skw. metallurgie

Growth with Substance

Annual Report 2010

The World of SKW Metallurgie

Ashland
KY, USA

Kingsbury
IN, USA

Mars
PA, USA

Mobile
AL, USA

Saxonburg
PA, USA

Verona
PA, USA

Nanticoke
ON, Canada

Manzanillo
Mexico

Sete Lagoas
Brazil

Unterneukirchen
Germany
(Headquarters)

Solesmes
France

Sundsvall
Sweden
(as from 2011

Kolomna
Russia
(as from 2011)

Jamshedpur
India (JV)

Toranagallu
India (JV)

Pasakha
Bhutan
(as from 2011)

Dangjin
South Korea

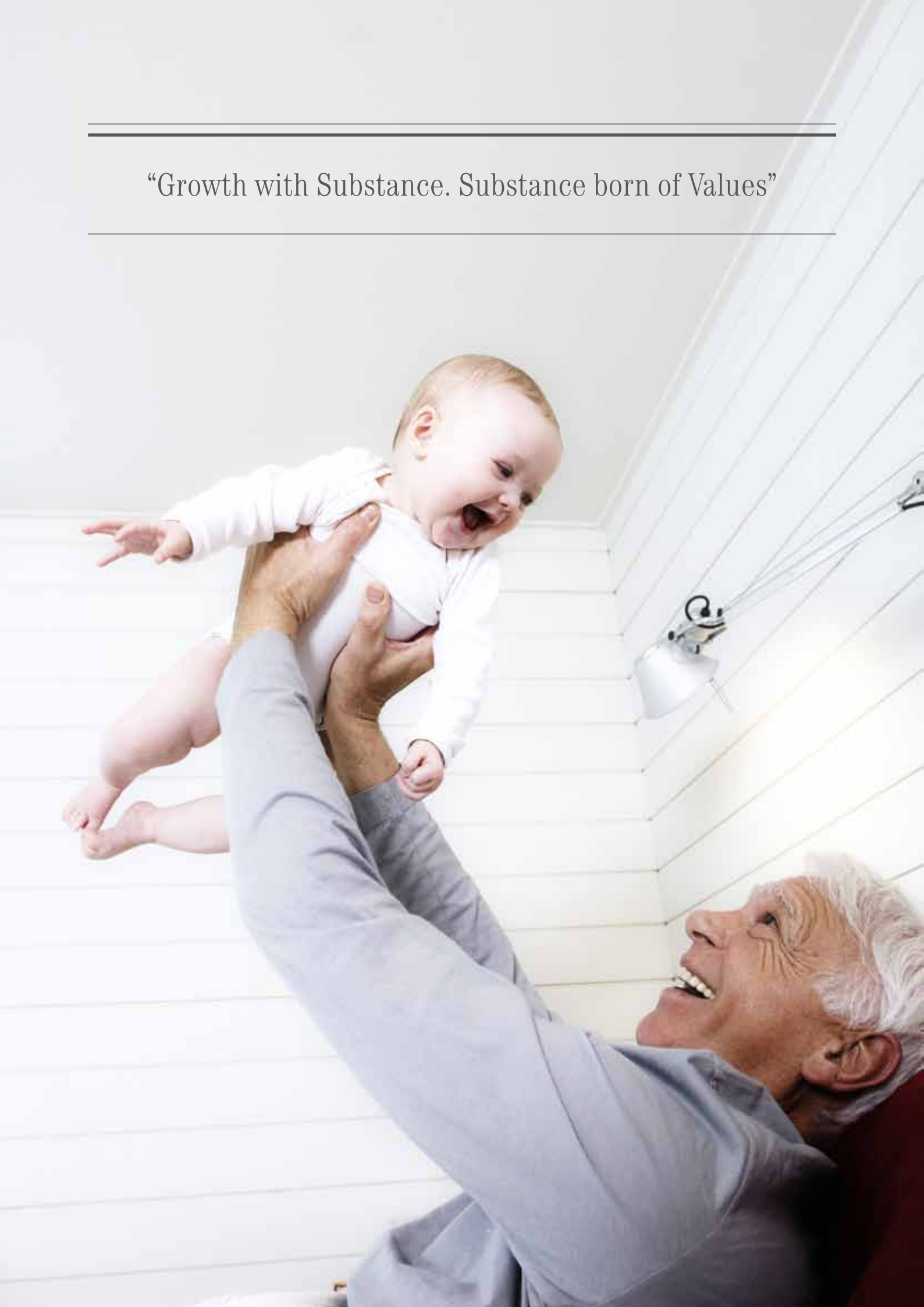
Tianjin (2)
PR China

The World of SKW Metallurgie in Numbers

Key Figures	Unit	2010	2009
Revenues	EUR mill.	380.8	220.6
EBITDA	**EUR mill.**	**28.8**	**-0.5**
EBIT	EUR mill.	17.3	7.0
EBT	EUR mill.	15	-9.5
Consolidated net result (share of parent company's shareholders)	EUR mill.	7.5	-5.0
EPS (2010: 6,544,930 shares)	EUR	1.15	-1.10
Gross margin		27.2%	21.5%
EBITDA Margin		**7.6%**	**-0.2%**
Depreciation/amortization	EUR mill.	11.5	6.6
Operating Cash Flow	EUR mill.	12.5	18.5

		Dec. 31, 2010	Dec. 31, 2009
Total assets/Total e&l	EUR mill.	275.8	231.7
Corporate equity	EUR mill.	122.3	109.0
Corporate equity ratio		44.3%	47.1%
Net financial debt	EUR mill.	47.3	32.8
Employees		790	715

“Growth with Substance. Substance born of Values”



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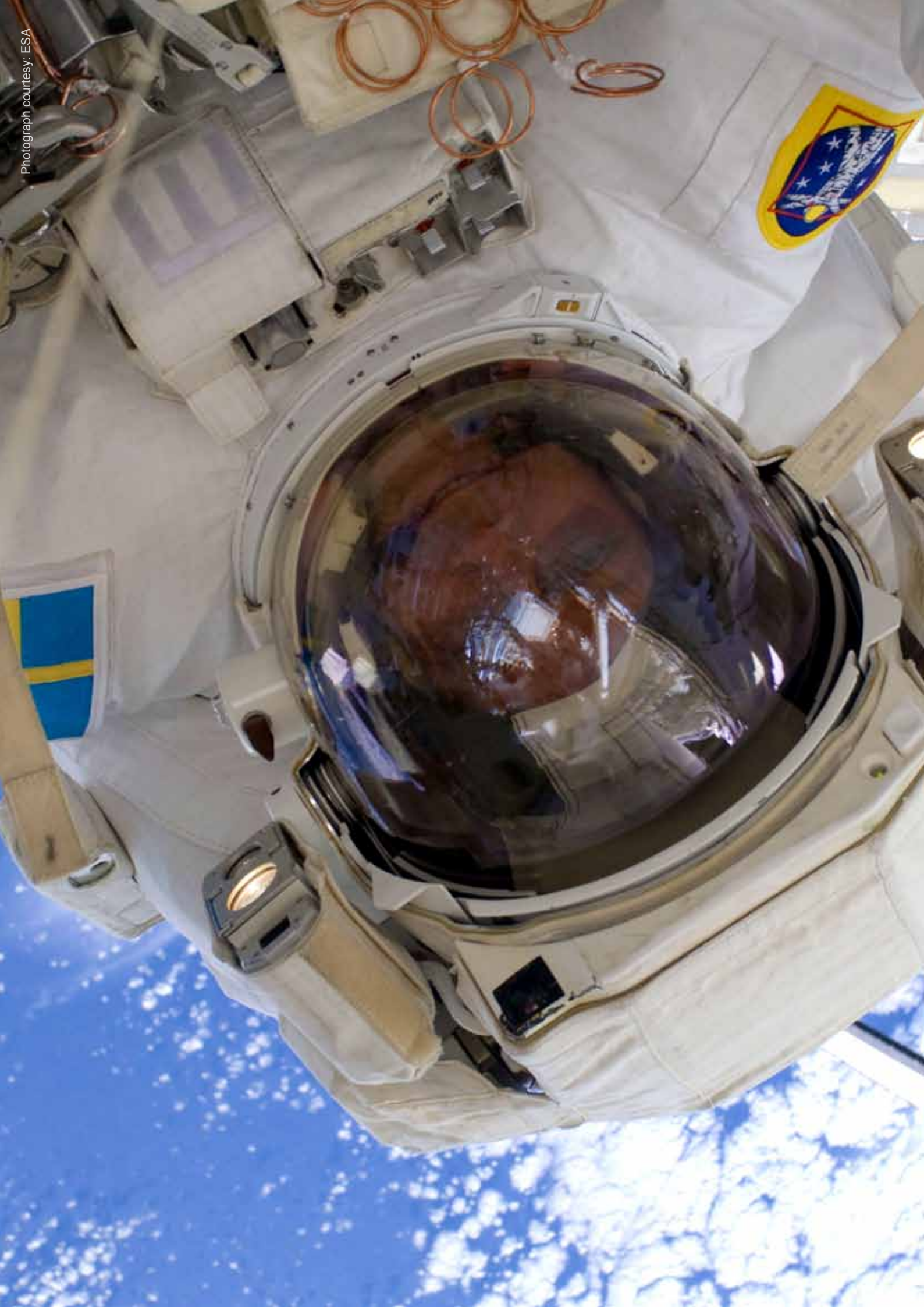
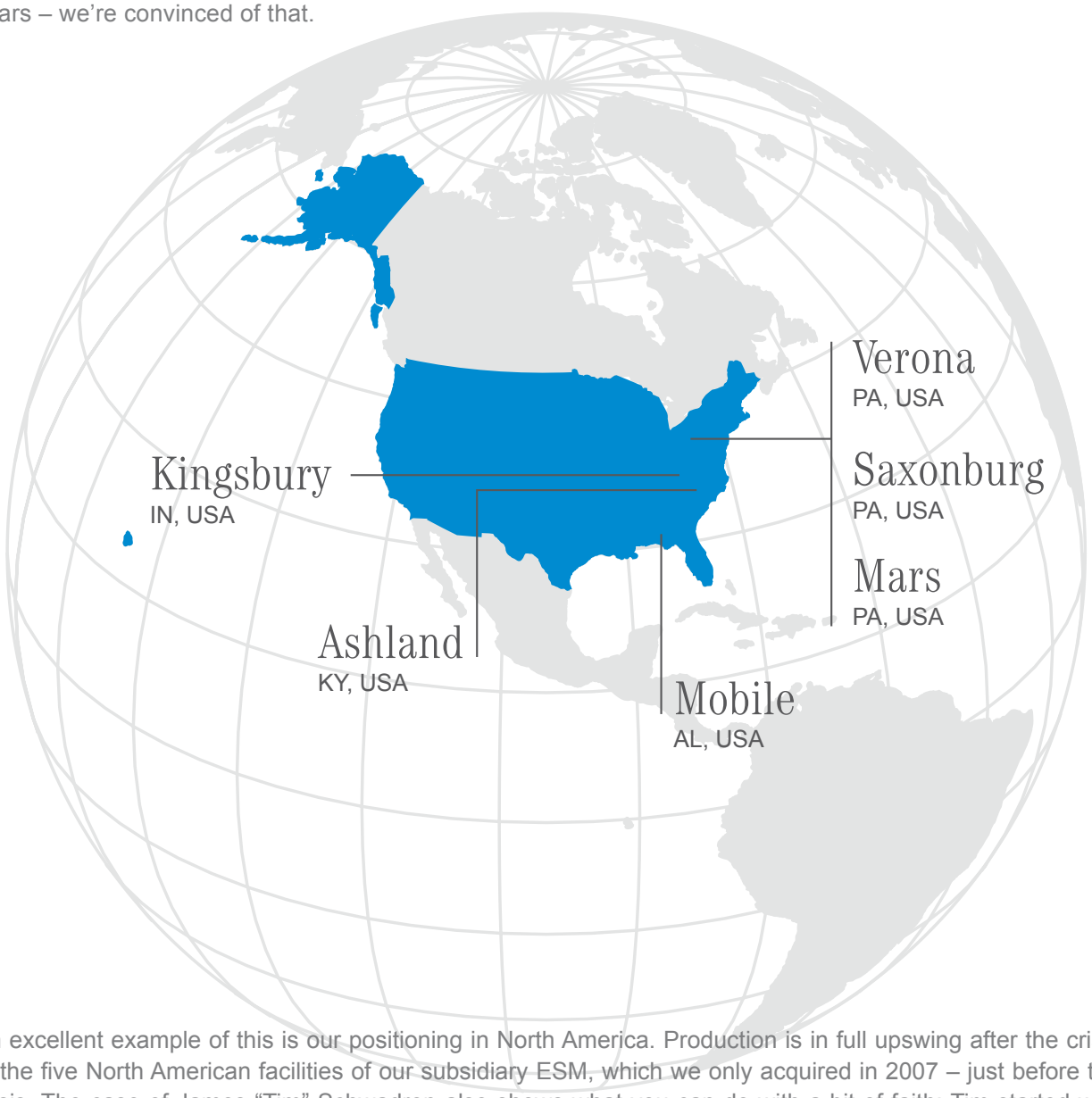


Photograph courtesy: ESA

FAITH

… moves mountains. This proved to be true once again when the SKW Metallurgie Group was faced with the largest recession and financial crisis in the past 60 years at the end of 2008. Our very solid financial situation and high proportion of variable costs meant that we were able to react very flexibly to all of the crises. Our faith that our strategy is correct meant that we did not slash capital expenditure – as did almost all of the other manufacturing companies – but rather that we used the situation to put the group's expansion that we had already announced consistently into action. This faith has paid off: The SKW Metallurgie Group is emerging from the crisis with new strength. We are highly profitable and successfully established around the world as a market and technology leader. We will be able to reap the fruits of this work in the coming years – we're convinced of that.



An excellent example of this is our positioning in North America. Production is in full upswing after the crisis at the five North American facilities of our subsidiary ESM, which we only acquired in 2007 – just before the crisis. The case of James "Tim" Schwadron also shows what you can do with a bit of faith: Tim started with ESM in 1976 as an ordinary production worker – he became the new managing director with our US cored wire subsidiary Affival Inc. on January 1, 2011.

Dear shareholders and business partners,

At the SKW Metallurgie Group, business year 2010 was characterized by a significantly more dynamic recovery from the global economic and financial crisis than had been expected at the start of the year. We had already forecast positive growth at the start of 2010, and announced a total annual guidance for EBITDA of at least € 20 million in March 2010. However, after demand for our products increasingly revived during the course of the year, we initially increased our targets to at least € 24 million after the first six months, and then to € 27 million following the publication of the third quarter figures. In fact, in 2010 we succeeded in recording EBITDA of € 28.8 million; which means that this figure is even higher than the figure of € 26.0 million we recorded in 2008, our former record-breaking year. In comparison: In business year 2009 this figure slumped to € -0.5 million as a result of the crisis. Consolidated revenues increased by more than 70% in 2010 to € 380.8 million. In addition to the economic recovery, our excellent cost efficiency and our increasing presence in the high-growth BRIC nations have paid off.

We want to allow our shareholders to participate in this positive growth. As a result, the Executive and Supervisory Boards will make a proposal to the Annual General Meeting to pay a dividend of € 0.50 per dividend-entitled share. Last year, the Annual General Meeting followed the proposal made by the Executive and Supervisory Boards not to pay a dividend for 2009, which was an exceptional measure.

Expansion into high-growth emerging economies pays off

In strategic terms, business year 2010 was characterized by the continuation of our globalization strategy. 2010 was the first full business year of group membership for the Brazilian subsidiary Tecnosulfur, which was acquired in December 2009. At the same time, 2010 was the first business year after the economic and financial crisis for the SKW Metallurgie plant in Mexico, which opened in the second half of 2008. We are now successfully positioned in what are, by far, the two most important steel-producing nations in Latin America, and we are thus reaping the full benefits of this region's dynamic growth. According to media analyses (e.g., the Handelsblatt ranking dated December 29, 2010), the SKW Metallurgie Group is among the top ten most globalized German groups. Around 97% of the workforce is employed abroad – more than for any other group in the Dax30, MDax, TecDax and SDax indices. Just approx. 5% of revenues were accounted for by customers in Germany in 2010.

We will also consistently continue our strategy of globalization and expansion in business year 2011. We launched our new plant in Bhutan in the Cored Wire segment at the start of March with top-ranking Bhutanese officials. We will start calcium silicon production at

this plant during the course of 2011 using cost-efficient and environmentally sustainable hydroelectric power. This will primarily reinforce the group's raw material supply chain by using calcium silicon at our global cored wire production facilities, as a substitute for raw material volume previously purchased from third parties. As a result of the standard start-up activities, the first positive contributions to earnings are expected from the second half of 2011. Over the medium term we will produce cored wire in Bhutan; this will develop additional revenue and earnings potential for the SKW Group, in particular in India.

In addition, we also acquired a calcium carbide plant in Sweden at the start of February 2011. This strategic acquisition means that we have secured the long-term supply of raw material in our Powder and Granules segment for calcium carbide-based hot metal desulphurization in Europe. Our new cored wire plant in Russia will also go live during the course of 2011. Additionally, at our existing Brazil location, we will expand our production capacity for sintered synthetic slag for the steel industry. Last but not least, we formed a new subsidiary in the USA at the start of 2011 which unites the SKW Metallurgie Group's competence in specialty magnesium for non-steel industry customers. We are currently setting up additional production capacity for this division. This will be completed in the second quarter of 2011.

The Supervisory Board expanded the Executive Board in order to ensure that the company can keep pace with its ongoing growth. Reiner Bunnenberg joined the Executive Board as of January 1, 2011 as Chief Operating Officer (COO), alongside Ines Kolmsee (CEO) and Gerhard Ertl (CFO).

Great potential for 2011 and beyond

We are taking a highly positive view for business year 2011. Our optimism is based above all on a continued positive economic environment, in particular in the steel industry, which is by far our most important customer industry. In addition, business year 2011 for the SKW Metallurgie Group will also be characterized by our strategic high-growth projects. The new plants in Sweden, Bhutan and Russia and the expansion of the facilities in Brazil and the USA are expected to make a full positive contribution to earnings from 2012. Notwithstanding this, we believe that there will be a renewed increase in EBITDA in 2011, as well as a further increase in consolidated revenues.

In business year 2012, we are then forecasting a renewed substantial increase in EBITDA – assuming a further recovery in the global economy.

Focus on increasing enterprise value

In 2010, the excellent operating growth led to a substantial increase in enterprise value. Our share price enjoyed excellent performance, increasing by over 42%. The SKW Metallurgie Group is also excellently positioned for 2011 and the years thereafter, to continue to benefit from the upswing following the economic and financial crisis and from the above-average growth in emerging economies, thereby generating added value for its shareholders.

However, the SKW Metallurgie Group's success and growth would not be possible without our dedicated and highly flexible employees. We would like to thank them greatly for this. Of course we also have to thank our customers and other business partners and, in particular, our shareholders as the SKW Metallurgie Group's owners, for the trust they have placed in us.

Yours sincerely,

Unterneukirchen (Germany), March 2011

Ines Kolmsee
Chairperson (CEO)

Gerhard Ertl

Reiner Bünnenberg

Gerhard Ertl
CFO

Ines Kolmsee
Chairperson (CEO)

Reiner Bunnenberg
COO (from Jan. 1, 2011)

TRUST

… forms the basis of all of the SKW Metallurgie Group's activities. We can only achieve operating success with our customers' trust in our products' properties. We can only generate above average returns and interest in acquiring our shares by keeping our shareholders' trust. We only get highly qualified employees who remain true to the company over many years as satisfied workers by earning their trust every single day by dealing with each other fairly.

Innovational prowess, transparent communication and, last but not least, reasonable pay for excellent work are some of the key tools that we use to gain the trust of all of our company's key target groups. We develop the conditions required in this regard at our group's headquarters in the Southern German location of Unterneukirchen, pass these on to our group, which has enjoyed strong growth over the past few years, and of course we monitor them. We are proud of what we have built with our small management team of just 13 employees at the holding company in Germany, and this gives us an incentive for the coming years.

The SKW Metallurgie Share

Stock market prices lift substantially in 2010

The positive economic growth and increasing company profits lifted the mood on the stock markets significantly in 2010. The insecurities which still prevailed at the start of the year, coupled with the impact of high government debt in some countries, led to share prices falling by around ten percent. However, share prices lifted sharply from the middle of February, driven by positive corporate news. This trend increased in the second half of the year, which culminated in a year-end rally in the fourth quarter. This was primarily due to the increasing confidence regarding the sustainability of the economic upswing. The DAX30 was the most successful index in Europe during the period under review. It closed at 6,914 points on December 31, 2010, and was thus 16.1% up on the figure on December 31, 2009. Medium-sized and smaller German listed companies enjoyed even better performance. The MDAX was up 34.9 percent during the year. The SDAX, which also includes shares of SKW Stahl-Metallurgie Holding AG, even lifted higher by 45.8 percent. Many stock markets in Asia and in the Americas also closed 2010 with strong profits. The stock markets in many emerging nations in particular were characterized by strong share price growth.

Shares of SKW Metallurgie up more than 40%

The performance of the German stock market indices was also reflected in SKW Metallurgie's share price in 2010. The XETRA price for the shares lifted from EUR 14.30 at the end of 2009 to close at EUR 20.35 at the end of 2010, up more than 40%. During the course of the year, SKW Metallurgie's shares in the first half of the year even outperformed the SDAX. The shares moved sidewards in the spring and summer months, when steel-related equities were generally not among the favorites, and this was followed by a rally from mid-September to December 2010 from less than EUR 15 to the high for the year of EUR 21.00 on December 14, 2010. Since the capital increase in 2009 (first day of trading for the new shares: December 7, 2009) at an issuing price of EUR 11.50 per share, SKW Metallurgie's share price has thus nearly doubled.

Market capitalization up to more than EUR 130 million

The average daily trading volume remained practically constant year-on-year in 2010 at around 22,400 shares per day compared to around 23,200 shares in 2009. However, there was a substantial change in the company's market capitalization: This was substantially higher than the psychologically significant threshold of EUR 100 million for practically the entire year under review. The number of shares has remained unchanged at 6,544,930 since December 2009, and the market capitalization at the end of 2010 totaled approx. EUR 133 million (approx. EUR 94 million at the end of 2009). The increased market capitalization and the increased volume of stock market trading for shares of SKW Metallurgie as a result of the higher share price mean that the shares continue to be a firm part of the SDAX index, to which they have belonged since 2008.

100% of SKW Metallurgie shares in free float

According to Deutsche Börse AG's definition (as a rule holdings of <10% are free float), an unchanged 100% of SKW Metallurgie's shares are held in free float. Since the middle of 2007 the company has not been aware of any shareholder who holds at least 10% of voting rights. The banks engaged for the technical processing of the capital increase in 2009 held participating interests of more than 10% in each case for brief periods; however these were reduced to 0% in December 2009.

The 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) currently hold an interest of around 30%. Members of SKW Metallurgie's Executive and Supervisory Boards hold less than 1% of SKW Metallurgie's shares, as described in detail in the Corporate Governance Report. As also described in the Corporate Governance Report, the new remuneration model for members of the Executive Board stipulates that part of the variable remuneration geared to long-term targets (LTI) must be invested in shares of the company for a specific period.

Employees' shareholdings are also minor. There is still no employee equity participation program at the SKW Metallurgie Group over and above the share-price based remuneration for select executives detailed in the Corporate Governance Report. The Executive and Supervisory Boards take a positive view of a stronger participation by employees in the company; however the group's structure (employees spread over many jurisdictions and linguistic regions; high percentage of industrial employees) mean that the transaction costs for a general employee equity participation program would be comparatively high.

KPIs for SKW Metallurgie's shares

	2011	2010
Number of shares (Dec. 31)	6,544,930	6,544,930
Highest price (XETRA)	21.29 EUR	15.57 EUR
Lowest price (XETRA)	14.30 EUR	6.38 EUR
Closing price at year-end (XETRA)	20.35 EUR	14.30 EUR
Market capitalization at year-end	approx. EUR 133 mn	approx. EUR 94 mn
Share turnover per day (average)	approx. 22,400	approx. 23,200
Earnings per share (for 6,544,930 shares)	1.15 EUR	-0.77 EUR
Dividend per share*	EUR 0.50 (proposal to AGM)	0.00 EUR

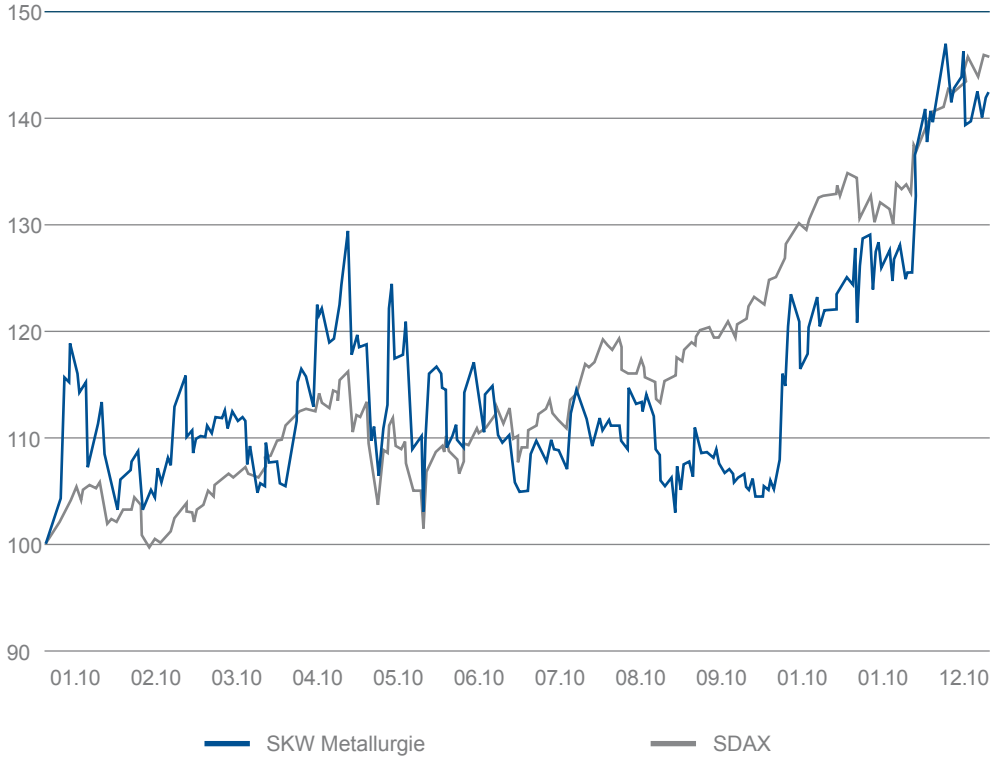
Master data for SKW Metallurgie's shares

Stock exchanges	XETRA, Floor trading Frankfurt/M. (Germany)** OTC at other German stock exchanges
German securities code no. (WKN)	SKWM01
ISIN	DE000SKWM013
Reuters symbol	SK1G.DE
Bloomberg symbol	SK1:GR

* Disbursement of dividends takes effect in the subsequent year, subject to a relevant resolution of the AGM; hence, payment years for the business years shown here (2010 and 2009) are 2011 and 2010.

** Floor trading in Frankfurt/Main (Germany) will be discontinued on May 23, 2011.

Share price to SDAX, indexed for 12 months: January 4 to December 30, 2010



Significant dividend payment planned for 2011

In view of the very solid results in business year 2010, the SKW Metallurgie Group intends to pay its shareholders a dividend of EUR 0.50 per share. Assuming that the number of dividend-entitled shares remains constant on this date at 6,544,930 shares, this corresponds to a disbursement of EUR 3,272,465. The SKW Metallurgie Group is thus upholding its principle of allowing its shareholders to enjoy a reasonable participation in the company's success. The Executive and Supervisory Boards have reinforced their statement that – subject to approval by the Annual General Meeting on the corresponding proposed resolutions by management – shares of SKW Metallurgie are "dividend shares". However, the company is not formalizing a specific disbursement rate. This ensures that it will be able to continue to react flexibly to individual developments on the financial and sales markets.

Successful continuation of investor relations work

The SKW Metallurgie Group's investor relations activities were also continued after the end of the capital increase, which was successfully concluded at the end of 2009 and, where necessary, these activities were increased in 2010. 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 Executive Board. This is reflected in the large number of roadshows and individual discussions held with investors in Germany and abroad. For example, roadshows were held for institutional investors in Frankfurt/Main and other German cities, in the United Kingdom (London and Edinburgh) and in other European financial centers (Paris, Wien (Vienna), Zürich, etc.). The reactions from these discussions underscore the increasing interest that the capital market is showing in SKW Metallurgie's shares. This is expected to continue in 2011 in view of the substantial increase in market capitalization and the continued 100% free float.

You can find current information on the SKW Metallurgie Group's growth in the quarterly reports, which will be available from May 16, 2011 (Q1), August 12, 2011 (Q2), and November 14, 2011 (Q3).

These reports as well as additional information on the SKW Metallurgie Group can be found online at www.skw-steel.com, which web site we redesigned at the start of 2011. In addition, of course, you can contact the SKW Metallurgie Group's investor relations department directly at any time:

SKW Stahl-Metallurgie Holding AG

Christian Schunck
Head of IR and Group Communications

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Fax: +49 8634 62720-16
ir@skw-steel.com
www.skw-steel.com

RESPONSIBILITY

… is a key factor for success in periods of continuing globalization and increasingly time-critical workflows. The SKW Metallurgie Group's activities in Bhutan are a typical example of this: Our new calcium silicon factory, which was only inaugurated in March 2011, will ensure reliable supplies of calcium silicon for our global cored wire factories. As a result we are expanding our business activities in new, high-growth regions. Extending our value chain means that we are ensuring the reliable, on-time supply of our customers. In addition, the new production facility will also contribute to the sustained, profitable, future-proof growth that we have forecast. That means that we are also meeting our responsibility to our shareholders by generating additional potential to increase the value of our shares.

In so doing, however, our corporate social responsibility (CSR) is at least just as important as our business responsibility. This means that Western safety and environmental standards are employed at our factory in Bhutan, and we do not enter into any compromises or make any exceptions in this regard. We believe that globalization should benefit humanity, society and our employees, and we will do everything in our power to make our contribution in this regard. Bhutan attaches great value not only to pure economic growth in terms of gross domestic product, but it also attaches equal value to what it actually calls Gross National Happiness or GNH. The SKW Metallurgie Group does its part in growing this happiness.

Corporate Governance Report

Management and control geared to long-term value added

Corporate governance includes the responsible management and control of the company, geared to creating long-term value added. Efficient cooperation between the Executive 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 group-wide compliance program, which was set up in 2010, is a key step in this direction. This program focuses, in particular, on fair competition, and avoiding corruption.

The 2010 declaration of conformity with the Corporate Governance Code within the meaning of Section 161 of the AktG has been made permanently accessible to shareholders since it was signed in December 2010 and is worded as follows:

Declaration of conformity by SKW Stahl-Metallurgie Holding AG pursuant to Section 161 AktG

The Executive and Supervisory Boards of SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany) (hereinafter referred to as the “Company”), declare the following with regard to the recommendations of the German Corporate Governance Code Government Commission pursuant to Section 161 of the AktG:

The Company‘s Executive and Supervisory Boards issued their last declaration of conformity within the meaning of Section 161 of the AktG on December 14, 2009. The following declaration refers to the version of the German Corporate Governance Code (hereinafter “GCGC” or the “Code”) in the version dated June 18, 2010 for the period from December 14, 2009 to July 2, 2010, and the version dated May 5, 2010 for the period from July 3, 2010.

The Company’s Executive and Supervisory Boards declare that, during the course of business year 2010 to date, it has conformed with all of the recommendations of the GCGC Government Commission to date in the version which applied on the respective date, with the deviations detailed below, and that it intends to also do so during the remainder of business year 2010 and in business year 2011.

D&O insurance deductible for members of the Executive Board – Item 3.8 para. 2 of the GCGC

The declared deviation from Item 3.8 para. 2 of the Code no longer applies, as a corresponding deductible has been agreed for members of the Executive Board in line with Section 93 (2) Sentence 3 of the AktG with effect from June 28, 2010. No deviation will be declared in this regard in future.

D&O insurance deductible for members of the Supervisory Board – Item 3.8 para. 3 of the GCGC

The declared deviation from Item 3.8 para. 3 of the Code has lapsed as a result of the agreement of a general deductible for members of the Supervisory Board in line with Section 93 (2) Sentence 3 of the AktG as of December 15, 2010. No deviation will be declared in this regard in future.

Information on remuneration for Executive Board members – Item 4.2 of the GCGC

As the deviation declared in the past with regard to the possibility of limiting variable remuneration components has lapsed together with the new version of the employment contracts as of September 21, 2010, no deviation from Item 4.2 of the Code will be declared in future.

No long-term successor planning for the Executive Board – Item 5.1.2 para. 1 sentence 2

In contrast to Item 5.1.2 para. 1 sentence 2 of the Code, there are not currently any long-term succession plans for members of the Executive Board. As a result of the company's size, internal succession for the Executive Board is only possible to a limited extent. In addition, succession plans do not appear necessary given the ages of the current members of the Executive Board.

No fixed age limits for the Executive and Supervisory Boards – Item 5.1.2 para. 2 sentence 3 and Item 5.4.1 para. 2 sentence 1 of the GCGC

The declared deviations no longer apply as of September 21, 2010 as a result of the introduction of age limits for the members of the Executive Board (67) and Supervisory Board (70), which is why no corresponding deviations will be declared in future.

Formation of committees - Item 5.3.3 of the GCGC

No deviation will be declared in future, as a nomination committee was formed on September 21, 2010.

Unterneukirchen (Germany), December 2, 2010
SKW Stahl-Metallurgie Holding AG

Ines Kolmsee,
The Executive Board

Gerhard Ertl

Titus Weinheimer
The Supervisory Board

State-of-the-art management and control structure

As a German Aktiengesellschaft (Joint-stock Company), the company has a dual management and control structure. Structural details on the work of the Executive and Supervisory Boards are defined in the bylaws for the Executive Board and the bylaws for the Supervisory Board.

The members of the Executive Board are appointed by the members of the Supervisory Board and manage the group under their own responsibility. During the business year, the Executive Board comprised two members: Ms. Ines Kolmsee as CEO, and Mr. Gerhard Ertl as CFO. The Executive Board was increased to three members as of January 1, 2011, when Reiner Bunnenberg was appointed to the Executive Board. Mr. Bunnenberg previously held an executive position with the SKW Metallurgie Group.

The Supervisory Board advises the Executive Board and monitors its management. During the year under review, the Supervisory Board comprised six members: Ms. Sabine Kauper, and Messrs. Armin Bruch, Dr. Dirk Markus, Jochen Martin (Deputy Chairman), Dr. Christoph Schlünken and Titus Weinheimer (Chairman). In the event that a member of the Supervisory Board exits this body, according to the resolution by the General Meeting on June 4, 2009 Dr. Claus Ritzer takes this member's place (replacement member). During the year under review there was no employee co-determination for the SKW Metallurgie Group; all of the members of the Supervisory Board are thus shareholder representatives. There were three committees at the end of the business year (nomination committee, audit committee, remuneration committee), which each support the Supervisory Board's work in their respective area. The committees each comprise three members. Further details on the Supervisory Board's work and its committees can be found in the Report of the Supervisory Board.

Further information on the members of the Executive and Supervisory Boards, in particular on their mandates in controlling bodies for other companies, can be found in the notes to the consolidated financial statements.

The general meeting of shareholders met once during the year under review, for the Annual General Meeting on June 9, 2010 in München (Munich), Germany. The General Meeting resolves, for example, on the company's Articles of Incorporation; on which it has only given the Supervisory Board authority to make editorial changes.

Diversity as a key element in the SKW Metallurgie Group

The SKW Metallurgie Group takes a positive view of diversity. A major element of diversity is a reasonable involvement of both genders.

As a rule, at the SKW Metallurgie Group the principle of diversity applies to all countries and all positions, including the Executive and Supervisory Boards. SKW Stahl-Metallurgie Holding AG is currently the only company in a German stock market index (Dax30, MDax, SDax, TecDax) with a female CEO.

According to Item 5.4.1 of the German Corporate Governance Code, the SKW Metallurgie Group reports on the issue of diversity in the Supervisory Board as follows:

The Supervisory Board of SKW Stahl-Metallurgie Holding AG is not co-determined; that means it exclusively comprises shareholder representatives.

Since June 2009, SKW Stahl-Metallurgie Holding AG's Supervisory Board has comprised six members, including one woman. This means that women account for 16.67% of the Board. The group's international activities are taken into account in that all of the members of the Supervisory Board have international experience; the Chairman of the Supervisory Board resides permanently in the USA. The Supervisory Board has set an age limit (70) for its members, and pays particular attention to ensure that potential conflicts of interests are disclosed or avoided entirely.

The Supervisory Board has set itself the target of structuring proposals to the General Meeting for the election of candidates for the Supervisory Board so that the level which has been reached according to the aspects detailed in Item 5.4.1 of the German Corporate Governance Code, in particular participation by women, is at least upheld.

Executive and Supervisory Boards participate in the company

During the year under review, the company did not receive any notices within the meaning of Section 15a of the WpHG (Directors' Dealings).

In addition to the disclosure requirement according to Section 15a of the WpHG, the company has asked the members of its Executive and Supervisory Boards for information on their equity participation in the company in January 2011. This is in particular to cover the issues not covered by Section 15a of the WpHG, for example initial shareholdings which were already held on the date the member was appointed to one of the company's executive bodies, or smaller transactions that do not carry a reporting requirement as a director's dealing under the de minimis regulation.

As a result, the entire shareholdings of the Executive and Supervisory Boards on December 31, 2010 were 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	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 Executive and Supervisory Boards. The 1% threshold within the meaning of Item 6.6. of the German Corporate Governance Code was thus not reached.

There are no changes with regard to equity participations by members of the executive bodies as a result of Reiner Bunnenberg's appointment to the company's Executive Board, as Mr. Bunnenberg's initial holding in shares of the company amounts to 0.

The remuneration for members of the Executive Board based on the company's share price is detailed in the remuneration report, which forms part of this Corporate Governance Report:

- This relates to an expiring stock option program with so-called phantom stocks. Options were exercised in one case under this program during the year under review. The company, in this case represented by the Chairman of the Supervisory Board, has decided to satisfy the claims by the member of the Executive Board entitled to these claims in cash instead of in shares of the company. Further details can be found in the remuneration report.
- In addition, the new Executive Board remuneration model stipulates that part of the payments from long-term incentives (LTI) have to be invested in shares of the company for a specific period.

The remuneration for members of the Supervisory Board based on the company's share price is detailed in the remuneration report, which forms part of this Corporate Governance 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 Executive Board and Supervisory Board. As a sign of excellent corporate govern-

ance, and in line with the fact that providing in-depth information to shareholders goes without being said at the SKW Metallurgie Group, the Company consciously did not use the opportunity to propose a resolution to the General Meeting not to provide a detailed disclosure of the Executive Board's remuneration.

In detail, the compensation of the Executive and Supervisory Boards comprises the following components:

I. Supervisory Board in office:

As presented in the 2009 remuneration report, all of the entitlements from activities on the Supervisory Board through to June 4, 2009 were settled at the latest in 2009. That is why no payments were made in 2010 that related to activities as a Supervisory Board member prior to June 4, 2009.

The following applies to activities as a member of the Supervisory Board from June 4, 2009:

The remuneration for members of the Supervisory Board is determined, in particular, by the following resolution by the Annual General Meeting on June 4, 2009:

„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 Annual 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 Annual 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. Calculations for Variable Remuneration 2 are based on the period of office for the entire Supervisory Board. Variable Remuneration 2 is paid on the day after the company's Annual 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 charged 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 Annual General Meeting on June 4, 2009.

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

9. The resolution by the Annual General Meeting dated June 18, 2007 under agenda item 8 is cancelled."

The Annual General Meeting on June 4, 2009 elected Titus Weinheimer (re-election), Dr. Dirk Markus and Dr. Christoph Schlünken to the company's Supervisory Board. Dr. Claus Ritzer was elected as a replacement member of the Supervisory Board. There is no remuneration for the replacement member. After the additional resolution by the General Meeting on the increase in the size of the Supervisory Board from three to six members came into effect on June 15, 2009, the appointment of the three additional members of the Supervisory Board – Sabine Kauper, Armin Bruch and Jochen Martin – came into effect on the same date. In its meeting dated June 15, 2009, the Supervisory Board elected Titus Weinheimer (re-election) as its Chairman and Jochen Martin as its Deputy Chairman. The Supervisory Board has thus comprised six members since June 15, 2009, and resolved to set up committees. As of December 31, 2010, there were the following committees: Audit committee (chairman: Dr. Dirk Markus), remuneration committee (Chairman: Titus Weinheimer) and nomination committee (Chairman: Titus Weinheimer).

During the year under review, expenses for the Supervisory Board's remuneration totaled the following:

EUR thousand	Fixed compensation	Short-term variable remuneration	Long-term variable remuneration	Meeting fee	Total
Armin Bruch	10.0	4.5	2.5	1.0	18.0
Sabine Kauper	10.0	4.5	2.5	1.0	18.0
Dr. Dirk Markus	10.0	4.5	2.5	3.0	20.0
Jochen Martin	12.5	4.5	2.5	1.0	20.5
Dr. Christoph Schlünken	10.0	4.5	2.5	0.0	17.0
Titus Weinheimer	15.0	4.5	2.5	2.0	24.0
Total	**67.5**	**27.0**	**15.0**	**8.0**	**117.5**

The individual remuneration components are described in greater detail below.

Fixed remuneration (No. 1 and No. 3 of the resolution):

The Annual General Meeting on June 9, 2010 resolved the ratification of the members of the Supervisory Board for business year 2009. As a result, the fixed remuneration for 2009 was due on June 9, 2010. According to No. 6 of the resolution (monthly payments), all six members of the Supervisory Board were due 7/12 of their annual remuneration, despite the differing starting dates of their periods of office.

The fixed remuneration for 2010 is due in 2011. Corresponding provisions have been formed in this regard.

Variable remuneration (No. 2 of the resolution):

Short-term variable remuneration:

A provision of EUR 4.5 thousand was formed for each person in 2010. The exact amount to be paid out is 0.03% of the earnings before taxes (EBT) in the audited consolidated financial statements for 2010, however at most EUR 5.0 thousand per person.

Long-term variable remuneration:

The existing provision of EUR 2.5 thousand per person was increased to EUR 3.7 thousand per person for 2010.

Meeting fees:

Meeting fees are only paid for committee meetings, not for meetings of the full Supervisory Board.

Other remuneration components:

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). According to the regulations of the German Corporate Governance Code, during the year under review, a deductible was included in the D&O insurance for both the members of the Executive Board and the members of the Supervisory Board in the amount of 10% of the damage up to one and a half times their fixed annual remuneration. The total premium for the persons named amounted to EUR 56 thousand for business year 2010.

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. A total of EUR 22 thousand was paid in this regard during the business year.

There are no pension benefit commitments by the company for members of the Supervisory Board and their surviving dependants.

All of the payments to the members of the Supervisory Board were made plus VAT if required, and less any income tax deductions that may have to be retained.

II. Executive Board in office:

During the entire business year, the Executive Board comprised Ines Kolmsee (CEO) and Gerhard Ertl (CFO).

In view of the changes to the AktG as a result of the introduction of the Gesetz zur Angemessenheit der Vorstandsvergütung (VorstAG – German Act on the Suitability of Executive Board Remuneration), the remuneration committee of the company's Supervisory Board made proposals during the year under review to redesign the management remuneration system, it initiated a review of these proposals in view of their conformity with the VorstAG and it prepared a proposal for a resolution by the Supervisory Board. The Supervisory Board resolved to restructure the remuneration system and presented the new system to the General Meeting on June 9, 2010 for approval within the meaning of Section 120 (4) of the AktG.

Remuneration of the members of the Executive Board continues to be based on their tasks and the individual contributions that each member of the Executive Board makes to the overall success of the group. Additional factors include the company's size and activities, its economic and financial position and the amount and structure of executive board remuneration at comparable companies.

The re-designed remuneration system aims to go beyond fulfilling the statutory requirements and maintaining excellent corporate governance to ensure that the SKW Metallurgie Group is also competitive on the market for highly qualified executives with regard to the remuneration of its Executive Board, and to create incentives for performance-oriented work that is successful over the long-term.

After the approving vote by the Annual General Meeting on June 9, 2010 on the new remuneration system for the Executive Board, new employment contracts were concluded with both members of the Executive Board with effect from July 1, 2010. At the same time, all of the previous contracts and agreements, with the exception of the ongoing stock option contracts, were withdrawn. In addition, the new agreements include regulations on pension benefit payments (detailed below under No. 3) and compensation (detailed below under No. 7).

The following table shows the expenses for the Executive Board's remuneration in business year 2010 (totals from old and new contracts, discussed below in Nos. 1 and 2). The expenses for the pension benefit commitments, the long-term incentive LTI, the stock option program and the incidental payments (detailed below under Nos. 3-6) are not included in the table.

EUR thousand	Ines Kolmsee	Gerhard Ertl	Total
Fixed compensation	275	215	490
Variable compensation*	693	446	1.139
In-kind compensation**	3	8	11
Subsidy to healthcare and nursing care insurance	2	4	6
Total	**973**	**673**	**1.646**

* The unpaid receivables detailed in the 2009 remuneration report totaling EUR 124 thousand were netted with the payment of the variable remuneration. Expenses for variable remuneration in the second half of 2010 exclusively comprise provisions.

** Private use of a company car (the in-kind benefit subject to income tax is used in this regard)

The following Nos. 1-2 discuss the breakdown of the totals shown:

1. Remaining payments from contracts for periods of service through to June 30, 2010:

The expenses from contracts for periods of service through to June 30, 2010 were as follows in 2010:

EUR thousand	Ines Kolmsee	Gerhard Ertl	Total
Fixed compensation	100	90	190
Variable compensation*	518	321	839
In-kind compensation**	1	4	5
Subsidy to healthcare and nursing care insurance	1	2	3
Total	**620**	**417**	**1,037**

* The unpaid receivables detailed in the 2009 remuneration report totaling EUR 124 thousand were netted with the payment of the variable remuneration.

** Private use of a company car (the in-kind benefit subject to income tax is used in this regard)

The variable remuneration in the version which applied through to June 30, 2010, comprises an individual bonus agreement in each case. This is EBITDA-based.

The other components (fixed compensation, in-kind benefits, subsidy to healthcare and nursing care insurance) do not differ significantly from the new system in terms of their structure (see No. 2).

2. Structure of and expenses for the employment contracts with members of the Executive Board which apply in the SKW Metallurgie Group from July 1, 2010:

The Executive Board's remuneration comprises the following components:
- Fixed compensation
- Short-term incentive (STI)
- In-kind compensation (company car)
- Subsidy to healthcare and nursing care insurance
- Pension commitment (discussed under No. 3)
- Long-term incentive (LTI; discussed under No. 4)
- Stock option program (expiring; discussed under No. 5)
- Incidental payments (discussed under No. 6)

The fixed compensation and the short and long-term incentives are proportionate, i.e., they each account for one third of total remuneration without pension commitments, the expiring stock option program and other remuneration (company car, subsidy to healthcare and nursing care insurance and incidental payments).

The expenses for the first four components were as follows for the period of office from July 1, 2010 to December 31, 2010:

EUR thousand	Ines Kolmsee	Gerhard Ertl	Total
Fixed compensation	175	125	300
Short-term bonus*	175	125	300
In-kind compensation**	2	4	6
Subsidy to healthcare and nursing care insurance	1	2	3
Total	**353**	**256**	**609**

* Expenses for variable remuneration in the second half of 2010 exclusively comprise provisions.

** Private use of a company car (the in-kind benefit subject to income tax is used in this regard)

The components included in the above table are discussed in detail below.

The annual fixed remuneration is defined for the entire period that a member of the Executive Board holds their office, and is calculated for each year commenced as a non-performance related component on a pro rata basis and paid monthly as a salary.

The variable remuneration comprises two components, which are referred to as the short-term incentive (STI) and long-term incentive in line with their nature as an incentive. The maximum total for each of the two components equals the fixed remuneration, with the result that even in the event of the maximum possible variable remuneration; the fixed salary cannot be more than tripled. The variable remuneration is calculated for each year commenced, or on a pro rata basis for LTI periods that have been commenced.

Collective and individual targets are agreed with regard to the short-term incentive (STI). The collective targets are the same for both members of the Executive board, and are based on the annual targets from the SKW Metallurgie Group's financial forecast. The collective targets include, to an equal extent, achieving the forecast EBT and gross cash flow. The individual performance of each member of the Executive Board, or the extent to which they reach their targets, is determined after the end of the business year via a performance assessment by the Supervisory Board. This is limited to 100% of the total target, with the result that the annual variable remuneration can be between a minimum of 0% and a maximum of 100% of the target amount set.

The members of the Managing Board have a company car, which they can also use for private use. This In-kind compensation is subject to taxation as an in-kind benefit for income tax purposes.

The members of the Executive Board are entitled to subsidies for healthcare and nursing insurance in line with the provisions of the Sozialgesetzbuch (German Social Code).

3. Pension benefit commitments:

There were employer-financed company retirement benefits for members of the Executive Board in the year under review. After reaching the age of 62, the participants are entitled to a life-long pension. The amount of the monthly retirement benefits total 40 % of the monthly fixed salary received by the member of the Executive Board prior to the start of benefits. The maximum entitlement is reached when the third period of office has been completed and totals a maximum of 60 % of the monthly fixed salary received prior to the start of benefits.

The company increases the ongoing pension benefit payments by 1% each year in line with statutory requirements. No other adjustments are made.

The pension benefit commitments include the possibility of early retirement benefits from the age of 60 (with a corresponding reduction in the benefit payment) and pensions for reductions in earnings capacity and for surviving dependants. The pension benefit commitments are contractually non-lapsable (irrespective of the date the Executive Board member leaves the company). According to statutory provisions, the pension benefit commitments are secured against insolvency on the part of the company with the pension insurance association; the company bears the costs of insolvency insurance.

The pension benefit commitments which existed on June 30, 2010 for Mr. Gerhard Ertl were

EUR thousand	Ines Kolmsee	Gerhard Ertl	Total
Provision for pension benefit commitments	792	194	986

transferred to this new regulation by mutual agreement.

An amount of EUR 855 thousand was added to the provision for pension benefit commitments to members of the Executive Board in business year 2010. This provision had a value of EUR 986 thousand on the balance sheet date and was broken down as follows:

4. Long-term incentive LTI:

The former phantom stocks will be replaced by a new long-term bonus (LTI) from 2010. This means that rights already acquired will continue in line with the conditions of the plan. No new rights will be issued. The new LTI will be set up on a rolling basis each year. This is a cash-based plan. The payout amount is geared to the degree to which targets are reached for the forecast return on capital employed (ROCE) over three years. A period of two years has been agreed for the first LTI period. The target ROCE has been defined by the Supervisory Board for the coming and the two following years in each case based on the budget forecast. The LTI is only paid if the ROCE is at least 70% of the average of the defined targets over the period. If a target figure is less than 70% in one year, this can be compensated by a correspondingly high ROCE in the following years. If sufficient ROCE is achieved in the first two years of a tranche, the member of the Executive Board is entitled to payment of the partial bonus due to this year irrespective of whether the ROCE target is achieved in following years. The LTI is restricted to the amount of the individual target if the target is 100% met for the average three-year ROCE (or two years for the first LTI period). At least 50% of the LTI net payout must be invested in SKW Metallurgie shares on the payout date. These shares must be held for at least two years. The first LTI period ends on December 31, 2011 and is due for payment in 2012.

A provision in the amount of EUR 300 thousand was formed for the LTI program during the year under review; of this total, EUR 175 thousand is due to Ines Kolmsee and EUR 125 thousand is due to Gerhard Ertl.

5. Stock option program in the form of phantom stocks for members of the Executive Board (expiring):

Stock option programs were set up in 2008 for the members of the Executive Board in the form of phantom stocks. The members of the Executive Board are each due 30,000 phantom stocks. The increase in the value of these stocks is identified on pre-defined valuation dates based on the weighted XETRA average closing prices over a period of 20 trading days. 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 company has the right to fulfill the claims of the respective member of the Executive Board by making cash payment instead of delivering shares (cash settlement). Ms. Ines Kolmsee's program runs through to March 31, 2011, Mr. Gerhard Ertl's program runs to June 30, 2012.

During the year under review (on September 30, 2010), one tranche of this program for Mr. Gerhard Ertl became due and he asserted it. The company, represented by its Supervisory Board, used its right to make cash settlement, and settled Mr. Ertl's claims with a cash payment in the amount of EUR 175 thousand. Further tranches with a positive value did not become due during the year under review.

As of December 31, 2010, the provision for the further options for Ms. Kolmsee totaled EUR 176 thousand, and EUR 102 thousand for Mr. Ertl.

That means that, during the year under review, total expenses arose for the options for Ines Kolmsee in the amount of EUR 104 thousand, and EUR 148 thousand for those of Gerhard Ertl.

6. Incidental payments/others:

As a rule, the members of the Managing Board of an Aktiengesellschaft (German joint-stock 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 Executive Board receive social protection and marginal in-kind payments (e.g., accident insurance protection) to the extent required by law in Germany or standard for comparable employees. This relates exclusively to payments that do not constitute income under German income tax law, or which are subject to lump-sum taxation.

During the year under review, the members of the Managing Board were reimbursed for their necessary travel and entertainment expenses up to the maximum amount under 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). According to the regulations of the German Corporate Governance Code, during the year under review, a deductible was included in the D&O insurance for both the members of the Executive Board and also the members of the Supervisory Board in the amount of 10% of the damage up to one and a half times their fixed annual remuneration. The total premium for the persons named amounted to EUR 56 thousand for business year 2010.

At some non-European subsidiaries (including the Indian company Jamipol), the members of the Executive Board were previously entitled to remuneration from the respective company for the offices they held with these companies. These payments are to be waived in future. If

it is not possible to waive these payments, the payments are to be netted with remuneration for activities as a member of the Executive Board of the company. In 2010, the following payments were made for the last time. These are not offset:

- Affival Inc., Ines Kolmsee and Gerhard Ertl, each USD 1,000
- SKW-Tashi Metals&Alloys Pvt. Ltd., Bhutan: Ines Kolmsee INR 20,000 and Gerhard Ertl INR 10,000
- Jamipol Ltd., India: Ines Kolmsee, INR 18,093

There are no advances, loans or liabilities in favor of the members of the Executive Board. The receivables from members of the Executive Board in the amount of EUR 124 thousand on December 2009 were paid during the year under review.

7. Regulations on severance pay and change of control:

The following compensation agreements have been reached with the members of the Executive Board:

In the event that the appointment of a member of the Executive Board is dismissed from the company's Executive Board (with the exception of extraordinary termination by the Company), the members of the Executive Board are entitled to compensation. This amounts to twice the amount of the last fixed annual salary for each full period of two years that this person is a member of the company's Executive Board. It is limited to at most two maximum annual total salaries (fixed and variable remuneration) and limited to the maximum total remuneration (fixed and variable remuneration) for the remaining period of the contract.

In the event of a change of control of the company, the members of the Executive Board have extraordinary termination rights. If these extraordinary termination rights are exercised, in the event that they are dismissed the compensation rules apply accordingly to the extent that the member of the Executive Board does not receive comparable payments from a third party in connection with the change of control.

In addition, a prohibition on competition for the period after the end of the employment contract for a maximum of two years has been agreed. In this regard, each member of the Executive Board is due maximum compensation in the amount of their last fixed annual salary (pro rata).

III. Former members of the Supervisory and Executive Boards:

There are no pension benefit commitments to exiting members of the company's Executive or Supervisory Boards 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 Executive and Supervisory Boards.

The corresponding information for the other participants is as follows:

In 2008 to 2010, share-price based remuneration components were agreed with some employees in key positions. The term of these components (also) related to business year 2010:

- The agreements with two executives at a US group company expired in 2010, without resulting in a subscription authorization.
- Agreements for phantom stocks have been concluded with some key employees at the group's parent company SKW Stahl-Metallurgie Holding AG, without these resulting in a subscription authorization in 2010.

As a result of the company-specific structure of this program, the employees' 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 shares' 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

In-depth information on the Supervisory Board's activities and on the cooperation between the Supervisory and Executive Boards can be found in the Report of the Supervisory Board.

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

COURAGE

… is something that not just the cliff divers in Mexico need. Having the courage to face change is something that has characterized the SKW Metallurgie Group since its formation. We went public at the end of 2006 with just more than 200 employees - with the aim of becoming a global market leader from the foundations of our fairly European structure. This raised a few eyebrows, because only a very few thought that we were capable of doing it. Now, in 2011, we have reached this target, we are not only the global market leader in our two primary divisions, but also have a presence in Asia, North America and South America. In this connection we also opened a cored wire production plant in Mexico three years ago.

This courage paid off after just a short period. Our Mexican subsidiary Affimex increased its market share for cored wire from 0% to an impressive 50+%. We benefited from the strategic advantages offered by the location in the harbor town of Manzanillo for importing raw materials and exporting finished goods to other regions of Mexico and, of course, beyond.

The majority of our employees in Mexico also proved their courage. Before being hired by Affimex, most of them were unskilled agricultural workers with very humble wages. In just a few months, they adapted to new technologies and learned these, resulting in a team of trained machine operators with substantially higher opportunities for earnings.

Combined management report of SKW Stahl-Metallurgie Holding AG and the SKW Metallurgie Group for business year 2010

1. Business and underlying conditions

1.1. Substantial recovery in global economy in 2010

Significant recovery of global economy in 2010 lays foundation for record result of SKW Metallurgie Group

After the massive negative impact of the global economic and financial crisis in the second half of 2008 and in 2009, 2010 was characterized by a strong economic upswing all over the world. The economic recovery was so dynamic, that the growth forecasts had to be lifted several times during the course of the year. The International Monetary Fund (IMF) reported global economic growth of 5.0% for 2010 in its Economic Outlook Update dated January 25, 2011. Growth was once again dynamic in emerging nations, where the accumulated gross domestic product grew by 7.1%. According to information from the IMF, industrial nations recorded significantly more moderate growth, averaging 3.0%. There were positive impulses in particular from high-export nations, however some European countries suffered greatly from the consequences of their high government debt. The USA and Japan recorded growth of 2.8% and 4.3% respectively. In contrast, growth in Europe was more moderate, up 1.8%, although the high-export German economy grew by 3.6% according to information from the German Federal Statistics Office. The global economic recovery was driven, in particular, by the high-growth region in Eastern and South-Eastern Asia, which recorded growth of 9.3%. China once again took the lead, with growth of 10.3%. India was not far behind at 9.7%. The two other BRIC countries, Brazil and Russia, were both able to record above average growth rates of 7.5% and 3.7%.

The downside of the booming economy was a strong increase in demand for raw materials and, as a result, increasing prices. At the end of 2010, oil cost more than USD 90 per barrel, up more than 20% year-on-year. The prices of most other commodities and energy sources also increased significantly during the course of 2010. Inflation rates presented a varied picture. Although most industrial nations only recorded moderate inflation averaging 1.5%, prices in emerging nations lifted sharply at an average rate of 6.3%. This caused some Asian central banks to initiate monetary policy programs in order to stem further inflation. Key exchange rates were highly volatile in 2010: For example, the EUR/USD exchange rate moved in a corridor of between 1.20 and 1.45 during the course of the year. At the end of the year, the exchange rate was 1.34 US dollars per Euro, 6.9% lower than the previous year's figure.

1.2. Steel production breaks records

In 2010, the SKW Metallurgie Group recorded more than 90% of its revenues with customers in the steel industry. Sales of the SKW Metallurgie Group's high-quality products focus on pre-products for producing high and higher quality steel. The price of steel is not the decisive factor for the SKW Metallurgie Group, but the quantity of steel produced.[1] Steel manufacturers generally only stock small quantities of the SKW Metallurgie Group's products, with the result that changes in the quantity of steel produced are reflected directly in a change in the quantities of the SKW Metallurgie Group's products demanded.

1 The indirect impact of the steel price, e.g. from the price elasticity of demand, is also minor. "steel production" and "steel demand" are used synonymously in this report, as the differences (e.g., changes in manufacturers' warehouse quantities) are comparatively unimportant.

As the price of steel and changes in the steel price are of no importance for the SKW Metallurgie Group, the prices of or changes in the prices of commodities used in steel production are generally of minor importance for the SKW Metallurgie Group. Iron ore is an example of this type of pre-product – fluctuations in the price of iron ore are important for steel producers, but not for the SKW Metallurgie Group.

SKW Metallurgie Group generates more than 90% of its revenues with the steel industry

In view of the substantial recovery in the global economy, steel demand and production increased significantly in 2010 compared to the previous year. According to information from the World Steel Association, global steel production in the year under review increased by 15.0% to 1,413.6 million tons[2] and thus exceeded the record-breaking figures from 2007 (1,346.1 million tons). In so doing, growth rates even substantially exceeded the 20 percent mark in the first half of the year due to the fact that the same period in the previous year was very weak. At the start of 2010, forecasts by industry experts were still for an increase of less than 10% in global steel production, which underscores the surprisingly clear recovery in demand in this sector.

The industry recovery was particularly dynamic in the regions that had suffered the most from the economic and financial crisis in 2008 and 2009: Europe and North America. Steel production soared by 25% in the European Union, and even by 36% in North America. Although the world's largest steel-producing nation (PR China) also increased its annual production quantity by 9.3%, its global market share fell from 46.7% in 2009 to 44.3% in 2010. Growth in the other BRIC countries India, Russia and in particular Brazil was positive. These regions are particularly important sales markets for the SKW Metallurgie Group, which meant that the Group was able to benefit from the positive growth on these steel markets in 2010. Brazil, which is particularly important for the SKW Metallurgie Group as a result of its acquisition of Tecnosulfur, increased its steel production by 23.8% to 32.8 million tons in 2010, thus recording highly dynamic growth, even if this has not yet reached the levels recorded prior to the crisis.

World steel production (ex China) – an important indicator for demand for SKW Metallurgie products – significantly increased

Despite this dynamic growth, global steel production (without PR China) in 2010 totaled 786.9 tons and was thus up significantly on the 2009 figure (655.8 million tons) and was thus again at around the 2005 level (750.9 million tons). However, it was not possible to climb back to the record-breaking production figures in 2006-2008, in which the global steel plants (without PR China) each produced more than 800 million tons of raw steel.

In geographic terms, SKW Metallurgie Group recorded almost 75% of revenues (translated to euros) in 2010 with customers in the European Union and the USA/Canada. The other revenues are mostly in emerging nations. In 2011 and the following years, revenues in Europe will increase again as a result of the acquisition of the customers of the calcium carbide plant that was acquired in Sweden. If this extraordinary factor is not considered, the SKW Metallurgie Group's growth will be in emerging nations in particular.

During the year under review, the most important customer industry other than the steel sector was the production of industrial starch (a pre-product for paper production), which is supplied with Quab specialty chemicals. The growth of this customer industry followed the general economic trends in the year under review. The SKW Metallurgie Group develops special products for additional customer industries whose product requirements are related to those in the steel industry; examples include cored wire for the copper and casting industries, calcium carbide products for the gas industry and special magnesium for aviation. As a result, in coming years, the importance of revenues outside the steel industry will increase slightly.

2 The countries which produce the largest quantities of steel are PR China, the European Union, Japan, the USA, Russia, India, South Korea, Ukraine, Brazil, Turkey, the Republic of China (Taiwan), Mexico and Canada.

1.3. SKW Metallurgie benefits from post-crisis upswing

Revenues for all of the SKW Metallurgie Group's key products, in both the "Powder and Granules" segment and also in the "Cored Wire" segment, were higher than in the previous year – driven by the positive growth in the steel industry.

Further information, see note D39

The group's **sales quantity** developed mostly in line with the volume of production for steel producers in the geographic markets that the group serves. In addition, in the "Powder and Granules" segment, the Brazilian company Tecnosulfur, which was acquired at the end of 2009, provided additional impetus. Its revenues were consolidated in the SKW Metallurgie Group for an entire year for the first time.

Prices for the group's key products were up on the previous year on average in 2010 (in particular compared to the first half of 2009). This price growth also reflects the development in purchasing prices for key raw materials that are used in SKW Metallurgie's production. As a rule, fluctuations in these prices are passed on to customers in good time. One example of raw materials for which price fluctuations are passed on to customers is cores for cored wire, all of which were bought in from third parties during the year under review. Part of these external purchases will be replaced by the group's own production of calcium silicon in Bhutan (the most important raw material for cored wire in terms of quantity) from 2011.

SKW Metallurgie result in 2010 free of bad stock or other extraordinary effects

In addition to effects relating to prices and quantities, the group's revenues, which are reported in euros, are subject to **exchange rate fluctuations**, in particular the USD/EUR exchange rate. Currency sensitivities for the SKW Metallurgie Group (not the single entity SKW Stahl-Metallurgie Holding AG) are presented in Note D39 to the consolidated financial statements.

In terms of margins, business year 2010 was free from bad stock effects and other extraordinary factors, as forecast. In the previous year, the group's figures were still depressed into the second half of 2009 by stocks of raw materials from the period before the economic and financial crisis, for which the inventory values at that time were higher than the then-current market prices.

2. SKW Metallurgie invests in the future

Investments in assets amounted to EUR 23.8 mill. in 2010, thereby creating the foundations for a successful future of the SKW Metallurgie Group

2.1. Successful presence in Latin America

The group is continuing its existing expansion program. 2010 was the first full business year of group membership for the Brazilian subsidiary Tecnosulfur. At the same time, 2010 was the first business year after the economic and financial crisis for the SKW Metallurgie plant in Mexico, which opened in the second half of 2008. The SKW Metallurgie Group is now successfully positioned in what are, by far, the two most important steel-producing nations in Latin America, and it is thus reaping the full benefits of this region's dynamic growth.

However, even outside Latin America, the SKW Metallurgie Group is not primarily perceived as being a German company, but as a global company. According to media research (e.g. in the business newspaper Handelsblatt from December 29, 2010), the SKW Metallurgie Group ranks among the ten most globalized listed German companies: 96.5% of its workforce is employed outside Germany – more than at any other company from the Dax, Mdax, TecDax and SDax indices.

The SKW Metallurgie Group is continuing to drive this trend toward globalization. During the year under review, construction work on the new plants in Russia (cored wire) and Bhutan (calcium silicon and cored wire) was successfully continued. These two plants will go live in

2011. Calcium silicon production in Bhutan is particularly important in this regard, as it constitutes a classic vertical integration project. At the start of March, 2011, the calcium silicon furnace was inaugurated in the presence of representatives from the SKW Metallurgie Group, the Bhutanese joint venture partner and high-ranking representatives from the Bhutanese worlds of business and politics. For technical reasons, this furnace will initially produce ferrosilicon. Calcium silicon production is expected to start in mid-2011.

Investments in high-growth projects typically span several years. In 2010 alone, EUR 23.8 million was invested in non-current assets, with the bulk in the growth projects.

2.2. Vertical integration in Bhutan secures supply of raw materials for cored wire production

New plant in Bhutan inaugurated in March 2011: The vertical integration project secures the internal raw material supply with calcium silicon and is going to positively influence EBITDA as of 2012

The calcium silicon produced in Bhutan (CaSi) is a key raw material for the production of cored wire. Until now, the group had to purchase this material externally. In future, part of the group's requirements will be covered internally (vertical or backward-integration), thus reducing the dependency on external suppliers and generating additional margins by expanding the value chain. In addition to calcium silicon, the new plant in Bhutan will also produce cored wires in future, in particular for the Indian market.

The facility in Bhutan will make a significantly positive contribution to consolidated EBITDA as a result of its cost benefits (in particular for energy supply).

In contrast, the contribution made by the facility in Bhutan to the group's sales with third parties will be low, as only the cored wire to be produced in Bhutan in future will generate external revenues. The calcium silicon which Bhutan supplies to the SKW Metallurgie Group's other locations will be eliminated in the group's accounting as intra-group revenues.

A total of approx. EUR 30 million will be invested (over several years) in the new SKW Metallurgie plant for calcium silicon and cored wire in **Bhutan**. The majority of this amount is due to calcium silicon production. Investments in 2010 totaled EUR 13.9 million.

2.3. Strategic expansion in Russia

Cored wire plant in Russia is going to be opened in the further course of 2011, and will strengthen the market position in the CIS countries

Russia produced the fourth largest quantity of steel worldwide in 2010 (after PR China, Japan and the USA). If the CIS countries are taken together (in particular Russia and Ukraine), steel production is roughly on a par with Japan, the second largest steel producer in the world after PR China.

The SKW Metallurgie Group is already present on this future-proof market, for example via its in-depth customer relationships with Ukrainian steel plants. However, sales of cored wire to Russia to date have only been possible with neutral margins, as Russia charges high import duty. That is why the SKW Metallurgie Group has set up a cored wire plant in Kolomna (Russia). The physical structure of this plant had already been completed by the end of 2010. The final outstanding permits are to be issued in 2011, which means that production is expected to start in the summer of 2011. The new plant in Russia will produce high-quality cored wire, in particular for customers in CIS countries.

Investments in the new cored wire plant in **Russia** are borne by the group companies SKW Verwaltungs GmbH (real estate owner; "Other" segment) and Affival Vostok OOO (Russian production and sales company; "Cored Wire" segment) and totaled EUR 1.6 million in business year 2010.

2.4. Backward integration in Sweden secures European supply of raw materials

Takeover of a calcium carbide plant in Sweden as of Feb. 1, 2011 secures long-term supply of calcium carbide in Europe

In addition to its expansion in emerging nations, during the year under review the SKW Metallurgie Group also significantly reinforced its European hot metal desulfurization business. On December 17, 2010 (signing), the group acquired a calcium carbide production facility in Sweden including its customers as part of an asset deal (closing after the end of the business year on February 1, 2011). The purchase price for these assets reflects the investments required in the plant acquired and was only paid in 2011. The acquisition of this production facility will allow the group to further expand its global market and technology leadership for hot metal desulfurization. Three aspects should be highlighted:

- Reinforcement of supply security and value chain depth: In Europe, hot metal desulfurization is based on calcium carbide. In turn, Intercontinental transport of calcium carbide is only possible to a limited extent. To date, the SKW Metallurgie Group has not had its own production facility in Europe, but had to rely on changing suppliers. The acquisition of the facility in Sweden means that the group now has its own internal source for calciumcarbide-based raw materials for the European market. This covers more than 100% of its previous requirements with top quality products and cost structures that are competitive over the long term.

- Reinforcement of market position among Northern European steel plants: By acquiring customer relationships with Northern European steel plants, the SKW Metallurgie Group has substantially reinforced its position on these geographic markets.

- Development of new customer industries: Calcium carbide-based products are not only used in the steel industry, but also by producers of industrial gases. To date, the SKW Metallurgie Group has not supplied this market to any significant extent. The acquisition of the new plant and corresponding customer relationships means that the gas industry now also ranks among the SKW Metallurgie Group's customer industries.

The acquired plant is located in the Swedish harbor town of Sundsvall and has approx. 40 employees.

The new plant's contributions to revenues and earnings will be consolidated in the SKW Metallurgie Group from February 1, 2011.

2.5. Expansion of existing plants in line with customer needs

Plant expansions in the USA and Brazil reinforce existing business areas with high demand from clients

In order to further reinforce its global market position, the SKW Metallurgie Group started the expansion of two of its existing plants during the year under review (in Brazil and the USA). These new sections of the plants are expected to go live during the remainder of 2011:

- In **Brazil**, the production capacity for sintered synthetic slag was expanded in line with the market, after demand from steel plants for this patented special slag increased substantially. Investments in the Tecnosulfur plant in Brazil totaled EUR 1.8 million in 2010, with the bulk being accounted for by expanding production capacity for special slag.

- In the **USA**, addition production capacity for specialty magnesium was set up in an existing plant at ESM, an SKW Metallurgie subsidiary. The additional production is determined for non-steel sector customers (in particular the public sector). The SKW Metallurgie Group has also contributed its vast magnesium expertise to specialized applications outside steel production (e.g., special magnesium for divers' torches). However, this area of competence is to be expanded; that is why the SKW Metallurgie Group's specialty magnesium activities are being bundled in a newly formed US subsidiary from 2011. The expenses for the new specialty magnesium plant in the USA totaled EUR 2.6 million in 2010. This was prefinanced by the group's parent company SKW Stahl-Metallurgie Holding AG.

During the year under review, in line with agreements, a payment was made for the remaining purchase price for the 2009 acquisition of a two-thirds interest in Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A. This payment is included in the consolidated cash flow statement under “Purchase price paid for corporate acquisitions” and totaled EUR 1.0 million.

The other investments made by the SKW Metallurgie Group during the year under review were mostly maintenance and replacement investments, as was the case in the previous year. These were fully financed from the group’s cash flow.

3. Organization and company structure

3.1. Group parent as financial holding company

SKW Stahl-Metallurgie Holding AG, domiciled in Unterneukirchen (Germany) is the parent company of the SKW Metallurgie Group, which develops, produces and distributes specialty chemicals and related products and services for industrial applications. The group’s product portfolio includes, in particular, products and services for the steel industry (primarily for hot metal desulfurization and secondary metallurgy). In addition to products for the steel market, the group also produces, in particular, Quab specialty chemicals, and mostly sells these to producers of industrial starch for paper production. Additional sales markets outside the steel industry include the casting and copper industries. SKW Metallurgie develops specialized cored wires for both of these industries. Two new customer industries will be added from 2011, that the SKW Metallurgie Group has only served to a marginal extent to date. These are the gas industry, which uses calcium carbide for acetylene production, and also purchasers of specialty magnesium who are not steel producers. In contrast to Quab products, which do not have any direct relationship with the SKW Metallurgie Group’s steel-related core business, the new divisions have related characteristics, which means that substantial synergy effects can be achieved in this regard.

The group’s parent company SKW Stahl-Metallurgie Holding AG acts as the financial holding company. The Company’s executive bodies are the Annual General Meeting (of shareholders), the Supervisory Board elected by the meeting and the Executive Board appointed by the Supervisory Board.

Proposed dividend of EUR 0.50 per dividend-entitled share for business year 2010 underlines the self-conception of the SKW Metallurgie Group as a “dividend share”

The Annual General Meeting of the company’s shareholders was held in München (Munich) (Germany) on June 9, 2010. In view of business year 2009, which was characterized by the economic and financial crisis, and the capital increase, which was only completed in December 2009, the Executive and Supervisory Boards proposed to the General Meeting that no dividend should be paid in 2010. The shareholders approved a corresponding resolution for the appropriation of profits with a large majority.

However, failing to pay a dividend is to remain an exception for the SKW Metallurgie Group. As a result of the very positive growth in business year 2010, the Executive and Supervisory Boards will make a proposal to the 2011 General Meeting, which is expected to be held on June 8, 2011 in München (Munich) (Germany), to pay a dividend of EUR 0.50 for each entitled share which is to be paid on the banking day following the General Meeting.

During the business year, the Supervisory Board comprised Sabine Kauper, Armin Bruch, Dr. Dirk Markus, Jochen Martin (deputy Chairman), Dr. Christoph Schlünken and Titus Weinheimer (Chairman). Dr. Claus Ritzer is the replacement member.

The Supervisory Board has formed committees to further professionalize its work. These committees each comprise three members. There were three committees on the balance sheet

SKW Metallurgie shares completely in free float

date: the audit committee, the remuneration committee and the standardization committee. This means that the requirements of the German Corporate Governance Code were fully met on the balance sheet date with regard to Supervisory Board's committees.

During the entire business year, the Executive Board comprised Ines Kolmsee (CEO) and Gerhard Ertl (CFO). In December 2010, the Supervisory Board resolved, with effect from January 1, 2011, to increase the size of the Supervisory Board from two to three members, and Mr. Reiner Bunnenberg, who has already held an executive position with the SKW Metallurgie Group since 2009, was appointed to the Executive Board.

The SKW Metallurgie Group, represented by the group's parent company SKW Stahl-Metallurgie Holding AG, has a global presence using the group's brand "SKW Metallurgie". On the capital market, the group's brand "SKW Metallurgie" means "Growth with Substance".

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

3.2. Shares of SKW Metallurgie continue to enjoy successful performance on the capital markets

At the end of 2009, SKW Stahl-Metallurgie Holding AG issued a total of 2,122,680 new shares at a price of EUR 11.50 per share as part of a capital increase against cash contributions while granting shareholders' subscription rights. This means that the company's share capital now comprises 6,544,930 bearer shares. Since the capital increase, the price of SKW Metallurgie's shares has constantly been higher than the issuing price for the new shares and at the end of the year it peaked at EUR 21.00 (XETRA closing price). As a result of the positive share price performance (annual performance up 42%), the SKW Metallurgie Group's market capitalization also increased substantially. On the balance sheet date, the group's stock market value totaled approx. EUR 130 million. The stock market turnover of SKW Metallurgie's shares also increased as a result of the higher price, with quantities remaining relatively constant on average. As a result, shares of SKW Metallurgie continue to be a firm member of the German small-cap index SDAX. The shares have been included in this index since June 23, 2008. Based on the statutory notifications of voting rights, no shareholder held 10% or more of SKW Metallurgie's shares since 2007 (full exit of the former parent ARQUES Industries AG) through to the capital increase. During the capital increase, the two banks supporting this activity held more than 10% of shares of SKW Metallurgie for a short period in order to technically process the capital increase. These holdings were reduced to zero after the capital increase was completed in December 2009. Since then, no shareholder has held an interest of 10% or more in SKW Metallurgie (full free float).

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

The following information is valid, 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 is composed of **6,544,930** no-par value common bearer shares, each with a notional interest of EUR 1.00 in the share capital. 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 treasury shares.

The shares are freely transferable to the extent permitted by law.[3] The company is not aware of any equity interests which exceed 10% of voting rights. If employees participate in equity, they exercise their voting rights as all other shareholders, if there is not an express statutory regulation to the contrary. Otherwise, voting rights are only restricted by law, i.e., in the case of treasury shares within the meaning of Section 71b of the AktG.

Subject to their acceptance, the members of the Executive Board are appointed and dismissed by the Supervisory Board. The Executive Board manages the Company in accordance with the law and the Articles of Association and within the scope of the Executive Board bylaws. It was not possible to buy back treasury shares as of the balance sheet date. In 2009, by way of a resolution by the Executive and Supervisory Boards, the authorization by the Annual General Meeting on June 18, 2007 was exercised, and the company's share capital was increased from EUR 4,422,250 to EUR 6,544,930, with the result that authorized capital of up to EUR 77,320 was still available in the year under review.

In accordance with Article 11 of the Company's Articles of Association, the Supervisory Board is entitled to resolve amendments to the Articles of Association that relate solely to their wording.[4] Any other amendments to the Articles of Association require a resolution by the Annual General Meeting.

As detailed in the presentation of the Executive Board's remuneration, agreements were concluded with the members of the Executive Board who were in office in 2010 for the event of a change of control resulting from a change of control due to an acquisition offer. A change-of-control agreement has also been reached with Reiner Bunnenberg, who joined the Executive Board on January 1, 2011. The company has not made any agreements for compensation in the event of a simple acquisition offer. There are no other agreements within the meaning of No. 8 and No. 9 of Section 289 (4) and Section 315 (4) of the HGB.

5. Five strong product brands mean top quality – world wide

Affival as globally leading product brand for premium cored wire for the steel industry

The SKW Metallurgie Group has three segments: Cored Wire (primary brand Affival), Powder and Granules (brands ESM, SKW Metallurgie and Tecnosulfur) and Other. The operating activities in the Other segment include business with Quab specialty chemicals (brand Quab), which are mostly used by manufacturers of industrial starch, who in turn mostly supply the paper industry.

5.1. "Cored Wire" segment: Affival cored wire for high-quality steels

High-quality cored wire for secondary metallurgy is offered under the brand name "**Affival**" in the "Cored Wire" segment.[5] In this production step of steel manufacturing, crude steel receives the desired properties for special applications through the precisely adjusted addition of specialty chemicals. Adding cored wire with precisely specified specialty chemicals to liquid crude steel is a highly demanding technical process, which adds the required additives efficiently and in an environmentally friendly manner. 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. This type of steel is used, for example, in pipeline construction or in the production of high-quality cars. 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 SKW Metallurgie Group.

3 The Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) provides for limitations, particularly for insiders. Based on these restrictions, SKW Stahl-Metallurgie Holding AG and additional group companies agreed restrictions on the transferability of shares of the parent company by insiders (e.g., in employment contracts).

4 This responsibility is delegated to the Supervisory Board through application of Article 179 (1) Clause 2 of the AktG. SKW Stahl-Metallurgie Holding AG believes that this does not restrict the General Meeting's fundamental responsibility for changes to the articles of association.

5 During the year under review, cored wire was also supplied to the copper and casting industries to a minor extent.

The Cored Wire segment also includes cored wire production facilities in Mexico and PR China, where products are primarily produced for the respective local market and sold under local brand names (Affimex and Tianjin Hong Long Metals).

The new SKW Metallurgie plant in Bhutan, which will primarily produce calcium silicon as a pre-product for cored wire production from 2011, and the cored wire plant in Russia, which will be opened during 2011, also belong to the Cored Wire segment.

5.2. "Powder and Granules" segment: Dual method technology leadership in hot metal desulphurization

SKW Metallurgie Group as the globally leading supplier for technologically advanced solutions in hot metal desulphurization – across all significant geographical markets and technologies

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

High quality products for magnesium-based hot metal desulphurization and for secondary metallurgy are produced and offered as customer-oriented solutions using the "**ESM**" product brand. These areas account for over three quarters 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 divers' torches). Specialty magnesium activities for customers outside the steel industry will be increased substantially from 2011.

In Europe, the Powder and Granules segment includes the operating group companies SKW Stahl-Metallurgie GmbH and (from February 1, 2011) SKW Metallurgy Sweden AB. The product brand **SKW Metallurgie** is identical to the group's brand, and these two group companies use this brand to offer primarily highly-demanding technical solutions for carbide and magnesium-based hot metal desulphurization for European steel manufacturers, and also secondary metallurgy treatments as well as calcium carbide-based products for the gas industry. In 2010, the SKW Metallurgie Group still purchased the raw materials required for carbide-based hot metal desulphurization in Europe from various suppliers. From February 1, 2011 the group's procurement situation will be reinforced substantially as a result of the newly acquired calcium carbide plant in Sweden. SKW Stahl-Metallurgie GmbH also includes the joint venture Jamipol Ltd., Jamshedpur, India, which has two production facilities in India and is the clear market leader on the Indian market for carbide-based hot metal desulphurization. Since SKW Metallurgie's interest in Jamipol is less than 50%, the Indian company operates under its own brand ("Jamipol") on the market.

The Brazilian company Tecnosulfur uses the **Tecnosulfur** brand to supply its products, primarily to steel plants on the Brazilian market. These products include, in particular, highly demanding technical solutions for hot metal desulphurization, and it is the leading provider in its product segments on the Brazilian market. This company has formed part of the SKW Metallurgie Group since December 23, 2009, and is ideally positioned to benefit from Brazil's above-average growth. At the same time, Tecnosulfur also efficiently processes the supply of the new ThyssenKrupp steel plant in Brazil that the SKW Metallurgie Group had already agreed prior to the acquisition of Tecnosulfur. Deliveries in this regard commenced in mid 2010 (when this steel plant was opened).

Uniting the core competences of the group companies which use the SKW Metallurgie brand (SKW Stahl-Metallurgie GmbH and SMW Metallurgy Sweden AB – from February 1, 2011) and Tecnosulfur for carbide-based hot metal desulphurization with the core competences of the ESM group in magnesium-based hot metal desulphurization means that the Powder and Granules segment has specialist knowledge of all of the key technologies for hot metal desulphurization. Thanks to this bundling of competence, the SKW Metallurgie Group develops and markets customer-oriented solutions for hot metal desulphurization for both mono-injection, co-injection and tri-injection. This means that the SKW Metallurgie Group with all of the SKW Metallurgie brands is regarded as being the market leader for this specialist area on the global market for hot metal desulphurization.

5.3. Other segment: Quab specialty chemicals for high-quality paper

The **Quab** brand is used to sell high-quality specialty chemicals to neutralize electrical charges, mostly to the producers of industrial starches whose products, in turn, are used to produce high-quality paper products.

As was also the case in the previous year, the Other segment also includes central group functions, in particular the group's top-level parent company, SKW Stahl-Metallurgie Holding AG.

5.4. Global procurement of raw materials secured

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

Vertical integration projects in Sweden (calcium carbide) and Bhutan (calcium silicon) strengthen raw material supply 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 further reinforced its back-integration for the key raw material calcium silicon, used in cored wire production, by opening a calcium silicon furnace in Bhutan in March 2011.

The **Powder and Granules** segment's procurement activities are focused on ensuring the supply of magnesium and carbide-based hot metal desulphurization materials.

- Magnesium procurement has been secured with the group's own production facility in China, which has strong supplier relationships for the pre-products used at this location.

- After the SKW Metallurgie Group terminated its supply relationship with the former main supplier for carbide-based hot metal desulphurization materials for the European market as of December 31, 2009, the group used alternative sources of supply in 2010. The group now has its own, internal source of supply as of February 1, 2011 in the form of the calcium carbide plant in Sweden acquired from the AkzoNobel Group. This not only secures the supply of raw materials for carbide-based hot metal desulphurization materials for the European market, but it has significantly increased this security of supply.

In the **Other** segment, the supply of raw materials for Quab production (primary raw materials: epichlorohydrine and trimethylamine) has been secured over the long term with corresponding master agreements.

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

All in all, no significant bottlenecks whatsoever are envisaged for the SKW Metallurgie Group in the supply of raw materials. The volatility of commodity prices is taken into account through relevant clauses in the Group's contracts with its suppliers and customers; demand from customers is relatively inflexible over the short-term with regard to prices. Changes in the prices of raw materials can thus impact the group's revenues, however over the short term they do not have any material effect on the group's earnings.

5.5. Global production and close proximity to customers

The SKW Metallurgie Group has organized both production and sales globally. This enables great proximity to the most important customers and a choice between the most favorable production site in each case for specific customer queries. Production in various currency zones also provides natural hedging against exchange rate fluctuations. Carbide-based hot metal

desulphurization materials are limited in their transportability, which would make it impractical to supply all countries from only one site.

As of the balance sheet date, SKW Metallurgie operates 15 plants (incl. JV Jamipol) in seven countries on four continents. In early 2011, plants in Sweden and Bhutan were added

In business year 2010 there were no changes to the SKW Metallurgie Group's active production facilities. However, the construction of new production facilities (in particular in Bhutan) continued to be driven on schedule; in addition the acquisition of a calcium carbide plant in Sweden was agreed in December 2010 (signing). This plant has formed part of the SKW Metallurgie Group since February 1, 2011 (closing).

In total, on the balance sheet date, the group had five cored wire production facilities (France, USA, South Korea, Mexico and China) and the Other segment has one Quab production facility (USA). The Powder and Granules segment had six plants in the ESM group (USA (4), Canada and China), there were two plants in India for calcium-carbide based hot metal desulphurization materials via the Jamipol joint venture, and the Tecnosulfur plant in Brazil since December 2009. The calcium carbide plant in Sweden, which was acquired on February 1, 2011 and thus after the balance sheet date, also forms part of the Powder and Granules segment.

The production costs in the plants of the SKW Metallurgie Group are primarily determined by the cost of materials, and also 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.

Production capacity in most of the existing plants in the SKW Metallurgie Group can be adjusted to changes in demand, e.g. in cored wire plants by setting up or omitting additional production shifts. The capacity available in the business year was practically fully used. In the new plants (from 2011) in Bhutan and Sweden, the issue of capacity utilization plays a greater role for technical reasons, as capacity cannot be adjusted as flexibly in these locations.

The careful selection of suppliers and regular spot checks conducted by independent experts ensure the high quality of all of the SKW Metallurgie Group's products and services in all of its segments.

5.6. Corporate management – focus on long-term value growth

All of the companies in the SKW Metallurgie group are managed and measured using uniform criteria. Long-term shareholder value, i.e. securing and creating value for the owners of the Group, is a key factor in this regard. The Group strives in the long term to offer the owners an attractive return on the capital employed that suitably reflects the corporate risk. The two most important indicators for shareholder value are the long-term trend in the dividend and the share price. Both of these indicators enjoyed very positive growth in the year under review:

Market capitalization significantly increased in 2010

- The price of SKW Metallurgie's shares increased by more than 40% from January 1, 2010 to December 31, 2010.
- The Executive and Supervisory Boards will propose payment of a dividend of EUR 0.50 per dividend-entitled share to the General Meeting.

The SKW Metallurgie Group is continuing to pursue its target of becoming the global top quality supplier for steel producers for hot metal desulphurization and secondary metallurgy. The group's strategy continues to be to consistently expand its value chain (e.g., via the calcium silicon furnace that went live in March 2011 in Bhutan and the calcium carbide plant in Sweden acquired in February 2011) and by increasing its focus on higher-margin products, which also create corresponding added value for customers (e.g., PapCal cored wire).

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

6.1. Back on track for growth after economic and financial crisis

In 2010, SKW Metallurgie Group feels recovery after the economic and financial market crisis, across all segments and quarters; further impetus from the Group company Tecnosulfur acquired in 2009

Business in 2010 was clearly characterized by the upswing following the economic and financial crisis for the entire SKW Metallurgie Group. In total, positive EBITDA of EUR 28.8 million was recorded, following last year's figure which was slightly less than zero. This means that EBITDA in 2010 has exceeded both the guidance, which was lifted twice during the course of the year, and also the EBITDA recorded in 2008, the former record-breaking year (EUR 26.0 million).

In the Cored Wire segment, PapCal cored wire was successfully used by additional customers, after tests had proved this product innovation's superiority in practical use. At the same time, this segment penetrated new customer industries: copper and casting. These strategic activities are part of the stronger focus on higher-margin products that was introduced over the past few years.

In the Powder and Granules segment, 2010 was characterized by the SKW Metallurgie Group's multi-technology competence in hot metal desulphurization. This attribute is due, in particular, to the fact that, compared to local competitors, the group holds a leading position on all of the key geographic markets and with all of the key technologies employed in hot metal desulphurization. This is the case in particular since the group has significantly reinforced its presence on the Brazilian market by acquiring the Brazilian company Tecnosulfur, and the acquisition of a calcium carbide plant in Sweden has opened up new perspectives for the intra-group supply of raw materials.

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

The SKW Metallurgie Group's Quab facility mostly supplies industries which, in turn, rely on agricultural pre-products. As a result, demand for Quab is partly seasonal; this seasonal nature can be seen, in particular, in that the first quarter in particular is comparatively weak (winter in the northern hemisphere).

On the whole, during the year under review, with the exception of these factors there were no significant differences between the quarters. It is much rather the case that demand for the SKW Metallurgie Group's products was characterized in all four quarters by the upswing after the economic and financial crisis, and the resulting increase in steel production.

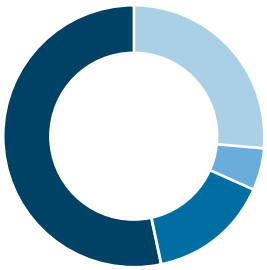
During the year under review, as forecast, there were no extraordinary effects which would have caused an adjustment to EBITDA or other key earnings indicators.

With effect from December 23, 2009, a two-thirds interest was acquired in the Brazilian company Tecnosulfur; this company's figures are included on a pro rata basis in the consolidated income statement for 2009 (i.e., for less than half a month), with the result that comparability is thus restricted. The other changes in the group of consolidated companies exclusively relates to non-operating companies and is thus of only little relevance when comparing the figures from 2010 and 2009.

During the business year, production at all facilities was on schedule and successful. The adjustments required as a result of the economic and financial crisis (e.g. short-time work in France and lay-offs in NAFTA countries) were already reversed at the end of 2009. There are no obstructions to a further expansion of sales in the Cored Wire and Powder and Granules segments, as the group has set up (Cored Wire) or acquired (calcium carbide production in Sweden) additional plants, and in addition the main Affival plant in France already has the approval of union representatives to add a further shift.

6.2. Upswing after the economic and financial crisis: Revenues up by more than 70%

Global revenues



- USA / Canada 53.4%
- EU without Germany 14.9%
- Germany 5.3%
- Rest of World 26.4%

During the year under review, the SKW Metallurgie Group recorded revenues in excess of EUR 380.8 million, which are thus up more than 70% year-on-year (EUR 220.6 million).

2009 was still clearly marked by the economic and financial crisis, however during the course of the upswing in 2010 greater dynamism than had previously been forecast was enjoyed by the economy as a whole. As a result, global steel production and thus also demand for the SKW Metallurgie Group's products and services increased. The latter are mostly sold to the steel industry. Global steel production (without PR China) in 2010 totaled 786.9 tons and was thus up significantly on the 2009 figure (655.8 million tons) and returning to around the 2005 level (750.9 million tons). However, it was not possible to climb back to the record-breaking production figures in 2006-2008, in which the global steel plants (without PR China) each produced more than 800 million tons of raw steel.

In geographic terms, more than 80% of revenues through to December 2009 (translated to euros)[6] were recorded with customers in Europe and NAFTA countries. In December 2009 (acquisition of Tecnosulfur), significant revenues were added with Brazilian customers, with the result that the proportion accounted for by Brazil in 2010 accounted for almost 10%. Prior to December 2009 only very minor revenues were recorded in this country.

In total, in 2010, approx. 25% of revenues were recorded with customers in high-growth countries and emerging nations, in particular in Brazil.

The group's strategy continues to be to increase the proportion of revenues it records in high-growth countries and emerging nations, without reducing its absolute revenues in other countries. Revenues in Europe will even increase from 2011 due to the customers acquired together with the Swedish calcium carbide plant. However, over the medium term, the group's target is to record at least one third of its revenues in high-growth countries and emerging nations.

In addition to the revenues recorded, the change in finished goods and work in progress totaled EUR 0.8 million in the year under review, compared to EUR -1.2 million in the previous year.

Total operating revenue (revenues plus changes in finished goods and work in progress and plus own work capitalized) and revenues only differed marginally.

6.3. Solid gross profit margin underscores the group's operating strength

The SKW Metallurgie Group's business demands the use of large quantities of raw materials, and in this type of business an increase in the costs of raw materials and corresponding adjustments to selling prices can affect revenues, without this necessitating any change in operating output. A much more meaningful figure for the SKW Metallurgie Group in this regard to date has been the gross profit margin (gross margin)[7].

6 Fluctuations in exchange rates must also be taken into account when interpreting geographic revenues; the proportion accounted for by NAFTA countries can, for example, change as a result of fluctuations in the EUR/USD exchange rate.

7 The gross profit margin (gross margin) is the difference between revenues and the cost of materials in relation to revenues. The cost of materials can also derive from items other than revenue, e.g., changes in finished goods and work in progress. However, these items are comparatively small at the SKW Metallurgie Group, with the result that the group believes that the definition it has selected is easy to calculate and meaningful.

During the year under review, the SKW Metallurgie Group increased this figure significantly as a result of its consistent orientation to high-margin products to 27.2% compared to 21.5% in the crisis-ridden previous year – with costs of materials totaling EUR 277.2 million (previous year: EUR 183.2 million). The absolute increase in the cost of materials is a logical consequence of the high variability in costs above EBITDA, which the SKW Metallurgie Group impressively proved during the economic and financial crisis. This high variability is mostly due to the costs of materials. The absolute costs of materials have also increased proportionately together with the upswing after the economic and financial crisis, which is expressed, in particular, in higher revenues and sales.

In 2011 and the years thereafter, the variability of the group's costs will fall slightly, as the new plants (e.g., Sweden and Bhutan) will have a higher proportion of fixed costs. This also means that, together with the increasing capital intensity and depth of the value chain, the meaningfulness of the gross profit margin will decrease for the SKW Metallurgie Group.

6.4. Employees participate in upswing

Personnel expenses[8] were significantly higher than in the previous year in the year under review at EUR 39.1 million (EUR 23.1 million). This is due, in particular, to the fact that significantly more people worked for SKW Metallurgie in 2010 than during large periods of crisis-hit 2009. The acquisition of Tecnosulfur alone caused the number of the SKW Metallurgie Group's employees to increase by 150 in December 2009. This increase is also due to re-hires or the end of short-term work once the financial and economic crisis had been overcome. In addition, many employees have participated in the upswing after the economic and financial crisis via their variable salary components, which have increased year-on-year.

Other operating income was significantly higher than the previous year's level at EUR 10.4 million (EUR 3.3 million). This is mostly due to an increase in gains from currency translation of EUR 9.4 million.

In the year under review, other operating expenses climbed substantially from EUR 27.9 million in the previous year to EUR 47.9 million. The increase in other operating expenses is mostly due to the expenses that correlate positively with revenues. These include, in particular, sales-related selling costs (such as commission and outbound freight) in all of the segments.

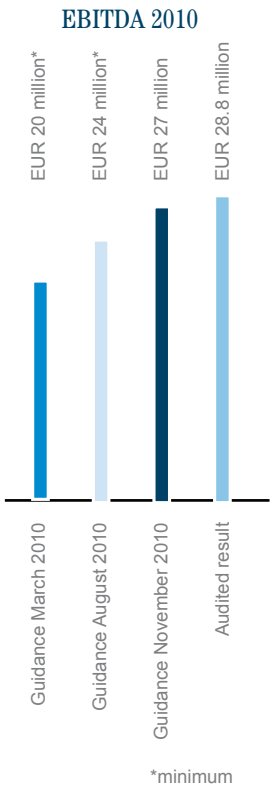
In addition, in the "Other" segment, a larger proportion of production costs than in the other segments is recorded as other operating expenses. The "Quab" production facilities in Mobile in the US state of Alabama are located adjacent to the production facilities of the Evonik Group. A large part of the plant infrastructure is jointly used in a chemical park concept to make optimal use of synergies. The expenses for SKW Metallurgie's share of this joint plant infrastructure are recorded as other operating expenses at the SKW Metallurgie Group. These costs are also partly sales-related.

In addition, other operating expenses include expenses from foreign currency translation totaling EUR 7.1 million in the year under review; if exchange rate income is netted with exchange rate expenses, this results in net income from currency translation of EUR 2.3 million.

Income from the Indian joint venture company Jamipol totaled EUR 0.9 million, up slightly year-on-year (EUR 0.8 million).

8 Personnel expenses includes remuneration for the members of the Executive Board, but not, however, the Supervisory Board.

6.5. EBITDA exceeds guidance – which was lifted on two occasions



EBITDA totaled EUR 28.8 million, exceeding the guidance for 2010 which was increased twice during 2010 to a final total of EUR 27 million. Following the crisis-hit figure from the previous year of EUR -0.5 million, the EBITDA disclosed in 2010 even surpassed the previous record-breaking figure from 2008 (EUR 26.0 million) by more than 10%.

As forecast, the expansion projects in the SKW Metallurgie Group caused the importance of interest, amortization, depreciation and non-controlling interests to increase.

In particular amortization and depreciation increased significantly from EUR 6.6 million in 2009 to EUR 11.5 million. This increase is due to the increased amortization and depreciation of assets from Tecnosulfur, which are carried as part of the purchase price allocation at fair value.

However, EBIT is still significantly higher than the previous year's figure at EUR 17.3 million (EUR -7.0 million).

Net interest expenses were only slightly lower than the previous year's figure at EUR 2.3 million (EUR 2.5 million). This slight downturn in net expenses in the year under review compared to the previous year is due, in particular, to the fact that interest income increased by EUR 0.2 million. The increased interest income is due to interest on demand deposits in Brazil.

EBT totaled EUR 15.0 million and was up EUR 24.5 million compared to the previous year's figure of EUR -9.5 million. This very clearly shows the upswing after the economic and financial crisis and the positive impact of the Tecnosulfur acquisition.

6.6. Earnings per share allows attractive returns

The typical group tax rate (income taxes to EBT) totals an unchanged 35-40%; the 2010 figure totaled 39.6%. The amount of the tax rate is characterized, in particular, by the fact that a significant proportion of the SKW Metallurgie Group's profits are recorded in countries such as Brazil, the USA and Japan, which levy a high tax rate for the company's profits in an international comparison when all of the income taxes are accumulated (e.g. federal taxes, taxes by individual federal states, etc.).

During the year under review, the SKW Metallurgie Group recorded absolute income tax expense of EUR 5.9 million (previous year: income tax income of EUR 4.4 million).

After interest, taxes, amortization and depreciation the SKW Metallurgie Group thus recorded consolidated earnings of EUR 9.1 million (previous year: EUR -5.1 million). These consolidated earnings are distributed between the shareholders of SKW Stahl-Metallurgie Holding AG, and also to non-controlling interests for the subsidiaries in which the SKW Metallurgie Group does not hold a 100% interest. With regard to the larger group companies, this relates to activities in Bhutan (non-controlling interests: 49%) and Brazil (non-controlling interests: 33.3%) and Quab business (non-controlling interests: 10%).

EUR 1.5 million (previous year: EUR -0.1 million) is to be allocated to these non-controlling interests (previously: minority interests) from the consolidated earnings.

EUR 7.5 million is due to the parent company's shareholders after a loss in the previous year of EUR 5.0 million.

There were an unchanged 4,422,250 shares of SKW Metallurgie since its IPO in 2006 through to December 2, 2009; this figure increased to 6,544,930 when it was entered in the commercial register on December 2, 2009. According to IFRS, calculations for the earnings per share for 2009 are based on a pro-rata weighted average (or 4,565,531 shares) (despite retroactive profit participation rights as from January 1, 2009). This figure totaled 6,544,930 shares in 2010. The proportion of the consolidated earnings due to the parent company of EUR 7.5 million (previous year: EUR -5.1 million) as the numerator, and the number of shares thus calculated as the denominator thus gives theoretical earnings per share (EPS) of EUR 1.15 (previous year: EUR -1.10). Earnings per share were thus up by EUR 2.25.

Of the EPS of EUR 1.15, EUR 0.50 are earmarked as dividend

As a result of these excellent earnings, the Executive and Supervisory Boards resolved to make a proposal to the General Meeting for 2010 to disburse a dividend of EUR 0.50 per dividend-entitled share.

6.7. Segment reporting

During 2010, as was the case in the previous year, the SKW Metallurgie Group comprised three segments. The parent company is a financial holding company without any own revenues and is included in the Other segment. Internal sales are included in the "Elimination" column (see segment reporting in the Notes to the Consolidated Financial Statements, Note D29).

Further information, see note D29

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

- External sales in the **Cored Wire** segment were up significantly year on year at EUR 183.0 million (EUR 92.6 million) as a result of the upswing after the economic and financial crisis. EBITDA in the entire segment improved as a result of the higher revenues by EUR 14.9 million from EUR -3.0 million to EUR 11.9 million.

- The group's external annual revenues in the **Powder and Granules** segment increased substantially from EUR 112.3 million to EUR 175.1 million; this increase is due roughly 50:50 to the Brazilian company Tecnosulfur, and to the upswing after the financial and economic crisis. Segment EBITDA increased substantially from EUR 3.6 million to EUR 21.7 million; in line with the increase in revenues, this improvement is due to the upswing after the economic and financial crisis as well as the dynamic growth in Brazil. The SKW Metallurgie Group's participation in the Indian company Jamipol, which belongs to this segment, is less than 50%. As a result this interest is carried at equity in the Powder and Granules segment and is included in EBITDA, however not in the revenue figures.

Segment "Powder and Granules" significantly strengthened by Tecnosulfur

- The **Other** segment includes SKW Quab Chemicals Inc., which runs the operating Quab business, and also the top-level group company SKW Stahl-Metallurgie Holding AG and additional German companies which perform central group functions and thus do not generate any revenues. Revenues with Quab specialty chemicals totaled EUR 22.7 million in 2010, higher than the previous year's figure of EUR 15.7 million. This is due in particular to higher sales quantities due to the upswing after the economic and financial crisis. Disclosure of segment EBITDA in the Other segment is operatively not particularly meaningful, as earnings from Quab business are netted with the contribution to EBITDA from central group units.

6.8. Healthy net assets: Foundations for further growth

The following table shows the key items of the SKW Metallurgie Group's balance sheet as of December 31, 2010 compared to the previous year:

ASSETS in EUR thousand	Dec. 31, 2010	Dec. 31, 2009
Non-current assets	147,852	116,727
Current assets	127,905	114,937
thereof cash and cash equivalents	10,956	11,052
Total assets	**275,757**	**231,664**

SHAREHOLDERS' EQUITY & LIABILITIES in EUR thousand	Dec. 31, 2010	Dec. 31, 2009
Shareholders' equity	122,258	109,026
Non-current liabilities	64,562	41,178
thereof non-current financial liabilities	31,336	14,597
Current liabilities	88,937	81,460
thereof current financial liabilities	26,966	29,236
Total equity and liabilities	**275,757**	**231,664**

The SKW Metallurgie Group's total assets increased by EUR 44.1 million in business year 2010 from EUR 231.7 million to EUR 275.8 million. This increase is mostly due to the construction progress for the growth projects (substantial increase in non-current financial liabilities on the equity and liabilities side and significant increase in property, plant and equipment on the assets side).

Equity (including non-controlling interests) increased by EUR 13.3 million from EUR 109.0 million to 122.3 million. This increase is mostly due to an increase in non-controlling interests as a result of the capitalization of a shareholder loan at Tecnosulfur.

Equity ratio and net debt continue to show balance-sheet stability of the SKW Metallurgie Group

As total assets increased more sharply compared to equity, the equity ratio (including non-controlling interests) fell from 47.1% to 44.3%. In addition to the equity ratio, **net financial debt**[9] is a key performance indicator for the SKW Metallurgie Group. This figure totaled EUR 47.3 million on December 31, 2010 (previous year: EUR 32.8 million).

The operating working capital – defined as inventories plus trade receivables less trade liabilities – totaled EUR 65.8 million on the balance sheet date and is thus higher than the previous year's level (EUR 60.2 million) in line with the increased level of business activities. Despite the absolute downturn in operating working capital, the SKW Metallurgie Group has further improved its working capital management. This can be seen, in particular, in the reduction in the time it takes to turn over the working capital. During the year under review, this indicator (related to the balance-sheet date) totaled 0.17 (or 63 days) compared to 0.27 (100 days) in the previous year.

On the assets side, non-current assets (2010: EUR 147.9 million; 2009: EUR 116.7 million) include, in particular, intangible assets, property, plant and equipment and deferred tax assets. The increase in property, plant and equipment (from EUR 42.6 million to EUR 63.9 million) is mostly due to the further construction of the new plants in Russia and, in particular, Bhutan.

The key items of current assets include inventories and trade payables as part of operating working capital, as well as cash and cash equivalents and other assets.

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

On the equity and liabilities side, there were major changes to equity from the capital increase already discussed and also to borrowing. These changes in borrowing were due, in particular, to the significant increase in non-current financial liabilities (2010: EUR 31.3 million; 2009: EUR 14.6 million). This increase in financial liabilities stems from, in particular, to the subsequent borrowing to finance the Tecnosulfur acquisition.

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

Non-current liabilities include deferred tax liabilities of EUR 16.8 million (previous year: EUR 15.4 million). Detailed information on these liabilities is provided in Note D16 of the notes to the consolidated financial statements.

Other non-current liabilities (EUR 11.6 million; previous year: EUR 8.4 million) include, as was the case in the previous year, non-current liabilities from a contract for raw materials to be fulfilled and deferred liabilities from acquisitions.

Further information, see note D16

Provisions (mostly current) have increased slightly and include, as the largest item, a provision for a possible antitrust fine; the provision formed in this regard in 2008 totaling EUR 6.2 million was increased to EUR 6.7 million in 2009 and has not been changed since then.

Other current liabilities (EUR 15.6 million; previous year: EUR 11.2 million) are broken down into a large number of individual items, which are presented in detail in Note D28 of the notes to the consolidated financial statements.

The SKW Metallurgie Group's net assets and financial position are not insignificantly influenced by exchange rate changes. Translation effects result, in particular, from changes in the EUR/USD exchange rate.

Further information, see note D28

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

6.9. SKW Metallurgie Group generates significant cash inflow from operating activities

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

EUR thousand	Jan. 1-Dec. 31, 2010	Jan. 1-Dec. 31, 2009
Consolidated net income	9,061	-5,108
Gross cash flow	14,900	1,477
Cash flow from operating activities	12,547	18,485
Cash flow from investing activities	-24,718	-28,212
Cash flow from financing activities	11,618	11,166
Change in cash and cash equivalents	-96	1,475
Cash and cash equivalents - end of period	10,956	11,052

High gross cash flow shows operative strength of SKW Metallurgie Group

Based on a consolidated net income for the year of EUR 9.1 million (previous year: EUR -5.1 million), during the year under review the group recorded a gross cash flow of EUR 14.9 million (previous year: EUR 1.5 million). Under non-cash expenses, amortization and depreciation nearly doubled from EUR 6.6 million to EUR 11.5 million. This development could already be recognized during the course of the year from the quarterly financial statements and is due, in particular, to the depreciation of assets at the Brazilian company Tecnosulfur.

The cash flow from operating activities (gross cash flow netted with changes in working capital) totaled EUR 12.5 million (previous year: EUR 18.5 million). During the previous year, working capital was reduced by EUR 17.0 million as a result of the crisis, however working capital of EUR 2.6 million was added during the year under review. The change in working capital was influenced, in particular, by changes in inventories: Although inventories (after advance payments) were cut by EUR 25.3 million in 2009 as a result of the crisis, the value of the SKW Metallurgie Group's inventories increased by EUR 4.6 million from January 1, 2010 to December 31, 2010.

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

Net cash used in investing activities totaled EUR 24.7 million during the year under review (previous year: EUR 28.2 million). During the year under review, this mostly related to payments for investments in non-current assets (EUR 23.8 million compared to EUR 12.4 million in the previous year). These investments in non-current assets include replacement and maintenance investments as well as the continuation of the expansion in emerging nations and investments in a new specialty magnesium plant in the USA. Individual details are discussed above in the section "SKW Metallurgie invests in the future". In addition, in December 2010 an agreement for the acquisition of a calcium carbide plant in Sweden was signed. Closing was on February 1, 2011, and this is thus only included in the cash flow for 2011.

In total, there was practically no difference in the cash flow from financing activities in the year under review (EUR 11.6 million) and the previous year (EUR 11.2 million). However there are significant differences in the summands between the year under review and the previous year:

- A capital increase was performed in the previous year, which resulted in net proceeds of EUR 23.5 million. There was no comparable item in 2010.

- During the year under review there was a significant increase in borrowing. This mostly relates to liabilities to banks. More liabilities to banks were taken out during the year under review (EUR 30.4 million in 2010 compared to EUR 4.1 million in the previous year), and bank loans of EUR 17.2 million were repaid (previous year: EUR 14.0 million), with the result that bank lending increased by EUR 13.2 million in the year under review (previous year: downturn of EUR 9.9 million).

Cash and cash equivalents at the start of the year amounted to EUR 11.1 million (previous year: EUR 9.6 million) and included cash on hand and current bank balances. The change in cash and cash equivalents (including currency translation) totaled EUR -0.1 million (previous year: EUR 1.5 million), thus resulting in cash and cash equivalents at the end of the period of EUR 11.0 million (previous year: EUR 11.1 million).

6.10. SKW Metallurgie Group's liquidity continues to be secure

In the SKW Metallurgie Group, gearing (net financial debt to equity including non-controlling interests) on the balance sheet date totaled 38.7% (previous year: 30%); this thus continues to be a very low level of debt for a manufacturing company. The ratio of net financial debt to EBITDA totaled 1.64 on December 31, 2010 (the previous year's figure is not meaningful as EBITDA < 0), underscoring the SKW Metallurgie Group's financial prowess.

The SKW Metallurgie Group's existing external borrowing has been concluded under terms in line with the market, including sufficient credit lines in the event of a further need for borrowing. Details of the interest on borrowing, which also includes the currency of the respective loan, can be found in the notes to the consolidated financial statements (Note D26); changes to the general interest level can also lead to changes in the average interest rate for the SKW Metallurgie Group.

Further information, see note D26

SKW Stahl-Metallurgie Holding AG and its subsidiaries had sufficient liquidity at all times during the year under review. This also applies unchanged to all foreseeable transactions in 2011 and 2012. If individual lines of credit which expire in 2011 and 2012 are not extended, in contrast to expectations, this can be more than compensated for by using other lines.

The SKW Metallurgie Group has long-standing relationships with several international banks and is in constant discussions with these banks. In addition, the group is consistently expanding its solid relationships with local banks, with whom it has not yet had any significant dealings as a customer, in order to combat the increased requirements stemming from the group's growth, and to avoid too great a dependency on any individual bank.

Successful partnerships with leading banks for the long term secure sufficient credit facilities

There are incidental contractual agreements for several of the SKW Metallurgie Group's credit agreements – so-called financial covenants. No financial covenants were breached in business year 2010, and the Executive Board believes that this is also not to be feared for 2011 or the following years.

6.11. Central financial and liquidity management

In order to secure liquidity for each individual group company, external borrowings, Group-wide financial and liquidity equalization and interest rate, exchange rate and raw material price risks were coordinated centrally by the Group parent company in the year under review, as was also the case in the previous year. As part of this centralized financial planning, rolling projections and short-term liquidity forecasts were carried out.

To secure SKW Metallurgie's financial stability and flexibility, the Group aims to strike a balance between equity and borrowing. In so doing, the expected returns of the shareholders and the rating requirements are taken into account. At the end of 2009, equity was significantly reinforced by the issue of almost 2.2 million new ordinary shares from authorized capital. At the end of the period under review, the equity ratio (including non-controlling interests) totaled 44.3% (previous year: 47.1%). 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 as well as the concrete conditions at which the parent company as well as other group companies are offered additional equity and borrowing shows, even without a formal rating, that the financial and capital markets believe the group is highly creditworthy.

Natural hedge vis-à-vis operational currency risks as a strength of the SKW Metallurgie Group

Exchange rate risks arising from the Group's operating activities (**transaction risk**) were reduced by natural hedging, e.g. by entering into purchase and sale transactions in the same foreign currency. Group companies also hedged any exposure arising from the relevant foreign-currency forecasts at specific points after consulting Group management. On the balance sheet date, the Group had currency forwards and swaps in this connection. The future cash flows from long-term financing (interest rate risk) were hedged using an interest rate swap.

The risks entered into for the group with the derivative financial instruments are of a minor size. The SKW Metallurgie Group uses derivative financial instruments exclusively to hedge transactions, the Group thus does not engage in financial speculation. The primary hedging aim is to hedge interest rate risks and those parts of transactional currency risk that cannot be covered by natural hedging.

The **translation risks**[10] that result from the translation of financials from subsidiaries in non-eurozone countries to the group's currency (euros) are not hedged. The most important currencies for the Group by far were its reporting currency (euro) and the US dollar. Other key currencies for the Group include the currencies for the non-eurozone countries in which the company has operating companies (Mexico, South Korea, Japan, China, India, Brazil and Canada and, from 2011, Sweden) or where production facilities are being constructed (Russia, Bhutan[11]).

Possible borrowing requirements in the future are secured at market interest rates through corresponding credit lines with several international banks for both the Group's parent company and directly or indirectly for all Group subsidiaries. In the SKW Metallurgie Group, the parent company and several major subsidiaries have their own credit lines with banks. Some of the existing lines of credit are current (term of less than one year). If individual lines of credit which expire in 2011 and 2012 are not extended, in contrast to expectations, this can be more than compensated for by using other lines. This means that follow-on financing is secure in any event.

Thanks to active financial management, coordinated and managed by the group's parent company, existing funds, or funds procured via the external credit lines mentioned above and which the respective group company does not need, are used in group companies that have additional liquidity requirements and where the capital employed generates an optimum return by using intra-group loans.

7. SKW Stahl-Metallurgie Holding AG – Single Entity Financial Statements in accordance with the Handelsgesetzbuch (HGB – German Commercial Code)

7.1. Earnings position for the group's parent company

SKW Stahl-Metallurgie Holding AG is the SKW Metallurgie Group's parent company and acts as a financial holding company.

The Company is an Aktiengesellschaft (joint-stock corporation) under German law. During the year under review, its shares were traded on the Prime Standard (segment with the highest transparency requirements) of the Frankfurt Stock Exchange in Frankfurt/Main (Germany) in the XETRA trading system, and on other stock exchanges. As a result, unaudited Group interim reports were drawn up and published at the end of the first, second and third quarters in the year under review.

10 When translating items in the income statement, average exchange rates are used. Closing rates are used for assets.

11 The Bhutanese currency is pegged 1:1 to the Indian Rupee.

At SKW Stahl-Metallurgie Holding AG, business year 2010 was characterized by the positive growth of the group's subsidiaries and second-tier subsidiaries. Their expansion into emerging nations was successfully continued during the year under review, and also as described at a group level. As a result of the expansion of the subsidiaries and second-tier subsidiaries, consulting activities by the parent company SKW Stahl-Metallurgie Holding AG have also increased.

As of the balance sheet date, the Company held direct investments in ten companies. These were the following companies (listed alphabetically):

- SKW France S. A. S., Solesmes (France)
- SKW Hong Kong Co. Ltd. in Hong Kong (Chinese special administrative region of Hong Kong),
- SKW Metallurgie USA Inc., Wilmington DE (USA)
- SKW Metallurgy Sweden AB, Sundsvall (Sweden)[12]
- SKW Quab Chemicals Inc., Wilmington DE (USA)
- SKW Service GmbH, Unterneukirchen (Germany)
- SKW Stahl-Metallurgie GmbH, Unterneukirchen (Germany)
- SKW Tashi Metals&Alloys Private Ltd., Phuentsholing (Bhutan)
- SKW Verwaltungs GmbH, Unterneukirchen (Germany).
- Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, Sete Lagoas (Brazil)

The new additions compared to the previous year are SKW Metallurgy Sweden AB, Sundsvall (Sweden), which includes the calcium carbide plant in Sweden and the associated sales activities which were acquired from AkzoNobel as of February 1, 2011, and SKW Service GmbH, Unterneukirchen (Germany), which bundles various central group services.

Quab Chemicals Belgium BVBA, Hasselt (Belgium) no longer forms part of the group, as it is no longer required to process the Quab sales activities on the European market.

SKW France S.A.S. (France) and SKW Metallurgie USA Inc. (USA) have several direct and indirect subsidiaries which are thus second-tier subsidiaries of SKW Stahl-Metallurgie Holding AG. SKW Stahl-Metallurgie GmbH (Germany) has two direct participating interests (of which one 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.[13] 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 generate any revenues. It only capitalizes own work to a minor extent. Other operating income in the year under review totaled EUR 3.7 million (previous year: EUR 3.1 million). This includes income from foreign currency translation as well as income from group transfer agreements with subsidiaries as well as other oncharged costs. During the year under review, the activities of SKW Stahl-Metallurgie Holding AG were further expanded. This was due, in particular, to the group's growth as well as the increased complexity of tasks at all of the group companies.

12 The company was renamed in January 2011; former name: Goldcup 6165 AB.

13 An accredited representative office for non-Russian companies is based on the "Regulations for Opening and Operating an Accredited Representative Office in the USSR by Foreign Companies, Banks and Organizations", which came into effect by way of Decree 1074 by the Council of Ministers of the Union of Soviet Socialist Republics dated November 30, 1989, which continues to apply in Russia.

Parent company as finance holding without revenues of its own; dividends from affiliate companies in 2010 significantly higher than in crisis-ridden 2009

SKW Stahl-Metallurgie Holding AG's personnel expenses increased substantially in business year 2010 to EUR 4.0 million (previous year: EUR 1.1 million). These personnel expenses include remuneration for two members of the Executive Board[14], as well as remuneration for employees who are not representatives of the company's executive bodies. Remuneration to members of the Executive Board, including expenses for stock option programs and pension benefit commitments totaled EUR 3.2 million (previous year: EUR 0.6 million). This increase reflects the substantial improvement in the SKW Metallurgie Group's earnings compared to the previous year (increase in variable remuneration) and the transition to the new remuneration system for the Executive Board approved by the General Meeting on June 9, 2010 with a large majority (including the introduction of a pension benefits system for the Executive Board). The increase in the size of the Executive Board to three members only came into effect in 2011 and thus did not impact the 2010 figures.

Employees who are not representatives of the executive bodies accounted for EUR 0.8 million (previous year: EUR 0.5 million). This increase is due, in particular, to the increased number of employees and the increased variable remuneration components.

The number of employees on the balance sheet date (without the Executive Board) increased from six (2009) to eleven (2010).[15] This fluctuation in the number of employees is a key non-financial performance indicator and continues to be very low. During the year under review just one employee left the company. The company's six new employees include an employee who has changed from another group company, a "mini-job" employee who has become an employee with full social security payment requirements; the remaining four employees were successfully recruited from outside the group.

In addition to minor write-downs, the single-entity financial statements for SKW Stahl-Metallurgie Holding AG include other operating expenses of EUR 4.4 million (previous year: EUR 2.3 million). In particular, SKW Stahl-Metallurgie Holding AG's tasks were more extensive and complex in the year under review, which is also reflected in an increase in external consulting expenses to EUR 1.2 million (previous year: EUR 0.9 million).

The net income from participating interests for the parent company SKW Stahl-Metallurgie Holding AG includes the dividend payments for SKW France S.A.S (interim holding company for the group's cored wire) in the amount of EUR 4.0 million (previous year: EUR 2.0 million) and Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A in the amount of EUR 3.1 million (previous year: EUR 0).

In addition, the profit and loss transfer agreement with the subsidiary SKW Stahl-Metallurgie GmbH in the year under review led to a profit transfer in the amount of EUR 0.3 million (previous year: EUR -1.1 million).

The financial result for the year in 2010 was EUR 0.6 million (previous year: EUR 1.0 million). The earnings side includes, in particular, interest income from the intra-group financing of subsidiaries and second-tier subsidiaries (EUR 1.2 million compared to EUR 1.1 million in the previous year). The expense side includes, in particular, interest expenses for banks in the amount of EUR 0.5 million (previous year: EUR 0.1 million). The increased bank interest is due, in particular, to an increase in the company's non-current bank loans. The funds drawn down are used to finance the SKW Metallurgie Group's high-growth projects.

The result from ordinary operating activities totaled EUR 3.1 million, and is significantly higher than the previous year's figure (EUR 1.4 million); this is due, in particular, to the additional income from participating interests from the Brazilian company Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A and the substantial increase in income from participating interests for SKW France S.A.S., which includes a large proportion of the SKW Metallurgie Group's cored wire activities.

14 Remuneration for members of the Supervisory Board is not recorded as personnel expenses, but as other operating expenses.

15 Without employees in "mini job" (according to German law).

Taking into account the tax result, the net income for the year for SKW Stahl-Metallurgie Holding AG (earnings after taxes) in the year under review totaled EUR 3.1 million (previous year: EUR 1.5 million).

SKW Stahl-Metallurgie Holding AG's net retained profits totaled EUR 5.3 million (previous year: EUR 2.2 million). Net retained profits include the net income and also the profit carried forward from the previous year in the amount of EUR 2.2 million. A central income-related indicator for the single entity SKW Stahl-Metallurgie Holding AG is the ability to pay dividends, which is expressed in the amount of the proposed dividend. A dividend of EUR 0.50 (previous year: EUR 0) per dividend-entitled share is to be proposed to the General Meeting for 2010 in 2011.

Net earnings of parent company amount to EUR 5.3 mill.; proposed dividend would lead to a disbursement of EUR 3.3 mill.

7.2. Proposed dividend follows on from excellent operating growth

The Executive and Supervisory Boards have resolved to make a proposal to the General Meeting for business year 2010 (payment in 2011) to pay a dividend of EUR 0.50 per dividend-entitled share.

This resolution ensures that the owners enjoy a reasonable participation in the company's economic success. As a result of the fact that 2009 was marred by the economic and financial crisis, no dividend was paid in 2010, in line with the proposal by the Executive and Supervisory Boards and following a resolution by the General Meeting. This means that dividends will be paid for the first time in 2011 for the new shares issued as part of the capital increase in December 2009. Assuming an unchanged number of 6,544,930 dividend-entitled shares, the dividend proposed by the Managing and Supervisory Board means that, if this is accepted by the General Meeting, EUR 3.3 million will be disbursed as a dividend.

7.3. Net assets at the group's parent company

The total assets of the parent company SKW Stahl-Metallurgie Holding AG amounted to EUR 97.7 million as of December 31, 2010 and thus increased by EUR 32.8 million compared to the previous year (EUR 64.9 million). The equity ratio as of the balance sheet date was 66.4% (previous year: 95.1%). Despite this significant reduction in the equity ratio, the Executive Board believes that the company's financing continues to be secure over the short and long term.

On the assets side, non-current assets increased year-on-year from EUR 49.0 million to EUR 65.3 million. This includes, in particular, the participating interests in affiliated companies as well as loans to affiliated companies.

The carrying amounts for the interests in affiliated companies on the balance sheet date increased from EUR 12.7 million to EUR 35.3 million. Of this total, EUR 23.1 million (previous year: EUR 0.6 million) is due to the Brazilian company Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A. This increase in the carrying amount is mostly due to the capitalization of intra-group loans.

A strategic partner[16] holds an interest of less than 50% in each case in SKW Quab Chemicals Inc. (USA), Tecnosulfur (Brazil) and SKW Tashi Metals&Alloys Private Ltd. (Bhutan); all of the other direct participating interests are fully owned by SKW Stahl-Metallurgie Holding AG.

Loans to affiliated companies on the balance sheet date totaled EUR 29.3 million and were thus changed only slightly compared to the previous year (EUR 36.3 million).

Current assets increased substantially from EUR 15.9 million to EUR 32.3 million. The key items of current assets include receivables from affiliated companies, which increased signifi-

16 This partner is a member of the management (private individual) for SKW Quab Chemicals Inc. and Tecnosulfur), and at SKW Tashi Metals&Alloys Private Ltd. is a long-standing Bhutanese business partner of the SKW Metallurgie Group (legal entity).

Continued high balance-sheet stability of parent company

cantly from EUR 8.4 million to EUR 22.5 million. This increase is due, in particular, to a newly issued intra-group loan of USD 13.5 million to the US second-tier subsidiary ESM Group Inc.

It also includes cash and cash equivalents (cash in hand, bank balances) which fell from EUR 7.2 million in the previous year to EUR 4.7 million.

The company's equity totals EUR 64.9 million (previous year: EUR 61.8 million). Provisions increased substantially from EUR 0.8 million to EUR 2.6 million; this relates primarily to personnel-related provisions (variable remuneration components, pension commitments), which relate, in particular, to members of the Executive Board.

In liabilities, liabilities to banks have increased significantly from EUR 0.8 million to EUR 23.5 million. These additional funds have been used, in particular, to issue intra-group loans and to finance the SKW Metallurgie Group's high-growth projects. Liabilities to affiliated companies have also increased (from EUR 1.4 million to EUR 6.1 million); of this total EUR 5.3 million are due to funds not yet paid in in connection with the capitalization activities for the Brazilian subsidiaries Tecnosulfur resolved on December 17, 2010.

7.4. Financial position at the group's parent company

The company's debt has increased substantially (in particular gross liabilities to banks from EUR 0.8 million to EUR 23.5 million). In spite of this, however, the Executive Board believes that the group's parent company's financial position is still stable, as the liabilities are offset on the assets side by unimpaired participating interests in group companies and receivables with first-class credit ratings, in particular from affiliated companies.

7.5. Accounting processes at the group's parent company

SKW Stahl-Metallurgie Holding AG attaches great value to professional standards in its internal accounting process. This includes the internal control system (ICS). The group's parent company, SKW Stahl-Metallurgie Holding AG, however, is characterized by a low level of standardization. That means that there is a relatively low number of transactions, however most of these transactions relate to complex individual issues. In order to ensure a reasonable amount of internal controls and risk management in spite of this, the company has included clear deadlines and responsibilities in its operational and organizational structures. The principle of dual control applies to all transactions, in particular to the release of payments. Otherwise, accounting at the group's parent company is included in the group-wide control system described in Section 12.6.

8. Research and development to future-proof the group

R&D remain an important USP of the SKW Metallurgie Group

Research and development are key strategic unique selling points for the SKW Metallurgie Group and help to grow the technically demanding consulting for customers and to develop new products. That is why 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. Operating activities in these networks are controlled by the group's research center in France, with strategic activities controlled by the group's headquarters in Germany There were eight employees on the balance sheet date in the group's research center alone, who work closely together with laboratories, external research institutions and customers.

During 2007, the innovative Affival product, PapCal (which has already been launched successfully), was further developed within this network according to customer specifications in order to make it useable for additional applications. The globally patented PapCal cored wire is only marketed under the product brand "Affival," whose basic concept is to provide a delayed melting of the steel shell encasing the powder. This enables the cored wire to penetrate deeper into the liquid steel, which in turn leads to a more even dissemibation of the substance to be added.

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

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.

9. 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 increasingly involved in developing countries and emerging economies, and believes that it has a special responsibility here. At the same time, the Group is of the conviction that it makes a positive contribution to the development of these countries through its commitment.

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

Consequent application of Western environmental and safety standards for new plant in Bhutan

At the SKW Metallurgie Group's new plant in Bhutan, key environmental and safety standards are consistently applied. A manager with international experience has been deployed to Bhutan for HSEQ (health, safety, environment, quality).

Raw materials for the production and finished products of the SKW Metallurgie Group are transported worldwide. The carriers employed for this are predominantly outside the Group. The Group carefully selects its logistic partners, but the fundamental 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 ship where possible, thus contributing to the reduction of CO_2 emissions from road transport and thus global environmental protection.

The SKW Metallurgie Group also places a high emphasis on sustainability and reducing harmful emissions in the case of electricity consumption. For example, one of the reasons for selecting the location for the new calcium-silicon production plant, which requires large amounts of electricity, was the fact that electricity for the plant in Bhutan stems exclusively from renewable energy sources (here: hydroelectric).

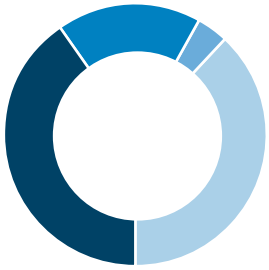
The SKW Metallurgie Group is a leading global specialty chemicals group, and actively participates in the European REACH process. REACH is based on a European Union regulation (EC 1907/2006) on chemicals and their safe use which came into effect on June 1, 2007 and stands for Registration, Evaluation, Authorization and Restriction of CHemical Substances. 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.

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

10. Motivated employees as a success factor

10.1. Highly international employee structure

Global employees



- USA / Canada
- EU without Germany[18]
- Germany
- Rest of World

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

The number of employees increased in both the 2010 and 2009. In 2009 this was due, in particular to the acquisition of the Brazilian company Tecnosulfur and re-hires after the economic and financial crisis. Employees have been hired in Bhutan in particular since the end of 2010. At the end of the business year, the SKW Metallurgie Group (without the Indian company Jamipol) had 790 employees (previous year: 715). Of this total around 97% are employed in countries other than Germany. Most of these are full-time employees.[17] However, the Group is fundamentally amenable to the concept of part-time employment, also for a better balance between work and family life. The majority of employees at the production sites are industrial workers.

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

	Cored Wire	Powder and Granules	Other	Total
USA/Canada	72	245	3	320
Mexico	23	0	0	23
Brazil	0	161	0	161
Bhutan	32	0	0	32
East Asia (without Bhutan)	33	50	0	83
France[18]	140	0	0	140
Germany	0	17	14	31
Total	**300**	**473**	**17**	**790**

A key proportion of the SKW Metallurgie Group's workforce is employed in the USA and Canada. Particularly high importance is attached to a discrimination-free work environment in these countries; this issue is also becoming increasingly important in Europe. That is why the entire SKW Metallurgie Group emphasizes the equal opportunity employer principle.

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

18 Including a small number of employees in Russia, who are preparing the opening of the new plant and the associated sales activities.

This means that, notwithstanding 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 treatment of the genders and is also otherwise in favor of a diverse workforce.

A key diversity aspect is equal opportunities for both genders. The German lobby group FidAR (Frauen in die Aufsichtsräte – Women on Supervisory Boards) published a list of all 160 German companies in stock market indices, showing the percentage of women in the Executive and Supervisory Boards (not counting employee representatives). The SKW Metallurgie Group took fourth place in this ranking, and, in particular, it is the only company in the peer group with a woman as CEO. Even below the Executive and Supervisory Boards, the SKW Metallurgie Group also pays attention to ensuring that both genders are reasonably represented at all levels. However, this also takes into account whether there are female applicants available on the market with corresponding qualifications (e.g., metallurgy graduates or similar).

All in all, the situation at the SKW Metallurgie Group can be described as follows:

- In many cases, industrial employees (production) are men.
- In addition, higher-level positions that are highly technically oriented (e.g., metallurgy application technicians) are also mostly staffed by men, as there are only very few female applicants.
- However, there is a balanced mix of both genders for all of the other positions in the SKW Metallurgie Group. In particular, there are many women in key positions, e.g., as CFO for a cored wire company (USA), managing director of a cored wire company (South Korea) and Head of Legal (Group headquarters in Germany).

10.2. Market-oriented compensation systems

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

Social benefits of employees of the SKW Metallurgie Group partially extend beyond legal minima

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 risk above and beyond the minimum statutory requirements. For example, some of the German group companies' employees and members of the Executive Board have employer-financed commitments for a company retirement benefit plan. The commitments made in this regard are covered by provisions for pensions.

In the USA, a large number of employees are offered protection against healthcare and retirement risk, e.g. for retirement in the form of a standard local 401 (k) plan. Insuring healthcare costs in the USA is a key, costly social benefit, which the SKW Metallurgie Group uses to underscore its responsibility to its employees. All the costs arising from this for the Group are incurred directly and do not lead to unsecured obligations in future periods. Further details of the provisions for pensions can be found in the notes to the consolidated financial statements in Note D23.

Further information, see note D23

10.3. Successful partnership with employees

SKW Stahl-Metallurgie Holding AG is the parent company of the SKW Metallurgie Group, and in the year under review it was not subject to co-determination because it was not subject to the general co-determination acts as a result of its employee numbers, nor were any of the German group companies an iron or steel producing operation within the meaning of the Montanmitbestimmungsgesetz. The Company did not voluntarily participate in any co-determination in 2010 either. At the end of the day, this means that all of the members of the Supervisory Board represent the shareholders and there are no shareholder representatives in this body.

Some local employee and union representatives were active in the SKW Metallurgie Group 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 – Act on European Works Councils) in the year under review. Overall, there were no cross-border employee representative bodies within the Group in 2010. There is also no (German) Group Works Council in the SKW Metallurgie Group.

Furthermore, in the SKW Metallurgie Group in the year under review 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.

During the year under review, there was one accident at work at the cored wire plant in France. The employee of a time-work agency involved was seriously injured. Otherwise, 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, the working climate in the SKW Metallurgie Group is characterized by mutual respect and trust.

10.4. Employees directly share in corporate earnings

Through variable remuneration components, employees participate in the success of the SKW Metallurgie Group

The Executive Board of the SKW Metallurgie Group welcomes employee investment in the Company's share capital. The shareholders also supported the introduction of an employee equity participation program by passing authorization to acquire treasury shares – including for issue to employees – with a substantial majority (expired in December 2010). However, to date the company has not launched its own employee equity participation program over and above a share-price based remuneration component for the members of the Executive and Supervisory Boards and a few other executives. The fact that the workforce spans a large number of jurisdictions and language zones and the high proportion of industrial employees would result in relatively high transaction costs for a general employee equity participation program.

However, most employees receive additional performance-related payments in line with corresponding statutory or contractual provisions, and thus participate directly in the commercial success of the Company. During the year under review, these variable remuneration components were correspondingly higher than in 2009 (bonuses 2010: EUR 5.4 million; 2009: EUR 0.6 million).

10.5. Positive working environment

Employee fluctuation among the SKW Metallurgie Group's core workforce is very low (less than 10% in 2010 and 2009), not including the employer-initiated lay-offs as a result of the economic and financial crisis (in particular in Mexico and the USA) at the end of 2008 and at the start of 2009. However, these lay-offs were only temporary. Once demand for the SKW Metallurgie Group's products increased from the second half of 2009, experienced employees were re-hired.

The high affinity of the workforce to the SKW Metallurgie Group is a key non-financial performance indicator, and confirms the management's philosophy of creating an attractive working environment to secure a competitive advantage for the group thanks to its satisfied employees.

Well-educated employees are a key factor in the SKW Metallurgie Group's success. In this regard, the group's companies work closely together with metallurgy-oriented universities, e.g., the French Institut National Polytechnique de Lorraine. Subject-area based doctoral projects are also supported and promoted by the group's employees. The continued and further education of the entire workforce, including management, is an integral part of the SKW Metallurgie Group's corporate philosophy.

10.6. Supervisory and Executive Boards are judged by results

The compensation structures in the entire SKW Metallurgie Group are governed by the principles of appropriateness, performance and transparency. This primarily applies to compensation for the Executive Board and Supervisory Board. The Executive and Supervisory Boards consciously did not make a proposal to the General Meeting to use the option offered in the German Commercial Code (HGB) to waive detailed disclosure of the Executive Board's remuneration.

According to the provisions of the German Commercial Code (HGB), the management report must include an outline of the company's remuneration system for members of its Executive and Supervisory Boards. More detailed information, in particular on the concrete expenses in business year 2010, can be found in the remuneration report, which is part of the Corporate Governance Report.

Outline of remuneration for the Supervisory Board

The basic structures for remuneration of SKW Stahl-Metallurgie Holding AG'S Supervisory Board are as follows:

- According to Article 12 of the Articles of Incorporation, members of the Supervisory Board are reimbursed for their out-of-pocket expenses. During the period under review, this related to travel and entertainment costs, which were refunded at most using the amounts included under German income tax law.

- In addition, during the year under review the Company bore the cost of D&O insurance, which protects members of the Executive and Supervisory Boards and other executive members of the Group. This comprised two policies (basic cover and additional cover). According to the regulations of the German Corporate Governance Code, during the year under review, a deductible was included in the D&O insurance for both the members of the Executive Board and also the members of the Supervisory Board in the amount of 10% of the damage up to one and a half times their fixed annual remuneration.

Key elements of Supervisory Board remuneration adopted by the AGM of June 4, 2009 by significant majority

- There are no advances, loans or contingent liabilities to the benefit of the members of the Supervisory Board.
- The Chairman of the Supervisory Board and the law firm for which he works also advise the SKW Metallurgie Group. These consulting activities already commenced before he was elected as Chairman of the Supervisory Board, and were approved by the Supervisory Board after he commenced his activities on the Supervisory Board in line with Section 114 of the Aktiengesetz (AktG – German Public Limited Companies Act).
- There are no benefit commitments by the company for current and former members of the Supervisory Board and their survivors.
- No remuneration is paid for replacement membership of the Supervisory Board.
- The other remuneration components are stipulated in the resolution by the General Meeting dated June 4, 2009. This resolution includes fixed annual remuneration of EUR 10,000 per member (EUR 12,500 for the Deputy Chairman and EUR 15,000 for the Chairman) per year, and variable remuneration of a lower amount and meeting fees for participation in meetings of the committees.

Outline of remuneration for the Executive Board

Pursuant to approval by the AGM 2010: New remuneration system for Executive Board successfully implemented effective July 1, 2010

During the entire business year, the Executive Board comprised Ines Kolmsee (CEO) and Gerhard Ertl (CFO).

In view of the changes to the AktG as a result of the introduction of the *Gesetz zur Angemessenheit der Vorstandsvergütung* (VorstAG – German Act on the Suitability of Executive Board Remuneration), the Supervisory Board's remuneration committee made proposals to the company during the year under review to redesign the management remuneration system. It initiated a review of these proposals in view of their conformity with the VorstAG and it prepared a proposal for a resolution by the Supervisory Board. The Supervisory Board resolved to restructure the remuneration system and presented the new system to the General Meeting on June 9, 2010 for approval within the meaning of Section 120 (4) of the AktG.

Remuneration of the members of the Executive Board continues to be based on their tasks and the individual contributions that each member of the Executive Board makes to the overall success of the group. Additional factors include the company's size and activities, its economic and financial position and the amount and structure of executive board remuneration at comparable companies.

The re-designed remuneration system aims to go beyond fulfilling the statutory requirements and maintaining excellent corporate governance to ensure that the SKW Metallurgie Group is also competitive on the market for highly qualified executives with regard to the remuneration of its Executive Board, and to create incentives for performance-oriented work that is successful over the long-term.

After the approving vote by the Annual General Meeting on June 9, 2010 on the new remuneration system for the Executive Board, new employment contracts were concluded with both members of the Executive Board with effect from July 1, 2010. At the same time, all of the previous contracts and agreements, with the exception of the ongoing stock option contracts, were withdrawn. The new contracts also include regulations on compensation payments and pension benefits.

According to this new structure, the Executive Board's remuneration comprises the following key components:

- Fixed compensation
- Variable compensation (broken down into short and long-term bonus)
- Non-cash compensation (company car)
- Health and nursing care insurance (subsidy)
- Employer-financed company retirement benefits (pension commitments)

The fixed compensation and the short and long term bonuses are proportionate, i.e., they each account for one third of total remuneration without pension commitments and other remuneration.

The above main components are explained in more detail below:

The annual **fixed remuneration** is defined for the entire period that a member of the Executive Board holds their office, and is calculated for each year commenced as a non-performance related component on a pro rata basis and paid monthly as a salary.

The variable remuneration comprises two components, which are referred to as the short-term incentive (STI) and long-term incentive in line with their nature as an incentive. The maximum total for each of the two components equals the fixed remuneration, with the result that even in the event of the maximum possible variable remuneration, the fixed salary cannot be more than tripled. The variable remuneration is calculated for each year commenced, or on a pro rata basis for LTI periods that have been commenced.

Collective and individual targets are agreed with regard to the STI. The collective targets are the same for both members of the Executive board, and are based on the annual targets from the SKW Metallurgie Group's financial forecast. The collective targets include, to an equal extent, achieving the forecast EBT and gross cash flow. The individual performance of each member of the Executive Board, or the extent to which they reach their targets, is determined after the end of the business year via a performance assessment by the Supervisory Board. This is limited to 100% of the total target, with the result that the annual variable remuneration can be between a minimum of 0% and a maximum of 100% of the target amount set.

Modern incentive structures for members of the Executive Board support management in shareholders' interest

The former phantom stocks will be replaced by a new long-term bonus (LTI) from 2010. This means that rights already acquired will continue in line with the conditions of the plan. No new rights will be issued. The new LTI will be set up on a rolling basis each year. This is a cash-based plan. The payout amount is geared to the degree to which targets are reached for the forecast return on capital employed (ROCE) over three years. A period of two years has been agreed for the first LTI period. The target ROCE has been defined by the Supervisory Board for the coming and the two following years in each case based on the budget forecast. The LTI is only paid if the ROCE is at least 70% of the average of the defined targets over the period. If a target figure is less than 70% in one year, this can be compensated by a correspondingly high ROCE in the following years. If sufficient ROCE is achieved in the first two years of a tranche, the member of the Executive Board is entitled to payment of the partial bonus due to this year irrespective of whether the ROCE target is achieved in following years. The LTI is restricted to the amount of the individual target if the target is 100% met for the average three-year ROCE (or two years for the first LTI period). At least 50% of the LTI net payout must be invested in SKW Metallurgie shares on the payout date. These shares must be held for at least two years. The first LTI period ends on December 31, 2011 and is due for payment in 2012.

The members of the Executive Board also have a company car, which they can also use privately. This in-kind compensation is subject to taxation as a in-kind benefit for income tax purposes.

The members of the Executive Board are entitled to subsidies for healthcare and nursing insurance in line with the provisions of the Sozialgesetzbuch (German Social Code).

There were employer-financed company retirement benefits for members of the Executive Board in the year under review. After reaching the age of 62, the participants are entitled to a life-long pension. The amount of the monthly retirement benefits totals 40% of the monthly fixed salary received by the member of the Executive Board prior to the start of benefits. The maximum entitlement is reached when the third period of office has been completed and totals a maximum of 60% of the monthly fixed salary received prior to the start of benefits.

The company increases the ongoing benefit payments by 1% each year in line with statutory requirements. No other adjustments are made.

The benefit commitments include the possibility of early retirement benefits from the age of 60 (with a corresponding reduction in the benefit payment) and pensions for reductions in earnings capacity and for surviving dependants. The benefit commitments are contractually non-lapsable (irrespective of the date the Executive Board member leaves the company). According to statutory provisions, the benefit commitments are secured against insolvency on the part of the company with the pension insurance association; the company bears the costs of insolvency insurance.

Detailed amounts of the remuneration of the Executive Board may be found in the remuneration report, which is published in the Annual Report as part of the Corporate Governance Report

The following compensation agreements have been reached with the members of the Executive Board:

In the event that a member of the Executive Board is dismissed from the company's Executive Board (with the exception of extraordinary termination by the Company), such member of the Executive Board is entitled to compensation. This amounts to twice the amount of the last fixed annual salary for each full period of two years that this person was a member of the company's Executive Board. It is limited to at most two maximum annual total salaries (fixed and variable remuneration) and to the maximum total remuneration (fixed and variable remuneration) for the remaining period of the contract.

In the event of a change of control of the company, the members of the Executive Board have extraordinary termination rights. If these extraordinary termination rights are exercised, the compensation rules for the event that they are dismissed apply accordingly, to the extent that the member of the Executive Board does not receive comparable payments from a third party in connection with the change of control.

In addition, a prohibition on competition for the period after the end of the employment contract for a maximum of two years has been agreed. In this regard, each member of the Executive Board is due maximum compensation in the amount of their last fixed annual salary (pro rata).

Other remuneration is structured as follows:

As a rule, the members of the Managing Board of an Aktiengesellschaft (German joint-stock 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 Executive Board receive social and marginal in-kind benefits (e.g., accident insurance protection) to the extent required by law in Germany or standard for com-

parable employees. This relates exclusively to payments that do not constitute income under German income tax law, or which are subject to lump-sum taxation.

During the year under review, the members of the Managing Board were reimbursed for their necessary travel and entertainment expenses up to the maximum amount under German income tax law.

In addition, the Company bore the cost of D&O insurance, which protects members of the Executive and Supervisory Boards and other executive members of the Company. This comprised two policies (basic cover and additional cover). According to the regulations of the German Corporate Governance Code, during the year under review, a deductible was included in the D&O insurance for both the members of the Executive Board and also the members of the Supervisory Board in the amount of 10% of the damage up to one and a half times their fixed annual remuneration.

At some non-European subsidiaries (including the Indian company Jamipol), the members of the Executive Board were previously entitled to remuneration from the respective company for the offices they held with these companies. These payments are to be waived in future. If it is not possible to waive these payments, the payments are to be netted with remuneration for activities as a member of the Executive Board of the parent company.

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

There are no pension benefit commitments for members of the Executive Board or Supervisory Board who have already exited the company or their surviving dependants.

11. Report on events after the balance sheet date

After the end of the year under review on December 31, 2010, there were no transactions and events of significance to the Group which occurred before this management report went to print:

- On February 1, 2011 the acquisition agreement signed during the year under review for the Swedish calcium carbide plant belonging to the AkzoNobel Group was successfully closed.
- The calcium silicon furnace at the new plant in Bhutan was inaugurated on March 3, 2011.

Vertical integration successfully continued after the end of the reporting year

12. Report on opportunities and risks

12.1. Professional risk and opportunity management for the highest level of 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 accepted elements 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 risks. The SKW Metallurgie Group

aims to achieve a neutral risk position with an appropriate risk/reward balance. The Group's risk policy is geared towards systematically and continuously increasing the enterprise value. This is to be achieved with the help of a value-oriented management approach and an active portfolio management, particularly of the product portfolio.

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

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

Further elements of risk management include 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 once per quarter.

Professional risk management system further expanded

The 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 make sure that the executive bodies of the parent company receive up-to-the-minute information. This system's standard reports include a weekly report (in particular on revenues and liquidity) and a more extensive monthly report. As part of these reports the risk management information stored in the system is reported regularly to the Executive Board, which passes on the relevant issues to the Supervisory Board straight away. In addition, when an individual risk is identified, an immediate report must be submitted to the Executive Board as soon as the respective risk exceeds a predetermined threshold. This threshold is when a risk amounting to at least 20% of the respective Group company's standard net income exists while there is a 30% likelihood of the risk occurring.

All the rules and processes for risk management in the SKW Metallurgie Group are regularly reviewed by an internal risk manager and adapted if necessary. 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.

12.2. Presentation of individual risks for the SKW Metallurgie Group

As a result of the SKW Metallurgie Group's extensive risk management system and the evaluation of various sources outside the company (e.g. forecasts by economic research institutes), in particular the business policy risks detailed below were identified for SKW Stahl-Metallurgie Holding AG and its group companies (SKW Metallurgie Group). The order in which the risks are presented in the following section 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 Group or that the Group currently considers to be immaterial could also have a significant

impact on the Group's operations and a long-term detrimental effect on the business prospects and the net assets, financial position and results of operations of the SKW Metallurgie Group. In addition, the risks are presented as gross risks; however the respective net risk for some of the risk factors is significantly lower than the gross risk thanks to suitable activities (e.g., insurance).

Economic risk

SKW Metallurgie Group emphasizes value added as a premium supplier for its clients

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 Group's business situation. These customer industries are exposed to economic fluctuations that indirectly affect the SKW Metallurgie Group. For example customers could be lost, for example as a result of insolvencies. It is also possible that customers could reduce their volume of business with the SKW Metallurgie Group, for example as a result of aggressive price policies by local competitors (e.g., from China). These local competitors often offer poorer quality products, however their price is lower than that for the SKW Metallurgie Group's products. There is the risk of increased price competition in this regard. The SKW Metallurgie Group combats this risk with information campaigns for its customers which show the added value that customers gain from using the SKW Metallurgie Group's top-quality products.

Several Group companies effect a large part of their sales with relatively few customers, with the result that a loss of such a customer or a change in its payment behavior could have significant effects on a Group company. In the case of magnesium-based hot metal desulphurization products there is, in particular, the risk that steel plants attempt to set up their own supplies of raw materials. The SKW Metallurgie Group is confident that it will be able to continue to offer its customers so much added value thanks to its strong expertise, that vertical integration remains unattractive for its customers.

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 products that the SKW Metallurgie Group produces and sells, mostly in Europe, the Americas (NAFTA countries and Brazil) and in some Asian countries in its two core segments of Cored Wire and Powder and Granules are – either directly or indirectly – used almost exclusively in the steel-producing industry. However, the proportion of non-steel industry customers will increase slightly from 2011 (expansion of business with welding carbide and specialty magnesium). Concerning the demand from the steel industry, the demand for high-quality steel products in the automotive, shipping and mechanical engineering industries and plant engineering for the chemical and petrochemical industries is particularly important for the SKW Metallurgie Group.

In the Quab segment, the Group manufactures additives for the production of modified industrial starch that is 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 have increased, roughly in line with the growth of the general economy. This is also explained by the fact that a significant proportion of paper products is not used for communication but, for example, 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 economic slowdowns, and is posting sharp growth in emerging economies such as India and China.

The economic success of the SKW Metallurgie Group is also determined by its research and development success. In this connection, there is a risk that patents may expire, with the previously protected methods then being used by competitors or customers themselves, resulting in a deterioration in the group's margins. The SKW Metallurgie Group minimizes this risk with 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 creates new technology advantages which compensate for old patents, which it may not be possible to extend.

Using other technology as a substitute for the group's products is not regarded as being very likely: The group supplies raw materials and services for all of the currently known technologies for hot metal desulphurization; substituting one technology (e.g., calcium carbide-based hot metal desulphurization) with another (e.g., magnesium-based hot-metal desulphurization) thus does not pose a risk to the group's business model. There is no known mature technology which could entirely replace hot metal desulphurization as a production stage in steel production.

In addition, in secondary metallurgy, there is no known mature technology which could bring about comparable results without using the materials sold by the SKW Metallurgie Group.

In addition, substituting other series-ready materials for steel can also not be foreseen in central areas in which steel is used (e.g. car chassis, bridge-building) according to the current state of technology.

The steel industry is the key customer industry and is characterized by global mergers; purchasing functions are also becoming increasingly centralized. The SKW Metallurgie Group regards this development as being, in particular, an opportunity, as described in the Opportunities Report. In spite of this, however, there is a risk that the group's sales quantities and margins may come under pressure, making it impossible to implement regional price differences and other conditions any longer.

Procurement risk

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

Procurement risks further reduced by vertical integration projects

In the Cored Wire segment, in terms of quantities calcium silicon is the key raw material. During the year under review, the SKW Metallurgie Group still bought in 100% of its requirements from third parties. The group took a calcium silicon furnace into operations in its new plant in Bhutan in March 2011. This furnace has annual capacity of approx. 8,000t. As a result of this vertical integration (backward integration), the supply of calcium silicon has become even more secure. The Bhutanese group company has long-term electricity purchase contracts (one of the key raw materials for the production of calcium silicon) at attractive conditions. However, the new plant will only partly meet the SKW Metallurgie Group's requirements for calcium silicon. With regard to the requirements for calcium silicon that the group will have to continue to procure from third parties, the group also attaches particular importance to developing supplier relationships with providers outside of Europe due to a possible reduction in the production output of the sole supplier within Europe.

In obtaining the other 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.

In hot metal desulphurization, the most important part of the Powder and Granules segment, the procurement focus is on the secure supply of magnesium and carbide-based hot metal desulphurization materials.

Magnesium procurement was secured over the long-term in 2007 thanks to vertical integration (backward integration). This significant improvement in the group's strategic procurement situation was achieved via the acquisition of the ESM Group. The SKW Metallurgie Group has its own internal source of magnesium via the Chinese ESM company.

The main supplier of raw materials for carbide-based hot metal desulphurization products during the period under review in Brazil was a South American supplier with whom there is a long-term relationship. In Europe, carbide supplies have been secured over the long term from February 1, 2011 thanks to the calcium carbide plant in Sweden acquired from the AkzoNobel Group.

When procuring energy-intensive raw materials which still have to be bought in, there is a risk in that the SKW Metallurgie Group's suppliers have to buy in the required energy at higher prices than their competitors' suppliers, with the result that competitors can offer lower prices on the market. In the case of vertically integrated competitors, there is the risk that they benefit from transfer prices that are not in line with the market, and are thus also able to offer their products on the market at lower prices than the SKW Metallurgie Group.

The supply of raw materials in the Quab segment is secured by corresponding master agreements with annual price adjustment clauses.

It is mostly possible to pass on any price increases in raw materials to customers by adjusting prices. As the price elasticity of demand for the SKW Metallurgie Group's products is low over the short term, increases in selling prices due to the higher prices for raw materials do not lead to significant changes in the quantities demanded for the SKW Metallurgie Group's products.

In general, the group is increasing its relationships with additional suppliers in order to avoid being overly dependant on one or a few sources of raw materials. In spite of this, there is the risk that there it may not be possible to receive sufficient quantities of specific raw materials at sufficient prices at the desired time in the desired place. For some of the raw materials that the SKW Metallurgie Group requires, the markets have oligopolistic structures, which reinforces the strength of the raw material suppliers on the market.

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

Human resources risk

Qualified staff still significant factor for the success of the SKW Metallurgie Group

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 Group's opinion, one of the reasons for its current market position is that it performs its own research and development, as well as the fact that it offers its customers production-related metallurgical advice for hot metal desulphurization and steel refining using chemical additives. Both of these areas require highly qualified employees who 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 portion of the SKW Metallurgie Group's workforce is employed in the USA. According to the customs and underlying statutory conditions on this market, health insurance for part of the employees in the USA is provided by the employer. In the event of accidents or illnesses with exceptionally high treatment costs, there may be significant financial charges, including for the employer. The further development of this risk also depends on the healthcare reform which is currently at court in the USA, and which continues to be the subject of heated debate in politics.

Financial risk

The Group'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 47.3 million. Despite this, the Company is exposed to financial risk, and in particular currency and commodity price risk.

Further information, see notes D38 und D39

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 associated with this at a group level are regarded as being low; further details can be found in Notes D38 and D39 of the notes to the consolidated financial statements. The translation risks resulting from the transfer of income and expenses recorded by subsidiaries in other currency areas into euros are not hedged. These translation risks comprise both sales and earnings.

The most important currencies for the Group by far were its reporting currency (euro) and the US dollar. An unexpected change in the exchange rate between these two currencies can result in significant translation risks since it is likely that a significant proportion of the Group's sales in 2011 and 2012 will be generated in US dollars. Transactions outside the USA are also processed in US dollars to a significant extent, for example trading in calcium silicon. Other foreign currencies are also important for the SKW Metallurgie Group, in particular the Canadian Dollar, Indian Rupee, Bhutanese Ngultrum, Japanese Yen, South Korean Won, Mexican Peso, Russian Ruble, Brazilian Real and Chinese Renminbi. Some of these currencies (e.g., the South Korean Won) are subject to relatively sharp fluctuations in exchange rates.

In addition to hedging exchange rate risks, during the year under review the group also hedged the future cash flows from a long-term financing agreement (interest rate risk). This was hedged by concluding an interest rate swap in 2008. This derivative is carried at fair value.

Further information, see note D39

Other mandatory information and further details, including on the risks associated with the financial transactions described, can be found in Note D39 of the notes to the consolidated financial statements.

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

The SKW Metallurgie Group relies on long-term borrowing and – to finance its working capital – current lines of credit from banks. In this regard, agreements are concluded with well-known banks for a specific amount of credit which the group can use if required.

Risk in connection with the investigation by the European Commission

Still sufficient provisions for risk from European antitrust proceedings

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, an SKW Metallurgie Group company, 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 objections in this regard. In this statement, the Commission explains the alleged coordination of behavior in breach of antitrust law between several companies in connection with the marketing of calcium carbide powder and magnesium granulate. In July 2009, penalty notices were issued, including against SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH, which include, in each case, joint liability with non-group companies (former parent companies of SKW Stahl-Metallurgie GmbH). The maximum possible penalty which the SKW Metallurgie Group may have to bear totals EUR 13.3 million; however, the group believes that due to its joint liability, it would have to bear at most 50% of the penalty (or EUR 6.7 million, rounded). The SKW Metallurgie Group formed provisions in this amount (EUR 6.7 million, rounded) in 2008 and 2009. These are still in place unchanged.

The SKW Metallurgie Group believes that the total provision formed is the most probable amount in which a penalty which may actually be enforced against the group if the penalty decisions are confirmed in court. In 2009, the affected group companies filed an action for nullity of the penalty notice. No decision has been taken on this yet. The SKW Metallurgie Group believes that it is probable that the maximum fine that it may have to pay will be reduced in court, however it has not reduced the amount of the provision since 2009 as a result of the fact that the court has not yet taken a decision.

The group has reached an agreement with the European Commission that it does not have to pay any penalties during the pending court proceedings. It deposited bank guarantees in 2009 in the amount of the provision. These guarantees were issued by UniCredit Bank AG (formerly HVB) and Commerzbank AG. If a corresponding penalty actually has to be paid during the remainder of the proceedings, the SKW Metallurgie Group would be able to pay this at any time with regard to its liquidity, as the bank guarantees are covered by corresponding lines of credit.

At the end of the day, the penalty which the SKW Metallurgie Group may have to pay remains between EUR 0 and EUR 13.3 million. The timing of the pending proceedings cannot be forecast with certainty.

All of the figures continue to be carried as gross amounts; the group will review all opportunities available to take recourse to third parties, be these private individuals or legal entities, to thus reduce the net impact on the group, and it will use these given corresponding opportunities for success.

Risks in connection with investigations by customs authorities

The SKW Metallurgie Group engages in global trading (purchasing and sales) with a large number of products in a large number of jurisdictions under customs and excise laws. This results in the risk that individual customs authorities may be of a different legal opinion than the SKW Metallurgie Group. This currently affects, in particular, the ESM Group Inc. as well as Tianjin Hong Long:

- At the ESM Group Inc., offices were investigated by the US government's Department of Homeland Security in 2005, prior to the acquisition of the company by the SKW Metallurgie Group. This investigation was caused by allegations that customs duties were not correctly paid for the specialty magnesium which the ESM Group Inc. resells. However, ESM was not the importer and had obtained this material from a supplier. Therefore ESM was not responsible for clearance of the material through customs. Based on the facts depicted above, the Executive Board does not believe that financial liability by ESM Group Inc. is to be expected. As a result, no provision has been formed in this regard.

- In China the SKW Metallurgie Group is involved in negotiations with customs authorities regarding the correct treatment under customs law of the activities of its group subsidiary Tianjin Hong Long. Provisions were already formed in the previous year in this regard.

Risks from the further expansion in emerging nations

Executive Board enlarged by COO as of Jan. 1, 2011

The SKW Metallurgie Group plans to increase its presence in emerging nations. Investments have already been made in this regard and agreements concluded (e.g., almost full completion of the production facilities in Russia and Bhutan). The Managing Board is confident that it is possible to ensure the scheduled continuation of these expansion projects. In spite of this, however, there is the risk that individual expansion projects may fail. However, the Managing Board believes that this risk is minor as a result of the careful selection of experienced local partners. In addition, from January 1, 2011, the Executive Board has been increased by the addition of a Chief Operating Officer, who will assist the CEO in controlling the operating business and implementing the expansion strategy in select countries.

Risk from expanding the value chain

By acquiring the ESM Group in 2007, the value chain was expanded, in particular into service and construction. In this context, ESM bears the responsibility for the result of certain production steps in steel production. With this responsibility for results and with construction, risks, in particular increased warranties, are associated. Services are provided and equipment is constructed in emerging nations where the legal and financial systems are not as strong as in industrial nations. The SKW Metallurgie Group limits this risk by cooperating with employees who have local experience and external consultants.

Risks from higher proportion of fixed costs

As proved in the economic and financial crisis, in the past a large proportion of the SKW Metallurgie Group's costs above EBITDA were variable costs (mostly material costs). However, for technical reasons the capacity at the new plants in Sweden (calcium carbide) and Bhutan (calcium silicon) cannot be adjusted as flexibly, with the result that over the short term the proportion of fixed costs above EBITDA will increase. In addition, the cost items below EBITDA (e.g. the depreciation of comparatively capital-intensive production equipment) will increase. As a result there is the risk that the SKW Metallurgie Group may not be able to react as flexibly in the event of a renewed economic crisis, with a correspondingly more major impact on earnings indicators. The Executive Board will follow general economic developments closely and will put corresponding activities in place if required in order to optimize the group's earnings.

12.3. Individual presentation of risks at the group's parent company SKW Stahl-Metallurgie Holding AG

Financial holding companies such as SKW Stahl-Metallurgie Holding AG are subject to the theoretical risk that their financial assets may have to be written down. In addition, there is the theoretical risk that there may not be sufficient financing available to continue the business activities.

However these risks are theoretical and have not been identified as being relevant for the company. The SKW Metallurgie Group's risk management system, which also includes the single-entity company SKW Stahl-Metallurgie Holding AG, as well as evaluations from sources outside the company (such as forecasts by economic research institutes) has, rather, identified the following business policy risks for SKW Stahl-Metallurgie Holding AG. The order in which the risks are presented in the following section 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 assets, financial position and results of operations of SKW Stahl-Metallurgie Holding AG.

SKW Stahl-Metallurgie Holding AG aspires that new Group companies are in sole or at least majority ownership of the Group

Economic risk

SKW Stahl-Metallurgie Holding AG depends on the economic success of its subsidiaries and second-tier subsidiaries, as the company itself does not generate any significant income outside the SKW Metallurgie Group. The company combats this risk by controlling and monitoring its subsidiaries and second-tier subsidiaries. In addition, the company attaches great importance to being the sole or at least majority owner of its participating interests (historical exception: Jamipol in India).

Integration risks

In the year under review, SKW Stahl-Metallurgie Holding AG signed the agreement for the acquisition of a Swedish calcium carbide plant. As is the case for all acquisitions, here too there is the risk of the delayed integration of the new acquisition. The company combats this risk via a special integration program, which includes, for example, a new marketing plan, optimizations to production technology and employee training.

Risk in connection with investigations by government authorities

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. In this connection, in July 2009 it issued penalty notices to SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH which include, in each case, joint liability with non-group companies (former parent companies of SKW Stahl-Metallurgie GmbH) with a maximum total of EUR 13.3 million. In 2009, the affected group companies filed an action for nullity of the penalty notice. No decision has been taken on this yet. In agreement with the EU Commission, SKW Stahl-Metallurgie GmbH has contributed bank guarantees with a total amount of EUR 6.7 million (50% of the maximum penalty). This amount has been carried as a provision at the subsidiary SKW Stahl-Metallurgie GmbH since 2009 as a provision for uncertain liabilities. As a result, this is not currently expected to have an economic impact on the parent company, SKW Stahl-Metallurgie Holding AG. Further details are included in the group's presentation of risks.

12.4. Overall assessment of risks

No risks that could endanger further existence have been identified for either the company SKW Stahl-Metallurgie Holding AG or for the SKW Metallurgie Group

The overall assessment of the aforementioned risk areas shows the risks described in connection with the investigations by the authorities, and also that the Group is primarily subject to both sale and procurement-side market risk relating to economic price and volume development.

On the whole, it can be ascertained that for both the SKW Metallurgie Group and also for the single-entity company SKW Stahl-Metallurgie Holding AG, the current risks, both individually and taken together, are limited and do not endanger the continued existence of the company or the group. Similarly, there is no evidence of any risks that could endanger its existence.

12.5. Opportunities Report: Recognizing and leveraging opportunities

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

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

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

New high-growth markets as an opportunity for the SKW Metallurgie Group

In some emerging economies such as Brazil, Russia, India or China, steel production is also set to post above-average growth over the next few years. However, the general increase in steel production is not the only important factor in the market prospects of the SKW Metallurgie Group. 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.

In order to meet this growing demand, the Group has set up new plants in Bhutan (calcium silicon plant with integrated cored wire production) and Russia, which will start production in 2011. In addition, the Group wants to take advantage of its experience in the hot metal desulphurization business in the Indian-based Jamipol so as to become the leading provider in this country for secondary metallurgy (supply of cored wire from Bhutan). In Brazil, the SKW Metallurgie Group acquired a majority interest in the local market leader for hot metal desulphurization at the end of 2009.

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

Growth by expanding the value chain

Further growth potential through more depth of added value

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 has started to increase its real net output ratio by developing or acquiring its own raw material production also for other substances. This will not only allow higher margins, but also makes the Group less dependent on external suppliers. This relates, in particular, to calcium silicon (a key raw material for cored wire production) and calcium carbide (a key raw material for hot metal desulphurization in the Powder and Granules segment). After the end of the business year, a calcium silicon furnace was taken online in March 2011 in the new plant in Bhutan; an existing plant in Sweden was acquired for calcium carbide in February 2011.

There are also additional opportunities for growth in hot metal desulphurization in continued upstream integration, e.g., in plant construction and services. These business areas, offered primarily by the ESM Group, make it possible to realize addition real net output potential and increase customer loyalty.

Margin growth through innovative products

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

During the year under review, the group successfully sold innovative cored wire products for the casting and copper industries.

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.

12.6. Accounting-related control systems

The SKW Metallurgie Group attaches great value to professional standards in its accounting processes. This includes, in particular, the internal control system (ICS). All of the group companies are included in the SKW Metallurgie Group’s early risk recognition system described in this risk report. In addition, the accounting processes in the SKW Metallurgie Group are mostly characterized by the structures, workflows and controls described below, and which are mostly uniform throughout the group.

Each group company is responsible for its local accounting according to the respective national provisions[19]; in the case of smaller group companies external service providers are also used in this regard. In the case of special issues (e.g., pension valuations), external services providers are used in some cases for support. In addition to national standards, each group company uses IFRS accounting as the basis for consolidation. A group-wide uniform IT system and an accounting manual prepared by the group’s headquarters are used in this regard.

There is a management information system to make sure that the executive bodies of the parent company receive up-to-the-minute information. This system’s standard reports include a weekly report (in particular on revenues and liquidity) and a more extensive monthly report. As part of these reports the risk management information stored in the system is reported

19 In individual cases this can mean that accounts are prepared according to foreign or international accounting standards if a corresponding option in the national provisions is used or if there are no own national standards.

regularly to the Executive Board, which passes on the relevant issues to the Supervisory Board straight away. In addition, the management of the group's companies undertakes to report extraordinary developments and events to the group's Executive Board without delay.

High standard of corporate accounting and control systems

In its monthly, quarterly and annual financial statements, in order to ensure uniform group-wide accounting and measurement, the SKW Metallurgie Group has developed accounting guidelines which are used as a basis by the companies included in the consolidated financial statements to prepare their single-entity financial statements which use the parent company's accounting and measurement principles. In particular, the group's head office stipulates binding dates for the financial statements and prescribes reporting structures. This generally ensures completeness and comparability. The reports by the group companies are made using a standardized Web-based consolidation software system. This includes a uniform chart of accounts; as a rule reconciliation from the subsidiaries' accounting systems is performed manually. In order to ensure completeness and correctness, feasibility controls and consistency checks have been implemented as part of the system. The consolidation of liabilities and also income and expenses is performed automatically. Any netting differences that may arise are booked automatically by the system. Consolidation bookings are controlled and adjusted if necessary. The system's methods to limit access rights are used to map the various responsibilities.

The SKW Metallurgie Group attaches great value to the fact that only highly qualified and experienced employees are employed in key accounting and risk management positions. English is the group's common language to ensure that there are no problems with translation or communication world wide.

The principle of dual control is used throughout the entire SKW Metallurgie Group and thus in all of the group's companies for all release workflows and controls. In order to reinforce prevention and to intensify downstream controls, in 2011 an Internal Audit department will be set up throughout the group.

13. SKW Metallurgie looks to 2011 and 2012 with confidence

13.1. Global economic growth to stabilize in 2011 and 2012

Experts continue to see global economy as positive

The economic upswing in 2010 is expected to continue in 2011, albeit at a slightly more moderate pace. The International Monetary Fund (IMF) is forecasting global economic output to increase by 4.4%. This upwards movement, which is bolstering its own stability, will again be driven by emerging nations (up 6.5%). Experts' forecasts for industrial nations are significantly more reserved at 2.5%. Here, the high level of government debt for key industrial nations is depressing potential growth. The US economy is forecast to grow by 3.0% and the Japanese economy by 1.6%. Forecasts for Europe are for growth of 1.5%. There is expected to be a split between the export-rich countries surrounding Germany, which are expected to fare significantly better, and the stagnating, highly indebted nations in Southern Europe in particular.

Emerging economies in Asia are expected to continue their success story in 2011. The IMF is forecasting economic growth of 8.4% for these countries, which will continue to follow China's lead (up 9.6%). The remaining BRIC countries of India (up 8.4%), Brazil and Russia (each up 4.5%) can also take an optimistic view of the coming year.

Inflation is expected to relax to around 5% in emerging nations as a result of fiscal policy activities, and industrial nations are expected to enjoy relatively stable prices (up 1.6%).

Economic researchers believe that the massive government debt for some key industrial nations such as the USA or Japan and the debt crisis in some European countries constitute risks. In most of these countries, over and above the officially declared government debt, there are also high obligations from government pension schemes which are only backed by hopes for future generations being prepared to make payment. The necessary activities to deal with this issue will also be key factors for the volatility and development of exchange rates and base interest rates, which are expected to continue to be at a very high level in industrial nations in 2011. In addition, the IMF points out the risks resulting from the increasing global imbalances and the resulting danger of the economy overheating in some emerging nations, and also the anticipated significant increase in the prices of raw materials.

The IMF's economic experts believe that the economic upswing will continue in 2012. Global economic output is expected to increase by 4.5% in the coming year. The dynamic growth in the industrial world is expected to remain stable compared to 2011 at 2.5%, and continued dynamic growth of 6.5% is expected in developing and emerging economies.

13.2. Steel demand follows upswing in global economy

Global demand for high quality steel is expected to increase by 5.3% to a record-breaking 1.34 billion tons in 2011 according to the World Steel Association's calculations. This growth is primarily based on the sharp increase in demand from emerging nations. Although by far the largest steel producer in the world, China, can only expect moderate growth of 3.5% to around 600 million tons, experts believe that the Peoples' Republic will require around 42% more steel in 2011 than prior to the outbreak of the economic crisis. In contrast, steel requirements in industrial nations in 2011 are expected be substantially lower than before the crisis as a result of the economic subsidy programs, which are drawing to a close. However, the EU countries are expected to reach 75% of the 2007 level, or up 5.7% to 147.4 million tons. Experts are forecasting an increase of 9.4% in NAFTA regions to 86.1 million tons. This means that steel demand in North America will reach almost 80% of the 2007 level. Emerging nations with their dynamic economies are also expected to grow. In the BRIC countries (Brazil, Russia, India and China), industry experts are forecasting steel demand to increase by 4.9% to a total of 730 million tons, or a 54.5% share of the global market. Brazil is the primary driver for steel demand in South America, and will ensure that the region will exceed the pre-crisis level in 2011 by an anticipated 14%. India will grow to have the third-largest demand for steel after China and the USA.

Forecasts for 2011 are for a generally favorable initial situation for the SKW Metallurgie Group, as more than 90% of revenues are recorded with customers from the steel industry.

Expected further growth of steel production volume in principle leads to increased demand for products of the SKW Metallurgie Group

In view of positive expectations for global economic growth in 2012, steel demand is also expected to grow in view of a large number of infrastructure projects that have already been announced and which will run long term. High demand from emerging economies is one again a primary factor. Brazil can expect an extraordinary economic situation, as the men's Soccer World Cup (in 2014) and the Summer Olympics, which will also be held in Brazil (in 2016) will result in an additional boost in demand.

13.3. Additional indicators for the SKW Metallurgie Group

The most important external indicator for demand for the SKW Metallurgie Group's steel related products and thus for a large proportion of the Group's business activities is the volume of global raw steel production, in particular for high and higher-value steels. Changes in the quantities of steel produce are reflected practically one to one in demand for products that the SKW Metallurgie Group develops and sells. The fact that emerging economies are less well equipped in terms of infrastructure and long-term consumer goods compared to industrial nations, substantial growth in steel production can also be expected for these countries in the coming years.

A meaningful internal indicator for the performance of the SKW Metallurgie Group to date was the gross margin. However, the meaningfulness of this indicator falls in line with the percentage of material costs to total costs. In contrast, the Group does not have any order books in the traditional sense. A large number of customer contracts are concluded for the long term but in comparison, individual quantities and specifications are determined for the short term.

13.4. Forecast by the Executive Board for the financial position and results of operations of the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG in 2011 and 2012

The Executive Board believes that the expert opinions detailed above on the future growth of the overall economy and the steel industry as being the most probable scenario. This results in the following forecast for the SKW Metallurgie Group and the top level group company SKW Stahl-Metallurgie Holding AG for 2011 and 2012:

On the balance sheet date and also on the date this combined management report was prepared, the group was feeling the upswing after the economic and financial crisis, even if it did not fully reach the record-breaking figures enjoyed in 2007 and 2008. During the remainder of 2011 and 2012, the Executive Board is optimistic that the group companies' sales and revenues will grow in line with the growth in the quantities of steel produced in the geographic markets that the group serves, and also via its new plants in Sweden and Russia. The new plant in Bhutan will mostly supply the group and will thus initially not generate any additional revenues with third parties.

Positive outlook by the Executive Board for the SKW Metallurgie Group as well as SKW Stahl-Metallurgie Holding AG; growth projects will positively influence Group EBITDA, in particular as of 2012

As a result of the anticipated above-average growth in emerging nations, the Executive Board believes that sales in these countries will make a significant contribution to consolidated earnings and, in particular, to increasing EBITDA. The acquisition in Sweden means that revenues will lift in Western Europe; with the exception of this extraordinary factor, the SKW Metallurgie Group's strategic focus is on reinforcing its presence in high-growth regions.

In terms of its balance sheet, the Executive Board is forecasting moderate growth in consolidated debt, as the further expansion on the growth markets will be partially financed using borrowing (non-current financial debt) and higher revenues go hand-in-hand with higher working capital (current financial debt). As things stand today, all of the identifiable high-growth projects will be concluded during 2011, with the result that no significant increase in non-current financial debt is expected for 2012.

The Executive Board believes that growth in the Powder and Granules and Cored Wire segments will mostly be parallel, as both of these segments depend, to a major extent, on the volume of steel production. In addition to this organic growth the new plants and parts of plants will reinforce their respective segments (Powder and Granules: expansion of plant in Brazil, Sweden, expansion of plant in USA; Cored Wire: Bhutan, Russia). Quab business in the Other segment is expected to correlate positively with domestic product growth.

In terms of products, the SKW Metallurgie Group will also focus on innovative, higher-margin products that offer significant added value for customers in 2011 and 2012.

The Executive Board believes that the group's top-level parent company, SKW Stahl-Metallurgie Holding AG will also record net profits in 2011 and 2012, which will allow an attractive dividend to be paid. The future financial situation of the top-level parent company SKW Stahl-Metallurgie Holding AG is determined by income from the group transfer agreements and by dividends from subsidiaries to the group's parent company SKW Stahl-Metallurgie Holding AG. As a result, the future financial situation of the group's parent company SKW Stahl-Metallurgie Holding AG depends on the future earnings of its subsidiaries and second-tier subsidiaries, which, in turn, depend on the volume of production in the steel industry in the geographic markets they serve, as described above.

Unterneukirchen (Germany), March 11, 2011

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee
Chairperson (CEO)

Gerhard Ertl

Reiner Bunnenberg

CURIOSITY

… and innovational prowess are two factors that go hand in hand for successful research and development work. These abilities can be found in our subsidiary Affival SAS's plant in Solesmes, France. This is not only the world's largest cored wire factory – the quantity of cored wire produced here each year is enough to go round the world three times – but this is also where the SKW Metallurgie Group's research and development center has been located since 1981 This is where we solve customer problems, develop customized solutions for all known and a large number of new applications, and thus make a significant contribution to efficiency and increasing value in the group.

This entrepreneurial spirit and the drive to keep on getting better and move the company forward bring our team of engineers and technicians together to develop existing technologies and bring innovations to the fore. Examples include the pioneering PapCal technology that we developed for cored wire, or new applications in this segment for other branches of industry such as the copper or foundry industries.

Consolidated income statement from January 1 to December 31, 2010

EUR thousand	Notes	2010	2009
Revenues	1	380,820	220,569
Change in finished goods and work in progress		778	-1,190
Own work capitalized		57	127
Other operating income	2	10,408	3,338
Cost of materials	3	-277,179	-173,172
Personnel expenses	4	-39,101	-23,093
Other operating expenses	5	-47,858	-27,877
Income from associated companies	7	914	833
EBITDA		**28,839**	**-465**
Amortization of intangible assets and depreciation of property, plant and equipment	6	-11,493	-6,554
EBIT		**17,346**	**-7,019**
Interest and similar income	8	359	173
Interest and similar expenses	9	-2,698	-2,627
EBT		**15,007**	**-9,473**
Income taxes	10	-5,946	4,365
Consolidated net profit/loss for the period		**9,061**	**-5,108**
Thereof shareholders of SKW Stahl-Metallurgie Holding AG	*11*	*7,523*	*-5,024*
Thereof non-controlling interests		*1,538*	*-84*
Earnings per share (in EUR)*	12	1.15	-1.10

* Basic earnings per share corresponds to diluted earnings per share.

Reconciliation to comprehensive income from January 1 to December 31, 2010

EUR thousand	2010	2009
Consolidated net profit/loss for the period	**9,061**	**-5,108**
Net investments in a foreign operation	1,636	-6
Unrealized gains/losses from derivatives (hedge accounting)	80	386
Exchange rate fluctuations	3,986	-146
Taxes on income and expenses carried directly under equity	-31	-151
Income and expenses recognized directly under equity	**5,671**	**83**
Total result	**14,732**	**-5,025**
Thereof shareholders of SKW Stahl-Metallurgie Holding AG	*12,236*	*-5,024*
Thereof non-controlling interests	*2,496*	*-1*

Consolidated balance sheet as of December 31, 2010

ASSETS IN EUR thousand	Notes	Dec 31, 2010	Dec 31, 2009
Non-current assets			
Intangible assets	13	64,868	59,045
Property, plant and equipment	14	63,852	42,554
Interests in associated companies	15	4,703	4,477
Other non-current assets	19	536	601
Deferred tax assets	16	13,893	10,050
Total non-current assets		**147,852**	**116,727**
Current assets			
Inventories	17	50,276	45,922
Trade receivables	18	53,489	46,780
Income taxes	19	2,161	2,037
Other assets	19	10,425	9,146
Non-current assets held for sale		598	0
Cash and cash equivalents	20	10,956	11,052
Total current assets		**127,905**	**114,937**
Total assets		**275,757**	**231,664**

EQUITY AND LIABILITIES IN EUR thousand	Notes	Dec 31, 2010	Dec 31, 2009
Equity	21		
Subscribed capital		6,545	6,545
Share premium		50,741	50,741
Other accumulated equity		46,554	41,463
		103,840	98,749
Non-controlling interest		18,418	10,277
Total equity		**122,258**	**109,026**
Non-current liabilities			
Pension obligations	23	2,891	1,854
Other provisions	25	1,958	170
Obligations from finance leases	24	0	27
Non-current financial liabilities	26	31,336	14,597
Income taxes		0	683
Deferred tax liabilities	16	16,784	15,411
Other non-current liabilities	28	11,593	8,436
Total non-current liabilities		**64,562**	**41,178**
Current liabilities			
Other provisions	25	7,608	8,089
Obligations from finance leases	24	27	158
Current financial liabilities	26	26,966	29,236
Trade payables	27	37,988	32,520
Income taxes		789	302
Other current liabilities	28	15,559	11,155
Total current liabilities		**88,937**	**81,460**
Total equity and liabilities		**275,757**	**231,664**

Consolidated cash flow statement from January 1 to December 31, 2010

EUR thousand Note 30	Jan. 1, 2010 - Dec. 31, 2010	Jan. 1, 2009 - Dec. 31, 2009
1. Consolidated net profit/loss for the period	9,061	-5,108
2. Amortization/depreciation of non-current assets	11,493	6,554
3. Increase/decrease in provisions for pensions	1,037	177
4. Income from associates	26	-472
5. Gains/losses on the disposal of non-current assets	93	0
6. Gain/loss from currency translation	-2,410	425
7. Income/expense from deferred taxes	-1,380	-911
8. Own work capitalized	-57	-127
9. Expenses from impairment of inventories and receivables	175	1,468
10. Other non-cash income/expense	-3,138	-529
11. Gross cash flow	**14,900**	**1,477**
Change in working capital		
12. Increase/decrease in current provisions	1,316	-35
13. Increase/decrease in inventories (after advance payments received)	-4,614	25,314
14. Increase/decrease in trade receivables	-6,736	-4,876
15. Increase/decrease in other receivables	2,582	-65
16. Increase/decrease in liabilities from income taxes	119	123
17. Increase/decrease in other assets	-4,119	-2,745
18. Increase/decrease in trade payables	5,468	4,172
19. Increase/decrease in liabilities from income taxes	-196	-2,349
20. Increase/decrease in other equity and liabilities	3,827	-2,531
21. Net cash received from (+)/used by (-) operating activities	**12,547**	**18,485**
22. Income from the disposal of assets	41	73
23. Payments for investments in non-current assets	-23,792	-12,392
24. Purchase price paid for corporate acquisitions	-967	-17,465
25. Cash and cash equivalents acquired during company acquisitions	0	1,572
26. Net cash provided by (+)/used in (-) investing activities	**-24,718**	**-28,212**
27. Proceeds from capital increases	0	24,411
28. Costs of capital increase	0	-947
29. Additions to equity from non-controlling shareholders	0	832
30. Decrease in liabilities from finance leases	-159	-232
31. Dividend payment - SKW Stahl-Metallurgie Holding AG	0	-2,211
32. Dividends to non-controlling interests	-1.501	0
33. Payments for the repayment of loans to third parties	-1,369	-884
34. Income from taking out bank loans	31,891	4,147
35. Payments for the repayment of bank loans	-17,244	-13,950
36. Net cash provided by (+)/used in (-) financing activities	**11,618**	**11,166**
37. Cash and cash equivalents – start of period	11,052	9,577
38. Change in cash and cash equivalents	-553	1,439
39. Currency translation for cash and cash equivalents	457	36
40. Cash and cash equivalents – end of period	**10,956**	**11,052**

Statement of changes in consolidated equity for business years 2009 and 2010

EUR thousand Note 21	Subscribed capital	Equity reserve	Other accumulated	Consolidated equity of the controlling shareholder	Non-controlling interests	Total equity
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 result 2009	**0**	**0**	**-5,024**	**-5,024**	**-1**	**-5,025**
Put option for non-controlling interests	0	0	507	507	0	507
Change to consolidated group	0	0	0	0	7,120	7,120
Contributions from non-controlling interests	0	0	0	0	1,073	1,073
Capital increase against cash contributions	2,123	22,288	0	24,411	0	24,411
Capital procurement costs (after tax)		-691	0	-691	0	-691
Dividend payment	0	0	-2,211	-2,211	0	-2,211
Balance as of Dec. 31, 2009	**6,545**	**50,741**	**41,463**	**98,749**	**10,277**	**109,026**
Balance at Jan. 1, 2010	**6,545**	**50,741**	**41,463**	**98,749**	**10,277**	**109,026**
Consolidated net profit for the period	0	0	7,523	7,523	1,538	9,061
Exchange rate fluctuations	0	0	3,028	3,028	958	3,986
Income and expense carried under equity (without exchange rate changes)	0	0	1,685	1,685	0	1,685
Total result 2010	**0**	**0**	**12,236**	**12,236**	**2,496**	**14,732**
Non-controlling interest in capitalization of a shareholder loan	0	0	-7,145	-7,145	7,145	0
Dividend payments to non-controlling interests	0	0	0	0	-1,500	-1,500
Balance as of Dec. 31, 2010	**6,545**	**50,741**	**46,554**	**103,840**	**18,418**	**122,258**


BRASIL
BRASIL

PASSION

… is something that soccer fans the world over share when it comes to supporting their team to win the match. South American fans are regarded as being the most passionate fans, in particular fans in Brazil, the record-breaking world champion and the next host of the FIFA World Cup in 2014.

But the Brazilians are also passionate off the soccer pitch – for example when it comes to putting excellent business ideas into practice. Twenty years ago Geraldo da Paixão (Paixão is Portuguese for passion!) and some of his friends sat down at the kitchen table to develop the idea of improving the steel production process by using specialty chemicals. This was the origin of Tecnosulfur, the company in which SKW Metallurgie acquired a majority interest at the end of 2009. Tecnosulfur now has around 150 employees and is the clear market leader in Brazil and South America. It is totally superfluous to mention that, as part of the acquisition, Geraldo da Paixão did not retire to kick back and watch soccer from his sofa, but decided to stay with the company, with his passion.

A large number of major infrastructure projects are planned in run-up to the 2014 soccer World Cup – some of these have already been started. These projects will need thousands of tons of high-quality steel. Our subsidiary Tecnosulfur produces refining products needed in this regard.

Notes to the consolidated financial statements for business year 2010

A. GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

Shares of the company were included in the German small-cap index SDAX as of June 23, 2008, and have been included in Deutsche Börse’s Prime Standard since December 1, 2006.

The business activities of the SKW 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 is 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.

The SKW Metallurgie Group’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 Group’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 the SKW Metallurgie Group 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).

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 2010 were upheld. The consolidated financial statements also include further information required under the Section 315a (1) of the Handelsgesetzbuch (HGB – German Commercial Code) and the Aktiengesetz (AktG – German Joint-Stock 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, 2010, and the European Union has endorsed these to become European law:

- Revised version of IFRS 5 Non-current assets held for sale and discontinued operations (as part of the annual improvements 2009)
- Revised version of IAS 1 Presentation of Financial Statements (as part of the annual improvements 2009)
- Revised version of IAS 7 Cash Flow Statements (as part of the annual improvements 2009)
- IFRS 3 (2008) Business Combinations
- IAS 27 (2008) Consolidated and Separate Financial Statements
- Amendments to IFRS 1 First-time Adoption of IFRSs – Additional exception for first-time users
- Amendments to IFRS 2 Share-based Payments – Accounting for share-based payments in a group which are paid in cash
- Amendments to IFRS 5 Non-current assets held for sale and discontinued operations (as part of the annual improvements 2008)
- Amendments to IAS 39 Financial instruments: Recognition and Measurement – Risk items that qualify for hedge accounting
- IFRIC 15 Agreements on the Construction of Real Estate
- IFRIC 16 Hedges of net investments in foreign business operations
- IFRIC 17 Distributions of Non-Cash Assets to Owners
- IFRIC 18 Transfer of Assets from Customers
- Other annual improvements 2009 (various standards and interpretations)

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

New and amended standards and interpretations that have impacted the financial position and results of operations

IFRS 3 (2008) re-regulates the application of the acquisition method for business combinations. The main new features relate to the valuation of minority interests, recognition of successive company acquisitions and the treatment of conditional purchase price components and incidental acquisition costs. According to the new regulation, non-controlling interests

can either be measured at their fair value (full goodwill method) or at the fair value of the proportionate identifiable net assets. In the case of successive company acquisitions, it requires revaluation recognized in income at fair value of the interests held on the date control was transferred. An adjustment of conditional purchase price components, which were carried as liabilities on the date of acquisition, is to be recognized in income in future. Incidental acquisition costs are recorded as expenses on the date on which they occur. This amendment is to be applied for business years beginning on or after July 1, 2009. This change was endorsed by the EU in June 2009 and became European law. The changes were applied for the first time to the companies acquired in 2010.

New and amended standards and interpretations that do not affect the consolidated financial statements

The IASB amended IFRS 2 “Share-based Payment” in June 2009 for the event that individual subsidiaries themselves do not have any obligation to make share-based payments, in order to clarify the scope of application of and the accounting for share-based payments paid in the group in single-entity financial statements. This amendment is to be applied for business years beginning on or after January 1, 2010. This amendment was endorsed by the EU in March 2010 and became European law. First time application did not impact the accounting.

Key adjustments to IAS 27 (2008) relate to the accounting for transactions without a change of control and transactions with a change of control. Transactions which do not lead to a loss of control are to be recorded directly under equity as equity transactions. In contrast, the remaining interests are to be measured at fair value on the date control is lost. According to the revised standard, it is possible to disclose negative balances for non-controlling interests, as in future both gains and losses can be allocated proportionately according to the interest. The changes in the accounting standards with regard to the shareholdings in subsidiaries are to be applied for business years starting on or after July 1, 2009.

This change was endorsed by the EU in June 2009 and became European law. This change did not impact the SKW Metallurgie Group’s accounting.

IFRIC 17 Distributions of non-cash assets to owners includes guidelines for reasonable accounting treatment in the event that a company distributes non-cash assets to owners. This interpretation is to be applied for business years starting on or after July 1, 2009 and was endorsed by the EU in November 2009 to become European law. This interpretation did not impact the SKW Metallurgie Group’s accounting.

IFRIC 18 “Transfer of Assets from Customers” relates to accounting by the recipient for transfers of assets by customers and comes to the conclusion that, in cases in which the transferred asset meets the definition of an asset from the recipient’s perspective, this recipient must carry the asset at fair value on the date of the transfer. The counter-booking is recognized as income in line with IAS 18 “Revenues”. This interpretation is to be applied for business years starting on or after July 1, 2009 and was endorsed by the EU in November 2009 to become European law. This interpretation did not impact the SKW Metallurgie Group’s accounting.

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.

Application of the following accounting pronouncements by the IASB is not yet mandatory and they have not yet been endorsed by the EU. They have also not been applied to date by the SKW Metallurgie Group and they do not have any material impact on the SKW Metallurgie Group’s consolidated financial statements:

- Amendment to IAS 32 (Classification of Subscription Rights)
- IAS 24 (2009) (Related party disclosures)
- Amendments to IFRIC 14 (Advance payments as part of minimum funding requirements)
- Amendments to IFRS 1 (Limited exception or comparable information in IFRS for first-time users)
- IFRIC 19 (Extinguishing Financial Liabilities with Equity Instruments)

The IASB has published the following accounting literature. This has not yet been endorsed by the EU, and also has not yet been applied by the SKW Metallurgie Group. 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 (2010) (Financial Instruments)
- Amendments to IFRS 7 (Disclosures – Transfer of Financial assets)
- Annual improvements 2010 (various standards and interpretations)

B. GROUP OF CONSOLIDATED COMPANIES AND CONSOLIDATION METHODS

SKW Stahl-Metallurgie Holding AG‘s consolidated financial statements as of December 31, 2010 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 of business operations is accounted for using the acquisition method. The compensation transferred during a business combination is to be measured at fair value. This is the total of the fair values on the date that the transferred assets are exchanged, the debts taken over from the former owners of the acquired company and the equity instruments issued by the group in exchange for control of the acquired company. As a rule, the costs associated with a business combination are to be recognized as expenses when these are incurred. 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 the non-controlling interests.

Goodwill is the excess amount from the total of the compensation transferred, the amount of all non-controlling interests in the acquired company, the fair value of the equity interest pre-

viously held by the acquiring party in the acquired company and the balance of the amounts of acquired identifiable assets and the acquired debt on the date of the acquisition. In the event that, after this has been re-assessed, the proportion of the fair value of the acquired identifiable net assets attributable to the group is larger than the amount of the compensation transferred, the amount of the non-controlling interests in the acquired company and the fair value of the equity interest previously held by the acquiring parts in the acquired company (if present), the excess amount is to be recognized in income immediately as profit.

The earnings of the subsidiaries acquired or sold during the course of the year are carried or no longer carried on the consolidated income statement from the date of the start or end of the opportunity to exercise control.

There were no sales of companies in the SKW Metallurgie Group in business year 2010. 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 non-controlling interests is shown separately from the portions due to the shareholders of the parent company.

With the exception of the associated company Jamipol Ltd., Jamshedpur, India, whose business year ends on March 31, the balance sheet dates of the companies included in consolidation are the same as that of the parent company.

The Swedish company acquired in business year 2010 SKW Metallurgy Sweden AG (previously: Goldcup 6165 AG) and the newly formed German company SKW Service GmbH were consolidated for the first time and Quab Chemicals Belgium BVBA, which was liquidated in 2010, was deconsolidated. The shareholdings are listed in Section E. of these notes.

Associates

Associated companies are companies over which the Group has a key influence but which it does not control; as a rule there it holds between 20% and 50% of voting rights. Investments 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 are 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 taxes connected with the sale.

Expenses that cannot be capitalized are recognized as expenses in the income statement on the date they are incurred and are carried in the reporting period to which they are to be allocated.

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 are carried in the balance sheet under receivables less advance payments received, and under liabilities if there is a negative balance. 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 expenses and interest income are recognized in income on an accrual basis and recorded using the effective interest rate method. Interest income is deferred 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

Borrowing costs are capitalized in the group if a substantial period is required to produce an asset, in order to ready this 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 which is taken out not to specifically finance the acquisition, the construction or the production of a qualified asset (general borrowing), the amount of the borrowing costs to be capitalized is to be determined by multiplying the expenses for the acquisition, the construction or the manufacture with the borrowing cost rate to the extent that the expenses were not already financed using borrowing taken out specially to finance the acquisition, the construction or the manufacture of the qualified asset. This borrowing cost rate is the weighted average of the borrowing costs for this type of credit at the SKW Metallurgie Group that existed during the period of the acquisition, the construction or the manufacture of the qualified asset and is not taken out specially for the creation of 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 the rules established by the taxation authorities, 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 on tax loss carryforwards for which recognition is probable. Deferred tax liabilities and deferred tax assets are recorded for all taxable temporary differences for which 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 they meet all the criteria 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 are measured at cost less depreciation. Costs include the incidental acquisition costs that can be directly allocated to the acquisition. All subsequent acquisition costs that cannot be capitalized and other repairs and maintenance are recognized in income in the 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. Cost includes material unit costs and manufacturing unit costs as well as 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. If the reasons for impairment performed in previous periods no longer apply, assets are written up to the amount of their original acquisition or manufacturing costs.

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 present value of the estimated future cash flow from this receivable, discounted using the original 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 recognized directly by deleting or booking the receivable.

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. Derivatives 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 assets 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. They 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 12 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 of financial assets

The carrying amounts of financial assets not recognized at fair value through profit or loss are examined at each balance sheet date in order to determine whether there are objective indications of impairment. Objective indicators could be, for example, substantial financial difficulties on the part of the debtor, the lapse of an active market or significant changes in the technological, market-related, economic or legal environment. In the case of equity instruments that are categorized as available for sale, a significant or continued reduction in the fair value is an objective indicator for impairment.

The amount of the impairment on a financial asset carried at amortized cost is the difference between the carrying amount and the present value of the anticipated future cash flows, discounted using the original effective interest rate for the financial asset. Impairment is recognized as expense. If the amount of the impairment in subsequent periods falls as a result of events that objectively occur after the date the impairment is recognized, the impairment is recognized in income to a corresponding extent. However, assets are not written up to a value in excess of the amortized costs.

If the downturn in the fair value of an available-for-sale financial asset was previously taken directly to equity, this impairment is deleted from equity and recognized as an expense as soon as there is an objective indication of impairment. The amount of the impairment corresponds to the difference between the acquisition costs (less any repayments and amortization) and the actual fair value, less any write-downs recognized as expenses in the past for the financial asset. Write-downs recognized as expenses for available-for-sale equity instruments are not recognized as expenses but are reversed via equity. Write-ups for debt instruments that objectively occurred after the date that the impairment was recorded are recognized in income.

Impairment

On each balance sheet date, the SKW Metallurgie Group reviews the carrying amounts of its intangible assets, property, plant and equipment and investment properties 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 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 case, in the following year the portion which is outside the corridor is divided by the average period of service of the entitled, active employees as additional income or expense. 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

Bonus payments and profit participations are recognized as an expense or carried as a liability on the balance sheet date. 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 has set up a stock-option program for the members of its Executive Board and top level management. According to IFRS 2, in the case of share-based payments, a difference is made between cash-settled transactions and equity-settled transactions. In the case of equity-settled transactions, the fair value is identified on one occasion on the date these are granted. In this case, 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 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		Exchange rate on balance sheet date Dec. 31, 2010	Dec. 31, 2009	Average exchange rate 2010	2009
Brazil	BRL	2.2177	2.5113	2.3318	2.7674
China (PR)	CNY	8.8220	9.8350	8.9725	9.5277
Hong Kong	HKD	10.3856	11.1709	10.3002	10.8114
India	INR	59.7580	67.0400	60.5915	67.3611
Bhutan	BTN	59.7580	67.0400	60.5915	67.3611
Japan	JPY	108.6500	133.1600	116.2691	130.3366
Canada	CAD	1.3322	1.5128	1.3653	1.5850
Mexico	MXN	16.5475	18.9223	16.7390	18.7989
Russia	RUB	40.8200	43.1540	40.2601	44.1376
Sweden	SEK	8.9655	10.2520	9.5389	10.6191
South Korea	KRW	1,499.0600	1,666.9700	1,531.9110	1,772.9039
Turkey	TRL	2.0694	2.1547	1.9967	2.1631
US	US$	1.3362	1.4406	1.3258	1.3948

Liabilities

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 a shareholder or non-controlling interest has a right of termination and, at the same time, exercising this right evidences a compensation claim against the company. Any such capital provided by non-controlling 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. Non-current 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 a cash-flow hedge to hedge against the risk from changes in interest rates. The underlying hedge transaction is an interest rate swap. In addition, the group 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 subsidies are carried as a reduction in cost for the respective assets and lead to a corresponding reduction in the scheduled amortization/depreciation in subsequent periods. Subsidies that are not related to investments are carried as other operating income in the periods in which the expenses are incurred that are to be compensated for by the subsidy.

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 are 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.

Management notes that future results often differ from forecasts and that estimates generally require adjustments.

Assumptions and estimates are required in particular in the following areas:

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 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 include, to a substantial extent, estimates and assessments of individual receivables that are based on the creditworthiness of the respective customer, current economic developments and an analysis of historical defaults on receivables. The SKW Metallurgie Group takes country ratings into account in order to determine the country-specific component of the individual write-down. These country ratings 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 results of a construction contract cannot be reliably estimated, the contract income is only to be recognized in the amount of the order-based costs that are expected to be refunded. Order-based costs are recorded 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.

Income taxes

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 SKW Metallurgy Sweden AB (previously: Goldcup 6165 AB) in 2010

On December 9, 2010, SKW Stahl-Metallurgie Holding AG acquired a 100% interest in the Swedish company SKW Metallurgy Sweden AB (previously: Goldcup 6165 AB) as part of a share deal. The purchase price for this acquisition totaled EUR 5 thousand and was fully paid in 2010. The purchase price is broken down into the acquired assets, liabilities and contingent liabilities at fair values according to the purchase price allocation in IFRS 3.

The acquired assets and liabilities were as follows:

Acquired net assets in EUR thousand	Carrying amounts as of Dec. 9, 20120	Hidden reserves	Fair value as of Dec. 9, 20120
ASSETS			
EQUITY AND LIABILITIES	**0**	**0**	**0**
Net assets	**5**	**0**	**5**
Minority interest			0
Acquired net assets			**5**

Identification of goodwill in EUR thousand	Dec. 9, 2010
Purchase price	5
Less net assets acquired measured at fair value	-5
Total goodwill	**0**

Acquisition of Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A in 2009

As of December 23, 2009 SKW Serviços Metalúrgicos do Brasil Ltda, São Bernardo do Campo (Brazil), which has now been merged with Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, acquired a 66.67% interest in Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A as part of a share deal. As a result of the finalization of the purchase price allocation in 2010 there were the following adjustments to the assets and liabilities compared to 2009:

Adjustment to assets and liabilities in EUR thousand	Dec. 31, 2010
Customers	-864
Brand name	-567
Technology	-229
Beneficial contract	-170
Property	+625
Buildings	-205
Investments and advance payments made	-439
Deferred taxes - net	+1,377
Total	**-472**

The acquired assets and liabilities were as follows:

Acquired net assets in EUR thousand	Carrying amounts as of	Hidden reserves	Fair value as of
ASSETS			
Customers	0	7,564	7,564
Brand name	0	7,219	7,219
Technology	0	3,195	3,195
Beneficial supply agreement	0	5,726	5,726
Other intangible assets	71	0	71
Intangible assets	**71**	**23,704**	**23,775**
Property	92	1,018	1,110
Buildings	1,436	1,494	2,930
Investments and advance payments made	3,281	187	3,468
Property, plant and equipment	**4,809**	**2,699**	**7,508**
Other assets	**6,638**	**72**	**6,710**
Deferred tax assets	**277**	**8,019**	**8,296**
	11,795	**34,494**	**46,289**
EQUITY AND LIABILITIES			
Other liabilities	11,863	0	11,863
Deferred tax liabilities	0	9,002	9,002
	11,863	**9,002**	**20,865**
Net assets	**-68**	**25,492**	**25,424**
Minority interest			-5,802
Acquired net assets			**19,622**

Identification of goodwill in EUR thousand	Dec. 31, 2010
Purchase price	22,338
Less net assets acquired measured at fair value	-19,622
Total goodwill	**2,716**

A deferred tax asset was carried as a result of the tax deductibility of tax goodwill exceeding the IFRS goodwill. This deferred tax asset is not considered when calculating the amount of the non-controlling interests.

Acquisition of a Swedish calcium carbide plant in 2011

As part of an asset deal, the SKW Metallurgie Group has acquired a calcium carbide production plant in Sweden from the Dutch coatings and chemicals company AkzoNobel. It has acquired land, production facilities, inventories, receivables and liabilities. Singing was communicated in an ad-hoc release on December 17, 2010, closing was on February 1, 2011. The preliminary purchase price totaled EUR 5,585 thousand. The final purchase price was not yet set on the date the financial statements were prepared, as the post-closing process is currently still running. This will identify the final working capital. The purchase price is broken down into the acquired assets, liabilities and contingent liabilities at fair values according to the purchase price allocation in IFRS 3. This had not been completed on the date the financial statements were prepared.

D. NOTES ON THE BALANCE SHEET AND INCOME STATEMENT AND FURTHER INFORMATION

The figures below from the income statement relate to the entire calendar year for 2010 and 2009 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 countries and groups of countries (by customer location):

EUR thousand	2010	2009
Germany	20,114	20,387
EU 27 without Germany	56,865	34,615
USA and Canada	203,491	119,432
Japan	7,781	7,431
Mexico	6,444	2,702
Brazil	37,701	4,592
Russia and Ukraine	9,532	2,450
People's Republic of China	3,267	8,503
Rest of world	35,625	20,457
	380,820	**220,569**

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 1,395 thousand (previous year: EUR 3,813 thousand).

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

EUR thousand	December 31, 2010	December 31, 2009
Aggregate amount of costs incurred and recognized profits (less recognized losses) to date	12,916	11,936
Advance payments received	13,808	13,389
Amounts retained by customers	0	0

On the balance sheet date there were construction contracts with a credit balance from customers totaling EUR 1,481 thousand (previous year: EUR 738 thousand) and with a debit balance from customers totaling EUR 2,367 thousand (previous year: EUR 2,191 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	2010	2009
Income from booking out liabilities	475	664
Income from exchange rate fluctuations	9,367	1,808
Income from the disposal of non-current assets	19	24
Income from writing up receivables	0	5
Income from insurance	0	151
Income from service agreement with the associated company Jaipol	54	48
Other operating income	493	638
	10,408	**3,338**

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

3. Cost of materials

EUR thousand	2010	2009
Raw materials, consumables and supplies	215,413	134,190
Goods purchased	57,170	34,979
Services purchased	2,629	1,522
Other	1,967	2,481
	277,179	**173,172**

The cost of materials primarily relates to the „Cored Wire“ segment at an amount of EUR 121,016 thousand (previous year: EUR 68,324 thousand) and EUR 138,760 thousand (previous year: EUR 92,816 thousand) relates to the „Powder and Granules“ segment.

4. Personnel expenses

EUR thousand	2010	2009
Wages and salaries	29,109	16,852
Social security contributions, expenses for pension plans and benefits	9,992	6,241
	39,101	**23,093**

Personnel expenses in the period under review primarily relate to the „Cored Wire“ segment at an amount of EUR 12,891 thousand (previous year: EUR 8,418 thousand) and EUR 21,654 thousand (previous year: EUR 13,172 thousand) relates to the „Powder and Granules“ segment. There were expenses from stock option programs in the form of phantom stocks during the period under review (previous year: EUR 178 thousand).

5. Other operating expenses

EUR thousand	2010	2009
Outgoing freight/transport costs	15,727	9,225
General and administrative expenses	4,521	2,184
Commissions	4,854	1,839
Expenses for land and buildings	2,118	1,746
Expenses from exchange rate fluctuations	7,062	2,233
Cost taxes France (tax professionelle)	281	206
Consulting costs	2,019	1,353
Marketing and entertainment expenses	2,969	1,947
Loss from the disposal of assets	112	22
Write-downs on receivables	104	246
Research and development (material costs)	554	223
Repairs and maintenance	1,852	1,309
Insurance	1,044	833
Operating safety	176	139
Expenses for provision for EU antitrust proceedings	0	418
Other	4,465	3,954
	47,858	**27,877**

In 2010, the remaining other operating expenses related to a large number of small individual items with low amounts for the consolidated companies on the balance sheet date.

6. Depreciation and amortization

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

7. Income from associated companies

Income from affiliated companies of EUR 914 thousand (previous year: EUR 833 thousand) results solely from the company Jamipol Ltd., Jamshedpur (India).

8. Other interest and similar income

Other interest and similar income of EUR 359 thousand (previous year: EUR 173 thousand) mostly results from the interest on current bank balances of EUR 57 thousand (previous year: EUR 132 thousand and income from financial assets for Tecnosulfur S.A. in the amount of EUR 244 thousand (previous year: EUR 0 thousand).

9. Interest and similar expenses

The interest and similar expenses of EUR 2,698 thousand (previous year: EUR 2,627 thousand) results from the interest on liabilities to banks of EUR 2,321 thousand (previous year: EUR 2,371 thousand), commission for the provision of credit lines with banks totaling EUR 148 thousand, and to other third parties totaling EUR 229 thousand (previous year: EUR 256 thousand).

10. Income taxes

The income tax expense of EUR 5,946 thousand disclosed in the year under review (previous year: income tax income EUR 4,365 thousand) is broken down as follows:

EUR thousand	2010	2009
Deferred tax expense/income	7,326	-3,454
Deferred taxes	3,670	1,339
Deferred tax assets	-5,050	-2,250
Total deferred tax assets/liabilities	-1,380	-911
Total income tax income/expense	**5,946**	**-4,365**

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 non-period tax income totaling EUR 9 thousand.

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

EUR thousand	2010	2009
Earnings before taxes	15,007	-9,473
Income tax rate	27.00%	27.00%
Anticipated income taxes	4,052	-2,558
Tax allocations and settlements	96	236
Other tax effects taken directly to equity	394	-342
Impact of different income tax rates	1,432	-564
Non-period tax income	-9	-976
Income from associated companies	-241	-225
Other tax effects	222	64
Recognized tax expense/income	**5,946**	**-4,365**
Effective tax rate	39.62%	46.08%

11. Non-controlling interests in consolidated earnings

The consolidated net income for the period of EUR 9,061 thousand includes minority interests of EUR 1,538 thousand (previous year: EUR -84 thousand).

12. Earnings per share

Earnings per share (EPS) are calculated by dividing the consolidated earnings due to the parent company's shareholders by the weighted average number of ordinary bearer shares in circulation during the period under review. Earnings per share for the reporting period amounted to EUR 1.15 per share.

	2010	2009
Consolidated profit/loss in EUR thousand	9,061	-5,108
Less: Non-controlling interests in EUR thousand	-1,538	+84
Profit/loss attributable to shareholders of SKW Stahl-Metallurgie Holding AG in EUR thousand	7,523	-5,024
Weighted average number of shares in circulation in the period under review in thousand	6,545	4,566
Earnings per share in EUR	1.15	-1.10

Basic earnings per share corresponds to diluted earnings per share.

13. Intangible assets

During the year, development costs totaling EUR 62 thousand (previous year: EUR 153 thousand) were capitalized. Of the own work capitalized totaling EUR 57 thousand (previous year: EUR 153 thousand), development costs account for EUR 27 thousand (previous year: EUR 127 thousand).

Total R&D expenses of EUR 1,861 thousand (previous year: EUR 589 thousand) were recognized in income by the group in 2010. Of this amount, personnel expenses account for EUR 1,285 thousand (previous year: EUR 345 thousand), material costs account for EUR 554 thousand (previous year: EUR 223 thousand), and EUR 22 thousand (previous year: EUR 21 thousand) is due to amortization and depreciation.

The development costs capitalized at Affival S.A.S in the amount of EUR 62 thousand relate to various small projects.

The brand names are intangible assets with indefinite useful lives. These are the two brands Tecnosulfur and ESM. Use of the "Tecnosulfur" brand depends on the market on which the products are sold for hot metal desulphurization. It is to be assumed that it will be possible to use these markets for a very long according to current information, however it is not possible to determine the period of use. The useful life of the brand thus has to be viewed as being 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.

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, 2010	**967**	**18,672**	**16,383**	**14,818**	**1,621**	**11,165**	**63,626**
Currency translation	17	1,657	1,694	1,553	85	1,334	6,340
Additions to Group	0	6,857	0	0	0	0	6,857
Additions	1,069	0	0	0	62	3	1,134
Disposals	0	0	0	0	-46	0	-46
Revaluations from purchase price allocation	35	193	-941	-618	0	-435	-1,766
Reclassifications	151	0	0	0	-151	0	0
Balance at Dec. 31, 2010	**2,239**	**27,379**	**17,136**	**15,753**	**1,571**	**12,067**	**76,145**
Amortization on Jan. 1, 2010	**-423**	**0**	**-2,682**	**0**	**-761**	**-715**	**-4,581**
Currency translation	-4	0	-258	0	-58	-249	-569
Additions	-294	0	-1,754	0	-49	-4,000	-6,097
Disposals	0	0	0	0	0	0	0
Revaluations from purchase price allocation	-35	0	3	0	0	3	-29
Balance at Dec. 31, 2010	**-757**	**0**	**-4,691**	**0**	**-868**	**-4,961**	**-11,277**
Net carrying amount on Dec. 31, 2010	**1,482**	**27,379**	**12,445**	**15,753**	**703**	**7,106**	**64,868**

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, 2009	**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/depreciation 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 carrying amount on Dec. 31, 2009	**544**	**18,672**	**13,701**	**14,818**	**860**	**10,450**	**59,045**

Allocation of assets with indefinite useful lives to cash generating units

The carrying amounts of the assets with indefinite useful lives were allocated to cash generating units as follows prior to the recognition of impairment:

EUR thousand	Dec. 31, 2010	Dec. 31, 2009
ESM Group Inc		
- Goodwill	16,614	15,501
- Brand name	7,484	6,942
Tecnosulfur S.A.		
- Goodwill	10,765	3,270
- Brand name	8,270	7,877

Goodwill impairment

The annual impairment testing performed on December 31, 2010 for the goodwill acquired as part of the acquisition of the ESM Group and Tecnosulfur S/A did not result in any need for impairment in the cash generating units ESM Group Inc. and Tecnosulfur S/A which are both included in the Powder and Granules segment, as the recoverable amounts were higher than the carrying amounts.

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 15.51%. This rate for the total cost of capital used is based on the risk-free interest rate of 4.3% and a risk premium 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, 2010. In addition, valuation scenarios were conducted, in which even a pre-tax discount rate of 19.80% 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 3% and a pre-tax discount rate of 19.96%. This total cost of capital rate used is based on the theoretical model assumptions in Morningstar’s country risk coefficient model, which uses so-called country risk coefficients based on the cost of capital rate for Germany to identify the cost of capital for Brazil. A factor of 1.46 was used as the country risk coefficient (Brazil/Germany). The risk-free interest rate for Germany is 3.4%, the market risk premium for equity is 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 higher than the carrying amount as of December 31, 2010, with the result that there was no impairment of goodwill. In addition, valuation scenarios were conducted, in which even a pre-tax discount rate of 27.17% and an assumed 1% growth rate in the perpetuity would not lead to any goodwill impairment.

Brand name impairment

As of December 31, 2010, the annual impairment testing of the brand name ESM capitalized as part of the acquisition of the ESM Group and also the brand name capitalized upon acquisition did not result in any need for impairment, as in both cases the recoverable amount was higher than the carrying amount. In addition, it was also possible to rule out the need for impairment for the capitalized brand name Tecnosulfur, which was acquired on December 23, 2009, as the recoverable amount was also greater than the carrying amount.

For both brand names, the recoverable amount was determined by identifying the net realizable value using the license price analogy method.

14. Property, plant and equipment

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, 2010	**3,825**	**7,073**	**29,754**	**4,497**	**10,989**	**56,138**
Currency translation	220	597	2,669	502	1,323	5,311
Additions	314	109	2,851	672	19,577	23,523
Disposals	0	0	-247	-81	0	-328
Revaluations from purchase price allocation	83	499	151	174	-34	873
Reclassifications	0	351	1,906	-124	-2,133	0
Balance at Dec. 31, 2010	**4,442**	**8,629**	**37,084**	**5,640**	**29,722**	**85,517**
Amortization on Jan. 1, 2010	**-67**	**-1,124**	**-10,702**	**-1,691**	**0**	**-13,584**
Currency translation	-6	-99	-1,182	-231	0	-1,518
Additions	-13	-677	-3,803	-903	0	-5,396
Disposals	0	0	363	55	0	418
Revaluations from purchase price a cation	0	-697	-691	-197		-1,585
Reclassifications	0	0	0	0	0	0
Balance at Dec. 31, 2010	**-86**	**-2,597**	**-16,015**	**-2,967**	**0**	**-21,665**
Net carrying amount on Dec. 31, 10	**4,356**	**6,032**	**21,069**	**2,673**	**29,722**	**63,852**

The property, plant and equipment of EUR 63,852 thousand include leased property, plant and equipment of EUR 585 thousand, the beneficial ownership of which can be attributed to the Group as the economic owner due to the arrangement of the underlying leases (finance leases). Of this total, EUR 215 thousand is due to buildings (previous year: EUR 229 thousand), and EUR 370 thousand is due to technical equipment (previous year: EUR 570 thousand). In addition, of the property, plant and equipment EUR 3,093 thousand (previous year: EUR 2,861 thousand) has been provided as collateral to a local bank for a credit line for Affival Inc.

In 2010, borrowing costs of EUR 612 thousand (previous ear: EUR 115 thousand) were capitalized at SKW Tashi Metals&Alloys for the low shaft furnace being constructed. The borrowing rate used to determine the amount which can be capitalized totaled 6.42% (previous year: 7.00%) for borrowing. This was taken out specially for the procurement of the qualified asset and 3.93% (previous year: 6.74%) for the borrowing which was taken out in general and used for the procurement of the qualified asset.

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, 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**
Amortization/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 on Dec. 31, 2009	**3,758**	**5,949**	**19,052**	**2,806**	**10,989**	**42,554**

15. Interests in associated companies

The shares (30.22 % of share capital) in the associate Jamipol Ltd., Jamshedpur (India) are carried at equity. As it was not possible to have separate interim financial statements prepared as of December 31, 2010, this company is included based on the results reported by this company for the twelve-month period ending on December 31, 2010. During the business year from April 1, 2009 to March 31, 2010, this company recorded revenues of EUR 22,289 thousand and annual net income of EUR 3,138 thousand, translated using the average rate of exchange for 2010. Total assets in the financial statements as of March 31, 2010 amounted to EUR 9,931 thousand, equity totaled EUR 9,522 thousand and liabilities totaled EUR 409 thousand. On the date this company's business year ended, Jamipol Ltd. had contingent liabilities of EUR 387 thousand.

The at-equity-approach was applied as follows in business year 2010:

EUR thousand	2010	2009
Balance at Jan. 1, 2010	**4,477**	**3,960**
Proportionate net income	914	833
Currency translation differences	384	97
Income taxes	-132	-51
Profit distribution received	-940	-362
Balance at Dec. 31, 2010	**4,703**	**4,477**

16. Deferred tax assets and liabilities

The deferred tax assets carried as of December 31, 2010 result from deferred tax assets on temporary differences between the carrying amounts under IFRS and in the tax base as well as deferred tax assets formed on tax losses carried forwards (EUR 2,730 thousand). Taking into account the forecast results for business year 2010, this means that EUR 1,141 thousand can be used over the short term.

The deferred tax assets and liabilities as of December 31, 2010 result from the following balance sheet items:

EUR thousand	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Intangible assets	7,003	5,056	13,389	11,543
Property, plant and equipment	26	1	3,814	4,097
Financial Assets	524	514	0	0
Inventories	788	950	14	18
Other assets	165	241	79	61
Provisions for pensions	166	56	0	0
Other provisions	219	380	0	0
Other liabilities	2,947	1,020	163	1
Tax loss carryforwards	2,730	2,141	0	0
Gross amount	**14,568**	**10,359**	**17,459**	**15,720**
Netting	-675	-309	-675	-309
Carrying amount	**13,893**	**10,050**	**16,784**	**15,411**

Over the short term, there is an asset-side surplus for deferred taxes, which is not impaired as a result of the forecast results for business year 2011. No deferred taxes are formed for outside basis differences.

17. Inventories

EUR thousand	Dec. 31, 2010	Dec. 31, 2009
Raw materials, consumables and supplies	25,171	21,949
Finished goods and merchandise	17,985	16,186
Advance payments made	806	147
Goods underway	6,314	7,640
	50,276	**45,922**

In each case, inventories are measured at the lower of cost and the net realizable price on the balance sheet date. Inventories totaling EUR 1,749 thousand (previous year: EUR 5,234 thousand) are carried at their net realizable price.

EUR 22,225 thousand of inventories (previous year: EUR 21,163 thousand) is due to Cored Wire, and EUR 22,551 thousand (previous year: EUR 22,333 thousand) is due to Powder and Granules. Of the total inventories of EUR 50,276 thousand (previous year: EUR 45,922 thousand), inventories of EUR 28,044 thousand (previous year: EUR 26,372 thousand) are

assigned collateral as part of master loan 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 165 thousand (previous year: EUR 2,192 thousand). In addition, there were write-ups totaling EUR 94 thousand (previous year: EUR 970 thousand).

18. Trade receivables

EUR thousand	2010	2009
Receivables before write-downs	53,529	46,997
Write-ups	0	4
Depreciation and amortization	-40	-221
Carrying amount of receivables	**53,489**	**46,780**

Trade receivables on the balance sheet date (EUR 53,489 thousand) include receivables from production orders of EUR 1,481 thousand. The carrying amount of the receivables is due to Cored Wire in the amount of EUR 27,280 thousand (previous year: EUR 18,846 thousand) and Powder and Granules in the amount of EUR 22,436 thousand (previous year: EUR 26,782 thousand). Receivables of EUR 18,883 thousand (previous year: EUR 16,767 thousand) are assigned as collateral in master loan agreements in the „Powder & Granules“ segment plus EUR 8,402 thousand in the „Cored Wire“ segment (previous year: EUR 6,135 thousand). In addition, trade receivables include receivables from the associate Jamipol Ltd. in the amount of EUR 102 thousand (previous year: EUR 48 thousand). Trade receivables of EUR 40 thousand were impaired in 2010.

19. Other assets

The other assets disclosed include the following amounts:

EUR thousand	Dec. 31, 2010		Dec. 31, 2009	
	current	non-current	current	non-current
Income taxes	2,161	0	2,037	0
Other tax receivables	3,734	0	2,657	0
Prepaid expenses	1,750	0	2,925	0
Insurance receivables	659	0	375	0
Derivative financial instruments	60	0	124	0
Loans to third parties	0	447	0	528
Bank balance in locked account for guarantee	2,698	0	679	0
Advance payment for customs and import taxes	0	0	444	0
Other receivables	1,524	89	1,942	73
	12,586	**536**	**11,183**	**601**

Other receivables include a large number of individual items with low amounts from the consolidated companies. The item bank balance in locked account for guarantee relates to a cash deposit for the bank guarantees selected as part of the ongoing EU proceedings. In 2010, other assets of EUR 70 thousand were impaired. However, there were no overdue impaired other assets as of December 31, 2010.

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. EUR 3,491 thousand of this (previous year: EUR 1,174 thousand) relates to the Cored Wire segment, EUR 2,621 thousand (previous year: EUR 2,211 thousand) to the Powder and Granules segment, EUR 4,844 thousand to the Other segment (previous year: EUR 7,667 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 has one vote, unless voting rights are restricted due to statutory provisions. The number of fully paid in shares is the number of issued shares.

Share premium

The share premium of EUR 50,741 thousand includes the premium and the costs taken directly to equity in connection with the 2009 capital increase of EUR 691 thousand.

Authorized capital

On the balance sheet date there was still authorized capital of EUR 77,320 thousand. This is the part of the "Authorized Capital 2007/I" (resolution by the General Meeting on June 18, 2007) which was not exhausted by the capital increase in 2009.

Treasury shares

The company did not hold any treasury shares on the balance sheet date [information according to Section 160 (1) No. 2 of the AktG]. The authorization to acquire treasury shares issued by the General Meeting on June 4, 2009 expired on December 4, 2010 without being exercised.

Other accumulated equity

Other accumulated equity developed as follows:

EUR thousand	Dec. 31, 2009	Change in 2010	Dec. 31, 2010
Retained earnings	44,757	412	45,169
Net investments in a foreign operation	-1,652	1,636	-16
Unrealized gains/losses from derivatives (hedge accounting)	-737	22	-715
Differences from currency conversion	-1,226	3,063	1,837
Taxes on income and expenses carried directly under equity	321	-42	279
	41,463	**+5,091**	**46,554**

The taxes on income and expenses carried directly under equity relate exclusively to unrealized gains/losses from derivatives (hedge accounting).

Currency translation adjustments

The gains totaling EUR 3,986 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) and the South Korean won (KRW), the Bhutanese ngultrum (BTN) and the Brazilian real (BRL). Furthermore, equity includes a loss from translation differences from net investments in foreign operations in the amount of EUR 17 thousand.

These result from four loans in USD (EUR +689 thousand), which were issued by SKW Stahl-Metallurgie Holding AG to SKW Quab Chemicals Inc. and to the ESM Group Inc., and also to a loan in KRW (EUR -130 thousand) which was issued by Affival S.A.S. to Affival Korea, and a loan in USD (EUR -576 thousand) which was issued by Affival Inc. to Affimex Cored Wire S. de R. L. de C.V.

Dividend proposal

The Executive Board and the Supervisory Board have resolved to make a proposal to the General Meeting to distribute a gross dividend of EUR 0.50 per entitled share from the net retained profits of SKW Stahl-Metallurgie Holding AG for business year 2010 as calculated in line with the principles of the German Commercial Code (HGB). This would result in a dividend disbursement totaling EUR 3,272 thousand assuming an unchanged number of 6,544,930 entitled shares.

22. Additional information on capital management

SKW Metallurgie has an obligation to maintain a strong financial profile that allows the group to achieve its growth and portfolio optimization goals through financial flexibility. Our credit rating with banks plays a key role in maintaining our strong financial profile. This rating is impacted by our capital structure, profitability, ability to generate funds, diversification in terms of products and geographic regions, and our competitive situation. The KPIs for capital management are the equity ratio and net debt/EBITDA. The SKW Metallurgie Group aims to achieve an equity ratio of between 30% and 50% with net debt/EBITDA of less than 3.0. Capital management aims to ensure that the group will continue to be able to meet all of its financial obligations and to generate a long-term increase in enterprise value. Equity, total assets and net debt/EBITDA were as follows on December 31, 2010 and 2009

EUR thousand	Dec. 31, 2010	Dec. 31, 2009	Change in %
Equity	**122,258**	**109,026**	**12%**
As a % of total capital	*44%*	*47%*	
Current liabilities	88,937	81,460	
Non-current liabilities	64,562	41,178	
Liabilities	**153,499**	**122,638**	**25%**
As a % of total capital	*56%*	*53%*	
Total capital (equity plus borrowing)	**275,757**	**231,664**	**19%**
Net debt/EBITDA	**1.64**	**n.a.**	

Equity increased by 12% year-on-year in 2010. Liabilities increased by 25% as against the previous year. Overall, in business year 2010 this led to a ratio of borrowing to total capital of 56% in after 53% in 2009. The equity ratio totaled 44% compared to 47% in business year 2009.

23. Pension obligations

Provisions for pensions were recognized at a total of four group companies. In particular, the total provision of EUR 2,891 thousand (previous year: EUR 1,854 thousand) is due, in particular, to the following companies:

- SKW Stahl-Metallurgie Holding AG (EUR 988 thousand/previous year: EUR 130 thousand)
- SKW Stahl-Metallurgie GmbH (EUR 1,173 thousand/previous year: EUR 1,220 thousand)
- Affival S.A.S. (EUR 482 thousand/previous year: EUR 500 thousand)

The value ascertained using the percentage unit credit method developed as follows as of the balance sheet date:

EUR thousand	2010	2009
Projected unit credit January 1	2,226	1,928
Ongoing service cost	95	85
Interest expenses	112	98
Pension payments	-117	-39
Compensation	0	0
Actuarial gains/losses	397	122
Past service cost	966	32
Currency translation	30	0
Projected unit credit December 31	**3,709**	**2,226**

The anticipated pension payments total EUR 117 thousand in 2010.

The changes in fund assets relates exclusively to the benefit plan in France and are as follows:

EUR thousand	Dec. 31, 2010	Dec. 31, 2009
Projected unit credit December 31	**3,709**	**2,226**
Expected return on fund assets	3	8
Pension payments	0	0
Actuarial gains/losses	2	-4
Fair value fund assets Dec. 31	**193**	**188**

The actual income from plan assets amounts to around EUR 3 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, 2010	Dec. 31, 2009
Plans covered by fund assets	286	188
Plans not covered by fund assets	3,423	2,038
Projected unit credit December 31	**3,709**	**2,226**

EUR thousand	Dec. 31, 2010	Dec. 31, 2009
Cash value of the pension commitments	3,709	2,226
Unrecognized actuarial gains	-531	-184
Fair value of plan assets	-193	-188
Past service cost not yet carried	-94	0
	2,891	**1,854**

The following is carried as pension expenses for the business year:

EUR thousand	2010	2009
Ongoing service cost	95	85
Interest on anticipated pension commitments	112	98
Amortization of actuarial gains/losses	19	6
Past service cost	826	32
Anticipated income for plan assets	-3	-8
	1,049	**213**

The calculation is based on the following actuarial assumptions:

EUR thousand	Dec. 31, 2010		Dec. 31, 2009	
	Germany	France	Germany	France
Discount rate	5.15%	4.5%	5.4%	4.8%
Development of salaries	0.0 – 2.5%	2.5 – 3.0%	2.0% -3.0%	2.5%
Development of pensions	1.0%	2.0%	1.25%	2.0%
Anticipated return on plan assets	n.a.	1.7%	n.a.	4.5%

Fluctuation probabilities based on age and gender were used as the basis of actuarial calculations. In Germany, the Heubeck mortality tables 2005 G were used for 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.

A change in the above discount rates by +0.25 percentage points would lead to a change in the projected unit credit of EUR -183 thousand, and a change of -0.25 percentage points would lead to a change in the projected unit credit of EUR +184 thousand.

EUR thousand	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2010
Projected unit credit	2,370	1,968	1,935	2,226	3,709
Fair value of plan assets	363	285	185	188	193
Gains or losses from the plans	2,007	1,683	1,750	2,038	3,516

The adjustments based on past experience totaled EUR -198 thousand in business year 2010 (previous year: EUR -6 thousand).

The structure of plan assets for the pension plans is composed as follows:

EUR thousand	Portfolio structure Dec. 31, 2010
Shares	0%
Fixed-income securities	100%
Real estate/other	0%
Total	**100%**

24. Obligations from finance leases

In the 2010 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 2010 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	27	0	27
Residual term 1 - 5 years	0	0	0
Total	**27**	**0**	**27**

The liabilities from finance leases disclosed are mostly due to various finance leases for Affival S.A.S.'s property, plant and equipment.

The following table shows the figures for the previous year:

EUR thousand	Summe der künftigen Mindestleasingzahlungen	Abzinsungsbetrag	Barwert
Residual term of up to 1 year	162	4	158
Residual term 1 - 5 years	27	0	27
Total	**189**	**4**	**185**

25. Other provisions

Other provisions changed as follows:

EUR thousand	As of Jan. 1, 2009	Addition to group	Take-up	Addition	Reversal	Reclassification	Currency differences	As of Dec. 31, 2009
Provision for EU antitrust proceedings	6,650	0	0	0	0	0	0	6,650
Tax provisions	0	0	0	1,700	0	0	88	1,788
Miscellaneous other provisions	1,609	0	-498	589	-543	-82	53	1,128
Other provisions	**8,259**	**0**	**-498**	**2,289**	**-543**	**-82**	**141**	**9,566**

Miscellaneous other provisions include various items, such as provisions for investigations by customs authorities in the amount of EUR 289 thousand (previous year: EUR 529 thousand), for consulting in the amount of EUR 98 thousand (previous year: EUR 325 thousand), for stock option plans totaling EUR 289 thousand (previous year: EUR 202 thousand), for vacation pay, 13th month's salary and employee profit participation in the amount of EUR 346 thousand (previous year: EUR 226 thousand).

The addition under miscellaneous other provisions mostly results from the additions for the phantom stocks program in the amount of EUR 87 thousand and for vacation pay, 13th month's salary and employee profit participation in the amount of EUR 120 thousand.

Of the total other provisions as of December 31, 2010, EUR 7,608 thousand are current (previous year: EUR 8,089 thousand) and EUR 1,958 thousand are non-current (previous year: EUR 170 thousand).

26. Financial liabilities

Financial liabilities of EUR 58,302 thousand (previous year: EUR 43,833 thousand) result from liabilities to banks of EUR 57,587 thousand (previous year: EUR 41,899 thousand) and liabilities to the Evonik Group of EUR 715 thousand (previous year: EUR 1,934 thousand).

Interest on financial liabilities is in a bandwidth of between 2.18% and 7.79% (previous year: 1.26% 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.

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	2010	2009
EUR	24,975	2,452
USD	20,094	35,848
JPY	2,848	1,411
KRW	600	403
CNY	907	813
BTN	8,875	2,617
BRL	3	289
Total	**58,302**	**43,833**

Remaining terms of liabilities

EUR thousand	2010			2009		
	< 1 year	1 – 5 years	> 5 years	< 1 year	1 – 5 years	> 5 years
Liabilities to banks	30,750	24,060	2,777	27,302	11,980	2,617
Liabilities to other third-parties	715		0	1,934	0	0
Financial debt	**26,966**	**21,618**	**9,718**	**29,236**	**11,980**	**2,617**

27. Trade payables

The trade accounts payable of EUR 37,988 thousand (previous year: EUR 32,520 thousand) as of the balance sheet date were to third parties. These include liabilities from production orders of EUR 2,367 thousand. Current trade payables are carried at their nominal or repayment amount and are due in full within one year.

28. Other liabilities

EUR thousand	Dec. 31, 2010		Dec. 31, 2009	
	current	non-current	current	non-current
Other taxes	2,066	0	2,855	0
Social security contributions	916	0	723	0
Wages and salaries	3,946	28	1,557	31
Interest liabilities	35	0	80	0
Advance payments received	55	0	7	0
Derivative financial instruments	62	715	57	737
Outstanding invoices	726	0	423	0
Liability from White Martins contract	3,448	1,749	2,341	4,534
Downstream acquisition liabilities	2,660	8,145	1,561	3,134
Healthcare payments	168	0	135	0
Employee accident insurance	149	0	125	0
Legal and consulting costs	293	0	174	0
Miscellaneous other liabilities	1,035	956	1,117	0
Summe	**15,559**	**11,593**	**11,155**	**8,436**

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 filling, 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 segments 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 includes the business activities of SKW Quab Chemicals Inc., which sells special cationizing chemical reagents in more than 40 countries, and also the group's management including intra-group services. 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 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.

2010 in EUR thousand	Cored Wire	Powder and Granules	Other	Consolidation	Group
Revenues					
Third-party revenues	183,010	175,077	22,733	0	380,820
Internal revenues	293	24,495	0	-24,788	0
Total revenues	**183,303**	**199,572**	**22,733**	**-24,788**	**380,820**
Income from associated companies	0	914	0	0	914
EBITDA	**11,884**	**21,677**	**-4,722**	**0**	**28,839**
Scheduled amortization/depreciation	-1,983	-8,378	-1,132	0	-11,493
Non-scheduled amortization/depreciation	0	0	0	0	0
EBIT	**9,901**	**13,299**	**-5,854**	**0**	**17,346**
Dividends from subsidiaries	0	0	7,073	-7,073	0
Transfer of profit	0	-323	323	0	0
Interest income	52	278	1,199	-1,170	359
Interest expenses	-582	-2,212	-1,074	1,170	-2,698
Earnings before taxes	**9,371**	**11,042**	**1,667**	**-7,073**	**15,007**
Income taxes					-5,946
Consolidated net income for the year					**9,061**
Balance sheet					
Assets					
Segment assets	96,143	152,927	114,957	-92,973	271,054
Interests in associated companies		4,703			4,703
					275,757
Equity and liabilities					
Segment liabilities	63,258	102,784	46,309	-58,852	153,499
Consolidated liabilities					**153,499**
- ongoing capital expenditure (property, plant and equipment, intangible assets)	15,510	5,433	2,849	0	23,792

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

2009 in EUR thousand	Cored Wire	Powder and Granules	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 amortization/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
Absorption of losses	0	1,133	-1,133	0	0
Interest income	13	107	1,095	-1,042	173
Interest expenses	-425	-2,702	-542	1,042	-2,627
Earnings before taxes	**-5,409**	**-579**	**-1,485**	**-2,000**	**-9,473**
Income taxes					4,365
Consolidated net income for the year					**-5,108**
Balance sheet					
Assets					
Segment assets	69,619	132,706	82,423	-57,561	227,187
Interests in associated companies	0	4,477	0	0	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

In the presentation of information by countries and country groups, 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.

2010 in EUR thousand	Third-party revenues (customer's office)	Third-party revenues (company office)	Non-current assets*
Germany	20,114	22,510	9,900
EU 27 without Germany	56,865	74,767	5,589
USA and Canada	203,491	207,932	46,744
Japan	7,781	7,816	92
Brazil	37,701	41,716	42,478
Mexico	6,444	6,732	592
Russia and Ukraine	9,532	4,098	178
People's Republic of China	3,267	4,441	369
Rest of world	35,625	10,808	25,433
Total	**380,820**	**380,820**	**131,375**

* without deferred taxes and financial instruments (derivatives)

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

2009 in EUR thousand	Third-party revenues (customer's office)	Third-party revenues (company office)	Non-current assets*
Germany	20,387	27,955	7,809
EU 27 without Germany	34,615	38,993	5,975
USA and Canada	119,432	126,433	45,594
Japan	7,431	7,018	55
Brazil	4,592	737	36,661
Mexico	2,702	2,765	190
Russia and Ukraine	2,450	0	128
People's Republic of China	8,503	8,906	365
Rest of world	20,457	7,762	9,776
Total	**220,569**	**220,569**	**106,553**

* without deferred taxes and financial instruments (derivatives)

There was a relationship with a single customer which accounts for revenues of EUR 76,586 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 effects of EUR 457 thousand (previous year: EUR 36 thousand) – in the amount of EUR 10,956 thousand (previous year: EUR 11,052 thousand) includes the balance sheet item "cash and cash equivalents" which includes cash on hand and current bank balances.

The cash flow statement starts with consolidated net income. The gross cash flow of EUR 14,900 thousand shows the excess of income over expenses before any utilization of funds. The item “earnings from associated companies” totaling EUR 26 thousand stems from the net income from participating interests in 2010 from the Indian production company Jamipol Ltd. in the amount of EUR 914 thousand less the disbursement received in 2010 totaling EUR 940 thousand.

The cash flow from operating activities also included the change in working capital that resulted in a cash outflow of EUR 2,353 thousand. As a result, the cash flow from operating activities totaled EUR 12,547 thousand.

After the cash outflow from investing activities in the amount of EUR -24,718 thousand, which is mostly due to the investments in property, plant and equipment for the project in Bhutan, the SKW Metallurgie Group recorded a free cash flow after investments of EUR -12,171 thousand.

Bank loans in the amount of EUR 30,390 thousand were taken out to finance the investments in property, plant and equipment for the project in Bhutan and also the other investments. At the same time, bank loans of EUR 17,244 thousand were repaid. The remaining cash flow after the measures described, which amounted to EUR -553 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 1,873 thousand and interest received of EUR 64 thousand. Taxes of EUR 2,295 thousand were paid and EUR 1,644 thousand were refunded.

31. Other financial obligations

On the balance sheet date, there were other financial obligation, in particular from rental agreements and operating leases for buildings. There were other obligations arising from operating leases for operating and office equipment. The total future payments is as follows, listed in order of due dates:

EUR thousand	Dec. 31, 2010	Dec. 31, 2009
Rental and leasing commitments due		
- within one year	1,738	1,714
- between two and five years	5,447	4,201
- after five years	3,195	3,4000
Other commitments due		
- within one year	18,473	18,042
- between two and five years	142	39
- after five years	467	499

The other financial liabilities of EUR 19,082 thousand mostly stemmed from purchasing commitments from supply agreements in the amount of EUR 11,500 thousand for SKW Stahl-Metallurgie GmbH, EUR 3,214 thousand from guarantees issued for Affival S.A.S. and from the contractual commitments in the amount of EUR 1,063 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 feels it will be difficult to assert its claims.

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

Quab business

In the course of the purchase of the Quab business from Degussa Corporation Inc. on January 16, 2007, which was then owned by the Evonik Group (RAG Group at the time), the company issued a guarantee indemnification declaration to Gigaset AG, München (Munich), Germany which was then known as 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.

ESM Group

ESM Group Inc. is involved in a standing maritime law dispute with carriers and the owner of the freight ship „Rickmers Genua“. On March 8, 2005, this ship collided with the ship „Sun Cross“. The load that was on the ship was damaged considerably. As a result, there was a series of actions against the owner of the „Rickmers Genua“, the owner of the „Sun Cross“, and against ESM as well. The claims against ESM Group Inc. and ESM Tianjin are all based on the claim that the load of super-Sul Mg-89 must be declared as hazardous goods but that ESM did not do so due to insufficient labeling. ESM has already taken active steps to defend itself against the claims made by the plaintiffs. The civil plaintiffs are claiming USD 4.2 million plus interest of 5.58% p.a. from March 10, 2005 to the day the verdict is read. ESM has stated that the claims made against it are without merit. ESM feels it relatively unlikely that this dispute will end negatively and has also taken out sufficient insurance in this regard. 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 introduction 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 from the civil suit that has been initiated amount to around USD 14 million. On account of the matter described above, the Managing Board feels that availment of the ESM Group Inc. is not likely.

33. Executive bodies of the company

Supervisory Board

Titus Weinheimer, New York, NY (USA)
Attorney with Buchanan, Ingersoll & Rooney
Buchanan, Ingersoll & Rooney pc, Attorney
Chairman of the Supervisory Board
(from June 10, 2008, reelection on June 15, 2009)

Jochen Martin, Munich (Germany)
Independent M&A consultant
Deputy Chairman of the Supervisory Board
(since June 15, 2009)

Dr. Dirk Markus, Feldafing (Germany)
Aurelius AG, CEO
Member of the Supervisory Board
(since June 4, 2009)

Dr. Christoph Schlünken, Sulzbach-Rosenberg (Germany)
Eckart GmbH, Managing Director
Member of the Supervisory Board
(since June 4, 2009)

Armin Bruch, Erzhausen (Germany)
SGL Carbon SE, member of the Managing Board
Member of the Supervisory Board
(since June 15, 2009)

Sabine Kauper, Merching (Germany)
Phoenix Solar AG, CFO
Member of the Supervisory Board
(since June 15, 2009)

Managing Board

Ines Kolmsee, Tutzing (Germany)
Dipl.-Ing. (Engineering graduate),
CEO (May 25, 2006 to August 15, 2006 sole member of the Executive Board, CEO from August 16, 2006)

Gerhard Ertl, Garching a. d. Alz (Germany)
Dipl.-Kaufmann (Business administration graduate), CFO (since August 16, 2006)

Supervisory Board:

There have been no other changes to the members of the Supervisory Board since the size of the company's Supervisory Board was increased from three to six members as part of the Ordinary General Meeting on June 4, 2009. The Chairman and the Deputy Chairman have also remained unchanged.

As the company still does not have a statutory obligation to elect employee representatives to the Supervisory Board, the members of the Supervisory Board in the year under review were only shareholder representatives.

During the year under review, the Supervisory Board held five face-to-face meetings and four telephone meetings. In addition, eight resolutions by the Supervisory Board were passed unanimously in each case with the participation of all members by circulating the voting papers.

With the exception of Dr. Schlünken, who was not able to attend one face-to-face meeting due to the inclement weather, all of the members of the Supervisory Board attended all of these meetings. Dr. Markus and Mr. Martin were each not able to participate in one telephone

meeting. The Chairman of the Supervisory Board informed all of the absent members of the issues dealt with without delay.

In order to take the specific circumstances prevailing at the company into account, in addition to the audit committee and the nomination committee which were formed in 2009, the Supervisory Board also added a remuneration committee in the year under review.

As was also the case in 2009, the members of the audit committee were Dr. Dirk Markus (Chairman), Sabine Kauper and Jochen Martin. The audit committee held three face-to-face meetings and one telephone meeting. All of the members participated in all of these meetings.

During the year under review, the members of the remuneration committee were Titus Weinheimer (Chairman), Armin Bruch and Dr. Dirk Markus. This committee held four face-to-face meetings and one telephone meeting. All of the members participated in all of the meetings.

The members of the nomination committee were Titus Weinheimer (Chairman), Armin Bruch and Jochen Martin. The nomination committee met once during the year under review. All of its members attended this meeting.

Further mandates held by the members of SKW Stahl-Metallurgie Holding AG's Supervisory Board in business year 2010

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

Jochen Martin (Dipl.-Kaufmann = business administration graduate), independent M&A consultant, residing in München (Munich) (Germany), Deputy Chairman of the company's Supervisory Board

Supervisory Board	**Registered office**
MCH Management Capital Holding AG to October 31, 2010	München (Munich) (Germany),

Board of Directors/Advisory Council	**Registered office**
EPP Professional Publishing Group GmbH (Chairman)	München (Munich) (Germany)

Armin Bruch (Dipl.-Betriebswirt (FH) = business administration graduate), Member of the Managing Board of SGL Carbon SE, residing in Erzhausen (Germany)

Board of Directors/Advisory Council	**Registered 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. (Chairman)	Shanghai (PR China)
SGL CARBON Do Brasil LTDA.	Sao Paulo (Brazil)

These memberships in foreign supervisory bodies which are comparable with German Supervisory Boards are mandates within the SGL Group.

Sabine Kauper (Dipl.-Betriebswirtin (FH) = business administration graduate), CFO of Phönix Solar AG, residing in Merching (Germany)

Board of Directors/Advisory Council	**Registered office**
Phoenix Solar PTE. LTD.	Singapore (Republic of Singapore)
Phoenix Solar Systems Inc. (Member of the Board of Directors)	San Ramon (California/USA)

These memberships in foreign supervisory bodies which are comparable with German Supervisory Boards are mandates within the Phoenix Group.

Dr. Dirk Markus, CEO of Aurelius AG, residing in Feldafing (Germany)

Supervisory Board	**Registered office**
AURELIUS Beteiligungsberatungs AG (Chairman)	München (Munich) (Germany)
Berentzen-Gruppe Aktiengesellschaft	Haselünne (Germany)
Investunity AG (Chairman)	München (Munich) (Germany), to June 29, 2010
Lotus AG (Chairman)	Grünwald (Germany)
SMT Scharf AG (Chairman)	Hamm (Germany)
ED Enterprises AG (Deputy Chairman)	Grünwald (Germany) from October 29, 2010

The memberships in the German Supervisory Boards of AURELIUS Beteiligungsberatungs AG, ED Enterprises AG and Berentzen-Gruppe Aktiengesellschaft are mandates within the Aurelius Group.

Dr. Christoph Schlünken, Chairman of the Management of ECKART GmbH, residing in Sulzbach-Rosenberg (Germany)

Board of Directors/Advisory Council	Registered 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 (Chinese special administrative region of Hong Kong)
Eckart Shanghai Co. Ltd.	Shanghai (PR China)
Eckart Benelux B.V.	Uden (The Netherlands)
Eckart France SAS	Saint-Ouen (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.

Replacement 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

Executive Board:

Further mandates held by the members of SKW Metallurgie Holding AG's Executive Board in business year 2010

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 of Board of Directors
- SKW Quab Chemicals Inc., Vice President
- SKW Metallurgie USA, Inc., President
- ESM Group Inc., Chairman of Board of Directors
- ESM Special Metals & Technology Inc., Member of Board of Directors
- SKW Hong Kong Co. Ltd., Chairman
- SKW Verwaltungs GmbH, Managing Director
- SKW Service GmbH, Managing Director (since August 2, 2010)
- 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 Ltd., Chairman of Board of Directors
- Jamipol Ltd., Member of Board of Directors
- SKW Metallurgy Sweden AB, Chairman of Board of Directors (since December 9, 2010)

Gerhard Ertl

- Affival Inc., Member of Board of Directors
- SKW Quab Chemicals Inc., Vice President
- SKW Metallurgie USA, Inc., Executive Vice President and Secretary
- ESM Group Inc., Member of Board of Directors
- SKW Hong Kong Co. Ltd., Board member
- Quab Chemicals Belgium BVBA, Zaakvoerder (to December 31, 2010)
- Affimex Cored Wire S. de R.L. de C.V., Segundo Vice-Presidente
- Cored Wire Servicios S. de R.L. de C.V., Segundo Vice-Presidente
- SKW Tashi Metals & Alloys Private Ltd., Member of Board of Directors
- SKW Stahl-Metallurgie GmbH, Managing Director
- SKW Verwaltungs GmbH, Managing Director
- SKW Service GmbH, Managing Director (since August 2, 2010)

34. Remuneration of the Executive Bodies

The remuneration report is part of the audited notes to the consolidated financial statements and is included in the corporate governance report.

35. Related party disclosures

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 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

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 2010.

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 the dividends of Jamipol Ltd. in line with its participating interest in Jamipol Ltd. The income from the service agreement and the receivables from this company are as follows:

	2010	2009
Service agreement income	54	48
Receivables	102	48

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. This regulation applied for the first half of 2010, in economic effect no more remuneration has been paid since July 1, 2010.

Related individuals

The active members of the Executive and Supervisory Boards and their 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 Board (and their family members) are not defined as related individuals.

Members of the Supervisory Board:

As stated under No. 33 „Executive bodies of the company“, 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 small 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, payments totaling EUR 22 thousand were made in this regard.

Remuneration for activities as a member of the company’s Supervisory Board is described in No. 34 “Remuneration of the executive bodies”.

Members of the Executive Board:

SKW Stahl-Metallurgie Holding 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

The SKW Metallurgie Group had an average total of 755 employees in business year 2010 (previous year: 540 employees). In most countries there is no longer a statutory distinction between industrial and non-industrial employees. The average number of employees include 481 industrial employees (previous year: 266), 269 commercial and technical employees (previous year: 274) and 5 apprentices (previous year: 0). On the balance sheet date, there were 790 employees (previous year: 715). Of this total, 497 were industrial employees (previous year: 347), 289 were commercial and technical employees (previous year: 365) and there were 4 apprentices (previous year: 3).

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, 2010		Dec. 31, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
Assets held to maturity	245	245	226	226
Loans and receivables	57,369	57,369	48,433	48,433
Financial assets held for trading	0	0	0	0
Available-for-sale financial assets	0	0	0	0
Derivative financial instruments	60	60	124	124
Financial liabilities				
Financial liabilities at amortized cost	113,374	113,374	86,595	86,595
Derivative financial instruments with no hedge accounting	62	62	57	57
Derivative financial instruments with hedge accounting	715	715	737	737

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, 2010 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 Dec. 31, 2010	Amortized cost	Amortized cost	Fair value taken directly to equity	Fair value recognized in income	Amortized cost	Fair value Dec. 31, 2010
Other assets	4,125	3,880	245	0	0	0	4,125
Trade receivables	53,489	53,489	0	0	0	0	53,489
Derivatives without hedge accounting	60	0	0	0	60	0	60

The figures for the previous year as of December 31, 2009 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 Dec. 31, 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 receivables	46,781	46,781	0	0	0	0	46,781
Derivatives without hedge accounting	124	0	0	0	124	0	124

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, 2010 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 Dec. 31, 2010	Amortized cost	Fair value	Amortized cost	Fair value Dec. 31, 2010
Financial debt	58,302	58,302	0	0	58,302
Trade payables	37,988	37,988	0	0	37,988
Liabilities from finance leases	27	0	0	27	27
Other liabilities	17,057	17,057	0	0	17,057
Derivatives without hedge accounting	62	0	62	0	62
Derivatives with hedge accounting	715	0	0	0	715

The figures for the previous year as of December 31, 2009 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 Dec. 31, 2009	Amortized cost	Fair value	Amortized cost	Fair value Dec. 31, 2009
Financial debt	43,833	43,833	0	0	43,833
Trade payables	30,329	30,329	0	0	30,329
Finance lease liabilities	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 carrying amount of the trade receivables and other current receivables and cash and cash equivalents is equal to their fair value.

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. Recognized models, such as the Black Scholes model, are used to identify 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.

Financial instruments are measured using market data that is obtained from recognized market data providers.

In the case of trade payables and other current liabilities, the carrying amount is equal to the fair value. 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 to the three stages in the fair value hierarchy.

EUR thousand	Stufe 1	Stufe 2	Stufe 3	Gesamt
Financial assets measured at market value				
- Derivative financial instruments	-	60	-	60
Financial liabilities measured at market value				
- Derivative financial instruments	-	777	-	777

The stages of the fair value hierarchy and their use for the assets and liabilities are described in the following sections:

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 (for example prices) or indirectly (for example 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 asset side and an interest rate sap and currency forwards on the 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 derivatives with hedge accounting, as these do not belong to any of the valuation categories under IAS 39.

EUR thousand	2010	2009
Loans and receivables	51	-107
Held-to-maturity financial assets	0	0
Available-for-sale financial assets	0	0
Derivatives without hedge accounting	90	63
Financial liabilities measured at amortized cost	39	290

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 fair values of the derivative financial instruments used in the group:

EUR thousand	Fair value Dec. 31, 2010	Fair value Dec. 31, 2009
Assets		
Currency derivatives without hedge accounting	60	124
Interest rate derivatives in cash flow hedges	0	0
Total	**60**	**124**
Equity and liabilities		
Currency derivatives without hedge accounting	62	57
Interest rate derivatives in cash flow hedges	715	737
Total	**777**	**794**

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 (interest rate swap). 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 December 31, 2010, hedge instruments were carried in the amount of EUR 715 thousand (previous year: EUR 737 thousand) with negative fair values. In business year 2010, the accumulated income and expenses taken directly to equity included unrealized earnings in the amount of EUR 80 thousand (previous year: EUR 386 thousand) before taxes, and EUR 93 thousand from exchange rate changes. The maximum period for which the cash flows from future transactions are hedged is 42 months.

As of December 31, 2010, 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 derivatives without hedge accounting 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 Executive Board. This part of the overall risk management system is the responsibility of the CFO. SKW Metallurgie‘s Executive Board bears ultimate overall responsibility and delegated responsibility to the risk manager and the financial departments of the individual group companies for operating and business reasons in close coordination with the Group‘s CFO. SKW Stahl-Metallurgie Holding AG‘s Executive 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. Intragroup financing and investments are preferably carried out in the respective functional currency.

The sensitivity analysis makes it possible to identify the risk items of the individual business units. It approximately quantifies the risk that can arise under the given assumptions if certain parameters are changed to a defined degree. The selected risk assessment assumes a simultaneous, parallel change in the euro against all foreign currencies in the consolidated financial statements by +10% and -10%. The potential economic impact is an 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 currency exchange rate fluctuations correlate with other parameters. In contrast the sensitivity analysis assumes that all other parameters remain constant (ceteris paribus).

The following table provides an overview of the impact on revenues, EBITDA and the net income/loss for the year of changes in all group currencies:

EUR thousand	Average exchange rate 2010 -10%	Average exchange rate 2010	Average exchange rate 2010 +10%
Revenues	412,325	380,820	355,043
EBITDA	32,175	28,839	26,109
Net income	9,943	9,061	8,339

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

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
Net loss for the year	-5,420	-5,108	-4,237

The following table shows the impact on equity of changes in the group's currencies (simulation of average and closing rates of exchange):

EUR thousand	Rates 2010 -10%	Rates 2010	Rates 2010 +10%
Equity	+12,111	0	-9,909

The analysis in the previous year produced the changes shown in the table below (only simulation of average exchange rates):

EUR thousand	Rates 2009 -10%	Rates 2009	Rates 2009 +10%
Equity	-312	0	+871

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 an interest rate derivative (interest rate swap) on December 31, 2010. This was directly allocated to a specific loan as a cash flow hedge. 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, 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, 2010 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, 2010	
	+100 basis points	-100 basis points
Equity	-289	+272

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

EUR thousand	Change in all interest rate curves as of December 31, 2009	
	+100 basis points	-100 basis points
Equity	-884	+491

Credit risk

The SKW Metallurgie Group 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. In addition, receivables from these contractual partners are not high enough to provide reasons for an extraordinary concentration of risks. Write-downs were made to account for the risk of default.

In 2010, trade payables of EUR 40 thousand (previous year: EUR 221 thousand and other receivables of EUR 70 thousand (previous year: EUR 25 thousand) were impaired. Of the trade receivables of EUR 50,276 thousand (previous year: EUR 46,780 thousand), receivables totaling EUR 27,008 thousand (previous year: EUR 2,801 thousand) were due but had not been written down.

The maturities of the overdue trade accounts receivable that have not been written down is as follows:

Trade receivables

EUR thousand	< 90 days	90 to 180 days	180 to 360 days	> 360 days	Total
2010	26,312	372	10	314	27,008
2009	2,592	19	13	177	2,801

There are no indicators that the debtors for these receivables will not meet their payment obligations. In addition, interest receivables of EUR 4 thousand (previous year: EUR 0 thousand) are due but have not been written down. There are also no indicators that the debtor for these receivables will not meet its payment obligations.

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. Management of the liquidity risk and thus the allocation of resources and securing the SKW Metallurgie Group’s financial independence is one of the central tasks of SKW Stahl-Metallurgie Holding AG. The SKW Metallurgie Group limits this risk with effective net working capital and cash management and access to lines of credit from banks, particularly for the Group‘s operating units. The company has long-standing relationships with banks and is in permanent dialog with its banks. The Executive Board does not have any indicators that these banks could terminate or limit their business relationships with the SKW Metallurgie Group. The Managing Board has analyzed several liquidity scenarios in this connection. As of December 31, 2010, the SKW Metallurgie Group had lines of credit totaling EUR 60,453 thousand (previous year: 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, the SKW Metallurgie Group observes how their availability and costs develop. 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, 2010, 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, 2010:

2010 in EUR thousand	< 30 days	30 – 90 days	90 – 180 days	180 < days < 360	1 - 2 years	3 - 5 years	> 5 years	Total
Liabilities to banks	9,657	94	12,358	9,196	19,340	13,529	3,026	67,200
Financial liabilities to other third-parties	712	3	0	57	0	0	0	772
Trade payables (without construction contracts)	21,750	13,528	339	4	0	0	0	35,621
Finance lease liabilities	4	8	15	0	0	0	0	27
Other liabilities	1,495	1,399	3,122	3,596	648	0	0	10,260
Derivative financial instruments without hedge accounting	50	12	0	0	0	0	0	62
Derivative financial instruments with hedge accounting	0	0	0	0	0	715	0	715

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

The following table shows a corresponding overview for the previous year 2009, including interest.

2009 in EUR thousand	< 30 days	30 – 90 days	90 – 180 days	180 < days < 360	1 - 2 years	3 - 5 years	> 5 years	Total
Liabilities to banks	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	3068	4601	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 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.

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 cont-

EUR thousand	Dec. 31, 2010	Dec. 31, 2009
Cash and cash equivalents	10,956	11,052
Total liquidity	**10,956**	**11,052**
Current financial liabilities	26,966	29,236
Non-current financial liabilities	31,336	14,597
Total financial liabilities	**58,302**	**43,833**
Net debt	**-47,346**	**-32,781**

rast, its capital requirements comprise the repayment of financial liabilities and interest payments, investments and ongoing finance for operating activities.

The SKW Metallurgie Group was capable of satisfying all its payment obligations from loan liabilities throughout the entire reporting period. There were no disruptions to payments in 2010. Existing financial covenants were upheld in 2010.

40. Share-based payments

The SKW Metallurgie Group has issued a three-tranche phantom stocks program for its Executive Board and executives. 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 phantom stocks program (PSP 1), the number of shares of SKW Metallurgie to be delivered 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. 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. In the phantom stocks program (PSP 2), the unweighted average closing prices of SKW Metallurgie's shares in XETRA trading (or a corresponding successor system) on the last 20 trading days prior to the date of starting and settlement dates ("comparable period") are compared with each other. The value of this increase in the share price at the end of the comparable period multiplied by 2000 results in the gross payment amount for the long-term remuneration. The starting date is the last day of trading prior to the start of the employment relationship. The settlement date is the last day of trading prior to the end of a period of two years from the starting date (e.g., September 1, 2009 to August 30, 2011). There is only an entitlement to long-term remuneration subject to the condition that the share price performance for shares of SKW Metallurgie is positive at the end of the comparable period and the percentage change in the share 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 the price of SKW Metallurgie shares and the SDAX at the end of the comparable period, in each case the average of the closing price for SKW Metallurgie shares in XETRA and the SDAX closing price are compared with each other.

A Monte-Carlo simulation is used to value the subscription rights in the phantom stocks program (PSP 1). 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, 2010 is based on the following input parameters:

Tranche	2 II / 2008	3 II / 2008	1 I / 2010	1 II / 2010
Grant date	Aug. 14, 2008	Dec. 30, 2008	Jan. 4, 2010	Jan. 4, 2010
Delivery date	March 31, 2011	June 30, 2012	June 30, 2011	Dec. 31, 2012
Exercise prices	€ 13.90	€ 15.40	€ 11.50	n.a.*
Closing price of SKW Metallurgie's shares	€ 20.35	€ 20.35	€ 20.35	€ 20.35
Risk-free interest rate	0.25%	0.66%	0.49%	0.89%
Anticipated volatility	36.85%	41.31%	32.71%	49.85%
Fair value of the subscription rights	**€ 6.47**	**€ 5.94**	**€ 8.57**	**€ 4.50**

* 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)	2011	2012
Dividend	€ 0.36	€ 0.53

The following table shows the changes in stock options:

	Number of subscription rights 2010
Amount at start of year	72,000
Granted during business year	1,500
Subscription rights exercised during the business year	0
Subscription rights expired/forfeited during the business year	10,000
Amount at year end	**63,500**
Thereof exercisable	0

The options outstanding at the end of the year have an average weighted remaining term of 11 months. The total expenses in 2010 for the employee stock option program totaled EUR 262 thousand. The provision on the balance sheet date totaled EUR 289 thousand.

41. Key events after the balance sheet date

After the end of the year under review on December 31, 2010, there were the following transactions and events of significance to the group which occurred before this management report was prepared.

- On February 1, 2011 the acquisition agreement signed during the year under review for the Swedish calcium carbide plant belonging to the AkzoNobel Group was successfully closed.
- The calcium silicon furnace at the new plant in Bhutan went live on March 3, 2011.

42. Notifications of voting rights and shareholder structure

Shareholder structure

There were the following shareholdings in SKW Metallurgie that carry a reporting requirement according to the WpHG (German Securities Trading Act) (3% or more of total voting rights) on December 31, 2010:

Name	Head office	Stock	Shares held correspond to	Date	Remarks
BT Pension Scheme Trustees Limited/Hermes	London, United Kingdom	318,886	4.87%	Mar. 15, 2010	5 individual notifications for the same shareholding
LBBW Asset Management Investmentgesellschaft mbH	Stuttgart, Deutschland	331,599	5.067%	Sept. 23, 2010	
Otus Capital Management L. P.	London, United Kingdom	196,847	3.008%	Oct. 4, 2010	3 individual notifications for the same shareholding
Universal-Investment-Gesellschaft mbH	Frankfurt/M., Germany	201,515	3.08%	Jan. 5, 2010	
	Total	**1,048,847**	**16.025%**		

The shareholdings only relate to the stated date; any possible subsequent changes only have to be reported if a reporting limit within the meaning of the Wertpapierhandelsgesetz (German Securities Trading Act) is reached, exceeded or fallen below. The interests stated can include allocable votes according to the German Securities Trading Act. As the same votes can, in certain cases, be allocated to more than one person, these voting rights can be included in more than one notification of voting rights. Both of these characteristics of notifications of voting rights significantly restrict the meaningfulness of the totals included in the above table.

The members of the Executive and Supervisory Boards together held less than 1% of SKW Metallurgie's shares on December 31, 2010.

Notification of voting rights

The notifications of voting rights (3% or more of total voting rights) are reproduced with their original wording according to Section 160 (1) Sentence 1 No. 8 of the AktG (in alphabetical order of the reporting parties)

BT Pension Scheme Trustees Limited (BTPSTL), London (United Kingdom) and associated notices:

April 9, 2010:
Correction of notification of voting rights published on March 23, 2010: BT Pension Scheme Trustees Limited (BTPSTL) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG that on 15 March 2010 their voting interest in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, fell below the 5% threshold of § 21 para. 1 WpHG and amounted to 4.87% of the voting rights (i. e. 318,886 shares with voting rights) at this day. All of these 4.87% of the voting rights (318,886 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to BTPSTL pursuant to both § 22 para. 1 sent. 1 no. 6 WpHG in connection with § 22 para. 1 sent. 2 WpHG via BFNL (BriTel Fund Nominees Limited) and

4.16% (272,498 shares with voting rights) pursuant to § 22 para. 1 sent. 1 no. 1 WpHG via its subsidiaries BFTL (BriTel Fund Trustees Limited) and BFNL (BriTel Fund Nominees Limited).

Correction of notification of voting rights published on March 23, 2010: BriTel Fund Nominees Limited (BFNL) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG that on 15 March 2010 their voting interest in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, fell below the 5% threshold of § 21 para. 1 WpHG and amounted to 4.87% of the voting rights (i. e. 318,886 shares with voting rights) at this day. 0.71% (46,388 shares with voting rights) were attributable to BFNL pursuant to § 22 para. 1 sent. 1 no. 6 WpHG in connection with § 22 para. 1 sent. 2 WpHG.

Correction of notification of voting rights published on March 23, 2010: BriTel Fund Trustees Limited (BFTL) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG that on 15 March 2010 their voting interest in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, fell below the 5% threshold of § 21 para. 1 WpHG and amounted to 4.87% of the voting rights (i. e. 318,886 shares with voting rights) at this day. All of these 4.87% of the voting rights (318,886 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to BFTL pursuant to § 22 para. 1 sent. 1 no. 6 WpHG in connection with § 22 para. 1 sent. 2 WpHG via its subsidiary BFNL (BriTel Fund Nominees Limited) and 4.16% (272.498 shares with voting rights) pursuant to § 22 para. 1 sent. 1 no. 1 WpHG via BFNL (BriTel Fund Nominees Limited).

Correction of notification of voting rights published on March 23, 2010: Hermes Fund Managers Limited (formerly named Hermes Pensions Management Limited (HFML) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG that on 15 March 2010 their voting interest in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, fell below the 5% threshold of § 21 para. 1 WpHG and amounted to 4.87% of the voting rights (i. e. 318,886 shares with voting rights) at this day. All of these 4.87% of the voting rights (318,886 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to HFML pursuant to § 22 para. 1 sent. 1 no. 6 WpHG in connection with § 22 para. 1 sent. 2 WpHG via BFNL (BriTel Fund Nominees Limited).

Correction of notification of voting rights published on March 23, 2010: Hermes Equity Ownership Services Limited (HEOS) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG that on 15 March 2010 their voting interest in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, fell below the 5% threshold of § 21 para. 1 WpHG and amounted to 4.87% of the voting rights (i. e. 318,886 shares with voting rights) at this day.

All of these 4.87% of the voting rights (318,886 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to HEOS pursuant to § 22 para. 1 sent. 1 no. 6 WpHG via BFNL (BriTel Fund Nominees Limited).

March 23, 2010:
BT Pension Scheme Trustees Limited (BTPSTL) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG that on 15 March 2010 their voting interest in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, fell below the 5% threshold of § 21 para. 1 WpHG and amounted to 4.87% of

the voting rights (i. e. 318,886 shares with voting rights) at this day. All of these 4.87% of the voting rights (318,886 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to BTPSTL pursuant to § 22 para. 1 sent. 1 no. 6 WpHG in connection with § 22 para. 1 sent. 2 WpHG and § 22 para. 1 sent. 1 no. 1 WpHG via its subsidiaries BFTL (BriTel Fund Trustees Limited) and BFNL (BriTel Fund Nominees Limited).

BriTel Fund Nominees Limited (BFNL) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG that on 15 March 2010 their voting interest in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, fell belowthe 5% threshold of § 21 para. 1 WpHG and amounted to 4.87% of the voting rights (i. e. 318,886 shares with voting rights) at this day. 0.71% were attributable to BFNL pursuant to § 22 para. 1 sent. 1 no. 6 WpHG in connection with § 22 para. 1 sent. 2 WpHG.

BriTel Fund Trustees Limited (BFTL) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG that on 15 March 2010 their voting interest in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, fell below the 5% threshold of § 21 para. 1 WpHG and amounted to 4.87% of the voting rights (i. e. 318,886 shares with voting rights) at this day. All of these 4.87% of the voting rights (318,886 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to BFTL pursuant to § 22 para. 1 sent. 1 no. 1 WpHG via its subsidiary BFNL (BriTel Fund Nominees Limited) and also pursuant to § 22 para. 1 sent. 1 no. 6 WpHG in connection with § 22 para. 1 sent. 2 WpHG.

Hermes Fund Managers Limited (formerly named Hermes Pensions Management Limited (HFML) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG that on 15 March 2010 their voting interest in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, fell below the 5% threshold of § 21 para. 1 WpHG and amounted to 4.87% of the voting rights (i. e. 318,886 shares with voting rights) at this day. All of these 4.87% of the voting rights (318,886 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to HFML pursuant to § 22 para. 1 sent. 1 no. 6 WpHG in connection with § 22 para. 1 sent. 2 WpHG.

Hermes Equity Ownership Services Limited (HEOS) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG that on 15 March 2010 their voting interest in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, fell below the 5% threshold of § 21 para. 1 WpHG and amounted to 4.87% of the voting rights (i. e. 318,886 shares with voting rights) at this day. All of these 4.87% of the voting rights (318,886 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to HEOS pursuant to § 22 para. 1 sent. 1 no. 6 WpHG.

LBBW Asset Management Investmentgesellschaft mbH, Stuttgart (Germany):

September 27, 2010:
LBBW Asset Management Investmentgesellschaft mbH, Stuttgart (Germany) informed us, within the meaning of Section 21 (1) of the WpHG, that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM013) exceeded 5% on September 23, 2010, and totaled 5.067% (or 331,599 voting rights) on this date. Of this total, 5.067% (or 331,599 voting rights are attributable according to Section 22 (1) Sentence 1 No. 6 of the WpHG.

Otus Capital Management L. P., London (United Kingdom):

October 6, 2010:
Otus Capital Management L. P., London (United Kingdom), informed us according to section 21 (1) WpHG that on October 4, 2010, their percentage of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM013, exceeded the threshold of 3% and as per that date amounted to 3.008% (196,847 voting rights). All of those voting rights are to be attributed to them pursuant to section 22 (1) sentence 1 no. 1 and no. 6 WpHG.

Universal-Investment-Gesellschaft, Frankfurt/M. (Germany):

January 7, 2010
Universal-Investment-Gesellschaft, Frankfurt/M. (Germany) informed us, within the meaning of Sections 21 (1) and 22 (1) Sentence 1 No. 6 of the WpHG, that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM013 exceeded 3% on January 5, 2010, and totaled 3.0789% (or 201,515 voting rights) on this date. Of this total, 0.764% (50,000 voting rights) were held directly and 2.315% (151,515 voting rights) were attributable according to Section 22 (1) Sentence 1 No. 6 of the WpHG (special funds).

43. Auditors' fees

The auditors' fees for the business year totaled EUR 163 thousand (previous year: EUR 402 thousand) and comprise audit services totaling EUR 163 thousand (previous year: EUR 172 thousand) and other services in the amount of EUR 0 thousand (previous year: EUR 230 thousand). In addition, during the year under review, a subsequent payment of EUR 33 thousand was made to the auditors for the previous year for audit services.

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 use of Section 264 (3) of the HGB were also met when these consolidated financial statements were prepared. According to Section 264 (3) Sentence 1 No. 4 of the HGB, we herewith state that the option offered in Section 264 (3) of the HGB is used for the subsidiary SKW Stahl-Metallurgie GmbH for the year under review.

45. Declaration of conformity for business year 2010

The Executive and Supervisory Boards of SKW Stahl-Metallurgie Holding AG have issued the annual declaration of conformity in line with Section 161 of the Aktiengesetz (AktG – German Joint-Stock Companies Act) on the recommendations of the „Government Commission German Corporate Governance Code" on December 2, 2010 and published this on the company's Internet site (www.skw-steel.com). SKW Stahl-Metallurgie Holding AG has complied with the recommendations of the German Corporate Governance Code in the respective current 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 Executive Board has authorized these consolidated financial statements for publication on March 11, 2011.

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, 2010 in EUR thousand)

Cored Wire segment

Name	Head office	Interest in %	Equity	Subscribed capital	Earnings for the the business year
Affimex Cored Wire S. de R.L. de C.V.	Manzanillo, Colima, Mexico	100	-2,442	3	-260
Affimex Cored Wire Servicios S. de R. L. de C. V.	Manzanillo, Colima, Mexico	100	18	3	-6
Affival Inc.	Williamsville, New York, USA	100	5,285	1	2,813
Affival KK	Tokyo, Japan	100	1,630	230	1,274
Affival Korea Co Ltd.	Dangjin, South Korea	100	1,787	709	379
Affival Mexican Holdings LLC	Wilmington, Delaware, USA	100	0	0	0
Affival SAS	Solesmes, France	100	20,170	5,483	7,181
Affival Vostock OOO	Kolomna, Russia	100	-405	0	-137
SKW France SAS	Solesmes, France	100	8,759	6,504	0
SKW Hong Kong Co. Ltd.	Hong Kong, Hong Kong (SAR of PR of China)	100	-3	1	-42[2]
SKW Tashi Metals & Alloys Private Limited	Phuentsholing, Bhutan	51	2,249	4,487	-1,449[2]
Tianjin Hong Long Metals Co. Ltd.	Tianjin, People's Republic of China	100	271	88	-52

Powder and Granules segment

Name	Head office	Interest in %	Equity	Subscribed capital	Earnings for the the business year
ESM Group Inc.	Wilmington, Delaware, USA	100	11,805	0	2,089
ESM Metallurgical Products Inc.	Nanticoke, Ontario, Canada	100	1,627	1	-296
ESM (Tianjin) Co. Ltd.	Tianjin, People's Republic of China	100	576	0	-127
SKW Celik Metalürji Üretim Ticaret Ve Sanayi Limited Sirketi	Taksim, Beyoglu, Turkey	99	2	2	0[2]
SKW Metallurgie USA Inc.	Wilmington, Delaware, USA	100	5,987	5,987	0[2]
SKW Metallurgy Sweden AB (previously: Goldcup 6165 AB)	Sundsvall, Sweden	100	6	6	0
SKW Stahl-Metallurgie GmbH	Unterneukirchen, Germany	100	2,730	25	0[1]
Tecnosulfur Sistema de Tratamento de Metais Líquidos	Sete Lagoas, Minas Gerais, Brazil	66,67	22,190	22,284	7,589

Other segment

Name	Head office	Interest in %	Equity	Subscribed capital	Earnings for the the business year
SKW Quab Chemicals Inc.	Wilmington, Delaware, USA	90	4,301	37	-1,136
SKW Service GmbH	Unterneukirchen, Germany	100	-25	25	-50
SKW Verwaltungs GmbH	Unterneukirchen, Germany	100	-247	25	-140[3]

Associated Companies (as of December 31, 2010 in EUR thousand)

Name	Head office	Interest in %	Equity	Subscribed capital	Earnings for the business year	Segment
Jamipol Ltd.[4]	Jamshedpur, India	30.22	9,522	1,883	3,138	Powder and Granules

Non-consolidated Subsidiaries (as of December 31, 2010 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

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 2010 are included in the figures for SKW Verwaltungs GmbH.
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, 2010 are included in the list of shareholdings The figures for the income statement were translated using the average exchange rate for 2010 and the figures for the balance sheet were translated using the closing exchange rate as of December 31, 2010.
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 11, 2011

SKW Stahl-Metallurgie Holding AG

The Executive Board

Ines Kolmsee
Chairperson (CEO)

Gerhard Ertl

Reiner Bunnenberg

Declaration by the Executive Board

To the best of our knowledge, we declare that, according to the principles of proper consolidated reporting applied, the consolidated financial statements provide a true and fair view of the Group's net assets, financial position and results of operations, that the group management report which has been combined with the management report of the parent company presents the Group's business including the results and the Group's position such as to provide a true and fair view and that the major opportunities and risks of the Group's of the foreseeable development are described.

Unterneukirchen (Germany), March 11, 2011

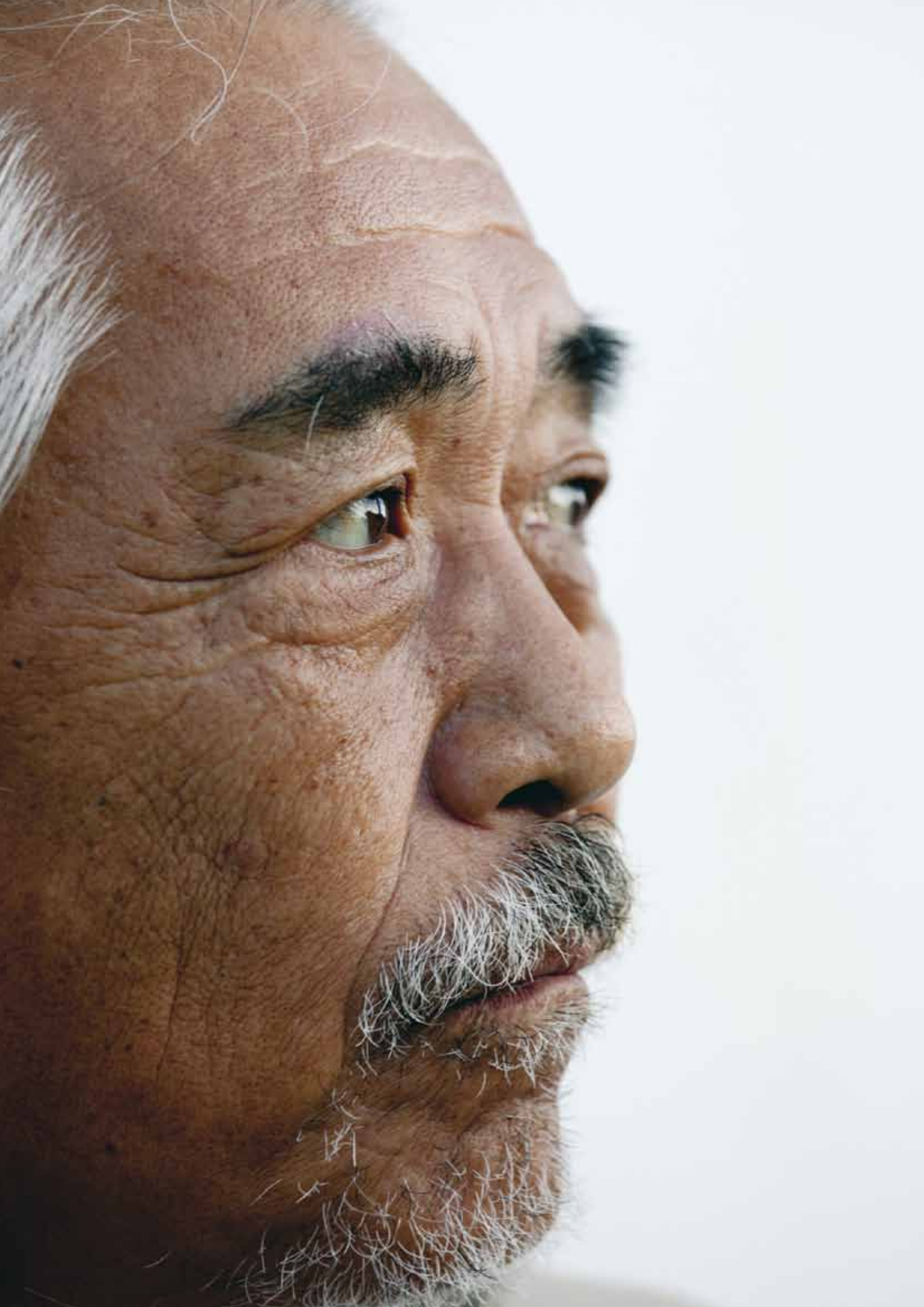
SKW Stahl-Metallurgie Holding AG

The Executive Bard

Ines Kolmsee
Chairperson (CEO)

Gerhard Ertl

Reiner Bunnenberg



RESILIENCE

… and determination have been shown by our Korean employees to a particularly great extent, when they were hit by a typhoon at the start of September 2010. Even just a few days after this natural disaster, our South Korean Affival factory was fully back on line. Even more important, not one single customer suffered even the slightest delay in the delivery of their orders. The team headed by the managing director Eun-Jung Lee worked night and day with great stamina to achieve this and, as could soon be seen, with great success. This is also honored by our customers, and culminates in long-standing, trusting cooperation.

All of our activities in Asia and in all of the other regions around the world are characterized by this stamina, loyalty and a high degree of professionalism which gives our international standards their very own local color – from the factory floor through to the board room.

Independent Auditors' Report

We have audited the consolidated financial statements prepared by the SKW Stahl-Metallurgie Hold-ing AG, Munich, – comprising the balance sheet, the income statement and statement of comprehen-sive income, the cash flow statement, the statement of changes in equity and the notes to the consoli-dated financial statements – and the group management report which is combined with the manage-ment report of the Company for the business year from 1 January to 31 December 2010. The prepara-tion of the consolidated financial statements and the combined group management report in accor-dance with IFRS, as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB („Ger¬man Commercial Code") are the responsibility of the parent Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group 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 state¬ments promulgated by the Institut der Wirtschaftsprüfer. 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 appli¬cable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the con¬solidated financial statements of the SKW Stahl-Metallurgie Holding AG, Munich, comply with IFRS, as adopted by the EU, the additional re-quirements of German commer¬cial law pursuant to § 315a Abs. 1 HGB and IFRS as promulgated by the IASB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group manage¬ment report is consistent with the consolidated financial statements and as a whole provides a suit¬able view of the group's position and suitably presents the opportunities and risks of future develop¬ment.

Munich, 11 March 2011

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Aumann	Schimmel
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Dear Shareholders,

Business year 2009 was certainly a difficult year. However, the SKW Metallurgie Group has put this behind it in 2010, and flanked by the recovering economy the group has recorded a pleasing upswing. Characterized by the acquisition in 2009 of a majority interest in the Brazilian company Tecnosulfur and its integration into the group of companies, the construction progress for our plant in Bhutan and the "signed" acquisition at the end of the year for the AkzoNobel Group's carbide business, 2010 was once again a year of continued internationalization for SKW Metallurgie. However, after years of massive growth, the group also attached greater value to reinforcing its internal structures in order to bolster the group for the future and to use potential synergies even more effectively. In addition, 2010 marked the start of an end-to-end project to make compliance structures uniform throughout the group. Implementation of this project also started in 2010.

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 Executive Board. In order to add detail to the interaction between the Supervisory and Executive Boards, and to meet the increased requirements, the Supervisory Board resolved to renew its by-laws and it approved the revised by-laws for the Executive Board. In particular, the Executive Board provided the Supervisory Board with regular, up-to-the-minute, extensive information, both in writing and verbally, on all of the relevant issues for the company's forecasting and its strategic development, the course of business and the group's position including budgeting, risks and risk management, and in particular on the individual projects.

The Supervisory Board's consultations focused on ongoing business growth as well as the corporate strategy and its implementation, progress in the existing global high-growth projects, the evaluation of potential new projects and the company's activities on the capital markets. In so doing, during the past business year, particular emphasis was placed on issues concerning the integration of the Brazilian company Tecnosulfur into the group, the construction progress for our plants in Bhutan and Russia, the planning and implementation of the compliance project and additional corporate governance issues. In particular, the Supervisory Board dealt in depth with restructuring the Executive Board's remuneration system.

In order to be able to better assess the economic position of the SKW Group, the Supervisory Board was provided with monthly reports on results. These were discussed in greater detail if required. The Executive Board and Supervisory Board discussed differences between actual business and the budget. Strategic issues, developments and forecasts were discussed regularly by the Supervisory Board in face-to-face meetings. Key transactions were discussed in depth based on the reports by the Executive Board and any explanations for proposed resolutions, with the result that the Executive Board's proposed resolutions were generally followed unanimously. The Chairman of the Supervisory Board was in regular contact with the Executive Board both in and outside the Supervisory Board meetings, and informed himself of the current developments in the business situation and key transactions. In addition, committee members, mostly their chairpersons, were in constant contact with the members of the Executive Board regarding individual issues.

In addition to advising on and discussing the company's strategic orientation, its main responsibility is to monitor the Executive Board. 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);

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

- Holding discussions between the Chairman of the Supervisory Board and members of the Executive Board on various issues and questioning the Executive Board as part of these discussions on current developments and imminent decisions;

- Review of the annual financial statements prepared by the Executive Board, the consolidated financial statements, the combined management report and questioning the members of the Executive 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 Executive Board regularly attended the meetings of the Supervisory Board. Only discussions on internal topics for the Supervisory Board or issues concerning the Executive Board, such as proposals for restructuring the Executive Board's remuneration, were held in the absence of the Executive Board.

Meetings and resolutions of the Supervisory Board in 2010

The Supervisory Board held nine meetings in 2010. Four of these meeting were held by telephone (on February 25, 2010, March 23, 2010, June 1, 2010, June 7, 2010, June 9, 2010, September 21, 2010, November 12, 2010, December 9, 2010 and December 2, 2010). In addition, the Supervisory Board also passed eight resolutions in writing by circulating the voting papers.

The company's auditors also participated in the meeting on March 23, 2010 to discuss the financial statements for business year 2009 according to Section 171 (1) of the AktG. In preparation for his appointment as a member of the Executive Board, Mr. Reiner Bunnenberg also participated in Supervisory Board meetings on specific strategic issues.

After the election and increase in the size of the Supervisory Board to efficiently perform its duties in business year 2009, both an audit committee and also a remuneration committee were formed. In the past business year, the Supervisory Board added a nomination committee in line with statutory requirements and the regulations of the German Corporate Governance Code. The members of the nomination committee include Armin Bruch, Dr. Dirk Markus and Titus Weinheimer. This committee is chaired by Mr. Titus Weinheimer.

Work in the Supervisory Board Committees

The committees prepare resolutions for the Supervisory Board and topics to be addressed during the Supervisory Board's plenary meetings. However, decisions are only taken in plenary meetings. As a rule, the committee meetings are held prior to the meetings of the Supervisory Board. During periods with greater needs for discussions and review, additional telephone meetings were held. The committee's chairpersons report to the Supervisory Board on the committee's work in the following plenary meeting in each case.

During the year under review, the audit committee met four times on March 23, 2010, September 21, 2010, December 2, 2010 and December 22, 2010. The meeting on December 22, 2010 was a telephone meeting.

The remuneration committee met five times in business year 2010. One meeting was held by phone. The meetings of the remuneration committee were held on February 25, 2010 (telephone), March 23, 2010, June 9, 2010, September 21, 2010 and December 2, 2010.

During the past business year, the nomination committee met in one telephone meeting on October 14, 2010.

The members of the committees are also in close contact outside the meetings and discuss any topics directly among themselves.

Corporate Governance

The Supervisory Board also dealt in depth with the standards contained in the German Corporate Governance Code for responsible and effective corporate governance and the current changes to the law. In particular, it subjected any deviations from the German Corporate Governance Code and their necessity to a detailed review. During the past business year, in particular reporting issues were adjusted with regard to the D&O insurance, the contracts with the Executive Board members, as well as the work of the Supervisory Board (setting up a nomination committee; defining targets for the Supervisory Board). 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 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 term with the Supervisory Board. This did not result in any conflicts of interest within the meaning of the German Corporate Governance Code. The Executive Board and the Supervisory Board issued an updated declaration of conformity pursuant to Section 161 of the AktG on December 2, 2010 and then made it permanently accessible to shareholders on the Company's Web site. The company thus only differs from the code's recommendations with regard to Item 5.1.2 (long-term succession planning for the Executive Board). Further details can be found in the corporate governance report, which is published in the annual report. During the Ordinary General Meeting of SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany) on June 9, 2010, Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Rosenheimer Platz 4, 81669 München (Germany) was appointed as the company's auditor for business year 2010. The Supervisory Board obtained a declaration by the auditor on April 20, 2010, 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.

Audit of the annual financial statements

The annual financial statements and the consolidated financial statements as of December 31, 2010 and the combined management report including the bookkeeping system were audited by the appointed auditors Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Rosenheimer Platz 4, 81669 München (Germany) and were issued with an unqualified audit opinion. The audit committee was kept constantly informed during the course of the audit and key items were discussed. The corresponding audit documents were presented to the Supervisory Board in good time prior to the meeting to discuss the financial statements on March 22, 2011. The Supervisory Board reviewed these carefully and discussed them in detail in the presence of the auditor as part of the meeting to discuss the financial statements on March 22, 2011. 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 annual financial statements and consolidated financial statements prepared by the Executive Board in the version of the audit report by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Rosenheimer Platz 4, 81669 München (Germany) were then approved by the Supervisory Board by way of its resolution dated March 22, 2011. 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 2010 in its meeting on March 22, 2011. The Supervisory Board endorses the Executive Board's proposal on the appropriation of net profits.

Personnel issues relating to the Executive Board

There were no personnel changes within the Executive Board during the year under review.

In view of the constant growth of the SKW Metallurgie Group and the resulting substantial load on the two members of the Executive Board, during the year under review the Supervisory Board dealt in detail with the issue of increasing the size of the Executive Board. In 2009, the Supervisory and Executive Board already discussed increasing the Executive Board to three members and hired Mr. Reiner Bunnenberg as a potential candidate, initially as the Head of Strategic Operations. After a corresponding induction period, an in-depth review of the results of his work and discussions between the Supervisory Board, Executive Board and Mr. Bunnenberg, the Supervisory Board unanimously reached the conclusion that Mr. Bunnenberg more than fulfills all of the requirements for the "new third member of the Executive Board", and in its meeting on December 2, 2010 it resolved to add Mr. Reiner Bunnenberg to the Executive Board from business year 2011. Mr. Bunnenberg was appointed to the Executive Board as Chief Operations Officer for three years from January 1, 2011.

In addition, discussions were started between the Supervisory and Executive Boards to change the contracts for the members of the Executive Board or to make adjustments in line with the statutory reforms during the year under review. At the start of the year under review, the remuneration committee dealt with the changed requirements as a result of the law and also the German Corporate Governance Code for remuneration for the Executive Board, and it prepared corresponding proposals to restructure the remuneration system for the Executive Board. These were discussed and resolved by the Supervisory Board. In addition, the Supervisory Board obtained an "Expert opinion on implementing the German Act on Suitable Executive Board Remuneration" from PwC PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, which confirmed that the new remuneration system is in line with the requirements of this Act. The Executive and Supervisory Boards presented the Executive Board remuneration system to the General Meeting on June 9, 2010 for approval in line with Section 120 (4) of the

AktG. The General Meeting then approved this with a substantial majority. The Supervisory and Executive Boards then fully renewed the employment contracts with Ms. Ines Kolmsee and Mr. Gerhard Ertl with effect from July 1, 2010, each for the duration of their appointment as a member of the Executive Board. In addition, in the meeting dated September 21, 2010, the Supervisory Board resolved to appoint Ms. Kolmsee for an additional, third period of office as a member of the Executive Board for the period from April 1, 2011 to March 31, 2014.

Personnel issues relating to the Supervisory Board

There were no personnel changes within the Supervisory Board during the year under review.

The Supervisory Board would like to thank the Executive Board team for the trusting and constructive exchange of information and, at this juncture, would like to appreciate its excellent work. However, we would also like to thank all of the employees who have made a major contribution to the SKW Metallurgie Group's success, and who again successfully mastered this business year together with us.

Unterneukirchen (Germany), March 2011

Titus Weinheimer
Chairman of the Supervisory Board

Financial Calendar 2011

March 24, 2011

- Publication of business figures full year 2010
  (including Year-End Press Conference in Muenchen, Germany)

May 16, 2011

- Publication of business figures first quarter 2011

June 8, 2011

- Annual General Meeting
  in Muenchen, Germany

August 12, 2011

- Publication of business figures first half 2011

November 14, 2011

- Publication of business figures first nine months 2011

November 2011

- Analysts' Conference
  at „Eigenkapitalforum" in Frankfurt/M., Germany

May be subject to change.

Contacts

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84579 Unterneukirchen
Germany

The physical address of SKW Stahl-Metallurgie Holding AG is going to change in the course of the year 2011. Up-to-date information may be found on: www.skw-steel.com

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Disclaimer and Notes

This report contains statements about forthcoming developments that are based on currently available information and that entail risks and uncertainties. This may result in deviations between the actual situation in the future and the forward-looking statements. These risks and uncertainties include, for example, unpredictable changes in political and economic conditions, particularly in the steel and paper industry, the competitive situation, interest and currency risks, technological development as well as other risks and unexpected circumstances. SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany) and its group companies do not accept any responsibility to update such forward-looking statements.

When reference is made in this report to groups of people who factually or potentially include both genders (such as “shareholders” or “employees”) or when gender neutral references are made to a single person (such as “the responsible officer”), the report usually only quotes one gender. This is solely done in the interest of improved readability (translator’s note: in most instances this only applies to the German original, since there are no distinct terms in English for male or female shareholders, experts, employees, etc.).

SKW Stahl-Metallurgie Holding AG’s Group brand that is used externally is “SKW Metallurgie”. For this reason “SKW Metallurgie” and “SKW Metallurgie Group” are used in this report.

Names such as “SKW Metallurgie”, “Quab” and “SDAX” that are used in this report may be registered trademarks whose use by third parties for their purposes could infringe the rights of the proprietors.

This is the English translation of the German original of this report; in case of any discrepancies the German version prevails. In addition, for technical reasons (e.g., the conversion of electronic formats) there may be differences between the accounting documents included in this report and those submitted to the electronic company register.

For several cities quoted in this report, different names and/or transcriptions into the Latin alphabet are in use. The use of a certain name or transcription is for information only and is not intended to imply any political statement. Maps that may be contained in this report are for illustration only and are not intended to induce any political statements, such as the legitimacy of borders. In this report, the term “China” refers to the PR of China without its two Special Administrative Regions. In this report, the term “Hong Kong” refers to the PR of China’s Special Administrative Region of Hong Kong.

References to acts of law (e.g. the Public Limited Companies Act) without any further information relate to the German acts of law in its respective applicable version.

This report was published on March 24, 2011 and is available at www.skw-steel.com to download free of charge. On request, printed copies will be supplied free of charge.

SKW Stahl-Metallurgie Holding AG

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