects addressed by the Supervisory Board were current business development, corporate strategy and its implementation, personnel issues relating to the Executive Board, and the Company's capital market activities.

The Supervisory Board's activities included the following measures in particular:

» Requesting and examining quarterly reports on the fundamental issues concerning corporate planning (particularly financial, investment and human resource planning), business development (particularly the Company's sales figures and financial position) and transactions that could be of material importance to the Company's profitability or liquidity (cf. Article 90 (1) of the Aktiengesetz (AktG – German Stock Corporation Act));

» Questioning the Company's Executive Board on the reports presented, current developments and imminent decisions at the meetings of the Supervisory Board;

» Holding discussions between the Chairman of the Supervisory Board and the members of the Executive Board on various issues and questioning the Company's management of current developments and imminent decisions in the course of these discussions;

» Examining the annual financial statements, consolidated financial statements, dependent company report in accordance with Article 312 AktG and combined management report prepared by the Executive Board and questioning the members of the Executive Board on these publications.

The Supervisory Board was involved in all major strategic decisions of the Company, discussed and examined these decisions in detail and, where necessary, approved them. Members of the Executive Board regularly attended the meetings of the Supervisory Board as required.

Meetings and resolutions of the Supervisory Board in 2007

The Supervisory Board met in a total of five meetings during business year 2007. The members of the Executive Board were also present. In addition, the Supervisory Board passed three resolutions in writing by circulation.

The accounts meeting pertaining to business year 2006 in accordance with Article 171 (1) of the AktG held on March 20, 2007 was also attended by the Company's auditor.

The Supervisory Board did not have any committees in business year 2007.

In its meetings, the Supervisory Board discussed the Executive Board reports in detail and extensively examined current trends, current acquisition and growth projects as well as outstanding decisions with the Executive Board. The focus in business year 2007 was on the financial performance of the entire Group and particularly the acquisition of the ESM Group. Necessary approval was granted after the documents presented by the Executive Board were examined in detail. In addition to providing advice and discussing the Company's strategic orientation, its main responsibility is to monitor the Supervisory Board.

In the year under review, the Supervisory Board tracked the ongoing business performance and implementation of the corporate strategy as well as the Company's continued strategic development and the Group's continued strong growth, which entailed increasing requirements financially and in terms of human resources.

In business year 2007, the Supervisory Board intensively discussed the current business situation and the continued strategic development of the Company which dominated by the successful acquisition of the ESM Group and the initialization of various worldwide projects. In particular, the financial and human resource challenges and the opportunities and risks of the Company's development and investment plans were discussed in detail.

Corporate Governance

The Supervisory Board paid particular attention to the standards on responsible and effective corporate governance set out in the German Corporate Governance Code. On February 11, 2008, the Executive Board and Supervisory Board issued an updated declaration of conformity as required under Article 161 of the AktG, which was made permanently_ available to shareholders via the Company's website. The Company only diverges from a few of the recommendations of the Code. Further details can be found in the Corporate Governance Report which is published on page 19 onward of the Annual Report. PwC PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Muenchen (Germany), was appointed as the Company's auditor for business year 2007 at the Annual General Meeting of SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), on June 18, 2007. On April 18, 2007, the Supervisory Board obtained a declaration by the auditor as to whether and to what extent there are any professional, financial or other relationships between the auditor and the Company that could raise doubts with regard to its independence (declaration of independence). This declaration also covers consulting services performed for the Company in the past business year.

Examination of the annual financial statements and the dependent company report

The annual financial statements and the consolidated financial statements as of December 31, 2007 and the combined management report, including the bookkeeping system, were audited by the elected auditors, PwC PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Muenchen (Germany), and issued with an unqualified audit opinion. All of the members of the Supervisory Board were provided with all documents relating to the financial statements and audit reports in a timely manner prior to the Supervisory Board's accounts meeting. These documents were carefully examined by the Supervisory Board as a whole and discussed in detail by the Supervisory Board in the presence of the auditor. The Supervisory Board concurred with the results of the audit and, based on the final results of its own examination, did not raise any objections. The Supervisory Board approved the annual and consolidated financial statements prepared by the Executive Board in the version forming the basis of the audit report by PwC PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Muenchen (Germany), by way of a resolution dated March 14, 2008. The annual financial statements have therefore been adopted.

Furthermore, the Executive Board's proposal on the appropriation of net income was examined at the meeting of the Supervisory Board on March 14, 2008. The Supervisory Board endorses the Executive Board's proposal on the appropriation of net income.

PwC also audited the Executive Board's report on affiliated companies (dependent company report) prepared in accordance with Article 312 of the AktG and issued the following audit opinion:

"On completion of our audit in accordance with professional standards, we confirm that

1. the factual statements made in the report are correct,
2. the Company's compensation with respect to the transactions listed in the report was not inappropriately high."

The dependent company report was examined by the Supervisory Board for completeness and accuracy. The Executive Board prepared the list of affiliated companies with an appropriate degree of care. It took the necessary precautions in recording the transactions and other measures that the Company undertook or refrained from undertaking in the past business year, either with, at the instigation of or in the interest of Starnberg (Germany)-based ARQUES Industries AG – the controlling company until July 20, 2007 – or one of its affiliated companies. According to the findings of this examination, there is no evidence to suggest that transactions or measures have not been recorded in full. The Supervisory Board therefore endorses the results of the audit conducted by the auditor. There are no objections to be raised in respect of the declaration of the Executive Board at the end of the report.

Personnel issues relating to the Executive Board

Personnel issues relating to the Executive Board were the subject of distinctive discussions in the Supervisory Board. In the Supervisory Board meeting on April 23, 2007, the Supervisory Board and the Executive Board member Johannes Klaus Frizen mutually agreed to end his term on the Executive Board as of April 30, 2007.

Personnel issues relating to the Supervisory Board

There were no changes in the composition of the Supervisory Board in the year under review.

The Supervisory Board would like to express its gratitude to the Executive Board for the work performed in the past business year and the ongoing and productive exchange of information in an atmosphere of confidence. We would also like to extend our particular thanks to all employees, whose commitment and successful efforts are a key factor in the success of the SKW Metallurgie Group.

Unterneukirchen, in March 2008

Markus Zöllner,
Chairman of the Supervisory Board

FINANCIAL CALENDAR

May 15, 2008
Publication of Business Figures for Q1 2008

June 4, 2008
Annual General Meeting in Muenchen (Germany)

August 14, 2008
Publication of Business Figures for Q2 2008

November 10-12, 2008 (“Eigenkapitalforum”)
Publication of Business Figures for Q3 2008
Analysts’ Conference in Frankfurt/M. (Germany)

December 31, 2008
End of business year 2008

Subject to modifications

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

CONTACTS

SKW Stahl-Metallurgie Holding AG
Fabrikstrasse 6
84579 Unterneukirchen
Germany

Phone: +49 8634 617596
Fax: +49 8634 617594

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 IR and Corporate Communications

Design, Layout, Production:

The Growth Group AG
Muenchener Strasse 15a
82319 Starnberg
Germany

info@growth-group.de
www.growth-group.de

DISCLAIMER AND NOTES

This Annual 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 the political and economic conditions, particularly in the steel and paper industries, 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 affiliated companies do no accept any responsibility to update such forward-looking statements.

When reference is made in this Annual 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, the report usually only quotes one gender. This is solely done in the interest of improved readability (translator’s note: in most instances, this note 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 proprietary name for the Group that is used externally is “SKW Metallurgie”. For this reason, “SKW Metallurgie” and “SKW Metallurgie Group” are used in this Annual Report. Names such as “SKW Metallurgie,” “Quab,” and “Affival” that are used in this Annual Report may be registered trademarks whose use by third parties for their purposes could infringe the rights of the proprietors.

All previous year’s EBITDA and EBIT (Group and “Powder and Granules” segment) figures are adjusted figures. This relates to the income from the participating interest in Jamipol – the amount of which is unchanged – which was reported under net financial income in the 2006 Annual Report. Beginning with the interim report for the first quarter of 2007, SKW Metallurgie has further increased transparency and reported the operating income from participating interests as operating performance in the “Powder and Granules” segment.

Employee figures are based on the respective national definitions (e. g. for whether or not to include Directors or trainees). Due to the small number of part-time employees in the Group and the different definition and calculation standards, the Group refrains from breaking the headcount figure down into the pure number of employees (heads) and the number of full-time equivalents.

This Annual Report is also published as an English translation; in case of any discrepancies, the German version shall prevail.

For several cities quoted in this Annual Report, different names and/or transcriptions into the Latin alphabet are used. The use of a certain name or transcription is for information only and is not intended to imply any political statement. Maps contained in this Annual Report are for illustration only and are not intended to induce any political statements, such as the legitimacy of political borders. In this Annual Report, the term “China” refers to the PR of China without their two Special Administrative Regions. In this Annual Report, the term “Hong Kong” refers to the PR of China’s Special Administrative Region of Hong Kong.

This Annual Report was published on March 18, 2008 and is available on our web site www.skw-steel.com to download free of charge. On request, printed copies will be supplied.

GROWTH WITH SUBSTANCE

SKW Stahl-Metallurgie Holding AG
Fabrikstrasse 6
84579 Unterneukirchen
Germany

Phone: +49 8634 617596
Fax: +49 8634 617594

ir@skw-steel.com
www.skw-steel.com

skw. metallurgie