SKW Stahl-Metallurgie Holding AG

Unterneukirchen (Germany)

Separate Financial Statements

as of December 31, 2015 and

Management Report

for financial year 2015

1. Business and framework conditions

1.1. Moderate economic growth in 2015

Developments in 2015 were characterized by falling prices for crude oil and other commodities, major shifts in currency markets (weakening of the euro against the US dollar; strengthening of the euro against the Brazilian real and the Russian rouble), and recurring conflicts in the Middle East, including the related migration movements. According to International Monetary Fund estimates published in January 2016, the world economy expanded by 3.1% in 2015 (PY: 3.4%). The developed economies grew at a rate of 1.9%, emerging-market and developing countries at a rate of 4.0% in 2015.

There were considerable differences within each one of these blocks of countries. The Eurozone economy expanded at a moderate rate of 1.5%, mainly driven by the Eurozone countries of central and northern Europe. Among the larger industrialized nations, the US economy in particular registered appreciable growth of 2.5%. Japan’s economy stagnated with growth of only 0.6%.

Among the emerging-market and developing countries, China and India continued their role as growth engines, with growth rates of 6.9% and 7.3%, respectively. The Brazilian economy weakened considerably, posting a 3.8% contraction in 2015. Under the weight of trade sanctions imposed in the wake of the Ukraine crisis coupled with falling commodity prices, Russia’s economic output contracted by 3.7% in 2015.

The central banks of the industrialized nations basically continued to pursue expansive monetary and low interest-rate policies to stimulate the global economy; base interest rates in the United States and the Eurozone were actually close to zero. In some cases, banks have been forced to pay negative interest on their deposits.

1.2. Steel production declines in 2015, disproportionate decrease in the United States

As in prior years, the SKW Metallurgie Group generated about 90% of its revenues with customers in the steel industry in 2015. SKW Metallurgie Group offers these customers a broad portfolio of technologically advanced products and services, primarily for primary and secondary metallurgy. For most of these products, the quantities demanded by steel manufacturers are mainly dependent on the quantity of steel they produce. On the other hand, the price of steel is less important for the SKW Metallurgie Group because steel demand has little price elasticity in the short term, so that the effects of the steel price on production quantities are minor. The profit situation of steel manufacturers, which is also affected by the price of steel, can have indirect effects on the SKW Metallurgie Group. For example, customers facing profit pressure may demand changes in terms and conditions, or the credit quality of receivables due from customers of the SKW Metallurgie Group could deteriorate. Because steel manufacturers keep only insignificant quantities of the SKW Metallurgie Group's products in stock, changes in steel production quantities quickly lead to changes in demand for the Group's products.

According to the World Steel Association, global steel production declined by 2.8% to 1,622.8 million tons in 2015. With a nearly unchanged world market share of 49.5%, China is still the biggest single market by far; in contrast to prior years, steel production in China declined by 2.3% in 2015, despite the continued moderate growth of the Chinese economy and rising exports. Geographically, the SKW Metallurgie Group currently has only a negligible presence in China (in production, with a magnesium procurement unit and a smaller cored wire production unit). The most important sales markets for the SKW Metallurgie Group were the United States (accounting for more than 50% of consolidated revenues in both 2015 and 2014), the European Union (primarily for cored wire products), and Brazil. Whereas steel production in the 28 EU countries declined by only 1.8% to 166.2 million tonnes, and steel production in Brazil declined by only 1.9% to 33.2 million tons, there was a marked decline in steel production in the United States. In this, the world's fourth largest steel market, production fell by 10.5% to 78.9 million tonnes in 2015. This decline can be attributed to the increased substitution of domestic steel for imports as a result of the strong US dollar, and falling steel demand in the oil and gas industry (including shale gas production) in the wake of lower commodity prices.

In its own particular sales markets in the United States, the SKW Metallurgie Group encountered an even greater drop in demand than the published statistics would suggest. That is because SKW Metallurgie's products are used more in the production of high-quality steel varieties of the kind employed in the oil and gas industry (including shale gas production). These sub-markets experienced a disproportionately large decline in 2015.

1.3. The markets for SKW Metallurgie's products follow the lead of customers' industries

The development of markets for primary and secondary metallurgy products and solutions is essentially dependent on the development of markets for high-quality and higher-quality steel production. The more steel is produced, the more primary and secondary metallurgy products are needed. The demand for primary and secondary products is also influenced by the technical process employed to produce steel (e.g. blast furnace vs. electro-steel plant) and the ingredients used in the process (e.g., quality levels of the coal and coke products used).

As in the prior year, the SKW Metallurgie Group generated about 10% of its revenues with customers outside the steel industry in 2015. Roughly half of these revenues are generated on “Quab” specialty chemicals, which are mainly sold to producers of industrial starch (intermediate product used in papermaking); to a lesser extent, “Quab” specialty chemicals are also used in the extraction of raw materials from shale gas. The other half of revenues generated with non-steel customers involve products that are technologically related to products for the steel industry (e.g. core wire for the copper and foundry industries).

The development of these customer industries, which influence the sales quantities of SKW Metallurgie products outside the steel industry, is essentially dependent on macroeconomic trends.

1.4. Long-term assurance of external financing for the SKW Metallurgie Group is the subject of ongoing negotiations

An essential element of the external financing of the SKW Metallurgie Group is a syndicated loan granted by three leading German banks for a total amount of up to EUR 86 million. As detailed in Section 6.14., a waiver of special termination rights resulting from the non-fulfillment of financial covenants stipulated in the loan agreement was agreed against payment of a fee. The waiver was initially agreed for the time until May 31, 2016; this period of time will be used for negotiations on adjustments to the financial covenants in line with market conditions. The Executive Board considers it highly probable that these ongoing negotiations will be concluded with an acceptable result for all parties in the time until May 31, 2016, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG at least until 2018, so that the consolidated financial statements as of December 31, 2015 can be prepared under the assumption of a positive going-concern forecast. At the time of preparing the present Management Report, however, it was not assured that the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG will have enough liquidity to continue their operations beyond May 31, 2016. Any significant changes to the syndicated loan agreement, and certainly the complete termination of that agreement would pose an existential threat to the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG. Therefore, the status of a going concern in 2016 and 2017 will depend on the successful conclusion of the aforementioned negotiations.

2. SKW Metallurgie Group implements extended restructuring program ReMaKe 2.0

In 2015, the Executive Board of the SKW Metallurgie Group moved forward with the systematic implementation of the “ReMaKe” restructuring programme developed in 2015. ReMaKe is a comprehensive, strategic reorientation program covering all units of the Group, the goal of which is to sustainably increase the revenues, earnings, and cash flow of the SKW Metallurgie Group. It was redeveloped into the more comprehensive programme ReMaKe 2.0 towards the end of 2015.

When implementation commenced in 2014, ReMaKe centred on three modules: first, the quick restructuring of peripheral activities and activities generating negative cash flows (business restructuring); second, efficiency enhancement in the core business (efficiency management); and third, growth in key markets.

- **The first module** has been largely completed; this success was particularly achieved through the sale of the Swedish subsidiary in late 2014 and the discontinuation of all cash payments by the Group’s parent company and other Group companies to the Bhutanese subsidiary (“stop the bleeding”), which filed for insolvency proceedings in December 2015 and is fully deconsolidated in the present financial statements. In addition, the Chinese Group company ESM Tianjin was converted from a production unit to a procurement and trading unit during the course of 2015. A structured sale process was initiated for the profitable non-core company SKW Quab Chemicals Inc. in 2015; however, this process was suspended as a result of a change in the situation of submitted bids.
- The targeted implementation of the **second module** (efficiency enhancement in the core business) led to substantial increases in revenues and particularly operating EBITDA in 2015. These gains were blunted by the significant drop in steel demand, particularly in the United States, during the course of the year. Nonetheless, ReMaKe clearly prevented much worse results for the SKW Metallurgie Group that would have otherwise resulted from the massive decline in steel production in 2015.
- With regard to the **third module** of ReMaKe (growth in key markets), it remains the goal of the SKW Metallurgie Group to successfully offer the SKW Metallurgie Group’s complete product portfolio for primary and secondary metallurgy in all key steel-producing countries. Consequently, the importance of specific geographical markets for the SKW Metallurgie Group will change and the Group will increase its market presence in fast-growing emerging-market countries. In a first step, the Group will focus particularly on India’s high-volume steel market, which is growing at an above-

average rate. Moreover, the SKW Metallurgie Group expects to benefit from the expected increase in the proportion of pig iron production employing desulphurization products, in order to meet quality standards. SKW Metallurgie Group also sees considerable market potential also in Europe (including Russia), particularly in the area of primary metallurgy. Finally, the SKW Metallurgie Group will take steps to permanently improve its market position in high-volume Asian markets (including China).

The steel industry weakened considerably during the course of 2015; the first appreciable improvement is expected to occur in 2017 at the earliest. In order to actively counter these new challenges, the Executive Board of the SKW Metallurgie Group adopted a new program, “ReMaKe 2.0”, in the fourth quarter of 2015. The new program is more far-reaching than the original ReMaKe program, and adapted to the new circumstances.

At the time of preparing the present Management Report, the operational implementation of ReMaKe 2.0 had already begun. This comprehensive program is backed by concrete measures and detailed controlling tools. The goal of this program, once fully implemented, is to generate an additional, sustainable earnings contribution of nearly EUR 20 million over the next three years, primarily through cost optimization measures, but also sales quantity increases to a smaller extent. SKW Metallurgie anticipates that it will encounter a negative external effect equal to more than half this amount, mainly caused by the persistent margin erosion resulting from extreme price pressure in key markets. ReMaKe 2.0 has been under development by the SKW Metallurgie Group’s Management since the autumn of 2015; it has been elaborated with the help of an acclaimed management consulting firm since the end of 2015. Those elements of the original ReMaKe program (also known as ReMaKe 1.0 since the introduction of ReMaKe 2.0) that have not yet been completely implemented were incorporated into the new ReMaKe 2.0 program.

3. Organization and corporate structure

3.1. SKW Stahl-Metallurgie Holding AG as the parent company providing operational coordination

SKW Stahl-Metallurgie Holding AG, with its registered office in Unterneukirchen (Germany) and another location in Munich (Germany), is the parent company of the global SKW Metallurgie Group. The Group's parent company does not itself market products in the core markets; instead, all customer relationships are managed solely by the operating subsidiaries. The Group's parent company SKW Stahl-Metallurgie Holding AG actively coordinates the activities of the Group companies. The transformation of the Group's parent company from a financial holding company to an operational holding company that actively coordinates the activities of the subsidiaries was initiated in 2014 and continued in 2015.

The governing bodies of the company are the annual general meeting (shareholders), the Supervisory Board elected by the annual general meeting (Supervisory Board members are appointed by judicial order only in exceptional cases), and the Executive Board appointed by the Supervisory Board.

Annual general meeting:

The annual general meeting of shareholders was held in Munich (Germany) on June 9, 2015. The distributable profit of SKW Stahl-Metallurgie Holding AG was not sufficient to allow for the payment of a dividend in 2015 (for fiscal year 2014); therefore, no dividend resolution was adopted. The Management's proposals were approved with the respectively required majority votes, with the exception of the proposed ratification of the actions of the former Supervisory Board members Dr. Liebler and Dr. Markus.

Supervisory Board:

The composition of the company's Supervisory Board underwent the following changes in 2015:

- Dr. Dirk Markus resigned his mandate with effect from February 28, 2015, for time reasons. The annual general meeting elected Mr. Reto Garzetti as his successor on June 9, 2015.
- Dr. Hans Liebler resigned his mandate with effect from November 30, 2015, for time reasons. At the company's request, the competent judge appointed Mr. Tarun Somani as his successor by date of December 30, 2015 (received in January 2016). His initial term of office will last until the next annual general meeting.

The mandates of all Supervisory Board members with the exception of Ms. Jutta Schull will end at the annual general meeting planned for May 10, 2016.

In accordance with the company's Articles of Association, the Supervisory Board is composed of six members, as before. The Supervisory Board of SKW Stahl- Metallurgie Holding AG is not co-determined. The Chairman is Mr. Titus Weinheimer, the Vice Chairman Mr. Jochen Martin. The work of the Supervisory Board is supported by committees.

Executive Board:

At the reporting date, the Company's Executive Board was composed of Dr. Kay Michel as the sole member. Ms. Sabine Kauper, who had belonged to the Company's Executive Board as Chief Financial Officer since January 2014, left the Company at her own wish on October 31, 2015.

Consolidation group:

SKW Metallurgie Group, the highest-ranking company of which is the Group's parent company, comprises the seven fully consolidated direct subsidiaries of SKW Stahl-Metallurgie Holding AG presented in Section 7, as well as (at the reporting date) 13 fully consolidated indirect subsidiaries (excluding the three inactive indirect subsidiaries in Germany and Turkey that are under liquidation). The group of consolidated companies underwent the following changes in fiscal year 2015:

- At December 31, 2014, 25 companies (24 subsidiaries and the parent company) in 13 countries were fully consolidated in the SKW Metallurgie Group.
- During the course of fiscal year 2015, two French companies (Affival SAS and the non-operationally-active intermediate holding company SKW France SAS) were merged to form Affival SAS, reducing the number of fully consolidated companies by one.
- In December 2015, a company was formed in Singapore as a new intermediate holding company (particularly for the purpose of coordinating the business in India), increasing the number of fully consolidated companies by one.
- As explained in Section 6.3., the Bhutanese Supervisory Board is no longer fully consolidated.

At December 31, 2015, therefore, 24 companies (23 subsidiaries and the parent company) in 13 countries were fully consolidated in the SKW Metallurgie Group.

As in the prior year, a French company under liquidation and the Indian joint venture Jamipol, in which the SKW Metallurgie Group still holds a roughly one-third equity interest (unchanged from the prior year), were not fully consolidated.

It remains the goal of the SKW Metallurgie Group to reduce the complexity of the Group's structure. Further to this goal, the liquidation of inactive companies in Germany and Turkey was continued in 2015. These measures are expected to be completed in the first half of 2016.

3.2. Performance of the SKW Metallurgie share amidst a difficult environment

As in prior years, the Company's share capital is divided into 6,544,930 registered shares. During 2015, the price of the SKW Metallurgie share ranged between EUR 3.11 (low for the year) on September 29, 2015 and the high for the year of EUR 6.90 on April 14, 2015 (both XETRA closing prices). The closing price of the SKW Metallurgie share at the end of 2015 was EUR 3.62, which corresponds to a market capitalization of approximately EUR 23.9 million at the reporting date. The average daily XETRA trading volume for the SKW Metallurgie share was 12,200 shares in 2015.

4. Mandatory disclosures under the German Commercial Code (HGB)

4.1 Declaration pursuant to Section 289a HGB

As in prior years, the Corporate Governance Declaration pursuant to Section 289a HGB will be published on www.skw-steel.com (Investor Relations => Financial Reports), to which reference is made in accordance with legal requirements.

4.2 Declarations pursuant to Section 289 (4) and Section 315 (4) HGB

Unless otherwise stated, the following disclosures are valid for the full fiscal year, and particularly also for the reporting date.

The subscribed capital of SKW Stahl-Metallurgie Holding AG is composed of 6,544,930 no-par common shares (registered shares), each representing an imputed share of capital equal to EUR 1.00. There are no different share classes. The Company has not issued shares endowed with special rights. The Company holds no treasury shares.

The shares are freely transferrable within the scope of legal provisions, as a general rule. Insiders in particular are subject to the legal restrictions set out in the German Securities Trading Act. Based on these provisions, SKW Stahl-Metallurgie Holding AG and other Group companies have also entered into contractual agreements (e.g. employment contracts) to restrict the transferability of the parent company's shares by insiders.

At the reporting date, the Executive Board was not aware of any shareholdings equal to or greater than 10% of voting rights. After the reporting date, but before the preparation of the present Management Report, Dr. Olaf Marx notified the Company on February 3, 2016 that he held shares (including attributable shares) representing 12.03% of the share capital of SKW Stahl-Metallurgie Holding AG.

To the extent that employees hold shares of capital, they exercise their voting rights like any other shareholder, barring other, express statutory provisions to the contrary. Otherwise, voting rights are restricted only by the law, as in the case of treasury shares according to Section 71b AktG, for example.

The members of the Executive Board are appointed (subject to their consent) and dismissed by the Supervisory Board. The Executive Board manages the Company in accordance with applicable laws and regulations, the Company's Articles of Association, and the Executive Board's rules of procedure.

It was not permissible at any time in fiscal year 2015 for the Company to buy back Company shares and therefore such buy-backs were not conducted.

With respect to Authorized Capital, the annual general meeting of June 8, 2011 authorized the Executive Board to increase the Company's share capital, with the consent of the Supervisory Board, by a total of up to EUR 3,272,465 through the issuance of new shares against cash capital contributions on one or more occasions in the time until May 30, 2016. A subscription right must be granted to the shareholders in all cases. An exclusion of the subscription right is not possible. This authorization has not been utilized to date; it remains in effect as before. Independently of this Authorized Capital (authorization resolution), the annual general meeting of June 9, 2015 resolved a capital increase of up to 100% (direct resolution). In the ad-hoc announcement of October 2, 2015, the Company announced the decision of the Executive Board and Supervisory Board, reached after careful review, not to carry out this capital increase due to the considerably worsened framework conditions in the steel market and capital markets (lack of basis).

In accordance with Article 11 of the Company's Articles of Association, the Supervisory Board is authorized to resolve changes to the Articles of Association "that only affect the wording." Otherwise, the annual general meeting must resolve amendments to the Articles of Association.

At the reporting date, no agreements related to the event of a change of control subsequent to a takeover offer were in effect with members of the Executive Board.

The syndicated loan agreement concluded in January 2015 includes termination options in the event of a change of control (direct or indirect control of more than 30% of the shares or voting rights in SKW Stahl-Metallurgie Holding AG).

The Company has not entered into indemnity agreements for the event of a pure takeover offer.

No further agreements within the meaning of (8) and (9) of Sections 289 (4) and 315 (4) HGB, respectively, were in effect at the reporting date.

5. SKW Metallurgie products are known throughout the world for competitiveness and high quality

5.1. Primary metallurgy: technology leadership in all methods of pig iron desulphurization

An important primary metallurgical step in the production of pig iron in the blast furnace (preliminary stage of steel production) is pig iron desulphurization. The purpose of this step is to precipitate the naturally occurring sulphur out of the coking coal in order to improve the metallurgical properties of the unrefined iron.

Pig iron desulphurization can be conducted on the basis of calcium carbide, magnesium, or burnt lime. Combinations of these materials, so-called co-injections or tri-injections, are also possible (and technologically superior in many cases). Regional preferences have arisen on the basis of historical development; for example, desulphurization is primarily conducted on the basis of magnesium and limestone in North American blast furnaces, but primarily on the basis of burnt lime in Japanese blast furnaces.

SKW Metallurgie Group possesses in-depth technological expertise in all three methods of pig iron desulphurization and is therefore one of the few suppliers that can offer raw materials and expertise in pig iron desulphurization for all known methods.

5.2. Secondary metallurgy: Affival cored wires for high-quality steel grades

High-quality cored wire for secondary metallurgy is an important product group of the SKW Metallurgie Group. In the “secondary metallurgy” production step, precisely adjusted doses of specialty chemicals are injected into the raw steel to produce the desired quality-improving properties for specialized steel applications. Cored wire is one of the leading commonly used methods for this secondary metallurgical treatment. Inserting a cored wire enriched with precisely specified specialty chemicals into the molten steel is a technologically demanding process for introducing the necessary additives in an efficient and environmentally friendly manner. For example, Affival cored wires can be used to produce steel that can be rolled out in especially thin sheets or that can withstand extreme temperatures particularly well. Such steel varieties are used in oil and gas production (including shale gas production) and in automobile manufacturing, for example. Affival production facilities are located in France, the People’s Republic of China, Russia, and South Korea, as well as in the United States and Mexico, as part of the organizational unit SKW North America. In addition, a distribution company in Japan supports the further expansion of the Group’s business in the East Asia region. The mastery of leading, patent-protected steel refining technologies is a unique selling proposition for Affival compared to competing cored wire suppliers; it is also a non-financial key performance indicator for the entire SKW Metallurgie Group.

5.3. Secure global supply of raw materials

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

For the procurement of key raw materials (e.g. calcium carbide, calcium metal, and ferroalloys) used in the production of cored wire, the Group's Management pursues a strategy of maintaining multiple strategic alliances as a means of countering the risk of dependency on only a few producers or a single producing country.

On the procurement side, magnesium and calcium carbide are the most important desulphurization reagents. The Group maintains strong relationships with reliable suppliers of both these raw materials. Due to limited transportability, input materials based on calcium carbide are procured locally for the most part; magnesium is procured primarily in the PR China, which is by far the most important market for this raw material.

The supply of raw materials used in the production of Quab specialty chemicals (primarily epichlorhydrin and trimethylamine) is secured by appropriate long-term master agreements.

At all Group companies, the high quality of all purchased raw materials is assured by the careful selection of suppliers and by regular sample testing by experts. As a result, no significant supply bottlenecks of raw materials for the SKW Metallurgie Group are foreseeable. The volatility of raw material prices is managed by means of appropriate clauses in the Group's contracts with suppliers and customers; moreover, customer demand is relatively price-inelastic in the short term. While changes in the prices of the raw materials processed by the SKW Metallurgie Group are indeed an important factor influencing the Group's revenues, they do not have a material effect on the Group's earnings in the short term because revenues and material costs change by roughly equal amounts.

5.4. Global production and direct proximity to customers

Unlike most of its competitors, the SKW Metallurgie Group pursues a global strategy both in production and sales. Furthermore, the Group as a whole places a high value on local presence, closeness to customers, and individual customer wishes. As before, the transportability of carbide-based pig iron desulphurization reagents is limited, for which reason it would not make sense to supply all countries from a single location. Manufacturing costs in the factories of the SKW Metallurgie Group are particularly influenced by material costs, personnel costs, and depreciation of production equipment. Due to the fact that the procurement prices of some raw materials fluctuate widely in many years, production costs are also subject to considerable fluctuation, even in the absence of changes to the underlying processes. The production capacity of the SKW Metallurgie Group's factories in the core business can be adjusted to suit changes in demand. In the cored wire factories, for example, production capacity can be adjusted by scheduling or unscheduling additional production steps and/or lines. In fiscal year 2015, the market-driven adjustments of production capacities also included workforce adjustments.

5.5. Corporate governance – Focus on long-term value enhancement

All companies of the SKW Metallurgie Group are managed and evaluated on the basis of uniform criteria. In this regard, the Group's parent company particularly intensified the operational management and coordination of subsidiaries in fiscal year 2015. The long-term development of shareholder value, meaning the preservation and creation of value for the Group's owners, is an important objective in this context. The Group strives to offer an attractive return on capital employed, both through share price appreciation and dividends. This longer-term goal was overridden in fiscal year 2015 by the additionally necessary restructuring measures, mainly resulting from past burdens and from the downturn of the steel industry in 2015. A resumption of dividend payments can only be expected after the current crisis is overcome.

SKW Metallurgie Group continues to pursue the operational goal of being the leading global quality supplier to steel producers in primary and secondary metallurgy. SKW Metallurgie Group will continue to systematically broaden its value chain (e.g. by expanding its offering of services for the global steel industry). The Group strives to enhance its competitiveness in standard products and differentiate itself from competitors even more by offering specialty products that create value-added for customers. In particular, the Group continues to focus on realizing additional business volumes by exploiting brand synergies and cross-selling potential and by means of stepped-up sales initiatives as part of ReMaKe 2.0.

6. Financial performance, financial position, and cash flows of the SKW Metallurgie Group

6.1. SKW Metallurgie Group is reaping the first fruits of its strategic reorientation

The business performance of the SKW Metallurgie Group in fiscal year 2015 was influenced by the negative, external factor represented by the considerable slowdown in demand for steel products starting in the middle of the year, and by the positive effects emanating from the successful implementation of the ReMaKe program and the subsequent ReMaKe 2.0 program.

All Group entities continued in 2015 to successfully implement the individual elements of the ReMaKe program initiated in fiscal year 2014. These measures laid the groundwork for a sustainable improvement of the profitability of the SKW Metallurgie Group; without them, the collapse of steel production would have led to a much worse financial performance of the SKW Metallurgie Group in fiscal year 2015.

The grave crisis currently gripping the steel industry was not foreseeable when ReMaKe was rolled out in 2014. Starting in the autumn of 2015, the expanded programme ReMaKe 2.0 was developed as an answer to the current market trends and presented in detail in January 2016. In the context of this programme expansion and in order to secure debt financing, it was necessary to update the existing restructuring report. This update confirmed the Executive Board's positive going-concern forecast.

6.2 Non-cash non-recurring effects in the separate financial statements prepared in accordance with German Commercial Code regulations necessitate a formal report to the annual general meeting.

In an ad-hoc notice dated January 28, 2016, the Executive Board announced the loss of more than half the share capital of the Group's parent company according to Section 92 AktG and stated that a general meeting of shareholders would be called immediately.

This development did not result from the Group's direct operating activities, but is primarily attributable to three non-cash non-recurring effects in the separate financial statements of the Group's parent company, which are prepared in accordance with the regulations of the German Commercial Code (HGB).

- At one Group company which is linked to the Group's parent company by means of a profit/loss transfer agreement, it was necessary to increase the provision for an antitrust fine by EUR 7.3 million to account for heightened risks. This increase also affected the consolidated financial statements in the same amount as the HGB financial statements (income statement: other operating expenses).

- At one Group company which is linked to the Group’s parent company by means of a profit/loss transfer agreement, an impairment reversal effect of EUR 7.5 million (after taxes) resulted from the reclassification of an investee in connection with the Group’s growth strategy for the Indian market. This development had no effect on the consolidated financial statements.
- Due to the steel crisis in the United States, it was necessary to apply risk-adjusted plan figures in the impairment tests of a U.S. Group company. Subsequently, it was necessary to adjust the investment carrying amounts and to a lesser extent the carrying amounts of intragroup loans (total effect: EUR 6.9 million) in the separate financial statements of the Group’s parent company. Based on the results of these impairment tests, the carrying amounts of intangible assets were adjusted by an amount of EUR 6.7 million in the consolidated financial statements.

6.3. Streamlining of the Group’s portfolio and deconsolidation of the Bhutanese Group company

In 2014, the Executive Board resolved not to continue the vertical integration strategy propagated by the former Executive Board and to divest the Group of overall cash-negative peripheral activities.

As part of this plan, the SKW Metallurgie Group sold its Swedish subsidiary SKW Metallurgy Sweden AB to an outside buyer for a positive purchase price already in 2014. SKW Metallurgy Sweden AB was deconsolidated already in the prior year and is treated as “discontinued operations” in the 2014 comparison figures.

Measures were undertaken in 2015 to divest the Group also of the Bhutanese Group company and the profitable peripheral business of Quab speciality chemicals. Therefore, these two Group companies were classified as “assets held for sale” in accordance with IFRS 5 for the first time in the 2015 semi-annual financial statements.

- The Bhutanese Group company filed for insolvency proceedings in December 2015; the conditions for a loss of control according to IFRS and therefore for deconsolidation are met. The deconsolidation was effected in the present financial statements.
- Attractive offers were initially submitted in connection with the structured sale process for SKW Quab Chemicals Inc. For overarching reasons (e.g. one potential buyer having decided to exit the chemicals business), some of these offers were withdrawn.

In the firm opinion of the Executive Board, the remaining offers did not reflect the company's economic value and therefore the sale process was suspended in the interest of preserving value for the shareholders. Therefore, this company is no longer accounted for according to IFRS 5, but is fully consolidated again in the present financial statements.

Consequently, the numbers of the Bhutanese Group company (including the 2014 comparison numbers and the numbers of the Swedish Group company) are no longer included in the individual income and expense items of the income statement, but are presented on aggregate (pro rata temporis) in the line item "Earnings from discontinued operations (after taxes)." For this reason, the 2014 comparison numbers presented in the present income statement and Management Report may differ from those published in the prior-year Management Report and consolidated financial statements.

For the reasons mentioned above (Bhutan, Sweden, Quab), there may also be differences from and between the numbers published in the quarterly financial statements.

6.4. Revenue performance dependent on the development of the steel industry

In the full year 2015, the SKW Metallurgie Group generated revenues of EUR 285.5 million, that being 6.8% less than the prior-year figure (EUR 306.3 million). This decline was much less pronounced than the drop in steel production, particularly in the United States (double-digit decline). In this key market, the Group companies of the SKW Metallurgie Group experienced revenue declines of up to 30% in local currency terms, which were additionally caused by the disproportionate decline in steel pipe production due to the collapse of oil prices. Amidst this crisis, the SKW Metallurgie Group was able to prevent a greater decrease in earnings in fiscal year 2015 for three main reasons:

- SKW Metallurgie Group proactively countered this negative development by means of the cost-optimizing and sales quantity-increasing components of the ReMaKe programme.
- The development of revenues varied by quarter. Whereas the revenues generated in the first quarter of 2015 were considerably higher than the revenues generated in the first quarter of 2014, steel production declined drastically in the further course of the year, particularly in the United States. As a result, the revenues generated in the second to fourth quarters were less than the respective year-ago figures, despite the countermeasures taken under the ReMaKe programme.

- A significant portion of revenues are generated in US dollars; due to currency translation effects arising from the strong US dollar, the euro amounts presented in the euro-denominated consolidated income statement are higher than the corresponding US dollar amounts.

The change in inventories of finished and semi-finished goods was EUR -7.4 million in fiscal year 2015 (PY: EUR 0.7 million). The reason for this considerable change was the systematic reduction of unnecessary inventories and therefore tied-up capital at the US subsidiary Affival Inc. (part of SKW North America).

6.5. High gross profit margin underscores the Group's operating strength

Particularly in a raw materials-intensive business like that of the SKW Metallurgie Group, revenues can be influenced simply by changes in the cost of raw materials and by the corresponding adjustment of sale prices, even though the operating performance may not have changed. Therefore, the gross profit margin (gross margin) is a much more meaningful indicator. In the SKW Metallurgie Group, the gross profit margin (gross margin) is defined as the ratio of the difference between the total operating performance and the cost of materials to revenues. With material costs of EUR 187.1 million (PY: EUR 210.0 million), the SKW Metallurgie Group increased this ratio slightly from the high prior-year value of 31.7% to 31.9% in 2015, despite intense margin pressure, thanks to the consistent implementation of the ReMaKe programme.

6.6. Personnel expenses reduced

The personnel expenses of EUR 40.1 million were less than the prior-year figure of EUR 42.0 million, particularly as a result of the personnel measures taken in connection with ReMaKe. As a matter of principle, the compensation of the SKW Metallurgie Group's employees includes a high proportion of variable compensation components, through which employees participate in the economic success of their Group company and/or the overall Group. Two countervailing effects were behind the EUR 1.9 million decrease in personnel expenses:

- The workforce was adjusted as part of the ReMaKe programme (e.g. USA/Canada from 302 to 274 at the reporting date) and personnel expenses were reduced.
- Unavoidable compensation increases in Brazil and measures to upgrade employee qualifications in selected key areas were countervailing factors.

The other operating expenses of EUR 27.6 million were considerably higher than the prior-year figure (EUR 11.4 million). This increase resulted mainly from higher unrealized income from exchange rate fluctuations (EUR 16.4 million in 2015, as compared to EUR 6.1 million in 2014) and from non-cash non-recurring effects arising from the deconsolidation of the Bhutanese Group company (gross deconsolidation income: EUR 6.1 million; 2014: EUR 0). However, the deconsolidation of the Bhutanese Group company also gave rise to additional expenses, mainly for legal costs and for the proportional joint liability of SKW Stahl-Metallurgie Holding AG for an external loan granted to the Bhutanese Group company. Netted with these expense items, the gross consolidation income amounted to EUR 4.8 million, including EUR 3.7 million in income statement items and EUR 1.1 million in currency effects recognized in equity.

The other operating expenses of EUR 60.8 million were considerably higher than the prior-year figure (EUR 49.5 million). The main reason for this increase was the EUR 7.3 million adjustment to the provision for an antitrust fine (including interest) on the books of a German Group company, to account for heightened risks. Other operating expenses also include unrealized currency translation expenses, which amounted to EUR 8.8 million in fiscal year 2015 (PY: EUR 3.2 million). After consideration of these unrealized currency effects, the overall net currency effect (net balance of expenses and income) came to EUR +7.6 million in 2015, as compared to EUR +2.9 million in 2014. Other operating expenses also include the item of “legal and consulting costs”. Despite the complex situation of the SKW Metallurgie Group and some of its Group companies at the present time, these expense items were reduced by EUR 0.7 million in 2015 (from EUR 7.2 million to EUR 6.5 million).

The income from associated companies (here: from the Indian joint venture Jamipol) declined slightly from EUR 1.3 million in 2014 to EUR 1.0 million in 2015.

6.7. Stated EBITDA rises despite the steel crisis

SKW Metallurgie Group increased its earnings before interest, taxes, depreciation, and amortisation calculated according to IFRS (calculated or “stated” EBITDA) modestly from EUR 18.4 million to EUR 18.8 million. As in prior years, the stated EBITDA of the Group and the individual Group companies is an important financial performance indicator which the Executive Board employs in the management of the overall Group and the individual Group entities. As described in Section 6.6., stated EBITDA included significant unrealized net currency effects (presented within other operating expenses and other operating income) both in 2015 and in 2014. Total unrealized net currency effects amounted to EUR +7.6 million in 2015 (PY: EUR +2.9 million). Adjusted for these currency effects, EBITDA (before adjusting for extraordinary expenses and income) came to EUR 11.2 million in 2015 and EUR 15.5 million in 2014.

EBITDA included two non-cash, non-recurring effects in 2015:

- First, income was recognized on the deconsolidation of the Group company in Bhutan (net EUR 3.7 million).
- A countervailing effect was the increase in the provision for an antitrust fine plus accrued interest (EUR 7.3 million), to account for heightened risks.

Adjusting EBITDA for all non-recurring effects mentioned above yields an adjusted operating EBITDA of EUR 14.8 million in 2015 (PY: EUR 15.5 million).

6.8. Depreciation, amortisation and impairments, and net interest income/expenses

The depreciation, amortisation, and impairments recognized in 2015 (EUR 14.7 million) were nominally less than the prior-year figure (EUR 38.5 million), but were still considerably higher than the customary amount for the SKW Metallurgie Group (approx. EUR 1 million per quarter; fluctuations are mainly attributable to exchange rate changes). The higher figure resulted from impairment losses recognized on the basis of impairment tests of intangible assets in the United States, due to the steel crisis.

The interest expenses of EUR -7.0 million were significantly higher than the prior-year figure (EUR -4.4 million), primarily as a result of non-recurring effects (interest-like expenses) related to the replacement of the previous funding instruments (master loan agreement and promissory note loans) in early 2015 with a syndicated loan agreement for an amount of up to EUR 86 million and the adjustments made to this agreement during the term against payment of a fee, as well as the higher interest rates which the SKW Metallurgie Group was required to pay due to the non-fulfillment of financial covenants, which too resulted from the steel crisis.

6.9. Tax expenses characterized by little set-off capability between jurisdictions

Tax expenses in 2015 (EUR 5.8 million) were considerably less than the prior-year figure (EUR 7.6 million). However, the SKW Metallurgie Group is still affected by the different earnings reported in different tax jurisdictions. For example, expenses incurred in Germany and Russia cannot be set off against income in the United States, France, and Brazil in the short term, for which reason tax expenses are incurred even though earnings before taxes were negative on the Group level (as in 2015).

In accordance with IFRS, the consolidated net income/loss after taxes from continuing operations is netted with the earnings from discontinued activities (after taxes); the latter position, which comprised the results of the Bhutanese Group company in 2015 (plus SKW Metallurgy Sweden AB in 2014), amounted to EUR -0.5 million (PY: EUR -49.3 million). The total consolidated net loss of EUR -8.7 million (PY: EUR -81.0 million) calculated as the sum of continuing and discontinued operations is attributable in part to the shareholders of SKW Stahl-Metallurgie Holding AG, and in part to non-controlling interests in those subsidiaries in which the SKW Metallurgie Group does not hold 100% of the equity. These are the following Group companies:

- Tecnosulfur (Brazil): 33.3% non-controlling interests
- Quab (USA): 10% non-controlling interests
- In liquidation: SKW Technology companies (Germany)
- Under insolvency and deconsolidated: SKW-Tashi Metals & Alloys Private Ltd. (Bhutan)

In total, EUR 0.2 million is attributable to these non-controlling interests (2014 EUR -21.7 million).

EUR -8.8 million (including EUR -0.2 million from discontinued operations) is attributable to the shareholders SKW Stahl-Metallurgie Holding AG. The number of SKW Metallurgie shares was 6,544,930 in 2015, unchanged from 2014. This yields negative earnings per share (EPS) from continuing operations of EUR -1.31 (PY: EUR -4.36).

6.10. Segment report

As part of the ReMaKe programme, the SKW Metallurgie Group strengthened the management of its operating entities (SKW Stahl-Metallurgie Holding AG as the parent company coordinating the activities of the Group companies) and also aligned it more closely with the regions (across Group companies and products). A key advantage of the regional approach is the additional sales cross-selling potential that can be tapped by offering the SKW Metallurgie Group's entire portfolio of products and services to all major steel mills.

According to IFRS, segments are to be formed on the basis of the enterprise's operating divisions, as determined by the enterprise's internal organisation and reporting structure. Therefore, the SKW Metallurgie Group has introduced geographical segments in accordance with its new, regionalized internal management system. This new segment report format is more transparent particularly with regard to regional market developments, the evaluation of the effects of measures taken under ReMaKe 2.0, and the assessment of exchange rate factors.

The following changes resulted from the conversion of the segment report format:

- Previously, segments were formed on the basis of products (“Powder and Granules”, “Cored Wire”, and “Other”).
- Beginning with the present financial statements, segments are formed on the basis of geographical regions (“North America”, “Europe and Asia”, “South America”, and “Other and Holding Company”).
- All Group companies are assigned to one segment only, as before. Thus, there are no companies that are divided among different segments.

The new reportable segments of the SKW Metallurgie Group are composed of the following activities:

- SKW North America: the “SKW North America” segment is composed of the management entity “SKW North America” introduced in fiscal year 2014. This entity comprises the two US companies Affival Inc. (cored wire products) and ESM Group Inc. (powder and granules), including their respective subsidiaries. These subsidiaries consist of a cored wire factory in Mexico, a production facility for powder and granules in Canada, and a magnesium procurement unit in PR China.
- SKW Europe and Asia: The “SKW Europe and Asia” segment is composed of all the Group’s cored wire companies that do not belong to “SKW North America”. These include the French cored wire company Affival SAS; this, the Group’s largest cored wire factory produces cored wire primarily for the European market (excluding Russia), also for selected overseas customers (particularly in Japan). They also include the subsidiaries of Affival SAS, which produce cored wire products in Russia, South Korea, and the PR China for their respective regional markets.
- SKW South America: The “SKW South America” segment is composed of the Brazilian company Tecnosulfur S.A., which produces and markets metallurgical powders and granules particularly for the South American market.
- Other and Holding Company: The “SKW Other and Holding” segment consists of the following companies:
    - Operating companies:
        - SKW Quab Chemicals Inc.: This company is assigned to “Other” because it is not part of the core business of the SKW Metallurgie Group. It produces specialty chemicals in the United States, which are used in the production of industrial starch as an intermediate product used in the papermaking industry, in cosmetics production, and in fracking, and markets them worldwide.
        - SKW Stahl-Metallurgie GmbH: This is a trading unit for powders and granules that is primarily active in the European market. In connection

with the implementation of strategic growth initiatives for the pig iron desulphurisation market in Europe, a reorganisation of this company is expected; therefore, it is assigned to the "Other" segment until further notice.

  - SKW Metallurgie Group currently holds about 30% of the equity in the Indian company Jamipol, for which reason no revenues are consolidated, and EBITDA is only consolidated at equity; Jamipol's at-equity EBITDA is likewise assigned to the "Other and Holding Company" segment.

- Non-operating companies:
  - The German company SKW Stahl-Metallurgie Holding AG is the parent company of the SKW Metallurgie Group. As a holding company, it generates no revenues; in accordance with its defined task, its EBITDA is typically negative (aside from special cases such as high currency translation gains).
  - The "Other and Holding Company" segment also includes various small companies in several countries, which either operate only as intermediate holding companies or are completely inactive.

The development of the four segments in 2015 is presented in the following.

In the "**North America**" segment, total revenues declined from EUR 166.8 million (2014) to EUR 155.7 million (2015) and EBITDA declined from EUR 10.9 million (2014) to EUR 4.0 million (2015).

The main reason for this decline was the massive downturn of the US steel industry, and particularly the sharp drop in demand for the grades of steel used in pipe manufacturing for the oil and gas industry (including shale gas production). Due to the higher-quality steel grades used in this sector, it accounts for a disproportionately high share of revenues and particularly earnings of the US cored wire company. In local currency terms, the decreases in revenues and EBITDA resulting from the market situation are even more pronounced than in euro terms, as the reporting currency; moreover, the segment results included a negative EBITDA contribution of EUR 1.8 million due to the write-down of a receivable in connection with the deconsolidation of the Bhutanese Group company.

In the "**Europe and Asia**" segment, the total revenues of EUR 79.9 million were slightly less than the corresponding prior-year figure (EUR 84.2 million). The decline was mostly attributable to lower intragroup revenues (reduced sales to North America). External revenues, which were largely unchanged from the prior year, were influenced by several countervailing effects:

- The additional sales potential identified as part of ReMaKe initiatives had the effect of stabilising or even increasing revenues in certain sub-markets.
- As a result of growing steel exports from the PR China, a major customer of this segment in South Korea reduced its production and consequently purchased much less cored wire from the segment (revenue decline in South Korea).
- In most countries of the European Union, steel production decreased slightly in 2015 (trend of revenue declines).

The segment's reported EBITDA fell considerably from EUR 6.0 million in 2014 to EUR 3.4 million in 2015. The two main reasons for this imputed decline of EUR 2.6 million are as follows:

- Segment EBITDA includes unrealized net currency gains that were EUR 2.3 million less in 2015 than in 2014.
- The above-mentioned revenue declines in South Korea led to an EBITDA decline of EUR 1.0 million.

Adjusted for these two effects, segment EBITDA was EUR 0.7 million higher than the respective prior-year figure, thanks to the early successes of the ReMaKe programme.

Despite deteriorating market conditions during the course of the year, the "**South America**" segment posted only a small decline in total revenues (from EUR 29.0 million to EUR 25.7 million), due exclusively to exchange rate effects. Thanks to the active countermeasures taken as part of ReMaKe, the segment's EBITDA actually rose from EUR 6.0 million (2014) to EUR 6.7 million (2015), despite a worsening of the BRL/EUR exchange rate.

The earnings of the "**Other and Holding Company**" segment included the following main results:

- o Operating companies:
  - ▪ SKW Quab Chemicals Inc.: This company generated total revenues of EUR 21.9 million in 2015 (PY: EUR 26.4 million) an EBITDA of EUR 1.0 million (PY: EUR 1.1 million).
- o Non-operating companies:
  - ▪ Details on the separate financial statements of SKW Stahl-Metallurgie Holding AG are presented in Section 7.

6.11. Consolidated statement of financial position: Equity remains positive despite the crisis

The most important items of the statement of financial position of the SKW Metallurgie Group as of December 31, 2015 and the prior-year reporting date are presented in the table below:

ASSETS	12/31/2015 EUR'000	12/31/2014 EUR'000
Noncurrent assets	59,136	68,838
Current assets	92,064	111,813
Thereof cash and cash equivalents	12,278	17,972
Total assets	151,200	180,651

EQUITY AND LIABILITIES	12/31/2015 EUR'000	12/31/2014 EUR'000
Equity	8,339	24,440
Noncurrent liabilities	19,782	24,758
Thereof noncurrent financial liabilities	1,908	6,907
Current liabilities	123,079	131,453
Thereof current financial liabilities	73,111	77,142
Total equity and liabilities	151,200	180,651

The total assets of the SKW Metallurgie Group declined considerably by EUR 29.5 million from EUR 180.7 million in 2014 to EUR 151.2 million in 2015.

Noncurrent assets declined from EUR 68.8 million to EUR 59.1 million, mainly due to impairments of intangible assets due to the steel crisis (intangible assets at December 31, 2015: EUR 16.5 million; December 31, 2014: EUR 25.0 million).

Current assets fell to EUR 92.1 million (PY: EUR 111.8 million). The main reasons for this decrease were the successful effects of the Groupwide program to optimize net working capital and the development of cash and cash equivalents (December 31, 2015: EUR 12.3 million; December 31, 2014: EUR 18.0 million).

On the equity and liabilities side, the deconsolidation of the Bhutanese Group company and the above-mentioned impairments caused the item of “other comprehensive income” to decline by EUR 37.6 million, from EUR -20.2 million to EUR -57.8 million.

The share of non-controlling interests in equity improved considerably from EUR -12.7 million to EUR 8.8 million, mainly due to the deconsolidation of the Bhutanese joint venture. After the liquidation of the SKW Technology companies, which is expected to be completed in the near future, consolidated non-controlling interests will remain only in the Brazilian Group company (33%) and in SKW-Quab Chemicals Inc. (10%).

As a result of the foregoing, consolidated equity declined by EUR 16.1 million from EUR 24.4 million to EUR 8.3 million. It should be emphasized here that the equity of the SKW Metallurgie Group is still positive, despite the negative equity of the Group’s parent company.

The total liabilities presented in the consolidated statement of financial position (noncurrent and current liabilities) also declined considerably (December 31, 2015: EUR 142.9 million; December 31, 2014: EUR 156.2 million).

Financial liabilities make up a significant portion of liabilities presented in the statement of financial position. The sum of noncurrent and current liabilities is defined as gross financial liabilities, which came to EUR 75.0 million at December 31, 2015, as compared to EUR 84.0 million at December 31, 2014. After netting with cash and cash equivalents, net financial liabilities amounted to EUR 62.7 million (2014: EUR 66.0 million). By definition, neither gross financial liabilities nor net financial liabilities include those parts of credit facilities that have not yet been drawn down, or only in the form of guarantees, nor do they include pension obligations. Both gross and net financial liabilities are key financial performance indicators for the SKW Metallurgie Group.

The main reason for the decrease in financial liabilities was the deconsolidation of the Bhutanese Group company, including its financial liabilities. With the exception of a joint liability for EUR 0.6 million, which is already accounted for in the present financial statements, neither the Group’s parent company nor any other Group company is obligated to indemnify creditors for any possible non-payment of interest and principal by the Bhutanese company, which is currently in insolvency proceedings.

In terms of maturity, most of the Group's financial liabilities were classified as "current" at the reporting date, as in the prior year. With respect to 2015, this circumstance resulted from the fact that the Company has been in breach of the financial covenants under the syndicated loan agreement since September 30, 2015. As a result, the financing banks were entitled to terminate the loan agreement at any time, but waived this right against payment of a fee. Further negotiations with the banks are pending. Consequently, the share of the Group's financial liabilities attributable to these credit facilities was to be technically classified as "current".

The equity ratio (including non-controlling interests) of 5.5% was 8.0 percentage points less than the prior-year figure (PY: 13.5%), mainly due to the deconsolidation of the Bhutanese company and the impairments recognized as a result of the steel crisis.

Operating net working capital in the narrower sense (defined as inventories plus trade receivables, less trade payables) amounted to EUR 45.2 million at the reporting date, below the level of the prior year (EUR 49.8 million). The main reason for this decrease (aside from the deconsolidation of the Bhutanese Group company) was the early successes of the working capital optimisation programme.

6.12. SKW Metallurgie Group generates positive cash flow from operating activities, despite the steel crisis

Key positions of the consolidated cash flow statement are presented in the table below:

In euro thousands	01/01-12/31/2015	01/01-12/31/2014
Consolidated fiscal year net income/loss	-8,652	-80,995
Gross cash flow	1,651	9,594
Cash inflow/ outflow from operating activities	4,012	6,008
Cash inflow/ outflow from investing activities	-5,816	-5,246
Cash inflow/ outflow from financing activities	-2,883	7,214
Change in Cash and cash equivalents *	-5,694	7,299
Cash and cash equivalents at end of period	12,278	17,972

* Including effects of the currency translation of cash and cash equivalents

Starting from the consolidated fiscal year net loss resulting from the steel crisis (consolidated earnings from continuing operations: EUR -8.2 million; 2014: EUR -31.7 million), the SKW Metallurgie Group generated a positive gross cash flow of EUR 1.7 million in 2015 (PY: EUR 9.6 million) due to the imputation of non-cash items (particularly depreciation, amortisation, and impairments of noncurrent assets: EUR 14.7 million; 2014: EUR 38.5 million).

Net working capital in the broader sense was further optimized in 2015, freeing up resources of EUR 2.4 million, as compared to the prior year when the capital commitment had been increased by EUR 3.6 million. In terms of current assets in the narrower sense (inventories, trade receivables, and trade payables), the capital commitment was even reduced by EUR 5.2 million, as compared to the prior year when it was increased by EUR 10.1 million.

The cash flow from operating activities (also called net cash flow) indicates the cash surplus generated through operating activities in the given period. It is calculated as the net balance of gross cash flow and changes in net working capital (in the broader sense).

At EUR 4.0 million, the cash flow from operating activities was only slightly less than the prior-year figure (2014: EUR 6.0 million). This positive cash flow generated in spite of the steel crisis reflects the successes of the ReMaKe programme and the fundamental operating strength of the SKW Metallurgie Group.

At EUR 5.8 million, the cash outflow from investing activities was close to the prior-year figure (EUR 5.2 million). In both the reporting period and the prior year, investing activities mainly consisted of maintenance investments.

Free cash flow is calculated as the sum of cash flows from operating activities and investing activities. In simplified terms, it indicates the amount that is technically available for debt repayments and dividend payments.

SKW Metallurgie Group generated a free cash flow of EUR -1.8 million in 2015 (PY: EUR 0.8 million). Not considering growth investments, the SKW Metallurgie Group expects to generate a positive free cash flow in the medium term. To the extent that free cash flow is not used for growth investments, it will be used to pay down net financial liabilities. Therefore, the Executive Board cannot be expected to submit a dividend proposal to the annual general meeting in either the short term or the medium term.

As part of its financing activities, the SKW Metallurgie Group reduced its gross financial liabilities by a net amount of EUR 1.2 million in 2015. These repayments, coupled with the above-mentioned slightly negative free cash flow and dividend payments to non-controlling interests (EUR 1.6 million; PY: EUR 0.7 million) are the main reasons for the change in cash and cash equivalents (EUR 18.0 million at the start of the period; EUR 12.3 million at the end of the period).

6.13. Key changes in financial performance indicators compared to the prior-year forecast

In the combined Management Report for 2014, which was published in March 2015, the Executive Board presented its forecasts for the development of the financial performance and cash flows of the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG in 2015. Based on the prevailing conditions at that time, the Executive Board predicted moderate gains in both revenues and EBITDA.

Due to the significant changes that occurred during the course of the year (particularly including the decline of steel production, especially in the United States), the Executive Board updated its forecasts for the Group's financial performance indicators in the shortened interim financial statements as of June 30, 2015, which were subjected to a critical review by the independent auditor. Based on the prevailing conditions at that time, the Executive Board predicted that both revenues and EBITDA would be markedly lower in 2015 than the respective prior-year figures. Excluding Quab (IFRS 5 at that time), it was stated that full-year EBITDA could be as low as EUR 11.8 million.

These forecasts proved correct with respect to revenues (middle single-digit percentage decrease).

The forecasts also proved correct with respect to operating EBITDA (operating EBITDA without Quab: EUR 13.7 million). The stepped-up implementation of the ReMaKe programme and the launch of the extended programme ReMaKe 2.0 made it possible to achieve a result above the worst-case scenario predicted at the time.

6.14. The liquidity of the SKW Metallurgie Group is currently secured

SKW Stahl-Metallurgie Holding AG and its subsidiaries possessed sufficient liquidity at all times in fiscal year 2015. The Group's liquidity is particularly secured by the syndicated loan agreement concluded at the start of 2015 (with maturity until the start of 2018) for an amount of up to EUR 86 million (of which EUR 46 million as an amortising loan). This syndicated loan agreement contains agreements on key financial ratios, so-called financial covenants. Some of these financial covenants have not been fulfilled since this reporting date. This unexpected development can be attributed first to the fact that the massive downturn in the steel industry could not be completely made up despite active countermeasures, and second to the fact that some exchange rates relevant for the SKW Metallurgie Group (primarily BRL/EUR) developed in a way that was unforeseeable.

Failure to fulfill the agreed covenants entitles the lenders to terminate the loan without notice. At the Company's request, the financing banks agreed in October 2015 to issue a waiver against payment of a fee for the time until February 29, 2016; on March 1, 2016, this waiver was extended against payment of a fee for the time until May 31, 2016. A key basis for this waiver was a restructuring report containing a positive going-concern forecast. The time until May 31, 2016 will be used to conduct negotiations with the banks with the goal of adapting the financial covenants to the intervening developments in the steel industry ("steel crisis") in line with market conditions, and thus renegotiating the basic conditions of the loan agreement. The assurance of this financing is critical to the continued going-concern status of SKW Stahl-Metallurgie Holding AG and the SKW Metallurgie Group after June 1, 2016.

The Executive Board considers it highly probable that these ongoing negotiations will be concluded with an acceptable result for all parties by May 31, 2016, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG at least until 2018, so that the consolidated financial statements as of December 31, 2015 can be prepared under the assumption of a positive going-concern forecast. At the time of preparing the present Management Report, however, it was not assured that the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG will have enough liquidity to continue their operations beyond May 31, 2016. Any significant changes to the syndicated loan agreement, and certainly the complete termination of that agreement would pose an existential threat to the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG. Therefore, the status of a going concern in 2016 and 2017 will depend on the successful conclusion of the aforementioned negotiations.

6.15. Global financing structure

Within the SKW Metallurgie Group, financing is still provided in the form of intragroup loans, particularly loans extended by the Group’s parent company to other Group companies.

Currency risks in the operating business (transaction risks) have been reduced by means of natural hedging, i.e. by concurrently buying and selling foreign currency instruments in the same currency. At certain times, moreover, Group companies have hedged the uncovered positions discernible in the respective foreign currency plan. The risks assumed by the Group in connection with derivative financial transactions are minor. SKW Metallurgie Group employs derivative financial instruments for the sole purpose of hedging business transactions; thus, the Group does not engage in financial speculation. Instead, the primary goal of hedging activities is to hedge that part of transactional currency risk that cannot be hedged by means of natural hedging. Furthermore, the new syndicated loan agreement provides options for hedging currency risks by way of bilateral lines of credit in different currencies than the euro.

The currency translation risks arising from the translation of the financial numbers of subsidiaries in different currency zones than the Eurozone into the euro as the Group’s reporting currency are currently not hedged.

The most important currencies by far for the Group in 2015 were the euro as the reporting currency and the US dollar. Other important currencies for the Group were those of the noneuro countries in which the Group conducted business in 2015 (Brazil, China, India, Japan, Canada, Mexico, Russia, and South Korea).

Within the SKW Metallurgie Group, both the parent company and most subsidiaries dispose of their own credit lines with banks, although the majority of external borrowing by volume is procured by the Group's parent company and passed through to the subsidiaries in the form of intragroup loans, where applicable. Most of the credit lines of the subsidiaries serve to finance current assets and are therefore structured as maturity-matching short-term loans.

Therefore, both the parent company and each and every subsidiary disposed of sufficient liquidity at the time of preparation of the present Management Report. The Company expects that this will also be the case in the further course of 2016 and beyond, although this forecast is dependent on reaching a positive outcome in the currently ongoing negotiations with the Group's main lenders (see Section 6.14.).

7. SKW Stahl-Metallurgie Holding AG – Separate financial statements according to HGB

7.1. Financial performance of the Group’s parent company

SKW Stahl-Metallurgie Holding AG is the parent company of the SKW Metallurgie Group. It is an exchange-listed holding company that coordinates the operations of the Group companies. Therefore, its financial position, cash flows, and financial performance are significantly determined by the economic situation of its subsidiaries and associates. The Company is a stock corporation organized under German law. Its shares are traded in the Prime Standard segment (the segment with the strictest transparency requirements) of the Stock Exchange in Frankfurt/M. (Germany), both in the XETRA system and over-the-counter in other exchanges. The performance of the separate parent company SKW Stahl-Metallurgie Holding AG in fiscal year 2015 was determined by the development of the Group’s operating subsidiaries and lower-tier subsidiaries of varying degrees. As in prior years, the parent company SKW Stahl-Metallurgie Holding AG provided extensive advisory services to the other Group companies; they related particularly to the successful ReMaKe programme for the strategic reorientation of the entire Group, and the extended version of this programme known as ReMaKe 2.0.

The following changes occurred in the equity investment portfolio of SKW Stahl-Metallurgie Holding AG in 2015:

- Two French Group companies (the lower-tier subsidiary Affival SAS and the subsidiary SKW France SAS) were merged into the subsidiary Affival SAS in 2015.
- As described in detail in Section 6.3., the Bhutanese subsidiary is no longer fully consolidated. This Company filed for insolvency proceedings in December 2015.

As a result of these changes, the Company held direct equity investments in seven (PY: eight) companies, including three in Germany, at the reporting date (excluding the deconsolidated company in Bhutan).

The subsidiaries Affival S. A. S. (France), SKW Stahl-Metallurgie GmbH (Germany) and SKW Metallurgie USA Inc. (USA) each have several direct and indirect subsidiaries, which are therefore lower-tier subsidiaries of SKW Stahl-Metallurgie Holding AG. In addition, SKW Verwaltungs GmbH (Germany) maintains an “Accredited Representative Office” in Russia, which manages an internally leased property within the Group, in particular. The other subsidiaries of SKW Stahl-Metallurgie Holding AG do not hold equity investments in other companies (aside from a 1% investment of SKW Service GmbH in the Turkish Group company that is wholly owned by the Group and is undergoing liquidation).

By reason of its function as a holding company, the parent company does not generate any revenues itself. Its other operating income amounted to EUR 11.6 million in fiscal year 2015 (PY: EUR 23.4 million). As in the prior year, this item mainly consisted of income from Group cost allocation agreements with subsidiaries and other costs charged to Group companies. In the prior year, considerable, albeit non-cash income was additionally generated on currency translation effects (2015: EUR 0.9 million; 2014: EUR 12.7 million). Additional other operating income resulted from the restructuring of the investment portfolio, including EUR 7.0 million from the merger of two French companies in 2015 and EUR 7.7 million from the disposal of the direct investment in SKW Quab Chemicals Inc. in 2014.

At 15, the number of active employees (including the Executive Board) at December 31, 2015 was slightly less than the prior-year number (December 31, 2014: 17). The Company hired and retained highly qualified employees in 2015; the Company's proven attractiveness in the labour market is an important non-financial performance indicator for the parent company SKW Stahl- Metallurgie Holding AG.

The personnel expenses of SKW Stahl-Metallurgie Holding AG declined considerably to EUR 3.2 million in 2015 (PY: EUR 4.1 million). Personnel expenses comprise both the compensation of Executive Board members, which is described in detail in the Compensation Report, and the compensation of employees who are not directors and officers of the Company.

Depreciation and amortization are typically insignificant items for the parent company SKW Stahl-Metallurgie Holding AG (depreciation and amortization in both 2015 and 2014: EUR 0.2 million). In addition to scheduled depreciation and amortization, impairments of investment carrying amounts were recognized in the total amount of EUR 6.5 million in 2015, due to the steel crisis in the United States (additionally EUR 0.4 million in impairments of intragroup loans). Impairments of EUR 63.2 million were recognized in 2014.

The other operating expenses of SKW Stahl-Metallurgie Holding AG amounted to EUR 8.7 million in 2015 (PY: EUR 36.0 million, including a loss of EUR 16.2 million on the disposal of SKW Metallurgy Sweden AB). Besides currency effects, the other operating expenses also include significant legal and consulting expenses. The high proportion of this kind of expense is a reflection of the complex restructuring and turnaround situation and the Company's involvement in several complex legal disputes.

The income from equity investments of the parent company SKW Stahl-Metallurgie Holding AG includes the results of the profit/loss transfer agreement with the German subsidiary SKW Stahl-Metallurgie GmbH (EUR 0.4 million; PY: EUR -3.6 million) and the dividend payments collected from the other direct subsidiaries. In the group of direct subsidiaries, only the Brazilian subsidiary Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A paid a dividend in 2015, in the amount of EUR 4.0 million (PY: EUR 2.1 million).

In the prior year, SKW Quab Chemicals Inc. paid a dividend of EUR 0.1 million and SKW France S. A. S. (now Affival S. A. S.) paid a dividend of EUR 10.3 million. The main reason why the French subsidiary did not pay a dividend in 2015 was because one of its subsidiaries (the US cored wire company) encountered a massive decline in earnings due to the drop in steel demand in the oil and gas industry (including shale gas production).

The financial income generated by the parent company SKW Stahl-Metallurgie Holding AG is composed particularly of interest income from the intragroup financing of subsidiaries and lower-tier subsidiaries (EUR 2.0 million; 2014: EUR 4.5 million) and interest expenses to banks (including guarantee fees and other interest-like expenses) in the total amount of EUR 7.1 million (PY: EUR 3.0 million).

At EUR -8.4 million, the result from ordinary activities yielded by the above-mentioned items was nominally higher than the prior-year figure (EUR -70.1 million). However, these nominal numbers were influenced by the above-mentioned impairment losses and other non-recurring effects.

As in the prior years, the tax result of SKW Stahl-Metallurgie Holding AG was of minor importance. Therefore, the rounded fiscal year net loss (earnings after taxes) of SKW Stahl-Metallurgie Holding AG was equal to the above-mentioned result from ordinary activities in both 2015 and 2014.

At EUR -60.8 million, the accumulated loss of SKW Stahl-Metallurgie Holding AG was greater than the prior-year figure (EUR -52.4 million), due to the net loss incurred in 2015. Given its importance for the Company’s ability to pay dividends, the distributable profit or accumulated loss is still the central, long-term financial performance indicator for the parent company SKW Stahl-Metallurgie Holding AG. Due to the accumulated loss, no dividend can be paid for fiscal year 2015, as in the prior year. The medium-term restoration of the ability to pay dividends remains the central income-related objective of the parent company SKW Stahl- Metallurgie Holding AG.

7.2. Financial position and cash flows of the Group’s parent company

The total assets of the parent company SKW Stahl-Metallurgie Holding AG amounted to EUR 69.3 million at the reporting date, nearly unchanged from the prior-year figure (EUR 71.9 million). Noncurrent assets (EUR 61.1 million; PY: EUR 60.7 million) were mainly composed of interests in affiliated companies (EUR 30.7 million; PY: EUR 30.3 million) and loans to affiliated companies (EUR 29.9 million; PY: EUR 30.3 million). A strategic partner holds an equity interest of less than 50% in both Tecnosulfur (Brazil) and the deconsolidated SKW-Tashi Metals & Alloys Private Ltd. (Bhutan); otherwise, all direct equity investments were held in full by SKW Stahl-Metallurgie Holding AG at the reporting date.

In total, current assets declined from EUR 11.0 million to EUR 6.4 million. The most important items of current assets are receivables due from affiliated companies (EUR 3.2 million; PY: EUR 5.9 million) and cash on hand and cash in sight deposits (EUR 3.0 million; PY: EUR 4.4 million).

With respect to equity, a loss of more than half of share capital occurred in 2015; in accordance with Section 92 of the German Stock Corporations Act (AktG), the Executive Board is required to convene a general meeting immediately to formally announce this loss. In addition, the Company's equity was completely depleted, making it necessary to recognize a deficit not covered by equity in the amount of EUR -1.2 million; in the prior year, equity amounted to EUR 7.2 million.

Provisions (2015: 7.4 million; 2014: EUR 5.9 million) included an amount of EUR 3.4 million (2014: EUR 2.7 million) in pension provisions, which related to two former Executive Board members, and to a lesser extent a former employee. Although all three beneficiaries no longer work for the Company, actuarial conditions (particularly the low level of interest rates) necessitated a EUR 0.7 million increase in pension provisions in 2015.

The liabilities of SKW Stahl-Metallurgie Holding AG consisted particularly of liabilities due to banks, which amounted to EUR 58.1 million at the reporting date, that being slightly higher than the prior-year figure (EUR 54.5 million).

The Group's parent company SKW Stahl-Metallurgie Holding AG disposed of sufficient liquidity at all times in 2015, particularly thanks to the syndicated loan agreement concluded in January 2015 for an amount of up to EUR 86 million (maturity: until the start of 2018). This syndicated loan agreement contains agreements on key financial ratios, so-called financial covenants. As mentioned in the consolidated interim financial statements at September 30, 2015 some of these financial covenants were not fulfilled as of this reporting date. This unexpected development can be attributed first to the fact that the massive downturn in the steel industry could not be completely made up despite active countermeasures, and second to the fact that some exchange rates relevant for the SKW Metallurgie Group (primarily BRL/EUR) developed in a way that was unforeseeable.

Failure to fulfill the agreed covenants entitles the lenders to terminate the loan without notice. At the Company's request, the financing banks agreed in October 2015 to issue a waiver against payment of a fee for the time until February 29, 2016; after the end of the reporting period, but before the preparation of the present Management Report, this waiver was extended against payment of a fee for the time until May 31, 2016. A key basis for this waiver was a restructuring report containing a positive going-concern forecast. The period of time until May 31, 2016 will be used to conduct negotiations with the goal of adapting the financial covenants to the intervening developments in the steel industry ("steel crisis") in line with market conditions and thus renegotiating the basic conditions of the loan agreement. The assurance of this financing is critical to the continued going-concern status of SKW Stahl-Metallurgie Holding AG and the SKW Metallurgie Group after June 1, 2016.

The Executive Board considers it highly probable that these ongoing negotiations will be concluded with an acceptable result for all parties by May 31, 2016, thereby assuring the financing particularly of the parent company SKW Stahl-Metallurgie Holding AG at least until 2018, so that the separate financial statements as of December 31, 2015 can be prepared on the assumption of the positive going-concern forecast for SKW Stahl-Metallurgie Holding AG. At the time of preparing the present Management Report, however, it was not assured that the parent company SKW Stahl-Metallurgie Holding AG will have enough liquidity to continue its operations beyond May 31, 2016. Any significant changes to the syndicated loan agreement, and certainly the complete termination of that agreement would pose an existential threat to the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG. Therefore, the status of a going concern in 2016 and 2017 will depend on the successful conclusion of the aforementioned negotiations.

7.3. Financial reporting process of the Group's parent company

An adequate and orderly financial reporting process is of great importance to SKW Stahl-Metallurgie Holding AG; this process also includes the financial reporting-related components of the Internal Control System (ICS). However, the day-to-day business of the Group's parent company SKW Stahl-Metallurgie Holding AG is characterized by a low degree of standardization. Consequently, relatively few transactions are conducted, but they mostly pertain to complex individual matters. Otherwise, the financial reporting system of the Group's parent company is integrated with the Groupwide financial reporting-related control system described in Section 12.6.

8. Research and development activities secures the Group's future viability

As in prior years, intense research and development (R&D) activities are still strategically important unique selling propositions for the SKW Metallurgie Group. The Group's R&D activities serve to enhance the sophisticated technical advice provided to customers and to develop new products. For this reason, research and development activities are of great importance to the SKW Metallurgie Group. SKW Metallurgie Group has organized its R&D activities within a cross-border, cross-company network ("Innotech"). By further intensifying its R&D activities and integrating them by operating segment on a Groupwide basis, the SKW Metallurgie Group strives to fulfill its enhanced claim of worldwide technology leadership in all applications of primary and secondary metallurgy. In total, the SKW Metallurgie Group recognized R&D expenses of EUR 1.7 million in 2015 (PY: EUR 1.5 million).

9. Corporate social responsibility for the environment, people, and society

SKW Metallurgie Group is committed to the guiding principle of securing equal quality of life for current and future generations through a course of development in which ecological, economic, and social considerations are integrated in a sustainable manner. Sustainable business is a core element of the business policy of the SKW Metallurgie Group, one that contributes to the goal of securing the Company's long-term success. Under this sustainability approach, equal consideration is given to the factors of environment, people, and society, as well as economic success. The minimization of environmental risks and burdens is an important non-financial key performance indicator throughout the SKW Metallurgie Group. In general, the Group understands environmental protection not as a limitation, but as an opportunity for responsible business conduct.

The raw materials used in production and the finished products of the SKW Metallurgie Group are transported worldwide; for the most part, outside shipping companies are used for this purpose. The Group chooses its logistical partners carefully; however, the responsibility for environmental threats that could occur in transport lies with the shipping company, as a rule. SKW Metallurgie Group gives preference to environmentally friendly modes of transport such as rail transport and maritime transport over road transport; in this way, it makes a contribution to reducing the carbon dioxide emissions of road transport, and thus to global climate protection.

As a globally leading specialty chemicals company, the SKW Metallurgie Group continues to participate actively in the European REACH process. REACH (which stands for "Registration, Evaluation, Authorisation and Restriction of CHemicals") is based on a Directive of the European Union (EC 1907/2006) that entered into force on June 1, 2007. The goal of REACH is to enhance the protection of human health and the environment through the improved and earlier identification of the intrinsic properties of chemical substances. Another goal of REACH is to enhance the innovation capacity and competitiveness of the EU chemicals industry.

10. Motivated employees as a success factor

10.1. Highly international workforce

The abilities and commitment of the Group's employees are crucial to the success of the SKW Metallurgie Group. At the end of fiscal year 2015, the SKW Metallurgie Group had 655 employees worldwide (excluding the investment in India, which is accounted for at equity). A comparison with the prior-year workforce is not informative due to the changes in the consolidation group. About 97% of employees work outside of Germany; most employees are full-time workers.

Due to the small number of part-time workers, the Group does not state its workforce in terms of full-time equivalents. In principle, the Group takes a positive attitude to part-time work, also for the sake of a healthy work-family balance.

Most employees working in the production facilities are industrial workers.

The breakdown of employees by country and segment at December 31, 2015 (excluding the deconsolidated Bhutanese company) is presented in the table below:

Segment / Country	Total	Prior Year
North America segment:		
USA & Canada	274	302
Mexico	14	10
South America segment:		
Brazil	136	125
Europe and Asia segment:		
France	137	137
Russia	21	9
East Asia	45	54
Other and Holding Company segment:		
Germany	25	25
USA	3	3
Total	**655**	**665**

A significant percentage of the SKW Metallurgie Group's workforce is located in the USA and Canada. In these countries, a particularly strong emphasis is placed on a non-discriminatory work environment; this topic is also gaining importance in Europe. Therefore, the "equal-opportunity employer" principle is very important throughout the SKW Metallurgie Group. Accordingly, the SKW Metallurgie Group hires and promotes its employees on the basis of qualifications and performance, irrespective of legal requirements. The SKW Metallurgie Group takes a positive view of diversity in its workforce.

An important aspect of diversity is the equal treatment of male and female employees. The SKW Metallurgie Group strives to ensure that both sexes are represented on all functional and hierarchical levels. In this endeavour, however, the Group must also consider the degree to which female job applicants are available in the market for certain job profiles (e.g. university degree in metallurgy or a comparable subject). In this respect, the SKW Metallurgie Group's situation can be characterized as follows:

- Industrial positions (production workers) are staffed by men in many cases.
- Higher-level functions with a strong technical orientation (e.g. metallurgical applications engineers) are likewise staffed by men for the most part because very few female applicants are available for such positions.
- In all other positions, both sexes are represented appropriately in the SKW Metallurgie Group.

The SKW Metallurgie Group strives to further improve the diversity of its workforce, particularly with respect to the appropriate representation of both sexes.

10.2. Market-oriented compensation systems

The compensation systems for the SKW Metallurgie Group's employees are conformant with applicable laws and regulations and appropriate for the market practices of each country. In the European countries, the collective wage agreements for the chemical industry apply to some employees. The benefits granted to employees in accordance with legal requirements and the other contractual or voluntary benefits granted are also conformant with market standards in each country. In particular, the SKW Metallurgie Group promotes the employees' participation in healthcare and pension plans, in some cases beyond the legally required minimum standards. For example, some of the current and former employees of the German, Japanese, and French Group companies, as well as two former members of the Executive Board, are covered by an employer-financed pension system. The commitments granted in this connection are covered by pension provisions.

10.3. Trustful cooperation with employees

SKW Stahl-Metallurgie Holding AG as the parent company of the SKW Metallurgie Group was not legally required to maintain a codetermination system, nor did it voluntarily maintain such a system in 2015. Therefore, all members of the Supervisory Board represent the shareholders and there are no employee representatives on this board.

Employee and labour union representative bodies were in place in some subsidiaries of the SKW Metallurgie Group in 2015, in accordance with the national laws in the respective country; there was no employee representative body in the parent company SKW Stahl-Metallurgie Holding AG. Cooperation with the local employee representative bodies is characterized by mutual understanding and solutions that uphold the interests of both sides. In both 2015 and 2014, there were no speaker committees within the meaning of the German Executive Staff Committee Act, nor any other body representing executive staff in the SKW Metallurgie Group.

Occupational safety, also beyond the minimum standards of law, is a matter of great importance to the SKW Metallurgie Group. In general, the work atmosphere in the SKW Metallurgie Group is characterized by mutual respect and trust. Great value is placed on direct access to supervising managers, short decision paths, and a high degree of work autonomy.

10.4. Positive work environment

There is a low degree of employee turnover among permanent employees of the SKW Metallurgie Group. The strong affinity of employees with the SKW Metallurgie Group as an important non-financial key performance indicator confirms the success of the philosophy of the Group Executive Board and local management that an attractive work environment creates satisfied employees, who represent an important competitive advantage for the Group. Well trained employees are an essential success factor for the SKW Metallurgie Group. Therefore, the training and continuing education of the entire workforce, including senior managers, is an important part of the corporate philosophy of the entire SKW Metallurgie Group.

10.5. Compensation of the Supervisory Board and Executive Board (Compensation Report)

All compensation structures in the SKW Metallurgie Group, including those of employees and the Executive Board and Supervisory Board, are guided by the principles of appropriateness and performance.

In accordance with legal requirements, details of the compensation of the Supervisory Board and Executive Board in 2015 are presented in the following (Compensation Report):

I. Supervisory Board

The compensation of Supervisory Board members includes no compensation components that are dependent on the business performance of the Group. Instead, their compensation is divided into fixed compensation and attendance fees.

The annual fixed compensation is EUR 12 thousand for each member of the Supervisory Board; the Chairman receives 1.5 times, and the Vice Chairman receives 1.25 times this amount.

Attendance fees are paid for in-person meetings. Each Supervisory Board member receives an attendance fee of EUR 1 thousand for every meeting of the full Supervisory Board. Each committee member receives an attendance fee of EUR 1 thousand for every meeting of Supervisory Board committees; the Chairman receives 1.5 times this amount. Accordingly, the following total amounts were expended on Supervisory Board compensation in fiscal year 2015:

In euro thousands	**Fixed compensation**	**Attendance fees**	**Total**
Armin Bruch	12	9	21
Reto Garzetti	7	6	13
Dr. Hans Liebler (until 11/30)	11	4	15
Dr. Dirk Markus (until 02/28)	2	0	2
Jochen Martin	15	9.5	24.5
Jutta Schull	12	5.5	17.5
Titus Weinheimer	18	6.5	24.5

Total	77	40.5	117.5

*Provisions for the activity of the Supervisory Board in 2015; these amounts will be paid in 2016.

In accordance with Article 12 of the Company's Articles of Association, the necessary expenditures of Supervisory Board members are reimbursed in addition to the compensation presented above. In 2015, these expenditures consisted of travel and entertainment costs, which were reimbursed at the maximum rates allowed by the German Income Tax Act.

As in prior years, the Company assumed the costs of a D&O insurance policy that covers members of the Executive Board and Supervisory Board and other senior managers. In accordance with the rules of the German Corporate Governance Code, a deductible of 10% of any claim, up to an amount equal to one and a half times the fixed annual compensation, was agreed as part of the D&O insurance policy for the members of both the Executive Board and the Supervisory Board.

No advances, loans or contingent liabilities were extended in favour of Supervisory Board members in 2015.

The Company has made no pension commitments to members of the Supervisory Board and their survivors.

Any applicable value-added tax is paid in addition to, and any income tax withholdings are deducted from all payments to Supervisory Board members.

II. Executive Board

In 2015, the Executive Board was composed of Dr. Kay Michel (CEO), as well as Ms. Sabine Kauper (CFO) until October 31, 2015.

The compensation of the members of the Executive Board is oriented to the tasks and individual contributions of each Executive Board member to the Group's overall success. Other benchmarks considered for this purpose were the size and activity of the Company, its economic and financial condition, and the amount and structure of Executive Board compensation at comparable companies. Agreements with Executive Board members for the event of an early termination of Executive Board activity completely fulfilled the requirements of the German Corporate Governance Code at the reporting date.

At the reporting date, no agreements were in effect with Executive Board members for the event of a change of control resulting from a takeover offer.

As a matter of principle, Executive Board compensation comprises both non-success-dependent and success-dependent components.

The **non-success-dependent compensation** includes the annual fixed compensation, which is established for the full term of the Executive Board member's appointment, calculated pro rata temporis for every started calendar year, and paid every month as a salary. In addition, Executive Board members receive in-kind compensation, which is established in the amount of the individually taxable values and to which every member is entitled in the same amount, as a general rule. In-kind compensation mainly consists of the company car made available to Executive Board members also for private use, for which each Executive Board member pays tax individually, and the occupational-specific insurance premiums, which were either not counted as income or taxed at a flat rate in accordance with the German Income Tax Act. In fiscal year 2015, the Company particularly assumed the expenses for a D&O insurance that protects the members of the Executive Board and Supervisory Board, as well as other senior managers of the Company. In accordance with Section 93 (2) (3) AktG and the provisions of the German Corporate Governance Code, a deductible of 10% of any claim, up to an amount equal to one and a half times the fixed annual compensation, was agreed as part of the D&O insurance policy for the members of both the Executive Board and the Supervisory Board. Due to their exemption from obligatory participation in the statutory pension and unemployment insurance scheme, no contributions to the statutory pension and unemployment insurance scheme are deducted from the compensation of Executive Board members; therefore, the Company also does not pay the corresponding employer contributions.

The **success-dependent compensation** of the Executive Board is based on a Groupwide management bonus system. In the framework of this system, targets are defined particularly with respect to the Group's financial performance indicators and the Executive Board members' personal performance, at the beginning of the fiscal year; in addition, a maximum bonus amount is defined. The degree of target attainment and therefore the bonus amount are determined at the end of the fiscal year. Due to the Company's special situation (restructuring and turnaround phase), the Supervisory Board considers it possible and expedient to waive the multiyear assessment base (within the meaning of Section 87 (1) (3) AktG) for fiscal year 2015.

In connection with the departure of Ms. Kauper from the Company's Executive Board, the Company entered into a termination agreement with her. Under this agreement, all claims of

Ms. Kauper for the year 2015 were settled and satisfied with final effect; all compensation components are presented below.

The affected companies do not pay compensation to members of the Group Executive Board for mandates held with consolidated subsidiaries. Members of the Group Executive Board also serve on the board of the non-consolidated company Jamipol; Jamipol paid attendance fees for board meetings attended in fiscal year 2015, but these amounts have no longer gone to the members of the Group Executive Board since 2014.

No expenses were incurred in fiscal year 2015 for Executive Board compensation for fiscal year 2014.

Beyond the detailed information on the compensation of the Company's Executive Board members, no advances, loans or contingent liabilities were extended in favour of Executive Board members.

The following total amounts were expended for Executive Board compensation in fiscal year 2015 (the non-cash benefit is presented for in-kind compensation):

EUR'000	**Dr. Kay Michel (full year)**	**Sabine Kauper*** **	**Total**
Fixed compensation	380*	233*	613
In-kind compensation (company car)	13	6	19
Employer's contributions to healthcare and nursing care insurance	4	3	7
Variable compensation for 2015**	455	275	730
Total	**852**	**517**	**1,369**

* Including the pension component, which included a cash settlement of EUR 80 thousand for Dr. Michel and life insurance premiums of EUR 80 thousand for Ms. Kauper in 2015.

** Paid partially in advance for Ms. Kauper in accordance with the termination agreement discussed in the text, otherwise a provision for Dr. Michel and Ms. Kauper (to be paid in 2016).

*** Member of the Executive Board until October 31, 2015; the total compensation presented here refers to the compensation for 2015 as per the termination agreement.

III. Former members of the Supervisory Board and Executive Board

The Company has extended pension commitments to the former Executive Board members Ines Kolmsee and Gerhard Ertl. The beneficiaries are entitled to a lifelong old-age pension from the time when they complete their 62nd year of life. The Company increases current pension benefits by 1% per year in accordance with the requirements of law. No further adjustment is made. The pension commitment includes the option of early retirement starting from the 60th year of life (in which case the pension benefit is reduced accordingly), as well as disability and survivor’s benefits. The pension commitments are contractually vested. Insofar as the statutory vesting conditions are also met, the pension commitments are protected against the Company’s insolvency by the Pension Protection Fund (Pensions-Sicherungs-Verein); the Company pays the premiums for the insurance against insolvency. No pension benefits were payable in fiscal year 2015. Calculated in accordance with the German Commercial Code (HGB), the expenses incurred in 2015 for the pensions of former Executive Board members (excluding incidental expenses such as the actuarial report, contributions to the Pension Protection Fund, etc.) amounted to EUR 689 thousand, of which EUR 469 thousand for Ms. Kolmsee and EUR 220 thousand for Mr. Ertl; calculated in accordance with IFRS, these expenses amounted to EUR 118 thousand, of which EUR 80 thousand for Ms. Kolmsee and EUR 38 thousand for Mr. Ertl.

The settlement amount (HGB) for the pension commitment to Mr. Ertl and his survivors was EUR 1,159 thousand at the reporting date (PY: EUR 938 thousand).

The settlement amount (HGB) for the Company’s pension commitment to Ms. Kolmsee and her survivors was EUR 2,318 at the reporting date (PY: EUR 1,850 thousand).

The SKW Metallurgie Group has made no pension commitments to any other former members of the Company’s Executive Board and Supervisory Board and their survivors.

11. Important events after the reporting date

On March 1, 2016, the banks participating in the syndicated loan agreement agreed, at the Company's request and on the basis of a restructuring report containing a positive going-concern forecast, to extend the waiver of termination under the extraordinary termination right resulting from the non-fulfillment of contractually agreed financial covenants for the time until May 31, 2016 (original date: February 29, 2016).

The judgment of the European Court of Justice on the antitrust fine mentioned in Section 12, which had been expected at the start of 2016, had not yet been issued at the time of preparation of the present Management Report.

Otherwise, no events of particular importance for the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG became known in the time between the end of the reporting period on December 31, 2015 and the preparation of the present Management Report.

12. Report on opportunities and risks

12.1. Professional management of risks and opportunities

The SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG as the holding company attach great importance to the continuous recognition and evaluation of opportunities and risks and takes appropriate measures where applicable to optimally exploit opportunities and limit risks. Opportunities and risks are integral aspects of business activity, also for the SKW Metallurgie Group. Naturally, the Group's future business development is associated with both risks and opportunities. The risk policy is to exploit existing opportunities and to limit risks through the use of appropriate instruments and to maintain an at least neutral risk position. Risk management is also conducted with the aid of a value-driven management approach and active management of the Group by the Group's parent company. At the SKW Metallurgie Group, risk management is organized as a comprehensive system covering all the Company's activities and areas, which comprises a systematic approach based on the elements of risk identification, analysis, assessment, control, documentation and communication, and particularly consists of the elements described in the following. The early risk detection system of the SKW Metallurgie Group comprises a detailed Risk Handbook and a software tool tailored specifically to the Group's needs. This assures both early detection and solution-oriented analysis of risks and makes it easier to immediately take appropriate measures. Risk classification and the assessment of individual risk types are conducted on a uniform, quantitative basis throughout the Group, except in specific cases when the quantification of qualitative risks is not meaningfully possible. Risks are presented in order of their relative importance on the basis of a ranking. The ranking of risks is determined with reference to the probability of occurrence and the potential effects on the attainment of forecasts or goals. All key goals are ranked or classified according to their importance in a risk summary. In aggregating similar risks into categories, the Group may utilize the internal risk classification system employed for risk management purposes; the risk management system assigns risks to the categories of "Operations", "Finance", "Market-related and other external risks and chances", and "Legal risks and chances". The SKW Metallurgie Group pursues a risk-averse business strategy and attempts to minimize the probability of occurrence and amount of risks. To the extent that gross risks cannot be minimized or not economically minimized, net risks are reduced (e.g. by means of insurance coverage), to the extent possible and economically sensible. In addition, the Group employs an information system to ensure that the governing bodies of the Group's parent company are promptly notified of risk developments. As part of this system, risk management information is regularly reported to the Executive Board, which promptly forwards relevant information to the Supervisory Board. Once an individual risk is identified, it must be reported immediately when the corresponding threshold value is passed. This triggers an immediate notification (in documented form to the competent Executive Board member (or sole Executive Board member) and to the internal risk manager). At the SKW Metallurgie Group, all risk management rules and processes are reviewed regularly and adapted when necessary by an internal risk manager. Gross risks and net risks, as well as opportunities, are monitored under the risk management system of the SKW Metallurgie Group. The consolidation group for risk management purposes is the same as the consolidation group for financial reporting purposes.

12.2. Presentation of the individual risks of the SKW Metallurgie Group

Based on the comprehensive risk management system of the SKW Metallurgie Group and the analysis of external sources (e.g. forecasts of economic research institutions and industry associations), the following business-strategy risks in particular have been identified for SKW Stahl-Metallurgie Holding AG and its Group companies in total (SKW Metallurgie Group). The risks described below include all discernible material risks at the current time. Other risks and uncertainties that are currently not known to the Executive Board or which the Executive Board considers to be immaterial at the current time could also cause considerable harm to the Group's business operations and produce adverse effects on the overall prospects and the financial position, cash flows, and financial performance of the SKW Metallurgie Group. Moreover, the risks described in this report are gross risks; in the case of some risk factors, the net risk is considerably less than the gross risk due to the implementation of suitable measures (e.g. insurance coverage). Unless otherwise indicated (e.g. attribution of legal topics to certain Group companies), the opportunities and risks described below always pertain to all Group companies and segments, especially considering that all operating Group companies except SKW Quab generate most of their revenues with customers in the same industry (steel industry).

Economic risks

The SKW Metallurgie Group is dependent on the development of general economic conditions and quantity-affecting cyclicity of its specific customer industry. The general economic situation and the development of the Group's markets directly affect the demand for the Group's products and the Group's business situation. At the present time, the macroeconomic situation of the European Union and particularly the Eurozone is still beset with risks. These risks are particularly pronounced in the Mediterranean Eurozone countries like Cyprus, Greece, Italy, and France. With regard to steel production in the European Union, attention must be given to the risk of consolidation of production sites; particularly relevant in this regard is the risk of closure of production sites with which the SKW Metallurgie Group generates disproportionately high revenues. With regard to China, attention must be given to the risk that Chinese steel production increases in quantitative and/or qualitative terms, and/or domestic steel demand declines, so that Chinese steel products would be increasingly substituted for the products of domestic manufacturers in countries outside of China. The specific risk to the SKW Metallurgie Group lies in the fact that it currently generates considerably less revenues with Chinese steel mills than with the steel mills of other countries. With regard to Russia, attention must be given to the risk that the current political and economic crisis would lead to more serious economic consequences, making it impossible for the Russian Group company to attain its revenue and earnings targets.

The customer industries of the SKW Metallurgie Group are subject to economic fluctuations that also have a direct effect on the Group. For example, customers could be lost as a result of insolvencies, for example, without leading to a commensurate increase in demand among other customers (risk of lost revenues). It is also possible that customers reduce the volume of goods they buy from the SKW Metallurgie Group due to the aggressive pricing policies of local competitors, for example. While such local competitors offer lower-quality products, their prices are lower than those of the SKW Metallurgie Group's products. The SKW Metallurgie Group counters this risk by intensifying its sales activities, particularly by way of a holistic sales approach taken by all Group companies. Some Group companies generate most of their revenues with relatively few large customers, so that the loss of such a customer or a change in the customer's payment behaviour could have considerable effects on the respective Group company. The SKW Metallurgie Group as a whole generates about 20% of its revenues with a single customer company. Otherwise, the SKW Metallurgie Group is not significantly dependent on individual customers; the distribution of revenues is monitored on a regular basis. The SKW Metallurgie Group monitors and assesses every customer relationship individually; there are no Groupwide standards for payment reminder periods or payment terms, for example.

Price risks are of less importance to the Group because there is usually a positive correlation between procurement prices and sales prices. Some products, however, are priced with a percentage margin on the raw material price, and therefore the absolute margin declines in the case of falling prices. In some markets, moreover, there is also a risk that margins could come under pressure due to intense price competition, despite the superior quality of the SKW Metallurgie Group's products.

The products manufactured and distributed by the SKW Metallurgie Group primarily in Europe, the Americas (NAFTA countries and Brazil), and some Asian countries at the present time are used (directly or indirectly) almost exclusively in the steelmaking industry (with the exception of the products of SKW Quab). The production quantities of the (higher-quality) steel grades that are relevant to the SKW Metallurgie Group depend in turn on the demand for high-quality steel products in the automobile, shipbuilding, and mechanical engineering industries, and in plant engineering for the chemical and petrochemical industries; oil and gas production (including shale gas production) is particularly relevant to the Group.

In the Quab segment, the Group produces additives for the production of industrial starch, which is used primarily in the papermaking industry. Although many predicted that the increased use of electronic communications would put an end to, or at least reduce the use of paper, this prediction has not proved true to date. This can be explained in part by the fact that a significant percentage of paper production is used not in communication, but in packaging and hygiene products, for example. Another customer industry for Quab products is the bodycare products industry, where Quab’s products are used in shampoos, conditioners, and shower gels. This industry is also relatively crisis-resistant and is growing considerably in emerging-market countries like India and China. Furthermore, the growing use of fracking technology to extract shale gas created additional uses for Quab’s specialty chemicals in the last few years; in this area, Quab is exposed to the risk of reduced competitiveness of fracking due to falling energy prices and as a result of growing environmental concerns and protests.

The economic success of the SKW Metallurgie Group is also determined in part by its successes in research and development. In this context, attention must be given to the risk that when patents expire, the previously protected techniques may be employed by competitors or even by customers, which could put pressure on the Group’s profit margins (which are already under pressure due to market conditions). The SKW Metallurgie Group minimizes this risk by means of active patent management: Whenever possible and advisable, expiring patents are prolonged. The Group also obtains patents for new research, thereby securing new technological advantages that could potentially offset the economic effects associated with the expiration of non-prolongable old patents.

The steel industry as the Group’s most important customer industry is characterized by global federations; procurement functions are also being increasingly centralized. As described in the report on opportunities, the SKW Metallurgie Group perceives this development as an opportunity, but there is also a risk that the Group’s sales quantities and margins could come under pressure and that it would no longer be impossible to uphold regional differences in prices and other terms, despite the appropriateness of such differences due to different transport costs, for example.

Legal topics related to the Bhutanese company

Beyond the topics discussed in the present annual report (particularly the joint liability of SKW Stahl-Metallurgie Holding AG for EUR 0.6 million in relation to an external loan granted to the Bhutanese company), neither SKW Stahl-Metallurgie Holding AG nor one of its Group companies is subject to any joint liability or obligation to make additional capital contributions to the insolvent Bhutanese Group company.

The arbitration tribunal of the International Chamber of Commerce (ICC) would be competent to hear any possible legal disputes with the joint venture partner. The SKW Metallurgie Group will not hesitate to represent the legitimate interests particularly of SKW Stahl-Metallurgie Holding AG and its shareholders before that tribunal when appropriate, regardless of whether such a proceeding is sought by the joint venture partner or by the SKW Metallurgie Group. Based on the information available at the present time, adequate provisions have been recognized to account for arbitration proceedings that are expected to occur with a probability of more than 50%.

Substitution risks

Substitution of the Group's products with another technology is currently deemed to be unlikely. The Group supplies raw materials and services for all currently known techniques of pig iron desulphurisation; therefore, the substitution of one technique (e.g. calcium carbide-based desulphurisation) with another (e.g. magnesium-based desulphurisation) would not fundamentally threaten the Group's business model. There is no known mature technology that could completely replace pig iron desulphurisation as a production step in steel making. The only conceivable alternative would be to produce pig iron through direct reduction, which would not require any desulphurisation; low-cost energy could help this method gain traction. However, the SKW Metallurgie Group is also developing products for direct reduction, so that the Group's business model would not be threatened, although direct effects on individual locations cannot be ruled out. Producing all needed steel exclusively from scrap, which would also not require any desulphurisation, is not feasible particularly due to the limited availability of high-quality steel. Also in secondary metallurgy, no known mature technology can achieve a comparable result without the use of materials marketed by the SKW Metallurgie Group. Even though cored wires could be replaced with lances, the products offered by the SKW Metallurgie Group would still be needed (as filler material) and furthermore, lance technology is inferior to cored wire technology (e.g. maintenance intensity).

In the automobile industry, there is a trend towards lighter materials for the sake of reducing weight and saving fuel. While the use of materials such as carbon or aluminium is growing, they can be used as a substitute for steel only in part (e.g. in niche markets such as small-series race cars). Instead, previously used steel grades are being replaced with high-tensile steel products; this trend towards higher steel qualities will further increase demand for the quality products of the SKW Metallurgie Group because higher steel qualities entail a greater need for SKW Metallurgie's products, all other things being equal. Based on the current state of the art, moreover, the substitution of steel with other ready-for-series-production materials in other central application areas (e.g. bridge building) is not foreseeable.

Risks of the restructuring and turnaround process

The SKW Metallurgie Group began implementation of the ReMaKe programme in 2014 and extended this program in 2015 by adding a package of initiatives and measures known as ReMaKe 2.0. Despite early successes, there is a risk that the programme's objectives will not be attained, or not completely, or not on time. The actuation of this risk could have effects on the Group's access to credit (e.g. due to breaches of financial covenants, for example). There is also a risk that greater-than-planned expenditures could be incurred for ReMaKe 2.0.

Procurement risks

The secure supply of high-quality raw materials is essential to the success of the SKW Metallurgie Group. Even though the SKW Metallurgie Group currently regards the prompt supply of every required raw materials at fair market prices as secured, there is a risk that the situation in the relevant procurement markets could change to the detriment of the SKW Metallurgie Group. Possible price increases for raw materials could be largely passed on to customers through price adjustments. Because the price elasticity of demand for the products of the SKW Metallurgie Group is relatively small in the short term, higher prices for the SKW Metallurgie Group's products as a result of higher prices for raw materials would not lead to significant changes in demand quantities in the short term. As part of a general, ongoing effort, the Group develops relationships with other suppliers in order to avoid excessive dependence on one or few sources of raw materials. Nevertheless, there is a risk that the Group would not be able to procure sufficient quantities of certain raw materials at appropriate prices at the desired time and place. The procurement markets for some raw materials needed by the SKW Metallurgie Group are characterized by oligopolistic structures, which strengthen the market power of suppliers of raw materials. However, a continuation of the vertical integration strategy pursued in the past cannot be justified, given the risks mentioned above. Ultimately, no significant supply bottlenecks for the raw materials needed by the SKW Metallurgie Group are foreseeable. Possible limitations on the supply of raw materials from a given source can expectedly be made up through alternative procurement channels.

Personnel risks

The success of the SKW Metallurgie Group is highly dependent on its employees in management positions and in key technological positions. Highly qualified employees are needed in both these areas. Due to its lean structure and dependence on key persons in some areas, the Group is generally dependent on key personnel. Throughout the SKW Metallurgie Group, there is a risk that the change process initiated by the new Executive Board and the heightened operational coordination of Group companies by the parent company would not be supported by some employees, which could result in a higher rate of staff turnover.

Borrowing risks, especially in connection with the ongoing negotiations on the syndicated loan agreement

The financial situation of the SKW Metallurgie Group was stabilized in January 2015 with the signing of a syndicated loan agreement for up to EUR 86 million, with maturity until the start of 2018. This syndicated loan agreement covers 100% (aside from overdrafts) of the borrowing needs of SKW Stahl-Metallurgie Holding AG and most of the borrowing needs of the SKW Metallurgie Group. The credit line is currently not completely drawn down and is sufficient to finance all foreseeable transactions in 2016 and 2017.

The loan agreements of the SKW Metallurgie Group (particularly including the syndicated loan agreement) contain agreements on key financial indicators, so-called financial covenants, the details of which are regularly adapted to current developments by agreement of the parties. Financial covenants serve the purpose (among others) of adjusting the interest rate to fair market levels (“margin step-up”). In case of failure to fulfill certain financial covenants, moreover, the creditors are entitled to an extraordinary termination right. In this connection, the following important event occurred in fiscal year 2015: The financial statements at September 30, 2015 did not fulfill the financial covenants for the first time, due to the development of exchange rates, which the Group cannot influence, and the much weaker-than-planned market conditions in the steel industry.

At the Company's request, the financing banks agreed in October 2015 to issue a waiver against payment of a fee for the time until February 29, 2016; after the end of the reporting period, but before the preparation of the present Management Report, this waiver was extended against payment of a fee for the time until May 31, 2016. A key basis for this waiver was a restructuring report containing a positive going-concern forecast. The period of time until May 31, 2016 will be used to conduct negotiations with the goal of adapting the financial covenants to the intervening developments in the steel industry ("steel crisis"), in line with market conditions.

The Executive Board expects considers it highly probable that these ongoing negotiations will be concluded with an acceptable result for all parties by May 31, 2016, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG at least until 2018. At the time of preparing the present Management Report, however, it was not assured that the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG will have enough liquidity to continue their operations beyond May 31, 2016. Any significant changes to the syndicated loan agreement, and certainly the complete termination of that agreement would pose an existential threat to the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG. Therefore, the status of a going concern in 2016 and 2017 will depend on the successful conclusion of the aforementioned negotiations.

Other financial and currency risks

The SKW Metallurgie Group is still dependent on assured external financing. The great majority of this external financing is procured by the parent company SKW Stahl-Metallurgie Holding AG and passed on to subsidiaries in the form of intragroup loans as needed. Assuming the continuation of the syndicated loan agreement, the SKW Metallurgie Group disposes of adequate external financing, particularly for the remainder of the plan year 2016 and 2017, when only a small amount of net additional financing (aside from the utilization of guarantees) will be needed, based on information available at the present time. However, the Group is still exposed to a theoretical liquidity risk if (for example) expected cash flows fail to materialize, or if they fluctuate to a greater degree than expected, or if the need for liquidity is greater than expected and cannot be obtained beyond the existing credit lines.

By reason of its international structures, the SKW Metallurgie Group is exposed to foreign currency risks to a considerable extent. The most important currencies for the Group by far are the reporting currency of the euro and the US dollar. An unexpected change in the exchange rate between these two currencies could have significant effects on the SKW Metallurgie Group because a significant percentage of Group revenues are generated in US dollars, also in 2016. The SKW Metallurgie Group employs forward exchange transactions or other financial derivatives for the sole purpose of hedging business transactions; thus, the Group does not engage in financial speculation. Instead, the primary goal of hedging activities is to hedge that part of transactional currency risk that cannot be hedged by means of natural hedging. In 2015 and particularly as of the reporting date, the Group employed financial instruments only to a minor extent. No additional risks of importance were incurred as a result of these financial instruments, which were only used to hedge transactional currency risks. Ultimately, financial derivatives are of minor importance for the financial position, cash flows, and financial performance of the SKW Metallurgie Group.

Compliance risks

The SKW Metallurgie Group trades (purchases and sells) numerous products in numerous jurisdictions around the world. Given the fact that the SKW Metallurgie Group also conducts business particularly in countries with complex, constantly evolving regulations, it is exposed to the risk particularly that it would not implement or react appropriately to regulations in a timely manner throughout the Group. As a general rule, every enterprise is exposed to the risk that employees or even senior officers could violate applicable law, either due to ignorance or by deliberate intent. To minimize such risks, the SKW Metallurgie Group has implemented a comprehensive compliance program under the leadership of SKW Stahl-Metallurgie Holding AG as the Group's parent company.

Legal and litigation risks of the SKW Metallurgie Group

In connection with its ordinary business activities, the SKW Metallurgie Group is involved in a number of legal cases, both in court and out of court. Those legal and litigation risks that do not fall within the scope of ordinary business activities, by reason of the subject matter or the amounts involved, at the reporting date are described in the following.

- According to the fine decision of the EU Commission of July 22, 2009, SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH are jointly and severally liable for payment of a fine in the maximum amount of EUR 13.3 million (joint and several liability of SKW Stahl-Metallurgie Holding AG, SKW Stahl-Metallurgie GmbH and Gigaset AG (formerly ARQUES Industries AG), although Gigaset AG is liable for a maximum amount of EUR 12.3 million; and joint and several liability of SKW Stahl-Metallurgie GmbH together with Evonik Degussa GmbH and AlzChem AG (formerly AlzChem Hart GmbH) for an amount of EUR 1.04 million). In coordination with the EU Commission, SKW Stahl-Metallurgie GmbH furnished bank guarantees for a total amount of EUR 6.7 million (50% of the maximum fine) plus interest, in order to avert legal enforcement measures. On this basis, Gigaset AG sued SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH as joint and several debtors, seeking payment of the amount already paid by Gigaset AG to the EU Commission in 2010. Gigaset AG lost this case in the first instance. The competent Munich I Regional Court dismissed the action of Gigaset AG in full by judgment of July 13, 2011 and also ruled that "in the inner relationship, the fine is to be borne by the plaintiff [Gigaset AG] alone." The appeal filed by Gigaset AG with the Munich Higher Regional Court was also dismissed in full by judgment of February 9, 2012. Making reference additionally to the grounds for the decision of the Regional Court's judgment, the Munich Higher Regional Court noted in its judgment that "not the defendants [SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH], but the plaintiff [Gigaset AG] [is required] to bear the fine". Gigaset AG appealed this judgment to the Federal Supreme Court. In 2014, the Federal Supreme Court initially referred some questions of this legal dispute to the European Court of Justice for a preliminary decision. By judgment of June 3 , 2014, however, the Federal Supreme Court withdrew its request for the European Court of Justice to issue a preliminary decision and at the renewed oral proceeding before the Federal Supreme Court on November 18, 2014 issued a judgment in this matter which set aside the judgment of the Munich Higher Regional Court and referred the matter back to the Munich Higher Regional Court for a renewed decision. From the Company's perspective, however, the Federal Supreme Court's deliberations at the time did not worsen the litigation position of the SKW Metallurgie companies with respect to the settlement of the joint and several liability between the SKW Metallurgie companies on the one hand and Gigaset AG on the other hand. In parallel with the aforementioned proceedings, SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH have been petitioning the European Court of Justice to reduce the amount of the fine which is the matter in dispute in the proceeding with Gigaset. By judgments of January 23, 2014, the General Court of the European Union dismissed the fine reduction actions of SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH against the EU Commission in full, and that of Gigaset AG for the most part. The action of Gigaset AG was granted only insofar as the fine imposed against Gigaset AG was reduced to EUR 12.3 million. The judgment of the General Court against the SKW Metallurgie companies is not yet final because these companies filed an appeal with the European Court of Justice on April 2, 2014. The judgment of the first instance is expected in early 2016, but had not yet been issued at the time of preparation of the present Management Report. The prospects for success of the action against the fine decision and public sources on the economic situation of Gigaset AG were re-evaluated in connection with the preparation of the separate financial statements of the Group's parent company and the consolidated financial statements of the Group. As a result, the existing provision was increased by EUR 7.3 million, from EUR 1.0 million to EUR 8.3 million, to account for heightened risks as of December 31, 2015. In summary, the SKW Metallurgie Group considers the amount of the provision recognized in respect of a possible fine to be appropriate and sufficient. No cash outflow is expected beyond the furnished guarantees, which are completely covered by existing lines of credit.

- In relation to the purchase of shares in Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, the previous shareholders are claiming an amount in excess of the second purchase price tranche that was paid in 2012 (so-called "earn-out"). To clarify this matter, Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A and SKW Stahl-Metallurgie Holding AG filed an action for a negative declaratory judgment with the competent arbitration tribunal on July 19, 2013, asking the tribunal to find that they owe no further payments to the previous shareholders by reason of the earn-out clause stipulated in the share purchase agreement. At the same time, Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A and SKW Stahl-Metallurgie Holding AG are asserting claims for violation of a no-competition clause and for stalling the arbitration proceeding. The arbitration proceeding has since been suspended at the instigation of the previous shareholders, who do not acknowledge the competence of the arbitration tribunal and would like to have the question of the amount of the second purchase price tranche to be paid under the earn-out clause clarified by the regular courts. The plaintiffs oppose this view. After seizing the arbitration tribunal, the previous shareholders also sought to obtain a kind of "compulsory execution order " against Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, based on the alleged enforceability of the earn-out clause in the share purchase agreement on the calculation of the second purchase price tranche. After further appeals were filed, the competent Brazilian appellate court is currently deciding all pending proceedings between the parties. Sufficient provisions have been recognized in the SKW Metallurgie Group to account for this matter.

Risks of goods procurement

The SKW Metallurgie Group is reliant upon the quality and reliability of its suppliers. Despite careful selection and monitoring, there is a risk that suppliers could commit criminal acts to the detriment of the SKW Metallurgie Group or its customers, or that suppliers or their products would otherwise prove to be unsuitable in retrospect.

12.3. Specific risks of the Group's parent company SKW Stahl-Metallurgie Holding AG

Holding companies like SKW Stahl-Metallurgie Holding AG are subject to the risk that the shares they hold in their portfolio companies and their intragroup loans could lose value. Such risks arise particularly when the actual business performance deviates from plan assumptions, despite careful planning, or when reviews and updates of business plans result in substantial deviations from the original planning status. As described in Section 7, the holding company SKW Stahl-Metallurgie Holding AG found it necessary to recognize impairments in the value of the shares held in its portfolio companies and intragroup loans, due to the steel crisis. No further need for impairments is discernible at the present time.

Holding companies are also subject to the risk of not being able to secure sufficient financing to ensure the continuation of their business activities. The Company countered this risk in January 2015 by signing a syndicated loan agreement for up to EUR 86 million with maturity until 2018.

As described in Section 12.2. (Group risks), the lending banks agreed to issue a waiver against payment of a fee of their right to declare an extraordinary termination due to the failure to fulfill financial covenants as a result of the steel crisis. This waiver will remain in effect until May 31, 2016. This period of time will be used to conduct negotiations with the goal of adapting the financial covenants to the intervening developments in the steel industry ("steel crisis"), in line with market conditions.

The Executive Board considers it highly probable that these ongoing negotiations will be concluded with an acceptable result for all parties by May 31, 2016, thereby assuring the financing particularly of the parent company SKW Stahl-Metallurgie Holding AG at least until 2018. At the time of preparing the present Management Report, however, it was not assured that the parent company SKW Stahl-Metallurgie Holding AG will have enough liquidity to continue its operations beyond May 31, 2016. Any significant changes to the syndicated loan agreement, and certainly the complete termination of that agreement would pose an existential threat to the parent company SKW Stahl-Metallurgie Holding AG. Therefore, the status of a going concern in 2016 and 2017 will depend on the successful conclusion of the aforementioned negotiations.

Based on the comprehensive risk management system of the SKW Metallurgie Group, which also covers the parent company SKW Stahl-Metallurgie Holding AG, and the analysis of external sources (e.g. forecasts of economic research institutions and industry associations), the following other business-strategy risks in particular have been identified for SKW Stahl-Metallurgie Holding AG. The risks described below include all discernible material risks at the current time. Other risks and uncertainties that are currently not known to the Company or which the Company considers to be immaterial at the current time could also cause considerable harm to the Group's business operations and produce adverse effects on the overall prospects and the financial position, cash flows, and financial performance of SKW Stahl-Metallurgie Holding AG.

Economic risks

SKW Stahl-Metallurgie Holding AG is dependent on the economic success of its subsidiaries and lower-tier subsidiaries because the Company does not itself generate significant income outside the SKW Metallurgie Group. In specific cases, moreover, the Group's parent company is explicitly jointly liable for liabilities of the subsidiaries and for their continued operation. In addition, SKW Stahl-Metallurgie Holding AG has extended loans to its subsidiaries to a significant extent. The Company counters these risks by coordinating and monitoring its subsidiaries and lower-tier subsidiaries; the Group's parent company intensified the active, operational coordination of the Group's activities in fiscal year 2015. Furthermore, the Company always seeks to be the sole shareholder or at least the majority shareholder (directly or indirectly) of its direct and indirect investees (historical exception: joint venture in India).

Compliance risks

As a general rule, every enterprise is exposed to the risk that employees or even senior officers could violate applicable law, either due to ignorance or by deliberate intent. To minimize such risks, the SKW Metallurgie Group implemented a comprehensive compliance program under the leadership of SKW Stahl-Metallurgie Holding AG as the Group's parent company already in 2010; this programme also covers SKW Stahl-Metallurgie Holding AG as the parent company.

Legal and litigation risks of the parent company SKW Stahl-Metallurgie Holding AG

In connection with its ordinary business activities, SKW Stahl-Metallurgie Holding AG is involved in a number of legal cases, both in court and out of court. Those legal and litigation risks that do not fall within the scope of ordinary business activities, by reason of the subject matter or the amounts involved, at the reporting date are described in the following.

- According to the fine decision of the EU Commission of July 22, 2009, SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH are jointly and severally liable for payment of a fine in the maximum amount of EUR 13.3 million (joint and several liability of SKW Stahl-Metallurgie Holding AG, SKW Stahl-Metallurgie GmbH and Gigaset AG (formerly ARQUES Industries AG), although Gigaset AG is liable for a maximum amount of EUR 12.3 million; and joint and several liability of SKW Stahl-Metallurgie GmbH together with Evonik Degussa GmbH and AlzChem AG (formerly AlzChem Hart GmbH) for an amount of EUR 1.04 million). The further details as they relate to SKW Stahl-Metallurgie Holding AG are the same as those presented for the SKW Metallurgie Group in Section 12.2. – “Legal and litigation risks”.
- In relation to the purchase of shares in Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, the previous shareholders are claiming an amount in excess of the second purchase price tranche that was paid in 2012 (so-called “earn-out”). The further details as they relate to SKW Stahl-Metallurgie Holding AG are the same as those presented for the SKW Metallurgie Group in Section 12.2. – “Legal and litigation risks”.
- SKW Stahl-Metallurgie Holding AG undertook in a profit/loss transfer agreement to indemnify possible losses of its subsidiary SKW Stahl-Metallurgie GmbH; in addition, the Company agreed to joint and several liability for a future pension for a former managing director of its subsidiary SKW Stahl-Metallurgie GmbH.
- On July 12, 2011, SKW Stahl-Metallurgie Holding AG agreed with the minority shareholder of an affiliated company to issue a guarantee (in favour of the lending bank) for a loan taken out by the affiliated company. The subsidiary used this loan to invest in a sinter plant. If the subsidiary fails to fulfill its loan obligations, SKW Stahl-Metallurgie Holding AG will be proportionately liable (66.67%) under the guarantee (for an amount of EUR 2.8 million). The subsidiary’s financial situation is such that the risk of utilization is very low.

12.4. Overall assessment of risks

The syndicated loan agreement for an amount of up to EUR 86 million (including an amortising loan for EUR 46 million) with maturity until the start of 2018 that was signed at the start of 2015 is the main element of external financing for both SKW Stahl-Metallurgie Holding AG and the SKW Metallurgie Group. As described in Sections 12.2. (Group) and

12.3 (parent company), the financing under the syndicated loan agreement is assured in the previous amount until May 31, 2016.

The Executive Board considers it highly probable that the ongoing negotiations with the lenders will be concluded with an acceptable result for all parties by May 31, 2016, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG at least until 2018. At the time of preparing the present Management Report, however, it was not assured that the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG will have enough liquidity to continue its operations beyond May 31, 2016. Any significant changes to the syndicated loan agreement, and certainly the complete termination of that agreement would pose an existential threat to the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG. Therefore, the status of a going concern in 2016 and 2017 will depend on the successful conclusion of the aforementioned negotiations.

12.5. Opportunities report: Identifying and seizing opportunities

The Executive Board of the SKW Metallurgie Group considers it important not to view risks in isolation, but always in conjunction with the opportunities inherent in the Group's business activities. In particular, the Executive Board sees the following opportunities in its future business activities.

Opportunities arising from ReMaKe – Increased integration of the Group

The ReMaKe programme (extended to ReMaKe 2.0 at the end of fiscal year 2015) creates an opportunity for the SKW Metallurgie Group to increase its efficiency by optimising structures and processes, develop new areas of business, and tap new strategic sales markets. Under the ReMaKe programme, the SKW Metallurgie Group began in 2014 to integrate the Group entities that had previously operated with a high degree of autonomy. This integration has proceeded the furthest in North America so far and will be applied successively to other regions in the future.

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

In the future, international steel companies will increasingly cluster their suppliers according to international delivery possibilities. This trend will create an additional growth opportunity for the SKW Metallurgie Group, due to its international presence. Thanks to the SKW Metallurgie Group's extensive technical expertise and strong focus on research and development, it is well equipped to position itself much more clearly as an international know-how partner to global steel companies. This opportunity will be strengthened by the fact that some competitors are still local players which do not conduct comparable research and development, to the knowledge of the SKW Metallurgie Group.

New, fast-growing markets as an opportunity for the SKW Metallurgie Group

In some emerging-market countries (particularly India), steel production will grow at an above-average rate in both quantitative and qualitative terms in the coming years, in the estimation of the SKW Metallurgie Executive Board. As part of the third module of ReMaKe (growth in key markets) and ReMaKe 2.0 since the end of 2015, the SKW Metallurgie Group sees good chances to expand its market position in India.

Although the Chinese market is the world's largest by a wide margin, it is characterized by substantial excess capacities and price pressures. While production is expected to stagnate in the medium term, the world market leader SKW Metallurgie nevertheless expects to take advantage of interesting chances and opportunities in this market, due to its size and technological development.

Despite the current crisis situation, Russia is still a market that presents above-average growth opportunities for the SKW Metallurgie Group in the medium term.

Margin growth through innovative products

Increased sales of higher-quality and therefore higher-margin products should counter the persistent margin pressure and so boost the Group's EBITDA margin in the coming years. Moreover, the Group's international research and development team is working to further improve the product quality and production efficiency of various other Group products. These two focal points of research and development should lead to a further increase in profit margins, first through the possibility of charging higher sales prices (based on cost savings for the customer) and second through further cost reductions within the SKW Metallurgie Group. However, this focus on profit margins will not obviate the need for high-volume sales, which form the basis for economies of scale.

Claim for damages against former Executive Board members

Represented in this case by its Supervisory Board, SKW Stahl-Metallurgie Holding AG has sued two former members of its Executive Board for damages. This represents an opportunity to collect cash income if the case is decided in favour of the Company.

12.6. Control systems as they relate to financial reporting

An adequate and orderly financial reporting process is of great importance to SKW Stahl-Metallurgie Holding AG; this process also includes the financial reporting-related components of the Internal Control System (ICS). Besides preparing financial statements in accordance with the respectively applicable national accounting regulations, financial statements are also prepared for every Group company in accordance with IFRS, as the basis for Group consolidation. A uniform Groupwide IT system and an accounting handbook prepared by Group headquarters are employed for this purpose. To ensure uniform Groupwide recognition and measurement principles, the SKW Metallurgie Group has developed accounting guidelines for the monthly, quarterly, and annual financial statements. Based on these guidelines, the companies included in the consolidated financial statements prepare separate financial statements in which the parent company's recognition and measurement principles are applied, as the basis for preparing the consolidated financial statements. In particular, Group headquarters has established a binding calendar for the preparation of financial statements and specified reporting structures. This arrangement fundamentally ensures completeness and comparability of the subsidiaries' financial statements. The reports of the Group companies are entered into a standardized, web-based consolidation software system featuring a uniform chart of accounts. The conversion from the subsidiaries' accounting systems is usually performed manually. The software system conducts plausibility checks and consistency checks to ensure completeness and accuracy. The consolidation of liabilities, expenses, and income is performed automatically. The system automatically posts any netting differences that arise. Consolidation entries are monitored and adjusted when necessary. The methods implemented in the system to limit access rights are used to map the different responsibilities. The SKW Metallurgie Group takes care to appoint highly qualified and experienced employees to key positions of financial reporting and risk management. English is established as the common language of the Group, as a means of avoiding translation or comprehension problems among the Group's worldwide locations.

13. Forecast Report 2016: Steel crisis to be countered by the successes of ReMaKe 2.0

13.1. Global economic growth expected to accelerate somewhat in 2016

In the forecasts published at www.imf.org, the International Monetary Fund (IMF) predicts that the global economy will expand by 3.4% in 2016, and thus at a somewhat faster rate than in 2015 (3.1%). Despite continued uncertainties resulting from geopolitical issues such as the Syria crisis and the difficult economic situation of numerous commodity-exporting and commodity-producing countries, the continued pursuit of low interest rate policies and the sharply lower petroleum prices in importing countries should have a positive effect on economic output.

The IMF predicts that Eurozone growth will accelerate to 1.7%, whereas the US economy is expected to grow at a faster rate of 2.6%. Total economic growth of the industrialized nations is estimated at 2.1%. Developing and emerging-market countries in total are expected to grow at a rate of 4.3% in 2016, with China's economic output expanding by 6.3%, and thus again more slowly than in preceding years. Whereas India can expect strong economic growth (7.5%), Brazil's economy is expected to contract by 3.5%. Under the weight of tough economic sanctions and plunging commodity prices, Russia's economy is expected to contract by 1.0% compared to 2015.

13.2. Steel industry expects an appreciable recovery only in 2017

The steel industry accounts for most of the demand for the SKW Metallurgie Group's products. Therefore, the development of the steel industry is an important indicator of market conditions for the Group. In collaboration with key customers of the Group and acclaimed steel market experts, the market was thoroughly analysed in the fourth quarter of 2015, as the basis for predicting the future development of this market and the effects on SKW Metallurgie. Based on this analysis, the SKW Metallurgie Group expects that worldwide steel demand will remain weak in 2016; modest market growth can be expected only in 2017 and beyond. Based on current information, worldwide steel demand and production are expected to grow at a slow rate of about 1.5% per year through 2018.

The outlook for steel demand in SKW Metallurgie's core markets is mixed. The US market is weakened at first by the continuing decline in investments in oil and gas production, despite positive prospects in other customer industries (mainly the construction industry, automobile industry, mechanical engineering). The oil and gas market is expected to bottom out at a low level only in 2016/17, so that demand can be expected to return to the 2014 level only in 2018 at the earliest. Furthermore, the other core market of Brazil is under heavy pressure (-

0.9% in 2016) due to pessimistic macroeconomic expectations. Steel demand is expected to be largely stable in Europe, although prices and domestic production quantities will remain under pressure.

On the production side, excess capacities will lead to further structural changes. In the medium term, experts predict that excess capacities will increase further in China (approx. 260 million tons per year of effective excess capacity in 2020), and that low-cost Chinese exports will continue to flood the markets of other countries, due to favourable exchange rates and pronounced price spreads between the world's regions. For the Group's core markets, this will lead to rising imports at the expense of domestic production. Two of SKW Metallurgie's three core markets (USA and Brazil) will remain weak in 2016 (-1% and -3.3% declines, respectively, in 2016), leading to further closures of steel mills. Increasing production leading to the reopening of steel mills is expected only in 2017 and beyond. Based on current knowledge, the core market of Europe will remain relatively flat (+0.7%).

In summary, therefore, the Executive Board anticipates a further deterioration of basic market conditions for the SKW Metallurgie Group in 2016. Starting in 2017, steel production is expected to recover to roughly the level of 2015.

The development of other relevant industries for the SKW Metallurgie Group's specialty products (e.g. the starch industry as buyer of Quab products) is closely correlated with the general development of the global economy. If the forecasts of modestly accelerating global economic growth prove true, demand from these industries can also be expected to increase.

13.3. Key indicators for the SKW Metallurgie Group

The development of the steel industry, particularly in the segment of high-quality and ultra-high-quality steel varieties, is an important **external** indicator for the demand for SKW Metallurgie's steel-related products, which account for most of the Group's business. Aside from the general development of steel production, the downturn in the oil and gas industry is particularly relevant to SKW Metallurgie's unit sales quantities, due to the Group's disproportionate exposure to this sector. By contrast, a long-term trend of improving steel qualities is predicted for the emerging-market countries, which will have a positive effect on the Group's unit sales quantities.

As before, the gross profit margin is a useful **internal** indicator of the SKW Metallurgie Group's performance. Considering the persistently difficult state of the steel industry, steel manufacturers can be expected to pass on some of the margin pressure to their suppliers. The EBITDA margins of steel manufacturers currently range from 8% to 12%, and they will attempt to further reduce the procurement costs of consumable materials, which account for 7% of influenceable costs (except personnel). The SKW Metallurgie Group does not have order books in the traditional sense; although customer contracts are typically long-term, individual quantities and specifications are called off on a short-term basis.

13.4. Executive Board’s estimation of the financial performance and cash flows of the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG in 2016 – assumptions and preconditions

The Executive Board considers the expert estimation of the future development of general economic conditions and the steel industry described in Sections 13.1-13.2 to be the most probable scenario.

Other factors taken into consideration include the forecasts of the senior management teams of the operating Group companies (the parent company SKW Stahl-Metallurgie Holding AG does not conduct operations itself), the business forecasts of key customers, and the assessments of an acclaimed management consulting firm.

In its forecast for fiscal year 2016, the Executive Board expects that the SKW Metallurgie Group will continue to operate as a going concern. All generally known opportunities and risks (including legal risks) discussed in the report on opportunities and risks, as well as all known contingent assets and liabilities, were taken into consideration in preparing the forecast, as a general rule; exceptions are presented in the following. The risks presented in the report on opportunities and risks also include exchange rate effects, including (for example) currency translation effects arising from the translation of the revenues of Group companies that do not prepare their financial statements in euros to the euro as the Group reporting currency. In this regard, the Executive Board of the SKW Metallurgie Group anticipates continued volatility in the global currency markets for some of the important currencies for the SKW Metallurgie Group in fiscal year 2016. The exchange rate between the euro as the Group reporting currency and the US dollar and the Brazilian real are particularly important for the Group. If actual exchange rate developments differ from the forecasts of the SKW Metallurgie Group, that could cause the actual numbers for 2016 to differ from the plan numbers; depending on their intensity, these differences could affect EBITDA by an amount in the single-digit millions (either up or down, depending on the actual development of exchange rates).

The forecast of the SKW Metallurgie Group is particularly based on the following assumptions and definitions:

- The forecast is based on the current composition of the Group. Therefore, SKW Quab Chemicals Inc. is included in the forecast even though it is not part of the Group's core business. The Bhutanese company, which is deconsolidated in the present financial statements, remains deconsolidated; the Group company in Sweden was sold already in 2014. Possible new companies to be consolidated in the future (e.g. as a result of acquisitions related to the growth strategy) are also not included in the forecast.
- Possible cash inflows or outflows related to the legal dispute with Gigaset AG on the settlement of the parties' joint and several liability for an antitrust fine and possible cash inflows from the claim for damages against former Executive Board members are also not included in the forecast, and were not included in prior-year forecasts either.
- The non-cash FX positions presented within other operating income and other operating expenses, which result mainly from intragroup receivables and payables, are not included in the forecast.

The SKW Metallurgie Group is considering the possibility of presenting at least some of the non-cash FX positions that were formerly presented within EBITDA within net interest income/expenses in future financial statements. If this change is made, it will no longer be necessary to adjust EBITDA for these effects.

Assumptions regarding the procurement and sales prices of important products for the SKW Metallurgie Group are also applied in the Executive Board's business plan. Generally speaking, procurement prices and sales prices are positively correlated, meaning that the effects of price fluctuation on the SKW Metallurgie Group are limited, given the low degree of price elasticity of demand in relevant markets. Nevertheless, consideration was given to the expected decline in prices and the resulting effect on gross profit margins. Moreover, significant deviations of market prices from the prices assumed in drawing up the business plan could have effects on the forecasts of the SKW Metallurgie Group in certain situations.

The assessments stated in the present Forecast Report (e.g. concerning the expected development of the steel industry) are conformant with the Group's other capital market communications and with the Group's restructuring and turnaround plan for fiscal year 2016 and subsequent years, which is supported by the Supervisory Board.

Compared to 2015, the Executive Board does not anticipate any significant changes in the non-financial performance indicators stated in the present Management Report (Group: technology leadership, minimization of environmental risks, low degree of staff turnover among permanent employees; parent company: attractiveness of the Group's parent company as an employer) in 2016. As in prior years, the non-financial performance indicators are measured and reported only on a qualitative basis and not on a quantitative basis.

Actual developments, particularly resulting from the opportunities and risks described in the Risk Report, may differ in both a positive and a negative way from the Executive Board's forecasts, both for the SKW Metallurgie Group and for SKW Stahl-Metallurgie Holding AG as the parent company. In particular, a high degree of target attainment for the measures and efficiency enhancements planned as part of the ReMaKe programme are vital to the fulfillment of the 2016 forecast.

13.5. Executive Board's estimation of the financial performance and cash flows of the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG in 2016 – general statements about the forecast year 2016

The Executive Board's estimation of the performance of the SKW Metallurgie Group in 2016 is condensed into the following general statements:

- The Executive Board of the SKW Metallurgie Group anticipates lower unit sales in 2016, despite the countermeasures initiated under the ReMaKe 2.0 programme, as a result of the steel crisis. Assuming constant exchange rates, the Executive Board expects to generate revenues of an amount between EUR 250 million and EUR 270 million. This decrease is expected to result in part from the development of the "North America" segment, based on the expectations for the North American steel industry (production volumes and factory closures) described in Section 13.2. In addition, lower revenues are expected in the "South America" segment as well, due to the lower demand resulting from the general economic conditions and the expected price erosion in Brazil. Relatively constant or possibly even slighter higher revenues (thanks to ReMaKe 2.0) are expected in the "Europe and Asia" segment.
- Despite the first positive effects of the ReMaKe 2.0, the Executive Board of the SKW Metallurgie Group expects EBITDA (as defined in Sections 13.2. and 13.4.) to come out at slightly more than EUR 10 million in the crisis year 2016, due to the further deterioration of basic market conditions, based on the regional developments stated in the revenue forecast. All operating entities of the SKW Metallurgie Group are expected to generate positive EBITDA contributions.

The Executive Board's estimation of the performance of the parent company SKW Stahl-Metallurgie Holding AG in 2016 is condensed into the following general statement:

As in prior years, the operating result of the Group's parent company SKW Stahl-Metallurgie Holding AG is determined by the income from Group cost allocation agreements under which particularly the consulting and management services provided by the Group parent company to the subsidiaries are compensated at fair market terms, and from dividend and interest payments of the subsidiaries. The Executive Board of SKW Stahl-Metallurgie Holding AG expects that this income (particularly including lower intragroup dividends compared to prior years) will lead to a slightly negative fiscal year result (negative euro amount in the lower single-digit millions) for the Group's parent company SKW Stahl-Metallurgie Holding AG in the forecast year 2016. Consequently, the performance indicator "net result" at December 31, 2016 is expected to be even less than the net result at December 31, 2015, and thus less than zero again. All other things being equal (e.g. assuming no capital measures), a negative fiscal year result of SKW Stahl-Metallurgie Holding AG in 2016 would mean that the equity of the Group's parent company will remain negative and the deficit not covered by equity will increase further.

Consequently, the Executive Board of the Group's parent company SKW Stahl-Metallurgie Holding AG believes it will be nearly impossible for the Company to pay a dividend in 2017 for the year 2016.

13.6. Capital markets guidance for 2017 and beyond

In 2017, SKW Metallurgie expects the volume of steel production to return to the level of the crisis year 2015. A further slight increase is expected in 2018, although in both years the expected steel production in the Company's core markets will remain well below the level of 2014.

Based on this scenario for the steel industry, the successes of the ReMaKe 2.0 programme, which will have its full effect starting in 2018, will make it possible for the SKW Metallurgie Group to increase its earnings again in 2017 and beyond.

Specifically, the Company expects to generate revenues in 2017 that are roughly on the level of 2014 (approx. EUR 300 million per year). A further, roughly 5% increase in revenues is expected in 2018.

In both years (2017 and 2018), the SKW Metallurgie Group expects to generate an EBITDA in the range of approximately EUR 20 million per year. This positive earnings development will be made possible by the successes of ReMaKe 2.0, which are expected to more than offset the expected strong margin pressure and cost increases.

Generally speaking, the same definitions and assumptions applied in the guidance for 2016 (see Sections 13.2. and 13.4.) apply also for the guidance for 2017 and 2018. In particular, the attainment of the goals of the ReMaKe programme and the above-mentioned expectations for steel production are key planning assumptions for the 2017/2018 guidance. As described in Section 13.4., the Group’s guidance is also based on the assumption of constant exchange rates. Moreover, the additional potential that could result from the implementation of possible strategic growth measures is not included in the 2017/2018 guidance.

14. Responsibility statement of the legal representatives

14.1. Consolidated financial statements of the Metallurgie Group

I hereby certify, to the best of my knowledge and in accordance with applicable financial reporting principles, that the consolidated financial statements as of December 31, 2015 present a true and fair view of the financial position, cash flows, and financial performance of the Group, and that the Group Management Report, which is combined with the parent company's Management Report, presents a true and fair view of the Group's business performance, including the results and situation of the Group, and that it accurately describes the principal opportunities and risks of the Group's anticipated future development.

14.2. Separate financial statements of SKW Stahl-Metallurgie Holding AG

I hereby certify, to the best of my knowledge and in accordance with applicable financial reporting principles, that the separate financial statements as of December 31, 2015 present a true and fair view of the financial position, cash flows, and financial performance of the Company, and that the parent company's Management Report, which is combined with the Group Management Report, presents a true and fair view of the Company's business performance, including the results and situation of the Company, and that it accurately describes the principal opportunities and risks of the Company's anticipated future development.

Unterneukirchen (Germany), March 11, 2016

SKW Stahl-Metallurgie Holding AG

The Executive Board

Dr. Kay Michel

Dear Shareholders,

The past fiscal year was characterized by the continuation of SKW Metallurgie Group's end-to-end strategic reorientation in the context of worsening structural conditions in the steel and capital markets.

Key content of the activities of the Supervisory Board and its committees

In fiscal year 2015, the Supervisory Board of SKW Stahl-Metallurgie Holding AG (the Company) monitored the Executive Board on an ongoing basis and provided it with advice and support in line with the legal environment, the Articles of Incorporation and the bylaws, based on reports by the Executive Board, joint meetings and resolutions passed by votes conducted by circular.

Activities by the Supervisory Board and its committees focused on restructuring the Company and SKW Metallurgie Group, corporate strategy, business growth, accounting issues and strengthening the Company's equity base.

In view of the substantial impairments in the prior year, the Supervisory Board has actively insisted throughout the entire fiscal year that the Executive Board critically assess all of SKW Metallurgie Group's business activities and based on that, introduce countermeasures for the new strategic orientation.

At the meeting of the Supervisory Board dealing with the annual financial statements in the reporting year, the annual and consolidated financial statements for fiscal year 2015 were analyzed extensively; due to a lack of profit for the year, it was determined that there was no need for a proposal for appropriation of distributable profit at the regular 2016 General Meeting.

However, in order to strengthen the Company's equity base, the Supervisory Board and the Executive Board recommended a substantial cash capital increase with subscription right to the regular 2016 General Meeting, which adopted it. In light of the significantly changed structural conditions in the steel and capital markets in the second half of 2015, the Supervisory Board and Executive Board carefully considered all of the economic and legal aspects and found that the business basis underlying the capital increase no longer existed, with the result that the capital increase was not carried out.

This was also influenced to a considerable degree by declining steel production in the U.S. and other negative effects of the global steel economy, meaning that the Executive Board’s forecast for the entire year had to be adjusted during the financial year. This occurred in close consultation with the Supervisory Board.

Moreover, the Supervisory Board was intensely involved in the Executive Board’s preparation of the separate single-entity and consolidated financial statements for financial year 2015. The separate financial statements disclosed a loss of more than half of the share capital as defined by Section 92 (1) AktG (German Stock Corporation Law), which had made it necessary to call a General Meeting without undue delay.

Throughout the year under review, the Supervisory Board regularly dealt with the issues of litigation, compliance, financial control and the risk management system.

In general, the Supervisory Board’s activities and those of its committees can be described as follows:

The Executive Board promptly and regularly provided the Supervisory Board with extensive information, both in writing and verbally, on all issues relevant to the Company’s forecasting and its strategic further development, on the course of business and the Group’s position including budgeting, risks and risk management, and in particular on individual projects.

At the regular on-site meetings of the Supervisory Board of SKW Metallurgie Group, the members of the Supervisory Board were provided with the most comprehensive picture possible of the Group’s situation and current events. In addition, where necessary any current priority issues were dealt with, including in conference calls and through votes conducted by circular, if their urgency required this. In order to be better able to assess the economic position of SKW Metallurgie Group, the Supervisory Board was also provided with monthly reports on results on an ongoing basis. These were discussed in greater detail if required. Strategic issues, developments and forecasts were discussed regularly by the Supervisory Board in its regular on-site meetings. The Chairperson of the Supervisory Board was in regular contact with the

Executive Board, the chairperson of the audit committee and the other members of the Supervisory Board both in and outside of the Supervisory Board meetings, and was kept informed on current developments in the business situation and key transactions. Committee members were also in regular contact with each other and with the members of the Executive Board on individual issues.

The Supervisory Board's supervisory activities included, in particular, the following:

- Requesting and reviewing regular reports on fundamental issues of company planning (in particular financial, investment and human resource planning), the course of business (in particular revenues and the Group's and Company's economic situation) and on transactions that could be of material importance to the Company's profitability or liquidity (see Section 90 (1) AktG);

- Approving legal transactions by the Executive Board which required approval, if any;

- Addressing questions to the Executive Board in the Supervisory Board's meeting on the reports presented, current developments and pending decisions, and coming to agreement on the most important KPIs to measure short- and medium-term business success;

- Holding discussions between the Chairperson of the Supervisory Board and members of the Executive Board on various issues and posing questions to the Executive Board as part of these discussions on current developments and imminent decisions;

- Receipt of the report by the internal auditors, also concerning the risk management system and compliance report;

- Review of the annual financial statements prepared by the Executive Board, the consolidated financial statements and the combined management report, and questioning the members of the Executive Board on these publications (see below).

The four committees of the Supervisory Board continued their work unchanged in the year under review. Mr. Weinheimer is the Chairman of the HR and Nomination Committees. Dr.

Markus chaired the Audit Committee until his departure (see below), after which his position was taken on by Mr. Martin. The Strategy Committee, which is assisting the Executive Board in the strategic reorientation, is chaired by Ms. Schull. The purpose of the committees is to ensure that the Supervisory Board performs its tasks efficiently, in addition to ensuring that the requirements of the German Corporate Governance Code in this regard are upheld. For example, the committees prepare resolutions for the Supervisory Board and topics to be addressed during the Supervisory Board’s plenary meetings. As in the past, as a rule, the committees hold regular meetings, which are timed to be close to the meetings of the Supervisory Board. In some cases on-site meetings are complemented by conference calls. All of the members of the respective committees regularly attended the respective committee meetings. In addition, the committees’ chairpersons report to the Supervisory Board on their committee’s work in each subsequent meeting as well as between the meetings.

In summary, the Supervisory Board was involved in all key strategic company decisions, discussed and examined these decisions in detail, and – when appropriate – approved them. Members of the Executive Board regularly attended the meetings of the Supervisory Board. Only discussions on internal topics for the Supervisory Board and issues concerning the Executive Board were held in the absence of the Executive Board.

Changes to the Executive and Supervisory Boards

Dr. Markus resigned his seat as a regular member of the Supervisory Board effective February 28, 2015. Upon recommendation of the Supervisory Board and the Executive Board, the regular General Meeting of the Company elected Mr. Reto A. Garzetti as his successor.

Dr. Liebler resigned his seat as a regular member of the Supervisory Board effective November 30, 2015. Upon recommendation of the Supervisory Board and the Executive Board, the competent court appointed Mr. Tarun Somani as his successor on January 14, 2016.

Executive Board member Ms. Kauper left the Company voluntarily effective October 31, 2015, in order to accept new professional challenges. Since November 1, 2015, the Company has been led by Dr. Michel as the sole Director until further notice.

The Supervisory Board and the Directors discussed in detail and agreed on the latter group's employment/engagement contracts. The same procedure was applied to target achievement in the reporting year and the setting of objectives for future years. In addition, the Supervisory Board extensively and carefully reviewed whether the Company should be run by a sole Director until further notice, and answered the question in the affirmative.

According to the requirements in the German Corporate Governance Code, the Supervisory Board must consider diversity as a criterion when filling executive and management positions; in particular it must ensure that women are considered to a sufficient extent. Given the context of the currently difficult structural conditions of SKW Metallurgie Group, however, professional qualifications must have top priority.

Audit of the separate and consolidated financial statements

The annual financial statements and the consolidated financial statements as of December 31, 2015 and the combined management report, including the bookkeeping system, were audited by the appointed auditors Deloitte&Touche GmbH, Wirtschaftsprüfungsgesellschaft, of Rosenheimer Platz 4, 81669 Munich (Germany) and were issued with an unqualified audit opinion. The Audit Committee was kept informed during the course of the audit and key items were discussed. The corresponding audit documents were presented to the Supervisory Board in good time prior to the meetings to discuss the financial statements on March 14, 2016 and on March 23, 2016. The chairperson of the Audit Committee provided the Supervisory Board with detailed information on its review of the separate and consolidated financial statements at that meeting. After a careful review and discussion of the separate financial statements, the consolidated financial statements and the combined management report, the Supervisory Board did not raise any objections, concurred with the results of the audit by the auditor, and approved the separate and consolidated financial statements on March 23, 2016. The annual financial statements are thus adopted.

Corporate Governance

The Supervisory Board constantly complies with and monitors the implementation of the German Corporate Governance Code standards for responsible and effective corporate governance, as well as current changes to the law and preceding developments. The members of the Supervisory Board fulfilled and continue to fulfill the independence requirements of the German Corporate Governance Code. In addition, the Executive Board regularly reports to the Supervisory Board on the status of compliance with the Corporate Governance Code.

The Executive Board and the Supervisory Board updated the prior year's declaration of conformity on February 27 and November 3, 2015. In addition, they issued the annual declaration of conformity pursuant to Section 161 AktG on December 16, 2015. All of these documents were then made permanently accessible to shareholders on the Company's web site. Express reference is made to the updates and to the declaration of conformity; further details can be found in the corporate governance report and in the combined management report, which are both also published in the annual report.

Number of meetings and resolutions of the Supervisory Board and its committees

The Supervisory Board met for a total of six meetings in fiscal year 2015, of which four were regular on-site meetings. In addition to the on-site meetings, the Supervisory Board met in two conference calls. The meetings were generally held with all members participating. In addition, six resolutions were passed by votes conducted by circular.

The Audit Committee met three times in on-site meetings in the past financial year. In addition to the members of the committee, select meetings were attended by the Executive Board members and in some cases the Chairperson of the Supervisory Board; the external and internal auditors also attended select meetings.

The Nominating Committee met twice in on-site meetings and passed one resolution by circulating voting papers. The Strategy Committee met once in an on-site meeting, while the HR Committee did not hold a meeting.

The Supervisory Board thanks both the former members of the Supervisory Board and the members of the Executive Board for their trustworthy and constructive cooperation, and underscores once again its recognition of their work.

The Supervisory Board would also particularly like to thank all of its employees; their renewed great dedication and commitment make a major contribution to SKW Metallurgie Group's success each year, including when the economic times are less than easy.

Unterneukirchen (Germany), March 2016

Titus Weinheimer
Chairman of the Supervisory Board

SKW Stahl-Metallurgie Holding AG, Unterneukirchen

Statement of Financial Position as of December 31, 2015

(with comparison figures as of 12/31/2014)

Assets

	EUR	As of 12/31/2015 EUR	As of 12/31/2014 EUR thousand
A. Noncurrent assets			
I. Intangible assets			
Purchased licenses	436.339,00		86
II. Property, plant and equipment			
1. Operational and office equipment	70.781,00		90
	70.781,00		90
III. Noncurrent financial assets			
1. Interests in affiliated companies	30.697.114,61		30.270
2. Loans to affiliated companies	29.930.341,34		30.288
	60.627.455,95		60.558
		61.134.575,95	**60.734**
B. Current assets			
I. Receivables and other assets			
1. Receivables due from affiliated companies	3.232.064,70		5.850
2. Other assets	138.529,36		701
	3.370.594,06		6.551
II. Cash on hand and cash in banks	3.021.270,20		4.446
		6.391.864,26	**10.997**
C. Prepaid expenses		**527.922,94**	**144**
D. Deficit not covered by equity		**1.205.069,41**	**0**
		69.259.432,56	**71.875**

Equity and liabilities

	EUR	As of 12/31/2015 EUR	As of 12/31/2014 EUR thousand
A. Equity			
I. Subscribed capital	6.544.930,00		6.545
II. Share premium	53.011.140,00		53.011
III. Accumulated loss	60.761.139,41		52.380
	(1.205.069,41)		7.176
Deficit not covered by equity		1.205.069,41	0
		0,00	**7.176**
B. Provisions			
1. Provisions for pensions	3.382.853,00		2.679
2. Tax provisions	0,00		0
3. Other provisions	3.998.780,08		3.218
		7.381.633,08	**5.897**
C. Liabilities			
1. Liabilities due to banks	58.060.149,83		54.529
2. Trade payables	694.435,97		356
3. Liabilities due to affiliated companies	3.057.448,37		3.835
4. Other liabilities (*thereof for taxes EUR XXX; prior year: EUR 51 thousand)* *(thereof for social security: EUR XXX; prior year: EUR 0 thousand)*	65.765,31		82
		61.877.799,48	**58.802**
		69.259.432,56	**71.875**

SKW Stahl-Metallurgie Holding AG, Unterneukirchen

Income Statement 2015

(with 2014 comparison figures)

		2015	2014
		EUR	EUR thousand
1.	Other operating income	11.591.623,85	23.378
2.	Personnel expenses		
	a) Wages and salaries	-3.025.001,73	-3.716
	b) Social security contributions and pension expenses *(thereof income from pensions EUR 10.505,00; prior year: EUR 176 thousand)*	-155.369,35	-382
3.	Amortization, depreciation and impairments		
	a) of noncurrent intangible assets and and property, plant and equipment	-177.734,75	-225
	b) of current assets, insofar as they exceed the company's customary value adjustments	-413.420,84	-19.853
4.	Other operating expenses	-8.721.597,76	-36.003
	Operating result	**-901.500,58**	**-36.801**
5.	Income from equity investments *(thereof from affiliated companies EUR 4.044.949,50; prior year: EURk 12.565)*	4.044.949,50	12.565
6.	Income from profit transfer	438.638,46	0
7.	Expense from loss transfer	0,00	-3.602
8.	Income from loans of noncurrent financial assets *(thereof from affiliated companies EUR 1.907.796,88 prior year: EUR 4.466 thousand)*	1.925.800,30	4.466
9.	Other interest and similar income *(thereof from affiliated companies EUR 43.169,47; prior year: EUR 82 thousand)*	43.184,10	82
10.	Impairments of noncurrent financial assets	-6.854.156,00	-43.831
11.	Interest and similar expenses *(thereof to affiliated companies EUR 76.434,04; prior year: EUR 8 thousand)*	-7.054.101,82	-2.960
12.	**Result from ordinary activities**	**-8.357.186,04**	**-70.081**
13.	Extraordinary expenses	-11.647,00	-12
14.	**Extraordinary result**	**-11.647,00**	**-12**
15.	Income taxes	12,74	10
16.	Other taxes	-12.756,77	-19
17.	**Fiscal year net loss (PY: fiscal year net income)**	**-8.381.577,07**	**-70.102**
18.	Loss carried forward from prior year (PY: profit carried forward)	-52.379.562,34	17.722
19.	**Accumulated loss (PY: retained profit)**	**-60.761.139,41**	**-52.380**

Notes to the Financial Statements of SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), for the fiscal year from January 1 to December 31, 2015

General information

The Company was founded as WS 4002 Vermögensverwaltung GmbH with its registered office in München (Germany) by notarized agreement of September 15, 2000.

According to the certification of the notary public Singer of June 17, 2003, the Company was renamed to Arques Beteiligungs-GmbH by shareholder resolution, and the registered office was moved to Starnberg (Germany). These changes were recorded in the Commercial Register of the München Local Court (Germany) under the number HRB 138462.

The annual shareholders' meeting of December 7, 2004 changed the company name from Arques Beteiligungs-GmbH to SKW Stahl-Metallurgie Holding GmbH and moved the registered office to Unterneukirchen (Germany). The renaming and change of registered office were recorded in the Commercial Register of the Traunstein Local Court (Germany) under the number HRB 16209 on February 2, 2005.

On April 20, 2006, the annual shareholders' meeting resolved to change the Company's form to SKW Stahl-Metallurgie Holding AG with its registered office in Unterneukirchen (Germany). The change of form was recorded in the Commercial Register of the Traunstein Local Court (Germany) under the new number HRB 17037 on May 26, 2006.

According to the definition of Deutsche Börse, 100% of the shares of SKW Metallurgie were widely held as of the reporting date.

The business object of the Company comprises the provision of management advice to other or affiliated companies, with the exception of legal and tax advice, and the acquisition of or all kinds of investment in small to medium-sized enterprises, particularly in the area of production and sales of industrial goods of all kinds, and in the steel suppliers industry. The Company's business object also comprises the holding, management, and commercial exploitation of small to medium-sized enterprises, particularly in the area of production and sales of industrial goods of all kinds, and in the steel suppliers industry; the acquisition, management, and sale of real estate, including the leasing, rental, and management of own assets.

The annual financial statements for fiscal year 2015 have been prepared in accordance with the accounting regulations of the German Commercial Code (HGB), the supplementary regulations of the German Stock Corporations Act (AktG), and the Company's Articles of Incorporation. The cost summary method was chosen for the income statement. As a general rule, disclosures are presented in the notes to the financial statements if that serves the interest of clarity. In assessing the financial statements of SKW Stahl-Metallurgie Holding AG, the assumption of a going concern according to Section 252 (1) (2) HGB was applied because no factual or legal reasons contradicted this assumption, despite the fact that share capital has been depleted by more than half (Section 92 (1) AktG) and an overall deficit not covered by equity was presented at December 31, 2015. This assessment is based on the highly probable assumption that the current situation represents only an accounting insolvency under the circumstances, based on the certification of turnaround capability and the positive going-concern forecast for the time until the start of 2018.

Recognition and measurement methods

Assets

Intangible assets and property, plant and equipment are measured at acquisition cost including incidental acquisition costs, less scheduled amortization, depreciation and impairments. Assets with finite useful lives are amortized or depreciated on a straight-line basis over the expected useful lives. In the years 2008 and 2009, the acquisition costs of low-value assets with acquisition costs of between EUR 150 and EUR 1,000 were aggregated in a compound item in the year of acquisition, and this compound item was amortized on a straight-line basis over five years. In 2010, this method was converted back to the method employed prior to January 1, 2008, i.e. low-value assets up to EUR 410 were completely expensed in the year of acquisition.

Noncurrent financial assets are measured at acquisition cost including incidental acquisition costs, or at the lower fair value. The fair value is determined in accordance with IDW RS HFA 10. Loans to affiliated companies are measured at nominal value or at the lower fair value.

Appropriate value adjustments are charged against **receivables and other assets**, which are measured at nominal value as a general rule, to account for all discernible individual risks.

Cash in banks and **cash on hand** are measured at nominal value. Foreign currency-denominated cash in banks is converted at the median spot exchange rate because these items are all due in less than three months.

Prepaid expenses are recognized in respect of expenditures prior to the reporting date that represent expenses for the subsequent year.

Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets, liabilities, accruals and deferrals in the financial statements prepared in accordance with German commercial law and the respective tax bases. Deferred taxes are recognized by SKW Stahl-Metallurgie Holding AG not only in respect of differences in the items of its own statement of financial position, but also differences in the statement of financial position of its subsidiary SKW Stahl-Metallurgie GmbH. In addition to temporary differences, deferred assets are also recognized in respect of any tax loss carryforwards to the extent that it can be expected that they can be applied against taxable profit over the next five years. Deferred taxes are measured on the basis of the combined income tax rate, which is currently 32.94%. This combined rate covers the corporate income tax, the solidarity surtax, and the local trade tax.

As of December 31, 2015 (as in the prior year), deferred tax assets exceeded deferred tax liabilities, mainly as a result of pension provisions and other provisions. Exercising the capitalization option (Section 274 (1) (2) HGB), the Company opted not to recognize the net balance of deferred tax assets.

Equity and liabilities

Share capital is divided into 6,544,930 no-par shares. The shares are registered shares. Each share represents a proportional share of share capital equal to EUR 1.00 per share. The bearer shares were converted to registered shares in 2011 by virtue of a resolution of the annual shareholders' meeting of June 8, 2011.
As of December 31, 2015, share capital was decreased by more than one half (Section 92 (1) AktG), leading to a deficit not covered by equity in the amount of EUR 1,205 thousand. This deficit is merely an accounting insolvency. This fact was certified and a positive going concern forecast was given in connection with a subsequent restructuring report.

In accordance with Section 253 (2) (2) HGB, the provisions for **pension obligations** were discounted to present value generally by application of an average market interest rate for the last seven years as calculated by the German Bundesbank in accordance with the Provision Discounting Regulation (RückAbzinsV), as appropriate for an assumed residual maturity of 15 years (3.89%; PY: 4.58%).

The **provision for pensions** was measured in accordance with the projected unit credit method on the basis of actuarial principles. An expected wage and salary increase of 2% (PY: between 2%) was assumed for this purpose. The assumed increase in pensions is between 1% and 1.30% (PY: between 1% and 1.25%). In addition, the 2005G Mortality Tables of Prof. Dr. Klaus Heubeck were applied.

The **other provisions** are recognized in appropriate amounts to account for all risks and uncertain liabilities that were discernible as of the time of preparation of the financial statements. These provisions account for obligations that are fundamentally discernible but where the final amount has not yet been finally established. They are measured at the amount required to settle the obligations on the basis of sound business judgment. Noncurrent provisions are discounted to present value on a maturity-matched basis.

Liabilities are measured at the respective settlement amount.

Receivables and payables denominated in foreign currency and due in not more than one year are translated at the median spot exchange rate at the reporting date. All other receivables or payables denominated in foreign currency are translated at the exchange rate in effect at the acquisition date or the lower or higher median spot exchange rate (respectively) as of the reporting date.

Affiliated companies are companies that are to be included as parent companies or subsidiaries (Section 290 HGB) in the consolidated financial statements according to the regulations applicable to full consolidation of a parent company that is required to prepare the widest-scope consolidated financial statements according to the second sub-paragraph, even if such consolidated financial statements are not prepared, or that prepares or could prepare exempting consolidated financial statements in accordance with Section 291 HGB or a statutory order decreed in accordance with Section 292 HGB; subsidiaries not consolidated in accordance with Section 296 HGB are also affiliated companies.

Income from equity investments is recognized as a general rule in the fiscal year in which the claim is legally constituted by reason of a profit utilization resolution. By way of exception, the Company will recognize a claim to such income in the same fiscal year if the subsidiary presents an accumulated profit on its statement of financial position as of the reporting date, and if the distributable profit is known to the parent company, and if the parent company has at this time already decided with final effect, based on demonstrable indications, to resolve a certain profit utilization in the future. **Income from profit/loss transfer agreements** are recognized as a general rule if it is not impossible to estimate the profit or loss to be collected with sufficient precision.

Notes to the Statement of Financial Position

Assets

(1) The detailed development of **noncurrent assets** of SKW Stahl-Metallurgie Holding AG is presented in the Statement of Changes in Noncurrent Assets as Appendix I to the notes.

(2) The change in **interests in affiliated companies** resulted mainly from the merger of SKW France SAS, Solesmes/France into its subsidiary Affival SAS, Solesmes/France, with retroactive effect to January 1, 2015. Hidden reserves in the amount of EUR 6,923 thousand were disclosed as a result of the merger. Furthermore, it was necessary to recognize an impairment loss of EUR 6,496 thousand in the carrying amount of the investment in SKW Metallurgie USA Inc., reducing it to EUR 8,302 thousand.

(3) **Loans to affiliated companies** (EUR 29,930 thousand; PY: EUR 30,288 thousand) include loans to ESM Group Inc. in the amount of EUR 27,609 thousand (PY: EUR 27,967 thousand) and loans to SKW Quab Chemicals Inc. in the amount of

EUR 2,321 thousand (PY: EUR 2,321 thousand). The decrease in loans to affiliated companies resulted from the impairment of loans to ESM Group Inc. in the amount of EUR 358 thousand.

(4) **Receivables from affiliated companies** (EUR 3,232 thousand; PY: EUR 5,850 thousand) are due in less than one year (term to maturity analogous to prior year) and include receivables from loans in the amount of EUR 2,723 thousand (PY: EUR 5,170 thousand) and charges to affiliated companies for services rendered and Group cost allocations in the amount of EUR 509 thousand (PY: EUR 680 thousand). Impairments totaling EUR 413 thousand (PY: EUR 19,853 thousand) were recognized in these items in fiscal year 2015.

(5) As in the prior year, **other assets** are recoverable in less than one year. This item includes tax receivables in the amount of EUR 132 thousand (PY: EUR 176 thousand).

(6) **Cash and cash equivalents** amounted to EUR 3,021 thousand as of December 31, 2015 (PY: EUR 4,446 thousand). They consist almost exclusively of cash in banks.

Equity and liabilities

(7) As of the reporting date, the Company's **subscribed capital** amounted to EUR 6,545 thousand, unchanged from the prior year, is divided into 6,544,930 registered shares, and is fully paid-in. Each share grants one voting right.

By resolution of the annual shareholders' meeting of June 8, 2011, the Executive Board was authorized to increase the share capital, with the approval of the Supervisory Board, by a total of up to EUR 3,272,465.00 by issuing new shares in exchange for cash capital contributions on one or more occasions in the time until May 30, 2016 (Authorized Capital 2011). A subscription right is to be granted to shareholders. An exclusion of the subscription right is not possible. The new shares may also be acquired by banks specified by the Executive Board with the obligation to offer them to the shareholders (indirect subscription right). This authorization has not yet been utilized. Independently of this authorized capital (authorization resolution), the annual shareholders' meeting on June 9, 2015 passed a resolution to increase capital by up to 100% (direct resolution). By ad hoc announcement dated October 2, 2015, the company announced the decision by the Executive Board and Supervisory Board not to carry out this capital increase due to a major change in framework conditions.

(8) As of December 31, 2015, the **capital reserve** pursuant to Section 272 (2) (1) HGB amounted to EUR 53,011 thousand, unchanged from the prior year.

(9) The **accumulated loss** exhibited the following development:

	Accumulated loss 12/31/2014 = loss carried forward	EUR 52,380 thousand
+	Net loss 2015	EUR 8,381 thousand
=	Accumulated loss 12/31/2015	EUR 60,761 thousand

(10) **Pension provisions** amounted to EUR 3,383 thousand as of the reporting date (PY: EUR 2,679 thousand). An actuarial gain of EUR 12 thousand arose in fiscal year 2015. The revaluation of pension provisions as of January 1, 2010 in accordance with the regulations of the Accounting Modernization Act (BilMoG) resulted in a difference of EUR 175 thousand; of this amount, EUR 12 thousand (1/15 as per Art. 67 (1) (1) Introductory Act to the German Commercial Code, EGHGB) was appropriated to the provisions in fiscal year 2015; thus, the remaining undercoverage amounted to EUR 105 thousand as of December 31, 2015.

(11) The **other provisions** in the amount of EUR 3,999 thousand (PY: EUR 3,218 thousand) are adequate to account for all risks and uncertain liabilities discernible in the time until preparation of the financial statements. These provisions account for obligations that are fundamentally discernible but whose final amount has not yet been established. They include personnel-related provisions (EUR 1,136 thousand, PY: EUR 1,635 thousand), provisions for as yet unbilled fees and services (EUR 1,672 thousand, PY: EUR 1,251 thousand), provisions for other uncertain liabilities (EUR 680 thousand, PY: EUR 0 thousand), provisions for anticipated losses on incomplete contracts (EUR 417 thousand, PY: EUR 220 thousand), and provisions for the audit of the financial statements (EUR 93 thousand, PY: EUR 112 thousand).

(12) **Liabilities due to banks** amounted to EUR 58,060 thousand as of the reporting date (PY: EUR 54,529 thousand). These liabilities mainly resulted from the syndicated loan agreement concluded on January 23, 2015 in the total amount of EUR 86 million. The syndicated loan agreement consists of two tranches: the first tranche in the amount of EUR 40 million serves as a working capital line of credit, and the second tranche in the amount of EUR 46 million serves as an amortizing loan. This syndicated loan agreement contains agreements on key financial ratios, so-called financial covenants. Some of these financial covenants were not fulfilled as of September 30, 2015. This

unexpected development can be attributed first to the fact that the massive downturn in the steel industry could not be completely made up despite active countermeasures, and second to the fact that some exchange rates relevant for the SKW Metallurgie Group (primarily BRL/EUR) developed in a way that was unforeseeable.

Failure to fulfill the agreed covenants entitles the lenders to terminate the loan without notice. At the Company's request, the financing banks agreed in October 2015 to issue a waiver against payment of a fee for the time until February 29, 2016; after the end of the reporting period, but before the preparation of the present Management Report, this waiver was extended against payment of a fee for the time until May 31, 2016. A key basis for this waiver was a restructuring report containing a positive going-concern forecast. The period of time until May 31, 2016 will be used to conduct negotiations with the goal of adapting the financial covenants to the intervening developments in the steel industry ("steel crisis") in line with market conditions and thus renegotiating the basic conditions of the loan agreement. The assurance of this financing is critical to the continued going-concern status of SKW Stahl-Metallurgie Holding AG after June 1, 2016.

The Executive Board considers it highly probable that these ongoing negotiations will be concluded with an acceptable result for all parties by May 31, 2016, thereby assuring the financing particularly of the parent company SKW Stahl-Metallurgie Holding AG at least until 2018, so that the separate financial statements as of December 31, 2015 can be prepared on the assumption of the positive going-concern forecast for SKW Stahl-Metallurgie Holding AG. At the time of preparing the present Management Report, however, it was not assured that the parent company SKW Stahl-Metallurgie Holding AG will have enough liquidity to continue its operations beyond May 31, 2016. Any significant changes to the syndicated loan agreement, and certainly the complete termination of that agreement would pose an existential threat to the SKW Stahl-Metallurgie Holding AG. Therefore, the status of a going concern in 2016 and 2017 will depend on the successful conclusion of the aforementioned negotiations.

(13) As in the prior year, all **trade payables** and **other liabilities** are due in less than one year.

(14) **Liabilities due to affiliated companies** in the amount of EUR 3,057 thousand (PY: EUR 3,835 thousand) are due in less than one year (analogous to the prior year). They are due almost exclusively to the subsidiary SKW Stahl-Metallurgie GmbH in the amount of EUR 2,941 thousand (PY: EUR 3,602 thousand).

(15) **Other financial commitments** under rental and lease agreements amounted to EUR 457 thousand as of December 31, 2015 (PY: EUR 667 thousand); of this amount, EUR 192 thousand is due in one year or less, and EUR 265 thousand is due between two and five years. This helps to reduce tied-up capital and leaves the investment risk with the lessor. Other financial commitments exist in the amount of EUR 68 thousand (PY: EUR 921 thousand), all of which due in one year or less. The consulting contract with Woodes Ltd., Singapore (Republic of Singapore) was presented within other financial commitments in fiscal year 2014. This contract is no longer presented as of December 31, 2015 because the limitation period has expired.

(16) In accordance with the EU Commission's fine decision of July 22, 2009, SKW Stahl-Metallurgie Holding AG is jointly and severally liable for payment of a fine of a maximum amount of EUR 13.3 million (joint and several liability of SKW Stahl-Metallurgie Holding AG, SKW Stahl-Metallurgie GmbH and Gigaset AG (formerly ARQUES Industries AG); for its part, Gigaset AG is liable for a maximum amount of EUR 12.3 million; also joint and several liability of SKW Stahl-Metallurgie GmbH together with Evonik Degussa GmbH and AlzChem AG (formerly AlzChem Hart GmbH) for an amount of EUR 1.04 million). In consultation with the EU Commission, SKW Stahl-Metallurgie GmbH furnished bank guarantees in the total amount of EUR 6.7 million (50% of the maximum fine) as security to avert enforcement measures. On this basis, Gigaset AG filed an action in 2010 against SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH as joint and several debtors to force payment of the amount already paid by Gigaset AG to the EU Commission. Gigaset AG lost this case in the first instance. In its judgment of July 13, 2011, the competent München I Regional Court (LG) dismissed Gigaset AG's action in full and also decided that "the fine is to be borne solely by the plaintiff [Gigaset AG] in the internal relationship." Furthermore, the appeal filed by Gigaset AG with the München Higher Regional Court (OLG) was dismissed in full by judgment of February 9, 2012. With reference to the grounds for the decision of the Regional Court, the München Higher Regional Court also found in its judgment that "not the defendants [SKW Stahl-Metallurgie Holding AG und SKW Stahl-Metallurgie GmbH], but the plaintiff [Gigaset AG] [must] bear the fine." Gigaset AG appealed this judgment to the Federal Supreme Court (BGH). In fiscal year 2014, the Federal Supreme Court submitted some individual questions regarding this legal dispute to the European Court of Justice (ECJ) for a preliminary ruling. In its resolution of June 3, 2014, however, the Federal Supreme Court withdrew its request to the ECJ for a preliminary ruling and following the renewed oral proceeding before the Federal Supreme Court on November 18, 2014, it issued a judgment in this matter in which the court set aside the judgment of the München Higher Regional Court and

referred the matter back to the München Higher Regional Court for a renewed judgment. In its resolution of February 23, 2015 the München Higher Regional Court suspended this proceeding until a judgment is issued in the appeal procedure before the ECJ (see below). From the Company's perspective, however, the procedural position of the SKW Metallurgie companies and particularly SKW Stahl-Metallurgie Holding AG was not badly damaged by the considerations of the Federal Supreme Court.

Concurrently with these proceedings, both SKW Metallurgie companies continue to seek a reduction of the fine which is the subject of the litigation with Gigaset AG before the ECJ. In its judgments of January 23, 2014, the ECJ completely dismissed the actions of the SKW Metallurgie companies against the EU Commission for reduction of the fine, and largely dismissed the action of Gigaset AG. The action of Gigaset AG was granted only insofar as the fine imposed on Gigaset AG was reduced to EUR 12.3 million. By way of precaution, SKW Stahl-Metallurgie GmbH then recognized a provision in the amount of EUR 1.0 million plus any costs of legal counsel, with retroactive effect to December 31, 2013. The judgment of the European Court of Justice against the SKW Metallurgie companies is not yet legally binding because these parties appealed this judgment before the ECJ on April 2, 2014. The Advocate General's Opinion in this appeal procedure, in which the Advocate General recommended dismissal of the appeal, was published on September 3, 2015. The Opinion serves as a decision recommendation which the ECJ usually (but certainly not always) accepts. An ECJ decision on the question of whether the fine decision of the European Commission should be annulled can be expected early in 2016.

In consideration of the legal and factual arguments against the obligation of the SKW Metallurgie companies to bear the full amount of the fine, as well as the uncertainties associated with any future recourse efforts against Gigaset AG, SKW Stahl-Metallurgie GmbH decided for continuity reasons and by way of precaution to recognize a provision in the amount of EUR 7.15 million (plus interest and court and lawyer costs) as of December 31, 2015. If the litigation guarantee furnished by SKW Stahl-Metallurgie GmbH is exercised by the European Commission, the latter can also seek partial recourse against SKW Stahl-Metallurgie Holding AG by reason of the joint and several liability of the SKW companies.

(17) In connection with the acquisition of interests in Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A by a former subsidiary of SKW Stahl-Metallurgie Holding AG

which merged with Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, the former shareholders claim an amount in excess of the second purchase price tranche paid in 2012 (so-called "earn-out"). To clarify this matter, Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A and SKW Stahl-Metallurgie Holding AG filed an action for a negative declaratory judgment with the competent arbitration tribunal according to the share purchase agreement on July 19, 2013, asking the tribunal to declare that they owe no further payments to the former shareholders by reason of the earn-out clause contained in the share purchase agreement. At the same time, Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A and SKW Stahl-Metallurgie Holding AG are asserting claims for violation of a no-competition clause and for delaying the arbitration proceeding. The arbitration proceeding had been discontinued by action of the former shareholders because they regard the arbitration tribunal as lacking jurisdiction and would like to have the question of the amount of the second purchase price tranche payable under the earn-out clause to be clarified by the ordinary courts. The plaintiffs oppose this.

After applying to the arbitration tribunal, the former shareholders also attempted to pursue a kind of "execution proceeding" against Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, based on the alleged enforceability of the earn-out clause in the share purchase agreement on the calculation of the second purchase price tranche. Because further appeals were filed, all pending proceedings between the parties are now being decided by the appellate court in Minas Gerais; the date of the final decision is not yet foreseeable.

(18) In a statement of claim dated July 5, 2015 brought before Traunstein Regional Court ('Landgericht'), SKW Stahl-Metallurgie Holding AG brought a claim against Ms. Ines Kolmsee and one other former member of the company's Executive Board, Mr. Gerhard Ertl, for damages under D&O liability of around EUR 55 million.

The background to the claim is the company's allegation that the defendants did not exercise the due care of prudent and conscientious executive board members when setting up the joint venture SKW-Tashi Metals & Alloys Private Ltd. to operate a calcium silicon plant in the Kingdom of Bhutan and when purchasing a calcium carbide plant in Sundvall, Sweden. It is alleged that the erroneous decision to carry out the two projects has caused the company to sustain considerable capital losses, and the company seeks to have these losses reimbursed through this action. The statement of defense from the defendants is not yet available, but it can be assumed that the defendants will dispute in full the eligibility of the claims.

The outcome of the litigation is uncertain. It is likewise uncertain whether it will be possible to reach a mutually acceptable settlement and whether the litigation can be ended without an additional cost burden for the company and/or whether the company will receive a certain amount of money in addition.

(19) SKW Stahl-Metallurgie Holding AG is jointly and severally liable with its subsidiaries SKW Stahl-Metallurgie GmbH, Affival S.A.S., SKW Metallurgie USA Inc. and ESM Group Inc. for loan liabilities due to the loan creditors under the syndicated loan agreement concluded on January 23, 2015. Considering the fact that all these subsidiaries are wholly owned and generate sufficient profit contributions according to their operating plans to fulfill their respective obligations, the risk of a claim is thought to be low.

(20) On July 12, 2011, SKW Stahl-Metallurgie Holding AG agreed with the minority shareholder of an affiliated company to guarantee a loan. This loan was used by the subsidiary to invest in a sinter plant. If the loan obligations are not fulfilled by the subsidiary, SKW Stahl-Metallurgie Holding AG will be partially liable (66.67%) for the guarantee amount of EUR 1,700 thousand. The risk of execution is very low because the financial resources of the investee and its future maturity-matched operating results represent sufficient potential to repay the loan.

(21) LBBW issued a loan collateral guarantee in favor of Eksportfinans ASA for part of the financing of the low-shaft furnace of SKW-Tashi Metals & Alloys Private Ltd. in Bhutan. Due to the financial woes of SKW-Tashi Metals & Alloys Private Ltd. and the resulting failure to pay a loan installment due on September 15, 2015, Eksportfinans ASA executed this guarantee of LBBW in the amount of USD 104,650.30 and charged it to SKW Stahl-Metallurgie Holding AG by way of recourse on December 2, 2015. It still amounts to USD 521,749.12 (plus interest). Because SKW-Tashi notified its insolvency to the competent Bhutanese court and applied for insolvency proceedings under local law on December 19, 2015, the full execution of the loan collateral guarantee is very probable.

(22) In connection with a financing agreement between SKW Tashi Metals & Alloys Private Limited and Eksportfinans ASA in 2009, SKW Stahl-Metallurgie GmbH undertook vis-à-vis SKW Tashi Metals & Alloys Private Limited to purchase a certain quantity of CaSi semiannually, so as to enable the latter to fulfill its financial obligations vis-à-vis Eksportfinans ASA. Because SKW-Tashi notified its insolvency to the competent Bhutanese court and applied for insolvency proceedings under local law on December

19, 2015, it is rather improbable that SKW Stahl-Metallurgie GmbH will still be asked to fulfill its purchasing obligation. In any case, given the limited quantities agreed, the purchase could be handled by SKW Stahl-Metallurgie GmbH in the normal course of business.

(23) A cash pooling agreement is in effect between SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH. The Company is jointly and severally liable vis-à-vis the financing banks for any obligations resulting from the cash pooling agreements.

(24) Under a hard letter of comfort, SKW Stahl-Metallurgie Holding AG is liable for the continuation as a going concern of the subsidiary SKW Hong Kong Co. Limited. Given the small amount of business activity and the subsidiary's own financial resources, a claim is not to be expected in this matter.

Notes to the Income Statement

(25) **Other operating income** in the total amount of EUR 11,592 thousand (PY: EUR 23,378 thousand) included income from pass-through charges to affiliated companies and income from Group cost allocations in the amount of EUR 3,323 thousand (PY: EUR 3,383 thousand), income from the reversal of provisions in the amount of EUR 803 thousand (PY: EUR 132 thousand), and other income in the amount of EUR 7,466 thousand (PY: EUR 7,702 thousand). Other income mainly consisted of income from the merger of SKW France SAS into Affival SAS and the resulting disclosure of hidden reserves.

(26) At EUR 3,180 thousand, **personnel expenses** were EUR 919 thousand less than the prior-year figure (PY: EUR 4,099 thousand). This decline is mainly attributable to the changes made to the management and workforce structure during the fiscal year and to expenses for the recognition of provisions for bonuses and severance awards.

(27) In addition to the normal depreciation and amortization of noncurrent assets in the amount of EUR 178 thousand, the item of **depreciation, amortization and impairments** totaling EUR 591 thousand also included impairments of current assets in the amount of EUR 413 thousand. These impairments consisted mainly of writedowns of receivables due from the company SKW Verwaltungs GmbH in the amount of EUR 396 thousand.

(28) **Other operating expenses** of EUR 8,722 thousand were EUR 27,281 thousand less than the prior-year figure of EUR 36,003 thousand. The decrease resulted mainly from the considerably lower expenses of foreign currency translation in the amount of EUR 599 thousand (PY: EUR 12,315 thousand). Moreover, the prior-year figure included a non-recurring effect of EUR 16,155 thousand from the disposal of SKW Metallurgy Sweden AG.

(29) **Income from equity investments** resulted exclusively from dividends of the subsidiary Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A (EUR 4,045 thousand; PY: EUR 2,134 thousand).

(30) A **profit transfer** of EUR 439 thousand (PY: loss absorption of EUR 3,602 thousand) was collected under the profit/loss transfer agreement concluded with the subsidiary SKW Stahl-Metallurgie GmbH in 2007.

(31) **Income from loans of noncurrent financial assets** in the amount of EUR 1,926 thousand (PY: EUR 4,466 thousand) resulted exclusively from noncurrent loans to subsidiaries.

(32) **Other interest and similar income** in the amount of EUR 43 thousand (PY: EUR 82 thousand) consisted almost exclusively of interest income from affiliated companies.

(33) **Interest and similar expenses** in the amount of EUR 7,054 thousand (PY: EUR 2,960 thousand) consisted of interest and similar expenses to banks in the amount of EUR 6,274 thousand (PY: EUR 2,620 thousand) and expenses for the compounding of provisions in the amount of EUR 704 thousand (PY: EUR 332 thousand). The increase in interest and similar expenses to banks resulted primarily from prepayment penalties for the redemption of the promissory note loan in the amount of EUR 759 thousand and arrangement fees and investment commissions for the syndicated loan agreement in the amount of EUR 1,462 thousand.

(34) The application of the Accounting Modernization Act (BilMoG) lead to **extraordinary expenses** of EUR 12 thousand (PY: EUR 12 thousand) for the increase in pension provisions (1/15 as per Art. 67 (1) (1) EGHGB).

(35) An **accumulated loss** of EUR 60,761 thousand (PY: accumulated loss of EUR 52,380 thousand) resulted for fiscal year 2015.

Other disclosures

(36) List of Shareholdings

The List of Shareholdings is attached to the notes as Appendix II.

For those investees that do not prepare their separate financial statements in euros, the items of subscribed capital and equity were translated to euros at the respective exchange rates at December 31, 2015, and the fiscal year net income/loss was translated at the respective average exchange rate for 2015. The following exchange rates were used for currency translation:

		Closing Exchange Rate			Average Exchange Rate	
EUR 1		12/31/2015	12/31/2014		2015	2014
Bhutan	BTN	72.0215	76.7190		71.1939	81.0406
Brazil	BRL	4.3117	3.2207		3.7004	3.1211
China (PR)	CNY	7.0608	7.5358		6.9732	8.1857
Hong Kong	HKD	8.4376	9.4170		8.6012	10.3025
India	INR	72.0215	76.7190		71.1939	81.0406
Japan	JPY	131.0700	145.2300		134.3117	140.3061
Canada	CAD	1.5116	1.4063		1.4185	1.4661
Mexico	MXN	18.9145	17.8679		17.6152	17.6550
Russia	RUB	80.6736	72.3370		68.0707	50.9518
Sweden	SEK	9.1895	9.3930		9.3532	9.0985
South Korea	KRW	1.280.7800	1.324.8000		1.256.4975	1.398.1424
Turkey	TRL	3.1765	2.8320		3.0254	2.9065
USA	USD	1.0887	1.2141		1.1095	1.3285

(37) **Dealings with related entities**

Dealings with related entities besides those in which SKW Stahl-Metallurgie Holding AG directly or indirectly holds 100% of the equity are detailed in the following.

Loan dealings (contract status)

SKW Quab Chemicals Inc.

Loan Amount as of 12/31/2015	Interest Rate	Contract dated	Term	Interest Income in USD 2015
USD 500,000	12M US LIBOR+1 %	January 18, 2007	Indefinite	USD 8,217
USD 2,415,600	PRIME RATE+1 %	January 18, 2007	Indefinite	USD 104,609

SKW-Tashi Metals & Alloys Private Ltd.

Loan Amount as of 12/31/2015	Interest Rate	Contract dated	Term	Interest Income in 2015
USD 21,902,597	9%	July 23, 2009	8 years	USD 1,998,612
USD 2,000,000	9%	February 21, 2012	5 years	USD 182,500
USD 2,133,091	9%	March12, 2012	6 years	USD 194,644
USD 1,584,000	9%	April 30, 2012	5 years	USD 144,540
USD 1,840,000	9%	December 12, 2012	5 years	USD 167,900
USD 587,911	9%	December 12, 2012	4 years	USD 53,647
USD 2,000,000	8.270%	June 10, 2014	< 1 year	USD 167,697
USD 205,000	8.270%	June 10, 2014	< 1 year	USD 17,189

Other dealings

Partner company	Type of Dealings	Contract dated	Income in 2015
SKW Quab Chemicals Inc.	Intragroup charges and cost allocations	./.	USD 294,132
SKW-Tashi Metals & Alloys Private Ltd.	Cost allocations	./.	n/a
Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A	Cost allocations	./.	n/a

Dealings with related persons

The active members of the Executive Board and Supervisory Board and their close family members are defined as related persons.

Supervisory Board:

As indicated in Note 40 “Compensation of governing bodies,” members of the Supervisory Board also held mandates with companies outside the Group. SKW Stahl-Metallurgie Holding AG conducts ordinary business dealings with some of these external companies to a minor extent and at fair market conditions.

Executive Board:

The payments of SKW Stahl-Metallurgie Holding AG are stated in full in Note 40 “Compensation of governing bodies.”

(38) The Company had an average of 15 **employees** during the reporting period (PY: 17).

(39) **Composition of the Supervisory Board and Executive Board, and other mandates held by its members**

Supervisory Board
Titus Weinheimer, New York, NY (USA) NanoHoldings LLC, Chief Operating Officer and General Counsel Chairman of the Supervisory Board *(since 06/10/2008, re-elected on 06/15/2009 and on 06/08/2011)*
Jochen Martin, München (Germany) AFINUM Management GmbH, Partner Vice Chairman of the Supervisory Board *(since 06/15/2009, re-elected on 06/08/2011)*
Armin Bruch, Erzhausen (Germany) Independent entrepreneur Member of the Supervisory Board *(since 06/15/2009, re-elected on 06/08/2011)*
Reto A. Garzetti, Zurich (Switzerland) Board of Directors of SE Swiss Equities AG Member of the Supervisory Board (since 06/09/2015)
Dr. Dirk Markus, London (Great Britain) Aurelius AG, Chairman of the Executive Board Member of the Supervisory Board *(from 06/04/2009 to 02/28/2015)*
Dr. Hans Liebler, Gräfelfing (Germany) Lenbach Capital GmbH, Managing Partner Member of the Supervisory Board *(from 01/01/2014 to 11/30/2015)*
Jutta Schull, Frankfurt am Main (Germany) Managing Director of BJS Composites GmbH

Member of the Supervisory Board *(since 01/14/2014)*
Tarun Somani, New Delhi (India) Somani Group, Investment Manager Member of the Supervisory Board (since January 2016)

Executive Board
Dr. Kay Michel, Bensheim (Germany) Dipl.-Ing., Chairman of the Executive Board *(since 04/01/2014)*
Sabine Kauper, Merching (Germany) Dipl.-Betriebswirt (FH), member of the Executive Board *(responsible for finance)* *(until 10/31/2015)*

Supervisory Board:

The Company's Supervisory Board had remained unchanged since being enlarged from three members to six members on the occasion of the annual general meeting of June 4, 2009. Dr. Markus resigned his seat with effect from February 28, 2015. At the recommendation of the Supervisory Board and Executive Board, the Company's annual general meeting elected Reto A. Garzetti as his successor in financial year 2015. Dr. Liebler resigned his Supervisory Board seat with effect from November 30, 2015. In January 2016, the competent court appointed Mr. Tarun Somani as his successor with immediate effect, based on a motion filed by the Executive Board and supported by the Supervisory Board.

The persons holding the offices of Chairman and Vice Chairman of the Company's Supervisory Board remained unchanged.

The following personnel changes occurred on the Audit Committee in financial year 2015. On March 17, 2015, Mr. Martin assumed the position of Chairman of the Audit Committee that had been held by the departing Dr. Markus, and Mr. Bruch was appointed to replace Dr. Markus on the Audit Committee. Mr. Garzetti succeeded Dr. Liebler as a member of the Audit Committee with effect from June 9, 2015.
Ms. Schull was appointed to the Nomination Committee and Mr. Martin resigned from the Nomination Committee on June 9, 2015.
There were no personnel changes on the Personnel and Strategy Committee.

Because the Company is still not obligated to appoint employee representatives to the Supervisory Board, and also did not submit to voluntary codetermination, the Supervisory Board was still composed exclusively of shareholder representatives in financial year 2015.

The Supervisory Board held a total of six meetings in financial year 2015, four of which were regular in-person meetings and two of which were held via telephone. The meetings were regularly attended by all members. In addition, six resolutions were adopted by written circulation. The Audit Committee held a total of three in-person meetings in financial year 2015. The Nomination Committee held two in-person meetings and adopted one resolution by written circulation in financial year 2015. The Strategy Committee held one in-person meeting and the Personnel Committee did not meet in financial year 2015.

Other mandates held by members of the Supervisory Board of SKW Stahl-Metallurgie Holding AG in financial year 2015

Titus Weinheimer, Chief Operating Officer and General Counsel of NanoHoldings LLC, residing in New York, NY (USA), Chairman of the Company's Supervisory Board since 06/10/2008

Company	**Function**
Safewater Pte. Ltd. (Singapore)	Member of the Board of Directors (since 11/06/2015)
nVerPix LLP	Member of the Board of Directors (since 07/01/2015)
NirVision LLP	Member of the Board of Directors (since 07/01/2015)

Jochen Martin, AFINUM Management GmbH, Partner, residing in München (Germany), Vice Chairman of the Company's Supervisory Board

No other mandates were held on German Supervisory Boards or on comparable German or foreign boards.

Armin Bruch, independent entrepreneur, residing in Erzhausen (Germany)

Company	**Function**
HCS GmbH, Frankfurt (formerly Haltermann Holding GmbH, Schifferstadt)	Member of the Advisory Board

Jutta Schull, Head of the Cathodes and Furnace Linings BU at SGL Carbon GmbH until 06/30/2015; Managing Director of BJS Composites GmbH since 07/01/2015, residing in Frankfurt am Main

No other mandates were held on German Supervisory Boards or on comparable German or foreign boards.

Dr. Dirk Markus, Chairman of the Executive Board of Aurelius AG, residing in London (Great Britain) (until 02/28/2015)

Company	**Function**
Publicitas Holding AG, Zurich (Switzerland)	Chairman of the Board of Directors
Berentzen-Gruppe Aktiengesellschaft, Haselünne (Germany)	Supervisory Board
Compagnie de Gestion et de Prêts (France)	Board of Directors until 02/26/2015

The aforementioned mandates on the Supervisory Boards of Publicitas Holding AG, Berentzen-Gruppe Aktiengesellschaft, and Compagnie de Gestion et de Prêts are intragroup mandates of the Aurelius Group.

Dr. Hans Liebler, Gräfelfing (Germany)
Lenbach Capital GmbH, Managing Partner, residing in Gräfelfing

Company	**Function**
Augusta Technologie AG, München	Member of the Supervisory Board / Vice Chairman (until 01/19/2015)
Grammer AG, Amberg	Member of the Supervisory Board
Washtec AG, Augsburg	Member of the Supervisory

	Board
Autowerkstattgroup N.V., Maastricht (NL)	Member of the Supervisory Board

Reto A. Garzetti, Board of Directors of SE Swiss Equities AG, Zurich, CH, residing in Zurich (Switzerland)

Company	**Function**
SE Swiss Equities AG, Zurich, CH	Member of the Board of Directors
Siegfried Holding AG, Zofingen, CH	Member of the Board of Directors
AGI AG für Isolierungen, Dällikon, CH	Member of the Board of Directors
Meili Peter Architekten AG, Zurich, CH	Member of the Board of Directors (until 11/30/2015)
HFS Helvetic Financial Services AG, Wollerau CH	Member of the Board of Directors
HPI Helvetic Financial Investments AG, Wollerau, CH,	Member of the Board of Directors
Occlutech Holding AG, Schaffhausen, CH,	Member of the Board of Directors
Neugass Kino AG, Zurich, CH	Member of the Board of Directors
Altura Investements Limited, Cayman Island	Member of the Board of Directors
Piora AG, Zug, CH,	Member of the Board of Directors
Silver Reel Pictures AG, Zug, CH	Member of the Board of Directors
Peach Property Group AG, Zurich, CH	Member of the Board of Directors (since 04/01/2015)

The aforementioned mandates on the Boards of Directors of HPI Helvetic Financial Investments AG and HFS Helvetic Financial Services AG are intragroup mandates of the same corporate group. The same is true of the aforementioned mandates on the Boards of Directors of Piora AG, Silver Reel Pictures AG, and Altura Investments Limited.

Tarun Somani, Investmentmanager Somani Group, residing in New Delhi-110 001 (India)
(since January 2016)

Unternehmen	**Funktion**
Indo German International Pvt. Ltd., New Delhi	Chairman
Somani Kuttner India (P) Ltd., New Delhi	Chairman
Mechel Somani Carbon Private Limited, New Delhi	Chairman
Emergent Global Edu & Services Limited, New Delhi	Chairman
Northern Exim Pvt. Ltd., New Delhi	Director
Indoit Real Estates Limited, New Delhi	Director
Somani Housing Private Limited, New Delhi	Director
Indo International Trading FZCO, Dubai	Director

The aforementioned mandates on the Boards of Directors of Northern Exim Pvt. Ltd., of Somani Housing Private Limited and of Indoit Real Estates Limited are intragroup mandates of the same corporate group.

Other mandates held by members of the Executive Board of SKW Stahl-Metallurgie Holding AG in financial year 2015

Ms. Kauper held the following mandates outside the SKW Metallurgie Group in financial year 2015:

- Kapsch Traffic Com AG, with its registered office in Vienna (Austria), member of the Supervisory Board (appointed on August 22, 2011, re-elected on September 1, 2014)

Dr. Michel did not hold any mandates outside the SKW Metallurgie Group in financial year 2015.

The Executive Board members held the following mandates within the SKW Metallurgie Group in financial year 2015:

Dr. Kay Michel

- Affival Inc., Chairman of the Board of Directors
- Affival SAS, Chairman of the Board of Directors (since 11/30/2015)
- SKW Quab Chemicals Inc., Member of the Board of Directors

- SKW Metallurgie USA Inc., Member of the Board of Directors
- ESM Group Inc., Chairman of the Board of Directors
- Jamipol Ltd., Member of the Board of Directors
- Tecnosulfur Sistema de Tratamento de Metais Liquidos S/A, Member of the Board of Directors
- SKW Tashi Metals & Alloys Private Ltd., Chairman of the Board of Directors
- SKW Metallurgie Asia Pte. Ltd. (since 12/17/2015)
- SKW France S.A.S., Chairman/Legal Representative (until 06/30/2015)

Sabine Kauper

- Affival Inc., Member of the Board of Directors (until 10/28/2015)
- SKW Quab Chemicals Inc., Member of the Board of Directors (until 10/28/2015)
- SKW Metallurgie USA Inc., Member of the Board of Directors (until 10/28/2015)
- ESM Group Inc., Member of the Board of Directors (until 10/28/2015)
- SKW Stahl-Metallurgie GmbH, Managing Director (until 10/28/2015)
- SKW Verwaltungs GmbH, Managing Director (until 10/28/2015)
- SKW Service GmbH, Managing Director (until 10/28/2015)
- Jamipol Ltd., Member of the Board of Directors (until 10/27/2015)
- Tecnosulfur Sistema de Tratamento de Metais Liquidos S/A, Member of the Board of Directors (until 11/15/2015)
- SKW Tashi Metals & Alloys Private Ltd., Member of the Board of Directors (until 10/31/2015)

(40) **Compensation of governing bodies**

All compensation structures in the SKW Metallurgie Group are guided by principles of appropriateness and performance orientation. This applies to both the salary structures of the employees and the compensation of the Executive Board and Supervisory Board.

In accordance with legal requirements, detailed information about the compensation of the Executive Board and Supervisory Board in the reporting period is presented in the following (Compensation Report):

I. Supervisory Board:

The compensation of the members of the Supervisory Board includes no compensation components oriented to the Company's performance numbers; instead, it is divided into the annual fixed compensation and attendance fees.

The annual fixed compensation is EUR 12 thousand for each member of the Supervisory Board; the Chairman receives 1.5 times and the Vice Chairman receives 1.25 times this amount.

Attendance fees are paid for in-person meetings. Every Supervisory Board member receives an attendance fee of EUR 1 thousand for meetings of the full Supervisory Board. Every committee member receives an attendance fee of EUR 1 thousand for committee meetings; the Chairman receives 1.5 times this amount. Accordingly, the following total amounts were expended on the compensation of the Supervisory Board in financial year 2015:

In euro thousands	**Fixed compensation***	**Attendance fees**	**Total**
Armin Bruch	12	9	21
Reto Garzetti	7	6	13
Dr. Hans Liebler	11	4	15
Dr. Dirk Markus	2	0	2
Jochen Martin	15	9,5	24,5
Jutta Schull	12	5.5	17.5

Titus Weinheimer	18	6.5	24.5
Total	**77**	**40,5**	**117,5**

*Provisions for the activity of the Supervisory Board in 2015; these amounts are paid in 2016.

In accordance with Articles 12 of the Company's Articles of Association, Supervisory Board members receive reimbursement of their necessary expenditures in addition to the compensation presented above. In financial year 2015, these expenditures consisted of travel and hospitality expenses, which were reimbursed at the maximum amounts allowed by the German Income Tax Act.

As in prior years, the Company assumed the expenses for a D&O insurance policy that protects the members of the Executive Board and Supervisory Board and other senior managers of the Company. In accordance with the provisions of the German Corporate Governance Code, a deductible of 10% of any claim, up to an amount equal to one and a half times the fixed annual compensation, was agreed as part of the D&O insurance policy for the members of both the Executive Board and the Supervisory Board.

There are no loans, advances, or contingent liabilities in favour of Supervisory Board members.

The Company has made no pension commitments to the members of the Supervisory Board and their survivors.

All payments to members of the Supervisory Board included the additional sales tax, where applicable, and did not include any income tax withholdings, where applicable.

II. Executive Board:

In financial year 2015, the Executive Board was composed of Dr. Kay Michel (CEO) and, in the time until October 31, 2015, Ms. Sabine Kauper (CFO).

The compensation of the members of the Executive Board is oriented to the tasks and individual contributions of each Executive Board member to the Group's overall success. Other benchmarks considered for this purpose were the size and activity of the Company, its economic and financial condition, and the amount and structure of Executive Board compensation at comparable companies. Agreements with Executive Board members for the event of an early termination of Executive Board activity completely fulfilled the requirements of the German Corporate Governance Code at the reporting date.

At the reporting date, no agreements were in effect with Executive Board members for the event of a change of control resulting from a takeover offer.

As a matter of principle, the compensation of the Executive Board consists of non-success-dependent and success-dependent components.

The **non-success-dependent compensation** includes the annual fixed compensation, which is established for the full term of the Executive Board member's appointment, calculated pro rata temporis for every started calendar year, and paid every month as a salary. In addition, Executive Board members receive in-kind compensation, which is established in the amount of the individually taxable values and to which every member is entitled in the same amount, as a general rule. In-kind compensation mainly consists of the company car made available to Executive Board members also for private use, for which each Executive Board member pays tax individually, and the occupational-specific insurance premiums, which were either not counted as income or taxed at a flat rate in accordance with the German Income Tax Act. In financial year 2015, the Company particularly assumed the expenses for a D&O insurance that protects the members of the Executive Board and Supervisory Board, as well as other senior managers of the Company. In accordance with Section 93 (2) (3) AktG and the provisions of the German Corporate Governance Code, a deductible of 10% of any claim, up to an amount equal to one and a half times the fixed annual compensation, was agreed as part of the D&O insurance policy for the members of both the Executive Board and the Supervisory Board. Due to their exemption from obligatory participation in the statutory pension and unemployment insurance scheme, no contributions to the statutory pension and unemployment insurance scheme are deducted from the compensation of Executive Board members; therefore, the Company also does not pay the corresponding employer contributions.

The **success-dependent compensation** of the Executive Board is based on a Groupwide management bonus system. In the framework of this system, targets are defined particularly with respect to the Group's financial performance indicators and the Executive Board members' personal performance, at the beginning of the financial year; in addition, a maximum bonus amount is defined. The degree of target attainment and therefore the bonus amount are determined at the end of the financial year. Due to the Company's special situation (restructuring phase), the Supervisory Board considers it possible and expedient to waive the multiyear assessment base (within the meaning of Section 87 (1) (3) AktG) for financial year 2015.

In connection with the departure of Ms. Kauper from the Company's Executive Board, the Company entered into a termination agreement with her. Under this agreement, all claims of Ms. Kauper for the year 2015 were settled and satisfied with final effect; all compensation components are presented below.

The affected companies do not pay compensation to members of the Group Executive Board for mandates held with consolidated subsidiaries. Members of the Group Executive Board also serve on the board of the non-consolidated company Jamipol; Jamipol paid attendance fees for board meetings attended in financial year 2015, but these amounts have no longer gone to the members of the Group Executive Board since 2015.

No expenses were incurred in financial year 2015 for Executive Board compensation for financial year 2014.

Beyond the detailed information on the compensation of the Company's Executive Board members, no advances, loans or contingent liabilities were extended in favour of Executive Board members.

The following total amounts were expended for Executive Board compensation in financial year 2015 (the non-cash benefit is presented for in-kind compensation):

EUR'000	**Dr. Kay Michel (full year)**	**Sabine Kauper (until October 31, 2015)*** **	**Total**
Fixed compensation	380*	233*	613
In-kind compensation (company car)	13	6	19
Grants for healthcare and nursing care insurance	4	3	7
Variable compensation for 2015**	455	275	730
Total	**852**	**517**	**1,369**

*Including the pension component, which included a cash settlement of EUR 80 thousand for Dr. Michel and life insurance premiums of EUR 80 thousand for Ms. Kauper.

** Paid partially in advance for Ms. Kauper in accordance with the termination agreement discussed in the text, otherwise a provision for Dr. Michel and Ms. Kauper; these amounts will be paid in 2016.

III. Former members of the Supervisory Board and Executive Board:

The Company has extended pension commitments to the former Executive Board members Ines Kolmsee and Gerhard Ertl. The beneficiaries are entitled to a lifelong old-age pension from the time when they complete their 62nd year of life. The Company increases current pension benefits by 1% per year in accordance with the requirements of law. No further adjustment is made. The pension commitment includes the option of early retirement starting from the 60th year of life (in which case the pension benefit is reduced accordingly), as well as disability and survivor’s benefits. The pension commitments are contractually vested. Insofar as the statutory vesting conditions are also met, the pension commitments are protected against the Company’s insolvency by the Pension Protection Fund (Pensions-Sicherungs-Verein); the Company pays the premiums for the protection against insolvency. No pension benefits were payable in financial year 2015. Calculated in accordance with the German Commercial Code (HGB), the expenses incurred in 2015 for the pensions of former Executive Board members (excluding incidental expenses such as the actuarial report, contributions to the Pension Protection Fund, etc.) amounted to EUR 689 thousand, of which EUR 469 thousand for Ms. Kolmsee and EUR 220 thousand for Mr. Ertl; calculated in accordance with IFRS, these expenses amounted to EUR 118 thousand, of which EUR 80 thousand for Ms. Kolmsee and EUR 38 thousand for Mr. Ertl.

The settlement amount (HGB) for the pension commitment to Mr. Ertl and his survivors was EUR 1,159 thousand at the reporting date (PY: EUR 938 thousand).

The settlement amount (HGB) for the Company’s pension commitment to Ms. Kolmsee and her survivors was EUR 2,318 at the reporting date (PY: EUR 1,850 thousand).

The SKW Metallurgie Group has made no pension commitments to any other former members of the Company’s Executive Board and Supervisory Board and their survivors.

(41) The **notifications pursuant to Section 160 (1) (8) AktG** received by the Company are presented in Appendix III to the notes.

(42) The **auditor’s fee** charged in 2015 amounted to EUR 245 thousand (PY: EUR 145 thousand). It covered auditing services in the amount of EUR 183 thousand and other consulting services in the amount of EUR 62 thousand.

(43) **Declaration of Conformity for financial year 2015**

In accordance with Section 161 AktG, the Executive Board and Supervisory Board of SKW Stahl-Metallurgie Holding AG issued their annual Declaration of Conformity with the Recommendations of the "Government Commission for the German Corporate Governance Code" on December 16, 2015 and made it permanently accessible to the public on the Company's website (www.skw-steel.com).

(44) **Obligation to prepare consolidated financial statements**

As the parent company of the SKW Stahl-Metallurgie Group, SKW Stahl-Metallurgie Holding AG prepares consolidated financial statements according to IFRS, as they are to be applied in the EU, for both the smallest group and the largest group of companies according to Section 315a (1) HGB. The consolidated financial statements and the Group management report, which is combined with the management report of SKW Stahl-Metallurgie Holding AG, are published in the German language in the Federal Gazette (Bundesanzeiger) and filed with the Commercial Register.

(45) The Executive Board issued the declarations required by the German Commercial Code (Section 264 (2) (3) HGB) ("responsibility statement") on the separate financial statements of SKW Stahl-Metallurgie Holding AG and the consolidated financial statements of the SKW Metallurgie Group for financial year 2014 and published them in the Federal Gazette and filed them with the Commercial Register on May 5, 2015 (consolidated financial statements) and April 30, 2015 (separate financial statements).

The Executive Board issued the declarations required by the German Securities Trading Act ("responsibility statement") on the semi-annual report of the SKW Metallurgie Group for the first half of financial year 2015 and filed them with the Commercial Register.

The Executive Board will issue the declarations required by the German Commercial Code ("responsibility statement") on the separate financial statements of SKW Stahl-Metallurgie Holding AG and the consolidated financial statements of the SKW Metallurgie Group for financial year 2015 concurrently with the signing of the said financial statements and will publish these declarations together with the said financial statements in the Federal Gazette and file them with the Commercial Register.

Unterneukirchen (Germany), March 11, 2015

SKW Stahl-Metallurgie Holding AG

Der Vorstand

Dr. Kay Michel

SKW Stahl-Metallurgie Holding AG, Unterneukirchen
Statement of Changes in Noncurrent Assets as of 12/31/2015 per HGB

		Acquisition Costs					Accumulated Depreciation, Amortization and Impairments				Carrying Amounts	
		01/01/2015	Acquisitions	Disposals	Reclassifications	12/31/2015	01/01/2015	Acquisitions	Disposals	12/31/2015	12/31/2015	12/31/2014
		EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
I. Intangible assets												
purchased licenses		1.033.083,35	503.799,20	0,00	0,00	1.536.882,55	946.803,35	153.740,20	0,00	1.100.543,55	436.339,00	86.280,00
Total I.		**1.033.083,35**	**503.799,20**	**0,00**	**0,00**	**1.536.882,55**	**946.803,35**	**153.740,20**	**0,00**	**1.100.543,55**	**436.339,00**	**86.280,00**
II. Property, plant and equipment												
1. Operational and office equipment		312.126,79	12.887,55	9.480,50	0,00	315.533,84	222.502,79	23.994,55	1.744,50	244.752,84	70.781,00	89.624,00
Total II.		**312.126,79**	**12.887,55**	**9.480,50**	**0,00**	**315.533,84**	**222.502,79**	**23.994,55**	**1.744,50**	**244.752,84**	**70.781,00**	**89.624,00**
III. Noncurrent financial assets												
SKW France S.A.S.	100,00%	399.744,32	0,00	399.744,32	0,00	0,00	0,00	0,00	0,00	0,00	0,00	399.744,32
SKW Stahl-Metallurgie GmbH	100,00%	1.901.603,85	0,00	0,00	0,00	1.901.603,85	0,00	0,00	0,00	0,00	1.901.603,85	1.901.603,85
SKW Quab Chemicals Inc.	90,00%	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SKW Metallurgie USA Inc.	100,00%	14.798.178,33	0,00	0,00	0,00	14.798.178,33	0,00	6.496.279,00	0,00	6.496.279,00	8.301.899,33	14.798.178,33
SKW Verwaltungs GmbH	100,00%	25.000,00	0,00	0,00	0,00	25.000,00	0,00	0,00	0,00	0,00	25.000,00	25.000,00
SKW Hong Kong Co. Ltd.	100,00%	45.366,43	0,00	0,00	0,00	45.366,43	0,00	0,00	0,00	0,00	45.366,43	45.366,43
SKW Tasi Metals & Alloys Priv. Ltd	51,00%	2.685.469,09	0,00	0,00	0,00	2.685.469,09	2.685.469,09	0,00	0,00	2.685.469,09	0,00	0,00
Tecnosulfur	66,60%	30.310.372,15	0,00	0,00	0,00	30.310.372,15	17.210.372,15	0,00	0,00	17.210.372,15	13.100.000,00	13.100.000,00
SKW Service GmbH	100,00%	25.000,00	0,00	0,00	0,00	25.000,00	25.000,00	0,00	0,00	25.000,00	0,00	0,00
Affival S.A.S.	100,00%	0,00	7.323.245,00	0,00	0,00	7.323.245,00	0,00	0,00	0,00	0,00	7.323.245,00	0,00
1. Interests in affiliated companies		50.190.734,17	7.323.245,00	399.744,32	0,00	57.114.234,85	19.920.841,24	6.496.279,00	0,00	26.417.120,24	30.697.114,61	30.269.892,93
SKW Quab Chemicals Inc.		2.321.380,43	0,00	0,00	0,00	2.321.380,43	0,00	0,00	0,00	0,00	2.321.380,43	2.321.380,43
ESM Group Inc.		27.966.837,91	0,00	0,00	0,00	27.966.837,91	0,00	357.877,00	0,00	357.877,00	27.608.960,91	27.966.837,91
SKW Tashi Metals & Alloys Priv. Ltd		23.909.947,95	0,00	0,00	0,00	23.909.947,95	23.909.947,95	0,00	0,00	23.909.947,95	0,00	0,00
2. Loans to affiliated companies		54.198.166,29	0,00	0,00	0,00	54.198.166,29	23.909.947,95	357.877,00	0,00	24.267.824,95	29.930.341,34	30.288.218,34
Total III.		**104.388.900,46**	**7.323.245,00**	**399.744,32**	**0,00**	**111.312.401,14**	**43.830.789,19**	**6.854.156,00**	**0,00**	**50.684.945,19**	**60.627.455,95**	**60.558.111,27**
Total		**105.734.110,60**	**7.839.931,75**	**409.224,82**	**0,00**	**113.164.817,53**	**45.000.095,33**	**7.031.890,75**	**1.744,50**	**52.030.241,58**	**61.134.575,95**	**60.734.015,27**

List of Shareholdings of SKW Stahl-Metallurgie Holding AG

Directly held interests (amounts in euro thousands)

Name	Registered office	Interest in %	Equity	Subscribed capital	Fiscal year net income/loss
Affival S.A.S. 4)	Solesmes, France	100	17.868	5.520	4.009
SKW Stahl-Metallurgie GmbH 1)	Unterneukirchen, Germany	100	2.730	25	0
SKW Metallurgie USA Inc. 2)	Wilmington, Delaware, USA	100	16.442	7.348	0
SKW Hong Kong Co. Ltd. 2)	Hong Kong, Hong Kong (SAR of PR China)	100	57	1	138
SKW Verwaltungs GmbH 3)	Unterneukirchen, Germany	100	-4.744	25	-375
SKW-Tashi Metals & Alloys Private Limited 7)	Phuentsholing, Bhutan	51	-346	63	-70
SKW Service GmbH	Unterneukirchen, Germany	100	-1.502	25	-8
Tecnosulfur Sistema de Tratamento de Metais Liquidos S/A	Sete Lagoas, Minas Gerais, Brazil	66,67	21.393	18.229	4.193

Indirectly held interests (amounts in euro thousands)

Name	Registered office	Interest in %	Equity	Subscribed capital	Fiscal year net income/loss
Affival Inc.	Williamsville, New York, USA	100	8.310	1	-866
Affival Korea Co Ltd.	Dangjin, South Korea	100	2.653	829	185
Affival KK	Tokyo, Japan	100	1.547	191	265
Affival Mexican Holdings LLC	Wilmington, Delaware, USA	100	-3	0	0
Affimex Cored Wire S. de R. L. de C.V.	Manzanillo, Colima, Mexico	100	-2.544	4	39
Affival Vostok OOO	Kolomna, Russia	100	-4.590	0	-1.169
Cored Wire Serviçios S. de R. L. de C.V.	Manzanillo, Colima, Mexico	100	68	3	9
ESM (Tianjin) Co. Ltd.	Tianjin, PR China	100	25	0	-130
ESM Group Inc.	Wilmington, Delaware, USA	100	-7.478	0	-10.604
ESM Metallurgical Products Inc.	Nanticoke, Ontario, Canada	100	5.428	1	1.167
Jamipol Ltd. 5)	Jamshedpur, India	30,22	13.826	1.562	4.197
SKW Celik Metalürji Üretim Ticaret Ve Sanayi Limited Sirketi 2)	Taksim, Beyoglu, Turkey	100	273	270	-3
SKW La Roche de Rame SAS. 6)	La Roche de Rame, France	100	N/A	3.160	N/A
SKW Metallurie Asia Pte. Ltd 8)	Singapore, Republic of Singapore	100	9.418	9.392	18
SKW Technology GmbH & Co. KG 6)	Tuntenhausen, Germany	51	1	575	-601
SKW Technology Management GmbH 6)	Tuntenhausen, Germany	51	6	25	-19
SKW Quab Chemicals Inc. 2)	Wilmington, Delaware, USA	90	5.104	46	-390
Tianjin Hong Long Metals Co. Ltd.	Tianjin, PR China	100	-114	293	-250

1) Profit/loss transfer agreement with SKW Stahl-Metallurgie Holding AG

2) Figure taken from the company's IFRS package because local financial statements were not available at the time of preparation of the present report.

3) SKW Verwaltungs GmbH maintains an „accredited representative office“ in Russia; its financial figures for 2015 are included in those of SKW Verwaltungs GmbH.

4) This company was merged with SKW France SAS on 01/01/2015.

5) This company's fiscal year (April 1 to March 31) is different from the calendar year. Therefore, up-to-date financial statements were not available on the reporting date. The income statement figures were translated at the average exchange rate for 2014 and the figures from the statement of financial position were translated at the exchange rate on December 31, 2014. For this reason, figures from the financial statements as of March 31, 2014 are presented in the List of Shareholdings.

6) In liquidation.

7) Insolvency initiated, last available figures 10/31/2015

8) Company formed on 17/12/2015

Shareholder structure and voting rights notifications

Shareholder structure

Holdings of SKW Metallurgie shares subject to the reporting requirement as per the German Securities Trading Act (3% or more of total voting rights) as of December 31, 2015 are presented in the table below. No single shareholder held an interest of 10% or more as of the reporting date.

Legal entities:

Name	Registered office	Holding	Share of equity held	Date	Comments
La Muza Inversiones	Madrid, Spain	240,322	3.67%	09/18/2014	
LBBW Asset Management Investmentgesell-schaft mbH	Stuttgart, Germany	331,599	5.067%	09/23/2010	
SE Swiss Equities AG	Zürich, Switzerland	328,820	5.024%	03/23/2015	

The voting rights notification of MCGM GmbH, München (Germany) published in December 2015 was replaced retroactively in February 2016 by a notice from another entity required to notify (correction report).

Private individuals:

Name	Holding	Share of equity held	Date	Comments
Dr. Olaf Marx	329,000	5.03%	12/17/2015	After the reporting date, but still prior to preparation of these notes to the consolidated financial statements, an increase to 12.03% (including assigned holdings)
Gerd Schepers	201,453	3.08%	02/10/2015	Fell below the minimum threshold after the reporting date, but still prior to preparation of these notes to the consolidated financial statements

After the reporting date, but still prior to preparation of these notes to the consolidated financial statements, an additional private individual provided notice of holdings initially in excess of 3%, then over 5%:

Name	Holding	Share of equity held	Date	Comments
Dr. Klemens Joos	422,855	6.46%	02/02/2016	

The shareholdings only relate to the stated date; any possible subsequent changes only have to be reported if a reporting threshold within the meaning of the Wertpapierhandelsgesetz (German Securities Trading Act) is reached or crossed.

The holdings stated can include attributable voting rights according to the German Securities Trading Act. As the same voting rights can, in certain cases, be assigned to more than one person, these voting rights may be included in more than one voting rights notification.

The members of the Executive and Supervisory Boards together held less than 1% of SKW Metallurgie's shares on December 31, 2015 and on the date these consolidated financial statements were prepared.

Voting rights notifications

In accordance with Section 160 (1) Sentence 1 No. 8 of the German Stock Corporations Act (AktG), the voting rights notifications received in 2015 are presented below in the original wording:

The voting rights notification of MCGM GmbH, München (Germany) published in December 2015 was replaced retroactively in February 2016 by a notice from another entity required to notify (correction report).

<u>Legal entities</u>:

La Muza Inversiones, SICAV, SA, Madrid (Spain):

A voting rights notification received in early January 2015 was published on January 9, 2015, but it refers to September 18, 2014 and was therefore already addressed in the 2014 consolidated financial statements.

SE Swiss Equities AG, Zürich (Switzerland):

<u>Notification as of February 5, 2015:</u>

In accordance with Sec. 21 (1) WpHG, SE Swiss Equities AG, Zurich (Switzerland) notified us that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 3% on February 5, 2015, and represented 3.025% of equity (equals 198,000 voting rights) on this date.

<u>Notification as of March 23, 2015:</u>

In accordance with Sec. 21 (1) WpHG, SE Swiss Equities AG, Zurich (Switzerland) notified us that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 5% on March 23, 2015, and represented 5.024% of equity (equals 328,820 voting rights) on this date.
Note: The corrected version published on March 25, 2015 is presented here; a preliminary version had been published on March 23, 2015.

Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Tübingen (Germany):

<u>Notification as of November 26, 2015:</u>

1. Details of the issuer:
   SKW Stahl-Metallurgie Holding AG, Rathausplatz 11, 84579 Unterneukirchen, Germany
2. Reason for notification:
   Other reason: Notification of holdings pursuant to Section 41 (4f) WpHG
3. Details of person subject to the notification obligation:
   Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Tübingen (Germany)
4. Different name of shareholders with 3% or more of voting rights: none
5. Date on which threshold was reached or crossed: 11/26/2015
6. Total positions:
   - Percentage of voting rights: new: 0.00%; last notification: 5.94%
   - Share of instruments: new: 0.00%
   - Total shares: new: 0.00%
   - Total number of voting rights: 6,544,930
7. Details of voting rights held (Sections 21 et seq. WpHG):
   - ISIN: DE000SKWM021
   - Number of directly attributed voting rights (Section 21 WpHG): 0

- Number of indirectly attributed voting rights (Section 22 WpHG): 0
- Total attributed voting rights: 0
- Percentage of directly attributed voting rights (Section 21 WpHG): 0.00%
- Percentage of indirectly attributed voting rights (Section 22 WpHG): 0.00%
- Total percentage of attributed voting rights: 0.00%

8. Information in relation to the person subject to the notification obligation within the meaning of Section 25 (1) No. 1 WpHG:
   Person subject to the notification obligation (3.) is not controlled and does not itself control any other persons subject to the notification obligation holding directly or indirectly an interest in the (underlying) issuer (1.).

Note: Receipt and publication of the notification occurred in January 2016, but relates to the year 2015. The reason for the notification was not a change in the shares held, but rather a change in law.

Landkreis Biberach (and Kreissparkasse Biberach), Biberach/Riss (Germany):

<u>Notification as of November 26, 2015:</u>

1. Details of the issuer:
   SKW Stahl-Metallurgie Holding AG, Rathausplatz 11, 84579 Unterneukirchen, Germany
2. Reason for notification:
   Other reason: Notification of holdings pursuant to Section 41 (4f) WpHG
3. Details of person subject to the notification obligation:
   Landkreis Biberach, Biberach an der Riss (Germany)
4. Different name of shareholders with 3% or more of voting rights: none
5. Date on which threshold was reached or crossed: 11/26/2015
6. Total positions:
   - Percentage of voting rights: new: 0.00%; last notification: 3,07 %
   - Share of instruments: new: 0.00%
   - Total shares: new: 0.00%
   - Total number of voting rights: 6,544,930
7. Details of voting rights held (Sections 21 et seq. WpHG):
   - ISIN: DE000SKWM021
   - Number of directly attributed voting rights (Section 21 WpHG): 0
   - Number of indirectly attributed voting rights (Section 22 WpHG): 0
   - Total attributed voting rights: 0
   - Percentage of directly attributed voting rights (Section 21 WpHG): 0.00%
   - Percentage of indirectly attributed voting rights (Section 22 WpHG): 0.00%
   - Total percentage of attributed voting rights: 0.00%
8. Information in relation to the person subject to the notification obligation within the meaning of Section 25 (1) No. 1 WpHG:
   Complete chain of subsidiaries beginning with the highest controlling person or the highest controlling company:
   - Landkreis Biberach, voting rights: -
   - Kreissparkasse Biberach, voting rights: 0.00%

Note: Receipt and publication of the notification occurred in January 2016, but relates to the year 2015. The reason for the notification was not a change in the shares held, but rather a change in law.

Private individuals:

Mr. Gerd Schepers:

Notification as of February 10, 2015:

In accordance with Sec. 21 (1) WpHG, Mr. Gerd Schepers, Singapore, notified us that his share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 3% on February 10, 2015, and represented 3.08% of equity (equals 201,453 voting rights) on this date.

Mr. Johannes Gruber:

Notification as of March 11, 2015:

In accordance with Sec. 21 (1) WpHG, Mr. Johannes Gruber, Austria, notified us that his share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, fell below the threshold of 3% on March 11, 2015, and represented 2.70% of equity (equals 176,592 voting rights) on this date. Of this number, 2.63% (equals 172,362 voting rights) is to be attributed to this person in accordance with Sec. 22 (1) (1) (1).

Dr. Olaf Marx:

Notification as of December 17, 2015:

1. Details of the issuer:
   SKW Stahl-Metallurgie Holding AG, Rathausplatz 11, 84579 Unterneukirchen, Germany
2. Reason for notification:
   Acquisition/sale of shares with voting rights
3. Details of person subject to the notification obligation:
   Dr. Olaf Marx
4. Different name of shareholders with 3% or more of voting rights: none
5. Date on which threshold was reached or crossed: 12/17/2015
6. Total positions:
   - Percentage of voting rights: new: 5,03 %
   - Share of instruments: new: 0.00%

- Total shares: new: 5.03%
- Total number of voting rights: 6,544,930

7. Details of voting rights held (Sections 21 et seq. WpHG):
   - ISIN: DE000SKWM021
   - Number of directly attributed voting rights (Section 21 WpHG): 139,000
   - Number of indirectly attributed voting rights (Section 22 WpHG): 190,000
   - Total attributed voting rights: 329,000
   - Percentage of directly attributed voting rights (Section 21 WpHG): 2.12%
   - Percentage of indirectly attributed voting rights (Section 22 WpHG): 2.90%
   - Total percentage of attributed voting rights: 5.03%
8. Information in relation to the person subject to the notification obligation within the meaning of Section 25 (1) No. 1 WpHG:
   Complete chain of subsidiaries beginning with the highest controlling person or the highest controlling company:
   - Dr. Olaf Marx, voting rights: -
   - MCGM GmbH, voting rights: 0.00 %

Independent Auditors' Report

We have audited the financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the joint management report for the company and the group of SKW Stahl-Metallurgie Holding AG, Unterneukirchen, for the year ended 31 December 2015. The maintenance of the books and records and the preparation of the financial statements and the joint management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the financial statements in accordance with Section 317 German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the 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 financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the financial statements and the management report are examined primarily on a sample basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and the 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 financial statements of SKW Stahl-Metallurgie Holding AG, Unterneukirchen, comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Without modifying our opinion, we draw attention to the explanations of management in the joint management report in section 1.4 "Long term financing arrangements for the SKW Metallurgie Group currently under negotiation", in their statements on opportunities and risks, and on the outlook concerning the financing risks to which SKW Stahl-Metallurgie Holding AG and the SKW Metallurgie Group are exposed. Management states that as a result of several breaches of the financial covenants in the syndicated loan agreement concluded in January 2015, the lending banks now have a contractual right to terminate the agreement. Management has therefore agreed a temporary waiver in respect of the termination up to 31 May 2016 in return for a fee. Management is currently conducting negotiations with the financing banks aimed at securing the syndicated loan agreement for the period from 1 June 2016 at more favourable terms. As Management states, existence as a going concern in 2016 and 2017 depends on the successful conclusion of the above negotiations. As things stand at present, Management estimates that the negotiations with the lending banks will be completed successfully by 31 May 2016, thus securing financing for SKW Stahl-Metallurgie Holding AG until at least the beginning of 2018 (term of the original agreement). Should the negotiations not be brought to a successful conclusion, SKW Stahl-Metallurgie Holding AG and the SKW Metallurgie Group would be specifically under threat as a going concern. Management also points out in the management report that any divergence from the assumptions underlying the business plan could have a significant impact on ability of the company and the group to continue as a going concern.

Munich, 23 March 2016

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Aumann	Signed: Tauber
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]