skw. metallurgie

ANNUAL REPORT 2011

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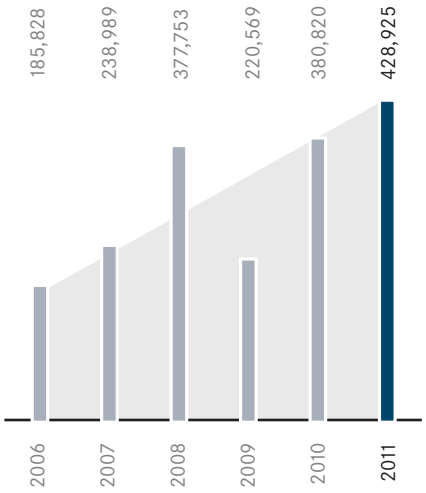
Multi-year overview

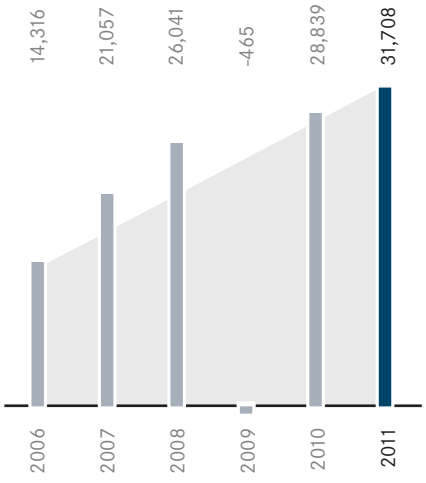
Revenues in EUR thousand

18.2% Ø annual growth rate



EBITDA in EUR thousand

17.3% Ø annual growth rate



SKW Metallurgie Key Figures

Key figures	Unit	2011	2010
Revenues	EUR mill.	428.9	380.8
EBITDA	**EUR mill.**	**31.7**	**28.8**
EBIT	EUR mill.	18.4	17.3
EBT	EUR mill.	16.2	15.0
Consolidated net result (SKW Metallurgie shareholders)	EUR mill.	12.2	7.5
EPS	EUR	1.86	1.15
Gross margin	%	27.6	27.2
EBITDA margin	**%**	**7.4**	**7.6**
Depreciation/amortization	EUR mill.	13.3	11.5
Operating Cash Flow	EUR mill.	6.1	12.5

		Dec. 31, 2011	Dec. 31, 2011
Total assets/Total e&l	EUR mill.	315.7	275.8
Corporate equity	EUR mill.	128.4	122.3
Corporate equity ratio	%	40.7	44.3
Net financial debt	EUR mill.	77.9	47.3
Employees	Number	1.025	790

Growth with Substance

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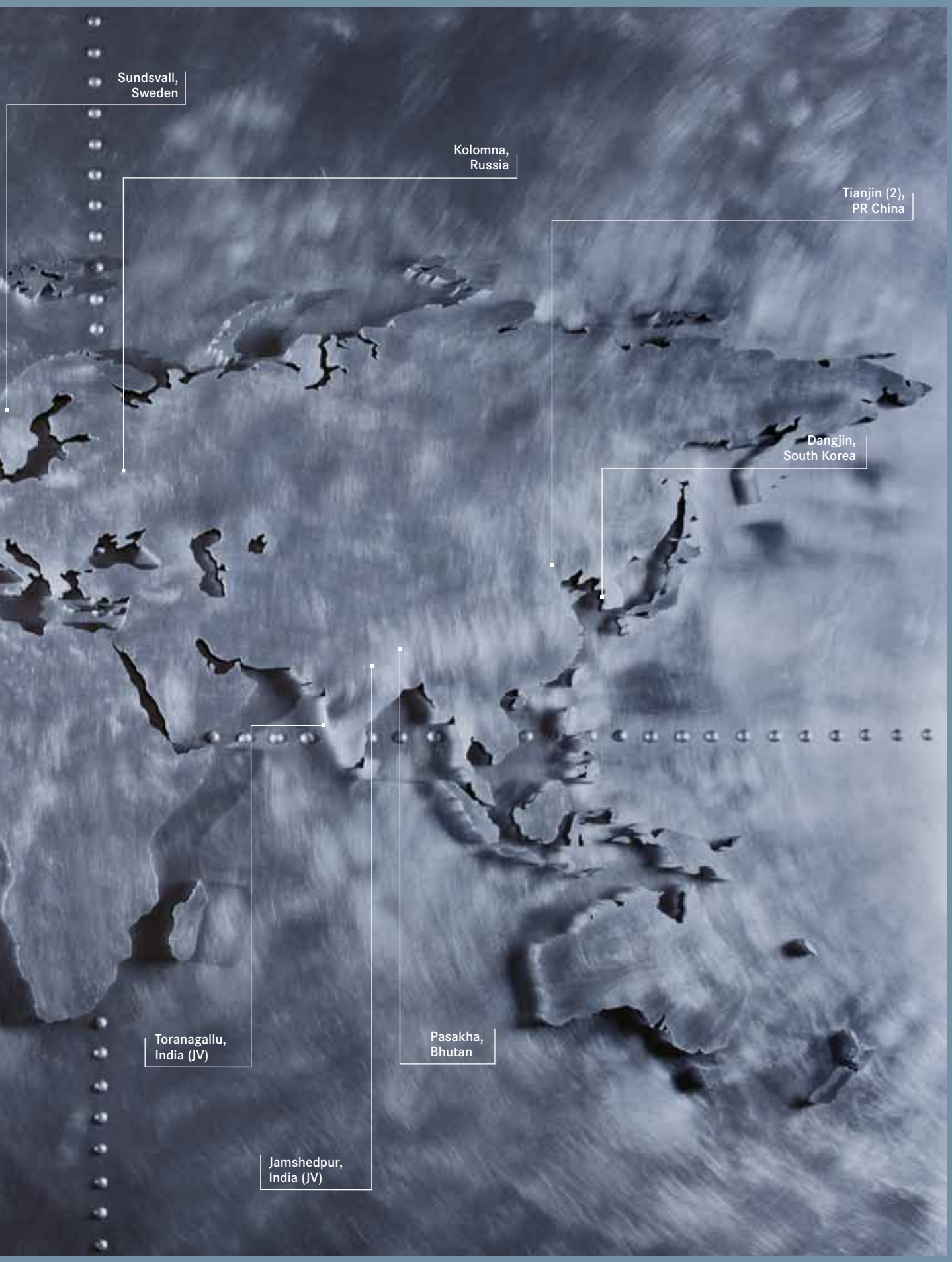
The SKW Metallurgie Group:

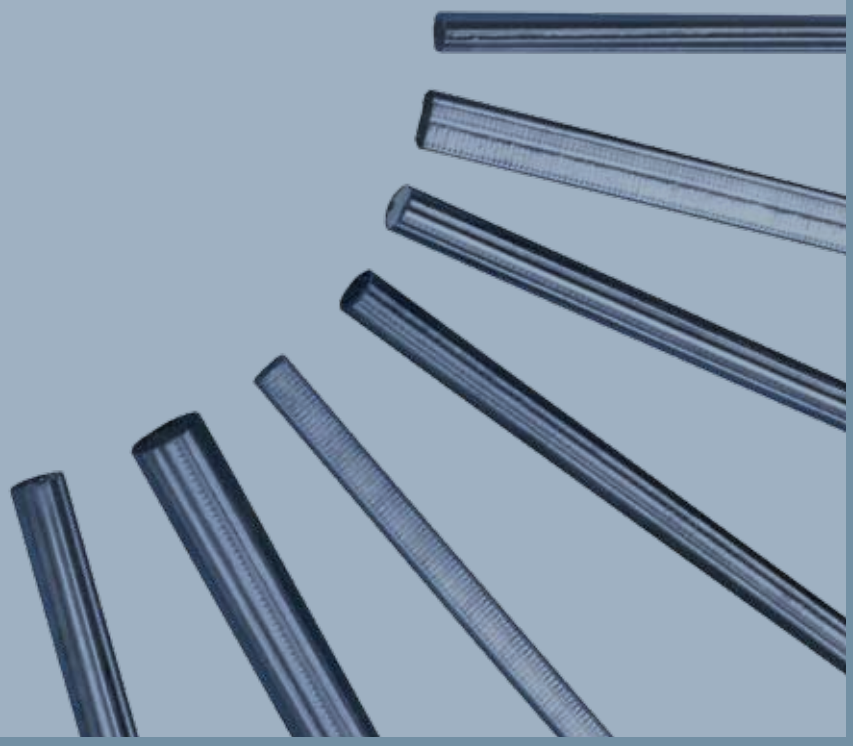
Production Plants and Corporate Headquarters


Sundsvall,
Sweden
Kolomna,
Russia
Tianjin (2),
PR China
Dangjin,
South Korea
Toranagallu,
India (JV)
Pasakha,
Bhutan
Jamshedpur,
India (JV)

From seedling to fully grown plant or tree, every fruit, vegetable or grain requires various nutrients to grow. As an example, wheat needs more than air and water; it also requires nutrients from the earth to make it a quality ingredient from which a delicious loaf of bread can be baked. Similarly, the SKW Metallurgie Group also requires high quality raw materials for its products and growth: particularly magnesium and calcium carbide for hot metal desulphurization as well as calcium silicon for secondary metallurgy.

Going far afield to secure raw materials

In order to ensure the ongoing availability of these high quality raw materials we have been investing in our own production plants. The Group's new areas of growth include a magnesium processing plant in China (since 2007), our own calcium carbide furnace in Sweden producing mainly for the European market, and a calcium silicon plant which operates in Bhutan.



To our Shareholders

Ladies and gentlemen, dear shareholders,

Fiscal year 2011 was very pleasing for the SKW Metallurgie Group in operational terms, with significant improvements in revenues and earnings.

Despite insecurities due to the sovereign debt crisis and slightly more reserved steel production in Brazil and the European Union in the second half of 2011, global steel production (excluding China) grew by almost 6% in 2011 as a whole. The SKW Metallurgie Group was able to lift its revenues in this period by almost 13%. Our EBITDA improved by more than 10%, and we recorded the highest figure in our company's history since going public in 2006 at EUR 31.7 million.

However, our earnings growth was characterized by several one-off factors. For example, 2011, as was also the case in previous years, was characterized by high investments in growth. In particular, we brought our new plant in Bhutan ahead to a significant extent, completed our new cored wire production facility in Russia and expanded a plant in the USA. We also started to expand our activities with sintered synthetic slag in Brazil, and completed this expansion at the start of 2012. In addition, we acquired a calcium carbide plant in Sweden, significantly reinforcing our competitive position on the European market for hot metal desulphurization.

The SKW Metallurgie Group is one of the most globalized listed companies in Germany with 98% of our employees working outside of Germany.We now operate 18 plants in 11 countries (including Jamipol) in four continents, and we only record a minor part of our revenues in Germany. This allows you, our dear shareholders, to add geographic diversification to your investment portfolio and to participate in an optimum manner in growth in emerging nations in Asia and Latin America. However, our international structure came at a price in 2011, as substantial exchange rate fluctuations (in particular on the balance sheet dates) led to net currency translation expense of EUR 2.6 million, after we were able to book net currency translation income of EUR 2.3 million in 2010. As a result, when comparing 2011 to 2010 a difference in EBITDA of EUR 4.9 million is due exclusively to exchange rate effects. In addition, in the second half of the year, we were also hit by expenses from irregularities in the procurement of raw materials in China in the amount of EUR 1.9 million.

At the end of 2011 and the start of 2012, two key legal uncertainties were clarified for our company. A court decision in connection with an antitrust penalty notice from 2009 led to a provision that was formed in this regard being reversed in the amount of EUR 6.2 million. As a result of a further court decision, in the fourth quarter of 2011 we had to make a back payment to a former supplier dating back to 2009; this resulted in expenses of EUR 1.5 million.

We were unable to foresee the large number and timing of these events. As a result, we guided the capital markets in December 2011 that we may not be able to fully reach our EBITDA guidance of EUR 32 million. That is why we are very pleased, that in the face of difficult underlying conditions, we almost met the guidance at EUR 31.7 million and your expectations of us.

We see SKW Metallurgie's shares as being dividend-paying securities, and we want to allow our shareholders to participate in this positive growth. As a result, the Executive and Supervisory Boards intend to make a proposal to the General Meeting to pay a dividend of EUR 0.50 per dividend-entitled share, unchanged year-on-year.

Expansion in high-growth global markets is increasingly paying off

In strategic terms, fiscal year 2011 was characterized by the continuation of our globalization strategy. We have already expanded successfully into Latin America with new plants in Mexico and Brazil, and we continued this expansion in 2011 in Brazil by expanding our production capacity for sintered synthetic slag for the steel industry.

However, 2011 was also characterized by the expansion of our activities in Eastern Europe and Asia. As a result, we opened our new cored wire plant in Russia in May 2011, and we will use this location to supply CIS countries with top-quality Affival cored wire. In addition, we also launched our new plant in Bhutan. Currently, this facility is alternately producing ferro silicon and calcium silicon; we will stabilize and optimize calcium silicon production at this plant during the course of 2012 using competitively priced and environmentally sustainable hydroelectric power. This will primarily reinforce the group's own supplies of raw materials. In addition, we aim to use this plant to supply the Indian market with cored wire. However, the start-up period at this location has taken slightly longer than we had anticipated, and as a result we are only expecting positive contributions to earnings from the second half of 2012.

The bulk of our group's expansion and investment phase has thus been completed. The focus in 2012 will be on optimizing structures within our new, bigger group, and further improving our profitability, including with the help of our new plants. The largest single investment in 2012 is expected to be the final purchase price installment that is still outstanding (in the form of a subsequent, earnings-dependent payment) in the upper single-digit million euro range for the acquisition of a majority interest in our subsidiary Tecnosulfur in 2009.

We were able to announce two additional positive developments at the start of 2012. Firstly, our Supervisory Board has appointed Mr. Oliver Schuster as a member of the SKW Metallurgie Group's Executive Board with effect from March 1, 2012; Mr. Schuster will take over as CFO. In addition, the SKW Metallurgie Group has optimized its borrowing structure in the first quarter of 2012 thanks to comprehensive refinancing. This major milestone was achieved by concluding a new master credit agreement with four leading banks and the successful placement of our first promissory note bond with a total volume of EUR 45 million with institutional investors, mostly from Germany and Austria. As a result, the SKW Metallurgie Group is also financially well equipped for future profitable growth.

Great potential for 2012 and beyond

We are taking a positive view of fiscal year 2012. Despite the continued political and economic insecurities, experts' forecasts for the underlying conditions for the global economy are cautiously optimistic. Growth in the steel industry - which is by far the most important customer industry for the SKW Metallurgie Group - is forecast to exhibit different regional patterns. For example, demand in North and South America is expected to continue to enjoy positive growth, whereas steel production in Europe is expected to stagnate or even fall slightly. In addition, fiscal year 2012 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 2013 onward, this resulting from the fact that their start-up phases have, in some cases, been longer than initially forecast. In spite of this, however, we believe that there will be a renewed increase in operating EBITDA in 2012, as well as a further improvement in consolidated revenues. We are aiming for a renewed substantial increase in EBITDA for fiscal year 2013 – assuming a further recovery in the global economy.

Focus on increasing enterprise value

Despite excellent operating growth, SKW Metallurgie's shares were not able to fully escape the general trend on the stock market in 2011. Our share price performance was disappointing for us too. However, we are convinced that the SKW Metallurgie Group is excellently positioned in both strategic and operational terms for 2012 and beyond, and that our enormous opportunities and potential will allow us to generate added value for our 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 also our shareholders as the SKW Metallurgie Group's owners, for the trust they have placed in us.

Yours sincerely,

Unterneukirchen (Germany), March 2012

Ines Kolmsee
Chairperson (CEO)

Oliver Schuster

Reiner Bunnenberg

Reiner Bunnenberg Ines Kolmsee Oliver Schuster

SKW Metallurgie's shares

Stock market year 2011 characterized by financial crisis

In 2011 the capital markets were not the right place to be if you have weak nerves. In the first half of the year, what were mostly excellent economic and corporate figures, meant that most investors had a fundamentally positive outlook. However, this trend was interrupted in March, when the earthquake and tsunami catastrophe in Japan caused a brief period of stronger price volatility and lower prices. The markets had calmed down again by the end of June, and key lead indices such as the DAX30 recorded solid performance. However, the sovereign debt crisis rocked Europe from mid-July 2011, and investors' focus shifted to the resulting speculations on the possible bankruptcy of individual countries through to a collapse of the European Union. The resulting insecurity on the financial markets resulted in massive price slumps through to the end of September. As a result, the key European stock market indices lost more than 20% of their value in the third quarter alone, smaller stocks had to take an even larger hit. The stock markets stabilized again at the end of the year and were able to regain some of their losses. In spite of this, however, 2011 was a very weak stock market year for the European markets in particular. The DAX30 lost around 15% of its value and EuroStoxx even fell by more than 17%. The German small-cap index SDAX did not fare much better, also falling by around 15%.

Weak stock market environment put pressure on SKW Metallurgie's share price

SKW Metallurgie's shares were not able to detach themselves from the generally weak stock market environment over the year as a whole. After its excellent performance of more than 40% in 2010 the share even increased slightly at the start of the year under review to EUR 20.50. The share price remained steady in the following months, marked by the company's figures which were in line with the market's expectations, and moved in a relatively narrow price corridor of between EUR 18.00 and EUR 20.00 through to the end of July 2011. However, SKW Metallurgie's share price fell substantially at the start of the general stock market slump. In addition to the generally weak markets, the fact that smaller caps suffered strong losses as part of the massive pressure on many investors to sell had a negative effect on our share price. What is more, some investors have classified the Group as a cyclical stock. However, during the economic and financial crisis in 2008/09, the SKW Metallurgie Group proved how flexibly and comparatively well the group's operations had fared in that difficult period. In addition, the cyclical nature of the steel market is mostly price-related and not quantity-related. In spite of this, however, the slump in the price of SKW Metallurgie's shares continued into December, and bottomed out at EUR 11.11. The price only stabilized again in the last few days of trading in 2011, and was able to close the year at EUR 11.35 on December 30. This resulted in a very disappointing share price performance of minus 44% over the year as a whole. On the date this report was prepared (start of March 2012), SKW Metallurgie's share price had recovered substantially and has settled at around EUR 14.00.

Market capitalization follows price performance

In view of the downturn in the share price, the company's market capitalization has also fallen from around EUR 133 million at the end of 2010 to EUR 74.3 million on December 31, 2011. The average daily trading volume was also lower in 2011 at around 16,300 shares per day compared to 22,400 in the previous year. In this connection, it must be noted that an increasing proportion of share trading, including with shares of SKW Metallurgie, is taking place off the traditional stock markets. In Deutsche Börse AG's ratings list, which is based on Prime Standard companies which are not included in the DAX30 or the TecDAX, SKW Metallurgie's shares took 99th place in terms of market capitalization and 88th place for trading volume at the end of 2011. As a result, the shares continue to be a firm part of the SDAX index, to which they have belonged since 2008.

Free float for SKW Metallurgie's shares unchanged at 100%

As a result of the transition to registered shares in 2011, the SKW Metallurgie Group has an improved and more up-to-date picture of the structure of the shareholdings in the company. 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. The largest individual investors on December 31, 2011 were LBBW Asset Management Investmentgesellschaft with 5.1% and Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte with a shareholding of 3.2%. On December 31, 2011, Universal-Investment-Gesellschaft also still held more than 3% of SKW Metallurgie's shares; however, it reduced its shareholding to less than 3% on January 5, 2012. Around 50% of the shares of the SKW Metallurgie Group are held by institutional investors, in particular from the United Kingdom, France, Spain, Switzerland, Germany and other industrial nations. Retail investors (mostly from Germany) also hold an interest of around 50%. Members of the SKW Metallurgie Group's Executive and Supervisory Boards hold less than 1% of SKW Metallurgie's shares, as described in detail in the Corporate Governance Report.

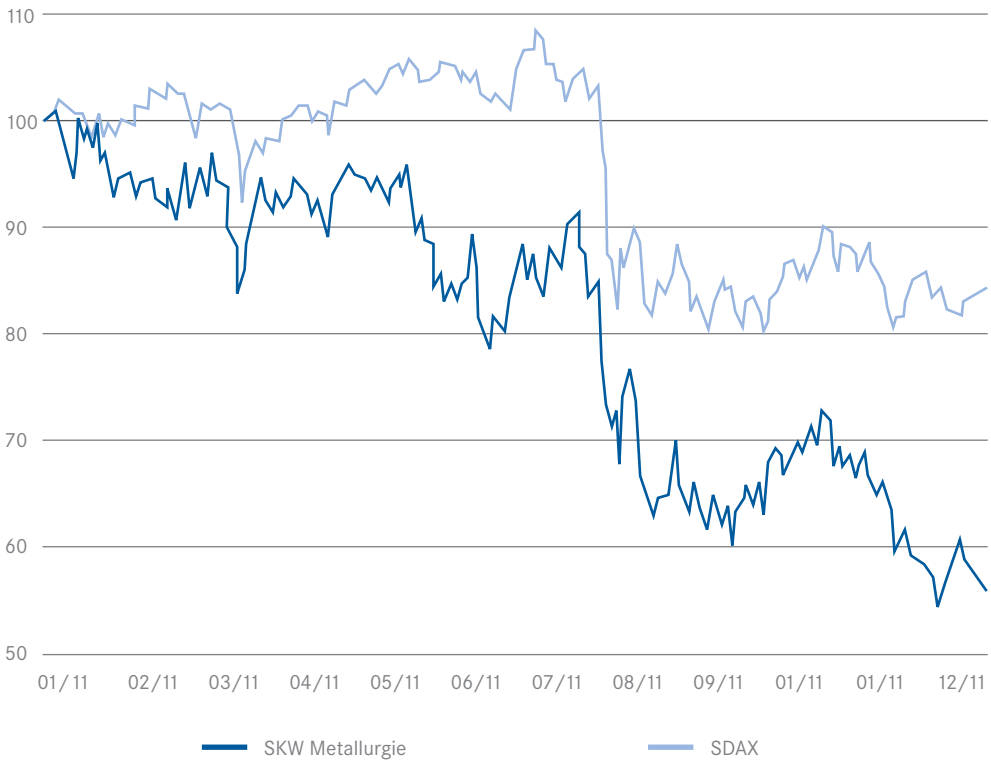
KPIs for SKW Metallurgie's shares

	2011	2010
Number of shares (Dec. 31)	6,544,930	6,544,930
Highest price (XETRA)	EUR 20.50	EUR 21.29
Lowest price (XETRA)	EUR 11.11	EUR 14.30
Closing price at year-end (XETRA)	EUR 11.35	EUR 20.35
Market capitalization at year-end	EUR 74.3 million	EUR 133.2 million
Share turnover per day (average)	ca. 16,300	ca. 22,400
Earnings per share	EUR 1.86	EUR 1.15
Dividend per dividend-entitled share*	EUR 0.50 (Proposal to general meeting)	EUR 0.50

*Dividends are paid, in each case, in the following year after the corresponding resolution by the General Meeting, i.e., for 2010 and 2011 shown here the dividends will be paid in 2011 and 2012

Stock markets	XETRA, OTC at German stock exchanges
German Securities Code (WKN)	SKWM02
ISIN	DE000SKWM021
Reuters symbol	SK1Gn.DE
Bloomberg symbol	SK1A:GR

Share price to SDAX, indexed for 12 months: January 3 to December 30, 2011



Dividend continuity planned for 2011

The SKW Metallurgie Group regards itself as being a dividend-paying stock, allowing its shareholders to enjoy a reasonable participation in the company's success. In view of the solid operating growth in fiscal year 2011, the Executive and Supervisory Boards intend to make a proposal to the 2012 General Meeting to pay a dividend of EUR 0.50 per dividend-entitled share, unchanged year-on-year. 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 3.3 million. Based on the closing rate in 2011, this gives a dividend return of 4.4%.

In-depth communication with all players on the capital markets

Transparent and open communication with all of the players on the capital markets is a top priority for the SKW Metallurgie Group's management. In order to be able to meet investors' needs even better, the shares were converted to registered shares in 2011. Since then, the management has known more about the breakdown of the shareholdings. Accordingly, in 2011 the Executive Board and the investor relations department were able to present the company at a large number of roadshows and in many individual discussions, interacting with investors in Germany and abroad in a much more target-oriented manner. In order to meet the strong interest shown by investors in the shares, institutional investors in Frankfurt/Main and other German cities, in the United Kingdom, and in other European financial centers (e.g., Paris, Madrid, Zuerich) were visited.

As part of quarterly reporting and as part of the annual financial statements, the SKW Metallurgie Group regularly offers conference calls to discuss corporate figures, and many investors and analysts avail themselves of this opportunity. The SKW Metallurgie Group is also increasingly using the Internet as a key medium for up-to-the-minute communication with all investor groups. We fully reworked our Internet presence at the start of 2011, making it more transparent. All of the company's capital markets publications and everything you need to know about the Group can be found online at www.skw-steel.com. In addition, you may of course contact the SKW Metallurgie Group's investor relations department directly at any time:

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Christian Schunck
Head of IR and Group Communications
Phone: +49 8634 62720-IR (-47)
Fax: +49 8634 62720-16
ir@skw-steel.com
www.skw-steel.com

Supervisory Board Report

Dear Shareholders,

2010 was already a very successful fiscal year, and in 2011 the SKW Metallurgie Group was again able to increase revenues and EBITDA once again, generating the best results for both of these indicators in the group's history (since going public in 2006). The SKW Metallurgie Group also successfully continued its internationalization and vertical integration in the year under review: Key milestones included the festivities to open the Bhutanese calcium silicon furnace in the presence of the Chairman and Deputy Chairman of the Supervisory Board and top-ranking Bhutanese dignitaries as well as the start of construction for the new production facility for sintered synthetic slag in Brazil.

Activities of the Supervisory Board

The Supervisory Board's activities in the year under review were characterized by the integration of the calcium carbide furnace in Sweden acquired as of February 1, 2011 into the SKW Metallurgie Group, the progress of construction for the new plants and plant expansions in the USA, Brazil, Russia and Bhutan, and the further development of the Group's future strategic orientation. In so doing, 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. 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 further 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 and the evaluation of potential new projects and the company's activities on the capital markets. Particular topics in the year under review included restructuring and integrating the newly acquired calcium carbide plant in Sweden and the start of operations in the new production facilities in Bhutan and Russia.

In addition, the Supervisory Board supported negotiations to implement a new group-wide borrowing structure and dealt in detail with the revocation of Mr. Gerhard Ertl's appointment and the new appointment of a CFO. Mr. Oliver Schuster was appointed as the new CFO as of March 1, 2012.

The meeting to discuss the financial statements on March 19, 2012 focused on the analysis of the separate and consolidated financial statements as of December 31, 2011 and the Executive Board's proposal for the appropriation of profits. In order to be able to better assess the economic position of the SKW Metallurgie Group, the Supervisory Board was also provided with monthly reports on results on an ongoing basis. These were discussed in greater detail if required. The Executive Board and Supervisory Board jointly discussed differences between actual business and the budget. Strategic issues, developments and forecasts were discussed regularly by the Supervisory Board in its regular 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 the year under review, the Supervisory Board performed the tasks that were required of it by law, the articles of incorporation and the by-laws. In particular, the Supervisory Board regularly advised and supervised the Executive Board in its management of the company. 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 economic 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 the dismissal and new appointment of the CFO, were held in the absence of the Executive Board.

Meetings and resolutions of the Supervisory Board in 2011

The Supervisory Board held eleven meetings in 2011. Four of these meetings were regular face-to-face meetings (on March 22, 2011, June 8, 2011, September 23, 2011 and December 20, 2011) and seven were held by telephone (January 21, 2011, April 11, 2011, April 14, 2011, June 21, 2011, August 4, 2011, September 29, 2011 and October 10, 2011). In addition, the Supervisory Board passed eight resolutions by circulating the voting papers.

The company's auditors also participated in the meeting on March 22, 2011 to discuss the financial statements for fiscal year 2010 according to Section 171 (1) of the AktG.

Work in the Supervisory Board Committees

As was already the case in fiscal year 2010, the Supervisory Board had formed three committees to effectively perform its duties: the audit committee, the nomination committee and the remuneration committee. The committees prepare resolutions for the Supervisory Board and topics to be addressed during the Supervisory Board's plenary meetings. However, decisions were mostly taken in plenary meetings. As a rule, the timing of the committee meetings is close to the meetings of the Supervisory Board. During periods with greater needs for discussions and review, additional telephone meetings were held. The committees' chairpersons report to the Supervisory Board on the committee's work in the following meeting in each case.

Audit committee

The audit committee met eight times in the past fiscal year. There were four face-to-face meetings (on March 22, 2011, June 8, 2011, September 23, 2011 and December 19, 2011) and four telephone meetings (January 27, 2011, March 17, 2011, July 5, 2011 and July 20, 2011). In addition to the members of the committee, select meetings were attended by the auditor and also the CEO (who is responsible for compliance), the CFO and the internal auditor employed by the company.

The audit committee mostly dealt with the separate and consolidated financial statements for 2011, monitoring the accounting processes, the effectiveness of the internal control system and the SKW Metallurgie Group's risk management, and also with the progress being made in setting up an internal audit system. The interim reports published in the period under review were also discussed in detail. In the meeting to discuss the financial statements, the auditor reported in detail on all of the incidents of which he became aware during the audit of the financial statements, and which are required for the committee to perform its tasks.

Prior to the Annual General Meeting on June 8, 2011, the plenary Supervisory Board made a proposal for the election of the auditor for fiscal year 2011. After the General Meeting had elected the auditor, the audit committee engaged this auditor with the audit of the separate and consolidated financial statements for fiscal year 2011. An agreement has been reached with the auditor regarding his fee. The auditor has made a declaration to the audit committee that there are no circumstances that could cause him to be prejudiced. In addition, he reported on all of the services that were provided over and above the audit of the financial statements. The audit committee also obtained the requisite declaration of independence from the auditor and monitored his qualifications.

Remuneration committee

In fiscal year 2011 the remuneration committee met for one face-to-face meeting on December 20, 2011. It dealt with implementation of the remuneration structure for the Executive Board, which was re-regulated in the previous fiscal year, and in so doing it discussed the individual targets for the members of the Executive Board.

Nomination committee

The nomination committee held three meetings last fiscal year - two of which were held by telephone (on February 7, 2011 and March 28, 2011) and one face-to-face meeting on March 22, 2011. It dealt, in detail, with the proposals for the new election of the Supervisory Board in the Annual General Meeting on June 8, 2011.

Corporate Governance

The Supervisory Board observes, on an ongoing basis, the implementation of the standards contained in the German Corporate Governance Code for responsible and effective corporate governance and the current changes to the law. The Executive Board reports to the Supervisory Board on an ongoing basis on upholding the Corporate Governance Code. The members of the Supervisory Board fulfill or fulfilled the independence requirements of the German Corporate Governance Code. As a result of the renewed approval by the company's Supervisory Board on September 23, 2011 (in line with the requirements of Section 114 of the AktG), the law firm Buchanan Ingersoll & Rooney PC, with whom the Chairman of the Supervisory Board also worked in the year under review, advised the SKW Metallurgie Group's US subsidiaries. The legal consulting services in connection with the respective mandates related, in each case, to special questions concerning the individual operating units, and were generally not performed by the Chairman of the Supervisory Board himself, but by the law firm Buchanan Ingersoll & Rooney PC, and are thus not the obligation of a Supervisory Board member. 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 20, 2011 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 also published in the annual report.

Changes in the Supervisory Board and the Executive Board

With effect from September 30, 2011, Mr. Gerhard Ertl's appointment as a member of the company's Executive Board was revoked. In its meeting on December 20, 2011, the Supervisory Board decided unanimously to appoint Mr. Oliver Schuster to become SKW Stahl-Metallurgie Holding AG's new CFO with effect from March 1, 2012.

In the Annual General Meeting on June 8, 2011, the Supervisory Board was elected for a further period of five years with its current members. In its meeting directly after the General Meeting the Supervisory Board confirmed Mr. Titus Weinheimer as Chairman and Mr. Jochen Martin as Deputy Chairman. In addition, the committees were also re-installed with no changes to their membership. There were no personnel changes within the Supervisory Board or its committees during the year under review.

Audit of the separate and consolidated financial statements

The annual financial statements and the consolidated financial statements as of December 31, 2011 and the combined management report including the bookkeeping system were audited by the appointed auditors Deloitte&Touche GmbH, Wirtschaftsprüfungsgesellschaft, Rosenheimer Platz 4, 81669 München (Munich) (Germany), and were issued with an unqualified audit opinion. The audit committee was kept informed during the course of the audit and key items were discussed. The corresponding audit documents were presented to the Supervisory Board in good time prior to the meeting to discuss the financial statements on March 19, 2012. The chairman of the audit committee provided the plenary meeting of the Supervisory Board on March 19, 2012 with detailed information on the audit committee's review of the separate and consolidated financial statements. After a careful review and discussion of the separate financial statements, the consolidated financial statements and the combined management report, the Supervisory Board did not raise any objections and concurred with the results of the audit by the auditor, and approved the separate and consolidated financial statements on March 19, 2012. The annual financial statements are thus adopted.

In addition the Supervisory Board examined the Executive Board's proposal for the appropriation of net profits for fiscal year 2011 in its meeting on March 19, 2012, after reviewing and weighing up all of the arguments for this proposal. It believes that the proposed dividend is reasonable, in particular in view of the intended dividend continuity.

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 praise 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 fiscal year together with us.

Unterneukirchen (Germany), March 2012

Titus Weinheimer
Chairperson of the Supervisory Board

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. An 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, combating corruption and was also further developed in 2011.

The 2011 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 2011 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 2, 2010. The following declaration refers to the version of the German Corporate Governance Code (hereinafter "GCGC" or the "Code") in the version dated May 26, 2010 for the period from December 3, 2010 to December 20, 2011.

The company's Executive and Supervisory Boards declare that, during the course of the remainder of fiscal year 2010 and in the course of fiscal year 2011 to date, it has conformed with all of the recommendations of the GCGC Government Commission to date, with the deviation detailed below, and that it intends to also do so during the remainder of fiscal year 2011 and in fiscal year 2012.

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 and the recent developments in filling positions on the Executive Board.

München (Munich) (Germany), December 20, 2011

SKW Stahl-Metallurgie Holding AG

Ines Kolmsee,	*Reiner Bunnenberg*	*Titus Weinheimer*
The Executive Board		*The Supervisory Board*

State-of-the-art management and control structure

As a German Aktiengesellschaft (Public Limited 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. On the balance sheet date the Executive Board comprised two members, Ines Kolmsee (CEO) and Reiner Bunnenberg (COO). Oliver Schuster was appointed as a further member of the Executive Board (CFO) with effect from March 1, 2012.

The **Supervisory Board** advises the Executive Board and monitors its management. During the year under review, the Supervisory Board comprised six members: Sabine Kauper, Armin Bruch, Dr. Dirk Markus, Jochen Martin (Deputy Chairman), Dr. Christoph Schlünken and Titus Weinheimer (Chairman). During the year under review there was no co-determination for the SKW Metallurgie Group; all of the members of the Supervisory Board are thus shareholder representatives. There were three committees in the year under review (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 8, 2011 in München (Munich), Germany. The General Meeting resolves, for example, on the company's Articles of Incorporation, it has only passed on authority to make editorial changes to the Supervisory Board.

Diversity is 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 company's international activities are also duly considered. 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 years) 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.

The SKW Metallurgie Group will report regularly on the implementation of this objective.

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 2012. As a result, in particular the issues not covered by Section 15a of the WpHG and which can also not be seen in the share register are to be covered, 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 minimal size regulation.

As a result, the **entire shareholdings of the Executive and Supervisory Boards on December 31, 2011** were as follows:

Name	Position	Number of shares
Ines Kolmsee	CEO	14,652
Dr. Dirk Markus	Member of the Supervisory Board	2,300

As a result, on the balance sheet date, a total of **16,952** 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.

The remuneration for members of the Executive and Supervisory Boards 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 governance, 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 to not 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:

The remuneration for members of the Supervisory Board is based on the 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 fiscal 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 incurred on such a payment.

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

7. This resolution applies for remuneration for the Supervisory Board starting after the end of the 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."

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

EUR thousand	Fixed compen-sation	Short-term variable remuneration	Long-term variable remuneration	Meeting fee	Total
Armin Bruch	10.0	4.9	0.5	1.0	16.4
Sabine Kauper	10.0	4.9	0.5	2.0	17.4
Dr. Dirk Markus	10.0	4.9	0.5	4.5	19.9
Jochen Martin	12.5	4.9	0.5	2.5	20.4
Dr. Christoph Schlünken	10.0	4.9	0.5	0	15.4
Titus Weinheimer	15.0	4.9	0.5	2.0	22.4
Total	67.5	29.4	3.0	12.0	111.9

The individual remuneration components are described in greater detail below.

Fixed remuneration:

The Annual General Meeting on June 8, 2011 resolved the ratification of the members of the Supervisory Board for fiscal year 2010. As a result, the fixed remuneration for 2010 was due on June 8, 2011. The provisions formed in this regard in 2010 were reversed.

The fixed remuneration for 2011 is due in 2012. Corresponding provisions have been formed in this regard, the amount of these provisions can be found in the table above.

Variable remuneration:

Short-term variable remuneration:

A provision of EUR 4.5 thousand was formed for each person in 2010 for the year 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. Accordingly, EUR 27.0 thousand was paid out in 2011.

A provision of EUR 4.9 thousand was formed for each person in 2011 for the year 2011. The exact amount to be paid out is 0.03% of the earnings before taxes (EBT) in the audited consolidated financial statements for 2011, however at most EUR 5.0 thousand per person. This is paid in 2012.

Long-term variable remuneration:

The period of office for all of the members of the Supervisory Board expired at the end of the General Meeting on June 8, 2011, irrespective of their re-election. The share price-based remuneration thus became due and was paid out in the amount of EUR 30.0 thousand against the provisions formed in this regard in previous years. The difference between the provision and the amount paid out was recognized in income in 2011.

A provision of EUR 0.5 thousand was formed for the period of office for each member of the Supervisory Board elected by the General Meeting on June 8, 2011 for 2011.

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 Executive 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 a deductible is 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 both policies for the persons named amounted to EUR 53 thousand for fiscal year 2011 (previous year: EUR 56 thousand).

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 with which he worked on the balance sheet date 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 53 thousand was paid in this regard during the fiscal year.

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

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:

On the balance sheet date the Executive Board comprised Ines Kolmsee (CEO) and Reiner Bunnenberg (COO). Gerhard Ertl (formerly CFO) exited the company's Executive Board on September 30, 2011.

The SKW Metallurgie Group has a modern, future-oriented remuneration system for its Executive Board, which was also approved by the Annual General Meeting on June 9, 2010 (approval according to Section 12 (4) of the Aktiengesetz (AktG - German Public Limited Companies Act), also known as "say on pay").

Remuneration of the members of the Executive Board is 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 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.

The Executive Board's remuneration comprises the following components:

1. Fixed compensation

2. Non-cash compensation (company car)

3. Healthcare and nursing care insurance (subsidies)

4. Variable compensation
   a) short-term incentive (STI)
   b) long-term incentive (LTI)

5. Benefit commitment

6. Incidental payments/other

7. "Phantom stocks" program (expired in the year under review)

The payments in 2011 for the first five components (or in the case of non-cash compensation: the benefit in kind) totaled:

EUR thousand	Fixed compen-sation	Non-cash compensation (company car)	Subsidy to healthcare and nursing care insurance	Short-term incentive (STI)	Long-term incentive (LTI)	Total
Ines Kolmsee	350	6	3	308	347	1.014
Gerhard Ertl	188	6	3	126	186	509
Reiner Bunnenberg	150	7	3	123	149	432
Total	688	19	9	557	682	1.955

The eight components stated above are explained in more detail below:

1. Fixed compensation:

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 on a pro rata basis and paid monthly as a salary.

The fixed compensation and the short and long term bonuses are proportionate, i.e., they each account for one third of total remuneration (defined here as the total of fixed remuneration and the maximum variable remuneration).

2. Non-cash compensation (company car):

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

3. Healthcare and nursing care insurance (subsidies):

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).

4. Variable compensation:

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 annual total for each of the two components equals the fixed remuneration, with the result that even in the event of the maximum possible total remuneration (defined here as the total of fixed remuneration and the maximum variable remuneration), the fixed salary cannot be more than tripled. The variable remuneration is calculated on a pro rata basis for each year commenced

a) Variable remuneration short-term incentive:

Collective and individual targets are agreed with regard to the STI. The collective targets are the same for all 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 fiscal year via a performance assessment by the Supervisory Board. The STI or each of its components is only paid out if 70% of the target is reached, and it is limited to 100%, with the result that if less than 70% of the target is reached the corresponding STI lapses entirely, and a payment of between 70% and 100% is possible within the target corridor.

b) Variable remuneration long-term incentive:

The former phantom stocks have been replaced by a new long-term bonus (LTI) from 2010. 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 for the entire term 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. An entitlement to payment of the LTI only arises, in each case, in the last year of the respective target period, with the result that, in the event that the member exits, there is only an entitlement to the LTI on this date which is in the last year of its target period. There is no entitlement to additional ongoing tranches. 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 payments total, as shown in the overview, EUR 688 thousand (Ines Kolmsee: EUR 350 thousand; Gerhard Ertl: EUR 188 thousand, Reiner Bunnenberg: EUR 150 thousand); of this total, provisions had been formed for EUR 300 thousand (Ines Kolmsee: EUR 175 thousand; Gerhard Ertl: EUR 125 thousand; Reiner Bunnenberg: EUR 0 thousand) as of December 31, 2010.A provision of EUR 443 thousand (Ines Kolmsee: EUR 310 thousand; Reiner Bunnenberg: EUR 133 thousand) for additional LTI tranches; however, there is no legal entitlement o these tranches to date.

5. Benefit commitment:

There is an employer-financed company pension system for members of the Executive Board. At present, this system covers the CEO Ines Kolmsee and the former member of the Executive Board Gerhard Ertl, who left the company in 2011. After reaching the age of 62, the participants are entitled to a life-long pension. The amount of the monthly retirement benefits is between 40% and 60% 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.

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 dependents. The benefit commitments for Ines Kolmsee and Gerhard Ertl are contractually non-lapsable (irrespective of the date the Executive Board member leaves the company). To the extent that statutory vesting has been reached, 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.

The value of the defined benefit obligation according to IFRS for members of the Executive Board increased by EUR 438 thousand in fiscal year 2011. However, this amount not only takes the vested entitlements in 2011 into account, but also interest expenses, the impact of changes in calculations for the underlying parameters, etc.; pension expense in the narrower sense totaled EUR 364 thousand. This defined benefit obligation under IFRS had a value of EUR 1.720 thousand on the balance sheet date and was broken down as follows:

EUR thousand	Value of defined benefit obligation as of Dec. 31, 2011
Ines Kolmsee	979
Gerhard Ertl	741
Total	**1,720**

6. Incidental payments/other:

As a rule, the members of the Executive Board of an Aktiengesellschaft (German public limited company) in Germany are released from the obligation to pay statutory pension and unemployment insurance; as a result, no corresponding employer contributions were made.

The members of the Executive Board receive social security payments and smaller non-cash 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 Executive 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 company executives. This comprised two policies (basic insurance and additional insurance). According to the regulations of the German Corporate Governance Code a deductible is 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 53 thousand for fiscal year 2011 (previous year: EUR 56 thousand).

No remuneration was paid to members of the Group's Executive Board by consolidated subsidiaries for mandates with these companies. The Board of the non-consolidated company Jamipol also includes members of the Group's Executive Board; Jamipol paid this group of people a meeting fee of INR 20,000 for Ms. Ines Kolmsee and INR 5,000 for Mr. Reiner Bunnenberg in fiscal year 2011.

In the first quarter of 2011, Reiner Bunnenberg still received payments that did not relate to his activities as a member of the Executive Board from January 1, 2011, but to his work in 2010.

7. "Phantom Stock" program (expired):

Stock option programs were set up in 2008 for the members of the Executive Board at that time (Ines Kolmsee and Gerhard Ertl) in the form of phantom stocks. The program of Reiner Bunnenberg ended on December 31, 2010 before he was appointed to the Executive Board.

Ines Kolmsee and Gerhard Ertl were 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 number of shares or cash compensation per phantom stock due to the member of the Executive Board. If the share price falls, this amount is zero. In the event that a member exits the Executive Board, the ongoing options expire to the extent that these rights had not already resulted on the date the employment relationship ended because the valuation date had been reached. The company has the right to fulfill the claims of the respective member of the Executive Board by making a cash payment instead of delivering shares (cash settlement).

- Gerhard Ertl's program ran until he left the company without a payment being due in the period under review.

- Ms. Ines Kolmsee's program runs through to March 31, 2011. During the year under review one tranche of this program for Ines Kolmsee became due and she asserted it. The company, represented by its Supervisory Board, used its right to make cash settlement, and settled Ms. Kolmsee's claims with a cash payment in the amount of EUR 152 thousand.

As a result, on the balance sheet date, there are no more phantom stocks for the members of the Executive Board.

Further information:

There are no advances, loans or liabilities in favor of the members of the Executive Board.

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 to company's Executive Board is revoked (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 remuneration for each full period of two years that this person is a member of the company's Executive Board. It is limited to the lesser of two maximum annual total salaries (fixed and variable remuneration) or 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 concerning the revocation of the appointment 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 monthly compensation in the amount of their last monthly fixed remuneration. On this basis, Mr. Gerhard Ertl, who has left the Executive Board in the year under review, received an amount of EUR 63 thousand in 2011.

III. Former members of the Supervisory and Executive Boards:

An amount of EUR 63 thousand was paid to Mr. Gerhard Ertl, who left the Executive Board in the year under review, according to the contractual prohibition on competition. The defined benefit obligation for Mr. Ertl under IFRS totaled EUR 741 thousand on the balance sheet date. Further information on Mr. Gerhard Ertl can be found in Section II. There are no other 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:

Subsidiaries: The former programs for select executives at subsidiaries expired in 2010 at the latest. As a result, there were no such programs in 2011.

Parent company SKW Stahl-Metallurgie Holding AG: In 2008 to 2010, share-price based remuneration components were agreed with some employees of the Group's parent company:

- The agreement with Mr. Reiner Bunnenberg was terminated when he was appointed to the Executive Board (from January 1, 2011).

- In 2011 there was also one other program which resulted in a payment as a result of the positive share price performance in the year under review compared to the reference price.

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 bar. Performance on the delivery date is measured using the average closing price of the shares in XETRA trading weighted with the trading volume over a period of 20 trading days.

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

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

The SKW Metallurgie Group's phantom stock program that is still running, ends in 2012.

Further information on corporate governance at SKW Metallurgie

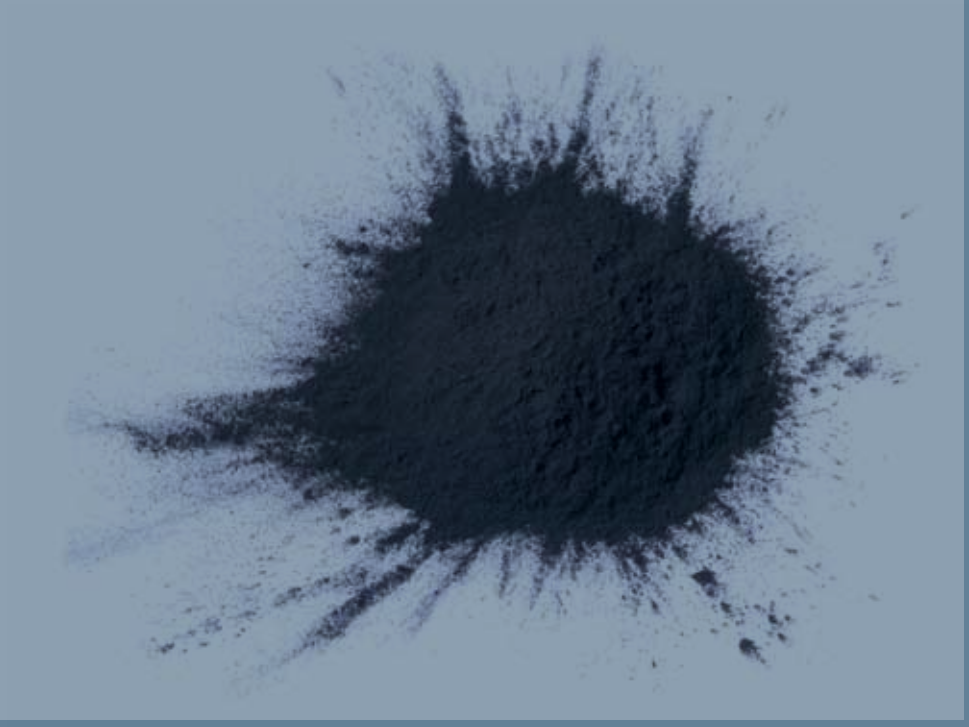
For detailed information on the activities of the Supervisory Board as well as on the cooperation of the Supervisory and Executive Boards, please refer to the Supervisory Board Report.

News and important information such as Ad-hoc Releases, Financial Calendar, Press Releases, and information on the Annual General Meeting are also accessible on the Group's web site at www.skw-steel.com.

Once planted, the seed requires optimal conditions such as warmth and humidity to grow, but too much heat or torrential rains can lead to its destruction. At this stage, the seedling's life, which is dependant on a fine balance of all external conditions, lies firmly in Mother Nature's hands. Fortunately, in the complex world of the SKW Metallurgie Group, we have greater control of external factors through planning and risk management. These are used to identify opportunities and risks early, giving us the time to react promptly and efficiently.

Assets deserving of protection

By thinking ahead we ensure that we identify opportunities and risks in time and more importantly, react accordingly. In order to carry out the SKW Metallurgie Group's key task: supplying our customers reliably with products that meet their specifications and that are exactly there where and when they are needed.



Combined Management Report

Combined Management Report of SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), and the SKW Metallurgie Group for fiscal year 2011

1. Business and underlying conditions

1.1. Pace of the global economy slowed substantially in the second half of 2011

The global economy was not able to link in to the fast-paced growth in the previous year. According to information from the International Monetary Fund (IMF), the economy grew by 3.8% world wide, after having lifted by 5.0% in 2010. In 2010 there were catch-up effects from the economic and financial crisis in 2009. In addition, the massive sovereign debt in key industrial nations, in particular in the eurozone, led to a significant cool down in the global economy in the second half of the year. Forecasts by economic exports had to be corrected down accordingly at the end of the year. The countries in the European Union suffered increasingly from the financial and structural crisis, which heightened from the middle of the year. The economic growth of 1.6% in this region, identified by the IMF, is primarily based on the export-driven growth in individual countries such as Germany (+3.0%) whereas other EU countries already slipped into recession at the end of 2011. The USA fared only marginally better, with economic output up just 1.8% compared to 2010. Japan's economy even fell by 0.9% as a result of the earthquake and tsunami catastrophe in March 2011. Global economic growth in 2011 was driven once again by the high pace of growth in emerging nations. According to information from the IMF and driven by strong growth in China of 9.1% according to figures from that country's government, the economies in emerging nations grew by 6.2%. In contrast, growth in industrialized nations was up by just 1.6%.

Generally positive development of the economy, albeit uncertainties due to sovereign debt crisis

In order to minimize the risks for the real economy, central banks have cut lead rates around the world to historic low levels. Exchange rates were volatile in 2011 as a result of the economic uncertainties. For example, the exchange rate on the balance sheet date changed from USD 1.34 (2010) to USD 1.29 (2011) to the Euro. The average exchange rate increased from USD 1.33 (2010) to 1.39 (2011) and underwent substantial fluctuations during the course of the year. Inflation in industrialized nations was relatively moderate, and totaled 7.25% in emerging nations. The growth in raw material prices also reflected the cool down in the global economy in 2011 - in particular in the second half of the year. Listings for the majority of commodities fell over the course of the year - in particular industrial metals underwent a significant correction. The downturn in prices also affected agricultural commodities, which clearly slumped despite a continued rapid increase in the global population. In contrast, oil was in a special position in 2011, up by 16% due to the expectations for a long-term robust economy in China and other emerging nations.

1.2. Another record-breaking year for steel production

SKW Metallurgie Group records about 90% of its revenues with the steel industry

In 2011, the SKW Metallurgie Group again recorded around 90% of its consolidated revenues with customers in the steel industry. The company's operating growth depends on the quantity of steel produced and not the steel price.[1] As steel producers generally only have low quantities of the SKW Metallurgie Group's products in store, the development of steel production allows direct conclusions to be drawn regarding demand for the company's products. In geographic terms, the steel production figures for "world without China" are particularly relevant for the SKW Metallurgie Group, as steel production in China is still undergoing a process of transformation. Without China, 831.4 million tons (previous year: 786.9 million tons) of raw steel were produced world wide in the year under review. As soon as the transformation process in China has progressed further, the Chinese market will also become increasingly important for the SKW Metallurgie Group. In terms of steel types, sales of the SKW Metallurgie Group's high-quality products focus on producing high and higher quality steel, for which more and more complex products from the SKW Metallurgie Group are required than for simple steels.

Global steel production in 2011 mirrored economic growth in the year under review: 2011 was a new record-breaking year for steel producers around the world - and it was driven by high demand from emerging nations, which are enjoying dynamic growth. According to information from the World Steel Association, global steel production increased by 6.8% to 1,526.9 million tons (previous year: 1,413.6 million tons).[2] The weakening in the underlying economic conditions at the end of the year was also reflected in slower growth in the steel sector. As a result, production quantities only grew by 2.5% in the fourth quarter.

World steel production – a significant indicator for demand for SKW Metallurgie products – increased significantly

With the exception of Japan, all of the major steel producing countries were able to enjoy what was, in some cases, substantial growth over the year as a whole. Asia's increasing importance for global trade was reflected in the fact that the production volume was up 7.9%. China was able to further expand its position as the world's largest steel nation - it accounted for 45.5% of global production (up from 44.7% in the previous year). The robust economic growth in the USA could be seen in 2011 in the fact that the quantity of steel produced was up 7.1% year-on-year, while this figure only increased slightly by 2.8% in the European Union as a result of the initial impact of the Euro crisis on the real economy. Despite the weaker pace of the economy in the year under review, steel production in Brazil, a further key sales market for the SKW Metallurgie Group, was up 6.8% year-on-year. In total, the proportion of global steel production accounted for by BRIC countries (Brazil, Russia, India and China) has increased since 2006 from 45.8% to 57.1% in 2011.

Steel production in the key geographic markets for the SKW Metallurgie Group grew at a slightly faster pace in the first half of 2011 than in the second half of the year (EU and Brazil); however, growth in the second half of 2011 in the USA was higher.

Without emerging nations, steel production in absolute figures in 2011 was also lower than the previous highs recorded in 2006 to 2008. These figures confirm the expectations by many steel experts that steel production in Western Europe and North America will not grow significantly higher than the level prior to the economic and financial crisis in 2009 for the foreseeable future.

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.

2. Steel production figures for 2011, which are stated in our management report, are based on figures published by the World Steel Association on January 23, 2012. The association notes that these are, in some cases, provisional figures/estimates. In addition, in general the association only covers 64 countries, however their steel production is put at more than 98% of global production.

Outside the steel sector, the SKW Metallurgie Group aims to develop additional customer groups by offering special applications. These customer groups' product requirements are related to those in the steel industry. Examples include cored wire for the copper and foundry industries, calcium carbide products for the gas industry and special magnesium for aviation.

In addition, the Quab subsidiary also supplies producers of industrial starches (a pre-product for paper production), hygiene products and also the shale gas industry. The growth of this customer industry followed the general economic trends in the year under review.

1.3. Markets for SKW Metallurgie's products follow customer industries

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 growth described in steel production.

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, there was a positive impact from the customers acquired in connection with the take-over of a calcium carbide furnace in Sweden. Revenues from this furnace were consolidated in the SKW Metallurgie Group for 11/12 of the year.

Prices for the group's key products were similar to the previous year on average in 2011. As a rule, the growth in sales prices 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 have been bought in from third parties to date. The start of production of calcium silicon (the most important core for cored wire in terms of quantity) at the new facility in Bhutan means that part of this external procurement will be replaced by the group's own production.

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.

Further information:
Consolidated Notes, Note D39

In terms of margins, in 2011 start-up costs were incurred for the new plants and there were also some non-operating extraordinary factors. These are discussed in detail in Section 6 ("The SKW Metallurgie Group's financial position and results of operations").

2. SKW Metallurgie Group pursues globalization strategy

The group's expansion plan, which was initiated in previous years, was also continued in the year under review. For example, a calcium carbide production facility was acquired in Sweden on February 1, 2011. Construction of the new plants was either completed during the year under review (expansion of an existing facility in the USA and new facility in Russia) or were brought significantly ahead during the year under review, so that these were just about to be completed when this management report was prepared (expansion of an existing facility in Brazil and a new facility in Bhutan).

The SKW Metallurgie Group now has 18 production locations in eleven countries (including the Indian joint venture Jamipol), and it is not primarily perceived as being a German company, but as a global company. As a result, the media ranks the SKW Metallurgie Group as being one of the most globalized German listed companies: for example around 98% of the workforce is employed abroad – more than for any other company in the Dax30, MDax, TecDax and SDax indices.

In 2012, capital expenditure will mostly comprise maintenance investments (focusing on Sweden), over and above the earn-out for the acquisition of a two-thirds interest in the Brazilian company Tecnosulfur in 2009. The group does not plan to acquire or build any new production facilities.

Operative focus for 2012 is on "picking the harvest" from the growth investments of 2009-2011

The operating focus in 2012 will be much rather on taking the plants built or acquired through to 2011 into regular operations and thus, to speak figuratively, to enter the harvest phase. As a result, the new plants are to provide significantly higher contributions to revenues and earnings in 2012 than in 2011 (in the case of Sweden without considering the income from the reversal of negative goodwill, also known as a bargain purchase).

Of the growth projects implemented over the past few years, Bhutan (new construction of a calcium silicon furnace and cored wire production) required the most capital and was the most complex project. The advantages offered by the location in Bhutan include, in particular, the long-term availability of electricity produced in an environmentally sustainable manner at competitive prices. On the other hand, this new plant was constructed in a new environment in terms of culture and logistics, and in addition the low population means that the availability of human resources is limited. As a result, the learning curve that the SKW Metallurgie Group went through in the year under review was relatively steep. At present, ferric silicon and calcium silicon are being produced alternately. Ferric silicon is also a marketable and thus also revenue-generating product. The temporary production of ferric silicon is typical for the start of operations and the fine tuning of a calcium silicon furnace. The Executive Board is confident that the "Bhutan" project will turn into profitable regular operations during the course of 2012. As already announced, the contributions made by Bhutan to revenues at a group level will remain low, as the group company located there will mostly sell its products within the group.

3. Organization and company structure

3.1. SKW Stahl-Metallurgie Holding AG as the Group's parent 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. In so doing, the Group's parent company does not offer products on its target markets itself. Instead, only the Group's operating subsidiaries have customer relationships. The group's product portfolio includes, in particular, products and services for the steel industry (primarily for hot metal desulphurization 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 and also to the shale gas industry and manufacturers of hygiene products. Additional sales markets outside the steel industry include the foundry and copper industries. SKW develops specialized cored wires for both of these industries. Two new customer industries were added during the course of 2011. The SKW Metallurgie Group has only served these industries 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.

SKW Stahl-Metallurgie Holding AG acts as the Group's parent 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.

The Ordinary General Meeting of the company's shareholders for the fiscal year 2010 was held in München (Munich) (Germany) on June 8, 2011. The Executive and Supervisory Boards resolved to make a proposal to the General Meeting for 2011 (i.e., for fiscal year 2010) to disburse a pre-tax dividend of EUR 0.50 per dividend-entitled share. The shareholders approved this resolution for the appropriation of profits with a large majority. The corresponding dividend payment was made on the banking day following the General Meeting.

With regard to fiscal year 2011, the Executive and Supervisory Boards intend to make a proposal to the 2012 General Meeting, which is expected to be held on June 14, 2012 in München (Munich) (Germany), to pay a pre-tax dividend of EUR 0.50 for each entitled share which is to be paid on the banking day following the General Meeting.

Proposed dividend of EUR 0.50 per dividend-entitled share for business year 2011 underlines the SKW Metallurgie Group's self-definition of as a "dividend share"

The General Meeting on June 8, 2011 also re-elected the members of the Supervisory Board. As a result of the re-election there were no changes to the members of the Supervisory Board. During the fiscal year, the Supervisory Board thus comprised Sabine Kauper, Armin Bruch, Dr. Dirk Markus, Jochen Martin (deputy Chairman), Dr. Christoph Schlünken and Titus Weinheimer (Chairman).

The Supervisory Board has formed committees to further professionalize its work. These committees each comprise three members. There were three committees during the fiscal year: the audit committee, the remuneration committee and the nomination committee. This means that the requirements of the German Corporate Governance Code were fully met with regard to Supervisory Board's committees.

On the balance sheet date the Executive Board comprised Ines Kolmsee (CEO) and Reiner Bunnenberg (COO). Gerhard Ertl (formerly CFO) exited the company's Executive Board on September 30, 2011. On December 21, 2011, the company disclosed that Oliver Schuster will take over as CFO with effect from March 1, 2012. These tasks had been taken over by the CEO for the transitional period.

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.

The group of consolidated companies grew during the course of 2011 with the addition of the three newly formed companies ESM Special Metals & Technology Inc. (USA), SKW Technology GmbH & Co. KG (Germany) and SKW Technology Management GmbH (Germany). The total number of consolidated group companies thus amounted to 27 on December 31, 2011 (26 subsidiaries and the parent company), compared to 24 (23 subsidiaries and the parent company) in the previous year. In addition, SKW Metallurgie's interest in the Turkish Group company was increased in the year under review from 99% to 100%. Affival do Brasil (Brazil) was liquidated in the third quarter of 2011. This company had been inactive for an extended period and it was already not consolidated in the consolidated financial statements for 2010 as a result of its negligible importance for the Group. In addition, a French company which is being liquidated and the Indian joint venture Jamipol were also not fully consolidated.

The number of SKW Metallurgie's production facilities (without the Jamipol joint venture with two plants in India) increased to 16 plants in 10 countries in the year under review as a result of the three new facilities (Sweden, Russia and Bhutan - which is currently being completed). The investments in new production facilities still being performed on the balance sheet date (in particular the new construction of a production facility for sintered synthetic slag in Brazil) are being made at existing production locations, with the result that completion of these projects will not change the number of production facilities.

SKW Metallurgie shares completely in free float

In particular, the Group's shareholder structure continues to be characterized by being held fully in free float: Since the capital increase in July 2009, no shareholder has held an interest of 10% or more in the share capital of SKW Stahl-Metallurgie Holding AG, which has remained unchanged since then.

3.2. SKW Metallurgie's shares reflect market volatility

The company's share capital comprises 6,544,930 shares. During the course of fiscal year 2011 the shares were converted from bearer to registered shares in line with the resolution by the General Meeting on June 8, 2011.

In 2011, the price of SKW Metallurgie's shares was between EUR 11.21 (low) and the high for the year of EUR 20.50 (XETRA closing prices in each case). At the end of the year, SKW Metallurgie's shares were also not able to escape the general economic trends, and closed the year at EUR 11.35, which corresponds to a market capitalization of approx. EUR 74.3 million.

SKW Metallurgie shares solidly entailed in the SDAX index

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.

4. Information 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 fiscal 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 shares, each with a notional interest of EUR 1.00 in the share capital. During the course of the year under review, the shares were converted from bearer to registered shares 1:1 in line with the resolution by the General Meeting on June 8, 2011. 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. With regard to authorized capital, the General Meeting on June 8, 2011 resolved to revoke the existing authorization for authorized capital of up to EUR 77,230. In addition, it resolved to authorize the Executive Board to raise the share capital against cash contributions with the approval of the Supervisory Board in the period until May 30, 2016 on one or several occasions by up to EUR 3,272,465 by issuing new no-par value shares. The shareholders must be granted subscription rights. It is not possible to exclude subscription rights.

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] In all other respects, the General Meeting resolves on changes to the articles of association.

In the presentation of the Executive Board's remuneration, detailed agreements were concluded with the members of the Executive Board for the event of a change of control resulting from an acquisition offer. The company has not made any agreements for compensation in the event of a simple acquisition offer. There were no other agreements on the balance sheet date within the meaning of No. 8 and No. 9 of Section 289 (4) and Section 315 (4) of the HGB. At the start of 2012, agreements were concluded regarding bilateral credit lines and a promissory note bond, which also include regulations on a possible change of control.

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 Section 179 (1) Sentence 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. Five strong product brands mean top quality – world wide

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 (Quab brand), 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

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

High-quality cored wire for secondary metallurgy is mostly offered under the brand name "Affival" in the "Cored Wire" segment. In this production step of steel manufacturing, crude steel receives the desired properties for special applications through the precisely adjusted addition of specialty chemicals. 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.

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, with the connected cored wire production (under construction), and the new cored wire plant in Russia also belong to the Cored Wire segment and will start production during the course of 2012, in particular for the high-growth markets in India and the CIS countries.

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

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. Both 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 diver torches). Specialty magnesium for non-steel industry customers was significantly expanded in 2011 by expanding a plant and forming a separate company.

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 and calcium carbide-based products for the gas industry. Through to January 31, 2011, the SKW Metallurgie Group still bought in the raw materials required for carbide-based hot metal desulphurization in Europe from various suppliers. Since February 1, 2011 the group's procurement situation has been reinforced substantially as a result of the newly acquired calcium carbide plant in Sweden. The 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. The SKW Metallurgie Group's interest in Jamipol is less than 50%, and as a result 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 Tecnosulfur is the leading provider in its product segments on the Brazilian market. This company has been consolidated in the SKW Metallurgie Group since December 23, 2009, and is ideally positioned to benefit from Brazil's above-average growth.

SKW Metallurgie Group is the global leading supplier for technologically demanding solutions for hot metal desulphurization – across all significant geographic markets

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 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 sued 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. Additional customer industries include manufacturers of shale gas and hygiene 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.

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 backward integration for the key raw material calcium silicon, used in cored wire production, by opening a calcium silicon furnace in Bhutan in the year under review. In a typical year for both production and sales, the SKW Metallurgie Group will produce around one third of its requirements for calcium silicon in Bhutan.

The Powder and Granules segment's procurement activities are focused on ensuring the supply of magnesium and calcium carbide.

Vertical integration projects in Sweden (calcium carbide) and in Bhutan (calcium silicon) strengthen raw material supply of the SKW Metallurgie Group

- 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.

- The group now has its own, internal source of supply for calcium carbide as of February 1, 2011 in the form of the furnace in Sweden acquired from the AkzoNobel Group. This secures the supply of raw materials for carbide-based hot metal desulphurization materials for the European market over the long term. There are long-term contracts in place for the Latin American market for the procurement of the requisite pre-products.

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 the choice of 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.

In 2011, the expansion of production capacity, comprising the acquisition of a calcium carbide furnace in Sweden on February 1, 2011, the expansion of facilities at existing locations in the USA and Brazil, and setting up new plants in Russia and Bhutan, was mostly completed.

In total on the balance sheet date the group operated seven production facilities in the Cored Wire segment (France, USA, South Korea, Mexico, Russia, Bhutan (under construction) and People's Republic of China) and one Quab production facility (USA) in the Other segment. 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. The calcium carbide plant in Sweden, which was acquired during the fiscal year (on February 1, 2011), also forms part of the Powder and Granules segment.

SKW Metallurgie Group operates (as of early 2012) 18 plants in eleven countries on four continents (incl. JV Jamipol)

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 fiscal year was practically fully used. In the furnace-based production processes 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. However, it must be noted that the calcium silicon furnace in Bhutan will only cover around one third of the SKW Metallurgie Group's typical annual requirements, with the result that it is unlikely that it will not operate at full capacity.

The careful selection of raw materials and staff as well as 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 both via the share price performance and also via the dividend.

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., in the year under review thanks to the calcium silicon furnace in Bhutan and the calcium carbide plant in Sweden) 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. SKW Metallurgie continues to enjoy on track growth

Business year 2011 with significant growth in revenues and earnings

Business in 2011 was clearly characterized by a substantial growth in revenue and earnings for the SKW Metallurgie Group. The most important operating driver for this positive growth was the increase in steel production, in particular on the sub-markets that are particularly important for the SKW Metallurgie Group.

In the Cored Wire segment, PapCal cored wire was successfully used by additional customers, after tests, which customers performed in particular in the economic and financial crisis, had proved this product innovation's superiority in practical use. At the same time, this segment penetrated new customer industries: copper and foundry. These strategic activities are part of the stronger focus on higher-margin products that was introduced over the past few years. Additional strategic milestones in this segment were the increase in the number of cored wire production facilities from five to seven (new production facility in Russia for the CIS market and in Bhutan for the Indian market) and the vertical integration for part of the requirements for calcium silicon as a raw material (calcium silicon furnace in Bhutan), which will be completed during the course of 2012.

In the Powder and Granules segment, 2011 was also 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 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).

During the year under review, the second half of the year was impacted by a reduction in steel production in Europe (e.g. at the ArcelorMittal Group) and in Brazil.

In all other respects, during the year under review there were no significant differences between the quarters. Non-operating issues, such as unrealized currency translation effects may, however, occur irregularly and may lead to fluctuations in earnings.

A calcium carbide plant was acquired in Sweden with effect from February 1, 2011; further details can be found in Section C of the Notes to the Consolidated Financial Statements. This plant's figures are included on a pro rata basis in the consolidated income statement for 2011 (i.e., for eleven months).

In this connection, we must also note that the Swedish Group company has taken over revenues from a German group company in the low double-digit million euros region as part of improved customer orientation, with the result that only part of the revenues detailed in Section C of the Notes to the Consolidated Financial Statements for the Swedish company are additional revenues from a Group perspective.

Further information: Consolidated Notes, Section C

The other changes in the group of consolidated companies currently exclusively relate to non-operating companies and are thus of only little relevance when comparing the figures from 2011 and 2010.

During the fiscal year, production at all of the established facilities was on schedule and successful. 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. At the new locations (plant expansion in the USA and Brazil, new facilities in Russia and Bhutan), production will transition to regular operations in 2012, with the result that significant contributions to revenues are only expected from the second half of 2012. In the case of Bhutan, only the sales of cored wires to India will contribute to revenues from third parties, as the other transactions will all be performed within the group.

6.2. Revenues up by 13%

During the year under review, the SKW Metallurgie Group recorded revenues in excess of EUR 428.9 million, which are thus up 13% year-on-year (EUR 380.8 million).

A key reason for this is the dynamic development of global steel production (without PR China). In 2011 this totaled 831 tons and was thus up significantly on the 2010 figure (787 million tons) and returned to around the level enjoyed before the economic and financial crisis (2008: 829 million tons). As a result, the steel production that is relevant for the SKW Metallurgie Group increased by almost 6%; in contrast, the increase in the SKW Stahl Metallurgie Group's revenues was 13%.

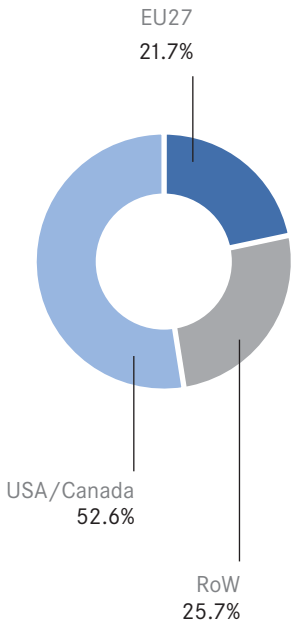
In geographic terms, in 2011 (in terms of the customer's headquarters, and not the supplying unit) 21.7% (previous year: 20.2%) of external revenues (translated to euros)[5] were recorded with customers in EU countries. The USA and Canada accounted for 52.6% (previous year: 53.4%).

Other countries, mostly emerging and developing nations, accounted for 25.7% (previous year: 26.4%).

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 increased again in 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.

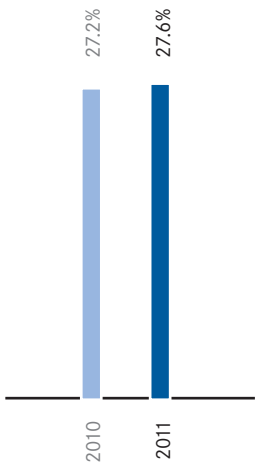
Own work capitalized and changes in inventories were only of a minor amount in the year under review, as was also the case in the previous year, with the result that total operating revenue and revenues only differ to an immaterial extent.

GLOBAL REVENUES



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

GROSS MARGIN



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 is the gross profit margin (gross margin)[6] .

During the year under review, the SKW Metallurgie Group increased this figure significantly – with costs of materials totaling EUR 310.4 million (previous year: EUR 277.2 million) - as a result of its consistent orientation to high-margin products to 27.6% compared to 27.2% in the previous year. The absolute increase in the cost of materials is caused by increased revenues: With higher sales (quantitative component), absolute material costs rise proportionally; moreover, raw material price fluctuations are passed on. Hence, absolute material costs and revenues (price component) also develop proportionally.

6.4. Employees participate in upswing

Personnel expenses[7] totaled EUR 44.0 million in the year under review, higher than the previous year's figure of EUR 39.1 million. This is primarily attributable to the number of employees increased substantially year-on-year due to the new plants.

At EUR 18.4 million, other operating income in the year under review was clearly above the previous year (EUR 10.4 million). Other operating income includes, in particular, income received from changes in exchange rates in the amount of EUR 8.5 million, the bargain purchase in the amount of EUR 2.6 million from the acquisition of a calcium carbide plant in Sweden as well as the reversal of the provision for a possible penalty as a result of the penalty decision by the European Commission in 2009. As a result of court rulings passed at the start of 2012, charges for the SKW Metallurgie Group in this regard became so improbable that the provision was reversed. This resulted in other operating income of EUR 6.2 million (EUR 6.2 million of the gross amount of the provision of EUR 6.7 million were reversed, as additional expenses for legal advice of EUR 0.5 million are expected for this issue).

In the year under review, other operating expenses climbed substantially from EUR 47.9 million in the previous year to EUR 61.5 million. The increase in other operating expenses is due to revenue-related expenses, e. g., sales-related selling costs (such as commission and outbound freight).

In addition, other operating expenses include expenses from foreign currency translation totaling EUR 8.5 million in the year under review (previous year: EUR 7.1 million); of the expenses in the amount of EUR 8.5 million the bulk (EUR 6.3 million) has not been realized (previous year: EUR 4.9 million). A large part of the unrealized expenses from foreign currency translation will also never be recognized as an expense, as this relates to purely accounting valuation effects from USD loans to the Bhutanese group company which prepares its accounts in Bhutanese Ngultrum; however the Ngultrum cannot be freely converted to the required extent.[8]

6. The gross profit margin (gross margin) is the difference between sales and the cost of materials in relation to sales. The cost of materials can also be compared to 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.

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

8. Revenues at the Bhutanese group company are mostly recorded in US dollars and are thus not affected from the restricted convertibility.

If the exchange rate gains are netted with the exchange rate losses, this results in net losses from currency translation of EUR 2.6 million (previous year: net income from currency translation of EUR 2.3 million). As a result, a difference in the amount of EUR 4.9 million between EBITDA in fiscal year 2011 and EBITDA in fiscal year 2010 is due exclusively to (mostly unrealized) currency translation effects.

Other operating expenses also include three non-operating one-off factors that mostly relate to the purchase of raw materials at a subsidiary: Expenses of EUR 1.9 million arose in connection with the raw materials purchased in the PR China, in particular as a result of fraudulent actions by several suppliers. In addition, a court decision resulted in expenses of EUR 1.5 million for a subsequent payment (including incidental costs) to a former supplier for raw materials purchased in 2009. What is more, in connection with the bankruptcy of a supplier, EUR 0.3 million still had to be expensed. These relate to a previous year.

As already stated for other operating income, other operating expenses also include significant, mostly unrealized currency translation expenses.

With regard to the new plants, 2011 was characterized by start-up costs, which are typical for new plants shortly before the start of production. These relate to the plant expansions in the USA and Brazil and the new production facilities in Bhutan and Russia. The plant in Sweden was acquired and not newly built; however, as a result of the condition of the plant when purchased (investment backlog, which led to a correspondingly low price), start-up costs were incurred here as well, since significant restructuring was necessary. These start-up costs relate to various items above EBITDA, in particular personnel expenses and other operating expenses.

Income from the Indian joint venture company Jamipol totaled EUR 0.9 million, on a par with the previous year (EUR 0.9 million).

6.5. EBITDA guidance almost fully reached despite non-operating charges

EBITDA totaled EUR 31.7 million and was thus substantially higher than the previous year's figure (EUR 28.8 million) and also in line with guidance (EUR 32.0 million) However, this reported EBITDA includes some (positive as well as negative) non-operating effects. Start-up costs for the new plants, currency translation expenses (mostly not realized) and non-period expenses from procurement contracts are faced by the bargain purchase from the acquisition of the calcium carbide furnace in Sweden and the reversal of a provision due to the positive court decisions in the SKW Metallurgie Group's favor.

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

RECORD EBITDA

In particular amortization and depreciation increased from EUR 11.5 million in 2010 to EUR 13.3 million. This increase is due, in particular, to the fact that new facilities started production during the course of the year, for which amortization and depreciation was carried from this date (i.e., on a pro rata basis for the year as a whole). This amortization and depreciation will be incurred for a full year in 2012; amortization and depreciation will start in 2012 for a few other assets. As a result, amortization and depreciation will increase again, ceteris paribus, in 2012. Contradictory effects could result, for example, from changes in exchange rates, as the majority of amortization and depreciation is incurred in foreign currencies (e.g., USD, BRL, etc.).

Despite the increased amortization and depreciation, however, EBIT is still higher than the previous year's figure at EUR 18.4 million (EUR 17.3 million).

Net interest expenses were only slightly lower than the previous year's figure at EUR 2.2 million (EUR 2.3 million). This slight downturn in net expenses in the year under review compared to the previous year is due, in particular, to the slight reduction in interest expense. Interest income is on a par with the previous year's figure.

Earnings before taxes (EBT) of EUR 16.2 million was perceptibly higher year-on-year, surpassing the previous year's figure of EUR 15.0 million.

6.6. Higher EPS allows attractive dividend to be proposed

The typical group tax rate (income taxes to EBT) in the SKW Metallurgie Group is an unchanged 35-40%; in 2011 it totaled just 27.4% due to various tax effects. The amount of the typical 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 results in an 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 4.4 million (previous year: EUR 5.9 million).

After interest, taxes, amortization and depreciation the SKW Metallurgie Group thus recorded consolidated earnings of EUR 11.8 million (previous year: EUR 9.1 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. In addition to the SKW Technology companies newly formed in the year under review that had not yet commenced operations, on the balance sheet date this relates to activities in Bhutan (non-controlling interests: 49%) and Brazil (non-controlling interests: 33.3%) as well as Quab business (non-controlling interests: 10%).

EUR -0.4 million (previous year: EUR 1.5 million) is to be allocated to these non-controlling interests (previously: minority interests) from the consolidated earnings.

EUR 12.2 million is due to the parent company's shareholders, and thus significantly higher than the previous year's profits of EUR 7.5 million.

Earnings after taxes and "non-controlling interests" (formerly called "minorities") significantly increased

The number of SKW Metallurgie shares did not change in 2011 and 2010 and totaled 6,544,930. The proportion of the consolidated earnings due to the parent company of EUR 12.2 million (previous year: EUR 7.5 million) as the numerator and the number of shares mentioned above as the denominator thus gives theoretical earnings per share (EPS) of EUR 1.86 (previous year: EUR 1.15).

Based on this result, the Executive and Supervisory Boards resolved to make a proposal to the General Meeting for 2011 to disburse a dividend of EUR 0.50 per dividend-entitled share.

6.7. Segment reporting

During the year under review, 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: Consolidated Notes, 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 202.1 million (EUR 183.0 million) as a result of the increased production volumes at steel plants. However, EBITDA in the entire segment fell from EUR 11.9 million to EUR 7.6 million; the most important reason for this was the start-up costs for the new plants in Bhutan and Russia. The currency translation losses already mentioned, the bulk of which have not been realized, are also mostly to be found in this segment.

- The group's external annual revenues in the Powder and Granules segment increased from EUR 175.1 million to EUR 197.3 million; this increase is due to the solid demand, in particular in the first half of the year, and also to the revenues bought in in Sweden. Segment EBITDA rose substantially from EUR 21.7 million to EUR 26.8 million, which also includes non-cash one-off factors (in particular from the adjustment of a provision). 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.

- 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 29.5 million in 2011, higher than the previous year's figure of EUR 22.7 million. This led to a significantly positive contribution to EBITDA from the Quab business. Disclosure of segment EBITDA in the Other segment, however, is 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, 2011 compared to the previous year:

ASSETS IN EUR THOUSAND	12/31/2011	12/31/2010
Non-current assets	163,308	147,852
Current assets	152,440	127,905
thereof cash and cash equivalents	10,382	10,956
Total assets	**315,748**	**275,757**

EQUITY AND LIABILITIES IN EUR THOUSAND	12/31/2011	12/31/2010
Equity	128,356	122,258
Non-current liabilities	57,510	64,562
thereof non-current financial liabilities	34,753	31,336
Current liabilities	129,882	88,937
thereof current financial liabilities	53,562	26,966
Total equity and liabilities	**315,748**	**275,757**

The SKW Metallurgie Group's total assets increased in fiscal year 2011 from EUR 275.8 million to EUR 315.7 million. This increase is mostly due to the construction progress for the growth projects (substantial increase in financial liabilities on the equity and liabilities side and significant increase in property, plant and equipment on the assets side). In addition, smaller changes in almost all of the balance sheet items are due to currency translation effects (translation at closing rate).

Equity (including non-controlling interests) also increased to EUR 128.4 million.

Despite increased net financial debt, balance sheet of the SKW Metallurgie Group continues to be very solid

As total assets increased more sharply compared to equity, the equity ratio (including non-controlling interests) fell from 44.3% to 40.7%. In addition to the equity ratio, net financial debt is a key performance indicator for the SKW Metallurgie Group.[9] This figure totaled EUR 77.9 million on December 31, 2010 (previous year: EUR 47.3 million).

The operating working capital – defined as inventories plus trade receivables less trade liabilities – totaled EUR 82.5 million on the balance sheet date and is thus higher than the previous year's level (EUR 65.8 million) in line with the increased level of business activities. As a result, the SKW Metallurgie Group kept the turnover rate for its working capital (net current assets divided by revenues) at a low level; in the year under review this indicator totaled 0.19 based on the balance sheet date (previous year: 0.17).

On the assets side, non-current assets (2011: EUR 163.3 million; 2010: EUR 147.9 million) include, in particular, intangible assets, property, plant and equipment and deferred tax assets. The increase in property, plant and equipment (from EUR 63.9 million to EUR 85.3 million) is mostly due to the further construction of the new plants, in particular in Bhutan.

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

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.

On the equity and liabilities side, equity increased slightly as already mentioned. The most important change in borrowing is the significant increase in current financial liabilities (2011: EUR 53.6 million; 2010: EUR 27.0 million). This increase in financial liabilities is due, in particular, to the growth projects and the increase in net current assets.

Non-current liabilities include deferred tax liabilities of EUR 15.7 million (previous year: EUR 16.8 million). Detailed information on these liabilities is provided in Note D16 of the notes to the consolidated financial statements.

Further information: Consolidated Notes, Note D16

The total other liabilities only changed slightly; however there were significant changes in terms of maturity. This is due to the fact that liabilities from a commodities supply agreement to be fulfilled and, in particular, subordinated liabilities from acquisitions will become due in 2012, and as a result these are classified as being current as of December 31, 2011.

The provisions (mostly current) fell, which is due, in particular, to the reversal of a provision for a possible antitrust fine which had been formed in 2008 and 2009.

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. The performance of the Brazilian and Bhutanese currencies is also important.

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

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

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

ASSETS IN EUR THOUSAND	01/01/-12/31/2011	01/01/-12/31/2010
Consolidated net income	11,788	9,061
Gross cash flow	16,479	14,900
Cash flow from operating activities	6,114	12,547
Cash flow from investing activities	-33,869	-24,718
Cash flow from financing activities	27,287	11,618
Change in cash and cash equivalents	-574	-96
Cash and cash equivalents - end of period	10,382	10,956

Based on a consolidated net income for the year of EUR 11.8 million (previous year: EUR 9.1 million), during the year under review the group recorded a gross cash flow of EUR 16.5 million (previous year: EUR 14.9 million). Under non-cash expenses, amortization and depreciation increased from EUR 11.5 million to EUR 13.3 million. The bargain purchase from the acquisition of the calcium carbide furnace in Sweden of EUR 2.6 million was also non-cash (previous year: EUR 0).

High gross cash flow shows operative strength of the SKW Metallurgie Group

The cash flow from operating activities (gross cash flow netted with changes in working capital) totaled EUR 6.1 million (previous year: EUR 12.5 million). During the previous year, working capital was increased by EUR 2.6 million, and the increase in the year under review totaled EUR 10.4 million. The change in working capital was influenced, in particular, by changes in inventories: Although inventories (after advance payments) were increased by EUR 4.6 million in 2010, the value of the SKW Metallurgie Group's inventories increased by EUR 10.5 million from January 1, 2011 to December 31, 2011. In addition to exchange rate effects, this increase was due, in particular, to the increased volume of business. There was a one-off factor in that current provisions fell substantially due to the reversal of a provision for a possible antitrust fine.

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 33.9 million during the year under review (previous year: EUR 24.7 million). During the year under review, this mostly related to payments for investments in non-current assets (EUR 30.6 million compared to EUR 23.8 million in the previous year). These investments in non-current assets include replacement and maintenance investments as well as mostly the continuation of the expansion in emerging nations and investments in a new specialty magnesium plant in the USA. In addition, the SKW Metallurgie Group also acquired a calcium carbide plant in Sweden on February 1, 2011.

The cash flow from financing activities in the year under review (net funds drawn down: EUR 27.3 million) was significantly higher than the previous year's figure (EUR 11.6 million). A key difference is the substantially higher net drawdown of liabilities to banks in the year under review (EUR 32.5 million) compared to the previous year (EUR 14.6 million).

Cash and cash equivalents at the start of the year amounted to EUR 11.0 million (previous year: EUR 11.1 million) and includes cash on hand and current bank balances. The change in cash and cash equivalents (including currency translation) totaled EUR -0.6 million (previous year: EUR -0.1 million), thus resulting in cash and cash equivalents at the end of the period of EUR 10.4 million (previous year: EUR 11.0 million).

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

The SKW Metallurgie Group's equity ratio (including non-controlling interests) totaled 40.7% (previous year: 44.3%) on the balance sheet date. The ratio of net financial debt to EBITDA totaled 2.46 on December 31, 2011 (previous year: 1,64).

Further information:
Consolidated Notes, Note D26

The SKW Metallurgie Group's borrowing has been concluded under terms in line with the market. 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.

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 2012 and 2013.

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 which 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.

There are incidental contractual agreements for several of the SKW Metallurgie Group's credit agreements – so-called financial covenants. In 2011 the SKW Metallurgie Group started to optimize its borrowing structure. In this regard, at the start of 2012, in addition to the conclusion of new bilateral credit relationships, the company also offered a promissory note bond with an initial volume of EUR 40 million for subscription. Demand was very high, with the result that the order book was oversubscribed when it was closed, and the interest for the individual tranches was at the lower end of the margin range in each case, despite the volume being increased to EUR 45 million. There were tranches with terms of three, five and seven years.

6.11. Global financial structure

Successful placement of a promissory note bond in the amount of EUR 45 million

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 40.7% (previous year: 44.3%). 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. This opinion was also confirmed after the end of the fiscal year by the high demand for the company's promissory note bond set up at the start of 2012 (details can be found in Section 6.10).

Exchange rate risks arising from the Group's operating activities (transaction risk) were reduced by natural hedging, e.g. by entering into same foreign-currency purchase and sale transactions. Group companies also hedged any exposure arising from the relevant foreign-currency forecasts at specific points. 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, however this will be liquidated at the start of 2012 as part of refinancing.

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.

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

Currency translation risks (so-called 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 currencies of importance to the Group were the currencies of those non-Euro countries in which the Group has operating companies (Mexico, South Korea, Japan, China, India/Bhutan, Brazil, Canada, Sweden and Russia).

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

Possible borrowing requirements in the future are secured at market interest rates for both the Group's parent company and directly or indirectly for all Group subsidiaries. In the SKW Metallurgie Group, the parent company and most of the subsidiaries have their own credit lines with banks. Most of the subsidiaries' credit lines are used to finance current assets and are of a current nature in line with the maturities of the assets.

In particular, however, after the end of the fiscal year and before this management report was prepared, a promissory note bond with a total volume of EUR 45 million (terms: three, five and seven years) was successfully placed with institutional investors.

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. This is a holding company, whose financial position and results of operations is determined, to a significant extent, by the economic situation of its participating interests.

The Company is an Aktiengesellschaft (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 in OTC trading on other stock exchanges. As a result, Group interim reports were drawn up and published at the end of the first, second and third quarters in the year under review.

At SKW Stahl-Metallurgie Holding AG, fiscal year 2011 was characterized by the growth of the group's operating subsidiaries and second-tier subsidiaries. Their expansion was successfully continued to a provisional conclusion 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.

Parent company holding direct participations in three domestic and seven international companies

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, PR China),
- SKW Metallurgie USA Inc., Wilmington DE (USA)
- SKW Metallurgy Sweden AB, Sundsvall (Sweden)
- SKW Quab Chemicals Inc., Wilmington DE (USA)

- SKW Service GmbH, Unterneukirchen (Germany)
- SKW Stahl-Metallurgie GmbH, Unterneukirchen (Deutschland)
- 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)

Compared to the previous year, there were no changes in the list of SKW Stahl-Metallurgie Holding AG's participating interests.

SKW France S.A.S. (France), SKW Stahl-Metallurgie GmbH (Germany) and SKW Metallurgie USA Inc. (USA) have several direct and indirect subsidiaries 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.[11] 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. Other operating income in the year under review totaled EUR 4.6 million (previous year: EUR 3.7 million). This includes the foreign currency translation result as well as income from group transfer agreements with subsidiaries as well as other oncharged costs.

SKW Stahl-Metallurgie Holding AG's personnel expenses fell in fiscal year 2011 to EUR 3.5 million (previous year: EUR 4.0 million). These personnel expenses include remuneration for members of the Executive Board[12] as well as remuneration for employees who are not representatives of the company's executive bodies. The number of employees on the balance sheet date (without the Executive Board) increased from eleven (2010) to thirteen (2011). The fluctuation of employees is a key non-financial performance indicator and continues to be very low.

In addition to minor write-downs, the single-entity financial statements for SKW Stahl-Metallurgie Holding AG include other operating expenses of EUR 5.0 million (previous year: EUR 4.4 million). This includes currency translation effects caused by foreign currencies and, in particular, consulting expenses. Part of these consulting expenses were oncharged to the corresponding subsidiaries.

The net income from participating interests for the parent company SKW Stahl-Metallurgie Holding AG includes the dividend payments from SKW France S.A.S (interim holding company for the group's cored wire, excluding Bhutan) in the amount of EUR 7.0 million (previous year: EUR 4.0 million) and Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A in the amount of EUR 2.1 million (previous year: EUR 3.1). 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 2.3 million (previous year: EUR 0.3 million) to SKW Stahl-Metallurgie Holding AG.

The financial result for the year 2011 was EUR 1.0 million (previous year: EUR 0.6 million). The earnings side includes, in particular, interest income from the intra-group financing of subsidiaries and second-tier subsidiaries (EUR 2.4 million compared to EUR 1.2 million in the previous year). The expense side includes, in particular, interest expenses for banks in the amount of EUR 1.4 million

11. 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.

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

(previous year: EUR 0.5 million). The increased bank interest is due, in particular, to an increase in the company's bank loans. The funds drawn down are used to finance the SKW Metallurgie Group's high-growth projects.

Earnings from ordinary operating activities totaled EUR 8.2 million, which is substantially higher than the previous year's earnings of EUR 3.1 million.

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 8.1 million (previous year: EUR 3.1 million).

Solid net earnings of parent company allows for attractive dividend proposal

SKW Stahl-Metallurgie Holding AG's net retained profits totaled EUR 10.2 million (previous year: EUR 5.3 million). Net retained profits include the net income and also the profit carried forward from the previous year in the amount of EUR 2.0 million (previous year: 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 0,50) per dividend-entitled share is to be proposed to the General Meeting for 2011 in 2012.

7.2. Dividend proposal stands for continuity

The Executive and Supervisory Boards have resolved to make a proposal to the General Meeting for fiscal year 2011 (payment in 2012) to pay a dividend of EUR 0.50 per dividend-entitled share (previous year: EUR 0.50).

This resolution ensures that the owners enjoy a reasonable participation in the company's economic success. EUR 3.3 million was distributed as a dividend in 2011. Assuming an unchanged number of 6,544,930 dividend-entitled shares, the dividend proposed by the Executive and Supervisory Board means that, if this is accepted by the General Meeting, EUR 3.3 million will, in turn, be disbursed as a dividend.

7.3. Net assets at the group's parent company

Continued high financial solidity of parent company

The total assets of the parent company SKW Stahl-Metallurgie Holding AG amounted to EUR 119.9 million as of December 31, 2011 and thus increased significantly compared to the previous year (EUR 97.7 million). The equity ratio as of the balance sheet date was 58.1% (previous year: 66.4%). Despite this 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 65.3 million to EUR 75.3 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 35.3 million to EUR 36.4 million. Of this total EUR 23.1 million (previous year: EUR 23.1 million) is due to the two-thirds interest in the Brazilian company Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A. The only material change in participating interests relates to SKW Metal-

lurgy Sweden. The carrying amount for this company increased from EUR 0 million (rounded) to EUR 1.1 million as a result of the acquisition of a calcium carbide plant and other assets.

A strategic partner[13] 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 38.2 million and were thus up by EUR 8.9 million compared to the previous year (EUR 29.3 million).

Current assets increased substantially from EUR 32.3 million to EUR 44.5 million. The key items of current assets include receivables from affiliated companies, which increased significantly from EUR 22.5 million to EUR 40.7 million.

It also includes cash and cash equivalents (cash in hand, bank balances) which fell from EUR 4.7 million in the previous year to EUR 1.3 million.

The company's equity totals EUR 69.7 million (previous year: EUR 64.9 million). Provisions increased substantially from EUR 2.6 million to EUR 3.7 million; this relates to personnel-related provisions (variable remuneration components, pension commitments), and also to provisions for fees and performance not yet invoiced.

In liabilities, in particular liabilities to banks have increased significantly from EUR 23.5 million to EUR 42.6 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. Payables to affiliated companies fell substantially (from EUR 6.1 million to EUR 3.1 million).

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 23.5 million to EUR 42.6 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). However, day-to-day business of the group's parent company, SKW Stahl-Metallurgie Holding AG 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.

13. 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. this partner is a long-standing Bhutanese business partner of the SKW Metallurgie Group (legal entity).

8. Research and development to future-proof the group

R&D remains 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 a cross-country and cross-company network. Operating activities in these networks are controlled by the group's research center in France, with strategic activities controlled by the group's head office 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 2011, 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". Its basic concept is to provide a delayed melting of the steel shell encasing the metallic powder. This enables the cored wire to penetrate deeper into the liquid steel, which in turn leads to higher recovery of the metal added.

In addition the SKW Metallurgie Group penetrated new customer industries with additional innovative products. For example, in particular cored wire for the foundry and copper industries were successfully further developed and marketed.

For improving and further developing the technical competence of the SKW Metallurgie Group in innovative solutions for hot metal desulphurization, the group founded the German research company SKW Technology in 2011.

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, filed applications for them and additionally protected them in order to protect the Group's intellectual property as fully as possible (90 patents processed in fiscal year 2011). 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, economic 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 has reinforced its involvement 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 subject to contamination or other site-related risk. In spite of this, however, training and sensitization sessions are held for staff on an ongoing basis.

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

At the SKW Metallurgie Group's new plant in Bhutan, key Western environmental and safety standards are consistently applied. A manager with international experience worked in Bhutan to set up SHEQ (safety, health, environment, quality). Minimizing environmental risks and environmental impact is a key non-financial performance indicator in the SKW Metallurgie Group.

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 vessel where possible, thus contributing to the reduction of CO_2 emissions from road transport and the 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.

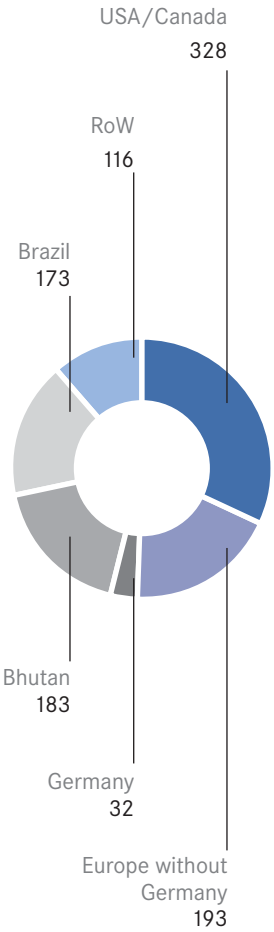
10. Motivated Employees as a Success Factor

10.1. Highly international employee structure

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

The number of employees increased in both 2011 and 2010. This was mostly due to the acquisition or establishment of new plants. At the end of the fiscal year, the SKW Metallurgie Group (without the Indian company Jamipol) had 1,025 employees (previous year: 790). Of this total around 98% are employed in countries other than Germany. Most of the employees work full time.[14] 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.

GLOBAL STAFF



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

Region/Segment	Cored Wire	Powder & Granules	Other	Total
USA and Canada	76	249	3	328
Mexico	25	0	0	25
Brazil	0	173	0	173
Germany	0	17	15	32
France	137	0	0	137
Sweden	0	50	0	50
Russia	6	0	0	6
Bhutan	183	0	0	183
East Asia (without Bhutan)	41	50	0	91
Total	**468**	**539**	**18**	**1,025**

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. 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 sexes. 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 (without employee representatives). The SKW Metallurgie Group took first place in this ranking, and, in particular, it is the only company in its peer group with a woman as CEO. Even below the Executive and Supervisory Boards, the SKW Metallurgie Group also pays attention to ensure that both sexes 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).

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

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 sexes 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 national company (USA), Managing Director of a cored wire national 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 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. In particular, the SKW Metallurgie Group promotes protection against employee healthcare and retirement benefit risk above and beyond the minimum statutory requirements. For example, some of the German and French 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 benefit risk, e.g. for retirement in the form of a standard local 401 (k) plan. Insuring healthcare costs is a key and costly social security benefit in the USA - which is mostly not legally required for employers. The SKW Metallurgie Group offers health insurance to many of its US employees, underscoring its responsibility for 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: Consolidated Notes, Note D23

10.3. Trustful cooperation 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 2011 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 employee representatives in this body.

Some local employee and union representatives were appointed in the SKW Metallurgie Group in the year under review in accordance with the respective national provisions. This relates to France and Sweden in particular; there is no employee representation in Germany. There was also no European Works Council according to the EU provisions in place in the year under review. Cooperation with these committees is marked by mutual understanding and solutions in the interests of both parties.

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.

In the year under review, no fatal workplace accidents occurred at the SKW Metallurgie Group. 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 participate directly in corporate earnings

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

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.

The Executive Board of the SKW Metallurgie Group also welcomes employee investment in the Company's share capital. However, to date the company has not launched its own employee equity participation program over and above a share-price based remuneration component for select employees. 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.

10.5. Positive working environment

The turnover among permanent and regular staff in the SKW Metallurgie Group is very low (under 10% in 2010 and 2011 respectively).

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 by the group's employees are also supported and promoted. 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 earnings

The compensation structures in the entire SKW Metallurgie Group are governed by the principles of appropriateness, performance and transparency. This primarily applies to compensation for the 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 fiscal year 2011, 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 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, 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 insurance and additional insurance). According to the regulations of the German Corporate Governance Code a deductible is 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.

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

- There are no benefit commitments by the company for current and former members of the Supervisory Board and their survivors.

- 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.

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

Outline of remuneration for the Executive Board

On the balance sheet date the Executive Board comprised Ines Kolmsee (CEO) and Reiner Bunnenberg (COO). Gerhard Ertl (formerly CFO) exited the company's Executive Board on September 30, 2011.

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

The SKW Metallurgie Group has a modern, future-oriented remuneration system for its Executive Board, which was also approved by the Ordinary General Meeting on June 9, 2010 (approval according to Section 12 (4) of the Aktiengesetz (AktG - German Public Limited Companies Act), also known as "say on pay").

Remuneration of the members of the Executive Board is 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 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.

The Executive Board's remuneration comprises the following components:

1. Fixed compensation

2. Non-cash compensation (company car)

Modern incentive structures in the interest of SKW Metallurgie's shareholders

3. Healthcare and nursing care insurance (subsidies)

4. Variable compensation
   a) short-term incentive (STI)
   b) long-term incentive (LTI)

5. Benefit commitment

6. Incidental payments/other

7. "Phantom stocks" program (expired in the year under review)

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

The fixed compensation and the short and long term bonuses are proportionate, i.e., they each account for one third of total remuneration (defined here as the total of fixed remuneration and the maximum variable remuneration).

Additional details on the eight components of the Executive Board's remuneration set out above can be found in the remuneration report, which is published as part of the Corporate Governance Report.

There are no advances, loans or liabilities in favor of the members of the Executive Board.

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 revoked (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 remuneration for each full period of two years that this person is a member of the company's Executive Board. It is limited to the lesser of two maximum annual total remunerations (fixed and variable remuneration) or 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 revocations 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 entitled to a monthly compensation up to the amount of their last monthly fixed remuneration.

There are no benefit commitments for members of the Executive Board or Supervisory Board who have already exited the company or their surviving dependents (with the exception of Mr. Gerhard Ertl who exited the company during the fiscal year).

11. Report on events after the balance sheet date

Positive developments after the end of the reporting period: Promissory note bond successfully placed; legal uncertainty resolved

The SKW Metallurgie Group's borrowing structure was clearly optimized in the first quarter of 2012. In January 2012 a master agreement for longer-term bilateral credit lines with a total volume of EUR 45 million was concluded with four banks. In addition, a promissory note bond with a total volume of EUR 45 million (terms: three, five and seven years) was successfully placed with institutional investors at the start of March 2012.

Moreover, there was a court ruling by the Upper Regional Court of München (Munich) after the balance sheet day, which - as an event to be taken into consideration - led to a change of the risk assessment regarding possible cash outflows in connection with the antitrust penalty levied by the European Commission. Further details in this respect may be found in the risk report (section 12).

After the end of the year under review on December 31, 2011, there were no further transactions and events of significance to the SKW Metallurgie and the separate company SKW Stahl-Metallurgie Holding AG Group which occurred before this combined management report went to print.

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 an accepted element of corporate activity. As in every company, the Group's future business development is characterized by both risks and opportunities. The objective of the Group's risk policy is to leverage the available opportunities while using suitable instruments to limit 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.

Professional risk management system further enhanced

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

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 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.

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 and 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 amount-

ing 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 the 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 Stahl-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 depends on macroeconomic development

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 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. 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.

Quality steel and quality products by the SKW Metallurgie Group are inseparably linked

The products that the SKW Metallurgie Group produces and sells, mostly in Europe, the two American continents (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. For the demand from the steel industry, demand for high-quality steel products in the automotive, shipping and mechanical engineering industries and plant engineering for the chemical and petrochemical industries is particularly important for the SKW Metallurgie Group.

In the Quab segment, the Group manufactures additives for the production of modified industrial starch that are mainly used in the paper industry. Although the emergence of electronic communication was predicted to bring an end to or at least a decline in the use of paper, this has proved not to be the case. In contrast, 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 market, 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.

A shift to lighter materials can be seen in the automotive industry. Materials such as carbon or aluminum are exhibiting growth, however they will only substitute steel to a minor extent in automotive production. It is much rather the case that a trend to high-tensile steels can be seen. This trend to higher quality steel will further increase demand for the SKW Metallurgie Group's top-quality products. In addition, substituting other series-ready materials for steel can also not be foreseen in other central areas in which steel is used (e.g. 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 sale quantities and margins may come under pressure, making it impossible to implement regional price differences and other conditions any longer despite their suitability, for example as a result of different transport costs.

Procurement risk

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

In the Cored Wire segment, in terms of quantities calcium silicon is the key raw material. To date the SKW Metallurgie Group still bought in 100% of its requirements from third parties. As a result of the new SKW Metallurgie plant in Bhutan, whose central component is a calcium silicon furnace with an annual capacity of approx. 8,000 tons, in future the SKW Metallurgie Group will manufacture part of its calcium silicon requirements itself and further increase the security of its calcium silicon supply thanks to this vertical integration (backward integration). 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 compared to the global markets. 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.

Procurement risks further reduced by vertical integration and long-term procurement contracts

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 in Brazil is 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.

There is the risk that competitors may offer products at prices that are not in line with the market. Such competitors may have access (for example via a group of companies) to pre-products at lower than market prices, or are otherwise vertically subsidized.

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 relatively low over the short term, increases in selling prices due to the higher prices for raw materials do not lead to significant short-term 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 dependent on one or a few sources of raw materials. In spite of this, there is the risk that 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 on the market of the raw material suppliers.

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 remains important 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. 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 that must have the required metallurgy expertise and the ability to precisely assess the characteristics of the Group's products within the steel production process on the basis of their experience. The Group's streamlined structure and the personalized nature of some elements of its business mean that it is dependent on key employees. In order to counteract this dependence partially at least, the Group's management has implemented a succession model for the levels below the Executive Board.

In Bhutan, the country's low population means that there is limited staff available, in particular with regard to certain qualifications. Hiring employees from other countries combats market and administrative challenges.

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 processed 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 reasonable net financial debt as of the balance sheet date in the amount of EUR 77.9 million. Despite this, the Company is exposed to financial risk, and in particular currency and commodity price risk.

The currency risks from the operating business (transaction risks) are reduced by natural hedging, but cannot always be completely offset. Natural hedging arises when both the Group's purchases and sales are usually settled in the same currency other than euro. In order to optimize the remaining currency risks, Group companies also hedge any exposures arising from the relevant foreign-currency forecasts at specific points after consulting Group management. 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 balance sheet and income statement items recorded by subsidiaries in other currency areas into euros are not hedged. These translation risks arise in the income statement for both sales and earnings.

Further information: Consolidated Notes, Notes D38 and D39

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 2012 and 2013 will also 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 and Bhutanese Ngultrum (which is of the same value), Japanese Yen, South Korean Won, Mexican Peso, Russian Ruble, Brazilian Real and Chinese Renminbi. Some of these currencies (e.g., the South Korean Won, Indian Rupee/Bhutanese Ngultrum and Brazilian Real) 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.

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.

Further information: Consolidated Notes, Note D39

As described in the "Economic risk" 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 borrowing. In this regard, agreements are concluded with well-known banks for a specific amount of credit which the group can use if required. After the end of the year under review, in addition to the bilateral lines, a promissory note bond with a total volume of EUR 45 million was successfully placed on the market.

Compliance risk

Basically, every company is subject to the risk that employees or even bodies of the company violate applicable law out of ignorance or intendedly. The SKW Metallurgie Group engages in global trading (purchasing and sales) with a large number of products in a large number of jurisdictions. Since the SKW Metallurgie Group's trade relations include in particular countries with a complex and permanently changing body of rules and regulations, it is especially subject to the risk of the possibly belated group wide implementation of the respective regulations. For minimizing these risks, the SKW Metallurgie Group has implemented a comprehensive Compliance Program which is coordinated by the Group's parent company SKW Stahl-Metallurgie Holding AG.

Modern compliance program implemented

Based on 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, the European Commission had issued penalty notices, including such 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 would have had to bear totaled EUR 13.3 million (joint liability of of SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH together with Gigaset AG (formerly: ARQUES Industries AG) for an amount of EUR 13.3 million; joint liability of SKW Stahl-Metallurgie GmbH together with Evonik Degussa GmbH and AlzChem AG (formerly: AlzChem Hart GmbH) for an amount of EUR 1.04 million; cumulative joint liability of SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH limited to an amount 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. The SKW Metallurgie Group believes that it is probable that the maximum fine that it may have to pay will be reduced in court. The timing of the pending proceedings cannot be forecast with certainty.

In agreement with the EU Commission, SKW Stahl-Metallurgie GmbH has provided bank guarantees with a total amount of EUR 6.7 million (50% of the maximum penalty) to defer foreclosure measures. This amount was carried as a provision for uncertain liabilities at the subsidiary SKW Stahl-Metallurgie GmbH as of December 31, 2010.

In this connection, in 2010 Gigaset AG sued SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH jointly for payment of the or indemnification from the part of the fine in excess of the amount paid by Gigaset AG to the EU Commission or collateralized using bank guarantees by SKW Stahl-Metallurgie GmbH. Gigaset AG lost this litigation in the first instance. The responsible Regional Court München (Munich) I fully rejected the suit filed by Gigaset AG in its ruling dated July 13, 2011 and in addition it decided that “the monetary penalty is to be borne internally solely by the plaintiff [Gigaset AG]”. The objection filed by Gigaset AG was also rejected by the Upper Regional Court München (Munich) in its ruling dated February 9, 2012. While also referring to the reasons for the decision by the Regional Court, in its ruling, the Upper Regional Court München (Munich) also ascertained that “it is not the defendant [SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH] that has to bear the monetary penalty, but the plaintiff [Gigaset AG]” (Upper Regional Court München (Munich), page 8, paragraph 2). SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH can thus demand complete indemnification from the obligations vis-à-vis the EU Commission in connection with the penalty of EUR 13.3 million that was set from Gigaset AG. The appeal against the decision by the Upper Regional Court München (Munich) was admitted. In spite of this, however, a cash outflow for SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH became so improbable, with the result that the provision formed in the amount of EUR 6.7 million had to be reversed except of an amount of EUR 0.5 million for any lawyers’ costs which may still be expected in this connection.

At 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 custom duties were not correctly paid for the specialty magnesium

which 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. Advance payments have already been made in this connection and provisions formed, with the result that an further impact on results is improbable. It is much rather the case that a positive effect on results is to be expected if the SKW Metallurgie Group is able to hold its ground with its position.

Risks from the purchase of goods

The SKW Metallurgie Group relies on the quality and reliability of its pre-suppliers. Despite careful selection and monitoring, there is still the risk that pre-suppliers may engage in criminal activities to the detriment of the SKW Metallurgie Group or its customers, or that they otherwise prove to be unsuitable retrospectively.

During the year under review the SKW Metallurgie Group was the victim of criminal schemes by suppliers from China; in particular inferior quality goods were delivered.

In addition, one of SKW Stahl-Metallurgie GmbH's customers informed us in September 2011 that a container had exploded during the rail transport for a delivery of calcium carbide. With the exception of property damage, as far as the SKW Metallurgie Group is aware, no people were injured in this explosion. As a result - however this had not been conclusively clarified on the date this management report was prepared - if this concerns the material supplied by the SKW Metallurgie Group, this explosion took place long after the risk had been transferred. On the date this management report was prepared the SKW Metallurgie Group also did not have any other secure information on the reasons for this explosion or the amounts of any damage. We cannot yet foresee whether there will be a conflict with this customer or a third party as a result of this explosion. The amount of any value under dispute in such a case cannot yet be estimated.

Risks from further expansion in emerging nations

The SKW Metallurgie Group has significantly increased its presence in emerging nations. Investments have already been made in this regard and agreements concluded (e.g., new production facility in Russia and the plant in Bhutan completed at the start of 2012). In some emerging nations, the administrative and logistics structures are not yet at the same level as in industrialized nations. The Executive Board is confident that it is possible to ensure the scheduled continuation of these expansion projects through to high-margin regular operations. In spite of this, however, there is the risk that individual expansion projects may fail. However, the Executive Board believes that this risk is minor as a result of the careful selection of experienced local partners.

Risk from expanding the value chain

By acquiring the ESM Group in 2007, the value chain was expanded, in particular into service and construction (forward integration). 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 also in emerging nations where the legal and financial systems are not as strong as in industrial nations.

As a result of the acquisition or construction of two new low shaft furnaces (completed in 2011), the value chain has been expanded by the production of the raw materials calcium carbide and calcium silicon (backward integration). These production processes are highly complex, and, in the case of Bhutan, have to be performed in a challenging environment (restricted availability of personnel, logistics, etc.).

The SKW Metallurgie Group limits these risks by cooperating with employees who have local experience and external consultants and also by adapting its processes to the local situation.

Risks from higher proportion of fixed costs

Calcium silicon furnace in Bhutan will run at full capacity even in weak economic times

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 (furnace processes) the capacity at the new plants in Sweden (calcium carbide) and Bhutan (calcium silicon) cannot be adjusted as flexibly, with the result that 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 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. In the case of Bhutan, the maximum capacity for the calcium silicon furnace is significantly lower than internal requirements, with the result that this furnace should also operate at full capacity in the event of a possible crisis.

Technical risks

In fiscal year 2011 the SKW Metallurgie Group increased its production portfolio by adding furnace processes (production of calcium carbide in Sweden and calcium silicon in Bhutan). The acquisition of the plant in Sweden and taking the plant in Bhutan into operations gave a significant boost to the backward integration with regard to key raw materials for the SKW Metallurgie Group. This thus takes the SKW Metallurgie Group a substantial step forwards from a technical and also management perspective. However, this step also changes the Group's technical risks. In particular, production using an electric low shaft furnace, as operated in Sweden and Bhutan, is state-of-the-art, however is highly complex in terms of technology and process technology. Defects could put people and the environment at risk. Detailed risk analyses identify possible areas of risks, and corresponding preventative measures have been put in place as far as possible.

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

Holding companies such as SKW Stahl-Metallurgie Holding AG are subject to the theoretical risk that the shares they hold in companies may have to be written down. In addition, there is the 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) have, much 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.

Economic risks

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 (directly or indirectly) the sole or at least majority owner of its participating interests (historical exception: Jamipol in India).

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

Integration risks

In the year under review, SKW Stahl-Metallurgie Holding AG concluded the acquisition of a Swedish calcium carbide plant (via a Swedish subsidiary). 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.

Compliance risks

Basically, every company is subject to the risk that employees or even bodies of the company violate applicable law out of ignorance or intendedly. For minimizing these risks, the SKW Metallurgie Group has implemented a comprehensive Compliance Program which is coordinated by the Group's parent company SKW Stahl-Metallurgie Holding AG.

In connection with the penalty imposed on SKW Stahl-Metallurgie Holding AG and its subsidiary SKW Stahl-Metallurgie GmbH by the European Commission for the breach of antitrust law in connection with the marketing of calcium carbide and magnesium, the risk assessment changed radically due to the ruling of the Upper Regional Court München (Munich) delivered in March 2012. For more details on this issue, please refer to Section 12.2.

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 (cored wire production for CIS countries), which started production at the end of 2011 or the start of 2012. 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. The production facility located there was expanded again in 2011 (completion at the start of 2012) in order to meet the high demand from customers for sintered synthetic slag, an innovative product for secondary metallurgy.

As a result of this expansion, the Group's leading global position will be expanded, both in hot metal desulphurization and also for 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 value added

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). A calcium silicon furnace was taken live at the end of 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 additional real net output potential and increase customer loyalty.

Margin growth through innovative products

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

During the year under review, the group successfully sold innovative cored wire products for the foundry and copper industries on the market, thus allowing other customer industries to use its technology advantage for cored wire.

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.

High standards of corporate accounting and control systems

Each group company is responsible for its local accounting according to the respective national provisions[15]; 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 surveys), external service 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 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.

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 risk management and accounting 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 was set up throughout the group.

15. 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.

13. SKW Metallurgie looks to 2012 and 2013 with cautious optimism

13.1. Global economy faces increasing risks in 2012

Experts cautiously optimistic for economic development

The most recent forecasts by the International Monetary Fund (IMF) assume that the pace of growth for the global economy will slow significantly in 2012 compared to the two previous years to just 3.3%. This is primarily due to the negative impact of the financial crisis in Europe, which may lead this region's economy into a moderate recession (-0.5%). Further development in Europe depends to a great extent on whether or not it is possible to sustainably master the euro and government debt crisis. These issues will also have a perceptible impact on the pace of growth in the world's other economies. Growth in the USA is forecast at 1.8%, the total for all industrial nations (aggregate) is put at just 1.2%. After the economic slump caused by natural catastrophes in 2011, Japan can hope that its domestic product will increase again by 1.7%. The IMF is much more confident about emerging and developing nations, where economic output is again expected to increase by 5.4%, however this is significantly lower than the growth enjoyed in 2011 (6.2%). The economies in China (8.2%) and India (7.0%) are of key importance in this forecast. Experts are showing cautious optimism for the two other BRIC countries Russia (3.3%) and Brazil (3.0%).

In view of the unquantifiable impact of the financial crisis on the real economy, and the high level of insecurity regarding the ability to implement the necessary reform programs to rectify the global problem of sovereign debt, economic researchers are not able to rule out the risk of a massive deterioration in the global economy, through to a global recession. In order to avoid this, the necessary steps must be put in place in good time.

If it is possible to successfully tackle the problems mentioned in 2012, according to the IMF, expectations for the following year, 2013, are significantly more confident. In this case, the global economy will expand by 3.9%, with the economies in industrial nations recovering only slowly with growth of 1.9%. The economic output in emerging and developing nations should increase by 5.9%, driven by strong dynamism in China.

13.2. Steel industry is cautiously optimistic in 2012

Expected further growth of steel production volume should lead to increased demand for products of the SKW Metallurgie Group

As around 90% of the SKW Metallurgie Group's revenues are recorded with steel industry, its growth is significant for the company's operating business. Assuming that emerging nations will continue to expand, albeit at a weaker pace, thus driving global economic growth, industry experts at the World Steel Association are cautiously optimistic regarding growth in steel demand in 2012. They are forecasting global steel consumption to increase by 5.4% to 1,474 billion tons. Growth rates of 2.5% and 4.9% are being forecast for the European Union and NAFTA, two particularly relevant sales regions for SKW Metallurgie. Emerging nations will continue to be the driving force behind steel demand. Renewed dynamic growth of 6.6% is forecast for these countries. The increase in steel consumption in the BRIC countries is set to total 6.4%. After the economic consolidation at the end of 2011, demand for steel in Brazil, a key sales market for the SKW Metallurgie Group, is expected to revitalize. This

country can expect positive impetus 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.

Growth in the other industries relevant for the SKW Metallurgie Group's special products - the copper and foundry industries, the gas industry and the aviation sector - is also closely linked to general economic trends. This also applies to the producers of industrial starches (a pre-product for paper production), who are supplied by the SKW Metallurgie subsidiary Quab. If the forecasts for moderate global economic growth prove to be correct, this will also have a positive impact on demand in these industries.

The programs the experts had been hoping for to subdue the debt and financial crisis have been put in place, and the recovery in the global economy will have a positive effect on demand for the industries that are relevant for the SKW Metallurgie Group. This applies to steel production in particular.

13.3. Key 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, suggests that 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 is the trend in 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 2012 and 2013

The Executive Board believes that the expert opinions detailed above on the future growth of the overall economy and the steel industry are 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 2012 and 2013:

Positive outlook by the Executive Board for the SKW Metallurgie Group and for SKW Stahl-Metallurgie Holding AG; increase in revenues and EBITDA expected

On the balance sheet date and also on the date this combined management report was prepared, the group was feeling the insecurity resulting from the sovereign debt crisis, in particular in some Mediterranean eurozone countries. During the remainder of 2012 and 2013, the Executive Board is still 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 not generate any additional revenues with third parties.

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.

In terms of the balance sheet, the Executive Board is not forecasting any significant increase in consolidated debt in 2012 and 2013 as a result of the preliminary completion of the Group's expansion.

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 terms of products, the SKW Metallurgie Group will also focus on innovative, higher-margin products that offer significant added value for customers in 2012 and 2013.

The Executive Board believes that the group's top-level parent company, SKW Stahl-Metallurgie Holding AG will record net retained profits in 2012 and 2013 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 14, 2012

SKW Stahl-Metallurgie Holding AG
The Executive Board

Ines Kolmsee
Chairperson (CEO)

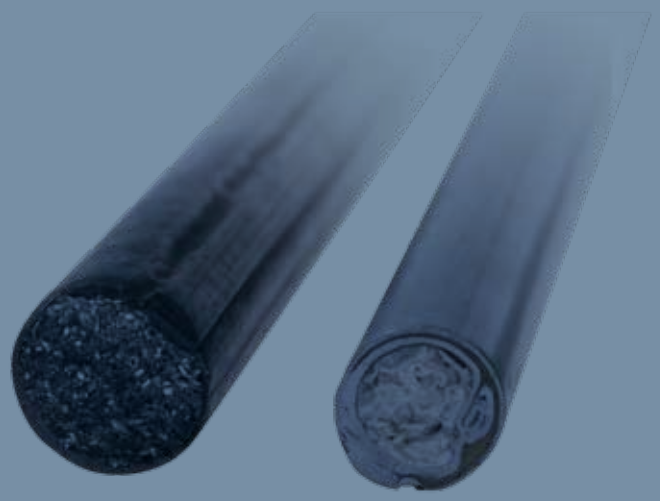
Oliver Schuster

Reiner Bunnenberg

To deliver “bumper crops”, plants and fields have to be nurtured and cared for with sustainability in mind. As we know, if all the soil’s nutrients are depleted too soon and not replaced, future yields will be poor and below expectation. To cherish and develop the available resources is also crucial to the growth of the SKW Metallurgie Group, which is why we focus primarily on the principle of sustainability.

Sustainability – the key to future yields

The SKW Metallurgie Group understands the importance of sustainable resource management, environmental protection and occupational safety. In these areas, our standards of practice go far beyond the minimum requirements of the respective country. Over and above this, we also give special attention to the wellbeing of all our employees, giving each individual the opportunity to grow and reach his or her full potential.



Consolidated Financial Statements

Consolidated income statement for the period from January 1 – December 31, 2011

EUR thousand	Notes	2011	2010
Revenues	1	428,925	380,820
Change in finished goods and work in progress		-752	778
Own work capitalized		65	57
Other operating income	2	18,401	10,408
Cost of materials	3	-310,374	-277,179
Personnel expenses	4	-43,987	-39,101
Other operating expenses	5	-61,474	-47,858
Income from associated companies	7	904	914
EBITDA		**31,708**	28,839
Amortization of intangible assets and depreciation of property, plant and equipment	6	-13,302	-11,493
EBIT		**18,406**	17,346
Interest and similar income	8	346	359
Interest and similar expenses	9	-2,523	-2,698
EBT		**16,229**	15,007
Income taxes	10	-4,441	-5,946
Consolidated net income for the year		**11,788**	9,061
Thereof shareholders of SKW Stahl-Metallurgie Holding AG	11	12,191	7,523
Thereof non-controlling interests		-403	1,538
Earnings per share (in EUR)*	12	**1.86**	1.15

Reconciliation to comprehensive income from January 1 to December 31, 2011

EUR thousand	2011	2010
Consolidated net income for the year	**11,788**	9,061
Net investments in a foreign operation	-361	1,636
Unrealized gains/losses from derivatives (hedge accounting)	274	80
Exchange rate fluctuations	-2,089	3,986
Taxes on other result	-107	-31
Other result	**-2,283**	5,671
Total result	**9,505**	14,732
Thereof shareholders of SKW Stahl-Metallurgie Holding AG	10,195	12,236
Thereof non-controlling interests	-690	2,496

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

Consolidated balance sheet as of December 31, 2011

Assets in EUR thousand	Notes	Dec. 31, 2011	Dec. 31, 2010
Non-current assets			
Intangible assets	13	58,146	64,868
Property, plant and equipment	14	85,297	63,852
Interests in associated companies	15	4,514	4,703
Other non-current assets	19	623	536
Deferred tax assets	16	14,728	13,893
Total non-current assets		**163,308**	**147,852**
Current assets			
Inventories	17	65,100	50,276
Trade receivables	18	62,848	53,489
Income taxes	19	3,564	2,161
Other assets	19	10,546	10,425
Non-current assets held for sale		0	598
Cash and cash equivalents	20	10,382	10,956
Total current assets		**152,440**	**127,905**
Total assets		**315,748**	**275,757**

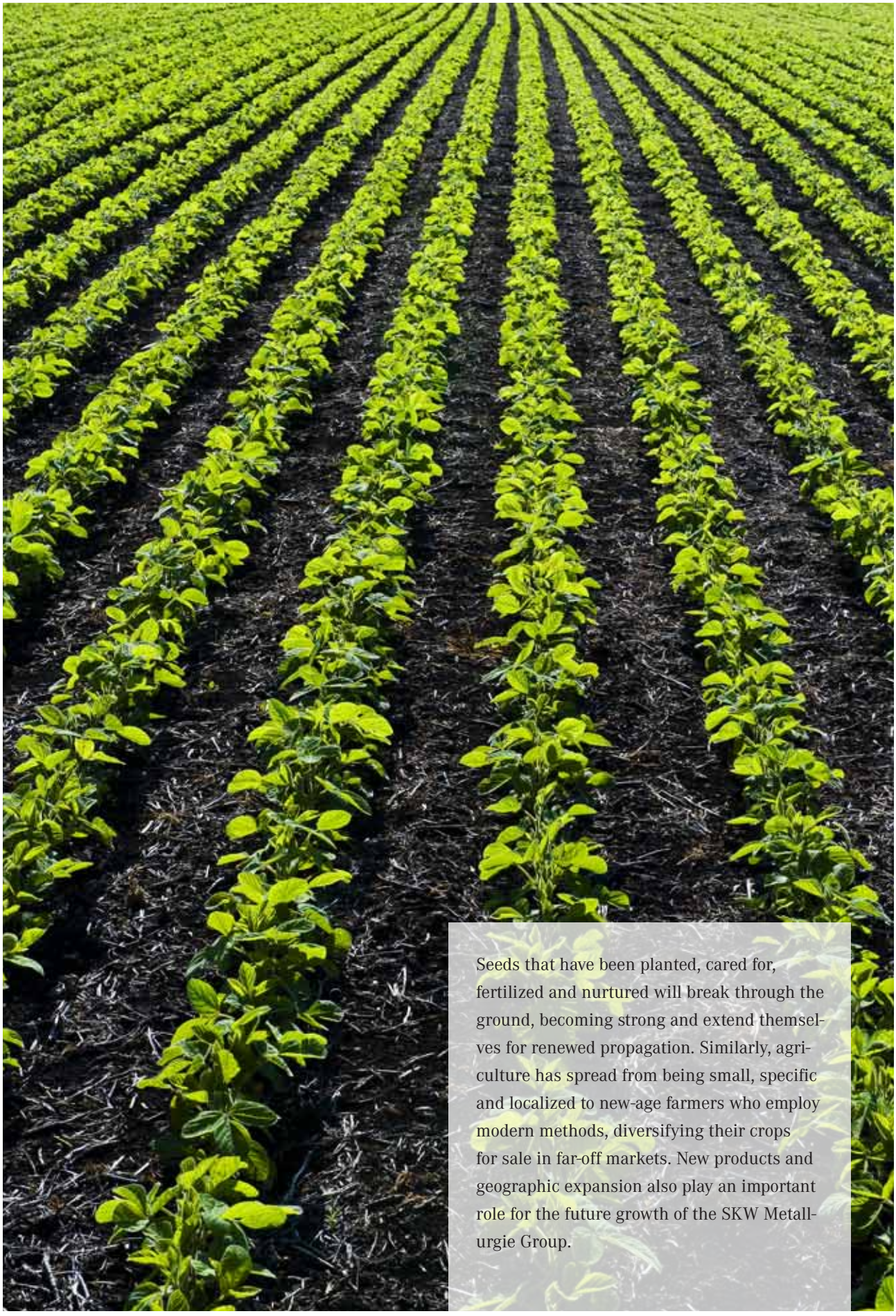
Equity and Liabilities in EUR thousand	Notes	Dec. 31, 2011	Dec. 31, 2010
Equity	21		
Subscribed capital		6,545	6,545
Share premium		50,741	50,741
Other comprehensive income		53,462	46,554
		110,748	103,840
Non-controlling interests		17,608	18,418
Total equity		**128,356**	**122,258**
Non-current liabilities			
Pension obligations	23	3,363	2,891
Other provisions	25	2,415	1,958
Obligations from finance leases	24	0	0
Non-current financial liabilities	26	34,753	31,336
Income taxes		0	0
Deferred tax liabilities	16	15,743	16,784
Other non-current liabilities	28	1,236	11,593
Total non-current liabilities		**57,510**	**64,562**
Current liabilities			
Other provisions	25	2,482	7,608
Obligations from finance leases	24	0	27
Current financial liabilities	26	53,562	26,966
Trade payables	27	45,462	37,988
Income taxes		2,614	789
Other current liabilities	28	25,762	15,559
Total current liabilities		**129,882**	**88,937**
Total equity and liabilities		**315,748**	**275,757**

Consolidated statement of changes in equity as of December 31, 2011

Notes 21 EUR thousand	Subscribed capital	Share premium	Other comprehensive income	Consolidated equity of majority shareholders	Non-controlling interests	Total equity
Balance at Jan. 1, 2010	**6,545**	**50,741**	**41,463**	**98,749**	**10,277**	**109,026**
Consolidated net income for the year	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**
Balance at Jan. 1, 2011	**6,545**	**50,741**	**46,554**	**103,840**	**18,418**	**122,258**
Consolidated net income for the year	0	0	12,191	12,191	-403	11,788
Exchange rate fluctuations	0	0	-1,171	-1,171	-918	-2,089
Income and expense carried under equity (without exchange rate changes)	0	0	-825	-825	631	-194
Total result 2011	**0**	**0**	**10,195**	**10,195**	**-690**	**9,505**
Non-controlling interest in capitalization of a liability	0	0	-14	-14	14	0
Addition of non-controlling interests	0	0	0	0	307	307
Dividend payment	**0**	**0**	**-3,273**	**-3,273**	**-441**	**-3,714**
Balance as of Dec. 31, 2011	**6,545**	**50,741**	**53,462**	**110,748**	**17,608**	**128,356**

Consolidated cash flow statement for business year 2011

Notes 30 EUR thousand		Jan. 1, 2011 - Dec. 31, 2011	Jan. 1, 2010 - Dec. 31, 2010
1.	Consolidated net income for the year	**11,788**	9,061
2.	Amortization/depreciation of non-current assets	13,302	11,493
3.	Increase/decrease in provisions for pensions	472	1,037
4.	Income from associated companies	-338	26
5.	Gains/losses on the disposal of non-current assets	-477	93
6.	Gain/loss from currency translation	**1,865**	-2,410
7.	Income/expense from deferred taxes	**-3,134**	-1,380
8.	Own work capitalized	-65	-57
9.	Expenses from impairment of inventories and receivables	385	175
10.	Income from the reversal of negative differences	-2,563	0
11.	Capitalization of interest on borrowing	-1,016	-1,176
12..	Other non-cash income/expense	-3,740	-1,962
13.	**Gross cash flow**	**16,479**	14,900
	Change in working capital		
14.	Increase/decrease in other provisions	-4,669	1,316
15.	Increase/decrease in inventories (after advance payments received)	-10,503	-4,614
16.	Increase/decrease in trade receivables	-5,758	-6,736
17.	Increase/decrease in other receivables	4	2,582
18.	Increase/decrease in liabilities from income taxes	-1,647	119
19.	Increase/decrease in other assets	-242	-4,119
20.	Increase/decrease in trade payables	6,072	5,468
21.	Increase/decrease in liabilities from income taxes	1,825	-196
22.	Increase/decrease in other equity and liabilities	4,553	3,827
23.	**Net cash received from (+)/used by (-) operating activities**	**6,114**	12,547
24.	Income from the disposal of assets	1,418	41
25.	Payments for investments in non-current assets	-30,623	-23,792
26.	Payments for investments in current assets from acquisitions	-2,585	0
27.	Downstream purchase price paid for corporate acquisitions	-2,079	-967
28.	**Net cash provided by (+)/used in (-) investing activities**	**-33,869**	-24,718
29.	Decrease in liabilities from finance leases	-27	-159
30.	Dividend payment - SKW Stahl-Metallurgie Holding AG	-3,272	0
31.	Dividend payments to non-controlling interests	-63	-1,501
32.	Payments for the repayment of loans to third parties	-735	-1,369
33.	Income from taking out bank loans	32,453	31,891
34.	Payments for the repayment of bank loans	-1,069	-17,244
35.	**Net cash provided by (+)/used in (-) financing activities**	**27,287**	11,618
36.	Cash and cash equivalents – start of period	10,956	11,052
37.	Change in cash and cash equivalents	-468	-553
38.	Currency translation for cash and cash equivalents	-106	457
39.	**Cash and cash equivalents - end of period**	**10,382**	10,956

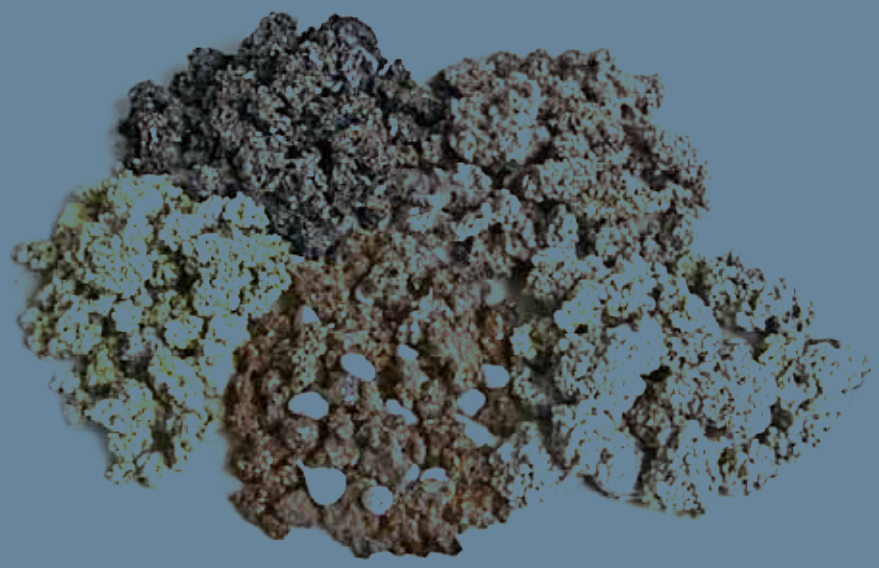


Seeds that have been planted, cared for, fertilized and nurtured will break through the ground, becoming strong and extend themselves for renewed propagation. Similarly, agriculture has spread from being small, specific and localized to new-age farmers who employ modern methods, diversifying their crops for sale in far-off markets. New products and geographic expansion also play an important role for the future growth of the SKW Metallurgie Group.

New fields of opportunity

Global demand is shifting. Whereas, a few years ago, the majority of sales took place in the EU, the United States and Canada, emerging economies like Mexico, Brazil and India will account for one third of all sales in the near future.

By also concentrating on future growth with regard to the variety of products offered, the SKW Metallurgie Group has supplemented its proven cored wire, used in the steel industry, with new types of cored wire for use in the copper and foundry industries.



Notes to the consolidated financial statements

Notes to the consolidated financial statements for fiscal year 2011

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 (public limited company) under German law. The company has its registered office at Rathausplatz 11 in 84579 Unterneukirchen (Germany) and is registered with the Local 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 mostly comprise the acquisition, production and sale of chemical additives for hot metal desulphurization and steel refining as well as the associated technical application support for steel plants in these areas. In addition, it also produces and sells specialty chemicals for the production of industrial starch and bodycare products.

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

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

In order to improve the clarity of presentation, consolidated balance sheet items and consolidated income statement items are summarized to the extent that this is pertinent and possible. These items are broken down in the notes to the 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 nothing 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 Interna-

tional Financial Reporting Standards (IFRS) as these are to be applied in the European Union and the interpretations of the IFRS Interpretation Committee.

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 fiscal year 2011 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 Public Limited Companies Act). The consolidated financial statements were prepared based on the going concern principle.

Accounting pronouncements published by the IASB and adopted as European law

Application of the following standards from the IASB and IFRIC was mandatory for the first time for the fiscal year starting on January 1, 2011, and the European Union has endorsed these to become European law:

- Amendment to IAS 32 (Classification of Subscription Rights)
- Changes to IAS 1 (Presentation of Financial Statements - as part of the annual improvements 2010)
- Amendments to IFRS 3 Business Combinations (as part of the annual improvements 2010)
- 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)
- Other annual improvements 2010

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

The changes to IAS 1 clarify that a company can choose between disclosing a breakdown of its other comprehensive income on an item-by-item basis in the statement of changes in equity or in the notes. In the current fiscal year, the SKW Metallurgie Group elected to break down this figure in the notes, and has disclosed other comprehensive income as a single item in the statement of changes in equity. The changes in IAS 1 will be applied retroactively.

The following change to IFRS 3 (2008) Business Combinations resulted from the annual improvements to IFRS: Transitional regulations for conditional purchase price payments from a business

combination which took place before the mandatory first-time application of IFRS 3 (2008). This change clarifies that IAS 32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Classification and Measurement and IFRS 7 Financial Instruments: Disclosures are not to be applied to conditional purchase price payments that are connected to the acquisition of a company which took place before the first time application of IFRS 3 (2008). This affects the treatment of the conditional purchase price payment from the acquisition of the Brazilian company Tecnosulfur S/A in 2009.

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

As a result of the changes to IAS 32, rights, options and subscription rights can be treated as equity instruments subject to the fulfillment of other characteristics of equity instruments according to IAS 32.11, if they authorize the holder to receive a fixed number of non-derivative equity instruments of the issuing company in exchange for a fixed amount which is set in any currency. This is conditional upon the rights being offered to all of the existing shareholders within the same class of non-derivative equity instruments proportionately in line with their shareholding.

The following changes to IFRS 3 (2008) Business Combinations resulted from the annual improvements to IFRS. Valuation of non-controlling interests: It has been defined that the option according to IFRS 3 (2008) to measure non-controlling interests either at fair value or at the proportion in line with the shareholding in the identifiable net assets of the acquired enterprise on the acquisition date is only available if the non-controlling interests already exist, i.e., are currently present, and grant their holders a proportionate entitlement in line with their shareholding in the net assets of the acquired company in the event of liquidation. Other non-controlling interests are measured at their fair value on the date of acquisition to the extent that no other valuation standard applies under IFRS. Un-replaced and voluntarily replaced share-based payment awards: Specifies that the current requirement to measure awards of the acquirer that replace acquiree share-based payment transactions in accordance with IFRS 2 at the acquisition date ("market-based measure") applies also to share-based payment transactions of the acquiree that are not replaced.

IAS 24 (2009) was revised with regard to the following two issues: (a) The definition of a related party has been changed in IAS 24 (2009). (b) IAS 24 (2009) introduces an exception for defined disclosure requirements for enterprises that are controlled, jointly controlled or significantly influenced by a government (referred to as government related entities). Application of the revised definition of related parties did not lead to the identification of any related parties that were not covered by the previous version of the standard. The changes have been applied retroactively.

IFRIC 14 was amended to address an unintended consequence of IFRIC 14 where entities are in some circumstances not permitted to recognize prepayments of minimum funding contributions as an asset. IFRIC 14 (as originally issued) did not consider that a plan surplus may result from the prepayment of future minimum funding contributions and therefore, unintentionally reduced the economic benefits available in accordance with IAS 19.58 arising from voluntary prepayments of minimum funding contributions. This amendment now allows a company to disclose the benefits from prepayment as an asset.

Changes to IFRS 1 and IFRS 7 clarify that the exceptions in IFRS 7: Improving Disclosures about Financial Instruments dated March 2009 can also be used by first-time adopters of IFRS.

IFRIC 19 addresses divergent accounting by entities issuing equity instruments to extinguish all or part of a financial liability (often referred to as “debt for equity swaps”)

Accounting pronouncements published by the IASB and not yet adopted as European law

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:

- Amendments to IFRS 7 (Disclosures – Transfer of Financial assets)
- Annual improvements 2010 (various standards and interpretations)

The changes to IFRS 7 are to be applied from July 1, 2011 and regulate the additional requirements for disclosures in the notes on the transfer of financial assets, for which full or partial derecognition has failed or for which a continuing involvement has to be carried in the accounts.

2010 Annual Improvements with changes and clarifications to various IFRS, some of which have a different date for first-time application.

The IASB has published the following accounting pronouncements. They have not yet been endorsed by the EU, and also have 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)
- IFRS 10 (Consolidated Financial Statements)
- IFRS 11 (Joint Arrangements)
- IFRS 12 (Disclosure of Interests in Other Entities)
- IFRS 13 (Fair value measurement)
- Changes to IAS 1 (Presentation of items of other comprehensive income)
- Amendments to IAS 12 (Deferred Tax - Recovery of Underlying Assets)
- IAS 19 (2011) (Employee benefits)
- IAS 27 (2011) (Separate financial statements)
- IAS 28 (2011) (Interests in associated companies and joint ventures)

The IASB published IFRS 9, Financial Instruments, in November 2009. This standard includes the first of three phases of the IASB project to replace the current IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 changes the recognition and measurement requirements for financial assets, including various hybrid contracts. It uses a uniform approach of carrying a financial asset at amortized cost or fair value, which replaces the various regulations in IAS 39. The approach in IFRS 9 is based on how an enterprise manages its financial instruments (its business model) and the type of contractually agreed cash flows from financial assets. In addition, the new standard also requires an impairment method that is to be applied uniformly across the board, which replaces the various methods in IAS 39. Application of the new standard is mandatory for fiscal years beginning on or after January 1, 2015, however earlier application is permitted. The European Financial Reporting Advisory Group has already postponed the recommendation for endorsing IFRS in the EU in order to take more time for evaluating the results of the IASB project to improve accounting for financial instruments The company is currently reviewing the impact of application on the consolidated financial statements.

In May 2011 the IASB published IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Agreements, IFRS 12 Disclosure of Interests in Other Entities, subsequent changes to IAS 27 Separate Financial Statements (revised 2011) and also IAS 28 (revised 2011) Investments in Associates and Joint Ventures, its improvements to accounting and disclosure requirements on the subject of consolidation, off-balance sheet activities and joint agreements.

IFRS 10 introduces a uniform definition of control for all enterprises, and thus creates uniform foundations for determining the presence of a parent-subsidiary relationship and the resulting inclusion in the group of consolidated companies. The standard includes comprehensive application guidelines for determining a control relationship. The new standard fully replaces SIC-12 Consolidation - Special Purpose Entities and also partially replaces IAS 27, Consolidated and Separate Financial Statements (revised 2008)

IFRS 11 regulates accounting for assets in which a company exercises joint control over a joint venture or a joint operation. The new standard fully replaces IAS 31 Interests in Joint Ventures (revised 2008) and SIC-13 Jointly Controlled Entities - Non-monetary Contributions by Venturers.

IFRS 12 includes in a single standard all of the disclosures in the notes that a company with interests in or an involvement in another company has to fulfill; these include interests in subsidiaries, interests in associated companies, interests in joint agreements and interests in structured companies. The new standard replaces the previous standards for disclosures in the notes in IAS 27, Consolidated and Separate Financial Statements (revised 2008), IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures (revised 2008).

As a result of the publication of the new pronouncement of IFRS 10, the revised IAS 27 (revised 2011) now only includes regulations for separate financial statements.

The revised IAS 28 regulates accounting for investments in associates and the requirements for use of the equity method when accounting for investments in associates and joint ventures. Application of the new and revised standards is mandatory for fiscal years beginning on or after January 1, 2013. Earlier application is permitted, however in addition to information on earlier use, it also requires IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) to jointly be used earlier. There is an exception to the requirement for joint earlier use for IFRS 12. The requirement for disclosures in the

notes in this standard can be fully or partially applied ahead of time. The SKW Metallurgie Group cannot currently conclusively assess which impact the first-time application of IFRS 10, 11 and 12 will have if the EU endorses these standards in this form.

In May 2011 the IASB published the new standard IFRS 13 Fair Value Measurement. IFRS 13 includes a definition of fair value and also regulations as to how this is to be identified if other IFRS regulations require valuation at fair value as a standard; the standard itself does not include any requirements as to the cases in which fair value is to be used. With the exception of the standards specifically excluded by IFRS 13, this standard defines uniform disclosures in the notes for all assets and liabilities that are measured at fair value, and also for all assets and liabilities for which the disclosure of fair value is required in the notes; this thus expands the requirements for disclosures, in particular with regard to non-financial assets. Prospective application of the new standard is mandatory for fiscal years beginning on or after January 1, 2013, earlier application is permitted. No comparative disclosures are required in the first year of application. At present, the SKW Metallurgie Group believes that application of the new standard, if it is endorsed in this form by the EU, will lead to additional disclosures in the notes.

IASB published IAS 19 Employee benefits in June 2011. The revised IAS 19 eliminates the corridor method, and therefor demands that an entity recognizes actuarial gains and losses under other comprehensive income. In addition, in the revised IAS 19 the anticipated income from plan assets and the interest expense from pension obligations is replaced by a uniform net interest component. In future, past service cost is to be recorded in full in the period for the associated change to the plan. The revised version of IAS 19 changes the requirements for termination benefits and increases the requirements for disclosures in the notes. This pronouncement is to be applied for fiscal years beginning on or after January 1, 2013. It is permitted to apply it ahead of time. At present, the SKW Metallurgie Group is reviewing the impact of the revised IAS 19 on the consolidated financial statements and will define the date of first-time application.

IASB published changes to IAS 12 Income Taxes in December 2010. According to IAS 12, the valuation of deferred taxes depends on whether the carrying amount of an asset is realized through use or sale. This assessment is often difficult, in particular if the asset is measured according to the fair value model in IAS 40 for investment property. As a result, this change stipulates that for investment property measured at fair value, as a rule realization through sale is to be assumed. Application of the new standard is mandatory for fiscal years beginning on or after January 1, 2012, earlier application is permitted. At present, the SKW Metallurgie Group does not believe that application of the new standard, if it is endorsed in this form by the EU, will impact presentation of the financial statements, as the SKW Metallurgie Group does not currently have any investment property.

In June 2011, the IASB published changes to IAS 1, Presentation of Financial Statements under the title Presentation of Items of Other Comprehensive Income. The changes demand a breakdown of the items of other comprehensive income (OCI) into items which will be reclassified to the income statement at a later date (so-called recycling) and items for which this is not the case. Application of the changes to IAS 1 is mandatory for fiscal years beginning on or after January 1, 2012, earlier application is permitted. At present, the SKW Metallurgie Group does not believe that application of the new changes, if they are endorsed in this form by the EU, will impact presentation of the financial statements.

B. GROUP OF CONSOLIDATED COMPANIES AND CONSOLIDATION METHODS

SKW Stahl-Metallurgie Holding AG's consolidated financial statements as of December 31, 2011 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 previously 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 reassessed, 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 fiscal year 2011. 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 fiscal year ends on March 31, 2011, the balance sheet dates of the companies included in consolidation are the same as that of the parent company.

The group of consolidated companies grew in 2011 with the addition of ESM Special Metals & Technology Inc., USA, SKW Technology GmbH & Co. KG, Germany and SKW Technology Management GmbH, Germany, which were newly formed in 2011. Affival do Brasil Indústria e Comércio de Metaís e Serviços Ltda., Brazil, was liquidated in the third quarter of 2011. It was already not consolidated in the consolidated financial statements for 2010 as a result of its negligible importance. The shareholdings are listed in Section E. of these notes.

Associates

Associated companies are companies over which the Group has a key influence but does not control; as a rule 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 structures. Segment reporting is in line with the accounting and valuation methods of the IFRS consolidated financial statements on which the reporting is based. There were no intra-segment consolidations. The amortization of intangible assets and the depreciation of property, plant and equipment belonging to the segment is disclosed as segment amortization/deprecation.

C. KEY ACCOUNTING AND VALUATION PRINCIPLES

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

Recognition of revenues and expense

Revenues are measured at the fair value of the compensation paid or received and correspond to the amounts that would be received for goods and services in an arm's length transaction. Revenues from the sale of goods are carried as soon as the main opportunities and risks of ownership have been transferred to the purchaser with neither a further right of disposal or effective powers of disposal still remaining in place, and the amount of the revenues that can be recognized can be reliably determined, it is sufficiently probable that economic benefits will result, the costs incurred from or to be incurred from the sale 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, the amount of the revenues can be reliably determined, benefits are likely to accrue, the degree of completion of the transaction can be reliably determined on the balance sheet date, and the costs incurred for the company or the cost anticipated until the transaction is fully processed can be reliably determined. 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 qualified 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 especially for the creation of a qualified asset.

Income taxes

The income tax expenses is 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 tax regulations, 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 carrying amount of the deferred taxes is reviewed each year on the balance sheet date 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 be 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, trademarks, publishing/copyright/benefit rights: Term of the respective right
- Company logos, ERP software and Internet domain names: 5 years
- Copyrighted software: 3 years
- Customers: 3 – 15 years
- Technology: 3 – 15 years

Property, plant and equipment

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

(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 to the extent that they are not designated as effective hedging instruments. Assets in this category are carried as current assets if they are either held for trading or will probably be realized within twelve months of the balance sheet date. Changes in the fair value of assets in this category are recognized in income in the period in which they arise.

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 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. The financial assets for which there is no right of recourse are derecognized on the date the rights to payment from the asset are deleted or transferred, and thus on the date when the majority of the opportunities and risks associated with ownership are transferred.

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, breach of contract such as a default or a delay in interest payments or redemptions, an

increased probability that the borrower will file for bankruptcy or other reorganization proceedings, 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. A significant reduction is considered to be a downturn in excess of 20% of the acquisition costs and continued is defined as a period which lasts for more than six months.

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 flow, 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 expenses 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. In the event of equity instruments classified as available for sale, impairment recognized as an expense in the past is not derecognized. Any increase in the fair value is recorded under other income after impairment has been performed. Write-ups for debt instruments that objectively occurred after the date that the impairment was recorded are recognized in income.

Derecognition of Financial assets

The SKW Metallurgie Group only derecognizes a financial asset if the contractual rights to the cash flows from a financial asset expire or if it transfers the financial asset as well as the majority of all of the risks and opportunities associated with ownership to a third party. If the SKW Metallurgie Group neither mostly transfers all of the risks and opportunities associated with ownership, nor retains these and continues to have the power of disposal of the asset transferred, the remaining portion of the assets and a corresponding liability will be carried in the amount of the sums that may possibly have to be paid. In the event that mostly all of the risks and opportunities associated with the ownership of a transferred financial asset are retained, the SKW Metallurgie Group continues to carry the financial asset and also a collateralized loan for the compensation received.

In the event that a financial asset is fully derecognized, the difference between the carrying amount and the total of the compensation received or to be received and all of the accumulated gains and losses that are carried under other earnings and accumulated under equity are to be recognized in profit and loss.

Impairment

On each balance sheet date, the SKW Metallurgie Group reviews the carrying amounts of its intangible assets and property, plant and equipment 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. The amount of the provision corresponds to the best possible estimate of the fulfillment amount for the corresponding obligation on the balance sheet date, with refunds expected from third parties not netted but carried as a separate asset if it is as good as certain that they will be realized. If the interest effect is material, the provision is discounted using market interest rates.

Employee benefits

Pension obligations

The company's pension plans for employees 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 insur-

ance. Benefits are based on pensionable income. This is the income in the last 24 to 36 months before entering the pension. With regard to the regulations for the SKW Metallurgie Group's Executive Board please refer to the Remuneration Report. 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):

		Exchange rate on balance sheet date		Average exchange rate	
EURO 1		Dec. 31, 2011	Dec. 31, 2010	2011	2010
Brazil	BRL	2.4159	2.2177	2.3255	2.3318
People's Republic of China	CNY	8.1588	8.8220	9.0020	8.9725
Hong Kong	HKD	10.0510	10.3856	10.8399	10.3002
India	INR	68.7130	59.7580	64.8446	60.5915
Bhutan	BTN	68.7130	59.7580	64.8446	60.5915
Japan	JPY	100.2000	108.6500	111.0198	116.2691
Canada	CAD	1.3215	1.3322	1.3762	1.3653
Mexico	MXN	18.0512	16.5475	17.2782	16.7390
Russia	RUB	41.7650	40.8200	40.8778	40.2601
Sweden	SEK	8.9120	8.9655	9.0287	9.5389
South Korea	KRW	1,498.6900	1,499.0600	1,541.3653	1,531.9110
Turkey	TRL	2.4432	2.0694	2.3367	1.9967
USA	US$	1.2939	1.3362	1.3924	1.3258

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 in IAS 32, equity is only present from the company’s perspective if there is no 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 according to 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.

Financial guarantees

A financial guarantee is a contract in which the guarantor undertakes to make certain payments which compensate the warrantee for a loss which arises because a certain debtor does not fulfill their payment obligations on time and the conditions of the debt instrument.

Liabilities from financial guarantees are carried upon receipt at fair values and, if these are not measured at fair value through profit and loss, they are then measured at the higher of the two amounts detailed below:

a) the value of the contractual obligation identified under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and

b) the amount originally carried less, if applicable, the accumulated consumption determined according to the guidelines to record income set out above.

Derecognition of financial liabilities

The SKW Metallurgie Group derecognizes financial liabilities if the corresponding obligation(s) for the Group has/have been settled, cancelled or expired. The difference between the carrying amount of the derecognized financial liability and the compensation received or to be received is to be recorded under profit or loss.

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 or 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 transaction and hedge completely 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 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.

Estimates and the use of discretion as part of accounting

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

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. The cash flow forecast based on these estimates is, for example, impacted by factors such as the successful integration of acquired companies, volatility on the capital markets, interest rate developments, fluctuations in exchange rates and anticipated economic growth. Discounted cash flows are based on five-year forecasts, which are based on financial forecasts. Forecasting cash flows takes past experience into account and is based on the best estimate of future growth made by the company's management. Cash flows beyond the forecast period are extrapolated using individual growth rates. The most important assumptions on which the identification of fair value, less selling costs, and the value in use are based, include estimated growth rates, weighted average rates for the cost of capital and tax rates. These estimates and the underlying methods can have a significant impact on the respective values and finally on the amount of possible impairment of the goodwill. Although management believes that the assumptions used to calculate the recoverable amount are reasonable, 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. In fiscal year 2011 the SKW Metallurgie Group estimated the current economic performance of the ESM Group Inc. and Tecnosulfur S/A - the level at which the SKW Metallurgie Group reviews goodwill - as part of the SKW Metallurgie Group, and did not ascertain the need for any impairment. For further information see Note 13, Intangible assets.

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. For further information see Note 14, Property, plant and equipment.

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. As of December 31, 2011 the total impairment of trade receivables totaled EUR 16 thousand (previous year: EUR 33 thousand).

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. For further information see Note 1, Revenues.

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. For further information see Note 10, Income taxes and 16 Deferred tax assets and liabilities.

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. For further information see Note 23, Pension obligations.

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. For further information see Note 25, Other provisions.

Acquisitions

On February 1, 2011, as part of an asset deal, SKW Metallurgy Sweden AB acquired a calcium carbide production plant in Sweden from the Dutch chemicals and coatings group AkzoNobel. It has acquired land, production facilities, inventories, receivables and liabilities. The purchased price totaled EUR 5,599 thousand after the net working capital had been conclusively determined and was paid in cash. The incidental acquisition costs incurred in the amount of EUR 81 thousand are carried as other operating expenses. 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 (2008).

As part of the acquisition receivables with a fair value of EUR 3,617 were recorded. This corresponds to the gross amount, as all of the receivables are expected to be collectable. In addition, on the date of the acquisition a contingent liability in the amount of EUR 359 thousand was recognized for hidden liabilities from existing consulting and service agreements.

This transaction substantially expands the SKW Metallurgie Group's European hot metal desulphurization activities along its value chain. It secures the Group's internal supply of raw materials. It also creates additional sales potential, in particular in Northern Europe, for the SKW Metallurgie Group for both calcium carbide-based hot metal desulphurization solutions and also for other Group products. In addition, the new plant will also sell calcium carbide products to the gas industry; the SKW Metallurgie Group has not previously supplied this market to any significant extent.

As a result of the final purchase price allocation, there have been the following adjustments to assets and liabilities:

Adjustments to assets and liabilities	EUR thousand Feb. 1, 2011
Intangible assets	-50
Property, plant and equipment	-3,850
Inventories	-148
Deferred tax assets	28
Liabilities	-359
Deferred tax liabilities	-943
	-5,322

The assets and liabilities were as follows:

Acquired net assets in EUR thousand	Carrying amounts	Adjustment	Fair value
ASSETS			
Intangible assets	83	-50	34
Property, plant and equipment	6,827	-3,850	2,978
Inventories	4,606	-148	4,458
Trade receivables	3,617	0	3,617
Receivables and other assets	371	0	371
Deferred tax assets	0	28	28
	15,504	-4,020	11,486
EQUITY AND LIABILITIES			
Trade payables	-1,401	0	-1,401
Other liabilities	-621	-359	-980
Deferred tax liabilities	0	-943	-943
	-2,022	-1,302	-3,324
Acquired net assets			**8,162**

Identification of goodwill in EUR thousand	
Purchase price (settled in cash)	5,599
Less net assets acquired measured at fair value	-8,162
Total goodwill	**-2,563**

The negative goodwill totaled EUR 2,563 and is carried under other operating income. This mostly stemmed from property, plant and equipment, as there was a major investment backlog over the past few years.

From the date of acquisition through to December 31, 2011, revenues from the acquired calcium carbide business totaled EUR 20,885 thousand, EBITDA totaled EUR 771 thousand and net income for the period amounted to EUR 674 thousand. In 2011 as a whole, there would have been revenues of EUR 23.099 thousand, EBITDA of EUR 510 thousand and a net loss of EUR 321 thousand. The figures for the contribution to earnings in January 2011 do not include any PPA adjustments.

If the acquired calcium carbide business had been included in the consolidated financial statements since January 1, 2011, this would have resulted in consolidated revenues of EUR 431,139, EBITDA of EUR 31,447 thousand and net income for the period of EUR 11,129 thousand.

In addition, on May 4, 2011 SKW Service GmbH, Germany, which forms part of the SKW Metallurgie Group, acquired an interest of 1% in the Turkish company SKW Celik Metalürji Üretim Ticaret Ve Sanayi Limited Sirketi as part of a share deal. The remaining 99% of the interests were already held by the group company SKW Stahl-Metallurgie GmbH on the date of acquisition. The purchase price for this acquisition totaled EUR 0 thousand and was fully paid in 2011. The acquisition of non-controlling interests in the Turkish group company constitutes an increase to grant a majority interest and according to IAS 27.30 it was taken directly to equity and disclosed as a transaction between shareholders in the consolidated financial statements.

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 2011 and 2010 in each case.

1. Revenues

The Group's revenues of EUR 428,925 thousand (previous year: EUR 380,820 thousand) relate exclusively to the sale of goods and merchandise. With regard to their breakdown into countries and country groups please refer to Note 29 Segment reporting.

The breakdown of revenues by product group corresponds to the breakdown of revenues by segments (Note 29). Revenues include order-based income from non-current construction contracts totaling EUR 287 thousand (previous year: EUR 1,395 thousand).

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

EUR thousand	Dec. 31, 2011	Dec. 31, 2010
Aggregate amount of costs incurred and recognized profits (less recognized losses) to date	11,111	12,916
Advance payments received	11,848	13,808
Amounts retained by customers	0	0

On the balance sheet date there were construction contracts with a credit balance from customers totaling EUR 1,503 thousand (previous year: EUR 1,481 thousand) and with a debit balance from customers totaling EUR 2,304 thousand (previous year: EUR 2,367 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	2011	2010
Income from the derecognition of liabilities	6,351	475
Income from exchange rate fluctuations	5,909	9,367
Income from the disposal of non-current assets	35	19
Income from writing up receivables	0	0
Income from insurance	2,597	0
Income from service agreement with the associated company Jamipol	46	54
Income from the reversal of negative differences (bargain purchase)	2,563	0
Other operating income	900	493
Total	**18,401**	**10,408**

The income from insurance comprises the regulation of fire damage at the group company SKW Metallurgy Sweden AB in the amount of EUR 1,396 thousand and payments from a freight insurance company in the amount of EUR 1,201 thousand, which the group company ESM Group Inc. received as a result of the loss of a ship-load of magnesium in a shipping accident in 2005.

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

3. Cost of materials

EUR thousand	2011	2010
Raw materials, consumables and supplies	251,792	215,413
Goods purchased	53,034	57,170
Services purchased	2,611	2,629
Other	2,937	1,967
Total	**310,374**	**277,179**

The cost of materials primarily relates to the "Cored Wire" segment at an amount of EUR 140,728 thousand (previous year: EUR 121,016 thousand) and EUR 147,105 thousand (previous year: EUR 138,760 thousand) relates to the "Powder and Granules" segment.

4. Personnel expenses

EUR thousand	2011	2010
Wages and salaries	32,943	29,102
Social security contributions, expenses for pension plans and benefits	11,044	9,992
Total	**43,987**	**39,101**

Personnel expenses in the period under review primarily relate to the "Cored Wire" segment at an amount of EUR 13,544 thousand (previous year: EUR 12,891 thousand) and EUR 26,278 thousand (previous year: EUR 21,654 thousand) relates to the "Powder and Granules" segment. There were no expenses from stock option programs in the form of phantom stocks during the period under review (previous year: EUR 262 thousand).

5. Other operating expenses

EUR thousand	2011	2010
Outgoing freight/transport costs	16,745	15,727
General and administrative expenses	4,878	4,521
Commissions	5,534	4,854
Expenses for land and buildings	2,335	2,118
Expenses from exchange rate fluctuations	8,509	7,062
Tax on costs in France (taxe professionnelle)	342	281
Consulting costs	3,334	2,019
Marketing and entertainment expenses	3,043	2,969
Loss from the disposal of assets	0	112
Write-downs on receivables	340	104
Research and development (material costs)	468	554
Repairs and maintenance	3,272	1,852
Insurance	1,357	1,044
Operating safety	428	176
Expenses for fraud when purchasing raw materials in China	1,758	0
Non-period obligations from raw materials purchases	1,385	0
Other	7,746	4,465
Total	**61,474**	**47,858**

In 2011, the remaining other operating expenses related to a large number of small individual items with low amounts for the consolidated companies.

6. Amortization/depreciation

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 904 thousand (previous year: EUR 914 thousand) results solely from the company Jamipol Ltd., Jamshedpur (India).

8. Other interest and similar income

Other interest and similar income of EUR 346 thousand (previous year: EUR 359 thousand) mostly results from the interest on current bank balances of EUR 204 thousand (previous year: EUR 301 thousand).

9. Interest and similar expenses

The interest and similar expenses of EUR 2,523 thousand (previous year: EUR 2,698 thousand) results from the interest on liabilities to banks of EUR 2,162 thousand (previous year: EUR 2,321 thousand), commission for the provision of credit lines with banks totaling EUR 74 thousand (previous year EUR 148 thousand), guarantee commission in the amount of EUR 166 thousand (previous year: EUR 0 thousand) and interest on other liabilities in the amount of EUR 121 thousand (previous year: EUR 229 thousand). These include, in full, financial liabilities not measured at fair value. Interest expense includes expenses of EUR 608 thousand that results from the application of the effective interest rate method for liabilities.

10. Income taxes

The income tax expense of EUR 4,441 thousand disclosed in the year under review (previous year: EUR 5,946 thousand) is broken down as follows:

EUR thousand	2011	2010
Deferred tax expense/income	7,574	7,326
Deferred taxes	3,780	3,670
Deferred tax assets	-6,913	-5,050
Total deferred tax assets/liabilities	-3,133	-1,380
Total income tax expense/income	**4,441**	**5,946**

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/expense totaling EUR -36 thousand (previous year: 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 cor-

poration tax, the solidarity surcharge and trade tax, and totaled 29.69% in the year under review (previous year: 27%).

EUR thousand	2011	2010
Earnings before taxes	16,229	15,007
Income tax rate	29.69%	27.00%
Anticipated income taxes	4,818	4,052
Tax allocations and settlements	-71	96
Other tax effects taken directly to equity	-779	394
Impact of different income tax rates	491	1,432
Non-period tax income	36	-9
Income from associated companies	-263	-241
Other tax effects	209	222
Recognized tax expense/income	**4,441**	**5,946**
Effective tax rate	27.36%	39.62%

11. Non-controlling interests in consolidated earnings

The consolidated net income for the period of EUR 11,788 thousand (previous year: EUR 9,061 thousand) includes non-controlling interests of EUR -403 thousand (previous year: EUR 1,538 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 shares in circulation during the period under review. In August 2011 the shares were converted from bearer shares to no-par value registered shares. Earnings per share for the reporting period amounted to EUR 1.86 per share.

EUR thousand	2011	2010
Profit/loss in EUR thousand	11,788	9,061
Plus/Less: Non-controlling interests in EUR thousand	403	-1,538
Profit/loss attributable to shareholders of SKW Stahl-Metallurgie Holding AG in EUR thousand	12,191	7,523
Weighted average number of shares in circulation in the period under review in thousand	6,545	6,545
Earnings per share in EUR	**1.86**	**1.15**

Diluted earnings per share correspond to basic earnings per share.

13. Intangible assets

During the year under review, development costs in the amount of EUR 189 thousand (previous year: EUR 62 thousand) were capitalized.

In 2011, own work capitalized in the amount of EUR 65 thousand (previous year: EUR 57 thousand was due in full to development costs (previous year: EUR 27 thousand).

Total R&D expenses of EUR 2,031 thousand were recognized in income by the group (previous year: EUR 1,861 thousand). Of this total EUR 1,520 thousand is due to personnel expenses (previous year: EUR 1,285 thousand), EUR 468 thousand (previous year: EUR 554 thousand) is due to material costs and EUR 43 thousand (previous year: EUR 22 thousand) is due to amortization and depreciation.

EUR thousand	Concessions, industrial and similar rights and assets	Goodwill	Custom-ers	Brand name	Internally generated intangible assets	Other intangible assets	Total
Acquisition costs at Jan. 1, 2011	**2,239**	**27,379**	**17,136**	**15,753**	**1,571**	**12,067**	**76,145**
Currency translation	-22	221	-434	-434	38	-789	-1,420
Additions to Group	0	77	0	0	0	33	110
Additions	243	0	0	0	189	4	436
Disposals	0	0	0	0	0	0	0
Revaluations from purchase price allocation	0	0	0	0	0	0	0
Reclassifications	27	0	0	0	-27	0	0
Balance at Dec. 31, 2011	**2,487**	**27,677**	**16,702**	**15,319**	**1,771**	**11,315**	**75,271**
Amortization/depreciation at Jan. 1, 2011	**-757**	**0**	**-4,691**	**0**	**-868**	**-4,961**	**-11,277**
Currency translation	7	0	-40	0	-29	409	347
Additions	-421	0	-1,722	0	-47	-3,923	-6,113
Disposals	0	0	0	0	0	0	0
Revaluations from purchase price allocation	0	0	0	0	-82	0	-82
Reclassifications	0	0	0	0	0	0	0
Balance at Dec. 31, 2011	**-1,171**	**0**	**-6,453**	**0**	**-1,026**	**-8,475**	**-17,125**
Net carrying amount at Dec. 31, 2011	**1,316**	**27,677**	**10,249**	**15,319**	**745**	**2,840**	**58,146**

The addition of EUR 77 thousand for goodwill relates to the increase of a conditional purchase price liability to existing shareholders in connection with the acquisition of Tecnosulfur S/A. 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 for hot metal desulphurization are sold. It is to be assumed that it will be possible to use these markets for a very long time according to current information; therefore, 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 desulphurization. As the useful life of this technology cannot be determined according to current knowledge, the useful life of the brand is also to be regarded as indefinite.

The year-on-year change is as follows:

EUR thousand	Concessions, industrial and similar rights and assets	Goodwill	Custom-ers	Brand name	Internally generated intangible assets	Other intangible assets	Total
Acquisition costs at 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/depreciation at 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
Reclassifications	0	0	0	0	0	0	0
Balance at Dec. 31, 2010	**-757**	**0**	**-4,691**	**0**	**-868**	**-4,961**	**-11,277**
Net carrying amount at Dec. 31, 2010	**1,482**	**27,379**	**12,445**	**15,753**	**703**	**7,106**	**64,868**

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, 2011	Dec. 31, 2010
ESM Group Inc.		
Goodwill	17,259	16,614
Brand name	7,729	7,484
Tecnosulfur S/A		
Goodwill	10,417	10,765
Brand name	7,591	8,270

Goodwill impairment

The annual impairment testing performed on December 31, 2011 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-American 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 12.91%. This rate for the total cost of capital used is based on the risk-free interest rate of 2.91% 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, 2011. In addition, valuation scenarios were conducted, in which even a pre-tax discount rate of 21.22% 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 19.63%. 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 2.39%, the market risk premium for equity is 5,0%. 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, 2011, 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 27.48% and an assumed 1% growth rate in the perpetuity would not lead to any goodwill impairment.

Brand name impairment

As of December 31, 2011, the annual impairment testing of the brand name ESM capitalized as part of the acquisition of the ESM Group and also the brand name "Tecnosulfur" capitalized upon the acquisition of Tecnosulfur did not result in any need for impairment, as in both cases the recoverable amount was higher 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	Prepay-ments and assets under con-struction	Total
Acquisition costs at Jan. 1, 2011	**4,442**	**8,629**	**37,084**	**5,640**	**29,722**	**85,517**
Currency translation	-72	-276	871	10	-3,650	-3,117
Additions to consolidated group	194	0	2,672	0	78	2,944
Additions	343	1,652	6,116	1,466	20,218	29,795
Disposals	-13	-200	-3,248	-29	-182	-3,672
Revaluations from purchase price allocation	4	1,053	2,540	347	-3,944	0
Reclassifications	0	26	334	22	-406	-24
Balance at Dec. 31, 2011	**4,898**	**10,884**	**46,369**	**7,456**	**41,836**	**111,443**
Amortization/depreciation at Jan. 1, 2011	**-86**	**-2,597**	**-16,015**	**-2,967**	**0**	**-21,665**
Currency translation	-2	91	-592	-88	-1	-592
Additions	-18	-1,432	-4,681	-1,006	-50	-7,187
Disposals	13	200	3,058	27	0	3,298
Revaluations from purchase price allocation	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0
Balance at Dec. 31, 2011	**-93**	**-3,738**	**-18,230**	**-4,034**	**-51**	**-26,146**
Net carrying amount at Dec. 31, 2011	**4,805**	**7,146**	**28,139**	**3,422**	**41,785**	**85,297**

The property, plant and equipment of EUR 85,297 thousand include leased property, plant and equipment of EUR 485 thousand (previous year: 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 201 thousand is due to buildings (previous year: EUR 229 thousand), and EUR 284 thousand is due to technical equipment (previous year: EUR 370). In addition, of the property, plant and equipment EUR 9,450 thousand (previous year: EUR 0 thousand) has been provided as collateral to local banks for a credit line for the ESM Group Inc. and Tecnosulfur. The credit line for Affival Inc., for which collateral of EUR 3,093 thousand was provided in the previous year, no longer exists.

As of December 31, 2011, the SKW Metallurgie Group had contractual obligations for the purchase of property, plant and equipment totaling EUR 5,086 thousand (previous year: EUR 276 thousand).

In 2011, borrowing costs of EUR 1.279 thousand (previous year: EUR 612 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: 6.42%) for borrowing which was taken out especially for the procurement of the qualified asset and 4.05% (previous year: 3.93%) 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	Prepay-ments and assets under con-struction	Total
Acquisition costs at 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 to consolidated group	0	0	0	0	0	0
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/depreciation at 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 allocation	0	-697	-691	-197	0	-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 at Dec. 31, 2010	**4,356**	**6,032**	**21,069**	**2,673**	**29,722**	**63,852**

15. Interests in associated companies

The shares (30.22 % of share capital) in the associate Jamipol Ltd., Jamshedpur (India), are carried at equity. This company is included based on the results reported by this company for the twelve-month period ending on December 31, 2011. During the fiscal year from April 1, 2010 to March 31, 2011, this company recorded revenues of EUR 20,922 thousand (previous year: EUR 22,289 thousand) and annual net income of EUR 2,949 thousand (previous year: EUR 3,138 thousand), translated using the average rate of exchange for 2011. Total assets in the financial statements as of March 31, 2011 amounted to EUR 7,894 thousand (previous year: EUR 9,931 thousand), equity totaled EUR 7,539 thousand (previous year: EUR 9,522 thousand) and liabilities totaled EUR 355 thousand (previous year: EUR 409 thousand). On the date this company's fiscal year ended, Jamipol Ltd. had contingent liabilities of EUR 415 thousand (previous year: EUR 387 thousand).

The at-equity-approach was applied as follows in business year 2011:

EUR thousand	2011	2010
Balance at Jan. 01	**4,703**	**4,477**
Proportionate net income	904	914
Currency translation differences	-448	384
Income taxes	-79	-132
Profit distribution received	-566	-940
Balance at Dec. 31	**4,514**	**4,703**

16. Deferred tax assets and liabilities

The deferred tax assets carried as of December 31, 2011 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 of EUR 4,612 thousand (previous year: EUR 2,730 thousand). Taking into account the forecast results for fiscal year 2011, this means that EUR 664 thousand (previous year: EUR 1,141 thousand) can be used over the short term.

The deferred tax assets and liabilities as of December 31, 2011 result from the following balance sheet items:

	Deferred tax assets		Deferred tax liabilities	
EUR thousand	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Intangible assets	4,985	7,003	11,731	13,389
Property, plant and equipment	57	26	4,132	3,814
Financial Assets	436	524	0	0
Inventories	1,013	788	7	14
Other assets	68	165	599	79
Provisions for pensions	266	166	0	0
Other provisions	482	219	0	0
Other liabilities	3,503	2,947	-32	163
Tax loss carryforwards	4,612	2,730	0	0
Gross amount	**15,422**	**14,568**	**16,437**	**17,459**
Netting	-694	-675	-694	-675
Carrying amount	**14,728**	**13,893**	**15,743**	**16,784**

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 fiscal year 2012. No deferred taxes are formed for outside basis differences.

17. Inventories

EUR thousand	Dec. 31, 2011	Dec. 31, 2010
Raw materials, consumables and supplies	34,437	25,172
Finished goods and merchandise	23,593	17,985
Advance payments made	948	806
Goods in transit	6,122	6,314
	65,100	**50,276**

In each case, inventories are measured at the lower of cost and the net realizable price on the balance sheet date. Inventories totaling EUR 2,067 thousand (previous year: EUR 1,749 thousand) are carried at their net realizable price.

EUR 31,496 thousand of inventories (previous year: EUR 24,515 thousand) is due to Cored Wire, and EUR 29,200 thousand (previous year: EUR 22,551 thousand) is due to Powder and Granules. Of the total inventories of EUR 65,100 thousand (previous year: EUR 50,276 thousand), inventories of EUR 27,839 thousand (previous year: EUR 28,044 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 adjustments in market prices in the amount of EUR 165 thousand (previous year: EUR 245 thousand), and write-ups were performed in the amount of EUR 120 thousand (previous year: EUR 94 thousand).

18. Trade receivables

EUR thousand	Dec. 31, 2011	Dec. 31, 2010
Receivables before write-downs	62,864	53,529
Write-ups	0	0
Amortization/depreciation	-16	-40
Carrying amount of receivables	62,848	53,489

Trade receivables on the balance sheet date (EUR 62,848 thousand; previous year: EUR 53,489 thousand) include receivables from construction contracts of EUR 1,503 thousand (previous year: EUR 1,481 thousand). The carrying amount of the receivables is due to Cored Wire in the amount of EUR 27,958 thousand (previous year: EUR 27,280 thousand) and Powder and Granules in the amount of EUR 30,828 thousand (previous year: EUR 22,436 thousand). Receivables of EUR 18,927 thousand (previous year: EUR 18,883 thousand) are assigned as collateral in master loan agreements in the “Powder and Granules” segment plus EUR 1,499 thousand in the “Cored Wire” segment (previous year: EUR 8,402 thousand). In addition, trade receivables include receivables from the associate Jamipol Ltd. in the amount of EUR 47 thousand (previous year: EUR 102 thousand). In 2011, trade receivables of EUR 16 thousand (previous year: EUR 40 thousand) were impaired. On December 31, 2011 there were overdue trade receivables that had not yet been written down in the amount of EUR 34,602 thousand (previous year: EUR 27,008 thousand).

19. Other assets

EUR thousand	Dec. 31, 2011 current	Dec. 31, 2011 non-current	Dec. 31, 2010 current	Dec. 31, 2010 non-current
Other financial assets				
Derivative financial instruments	125	0	60	0
Loans to third parties	0	516	0	447
Bank balance in locked account for guarantee	2,721	0	2,698	0
Other non-financial assets				
Income taxes	3,564	0	2,161	0
Other tax receivables	2,073	0	3,734	0
Prepaid expenses	2,559	0	1,750	0
Insurance receivables	1,315	0	659	0
Advance payment for customs and import taxes	0	0	0	0
Other receivables	1,753	107	1,524	89
	14,110	**623**	**12,586**	**536**

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 granted as part of the ongoing EU proceedings. In 2011, other assets of EUR 324 thousand were impaired. On December 31, 2011 there were overdue other assets that had not yet been written down in the amount of EUR 276 thousand.

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 2,874 thousand of this (previous year: EUR 3,491 thousand) relates to the Cored Wire segment, EUR 6,007 thousand (previous year: EUR 2,621 thousand) to the Powder and Granules segment, EUR 1,501 thousand to the Other segment (previous year: EUR 4,844 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 registered shares [statement in line with Section 160 (1) no. 3 AktG], each with a pro rata amount of EUR 1.00 per share. The shares were converted from bearer shares to no-par value registered shares in August 2011. 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

During the period under review, as a result of a resolution by the General Meeting on June 8, 2011, Article 4 (4) of the Articles of Incorporation was changed; this removed the authorized capital which had existed until this date in the amount of EUR 77,320. This was 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. At the same time, as a result of the opportunity of issuing new shares through to May 30, 2016, it was resolved to create new authorized capital of EUR 3,272,465.00.

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]. As a result of the expiration of the authorization to acquire treasury shares on December 4, 2010 issued by the General Meeting on June 4, 2009, there was also no authorization to acquire treasury shares in 2011.

Other comprehensive income

Other accumulated equity developed as follows:

EUR thousand	Dec. 31, 2010	Change in 2011	Dec. 31, 2011
Retained earnings	45,169	9,191	54,360
Net investments in a foreign operation	-16	-361	–377
Unrealized gains/losses from derivatives (hedge accounting)	-715	274	-441
Differences from currency conversion	1,837	-2,089	-252
Taxes on income and expenses carried directly under equity	279	-107	172
	46,554	**6,908**	**53,462**

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

Currency translation adjustments

The loss totaling EUR 2,089 thousand in the period under review mostly resulted from changes in the exchange rates of the euro (EUR) to the US dollar (USD), the Japanese yen (JPY), the South Korean won (KRW), the Bhutanese ngultrum (BTN) and the Brazilian real (BRL). Furthermore, equity includes a loss from translation differences from net investments in foreign operations in the amount of EUR 361 thousand.

These result from seven loans in USD (EUR -578 thousand), which were issued by SKW Stahl-Metallurgie Holding AG to SKW Quab Chemicals Inc. the ESM Group Inc., SKW Tashi Metals & Alloys

Private Limited, and also to a loan in KRW (EUR 0 thousand) which was issued by Affival S.A.S. to Affival Korea, and a loan in USD (EUR +217 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 fiscal year 2011 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. The SKW Metallurgie Group's 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, 2011 and 2010:

EUR thousand	Dec. 31, 2011	Dec. 31, 2010	Change in %
Equity	128.356	122.258	5%
As a % of total capital	41%	44%	
Current liabilities	129.882	88.937	
Non-current liabilities	57.510	64.562	
Liabilities	**187.392**	**153.499**	22%
As a % of total capital	59%	56%	
Total capital (equity plus borrowing)	315.748	275.757	15%
Net debt/EBITDA	2,46	1,64	

Equity remained practically unchanged year-on-year in 2011. Liabilities increased by 22% as against the previous year. Overall, in fiscal year 2011 this led to a ratio of borrowing to total capital of 59% after 56% in 2010. The equity ratio totaled 41% compared to 44% in fiscal year 2010.

23. Pension obligations

Provisions for pensions were recognized at a total of four group companies. In particular, the total amount of the provision of EUR 3,363 thousand (previous year: EUR 2,891 thousand) relates to the following companies:

- SKW Stahl-Metallurgie Holding AG (EUR 1,353 thousand / previous year: EUR 988 thousand)
- SKW Stahl-Metallurgie GmbH (EUR 1,275 thousand/previous year: EUR 1,173 thousand).
- Affival S.A.S. (EUR 446 thousand/previous year: EUR 482 thousand)

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

EUR thousand	2011	2010
Projected unit credit Jan. 01	3,709	2,226
Ongoing service cost	375	95
Interest expenses	172	112
Pension payments	-85	-117
Compensation	0	0
Actuarial gains/losses	187	397
Past service cost	0	966
Currency translation	17	30
Projected unit credit Dec. 31	**4,375**	**3,709**

The anticipated employer's payments for 2012 are estimated at EUR 457 thousand.

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

EUR thousand	2011	2010
Fair value fund asset Jan. 01	193	188
Expected return on fund assets	3	3
Pension payments	0	0
Actuarial gains/losses	1	2
Fair value fund asset Dec. 31	**197**	**193**

The assumptions on the anticipated capital gains on plan assets are based on detailed analyses performed by external financial experts and actuaries. These analyses take into account both the historical actual returns for long-term investments and also the long-term returns anticipated for the target portfolio in future. The actual income from plan assets amounts to around EUR 4 thousand. The plan assets consist of a fund set up by the company to serve its pension obligations. This is managed externally by an insurance company. The expected return is equal to the interest anticipated from the fund.

EUR thousand	2011	2010
Plans covered by fund assets	326	286
Plans not covered by fund assets	4,049	3,423
Projected unit credit Dec. 31	**4,375**	**3,709**

EUR thousand	Dec. 31, 2011	Dec. 31, 2010
Cash value of the pension commitments	4,375	3,709
Unrecognized actuarial gains	-734	-531
Fair value of plan assets	-197	-193
Past service costs not yet carried	-81	-94
	3,363	**2,891**

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

EUR thousand	Dec. 31, 2011	Dec. 31, 2010
Ongoing service cost	375	95
Interest on anticipated pension commitments	172	112
Amortisation of actuarial gains/losses	-16	19
Past service cost	11	826
Actuarial income for plan assets	-3	-3
Total pension expenses	**539**	**1,049**

The calculation is based on the following actuarial assumptions:

	Dec. 31, 2011		Dec. 31, 2010	
EUR thousand	Germany	France	Germany	France
Discounted rate	5.00%	4.3%	5.15%	4.5%
Development of salaries	2.0 – 2.5%	2.5%	0.0 – 2.5%	2.5 – 3.0%
Development of pensions	1.25%	1.3%	1.0%	2.0%
Anticipated return on plan assets	n.a.	1.3%	n.a.	1.7%

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 -203 thousand, and a change of -0.25 percentage points would lead to a change in the projected unit credit of EUR +218 thousand.

EUR thousand	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2011
Projected unit credit	1,968	1,935	2,226	3,709	4,375
Fair value of plan assets	285	185	188	193	197
Gains or losses from the plans	1,683	1,750	2,038	3,516	4,178

The adjustments based on experience were as follows:

EUR thousand	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2011
Adjustments based on past experience	0	-109	-6	-198	-123

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

	Portfolio structure	
EUR thousand	Dec. 31, 2011	Dec. 31, 2010
Shares	0%	0%
Fixed-income securities	100%	100%
Reat estate/Other	0%	0%
Total	**100%**	**100%**

24. Obligations from finance leases

In the 2011 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 in the previous year can be found 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**

25. Other provisions

Other provisions changed as follows:

EUR thousand	As of Jan. 1, 2011	Addition to consolidated group	Take-up	Addition	Reversal due to lack of use	Reclassification	Currency translation diffeences	As of Dec. 31, 2011
Provision for EU antitrust proceedings	6,650	0	0	0	-6,150	0	0	500
Provision for fraud when purchasing raw materials in China	0	0		860	0	0	0	860
Tax provisions	1,788	0	0	779	0	0	-176	2,391
Miscellaneous other provisions	1,128	0	-330	787	-420	0	-19	1,146
	9,566	**0**	**-330**	**2,426**	**-6,570**	**0**	**-195**	**4,897**

Miscellaneous other provisions include various items, such as provisions for investigations by customs authorities in the amount of EUR 282 thousand (previous year: EUR 289 thousand), for consulting in the amount of EUR 251 thousand (previous year: EUR 98 thousand), for vacation pay, 13th month's salary and employee profit participation in the amount of EUR 363 thousand (previous year: EUR 356 thousand). The provisions for stock option plans were reversed in full in the year under review (previous year: EUR 289 thousand).

Of the total other provisions as of December 31, 2011, EUR 2,482 thousand are current (previous year: EUR 7,608 thousand) and EUR 2,415 thousand are non-current (previous year: EUR 1,958 thousand).

26. Financial liabilities

Financial liabilities of EUR 88,315 thousand (previous year: EUR 58,302 thousand) result from liabilities to banks of EUR 88,241 thousand (previous year: EUR 57,587 thousand) and from liabilities to third parties in the amount of EUR 74 thousand (previous year: EUR 715 thousand).

Interest on financial liabilities is in a bandwidth of between 1.52% and 13.0% (previous year: 2.18% to 7.79%) 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 EUR, and the upper end from interest conditions for financing in BTN.

For the securization of two loans with a remaining principal amount of EUR 9,332 thousand, 66.67% of the Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A shares serve as collateral.

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	Dec. 31, 2011	Dec. 31, 2010
EUR	48,175	24,975
US$	30,639	28,969
JPY	1,996	2,848
KRW	334	600
CNY	981	907
BTN	742	0
BRL	5,448	3
Total	**88,315**	**58,302**

Remaining terms of liabilities

	Dec. 31, 2011			Dec. 31, 2010		
EUR thousand	< 1 Year	1 – 5 Years	> 5 Years	< 1 Year	1 – 5 Years	> 5 Years
Liabilities to banks	53,562	30,288	4,391	30,750	24,060	2,777
Liabilities to other third-parties	0	74	0	715	0	0
Financial debt	**53,562**	**30,362**	**4,391**	**31,465**	**24,060**	**2,777**

27. Trade payables

The trade accounts payable of EUR 45,462 thousand (previous year: EUR 37,988 thousand) as of the balance sheet date were to third parties. These include liabilities from construction contracts of EUR 2,304 thousand (previous year: 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

	Dec. 31, 2011		Dec. 31, 2010	
EUR thousand	current	non-current	current	non-current
Other financial liabilities				
Derivative financial instruments	276	444	62	715
Other non-financial assets				
Social security contributions	1,304	0	916	0
Wages and salaries	6,069	21	3,946	28
Interest liabilities	132	1	35	0
Advance payments received	68	0	55	0
Other taxes	2,226	0	2,066	0
Outstanding invoices	1,310	0	726	0
Liability from White Martins contract	1,303	0	3,448	1,749
Downstream acquisition liabilities	8,611	0	2,660	8,145
Liabilities from finance leases	931	712	0	0
Healthcare payments	183	0	168	0
Employee accident insurance	634	0	149	0
Legal and consulting costs	349	0	293	0
Miscellaneous other liabilities	2,366	58	1,035	956
Total	**25,762**	**1,236**	**15,559**	**11,593**

The liabilities from derivative financial instruments include the negative fair values of currency derivatives. The downstream liabilities from acquisitions include a conditional purchase price liability in the amount of EUR 6,873 thousand (previous year: EUR 6,796 thousand).

29. Segment reporting

The segments described below correspond to the SKW Metallurgie Group's internal organizational and reporting structure. Segment deferral takes 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 desulphurization in which various powders and granules are used, and also in steel refining, which is conducted using cored wire. As a result, three segments with a reporting segment have been identified within the SKW Metallurgie Group:

Cored Wire:

The Cored Wire segment focuses on the production and sale of wire filled with specialty chemicals, so-called cored wires. The program is consistently geared to steel refining. The steel is given specific metallurgical characteristics thanks to the use of cored wire. The services offered include, in particular, advice on selecting suitable substances for the core, product-specific production of cored wire according to the customer's specific objectives and production parameters and the construction and set-up of the requisite equipment at the customer's facility and taking this into operation.

Powder and Granules:

The Powder and Granules segment bundles all of the production and sales functions for hot metal desulphurization. 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 selecting and implementing suitable desulphurization 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 are mostly based on the re-sale method.

2011 in EUR thousand	Cored Wire	Powders and Granules	Other	Consolida-tion	Group
Revenues					
Third-party revenues	202,081	197,329	29,515	0	428,925
Internal revenues	36	22,334	0	-22,370	0
Total revenues	**202,117**	**219,663**	**29,515**	**-22,370**	**428,925**
Income from associated companies	0	904	0	0	904
EBITDA	**7,581**	**26,759**	**-2,632**	**0**	**31,708**
Scheduled amortization/depreciation	-2,258	-9,796	-1,248	0	-13,302
Non-scheduled amortization/ depreciation	0	0	0	0	0
EBIT	**5,323**	**16,963**	**–3880**	**0**	**18,406**
Dividends from subsidiaries	0	0	9,113	-9,113	0
Transfer of profit	0	-2,301	2,301	0	0
Interest income	11	320	2,352	-2,337	346
Interest expenses	–956	-2,189	-1,715	2,337	-2,523
Earnings before taxes	**4,378**	**12,793**	**8,171**	**-9,113**	**16,229**
Income taxes					-4,441
Consolidated net income for the year					**11,788**
Balance sheet					
Assets					
Segment assets	111,396	174,308	141,502	-115,972	311,234
Interests in associated companies	0	4,514	0	0	4,514
Consolidated assets					**315,748**
Equity and liabilities					
Segment liabilities	82,626	120,303	64,038	-79,575	187,392
Consolidated liabilities					**187,392**
ongoing capital expenditure (property, plant and equipment, intangible assets)	10,864	18,833	597		30,294

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

2011 in EUR thousand	Cored Wire	Powders and Granules	Other	Consolida-tion	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	0	4,703	0	0	4,703
Consolidated assets					**275,757**
Equity and liabilities					
Segment liabilities	63,258	102,784	46,309	-58,851	153,499
Consolidated liabilities					**153,499**
ongoing capital expenditure (property, plant and equipment, intangible assets)	15,510	5,433	2,849		23,792

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.

2011 in EUR thousand	Third-party revenues (customer's office)	Third-party revenues (company office)	Non-current assets*
Germany	23,641	19,299	6,085
EU 27 without Germany	69,576	102,330	9,485
USA and Canada	225,718	228,472	51,583
Japan	8,522	9,075	26
Brazil	40,469	42,667	43,573
Mexico	6,801	7,049	668
Russia and Ukraine	5,768	390	822
People's Republic of China	1,636	3,857	361
Rest of world	46,794	15,786	30,938
Total	**428,925**	**428,925**	**143,542**

* without deferred taxes and financial instruments

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

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

There were relationships with a single customer which accounts for revenues of EUR 80,264 thousand (previous year: EUR 76,586 thousand). 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, investing activities and financing activities.

Cash and cash equivalents - adjusted for currency effects of EUR 106 thousand (previous year: EUR 457 thousand) – in the amount of EUR 10,382 thousand (previous year: EUR 10,956 thou-

sand) 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 16,479 thousand shows the excess of income over expenses before any utilization of funds. The item “earnings from associated companies” totaling EUR 338 thousand stems from the net income from participating interests in 2011 from the Indian production company Jamipol Ltd. in the amount of EUR 904 thousand less the disbursement received in 2011 totaling EUR 566 thousand.

The cash flow from operating activities also included the change in working capital that resulted in a cash outflow of EUR 10,365 thousand. As a result, the cash flow from operating activities totaled EUR 6,114 thousand.

After the cash outflow from investing activities in the amount of EUR -33,869 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 -27,755 thousand.

Bank loans in the amount of EUR 32,453 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 1,069 thousand were repaid. The remaining cash flow after the measures described, which amounted to EUR -468 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 1,459 thousand and interest received of EUR 24 thousand. EUR 3,241 thousand was paid in taxes. There were no tax refunds in the period under review.

31. Other financial obligations

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

EUR thousand	Dec. 31, 2011	Dec. 31, 2010
Rental and leasing commitments due		
within one year	1,826	1,738
between two and five years	5,071	5,447
after five years	2,952	3,195
Maintainance, service, and licence contracts due		
within one year	264	194
between two and five years	240	30
after five years	24	0
Other commitments due	**23,886**	**19,082**

The other financial liabilities totaling EUR 23,886 thousand (previous year: EUR 19,082 thousand) mostly stemmed from purchasing commitments from supply agreements in the amount of EUR 9,200 thousand (previous year: EUR 11,500 thousand) for SKW Stahl-Metallurgie GmbH, EUR 3,486 thousand (previous year. EUR 3,214 thousand) from guarantees issued for Affival S.A.S. and from the contractual commitments in the amount of EUR 1,059 thousand (previous year: EUR 1,063 thousand) for SKW Stahl Metallurgie Holding AG and for other subsidiaries in the amount of EUR 5,086 thousand (previous year: EUR 276 thousand). Conditional rental payments were included in earnings for fiscal year 2011 in the amount of EUR 302 thousand (previous year: 234 thousand).

32. Contingent receivables and liabilities

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. The release from the guarantee expired on January 16, 2012.

ESM Group

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

In business year 2005, the Department of Homeland Security of the USA government searched the premises of ESM Group Inc. This 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. Thus, ESM was not responsible for having the material cleared by customs. The maximum damages from the civil suit that has been initiated amount to around USD 14 million. On account of the matter described above, the Executive Board feels that availment of the ESM Group Inc. is not likely.

SKW Stahl-Metallurgie Holding AG / SKW Stahl-Metallurgie GmbH

SKW Stahl-Metallurgie Holding AG is jointly liable according to the EU Commission's penalty decision dated July 22, 2009 for the payment of a maximum penalty of EUR 13.3 million (joint and several liability by SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH together with Gigaset AG (formerly: ARQUES Industries AG) in the amount of EUR 13.3 million; joint and several liability by SKW Stahl-Metallurgie GmbH together with Evonik Degussa GmbH and AlzChem Trostberg GmbH (formerly: AlzChem Hart GmbH) in the amount of EUR 1.04 million; accumulated joint and several liability by SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH limited to EUR 13.3 million). 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 is also carried as a provision at the subsidiary SKW Stahl-Metallurgie GmbH as of December 31, 2010 as a provision for uncertain liabilities. In this connection, in 2010 Gigaset AG sued SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie jointly for payment of the or indemnification from the part of the fine in excess of the amount paid by Gigaset AG to the EU Commission or collateralized using bank guarantees by SKW Stahl-Metallurgie GmbH. Gigaset AG lost this litigation in the first instance. The responsible Regional Court München (Munich) I fully rejected the suit filed by Gigaset AG in its ruling dated July 13, 2011 and in addition it decided that "the monetary penalty is to be borne internally solely by the plaintiff [Gigaset AG]". The objection filed by Gigaset AG was also rejected by the Upper Regional Court München (Munich) in its ruling dated February 9, 2012. While also referring to the reasons for the decision by the Regional Court, in its ruling, the Upper Regional Court München (Munich) also ascertained that "it is not the defendant [SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH] that has to bear the monetary penalty, but the plaintiff [Gigaset AG]". SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH can thus demand complete indemnification from the obligations vis-à-vis the EU Commission in connection with the penalty of EUR 13.3 million that was set from Gigaset AG. The appeal against the decision by the Upper Regional Court München (Munich) was admitted. In spite of this, however, a cash outflow for SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH became so improbable, with the result that the provision formed in the amount of EUR 6.7 million had to be reversed with the exception of lawyers' costs that are still to be expected in the amount of EUR 0.5 million.

SKW Stahl-Metallurgie GmbH

One of SKW Stahl-Metallurgie GmbH's customers informed the company in September 2011 that a container had exploded during the rail transport for a delivery of calcium carbide. With the exception of property damage, as far as the company is aware, no people were injured in this explosion. As a result - however this has not been conclusively clarified to date - if this concerns the material supplied by the SKW Metallurgie Group, this explosion took place long after the risk had been transferred. To date, the SKW Metallurgie Group also does not have any other secure information on the reasons for this explosion or the amounts of any damage.

We cannot yet foresee whether there will be a conflict with this customer or a third party as a result of this explosion. The amount of any value under dispute in such a case cannot yet be estimated.

33. Executive bodies of the company

Supervisory Board	Executive Board
Titus Weinheimer, New York, NY (USA) Buchanan, Ingersoll & Rooney pc, Attorney Chairman of the Supervisory Board (from June 10, 2008, reelection on June 15, 2009)	**Ines Kolmsee, Tutzing (Germany)** Engineering graduate, CEO (May 26, 2006 to August 15, 2006 sole member of the Executive Board, CEO from August 16, 2006)
Jochen Martin, München (Munich) (Germany) Independent M&A consultant Deputy Chairman of the Supervisory Board (since June 15, 2009)	**Reiner Bunnenberg, München (Munich) (Germany)** Engineering graduate, Member of the Executive Board (since January 1, 2011)
Dr. Dirk Markus, Feldafing (Germany) Aurelius AG, CEO Member of the Supervisory Board (since June 4, 2009)	**Gerhard Ertl, Garching a. d. Alz (Germany)** Business administration graduate, CFO (August 16, 2006 to September 30, 2011)
Dr. Christoph Schlünken, Sulzbach-Rosenberg (Germany) Eckart GmbH, Managing Director Member of the Supervisory Board (since June 4, 2009)	**Oliver Schuster, München (Munich) (Germany)** Business administration graduate (FH), CFO (from March 1, 2012)
Armin Bruch, Erzhausen (Germany) SGL Carbon SE, member of the Executive Board Member of the Supervisory Board (since June 15, 2009)	
Sabine Kauper, Merching (Germany) Phönix Solar AG, CFO to December 31, 2011 Member of the Supervisory Board (since June 15, 2009)	

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. According to Article 7 (2) of the Articles of Incorporation, the Supervisory Board was elected for the period through to the end of the General Meeting on June 9, 2011, which resolves on its ratification for the first business year after the start of its period of office. This period does not include the business year in which the period of office commences. The period of office for members of the Supervisory Board who were elected during an electoral period, ended with the period of office of the entire Supervisory Board. As a result, the previous period of office for all of the company's Supervisory Board members ended at the end of the 2011 Ordinary General Meeting. As part of the General Meeting on June 9, 2011, all of the members of the Supervisory Board stood for reelection and were appointed by the General Meeting as a result of the changes to the Articles of Incorporation also resolved by this General Meeting with regard to the extension of the period of office for members of the Supervisory Board to five years.

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 four face-to-face meetings and seven 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.

All of the members of the Supervisory Board attended all of these meetings. Ms. Kauper 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.

The Supervisory Board formed three committees. An Audit Committee and an Nomination Committee have been in place since 2009. In addition, a Remuneration Committee was put in place in 2010.

There were no changes to the members in the individual committees as a result of the new period of office. As was also the case in 2010, the members of the audit committee were Dr. Dirk Markus (Chairman), Sabine Kauper and Jochen Martin. The audit committee held four face-to-face meetings and four telephone meetings. 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 one face-to-face meeting and two telephone meetings. 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 fiscal year 2011

- **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 (business administration graduate)**, independent M&A consultant, residing in München (Munich) (Germany), Deputy Chairman of the company's Supervisory Board

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

- **Armin Bruch (business administration graduate)**, Member of the Executive 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 Tokai CARBON Ltd. (Chairman)	Shanghai (PR China)

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

- **Sabine Kauper (business administration graduate)**, CFO of Phönix Solar AG (until December 31, 2011), residing in Merching (Germany)

Board of Directors/Advisory Council	Registered office
Phoenix Solar PTE. LTD.	Singapore (Republic of Singapore), to December 1, 2011
Phoenix Solar Systems Inc. (Member of the Board of Directors)	San Ramon (USA), to December 1, 2011

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

Supervisory Board	Registered office
Kapsch Traffic Com AG (Member of the Supervisory Board)	Wien (Vienna) (Austria) (since August 22, 2011)

- **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)
Lotus AG (Chairman)	Grünwald (Germany)
SMT Scharf AG (Chairman)	Hamm (Germany)
ED Enterprises AG (Deputy Chairman)	München (Munich) (Germany), to June 29, 2010
Hanse Yachts AG	Grünwald (Germany) from December 13, 2011
Isochem SA (Advisory Council)	Vert-le-Petit (France), to May 31, 2011
Compagnie de Gestion et de Prêts (Advisory Council)	Saran (France)

The memberships set out above in the Supervisory Boards of AURELIUS Beteiligungsberatungs AG, Berentzen-Group Aktiengesellschaft, Lotus AG, ED Enterprises AG Hanse Yachts AG, Isochem SA and Compagnie de Gestion e de Prêts are mandates within the Lotus/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 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) Eckart America Corporation (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.

Further mandates held by the members of SKW Metallurgie Holding AG's Executive Board in fiscal year 2011

In the reporting period, Ms. Kolmsee performed the following mandates outside the SKW Metallurgie Group.

- Umicore S.A., registered office in Brussels (Belgium), Member of the Board of Directors (appointed on April 26, 2011)

- FUCHS PETROLUB AG, registered office in Mannheim (Germany), Member of the Supervisory Board (appointed on May 11, 2011)

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

Within the group, the members of the Executive Board 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. Ltd., Chairman
- SKW Verwaltungs GmbH, Managing Director
- SKW Service GmbH, Managing Director
- SKW France S.A.S., President
- Affimex Cored Wire S. de R.L. de C.V., Chairman of Board of Directors
- Cored Wire Servicios S. de R.L. de C.V., Chairman of Board of Directors
- SKW Tashi Metals & Alloys Private Ltd., Chairman of Board of Directors
- Jamipol Ltd., Member of Board of Directors
- Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, Chairman of Board of Directors

Reiner Bunnenberg

- SKW Quab Chemicals Inc., Member of Board of Directors (from October 8, 2011)
- SKW Metallurgie USA Inc., Member of Board of Directors (from October 15, 2011)
- ESM Group Inc., Member of Board of Directors (from October 18, 2011)
- ESM Special Metals and Technology Inc., Member of Board of Directors (from October 18, 2011)
- SKW Hong Kong Co. Ltd., Member of Board of Directors (since October 21, 2011)
- SKW Stahl-Metallurgie GmbH, Managing Director (since February 3, 2011)
- SKW Verwaltungs GmbH, Managing Director
- SKW Service GmbH, Managing Director
- SKW Tashi Metals & Alloys Private Ltd., Member of Board of Directors
- Jamipol Ltd., Member of Board of Directors

Gerhard Ertl

- Affival Inc., Member of Board of Directors (to October 10, 2011)
- SKW Quab Chemicals Inc., Member of Board of Directors (to October 7, 2011)
- SKW Metallurgie USA Inc., Member of Board of Directors (to October 14, 2011)
- ESM Group Inc., Member of Board of Directors (to October 17, 2011)
- ESM Special Metals and Technology Inc., Member of Board of Directors (to October 17, 2011)
- SKW Hong Kong Co. Ltd., Member of Board of Directors (to October 20, 2011)
- Affimex Cored Wire S. de R.L. de C.V., Chairman of Board of Directors (to October 19, 2011)
- Cored Wire Servicios S. de R.L. de C.V., Member of Board of Directors (to October 19, 2011)
- SKW Tashi Metals & Alloys Private Ltd., Member of Board of Directors (to November 9, 2011)
- SKW Stahl-Metallurgie GmbH, Managing Director (to September 16, 2011)
- SKW Verwaltungs GmbH, Managing Director (to October 20, 2011)
- SKW Service GmbH, Managing Director (to October 20, 2011)

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 French company SKW La Roche de Rame (i.L.).

SKW LRR (i.L.) did not have any major business activities in the year under review, and in 2011 there were no major transactions with this company.

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 totaled EUR 46 thousand in the year under review and there were receivables from this company of EUR 47 thousand on the balance sheet date.

During the period under review, Jamipol Ltd's Board of Directors also included individuals that held executive functions in the SKW Metallurgie Group in fiscal year 2011; Jamipol Ltd. paid the respective persons a small remuneration for their activities on the Board of Directors.

In addition, during the period under review, the SKW Metallurgie Group had relationships with the following related legal entities:

The Group company SKW Tashi Metals & Alloys Private Limited has relationships with Bhutan Carbide & Chemical Limited and Bhutan Ferro Alloys Limited, which both belong to the Tashi Group, the non-controlling shareholder of SKW Tashi. The expenses resulting in the period under review of

EUR 1,309 thousand and the liabilities on the balance sheet date to both of these companies of EUR 232 thousand mostly relate to the procurement of raw materials.

The Group company Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A has relationships with CJ Locações e Transportes Ltda. and Ergo Solutions Fisioterapia, Ergonomia e Ginástica Laboral Ltda.. The owners of these companies are, in each case, family members of the non-controlling shareholder and managing director of Tecnosulfur. EUR 120 thousand was spent of passenger transport and courier services performed by CJ Locações e Transportes Ltda. in the year under review. Ergo Solutions provided a physiotherapy offering for employees of Tecnosulfur, with expenses of EUR 4 thousand in the period under review.

Related individuals:

The active members of the Executive and Supervisory Boards and their family members are related individuals. On the balance sheet date there was a benefit commitment for a former member of the Executive Board.

Supervisory Board:

As stated under Note 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 53 thousand were made by various Group companies in this regard.

Remuneration for activities as a member of the company's Supervisory Board is described in the Remuneration Report.

Executive Board:

SKW Stahl-Metallurgie Holding AG's payments have been stated above in full in the Remuneration Report.

36. Employees

The SKW Metallurgie Group had an average total of 979 employees in fiscal year 2011 (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 650 industrial employees (previous year: 481), 321 commercial and technical employees (previous year: 269) and 8 apprentices (previous year: 5). On the balance sheet date, there were 1,025 employees (previous year: 790). Of this total, 667 were industrial employees (previous year: 497), 350 were commercial and technical employees (previous year: 289) and there were 8 apprentices (previous year: 4).

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.

	Dec. 31, 2011		Dec. 31, 2010	
EUR thousand	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
Assets held to maturity	244	244	245	245
Loans and receivables	67,045	67,045	57,369	57,369
Financial assets held for trading	0	0	0	0
Available-for-sale financial assets	0	0	0	0
Derivative financial instruments with no hedge accounting	125	125	60	60
Financial liabilities				
Financial liabilities at amortized cost	146,039	146,039	113,374	113,374
Derivative financial instruments with no hedge accounting	277	277	62	62
Derivative financial instruments with hedge accounting	443	443	715	715

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, 2011 in EUR thousand.

Assets		Valuation according to IAS 39				
		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, 2011	Amortized cost	Amortized cost	Fair value taken directly to equity	Fair value through profit and loss	Fair value Dec. 31, 2011
Other assets	4,072	3,828	244	0	0	4,072
Trade receivables	1,503	1,503				1,503
Trade receivables	61,345	61,345	0	0	0	61,345
Derivatives without hedge accounting	125	0	0	0	125	125

The figures for the previous year as of December 31, 2010 in EUR thousand are as follows:

Assets		Valuation according to IAS 39				
		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 through profit and loss	Fair value Dec. 31, 2010
Other assets	4,125	3,880	245	0	0	4,125
Trade receivables	1,481	1,481				1,481
Trade receivables	52,008	52,008	0	0	0	52,008
Derivatives without hedge accounting	60	0	0	0	60	60

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, 2011 in EUR thousand. This also includes derivatives with hedge accounting, although they do not belong to any valuation category under IAS 39:

Equity and liabilities		Valuation according to IAS 39		
		Financial liabilities carried at amortized cost	Financial liabilities at fair value through profit or loss	
	Carrying amount on the balance sheet Dec. 31, 2011	Amortized cost	Fair value	Fair value Dec. 31, 2011
Financial debt	88.315	88.315	0	88.315
Trade payables	45.462	45.462	0	45.462
Other liabilities	12.262	12.262	0	12.262
Derivatives without hedge accounting	277	0	277	277
Derivatives with hedge accounting	443	0	0	443

The figures for the previous year as of December 31, 2010 are as follows:

Equity and liabilities		Valuation according to IAS 39		
		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	Fair value Dec. 31, 2010
Financial debt	58.302	58.302	0	58.302
Trade payables	37.988	37.988	0	37.988
Other liabilities	17.057	17.057	0	17.057
Derivatives without hedge accounting	62	0	62	62
Derivatives with hedge accounting	715	0	0	715

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 as of December 31, 2011:

EUR thousand	Stage 1	Stage 2	Stage 3	Stage 4
Financial assets measured at market value				
Derivative financial instruments	-	125	-	125
Financial liabilities measured at market value				
Derivative financial instruments	-	720	-	720

The figures for the previous year as of December 31, 2010 are as follows:

EUR thousand	Stage 1	Stage 2	Stage 3	Stage 4
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 swap 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	Dec. 31, 2011	Dec. 31, 2010
Loans and receivables	294	51
Held-to-maturity financial assets	0	0
Available-for-sale financial assets	0	0
Derivatives without hedge accounting	-120	90
Financial liabilities measured at amortized cost	-18	39

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 recognized or non-recognized 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, 2011	Fair value Dec. 31, 2010
Assets		
Currency derivatives without hedge accounting	125	60
Interest rate derivatives in cash flow hedges	0	0
Total	**125**	**60**
Equity and liabilities		
Currency derivatives without hedge accounting	277	62
Interest rate derivatives in cash flow hedges	443	715
Total	**720**	**777**

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, 2011, hedge instruments were carried in the amount of EUR 443 thousand (previous year: EUR 715 thousand) with negative fair values. In fiscal year 2011, the accumulated income and expenses taken directly to equity included unrealized earnings in the amount of EUR 274 thousand (previous year: EUR 80 thousand) before taxes, and EUR 96 thousand from exchange rate changes. The maximum period for which the cash flows from future transactions are hedged is 30 months.

As of December 31, 2011, 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 rates 2011 -10%	Average exchange rates 2011	Average exchange rates 2011 +10%
Revenues	465,376	428,925	399,103
EBITDA	34,954	31,708	29,018
Net income	13,430	11,788	11,139

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

EUR thousand	Average exchange rates 2010 -10%	Average exchange rates 2010	Average exchange rates 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 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 2011 -10%	Rates 2011	Rates 2011 +10%
Equity	+12,717	0	-10,404

The analysis in the previous year produced the changes shown in the table below (only simulation of average exchange rates):

EUR thousand	Rates 2010 -10%	Rates 2010	Rates 2010 +10%
Equity	+12,111	0	-9,909

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, 2011. 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, 2011 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, 2011	
	+100 basis points	-100 basis points
Equity	-409	+415

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

EUR thousand	Change in all interest rate curves as of December 31, 2010	
	+100 basis points	-100 basis points
Equity	–289	+272

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 2011, trade payables of EUR 16 thousand (previous year: EUR 40 thousand) and other receivables of EUR 324 thousand (previous year: EUR 70 thousand) were impaired. Of the trade receivables of EUR 62,848 thousand (previous year: EUR 53,489 thousand), receivables totaling EUR 34,602 thousand (previous year: EUR 27,008 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
2011	32,899	951	213	539	**34,602**
2010	26,312	372	10	314	**27,008**

There are no indicators that the debtors for these receivables will not meet their payment obligations. In addition, no interest receivables (previous year: EUR 4 thousand) are due but have not been written down.

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 Executive Board has analyzed several liquidity scenarios in this connection. As of December 31, 2011, the SKW Metallurgie Group had lines of credit totaling EUR 78,560 thousand (previous year: EUR 60,453 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, 2011, including derivative financial instruments with a negative fair value. The discounted cash outflows are not stated for these obligations. The cash outflows for financial liabilities without a fixed amount or period, including interest, are based on conditions as of December 31, 2011.

2011 in EUR thousand	< 30 days	30 - 90 days	90 - 180 days	180 - 360 days	1 - 2 years	3 - 5 years	> 5 years	Total
Liabilities to banks	16,304	18,098	19,175	6,961	13,131	30,187	0	103,856
Financial liabilities to other third-parties	0	0	0	1	76	0	0	77
Trade accounts payable (without construction contracts)	23,533	19,449	110	65	0	0	0	43,157
Finance lease liabilities	0	0	0	0	0	0	0	0
Other liabilities	1,935	977	1,848	3	1	0	0	4,764
Derivative financial instruments without hedge accounting	204	72	1	0	0	0	0	277
Derivative financial instruments with hedge accounting	0	0	152	120	150	30	0	452

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

The following table shows a corresponding overview for the previous year 2010, including interest.

2010 in EUR thousand	< 30 days	30 - 90 days	90 - 180 days	180 - 360 days	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 accounts payable (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 overall analysis of liquidity and debt is determined by calculating net liquidity and net debt and is used for internal financial management and external communications with financial investors and analysts. The net liquidity and net debt is the result of the total cash and cash equivalents and current financial assets available for sale less the bank loans and overdrafts, liabilities to other third parties and finance lease liabilities, as reported in the balance sheet.

EUR thousand	Dec. 31, 2011	Dec. 31, 2010
Cash and cash equivalents	10.382	10.956
Total liquidity	**10.382**	**10.956**
Current financial liabilities	53.562	26.966
Non-current financial liabilities	34.753	31.336
Total financial liabilities	**88.315**	**58.302**
Net debt	**-77.933**	**-47.346**

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

The SKW Metallurgie Group was capable of satisfying all its payment obligations from loan liabilities throughout the entire reporting period. There were no disruptions to payments or violations from loan agreements that authorize the lender to demand premature repayment.

40. Share-based payments

On the reporting date, there was a tranche for executives from the phantom stocks program issued by the SKW Metallurgie Group. 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, the number of shares of SKW Metallurgie to be delivered on the delivery 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. 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 from the phantom stocks program. 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, 2011 is based on the following input parameters:

Tranche	1 II / 2010
Grant date	Jan. 4, 2010
Delivery date	Dec. 31, 2012
Exercise prices	EUR 16.86
Closing price of SKW Metallurgie's shares	EUR 11.35
Risk-free interest rate	0.03%
Anticipated volatility	38.14%
Fair value of the subscription rights	**EUR 0.28**

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)	2012
Dividend	EUR 0.54

The following table shows the changes in stock options:

	Number of subscription rights 2010
Amount at start of year	63,500
Granted during fiscal year	0
Subscription rights exercised during the fiscal year	30,000
Subscription rights lapsed/forfeited during the fiscal year	32,000
Amount at year end	**1,500**
Thereof exercisable	0

The options outstanding at the end of the year have an average weighted remaining term of twelve months. The total expenses in 2011 for the employee stock option program totaled EUR 0 thousand. The provision on the balance sheet date totaled EUR 0 thousand.

41. Key events after the balance sheet date

After the end of the year under review on December 31, 2011, there were the following transactions and events of significance to the group which occurred before this management report was prepared.

- The SKW Metallurgie Group's borrowing structure was clearly optimized in the first quarter of 2012. In January 2012 a master agreement for longer-term bilateral credit lines with a total volume of EUR 45 million was concluded with four banks. In addition, a promissory note bond with a

total volume of EUR 45 million (terms: three, five and seven years) was successfully placed with institutional investors at the start of March 2012.

- In 2009, an antitrust fine was jointly and severally levied against companies in the SKW Metallurgie Group and two former parent companies outside the SKW Metallurgie Group (now Evonik Degussa GmbH and Gigaset AG) with a maximum amount of EUR 13.3 million. In 2008 and 2009 a provision of EUR 6.7 million was formed in this regard (based on an assumed 50/50 split between the companies in the SKW Metallurgie Group and the non-group companies). The non-group companies named above sued the SKW Metallurgie Group to take over its share; this demand, which the SKW Metallurgie Group had always regarded as being totally unfounded, was rejected in the second instance in February 2012. It is much rather the case that the corresponding rulings by the Upper Regional Court in München (Munich) reinforce the SKW Metallurgie Group's opinion that, in contrast, Evonik Degussa GmbH and Gigaset AG should take over all of the parts of the penalty due to companies in the SKW Metallurgie Group. SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH can thus demand, from the non-group companies, complete indemnification from the obligations vis-à-vis the EU Commission in connection with the penalty of EUR 13.3 million that was set . The appeal against the decision by the Upper Regional Court München (Munich) was admitted. In spite of this, however, a cash outflow for SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH became so improbable, with the result that the provision formed in the amount of EUR 6.7 million had to be reversed. An amount of EUR 0.5 million continues to be held as a provision for any lawyers' costs which may still be expected in this connection.

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, 2011:

Name	Registered office	Number of shares	Shares held correspond to	Date	Remarks
LBBW Asset Management Investmentgesellschaft mbH	Stuttgart, Germany	331,599	5.07%	September 23, 2010	
Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte	Tübingen, Germany	210,000	3.21%	September, 28, 2011	
Universal-Investment-Gesellschaft mbH	Frankfurt/M., Germany	201,515	3.08%	January, 5, 2010	Notice dated January 5, 2012: Shareholding no longer of an amount that has to be reported
	Total	**743,114**	**11.36%**		

The shareholdings only relate to the stated date; any possible subsequent changes only have to be

reported if a reporting limit within the meaning of the Wertpapierhandelsgesetz (German Securities Trading Act) is reached, exceeded or fallen below. The interests stated can include allocable votes according to the German Securities Trading Act. As the same votes can, in certain cases, be allocated to more than one person, these voting rights can be included in more than one notification of voting rights.

The members of the Executive and Supervisory Boards together held less than 1% of SKW Metallurgie's shares on December 31, 2011.

Notification of voting rights

The notifications of voting rights for 2011are reproduced with their original wording according to Section 160 (1) Sentence 1 No. 8 of the AktG:

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

Notice dated October 5, 2011:

Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Tübingen (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 DE000SKWM021) exceeded 3% on September 28, 2011, and totaled 3.21% (or 210,000 voting rights) on this date.

BT Pension Scheme Trustees Limited (BTPSTL), London (United Kingdom) and associated reporting parties:

Notice dated July 26, 2011:

BT Pension Scheme Trustees Limited (BTPSTL) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG that on 19 July 2011 their voting interest in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, fell below the 3% threshold of § 21 para. 1 WpHG and amounted to 2.991% of the voting rights (i. e. 195,775 shares with voting rights) at this day. All of these 2.991% of the voting rights (195,775 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. (Original notice in English)

BriTel Fund Nominees Limited (BFNL) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG that on 19 July 2011 their voting interest in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, fell below the 3% threshold of § 21 para. 1 WpHG and amounted to 2.991% of the voting rights (i. e. 195,775 shares with voting rights) at this day. All of these 2.991% of the voting rights (195,775 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to BFNL pursuant to § 22 para. 1 sent. 1 no. 6 WpHG in connection with § 22 para. 1 sent. 2 WpHG. (Original notice in English)

BriTel Fund Trustees Limited (BFTL) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG that on 19 July 2011 their voting interest in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, fell below the 3% threshold of § 21 para. 1 WpHG and amounted to 2.991% of the

voting rights (i. e. 195,775 shares with voting rights) at this day. All of these 2.991% of the voting rights (195,775 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. (Original notice in English)

Hermes Fund Managers Limited (formerly named Hermes Pensions Management Limited) (HFML) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG that on 19 July 2011 their voting interest in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, fell below the 3% threshold of § 21 para. 1 WpHG and amounted to 2.991% of the voting rights (i. e. 195,775 shares with voting rights) at this day. All of these 2.991% of the voting rights (195,775 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. (Original notice in English)

Hermes Equity Ownership Services Limited (HEOS) of London, United Kingdom, gave notice pursuant to §§ 21, 22 WpHG that on 19 July 2011 their voting interest in SKW Stahl-Metallurgie Holding AG of Unterneukirchen, Germany, fell below the 3% threshold of § 21 para. 1 WpHG and amounted to 2.991% of the voting rights (i. e. 195,775 shares with voting rights) at this day. All of these 2.991% of the voting rights (195,775 shares with voting rights) in SKW Stahl-Metallurgie Holding AG were attributable to HEOS pursuant to § 22 para. 1 sent. 1 no. 6 WpHG. (Original notice in English)

Otus Capital Management L. P., London (United Kingdom) and associated reporting parties:

Notice dated June 20, 2011:

Otus Capital Management L. P., London (United Kingdom), informed us according to section 21 (1) WpHG that on May 24, 2011, their percentage of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM013, fell below the threshold of 3% and as per that date amounted to 2.984% (195,314 voting rights).

All of those voting rights are to be attributed to them pursuant to section 22 (1) sentence 1 no. 6 WpHG. 2.316% (151,585 voting rights) of those voting rights are also attributed to them pursuant to section 22 (1) sentence 1 no. 1 WpHG. (Notification submitted in English)

Otus Capital Management Limited, London (United Kingdom), informed us according to section 21 (1) WpHG that on May 24, 2011, their percentage of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM013, fell below the threshold of 3% and as per that date amounted to 2.984% (195,314 voting rights).

All of those voting rights are to be attributed to them pursuant to section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG. 2.316% (151,585 voting rights) of those voting rights are also attributed to them pursuant to section 22 (1) sentence 1 no. 1 WpHG. (Notification submitted in English)

Mr. Andrew Gibbs, United Kingdom, informed us according to section 21 (1) WpHG that on May 24, 2011, his percentage of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM013, fell below the threshold of 3% and as per that date amounted to 2.984% (195,314 voting rights).

All of those voting rights are to be attributed to him pursuant to section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG. 2.316% (151,585 voting rights) of those voting rights are also attributed to him pursuant to section 22 (1) sentence 1 no. 1 WpHG. (Notification submitted in English)

In addition, on June 20, 2011, the notification of voting rights dated October 6, 2010 was corrected as follows:

Correction of publication dated October 6, 2010:

Otus Capital Management L. P., London (United Kingdom), informed us according to section 21 (1) WpHG that on October 6, 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. 6 WpHG. 2.52% (165,041 voting rights) of those voting rights are also attributed to them pursuant to section 22 (1) sentence 1 no. 1 WpHG. (Notification submitted in English)

Correction of publication dated October 6, 2010:

Otus Capital Management Limited, London (United Kingdom), informed us according to section 21 (1) WpHG that on October 6, 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. 6 in connection with sentence 2 WpHG. 2.52% (165,041 voting rights) of those voting rights are also attributed to them pursuant to section 22 (1) sentence 1 no. 1 WpHG. (Notification submitted in English)

Correction of publication dated October 6, 2010:

Mr. Andrew Gibbs, United Kingdom, informed us according to section 21 (1) WpHG that on October 6, 2010, his 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 him pursuant to section 22 (1) sentence 1 no. 6 in connection with sentence 2 WpHG. 2.52% (165,041 voting rights) of those voting rights are also attributed to him pursuant to section 22 (1) sentence 1 no. 1 WpHG. (Notification submitted in English)

43. Auditors' fees

The auditors' fees for the fiscal year totaled EUR 160 thousand (previous year: EUR 163 thousand) and relates exclusively to audit services in the year under review. In addition, during the year under review, a subsequent payment of EUR 12 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 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 fiscal year 2011

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 Public Limited Companies Act) on the recommendations of the "Government Commission German Corporate Governance Code" and published this on the company's Internet site (www.skw-steel.com) on December 20, 2011. 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 point 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 14, 2012.

E. SHAREHOLDINGS

Shareholdings of SKW Stahl-Metallurgie Holding AG

Fully consolidated subsidiaries (as of December 31, 2011)

Cored Wire segment

Name	Registered office	Interest in %
Affimex Cored Wire S. de R.L. de C.V.	Manzanillo, Colima, Mexico	100
Affival Inc.	Williamsville, New York, USA	100
Affival KK	Tokyo, Japan	100
Affival Korea Co Ltd.	Dangjin, South Korea	100
Affival Mexican Holdings LLC	Wilmington, Delaware, USA	100
Affival SAS	Solesmes, France	100
Affival Vostok OOO	Kolomna, Russia	100
Cored Wire Servicios S. de R.L. de C.V.	Manzanillo, Colima, Mexico	100
SKW France SAS	Solesmes, France	100
SKW Hong Kong Co. Ltd.	Hong Kong, Hong Kong (SAR of PR of China)	100
SKW Tashi Metals & Alloys Private Limited	Phuentsholing, Bhutan	51
Tianjin Hong Long Metals Co. Ltd. Ltd.	Tianjin, People's Republic of China	100

Powder and Granules segment

Name	Registered office	Interest in %
ESM Group Inc.	Wilmington, Delaware, USA	100
ESM Metallurgical Products Inc.	Nanticoke, Ontario, Canada	100
ESM Special Metals & Technology, Inc.	Wilmington, Delaware, USA	100
ESM (Tianjin) Co. Ltd.	Tianjin, People's Republic of China	100
SKW Celik Metalürji Üretim Ticaret Ve Sanayi Limited Sirketi	Taksim, Beyoglu, Turkey	100
SKW Metallurgie USA Inc.	Wilmington, Delaware, USA	100
SKW Metallurgy Sweden AB	Sundsvall, Sweden	100
SKW Stahl-Metallurgie GmbH (1)	Unterneukirchen, Germany	100
SKW Technology GmbH & Co. KG	Tuntenhausen, Germany	51
SKW Technology Management GmbH	Tuntenhausen, Germany	51
Tecnosulfur Sistema de Tratamento de Metais Líquidos	Sete Lagoas, Minas Gerais, Brazil	66.67

Other segment

Name	Registered office	Interest in %
SKW Quab Chemicals Inc.	Wilmington, Delaware, USA	90
SKW Service GmbH	Unterneukirchen, Germany	100
SKW Verwaltungs GmbH (3)	Unterneukirchen, Germany	100

Associated companies (As of December 31, 2011)

Name	Registered office	Interest in %
Jamipol Ltd.	Jamshedpur, India	30.22

Non-consolidated subsidiaries (as of December 31, 2011)

Name	Registered office	Interest in %
SKW La Roche de Rame SAS (2)	La Roche de Rame, France	100

1) Profit and loss transfer agreement with SKW Stahl-Metallurgie Holding AG
2) In liquidation (not consolidated due to minor importance for the group)
3) SKW Verwaltungs GmbH operates an accredited representative office in Russia.

Unterneukirchen (Germany), March 14, 2012

SKW Stahl-Metallurgie Holding AG
The Executive Board

Ines Kolmsee
Chairperson (CEO)

Oliver Schuster

Reiner Bunnenberg

As the saying goes, “What you sow, you shall reap.” In nature, the investment has paid off: the combination of fertile soil, good planning and sustainable care has led to a rich crop. Now all that is required is to ensure that all involved benefit from the harvest. Having invested our shareholders’ and investors’ funds as well as the mental and physical work of our employees and suppliers, a bountiful harvest is expected for the SKW Metallurgie Group.

Visible results

For our shareholders, an important part of this harvest is an attractive dividend. The SKW Metallurgie Group continues to see itself as a worthy investment and will therefore continue to propose attractive dividends to the AGM. After all, they are an important lever for further growth and help to elevate the share price and market value of our company.

Further Information

Declaration of the Executive Board

To the best of our knowledge we declare that, according to the applicable principles of accounting, the corporate accounts as of Dec. 31, 2011 represent the net assets, financial position and results of operations of the Group according to the factual conditions, and that the business development including business results and the situation of the Group are presented in the management report in a way that communicates a true description of the factual conditions and that characterizes all significant opportunities and risks of the foreseeable development.

Unterneukirchen (Germany), March 14, 2012

SKW Stahl-Metallurgie Holding AG
The Executive Board

Ines Kolmsee
Chairperson (CEO)

Oliver Schuster

Reiner Bunnenberg

Independent Auditors' Report

We have audited the consolidated financial statements prepared by the SKW Stahl-Metallurgie Holding AG, Unterneukirchen, – comprising the balance sheet, the income statement and statement of comprehensive income, the cash flow statement, the statement of changes in equity and the notes to the consolidated financial statements – and the group management report which is combined with the management report of the Company for the business year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the combined group management report in accordance with IFRS, as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB („German 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 statements 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 applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of 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 consolidated financial statements of the SKW Stahl-Metallurgie Holding AG, Unterneukirchen, comply with IFRS, as adopted by the EU, the additional requirements of German commercial 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 management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Munich, 15 March 2012

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Aumann	Schimmel
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Financial Calendar 2012 (remaining)

May 15, 2012

- Publication of business figures first quarter 2012

June 14, 2012

in München (Munich), Germany

- Annual General Meeting

August 16, 2012

- Publication of business figures first half year 2012

November 15, 2012

- Publication of business figures first nine months 2012

November 2012

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

- Analysts‘ Conference

May be subject to change.

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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.

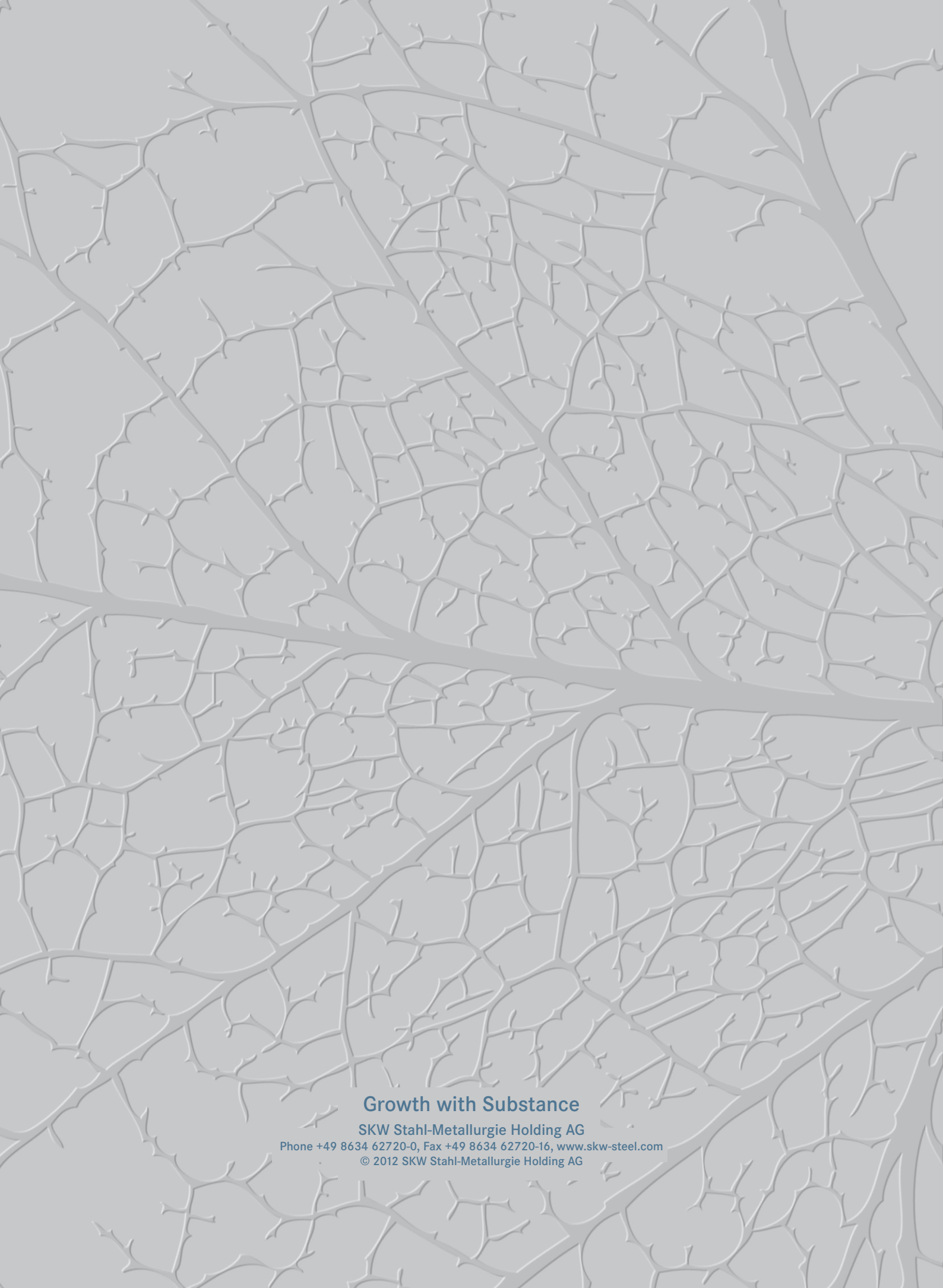
Names such as “SKW Metallurgie”, “Quab” and “SDAX” that are used in this report may be registered trademarks whose use by third parties for their purposes could infringe the rights of the proprietors.

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 their respective applicable version.

This report was published on March 23, 2012 and is available at www.skw-steel.com to download free of charge. On request, printed copies will be supplied free of charge.



Growth with Substance

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