
**Growth with Substance**

Annual Report 2009

# The SKW Metallurgie World in Figures

| Key Figures | Unit | 2009 | 2008 |
|---|---|---|---|
| Revenues | EUR mill. | 220.6 | 377.8 |
| EBITDA | EUR mill. | -0.5 | 26.0 |
| EBITDA (adj.) | EUR mill. | 9.4 | 32.3 |
| EBIT | EUR mill. | -7.0 | 19.7 |
| EBT | EUR mill. | -9.5 | 17.0 |
| Consolidated net result (bef. min.) | EUR mill. | -5.1 | 9.9 |
| EPS (6,544,930 shares) | EUR | -0.77 | 1.54 |
| Gross margin | | 21.5% | 25.1% |
| EBITDA margin (adj.) | | 4.3% | 8.5% |
| Depreciation/amortization | EUR mill. | 6.6 | 6.4 |
| Employees (year-end) | | 715 | 516 |
| Operating Cash Flow | EUR mill. | 18.5 | 5.0 |
| | | Dec. 31, 2009 | Dec. 31, 2008 |
| Total assets | EUR mill. | 231.7 | 196.8 |
| Total Equity (incl. min.) | EUR mill. | 109.0 | 83.8 |
| Equity ratio (incl. min.) | | 47.0% | 42.6% |
| Net financial position | EUR mill. | 32.8 | 44.9 |

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# A World of Growth

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## The SKW Metallurgie Group:
## Production Plants and Corporate Headquarters


Solesmes,
France
Unterneukirchen,
Germany (Headquarters)
Kolomna, Russia
(under construction)
Tianjin (2),
PR China
Dangjin,
South Korea
Phuentsholing, Bhutan
(under construction)
Jamshedpur,
India (JV)
Toranagallu,
India (JV)

# Global Substance

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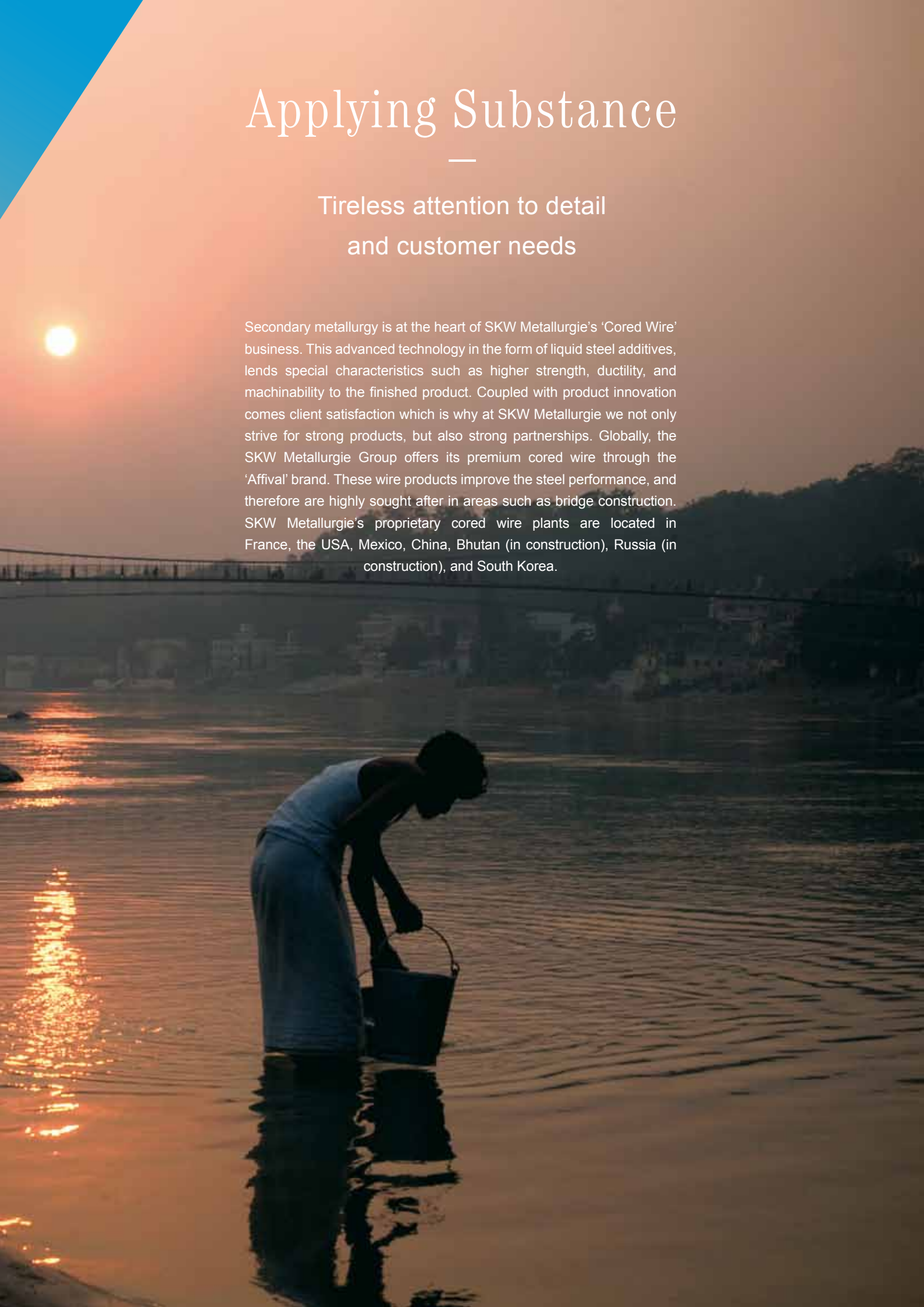
## Our actions speak louder than words

With decades of experience, the core of SKW Metallurgie's 'Powder and Granules' business lies in hot metal desulfurization. Due to its expertise, SKW Metallurgie can offer its clients custom-made solutions in all areas of this highly specialized process. Global hot metal desulfurization operations include SKW Metallurgie (Europe), ESM (USA), Jamipol (a joint venture: India) and more recently, Tecnosulfur (Brazil). In addition to these, our global reach over all segments extends to production facilities in Canada, Mexico, China, France, and South Korea, with our headquarters in Germany.

# Applying Substance

## Tireless attention to detail and customer needs

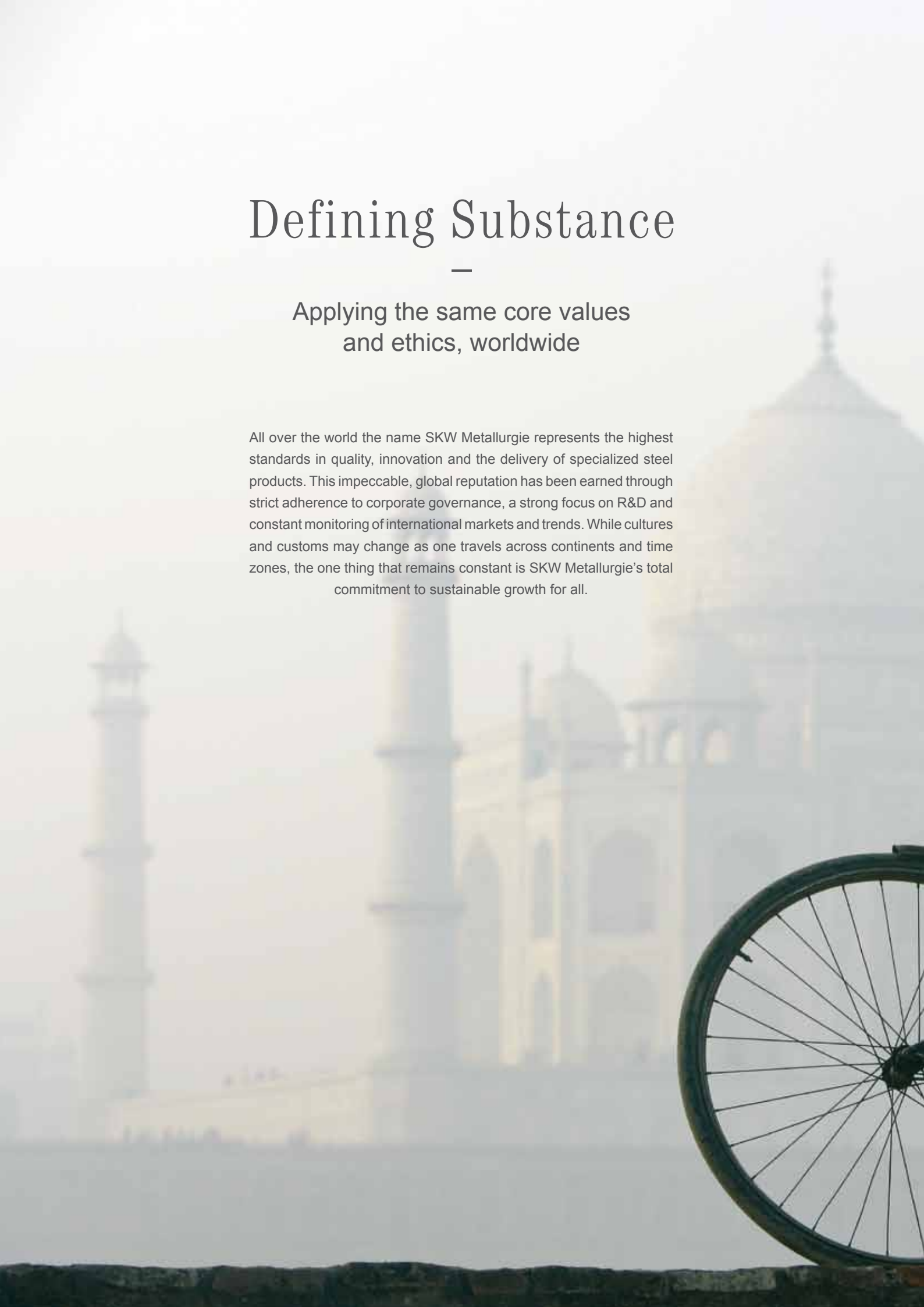
Secondary metallurgy is at the heart of SKW Metallurgie's 'Cored Wire' business. This advanced technology in the form of liquid steel additives, lends special characteristics such as higher strength, ductility, and machinability to the finished product. Coupled with product innovation comes client satisfaction which is why at SKW Metallurgie we not only strive for strong products, but also strong partnerships. Globally, the SKW Metallurgie Group offers its premium cored wire through the 'Affival' brand. These wire products improve the steel performance, and therefore are highly sought after in areas such as bridge construction. SKW Metallurgie's proprietary cored wire plants are located in France, the USA, Mexico, China, Bhutan (in construction), Russia (in construction), and South Korea.



# Defining Substance

## Applying the same core values and ethics, worldwide

All over the world the name SKW Metallurgie represents the highest standards in quality, innovation and the delivery of specialized steel products. This impeccable, global reputation has been earned through strict adherence to corporate governance, a strong focus on R&D and constant monitoring of international markets and trends. While cultures and customs may change as one travels across continents and time zones, the one thing that remains constant is SKW Metallurgie's total commitment to sustainable growth for all.



# Dear shareholders and business partners,

Business year 2009 was a mixed year for SKW Stahl-Metallurgie Holding AG. Despite the difficult underlying conditions, we succeeded in consistently pursuing our expansion in high-growth emerging nations.

We made significant progress with the construction of our new facility in Bhutan, which will go live in 2010.

Our acquisition of a majority interest in the Brazilian firm Tecnosulfur in December 2009 was also a key milestone. This move made us number one in hot metal desulfurization in Brazil, a country that experts believe is set to enjoy dynamic economic growth.

In addition, this transaction has allowed us to expand our market and technology leadership in multiple-method hot metal desulfurization beyond the borders of Europe, North America and India to South America. We are delighted that Tecnosulfur's dynamism has further strengthened our SKW Metallurgie Group since December 23, 2009.

In November 2009 we offered our shareholders new shares at a price of EUR 11.50 per share to finance this and other growth projects. The huge demand for these new shares shows us the clear trust that you, our dear shareholders, place in the SKW Metallurgie Group. Overall, 2,122,680 new SKW Stahl-Metallurgie Holding AG shares were issued in December 2009. These are distributed between the following two components:

- Approx. 1.6 million shares went to shareholders who realized their subscription rights in a ratio of 25:12 at an offering price of EUR 11.50 per share. This means that almost 75% of the share capital participated in the capital increase at a ratio of 25:12. This rate of participation is not due to a major or anchor shareholder, rather it is defined by the subscription requests of a large number of private and institutional investors in Germany and abroad.

- The remaining approx. 0.5 million shares were offered to existing shareholders as an 'oversubscription' (beyond the 25:12 ratio), again at a price of EUR 11.50 per share. SKW Metallurgie's shareholders reported an oversubscription interest for more than 2.0 million shares, thus oversubscribing the oversubscription almost fourfold.

The significant rise in the company's share price following the capital increase and the acquisition of Tecnosulfur underscores the fact that the capital markets are rewarding our expansion strategy. As a result, the shareholder value of SKW Metallurgie has again passed the EUR 100 million mark.

## Standing strong in difficult times

Despite these successes, 2009 was one of the most challenging years in the company's history. The sharpest global recession in 60 years left its mark on us as well and prevented us from matching the prior year's record figures. Nonetheless, given the drama we have witnessed and the collapse of the capital markets and of global trade, which no-one anticipated to this extent, we can consider ourselves as having escaped lightly. After all, our most important customer industry, the steel sector, recorded a decrease in production volumes of 48% last year. The decline was 43% in the sales regions of North America and Europe, which have been crucial to us to date. That's why it is no wonder that our consolidated revenues during the year under review of EUR 220.6 million were also more than 40% down versus prior-year levels. We succeeded in bringing our EBITDA roughly to the base line thanks to a very flexible cost structure with a high proportion of variable costs and the timely introduction of cost reduction measures. In fact, we would even have finished the year with a very positive result if we had not been hampered by raw

material inventories dating from prior to the financial crisis. This 'bad stock effect' accounted for EUR 7.3 million in EBITDA. Given the course of business year 2009 outlined above and in view of our upcoming investment projects, we have decided to propose to you, our valued shareholders, that no dividend be distributed for business year 2009 at our general meeting in June 2010..

## Outstanding financial position

Financially, our company is better positioned than ever before. This is thanks not only to proceeds from the capital increase, some of which has already been excellently reinvested in acquiring Tecnosulfur, but also to our consistent management of working capital. The net cash provided by operating activities in 2009 improved dramatically from EUR 5.0 million to EUR 18.5 million. As planned, the high cash flow was used to further erode our debt. Net financial debt was brought down by more than a quarter to EUR 32.8 million. This gives a debt ratio of 0.30, which is very low for a manufacturing company. The equity ratio (including minority interests) rose substantially from 42.6% to 47.1%.

Ines Kolmsee
CEO

## Huge potential for 2010 and beyond

We are facing the new business year with great confidence. Our optimism is based mainly on the improving economic environment, particularly in the steel industry. The most important indicator for our business development, namely the volume of steel production, is set to increase by more than 12% in the euro zone and by as much as 17% in North America. In addition, Tecnosulfur will make a significant contribution to sales and earnings. Also, in contrast with 2009 there are no foreseeable pressures from bad stocks for 2010 and subsequent years. Overall we anticipate EBITDA of at least EUR 20 million for the current 2010 business year, with much higher sales compared to 2009.

Looking ahead to business year 2011, we will then, as we have announced for some time now, aim to record operational EBITDA of approx. EUR 32 million as the world economy picks up. The SKW Metallurgie Group has taken advantage of the global crisis to put itself in an even stronger strategic position to achieve lasting and profitable growth. We are in an outstanding financial position and see an opportunity to dynamically expand this year and in the years ahead. We would never have achieved this without the commitment and huge flexibility of our employees, particularly during the difficult times that are hopefully now behind us. We would like to take this opportunity to warmly thank them. Also, our thanks naturally go to our customers, suppliers, commercial banks and other business partners for the trust they have placed in us and, most of all, to our shareholders.

Gerhard Ertl
CFO

Yours sincerely,

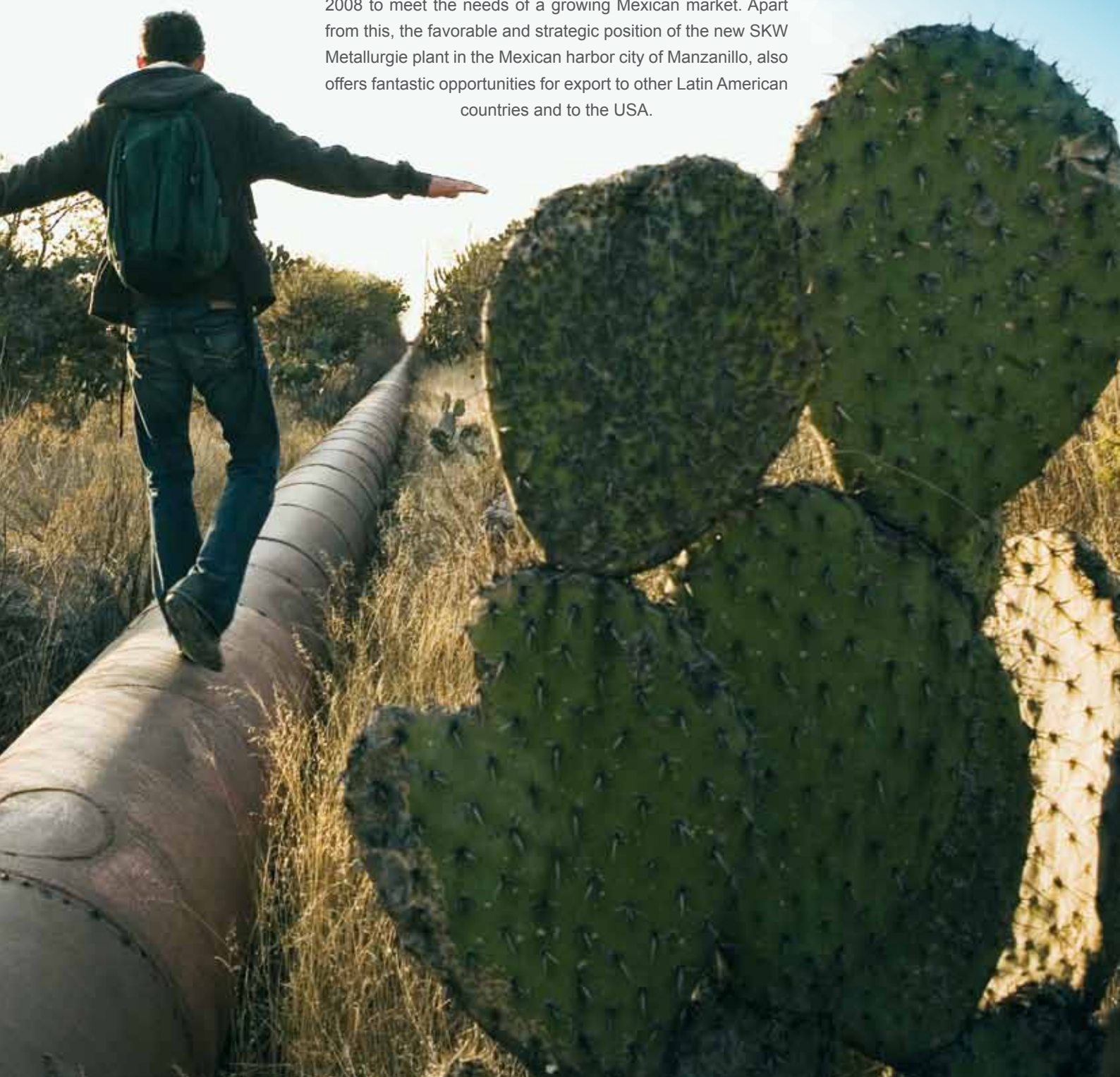
Unterneukirchen (Germany), March 2010

Ines Kolmsee  Gerhard Ertl

# Driving Substance

## Providing the global village with materials to grow

Travelling east to west, from Tianjin (China) to Manzanillo (in Mexico) you will not only come across our growth enabling products in many countries, but will also witness our continuing global expansion. One example of this expansion is the modern cored wire plant the SKW Metallurgie Group built in 2008 to meet the needs of a growing Mexican market. Apart from this, the favorable and strategic position of the new SKW Metallurgie plant in the Mexican harbor city of Manzanillo, also offers fantastic opportunities for export to other Latin American countries and to the USA.



# The SKW Metallurgie Share

## Stock market year 2009: Positive after a turbulent start

2009 was a very turbulent year on the stock market. In the first few weeks of the year through to the start of March, share prices came under massive pressure as a result of investors' concerns and insecurities resulting from the largest global recession in the past 60 years. The main German Index, DAX30, fell by more than a quarter from 4,810 to 3,589 points, hitting its low for the year on March 9, following a very weak year on the stock market in 2008. However, the mood on the stock markets changed in mid-March, driven by hopes that the global economy would soon stabilize, and also by positive signals from economic support programs from many governments. The DAX30 climbed constantly to close the year at 5,957 points, which meant that investors enjoyed growth of almost 24% over the entire year. Other key stock exchanges such as the Dow Jones in the US and Nikkei in Japan also enjoyed similarly positive growth. Smaller stocks, which suffered from comparatively low liquidity in 2008, were able to recover part of the losses they suffered in the previous year. For example, in a year-on-year comparison the MDAX lifted by 34%, and the SDAX, which also includes shares of SKW Metallurgie, grew by around 27%.

## SKW Metallurgie shares show significant annual growth

The performance of the German stock market indices is also reflected in SKW Metallurgie's share price in business year 2009. Companies which are sensitive to the economy, which for some investors also include the SKW Metallurgie Group, came under particularly strong pressure at the start of 2009. The share price thus fell substantially through to the start of March, from a closing price of € 10.98 at the end of 2008, reaching its low for the year at € 6.38 on March 4. This was a major collapse in the share price, but the share price turnaround was equally dynamic after the capital markets had calmed down again. The € 10 mark was reached in May, and in October the share price passed the € 15 mark. The high for the year was recorded on October 14 at € 15.57. At the end of the year, the capital increase in particular dominated SKW Metallurgie's share price. As part of this capital increase, more than 2.1 million shares were successfully placed with existing shareholders in November 2009. Interest in the new shares was so strong, that around 1.6 million shares were ordered as part of the subscription ratio alone in a ratio of 25:12. This is almost 75% of the share capital. The remaining 0.6 million shares were subscribed in oversubscription requests by shareholders for approx. 2.0 million shares; that means that the oversubscription was oversubscribed by almost four-fold. The shares were allocated at a shareholder-friendly price of € 11.50 per share. The first day of trading for the new shares was December 7. Without exception, SKW Metallurgie's share price has been higher than the issuing price of the new shares since the capital increase. This clearly indicates that the share is primarily regarded as being a longer-term, high value instrument, and not held for short-term speculation. Through to the closing price of € 14.30 on December 30, 200, all of the participants in the capital increase were able to enjoy very pleasing growth in their shares. Even without taking this transaction into account, SKW Metallurgie's share price lifted by more than 30% during the year under review.

## Market capitalization more than 100 million Euros after capital increase

The average daily trading volume has remained practically constant – at approx. 23,200 shares in 2009 compared to 25,000 shares in 2008. The significant increase in SKW Metallurgie's shares becomes particularly clear if we note that, at the same time, total turnover on German stock exchanges in 2009 fell by almost half in 2009. The company's market capitalization increased significantly at the end of the year as a result of the capital increase. The number of shares increased from around 4.4 million to more than 6.5 million, and thus totaled € 93.6 million on December 30, 2009 (end of 2008: € 48.6 million). The € 100 million mark was even passed on December 7, 2009. According to Deutsche Börse AG's statistics, shares of SKW Metallurgie ranked 89th (previous year: 105th) in terms of market capitalization at the end of December 2009, and 77th in terms of trading volume (previous year: 84th). This rating list includes Prime Standard companies that are not included in the TecDAX or DAX30. As a result, the importance of SKW Metallurgie's shares in the SDAX has also increased.

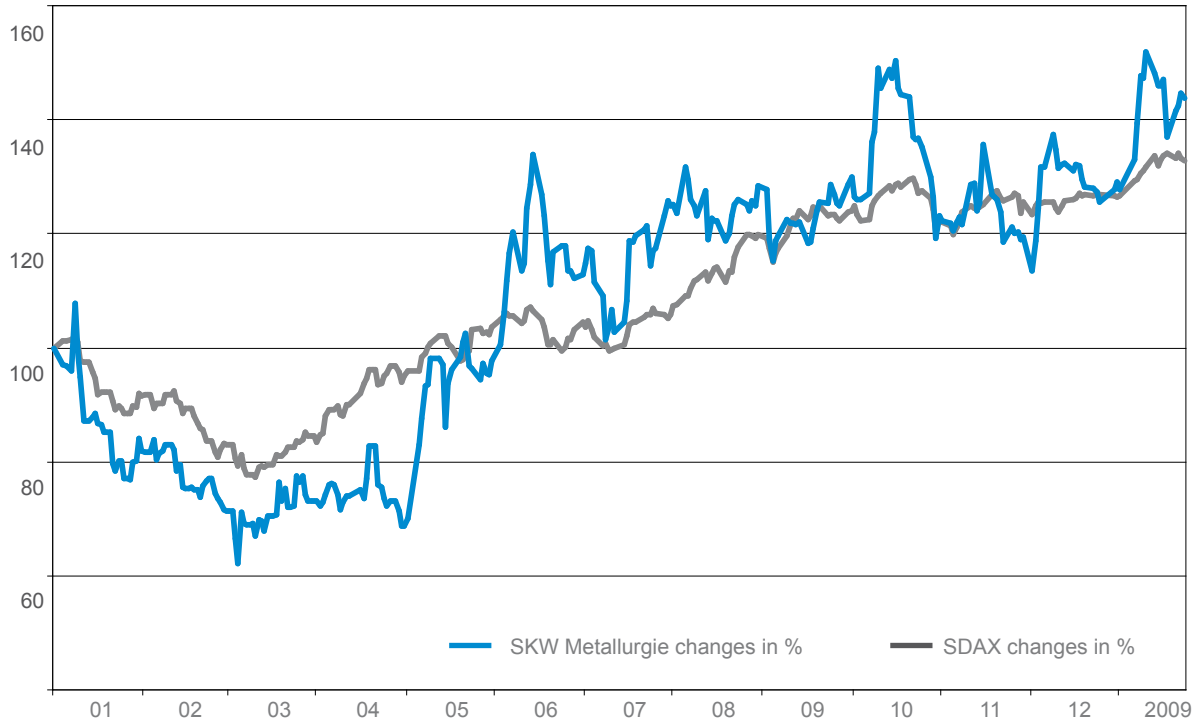
## SKW Metallurgie continues to enjoy 100% free float

According to Deutsche Börse AG's definition (holdings of less than 10% are, as a rule, free float), SKW Metallurgie's shares were also 100% free float at the end of 2009. At present, the company is not aware of any shareholders who hold at least 10% of voting rights. The banks engaged by the company for the technical processing of the capital increase only held short-term interests in the company of more than 10% in each case, however, these were reduced to 0% in December 2009. Shares of the SKW Metallurgie Group are mostly held by institutional investors from the United Kingdom, France, Spain, Switzerland, Germany and other industrial nations. Retail investors (mostly from Germany) account for around 30%. At the start of 2010, as detailed in the corporate governance report, the members of the Managing and Supervisory Boards of SKW Metallurgie held less than 1% of SKW Metallurgie's shares.

| KPIs for SKW Metallurgie's shares | 2009 | 2008 |
|---|---|---|
| Number of shares on Dec. 31 | 6,544,930 | 4,422,250 |
| Highest price | 15.57 € | 29.06 € |
| Lowest price | 6.38 € | 8.10 € |
| Closing price at year-end | 14.30 € | 10.98 € |
| Market capitalization at year-end | € 93.6 million | € 48.6 million |
| Share turnover per day (average) | 23,185 | 25,419 |
| Earnings per share (6,544,930 shares) | -0.77 € | 1.54 € |
| Dividend per dividend-entitled share (gross) | € 0.00 (proposal to general meeting) | 0.50 € |

| Master data for SKW Metallurgie's shares | |
|---|---|
| Stock exchanges | XETRA, floor trading, Frankfurt/Main (Germany) OTC at other German stock exchanges |
| German securities code no. (WKN) | SKWM01 |
| ISIN | DE000SKWM013 |
| Reuters symbol | SK1G.DE |
| Bloomberg symbol | SK1:GR |

Share price compared to SDAX indexed for 12 months: January 2 to December 30, 2009



## Higher dividend payment conceivable in 2011

In view of the weak earnings growth caused by economic developments, and the group's continued investments in high-growth markets, the SKW Metallurgie Group intends not to pay any dividends to its shareholders for business year 2009 (paid in 2010). A key principle for SKW Metallurgie is to allow its shareholders reasonable participation in the company's success. Accordingly, the Group – subject to the economic recovery which can currently be seen, and the company's positive growth to date in the current business year – is aiming to pay a dividend of at least at the same level as in 2007 and 2008 (payments in 2008 and 2009) for business year 2010 (paid in 2011), adjusted for the new number of shares. The General Meeting held in 2011 will resolve in this regard.

## Investor relations work intensified still further

The turbulence on the capital markets and the execution of the capital increase at the end of 2009 have lead to the company's investor relations work being further intensified in the year under review. Providing end-to-end, rapid and simultaneous information to all of the players on the capital markets is one of the key tasks for SKW Metallurgie's Managing Board. This is also reflected in the large number of roadshows and individual talks with investors in Germany and abroad. In view of a significantly increased market capitalization, a free float remaining at 100% and the continued international expansion of the Group, we expect for 2010 a continuously strong interest of the equity markets in the SKW Metallurgie share.

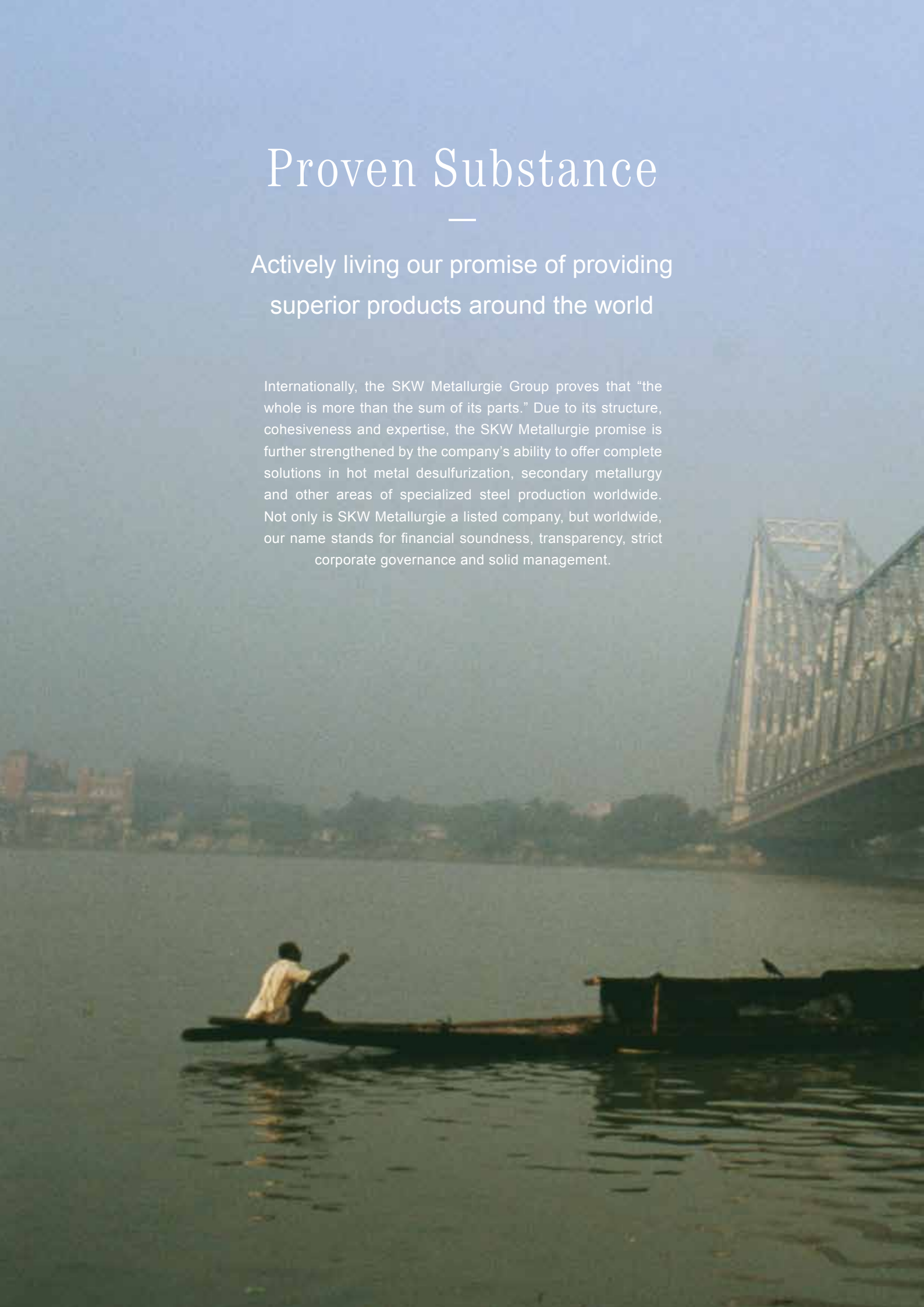
All of the information on SKW Metallurgie can also be found on the company's Web site (www.skw-steel.com). In addition, you may of course contact our investor relations department directly at any time:

SKW Stahl-Metallurgie Holding AG
Christian Schunck
Head of IR and Group Communications
Fabrikstrasse 6
84579 Unterneukirchen
Germany
Tel: +49 62720-IR (-47) (new number compared to last year)
Fax: +49 62720-16 (new number compared to last year)
ir@skw-steel.com
www.skw-steel.com

# Proven Substance

## Actively living our promise of providing superior products around the world

Internationally, the SKW Metallurgie Group proves that “the whole is more than the sum of its parts.” Due to its structure, cohesiveness and expertise, the SKW Metallurgie promise is further strengthened by the company’s ability to offer complete solutions in hot metal desulfurization, secondary metallurgy and other areas of specialized steel production worldwide. Not only is SKW Metallurgie a listed company, but worldwide, our name stands for financial soundness, transparency, strict corporate governance and solid management.



# Corporate Governance Report

## Management and control geared to long-term value added

Excellent corporate governance includes the responsible management and control of the company, geared to creating long-term value added. An efficient cooperation between the Managing and Supervisory Boards, clear regulations, upholding shareholders' interests as well as openness and transparency in corporate communication are key aspects of excellent corporate governance. SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany) is geared, both internally and externally, to the guidelines within the meaning of Section 161 of the AktG and regards corporate governance as being a process that is constantly further developed and improved.

The 2009 declaration of conformity for the corporate governance code within the meaning of Section 161 of the AktG has been made permanently accessible to shareholders since December 30, 2009 and is worded as follows:

**SKW STAHL-METALLURGIE HOLDING AG**

**GERMAN CORPORATE GOVERNANCE CODE**

**DECLARATION OF CONFORMITY BUSINESS YEAR 2009**

The Managing and Supervisory Boards of SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany) herewith declare that, in 2009, it met all of the recommendations of the German Corporate Governance Code Government Commission in the current version on the respective date, with the exception of the deviations described below, and that it intends to continue to do so in the remainder of business year 2009 and in business year 2010.

## Deviations with justification

### D&O insurance

No general deductible has been agreed for the D&O insurance for the Managing and Supervisory Boards, diverging from Item 3.8 of the code. However, there is a deductible for certain payment events, e.g., for insured events related to the US. The company will initiate further deductibles at least in the amount prescribed by law (with regard to the amount and date of introduction of the deductible).

### Managing Board's remuneration

As a rule, the Managing Board's remuneration is geared to the Code's recommendations, in particular Items 4.2.2 and 4.2.3. However, the current agreements with members of the Managing Board were concluded prior to the date on which the Code came into effect on August 5, 2009, and also the Act on the Suitability of Remuneration for the Managing Board. These agreements have multi-year terms. These agreements include the Managing Board's variable remuneration being determined by an EBTDA-based annual bonus and a virtual stock option program, which is based exclusively on the company's share price. There are no limits (caps) for any of these variable remuneration components. The company

ensures that the remuneration for its Managing Board is in line with all laws, in particular the Act on the Suitability of Remuneration for the Managing Board. With regard to contractual loyalty, further-reaching adjustments can only be made after the end of these agreements' terms.

### Age threshold

To date, in contrast to Items 5.1.2 and 5.4.1 of the code, no age limit has yet been defined for the members of the Managing and Supervisory Boards. According to prevailing opinion, this type of age threshold would not violate the German Equal Opportunities Act, in spite of this, however, the company attaches great value to not discriminating against anybody because of personal attributes such as age.

### Supervisory Board committees

The company's Managing Board has only formed one committee to date (the audit committee within the meaning of 5.3.2). As a result there is thus no standardization committee within the meaning of Item 5.3.3 of the Code. To date the company has not seen the need to form committees in its non-co-determined Supervisory Board, which only comprises six persons.

Unterneukirchen (Germany), December 14, 2009

For the Supervisory Board
SKW Stahl-Metallurgie Holding AG

Titus Weinheimer
Chairperson

For the Managing Board
SKW Stahl-Metallurgie Holding AG

Ines Kolmsee
Chairperson (CEO)

## State-of-the-art management and control structure

As a German Aktiengesellschaft (Public Limited Company), the company has a dual management and control structure. The members of the Managing Board are appointed by the members of the Supervisory Board and manage the group under their own responsibility. During the business year, the Managing Board comprised two members: Ines Kolmsee as CEO, and Gerhard Ertl as CFO. The Supervisory Board advises the Managing Board and monitors its management. At the start of the business year and through to the end of the General Meeting on June 4, 2009, the Supervisory Board comprised three members as shareholder representatives: Titus Weinheimer (Chairman), Dr. Friedrich Trautwein (Deputy Chairman) and Dr. Wolfgang Ziegler. This meeting agreed to increase the company's Supervisory Board from three to six members. This became effective when it was entered in the commercial register on June 15, 2009. The General Meeting elected the following persons to the company's new Supervisory Board: Sabine Kauper, Armin Bruch, Dr. Dirk Markus, Jochen Martin, Dr. Christophe Schlünken and Titus Weinheimer. For the first time, the shareholders of SKW Stahl-Metallurgie Holding AG appointed a deputy member of the Supervisory Board: In the event that a member of the Supervisory Board leaves this executive body, according to the resolution of the General Meeting dated June 4, 2009 Dr. Claus Ritzer will take their place.

In the inaugural meeting of the new Supervisory Board, it elected Titus Weinheimer as its Chairman and Jochen Martin as its Deputy Chairman. Further information on the members of the Managing and Supervisory Boards and their mandates in the supervisory bodies of other companies can be found in the notes to the consolidated financial statements. During the year under review, the Supervisory Board resolved to further professionalize its work by setting up committees. The Audit Committee met twice in this regard in 2009. Structural details on the work of the Managing and Supervisory Boards are defined in the bylaws for the Managing Board and the bylaws for the Supervisory Board.

The General Meeting of shareholders met once during the year under review, at the ordinary General Meeting on June 4, 2009 in Muenchen (Germany). The General Meeting resolves, for example, on the company's Articles of Incorporation, it has only passed on authority to make editorial changes to the Supervisory Board.

## Managing and Supervisory Boards participate in the company

During the business year, the company received notices within the meaning of Section 15a of the Wertpapierhandelsgesetz (WpHG – Germany Securities Trading Act) ("Directors' Dealings"). The full wording of these notices is published at www.skw-steel.com.

In addition, the company requested information from the members of its Managing and Supervisory Boards on their equity interests in the company that are not covered by Section 15a of the WpHG. This relates, for example, to initial stocks, which were already held on the date of election to an executive body of the company, or transactions which do not carry a reporting requirement as Directors' Dealings as part of the de minimis regulation.

As a result, the Managing and Supervisory Board's total holdings of shares of the company on December 31, 2009 was as follows:

| Name | Function | Number of shares |
|---|---|---|
| Ines Kolmsee | CEO | 14,652 |
| Gerhard Ertl | CFO | 4,400 |
| Dr. Dirk Markus | Member of the Supervisory Board since June 4, 2009 | 2,300 |

As a result, on the balance sheet date, a total of 21,352 shares of SKW Metallurgie were held by members of the Managing and Supervisory Boards. The 1% threshold within the meaning of Item 6.6. of the German Corporate Governance Code was thus not reached.

The remuneration for members of the Managing and Supervisory Boards which is geared to the share price is described in the remuneration report.

# Remuneration report

## Performance-related remuneration structure

The compensation structures in the entire SKW Metallurgie Group are governed by the principles of appropriateness, performance and transparency. This primarily applies to compensation for the Managing Board and Supervisory Board. The Managing and Supervisory Boards consciously did not propose to the General Meeting the waiver of detailed publication of the Managing Board's remuneration allowed under Item 4.2.4 of the German Corporate Governance Code. In detail, the compensation of the Managing and Supervisory Boards comprises the following components:

### 1. SUPERVISORY BOARD:

### 1.1 MEMBERS OF THE SUPERVISORY BOARD BOTH THROUGH TO THE END OF THE GENERAL MEETING ON JUNE 4, 2009 AND ALSO AFTER THE END OF THE GENERAL MEETING ON JUNE 4,2009:

According to Article 12 of the Articles of Incorporation, the members of the Supervisory Board are reimbursed for their necessary out-of-pocket expenses. During the period under review these related to travel and entertainment costs, which were refunded up to a maximum of the amounts according to German income tax law. Members of the Supervisory Board receive compensation for their out-of-pocket expenses plus the VAT due on these amounts.

In addition, the company bore the cost of D&O insurance, which protects members of the Managing and Supervisory Boards and other company executives. This comprised two policies (basic insurance and additional insurance). The total premium for the persons named amounted to EUR 65 thousand during the business year.

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

The Chairman of the Supervisory Board and the law firm with which he works advise the SKW Metallurgie Group. These consulting services started before the Chairman of the Supervisory Board was appointed to the Supervisory Board, and the Supervisory Board approved these activities when he commenced his activities with the company within the meaning of Section 114 of the AktG. In this connection, a one-off value increase lump sum of EUR 35 thousand became due.

The members of the Supervisory Board did not hold any shares of the company on the balance sheet date.

The further remuneration components changed as a result of the resolution by the General Meeting on June 4, 2009 with effect from this date. These are presented below, broken down into remuneration for members of the Supervisory Board through to the end of the General Meeting on June 4, 2009 (section 1.2.) and members of the Supervisory Board after the end of the General Meeting on June 4, 2009 (section 1.3).

### 1.2 MEMBERS OF THE SUPERVISORY BOARD THROUGH TO THE END OF THE GENERAL MEETING ON JUNE 4, 2009:

The compensation of the Supervisory Board was determined by the Annual General Meeting of June 18, 2007 as follows: This resolution dated June 18, 2008 was rescinded by the General Meeting on June 4, 2009 with the condition that the rescinded resolution continued to apply for the period through to the end of the ordinary General Meeting on June 4, 2009; the resolution dated June 18, 2007 was worded as follows:

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

Each member of the Supervisory Board receives annual fixed remuneration of EUR 10,000. Each member of the Supervisory Board receives annual fixed remuneration of EUR 15,000.

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

As a result, the following amounts were paid based on this resolution, and the following provisions were formed:

| EUR | Fixed compensation | Variable compensation* | Total |
|---|---|---|---|
| Titus Weinheimer | 15,000 | 3,000 | 18,000 |
| Dr. Friedrich Trautwein | 10,000 | 3,000 | 13,000 |
| Dr. Wolfgang Ziegler | 10,000 | 3,000 | 13,000 |
| **Total** | **35,000** | **9,000** | **44,000** |

*: The variable remuneration is due in full to meeting fees, the company's share price performance did not lead to any further variable remuneration..

Provisions totaling EUR 41,000 had already been formed for these payments in 2008, as discussed in the previous year's remuneration report.

As a result, all of the remuneration claims for members of the Supervisory Board have been fulfilled through to the end of the General Meeting on June 4, 2009.

### 1.3 MEMBERS OF THE SUPERVISORY BOARD AFTER THE END OF THE GENERAL MEETING ON JUNE 4, 2009:

The General Meeting on June 4, 2009 elected Titus Weinheimer (re-election), Dr. Dirk Markus and Dr. Christoph Schlünken to the company's Supervisory Board. This meeting agreed to increase the company's non co-determined Supervisory Board from three to six members. This became effective when it was entered in the commercial register. The General Meeting on June 4, 2009 elected Sabine Kauper, Armin Bruch and Jochen Martin to the company's thus enlarged Supervisory Board. In addition, the General Meeting on June 4, 2009 elected Dr. Claus Ritzer as a deputy member of the Supervisory Board. The deputy member receives no remuneration. In the inaugural meeting of the new Supervisory Board, it elected Titus Weinheimer as its Chairman and Jochen Martin as its Deputy Chairman. In addition, the Supervisory Board resolved to set up committees. However only the audit committee met during the year under review (for the first time on October 22, 2009).

The General Meeting on June 4, 2009 passed the following resolution on remuneration for members of the Supervisory Board:

„1. In addition to reimbursement of their out-of-pocket expenses, the members of the Supervisory Board receive fixed annual remuneration of EUR 10,000 per member. This is paid in each case on the day after the Ordinary General Meeting which resolves on the ratification of the Supervisory Board.

2. In addition, each member of the Supervisory Board receives variable remuneration, which is broken down as follows:

   Remuneration based on short-term company profits ("Variable Remuneration 1"):

   Each member of the Supervisory Board receives remuneration based on the company's short term profits of 0.03% of the SKW Metallurgie Group's EBT (earnings before taxes). The EBT is derived, in each case, from the last audited consolidated financial statements for the respective business year. As a result, the audited IFRS results apply. Variable Remuneration 1 is paid in each case after the company's Ordinary General Meeting which resolves on the Supervisory Board's ratification. Variable Remuneration 1 totals a maximum annual amount of EUR 5,000.00.

   Remuneration based on long-term company profits ("Variable Remuneration 2"):

   Each member of the Supervisory Board receives remuneration based on the company's long-term success. According to the following provisions, the amount of this remuneration is governed by the relative performance of SKW Metallurgie's shares compared to Deutsche Börse AG's SDAX index (or successor index, hereinafter "SDAX"), and which is only to be paid out after the end of the Supervisory Board's full period of office. In order to calculate the Variable Remuneration 2, the average of the closing prices of SKW Metallurgie's shares in XETRA (or a successor system) and the SDAX closing price of the last 30 trading days prior to the first day of the period of office and the last day of the period of office (comparable period) are compared with each other and the percentage change is determined. Subject to SKW Metallurgie's share price performance being positive at the end of the comparable period, and the identified percentage change in the price of SKW Metallurgie's shares at the end of the comparable period being greater than the percentage change in the SDAX, Variable Remuneration 2 totals EUR 5,000.00 for each member of the Supervisory Board. The period of office for the entire Supervisory Board is used to calculate Variable Remuneration 2. Variable Remuneration 2 is paid on the day after the company's Ordinary General Meeting which ends together with the Supervisory Board's period of office.

3. The Chairman of the Supervisory Board receives 1.5 times, and each Deputy receives 1.25 times the amounts to be granted under paragraph 1.

4. In addition to the remuneration under paragraphs 1 and 2, each member of a committee also receives a meeting fee of EUR 500.00 per committee meeting. The Chairman of a committee receives twice the meeting fee.

5. Compensation is paid to the Supervisory Board with any VAT incurred on such a payment.

6. Members of the Supervisory Board who only belonged to the Supervisory Board or a committee for part of the business year or the electoral period receive pro-rata remuneration for each commenced month of their activities (fixed and variable remuneration). If a member of the Supervisory Board joins or leaves the Board during the year, this neither impacts the calculations for variable remuneration nor the due date for the remuneration.

7. This resolution applies for remuneration for the Supervisory Board starting after the end of the Ordinary General Meeting on June 4, 2009.

8. The remuneration for the period through to the end of the Ordinary General Meeting on June 4, 2009 is based on the resolution passed by the Ordinary General Meeting dated June 18, 2007 under agenda item 8 on the Supervisory Board's remuneration.

9. The resolution by the Ordinary General Meeting dated June 18, 2008 under agenda item 8 is cancelled.

As a result, the following amounts were paid based on this resolution, and the following provisions were formed:

| Euro | Fixed compensation | Variable remuneration* | Meeting fee | Total |
|---|---|---|---|---|
| Armin Bruch | 5,833 | 1,271 | | 7,104 |
| Sabine Kauper | 5,833 | 1,271 | 1,000 | 8,104 |
| Dr. Dirk Markus | 5,833 | 1,271 | 2,000 | 9,104 |
| Jochen Martin | 7,292 | 1,271 | 1,000 | 9,563 |
| Dr. Christoph Schlünken | 5,833 | 1,271 | | 7,104 |
| Titus Weinheimer | 8,750 | 1,271 | | 10,021 |
| **Total** | **39,374** | **7,626** | **4,000** | **51,000** |

* This amount relates exclusively to the proportionate long-term variable remuneration. A provision for short-term variable remuneration was not formed due to the expected results in the business year.

### 1.4 FORMER MEMBERS OF THE SUPERVISORY BOARD;

There are no benefit commitments to exiting members of the company's Supervisory Board or their surviving dependents.

### 2. MEMBERS OF THE BOARD OF MANAGING DIRECTORS:

The tasks and contribution of each individual member of the Managing Board to the overall performance of the group were taken into account when determining the compensation of the Managing Board. In addition, in 2010 the Supervisory Board will in depth deal with the issue of "Managing Board Remuneration" and make any changes as necessary.

During the year under review, the Managing Board's remuneration comprised the following key components:

- Fixed compensation
- Variable compensation
- Non-cash compensation (company car)
- Subsidy to healthcare and nursing care insurance
- Employer-financed company pension (only for Mr. Ertl)
- Stock option plan

The components mentioned previously are explained in more detail below:

During the business year this totaled:

| EUR thousand | Ines Kolmsee | Gerhard Ertl | Total |
|---|---|---|---|
| Fixed compensation | 200 | 180 | 380 |
| Variable compensation | 0 | 0 | 0 |
| Non-cash compensation | 3 | 8 | 11 |
| Subsidy to healthcare and nursing care insurance | 2 | 4 | 6 |

The fixed compensation was paid monthly as a salary. The variable compensation comprises an EBTDA-based bonus payment agreed individually in each case. Installments were paid for these bonuses, calculations for the total bonus are based on the audited consolidated financial statements. Final installments are then paid for the bonus (in the amount of the difference between the bonus payment due and the installments already paid). The members of the Managing Board have a company car, which they can also use for private use. The non-cash benefit under payroll tax law was applied for this non-cash remuneration during the year under review. During the year under review, the company made payments to the members of the Managing Board for voluntary healthcare and nursing care insurance according to the Sozialgesetzbuch (German Social Code).

There is an employer-financed company pension for Mr. Gerhard Ertl; in the year under review EUR 19 thousand (IFRS) was allocated to the provision formed for this pension commitment. The provision had a value of EUR 125 thousand on the balance sheet date. This claim is secured against bankruptcy, the company bears the premiums for the bankruptcy insurance.

The members of the Managing Board participated in the SKW Metallurgie Group's stock option plan as follows in 2009:

During 2008, new programs, also in the form of phantom stocks, were set up for both the members of the Managing Board. These programs include several valuation cut-off dates. A weighted average XETRA closing rate is calculated over a 20-day period for each of these cut-off dates. The increase in share prices between two valuation dates gives the amount per phantom stock due to the member of the Managing Board. If the share price falls, this amount is zero. The members of the Managing Board each have 30,000 phantom stocks. As a rule, the beneficiaries can demand payment of the amount due to them in shares of the company. The option-giver has the right to fulfill the option holder's claims by making a cash payment instead of delivering shares. The program for Ines Kolmsee runs through to March 31, 2011, the program for Gerhard Ertl runs through to June 30, 2012. On the balance sheet date the provision for the option for Ms. Kolmsee totaled EUR 72 thousand, and EUR 129 thousand for Mr. Ertl. The program for Ines Kolmsee resulted in expenses of EUR 60 thousand in the year under review, and income from the reversal due to non-utilization of EUR 8 thousand. The programs for Gerhard Ertl resulted in expenses of EUR 129 thousand in the year under review.

In addition, the Managing Board received the following additional benefits during the year under review:

- As a rule, the members of the Managing Board of an Aktiengesellschaft (German public limited company) in Germany are released from the obligation to pay statutory pension and unemployment insurance; as a result, no corresponding employer contributions were made. The members of the Managing Board receive social and smaller non-cash benefits (e.g., accident insurance protection) to the extent prescribed by law in Germany, or which is standard for comparable employees. This only relates to benefits which, under German income tax law, neither classify as income nor are subject to lump-sum taxation.

- The members of the Managing Board were reimbursed for their necessary out-of-pocket expenses. During the period under review these related to travel and entertainment costs, which were refunded up to a maximum of the amounts according to German income tax law.

- In addition, the company bore the cost of D&O insurance, which protects members of the Managing and Supervisory Boards and other company executives. This comprised two policies (basic insurance and additional insurance). The total premium for the persons named amounted to EUR 65 thousand during the business year.

- Some of the non-European subsidiaries (including the Indian company Jamipol Ltd.) made payments to the members of the group's Managing Board for mandates they performed for these companies. This related to the following payments in the year under review:

  - Affival Inc., USA: Ines Kolmsee and Gerhard Ertl, each USD 2,000

  - SKW-Tashi Metals&Alloys Pvt. Ltd., Bhutan: Ines Kolmsee INR 40,000 and Gerhard Ertl INR 20,000

  - Jamipol Ltd., India: Ines Kolmsee, INR 36,186

There are no advances, loans or liabilities in favor of the members of the Managing Board. On the balance sheet date there were receivables from the members of the Managing Board totaling EUR 124 thousand (previous year: EUR 124 thousand). These are due to the advance bonus payment made in the third quarter of 2008. This service is planned and billed separately. As a result of the earnings performance during the business year, no bonus payments have been made to the members of the Managing Board since then.

In the event of a premature end to activities as a member of the Managing Board, there are the following agreements with Mr. Gerhard Ertl:

- Premature end from death: Salary continues to be paid to surviving dependents for a transitional period; this regulation is in line with standard practice for employees in Germany.

- Premature end for other reasons: Salary continues to be paid (fixed and variable remuneration) for the remaining duration of the contract with a maximum of two years.

There are no benefit commitments to exiting members of the company's Managing Board or their surviving dependents.

## Information on stock option programs and similar incentive systems

Item 7.1.3 of the corporate governance code stipulates that the corporate governance report should include concrete information on stock option programs and similar securities-oriented incentive systems at the company.

Corresponding details are provided in the remuneration report for members of the Managing and Supervisory Boards.

The corresponding information for the other participants are as follows:

Share-price based remuneration components were agreed with two executives during the course of 2008. A corresponding agreement was concluded with a further employee in 2009. As a result of the company-specific structure of this program, the subscription rights have a range of special features compared to standard options. These have to be taken into account when valuing the options. The number of SKW Metallurgie shares to be delivered on the cut-off date is determined based on the positive performance of SKW Metallurgie's shares since the last valuation date. No shares are delivered in the event of negative performance.

The option-giver has the right to fulfill the option holder's claims by making a cash payment instead of delivering shares. The company plans to use this right for the employee stock option program and to compensate the claims in cash. Performance on the delivery date is measured using the average closing price of the shares in XETRA trading weighted with the trading volume over a period of 20 trading days.

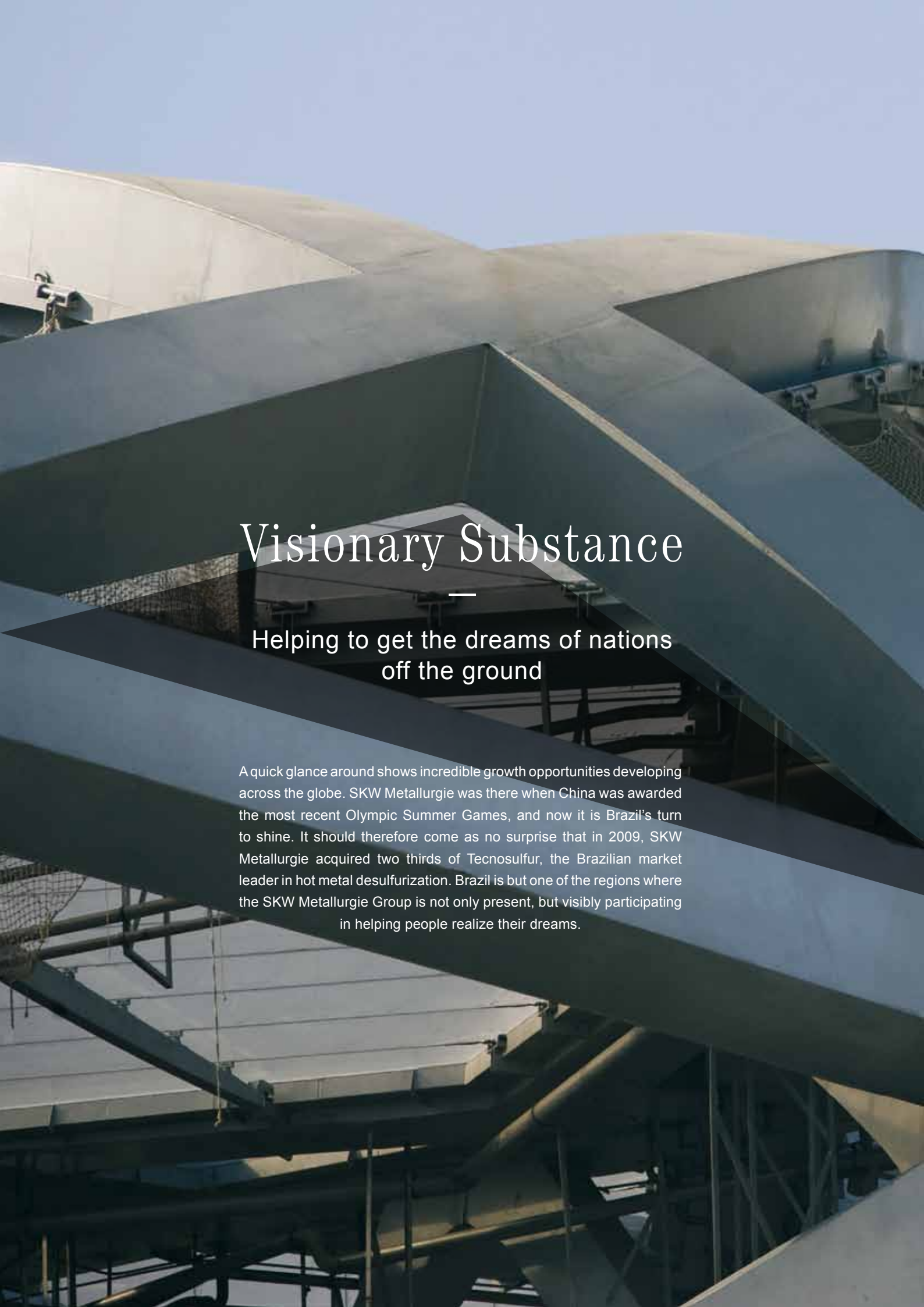
A Monte-Carlo simulation is used to value the subscription rights. During this valuation, a simulation of the log normal distributed process is conducted for the price of shares of SKW Metallurgie's shares, in order to be able to determine the share's performance between the valuation date and the price on the delivery date. The relevant average prices for measuring performance are simulated.

Further details on the stock option programs and their valuation can be found in the notes to the consolidated financial statements.

## Further information on corporate governance at SKW Metallurgie

Detailed information on the activities of the Supervisory Board and the cooperation between the Supervisory and Managing Boards can be found in the Report of the Supervisory Board.

Current developments and key information such as ad hoc disclosures, the financial diary, press releases and information on the General meeting are made available on the company's Web site www.skw-steel.com.



# Visionary Substance

## Helping to get the dreams of nations off the ground

A quick glance around shows incredible growth opportunities developing across the globe. SKW Metallurgie was there when China was awarded the most recent Olympic Summer Games, and now it is Brazil's turn to shine. It should therefore come as no surprise that in 2009, SKW Metallurgie acquired two thirds of Tecnosulfur, the Brazilian market leader in hot metal desulfurization. Brazil is but one of the regions where the SKW Metallurgie Group is not only present, but visibly participating in helping people realize their dreams.

# Combined management report of SKW Stahl-Metallurgie Holding AG and the SKW Stahl-Metallurgie Group for business year 2009

## Business and underlying conditions

### Positive signals in the global economy at the end of 2009

Business year 2009 was dominated by the negative impact of the largest global recession in the past sixty years. It had its roots in the financial crisis which has been making itself felt since the middle of 2008 and has had a massive impact on the economy, in particular in the industrialized world. Concerted interventions by key central banks, which slashed their base rates to practically zero percent, and global economic programs by all of the influential governments prevented the threatened collapse of the financial system. After pessimistic economic reports and a huge slump in order books, these activities ensured that the economies gradually bottomed out in the middle of 2009, and that positive growth could already be seen in many areas from the fourth quarter. In total, the International Monetary Fund (IMF) recorded a downturn in economic output of 0.8% for the global economy. However, the slump anticipated in mid-2009 was significantly more severe. The global economy split into two very different camps: Whereas industrial nations recorded a downturn of 3.2%, the economies in emerging and developing nations increased by 2.1%, and even by 6.5% in the relevant Asian countries. The US got off comparatively lightly, with a downturn of 2.5% in economic output. The Eurozone was hit by a stronger downturn (-3.9%), as several countries, such as Germany (-4.8%) suffered greatly as a result of their dependence on exports. This also applied to the Japanese economy, which was down 5.3%.

In contrast, the Chinese and Indian economies are enjoying very dynamic growth, despite the negative effects which are also felt in Asia. China's domestic product grew by 8.7% in 2009 – also thanks to end-to-end economic subsidies by its government. The IMF also reports dynamic growth of 5.6% for India. The up-and-coming Brazilian economy was very stable, with only a slight downturn of 0.4% in economic output. Of the so-called BRIC nations (Brazil, Russia, India and China), Russia had to suffer a substantial downturn of 9.0% as its economy is highly dependent on commodities.

In addition to economic programs and fiscal policy activities, there was also significant relief from the commodities side. The price of oil was down 36% and the prices of other commodities were almost 19% lower than the record-breaking prices in the previous year. This thus allowed consumer prices to be kept relatively stable in industrialized nations (+0.1%), in contrast these increased by 5.2% on average over the year in emerging nations. There were some severe fluctuations in exchange rates during the year. The EUR/USD exchange rate was 1.44 (USD to EUR 1), up only slightly on the exchange rate at the end of the previous year (1.39), however this fluctuated within a bandwidth of between 1.25 and 1.51. The British pound devalued significantly compared to the Euro in 2009 compared to 2008, and the Japanese Yen was able to increase significantly.

## Slump in steel demand lower than anticipated

The SKW Metallurgie Group[1] records more than 90% of its consolidated revenues with customers in the steel sector. Broken down into steel types, the SKW Metallurgie Group's top quality products tend to be used in higher-quality steels.

In geographic terms, more than 80% of revenues (translated to Euros) were recorded with customers in Europe and NAFTA countries (USA, Canada, Mexico) through December 2009. Since December 2009 (acquisition of the Brazilian company Tecnosulfur Sistema de Tratamento de Metais Liquidos S/A (hereinafter: "Tecnosulfur")), revenues from Brazilian customers have been added to this mix. The proportion of customers in emerging nations will continue to increase from 2010. The notes to the consolidated financial statements (Note D.29) include further details of the geographic breakdown of revenues in 2009; these figures include revenues from Tecnosulfur on a pro-rata basis.

In this regard, the steel price is not a critical factor for the SKW Metallurgie Group, but rather the quantity of steel produced.[2] Steel manufacturers typically store only small quantities of the SKW Metallurgie Group's products, with the result that a change in the quantities of steel produced has a direct impact on the quantities of the SKW Metallurgie Group's products demanded.

Steel production also shows the same peaks and troughs as the developments in the global economy in 2009. By the middle of the year, global steel production slumped by 21% compared to the record-breaking figures in 2008. In addition to the significant increase in the length of maintenance outages in the first half of the year for many steel producers, this was mainly the result of a downturn in demand, in particular in the automotive industry. There was a perceptible recovery towards the end of the year – driven by the gradual recovery in the global economy and extensive government economic programs, in particular for infrastructure projects. In December alone, production figures were up 13.4% year-on-year, however, the previous year's level was very low.

However, according to information from the World Steel Association, this still means that global steel production slumped by 8.0% to 1,219.7 million tons over the year as a whole.[3] This development is also reflected in global capacity improvement at steel manufacturers. Capacity improvement bottomed out in December 2008 at just 58.1%, and stabilized again by the end of 2009 at 71.5%. In regional terms, there was a clear split in 2009. China was able to further expand its dominant position as the world's leading steel nation. Chinese production increased by 13.5% to 567.8 million tons, and its share of the global market increased from 37.7% in 2008 to 46.6% in 2009. The proportion accounted for by BRIC nations climbed from 49.5% to 58.3%, although Russia and Brazil had to bear significant downturns. Developments in North America (-33.9%) and the Eurozone (-29.7%) were particularly dramatic. During the year under review, the quantities of steel produced in these regions (Eurozone and North America) were important for the SKW Metallurgie Group, and in addition, East Asia and India (via the Jamipol joint venture) were also key geographic markets. Since the two-thirds acquisition of Brazilian company Tecnosulfur in December 2009 (significant impact on revenues from 2010), Brazil is now also one of the SKW Metallurgie Group's core geographic markets. In 2010, the Group will expand its presence in the CIS nations[4] (Russia in particular) and India (over and above the existing joint venture) After completing the ongoing expansion projects, the SKW Metallurgie Group will be present in each of the top ten steel producing countries in terms of quantity, either with its own plant or a sales company.[5]

1 "SKW Metallurgie" is the brand for part of the Powder and Granules segment and also the brand of the group headed by SKW Stahl-Metallurgie Holding AG. The following section refers to the entire group as the "SKW Metallurgie Group".

2 The indirect impact of the steel price, e.g. from price elasticity of demand, is also low. The terms "demand for steel" and "steel production" are used with the same meaning in this report, as the differences (e.g., changes in producers' warehoused quantities) are comparatively meaningless.

3 These figures are based on the 66 countries which the Worldsteel Association analyzes and which account for more than 98% of global steel production

4 The Commonwealth of Independent States comprises the Russian Federation (Russia) and most of the other successor states from the former Soviet Union.

5 This is based on the top ten list published by Worldsteel on January 22, 2010. As a result of its close connections with Russia, Ukraine will be supplied by the SKW Metallurgie plant in Russia.

Although almost all of the SKW Metallurgie Group's customers slashed their production volumes in the first half of 2009 as a result of the economic and financial crisis, there were no cases of steel producers that the SKW Metallurgie Group supplies filing for bankruptcy or becoming the subject of company-specific government intervention. However, the steel industry and thus also indirectly the SKW Metallurgie Group profited from the general economic programs (e.g., wrecking premium {e.g. in the US: "Cash for Clunkers"} to promote demand for private cars).

Production increased again during the second half of year at almost all of the steel plants that SKW Metallurgie supplies, however this generally did not reach the record-breaking levels enjoyed in 2008 prior to the outbreak of the economic and financial crisis.

To summarize, the SKW Metallurgie Group's customers were engaged in a challenging industry environment for the entire year under review, even though there was a slight recovery in the second half of the year.

The group's most important customer industry outside the steel sector is industrial starch production (a pre-product for paper production), which it supplies with Quab specialty chemicals. Developments in this customer industry in the year under review were in line with the trends in the economy as a whole.

## SKW Metallurgie benefits from variable cost structure

Driven by the developments in the steel industry[6] described in the previous section, sales of all of the SKW Metallurgie Group's key products also increased over the year as a whole – in both the "Powder and Granules" segment as well as in the "Cored Wire" segment.

The Group's sales quantities developed mostly in line with the quantities of steel produced by steel manufacturers in the geographic markets which the Group's companies serve. During the course of the year, demand increased in the second half compared to the first six months of the business year. This is due, in particular, to a parallel increase in the quantity of steel produced as a result of various economic programs.

The **prices** for the Group's key products were significantly lower on average during the year than in the previous year. This change in selling prices reflects, in particular, the changes in purchasing prices. As a rule these are passed on to customers quickly. Magnesium, which is used in hot metal desulfurization, is worthy of particular note: Last year magnesium was scarce as a result of the Olympic Games in China, the primary producer of magnesium, and as a result it was traded at significantly higher prices than in the year under review.

In addition to prices and quantities, the company's revenues are also affected by **changes in the exchange rate**, in particular the USD/EUR exchange rate. The SKW Metallurgie Group's currency sensitivities (not the single-entity SKW Stahl Metallurgie Holding AG) are detailed in the notes to the consolidated financial statements (Note D.39).

In terms of margins, the group was still affected by its inventories of raw materials until the second half of 2009. The purchasing prices for these materials were higher than their current market prices. This "bad stock" effect reduced EBITDA in the year under review by EUR 7.3 million.[7] These bad stocks were mostly sold by the end of the business year, and the remaining quantities as of December 31, 2009 were measured at actual market prices, with the result that no effects comparable to the bad stock effect in 2009 is expected in 2010 or following years.

6 SKW Metallurgie also supplies, to a minor extent, customers outside the steel industry, such as manufacturers of diver's torches (magnesium) and industrial starch (Quab).

7 This figures does not include write-ups and write-downs on inventories as of December 31; it is much rather a pro forma calculation for the actual sales of stocks from the period before the economic and financial conditions, ceteris paribus.

The SKW Metallurgie Group is able to react very flexibly to reductions in demand, as could be seen in the first half of 2009, as the bulk of its costs are variable (mostly material costs). The proportion of fixed costs is comparatively low, in particular the costs before interest, taxes, depreciation and amortization. This puts the Group in a good position to survive difficult periods and create added value for its shareholders over the medium term – as the figures from business year 2009 prove.

## SKW Metallurgie invests in the future

The group's expansion in emerging nations is progressing further despite the economic and financial crisis. In this connection, the Brazilian company Tecnosulfur was acquired in the Powder and Granules segment as of December 23, 2009 (closing) by SKW Serviços Metalúrgicos do Brasil Ltda., which belongs to the SKW Metallurgie Group) as part of a share deal. The purchase price for this 66.67% interest is structured as follows:

- On a cash and debt-free basis, the basic price totaled EUR 22.1 million (including incidental acquisition costs of EUR 0.5 million). In business year 2009 the first tranche of the purchase price (EUR 17.5 million including incidental acquisition costs) was paid, the remaining amount is paid quarterly.

- The basic price can still change as a result of the fact that the applicable working capital has not yet been fully recorded (on the closing date of December 23, 2009).

- In addition, an earn-out clause was agreed. This takes effect in business year 2012. This earn-out clause has a present value of EUR 0 on the balance sheet date.

By acquiring Tecnosulfur, the Group has expanded its global market and technology leadership for hot metal desulfurization, and has again significantly increased its product range for secondary metallurgy, which is already extensive, thanks to Tecnosulfur's competence in using sintered synthetic slag. In addition, the acquisition of Tecnosulfur reinforces the Powder and Granules segment's existing multi-method technology leadership for hot metal desulfurization. This allows the Group to develop and successfully market customer-oriented solutions for mono-injection, co-injection, and tri-injection. The acquisition will help to further increase the SKW Metallurgie Group's market leadership in hot metal desulfurization. As a result, the group is following the trend in global steel production – the proportion accounted for by BRIC nations has increased from 49.5% to 58.3% over the course of 2009.

The acquired company has its own plant in Brazil and a long-term procurement agreement for key raw materials. This is not affected by the change of control.

As Tecnosulfur was consolidated for the first time in the SKW Metallurgie Group as of December 23, 2009, the impact on consolidated earnings in 2009 are slight; however in 2010 the figures from the new subsidiary in Brazil will be fully included in consolidated revenues and will make an above-average contribution to consolidated EBITDA.

In 2008 a new plant was opened in Mexico during the second half of the year, which only made a full year's contribution for the first time in 2009.

With the exception of this expansion in Mexico (2008) and Brazil (2009), the production facilities and operating units remained basically unchanged in 2008 and 2009 and these years can thus be compared with each other.

In order to further reinforce its presence in emerging nations, the SKW Metallurgie Group drove the construction of additional plants (in Russia and Bhutan) in the year under review. Both plants are expected to be commissioned in 2010:

- The plant in Russia will produce top-quality cored wire, in particular for customers in CIS states; it is possible to supply these customers from the main Affival plant in France in terms of logistics, however the high import duties make this option less attractive.

- The plant in Bhutan will produce calcium silicon in particular.[8] Calcium silicon (CaSi) is a key raw material used in the production of cored wire. Until now this has been purchased in from outside the group. In the future, part of the group's requirements will be met internally (vertical or backwards integration), thus reducing dependency on external suppliers. The increase in the value chain will also allow additional margins to be generated for the SKW Metallurgie Group's shareholders. The plant in Bhutan will comprise two sections:
  - Calcium silicon production: Calcium silicon from Bhutan will mostly be used in the SKW Metallurgie Group's cored wires that are produced in Bhutan and other countries. Only a small amount of the calcium silicon will be sold to non-SKW Metallurgie Group companies.
  - Cored wire production: In addition to bulk calcium silicon, the new plant in Bhutan will also produce cored wire, in particular for the Indian market. The calcium silicon produced in the same plant is a key raw material for the production of these cored wires.

The facility in Bhutan will make a significantly positive contribution to consolidated EBITDA from the start of 2011 as a result of the cost advantages it offers. The contribution to consolidated external revenues will be smaller, as only the cored wires produced in Bhutan and the calcium silicon sold to non-group companies will generate external revenues; in contrast, the calcium silicon supplied to other production facilities in the SKW Metallurgie Group from Bhutan will be eliminated as intra-group sales in consolidated accounting.

In total, in business year 2009 the Group invested EUR 17.5 million in its growth projects in Brazil (purchase price paid in 2009 including incidental acquisition costs), EUR 1.8 million[9] in Russia and EUR 8.1 million[10] in Bhutan. Investments in growth projects span several years.

The SKW Metallurgie Group's other investments in the year under review were for maintaining and replacing assets, as was the case in the previous year. These were fully financed from the Group's cash flow.

As a result of its solid financing, the SKW Metallurgie Group was also able to continue its investment program without restrictions during the economic and financial crisis. In individual cases, the recession even meant that the SKW Metallurgie Group was able to purchase products and services that it needs to build its new plants at more favorable conditions.

# Organization and company structure

## Group parent as a financial holding company

SKW Stahl-Metallurgie Holding AG, with its registered office in Unterneukirchen (Germany) is the parent company of the SKW Metallurgie Group, which develops, produces and distributes specialty chemicals and related products and services for industrial applications. The group's portfolio spans, in particular, products and services for the steel industry (primarily for hot metal desulfurization and secondary metallurgy). Outside the steel industry, the group mostly produces Quab specialty chemicals, mostly distributing these to producers of industrial starch for paper manufacture. The top-level company, SKW Stahl-Metallurgie Holding AG, acts as a financial holding company. The Company's executive bodies are the Annual

8 During an introductory phase in summer 2010, ferrosilicium will be produced.
9 This amount comprises the total additions to non-current assets in the year under review at the group companies Affival Vostok and SKW Verwaltungs GmbH.
10 This is the entire amount invested without considering minority interests.

General Meeting (of shareholders), the Supervisory Board elected[11] by the meeting and the Managing Board appointed by the Supervisory Board.

The Company's ordinary general meeting of shareholders was held in Munich (Germany) on June 4, 2009. Despite the fact that the impact of the economic and financial crisis were already perceptible in June 2009, a gross dividend of EUR 0.50 was proposed per dividend-entitled share, with payment on the next banking day following the general meeting. This was resolved with a great majority.

The Company did not hold any extraordinary general meetings during the year under review.

It intends to hold its next Annual General Meeting on June 9, 2010 in Munich (Germany), where the annual financial statements for 2009 are to be presented, and a resolution is to be passed regarding the management's proposed dividend for business year 2009. The Managing and Supervisory Boards have resolved not to pay any dividend for business year 2009 (and thus in 2010). This resolution is based on the company's figures for 2009, which are characterized significantly by the economic and financial crisis. In addition, the Managing and Supervisory Boards believe that they can better serve the shareholders' interests by investing the existing funds in high-growth emerging nations, instead of distributing them.

At the start of the business year and through to the end of the General Meeting on June 4, 2009, the Supervisory Board comprised Dr. Friedrich Trautwein (Deputy Chairman), Titus Weinheimer (Chairman) and Dr. Wolfgang Ziegler.

The General Meeting on June 4, 2009 elected Mr. Titus Weinheimer (re-election), Dr. Dirk Markus and Dr. Christoph Schlünken to the company's Supervisory Board effective as of the end of the General Meeting on June 4, 2009. This meeting agreed to increase the company's non co-determined Supervisory Board from three to six members. This became effective when it was entered in the commercial register. The General Meeting on June 4, 2009 elected Sabine Kauper, Armin Bruch and Jochen Martin to the company's thus enlarged Supervisory Board. In addition, the General Meeting on June 4, 2009 elected Dr. Claus Ritzer as a deputy member of the Supervisory Board. In the inaugural meeting of the new Supervisory Board on June 15, 2009, it elected Titus Weinheimer as its Chairman (re-election) and Jochen Martin as its Deputy Chairman. In addition, the Supervisory Board resolved to set up committees to make its work even more professional. During the year under review only the audit committee met (for the first time on October 22, 2009).

During the entire business year, the Managing Board comprised Ines Kolmsee as CEO, and Gerhard Ertl as CFO.

The Group uses the brand SKW Metallurgie as its group brand world wide. On the capital market, the group brand SKW Metallurgie stands for "growth with substance".

The declaration on corporate governance within the meaning of Section 289a of the HGB was published at www.skw-steel.com.

## SKW Metallurgie successfully places capital increase

During the year under review the SKW Metallurgie Group almost fully used the authorization by the 2007 General Meeting to issue up to 2.2 million new shares, and thus significantly reinforced its equity base for the Group's growth in emerging nations. The new shares were offered to existing shareholders from November 16, 2009 to November 30, 2009. The banks engaged with the transaction were M.M.Warburg

11 Exceptions are only possible in special situations, e.g. a replacement member can also be appointed by a court.

& CO and Landesbank Baden-Württemberg (LBBW), which were mandated on an equal footing. A total of 2,122,680 new shares of SKW Stahl-Metallurgie Holding AG were issued during the capital increase, which was completed in December 2009 and which enjoyed demand for approx. 3.6 million shares. These shares are broken down as follows:

- Approx. 1.6 million shares were due to shareholders exercising their subscription rights in the ratio of 25:12 at an issuing price of EUR 11.50 per share. This means that almost 75% of the share capital participated in the capital increase in the ratio of 25:12. This participation rate is not due to a single large or anchor shareholder, but is clear evidence of the great trust that the SKW Metallurgie Group enjoys on the capital market.

- The remaining approx. 0.5 million shares were offered to existing shareholders as a so-called "over-subscription" (above the 25:12 ratio), also at a price of EUR 11.50 per share. SKW Metallurgie's shareholders reported over-subscription requests for more than 2.0 million share, which means that the over-subscription was oversubscribed by around four-fold. This over subscription also evidences investors' continued trust in SKW Metallurgie's shares.

The new shares have included in trading on the Frankfurt Stock Exchange in the existing listing in the Prime Standard since December 7, 2009. The capital increase was entered in the commercial register on December 2, 2009, causing the company's share capital to increase from a previous total of EUR 4,422,250 to a current total of EUR 6,544,930. The market capitalization increased correspondingly to approx. EUR 100 million, which will also lead to a significantly higher weighting in the SDAX, Germany's small-cap index, in which SKW Metallurgie's shares have been included since June 23, 2008. The new shares are endowed with dividend rights retroactively as of January 1, 2009.

Based on the notices of voting rights required by law, the two banks which supported the capital increase held more than 10% of SKW Metallurgie's shares for a brief period in order to technically process the capital increase; these holdings were reduced to zero after the capital increase was concluded in December 2009. No other shareholder reached or exceeded the 10% threshold for shares of SKW Metallurgie during the business year; SKW Metallurgie's shares are all[12] in free float.

## Information on equity within the meaning of Sections 289 (4) and 315 (4) of the HGB

The following information applies, if not otherwise stated, for the entire business year and in particular also for the balance sheet date.

The subscribed capital of SKW Stahl-Metallurgie Holding AG comprises no-par value bearer shares, each with a notional interest of EUR 1 in the share capital. From the start of the business year and up until December 2, 2009, 4,422,250 ordinary shares had been issued; when the capital increase was entered in the commercial register, the number of issued ordinary shares increased to 6,544,930 on December 2, 2009. Shares have not been issued in different share classes; the Company has not issued any shares with special rights. The company does not hold any own shares.

As a rule, the shares are freely transferable to the extent permitted by law.[13] On the balance sheet date the company was not aware of any participating interests that exceeded more than 10% of voting rights; during the business year the banks engaged with executing the capital increase briefly held more than 10% of shares in order to process the capital increase. If employees hold equity participations, they exercise their voting rights in the same way as other shareholders, to the extent that no other regulation is expressly stipulated by law.[14] Otherwise voting rights are only restricted by law, e.g. for own shares within the meaning of Section 71b of the AktG.

12 According to Deutsche Börse's definition.

13 The *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act) provides for limitations, particularly for insiders. Based on these provisions, the company also contractually agreed to restrict the transferability of the company's shares by insiders.

14 Should the "term" employee in the sense of §§ 289, 315 HGB include members of the Executive Board, it is stipulated by law taht they may not cast a vote on their own discharge from liability.

Subject to their approval, members of the Managing Board are appointed and dismissed by the Supervisory Board. The Managing Board manages the Company in accordance with the law and the Articles of Incorporation and within the scope of the Managing Board bylaws. Own shares may only be bought back in accordance with the resolution granting the authorization to acquire and utilize own shares which was passed by the Annual General Meeting on June 4, 2009 and which is worded as follows:

a) The existing authorization to acquire and utilize own shares resolved by the General Meeting on June 04, 2008 is rescinded from the date the following authorization becomes effective.

b In accordance with Section 71 (1) No. 8 of the Aktiengesetz (AktG – German Public Limited Companies Act), the Managing Board is authorized to acquire own shares amounting up to 10% of the share capital on the date the resolution is passed for the period from June 5, 2009 to December 4, 2010 for purposes other than securities trading. The authorization may be exercised in full or in part on one or several occasions.

Together with any other own shares which the company may hold or which are allocable to the company within the meaning of Sections 71a et seq. of the AktG, the acquired shares may not at any time constitute more than 10% of the share capital.

c) Acquisition shall be via the stock exchange. The acquisition price (without incidental acquisition costs) may be more than 10% greater or less than the average unit price of the shares in the XETRA closing auction (or a comparable successor system) on the Frankfurt Stock Exchange on the three trading days prior to acquisition in each case.

d) The shares acquired as a result of this authorization can also be sold in cash not via the stock exchange, subject to approval by the Supervisory Board. With the approval of the Supervisory Board, the Managing Board is authorized to use the own shares thus acquired as a result of this authorization on one or several occasions, in full or in part, in particular as follows:

(i) The shares can be sold at a price which is not significantly lower than the stock market price for shares of the company of the same type and with the same features on the date of the sale. In this case, the number of shares to be sold together with new shares issued on the basis of an authorization to increase capital while disapplying subscription rights in accordance with Article 186 (3) Sentence 4 of the AktG may not, altogether, exceed 10% of the share capital. The subscription rights of shareholders from these shares shall be excluded in this respect.

(ii) The shares can be transferred in full or in part as compensation as part of corporate mergers or during the acquisition (also indirect) of companies, participating interests in companies, operational assets, industrial property rights or third-party licenses . The subscription rights of shareholders from these shares shall be excluded in this respect.

(iii) The shares can be used to compensate for fractions in subscription rights. The subscription rights of shareholders from these shares shall be excluded in this respect.

(iv) The shares can be issued to employees of the company or its group companies. The subscription rights of shareholders from these shares shall be excluded in this respect.

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

At the start of the business year, it was only possible to issue shares by way of a capital increase in accordance with a resolution by the Annual General Meeting dated June 18, 2007.

The resolution was worded as follows:

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

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

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

a) if the capital is increased against cash contributions and the amount of the share capital attributable to the new shares does not exceed 10% of share capital when the new shares are issued and the issue amount of the new shares is not significantly lower than the quoted market price of the shares of the same class and with the same features already listed when the final issue amount is determined by the Managing Board as defined in Section 203 (1) and (2) and Section186 (3) of the AktG,

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

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

d) for fractional amounts.

In November 2009, the Managing and Supervisory Boards resolved to use this authorization by the General Meeting and to increase the company's share capital from EUR 4,422,250 to a current total of EUR 6,544,930.

In accordance with Article 11 of the Company's Articles of Incorporation, the Supervisory Board is entitled to resolve amendments to the Articles of Association that relate solely to their wording.[15] Otherwise the General Meeting decides on changes to the Articles of Incorporation.

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

## Five strong product brands stand for quality and perfection worldwide

The Company is divided into three operating segments: "Cored Wire", "Powder and Granules" and "Other". The operating part of the Other segment comprises business with Quab specialty chemicals, which are mostly used by manufacturers of industrial starch, which, in turn, mostly supply the paper industry.

### CORED WIRE SEGMENT: AFFIVAL CORED WIRE FOR HIGH-QUALITY STEELS

High-quality cored wire for secondary metallurgy is offered under the Affival brand in the Cored Wire

15 This delegation of authority applies § 179 (1) sent. 2 AktG. SKW Stahl-Metallurgei Holding does not see the general responsibilty of the General Meeting for amendments of the by-laws restricted in any way.

segment.[16] In this production step of secondary metallurgy, crude steel receives the desired properties to increase quality for special applications through the precisely adjusted addition of specialty chemicals. Cored wire, filled with specialty chemicals, is injected into the liquid crude steel, and is a highly demanding technical procedure to efficiently add the requisite additives to the molten metal. For example, Affival cored wire enables the production of ductile steel that can be easily formed into complex shapes or that can withstand extreme temperatures especially well. Affival is produced at sites in France, the USA and South Korea. A sales company in Japan also assists the Group's further expansion into Asia.

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

The Cored Wire segment also includes production facilities in Mexico and China, which produce products for the respective local markets that are sold under local brand names ("Affimex" and "Tianjin Hong Long Metals").

## POWDER AND GRANULES SEGMENT: DUAL METHOD TECHNOLOGY LEADERSHIP IN HOT METAL DESULPHURIZATION

The Powder and Granules segment includes the following divisions:

The "ESM" brand is used to produce high quality products for magnesium-based hot metal desulphurization, for secondary metallurgy and these are used in customer-oriented solutions. Both these areas account for over 75% of the ESM Group's sales. ESM is also a leading provider of caster maintenance, metallurgical engineering and maintenance services and specialty magnesium for non-metallurgical applications (e.g. for diver torches).

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

The joint venture Jamipol Ltd., Jamshedpur (India), with its two production facilities in India, is by far the market leader in the Indian market for carbide-based hot metal desulphurization. Since the SKW Metallurgie Group's interest in Jamipol is less than 50%, the company operates under its own name ("Jamipol") on the market.

The Brazilian company Tecnosulfur supplies steel plants on the Brazilian market using the "Tecnosulfur" brand. It supplies, in particular, technically demanding solutions for hot metal desulfurization and is the market leader in its product segments in Brazil. The company has belonged to the SKW Metallurgie Group since December 23, 2009, and is ideally positioned to benefit from the above-average growth in Brazil. At the same time, the deliveries for the new ThyssenKrupp steel plant in Brazil promised in a letter of intent from the SKW Metallurgie Group to ThyssenKrupp can be efficiently processed by Tecnosulfur.

The SKW Metallurgie Group is regarded as being the market leader for all of SKW Metallurgie's brands, including on the global market for hot metal desulfurization. The market shares in North America and Brazil are both in excess of 50%[17].

Combining the core competency of SKW Stahl-Metallurgie GmbH in carbide-based hot metal desulphurization with the core competence of the ESM Group in magnesium-based hot metal desulphurization has formed a dual method technological leadership in hot metal desulphurization in the Powder and Granules segment which enables the Group to develop and market successfully customized solutions in mono injection (single powder) as well as co-injection and tri-injection (multiple powders).

16 Cored wire for the copper and foundry industries was also sold to a minor extent during the year under review.
17 The details of market shares are based on the SKW Metallurgie Group's market estimates.

**OTHER SEGMENT: QUAB SPECIALTY CHEMICALS FOR TOP-QUALITY PAPER**

The Quab brand is used to sell top-quality specialty chemicals to neutralize electrical charges, mostly to producers of industrial starch. These producers' products are, in turn, mostly used to produce top-quality paper products.

In addition, as was the case in the previous year, the Other segment also includes central and group functions, in particular the top-level group company SKW Stahl-Metallurgie Holding AG.

## Global raw material procurement secured

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

In acquiring the key raw materials required by the Cored Wire segment, the Group's management pursues a strategy aimed at countering the risk of becoming dependent on one individual producer or an individual producing country by entering into multiple strategic alliances. In addition, the Group has reinforced the backward integration for the key raw materials required in the production of cored wire (in particular via the construction of a calcium silicon plant in Bhutan, where production is scheduled to start in 2010). As things stand, these measures are expected to secure the segment's raw material supply in the short and medium term.

The Powder and Granules segment's procurement activities are focused on ensuring the availability of magnesium and carbide-based hot metal desulfurization materials. Supplies of magnesium have been secured with the Group's own production facility in China. The main supplier of carbide-based hot metal desulphurization materials in the year under review was the AlzChem Group, which is part of the Evonik Group. The Evonik Group sold this company to the investment company BluO in 2009. Even prior to this transaction, the group company SKW Stahl-Metallurgie GmbH properly terminated the supply agreement with the AlzChem Group as of December 31, 2009. Subsequent to the termination of this supply agreement, legal positions are currently being exchanged. The contracting parties each have different opinions.

SKW Stahl-Metallurgie GmbH started to establish alternative sources of supply during the year under review. As a result, the company believes that its supply of carbide-based hot metal desulfurization materials is also secure for 2010 and following years.

The supply of raw materials in the Quab segment (main raw materials: epichlorohydrin and trimethylamine) is secured by corresponding master agreements.

The high quality of the purchased raw materials is secured in all segments by carefully selecting suppliers and regular spot checks conducted by independent experts.

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

## Global production and direct proximity to customers

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

During the year under review, the acquisition of a majority interest in Tecnosulfur means that the Group now also has a production facility in Brazil. All of the other plants were already in operation on December 31, 2008.

Overall, the Group operated five cored wire production facilities (France, USA, South Korea, Mexico and China) and a Quab production facility (USA) in its Other segment as of the balance sheet date. The Powder and Granules segment includes six ESM plants (USA (4), Canada and China) and two plants in India for calcium carbide-based hot metal desulfurization additives belonging to the joint venture Jamipol, as well as the Tecnosulfur plant in Brazil since December 2009.

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

Towards the end of 2008, capacity in some of the SKW Metallurgie Group's plants was adjusted as a result of the lower demand stemming from the economic and financial crisis; however capacity was increased again during the course of 2009 – in line with the increase in demand. Capacity was increased, for example, by re-hiring specialists in NAFTA countries and by discontinuing short-time work in Europe. In the year under review, there were no interruptions to production in the Group's plants.

The high quality of the SKW Metallurgie Group's products and services is ensured in all of its segments by carefully selecting suppliers and regular spot checks conducted by independent experts.

## Corporate management – focus on shareholder value

All of the companies in the SKW Metallurgie Group are managed and assessed using uniform criteria. The focus here is on long-term shareholder value, i.e., securing and creating value for the Group's owners. The Group strives in the long term to offer the owners an attractive return on the capital employed that suitably reflects the entrepreneurial risk. The two most important indicators for shareholder value are the long-term dividend trend and the share price. This does not rule out current, short-term changes, such as the economic and financial crisis, being taken into account. For example, the Managing and Supervisory Boards intend to propose to the General meeting for 2009, which was marred by a global recession, and despite positive indicators at the end of the year, that the net profits are carried forward to new account.

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

The SKW Metallurgie Group continues to pursue the goal of being the global top-quality supplier for steel producers for hot metal desulfurization and secondary metallurgy. The group's strategy is to consistently expand its value chain (e.g., calcium silicon plant in Bhutan currently under being built) and to focus even more closely on higher margin products, which also create corresponding added value for customers (e.g., PapCal).

# The SKW Metallurgie Group's financial position and results of operations

## Solid operating result despite economic and financial crisis

Business in 2009 was characterized by the economic and financial crisis for the entire SKW Metallurgie Group. In spite of this, however the Group recorded adjusted positive EBITDA of EUR 9.4 million as a result of its highly variable costs.[18]

Test applications with the PapCal cored wire were successfully conducted with additional customers in the Cored Wire segment – these prove that this innovative product is superior in practical applications. At the same time, new customer industries have been penetrated for this segment in the form of the foundry and copper industries. These strategic activities are part of the stronger focus on higher margin products put in place in previous years.

In the Powder and Granules segment, 2009 was characterized by the SKW Metallurgie Group's multi-technology competence in hot metal desulfurization. This attribute is due, in particular, to the fact that the Group has a strong presence on all of the key geographic markets and in all of the key technologies used for hot metal desulfurization – in contrast to local competitors. This is the case in particular since the presence on the Brazilian market was significantly reinforced by the acquisition of Tecnosulfur in December 2009.

The further global expansion in emerging nations was driven on schedule during the year under review, in particular via the continued construction of plants in Russia and Bhutan. Both of these plants are scheduled to open in 2010. In addition, the SKW Metallurgie Group has a plot of land that is suitable for building a production facility in Turkey, and during the year under review it held further discussions with possible Turkish joint venture partners to enable stronger penetration of the Turkish market.

Demand for SKW Metallurgie's products is essentially non-seasonal in the Cored Wire and Powder and Granules segments. Nonetheless, experience shows that there is a quarter every year (unidentifiable in advance) in which key customers carry out maintenance work or reduce stock levels and thus require fewer products from the SKW Metallurgie Group for a short period of time. This effect made itself felt in particular in the first half of the year, when the maintenance work and also the lower demand for steel as a result of the financial crisis made itself felt.

The SKW Metallurgie Group's Quab facility mostly supplies industries which, in turn, depend on agricultural pre-products. Demand for Quab is thus partially seasonal; this seasonality can be seen, in particular, in the fact that the first quarter is generally comparatively weak (winter in the northern hemisphere).

The demand for the SKW Metallurgie Group's products was characterized by the economic and financial crisis in all four quarters of the year under review. However, positive impulses made themselves felt in the second half of the year, in particular in terms of quantities. However, in terms of margins, the second half of the year was also impacted by inventories from the period before the outbreak of the economic and financial crisis, the bad-stock effect discussed above.

In 2008 the group company SKW Stahl-Metallurgie GmbH formed a provision with a gross amount of EUR 6.2 million for a possible fine in antitrust proceedings. This provision was increased in 2009 by EUR 0.4 thousand to EUR 6.7 thousand on the balance sheet date. The details are discussed in the notes. All of the indicators marked as "adjusted" have been adjusted for this no—operating one-off effect.

18 The adjusted EBITDA is calculated from the disclosed EBITDA of EUR -0.5 million, adjusted for the increase in the provision for a possible antitrust fine of EUR 0.4 million, the "bad stock" effect of EUR 7.3 million and extraordinary write-downs for stocks of EUR 2.2 million.

With effect from December 23, 2009, the Group acquired a 66.67% interest in the Brazilian company Tecnosulfur. This company's figures have been included in the consolidated income statement for 2009 on a pro-rata basis. In business year 2008, with the exception of the new plant in Mexico opened in the third quarter of 2008, all of the plants and also all of the key companies and activities for the business year belong to the group for the entire year under review. Possible distortions to earnings from changes to the consolidated group are slight enough for figures for 2009 and 2008 to be comparable.

Production was on schedule and successful during the year under review at all facilities. Capacity was adjusted to the economic and financial crisis, for example via short-time hours in France and staff cuts in the NAFTA countries. Capacity was increased again in the second half of 2009; there is nothing to prevent sales being further expanded in the Cored Wire and Powder and Granules segments since the Group is planning new plants in emerging economies and an additional production shift can be introduced at the Affival plant in France without staff costs increasing disproportionately.

## Revenues reflect economic and financial crisis

The SKW Metallurgie Group recorded revenues of EUR 220.6 million in 2009. This figure is thus significantly lower than the previous year's figure of EUR 377.8 million. These lower revenues reflect the substantial reductions in quantities and prices as a result of the economic and financial crisis.

In terms of segments, revenues are broken down as follows:

- In the Cored Wire segment, external revenues were significantly lower than in the previous year (EUR 152.1 million) at EUR 92.6 million. This downturn was due to both quantity and price. In terms of quantity, it is due to the lower steel production as a result of the economic and financial crisis. In terms of prices, this segment was heavily impacted by the lower price levels for calcium silicon, a key raw material for cored wire production. Despite the difficult environment, all key customers were retained. In addition, new markets (in particular cored wires for the foundry and copper industries) were developed, however these did not make any significant contribution to revenues in the year under review.

- The non-group annual revenues in the Powder and Granules segment fell significantly from EUR 201.6 million to EUR 112.3 million. In addition to the clearly perceptible impact on quantities in this segment from the economic and financial crisis, revenue growth in the Powder and Granules segment in the year under review was particularly strongly affected by price effects, in particular for magnesium. Revenues from the Indian joint venture Jamipol are not included in consolidated revenues, as the SKW Metallurgie Group holds an interest of less than 50% and the company is included in the consolidated financial statements at equity.

- Revenues with third parties from Quab products totaled EUR 15.7 million in 2009 (previous year: EUR 24.0 million). This downturn in revenues is due almost exclusively to the downturn in the volume of sales as a result of the economic and financial crisis.

In geographic terms, more than 80% of revenues (translated to Euros)[19] were recorded with customers in Europe and NAFTA countries (USA, Canada, Mexico) through to December 2009. Revenues with Brazilian customers were added in December 2009 (acquisition of Tecnosulfur), which will have a perceptible impact on consolidated revenues from 2010. The group's strategy continues to be increasing revenues in countries outside NAFTA and Europe, i.e., mostly revenues from emerging nations, without reducing absolute revenues in the other countries. The notes to the consolidated financial statements (Note D.29) include further details of the geographic breakdown of revenues in 2009; these figures include revenues from Tecnosulfur on a pro-rata basis.

19 Changes in exchange rates must be taken into account when interpreting the geographic revenue breakdown, for example the proportion accounted for by NAFTA countries can also shift as a result of changes in the EUR/USD exchange rate.

The **change in finished goods and work in progress** totaled EUR -1.2 million after EUR 1.4 million in the previous year.

Own work capitalized is of little importance for the consolidated income statement (2009: EUR 0.1 million; 2008: EUR 0.2 million), and are exclusively due to product development costs in France that can be capitalized.

Total operating revenue (revenues plus changes in finished goods and work in progress and plus own work capitalized) was thus close to revenues (2009: EUR 219.5 million; 2008: EUR 379.3 million).

## Solid gross margin underscores the Group's operating strength

However, revenue figures in a business with intense use of raw materials (as is the case for the SKW Metallurgie Group) can be impacted purely by a positive correlation in the change in purchasing and selling prices, without any change in operating output being required. A much more meaningful indicator in this regard is the gross profit margin[20].

During the year under review the SKW Metallurgie Group kept this figure at 21.5% - with costs of materials of EUR 173.2 million (previous year: EUR 283.0 million) - thanks to its consistent orientation to high margin products (previous year: 25.1%), and thus significantly higher than 20% despite the bad stock effects described above in connection with the economic and financial crisis.

## Staff help to overcome crisis

Personnel expenses were significantly lower than in the previous year at EUR 23.1 million (previous year: EUR 30.2 million).[21] This is due, in particular, to the fact that large numbers of employees contributed to overcoming the economic and financial crisis via lower variable salary components compared to the previous year.[22] In addition, most of the group's employees worked short-time (in particular in Europe) or left the SKW Metallurgie Group for a brief period (in particular in North America). The core workforce thus made a significant contribution to the SKW Metallurgie Group overcoming the effects of the economic and financial crisis. At the same time, the group has benefited from retaining expertise. This means that the SKW Metallurgie Group's experienced specialists are fully available again for an upswing seen since the second half of 2009 and in particular for further growth from 2010.

At EUR 3.3 million, other operating income in the year under review was lower than in the previous year (EUR 4.2 million). This is mostly due to lower income from currency translation.

Other operating expenses fell significantly in the year under review from EUR 45.0 million in 2008 to EUR 27.9 million in 2009. This item includes additions of EUR 0.4 million for the increase in provisions already formed in the previous year and which now total EUR 6.7 million as a result of a possible antitrust fine.

Otherwise the downturn in other operating expenses is mostly due to the expenses that correlate positively with revenues. In all of the segments these are primarily sales-related distribution costs (such as commission and outgoing shipping costs). Expenses for marketing and entertainment also fell by EUR 1.0 million.

In the Other segment, the bulk of the production costs are other operating expenses. This is due to the fact that the Quab production facility in Mobile, Alabama (USA) is located adjacent to the production facilities of the Evonik Group. A large part of the plant infrastructure is jointly used in a chemical park concept to

20 The gross profit margin is the difference between sales and the cost of materials in relation to sales. Material costs may also be offset by other revenue items, for example changes in stocks of finished goods and work in progress. However, these items are comparatively low at the SKW Metallurgie Group, with the result that this definition is simple to calculate and at the same time meaningful from the company's perspective.

21 Personnel expenses include the remuneration of the Executive Board, yet not the remuneration of the Executive Board.

22 In France, for most of the employees this is based on a statutory obligation..

make optimal use of synergies. The expenses for SKW Metallurgie's share of this joint plant infrastructure are carried under other operating expenses at the SKW Metallurgie Group. These costs are also partially sales related.

Income from the Indian joint venture Jamipol totaled an unchanged EUR 0.8 million with the exception of rounding differences.

## Economic and financial crisis successfully mastered thanks to variable cost structure

EBITDA totaled EUR -0.5 million, very clearly lower than the previous year's figure of EUR 26.0 million in 2008. In both the year under review and in the previous year, however, the disclosed EBITDA included an addition to a provision for a possible fine in antitrust proceedings as an extraordinary factor (2009: EUR 0.4 million; 2008: EUR 6.2 million, each in the Powder and Granules segment).

In addition, during the year under review, the SKW Metallurgie Group was impacted by a bad stock effect of EUR 7.3 million (of which EUR 4.3 million is due to the first three quarters) and reductions in market prices of EUR 2.2 million. This was due to the sudden outbreak of the economic and financial crisis at the end of 2008. Inventories at that point in time were in line with the level prior to the economic and financial crisis; it was only possible to sell off the bulk of these inventories during the course of 2009, and it was only possible to achieve the lower market prices in 2009.

The SKW Metallurgie Group defines the adjusted EBITDA, on which the capital market guidance for 2009 is also based, as the disclosed EBITDA adjusted for the extraordinary factors detailed above.

## Adjusted EBITDA significantly positive

Adjusted EBITDA in the business year totaled EUR 9.4 million[23] (previous year: EUR 32.3 million). The SKW Metallurgie Group has thus recorded significantly positive adjusted EBITDA despite the economic and financial crisis and the associated substantial slump in revenues. This extraordinary performance, especially in view of the dramatic slump in steel production, is due in particular to the highly variable costs (via EBITDA). In addition to the costs of materials, the bulk of the personnel expenses and other operating expenses are also variable. The very sudden and unusually large reduction in steel demand and commodities prices as a result of the economic and financial crisis meant that there was a bad stock effect during the year under review despite the fundamental variability of the costs.

## EBIT affected by the economic and financial crisis

The amount of amortization and depreciation (2009: EUR 6.6 million, previous year: EUR 6.4 million) has remained practically constant year on year. During the year under review there was extraordinary amortization for the Quab customer portfolio of EUR 0.8 million; this was offset by write-downs from advantageous contracts from the first-time consolidation of the ESM Group in the amount of EUR 0.5 million in the first quarter of the previous year.

EBIT thus totals EUR -7.0 million and is thus very clearly lower than the previous year's figure of EUR 19.7 million. This is also due to the significant slump in revenues due to the economic and financial crisis. However, after adjustment for extraordinary effects totaling EUR 9.9 million (previous year: EUR 6.2 million) EBIT would have totaled EUR 2.9 million in the year under review (previous year: EUR 25.9 million).

23 The adjusted EBITDA is calculated from the disclosed EBITDA of EUR -0.5 million, adjusted for the increase in the provision for a possible antitrust fine of EUR 0.4 million, the "bad stock" effect of EUR 7.3 million and extraordinary write-downs for stocks of EUR 2.2 million.

Net interest expenses are only slightly lower than in the previous year at EUR 2.5 million (EUR 2.7 million). This slight downturn in the year under review compared to the previous year is due, in particular, to the lower volume of short-term credits for working capital financing. The proceeds from the capital increase only accrued to the company in December 2009; as a result the interest income based on this amount were very low, as parts of the additional equity were reinvested during the year under review to acquire the two-thirds interest in the Brazilian company Tecnosulfur.

EBT (earnings before taxes) of EUR -9.5 million was very clearly lower than the 2008 figure of EUR 17.0 million; here too the consequences of the economic and financial crisis for the SKW Metallurgie Group can be very clearly seen.

## Earnings per share significantly negative

During the year under review the SKW Metallurgie Group recorded income from income taxes of EUR 4.4 million (previous year: income tax expenses of EUR 7.0 million). This income was mostly due to the following individual items:

- Reversal of tax provisions formed in previous years at the top-level group company SKW Stahl-Metallurgie Holding AG totaling EUR 1.3 million.
- Tax refunds or tax refund entitlements from including tax losses carried forward in the USA totaling EUR 2.7 million.
- Booking in deferred tax assets of ERU 2.1 million on tax losses carried forward.

During the year under review, deferred tax liabilities based on differences in the carrying amount (IFRS and the tax base) totaling EUR 1.3 million and effective tax expenses (netted with tax income) of EUR 0.4 million were incurred.

As a result of this extraordinary situation, it is not possible to reasonably compare the group's tax ratios (income taxes to EBT). However, the SKW Metallurgie Group continues to record a large proportion of its taxable income in countries with high income tax rates, such as the US and Japan. As a result, the Group believes that, in the coming years, the Group's tax rate will not be significantly lower than 30%, without taking extraordinary factors into account.

Consolidated net income for the year of EUR -5.1 million in 2009 was significantly lower than in the previous year (EUR 9.9 million) as a result of the economic and financial crisis.

EUR -0.1 million (previous year: EUR -0.1 million) of this net income for the year is attributable to minority interests. However, the importance of minority shareholders will increase from 2010 as a result of the increase in activities in Bhutan (minority interest: 49%) and Brazil (minority interest: 33%).

SKW Metallurgie had an unchanged number of 4,422,250 shares since its IPO in 2006; this figure increased to 6,544,930 when the capital increase was entered in the commercial register on December 2, 2009. When calculating earnings per share, according to IFRS a pro-rata weighted average (4,565,531 shares) is used despite the retroactive profit participation rights. The proportion of the consolidated net earnings due to the parent company totaled EUR -5.0 million (previous year: EUR 10.1 million) as the denominator, and the average number of shares as calculated above as the numerator resulted in theoretical earnings per share (EPS) of EUR -1.10. If the earnings per share were calculated using the actual

number of 6,544,930 shares, this would result in a loss of EUR 0.77 per share. Last year, earnings per share totaled EUR 2.28; based on 6,544,930 shares, last year's earnings per share would have totaled EUR 1.54.

The Managing and Supervisory Boards have resolved to make a proposal to the General Meeting not to pay a dividend in business year 2009.

## Segment reporting

The SKW Metallurgie Group was divided into three operating segments in the period under review. The parent company is a financial holding company without any own revenues and is included in the Other segment. Intra-group sales are included in the Consolidation column (see segment reporting in the Notes to the Consolidated Financial Statements, note D29).

The three segments grew as follows during the year under review:

- Revenues with third parties in the **Cored Wire** segment were substantially lower than in the previous year at EUR 92.6 million (previous year: EUR 152.1 million) as a result of the economic and financial crisis. New markets were penetrated during the year under review (cored wires for the foundry and copper industries), however these did not make any significant contributions to revenues and EBITDA in 2009. EBITDA in the entire segment fell as a result of the lower sales and also due to the bad stock effect described above (for cored wire calcium silicon) from EUR 11.0 million to EUR -3.0 million.

- The annual revenues with third parties in the **Powder and Granules** segment fell significantly from EUR 201.6 million to EUR 112.3 million. In addition to the clearly perceptible impact on quantities in this segment from the economic and financial crisis, revenue growth in the Powder and Granules segment in the year under review was particularly strongly affected by price effects, in particular for magnesium. Segment EBITDA fell substantially from EUR 15.5 million to EUR 3.6 million; these figures also include expenses for a provision for a possible antitrust fine. In operating terms, earnings in the Powder and Granules segment also reflect the economic and financial crisis, however the continued positive segment EBITDA evidences the structural strengths of this segment. The SKW Metallurgie Group's interest in Jamipol, an Indian company which falls under this segment, is less than 50%. As a result, this interest is carried at equity in Powder and Granules segment and is included in EBITDA but not in revenues.

- The **Other** segment comprises SKW Quab Chemicals Inc., which conducts the operating Quab business, and also the top-level group company SKW Stahl-Metallurgie Holding AG, which performs central functions within the group and thus does not record any revenues.[24] Revenues with Quab specialty chemicals totaled EUR 15.7 million in 2009. This is lower than the previous year's figure of EUR 24.0 million and is due, in particular, to the lower sales quantities in connection with the economic and financial crisis. The disclosure of segment EBITDA for the Other segment is not particularly meaningful, as the positive earnings in Quab business are netted with the negative EBITDA from central group units.

24 The segment also includes two smaller, non-operating companies.

## Healthy assets: Basis for further growth

The following table shows the key items in the SKW Metallurgie Group's balance sheet as of December 31, 2009 compared to the previous year:

| ASSETS | Dec. 31, 2009 | Dec. 31, 2008 |
|---|---|---|
| | EUR thousand | EUR thousand |
| Non-current assets | 116,727 | 68,591 |
| Current assets | 114,937 | 128,161 |
| Thereof cash and cash equivalents | 11,052 | 9,577 |
| Total assets | 231,664 | 196,752 |

| EQUITY AND LIABILITIES | Dec. 31, 2009 | Dec. 31, 2008 |
|---|---|---|
| | EUR thousand | EUR thousand |
| Equity | 109,026 | 83,842 |
| Non-current liabilities | 41,178 | 28,873 |
| Thereof non-current financial liabilities | 14,597 | 17,116 |
| Current liabilities | 81,460 | 84,037 |
| Thereof current financial liabilities | 29,236 | 37,397 |
| Total equity and liabilities | 231,664 | 196,752 |

The SKW Metallurgie Group's total assets increased slightly in business year 2009 by EUR 34.9 million from EUR 196.8 million to EUR 231.7 million, up approx. 18%. This increase is mostly due to the first-time consolidation of Tecnosulfur (EUR 48.5 million).

On the equity and liabilities side, the lower requirements for working capital caused current financial liabilities to fall from EUR 37.4 million to EUR 29.2 million.

Equity increased from EUR 83.8 million to EUR 109.0 million, the **equity ratio** (including minority interests) lifted from 42.6% to 47.1%. This significant improvement was mostly due to the capital increase concluded in December 2009, which generated net proceeds from the issue of EUR 23.5 million. In addition to the equity ratio, **net financial debt**[25] is a key balance sheet indicator for the SKW Metallurgie Group. In 2009 this figure totaled EUR 32.8 million (previous year: EUR 44.9 million).

Operating working capital – defined as inventories plus trade accounts receivable less trade accounts payable – totaled EUR 60.2 million on the balance sheet date (previous year: EUR 84.9 million). The EUR 24.7 million downturn in operating working capital is due, in particular, to the fact that inventories fell by EUR 26.6 million; this reduction in inventories is due, in particular, to the unexpected strong downturn in demand for the SKW Metallurgie Group's products towards the end of the year under review as a result of the economic and financial crisis, with the result that inventories on December 31, 2008 still corresponded to the situation prior to the economic and financial crisis. These were sold correspondingly during 2009. In contrast to the downturn in inventories, trade accounts receivable increased by EUR 7.8 million to EUR 46.9 million from EUR 39.0 million; the amount of trade accounts payable increased from EUR 26.6 million to EUR 32.5 million. This is due to the receivables and liabilities for Tecnosulfur, a company acquired during the business year. The increase in trade accounts payable and receivable is also due to the recovery in operating business in the fourth quarter of the year under review.

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

On the assets side, non-current assets (2009: EUR 116.7 million; 2008: EUR 68.6 million) included, in particular, intangible assets, property, plant and equipment and deferred tax assets. The carrying amount of the deferred tax assets totaled EUR 10.1 million (2008: EUR 4l9 million and was thus significantly higher than in the previous year, which is due in particular to the first time consolidation of Tecnosulfur. The significant increase in intangible assets (from EUR 32.2 million to EUR 59.0 million) and property, plant and equipment (from EUR 27.1 million to EUR 42.6 million) is mostly due to the first-time consolidation of Tecnosulfur. This factor impacted intangible assets in the amount of EUR 28.8 million (including goodwill of EUR 3.2 million) and property, plant and equipment in the amount of EUR 7.5 million. The remaining increase in property, plant and equipment is mostly due to the construction progress at the new plants in Bhutan and Russia and a new control system at the Quab plant.

The key items of current assets include cash and cash equivalents, in addition to the items analyzed in connection with the net working capital. The slight increase in cash and cash equivalents is due, in particular, to the proceeds from the capital increase, which accrued to the company in December 2009 and which had not been fully reinvested by the balance sheet date.

On the equity and liabilities side, equity increased from EUR 83.8 million by EUR 25.2 million to EUR 109.0 million. This significant improvement was mostly due to the capital increase concluded in December 2009, which generated net proceeds from the issue of EUR 23.5 million. The main changes in liabilities included the current financial liabilities described above, and, in particular, the amount of the non-current financial assets (2009: EUR 14.6 million; 2008: EUR 17.1 million):

- The non-current assets which already existed on December 31, 2008, in particular from the acquisition of the ESM Group, were repaid on schedule in the amount of USD 2.5 million every six months in 2009, as was also the case during the previous year.

- The purchase price installment paid during the year under review for the acquisition of a 66.67% interest in the Brazilian company Tecnosulfur was fully equity financed, with the result that no additional non-current debt was used.

Non-current liabilities include deferred tax liabilities of EUR 15.4 million (previous year: EUR 9.3 million), which are detailed in the notes to the consolidated financial statements in note D.16.

Of the other non-current liabilities (EUR 8.4 million; previous year: EUR 0.6 million), EUR 4.5 million (previous year: EUR 0) relate to liabilities from a long-term agreement for the supply of raw materials and the outstanding portion of the purchase price for the 66.67% interest in Tecnosulfur (EUR 3.1 million; previous year: EUR 0).

Provisions, which are mostly current (2009: EUR 8.3 million; 2008: EUR 7.3 million) have increased slightly and the largest item is a provision for a possible antitrust fine (the provision of EUR 6.2 million which was formed in this regard in 2008 was increased to EUR 6.7 million in 2009).

Other current liabilities (EUR 11.2 million; previous year: EUR 10.0 million) comprise a large number of individual items, that are detailed in the notes to the consolidated financial statements in note D.28.

The SKW Metallurgie Group's net assets and financial position are not insignificantly influenced by exchange rate changes. There were currency translation effects in particular from changes in the US dollar/euro exchange rate.

The SKW Metallurgie Group did not employ any off-balance sheet financing instruments.

The future changes in the Group's asset structure will be impacted, in particular, by its further expansion in emerging nations; in addition, the outcome of the current court review of the fine decision in the antitrust proceedings will play a key role.

## SKW Metallurgie Group generates significant cash proceeds from operating activities

The following table shows key items in the cash flow statement:

| EUR thousand | Jan. 1 – Dec. 31, 2009 | Jan. 1 – Dec. 31, 2008 |
|---|---|---|
| Consolidated net income for the period | -5,108 | 9,949 |
| Gross cash flow | 1,477 | 18,255 |
| Cash flow from in operating activities | 18,485 | 4,973 |
| Cash flow from investing activities | -28,212 | -5,873 |
| Cash flow from financing activities | 11,166 | 3,506 |
| Change in cash and cash equivalents | 1,439 | 2,606 |
| Cash and cash equivalents – end of period | 11,052 | 9,577 |

Based on consolidated net income for the year of EUR -5.1 million (previous year: EUR 9.9 million), the group generated a gross cash flow of EUR 1.5 million (previous year: EUR 18.3 million).

The cash flow from operating activities (gross cash flow netted with changes in working capital) totaled EUR 18.5 million (previous year: EUR 5.0 million). This positive growth is due exclusively to the reduction in working capital recorded during the business year of EUR 17.0 million (previous year: working capital increase by EUR 13.3 million). The change in working capital was impacted, in particular, by changes in current provisions and inventories:

The changes in current provisions (2009: EUR 0.0 million (rounded); 2008: EUR 6.9 million) in both years include additions to a provision for a possible antitrust fine (the provision formed in 2008 of EUR 6.2 million was increased in 2009 by EUR 0.4 million to EUR 6.7 million).

The changes in inventories (after advance payments received) changed year-on-year by EUR 45.3 million. Inventories fell in the year under review by EUR 25.3 million, however they were increased in the previous year by EUR 19.9 million. This is due to the very high levels of prices and quantities prevailing for the majority of 2008 and which also determined the levels on December 31, 2008. On the other hand, the focus in business year 2009 was on cash generation and the adjustment of inventories in terms of quantities and values to the level after the outbreak of the economic and financial crisis.

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

The net cash used in investing activities in 2009 totaled EUR 28.2 million (previous year: EUR 5.9 million):

- During the year under review EUR 17.5 was paid for corporate acquisitions (Tecnosulfur), and the acquisition of this company resulted in cash and cash equivalents of EUR 1.6 million being acquired. No companies were acquired in the previous year.

- Payments for investments in property, plant and equipment totaled EUR 12.4 million in the year under review, up significantly year-on-year (EUR 6.4 million), as the construction of new plants (in particular in Bhutan and Russia) was driven in 2009. Of this total, EUR 1.8 million is due to Russia[26], and EUR 8.1 million is due to Bhutan. Investments were made in 2008 in particular in the new plant in Mexico. Comparatively low amounts were invested in this regard as no real estate was acquired. The SKW Metallurgie Group's other investments in the year under review were for maintaining and replacing assets.

26 This amount comprises the total additions to non-current assets in the year under review at the group companies Affival Vostok and SKW Verwaltungs GmbH.

In the cash flow from financing activities, the significant differences between the year under review (EUR 11.2 million) and the previous year (EUR 3.5 million) are due, in particular, to the following effects:

- A capital increase was performed during the year under review, which resulted in net proceeds of EUR 23.5 million. There was no comparable item in the previous year.

- Debt was reduced significantly on the equity and liabilities side during the year under review: Less bank borrowing was drawn down (EUR 4.1 million in the business year compared to EUR 16.8 million in the previous year), and on the other hand loans (to banks and third parties) of EUR 14.8 million were repaid (previous year: EUR 10.8 million).

The cash and cash equivalents at the start of the period of EUR 9.6 million (previous year: EUR 6.8 million) includes cash on hand and current bank balances. The change in cash and cash equivalents in 2009 totaled EUR 1.4 million (previous year: EUR 2.6 million), and thus increased the cash and cash equivalents as at the end of the business year to EUR 11.1 million (previous year: EUR 9.6 million).

## SKW Metallurgie Group's liquidity continues to be secure

Gearing (net financial debt to equity including minority interests) in the SKW Metallurgie Group totaled 30% on the balance sheet date (previous year: 54%); the gearing is thus very low for a manufacturing company. This significant improvement in the gearing is due to the combination of the increased equity from the capital increase and lower net financial debt. The SKW Metallurgie Group's existing external financing has been concluded under terms in line with the market, including sufficient credit lines in the event of a further need for debt capital. The year under review was characterized by lower current third-party financing compared to the previous year. This was due in particular to the lower requirements for working capital. The existing non-current financial liabilities, in particular from the acquisition of the ESM Group in 2007, were also reduced. External funds for the borrowing component of the acquisition of a 66.67% interest in the Brazilian company Tecnosulfur were only drawn down after the balance sheet date. Details on the current interest on borrowing, which also takes the currency of the respective loan into account, can be found in the notes to the consolidated financial statements (note D26); changes in general interest rates may also lead to changes in the SKW Metallurgie Group's average interest rate.

SKW Stahl-Metallurgie Holding AG and its subsidiaries had sufficient liquidity at all times during the year under review, in particular as there are no payment obligations due from the antitrust proceedings by the European Commission at present for the SKW Metallurgie Group. This also applies to all of the foreseeable transactions in 2010 and 2011 and also for a possible payment obligation from the antitrust fine. From SKW Metallurgie's perspective, there are possible payment commitments from the antitrust fine proceedings totaling a maximum EUR 6.7 million. This amount is secured with bank guarantees. As the guarantees are, in turn, backed by corresponding credit lines, no liquidity bottlenecks have to be feared in this connection. If expiring lines of credit cannot be extended in 2010 and 2011, in contrast to our expectations, this could be more than compensated for by using the new lines of credit detailed in the report on events after the balance sheet date. Through to the date this management report was prepared, no payments at all had been made to the European Commission. The Group deposited bank guarantees with the European Commission in the amount of the provision formed in this regard of EUR 6.7 million. These bank guarantees were provided by Commerzbank and UniCredit Bank AG (formerly HVB) and charged to the current lines of credit.

The company has long-standing relationships with several international banks and is in permanent dialog with its banks. In addition, the SKW Metallurgie Group is also consistently expanding its relationships with banks with which it has not yet had any significant relationship. This will help with the increased requirements due to the group's growth and it will also avoid excessive dependency on a specific bank.

The bank loans to finance the acquisition of the ESM Group (as of December 31, 2009: USD 22.5 million) and thus the larger portion of the non-current financial liabilities, at the start of 2009 it was possible that the so-called financial covenants could have been breached as a result of the economic and financial crisis. As a precautionary measure, SKW Metallurgie thus re-negotiated the credit conditions; this ruled out the possibility that this loan could become due prematurely as a result of the economic and financial crisis. The interest rate increased slightly as a result of these negotiations, however it continues to be very much in line with the markets. In addition, the financial covenant for a working capital loan with a five-year term at Affival Inc. was breached in business year 2009. This loan totaled USD 0.8 million on December 31, 2009. As described in the report on events after the balance sheet date, a corresponding waiver was issued in mid-March 2010. There are also contractual agreements for addition credit agreements at the SKW Metallurgie Group. Above and beyond the individual case in the USA detailed above, there were no breaches of financial covenants in business year 2009, nor does this have to be feared in 2010 or the following years in the Managing Board's opinion. Further details can be found in Note D.26 in the notes to the consolidated financial statements.

## Central financial and liquidity management

In order to secure liquidity for each individual group company, in 2008, as was the case in the previous year, the group parent company centrally coordinated external borrowings, group-wide financial and liquidity equalization and interest rate, exchange rate and raw material price risks. Rolling projections and short-term liquidity forecasts were conducted as part of this centralized financial planning.

In order to secure the SKW Metallurgie Group's financial stability and flexibility, the group aims to strike a balance between equity and debt capital. In so doing, the returns expected by the shareholders and the rating requirements are taken into account. During the year under review, equity was substantially reinforced by issuing almost 2.2 million new ordinary shares from authorized capital. The equity ratio (including minority interests) at the end of the period under review was 47.1% (previous year: 42.6%). Since the company has not issued any bonds to date and does not plan to do so for the foreseeable future, no formal rating has yet been made by one of the large rating agencies. The fundamental readiness and also the concrete conditions at which additional equity and borrowing is offered to the company also shows, without a formal rating, that the financial and capital markets believe that the company has an excellent credit rating.

Exchange rate risks arising from the group's operating activities (transaction risks) were reduced by natural hedging, e.g., by entering into simultaneous transactions in foreign currencies, i.e., both purchase and sale transactions in the same currency. Group companies also hedged any exposure arising from the relevant foreign-currency forecasts on specific dates after consulting Group management. The group had currency forwards and swaps in this regard on the balance sheet date. In addition, the future cash flows from long-term financing (interest rate risk) were hedged via an interest rate swap. The fair values of the derivative financial instruments totaled EUR 124 thousand (assets) and EUR 794 thousand (liabilities) on December 31, 2009. As of the balance sheet date, the group held this type of financial instruments with a market value of EUR 146 thousand (assets) and EUR 1,180 thousand (liabilities).

The risks that the group enters into with derivative financial instruments are of a minor size. In principle, the group primarily uses derivative financial instruments to hedge its transactions; the group is thus not involved in pure financial speculation. The hedges primarily aim to hedge the interest risk and also those parts of transactional currency risk that cannot be covered by natural hedging.

The currency translation risks resulting from the translation of figures recorded by subsidiaries in other currency areas outside the eurozone into Euros are not hedged[27]. By far the most important currencies for the group were Euros and US dollars. Other currencies of importance to the Group were the currencies

27 Average exchange rates are used when translating items on the income statement, and closing rates for assets.

of those non-Euro countries in which the Group has operating companies (Mexico, South Korea, Japan, China, India and Canada, and also the new addition of Brazil) or production facilities under construction (Russia, Bhutan[28]).

The SKW Metallurgie Group also employs collateral to secure bank loans granted. Of the total inventories in the amount of EUR 45.9 million (previous year: EUR 72.6 million), inventories totaling EUR 26.4 million (previous year: EUR 42.6 million) have been transferred as collateral as part of master credit agreements in the USA and Germany. In the Powder and Granules segment, receivables totaling EUR 16.8 million (previous year: EUR 5.9 million) have been transferred as collateral, as have an additional EUR 6.1 million in the Cored Wire segment (previous year: EUR 3.8 million). In addition, property, plant and equipment totaling EUR 2.9 million (previous year: EUR 3.5 million) has been transferred as collateral.

The SKW Metallurgie Group took out new borrowing in 2009 (payments from drawing down bank liabilities: EUR 4.1 million), however, at the same time liabilities entered into prior to the period under review were repaid (payments for the redemption of bank liabilities: EUR 14.0 million).

Possible borrowing requirements in the future are secured at market interest rates via corresponding credit lines with several international banks for both the group parent company and directly or indirectly for all group subsidiaries. In the SKW Metallurgie Group, the parent company and several larger group subsidiaries have their own credit lines with banks. Some of these existing lines of credit are current (term of less than one year). If expiring lines of credit cannot be extended in 2010 and 2011, in contrast to our expectations, this could be more than compensated for by using the new lines of credit detailed in the report on events after the balance sheet date. As a result, follow-on financing has thus been secured in all events.

Active financial management coordinated and managed by the parent company is used to employ existing funds, or funds procured via these external credit lines and which are not required in the respective group company, at group companies with additional liquidity requirements via intra-group loans. This allows the capital employed to bring optimum returns. In this regard, the economic and financial crisis has not yet resulted in any restrictions for the SKW Metallurgie Group.

## Capital expenditure:
## SKW Metallurgie continues expansion strategy despite economic and financial crisis

Capital expenditure in the year under review related to replacement and maintenance measures, and also primarily related to the continuing the expansion in emerging nations.

In total, in business year 2009 the Group invested EUR 17.5 million in its growth projects in Brazil (purchase price paid in 2009 including incidental acquisition costs), EUR 1.8 million in Russia and EUR 8.1 million[29] in Bhutan.

The SKW Metallurgie Group's other investments in the year under review were for maintaining and replacing assets, as was also the case in the previous year. These were fully financed from the group's cash flow.

Investment in growth projects are set to last for several years.

The Managing Board believes that the group's expansion into emerging nations will continue on schedule in 2010 and 2011, and that in particular the new plants in Bhutan and Russia will be opened in 2010.

28 The Bhutanese currency is linked 1:1 with the Indian currency.
29 This is the entire amount invested without considering minority interests.

# SKW Stahl-Metallurgie Holding AG – Single-entity financial statements in accordance with the Handelsgesetzbuch (HGB – German Commercial Code)

## Group parent's income

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

The Company is an Aktiengesellschaft (stock corporation) under German law. During the year under review, its shares were traded in Frankfurt Stock Exchange's Prime Standard (segment with the highest transparency requirements). As a result, unaudited group interim reports were prepared and published at the end of the first, second and third quarters in the year under review.

Business year 2009 for SKW Stahl-Metallurgie Holding AG was characterized by the continued positive growth of the operating subsidiaries and second-tier subsidiaries that belong to the Group. They successfully continued their expansion into emerging nations during the year under review. In particular, in 2009 SKW Stahl-Metallurgie Holding AG acquired a 100% interest in Serviços Metalúrgicos do Brasil Ltda., and in December 2009 it purchased a 66.67% interest in the Brazilian company Tecnosulfur via this company; SKW Serviços Metalúrgicos do Brasil Ltda. was then merged with Tecnosulfur. At the same time, the previous activities of the subsidiaries and second-tier subsidiaries were further expanded, even if the economic and financial crisis mean that revenues and earnings were lower than in the previous year in some cases. The expansion of the subsidiaries and second-tier subsidiaries also resulted in a spread in the consulting activities of the parent company SKW Stahl-Metallurgie Holding AG.

As of the balance sheet date, the company held direct investments in nine companies. These were (in alphabetical order):

- Quab Chemicals Belgium BVBA, Hasselt (Belgium)
- SKW France S.A.S., Solesmes (France)
- SKW Hong Kong Co. Ltd. in Hong Kong (PR China's special administrative region of Hong Kong),
- SKW Metallurgie USA Inc., Wilmington DE (USA)
- SKW Quab Chemicals Inc., Wilmington DE (USA)
- SKW Stahl-Metallurgie GmbH, Unterneukirchen (Germany)
- Tecnosulfur Sistema de Tratamento de Metais Liquidos S/A, Sete Lagoas (Brazil)
- SKW-Tashi Metals&Alloys Private Ltd., Phuentsholing (Bhutan)
- SKW Verwaltungs GmbH, Unterneukirchen (Germany).

All of the above companies, with the exception of Tecnosulfur (Brazil) were already held by the company in the previous year.

SKW France S. A. S. (France) and SKW Metallurgie USA Inc. (USA) have several direct and indirect subsidiaries, which are thus second and third-tier subsidiaries of SKW Stahl-Metallurgie Holding AG. SKW Stahl-Metallurgie GmbH (Germany) holds two direct participating interests (one of which is less

than 50%), which are thus second-tier subsidiaries of SKW Stahl-Metallurgie Holding AG. In addition, SKW Verwaltungs GmbH (Germany) operates an Accredited Representative Office in Russia.[30] The other subsidiaries of SKW Stahl-Metallurgie Holding AG do not hold participating interests in other companies.

As a result of its role as a financial holding company, the parent company does not record any revenues. Other operating income totaled EUR 3.1 million in the year under review (previous year: EUR 2.7 million). It mostly includes income from group transfer agreements with subsidiaries and other oncharged costs.[31] During the year under review, the activities of SKW Stahl-Metallurgie Holding AG continued to be expanded. This is due, in particular, to the Group's growth (group companies establishing new plants and the acquisition of a majority interest in Tecnosulfur) and the increased complexity of tasks at all group companies.

Personnel expenses at SKW Stahl-Metallurgie Holding AG increased to EUR 1.1 million in business year 2009 (previous year: EUR 1.7 million. Personnel expenses include both remuneration for the two members of the Managing Board[32] as well as remuneration for employees who are not representatives of the executive bodies. EUR 0.6 million is due to members of the Managing Board, including expenses for the stock option program (previous year: EUR 1.2 million).

EUR 0.5 million is due to employees who are not representatives of the executive bodies (previous year: EUR 0.5 million). The downturn of EUR 0.6 million is mostly due to the lower variable remuneration. The number of employees (without the Managing Board) increased from five (2008) to six (2009).[33] Staff fluctuation is a key non-financial performance indicator, and was 0% in 2009, as was also the case in 2008.

At EUR 2.3 million, other operating expenses in the year under review were EUR 0.5 lower than in the previous year (EUR 2.7 million). Part of this downturn (EUR 0.3 million) is due to lower expenses from exchange rate losses. The requirements placed on and the complexity of the tasks performed by SKW Stahl-Metallurgie Holding AG have increased further, which is reflected in an increase of EUR 0.4 million in external consulting expenses. However, in total the downturn in other operating expenses is evidence of the success of SKW Stahl-Metallurgie Holding AG's strict cost management (e.g., substantial downturn in travel expenses from EUR 0.4 million to EUR 0.2 million).

The parent company, SKW Stahl-Metallurgie Holding AG's result from participating interests, comprises the dividend payments by SKW France S. A. S. of EUR 2.0 million (previous year: EUR 3.3 million).

During the year under review, the profit and loss transfer agreement with SKW Stahl-Metallurgie GmbH led to losses being absorbed in the amount of EUR 1.1 million (previous year: EUR 1.4 million).

The financial result for 2009 was EUR 1.0 million (previous year: EUR 1.5 million) and includes, in particular, interest income from the intra-group financing of subsidiaries and second-tier subsidiaries (EUR 1.1 million compared to EUR 1.6 million in the previous year). This downturn in interest income from intra-group financing is due to the lower base rates. In addition, for part of the business year, the loan amounts were lower than in the previous year, as subsidiaries repaid loans. Towards the end of the business year, SKW Stahl-Metallurgie Holding AG issued additional loans to SKW Serviços Metalúrgicos do Brasil Ltda. (merged with Tecnosulfur in December 2009). Interest income from these loans was still low in 2009.

The financial result with third parties (in particular with banks: EUR 37 thousand income; EUR 113 thousand expenses; previous year: EUR 88 thousand income; EUR 169 thousand expenses) is comparatively unimportant.

30 An "Accredited Representative Office" for non-Russian companies, based on the "Regulations for opening and operating an "accredited representative office" in the USSR by foreign companies, banks and organizations", which became effective as a result of decree 1074 by the Council of Ministers of the Union of Soviet Socialist Republics on November 30, 1989, which continues to apply in Russia.

31 Costs are oncharged, in particular, that are allocated to subsidiaries but which were originally paid by the parent company.

32 Remuneration for members of the Supervisory Board is also not carried as personnel expenses, but as other operating expenses.

33 Each without employees working a very small number of hours.

The costs of the capital increase, i.e., the difference between the gross and the net proceeds from the issue, totaled EUR 0.9 million in the year under review. This is carried as extraordinary expenses. This low level of costs for a capital increase is due to the fact that the capital increase did not require a prospectus (subscription offer exclusively to existing shareholders).

Earnings from ordinary operating activities in the previous year (EUR 1.7 million) differed by only EUR 0.3 million from the 2009 figure (EUR 1.4 million). However does not include the costs of the capital increase (EUR 0.9 million) as these were carried as extraordinary expenses.

In addition, during the year under review, income of EUR 1.0 million was carried from income taxes, compared to expenses of EUR 1.3 million in the previous year. The taxable income of EUR 1.0 million that was recorded in 2009 is mostly due to the reversal of provisions for taxes formed in previous years (EUR 1.3 million). This effect is due to the negative taxable income in business year 2009 and also, in particular, from the partial tax deduction for the provision formed in 2008 for a possible antitrust fine.

Taking the tax income described above into account, there was net income for SKW Stahl-Metallurgie Holding AG (earnings after taxes) during the business year of EUR 1.5 million (previous year: EUR 0.5 million).

Net retained profits at SKW Stahl-Metallurgie Holding AG totaled to EUR 2.2 million in business year 2009 (previous year: EUR 2.9 million). The relatively slight downturn of EUR 0.7 million despite the economic and financial crisis is due, in particular, to the tax income detailed above. As was the case for all of the group's units, EBTDA is also used as the central parameter at SKW Stahl-Metallurgie Holding AG.

## Dividend proposal reflects financial and economic crisis

The Managing and Supervisory Boards have resolved not to pay any dividend for business year 2009 (paid out in 2010).

This resolution is in line with the recession caused by the economic and financial crisis and also the fact that the group is continuing to enjoy on-track growth in emerging nations, where the management believes that the owners' capital can be employed more profitably than by proposing a high dividend.

However, SKW Stahl-Metallurgie Holding AG's aim is still to allow its shareholders to participate in the company's success both via higher share prices and also via attractive dividend payments, thus offering an attractive return on their equity employed.

## Net assets of the group's parent company

The total assets of the parent company SKW Stahl-Metallurgie Holding AG amounted to EUR 64.9 million as of December 31, 2009, and thus increased by EUR 18.2 million against the previous year (EUR 46.7 million). The equity ratio totaled 95.1% on the balance sheet date (previous year: 81.6%).

On the assets side, non-current assets increased from EUR 30.1 million in 2008 to EUR 49.0 million in 2009. This includes, in particular, interests in affiliated companies and loans to affiliated companies.

The carrying amounts of the participating interests increased from EUR 10.7 million to EUR 12.7 million:

- In particular, in 2009 SKW Stahl-Metallurgie Holding AG acquired a 100% interest in Serviços Metalúrgicos do Brasil Ltda. for a purchase price of EUR 0.1 million, and in December 2009 it purchased a 66.67% interest in the Brazilian company Tecnosulfur via this company; SKW Serviços Metalúrgicos do Brasil Ltda. was then merged with Tecnosulfur. As a result, SKW Stahl-Metallurgie Holding AG

held a direct interest in Tecnosulfur on the balance sheet date. The incidental acquisition costs for the Tecnosulfur acquisition of EUR 0.5 million increased the carrying amount of the participating interest from EUR 0.1 million to EUR 0.6 million.

- The following changes were made to the carrying amounts of the other participating interests during the year under review: As a result of the construction progress for the plant in Bhutan, and the associated equity[34], the value of the participating interest in SKW-Tashi Metals&Alloys Private Ltd. was increased by EUR 1.5 million; in addition, the value of the non-operating business Quab Chemicals Belgium BVBA was adjusted from EUR 48,550 to EUR 1.

A strategic partner[35] holds a minority interest in each case in SKW Quab Chemicals Inc. (USA), Tecnosulfur (Brazil) and SKW-Tashi Metals&Alloys Private Ltd. (Bhutan); the other companies are wholly owned by SKW Stahl-Metallurgie Holding AG.

The loans to affiliated companies on the balance sheet date increased from EUR 19.3 million to EUR 36.3 million on the balance sheet date, in particular as a result of a loan of EUR 16.3 million to SKW Serviços Metalúrgicos do Brasil Ltda. (merged with Tecnosulfur in December 2009).

Current assets only changed slightly to from EUR 16.6 million to EUR 15.9 million. However, this change includes two contradictory effects: Receivables from affiliated companies and other assets fell by EUR 2.2 million from EUR 10.9 million to EUR 8.7 million, and cash and cash equivalents (checks, cash in hand, bank balances) increased by EUR 1.5 million from EUR 5.7 million to EUR 7.2 million.

The downturn in receivables from affiliated companies relates, in particular, to loans to affiliated companies.[36] In addition, during the year under review, capital gains tax entitlements from dividends paid before the pooling of trade tax interests were refunded to SKW Stahl-Metallurgie GmbH (other assets).

The increase in bank balances (2009: EUR 7.2 million; 2008: EUR 5.7 million) is due, in particular, to the fact that part of the proceeds from the capital increase concluded in December 2009 will only be reinvested in 2010.

On the equity and liabilities side, equity is carried in the amount of EUR 61.8 million (previous year: EUR 38.1 million); the significant increase of EUR 23.7 million is due to the capital increase (subscribed capital up from EUR 4,422,250 to EUR 6,544,930 and share premium up from EUR 30.7 million to EUR 53.0 million). Provisions fell significantly from EUR 2.1 million to EUR 0.8 million. This is mostly due to the fact that the provisions for taxes formed in previous years were reversed during the year under review (EUR 1.3 million). Among the liabilities, in particular the liabilities to banks fell significantly from EUR 4.2 million by EUR 3.4 million to EUR 0.8 million. During the year under review management successfully focused on cash generation; the free liquidity was used, for example, to repay bank loans. The liabilities to affiliated companies also fell (from EUR 2.2 million to EUR 1.4 million); these liabilities relate, in particular, to liabilities to SKW Stahl-Metallurgie GmbH. These include, in particular, SKW Stahl-Metallurgie GmbH's VAT entitlement from the pooling of trade tax interests, the purchase price for 99.99% of the interests in SKW Serviços Metalúrgicos do Brasil Ltda., which SKW Stahl-Metallurgie Holding AG acquired from SKW Stahl-Metallurgie GmbH during the year, and the absorption of losses from the profit and loss transfer agreement with SKW Stahl-Metallurgie GmbH (2009: EUR 1.1 million; 2008: EUR 1.4 million).

34 In the year under review, SKW Stahl-Metallurgie Holding AG contributed equity of EUR 1.5 million to SKW-Tashi Metals&Alloys Private Ltd.; this was based on three so-called capital calls.

35 At SKW Quab Chemicals Inc. and Tecnosulfur this partner is a member of management (individual), and at SKW-Tashi Metals&Alloys Private Ltd. the partner is one of the SKW Metallurgie Group's long-standing Bhutanese business partners (legal entity).

36 During the year under review loans were repaid (in particular by SKW Stahl-Metallurgie GmbH) and new loans were also issued (e.g., to SKW Verwaltungs GmbH).

### Financial position of the group's parent company

The company's debt was reduced significantly (liabilities down from EUR 6.5 million to EUR 2.4 million), with the result that the Managing Board believes that the parent company's financial position continues to be stable. In particular, the Managing Board believes that financing the company's business activities is secure, including the investments planned for business years 2010 and 2011 at its operating subsidiaries and second-tier subsidiaries, in particular in Russia and Bhutan. The very successful capital increase of almost 50% of the share capital made a contribution in this regard during the business year. Some of existing lines of credit are short term: If expiring lines of credit cannot be extended in 2010 and 2011, in contrast to our expectations, this could be more than compensated for by using the new lines of credit detailed in the report on events after the balance sheet date. As a result, follow-on financing has thus been secured in all events.

### Accounting processes at the group's parent company

SKW Stahl-Metallurgie Holding AG attaches great value to professional standards in its accounting process; this also includes the internal control system. However, the top-level company, SKW Stahl-Metallurgie Holding AG, is characterized by a low level of standardization. That means that there are relatively few business transactions, however that these mostly relate to complex individual issues. In order to still ensure internal controls and risk management to a reasonable extent, the company's workflows and structural organization include clear deadlines and responsibilities. The principle of dual control is employed for all transactions, in particular releasing payments. Otherwise, the structures reflect the company's size (on the balance sheet date the company only comprised six employees, not including the representatives of its executive bodies and employees working a very small number of hours). The company intends to constantly improve its internal control systems, for example by increasing control of its contracts.

## Group research and development: Still at a high level

Research and development is a strategically important unique selling point for the SKW Metallurgie Group and helps to contribute to increasing the high-quality technical advice it provides to customers, as well as developing new products. For this reason, the SKW Metallurgie Group makes sustainable investments in research and development.

The SKW Metallurgie Group has organized its research and development in cross-country and cross-company networks. Operation of this network is managed by the group's research center in France and it is strategically managed by the group's headquarters in Germany. The group's research center had seven employees on average during the year (previous year: eight) who work closely together with laboratories, external research establishments and customers.

During 2008, the innovative Affival product PapCal (which has already been launched successfully), was further developed within this network according to customer specifications in order to make it useable for additional applications. The globally patented PapCal cored wire, is only marketed under the Affival product brand. Its basic concept is to provide a delayed melting of the steel shell encasing the metallic powder. This enables the cored wire to penetrate deeper into the liquid steel, providing a higher and more consistent recovery of the added substance.

In addition, during the year under review, the SKW Metallurgie Group penetrated new customer industries with additional innovative products. For example, in particular cored wires were successfully launched for the foundry and copper industries.

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

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

## Corporate social responsibility: Corporate responsibility for the environment, people and society

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

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

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

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

The SKW Metallurgie Group also places a high emphasis on sustainability and reducing harmful emissions in the case of electricity consumption. For example, a key reason for selecting the location of the new facility for the electricity-intensive production of calcium silicon was the fact that electricity in Bhutan is generated almost exclusively from renewable sources (here: hydroelectric power).

As a leading specialty chemical company, the SKW Metallurgie Group participates actively in the European REACH process. REACH is a European Union regulation (EC 1907/2006) on chemicals and their safe use which came into effect on June 1, 2007 and stands for Registration, Evaluation, Authorization and Restriction of Chemical Substances. In particular, during the year under review information was put together for registering the company's products.

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

Here, the Group sees environmental protection not as a restriction, but as an opportunity to implement responsible corporate action.

# Motivated employees as a success factor

## Highly international employee structure

The knowledge and commitment of each of its employees are key components for the SKW Metallurgie Group's success.

The acquisition of the Brazilian company Tecnosulfur during the year under review increased the number of employees significantly by 150. At the end of the year under review, the SKW Metallurgie Group (excluding the Indian joint venture Jamipol) employed an average of 715 employees around the world (previous year: 516)[37]. Most of these are full-time employees.[38] However, the group is fundamentally amenable to the concept of part-time employment, also for a better balance between work and family life. The majority of employees at the production sites are industrial workers.

As a result of the economic and financial crisis, the SKW Metallurgie Group reduced its workforce in North America significantly at the end of 2008, and also introduced short-time work in Europe. In so doing, the group used all of the economically viable opportunities to keep its employees in the group despite the downturn in demand associated with the economic and financial crisis. This secured expertise, while maintaining the company's social awareness to its employees. The majority of the dismissed employees in North America were re-hired during the course of 2009.

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

| | Cored Wire | Powders and Granules | Other | Total |
|---|---|---|---|---|
| NAFTA | 69 | 241 | 3 | **313** |
| Brasil | 0 | 150 | 0 | **150** |
| France | 131 | 0 | 0 | **131** |
| East Asia | 46 | 50 | 0 | **96** |
| Germany | 0 | 18 | 7 | **25** |
| **Total** | **246** | **459** | **10** | **715** |

A large proportion of the SKW Metallurgie Group's staff works in the US and Canada. Particularly high importance is attached to a non-discriminatory workplace in these countries; this subject is also becoming increasingly important in Europe. The entire SKW Metallurgie Group also emphasizes the equal opportunity employer principle. This means that regardless of any legal provisions, the SKW Metallurgie Group hires and promotes staff based on their qualifications and their achievements and does not in any way discriminate based on personal features such as gender, age, religion, sexual orientation, disability, nationality or race. Rather, the SKW Metallurgie Group promotes the equal opportunities for genders and is also otherwise in favor of a diverse workforce.

The entire personnel expenses (including remuneration for the Managing Board, but without remuneration for the Supervisory Board) totaled EUR 23.1 million (previous year: EUR 30.2 million).

## Market-oriented compensation systems

Employees of the SKW Metallurgie Group are compensated in line with the standard market conditions of the respective country. The majority of the Group's employees in France and at the German group

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

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

company SKW Stahl-Metallurgie GmbH are covered by collective wage agreements for the chemical industry.

Statutory and other contractual or voluntary social security contributions also reflect the standard market conditions of the respective country. The SKW Metallurgie Group promotes protection against employee healthcare and retirement benefit risk above and beyond the minimum statutory requirements. For example, most of the employees at the German group company SKW Stahl-Metallurgie GmbH have employer-financed commitments for a performance oriented, closed[39] company retirement benefits system. The commitments made in this regard are covered by provisions for pensions and are thus not affected by the economic and financial crisis[40].

In the USA, a large number of employees are offered protection against healthcare and retirement benefit risk, e.g., (for retirement) in the form of a standard local 401 (k) plan. All the costs arising from this for the group are incurred directly and do not lead to unsecured obligations in future periods and are not affected by the financial crisis either.

## Successful partnership with employees

The SKW Metallurgie Group was not obliged to implement employee co-determination in the year under review as its low number of employees mean that it was not subject to the general statutory provisions on co-determination (translator's note: co-determination means employee representatives in the Supervisory Board; this is a common concept in larger German companies), nor is it an iron or steel producer within the meaning of the *Montanmitbestimmungsgesetz* (MontanMitbestG – German Coal, Iron and Steel Industry Co-determination Act). The Company also did not voluntarily participate in any co-determination in 2009. This means that all of the members of the Supervisory Board represent shareholders, and that there are no employee representatives in this executive body.

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

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

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

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

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

39 The company has contractual obligations to include certain newly hired employees who were previously employed by formerly affiliated companies, in the benefit fund. However, in principle, the benefit fund is closed for new hires.

40 The insolvency risk is covered by the German Pensionssicherungsverein.

## Employees participate directly in corporate earnings

The Managing Board of the SKW Metallurgie Group welcomes employee investment in the company's share capital. Shareholders also supported the introduction of an employee equity compensation program by passing an authorization to acquire own shares – for issue to employees, among other things – by a clear majority. No such employee equity compensation program has been put in place to date over and above the share-price based remuneration components for members of the Managing and Supervisory Boards and a few other executives.

However, most employees receive additional performance-related payments in line with corresponding statutory or contractual provisions, and thus participate directly in the commercial success of the group. During the year under review these variable remuneration components were correspondingly low.

## Positive working environment

The turnover among permanent and regular staff in the SKW Metallurgie Group is very low (under 10% in 2007 and 2008 respectively), not including the redundancies the group made as a result of the economic and financial crisis (in particular in Mexico and the USA) at the end of 2008 and start of 2009. However, these redundancies were mostly temporary; the experienced employees were hired back in line with the increasing demand for the SKW Metallurgie Group's products from the second half of 2009.

The workforce's high degree of affinity with the SKW Metallurgie Group is a key non-financial performance indicator and underscores management's philosophy of creating an attractive working environment with the aim of generating a competitive advantage for the company as a result of employee satisfaction. The high mutual sense of loyalty between employees and the company can also be seen in the fact that the company did not make any redundancies in Europe for operational reasons during the year under review, but that it bridged the economic and financial crisis with short-time work.

Well-educated employees are a key factor in the SKW Metallurgie Group's success. The group companies work in close cooperation with metallurgy-oriented universities such as the Institut National Polytechnique de Lorraine in France, as well as supporting and promoting the specialized doctoral studies of employees. The continued and further education of the entire workforce, including management, is an integral part of the SKW Metallurgie Group's corporate philosophy.

## Supervisory and Managing Boards measured in terms of earnings

The compensation structures in the entire SKW Metallurgie Group are governed by the principles of appropriateness, performance and transparency. This primarily applies to compensation for the Managing Board and Supervisory Board. The Managing and Supervisory Boards consciously did not propose to the General Meeting the waiver of detailed publication of the Managing Board's remuneration allowed under Item 4.2.4 of the German Corporate Governance Code.

### BASIC STRUCTURES OF SUPERVISORY BOARD COMPENSATION

The basic structures for compensation for the Supervisory Board of SKW Stahl-Metallurgie Holding AG are as follows:

- According to Article 12 of the Articles of Incorporation, the members of the Supervisory Board are reimbursed for their necessary out-of-pocket expenses. During the period under review these related to travel and entertainment costs, which were refunded up to a maximum of the amounts according to German income tax law.

- In addition, the company bore the cost of D&O insurance, which protects members of the Managing and Supervisory Boards and other company executives. This comprised two policies (basic insurance and additional insurance).

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

- The Chairman of the Supervisory Board and the law firm with which he works advise the SKW Metallurgie Group. These consulting services started before the Chairman of the Supervisory Board was appointed to the Supervisory Board, and the Supervisory Board approved these activities when he commenced his activities with the company within the meaning of Section 114 of the AktG.

- There are no benefit commitments for members of the Supervisory Board or their surviving dependents by the company.

- All payments to the members of the Supervisory Board are net of any VAT due on these amounts.

- Deputy membership of the Supervisory Board is not remunerated.

The further remuneration components have changed as a result of the resolution by the General Meeting on June 4, 2009 with effect from this date. The structure on the balance sheet date is determined by the following resolution, which the Managing Board passed on June 4, 2009 on remuneration for members of the Supervisory Board:

*„1. In addition to reimbursement of their out-of-pocket expenses, the members of the Supervisory Board receive fixed annual remuneration of EUR 10,000 per member. This is paid in each case on the day after the Ordinary General Meeting which resolves on the ratification of the Supervisory Board.*

*2. In addition, each member of the Supervisory Board receives variable remuneration, which is broken down as follows:*

*Remuneration based on short-term company profits (“Variable Remuneration 1”):*

*Each member of the Supervisory Board receives remuneration based on the company’s short term profits of 0.03% of the SKW Metallurgie Group’s EBT (earnings before taxes). The EBT is derived, in each case, from the last audited consolidated financial statements for the respective business year. As a result, the audited IFRS results apply. Variable Remuneration 1 is paid in each case after the company’s Ordinary General Meeting which resolves on the Supervisory Board’s ratification. Variable Remuneration 1 totals a maximum annual amount of EUR 5,000.00.*

*Remuneration based on long-term company profits (“Variable Remuneration 2”):*

*Each member of the Supervisory Board receives remuneration based on the company’s long-term success. According to the following provisions, the amount of this remuneration is governed by the relative performance of SKW Metallurgie’s shares compared to Deutsche Börse AG’s SDAX index (or successor index, hereinafter “SDAX”), and which is only to be paid out after the end of the Supervisory Board’s full period of office.*

*In order to calculate the Variable Remuneration 2, the average of the closing prices of SKW Metallurgie’s shares in XETRA (or a successor system) and the SDAX closing price of the last 30 trading days prior to the first day of the period of office and the last day of the period of office (comparable period) are compared with each other and the percentage change is determined. Subject to SKW Metallurgie’s share price performance being positive at the end of the comparable period, and the identified percentage change in the price of SKW Metallurgie’s shares at the end of the comparable period being greater than the percentage change in the SDAX, Variable Remuneration 2 totals EUR 5,000.00 for each member of the Supervisory Board. The period of office for the entire Supervisory Board is used to calculate Variable Remuneration 2. Variable Remuneration 2 is paid on the day after the company’s Ordinary General Meeting which ends together with the Supervisory Board’s period of office.*

*3. The Chairman of the Supervisory Board receives 1.5 times, and each Deputy receives 1.25 times the amounts to be granted under paragraph 1.*

*4. In addition to the remuneration under paragraphs 1 and 2, each member of a committee also receives a meeting fee of EUR 500.00 per committee meeting. The Chairman of a committee receives twice the meeting fee.*

*5. Compensation is paid to the Supervisory Board with any VAT incurred on such a payment.*

*6. Members of the Supervisory Board who only belonged to the Supervisory Board or a committee for part of the business year or the electoral period receive pro-rata remuneration for each commenced month of their activities (fixed and variable remuneration). If a member of the Supervisory Board joins or leaves the Board during the year, this neither impacts the calculations for variable remuneration nor the due date for the remuneration.*

*7. This resolution applies for remuneration for the Supervisory Board starting after the end of the Ordinary General Meeting on June 4, 2009.*

*8. The remuneration for the period through to the end of the Ordinary General Meeting on June 4, 2009 is based on the resolution passed by the Ordinary General Meeting dated June 18, 2007 under agenda item 8 on the Supervisory Board's remuneration.*

*9. The resolution by the Ordinary General Meeting dated June 18, 2008 under agenda item 8 is cancelled."*

## BASIC STRUCTURES OF MANAGING BOARD COMPENSATION

The tasks and contribution of each individual member of the Managing Board to the overall performance of the group were taken into account when determining the compensation of the Managing Board. The current agreements with members of the Managing Board were concluded prior to August 5, 2009 (date the German Act on the Suitability of Remuneration for Managing Board Members came into effect) and also before the version dated June 18, 2009 of the German Corporate Governance Code came into effect, and as a rule they cannot be changed unilaterally during their term. With regard to the new regulations named above, the Supervisory Board will deal in depth with the subject of "Managing Board remuneration" in 2010, as was already the case in 2009, and will make any updates required.

During the year under review, the Managing Board's remuneration comprised the following key components:

- Fixed compensation
- Variable compensation
- Non-cash compensation (company car)
- Subsidy to healthcare and nursing care insurance
- Employer-financed company pension (only for Mr. Ertl)
- Stock option plan

The above six main components are explained in more detail below:

The fixed compensation is paid monthly as a salary.

The variable compensation comprises an EBTDA-based bonus payment agreed individually in each case. Installments were paid for these bonuses, calculations for the total bonus are based on the audited consolidated financial statements. Expenses for bonus payments for the Managing Board totaled EUR 0 in 2009.

The members of the Managing Board have a company car, which they can also use for private use. A non-cash benefit was applied for this non-cash remuneration during the year under review according to payroll tax law.

During the year under review, the company made payments to the members of the Managing Board for healthcare and nursing care.

There is an employer-financed company pension plan for Mr. Gerhard Ertl. The value of the provision on the balance sheet date totaled EUR 130 thousand (IFRS) or EUR 125 thousand (HGB). This claim is secured against bankruptcy, the company bears the premiums for the bankruptcy insurance.

The members of the Managing Board participated in the SKW Metallurgie Group's stock option plan as follows in 2009: During 2008, programs in the form of phantom stocks were set up for both the members of the Managing Board. These programs include several valuation cut-off dates. A weighted average XETRA closing rate is calculated over a 20-day period for each of these cut-off dates. The increase in share prices between two valuation dates gives the amount per phantom stock due to the member of the Managing Board. If the share price falls, this amount is zero. The members of the Managing Board each have 30,000 phantom stocks. As a rule, the beneficiaries can demand payment of the amount due to them in shares of the company. The option-giver has the right to fulfill the option holder's claims by making a cash payment instead of delivering shares. The program for Ines Kolmsee runs through to March 31, 2011, the program for Gerhard Ertl runs through to June 30, 2012. On the balance sheet date the provision for the option for Ms. Kolmsee totaled EUR 72 thousand, and EUR 129 thousand for Mr. Ertl. The program for Ines Kolmsee resulted in expenses of EUR 54 thousand in the year under review, and income from the reversal due to non-utilization of EUR 36 thousand. The programs for Gerhard Ertl resulted in expenses of EUR 129 thousand in the year under review.

In addition to these six main components, the Managing Board received the following additional benefits during the year under review:

- As a rule, the members of the Managing Board of an Aktiengesellschaft (German public limited company) in Germany are released from the obligation to pay statutory pension and unemployment insurance; as a result, no corresponding employer contributions were made. The members of the Managing Board receive social and smaller non-cash benefits (e.g., accident insurance protection) to the extent prescribed by law in Germany, or which is standard for comparable employees. This only relates to benefits which, under German income tax law, neither classify as income nor are subject to lump-sum taxation.

- The members of the Managing Board were reimbursed for their necessary out-of-pocket expenses. During the period under review these related to travel and entertainment costs, which were refunded up to a maximum of the amounts according to German income tax law.

- In addition, the company bore the cost of D&O insurance, which protects members of the Managing and Supervisory Boards and other company executives. This comprised two policies (basic insurance and additional insurance).

- Some of the non-European subsidiaries (including the Indian company Jamipol) made payments to the members of the group's Managing Board for mandates they performed for these companies.

There is a back receivable totaling EUR 124 thousand from the installment payment for the third quarter of 2008 for the bonus for the Managing Board, which will be netted with future bonus payments.[41] This issue was already dealt with in the 2008 financial statements. As a no bonuses were paid for the Managing Board in the fourth quarter of 2008 and the whole of 2009 as a result of the economic and financial crisis, this has not yet been netted. There are no advances, loans or liabilities in favor of the members of the Managing Board.

In the event of a premature end to activities as a member of the Managing Board, there are the following agreements with Mr. Gerhard Ertl:

- Premature end from death: Salary continues to be paid to surviving dependents for a transitional period; this regulation is in line with standard practice for employees in Germany.

- Premature end for other reasons: Salary continues to be paid (fixed and variable remuneration) for the remaining period, at most for two years.

There are no benefit commitments to exiting members of the company's Managing Board or their surviving dependents.

## Report on events after the balance sheet date

After the end of the year under review on December 31, 2009, there were no transactions and events of significance to the group which occurred before this management report was prepared.

After the financial covenants for a working capital loan with a five-year term at Affival Inc. was breached in business year 2009 (as of December 31, 2009: USD 0.8 million), the issue of a corresponding waiver was agreed in mid-March 2010. In the context of a waiver agreement to heal the broken financial covenants of its affiliate Affival Inc., SKW Stahl-Metallurgie Holding AG issued a support letter to the financing bank for up to USD 5 million.

In addition, the following additional credit agreements were concluded in the first quarter:

- Long-term loan agreements were concluded with BayernLB and WestLB (German "Landesbanken"), each with a term through to 2014 and each in the amount of EUR 7.0 million, i.e. with a total amount of EUR 14.0 million.

- An additional line of credit for EUR 5.0 million with an unlimited term has been agreed with DZ Bank (a German cooperative bank).

This additional borrowing has substantially reinforced the further financing of the SKW Metallurgie Group's growth, in particular its expansion into emerging nations. At the same time, the additional financing agreements evidence the solidarity and earnings strength that the financial markets believe that the SKW Metallurgie Group can offer.

41 In contrast, this back receivable is due immediately if activities as a member of the Managing Board cease.

# Forecast

## Professional risk and opportunity management for high transparency

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

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

Risk management in the SKW Metallurgie Group is composed of a comprehensive system encompassing all the company's activities and areas and includes a systematic process with elements of risk identification, analysis, assessment, management, documentation and communication based on a defined risk strategy. It comprises the following elements in particular:

A target-performance comparison is carried out in monthly reports, which help provide a detailed analysis of product results on a year-on-year or target-actual basis. Analysis meetings are held between members of the group's Managing Board and executives of the group companies in a timely manner on the basis of these monthly reports, and the strategy of the current year is adapted promptly as required. Keeping the Managing Board and top-level management informed on a timely basis means that essential packages of measures can be quickly devised and implemented.

Another element of risk management is regular strategy meetings involving the directors and top-level management at which the current status of various aspects of the company's position as well as the opportunities and risks of the subsidiaries in the form of risk inventories are discussed. These meetings are regularly held every two months.

The comprehensive risk management system of the SKW Metallurgie Group also includes a personalized risk handbook and a software tool customized for the group. This facilitates both identification of risks at an early stage and solution-oriented analysis of risks as well as making it easier to promptly initiate corresponding measures. The classification and assessment of the individual risk classes is performed on a uniform, group-wide basis, and may take into account quantitative or qualitative aspects.

There is a management information system to ensure that the parent company's executive body receive information without delay. This system's standard reports include a weekly report which covers, in particular, revenues and liquidity, and a more detailed monthly report. As part of these reports, the risk management information stored in the system is regularly reported to the Managing Board, which passes on relevant issues to the Supervisory Board without delay. In addition, when an individual risk is identified, an immediate report must be submitted to the Managing Board as soon as the respective risk exceeds a predetermined threshold. This threshold is when a risk amounting to at least 20% of the respective group company's standard net income exists while there is a 30% likelihood of the risk occurring.

All the rules and processes for risk management in the SKW Metallurgie Group are regularly reviewed by an internal risk manager and adapted if necessary. These components for the early identification of risk help ensure that those risks and changes to them which could jeopardize company's respective situation and its continued existence are recorded.

## Individual presentation of the SKW Metallurgie Group's risks

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

### ECONOMIC RISK

The SKW Metallurgie Group is dependent on macroeconomic development and the cyclical nature of its specific customer industries. The macroeconomic situation and the development of the markets served by the group have a direct impact on demand for the group's products and a significant effect on the company's business situation. These customer industries are exposed to economic fluctuations that indirectly affect the SKW Metallurgie Group. For instance, this can lead to a loss of customers, e.g. through insolvencies or customers may reduce their level of demand through aggressive price policies from local competitors (for example from China). These local competitors often offer poorer quality products, however also at a lower price than the SKW Metallurgie Group's products. This results in the risk of increased price competition. The SKW Metallurgie Group combats this risk via information campaigns for its customers showing the added value that they have to gain by using the SKW Metallurgie Group's top quality products.

Several group companies effect a large part of their revenues with relatively few customers, with the result that a loss of such a customer or a change in its payment behavior could have significant effects on a group company. In the case of magnesium-based hot metal desulfurization, there is a particular risk that steel plants could try to establish their own supplies of raw materials; the SKW Metallurgie Group is confident that its strong expertise will continue to offer its customers so much added value that vertical integration continues to be an unattractive option for them.

The SKW Metallurgie Group examines and assesses each customer relationship individually; there are no group-wide guidelines, e.g. for reminder periods or credit periods. Risks from changes in prices are of lesser importance to the group since purchase prices and sales prices generally show a positive correlation. The rapid slump in price levels as a result of the economic and financial crisis has led to stocks being sold at less than their shelf values. However, this is a one-off factor, and a repeat of this is not regarded as being likely.

The SKW Metallurgie Group also employs collateral to secure bank loans granted. Of the total inventories in the amount of EUR 45.9 million (previous year: EUR 72.6 million), inventories totaling EUR 26.4 million (previous year: EUR 42.6 million) have been transferred as collateral as part of master credit agreements in the USA and Germany. In the Powder and Granules segment, receivables totaling EUR 16.8 million (previous year: EUR 5.9 million) have been transferred as collateral, as have an additional EUR 6.1 million in the Cored Wire segment (previous year: EUR 3.8 million). In addition, property, plant and equipment totaling EUR 2.9 million (previous year: EUR 3.5 million) has been transferred as collateral.

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

In the Quab segment, the Group manufactures additives for the production of industrial starch that are mainly used in the paper industry. Although the emergence of electronic communication was predicted to

bring an end to or at least a decline in the use of paper, this has proved not to be the case. In contrast, revenues in the paper industry over the past few years have increased roughly in line with general economic output. This is explained for example, in that a significant proportion of paper production is not used for communication, but for packaging or hygiene products. Another customer industry for Quab products is the personal care products markets, where Quab is used in shampoos, conditioners and shower gels. This industry is also relatively resistant to crises, and is posting strong growth in emerging economies such as India and China, despite the economic and financial crisis.

The SKW Metallurgie Group's economic success is also governed by its research and development success. In this connection, there is the risk that patents expire, and that competitors or customers use the previously protected methods themselves, thus negatively impacting the group's margins. The SKW Metallurgie Group minimizes this risk via active patent management. Expiring patents are extended if this is reasonable and possible. At the same time, the group registers new research results as patents and thus gains new technology advantages, which may possibly compensate in economic terms for old patents which can no longer be extended.

Experts believe that it is not very likely that a different technology will be substituted for the group's products. The company supplies raw materials and services for all of the hot metal desulfurization techniques currently known; substituting another technique, (e.g., carbide-based hot metal desulfurization) with another (e.g., magnesium-based hot metal desulfurization) thus does not threaten the company's business model. No mature technology is known that could completely replace hot metal desulfurization as a production stage in steel manufacturing.

In addition, experts are not aware of any mature technology in secondary metallurgy that brings comparable results without the use of the materials sold by SKW Metallurgie.

In addition, no other materials can be seen that could substitute for steel in central areas of use (e.g., car bodies, bridge building) according to current technology.

The steel industry is the most important customer industry, and is characterized by global mergers; purchasing is also increasingly being rationalized. The group regards this development as a particular opportunity, as is described in the opportunity report. In spite of this, however, there is the risk that the quantities purchased and the group's margins would come under pressure and that it may no longer be possible to implement different regional pricing and other conditions.

## PURCHASING RISKS

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

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

The SKW Metallurgie Group is building a plant in Bhutan for the raw material calcium silicon which is scheduled to start production in 2010. This vertical integration (backward integration) will further increase the security of the supply of calcium silicon. In addition, the new plant has long-term contracts for purchasing the key material "electrical energy", which is a key factor in calcium silicon production, at attractive conditions. The new plant will only cover part of the SKW Metallurgie Group's requirements for calcium silicon. With regard to its requirements for calcium silicon that it will continue to have to procure from third parties, the group attaches particular importance to developing supplier relationships with providers outside of Europe due to a reduction in the production output of the sole supplier within Europe.

For hot metal desulfurization, the most important part of the Powder and Granules segment, procurement activities focus on ensuring the availability of magnesium and carbide-based hot metal desulfurization materials. Magnesium procurement was secured in 2007 over the long term by vertical (backward) integration. The group has achieved this significant improvement in its strategic procurement situation via the

acquisition of the ESM Group. The SKW Metallurgie Group has its own internal source for magnesium in the form of the Chinese ESM company.

The main supplier of carbide-based hot metal desulphurization materials in the year under review was the AlzChem Group, which is part of the Evonik Group. The Evonik Group sold this company to the investment company BluO in 2009. Even prior to this transaction, the group company SKW Stahl-Metallurgie GmbH properly terminated the supply agreement with the AlzChem Group as of December 31, 2009. Subsequent to the termination of this supply agreement, legal positions are currently being exchanged. The contracting parties each have different opinions.

SKW Stahl-Metallurgie GmbH started to establish alternative sources of supply during the year under review. As a result, the company believes that its supply of carbide-based hot metal desulfurization materials is also secure for 2010 and following years.

In procuring the raw materials with particularly energy-intensive production, which still have to be bought in from third parties, there is a further risk in that the group's own suppliers have to purchase the required energy at higher prices than the group's competitors' internal and external suppliers. Competitors could then offer products on the market more cheaply.

The supply of raw materials in the Quab segment is secured via corresponding agreements. These are master agreements with annual price adjustments

Possible price increases for raw materials can mostly be passed on to customers via price adjustments. As the price elasticity of demand for products of the SKW Metallurgie Group is low over the short term, commodity-price induced increases in the SKW Metallurgie Group's selling prices also did not lead to significant changes in the quantities demanded.

In general, the group is increasing its relationships with other suppliers in order to avoid depending excessively on a single source of raw materials. In spite of this, however, there is still the risk that insufficient quantities of certain raw materials can be obtained at suitable prices on the desired date. For some of the raw materials needed in the SKW Metallurgie Group, the markets have oligopolistic structures, thus reinforcing the market strength of the suppliers of raw materials.

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

### HR RISKS

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

A significant proportion of the SKW Metallurgie Group's staff are employed in the USA; according to standard practices and the underlying statutory conditions in America, the employer carries health insurance for some of the employees there. Accidents or illnesses with unusually high treatment costs can also lead to significant financial expenses for the employer. The further development of this risk also depends on the reform of the health insurance system, which is currently being discussed by politicians in the USA.

## FINANCIAL RISK

The company's financial position is sound, which can mainly be seen in its comparatively low net indebtedness as of the balance sheet date in the amount of EUR 32.8 million and in the fact that the oversubscription was oversubscribed by around fourfold during the capital increase of approx. 50%. In spite of this, however, there are financial risks, which comprise, in particular, currency and commodity price risks.

The currency risks from the operating business (transaction risks) are reduced by natural hedging, but cannot always be completely offset. Natural hedging arises when both the group's purchases and sales are usually settled in the same currency other than euro. In order to optimize the remaining currency risks, group companies also hedge any exposures arising from the relevant foreign-currency forecasts at specific points after consulting group management. The SKW Metallurgie Group also employed derivative financial instruments for this purpose as of the balance sheet date. The risks thus hedged at a group level are regarded as being low; further details can be found in the notes to the consolidated financial statements in Notes D.38 and D.39. The translation risks resulting from the transfer of income and expenses recorded by subsidiaries in other currency areas into euros are not hedged. These translation risks comprise both sales and earnings.

By far the most important currencies for the Group were its reporting currency (euro) and the US dollar. An unexpected change in the exchange rate between these two currencies can result in significant translation risks since it is likely that around half of the Group's sales in 2010 and 2011 will be generated in US dollars. Other foreign currencies are also key for the SKW Metallurgie Group. These include, in particular, Canadian dollars, Indian Rupees, Bhutanese Ngultrums, Japanese Yen, South-Korean Won, Mexican Pesos, Russian Rubles, Brazilian Real and the Chinese Renminbi. Some of these currencies (e.g., the South Korean Won) are subject to relatively strong fluctuations in their exchange rates.[42]

In addition to hedging currency risks, during the year under review the group also hedged its future cash flows from a non-current loan (interest rate risk). This risk was hedged by concluding an interest rate swap in the previous year. This derivative is carried at its fair value.

Further mandatory information and additional details, including on the risks associated with the financial transactions described, can be found in the notes to the consolidated financial statements in Note D.39.

As described in the "Economic Risks" section, insolvencies or major slumps in demand in key direct or indirect customer industries could also impact the financial situation at the SKW Metallurgie Group.

SKW Metallurgie has to use non-current borrowing and, in order to finance its working capital, current lines of credit from banks. In this regard, it typically concludes multi-year agreements with well-known banks for a certain credit framework. The group can then use this financing as required. As described in the report on risks after the balance sheet date, the financial latitude was increased again significantly at the start of 2010. Some experts are reporting reserved lending behavior after the economic and financial crisis; however the lines of credit mentioned above that were concluded at the start of 2010 show that this is not a significant risk factor for the SKW Metallurgie Group.

## RISKS IN CONNECTION WITH THE INVESTIGATIONS BY THE EUROPEAN COMMISSION

Since the start of 2007, the European Commission has been investigating the calcium carbide and magnesium sector on suspicion of a breach of legal antitrust obligations. Following a search of SKW Stahl-Metallurgie GmbH, which belongs to the SKW Metallurgie Group, in January 2007, the European Commission continued its investigations in the form of two written requests for information. In June 2008, the European Commission informed SKW Stahl-Metallurgie Holding AG and its wholly owned subsidiary SKW Stahl-Metallurgie GmbH of the so-called complaints. In this letter, the Commission detailed the accusation that several companies have coordinated their behavior in violation of antitrust law in connection with the marketing of calcium carbide powder and magnesium granules. Fine notices were issued in

42 This also applied to the Brazilian Real in previous years.

July 2009, including for SKW Stahl-Metallurgie Holding AG and for SKW Stahl-Metallurgie GmbH. These each include joint liability with non-group companies (former parent companies of SKW Stahl-Metallurgie GmbH). The maximum possible fine that the SKW Metallurgie Group would have to bear totals EUR 13.3 million. However, the Group assumes that it would only have to bear at most 50% of the fine (rounded: EUR 6.7 million) as a result of the joint liability. The SKW Metallurgie Group has formed provisions in this amount (EUR 6.7 million). These are carried as other operating expenses under IFRS (of this total EUR 6,323 thousand was formed in 2008 and a further EUR 418 thousand was formed in 2009).

The SKW Metallurgie Group believes that entire provision formed corresponds to the most probable amount for a possible fine that may actually be enforced against the group. The Group has reached an agreement with the European Commission, that it does not have to pay any fines until further notice. Instead, during the year under review, bank guarantees were deposited. These were issued by UniCredit Bank AG (formerly HVB) and Commerzbank and charged to the lines of credit agreed with the group companies. If a corresponding fine should actually have to be paid during the further course of the proceedings, the SKW Metallurgie Group would be able, in terms of its liquidity, to make payment at all times as the bank guarantees are covered by corresponding lines of credit. The costs of providing the bank guarantees and any interest that may have to be paid to the European Commission are of relatively minor importance.

During the year under review, the affected group companies asserted legal remedies against the fine notice. No decision has been taken on these yet. However, the SKW Metallurgie Group believes that it is probable that the maximum fine it would have to pay could be reduced in court, however as a result of the outstanding decision by the responsible court it did not reduced the provision in business year 2009.

The provision is carried as a gross amount. The company will review all opportunities to take recourse to third party individuals and legal entities and thus reduce the net amount payable by the company. If there are corresponding chances of success it will also exercise these opportunities.

In addition, this issue resulted in expenses for legal consulting costs in this regard for the SKW Metallurgie Group. These were carried as other operating expenses.

## RISKS IN CONNECTION WITH THE INVESTIGATIONS BY CUSTOMS AUTHORITIES

The SKW Metallurgie Group trades globally (purchasing and sales) with a large number of products in a large number of jurisdictions under customs law. This results in the risk that some of the customs authorities represent a different legal opinion than that of the SKW Metallurgie Group. At present, this affects, in particular, the ESM Group Inc. as well as Affival S.A.S. and the Chinese subsidiary Tianjin Hong Long:

- In the case of the ESM Group, the company's offices were searched by the US Government's Department of Homeland Security in business year 2005, before this company was acquired by the SKW Metallurgie Group. This search was sparked off by accusations that the duty paid on specialty magnesium when it was imported into the USA was not correct. However, ESM was not the importer and had obtained this material from a supplier. As a result, ESM was not responsible for paying duty on this material; as a result of the situation described above the Managing Board believes that no claims will be made on the ESM Group Inc., and as a result no provision has been formed.

- At Affival S.A.S., negotiations with the French customs authorities are still under way with regard to the respective treatment under customs law of this company's trading activities; the group is confident that it will be able to continue its previous methods of paying duty in the future. Provisions were already formed in this regard in previous years.

- The SKW Metallurgie Group is also in negotiations with customs authorities in China regarding the correct customs treatment of the activities of its subsidiary Tianjin Hong Long. Expenses of CNY 3.9 million (approx. EUR 0.4 million) resulted in this connection in 2009. Of this total CNY 2.3 million (approx. EUR 0.2 million) is a provision. In addition, it has not been possible to realize export revenues to the standard extent since November 2009.

## RISKS FROM FURTHER EXPANSION IN EMERGING NATIONS

The SKW Metallurgie Group plans to expand its presence in Russia, Bhutan and Turkey. It has already made investments in this regard and concluded agreements (e.g., it has acquired land in Turkey, start of construction for production facilities in Russia and Bhutan). The Managing Board is confident that the scheduled continuation of these expansion projects is guaranteed, in particular as additional equity is available in this regard as a result of the successful capital increase. In spite of this, however, there is still the risk that individual expansion projects may fail. However, the Managing Board believes that this risk is low as a result of its careful selection of very experienced local partners. In addition, an experienced executive was hired by the Group's parent company during the year under review. In particular, this executive monitors and controls the strategic progress of the expansion in emerging nations and reports directly to the Managing Board.

## RISK FROM EXPANDING THE VALUE CHAIN

The group expanded its value chain in 2007 by acquiring the ESM Group, in particular by adding service and construction. In this context, ESM bears the responsibility for the result of certain production steps in steel production. In particular increased liabilities from warranties are associated with this responsibility for results and with construction. The group also provides services and construction in emerging nations, where the legal and financial systems are not as well-founded as they are in industrial nations. The SKW Metallurgie Group limits this risk by cooperating with highly experienced local employees and external consultants.

## RISKS FROM THE ECONOMIC AND FINANCIAL CRISIS

The Managing Board summarizes as follows the risks the group faces from the financial crisis, which has found its way into the real economy since the end of 2008:

The SKW Metallurgie Group has been experiencing lower demand for its products since the end of 2008, as key customers from the steel industry have reduced the quantities they produce, and thus require lower quantities of the products the group sells.

The group's costs are mostly variable and grow proportionately in line with the situation on the market. Variable costs include, in addition to material costs, as a result of the short termination periods in many employment contracts in the SKW Metallurgie Group (in particular in the USA), the bulk of personnel expenses. At the US group companies the number of employees was already temporarily brought into line with the lower capacity uptake at the end of 2008. In addition, lower purchase prices also had a positive effect on the group in that a smaller amount of working capital is tied up.

If the economic and financial crisis leads to continued lower demand for the group's products, this downturn in revenues is linked to a corresponding adjustment in variable costs. The group's continued existence would also not be endangered by high fixed costs in this regard.

The Group's financing continues to be secured. In addition, the lower prices for raw materials means that less working capital is required, and additional equity was also acquired via a capital increase. There are also sufficient credit lines. The group does not have any indicators that its partner banks could default (e.g., as a result of bankruptcy), or that it will not be possible to extend expiring credit lines at standard market conditions. In addition, the during the year under review, the SKW Metallurgie Group has succeeded in increasing the number of its partner banks with whom lines of credit have been agreed.

The lower prices for raw materials for both purchasing and sales caused some group companies' inventories to be written down on the balance sheet date, and to sales at below-average margins during the year. The group does not presently have any indicators that the value of its inventories could fall further.

Demand for the SKW Metallurgie Group's products has increased again substantially since the second half of 2009. This positive development also continued beyond the balance sheet date into 2010.

In summary, the Managing Board does not believe that the economic and financial crisis will threaten the SKW Metallurgie Group's continued existence. The Managing Board will keep a very close eye on further developments, analyze these and react quickly if necessary.

## Specific risks facing the group parent company Stahl-Metallurgie Holding AG

Financial holding companies such as SKW Stahl-Metallurgie Holding AG face the theoretical risk of their financial assets being devalued. There is also the theoretical risk that sufficient financing will not be available to continue the company's activities.

However, the above risks are theoretical and have not currently been identified as being relevant for the company. Rather, the risk management system of the SKW Metallurgie Group, which also incorporates the individual company SKW Stahl-Metallurgie Holding AG, as well as an evaluation using company-external sources (e.g. forecasts by economic research institutes) has identified the business policy risks described below as being much more relevant for SKW Stahl-Metallurgie Holding AG. The order in which the risks are presented does not reflect the weighting or importance of the individual risks or the likelihood of their occurrence. The listed risks include all material risks that are currently identifiable. Other risks and uncertainties that are not currently known to the company or that the company currently considers to be immaterial could also have a significant impact on the company's operations and a detrimental effect on the business prospects and the net asset, financial position and results of operations of SKW Stahl-Metallurgie Holding AG.

### ECONOMIC RISK

SKW Stahl-Metallurgie Holding AG depends on the financial success of its subsidiaries and second-tier subsidiaries, since the company itself does not generate significant earnings outside the SKW Metallurgie Group. The company counters this risk by directing and monitoring its subsidiaries and second-tier subsidiaries. Additionally, the company places an emphasis on being the sole or majority shareholder of its affiliated companies (historical exception: Jamipol in India).

### INTEGRATION RISK

SKW Stahl-Metallurgie Holding AG acquired the Brazilian company Tecnosulfur during the reporting year. Earlier acquisitions related either to smaller companies or former affiliates (ESM Group). In this regard, there is a risk of delayed integration of the new acquisition. The company counters this risk using a special integration program comprising a new marketing plan and employee training, for example.

### RISK IN CONNECTION WITH INVESTIGATIONS BY GOVERNMENT AUTHORITIES

The European Commission has been conducting investigations since the beginning of 2007 following suspicions of a violation of provisions under antitrust law in the area of calcium carbide and magnesium and imposed fines in this context in July 2009 against SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH, each of which have joint and several liability with companies outside the group (former parent companies of SKW Stahl-Metallurgie GmbH) totaling a maximum of EUR 13.3 million. In consultation with the EU Commission SKW Stahl-Metallurgie GmbH provided bank guarantees totaling EUR 6.7 million (50% of the maximum stipulated fine). This amount has been carried by SKW Stahl-Metallurgie GmbH as of 31 December 2009 as a provision for uncertain liabilities. Further details are described in the group-wide discussion of risk.

## Overall assessment of the risk matrix

The overall assessment of the aforementioned risk areas shows the risks described in relation to official investigations, as well as market-side risk relating to economic price and volume development (including the further development of the financial crisis) both on the sales and procurement side.

All in all, it can be concluded that the present risks to which both the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG as an individual company are exposed are individually and cumulatively limited and that they do not pose a threat to the continued existence of the company. There is no evidence of any risks that could endanger the company's continued existence.

## Opportunities report Recognizing and leveraging opportunities

In particular, the SKW Metallurgie Group's Managing Board has identified the opportunities described below for its future operating activities.

### CONSOLIDATION OF THE STEEL INDUSTRY AS AN OPPORTUNITY FOR THE SKW METALLURGIE GROUP

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

### NEW HIGH-GROWTH MARKETS AS AN OPPORTUNITY FOR SKW METALLURGIE

In some emerging nations such as Russia, India or China, steel production is also set to post above-average growth over the next few years, in particular once the financial crisis is over. However, the general increase in steel production is not the only important factor in the market prospects of SKW Metallurgie. Even more crucial is the rise in the production of high-quality and higher-quality steels. In the above-mentioned countries, this segment is set to post above-average growth. Consequently, demand for products such as those provided by the SKW Metallurgie Group should also post above-average growth.

To service this increasing demand, the group has begun to establish new plants in Bhutan (the calcium silicon facility with integrated cored wire production facilities) and Russia. In addition, the group wants to take advantage of its experience in the hot metal desulfurization business in the Indian-based Jamipol so as to become the leading provider in this country for secondary metallurgy. In Brazil, the SKW Metallurgie Group acquired a majority interest in the local market leader in hot metal desulfurization during the reporting year.

As a result of this expansion, the group's leading global position will be expanded, both in hot metal desulfurization and also for cored wire in secondary metallurgy. Typical for the new markets in the emerging economies are low initial revenue volumes, but with strong growth and low labor costs for local staff.

### GROWTH BY EXPANDING THE VALUE CHAIN

After backward integration was realized for magnesium with the acquisition of the ESM Group in 2007, in the context of its identified growth strategy the group began to increase its vertical integration by also developing or acquiring its own raw material production for other substances (in particular calcium silicon) This will not only allow higher margins, but also makes the group less dependent on external suppliers.

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

### MARGIN GROWTH THROUGH INNOVATIVE PRODUCTS

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

The group successfully launched innovative cored wire products on the market for the foundry industry and the copper industry during the reporting year.

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

## Accounting control systems

The SKW Metallurgie Group places a heavy emphasis on professional standards in its accounting processes. Above all this includes the company's internal control system (ICS). Here, all group companies are integrated into the SKW Metallurgie Group's early risk identification system described in this risk report. Additionally, as far as possible the accounting processes in the SKW Metallurgie Group are defined by the structures, processes and controls described below. They are broadly uniform throughout the group.

Each affiliated company is responsible for its local bookkeeping according to the relevant national regulations[43]; external service providers are used for the smaller affiliates. External service providers are also sometimes drawn in to support the company where special issues arise (e.g. for advice in relation to retirement pensions). In addition to meeting the relevant national standards, accounts are prepared under IFRS for each affiliate to provide the basis for group consolidation, which uses a uniform group-wide IT system and an accounting handbook drawn up by the corporate headquarters.

A management information system is in place to ensure there is a prompt supply of information between the executive bodies of the group parent company. The standard reports in this system include a weekly report (covering sales and the company's liquidity situation in particular) as well as a more detailed monthly report. The risk management information stored in the system is regularly forwarded to the Managing Board during these reports, who promptly passes on any relevant issues to the Supervisory Board. The management of the company's affiliates is also obliged to report any unusual developments and events to the Group Managing Board without delay.

The SKW Metallurgie Group has developed accounting guidelines to guarantee uniform accounting and valuation throughout the group for its monthly, quarterly and annual financial statements. The companies incorporated into the consolidated financial statements prepare single entity financial statements adjusted for uniform group accounting based on these guidelines. The parent company's accounting and valuation principles are applied here. The group's headquarters sets down a binding reporting calendar and specifies the reporting structures to be used. Completeness and comparability are thus guaranteed from the very outset. The reports from the affiliates are prepared using a standardized web-based consolidation software system. A uniform account plan is stored here. Generally the accounts from the subsidiaries' accounting systems are transferred manually. A number of system-side plausibility controls and consistency checks are implemented here in order to ensure completeness and accuracy. Intercompany balances, income and expenses are consolidated automatically. Any charging differences are automatically posted in the system. The consolidation entries are checked and adjusted if required. The methods provided within the system to restrict access rights are used to map out the different responsibilities.

The SKW Metallurgie Group places a great importance on exclusively appointing highly qualified and experienced staff to fill its key accounting and risk management positions. English is the common language in the group. This ensures that there are no translation difficulties or communication problemsaround the world.

The dual-control principle is applied throughout the entire SKW Metallurgie Group, and thus also in all group affiliates, for all release procedures and controls. To strengthen prevention and intensify the downstream controls, the Supervisory Board and Managing Board have resolved to develop a separate 'Internal Audit' function throughout the group. A recruitment initiative has already begun, in addition to the risk manager who has already been working in the group since 2007, to take on an experienced internal auditor.

43 In individual cases this can mean that accounts are prepared according to a foreign orinternational standard as a national standard, if a corresponding option under national regulations has been used or the country does not have its own national standards.

# SKW Metallurgie excellently positioned for 2010 and 2011

## Global economy set to expand further in 2010

A recovery is underway in 2010 following the collapse in the world economy in the fourth quarter of 2008. Stimulated by low base rates and global economic stimulus plans, global economic output is expected to increase by 3.9% this year according to forecasts by the IMF (International Monetary Fund). The pace of growth will vary, according to the experts: while rather moderate growth of 2.1% is expected for industrialized countries, the economic output of newly industrializing and developing countries will enjoy very dynamic growth of +6.0%. Rapidly-growing Asian countries can even expect growth in national product of 8.4%. China once again leads the way here with +10.0%. The remaining 'BRIC' countries Brazil (+4.7%), India (+7.7%) and Russia (+3.6%) can also face the new year with confidence. In contrast, growth for Western industrialized countries was comparatively modest. According to the IMF, the US economy will grow by 2.7%, while euro countries will grow by only 1.0% overall. Germany's economic output is set to rise by 1.5%. Japan's economy should grow by 1.7% thanks to renewed booming exports in Asia. This recovery in the global economy is likely to also lead to an increase in prices for raw materials. IMF experts anticipate that oil prices will be 22.6% higher than 2009 for the year, on average. Nonetheless there are no major impending inflation risks; consumer prices are only due to rise by 1.3% for the year on average.

However, all of the experts stress that the economic upswing is currently still not without risk. In particular there is uncertainty in the period after the extensive economic programs expire. Banks are also still faced with challenges in view of the continued threat of high write-offs. As a result, many experts are continuing to forecast bottlenecks in the lending required for capital expenditure. This risk could be exacerbated by the end of the policy of rock-bottom interest rates, which some experts anticipate at the end of 2010.

The IMF's economic experts anticipate that the economic upturn will continue in 2011. Global economic output is expected to increase by 4.3% in the next calendar year. The pace of growth in the industrialized world should quicken slightly with +2.4%, while strong expansion of 6.3% is again expected in developing countries and emerging nations.

## The demand for steel may again be high in 2010

In their short-term forecast of October 2009, the experts at the World Steel Association again expect a significant boom in the global demand for steel for 2010 of 9.2% to over 1.2 bn. tons. Decisive factors here are expected to be the general global economic recovery, further positive effects from the economic stimulus programs, particularly from the area of infrastructure, and additional backlog demand due to the stock disposal in 2009. As a result, industry experts are forecasting an increase in capacity uptake at steel producers to 75-80%. If these forecasts are accurate, there will be speculation not just of reaching but also possibly of exceeding the record production figures in 2008. The recovery is expected to make itself particularly felt in the traditional steel nations in Europe and North America in 2010, which will enjoy increased demand of 12.4% and 17.1% respectively. On the other hand, BRIC countries (Brazil, Russia, India and China) can only hope for a moderate cumulative increase of 5.9%. However, according to information from the World Steel Association, Brazil faces a boom of 8.6%, the pace of which could quicken even further in the South American country following the awarding of the 2014 football World Cup and the 2016 Olympic Games in 2009.

Given the fact that the SKW Metallurgie Group generates over 90% of its sales with customers from the steel industry, demand for the company's products will grow approximately in proportion to the demand for steel.

Should the economy further improve in 2011, as forecast by the IMF, this will also have a positive impact on steel production, especially given that many economic stimulus packages are seeing considerable investment in the area of infrastructure in particular, a customer industry highly relevant for the steel sector.

## Key indicators for the SKW Metallurgie Group

The most important external indicator for demand for SKW Metallurgie's steel-related products and thus the majority of the group's activities is the volume of global steel production, in particular for higher-quality steels. Changes in the quantity of steel produced have a practically linear impact on demand for the products that the SKW Metallurgie Group develops and distributes. Despite short-term losses resulting from the financial crisis, the fact that emerging nations are not as well equipped as industrial nations in terms of infrastructure and long-life consumer goods means that significant growth in steel production is also expected in the coming years.

The trend in the gross margin is a meaningful internal indicator for the SKW Metallurgie Group's performance. In contrast, the group does not have any order books in the traditional sense. Customer contracts are typically concluded for the long term but in comparison, individual quantities and specifications are determined for the short term.

## Managing Board's assessment of the future financial position and results of operations of the SKW Metallurgie Group and of SKW Stahl-Metallurgie Holding AG

The Managing Board considers that the experts' opinion described above regarding future developments in the overall economy and in the steel industry is the likeliest scenario. This gives rise to the following assessment for the SKW Metallurgie Group and the group parent company SKW Stahl-Metallurgie Holding AG:

As at the balance sheet date, and as this Management Report is being written, the group senses an abatement in the financial crisis. Nonetheless, demand is still well below that of the record year 2008. However, for the remainder of 2010 the company is optimistic of obtaining new procurement channels on the purchasing side for carbide-based hot metal desulfurization materials and opening new facilities in Bhutan and Russia and, on the sales side, of increasing sales of the affiliates in tandem with the growth in steel production volumes and additionally in new geographic markets.

Due to the anticipated above-average growth in emerging nations the Managing Board believes that the facilities under construction in Russia and Bhutan (after completion), as well as the equity interest in the Brazilian company Tecnosulfur, will make a significant contribution to the group's results and in particular will contribute to increasing the EBITDA margin.

There are two additional reasons why the company's management expect consolidated results for 2010 and 2011 that will outstrip prior years under a number of key indicators:

- The anti-trust summary proceedings had a negative impact on the group's financial position in 2008 and 2009, because corresponding provisions were formed. The management does not expect a comparable burden in 2010 and 2011.

- Market prices for magnesium and calcium silicon fell below the stock values at times in 2008 (Q4) and 2009, which resulted in a devaluation of inventories. The Managing Board does not anticipate a comparable situation in 2010 and 2011.

On the balance sheet side the Managing Board expects a moderate increase in the group's debt, firstly because the company's continued expansion in emerging nations is to be partly financed externally (long-term financial debt), and secondly because increasing sales go hand-in-hand with an increase in working capital (short-term financial debt).

The Managing Board believes that growth in the "Powder and Granules" and "Cored Wires" segments will generally run in parallel, because both essentially depend on steel production volumes. Quab business in the "Other" segment should correlate positively with the growth in national product.

Geographically, the importance of emerging nations will increase. Strengthening its presence in growth regions therefore remains a strategic focus of the SKW Metallurgie Group.

On the product side, SKW Metallurgie will continue to focus in 2010 and in subsequent years on innovative, high-margin products offering its customers significant added value.

For the group parent company SKW Stahl-Metallurgie Holding AG the Managing Board expects net retained profits to be generated in 2010 and in subsequent years, allowing the distribution of an attractive dividend. The Managing Board expects to be able to propose a dividend to the relevant general meetings for business years 2010 and 2011 of at least the same value as the dividends for 2007 and 2008, converted to the increased number of shares following the capital increase. The future financial situation of the group parent company SKW Stahl-Metallurgie Holding AG is determined by the earnings from group assessment agreements and by dividends from subsidiaries to the group parent company SKW Stahl-Metallurgie Holding AG. Consequently, the future financial situation of the group parent company SKW Stahl-Metallurgie Holding AG depends on the future earnings position of its subsidiaries and second-tier subsidiaries which, as described earlier, in turn largely depend on production volumes in the steel industry in the geographic markets they serve.

## Guidance for 2010-2011 confirms growth course

For business year 2010, the SKW Metallurgie Group's Managing Board forecasts EBITDA of at least EUR 20 million, with sales significantly higher than 2009.

For business year 2011 the Managing Board of the SKW Metallurgie Group had forecast sales of EUR 360 million with an operating EBITDA margin of 9%.[44] These objectives remain the benchmarks for the group's success.In spite of the proposal not to pay out a dividend for fiscal 2009, the SKW Metallurgie Group considers the SKW Metallurgie share to be a dividend-bearing security. In the medium-term, the Managing and Supervisory Boards aim to propose dividends to shareholders that are sufficiently high to ensure an adequate return on equity.

Unterneukirchen (Germany), March 22, 2010

SKW Stahl-Metallurgie Holding AG

The Managing Board

Ines Kolmsee

Gerhard Ertl

44 „Operating EBITDA" as used in SKW Metallurgie's guidance is no IFRS term, yet established for the Group's guidance towards equity markets.

# Recognizing Substance

## Taking a new look at the world and opportunities around us

"Growth", a word with far-reaching consequences for our planet as well as its future inhabitants: our children. In this sense, some of the biggest opportunities for growth lie within already highly established and developed markets such as the US. Being at the forefront of development is all very good, but without proper maintenance of existing infrastructure, this technological advantage and position of leadership can be short lived. This is why at SKW Metallurgie we see the world not for what it is now, but for all it can be for generations to come.

# Consolidated income statement from January 1 - December 31, 2009

| TEUR | Notes | 2009 | 2008 |
|---|---|---|---|
| Revenues | 1 | 220,569 | 377,753 |
| Change in finished goods and work in process | | -1,190 | 1,358 |
| Capitalised services | | 127 | 184 |
| Other operating income | 2 | 3,338 | 4,161 |
| Costs of materials | 3 | -173,172 | -282,981 |
| Personnel espenses | 4 | -23,093 | -30,193 |
| Other operating expenses | 5 | -27,877 | -44,994 |
| Income from associated companies | 7 | 833 | 753 |
| Earnings before interest, taxes, depreciation and amortisation | | -465 | 26,041 |
| Amortisation of intangible assets and depreciation of property, plant and equipment | 6 | -6,554 | -6,350 |
| Earnings before interest and taxes | | -7,019 | 19,691 |
| Interest income and similar income | 8 | 173 | 171 |
| Interest income and similar expenses | 9 | -2,627 | -2,887 |
| Earnings before tax | | -9.473 | 16.975 |
| Taxes on income and earnings | 10 | 4,365 | -7,026 |
| **Consolidated net profit/ loss for 2009** | | **-5,108** | **9,949** |
| *Thereof parent company* | *11* | *-5,024* | *10,096* |
| *Thereof minority interests* | | *-84* | *-147* |
| Earnings per share in EUR* | 12 | -1.10 | 2.28 |

* Basic earnings per share corresponds to diluted earnings per share and are based on an average number of shares of 4,565,531

# Reconciliation to comprehensive income from January 1 to December 31, 2009

| TEUR | 2009 | 2008 |
|---|---|---|
| **Net loss/net income for the period** | **-5,108** | **9,949** |
| Net investments in a foreign operation | -6 | -411 |
| Unrealized gains/losses from derivatives (hedge accounting) | 386 | -1,088 |
| Exchange rate fluctuations | -146 | 930 |
| Taxes on income and expenses carried directly under equity | -151 | 424 |
| **Income and expenses recognized directly under equity** | **83** | **-145** |
| **Overall result** | **-5,025** | **9,804** |
| *Thereof parent company* | *-5,024* | *9,947* |
| *Thereof minority interests* | *-1* | *-143* |

# Consolidated balance sheet as of December 31, 2009

| ASSETS IN TEUR | Notes | Dec 31, 2009 | Dec 31, 2008 |
|---|---|---|---|
| **Noncurrent assets** | | | |
| Intangible assets | 13 | 59,045 | 32,195 |
| Property, plant and equipment | 14 | 42,554 | 27,115 |
| Investment in affiliates | 15 | 4,477 | 3,960 |
| Other noncurrent assets | 19 | 601 | 458 |
| Deferred tax assets | 16 | 10,050 | 4,863 |
| **Total non-current assets** | | **116,727** | **68,591** |
| **Current assets** | | | |
| Inventories | 17 | 45,922 | 72,559 |
| Trade receivables | 18 | 46,780 | 38,987 |
| Income taxes | 19 | 2,037 | 1,349 |
| Other assets | 19 | 9,146 | 5,689 |
| Cash and cash equivalents | 20 | 11,052 | 9,577 |
| **Total current assets** | | **114,937** | **128,161** |
| **Total equity and liabilities** | | **231,664** | **196,752** |

| EQUITY AND LIABILITIES IN TEUR | Notes | Dec 31, 2009 | Dec 31, 2008 |
|---|---|---|---|
| Equity | 21 | | |
| Subscribed capital | | 6,545 | 4,422 |
| Share premium | | 50,741 | 29,144 |
| Other accumulated equity | | 41,463 | 48,191 |
| | | 98,749 | 81,757 |
| Minority interest | | 10,277 | 2,085 |
| **Total equity** | | **109,026** | **83,842** |
| **Non-current liabilities** | | | |
| Pension obligations | 23 | 1,854 | 1,677 |
| Other provisions | 25 | 170 | 0 |
| Obligations from finance leases | 24 | 27 | 175 |
| Non-current financial liabilities | 26 | 14,597 | 17,116 |
| Income taxes | | 683 | 0 |
| Deferred tax liabilities | 16 | 15,411 | 9,339 |
| Other noncurrent liabilities | 28 | 8,436 | 566 |
| **Total non-current liabilities** | | **41,178** | **28,873** |
| **Current liabilities** | | | |
| Other provisions | 25 | 8,089 | 7,289 |
| Obligations from finance leases | 24 | 158 | 242 |
| Current financial liabilities | 26 | 29,236 | 37,397 |
| Trade payables | 27 | 32,520 | 26,597 |
| Income taxes | | 302 | 2,523 |
| Other current liabilities | 28 | 11,155 | 9,989 |
| **Total current liabilities** | | **81,460** | **84,037** |
| **Total equity and liabilities** | | **231,664** | **196,752** |

# Consolidated cash flow statement as of December 31, 2009

| | Note 30 | Jan. 1, 2009 - Dec. 31, 2009 | Jan. 1, 2008 - Dec. 31, 2008 |
|---|---|---|---|
| 1. Net loss/net income for the year | | -5,108 | 9,949 |
| 2. Amortization/depreciation of non-current assets | | 6,554 | 6,350 |
| 3. Increase/decrease in provisions for pensions | | 177 | 214 |
| 4. Net income from associates | | -472 | -516 |
| 5. Gains/losses on the disposal of non-current assets | | 0 | -102 |
| 6. Gain/loss from currency translation | | 425 | -649 |
| 7. Income/expense from deferred taxes | | -911 | -1,374 |
| 8. Own work capitalized | | -127 | -184 |
| 9. Expenses from impairment of inventories and receivables | | 1,468 | 3,987 |
| 10. Other non-cash income/expense | | -529 | 580 |
| **11. Gross cash flow** | | **1,477** | **18,255** |
| **Change in working capital** | | | |
| 12. Increase/decrease in current provisions | | -35 | 6,892 |
| 13. Increase/decrease in inventories (after advance payments received) | | 25,314 | -19,942 |
| 14. Increase/decrease in trade accounts receivable | | -4,876 | 7,680 |
| 15. Increase/decrease in other receivables | | -65 | -2 |
| 16. Increase/decrease in receivables from income taxes | | 123 | 1,391 |
| 17. Increase/decrease in other assets | | -2,745 | -2,333 |
| 18. Increase/decrease in trade accounts payable | | 4,172 | 348 |
| 19. Increase/decrease in liabilities from income taxes | | -2,349 | 1,030 |
| 20. Increase/decrease in other equity and liabilities | | -2,531 | -8,346 |
| **21. Net cash received from (+)/used by (-) operating activities** | | **18,485** | **4,973** |
| 22. Income from the disposal of assets | | 73 | 503 |
| 23. Payments for investments in fixed assets | | -12,392 | -6,376 |
| 24. Purchase price paid for corporate acquisitions | | -17,465 | 0 |
| 25. Cash and cash equivalents acquired during company acquisitions | | 1,572 | 0 |
| **26. Net cash provided by (+)/used in (-) investing activities** | | **-28,212** | **-5,873** |
| 27. Proceeds from capital increases | | 24,411 | 0 |
| 28. Costs of capital increase | | -947 | 0 |
| 29. Contributions to equity from minority shareholders | | 832 | 0 |
| 30. Decrease in liabilities from finance leases | | -232 | -225 |
| 31. Dividend payment - SKW Stahl-Metallurgie Holding AG | | -2,211 | -2,211 |
| 32. Payments for the repayment of loans to third parties | | -884 | -4,000 |
| 33. Income from taking out bank loans | | 4,147 | 16,753 |
| 34. Payments for the repayment of bank loans | | -13,950 | -6,811 |
| **35. Net cash provided by (+)/used in (-) financing activities** | | **11,166** | **3,506** |
| 36. Cash and cash equivalents – start of period | | 9,577 | 6,811 |
| 37. Change in cash and cash equivalents | | 1,439 | 2,606 |
| 38. Currency translation for cash and cash equivalents | | 36 | 160 |
| **39. Cash and cash equivalents – end of period** | | **11,052** | **9,577** |

# Statement of changes in consolidated equity for business years 2008 and 2009

| Note 21 | Subscribed capital | Equity reserve | Othee accumulated | Consolidated equity of the controlling shareholder | Minority interests | Total equity |
|---|---|---|---|---|---|---|
| **Balance at Jan. 1, 2008** | **4,422** | **29,144** | **40,924** | **74,490** | **1,680** | **76,170** |
| Consolidated net income for the period | 0 | 0 | 10,096 | 10,096 | -147 | 9,949 |
| Exchange rate fluctuations | 0 | 0 | 926 | 926 | 4 | 930 |
| Income and expense carried under equity (without exchange rate changes) | 0 | 0 | -1,075 | -1,075 | 0 | -1,075 |
| **Total earnings:** | **0** | **0** | **9,947** | **9,947** | **-143** | **9,804** |
| Share-based payments | 0 | 0 | 38 | 38 | | 38 |
| Put option minority interests | 0 | 0 | -507 | -507 | 0 | -507 |
| Changes from additions to consolidated group | 0 | 0 | 0 | 0 | 548 | 548 |
| Dividend payment | 0 | 0 | -2,211 | -2,211 | 0 | -2,211 |
| **Balance sheet as of Dec. 31, 2008** | **4,422** | **29,144** | **48,191** | **81,757** | **2,085** | **83,842** |
| **Balance at Jan. 1, 2009** | **4,422** | **29,144** | **48,191** | **81,757** | **2,085** | **83,842** |
| Consolidated net loss for the period | 0 | 0 | -5,024 | -5,024 | -84 | -5,108 |
| Exchange rate fluctuations | 0 | 0 | -229 | -229 | 83 | -146 |
| Income and expense carried under equity (without exchange rate changes) | 0 | 0 | 229 | 229 | 0 | 229 |
| **Total earnings:** | **0** | **0** | **-5,024** | **-5,024** | **-1** | **-5,025** |
| Put option minority interests | 0 | 0 | 507 | 507 | 0 | 507 |
| Changes to consolidated group | 0 | 0 | 0 | 0 | 7,120 | 7,120 |
| Payments - minority interests | 0 | 0 | 0 | 0 | 1,073 | 1,073 |
| Capital increase against cash contribution | 2,123 | 22,288 | 0 | 24,411 | 0 | 24,411 |
| Costs of capital increase (after tax) | | -691 | 0 | -691 | 0 | -691 |
| Dividend payment | 0 | 0 | -2,211 | -2,211 | 0 | -2,211 |
| **Balance sheet as of Dec. 31, 2009** | **6,545** | **50,741** | **41,463** | **98,749** | **10,277** | **109,026** |

# Strategic Substance

## Meeting the requirements of tomorrow's world today

Due to it extensive reserves of raw materials, Russia is poised for enormous development over the next few years. Russia, however, will not only develop due to its resources, but will also have to invest heavily in infrastructure making it an extremely interesting market. SKW Metallurgie not only anticipated this, but plans to open a cored wire plant in Russia in 2010. It's another example where foresight and planning give the SKW Metallurgie Group that added edge.

# Notes to the consolidated financial statements for business year 2009

## A. GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

SKW Stahl-Metallurgie Holding AG in Unterneukirchen (Germany), or „SKW Metallurgie“ or the „Company“ and is an Aktiengesellschaft (public limited company) under German law. The company has its registered office at Fabrikstrasse 6 in 84579 Unterneukirchen (Germany) and is registered with the Local Court in Traunstein (HRB No. 17037).

The company‘s shares were included in the German small-cap index SDAX with effect from June 23, 2008 and have been traded in the Prime Standard of the stock exchange in Frankfurt/Main (Germany) since December 1, 2006.

The business activities of the SKW Metallurgie Group comprise the acquisition, production and sale of chemical additives for hot metal desulfurization and steel refining as well as the associated technical application support for steel plants in these areas. In addition, it also produces and sells specialty chemicals for the production of industrial starch and bodycare products.

The consolidated financial statements are denominated in euros (EUR), the reporting currency. As a rule, the information on the amounts in the consolidated notes are in thousands of euros (EUR thousand) to the extent that nothing is stated to the contrary. There may be differences in the tables in the notes to the consolidated financial statements as a result of rounding differences.

The total cost (type of expenditure) format has been applied for the consolidated income statement. The consolidated balance sheet is classified by maturity. Assets and liabilities are regarded as being current if they are due within one year. Assets and liabilities that have a term of more than one year are classified as being non-current.

In order to improve the clarity of presentation, consolidated balance sheet items and consolidated income statement items are summarized to the extent that this is pertinent and possible. These items are broken down in the notes to consolidated financial statements, and discussed accordingly.

SKW Metallurgie‘s consolidated financial statements are supplemented by separate presentation of additional key components of the net financial position and results of operations. These components include the company‘s segments with a reporting requirement: Cored Wire, Powder and Granules and Other.

If noting is stated to the contrary, the information in the notes relates to the consolidated financial statements.

SKW Stahl-Metallurgie Holding AG prepares its consolidated financial statements according to International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). These consolidated financial statements of SKW Metallurgie were prepared in line with International Financial Reporting Standards (IFRS) as these are to be applied in the European Union and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC).

As a rule, the consolidated financial statements are prepared based on the basis of the historical cost system, with the exception of derivative financial instruments and other financial instruments, which are measured at their fair value.

All of the IFRSs and IASs and interpretations of the International Financial Reporting Interpretation Committee (IFRIC) or the Standing Interpretations Committee (SIC) that were binding for business year 2009 were upheld. The consolidated financial statements also include a group management report and further information required under the Section 315a (1) of the Handelsgesetzbuch (HGB – German Commercial Code) and the Aktiengesetz (AktG – German Public Limited Companies Act). The consolidated financial statements were prepared based on the going concern principle.

Application of the following standards from the IASB and IFRIC was mandatory for the first time for business years starting on January 1, 2009, and the European Union has included these in European law:

- Change to IFRS 7 (Improving Disclosures about Financial Instruments)
- Improvements to IFRS (Annual Improvement 2008)
- Change to IAS 32 and IAS 1 (Puttable Financial Instruments and Obligations Arising on Liquidation)
- Change to IAS 1 (Presentation of Financial Statements: A Revised Presentation)
- Change to IFRS 2 (Share-based Payment: Vesting Conditions and Cancellations)
- Change to IAS 23 (Borrowing Costs)
- IFRS 8 (Operating Segments)
- Change to IAS 39 (Reclassification of Financial Assets: Effective Date and Transition)
- Change to IFRIC 9 and IAS 39 (Embedded Derivatives)
- IFRIC 18 (Transfers of Assets from Customers)
- IFRIC 13, IAS 18 (Customer Loyalty Programmes)
- IFRIC 14, IAS 19 (Limit on defined benefit assets)

These standards and interpretations were reviewed with regard to their impact on the accounts of the SKW Metallurgie Group.

In January 2008, the IASB passed IFRS 2, Share-based Payment, vesting conditions and cancellations. The addition clearly defines that exercise conditions are only service conditions and performance conditions. Other elements of share-based payments are not vesting conditions. In addition, the amendment provides further definition in that cancellations by other parties than the company are to be accounted for in the same way as cancellations by the company. Use of the addition to IFRS 2 is also mandatory for business years that start on or after January 1, 2009, however it can already be applied on a voluntary basis. First time application did not impact the accounting.

In March 2009 the IASB published Improving Disclosures about Financial Instruments (adjustment to IFRS 7 Financial Instruments: Disclosures) to increase reporting on the measurement at fair value of financial instruments. This change relates to the introduction of a three-stage fair value hierarchy for reporting purposes. This differentiates fair value according to the importance of the input parameters included in the valuation, and clearly shows the extent to which observable market data is available when identifying the fair value. In addition, the information on the liquidity risk are to be improved by clarifying the scope of the liabilities to be included in the statement of maturities. Application of this change has resulted on increased information in the notes for the SKW Metallurgie Group.

The changes to IAS 1 “Presentation of the Financial Statements” mostly relate to the statement of changes in shareholders’ equity, the statement of comprehensive income and the names of the components of the financial statements. Only shareholder-related transactions are to be shown separately in the statement of changes in shareholders’ equity. All non-shareholder related transactions that impact equity are to be accumulated and presented in the statement of comprehensive income. A two-level structure can be selected as an alternative (income statement and statement of comprehensive income). The SKW Metallurgie Group uses the two-level structure. In addition, in the event of retrospective changes to the opening financial statements for the earliest comparable period, the changed opening financial statements must also be presented. The new names of the components of the financial statements included in the revised IAS 1 are not mandatory. The SKW Metallurgie Group does not use the new names. The changes to IAS 1 “Presentation of financial statements” have been fully implemented in the 2009 consolidated financial statements and have led to changed presentation of the statement of changes in shareholders’ equity and a reconciliation statement from the consolidated net loss/income to comprehensive income.

The revision to IAS 23 means that the option to capitalize borrowing costs as part of acquisition or production costs for qualified assets has been eliminated. In principle there is now an obligation to capitalize these borrowing costs. The SKW Metallurgie Group has fully implemented the revised IAS 23 in its 2009 consolidated financial statements and has capitalized corresponding borrowing costs.

The SKW Metallurgie Group applied IFRS 8, Business Segments ahead of time for business year 2008. The IASB published this standard in November 2006 and the EU endorsed it in its resolution on November 14, 2007.

The remainder of the new standards and interpretations listed did not impact the SKW Metallurgie Group. Application of these standards and interpretations did not lead to any adjustments.

The IASB has published the following accounting literature. Application is not yet mandatory and they have not yet been included in European law. The SKW Metallurgie Group has also not applied them to date, and they have no material impact on SKW Metallurgie’s consolidated financial statements:

- Change to IAS 32 (Classification of Rights Issue)
- IFRIC 17 (Distributions of Non-Cash Assets to Owners)
- Revised IFRS 1 (First Time Adoption of IFRS)
- Change to IAS 39 (Financial Instruments: Recognition and Measurement: Eligible Hedge Items)
- IFRS 3 (Revised 2008) (Business combinations)
- IAS 27 (revised 2008) (Consolidated and Separate Financial Statements)
- IFRIC 16 (Hedges of a Net Investment in a Foreign Operation)
- IFRIC 15 (Agreements for the Construction of Real Estate)
- Change to IFRS 1 and IAS 27 (Cost of an Investment in a Subsidiary)
- IFRIC 12 (Service Concession Arrangements)

The IASB has published the following accounting literature. It has not yet been endorsed by the EU, and has also not yet been applied by SKW Metallurgie. The company is still evaluating the possible impact of this accounting literature on the consolidated financial statements and will then determine when it will start to apply it.

- IFRS 9 (Financial Instruments)
- Change to IFRIC 14 (Prepayments of a Minimum Funding Requirement)
- Revised IAS 24 (Related Party Disclosures)
- IFRIC 19 (Extinguishing Financial Liabilities with Equity Instruments)
- Change to IFRS 2 (Group Cash-settled Share-based Payment Transactions)
- Change to IFRS 1 (Additional Exemptions for First-time Adopters)
- Improvements to IFRS (Annual Improvement 2009)
- IFRS 1 (Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters)

## B. GROUP OF CONSOLIDATED COMPANIES AND CONSOLIDATION METHODS

SKW Stahl-Metallurgie Holding AG's consolidated financial statements as of December 31, 2009 comprise the annual financial statements of the top-level group company and the financial statements of the subsidiaries included in the group.

Subsidiaries are all companies for which the company has control of the financial and business policy, as a rule accompanied by voting rights of more than 50%. When assessing whether or not there is a controlling influence, if necessary the existence and impact of potential voting rights that can currently be exercised or converted are taken into account. As a rule, subsidiaries are included in the consolidated financial statements (full consolidation) from the date on which control is transferred to the group. They are deconsolidated on the date on which control ends.

Subsidiaries' capital is consolidated according to IAS 27 (consolidated and single entity financial statements) in conjunction with IFRS 3 (business combinations) by offsetting the carrying amount of the interest with the subsidiary's newly valued equity on the date of acquisition (revaluation method). The acquisition costs correspond to the fair value of the assets paid, the equity instruments issued and the debts resulting or taken over on the date of exchange plus the costs that can be directly allocated to the acquisition. Assets, debts and contingent liabilities identifiable within the scope of a company merger are measured at their respective fair values at the date of acquisition at the time of their initial consolidation, irrespective of the scope of minority interests. The amount by which the acquisition costs exceed the Group's share of the net assets measured at their fair value is carried as goodwill. If the acquisition costs are lower than the fair value of the net assets of the acquired subsidiary, after another check the difference is taken directly to the income statement. Minority interests are carried at the fair value of the assets and liabilities at the amount due to the minority interests.

The earnings of the subsidiaries acquired or sold during the course of the year are carried on the consolidated income statement from the date of the start or end of the opportunity to exercise control. In the event of an acquisition or divestiture of minority interests, the "Modified Parent Company Model" is applied. According to this model, the difference resulting between the sale and acquisition price and the carrying amount of the minority interest is carried as goodwill, or in the case of badwill as income under other operating income.

No companies in the SKW Metallurgie Group were sold in business year 2009. Intragroup transactions, balances and unrealized gains from transactions between Group companies are eliminated. Unrealized losses are also eliminated, unless the transaction indicates impairment of the transferred asset.

The portion of the consolidated equity and the consolidated annual earnings due to minority interests is shown separately from the portions due to the parent company.

The balance sheet dates of the companies included in consolidation are identical to the parent company's reporting date, with the exception of the associated company Jamipol Ltd., Jamshedpur, India. This company's business year ends on March 31.

The Brazilian company Tecnosulfur Sistema de Tratamento de Metais Liquidos S/A acquired in business year 2009, hereinafter referred to as Tecnosulfur S/A, was consolidated for the first time. The shareholdings are listed in Section E. of these notes.

## Associates

Associated companies are companies over which the Group has a key influence but does not control; as a rule it holds between 20% and 50% of voting rights. Investment in associates are equity-accounted and are initially carried at cost. The difference between the costs of the interests in associated companies and the SKW Metallurgie Group's interests in these companies net assets is initially allocated to adjustments from the measurement of the acquired net assets at fair value. The excess amount is goodwill. The goodwill which results from the acquisition of an associated company is included in the carrying amount of the associated company and is not subject to scheduled amortization, but rather the entire carrying amount of the associated company is tested for impairment. The group's share of the profits and losses of associated companies is recorded from the date of the acquisition in the income statement, the share of changes to reserves is recorded under consolidated reserves. The accumulated changes after the acquisition are offset against the book value of the interest.

Jamipol Ltd. was included in the consolidated financial statements at equity.

## Segment reporting

Segment reporting structures the divisions according to their internal organizational and reporting structure. Segment reporting is in line with the accounting and valuation methods of the IFRS consolidated financial statements on which the reporting is based. There were no intra-segment consolidations. The amortization of intangible assets and the depreciation of property, plant and equipment belonging to the segment is disclosed as segment amortization/deprecation.

# C. KEY ACCOUNTING AND VALUATION PRINCIPLES

The annual financial statements of the companies included in the consolidated financial statements are based on uniform accounting and valuation policies. The key accounting and valuation methods that were applied when preparing these consolidated financial statements are discussed below.

## Recognition of revenues and expense

Revenues are measured at the fair value of the compensation paid or received and correspond to the amounts that would be received for goods and services in an arm's length transaction. Revenues from the sale of goods are carried as soon as the main opportunities and risks of ownership have been transferred to the purchase and the amount of the revenues that can be recognized can be reliably determined and it can be assumed that the receivable can be collected. Revenues from services are recorded as soon as the service has been rendered. No revenues are carried if there are major risks from the receipt of the compensation or a possible return of the goods. In all other respects, revenues are carried less income reductions such as bonuses, discounts, rebates or other taxes connected with the sale.

Expenses that do not qualify for capitalization in the financial statements are recorded on the date they arise as expenses in the income statement.

## Non-current construction contracts

Revenues and expenses from non-current construction contracts are accounted for using the percentage of completion method. The percentage of completion is given by the ratio of the costs from the contract incurred by the balance sheet date to the total estimated costs from the contract on the balance sheet date. Construction contracts accounted for using the percentage of completion method are measured according to the contract-based costs incurred by the balance sheet date plus the proportionate profits resulting from the percentage of completion reached. These revenues less advance payments received are carried in the financial statements under receivables, a negative balance is carried under liabilities. Changes to contracts, subsequent demands or performance premiums are taken into account to the extent that these have already been bindingly agreed with the customer. If the result of a construction contract cannot be reliably estimated, the revenues that are likely to be achieved are recorded up to the amount of the costs incurred. Contract costs are recognized as an expense in the period in which they are incurred. If it can be foreseen that the total costs from the contract will exceed the income from the contract, the anticipated losses are recorded directly as expenses.

## Financial result

Interest income is deferred on an accrual basis taking into account the amount of the loan outstanding and the applicable interest rate. The applicable interest rate is precisely the interest rate used to discount the estimated future cash flows over the term of the financial asset to the net book value of the asset.

Dividend income from financial assets is recorded when the shareholder's legal claim to payment arises.

## Borrowing costs

The Group capitalizes borrowing costs if a substantial period of time to get ready for the production of an asset in order to make this asset ready for its intended use. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset must be capitalized as part of the cost of that asset. In the case of borrowing that is not specifically drawn down to finance the acquisition, construction or production of a qualified asset (general borrowing), the amount of the borrowing costs to be capitalized is determined by multiplying the expenses for the acquisition, construction or production with the borrowing rate to the extent that the expenses were not already financed using borrowing drawn down specifically to finance the acquisition, construction or production of the qualified asset. This borrowing rate

is the weighted average of the borrowing costs for this type of loan for the SKW Metallurgie Group, which existed during the period of the acquisition, construction or production of the qualified asset and which were not specifically drawn down to procure a qualified asset.

## Income taxes

The income tax expenses are the total of the ongoing tax expenses and deferred taxes.

The ongoing tax expenses are calculated for the year based on the taxable income. The taxable profit (tax loss) is the profit (loss) for a period, determined in accordance with tax rules, upon which income taxes are payable (recoverable). The group's liability for ongoing tax expenses are calculated based on the applicable tax rates or the tax rates that applied up to the balance sheet date.

Deferred tax liabilities that result from temporary differences connected with interests in subsidiaries and associated companies are carried, unless the date of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred taxes are the anticipated tax refunds and charges based on differences in the carrying amounts between the assets and liabilities in the IFRS accounts and the corresponding tax base. In addition, deferred taxes can result from consolidation as well as on loss carryforwards for which recognition is probable. Deferred tax liabilities are recorded for all taxable temporary differences and deferred tax assets are recorded to the extent that it is probable that taxable gains will be available for which the deductible temporary differences can be used. These assets and liabilities are not carried if the temporary difference results from non-tax deductible goodwill or the initial inclusion (with the exception of business combinations) of other assets and liabilities that result from transactions which neither affect the taxable income nor the net profit for the period. Deferred tax assets and liabilities are offset to the extent that these exist vis-à-vis the same tax office and have identical terms.

The book value of the deferred taxes is reviewed each year on the balance sheet dated and reduced if it is no longer probable that there will be sufficient taxable income to regain the deferred taxes either in full or in part. Deferred taxes are identified based on tax rates already passed that applied on the date the liability was settled or the asset was realized. As a rule, deferred taxes are recognized in income with the exception of items that are booked directly under equity.

## Intangible assets

Intangible assets with limited useful lives are carried at cost and are subject to scheduled amortization in line with their useful lives over a period of generally three to fifteen years using the straight line method. Useful lives are reviewed regularly and are adjusted if required in line with future expectations.

Expenses for research activities are carried as an expense. Internally generated intangible assets are only capitalized if these meet the all requirements of IAS 38. If an internally generated intangible asset may not capitalized within the meaning of IAS 38, the development costs are recorded as expenses in the period in which they are incurred.

Intangible assets with indefinite useful lives, such as goodwill and unfinished development work, are carried at cost and are subject to an annual impairment test and additional impairment testing if there are indicators of possible impairment at other dates. Impairment is carried under amortization/depreciation

Acquired patents, licenses and trademarks are carried at cost. They have specific useful lives and are measured at cost less accumulated amortization.

If there are indicators of impairment, the intangible assets are subjected to an impairment test, and if necessary these are written down to the recoverable amount within the meaning of IAS 36.

Amortization is according to the straight line method over a useful life that is determined in a uniform manner for the following intangible assets:

- Patents, utility models, trade marks, publishing/copyright/benefit rights: Term of the respective right
- Company logos, ERP software and Internet domain names: 5 years
- Copyrighted software: 3 years
- Customers: 3 – 15 years
- Technology: 3 – 15 years

## Property, plant and equipment

All property, plant and equipment is measured at cost less depreciation. Costs include the incidental acquisition costs that can be directly allocated to the acquisition. All subsequent costs that cannot be capitalized and repairs and maintenance are recognized in income in income statement in the business year in which they are incurred.

Plots of land are not subject to scheduled depreciation. For all other assets, depreciation uses the straight line method, with costs being written down to the residual book value over the anticipated useful life of the assets as follows:

- Factory buildings: 20 years
- Administrative buildings: 25 years
- Other buildings: 10 years
- Operating equipment: 3 – 10 years
- Machinery and equipment: 2 – 15 years
- Operating equipment: 4 – 10 years
- Office equipment: 3 – 10 years

The remaining book values and economic useful lives are reviewed on each balance sheet date and adjusted accordingly. If the book value of an asset exceeds its estimated recoverable amount, it is written down to the latter immediately. Gains and losses from the disposal of assets are calculated as the difference between the income from the sale and the book value and recognized in income.

## Leases

Leases are classified as finance leases if, as a result of the conditions of the lease, the major risks and opportunities associated with ownership are transferred to the lessee. All other leases are classified as operating leases.

Assets that are rented or leased, for which economic ownership is with the respective group company (finance lease) are capitalized at the cash value of the lease payments or a lower present value within the meaning of IAS 17, and are written down in line with their useful lives. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the shorter of the lease term or its useful life.

The corresponding liability to the lessor is carried on the balance sheet as an obligation from finance leases. The leasing payments are split between interest expenses and the reduction in the leasing obligation such that there is a constant interest rate for the remaining liability.

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

During the period under review, there were both operating and finance leases in the group, with the company only being the lessee.

## Inventories

Inventories are measured at the lower of cost and net realizable value. Costs include material and production unit costs and the overheads attributable to production (based on standard operating capacity). Costs are calculated using weighted averages. The net realizable value is the estimated selling price less the costs for marketing, sales and distribution. Inventories are written up to their original costs if the reasons for value adjustments made in prior periods no longer exist.

## Trade receivables

Trade accounts receivable are initially recorded at fair value and subsequently valued at amortized cost less impairment. Impairment is recognized for trade accounts receivable if there is objective evidence that it will not be possible to collect the due receivable in full. The amount of the impairment is the difference between the book value of the receivable and the cash value of the estimated future cash flow from this receivable, discounted using the effective interest rate. The impairment is recognized as expense. Receivables are written up accordingly if the reasons for value adjustments made in prior periods no longer exist. Write-downs and write-ups are recorded directly by booking the receivable out or in.

## Cash and cash equivalents

Cash and cash equivalents comprise cash, demand deposits, other current highly liquid financial assets with an original maximum maturity of three months and current account overdrafts. Current account overdrafts are carried in the balance sheet as liabilities to banks under current financial liabilities.

## Financial Assets

Financial assets are broken down into the following categories: financial assets at fair value through profit or loss, loans and receivables, financial assets held to maturity and financial assets available for sale. Classification depends on the purpose for which the respective financial assets were acquired. Management determines the classification of the financial assets upon initial recognition and reviews the classification on each balance sheet date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets that have been held for trading from the outset, and financial assets that have been classified at fair value through profit or loss from the outset. A financial asset is allocated to this category if it was, in principle, acquired with the intention to sell it over the short term, or if the financial asset was designated correspondingly by the management. Deriva-

tives also belong to this category. Assets in this category are carried as current assets if they are either held for trading or will probably be realized within 12 months of the balance sheet date. Changes in the fair value of assets in this category are recognized in income in the period in which they arise.

The SKW Metallurgie Group does not use the option to allocate financial liabilities to this category upon initial recognition.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. They are initially recorded at fair value and subsequently valued at amortized cost in compliance with the effective interest method, less impairment. If they are due in more than twelve months, they are carried as non-current assets. The are carried as current assets if they are due in less than twelve months from the balance sheet date or, if they are finally due in more than twelve months, if they are regularly turned over as part of usual business.

(c) Held-to-maturity investments

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, for which the group's management has the intention and ability to hold these to maturity. Held-to-maturity financial investments are carried at amortized cost using the effective interest method.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that were either allocated to this category or which were not allocated to any of the other categories shown. These are carried under non-current assets to the extent that management does not intend to sell these within twelve months of the balance sheet date.

All purchases and divestitures of financial assets are recognized on the date of the transaction, the date on which the Group commits to the sale or purchase of the asset. Financial assets that do not belong to the category "at fair value through profit or loss" are initially carried at their fair value plus transaction costs. They are booked out when the rights to payments from the investment have expired or been transferred, and the Group has mostly transferred all of the opportunities and risks that are associated with ownership. Available-for-sale financial assets and assets in the category "fair value through profit or loss" are measured at their fair value after initial recognition.

Realized and unrealized gains and losses arising from the change in the fair value of assets in the category "recognizable in income at their respective fair value" are recognized in income in the period in which they arise. Non-realized gains from changes to the fair value of non-monetary securities in the available-for-sale category are taken to equity. If securities in the available-for-sale category are sold or impaired, the changes to the fair value accumulated in equity are recognized in income as gains or losses from financial assets in the income statement.

## Impairment

On each balance sheet date, the SKW Metallurgie Group reviews the carrying amounts of its intangible assets, property, plant and equipment and held-to-maturity financial investments to ascertain whether there are any indicators that they may be impaired. In this case, the recoverable amount of the respective asset is identified in order to determine the scope of any adjustment to its value that may have to be performed. The recoverable amount corresponds to the fair value less selling costs or the value in use; the higher value applies. The value in use corresponds to the present value of the anticipated cash flows. An interest rate before taxes that corresponds to market conditions is used for discounting. If it is not possible to ascertain the recoverable amount for an individual asset, the recoverable amount is determined

for the smallest identifiable group of assets (cash generating unit) with independent cash flows to which the respective asset can be allocated.

Goodwill resulting from company acquisitions is allocated to the identifiable groups of assets (cash generating units) which are to obtain benefits from synergies from the acquisition. These groups are the lowest reporting level in the group at which goodwill is monitored by management for internal control purposes. The recoverable amount of a cash generating unit that includes goodwill is reviewed regularly for impairment once per year and also if there are indicators of possible impairment at other dates.

If the recoverable amount of an asset is lower than its book value, the value of the asset is adjusted immediately. In the event of write-downs in connection with cash generating units which include goodwill, the first step is to reduce the goodwill. The impairment exceeds the carrying amount of the goodwill, as a rule the difference is distributed proportionately over the remaining assets in the cash generating unit, up to a maximum of the higher of the fair value less selling costs or the value in use.

If, after impairment has been performed, a higher recoverable amount for the asset or the cash generating unit results at a later date, the asset is written up to, at the most, the recoverable amount. The write-up is restricted to the amortized carrying amount which would have resulted if the asset had not been impaired in the past. The write-up is reflected in income. It is not permitted to write-up impaired goodwill.

## Equity

Ordinary shares are classified as being equity. Expenses directly connected with the issue of new shares or options are taken directly to equity as a deduction from the proceeds from the issue.

## Provisions

Provisions are formed if the group has a current legal or de facto obligation resulting from a previous event and it is more likely than not that the settlement of this obligation will lead to a charge and the amount of the provision can be reliably measured. If there are a number of obligations of the same type, the probability of a charge is measured based on the group of these obligations. Long-term provisions are discounted – to the extent that the impact is material.

## Employee benefits

### PENSION OBLIGATIONS

The company‘s pension plans are based on corresponding company agreements and individual regulations, and have a defined benefit structure. The amount of the benefits is governed by the number of years of service and, in Germany, the income threshold for statutory pension insurance. Benefits are based on pensionable income. This is the income in the last 24 to 36 months before entering the pension. The actuarial valuation of the provisions for pensions for the company pension scheme uses the projected unit credit method prescribed by IAS 19 (payments to employees), with an actuarial valuation on each balance sheet date. As part of this projected unit credit method, the pensions and benefit obligations acquired that are known on the balance sheet date and the anticipated increases in salaries and pensions in the future are taken into account. These assumptions can change and are subject to estimates as their future development cannot be predicted. Any actuarial gains or losses resulting at the end of the year between the pension commitments thus calculated or the plan assets and the actual present value of the obligations or the market value of the plan assets are only carried if these fall outside a 10% bandwidth for the scope of the commitment or the plan assets (so-called corridor). In this event, the portion that is outside the corridor is distributed in the following year over the average remaining periods of service for the entitled active employees and recognized as income or expenses. The interest for the allocation to provisions included in the pension expenses (interest on debt and the plan assets) is shown as interest expenses in the income statement. The provision for pensions carried in the balance sheet corresponds to the present value of the defined benefit obligation (DBO) on the balance sheet date less the fair value of the plan assets (if present), adjusted for accumulated actuarial gains and losses not previously recognized in income and non-recognized past service cost.

### TERMINATION BENEFITS

Termination benefits are paid if an employee is dismissed before the normal retirement date or if an employee accepts voluntary redundancy in return for a redundancy payment. The group records termination benefits if it is demonstrably committed to a termination when, and only when, it has a detailed formal plan for the termination of the employment of current employees and is without realistic possibility of withdrawal, or if it has demonstrably to pay compensation upon voluntary termination of the employment contract by employees. Payments that are due more than 12 months after the balance sheet date are discounted to their cash value.

### PROFIT PARTICIPATIONS AND BONUS PLANS

A liability and an expense item are carried for bonus payments and profit participations. The group carries a provision as a liability for cases in which there is a contractual obligation or past business practice results in a de facto obligation.

### SHARE-BASED PAYMENTS

The SKW Metallurgie Group set up a stock option program for the members of its Managing Board and executives. According to IFRS 2, in the case of share-based payments, a difference is made between cash-settled transactions and equity-settled transactions. For equity-compensated transactions, the fair value is identified on one occasion only on the date these are granted. The remuneration expense is then distributed over the period in which the employees acquire an unrestricted claim to the instruments. The counterbooking was made under equity. Cash-settled commitments are re-valued at their fair value through on each balance sheet date until the commitment has been settled. Changes from the valuation are recognized in income as a provision. A Monte-Carlo simulation is used when calculating the fair values of the share-based compensation plan.

## Foreign currencies

### FUNCTIONAL CURRENCY AND REPORTING CURRENCY

The items included in the financial statements of each Group company are measured based on the currency which is the currency of the primary economic environment in which the company operates (functional currency).

### TRANSACTIONS AND BALANCES

Foreign currency transactions are translated to the reporting entity‘s functional currency using the exchange rates on the date of the transaction. On the balance sheet date, monetary items are to be translated at the closing rate, and gains and losses that result from the fulfillment of these transactions and from translation at the closing rate of monetary assets and liabilities in foreign currency are recorded in the income statement. Non-monetary items are translated at the rate of exchange on the date of the transaction. Translation differences are recorded in line with the method for the recognition of gains and losses as part of revaluation.

### GROUP COMPANIES

Earnings and balance sheet items of all group companies which have a functional currency which is not the same as the (group) reporting currency are translated to the (group) reporting currency as follows:

(a) Assets and liabilities are translated for each balance sheet date at the closing rate; in contrast, equity is translated at historical rates.

(b) Income and expenses are translated at the average rate of exchange for each income statement and

(c) All resulting translation differences are recognized as a separate equity item.

The exchange rates for key currencies used changed as follows (exchange rate per EUR 1):

| EURO 1 | | Spot exchange rate Dec. 31, 2009 | Spot exchange rate Dec. 31, 2008 | Average exchange rate 2009 | Average exchange rate 2008 |
|---|---|---|---|---|---|
| Brazil | BRL | 2.5113 | 3.2436 | 2.7674 | 2.6737 |
| China | CNY | 9.8350 | 9.4956 | 9.5277 | 10.2236 |
| Hong Kong | HKD | 11.1709 | 10.7858 | 10.8114 | 11.4541 |
| India | INR | 67.0400 | 70.0891 | 67.3611 | 64.1272 |
| Bhutan | BTN | 67.0400 | 70.0891 | 67.3611 | 64.1272 |
| Japan | JP¥ | 133.1600 | 126.14 | 130.3366 | 152.4541 |
| Canada | CAD | 1.5128 | 1.6998 | 1.5850 | 1.5594 |
| Mexico | MXN | 18.9223 | 19.2333 | 18.7989 | 16.2911 |
| Russia | RUB | 43.1540 | 41.283 | 44.1376 | 36.4207 |
| South Korea | KRW | 1,666.9700 | 1,839.13 | 1,772.9039 | 1,606.0872 |
| Turkey | TRL | 2.1547 | 2.1488 | 2.1631 | 1.9064 |
| US | US$ | 1.4406 | 1.3917 | 1.3948 | 1.4708 |

## Trade payables

Financial liabilities comprise liabilities to banks, liabilities from derivative financial instruments and trade accounts payable. Liabilities from derivative financial instruments are classified as „financial liabilities at fair value through profit or loss“ if they are not hedges, whereas liabilities to banks and trade accounts payable fall under „other liabilities“.

In line with the definition of equity in IAS 32, equity is only present from the company's perspective if the corresponding financial instrument does not evidence a contractual obligation to repay capital or to deliver other financial assets. Repayment obligations from company assets can arise if (minority) shareholders have a right of termination and, at the same time, exercising this right evidences a compensation claim against the company. Any such capital provided by minority interests is carried as a liability, even if this is regarded as equity national regulations.

Current items have a remaining term of up to one year, non-current items have a remaining term of more than one year.

### OTHER LIABILITIES AT AMORTIZED COST

Financial other liabilities are to be measured for the first time at their fair values, taking transaction costs into account that can be directly allocated to the acquisition of the financial liability. During subsequent periods, other liabilities are to be measured at amortized cost. For current liabilities, this means that they are carried at their repayment amount or settlement amount. Noncurrent liabilities and financial liabilities are carried at amortized cost according to the effective interest rate method. Liabilities from finance leases are carried at the cash value of the minimum leasing payments.

### FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

After their initial recognition, financial liabilities at fair value through profit or loss are measured at fair value until they are booked out. Gains and losses from changes in fair value are recognized in income in the period in which they arise. Gains and losses include both realized gains and losses that result when the financial assets are sold and also unrealized gains and losses that result from the continued inclusion of the financial assets in the accounts.

The SKW Metallurgie Group does not use the option to allocate financial liabilities to this category upon initial recognition.

## Derivative Financial Instruments

As a rule, the SKW Metallurgie Group uses derivative financial instruments to counter risks from exchange rates and changes in interest rates which can arise as part of ongoing business activities and investment and financial transactions. As a rule, derivative financial instruments are only used to hedge existing or planned underlying transactions. These derivative financial instruments and so-called embedded derivative financial instruments which are an integral component of certain agreements and which have to be disclosed separately are recognized at fair value through profit and loss both upon initial recognition and in subsequent periods. Gains and losses from fluctuations in fair value are recognized in income immediately.

If derivative financial instruments are used to hedge risks from future cash flows and to hedge balance sheet items, IAS 39 allows the use of the special regulations for hedge accounting if certain conditions are fulfilled. This allows the volatility in the income statement to be reduced. Depending on the type of hedged underlying transaction, a difference is made between a fair value hedge, a cash flow hedge and a hedge of a net investment in a foreign operation.

In the case of a fair value hedge which is used to hedge assets and liabilities in the balance sheet or fixed contractual obligations which are not included in the accounts, the hedge is carried at fair value and changes in the fair value in this regard are recognized immediately in income. Changes in the fair values of the hedged assets, liabilities or fixed contractual obligations which result from the hedged risk are also recognized in income. In the event of a perfect hedge, the fluctuations in fair value recognized in income in the underlying and hedge practically balance each other out. If the asset or liability is carried at amortized cost according to the general accounting regulations, the carrying amount is to be adjusted for the accumulated changes in fair value that result from the hedged risk. However, if the underlying transaction (e.g., available-for-sale securities) is carried at fair value without affecting the income statement according to the general accounting regulations, the changes in fair value resulting from the hedged risk are recognized in income, in contrast to the general regulations. The SKW Metallurgie Group does not currently use fair value hedges.

In the case of cash flow hedges, future fluctuations in cash flows from assets and liabilities carried in the balance sheet from future transactions which are highly likely to occur, or from currency risks from a fixed contractual obligation, are hedged. The effective portion of the fluctuations in fair value is taken directly to equity immediately. The reclassification from equity to the income statement is performed in the period in which the underlying transaction is also recognized in income. If the hedge later results in a non-financial asset being carried (e.g., property, plant and equipment or inventories), on this date the fluctuations in fair value previously carried in equity change the carrying amount of the non-financial asset. The remaining ineffective portion of the derivative and adjustments as a result of interest rate effects stemming from the determination of the effectiveness of the hedge is recognized immediately in the consolidated income statement.

When the hedge expires, is sold, ends or is exercised, or if the hedge no longer exists, but it is still expected that the planned underlying transaction will take place, all of the gains and losses accumulated to that date from this hedge remain under equity and are recognized in income when the hedged underlying transaction is recognized in income. If the originally hedged underlying transaction is no longer expected to occur, the accumulated non-realized gains and losses carried under equity to that date are recognized immediately in the income statement.

The SKW Metallurgie Group uses cash flow hedges to hedge against the risk of changes in the interest rate. The underlying hedge transaction is an interest rate swap. In addition, the company also employs hedges in line with its risk management principles that make an economic contribution to hedging existing risks, but which do not meet the strict requirements of IAS 39 for hedge accounting. The SKW Metallurgie Group does not use hedge accounting for currency derivatives that are concluded to hedge currency risks from monetary balance sheet items. The effects recognized in income from the translation of the balance sheet items is thus offset by the fluctuations in the fair value of the derivatives, which are also to be recognized in income.

The SKW Metallurgie Group does not currently hedge net investments in a foreign operation.

## Public Subsidies

A government grant is not recognized until there is reasonable assurance that the enterprise will comply with the conditions attaching to it, and that the grant will be received. Investment grants are carried as a reduction to the costs of the respective asset, and lead to a corresponding reduction in the scheduled amortization or depreciation in subsequent periods. Subsidies that are not based on investments are recognized as a reduction to the respective expense item (net method) in the periods in which the expenses were incurred that are to be compensated by the subsidies.

### ACCOUNTING AND VALUATION ASSUMPTIONS AND ESTIMATES

In preparing the consolidated financial statements, assumptions have to be made and estimates have to be used to a certain extent. These impact the amount and disclosure of the assets and liabilities, income and expenses and contingent liabilities in the period under review included in the financial statements. The assumptions and estimates are based on presumptions that are based on the respective current knowledge. In particular, the predicted future business development was based on the conditions prevailing when the financial statements were prepared and a realistic assumption for the future development of the environment. Developments in the underlying conditions that differ from the assumptions and which are outside the management's sphere of influence may result in the actual amounts recorded differing from the original estimates.

On the date the consolidated financial statements were prepared, the underlying assumptions and estimates were not subject to any major risks, with the result that, from today's perspective, no major adjustment of the carrying amounts of the assets and liabilities carried on the balance sheet for the next business year has to be assumed.

### ACCOUNTING FOR ACQUISITIONS

Goodwill is carried in the consolidated balance sheet as a result of acquisitions. Upon first time consolidation of an acquisition, all identifiable assets, liabilities and contingent liabilities are carried at their fair values on the acquisition date. One of the most important estimates in this regard is determining the respective fair values of these assets and liabilities on the balance sheet date. As a rule, land, buildings and operating equipment are valued based on independent surveys, whereas marketable securities are carried at their stock market prices. If intangible assets are identified, either independent surveys by a third-party surveyor are used or the fair value is determined internally using suitable valuation techniques (these are generally based on the forecast for the total future anticipated cash flow) depending on the type of the intangible asset and the complexity of determining the fair value. These valuations are closely linked to the assumptions that management makes with regard to the future growth in the value of the respective assets, and also the assumed changes in the discount interest rate to be applied.

### GOODWILL

As shown in the principles of these notes, the SKW Metallurgie Group performs impairment testing once per year and also additional testing if there are any indicators that goodwill is impaired. The recoverable amount for the cash generating unit should be estimated. This is the higher of the fair value less selling costs and the value in use. The value in use is determined using adjustments and estimates with regard to the forecast for and discounting of the future cash flow. Although management believes that the assumptions used to calculate the recoverable amount, any unforeseen changes in these assumptions could lead to impairment expenses which could have a negative impact on the financial position and results of operations.

### IMPAIRMENT OF ASSETS

On each balance sheet date, the SKW Metallurgie Group must estimate if there are any indicators that the carrying amount of a tangible or intangible asset could be impaired. In this event the recoverable amount of the affected asset has to be estimated.

This is the higher of the fair value less selling costs and the value in use. The discounted future cash flows of the respective asset have to be determined to identify the value in use. Estimating the discounted future cash flow includes key assumptions, such as regarding the future selling prices and sales volumes, costs and discount rates. Although management believes that the estimates for the relevant expected useful lives, the assumptions with regard to the economic underlying conditions and the development of the sectors in which the SKW Metallurgie Group operates, and the estimates of the discounted future cash flows are reasonable, a change in the assumptions, or, under certain circumstances, a change in the analysis may be required. This could result in additional write-downs or write-ups in the future, if the trends the management has identified reverse or if the assumptions and estimates prove to be incorrect.

In the case of intangible assets with indefinite useful lives, the SKW Metallurgie Group tests impairment annually and additionally if there are any indicators of impairment. In this regard, the recoverable amount of the intangible asset is estimated as the higher of the value in use and the fair value less selling costs. Management believes that the assumptions on which these are based are reasonable. However, unforeseen changes may occur.

### CLAIMS FROM GOODS AND SERVICES AND OTHER CLAIMS

Write-downs for doubtful receivables comprise, to a significant extent, estimates and assessments of individual receivables. These are based on the creditworthiness of the respective customer, current economic developments and analyses of historical defaults on receivables. In order to determine the country-specific components of the individual write-downs, the SKW Metallurgie Group also considers country ratings that are identified based on assessments by external rating agencies.

### RECOGNITION OF REVENUES FOR CONSTRUCTION CONTRACTS

Revenues and expenses from construction contracts are accounted for using the percentage of completion method, if the result of a construction contract can be reliably estimated. Income and costs are recognized in line with the percentage of completion on the balance sheet date. As a rule, this is the ratio of the order-based costs incurred by the balance sheet date to the estimated total costs of the order, unless this would lead to a distortion in presentation of the percentage of completion. Payments for differences in the total order, subsequent receivables and premiums are included in the income from the order. The group carries a receivable for all ongoing construction contracts with a credit balance with customers for which the costs incurred plus the recognized profits exceed the total of the invoices for installments. The group carries a liability for all ongoing construction contracts with a debit balance with customers for which

the total invoices for installments exceed the costs incurred plus the recognized profits. If the result of the construction contract cannot be reliably estimated, the income from the order is only to be recorded in the amount of the order costs incurred. It is likely that these can be refunded. Order-based costs are recognized as expenses in the period in which they are incurred. If it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

### TAXES ON INCOME

As the SKW Metallurgie Group has operating activities and generates income in many countries, it is subject to a wide range of tax legislation in a large number of tax jurisdictions. This means that key assessments are required in order to determine the group's global tax liabilities. Although management believes that it has made a reasonable estimate of tax uncertainties, no assurance can be given that the actual outcome of these tax uncertainties is congruent with the original estimate. Any differences could have an impact on tax liabilities and deferred taxes in the respective period in which the issue is finally resolved.

On each balance sheet date, the SKW Metallurgie Group assesses whether it is sufficiently probable that it will be possible to realize future tax advantages for carrying deferred tax assets. This means that management has to, for example, assess tax advantages that result from the tax strategies available and the future taxable income, and also the consideration of additional positive and negative factors. The deferred tax assets carried can be reduced if the estimates of the planned taxable income and the tax advantages that can be generated as a result of the available tax strategies are cut or if there are changes in the current tax legislature which restrict the timeframe or the scope of the possibility to realize future tax advantages.

### EMPLOYEE BENEFITS

Accounting for pensions and similar commitments is in line with actuarial valuations. These valuations are based on statistical and other factors, in order to thus anticipate future events. These actuarial assumptions can differ substantially from actual developments as a result of changes in the market and economic conditions, and can thus lead to a major change in the pension and similar commitments and the associated future expense.

### PROVISIONS

Determining the level of provisions is linked, to a great extent, with the use of estimates. As a result, it may be necessary to adjust the amount of a provision as a result of new developments and changes in the estimates. Changes to estimates and assumptions over time can have a material impact on future earnings. It cannot be ruled out that additional expenses may arise for the SKW Metallurgie Group over and above the provisions formed. These additional expenses may have a material impact on the company's financial position and results of operations.

## Acquisitions

### ACQUISITION OF TECNOSULFUR SISTEMA DE TRATAMENTO DE METAIS LIQUIDOS S/A

As of December 23, 2009, SKW Serviços Metalúrgicos do Brasil Ltda, Inc., São Bernardo do Campo, Brazil, acquired a 66.67% interest in Tecnosulfur Sistema de Tratamento de Metais Liquidos S/A. The purchase price for this acquisition totaled EUR 22,069,775 (including incidental acquisition costs totaling EUR 455,405). This can still increase due to the definition of working capital, which has not yet been completed, and also due to an earn-out clause that has been agreed. Part of the purchase price was already paid in 2009, the remainder will be paid in the future. The purchase price is broken down into acquired assets, liabilities and contingent liabilities at fair value as part of the purchase price allocation according to IFRS 3.

The acquired assets and liabilities were as follows:

| Acquired net assets in EUR thousand | Carrying amounts as of Dec. 23, 2009 | Hidden reserves | Fair value as of Dec. 23, 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| Customers | 0 | 8,428 | 8,428 |
| Brand name | 0 | 7,786 | 7,786 |
| Technology | 0 | 3,424 | 3,424 |
| Advantageous supply agreement | 0 | 5,896 | 5,896 |
| Other intangible assets | 71 | 0 | 71 |
| **Intangible assets** | **71** | **25,534** | **25,605** |
| Property | 92 | 393 | 485 |
| Buildings | 1,436 | 1,699 | 3,135 |
| Equipment and advance payments made | 3,281 | 626 | 3,907 |
| **Property, plant and equipment** | **4,809** | **2,718** | **7,527** |
| Other assets | 6,638 | 72 | 6,710 |
| Deferred tax assets | **277** | **4,721** | **4,998** |
| | **11,795** | **33,045** | **44,840** |
| **EQUITY AND LIABILITIES** | | | |
| Other liabilities | 11,863 | 0 | 11,863 |
| Deferred tax liabilities | 0 | 7,081 | 7,081 |
| | **11,863** | **7,081** | **18,944** |
| **Net assets** | **-68** | **25,964** | **25,896** |
| Minority interest | | | -7,058 |
| **Acquired net assets** | | | **18,838** |

| Identification of goodwill in EUR thousand | Dec. 23, 2009 |
|---|---|
| Purchase price | 22,070 |
| Less net assets acquired measured at fair value | -18,838 |
| **Total goodwill** | **3,232** |

A deferred tax asset is carried as a result of the ability to deduct tax goodwill for tax purposes that exceeds the IFRS goodwill. This deferred tax asset is not included when calculating the minority interest.

By acquiring Tecnosulfur S/A, the Group has expanded its global market and technology leadership for hot metal desulfurization, and has increased its product range for secondary metallurgy thanks to Tecnosulfur S/A's competence in using sintered synthetic slag. In addition, the acquisition of Tecnosulfur S/A reinforces the Powder and Granules segment's existing multi-method technology leadership for hot metal desulfurization. This allows the Group to develop and successfully market customer-oriented solutions for mono-injection, co-injection, and tri-injection. The acquisition of Tecnosulfur S/A will help to further increase the SKW Metallurgie Group's global presence, in particular for hot metal desulfurization. As a result of the vertical integration associated with the acquisition, the Group has increased both its market shares and profitability.

Cash and cash equivalents totaling EUR 1,572 thousand were acquired. From the date of acquisition through to December 31, 2009, Tecnosulfur S/A's revenues totaled EUR 737 thousand, EBITDA totaled EUR 502 thousand, and net income EUR 351 thousand. The contribution to consolidated earnings for

the period from January 1 to December 22, 2009 would have totaled EUR 23,198 thousand for revenues, EUR 6,572 thousand for EBITDA and EUR 4,746 thousand for net income. These are IFRS figures, however they do not include any PPA adjustments.

The figures stated are preliminary figures, as the purchase price allocation within the meaning of IFRS 3 has not yet been conclusively concluded.

# D. NOTES ON THE BALANCE SHEET AND INCOME STATEMENT AND ADDITIONAL INFORMATION

The figures below from the income statement relate to the entire calendar year for 2009 and 2008 in each case.

## 1. Revenues

The group's revenues stem exclusively from the sale of goods and merchandise and are broken down into the following regions (by customer location):

| EUR thousand | 2009 | 2008 |
|---|---|---|
| Germany | 20,387 | 40,260 |
| Europe without Germany | 40,927 | 82,947 |
| NAFTA | 122,134 | 204,399 |
| Asia | 27,091 | 30,581 |
| Rest of world | 10,030 | 19,566 |
| | **220,569** | **377,753** |

The breakdown of revenues by product group corresponds to the breakdown of revenues by segments (Item 29). Revenues include order-based income from non-current construction contracts totaling EUR 3,813 thousand (previous year: EUR 4,624 thousand).

The following information is provided for ongoing projects on the balance sheet date:

| EUR thousand | Dec. 31, 2009 | Dec. 31, 2008 |
|---|---|---|
| Aggregate amount of costs incurred and recognized profits (less recognized losses) to date | 11,936 | 10,930 |
| Received down payments | 13,389 | 11,656 |
| Amounts retained by customers | 0 | 31 |

On the balance sheet date there were construction contracts with a credit balance from customers totaling EUR 738 thousand (previous year: EUR 816 thousand) as well as with a debit balance from customers totaling EUR 2,191 thousand (previous year: EUR 1,542 thousand). Construction contracts with a credit balance are carried under trade accounts receivable, and construction contracts with a debit balance are carried under trade accounts payable.

## 2. Other operating income

| EUR thousand | 2009 | 2008 |
|---|---|---|
| Income from booking out liabilities | 664 | 315 |
| Income from exchange rate fluctuations | 1,808 | 3,080 |
| Income from the disposal of non-current assets | 24 | 221 |
| Income from the disposal of liabilities | 0 | 362 |
| Income from writing up receivables | 5 | 0 |
| Income from insurance | 151 | 0 |
| Income from service agreement with the associated company Jamipol | 48 | 47 |
| Other operating income | 638 | 136 |
| | **3,338** | **4,161** |

Other operating income includes a large number of individual items with low amounts from the 23 consolidated companies on the balance sheet date.

## 3. Cost of materials

| EUR thousand | 2009 | 2008 |
|---|---|---|
| Production supplies | 134,190 | 206,606 |
| Goods purchased | 34,979 | 69,503 |
| Services purchased | 1,522 | 1,674 |
| Other | 2,481 | 5,198 |
| | **173,172** | **282,981** |

The cost of materials primarily relates to the „Cored Wire“ segment at an amount of EUR 68,324 thousand (previous year: EUR 118,111 thousand) and EUR 92,816 thousand (previous year: EUR 175,482 thousand) relates to the „Powder and Granules“ segment.

## 4. Personnel expenses

| EUR thousand | 2009 | 2008 |
|---|---|---|
| Wages and salaries | 16,852 | 23,604 |
| Social security contributions, expenses for pension plans and benefits | 6,241 | 6,589 |
| | **23,093** | **30,193** |

Personnel expenses in the period under review primarily relate to the „Cored Wire“ segment at an amount of EUR 8,418 thousand (previous year: EUR 11,634 thousand) and EUR 13,172 thousand (previous year: EUR 16,490 thousand) relates to the „Powder and Granules“ segment. The stock option program resulted in expenses totaling EUR 178 thousand in the year under review (previous year: EUR 49 thousand).

Personnel expenses include a lump-sum refund of 50% for the first six months and 100% for the seventh month for social security contributions for short-time work pay totaling EUR 10 thousand that was received as a public subsidy.

## 5. Other operating expenses

| EUR thousand | 2009 | 2008 |
|---|---|---|
| Outgoing freight/transport costs | 9,225 | 14,455 |
| General and administrative expenses | 2,184 | 4,013 |
| Commissions | 1,839 | 2,492 |
| Expenses for land and buildings | 1,746 | 1,713 |
| Expenses from exchange rate fluctuations | 2,233 | 2,431 |
| Cost taxes France (tax professionelle) | 206 | 531 |
| Consulting costs | 1,353 | 1,321 |
| Marketing and entertainment expenses | 1,947 | 2,971 |
| Loss from the disposal of assets | 22 | 119 |
| Write-downs on receivables | 246 | 354 |
| Research and development (material costs) | 223 | 252 |
| Repairs and maintenance | 1,309 | 1,787 |
| Insurance | 833 | 956 |
| Operating safety | 139 | 158 |
| Expenses for provision for EU antitrust proceedings | 418 | 6,232 |
| Other | 3,954 | 5,209 |
| | **27,877** | **44,994** |

In 2009, the remaining other operating expenses related to a large number of small individual items with low amounts for the 23 consolidated companies.

## 6. Depreciation/amortization

For more information on changes in the depreciation of property, plant and equipment and amortization of intangible assets on the period under review, please refer to the statement of changes in non-current assets under items 13 and 14.

## 7. Income from associated companies

Income from affiliated companies of EUR 833 thousand (previous year: EUR 753 thousand) results solely from the company Jamipol Ltd., Jamshedpur (India).

## 8. Other interest and similar income

Other interest and similar income of EUR 173 thousand (previous year: EUR 171 thousand) results from the interest on current bank balances of EUR 132 thousand (previous year: EUR 171 thousand) and interest income from tax refunds of EUR 41 thousand (previous year: EUR 0 thousand). The interest income includes EUR 132 thousand with regard to financial assets not measured at fair value through profit and loss.

## 9. Interest and similar expenses

The interest and similar expenses of EUR 2,627 thousand (previous year: EUR 2,887 thousand) mostly results from the interest on current liabilities to banks of EUR 2,371 thousand (previous year: EUR 2,561 thousand), and with other third parties in the amount of EUR 256 thousand (previous year:. EUR 162 thousand). The interest expenses includes EUR 2,550 thousand with regard to financial assets not measured at fair value through profit and loss.

## 10. Income tax

| EUR thousand | 2009 | 2008 |
|---|---|---|
| Effective tax income/expense | -3,454 | 8,400 |
| Deferred taxes | 1,339 | 1,225 |
| Deferred tax assets | -2,250 | -2,599 |
| Total deferred tax assets/liabilities | -911 | -1,374 |
| **Total income tax income/expense** | **-4,365** | **7,026** |

The income tax expense of EUR -4,365 thousand disclosed in the year under review (previous year: EUR 7,026 thousand) is broken down as follows:

The figure shown in the table as the current tax expense is the net figure for current tax expenses and current tax income. This includes liabilities to affiliated companies in the amount of EUR 976 thousand.

The following reconciliation statement shows the differences between the booked and the expected income tax income. The expected income arises from the earnings before income taxes multiplied by the expected tax rate. The anticipated income tax rate includes the German corporation tax, the solidarity surcharge and trade tax and totaled 27% in the year under review (previous year: 37%).

| EUR thousand | 2009 | 2008 |
|---|---|---|
| Earnings before taxes | -9,473 | 16,975 |
| **Tax rate** | **27.00%** | **27.00%** |
| Anticipated income taxes | -2,558 | 4,583 |
| Tax-free income | 0 | -384 |
| Tax allocations and settlements | 236 | 2,261 |
| Other tax effects taken directly to equity | -342 | -592 |
| Impact of different income tax rates | -564 | 1,766 |
| Non-period tax income | -976 | -7 |
| Income from associated companies | -225 | -204 |
| Other tax effects | 64 | -397 |
| **Disclosed tax income/expense** | **-4,365** | **7,026** |
| Effective tax rate | 46.08% | 41.39% |

The other tax effects taken directly to equity are mostly the result of the use of tax losses carried forward, for which no deferred tax assets were carried.

## 11. Minority interests

The consolidated net loss for the period of EUR -5,108 thousand includes minority interests of EUR -84 thousand (previous year: EUR -147 thousand).

## 12. Earnings per share

The earnings per share (EPS) are calculated by dividing the consolidated net loss for the period by the weighted average number of no-par value bearer shares in circulation during the reporting period (4,565,531). EPS in the period under review was EUR -1.10 per share.

| | 2009 | 2008 |
|---|---|---|
| Consolidated loss/profit in EUR thousand | -5,108 | 9,949 |
| Less: minority interests in EUR thousand | +84 | +147 |
| Loss/profit attributable to shareholders of SKW Stahl-Metallurgie Holding AG in EUR thousand | -5,024 | 10,096 |
| Weighted average number of shares in circulation on the balance sheet date in thousands | 4,566 | 4,422 |
| Earnings per share in EUR | -1.10 | 2.28 |

Diluted earnings per share correspond to basic earnings per share.

## 13. Intangible assets

During the year under review, the group capitalized R&D costs totaling EUR 153 thousand (previous year: EUR 202 thousand), including own work capitalized of EUR 127 thousand (previous year: EUR 184 thousand). Total R&D expenses of EUR 589 thousand were recognized in income by the group in 2009 (previous year: EUR 898 thousand). Of this total, EUR 345 thousand is due to personnel expenses, EUR 223 thousand is due to material costs and EUR 21 thousand is due to amortization/depreciation.

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

| EUR thousand | Concessions, industrial and similar rights and assets | Goodwill | Customers | Brand names | Internally generated intangible assets | Other intangible assets | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition costs on 01.01.09** | **774** | **15,366** | **8,134** | **7,185** | **1,547** | **1,780** | **34,786** |
| Currency translation | 1 | -505 | -179 | -153 | -38 | 60 | -784 |
| Additions to Group | 71 | 3,232 | 8,428 | 7,786 | 0 | 9,320 | 28,837 |
| Additions | 80 | 579 | 0 | 0 | 153 | 5 | 817 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | 41 | 0 | 0 | 0 | -41 | 0 | 0 |
| **Balance at Dec. 31, 2009** | **967** | **18,672** | **16,383** | **14,818** | **1,621** | **11,165** | **63,626** |
| **Amortization on Jan. 1, 2009** | **-269** | **0** | **-1,195** | **0** | **-766** | **-361** | **-2,591** |
| Currency translation | 0 | 0 | 89 | 0 | 26 | 13 | 128 |
| Additions | -154 | 0 | -781 | 0 | -21 | -367 | -1,322 |
| Additions (extraordinary) | 0 | 0 | -795 | 0 | 0 | 0 | -795 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Balance at Dec. 31, 2009** | **-423** | **0** | **-2,682** | **0** | **-761** | **-715** | **-4,581** |
| **Net book value Dec. 31, 2009** | **544** | **18,672** | **13,701** | **14,818** | **860** | **10,450** | **59,045** |

The brand names are intangible assets with an indefinite useful life. These are the brands Tecnosulfur and ESM. Use of the „Tecnosulfur“ brand depends on the market on which hot metal desulfurization products are used. As far as we are aware today, it must be assumed that it will be possible to use these markets for a very long period. However it is not possible to determine the period of use, and as a result the useful life of the brand also has to be regarded as indefinite. Use of the „ESM“ brand depends on the technology used for hot metal desulfurization. As the useful life of this technology cannot be determined according to current knowledge, the useful life of the brand is also to be regarded as indefinite.

The year-on-year change is as follows:

| EUR thousand | Concessions, industrial and similar rights and assets | Goodwill | Customers | Brand names | Internally generated intangible assets | Other intangible assets | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition costs on Jan. 1, 2008** | **642** | **14,521** | **7,690** | **6,793** | **1,442** | **1,359** | **32,447** |
| Currency translation | 0 | 845 | 444 | 392 | 61 | 80 | 1,822 |
| Additions | 30 | 0 | 0 | 0 | 202 | 344 | 576 |
| Disposals | -59 | 0 | 0 | 0 | 0 | 0 | -59 |
| Reclassifications | 161 | 0 | 0 | 0 | -158 | -3 | 0 |
| **Balance at Dec. 31, 2008** | **774** | **15,366** | **8,134** | **7,185** | **1,547** | **1,780** | **34,786** |
| **Amortization on Jan. 1, 2008** | **-142** | **0** | **-417** | **0** | **-202** | **-68** | **-829** |
| Currency translation | 0 | 0 | -64 | 0 | -41 | -20 | -125 |
| Additions | -143 | 0 | -714 | 0 | -523 | -273 | -1,653 |
| Disposals | 16 | 0 | 0 | 0 | 0 | 0 | 16 |
| **Balance at Dec. 31, 2008** | **-269** | **0** | **-1,195** | **0** | **-766** | **-361** | **-2,591** |
| **Net carrying amount on Dec. 31, 2008** | **505** | **15,366** | **6,939** | **7,185** | **781** | **1,419** | **32,195** |

## GOODWILL IMPAIRMENT

The annual impairment test conducted on December 31, 2009 on the goodwill acquired in the acquisition of the ESM Group and Tecnosulfur S/A did not identify any impairment requirement in the ESM Group Inc. and Tecnosulfur S/A cash generating units (CGU). These are both assigned to the Powder & Granules segment as the recoverable amount exceeded the carrying amount.

The ESM Group comprises the US ESM Group Inc. as well as its subsidiaries ESM Metallurgical Products Inc. in Canada and ESM Tianjin Co. Ltd. in China. The recoverable amount was determined by calculating the value in use using the discounted cash flow method. The projected cash flows from the bottom-up five-year plan were used. The value in use is generally calculated on the basis of expected inflation for the country and the estimated sales growth rate. Both past data and the forecast market performance were used in this calculation. In calculating the value in use, the perpetuity included a growth rate of 2% and a pre-tax discount rate of 14.52%. This rate for the total cost of capital used is based on the risk-free interest rate of 3.29% and risk premiums on equity of 5.0%. In addition, a beta factor derived from the respective peer group and this group‘s capital structure are taken into account. The value in use based on this calculation was greater than the carrying amount on December 31, 2009. In addition, valuation scenarios were conducted, in which even a pre-tax discount rate of 23.51% and an assumed 1% growth rate in the perpetuity would not lead to any goodwill impairment.

The recoverable amount for Tecnosulfur was determined by calculating the value in use using the discounted cash flow method. The projected cash flows from the bottom-up five-year plan were used. The value in use is generally calculated on the basis of expected inflation for the country and the estimated sales growth rate. Both past data and the forecast market performance were used in this calculation. In calculating the value in use, the perpetuity included a growth rate of 2% and a pre-tax discount rate of 23.3%. This rate for the total cost of capital used is based on the risk-free interest rate of 14.7% and risk premiums on equity of 4.5%. In addition, a beta factor derived from the respective peer group and this group‘s capital structure are taken into account. The resulting value in use was greater than the carrying amount on December 31, 2009, with the result that there was no goodwill impairment. A realistic change in the valuation parameters would also not lead to any impairment.

### BRAND NAME IMPAIRMENT

As of December 31, 2009, the annual impairment testing for the capitalized brand name „ESM“ which was acquired as part of the acquisition of the ESM Group did not lead to any write-down requirements, as the recoverable amount was greater than the carrying amount. The recoverable amount was determined by calculating the net realizable value using the relief from royalty method.

### IMPAIRMENT OF CUSTOMER STOCKS

As a result of the downturn in revenues and earnings for SKW Quab Chemicals Inc. in 2009, which was caused by the difficult economic environment that year, SKW Quab Chemicals Inc.’s customer stocks were tested for impairment on December 31, 2009. Reviewing the customer stocks for impairment resulted in a write-down requirement of EUR 795 thousand, which is carried under amortization. The fair value less selling costs (net selling value) is identified using the residual profit method. A discount rate of 9.60% was used compared to a discount rate of 9.97% from the purchase price allocation in 2007. The rate for the total cost of capital used (9.60%) is based on the risk-free interest rate of 4.12% and risk premiums on equity of 5.0%. In addition, a beta factor derived from the respective peer group and this group‘s capital structure are taken into account. The net selling value based on this calculation was less than the carrying amount on December 31, 2009. The customer stocks for SKW Quab Chemicals Incl. and the associated extraordinary amortization are allocated to the “Others” segment.

## 14. Tangible assets

| EUR thousand | Land | Buildings including buildings on third-party land | Technical plant and machinery | Other equipment, operating and office equipment | Prepayments and assets under construction | Total |
|---|---|---|---|---|---|---|
| **Acquisition costs on Jan. 1, 2009** | **2,310** | **3,608** | **25,830** | **3,777** | **1,455** | **36,980** |
| Currency translation | 27 | 4 | -707 | -64 | 90 | -650 |
| Additions to consolidated group | 485 | 3,135 | 2,434 | 762 | 711 | 7,527 |
| Additions | 1,003 | 291 | 2,272 | 107 | 8,997 | 12,670 |
| Disposals | 0 | 0 | -246 | -121 | -22 | -389 |
| Reclassifications | 0 | 35 | 171 | 36 | -242 | 0 |
| **Balance at Dec. 31, 2009** | **3,825** | **7,073** | **29,754** | **4,497** | **10,989** | **56,138** |
| **Depreciation on Jan. 1, 2009** | **-46** | **-778** | **-7,914** | **-1,127** | **0** | **-9,865** |
| Currency translation | -1 | 8 | 331 | 62 | 0 | 400 |
| Additions | -20 | -354 | -3,319 | -744 | 0 | -4,437 |
| Disposals | 0 | | 200 | 118 | 0 | 318 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 |
| **Balance at Dec. 31, 2009** | **-67** | **-1,124** | **-10,702** | **-1,691** | **0** | **-13,584** |
| **Net carrying amount Dec. 31, 2009** | **3,758** | **5,949** | **19,052** | **2,806** | **10,989** | **42,554** |

Property, plant and equipment totaling EUR 42,554 thousand includes leased property, plant and equipment totaling EUR 799 thousand (previous year: EUR 785 thousand), which are to be allocated to the group as the economic owner as a result of the structure of the underlying lease agreements ("finance leases"). Of this total, EUR 229 thousand is due to buildings (previous year: EUR 243 thousand) and EUR 570 thousand is due to technical equipment (previous year: EUR 542 thousand). In addition, of the property, plant and equipment EUR 2,861 thousand (previous year: EUR 3,521 thousand) has been provided as collateral to a local bank for a line of credit for Affival Inc.

In 2009 borrowing costs of EUR 115 thousand were capitalized for the low-shaft blast furnace being built at SKW Tashi Metalls & Alloys. The borrowing cost rate used to determine the amount to be capitalized was 6.74%.

The year-on-year change is as follows:

| EUR thousand | Land | Buildings including buildings on third-party land | Technical plant and machinery | Other equipment, operating and office equipment | Prepayments and assets under construction | Total |
|---|---|---|---|---|---|---|
| **Acquisition costs on Jan. 1, 2008** | **1,550** | **3,127** | **21,514** | **3,087** | **1,097** | **30,376** |
| Currency translation | -70 | 55 | 914 | 98 | 1 | 998 |
| Additions | 830 | 20 | 3,123 | 264 | 1,747 | 5,984 |
| Disposals | 0 | 0 | -307 | -61 | -9 | -378 |
| Reclassifications | 0 | 406 | 586 | 389 | -1,381 | 0 |
| **Balance at Dec. 31, 2008** | **2,310** | **3,608** | **25,830** | **3,777** | **1,455** | **36,980** |
| **Amortization on Jan. 1, 2008** | **-14** | **-407** | **-4,296** | **-137** | **0** | **-4,854** |
| Currency translation | 0 | -10 | -310 | -73 | 0 | -393 |
| Additions | -32 | -361 | -3,361 | -943 | 0 | -4,697 |
| Disposals | 0 | 0 | 51 | 28 | 0 | 79 |
| Reclassifications | 0 | 0 | 2 | -2 | 0 | 0 |
| **Balance at Dec. 31, 2008** | **-46** | **-778** | **-7,914** | **-1,127** | **0** | **-9,865** |
| **Net carrying amount on Dec. 31, 2008** | **2,264** | **2,830** | **17,916** | **2,650** | **1,455** | **27,115** |

## 15. Investment in affiliates

The shares (30.22 % of share capital) in the associate Jamipol Ltd., Jamshedpur (India) are carried at equity. As it was not possible to prepare separate interim financial statements as of December 31, 2009, this company is included based on the earnings that this company has reported for the twelve-month period ending on December 31, 2009. In the business year from April 1, 2008 to March 31, 2009, this company recorded revenues of EUR 16,264 thousand translated at the average rate of exchange for 2009, and annual net income of EUR 2,227 thousand. Total assets amounted to EUR 8,124 thousand on March 31, 2009, equity totaled EUR 7,412 thousand and liabilities totaled EUR 712 thousand. Jamipol Ltd. did not have any contingent liabilities at the end of the business year.

The at-equity-approach was applied as follows in business year 2009:

| EUR thousand | 2009 | 2008 |
|---|---|---|
| **Balance at Jan. 1** | **3,960** | **3,946** |
| Proportionate net income | 833 | 753 |
| Currency translation differences | 97 | -470 |
| Income taxes | -51 | -33 |
| Profit distribution received | -362 | -236 |
| **Balance at Dec. 31** | **4,477** | **3,960** |

## 16. Deferred tax assets and liabilities

The deferred tax assets reported on December 31, 2009 are due to deferred tax assets on temporary differences between the IFRS and tax base carrying amounts and to deferred tax assets on tax losses carried forward. Deferred taxes were recognized on all temporary differences. These primarily relate to provisions, receivables and liabilities and non-current assets. The deferred taxes formed on the remaining tax losses carried forward that have not yet been used totaled EUR 2,141 thousand. Taking the forecast results for business year 2010 into account, of this amount EUR 1,707 thousand is to be regarded as current, i.e., it can be used in the coming twelve months.

The deferred tax assets and liabilities as of December 31, 2009 result from the following balance sheet items:

| EUR thousand | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|
| | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2008 |
| Intangible assets | 5,056 | 72 | 11,543 | 5,975 |
| Property, plant and equipment | 1 | 7 | 4,097 | 3,437 |
| Financial Assets | 514 | 224 | 0 | 149 |
| Inventories | 950 | 2,072 | 18 | 18 |
| Other assets | 241 | 385 | 61 | -22 |
| Pension provisions | 56 | 260 | 0 | 2 |
| Other provisions | 380 | 232 | 0 | 0 |
| Other liabilities | 1,020 | 1,994 | 1 | 193 |
| Tax loss carryforwards | 2,141 | 30 | 0 | 0 |
| **Gross amount** | **10,359** | **5,276** | **15,720** | **9,752** |
| Netting | -309 | -413 | -309 | -413 |
| **Carrying amount** | **10,050** | **4,863** | **15,411** | **9,339** |
| including | | | | |
| *current* | *3,806* | *4,442* | *0* | *39* |
| *Non-current* | *6,243* | *421* | *15,411* | *9,300* |

Over the short term there is an excess of assets, which is classified as not being impaired as a result of the forecast earnings for business year 2010. In addition, deferred taxes in the amount of EUR 105 thousand were taken directly to equity. No deferred tax asses were formed for tax losses carried forward totaling EUR 1,827 thousand, as in this case it will not be possible to use these in the future. No deferred taxes are formed on outside basis differences. The change in the balance sheet items that relate to deferred taxes includes deferred tax assets totaling EUR 4,998 thousand and deferred tax liabilities of EUR 7,081 taken directly to equity as part of the first time consolidation of Tecnosulfur.

## 17. Inventories

| EUR thousand | Dec. 31, 2009 | Dec. 31, 2008 |
|---|---|---|
| Raw materials, consumables and supplies | 21,949 | 39,218 |
| Finished goods and merchandise | 16,186 | 27,795 |
| Advance payments made | 147 | 159 |
| Goods underway | 7,640 | 5,387 |
| | **45,922** | **72,559** |

In each case, inventories are measured at the lower of cost and the net realizable price on the balance sheet date. Inventories totaling EUR 5,234 thousand are carried at their net realizable price.

Of the inventories, EUR 21,163 thousand (previous year: EUR 32,843 thousand) is due to the Cored Wire segment, and EUR 22,333 thousand (previous year: EUR 35,629 thousand) is due to the Powder and Granules segment. Of the total inventories in the amount of EUR 45,922 thousand (previous year: EUR 72,599 thousand), inventories totaling EUR 26,372 thousand (previous year: EUR 42,648 thousand) have been transferred as collateral as part of master credit agreements in the USA and Germany. During the year under review, inventories were written down due to lower market prices in the amount of EUR 2,192 thousand (previous year: EUR 245 thousand). In addition, there were write-ups totaling EUR 970 thousand (previous year: EUR 122 thousand).

## 18. Trade receivables

| EUR thousand | Dec. 31, 2009 | Dec. 31, 2008 |
|---|---|---|
| Receivables before write-downs | 46,997 | 39,219 |
| Write-ups | 4 | 0 |
| Write-downs | -221 | -232 |
| Carrying amount of receivables | **46,780** | **38,987** |

Of the trade accounts receivable on the balance sheet date (EUR 46,780 thousand), an amount of EUR 18,846 thousand is due to the Cored Wire division (previous year: EUR 16,278 thousand) and EUR 26,782 thousand (previous year: EUR 21,123 thousand) relates to the Powder and Granules segment. In the Powder and Granules segment, receivables totaling EUR 16,767 thousand (previous year: EUR 5,864 thousand) have been transferred as collateral, as have an additional EUR 6,135 thousand in the Cored Wire segment (previous year: EUR 3,780 thousand). In addition, trade accounts receivable include receivables from the associate Jamipol Ltd. in the amount of EUR 48 thousand (previous year: EUR 36 thousand). Trade accounts receivable of EUR 221 thousand were written down in business year 2009.

## 19. Other assets

The other assets disclosed include the following amounts:

| EUR thousand | Dec. 31, 2009 current | Dec. 31, 2009 non-current | Dec. 31, 2008 current | Dec. 31, 2008 non-current |
|---|---|---|---|---|
| Taxes on income | 2,037 | 0 | 1,349 | 0 |
| Other tax receivables | 2,657 | 0 | 2,036 | 0 |
| Prepaid expenses | 2,925 | 0 | 1,488 | 0 |
| Insurance receivables | 375 | 0 | 375 | 0 |
| Derivative financial instruments | 124 | 0 | 146 | 0 |
| Loans to third parties | 0 | 528 | 0 | 385 |
| Bank balance in locked account for guarantee | 679 | 0 | 0 | 0 |
| Advance payment for customs and import taxes | 444 | 0 | 0 | 0 |
| Other receivables | 1,942 | 73 | 1,644 | 73 |
| | **11,183** | **601** | **7,038** | **458** |

Other receivables include a large number of individual items with low amounts from the 23 consolidated companies. The position bank balances in locked account for guarantee relates to collateral granted for a guarantee that was issued. These balances cannot be accessed. During the year under review, other assets were written down in the amount of EUR 25 thousand. However, there were no overdue impaired other assets as of December 31, 2009.

## 20. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current bank balances with a maximum remaining term of three months. This amount relates to Cored Wire in the amount of EUR 1,174 thousand (previous year: EUR 1,437 thousand), Powder and Granules in the amount of EUR 2,211 thousand (previous year: EUR 2,403 thousand), and Other in the amount of EUR 7,667 thousand (previous year: EUR 5,737 thousand).

## 21. Equity

### SUBSCRIBED CAPITAL

As of the balance sheet date, the group's subscribed capital amounted to EUR 6,544,930 and is divided into 6,544,930 no-par value bearer shares [statement in line with Section 160 (1) no. 3 AktG], each with a pro rata amount of EUR 1.00 per share. Each share carries one vote, to the extent that voting rights are not restricted as a result of statutory provisions. The number of fully paid in shares is the number of issued shares.

SKW Stahl-Metallurgie Holding AG almost fully exhausted the authorization granted by the 2007 General Meeting to issue up to 2.2 million new shares. The new shares were offered to existing shareholders from November 16, 2009 to November 30, 2009. A total of 2,122,680 new shares of SKW Stahl-Metallurgie Holding AG were issued as part of the capital increase concluded in December 2009.

The new shares have been included in trading on the Frankfurt Stock Exchange in the existing listing in the Prime Standard as December 7, 2009. The capital increase was entered in the commercial register on December 2, 2009, causing the company's share capital to increase from a previous total of EUR 4,422,250 to EUR 6,544,930 on the balance sheet date. The new shares are endowed with retroactive dividend rights as of January 1, 2009.

## SHARE PREMIUM

The share premium of EUR 50,741 thousand includes the premium and the costs taken directly to equity in connection with the capital increase in the amount of EUR 691 thousand. The costs from the capital increase taken directly to equity totaled EUR 947 thousand (gross). As a result, the costs booked for the capital increase resulted in a tax effect of EUR 256 thousand.

## AUTHORIZED CAPITAL

The authorized capital [statement in line with Section 160 (1) no. 4 AktG] includes the subscribed capital of EUR 6,544,930. In addition, the Annual General Meeting on June 04, 2009 passed the following resolution:

a) The existing authorization to acquire and utilize own shares resolved by the General Meeting on June 4, 2008 under agenda item 8 is rescinded from the date the following authorization becomes effective.

b) In accordance with Section 71 (1) No. 8 of the Aktiengesetz (AktG – German Public Limited Companies Act), the company is authorized to acquire own shares amounting up to 10% of the share capital on the date the resolution is passed for the period from June 5, 2009 to December 4, 2010 for purposes other than securities trading. The authorization may be exercised in full or in part on one or several occasions.

   Together with any other own shares which the company may hold or which are allocable to the company within the meaning of Sections 71a et seq. of the AktG, the acquired shares may not at any time constitute more than 10% of the share capital.

c) The acquisition shall be via the stock exchange. The acquisition price (without incidental acquisition costs) may be more than 10% greater or less than the average unit price of the shares in the XETRA closing auction (or a comparable successor system) on the Frankfurt Stock Exchange on the three trading days prior to acquisition in each case.

d) The shares acquired as a result of this authorization can also be sold in cash not via the stock exchange, subject to approval by the Supervisory Board. With the approval of the Supervisory Board, the Managing Board is authorized to use the own shares thus acquired as a result of this authorization on one or several occasions, in full or in part, in particular as follows:

(i) The shares can be sold at a price which is not significantly lower than the stock market price for shares of the company of the same type and with the same features on the date of the sale. In this case, the number of shares to be sold together with new shares issued on the basis of an authorization to increase capital while disapplying subscription rights in accordance with Article 186 (3) Sentence 4 of the AktG may not, altogether, exceed 10% of the share capital. The subscription rights of shareholders from these shares shall be excluded in this respect.

(ii) The shares can be transferred in full or in part as compensation as part of corporate mergers or during the acquisition (also indirect) of companies, participating interests in companies, operational assets, industrial property rights or third-party licenses . The subscription rights of shareholders from these shares shall be excluded in this respect.

(iii) The shares can be used to compensate for fractions in subscription rights. The subscription rights of shareholders from these shares shall be excluded in this respect.

(iv) The shares can be issued to employees of the company or its group companies. The subscription rights of shareholders from these shares shall be excluded in this respect.

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

## OTHER ACCUMULATED EQUITY

The change in other accumulated equity was as follows:

| EUR thousand | Dec. 31, 2008 | Change in 2009 | Dec. 31, 2009 |
|---|---|---|---|
| Revenue reserves | 51,485 | -6,728 | 44,757 |
| Net investments in a foreign operation | -1,646 | -6 | -1,652 |
| Unrealized gains/losses from derivatives (hedge accounting) | -1,123 | 386 | -737 |
| Differences from currency conversion | -997 | -229 | -1,226 |
| Taxes on income and expenses carried directly under equity | 472 | -151 | 321 |
| | **48,191** | **-6,728** | **41,463** |

The net investments in foreign operations include income of EUR 2 thousand which resulted due to the reclassification of a loan. In addition, the taxes on income and expenses taken directly to equity relate, exclusively, to unrealized gains/losses from derivatives (hedge accounting).

## MINORITY INTERESTS

In 2009, the purchase of a 66.67% interest in Tecnosulfur lead to an increase in minority interests totaling EUR 7,058 thousand. In addition, the merger of SKW do Brasil with Tecnosulfur S/A resulted in a disposal of 33.3% to the minority shareholders of Tecnosulfur S/A, and thus negative goodwill of EUR 62 thousand. The contribution by the minority shareholder of SKW-Tashi Metals & Alloys Private Limited led to an increase in other shareholders' interests of EUR 1,073 thousand.

## EXCHANGE RATE FLUCTUATIONS

The loss totaling EUR -146 thousand in the period under review mostly resulted from changes in the exchange rates of the euro (EUR) to the US dollar (USD), the Japanese yen (JPY), the South Korean won (KRW), the Bhutanese ngultrum (BTN) and the Brazilian real (BRL). The currency changes are mostly due to the US dollar. This exchange rate fell from USD 1.3917 per euro on December 31, 2008 to USD 1.4406 per euro on December 31, 2009.

Furthermore, equity includes a loss from translation differences from net investments in foreign operations in the amount of EUR 1,652 thousand. These result from three USD loans (EUR -583 thousand), which SKW Stahl-Metallurgie Holding GmbH issued to SKW Quab Chemicals Inc. and to the ESM Group Inc., and also from a JPY loan (EUR -68 thousand) which was granted by Affival S.A.S. to Affival KK, a KRW loan (EUR -283 thousand), which was granted by Affival S.A.S. to Affival Korea, and from a USD loan (EUR -718 thousand), which was granted by Affival Inc. to Affimex Cored Wire S. de R. L. de C.V..

## PUT OPTION MINORITY INTERESTS

The value of the existing option totaled EUR 0 thousand on December 31, 2009 (previous year: EUR 507 thousand). As a result of the removal of the purchase commitment by SKW Stahl-Metallurgie Holding AG, the put option was reversed directly to equity against the other current liabilities. All of the changes recognized in income through to December 31, 2009 were corrected retrospectively and recognized in income when the liability was reversed.

## DIVIDEND PROPOSAL

The Managing Board and the Supervisory Board shall propose to the Annual General Meeting that no dividend is distributed from the unappropriated surplus of SKW Stahl-Metallurgie Holding AG for business year 2009 as calculated in line with the principles of the German Commercial Code (HGB).

## 22. Additional information on capital management

SKW Metallurgie has an obligation to maintain a strong financial profile that allows the company to achieve its growth and portfolio optimization goals through financial flexibility. Our credit rating in particular plays a key role in retaining our strong financial profile. This is influenced by our capital structures, profitability, the ability to generate cash flows, diversification for our products and geographic regions, and our competitive situation. Shareholders' equity and total assets as of December 31 in 2009 and 2008 were as follows:

| EUR thousand | Dec. 31, 2009 | Dec. 31, 2008 | Change in % |
|---|---|---|---|
| **Equity** | **109,026** | **83,842** | **30%** |
| *As a % of total capital* | 47% | 43% | |
| current liabilities | 81,460 | 84,037 | |
| Non-current liabilities | 41,178 | 28,873 | |
| **Liabilities** | **122,638** | **112,910** | **9%** |
| *As a % of total capital* | 53% | 57% | |
| **Total capital (equity plus borrowing)** | **231,664** | **196,752** | **18%** |

Equity increased by 30% year-on-year in 2009. Liabilities increased slightly by 9% as against the previous year. Overall, in business year 2009 this led to an almost unchanged proportion of borrowing to total capital of 53% in after 57% in 2008. The equity ratio totaled 47% compared to 43% in business year 2008.

## 23. Pension obligations

Provisions for pensions were recognized at a total of four group companies. The total amount of the provisions of EUR 1,854 thousand (previous year: EUR 1,677 thousand) is due, in particular, to the following companies:

- SKW Stahl-Metallurgie GmbH (EUR 1,220 thousand/previous year: KEUR 1,079)
- Affival S.A.S. (EUR 500 thousand/previous year: KEUR 477)

The value ascertained using the percentage unit credit method developed as follows as of the balance sheet date:

| EUR thousand | 2009 | 2008 |
|---|---|---|
| Projected unit credit January 1 | 1,928 | 1,922 |
| Ongoing service cost | 85 | 102 |
| Interest cost | 98 | 105 |
| Pension payments | -39 | -127 |
| Plan adjustments | 0 | 0 |
| Actuarial gains/losses | 122 | -94 |
| Prior service cost | 32 | 0 |
| Currency translation | 0 | 27 |
| **Projected unit credit December 31** | **2,226** | **1,935** |

The anticipated pension payments for 2009 total EUR 39 thousand. The change in fund assets exclusively relates to the pension plan in France and was as follows:

| EUR thousand | Dec. 31, 2009 | Dec. 31, 2008 |
|---|---|---|
| Fair value fund assets Jan. 1 | 184 | 285 |
| Expected return on fund assets | 8 | 8 |
| Pension payments | 0 | -110 |
| Actuarial gains/losses | -4 | 2 |
| **Fair value fund assets Dec. 31** | **188** | **185** |

The actual income from plan assets amounts to around EUR 4 thousand. The plan assets consist of a fund set up by the company to serve its pension obligations. This is managed externally by an insurance company. The expected return is equal to the interest anticipated from the fund.

| EUR thousand | Dec. 31, 2009 | Dec. 31, 2008 |
|---|---|---|
| Plans covered by fund assets | 188 | 185 |
| Plans not covered by fund assets | 2,038 | 1,750 |
| **Projected unit credit December 31** | **2,226** | **1,935** |

| EUR thousand | Dec. 31, 2009 | Dec. 31, 2008 |
|---|---|---|
| Cash value of the pension commitments | 2,226 | 1,935 |
| Unrecognized actuarial gains | -184 | -73 |
| Fair value of plan assets | -188 | -185 |
| | **1,854** | **1,677** |

The following is carried as pension expenses for the business year:

| EUR thousand | Dec. 31, 2009 | Dec. 31, 2008 |
|---|---|---|
| Ongoing service cost | 85 | 102 |
| Interest on anticipated pension commitments | 98 | 105 |
| Amortization of actuarial gains/losses | 6 | 4 |
| Prior service cost | 32 | 0 |
| Anticipated income for plan assets | -8 | -8 |
| **Total pension expense** | **213** | **203** |

The calculation is based on the following actuarial assumptions:

| EUR thousand | Dec. 31, 2009 | | Dec. 31, 2008 | |
|---|---|---|---|---|
| | Germany | France | Germany | France |
| Discount rate | 5.4% | 4.8% | 5.6% | 5.6% |
| Development of salaries | 2.0% - 3.0% | 2.5% | 2.0% - 3.0% | 2.5% |
| Development of pensions | 1.25% | 2.0% | 1.25% | 2.0% |
| Anticipated return on plan assets | n.a. | 4.5% | n.a. | 5.0% |

Fluctuation probabilities based on age and gender were used as the basis of actuarial calculations. Prof. Heubeck's 2005 mortality tables were used in Germany to measure the provision for pensions, whereas in France country-specific biometric probabilities were used. The assumed discount factors reflect the interest rates that are paid on the balance sheet date for top quality industrial bonds with a corresponding term and in the corresponding currency. As a result of the current distortions on the international financial markets, discounts on the returns for heterogeneous market indexes (e.g., iBoxx) were used to adjust for observed non-standard effects on the market.

A change in the above discount rate from 5.4% to 5.65% would lead to a change of EUR -80 thousand in the projected unit credit, and a change of 5.4% to 5.15% would lead to a change of EUR +83 thousand in the projected unit credit.

| EUR thousand | Dec. 31, 2005 | Dec. 31, 2006 | Dec. 31, 2007 | Dec. 31, 2008 | **Dec. 31, 2009** |
|---|---|---|---|---|---|
| Projected unit credit | 1,977 | 2,370 | 1,968 | 1,935 | **2,226** |
| Fair Value of Plan Assets | 348 | 363 | 285 | 185 | **188** |
| Gains or losses from the plans | 1,629 | 2,007 | 1,683 | 1,750 | **2,038** |

The adjustments based on past experience totaled EUR -6 thousand in business year 2009 (previous year: EUR -109 thousand).

The structure of plan assets for the pension plans is composed as follows:

| Portfolio structure | Dec. 31, 2009 |
|---|---|
| Shares | 0% |
| Fixed-income securities | 100% |
| Real estate/other | 0% |
| **Total** | 100% |

## 24. Obligations from finance leases

In the 2009 reporting period, the group's tangible assets included technical equipment and machinery of which the group is the economic owner on account of the arrangement of the underlying leases (finance leases). The group's lease obligations for finance leasing for business year 2009 and thereafter can be seen in the table below:

| EUR thousand | Total future minimum lease payments | Discount amount | Present value |
|---|---|---|---|
| Residual term of up to 1 year | 162 | 4 | 158 |
| Residual term 1 - 5 years | 27 | 0 | 27 |
| **Total** | **189** | **4** | **185** |

The reported obligations from finance leases are primarily due to various finance lease agreements for property, plant and equipment at Affival S.A.S.

The following table shows the figures for the previous year:

| EUR thousand | Total future minimum lease payments | Discount amount | Present value |
|---|---|---|---|
| Residual term of up to 1 year | 245 | 3 | 242 |
| Residual term 1 - 5 years | 188 | 13 | 175 |
| **Total** | **433** | **16** | **417** |

## 25. Other provisions

Other provisions changed as follows:

| EUR thousand | As of Jan. 1, 2009 | Addition to group | Take-up | Addition | Reversal | Currency differences | As of Dec. 31, 2009 |
|---|---|---|---|---|---|---|---|
| Provision for EU antitrust proceeding | 6,232 | 0 | 0 | 418 | 0 | 0 | 6,650 |
| Miscellaneous other provisions | 1,057 | 17 | -524 | 1,212 | -151 | -2 | 1,609 |
| **Other provisions** | **7,289** | **17** | **-524** | **1,630** | **-151** | **-2** | **8,259** |

In 2008 the group company SKW Stahl-Metallurgie GmbH formed a provision with a gross amount of EUR 6,232 million for a possible fine in antitrust proceedings. This provision was increased in 2009 by EUR 418 thousand to EUR 6,650 thousand on the balance sheet date. The SKW Metallurgie Group believes that this amount is the probable maximum actual payment obligation that could arise and be enforced against the company as a result of the penalty notice.

In addition, other provisions include various items such as provisions for investigations by customs authorities totaling EUR 529 thousand (previous year: EUR 296 thousand), consulting totaling EUR 325 thousand (previous year: EUR 0 thousand), commission claims of EUR 139 thousand (previous year: EUR 183 thousand), and stock option plans totaling EUR 202 thousand (previous year: EUR 24 thousand).

The addition to other provisions is mostly due to the addition for consulting of EUR 325 thousand, investigations by customs authorities of EUR 233 thousand and stock option plans of EUR 178 thousand.

Of the total amount of other provisions on December 31, 2009, EUR 8,089 thousand (previous year: EUR 7,289 thousand) were current and EUR 170 thousand (previous year: EUR 0 thousand) were non-current.

## 26. Financial liabilities

The financial liabilities of EUR 43,833 thousand (previous year: EUR 54,513 thousand) are due to liabilities to banks totaling EUR 41,899 thousand (previous year: EUR 51,708 thousand), liabilities to Degussa Corp. which belongs to the Evonik Group and liabilities to Siemens Financial Services totaling EUR 1,934 thousand (previous year: EUR 2,804 thousand).

Interest on financial liabilities is in a bandwidth of between 1.26% and 10.0% (previous year: 1.62% to 10%) per annum The bandwidth results from the various interests rates for the various underlying currencies for the financing. The lower end of the bandwidth is given by the interest conditions for financing in JPY, and the upper end from interest conditions for financing in KRW. The interest conditions for financing in all other currencies are within the bandwidth.

There were no violations of loan conditions during the period under review that relate to any defaults on interest and redemption payments.

Composition of financial liabilities by currency

| EUR thousand | 2009 | 2008 |
|---|---|---|
| € | 2,452 | 12,591 |
| US$ | 35,848 | 38,983 |
| JP¥ | 1,411 | 1,825 |
| KRW | 403 | 272 |
| CNY | 813 | 842 |
| BTN | 2,617 | 0 |
| BRL | 289 | 0 |
| **Total** | **43,833** | **54,513** |

Remaining terms of liabilities

| EUR thousand | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | < 1 year | 1 – 5 years | > 5 years | < 1 year | 1 – 5 years | > 5 years |
| Bank loans and overdrafts | 27,302 | 11,980 | 2,617 | 34,897 | 16,811 | 0 |
| Liabilities to other third-parties | 1,934 | 0 | 0 | 2,500 | 305 | 0 |
| **Financial debt** | **29,236** | **11,980** | **2,617** | **37,397** | **17,116** | **0** |

## 27. Trade payables

The trade accounts payable of EUR 32,520 thousand (previous year: EUR 26,597 thousand) as of the balance sheet date were to third parties. Current trade accounts payable are carried at their nominal or repayment amount and are due in full within one year.

## 28. Other liabilities

| EUR thousand | Dec. 31, 2009 | | Dec. 31, 2008 | |
|---|---|---|---|---|
| | current | non-current | current | non-current |
| Other taxes | 2,855 | 0 | 714 | 0 |
| Social security contributions | 723 | 0 | 842 | 0 |
| Wages and salaries | 1,557 | 31 | 4,435 | 25 |
| Interest liabilities | 80 | 0 | 110 | 0 |
| Received down payments | 7 | 0 | 53 | 0 |
| Derivative Financial Instruments | 57 | 737 | 1,180 | 0 |
| Outstanding invoices | 423 | 0 | 518 | 0 |
| Liability from White Martins contract | 2,341 | 4,534 | 0 | 0 |
| Purchase price liability Tecnosulfur | 1,561 | 3,134 | 0 | 0 |
| Healthcare payments | 135 | 0 | 233 | 0 |
| Employee accident insurance | 125 | 0 | 164 | 0 |
| Legal and consulting costs | 174 | 0 | 230 | 0 |
| Liability from operating lease | 0 | 0 | 132 | 0 |
| Put option minority interests | 0 | 0 | 0 | 507 |
| Miscellaneous other liabilities | 1,117 | 0 | 1,378 | 34 |
| **Total** | **11,155** | **8,436** | **9,989** | **566** |

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

## 29. Segment reporting

The segments described below correspond to SKW Metallurgie's internal organizational and reporting structure. Segment deferrals take into account the group's different products and services and is based on the steel production process. The SKW Metallurgie Group's products and services are used in two process stages within this process: In hot metal desulfurization in which various powders and granules are used, and also in steel refining, which is conducted using cored wire. As a result, three segments with a reporting segment have been identified within the SKW Metallurgie Group:

**CORED WIRE:**
The Cored Wire segment focuses on the production and sale of wire filled with specialty chemicals, so-called cored wires. The program is consistently geared to steel refining. The steel is given specific metallurgical characteristics thanks to the use of cored wire. The services offered include, in particular, advice on selecting suitable substances for the core, product-specific production of cored wire according to the customer's specific objectives and production parameters and the construction and set-up of the requisite equipment at the customer's facility and taking this into operation.

**POWDER AND GRANULES:**
The Powder and Granules segment bundles all of the production and sales functions for hot metal desulfurization. The Powder and Granules segment supports its customers in producing top-quality end products thanks to its highly reliable deliveries, flexibility and end-to-end service. At the same time, it advises customers on the selecting and implementing suitable desulfurization solutions and in the use of secondary metallurgical additives for the refining process.

**OTHER:**
The Other segment comprises the business activities of SKW Quab Chemicals Inc., which sells special catonizing reagents in more than 40 countries, and it also comprises the group's administration, including intra-group services as well as the inactive companies that cannot be allocated to the other segments. SKW Quab Chemicals Inc's business activities constitute a business segment. However, as this does not meet certain thresholds by itself it does not carry a reporting requirement, and is thus included in the Other segment.

The internal reporting to the SKW Metallurgie Group's management is based on IFRS figures. As a result, the segment reporting tables include IFRS figures. The reported segment assets corresponds to all of the assets of the respective segment, and only the interests in associated companies are shown separately. The reported segment liabilities correspond to all of the liabilities of the respective segment.

**CONSOLIDATION:**
Consolidation includes the consolidation of business relationships between the segments. Revenues between the segments are performed at intragroup prices which as mostly based on the re-sale method.

| 2009 in EUR thousand | Cored Wire | Powders and Granulates | Other | Consolidation | Group |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Third-party revenues | 92,558 | 112,348 | 15,663 | 0 | 220,569 |
| Internal revenues | 1 | 7,731 | 0 | -7,732 | 0 |
| Total revenues | 92,559 | 120,079 | 15,663 | -7,732 | 220,569 |
| Income from associated companies | 0 | 833 | 0 | 0 | 833 |
| **EBITDA** | **-2,989** | **3,623** | **-1,099** | **0** | **-465** |
| Scheduled depreciation | -2,008 | -2,740 | -1,011 | 0 | -5,759 |
| Non-scheduled amortization/depreciation | 0 | 0 | -795 | 0 | -795 |
| **EBIT** | **-4,997** | **883** | **-2,905** | **0** | **-7,019** |
| Dividends from subsidiaries | 0 | 0 | 2,000 | -2,000 | 0 |
| Assumption of losses | 0 | 1,133 | -1,133 | 0 | 0 |
| Interest income | 13 | 107 | 1,095 | -1,042 | 173 |
| Interest cost | -425 | -2,702 | -542 | 1,042 | -2,627 |
| **Earnings before taxes** | **-5,409** | **-579** | **-1,485** | **-2,000** | **-9,473** |
| Taxes on income | | | | | 4,365 |
| **Consolidated net loss for the year** | | | | | **-5,108** |
| | | | | | |
| **Balance sheet** | | | | | |
| **Assets** | | | | | |
| Segment assets | 69,619 | 132,706 | 82,423 | -57,561 | 227,187 |
| Interests in associated companies | | 4,477 | | | 4,477 |
| **Consolidated assets** | | | | | **231,664** |
| | | | | | |
| **Equity and liabilities** | | | | | |
| Segment liabilities | 39,988 | 112,328 | 14,580 | -44,258 | 122,638 |
| **Consolidated liabilities** | | | | | **122,638** |
| - ongoing capital expenditure (property, plant and equipment, intangible assets) | 8,729 | 211 | 3,453* | 0 | 12,393 |

* Ongoing capital expenditure in the Other segment include expenses of EUR 1,780 thousand for the SKW Verwaltung GmbH's land and buildings for the activities in Russia.

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

| 2008 in EUR thousand | Cored Wire | Powders and Granulates | Other | Consolidation | Group |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Third-party revenues | 152,126 | 201,597 | 24,030 | 0 | 377,753 |
| Internal revenues | 158 | 27,947 | 0 | -28,105 | 0 |
| Total revenues | 152,284 | 229,544 | 24,030 | -28,105 | 377,753 |
| Income from associated companies | 0 | 753 | 0 | 0 | 753 |
| **EBITDA** | **11,004** | **15,498** | **-461** | **0** | **26,041** |
| Amortization | -1,885 | -3,622 | -843 | 0 | -6,350 |
| **EBIT** | **9,119** | **11,876** | **-1,304** | **0** | **19,691** |
| Dividends from subsidiaries | 0 | 0 | 3,300 | -3,300 | 0 |
| Assumption of losses | 0 | 1,373 | -1,373 | 0 | 0 |
| Interest income | 33 | 40 | 1,695 | -1,597 | 171 |
| Interest cost | -806 | -3,182 | -496 | 1,597 | -2,887 |
| **Earnings before taxes** | **8,346** | **10,107** | **1,822** | **-3,300** | **16,975** |
| Income tax expense | | | | | -7,026 |
| **Consolidated net income for the year** | | | | | **9,949** |
| **Balance sheet** | | | | | |
| **Assets** | | | | | |
| Segment assets | 67,964 | 101,895 | 66,466 | -43,533 | 192,792 |
| Interests in associated companies | 0 | 3,960 | 0 | 0 | 3,960 |
| **Consolidated assets** | | | | | **196,752** |
| **Equity and liabilities** | | | | | |
| Segment liabilities | 36,388 | 88,206 | 21,276 | -32,960 | 112,910 |
| **Consolidated liabilities** | | | | | **112,910** |
| - ongoing capital expenditure (property, plant and equipment, intangible assets) | 3,376 | 1,870 | 1,314 | 0 | 6,560 |

In the presentation of information by regions, revenues are allocated to countries according to the customer‘s location and according to the location of the selling unit. Segment assets and investments are allocated according to the respective registered office of the company. The deferrals which apply to the cash flow statement are used to determine the investments.

The geographic segment „Europe“ includes, with the exception of Germany, all of the member states of the European Union on the date the report was prepared. European countries which are not currently a member of the European Union are carried in the „Other countries“ segment. The „America“ segment includes the NAFTA states and South America. „Asia/Pacific“ includes Asia and Australia.

| EUR thousand | Germany | Europe excluding Germany | America | Asia / Pacific | Other countries | Group |
|---|---|---|---|---|---|---|
| **Third-party revenues (customer's location)** | | | | | | |
| 2009 | 20,387 | 40,927 | 122,134 | 27,091 | 10,030 | 220,569 |
| 2008 | 40,260 | 82,947 | 204,397 | 30,582 | 19,567 | 377,753 |
| **Third-party revenues (location of selling unit)** | | | | | | |
| 2009 | 27,955 | 38,993 | 129,935 | 23,686 | 0 | 220,569 |
| 2008 | 62,321 | 66,913 | 221,791 | 26,728 | 0 | 377,753 |
| **Non-current assets*** | | | | | | |
| 2009 | 4,751 | 62,215 | 83,131 | 10,081 | -53,625 | 106,553 |
| 2008 | 4,079 | 41,355 | 50,415 | 2,029 | -34,005 | 63,873 |

* without deferred taxes and financial instruments (derivatives)

There was a relationship with a single customer which accounts for revenues of EUR 37,290 thousand, a material amount of consolidated revenues. This customer is a customer for both the Cored Wire and the Powder and Granules segment.

## 30. Cash flow statement

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

Cash and cash equivalents – adjusted for currency translation effects of EUR 36 thousand (previous year: EUR 160 thousand) – totaling EUR 11,052 thousand (previous year: EUR 9.577 thousand) includes cash on hand and current bank balances.

The cash flow statement starts with the consolidated net loss for the period. The gross cash flow of EUR 1,477 thousand shows the excess of income over expenses before any utilization of funds. The income from equity accounted investments of EUR -472 thousand is due to the net income from the participating interest in Indian production company Jamipol for 2009 of EUR 833 thousand less the distribution received in 2009 of EUR 361 thousand. Net cash from operating activities also includes changes in working capital which were mostly due to the reduction in inventories. As a result, the cash flow from operating activities totaled EUR 18,485 thousand.

Following net cash used in investing activities of EUR -28,212 thousand, which was mostly due to investments in property, plant and equipment for the project in Bhutan and the acquisition of Tecnosulfur S/A, the SKW Metallurgie Group reported free cash flow after investments of EUR -9,727 thousand for the year under review.

The capital increase executed in 2009 was used to finance the acquisition of Tecnosulfur S/A and the other investments. This led to net proceeds of EUR 23,464 thousand. In addition, bank loans totaling EUR 13,950 thousand were repaid and a dividend of EUR 2,211 thousand was disbursed to shareholders. The remaining cash flow after the measures described, which amounted to EUR 1,439 thousand, was reported as a change in cash and cash equivalents as against the previous year.

The period under review includes interest payments of EUR 2,511 thousand and interest received of EUR 99 thousand. EUR 1,226 thousand was paid in taxes, and tax refunds totaled EUR 2,373 thousand.

## 31. Other financial obligations

On the balance sheet date, there were other financial commitments, in particular from rental and leasing agreements for buildings. There were other obligations arising from lease agreements for office equipment. The total future payments are as follows, listed in order of due dates:

| EUR thousand | Dec. 31, 2009 | Dec. 31, 2008 |
|---|---|---|
| **Rental and leasing commitments due** | | |
| - within one year1,714 | | 1,644 |
| - between two and five years | 4,201 | 3,647 |
| - after five years | 3,400 | 2,811 |
| **Other commitments due** | | |
| - within one year | 18,042 | 69,095 |
| - between two and five years | 39 | 3,010 |
| - after five years | 499 | 250 |

The other financial liabilities of EUR 18,580 thousand mostly stemmed from purchasing commitments from long-term supply agreements in the amount of EUR 14,790 thousand for SKW Stahl-Metallurgie GmbH, EUR 2,718 thousand from a guarantee issued for Affival S.A.S. and from the contractual commitments in the amount of EUR 1,027 thousand for SKW Stahl Metallurgie Holding AG.

## 32. Contingent receivables and liabilities

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

ESM Group Inc. lost a full shipload of magnesium in a shipping accident in 2005. The freight insurance company Tai Pint Insurance Company has refused to make payment despite the fact that there is an insurance policy. ESM Group Inc. therefore brought an action against Tai Ping Insurance Company. The value of the case is USD 1,205,500. The litigation was ongoing at the time of the acquisition. The management believes that it will be difficult to enforce these claims.

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

### QUAB BUSINESS

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

### THE ESM GROUP

In addition, as part of the acquisition of ESM on October 4, 2007, the parent company provided the financing bank with a joint liability agreement in the amount of the term loan (amount of loan as of December 31, 2009: USD 22.5 million). Furthermore, SKW Stahl-Metallurgie Holding AG has subjected itself, in connection with the waiver agreement for ESM financing and up to June 30, 2010 to a co-liability for such amount on which the net working capital line may be drawn above USD 10 million.

ESM Group Inc. is involved in a standing maritime law dispute with carriers and the owner of the freight ship „Rickmers Genua“. On March 8, 2005, this ship collided with the ship „Sun Cross“. The load that was on the ship was damaged considerably. As a result, there was a series of actions against the owner of the „Rickmers Genua“, the owner of the „Sun Cross“, and against ESM as well. The claims against ESM Group Inc. and ESM Tianjin Co. Ltd. are all based on the claim that the load of super-Sul Mg-89 must be

declared as hazardous goods but that ESM did not do so due to insufficient labeling. ESM has already taken active steps to defend itself against the claims made by the plaintiffs. The civil plaintiffs are claiming USD 4.2 million plus interest of 5.58% p.a. from March 10, 2005 to the day the verdict is read. ESM has stated that the claims made against it are without merit. ESM deems it relatively unlikely that this dispute will end negatively and also believes that it is sufficiently well-insured in this regard. This contingent liability is offset by the contingent receivable described above.

In business year 2005, the Department of Homeland Security of the USA government searched the premises of ESM Group Inc. This search was triggered by the accusation that the special magnesium sold on by ESM Group Inc. was not properly cleared by customs on its import to the USA. However, ESM was not the importer and had obtained this material from a supplier. Thus, ESM was not responsible for having the material cleared by customs. The maximum damages that may have to be paid from the civil action that has been brought total USD 14 million. As a result of the issues detailed above, the Managing Board does not expect that the ESM Group Inc. will have to make payment.

## 33. Executive bodies of the company

### Supervisory Board

**Titus Weinheimer, New York, NY (USA)**
Attorney with Buchanan, Ingersoll & Rooney
Chairman of the Supervisory Board.
*(Chairman from June 10, 2008, and again from June 15, 2009)*

**Jochen Martin, Muenchen (Germany)**
Independent M&A consultant
Deputy Chairman of the Supervisory Board
*(since June 15, 2009)*

**Dr. Dirk Markus, Feldafing (Germany)**
Aurelius AG's CEO
Member of the Supervisory Board *(since June 4, 2009)*

**Dr. Christoph Schlünken, Sulzbach-Rosenberg (Germany)**
CEO with Eckart GmbH
Member of the Supervisory Board *(since June 4, 2009)*

**Armin Bruch, Erzhausen (Germany)**
Member of the Management Board of SGL Carbon AG
Member of the Supervisory Board *(since June 15, 2009)*

**Sabine Kauper, Merching (Germany)**
CFO with Phoenix Solar AG
Member of the Supervisory Board
*(since June 15, 2009)*

**Dr. Friedrich Trautwein, Koeln (Germany)**
CEO of SMT Scharf AG
Deputy Chairman of the Supervisory Board
*(until June 4, 2009)*

**Dr. Wolfgang Ziegler, Muenchen (Germany)**
Managing Director of Findos Investor GmbH
Member of the Supervisory Board
*(until June 4, 2009)*

### Managing Board

**Ines Kolmsee, Tutzing (Germany)**
Engineering graduate, Chairman of the Managing Board of
SKW Stahl-Metallurgie Holding AG CEO
*(from May 26, 2006 to August 15, 2006 sole member of the Managing Board. From August 16, 2006 CEO)*

**Gerhard Ertl, Garching a. d. Alz (Germany)**
Business administration graduate, CFO of SKW Stahl-Metallurgie Holding AG
Chief Financial Officer
*(since August 16, 2006)*

**SUPERVISORY BOARD:**

The period of office for the former members of the Supervisory Board ended at the end of the company's Ordinary General Meeting on June 4, 2009. During the same General Meeting, Mr. Titus Weinheimer (re-election), Dr. Dirk Markus and Dr. Christoph Schlünken were elected to the company's Supervisory Board effective as of the end of the General Meeting on June 4, 2009. In addition, this meeting agreed to increase the company's Supervisory Board from three to six members. This became effective when it was entered in the commercial register on June 15 2009. The General Meeting on June 4, 2009 elected Sabine Kauper, Armin Bruch and Jochen Martin to the company's thus enlarged Supervisory Board. In addition, the General Meeting on June 4, 2009 elected Dr. Claus Ritzer as a deputy member of the Supervisory Board. In its meeting on June 15, 2009, the Supervisory Board elected Titus Weinheimer (re-election) as its Chairman and Jochen Martin as its Deputy Chairman. The Chairman of the Supervisory Board, Titus Weinheimer, is admitted to the bar as an attorney in both Germany and the US state of New York, and has worked for the SKW Metallurgie Group for several years in this position. In addition, the Supervisory Board resolved to set up committees to make its work even more professional. During the year under review only the audit committee met (for the first time on October 22, 2009).

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

**FURTHER MANDATES HELD BY THE MEMBERS OF SKW METALLURGIE HOLDING AG'S SUPERVISORY BOARD IN BUSINESS YEAR 2009**

*Members of the Supervisory Board through to the end of the General Meeting on June 4, 2009*

**Titus Weinheimer**, attorney, residing in New York, NY (USA), Chairman of the company's Supervisory Board since June 10, 2008
No other supervisory board mandates or mandates for comparable German and foreign supervisory bodies

**Dr. Friedrich Trautwein**, CEO of SMT Scharf AG, residing in Koeln (Germany), Deputy Chairman of the company's Supervisory Board since June 10, 2008

| **Supervisory Board** | **Head office** |
|---|---|
| SMT Scharf Polska Sp. z o. o. (Chairman) | Tychy (Poland) |

**Dr. Wolfgang Ziegler** (MBA, Rotterdam School of Management), Managing Director of Findos Investor GmbH, residing in Muenchen (Germany), Member of the Supervisory Board since June 10, 2008

| **Advisory Board** | **Head office** |
|---|---|
| IndustrieHansa Holding GmbH (Chairman) | Unterföhring (Germany) |

Members of the Supervisory Board since the end of the General Meeting on June 4, 2009 or since June 15, 2009

**Titus Weinheimer**, attorney, residing in New York, NY (USA), Chairman of the company's Supervisory Board
No other supervisory board mandates or mandates for comparable German and foreign supervisory bodies

**Jochen Martin** (business administration graduate), independent M&A consultant, residing in Muenchen (Germany), Deputy Chairman of the company's Supervisory Board

| **Supervisory Board** | **Head office** |
|---|---|
| MCH Management Capital Holding AG | Muenchen (Germany) |

| **Board of Directors/Advisory Council** | **Head office** |
|---|---|
| EPP Professional Publishing Group GmbH (Chairman) | Muenchen (Germany) |

Armin Bruch (business administration graduate), Member of the Managing Board of SGL Carbon SE, residing in Erzhausen (Germany)

| **Board of Directors/Advisory Council** | **Head office** |
|---|---|
| SGL CARBON Polska SA | Racibórz (Poland) |
| SGL CARBON S.A. | A Coruña (Spain) |
| SGL CARBON SDN BHD | Banting (Malaysia) |
| SGL CARBON ASIA-PACIFIC SDN BHD | Banting (Malaysia) |
| SGL Tokai CARBON Ltd. | Shanghai (PR China) |
| SGL CARBON Do Brasil LTDA. | São Paulo (Brazil) |

These memberships in foreign supervisory bodies which are comparable with German Supervisory Boards are mandates within the SGL Group.

**Sabine Kauper** (business administration graduate), CFO of Phönix Solar AG, residing in Merching (Germany)

| **Board of Directors/Advisory Council** | **Head office** |
|---|---|
| Phoenix Solar PTE. LTD. | Singapore (Republic of Singapore) |

This membership in a foreign supervisory body which is comparable with a German Supervisory Board is a mandate within the Phoenix Group.

**Dr. Dirk Markus**, CEO of Aurelius AG, residing in Feldafing (Germany)

| **Supervisory Board** | **Head office** |
|---|---|
| AURELIUS Beteiligungsberatungs AG (Chairman) | Muenchen (Germany) |
| Berentzen-Gruppe Aktiengesellschaft | Haselünne (Germany) |
| Investunity AG (Chairman) | Muenchen (Germany) |
| Lotus AG (Chairman) | Feldafing (Germany) |
| SMT Scharf AG (Chairman) | Hamm (Germany) |

The memberships in the German Supervisory Boards of AURELIUS Beteiligungsberatungs AG and Berentzen-Gruppe Aktiengesellscahft are mandates within the Aurelius Group.

| **Board of Directors/Advisory Council** | **Head office** |
|---|---|
| Compagnie de Gestion et des Prêts SA | Saran (France) |

The membership in a foreign supervisory bodies which is comparable with a German Supervisory Boards is a mandate within the Aurelius Group.

**Dr. Christoph Schlünken**, Chairman of the Management of ECKART GmbH, residing in Sulzbach-Rosenberg (Germany)

| Board of Directors/Advisory Council | Head office |
|---|---|
| Eckart Suisse S.A.. (Chairman of the Board of Directors) | Vetroz (Switzerland) |
| Eckart Switzerland S.A. (Chairman of the Board of Directors) | Vetroz (Switzerland) |
| Eckart Aluminium Corporation (Chairman of the Board) | Louisville (USA) |
| Eckart America Corporation (Chairman of the Board) | Painesville (USA) |
| Eckart Italia s.r. l. (Chairman of the Board) | Rivanazzano (Italy) |
| Eckart Zhuhai Co. Ltd. (Chairman of the Board) | Zhuhai City (PR China) |
| Eckart Asia Ltd. | Hong Kong, (SAR Hong Kong of PR of China) |
| Eckart Shanghai Co. Ltd. | Shanghai (PR China) |
| Eckart Benelux B.V. | Uden (The Netherlands) |
| Eckart France SAS | Saint-Quen (France) |
| Eckart UK Ltd. | Ampthill, Bedfordshire (United Kingdom) |
| Eckart Finland OY | Pori (Finland) |

These memberships in foreign supervisory bodies which are comparable with German Supervisory Boards are mandates within the Eckart Group.

*Deputy member in the event that one of the above members of the Supervisory Board leaves the Board:*

**Dr. Claus Ritzer**, Tax Adviser and Partner with RölfsPartner-Gruppe, residing in Landshut (Germany)

No other supervisory board mandates or mandates for comparable German and foreign supervisory bodies

## FURTHER MANDATES HELD BY THE MEMBERS OF SKW METALLURGIE HOLDING AG'S SUPERVISORY BOARD IN BUSINESS YEAR 2009

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

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

**Ines Kolmsee**

- Affival Inc, Chairman
- SKW Quab Chemicals Inc., Vice President
- SKW Metallurgie USA, Inc., President
- ESM Group Inc, Chairman
- SKW Hong Kong Co. Ltd., Chairman
- Quab Chemicals Belgium BVBA, Zaakvoerder
- SKW Verwaltungs GmbH, Managing Director
- SKW France S.A.S., President
- Affimex Cored Wire S. de R.L. de C.V., President

- Cored Wire Servicios S. de R.L. de C.V., President
- SKW-Tashi Metals & Alloys Private Limited, Chairman of the Board of Directors
- SKW Stahl-Metallurgie GmbH, managing director (to November 30, 2009)
- Jamipol Ltd., Member of the Board

**Gerhard Ertl**

- Affival Inc, Board member
- SKW Quab Chemicals Inc., Vice President
- SKW Metallurgie USA, Inc., Executive Vice President and Secretary
- ESM Group Inc, Board member
- SKW Hong Kong Co. Ltd., Board member
- Quab Chemicals Belgium BVBA, Zaakvoerder
- Affimex Cored Wire S. de R.L. de C.V., Deputy Vice-President
- Cored Wire Servicios S. de R.L. de C.V., Deputy Vice-President
- SKW-Tashi Metals & Alloys Private Limited, Member of the Board of Directors
- SKW Stahl-Metallurgie GmbH, Managing Director
- SKW Verwaltungs GmbH, Managing Director

## 34. Remuneration of the Executive Bodies

### PERFORMANCE-RELATED REMUNERATION STRUCTURE

The compensation structures in the entire SKW Metallurgie Group are governed by the principles of appropriateness, performance and transparency. This primarily applies to compensation for the Managing Board and Supervisory Board. The Managing and Supervisory Boards consciously did not propose to the General Meeting the waiver of detailed publication of the Managing Board's remuneration allowed under Item 4.2.4 of the German Corporate Governance Code. In detail, the compensation of the Managing and Supervisory Boards comprises the following components:

## 1. SUPERVISORY BOARD:

**1.1 Members of the Supervisory Board both through to the end of the General Meeting on June 4, 2009 and also after the end of the General Meeting on June 4,2009:**

According to Article 12 of the Articles of Incorporation, the members of the Supervisory Board are reimbursed for their necessary out-of-pocket expenses. During the period under review these related to travel and entertainment costs, which were refunded up to a maximum of the amounts according to German income tax law. Members of the Supervisory Board receive compensation for their out-of-pocket expenses plus the VAT due on these amounts.

In addition, the company bore the cost of D&O insurance, which protects members of the Managing and Supervisory Boards and other company executives. This comprised two policies (basic insurance and additional insurance). The total premium for both policies for the persons named amounted to EUR 65 thousand in for business year 2009.

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

The Chairman of the Supervisory Board and the law firm with which he works also advise the SKW Metallurgie Group. These consulting services started before the Chairman of the Supervisory Board was appointed to the Supervisory Board, and the Supervisory Board approved these activities when he commenced his activities with the company within the meaning of Section 114 of the AktG. In this connection, EUR 35 thousand was paid during the year under review.

There were no pension commitments by the company for the members of the Supervisory Board and their surviving dependents.

The further remuneration components changed as a result of the resolution by the General Meeting on June 4, 2009 with effect from this date. These are presented below, broken down into remuneration for members of the Supervisory Board through to the end of the General Meeting on June 4, 2009 (section 1.2.) and members of the Supervisory Board after the end of the General Meeting on June 4, 2009 (section 1.3).

**1.2 Members of the Supervisory Board through to the end of the general meeting on June 4, 2009:**

The compensation of the Supervisory Board was determined by the Annual General Meeting of June 18, 2007: This resolution dated June 18, 2008 was rescinded by the General Meeting on June 4, 2009 with the condition that the rescinded resolution continued to apply for the period through to the end of the ordinary General Meeting on June 4, 2009; the resolution dated June 18, 2007 was worded as follows:

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

Each member of the Supervisory Board receives annual fixed remuneration of EUR 10,000. Each member of the Supervisory Board receives annual fixed remuneration of EUR 15,000.

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

The following amounts were paid during the year under review based on this resolution:

| EUR | Fixed compensation | Variable compensation* | Total |
|---|---|---|---|
| Titus Weinheimer | 15,000 | 3,000 | 18,000 |
| Dr. Friedrich Trautwein | 10,000 | 3,000 | 13,000 |
| Dr. Wolfgang Ziegler | 10,000 | 3,000 | 13,000 |
| **Total** | **35,000** | **9,000** | **44,000** |

*: The variable remuneration is due in full to meeting fees; the company's share price performance did not lead to any further variable remuneration.

Provisions totaling EUR 41,000 had already been formed for these payments in 2008, as discussed in the previous year's remuneration report.

As a result, all of the remuneration claims for members of the Supervisory Board have been fulfilled through to the end of the General Meeting on June 4, 2009.

**1.3 Members of the Supervisory Board after the end of the general meeting on June 4, 2009:**

The General Meeting on June 4, 2009 elected Titus Weinheimer (re-election), Dr. Dirk Markus and Dr. Christoph Schlünken to the company's Supervisory Board. In addition, the General Meeting on June 4, 2009 agreed to increase the company's Supervisory Board from three to six members. This became effective when it was entered in the commercial register on June 15, 2009. The General Meeting on June 4, 2009 elected Sabine Kauper, Armin Bruch and Jochen Martin to the company's thus enlarged Supervisory Board. In addition, the General Meeting on June 4, 2009 elected Dr. Claus Ritzer as a deputy member of the Supervisory Board. The deputy member receives no remuneration. In its meeting on June 15, 2009, the Supervisory Board elected Titus Weinheimer (re-election) as its Chairman and Jochen Martin as its Deputy Chairman. In addition, the Supervisory Board resolved to set up committees. However only the audit committee met during the year under review (for the first time on October 22, 2009).

The General Meeting on June 4, 2009 passed the following resolution on remuneration for members of the Supervisory Board:

„1. In addition to reimbursement of their out-of-pocket expenses, the members of the Supervisory Board receive fixed annual remuneration of EUR 10,000 per member. This is paid in each case on the day after the Ordinary General Meeting which resolves on the ratification of the Supervisory Board.

2. In addition, each member of the Supervisory Board receives variable remuneration, which is broken *down as follows:*

   a) *Remuneration based on short-term company profits ("Variable Remuneration 1"):*

      *Each member of the Supervisory Board receives remuneration based on the company's short term profits of 0.03% of the SKW Metallurgie Group's EBT (earnings before taxes). The EBT is derived, in each case, from the last audited consolidated financial statements for the respective business year. As a result, the audited IFRS results apply. Variable Remuneration 1 is paid in each case after the company's Ordinary General Meeting which resolves on the Supervisory Board's ratification. Variable Remuneration 1 totals a maximum annual amount of EUR 5,000.00.*

   b) *Remuneration based on long-term company profits ("Variable Remuneration 2"):*

      *Each member of the Supervisory Board receives remuneration based on the company's long-term success. According to the following provisions, the amount of this remuneration is governed by the relative performance of SKW Metallurgie's shares compared to Deutsche Börse AG's SDAX index (or successor index, hereinafter "SDAX"), and which is only to be paid out after the end of*

*the Supervisory Board's full period of office. In order to calculate the Variable Remuneration 2, the average of the closing prices of SKW Metallurgie's shares in XETRA (or a successor system) and the SDAX closing price of the last 30 trading days prior to the first day of the period of office and the last day of the period of office (comparable period) are compared with each other and the percentage change is determined. Subject to SKW Metallurgie's share price performance being positive at the end of the comparable period, and the identified percentage change in the price of SKW Metallurgie's shares at the end of the comparable period being greater than the percentage change in the SDAX, Variable Remuneration 2 totals EUR 5,000.00 for each member of the Supervisory Board. The period of office for the entire Supervisory Board is used to calculate Variable Remuneration 2. Variable Remuneration 2 is paid on the day after the company's Ordinary General Meeting which ends together with the Supervisory Board's period of office.*

3. *The Chairman of the Supervisory Board receives 1.5 times, and each Deputy receives 1.25 times the amounts to be granted under paragraph 1.*

4. *In addition to the remuneration under paragraphs 1 and 2, each member of a committee also receives a meeting fee of EUR 500.00 per committee meeting. The Chairman of a committee receives twice the meeting fee.*

5. *Compensation is paid to the Supervisory Board with any VAT incurred on such a payment.*

6. *Members of the Supervisory Board who only belonged to the Supervisory Board or a committee for part of the business year or the electoral period receive pro-rata remuneration for each commenced month of their activities (fixed and variable remuneration). If a member of the Supervisory Board joins or leaves the Board during the year, this neither impacts the calculations for variable remuneration nor the due date for the remuneration.*

7. *This resolution applies for remuneration for the Supervisory Board starting after the end of the Ordinary General Meeting on June 4, 2009.*

8. *The remuneration for the period through to the end of the Ordinary General Meeting on June 4, 2009 is based on the resolution passed by the Ordinary General Meeting dated June 18, 2007 under agenda item 8 on the Supervisory Board's remuneration.*

9. *The resolution by the Ordinary General Meeting dated June 18, 2007 under agenda item 8 on Remuneration for the Supervisory Board is cancelled."*

The following provisions were formed in the year under review based on this resolution:

| EUR | Fixed remuneration | Variable remuneration* | Meeting fee | Total |
|---|---|---|---|---|
| Armin Bruch | 5,833 | 1,271 | | 7,104 |
| Sabine Kauper | 5,833 | 1,271 | 1,000 | 8,104 |
| Dr. Dirk Markus | 5,833 | 1,271 | 2,000 | 9,104 |
| Jochen Martin | 7,292 | 1,271 | 1,000 | 9,563 |
| Dr. Christoph Schlünken | 5,833 | 1,271 | | 7,104 |
| Titus Weinheimer | 8,750 | 1,271 | | 10,021 |
| **Total** | **39,374** | **7,626** | **4,000** | **51,000** |

* This amount relates exclusively to the proportionate long-term variable remuneration.
A provision for short-term variable remuneration was not formed due to the expected results in the business year.

**1.4 Former Members of the Supervisory Board:**

There are no benefit commitments to exiting members of the company's Supervisory Board or their surviving dependents.

## 2. MEMBERS OF THE BOARD OF MANAGING DIRECTORS:

The tasks and contribution of each individual member of the Managing Board to the overall performance of the group were taken into account when determining the compensation of the Managing Board. In addition, in 2010 the Supervisory Board will in depth deal with the issue of "Managing Board Remuneration" and make any changes as necessary.

During the year under review, the Managing Board's remuneration comprised the following key components:

- Fixed compensation
- Variable
- Non-cash compensation (company car)
- Subsidy to healthcare and nursing care insurance
- Company pension (only for Mr. Gerhard Ertl)
- Stock option plan

The above six components are explained in more detail below:

During the business year remuneration totaled:

| EUR thousand | Ines Kolmsee | Gerhard Ertl | Total |
|---|---|---|---|
| **Fixed compensation** | **200** | **180** | **380** |
| **Variable** | **0** | **0** | **0** |
| **Non-cash compensation** | **3** | **8** | **11** |
| **Subsidy to healthcare and nursing care insurance** | **2** | **4** | **6** |

The fixed compensation was paid monthly as a salary. The variable compensation comprises an EBTDA-based bonus payment agreed individually in each case. Installments were paid for these bonuses, calculations for the total bonus are based on the audited consolidated financial statements. Final installments are then paid in the following year for the bonus (in the amount of the difference between the bonus payment due and the installments already paid). The members of the Managing Board have a company car, which they can also use privately. The non-cash benefit under payroll tax law was applied for this non-cash remuneration during the year under review. During the year under review, the company made payments to the members of the Managing Board for healthcare and nursing care insurance.

There is an employer-financed company pension for Mr. Gerhard Ertl; in the year under review EUR 19 thousand (IFRS) was allocated to the provision formed for this pension commitment. The provision had a value of EUR 125 thousand on the balance sheet date. This entitlement is secured against bankruptcy, the company bears the premiums for the bankruptcy insurance.

The members of the Managing Board participated in the SKW Metallurgie Group's stock option plan as follows in 2009:

During 2008 stock option programs were set up for both the members of the Managing Board in the form of phantom stocks. These programs include several valuation cut-off dates. A weighted average XETRA closing rate is calculated over a 20-day period for each of these cut-off dates. The increase in share prices between two valuation dates gives the amount per phantom stock due to the member of the Managing Board. If the share price falls, this amount is zero. The members of the Managing Board each have 30,000 phantom stocks. As a rule, the beneficiaries can demand payment of the amount due to them in shares of the company. The option-giver has the right to fulfill the option holder's claims by making a cash payment instead of delivering shares. The program for Ines Kolmsee runs through to March 31, 2011, the program for Gerhard Ertl runs through to June 30, 2012. On the balance sheet date the provision for the option for Ms. Kolmsee totaled EUR 72 thousand, and EUR 129 thousand for Mr. Ertl. The program for Ines Kolmsee resulted in expenses of EUR 60 thousand in the year under review, and income from the reversal due to non-utilization of EUR 8 thousand. The programs for Gerhard Ertl resulted in expenses of EUR 129 thousand in the year under review.

In addition to the six main components, the Managing Board received the following additional benefits during the year under review:

- As a rule, the members of the Managing Board of an Aktiengesellschaft (German public limited company) in Germany are released from the obligation to pay statutory pension and unemployment insurance; as a result, no corresponding employer contributions were made. The members of the Managing Board receive social and smaller non-cash benefits (e.g., accident insurance protection) to the extent prescribed by law in Germany, or which is standard for comparable employees. This only relates to benefits which, under German income tax law, neither classify as income nor are subject to lump-sum taxation.

- The members of the Managing Board were reimbursed for their necessary out-of-pocket expenses. During the period under review these related to travel and entertainment costs, which were refunded up to a maximum of the amounts according to German income tax law.

- In addition, the company bore the cost of D&O insurance, which protects members of the Managing and Supervisory Boards and other company executives. This comprised two policies (basic insurance and additional insurance). The total premium for both policies for the persons named amounted to EUR 65 thousand for business year 2009.

- Some of the non-European subsidiaries (including the Indian company Jamipol Ltd.) made payments to the members of the group's Managing Board for mandates they performed for these companies. This related to the following payments in the year under review:

  - Affival Inc., USA: Ines Kolmsee and Gerhard Ertl, each USD 2,000

  - SKW-Tashi Metals&Alloys Pvt. Ltd., Bhutan: Ines Kolmsee INR 40,000 and Gerhard Ertl INR 20,000

  - Jamipol Ltd., India: Ines Kolmsee, INR 36,186

There are no loans or contingent liabilities in favor of the members of the Managing Board. On the balance sheet date there were receivables from the members of the Managing Board totaling EUR 124 thousand (previous year: EUR 124 thousand). These are due to the advance bonus payment made in the third quarter of 2008. This payment is netted with future bonus payments. As a result of the earnings performance during the business year, no bonus payments have been made to the members of the Managing Board since then.

In the event of a premature end to activities as a member of the Managing Board, there are the following agreements with Mr. Gerhard Ertl:

- Premature end from death: Salary continues to be paid to surviving dependents for a transitional period; this regulation is in line with standard practice for employees in Germany.

- Premature end for other reasons: Salary continues to be paid (fixed and variable remuneration) for the remaining period, at most for two years.

There are no benefit commitments to exiting members of the company's Managing Board or their surviving dependents.

## 35. Related party disclosure

According to IAS 24, related parties are defined as being individuals and legal entities that directly or indirectly control the company, are controlled by it, or are under joint control, own a share of the company that gives them a significant influence or participate in the joint management of the company; certain benefit organizations are also classified as being related parties. In addition, this also includes persons in key positions with the company or the parent company and their close family members (family members also include certain legal entities over which the individuals in question have a significant influence).

The SKW Metallurgie Group has a group-wide documentation process to fulfill the requirements of IAS 24. There are the following related parties with a reporting requirement according to IAS 24 in the year under review.

Related legal entities:

As part of its ordinary operating activities, the company has relationships with companies not included in the consolidated financial statements that classify as related parties within the meaning of IAS 24.

The subsidiaries not included in the consolidated financial statements that classify as related parties within the meaning of IAS 24 in the year under review were the Brazilian company Affival do Brasil and the French company SKW LRR (i.L.).

Affival do Brasil and SKW LRR (i. L.) did not have any material business activities in the year under review, and there were no transactions with these companies in 2009.

The major relationships of Jamipol Ltd., which is carried at equity, to the group in the year under review were:

The group company SKW Stahl-Metallurgie GmbH provided consulting services for fixed remuneration, which was settled quarterly, for Jamipol Ltd. based on a service agreement dated January 1, 2005. The group company SKW Stahl-Metallurgie GmbH also participated in Jamipol Ltd's dividend as a result of its participating interest in Jamipol Ltd. The income from the service agreement and the receivables from this company were as follows:

| EUR thousand | 2009 | 2008 |
|---|---|---|
| Service agreement income | 48 | 47 |
| Loans and advances | 48 | 77 |

During the period under review, Jamipol Ltd's Board of Directors also included individuals that held executive functions in the SKW Metallurgie Group in business year 2008; Jamipol Ltd. paid the respective persons remuneration in line with the market for their activities on the Board of Directors.

**RELATED INDIVIDUALS**

The active members of the Managing and Supervisory Boards and their close family members are related individuals. There are no former members of the Managing and Supervisory Board for the company for whom there are benefit commitments; as a result former members of the Managing and Supervisory Boards (and their family members) are not defined as related individuals.

**SUPERVISORY BOARD:**

As stated under No. 34 „Remuneration of the executive bodies", members of the Supervisory Board also held mandates with companies outside the group. SKW Stahl-Metallurgie Holding AG has ordinary business relationships with some of these third-party companies to a minor extent and at standard market conditions.

Mr. Titus Weinheimer and the law firm of which he is a member continued the advisory mandate which he was given prior to his election to the company's Supervisory Board at standard market conditions during his period as a member of the Supervisory Board. The Supervisory Board approved this agreement within the meaning of Section 114 of the AktG. During the year under review, payments were made in this regard totaling EUR 35 thousand.

The remuneration for activities as a member of the company's Supervisory Board is described under No. 34 "Remuneration of the executive bodies".

**MEMBERS OF THE BOARD OF MANAGING DIRECTORS:**

SKW Stahl-Metallurgie AG's payments have been stated above in full under No. 34 „Remuneration of the executive bodies".

Some of the non-European subsidiaries (including the Indian company Jamipol Ltd.) made minor payments to the members of the group's Managing Board for mandates they performed for these companies.

## 36. Employees

In business year 2009, the SKW Metallurgie Group had an average of 540 employees (previous year: 527 employees). In most countries the law no longer distinguishes between salaried and hourly-paid employees. Of the total number of employees, 266 (previous year: 267) were involved in manual activities, and 274 (previous year: 258) were involved in commercial/technical activities. On the balance sheet date, there were 715 employees (previous year: EUR 563). Of this total, 347 were manual and 365 were commercial/technical. The addition of 199 employees on the balance sheet date is mostly due to the acquisition of Tecnosulfur in 2009.

## 37. Additional information on financial instruments

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

The following table shows the fair values and the carrying amounts of financial assets and liabilities.

| EUR thousand | Dec. 31, 2009 | | Dec. 31, 2008 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial Assets** | | | | |
| Assets held to maturity | 226 | 226 | 225 | 225 |
| Loans and receivables | 48,433 | 48,433 | 38,562 | 38,562 |
| financial assets held for trading | 0 | 0 | 0 | 0 |
| Available-for-sale financial assets | 0 | 0 | 0 | 0 |
| Derivative Financial Instruments | 124 | 124 | 146 | 146 |
| **Financial liabilities** | | | | |
| Financial liabilities at amortized cost | 86,595 | 86,595 | 80,975 | 80,975 |
| Derivative financial instruments with hedge accounting | 57 | 57 | 31 | 31 |
| Derivative financial instruments with hedge accounting | 737 | 737 | 1,149 | 1,149 |

The following table shows the reconciliation of the individual balance sheet items on the assets side of the balance sheet to the measurement categories as of December 31, 2009 in EUR thousand. This also includes derivatives with hedge accounting, although they do not belong to any valuation category under IAS 39:

| Assets | | Valuation according to IAS 39 | | | | Valuation according to IAS 17 | |
|---|---|---|---|---|---|---|---|
| | | Loans and receivables | Assets held to maturity | Available for sale financial assets | Financial assets at fair value through profit or loss | | |
| | Carrying amount on the balance sheet 31.12.2009 | Amortized cost | Amortized cost | Fair value taken directly to equity | Fair value recognized in income | Amortized cost | Fair value Dec. 31, 2009 |
| Other assets | 1,880 | 1,654 | 226 | 0 | 0 | 0 | 1,880 |
| Trade accounts receivable | 46,781 | 46,781 | 0 | 0 | 0 | 0 | 46,781 |
| Derivatives without hedge accounting | 124 | 0 | 0 | 0 | 124 | 0 | 124 |

The figures for the previous year as of December 31, 2008 in EUR thousand are as follows:

| Assets | | Valuation according to IAS 39 | | | | Valuation according to IAS 17 | |
|---|---|---|---|---|---|---|---|
| | | Loans and receivables | Assets held to maturity | Available for sale financial assets | Financial assets at fair value through profit or loss | | |
| | Carrying amount on the balance sheet 31.12.2008 | Amortized cost | Amortized cost | Fair value taken directly to equity | Fair value recognized in income | Amortized cost | Fair value Dec. 31, 2008 |
| Other assets | 616 | 391 | 225 | 0 | 0 | 0 | 616 |
| Trade accounts receivable | 38,171 | 38,171 | 0 | 0 | 0 | 0 | 38,171 |
| Derivatives without hedge accounting | 146 | 0 | 0 | 0 | 146 | 0 | 146 |

The following table shows the reconciliation of the individual balance sheet items on the equity and liabilities side of the balance sheet to the measurement categories as of December 31, 2009 in EUR thousand. This also includes liabilities from finance leases as well as derivatives with hedge accounting, although they do not belong to any valuation category under IAS 39.

| Equity and liabilities | | Valuation according to IAS 39 | | Valuation according to IAS 17 | |
|---|---|---|---|---|---|
| | | Financial liabilities carried at amortized cost | Financial liabilities at fair value through profit or loss | | |
| | Carrying amount on the balance sheet 31.12.2009 | Amortized cost | Fair value | Amortized cost | Fair value Dec. 31, 2009 |
| Financial debt | 43,833 | 43,833 | 0 | 0 | 43,833 |
| Trade accounts payable | 30,329 | 30,329 | 0 | 0 | 30,329 |
| Liabilities from finance leases | 185 | 0 | 0 | 185 | 185 |
| Other liabilities | 12,248 | 12,248 | 0 | 0 | 12,248 |
| Derivatives without hedge accounting | 57 | 0 | 57 | 0 | 57 |
| Derivatives with hedge accounting | 737 | 0 | 0 | 0 | 737 |

The figures for the previous year as of December 31, 2008 are as follows:

| Equity and liabilities | | Valuation according to IAS 39 | | Valuation according to IAS 17 | |
|---|---|---|---|---|---|
| | | Financial liabilities carried at amortized cost | Financial liabilities at fair value through profit or loss | | |
| | Carrying amount on the balance sheet 31.12.2008 | Amortized cost | Fair value | Amortized cost | Fair value Dec. 31, 2008 |
| Financial debt | 54,513 | 54,513 | 0 | 0 | 54,513 |
| Trade accounts payable | 25,055 | 25,055 | 0 | 0 | 25,055 |
| Finance lease liabilities | 417 | 0 | 0 | 417 | 417 |
| Other liabilities | 990 | 990 | 0 | 0 | 990 |
| Derivatives without hedge accounting | 31 | 0 | 31 | 0 | 31 |
| Derivatives with hedge accounting | 1,149 | 0 | 0 | 0 | 1,149 |

The carrying amount of the trade accounts receivable and other current receivables and cash and cash equivalents is equal to their fair value. The fair value of fixed-interest loans is given by the present value of the anticipated future cash flows. These are discounted based on the interest rates which apply on the balance sheet date.

The fair value of forward currency contracts is calculated on the basis of the average spot exchange rate as of the balance sheet date, adjusted for forward premiums and discounts for the respective residual term of the contract, as compared to the contracted forward exchange rate. In the case of currency options, recognized models such as the Black Sholes Model were used to determine the option price. The fair value of an option is – in addition to the residual term of an option - also influenced by other determining factors, e.g. the current level and volatility of the underlying exchange rate or the underlying base rate.

Interest-rate swaps are measured at fair value by discounting the future anticipated cash flows. This is based on the applicable market interest rates for the remaining term of the contracts.

The valuation of derivative financial instruments is based on market data that is obtained from recognized providers of market data.

In the case of trade accounts payable and other current liabilities, the carrying amount is equal to the fair value. The fair value of fixed-interest liabilities is based on the present value of expected future cash flows. These are discounted based on the interest rates which apply on the balance sheet date. In the case of variable-interest liabilities, the carrying amount is the same as the fair value.

The following table shows the allocation of our financial assets and liabilities measured at fair value to the three-stage fair-value hierarchy:

| EUR thousand | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Financial assets measured at market value | | | | |
| - Derivative financial instruments | - | 124 | - | 124 |
| Financial liabilities measured at market value | | | | |
| - Derivative financial instruments | - | 794 | - | 794 |

The stages of the fair-value hierarchy and their use with the assets and liabilities is described below:

Stage 1: Listed market prices for identical assets or liabilities on active markets.

Stage 2: Information other than listed market prices that can be observed directly (e.g., prices) or indirectly (e.g., derived from prices), and

Stage 3: Information for assets and liabilities that is not based on observable market data.

The Stage 2 derivative financial instruments are currency forwards on the assets side and an interest rate swap and currency forwards on the equity and liabilities side.

The following table shows the net gains and losses from financial instruments by valuation category. This does not include any impact on earnings from finance leases and from derivatives with hedge accounting, as these do not belong to any of the valuation categories under IAS 39.

| EUR thousand | 2009 | 2008 |
|---|---|---|
| Loans and receivables | -107 | -73 |
| Held-to-maturity financial assets: | 0 | 0 |
| Available-for-sale financial assets | 0 | 0 |
| Derivatives without hedge accounting | 63 | 197 |
| Financial liabilities measured at amortized cost | 290 | -490 |

The net result in the category „Loans and receivables“ is mostly due to value adjustments for trade accounts receivable and currency gains and losses from receivables in foreign currencies. Gains and losses from changes in the fair value of currency and interest-rate derivatives which do not meet the requirements of IAS 39 for hedge accounting, are included in the category „Derivatives without hedge accounting“. The category „Financial liabilities measured at amortized cost“ includes interest expenses on financial liabilities as well as currency gains and losses from liabilities in foreign currencies.

## 38. Derivative Financial Instruments

In the context of risk management, derivative financial instruments can be used to limit the risks mainly arising from exchange and interest rate fluctuations and credit risks. As a rule, derivative financial instruments are used to hedge existing or planned underlying transactions and serve to reduce exchange rate and interest risks.

The following table shows the nominal and fair values of the derivative financial instruments used in the group:

| EUR thousand | Fair value Dec. 31, 2009 | Fair value Dec. 31, 2008 |
|---|---|---|
| **Assets** | | |
| Currency derivatives without hedge accounting | 124 | 146 |
| Interest rate derivatives in cash flow hedges | 0 | 0 |
| **Total** | **124** | **146** |
| | | |
| **Equity and liabilities** | | |
| Currency derivatives without hedge accounting | 57 | 31 |
| Interest rate derivatives in cash flow hedges | 737 | 1,149 |
| **Total** | **794** | **1,180** |

### DERIVATIVES WITH HEDGE ACCOUNTING

There is hedge accounting within the meaning of IAS 39 to hedge interest rate risks from non-current liabilities. The group hedged its future cash flows from a non-current loan (interest rate risk) with a cash flow hedge. This derivative is carried at fair value, broken down into an effective and in ineffective portion. The effective portion of the fluctuation of the fair value of this derivative is carried directly under equity until the hedged underlying transaction is realized. The ineffective portion is recognized in income in the income statement. When the future transaction (underlying transaction) is realized, the accumulated effect in equity is reversed and recognized in income. As of 31 March 2007, hedge instruments totaling EUR 737 thousand (previous year: EUR 1,149 thousand) were carried with negative fair values. In business year 2009, the accumulated income and expenses taken directly to equity includes unrealized earnings of EUR 386 thousand (previous year: EUR 1,088 thousand) (before) taxes and EUR 35 thousand were taken into account as exchange rate changes. The maximum period for which the cash flows from future transactions are hedged is 66 months.

As of December 31, 2009, the net result from the ineffective components of derivative financial instruments classified as cash flow hedges totaled EUR 0 thousand (previous year: EUR 0 thousand).

### DERIVATIVES WITHOUT HEDGE ACCOUNTING

If the conditions for application of the special regulations for hedge accounting within the meaning of IAS 39 are not fulfilled, the derivative financial instruments are carried as derivatives without hedge accounting. The resulting impact on the income statement is shown in the table on the net results from financial instruments by valuation category. The non-hedge derivatives are currency forwards.

## 39. Management of financial risks

### FINANCIAL MARKET RISKS

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

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

### FOREIGN CURRENCY RISKS

*Transaction risks and foreign currency management*

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

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

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

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

The sensitivity analysis makes it possible to identify the risk items of the individual business units. It approximately quantifies the risk that can arise under the given assumptions if certain parameters are changed to a defined degree. The selected risk assessment assumes a simultaneous, parallel change in the euro against all foreign currencies in the consolidated financial statements by +10% and -10%. The potential economic impact is an estimate. This is based on the assumption that that favorable and unfavorable market changes assumed in the sensitivity analysis arise. The actual impact on the consolidated income statement may differ from these significantly on account of the actual changes in global markets. In particular in reality the changes in exchange rates correlate with other parameters, whereas the sensitivity analysis is based on all other parameters being constant (ceteris paribus).

The following table provides an overview of the impact on sales and EBITDA of changes in all group currencies:

| EUR thousand | Average exchange rate 2009 -10% | Average exchange rate 2009 | Average exchange rate 2009 +10% |
|---|---|---|---|
| Revenues | 237,640 | 220,569 | 206,602 |
| EBITDA | -327 | -465 | -579 |

The changes are essentially due to the EUR/USD exchange rate. If a single devaluation of the euro against the dollar of -10% is assumed, and if all other foreign currencies are assumed to be unchanged at the same time, revenues increase from EUR 220,569 thousand to EUR 234,197 thousand, and EBITDA from EUR -465 thousand to EUR -257 thousand. Vice versa, if a single increase in the value of the euro against the dollar of +10% is assumed, and if all other foreign currencies are assumed to be constant at the same time, revenues would fall from EUR 220,569 thousand to EUR 209,419 thousand and EBITDA would fall from EUR -465 thousand to EUR -636 thousand.

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

| EUR thousand | Average exchange rate 2008 -10% | Average exchange rate 2008 | Average exchange rate 2008 +10% |
|---|---|---|---|
| Revenues | 405,366 | 377,753 | 355,160 |
| EBITDA | 28,601 | 26,041 | 23,947 |

The following table shows the impact on net assets of a change in group currencies:

| EUR thousand | exchange rate 2009 -10% | exchange rate 2009 | exchange rates 2009 +10% |
|---|---|---|---|
| Net assets (all currencies) | -312 | 0 | +871 |
| Net assets (only USD) | -112 | 0 | +707 |

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

| EUR thousand | exchange rate 2008 -10% | exchange rate 2008 | exchange rate 2008 +10% |
|---|---|---|---|
| Net assets (all currencies) | +1,041 | 0 | -585 |
| Net assets (only USD) | +939 | 0 | -586 |

*Effects of translation-related currency risks*

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

## INTEREST RATE RISKS

As a result of the international orientation of the SKW Metallurgie Group's business activities, the SKW Metallurgie Group procures its liquidity on the international money and capital markets in various currencies – mostly in the euro and US dollar zones – and with various maturities. The resulting financial liabilities and cash investments are, in part, exposed to interest rate risks. Central interest rate management aims to control and optimize this interest rate risk. In this regard, regular interest rate analyses are prepared as part of interest rate management.

Derivative financial instruments are used on a case-by-case basis in order to hedge the interest rate risk. These instruments are concluded with the aim of minimizing the interest rate volatility and financing costs of the underlying transactions.

There was one position from an interest rate derivative (interest rate swap) on December 31, 2009. This was directly allocated to a specific loan as a cash flow hedge. In this case this is a derivative with hedge accounting. The interest expenses carried in the income statement for the underlying transaction on which this derivative is based and the respective interest rate derivative show the fixed interest rate for the hedge.

There are cash flow risks, opportunity effects and interest rate risks under equity and recognized in income from interest rate instruments. Refinancing and variable financial instruments are subject to a cash flow risk that expresses the uncertainty of future interest payments. The cash flow risk is measured using a cash flow sensitivity analysis.

The interest rate analysis assumes a parallel shift in interest rate curves for all interest rates of +100/-100 basis points as of December 31, 2009 and identifies the impact on the cash flow risk for the unhedged financial instruments with variable interest rates. This would result in the opportunities (positive figure) and risks (negative figure) shown in the following table:

| EUR thousand | Change in all interest rate curves as of December 31, 2009 | |
|---|---|---|
| | +100 basis points | -100 basis points |
| Equity | -884 | +491 |

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

| EUR thousand | Change in all interest rate curves as of December 31, 2008 | |
|---|---|---|
| | +100 basis points | -100 basis points |
| Equity | -304 | +304 |

## CREDIT RISK

SKW Metallurgie is exposed to a risk of default for financial instruments. A default risk (credit risk) is the unexpected loss of cash and cash equivalents or income. This arises when the customer is no longer able to meet its obligations within the appropriate time frame, when the assets serving as collateral lose value or when projects in which the SKW Metallurgie Group invests are not successful. The maximum risk of default is therefore the amount of the positive fair value of the financial instrument in question. In order to minimize default risks, as a rule the SKW Metallurgie Group only uses financial instruments for financing with counterparties with excellent credit ratings, thus minimizing the risk of default to the greatest possible extent. In its operating activities, the company monitors outstanding amounts and default risks at the group companies on an ongoing basis, and hedges some of these using merchandise credit insurance. In addition, letters of credit and default guarantees are used to hedge some receivables. As a result, the SKW Metallurgie Group's default risk is very low. Write-downs were made to account for the risk of default.

In 2009 trade accounts payable of EUR 221 thousand (previous year: EUR 232 thousand and other receivables of EUR 25 thousand (previous year: EUR 122 thousand) were impaired. Of the trade accounts receivable of EUR 46,780 thousand (previous year: EUR 39,987 thousand) receivables of EUR 2,801 thousand (previous year: EUR 8,150 thousand) were due but not impaired.

The maturities of the overdue trade accounts receivable that have not been written down is as follows:

Trade receivables

| EUR thousand | < 90 days | 90 to180 days | 180 to 360 days | > 360 days | Total |
|---|---|---|---|---|---|
| 2009 | 2.592 | 19 | 13 | 177 | 2.801 |
| 2008 | 7.643 | 147 | 210 | 150 | 8.150 |

There are no indicators that the debtors for these receivables will not meet their payment obligations. None of the other receivables are overdue.

## LIQUIDITY RISK

The liquidity risk for the SKW Metallurgie Group is the risk that it may not be able to meet its existing or future financial obligations, such as the repayment of financial liabilities, the payment of purchase obligations or finance lease obligations as a result of insufficient cash and cash equivalents being available. The management of the liquidity risk, as well as the allocation of resources and securing the financial independence of the SKW Metallurgie Group are among SKW Stahl-Metallurgie Holding AG's central tasks. The SKW Metallurgie Group limits this risk with effective net working capital and cash management and access to lines of credit at banks, in particular for the operating group units. The company has long-standing relationships with banks and is in permanent dialog with its banks. With regard to some of the lines of credit which expire in the first half of 2010, the Managing Board does not believe that these banks will end or restrict their business relationships with the SKW Metallurgie Group. The Managing Board has analyzed several liquidity scenarios in this connection. As of December 31, 2009 the SKW Metallurgie Group had lines of credit totaling EUR 46,930 thousand.

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

The following table shows all the fixed payments for interest and other repayments arising from the financial liabilities recognized as of December 31, 2009, including derivative financial instruments with a negative fair value. The derivative financial instruments are reported at fair value. The discounted cash outflows are not stated for other obligations. The cash outflows for financial liabilities without a fixed amount or period, including interest, are based on conditions as of December 31, 2009:

| 2009 in EUR thousand | < 30 days | 30 – 90 days | 90 – 180 days | 180 < days < 360 | 1 - 2 years | 3 - 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|---|---|
| Bank loans and overdrafts | 926 | 356 | 2,858 | 24,822 | 9,714 | 7,665 | 3,471 | 49,812 |
| Financial liabilities to other third-parties | 1,180 | 14 | 446 | 486 | 0 | 0 | 0 | 2,318 |
| Trade accounts payable (without construction contracts) | 15,772 | 13,540 | 1,017 | 0 | 0 | 0 | 0 | 30,329 |
| Finance lease liabilities | 14 | 44 | 70 | 34 | 27 | 0 | 0 | 189 |
| Other liabilities | 621 | 1,034 | 975 | 1,950 | 3,068 | 4,601 | 0 | 12,249 |
| Derivative financial instruments without hedge accounting | 45 | 12 | 0 | 0 | 0 | 0 | 0 | 57 |
| Derivative financial instruments with hedge accounting | 0 | 0 | 0 | 0 | 0 | 737 | 0 | 737 |

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

The following table shows a corresponding overview for the previous year 2008, excluding interest.

| 2008 in EUR thousand | < 30 days | 30 – 90 days | 90 – 180 days | 180 < days < 360 | 1 - 2 years | 3 - 5 years | > 5 years | Total |
|---|---|---|---|---|---|---|---|---|
| Bank loans and overdrafts | 13,713 | 365 | 2,564 | 18,256 | 12,840 | 15,331 | 1,641 | 64,710 |
| Financial liabilities to other third-parties | 2,500 | 0 | 0 | 0 | 304 | 0 | 0 | 2,804 |
| Trade accounts payable (without construction contracts) | 14,092 | 10,874 | 89 | 0 | 0 | 0 | 0 | 25,055 |
| Finance lease liabilities | 14 | 44 | 58 | 129 | 188 | 0 | 0 | 433 |
| Other liabilities | 553 | 305 | 132 | 0 | 0 | 0 | 0 | 990 |
| Derivative financial instruments without hedge accounting | 31 | 0 | 0 | 0 | 0 | 0 | 0 | 31 |
| Derivative financial instruments with hedge accounting | 0 | 0 | 0 | 1,149 | 0 | 0 | 0 | 1,149 |

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

| EUR thousand | 31. December 2009 | 31. December 2008 |
|---|---|---|
| Cash and cash equivalents | 11,052 | 9,577 |
| **Total liquidity** | **11,052** | **9,577** |
| Current financial debt | 29,236 | 37,397 |
| Non-current financial debt | 14,597 | 17,116 |
| **Total financial liabilities** | **43,833** | **54,513** |
| **Net debt/net financial assets** | **-32,781** | **-44,936** |

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

The SKW Metallurgie Group was capable of satisfying all its payment obligations from loan liabilities throughout the entire reporting period. Payments were not disrupted in 2009, however there was a foreseeable and actual breach of financial covenants for two of the SKW Metallurgie Group's loans. The foreseeable breach was a loan for ESM Group Inc., and the actual breach was a loan for Affival Inc. At ESM Group Inc., an amendment to this loan agreement was negotiated with the financing banks prior to the violation of the financial covenants. This amendment stipulated that the endangered financial covenant would be placed on hold for a specific period, and that another new financial covenant would be used. At Affival Inc. there was a breach in the EBITDA and net debt/EBITDA covenant in 2009. Not upholding the covenant led to the bank having an immediate right of termination. The affected loan totaled EUR 582 thousand as of December 31, 2009. This is carried under current financial liabilities. Effective March 18,2010, the financing bank issued a covenant waiver. In that context, SKW Stahl-Metallurgie Holding AG issued a support letter to the financing bank for up to USD 5 million.

## 40. Share-based payments

The SKW Metallurgie Group issued an employee stock option program for the Managing Board and executives in three tranches. As a result of the company-specific structure of this program, the subscription rights have a range of special features compared to standard options. These have to be taken into account when valuing the options. In the case of the stock option program (AP1) the number of SKW Metallurgie shares to be delivered on the cut-off date is determined based on the positive performance of SKW Metallurgie's shares since the last valuation date. No shares are delivered in the event of negative performance. For performance measurement on the delivery date, the average closing price of the shares in XETRA trading, weighted according to the trading volume, over a 20-day period is used. In the case of the stock option program (AP2), the unweighted average closing price of SKW Metallurgie's shares in

XETRA (or a corresponding successor system) on the last 20 trading days before the starting and settlement date ("comparable period") are compared with each other. The present value of this increase in the share price at the end of the comparable period multiplied with the value in 2000 results in the gross amount paid out for the long-term remuneration. The starting date is the last trading day prior to the start of the employment relationship. The settlement date is the last trading day prior to the end of a two-year period from the starting date from the starting date (e.g., September 1, 2009 and August 30, 2011). There is only an entitlement to long-term remuneration subject to the condition that SKW Metallurgie's share price performance is positive at the end of the comparable period, and the identified percentage change in the price of SKW Metallurgie's shares at the end of the comparable period is greater than the percentage change in the SDAX. In order to calculate the percentage change in SKW Metallurgie's shares and the SDAX at the end of the comparable period, in each case the average of the values of the closing price of SKW Metallurgie's shares in XETRA and the SDAX closing price are compared with each other.

A Monte-Carlo simulation is used to value the subscription rights for the stock option program (AP1). During this valuation, a simulation of the log normal distributed process is conducted for the price of shares of SKW Metallurgie's shares, in order to be able to determine the share's performance between the valuation date and the price on the delivery date. The relevant average prices for measuring performance are simulated.

The valuation of the employee stock option program on December 31, 2009 is based on the following input parameters:

| Tranche | 1 / 2008 | 2 II / 2008 | 3 I / 2008 | 3 II / 2008 |
|---|---|---|---|---|
| Grant date | April 22, 2008 | August 14, 2008 | Dec. 30, 2008 | Dec. 30, 2008 |
| Delivery date | March 31, 2010 | March 31, 2011 | Sept. 30, 2010 | June 30, 2012 |
| Exercise prices | € 20.58 | € 13.90 | € 9.57 | n.a.* |
| Closing price for SKW Metallurgie's shares | 14.30 € | 14.30 € | € 14.30 | € 14.30 |
| Risk-free interest rate | 0.31% | 0.91% | 0.65% | 1.58% |
| Anticipated volatility | 45.95% | 71.91% | 56.35% | 63.90% |
| Fair value of the subscription rights | € 0.05 | € 4.56 | € 5.36 | € 4.32 |

* identified during simulation

The anticipated volatility was determined based on historical daily closing rates of SKW Metallurgie's shares. The term of the subscription rights was used as the time frame for the identification. The calculation also includes the following estimates for the dividends:

| Year (payment) | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Dividend | 0.00 € | 0.34 € | 0.34 € | 0.42 € |

The following table shows the changes in stock options:

| | Number of subscription rights 2009 |
|---|---|
| Amount at start of year | 70,000 |
| Granted during business year | 2,000 |
| Subscription rights exercised during the business year | 0 |
| Subscription rights expired/forfeited during the business year | 0 |
| Amount at year end | 72,000 |
| Thereof exercisable | 0 |

The options outstanding at the end of the year have an average weighted remaining term of 20 months. The total expenses for the employee program in 2009 totaled EUR 178 thousand. There is thus a total provision on the balance sheet date of EUR 202 thousand.

## 41. Key events after the balance sheet date

After the end of the year under review on December 31, 2009 there were no transactions and events of significance to the group which occurred before this management report was prepared.

After the financial covenants for a working capital loan with a five-year term at Affival Inc. was breached in business year 2009 (as of December 31, 2009: USD 0.8 million), the issue of a corresponding waiver was agreed in mid-March 2010. In the context of a waiver agreement to heal the broken financial covenants of its affiliate Affival Inc., SKW Stahl-Metallurgie Holding AG issued a support letter to the financing bank for up to USD 5 million.

In addition, the following additional credit agreements were concluded in the first quarter:

- Long-term loan agreements were concluded with BayernLB and WestLB (German “Landesbanken”), each with a term through to 2014 and each in the amount of EUR 7.0 million, i.e. with a total amount of EUR 14.0 million.

- An additional line of credit for EUR 5.0 million with an unlimited term has been agreed with DZ Bank (a German cooperative bank).

This additional borrowing has substantially reinforced the further financing of the SKW Metallurgie Group’s growth, in particular its expansion into emerging nations. At the same time, the additional financing agreements evidence the solidarity and earnings strength that the financial markets believe that the SKW Metallurgie Group can offer.

## 42. Ownership structure and notifications of voting rights

### OWNERSHIP STRUCTURE

### OWNERSHIP STRUCTURE – SHAREHOLDINGS AT THE START OF BUSINESS YEAR 2009:

There were the following shareholdings in SKW Metallurgie that carry a reporting requirement within the meaning of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) (3% or more of the total voting rights) on January 1, 2009:

| Name | Head office | Stock | Shares held correspond to | Date | Remarks |
|---|---|---|---|---|---|
| Universal-Investment-Gesellschaft mbH | Frankfurt/M., Germany | 134,500 | 3.04% | Sept. 24, 2007 | |
| BriTel Fund Nominees Limited | London, United Kingdom | 247,464 | 5.60% | Dec. 20, 2007 | 5 individual notifications for the same shareholding |
| Maga Smaller Companies Master Fund Limited | George Town, Cayman Islands | 136,500 | 3.09% | Jan. 25, 2008 | 5 individual notifications for the same shareholding |
| Baden-Württembergische Investmentgesell-schaft mbH | Stuttgart, Germany | 148,613 | 3.36% | May 27, 2008 | |
| | **Total** | **667,077** | | | |

### OWNERSHIP STRUCTURE – CHANGES DURING BUSINESS YEAR 2009:

The following shareholders no longer held shares with a reporting requirement during the course of 2009 without having returned to this figure by the end of the business year (December 31, 2009) (the last reported shareholding is shown):

| Name | Head office | Stock | Shares held correspond to | Date | Remarks |
|---|---|---|---|---|---|
| Landesbank Baden-Württemberg | Stuttgart, Germany | 0 | 0% | Dec. 7, 2009 | |
| M.M.Warburg & CO KGaA | Hamburg, Germany | 0 | 0% | Dec. 7, 2009 | |
| Universal-Investment-Gesellschaft mbH | Frankfurt/M., Germany | 126,234 | 2.85% | May 26, 2009 | 3% threshold passed again in January 2010 |
| Maga Smaller Companies Master Fund Limited | George Town, Cayman Islands | 127,000 | 2.87% | Feb. 6, 2009 | 5 individual notifications for the same shareholding |
| | **Total** | **253,234** | | | |

The participating interest by Landesbank Baden-Württemberg, Stuttgart (Germany) and M.M. Warburg & Co. KgaA, Hamburg (Germany) reached the reporting threshold after the start of the year, however it fell below this threshold again before the end of the business year and is thus not included in the table which shows the status at the start of the business year, nor in the table which shows the status at the end of the year under review.

### OWNERSHIP STRUCTURE – SHAREHOLDINGS AT THE END OF BUSINESS YEAR 2009:

There were the following shareholdings in SKW Metallurgie that carry a reporting requirement on December 31, 2009:

| Name | Head office | Stock | Shares held correspond to | Date | Remarks |
|---|---|---|---|---|---|
| BriTel Fund Nominees Limited | London, United Kingdom | 247,464 | 5.60% | Dec. 20, 2007 | 5 individual notifications for the same shareholding |
| LBBW Asset Management Investmentgesellschaft mbH | Stuttgart, Germany | 299,403 | 4.575% | Dec. 7, 2009 | |
| | **Total** | **546,867** | | | |

### INFORMATION ON ALL THREE TABLES:

The shareholdings shown in the above table only relate to the stated date; any possible subsequent changes only have to be reported if a reporting limit within the meaning of the Wertpapierhandelsgesetz (German Securities Trading Act) is reached, exceeded or fallen below. According to the WpHG, the shareholdings stated can include allocable voting rights; as the same votes can, in certain cases, be allocated to more than one person, these voting rights can be included in more than one notification of voting rights. Both of these characteristics of notifications of voting rights significantly restrict the meaningfulness of the totals included in the two tables above.

As a result of the capital increase entered in the commercial register on December 2, 2009, the total number of voting rights increased from 4,422,250 to 6,544,930. The percentages are based on the number of voting rights on the respective reporting date.

Landesbank Baden-Württemberg merged two of its group subsidiaries as of September 22, 2009 under the brand LBBW Asset Management: LBBW Asset Management GmbH, which is responsible for fund management and fund marketing, and Baden-Württembergische Investmentgesellschaft mbH (BWInvest), which sets up and administers public and special funds for retail and institutional investors as a capital investment company. The tables show the company names on the respective reporting dates.

### NOTIFICATION OF VOTING RIGHTS

The individual notifications of voting rights are reproduced below according to Section 160 (1) Sentence 1 No. 8 of the AktG with their original wordings (in alphabetical order of the reporting parties):

### LANDESBANK BADEN WÜRTTEMBERG

**December 2 and 7, 2009:**

Landesbank Baden-Württemberg, Am Hauptbahnhof 2, 70173 Stuttgart, Germany, informed us within the meaning of Section 21 (1) of the WpHG that its voting rights in SKW Stahl-Metallurgie Holding AG, Fabrikstr. 6, 84579 Unterneukirchen, Germany, exceed the 3%, 5%, 10% and 15% thresholds on December 2, 2009 and totaled 16.22% of voting rights (1,061,340 voting rights) on this date.

Landesbank Baden-Württemberg, Am Hauptbahnhof 2, 70173 Stuttgart, Germany, also informed us within the meaning of Section 21 (1) of the WpHG that its voting rights in SKW Stahl-Metallurgie Holding AG, Fabrikstr. 6, 84579 Unterneukirchen, Germany, fell below the 15%, 10%, 5% and 3% thresholds on December 7, 2009 and totaled 0.00% of voting rights (no voting rights) on this date.

As the issuing bank, Landesbank Baden-Württemberg took over 1,061,340 new no-par value bearer shares as part of the capital increase of SKW Stahl-Metallurgie Holding AG entered in the commercial register on December 2, 2009, with the obligation to offer these to shareholders for subscription.

### LBBW ASSET MANAGEMENT INVESTMENTGESELLSCHAFT MBH

**7 Dezember 2009:**

LBBW Asset Management Investmentgesellschaft mbH, Stuttgart (Germany) informed us within the meaning of Section 21 (1) of the WpHG, that its voting rights in SKW Stahl-Metallurgie Holding AG (ISIN DE000SKWM013), Unterneukirchen (Germany) exceeded the 3% threshold on December 7, 2009 and totaled 4.575% on this date (299,403 voting rights).

Of this total, 4.575% (299,403 voting rights) are allocated according to Section 22 (1) Sentence 1 No. 6 of the WpHG.

**December 2, 2009:**

LBBW Asset Management Investmentgesellschaft mbH, Stuttgart (Germany) informed us within the meaning of Section 21 (1) of the WpHG, that its voting rights in SKW Stahl-Metallurgie Holding AG (ISIN DE000SKWM013), Unterneukirchen (Germany) fell below the 3% threshold on December 2, 2009 and totaled 2.963% on this date (193,914 voting rights).

Of this total, 2.963% (193,914 voting rights) are allocated according to Section 22 (1) Sentence 1 No. 6 of the WpHG.

### MAGA SMALLER COMPANIES MASTER FUND LIMITED (AND ASSOCIATED REPORTS)

**February 6, 2009:**

Mr. Andrew Gibbs, United Kingdom, informed us according to Section 21 (1) of the WpHG (German Securities Trading Act) that on Feb. 6, 2009, his voting rights in SKW Stahl-Metallurgie Holding AG (ISIN DE000SKWM013), Unterneukirchen (Germany), fell below the 3% threshold (through a transaction on Feb. 6, 2009, selling 6,000 shares) and amounted to 2.87% (127,000 voting rights) as per that date.

All of those voting rights are to be attributed to him pursuant to Section 22 (1) sentence 1 no. 1 and no. 6 in connection with sentence 2 of the WpHG (German Securities Trading Act). Voting rights of the following shareholders now holding less than 3% are to be attributed to him: Maga Smaller Companies Master Fund Limited. Voting rights that are to be attributed to him are held via the following companies which are controlled by him and whose holdings of voting rights now amount to less than 3%: Maga Smaller Companies Master Fund Limited, Maga Smaller Companies Fund Limited, Otus Capital Management L. P., Otus Capital Management Limited.
(Notification of voting rights was in English)

Otus Capital Management Limited, London (United Kingdom), informed us according to Section 21 (1) of the WpHG (German Securities Trading Act) that on Feb. 6, 2009, their voting rights in SKW Stahl-Metallurgie Holding AG (ISIN DE000SKWM013), Unterneukirchen (Germany), fell below the 3% threshold (through a transaction on Feb. 6, 2009, selling 6,000 shares) and amounted to 2.87% (127,000 voting rights) as per that date.

All of those voting rights are to be attributed to them pursuant to § 22 (1) sentence 1 no. 1 and no. 6 in connection with sentence 2 WpHG (German Securities Trading Act). Voting rights of the following shareholders now holding less than 3% are to be attributed to them: Maga Smaller Companies Master Fund Limited. Voting rights that are to be attributed to them are held via the following companies which are controlled by them and whose holdings of voting rights now amount to less than 3%: Maga Smaller Companies Master Fund Limited, Maga Smaller Companies Fund Limited, Otus Capital Management L. P..
(Notification of voting rights was in English)

Otus Capital Management L. P., London (United Kingdom), informed us according to Section 21 (1) of the WpHG (German Securities Trading Act) that on Feb. 6, 2009, their voting rights in SKW Stahl-Metallurgie Holding AG (ISIN DE000SKWM013), Unterneukirchen (Germany), fell below the 3% threshold (through a transaction on Feb. 6, 2009, selling 6,000 shares) and amounted to 2.87% (127,000 voting rights) as per that date.

All of those voting rights are to be attributed to them pursuant to Section 22 (1) sentence 1 no. 1 and no. 6 of the WpHG (German Securities Trading Act). Voting rights of the following shareholders now holding less than 3% are to be attributed to them: Maga Smaller Companies Master Fund Limited. Voting rights that are to be attributed to them are held via the following companies which are controlled by them and whose holdings of voting rights now amount to less than 3%: Maga Smaller Companies Master Fund Limited, Maga Smaller Companies Fund Limited.
(Notification of voting rights was in English)

Maga Smaller Companies Fund Limited, George Town (Cayman Islands, BWI), informed us according to Section 21 (1) of the WpHG (German Securities Trading Act) that on Feb. 6, 2009, their voting rights in SKW Stahl-Metallurgie Holding AG (ISIN DE000SKWM013), Unterneukirchen (Germany), fell below the 3% threshold and amounted to 2.87% (127,000 voting rights) as per that date.

All of those voting rights are to be attributed to them pursuant to Section 22 (1) sentence 1 no. 1 of the WpHG (German Securities Trading Act). Voting rights that are to be attributed to them are held via the following companies which are controlled by them and whose holdings of voting rights now amount to less than 3%: Maga Smaller Companies Master Fund Limited
(Notification of voting rights was in English)

The Maga Smaller Companies Master Fund Limited, George Town (Cayman Islands, BWI), informed us according to Section 21 (1) of the WpHG (German Securities Trading Act) that on Feb. 6, 2009, their voting rights in SKW Stahl-Metallurgie Holding AG (ISIN DE000SKWM013), Unterneukirchen (Germany), fell below the 3% threshold (through a transaction on Feb. 6, 2009, selling 6,000 shares) and amounted to 2.87% (127,000 voting rights) as per that date.
(Notification of voting rights was in English)

### M.M.WARBURG & CO KGAA

**December 7, 2009:**

M.M.Warburg & CO KGaA, Ferdinandstraße 75, 20095 Hamburg, informed us within the meaning of Section 21 (1) of the WpHG that its voting rights in SKW Stahl-Metallurgie Holding AG, Fabrikstr. 6, 85579 Unterneukirchen, fell below the 15%, 10%, 5% and 3% thresholds listed in Section 21 (1) of the WpHG and now total 0.00% (0 voting rights).

In addition, M.M.Warburg & CO Gruppe (GmbH & Co.) KGaA, Ferdinandstraße 75, 20095 Hamburg, informed us within the meaning of Section 21 (1) of the WpHG that its voting rights in SKW Stahl-Metallurgie Holding AG, Fabrikstr. 6, 85579 Unterneukirchen, fell below the 15%, 10%, 5% and 3% thresholds listed in Section 21 (1) of the WpHG and now total 0.00% (0 voting rights). All of these voting rights are attributable to the M.M.Warburg & CO Group (GmbH & Co.) KGaA within the meaning of Section 22 (1) Sentence 1 No. 1 of the WpHG via M.M.Warburg & CO KGaA.

**December 2, 2009:**

M.M.Warburg & CO KGaA, Ferdinandstraße 75, 20095 Hamburg, informed us within the meaning of Section 21 (1) of the WpHG that its voting rights in SKW Stahl-Metallurgie Holding AG, Fabrikstr. 6, 85579 Unterneukirchen, exceeded the 15%, 10%, 5% and 3% thresholds listed in Section 21 (1) of the WpHG and now total 16.216 % (1,061,340 voting rights).

In addition, M.M.Warburg & CO Gruppe (GmbH & Co.) KGaA, Ferdinandstraße 75, 20095 Hamburg, informed us within the meaning of Section 21 (1) of the WpHG that its voting rights in SKW Stahl-Metallurgie Holding AG, Fabrikstr. 6, 85579 Unterneukirchen, exceeded the 15%, 10%, 5% and 3% thresholds listed in Section 21 (1) of the WpHG and now total 16.216 % (1,061,340 voting rights). All of these voting rights are attributable to the M.M.Warburg & CO Group (GmbH & Co.) KGaA within the meaning of Section 22 (1) Sentence 1 No. 1 of the WpHG via M.M.Warburg & CO KGaA.

### UNIVERSAL-INVESTMENT-GESELLSCHAFT MBH

**May 26, 2009:**

Universal-Investment-Gesellschaft mbH, Frankfurt/M. (Germany) informed us within the meaning of Sections 21 (1) and 22 (1) Sentence 1 No. 6 of the WpHG, that its voting rights in SKW Stahl-Metallurgie Holding AG (ISIN DE000SKWM013), Unterneukirchen (Germany) fell below the 3% threshold on May 26, 2009 and totaled 2.85% on this date (126,234 voting rights).

Of this total, 0.93% (41,297 voting rights) are held directly, and according to Section 22 (1) Sentence 1 No. 6 of the WpHG (special funds) 1.92% (84,937 voting rights) are allocated.

**March 13, 2009:**

Universal-Investment-Gesellschaft mbH, Frankfurt/M. (Germany) informed us within the meaning of Sections 21 (1) and 22 (1) Sentence 1 No. 6 of the WpHG, that its voting rights in SKW Stahl-Metallurgie Holding AG (ISIN DE000SKWM013), Unterneukirchen (Germany) exceeded the 3% threshold on March 13, 2009 and totaled 3.02% on this date (133,362 voting rights).

Of this total, 1.15% (50,725 voting rights) are held directly, and according to Section 22 (1) Sentence 1 No. 6 of the WpHG (special funds) 1.87% (82,637 voting rights) are allocated.

**March 4, 2009:**

Universal-Investment-Gesellschaft mbH, Frankfurt/M. (Germany) informed us within the meaning of Sections 21 (1) and 22 (1) Sentence 1 No. 6 of the WpHG, that its voting rights in SKW Stahl-Metallurgie Holding AG (ISIN DE000SKWM013), Unterneukirchen (Germany) fell below the 3% threshold on March 04, 2009 and totaled 2.96% on this date (130,862 voting rights).

Of this total, 1.15% (50,725 voting rights) held directly and 1.81% (80,137 voting rights) are allocated according to Section 22 (1) Sentence 1 No. 6 of the WpHG.

## 43. Auditors' fees

The auditors' fees booked in 2009 totaled EUR 402 thousand (previous year: EUR 308 thousand) and comprises expenses for the audit totaling EUR 172 thousand (previous year: EUR 308 thousand) and consulting services for the acquisition of Tecnosulfur S/A in the amount of EUR 230 thousand (previous year: EUR 0 thousand).

## 44. Use of Section 264 (3) of the HGB

The conditions of Section 264 (3) Sentence 1 No. 2 of the HGB were fulfilled at all times in the relationship between the parent company SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany) and the subsidiary SKW Stahl-Metallurgie GmbH, Unterneukirchen (Germany) for the entire year under review, and in particular on the balance sheet date as a result of the profit and loss transfer agreement concluded on January 1, 2007. The disclosures named in Section 264 (3) of the HGB in the electronic federal gazette were made or will be made as soon as the documents to be published are available. The other conditions for application of Section 263 (3) of the HGB were also fulfilled through to preparation of these consolidated financial statements. According to Section 264 (3) Sentence 1 No. 4 of the HGB, we thus state that we have used the option according to Section 264 (3) of the HGB for the subsidiary SKW Stahl-Metallurgie GmbH.

## 45. Declaration of conformity for business year 2009

The Managing and Supervisory Boards of SKW Stahl-Metallurgie Holding have issued the annual declaration of conformity in line with Section 161 of the Aktiengesetz (AktG – German Public Limited Companies Act) on the recommendations of the „Government Commission German Corporate Governance Code" and published this on the company's Internet site (www.skw-steel.com) on December 30, 2009. SKW Stahl-Metallurgie Holding AG has complied with all of the recommendations of the German Corporate Governance Code in the respective applicable version, with the exception of the points listed in the declaration of conformity.

## 46. Authorization of the consolidated financial statements for issue within the meaning of IAS 10.17

The Managing Board has authorized these consolidated financial statements for publication on March 22, 2010.

# E. SHAREHOLDINGS

In the case of affiliated companies which do not prepare their annual financial statements in EUR; subscribed capital and equity are translated using the respective exchange rate on the balance sheet date and the earnings for the business year are translated using the respective average rate of exchange.

## Shareholdings of SKW Stahl-Metallurgie Holding AG

### FULLY CONSOLIDATED SUBSIDIARIES (AS OF DECEMBER 31, 2009 IN EUR THOUSAND)

| Name | Head office | Interest in % | Equity | Subscribed capital | Earnings for the business year | Segment |
|---|---|---|---|---|---|---|
| SKW Stahl-Metallurgie GmbH | Unterneukirchen, Germany | 100 | 2,729 | 25 | 0[1] | Powders and Granulates |
| SKW France S,A,S, | Solesmes, France | 100 | 9,916 | 6,504 | 1,628 | Cored Wire |
| SKW Quab Chemicals Inc. | Wilmington, Delaware, USA | 90 | 4,900 | 35 | -1,913[2] | Other |
| SKW Metallurgie USA Inc. | Wilmington, Delaware, USA | 100 | 5,553 | 5,553 | 0[2] | Powders and Granulates |
| SKW Verwaltungs GmbH[3] | Unterneukirchen, Germany | 100 | -107 | 25 | -65 | Other |
| Quab Chemicals Belgium BVBA | Hasselt, Belgium | 100 | 2 | 49 | -19[2] | Other |
| SKW Hong Kong Co. Ltd. | Hong Kong, Hong Kong (SAR of PR of China) | 100 | 36 | 1 | -46[2] | Cored Wire |
| SKW Celik Metalürji Üretim Ticaret Ve Sanayi Limited Sirketi | Taksim, Beyoglu, Turkey | 99 | 2 | 2 | 0[2] | Powders and Granulates |
| SKW-Tashi Metals & Alloys Private Limited | Phuentsholing, Bhutan | 51 | 3,315 | 4,000 | -393[2] | Powders and Granulates |
| Tecnosulfur Sistema de Tratamento de Metais Liquidos S/A | Sete Lagoas, Minas Gerais, Brazil | 66,67 | 7,668 | 4,029 | 96[2] | Powders and Granulates |
| ESM (Tianjin) Co. Ltd. | Tianjin, People's Republic of China | 100 | 633 | 0 | -132 | Powders and Granulates |
| Tianjin Hong Long Metals Co. Ltd. | Tianjin, People's Republic of China | 100 | 60 | 79 | -379 | Cored Wire |
| ESM Group Inc. | Wilmington, Delaware, USA | 100 | 8,983 | 0 | -259 | Powders and Granulates |
| ESM Metallurgical Products Inc. | Nanticoke, Ontario, Canada | 100 | 1,700 | 1 | -217 | Powders and Granulates |
| Affival S.A.S. | Solesmes, France | 100 | 15,889 | 5,483 | -1,109 | Cored Wire |
| Affival Inc. | Williamsville, New York, USA | 100 | 6,911 | 1 | -1,870 | Cored Wire |
| Affival Korea Co Ltd. | Dangjin, South Korea | 100 | 1,259 | 637 | 62[2] | Cored Wire |
| Affival K.K. | Tokyo, Japan | 100 | 1,218 | 188 | 176 | Cored Wire |
| Affival Mexican Holdings LLC | Wilmington, Delaware, USA | 100 | 0 | 0 | 0 | Powders and Granulates |

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

2) Figures from the company's IFRS package, as no local financial statements were available when the financial statements were prepared.

3) SKW Verwaltungs GmbH has an accredited representative office in Russia. This office's financial figures for 2009 are included in the figures for SKW Verwaltungs GmbH.

| Name | Head office | Interest in % | Equity | Subscribed capital | Earnings for the business year | Segment |
|---|---|---|---|---|---|---|
| Affimex Cored Wire S. de R. L. de C.V. | Manzanillo, Colima, Mexico | 100 | -1,918 | 3 | -773 | Cored Wire |
| Cored Wire Servicios S. de R. L. de C.V. | Manzanillo, Colima, Mexico | 100 | 22 | 3 | 12 | Cored Wire |
| Affival Vostock OOO | Kolomna, Russia | 100 | -402 | 0 | -285 | Cored Wire |

## ASSOCIATED COMPANIES (AS OF DECEMBER 31, 2009 IN EUR THOUSAND)

| Name | Head office | Interest in % | Equity | Subscribed capital | Earnings for the business year | Segment |
|---|---|---|---|---|---|---|
| Jamipol Ltd.[4] | Jamshedpur, India | 30.22 | 7,412 | 1,678 | 2,227 | Powders and Granulates |

## NON-CONSOLIDATED SUBSIDIARIES (AS OF DECEMBER 31, 2009 IN EUR THOUSAND)

| Name | Head office | Interest in % | Equity | Subscribed capital | Earnings for the business year | Segment |
|---|---|---|---|---|---|---|
| Affival do Brasil Ltda.[5] | Rio de Janeiro, RJ, Brazil | 99,99 | -8 | 0 | N/A | N/A |
| SKW La Roche de Rame S.A.S.[6] | La Roche de Rame, France | 100 | N/A | 3.160 | N/A | N/A |

4) This company's business year is not identical to the calendar year (April 1 – March 31) As a result there were no current annual financial statements on the balance sheet date. This means that the figures from the annual financial statements as of March 31, 2009 are included in the list of shareholdings The figures for the income statement were translated using the average exchange rate for 2009 and the figures for the balance sheet were translated using the closing exchange rate as of December 31, 2009.

5) Balance sheet 2006 (not consolidated due to minor importance for the group)

6) In liquidation (not consolidated due to minor importance for the group)

Unterneukirchen (Germany), March 22, 2010

SKW Stahl-Metallurgie Holding AG

The Management Board

Ines Kolmsee

Gerhard Ertl

## Declaration of the Managing Board

To the best of our knowledge we declare that, according to the applicable principles of accounting, the corporate accounts as of Dec. 31, 2009 represent the net assets, financial position and results of operations of the Group according to the factual conditions, and that the business development including business results and the situation of the Group are presented in the management report in a way that communicates a true description of the factual conditions and that characterizes all significant opportunities and risks of the foreseeable development.

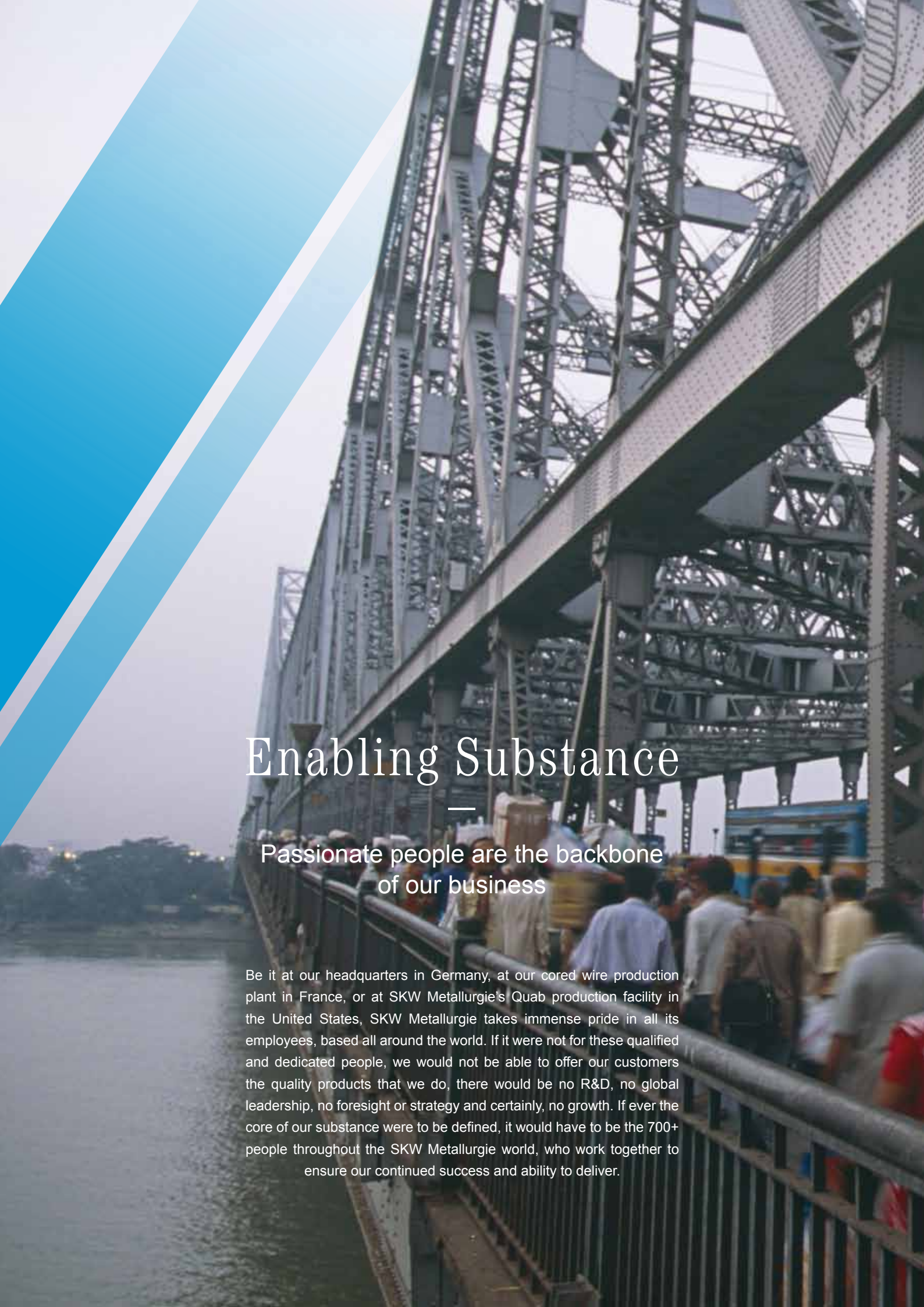
Unterneukirchen (Germany), March 22, 2010

SKW Stahl-Metallurgie Holding AG

The Managing Board

Ines Kolmsee

Gerhard Ertl



# Enabling Substance

## Passionate people are the backbone of our business

Be it at our headquarters in Germany, at our cored wire production plant in France, or at SKW Metallurgie's Quab production facility in the United States, SKW Metallurgie takes immense pride in all its employees, based all around the world. If it were not for these qualified and dedicated people, we would not be able to offer our customers the quality products that we do, there would be no R&D, no global leadership, no foresight or strategy and certainly, no growth. If ever the core of our substance were to be defined, it would have to be the 700+ people throughout the SKW Metallurgie world, who work together to ensure our continued success and ability to deliver.

# Supervisory Board Report

Dear Shareholders,

Affected by the impact of the global economic crisis, the SKW Metallurgie Group can look back on a difficult, but nonetheless a successful business year. While 2009 was characterized by substantial order losses, the company was able to largely offset these effects through the timely implementation of cost-reduction measures. In addition, this reporting year was also characterized by satisfactory progress in the global expansion projects of the SKW Metallurgie Group and the implementation of a capital increase. This illustrated the great trust you place in the SKW Metallurgie Group, which we very much appreciate.

## Activities of the Supervisory Board

During the year under review, the Supervisory Board performed all of the tasks required of it according to the law and the articles of incorporation, including supporting, advising and monitoring the Managing Board. In particular, the Managing Board provided the Supervisory Board with regular, extensive information, both in writing and verbally, on all of the relevant issues for the company's forecasting and its strategic further development, the course of business and the group's position including budgeting, risks and risk management.

The Supervisory Board's discussions focused on current business developments as well as the company's strategy and its implementation, measures to counter the negative impact of the economic crisis, progress in the company's global growth projects and activities on the capital markets. During the previous reporting year, there was a particular emphasis on the planning and execution of the acquisition of the Brazilian company Tecnosulfur S/A and the capital increase implemented at the end of the year.

The Management and Supervisory Boards discussed in detail discrepancies between the business performance and the budget, as well as the company's strategic direction. Significant business transactions were discussed in depth based on the reports from the Managing Board and any comments on proposed resolutions were thoroughly debated. In this way, there was a regular consensus on proposed resolutions from the Managing Board. The Supervisory Board Chairman maintained ongoing contact with the Managing Board outside of Supervisory Board meetings, to stay abreast of the current business situation and significant transactions.

In so doing, its supervisory activities spanned, in particular, the following activities:

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

- Questioning the Managing Board in the Supervisory Board meetings on the reports presented, current developments and imminent decisions;

- Holding discussions between the Chairman of the Supervisory Board and members of the Managing Board on various issues and questioning the Managing Board as part of these discussions on current developments and imminent decisions;

- Review of the annual financial statements prepared by the Managing Board, the consolidated financial statements, the combined management report and questioning the members of the Managing Board on these publications.

The Supervisory Board was involved in all key strategic company decisions and discussed and examined these discussions in detail and – where necessary – approved them. Members of the Managing Board regularly attended the meetings of the Supervisory Board.

## Meetings and resolutions of the Supervisory Board in 2009

During business year 2009, the Supervisory Board met for a total of 16 meetings on January 20, 2009, February 5, 2009, March 3, 2009, April 2, 2009, April 14, 2009, April 16, 2009, June 15, 2009, July 22, 2009, July 31, 2009, August 7, 2009, October 1, 2009, October 22, 2009, November 11, 2009, November 30, 2009, December 3, 2009 and December 14, 2009. Ten of these were telephone meetings. In addition, the Supervisory Board also passed two resolutions in writing by circulating the voting papers.

The company's auditor also participated in the balance sheet meeting for business year 2008 pursuant to Section 171 (1) AktG on March 3, 2009.

In its meetings, the Supervisory Board discussed the Managing Board's reports in detail and discussed current developments, in particular the ongoing growth projects and other pending decisions with the Managing Board. In business year 2009 these focused on the economic development of the entire group, progress with the growth projects in Bhutan and Russia and in particular, the acquisition of the Brazilian company Tecnosulfur S/A. In addition, the Managing Board proposed new growth and strategy projects to the Supervisory Board. Necessary approvals were granted after the documents presented by the Managing Board were reviewed in depth. In addition to advising on and discussing the company's strategic orientation, the Supervisory Board's main responsibility is to monitor the Managing Board.

Last business year, the Supervisory Board tracked the ongoing business developments and implementation of the company's strategy in depth, and also the company's strategic continued development and the group's growth and the associated increasing demands. In so doing, for example, it discussed the SKW Metallurgie Group's liquidity forecasts in detail, and also the impact of fluctuations in exchange rates. Furthermore, the Supervisory and Managing Boards thoroughly discussed the consequences of current global economic developments and defined corresponding measures that were successfully implemented and significantly contributed to the success of the reporting year.

In business year 2009, following the appointment of the new Supervisory Board, the Supervisory Board formed both an audit committee and a compensation committee in order to efficiently perform its tasks.

## The work of the Supervisory Board committees

These new committees prepare Supervisory Board resolutions as well as the topics to be addressed during its plenary meetings. However, decision-making power was reserved for the plenary meetings. Each committee meeting is scheduled prior to the Supervisory Board meetings. The committee chairs report on committee activities to the Supervisory Board in the subsequent meetings.

The Audit Committee met twice during the previous reporting year, on October 22, 2009 and on December 14, 2009. The Compensation Committee did not yet have any official meeting during 2009. However, the committee members are also in close contact outside of the meetings and discuss any issues directly.

## Corporate Governance

The Supervisory Board dealt in depth with the standards contained in the German Corporate Governance Code for responsible and effective corporate governance and with the latest statutory amendments. In particular, it subjected any deviations from the German Corporate Governance Code and their necessity to a detailed review. The members of the Supervisory Board fulfill or fulfilled the independence requirements of the German Corporate Governance Code. However, since 2007 there has been a consulting relationship between the US subsidiaries of the SKW Metallurgie Group and the law firm in which the Chairman of the Supervisory Board, Titus Weinheimer works as an attorney. The Supervisory Board approved this consulting relationship after he commenced his activities with the Supervisory Board. This did not result in any conflicts of interest within the meaning of the German Corporate Governance Code. The Managing Board and the Supervisory Board issued an updated declaration of conformity pursuant to Section 161 of the AktG on December 14, 2009 and made it permanently accessible to shareholders on the Company's Web site on December 30, 2009. The company only diverges from a few of the code's recommendations. Further details can be found in the corporate governance report, which is published in the annual report. During the Annual General Meeting of SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany) on June 4, 2009, PwC PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Muenchen (Germany) was appointed as the company's auditor for business year 2009. The Supervisory Board obtained a declaration by the auditor on April 14, 2009, as to whether there were any professional, financial or other relationships between the auditor and the company that could raise doubts with regard to the auditor's independence (declaration of independence). This declaration also spans the other consulting services that were provided for the company in the past business year. After the new members were elected to the Supervisory Board, the auditor issued an updated declaration of independence on October 13, 2009.

## Audit of the annual financial statements

The annual financial statements and the consolidated financial statements as of December 31, 2009 and the combined management report including the bookkeeping system were audited by the appointed auditors PwC PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Muenchen (Germany) and were issued with an unqualified audit opinion. The Supervisory Board carefully reviewed these documents and they were discussed in detail by the Supervisory Board in the presence of the auditor. The Supervisory Board concurred with the results of the audit and, based on the final results of its own examination, did not raise any objections. The Supervisory Board approved the annual and consolidated financial statements prepared by the Managing Board in the version forming the basis of the audit report by PwC PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Muenchen (Germany) by way of a resolution dated March 23, 2010. The annual financial statements are thus adopted.

In addition the Supervisory Board examined the Managing Board's proposal for the appropriation of net profits for business year 2009 in its meeting on March 23, 2010. The Supervisory Board endorses the Managing Board's proposal on the appropriation of net profits.

## Personnel issues relating to the Managing Board

There were no personnel changes within the Managing Board during the year under review. The Supervisory and Managing Boards are currently discussing possible changes or adjustments to management contracts in line with statutory reforms.

## Personnel issues relating to the Supervisory Board

After the General Meeting on June 4, 2008 was closed without a new Supervisory Board having been elected, following the company's application on June 6, 2008 Traunstein Local Court, the responsible court of register, decided on June 10, 2009 to appoint Mr. Titus Weinheimer, Dr. Friedrich Trautwein and Dr. Wolfgang Ziegler to the Supervisory Board. The period of office of the Supervisory Board committee appointed in this way therefore ended on the conclusion of the company's General Meeting on June 4, 2009. The Supervisory Board thus had to be re-elected during the reporting year. Moreover, at last year's General Meeting the Managing and Supervisory Boards consistently addressed the company's growing needs and the legal requirements it faces and submitted a proposal to the General Meeting to increase the number of members on the Supervisory Board up to the closest-possible higher figure of six members. In its invitation to the General Meeting, the Supervisory Board then proposed, as candidates for the Supervisory Board, Ms Sabine Kauper and Mr Titus Weinheimer (previous Chairman of the Supervisory Board), Armin Bruch, Jochen Martin, Dr. Dirk Markus and Dr. Christoph Schlünken. A proposal was also made to the General Meeting to appoint Dr. Claus Ritzer as a substitute member for the Supervisory Board. All candidates received the clear approval of the General Meeting on June 4, 2009. At its constitutive meeting on June 15, 2009 the Supervisory Board appointed Mr Titus Weinheimer as Chairman of the Supervisory Board once again and appointed Mr Jochen Martin as Deputy Chairman of the Supervisory Board.

The Supervisory Board would like to thank the Managing Board team for its trusting and constructive exchange of information and would like to take this opportunity to express its recognition for its work. We would also like to extend our particular thanks to all employees, whose huge commitment and efforts are a key factor in SKW Metallurgie Group's success and who helped us to overcome this difficult business year.

Unterneukirchen (Germany), March 2010

Titus Weinheimer

Chairman of the Supervisory Board

# Substance enabling Growth

## On track throughout the world

In India, with over a billion inhabitants, the demand for steel has never been greater. To this end, SKW Metallurgie enjoys a partnership (equity stake) with Jamipol – India's leading hot metal desulfurization Group. To further tackle the growing Indian market, SKW Metallurgie is erecting a new integrated calcium silicon and cored wire plant in neighboring Bhutan. Proof once more that the SKW Metallurgie Group does not simply operate in areas of growth, but actually helps to enable growth, globally.

# Auditor's Report

We have audited the consolidated financial statements prepared by SKW Stahl-Metallurgie Holding AG, Unterneukirchen comprising the profit and loss statement, the statement of comprehensive income, the balance sheet, the cash flow statement, the statement of changes in equity and the notes, together with the group management report, which is combined with the management report of SKW Stahl-Metallurgie Holding AG, Unterneukirchen, for the business year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and supplementary provisions of the articles of incorporation are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 22, 2010

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Franz Wagner | ppa. Sylvia Eichler |
| Wirtschaftsprüfer | Wirtschaftsprüferin |

## Financial Calender 2010

**March 26, 2010**
- Publication of business figures for year 2009
- Year-end Press Conference

**May 12, 2010**
- Publication of business figures for Q1/2010

**June 9, 2010**
- Annual General Meeting in Muenchen (Germany)

**August 13, 2010**
- Publication of business figures for Q2/2010

**November 8-10, 2010 (Eigenkapitalforum)**
- Publication of business figures for Q3/2010
- Analysts' Conference

**December 31, 2010**
- Close of business year 2010

May be subject to changes
The current financial calendar may be found at:www.skw-steel.com

## Contacts

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## Imprint

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Christian Schunck, Head of Investor Relations and Corporate Communications

### Concept, Layout, Production:

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

# Disclaimer and notes

This report contains statements about forthcoming developments that are based on currently available information and that entail risks and uncertainties. This may result in deviations between the actual situation in the future and the forward-looking statements. These risks and uncertainties include, for example, unpredictable changes in political and economic conditions, particularly in the steel and paper industry, the competitive situation, interest and currency risks, technological development as well as other risks and unexpected circumstances. SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany) and its group companies do not accept any responsibility to update such forward-looking statements.

When reference is made in this report to groups of people who factually or potentially include both genders (such as “shareholders” or “employees”) or when gender neutral references are made to a single person (such as “the responsible officer”), the report usually only quotes one gender. This is solely done in the interest of improved readability (translator’s note: in most instances this not only applies to the German original, since there are no distinct terms in English for male or female shareholders, experts, employees, etc.).

SKW Stahl-Metallurgie Holding AG’s proprietary name for the Group that is used externally is “SKW Metallurgie”. For this reason “SKW Metallurgie” and “SKW Metallurgie Group” are used in this report.

Names such as “SKW Metallurgie”, “Quab” and “SDAX” that are used in this report may be registered trademarks whose use by third parties for their purposes could infringe the rights of the proprietors.

The number of employees is based on the respective national definitions (e.g., for whether or not to include in calculations executive body members or trainees). Due to the low number of part-time employees in the group and the different definition and calculation standards, the group refrains from breaking the headcount figure down into the pure number of employees (heads) and the number of full-time equivalents.

This report is also published as an English translation; in case of any discrepancies the German version prevails. In addition, for technical reasons (e.g., the conversion of electronic formats) there may be differences between the accounting documents included in this report and those submitted to the electronic company register.

For several cities quoted in this report, different names and/or transcriptions into the Latin alphabet are in use. The use of a certain name or transcription is for information only and is not intended to imply any political statement. Maps contained in this report are for illustration only and are not intended to induce any political statements, such as the legitimacy of borders. In this report, the term “China” refers to the PR of China without its two Special Administrative Regions. In this report, the term “Hong Kong” refers to the PR of China’s Special Administrative Region of Hong Kong.

References to acts of law (e.g. the German Public Limited Companies Act) without any further information relate to the German acts of law in its respective applicable version.

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