skw.
metallurgie

Annual Report 2012

Growth with Substance

SKW Metallurgie's World in Figures

Key figures	Unit	2012	2011
Revenues	EUR mill.	404.6	428.9
EBITDA	EUR mill.	20.8	31.7
EBIT	EUR mill.	10.3	18.4
EBT	EUR mill.	6.1	16.2
Consolidated net result (SKW Metallurgie shareholders)	EUR mill.	4.3	12.2
EPS	EUR	0.65	1.86
Gross margin		29.2%	27.6%
EBITDA margin		5.1%	7.4%
Depreciation/amortization	EUR mill.	10.5	13.3
Operating Cash Flow	EUR mill.	30.4	6.1

		Dec. 31, 2012	Dec. 31, 2011
Total assets/Total e&l	EUR mill.	299.1	315.7
Corporate equity	EUR mill.	121.9	128.4
Corporate equity ratio		40.8%	40.7%
Net financial debt	EUR mill.	73.9	77.9
Employees		1,011	1,025

Multi-year overview

Revenues in EUR thousand

13.8% Ø annual growth rate

thereof EBITDA in EUR thousand

6.4% Ø annual growth rate

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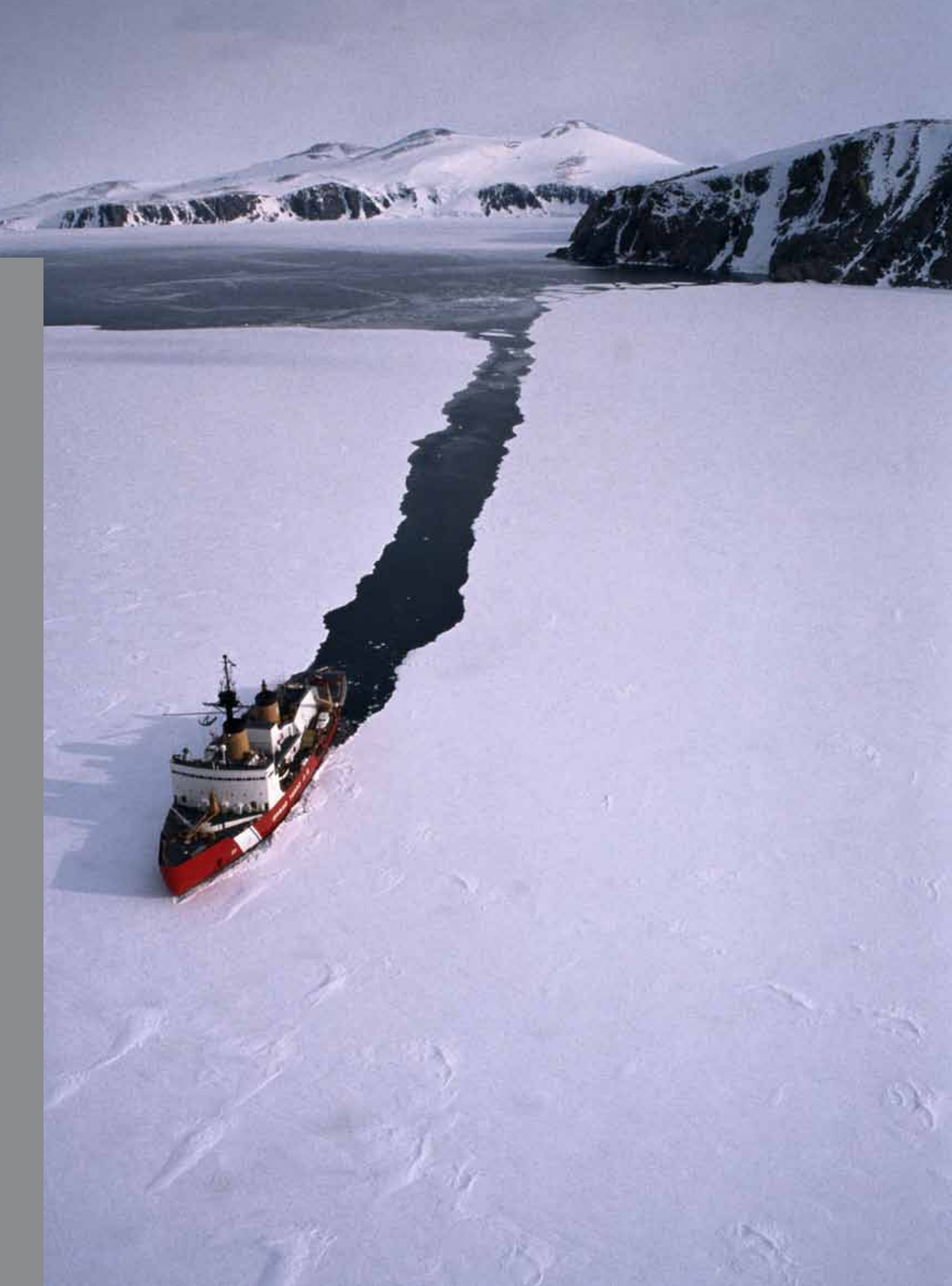
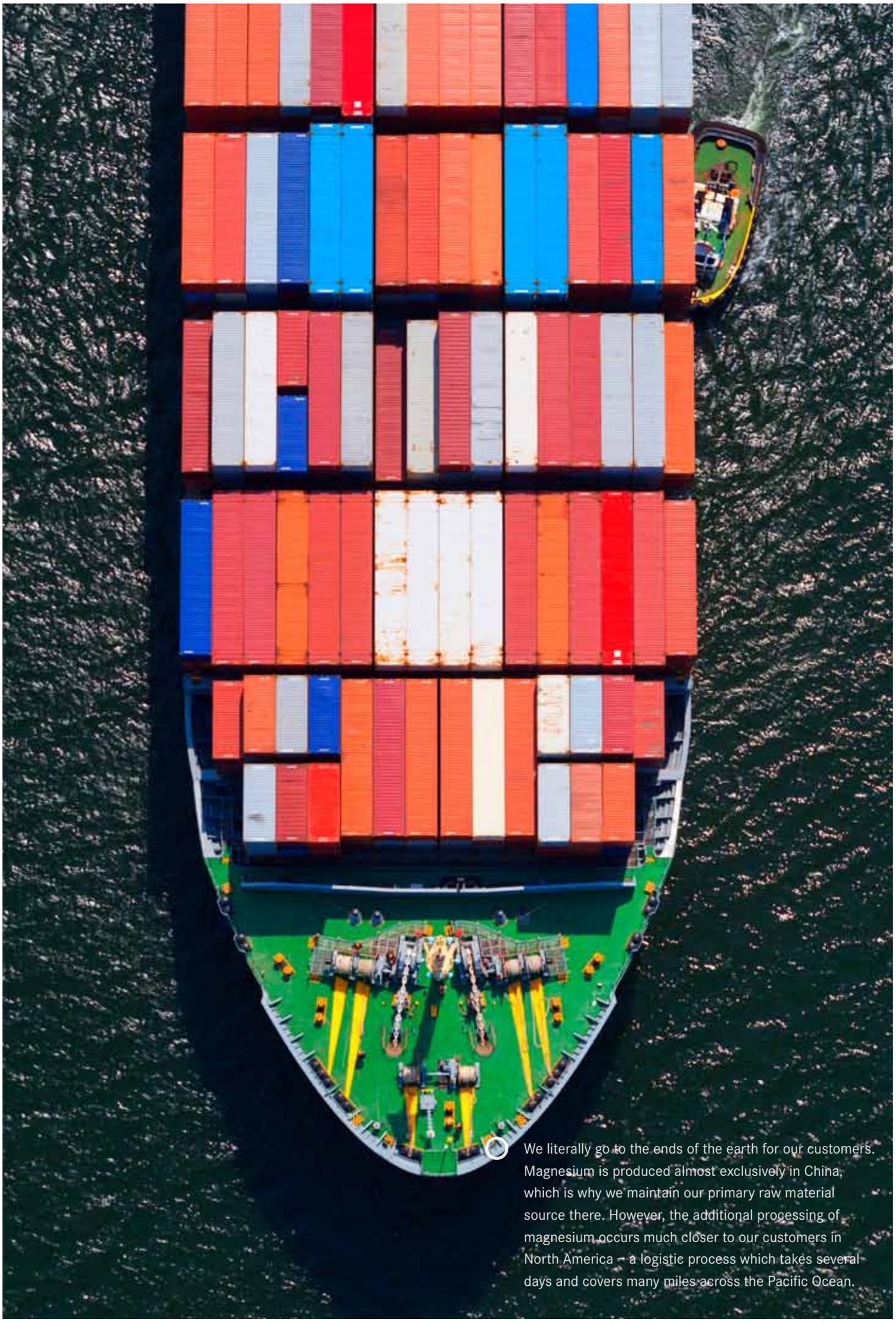


When it comes to accessing raw materials, we play it safe.

Rising prices on the world market, impending shortages, poor quality as well as supply and delivery bottlenecks? For us. these are all places left behind since we control, produce and access our most important raw materials, ourselves.



We literally go to the ends of the earth for our customers. Magnesium is produced almost exclusively in China, which is why we maintain our primary raw material source there. However, the additional processing of magnesium occurs much closer to our customers in North America – a logistic process which takes several days and covers many miles across the Pacific Ocean.

Even if it's a tight squeeze, we ensure optimal delivery for all our clients.

Your processes do not only require the right raw materials – the quality and timing must also be perfectly consistent.

At SKW Metallurgie we do not consider magnesium, calcium carbide and calcium silicon as plain raw materials required for production. They form the core of our business and are essential for our continued success. We can only ensure the best quality for our clients when all the necessary raw materials are available at each of our 18 plants around the world, at any given time and in consistently superior quality. We leave nothing to chance in the procurement of our raw materials. Which means that, wherever possible, the SKW Metallurgie Group attempts to avoid being dependant on single producers or individual countries. With decades of experience, our expertise lies mainly in our own production of magnesium reagents, calcium carbide and calcium silicon. Who else, but ourselves, can really ensure supply of quality raw materials that we demand?

Even in the group's own production of raw materials, the SKW Metallurgie Group does not believe in having only one location in which all raw materials are produced: This especially when it comes to raw materials such as calcium carbide (which is incredibly important in the desulphurization of hot metal). Where we operate, a secure supply must be ensured regionally since the transportation of calcium carbide from one continent to another is logistically challenging. Due to the large capacity of our furnace in Sweden we can even supply, in Europe, customers outside the steel industry. The SKW Metallurgie Group has secured the optimal supply to the Indian sub-continent by participating in the Indian joint venture, Jamipol. In addition, long-term and reliable supplier relationships for the supply of calcium carbide to the Latin American market are all in place. The procurement of

While calcium carbide has such positive effects when used in hot metal desulphurization, it has a dangerous downside should it come into contact with water: a reaction which creates highly explosive and flammable acetylene gas. Our handling of this highly specialized material goes even further to show that when it comes to sophisticated processes, our customers know that they can rely on the decades of experience that exist within the SKW Metallurgie Group.

We not only satisfy customers' demands, but also cover our own requirements.

Magnesium Reagents

100%

of our own world wide requirements covered

Calcium Silicon

33%

of our own world wide requirements covered

Calcium Carbide

100%

of our own European requirements covered

the raw material magnesium (which is equally important for hot metal desulphurization) is more difficult since most of the world's production comes from China. Here we remain on the safe side with the company having its own production facility for magnesium reagents in China. This holds true for cored wire production and its quantitatively most important raw material: calcium silicon. SKW Metallurgie has overcome impending shortages with its own calcium silicon furnace in Bhutan, covering around a third of its own requirements.

Primarily, our customers benefit from the SKW Metallurgie Group's definitive supply promise coupled with our high quality raw materials. But, you also cannot ignore our flexibility and reliability, which always comes at competitive prices. A higher value-added depth, also allows our shareholders to benefit. What this means is that a larger portion of the overall margin of a product flows to the SKW Metallurgie Group – growing the company and the investment. Growth with Substance.

When it comes to production, we have all the safety measures in place.

With 18 plants on four continents, the SKW Metallurgie Group not only reduces the risk of exchange rate fluctuations, we are also able to produce exactly where the demand lies, in an environmentally friendly manner.

A member of the Affimex team praparing a cored wire shipment

The know-how and experience that counts globally

Whether in Asia, North America, South America or Europe, we are always close to our customers

Even the best raw materials remain worthless if they are not further processed in a premium way. This is the only way in which top products, which the steel industry worldwide demands, can originate. Above all the rest, it is the know-how and experience of the SKW Metallurgie Group that make the difference: no other enterprise has been in the cored wire business longer than we have, and even in hot metal desulphurization we can proudly look back at over 40 years of experience within the industry.

But the SKW Metallurgie Group does not rely on this experience alone: We are continuously investing in the growth of our company, developing new technologies and extending our locations. Apart from growing upon our existing expertise, we always remain one step ahead of potential imitators. An SKW Metallurgie subsidiary, Affival, was the first company in the world capable of producing and distributing cored wire in large quantities to meet the demands of the steel industry. Thanks to this pioneering work, the international cored wire manufacturing standards have originated from Affival. In addition to this, we are continuously developing our cored wire and have received numerous patents for our innovations over the years: individual techniques such as the PapCal cored wire, as an example, remain protected beyond 2020. There's no doubt that we owe our technological leadership to the ingenuity and commitment of our employees who are experienced in their respective fields and have been with the SKW Metallurgie Group, or its predecessors, for a many years.

With over 1,000 employees at 18 production locations around the world, the SKW Metallurgie Group can always produce exactly where the actual demand lies. In particular, our cored wire busi-

The production of hot metal desulphurization can be compared to a chef preparing a specialized menu for a high performance athlete. Of course good ingredients are essential but, without talent, knowledge and experience the chef will be unable to help the athlete overcome his competition. And our experience extends to our clients, because through our know-how and resourcefulness, they in turn can beat their competitors.

Growth in production sites (excluding at-equity participations)

at IPO (2006)

3

USA: Affival[1]

France: Affival[1]

South Korea: Affival[1]

since 2007 (additional)

13

Mexico: Affimex[1]
Brazil: Tecnosulfur[2]

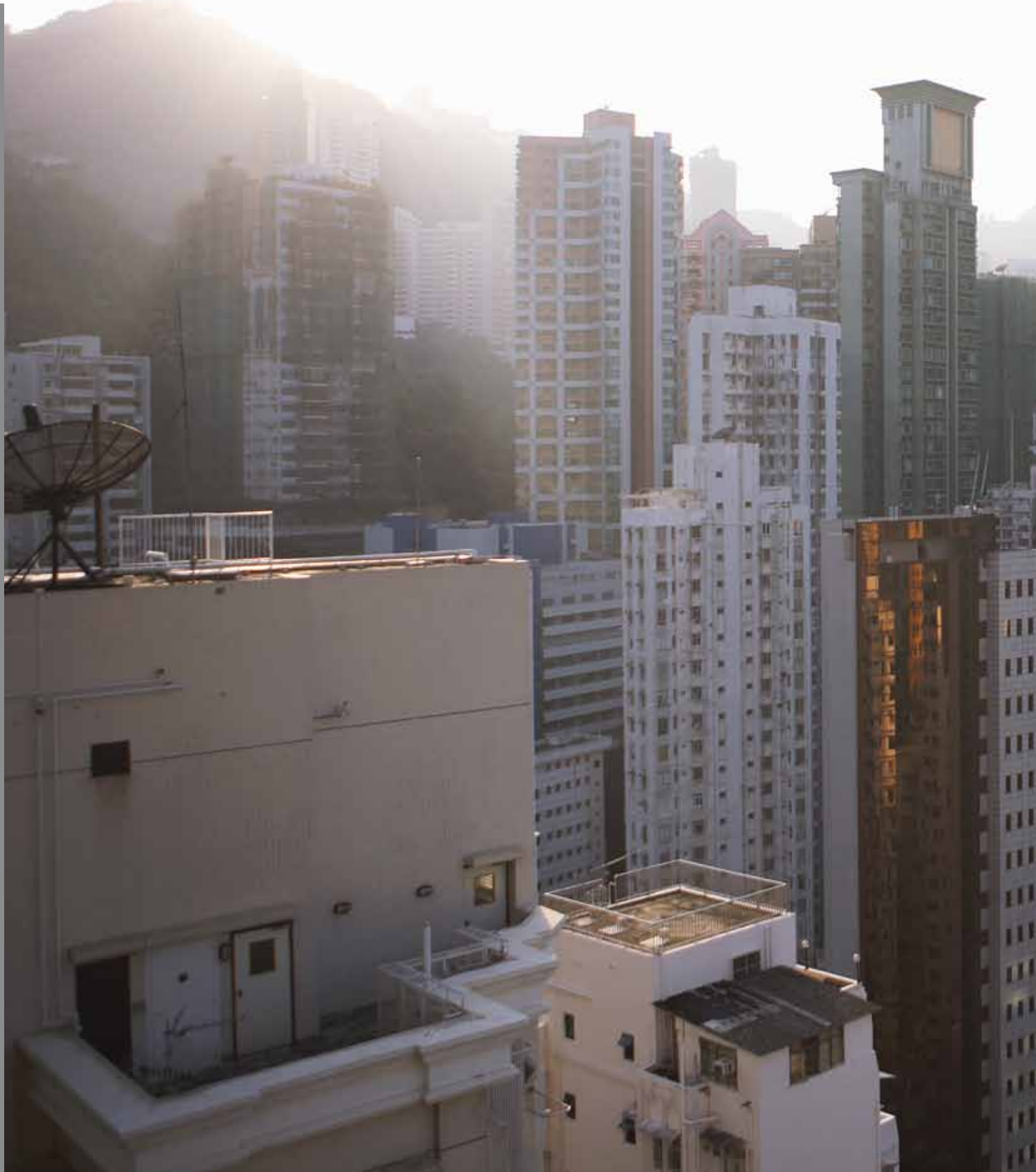
Canada: ESM[2]
USA: Affival[1]
ESM und ESM-SMT
(4 production sites)[2]
Quab[3]

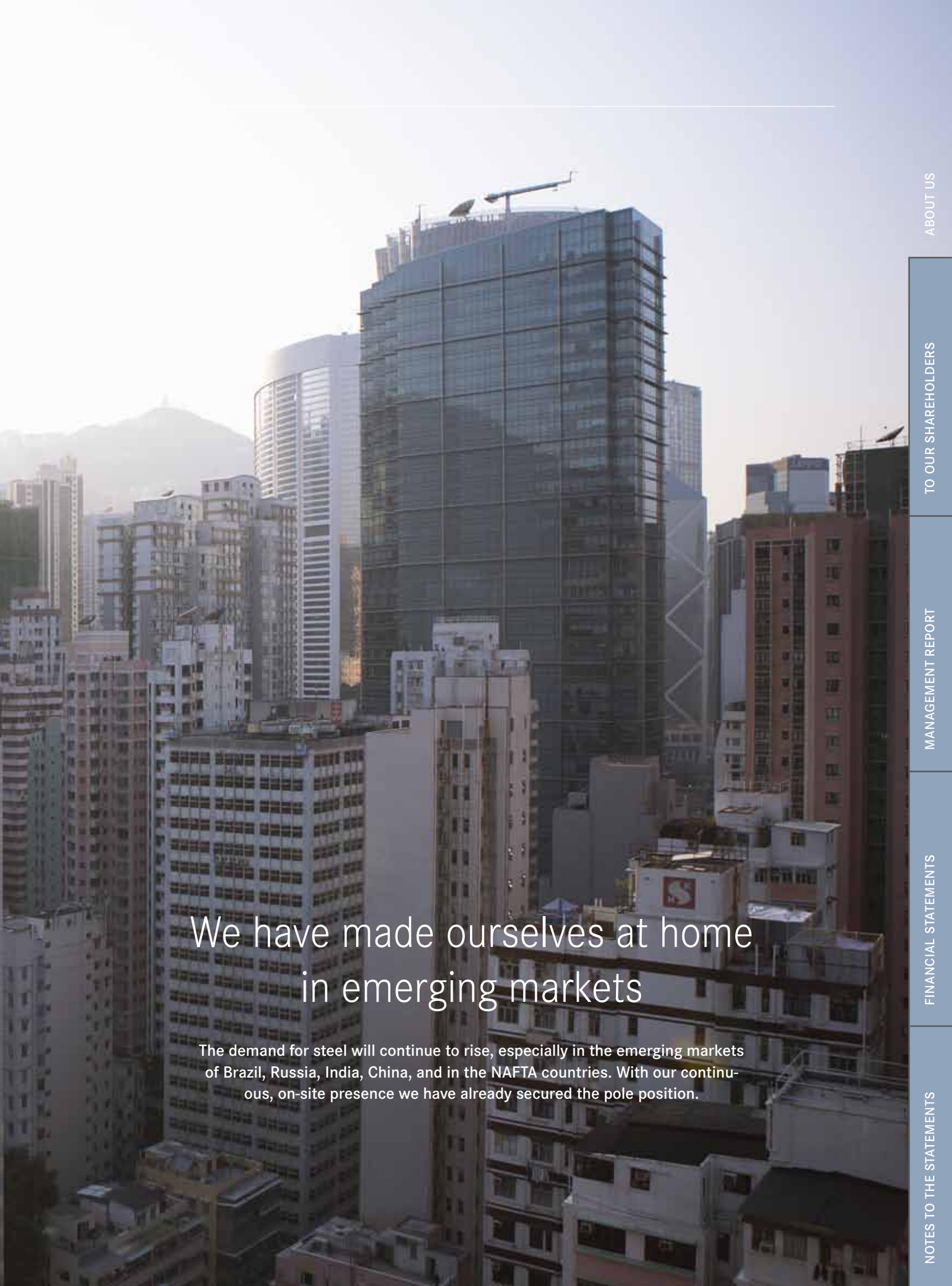
Sweden:
SKW Metallurgie[2]
Russia: Affival[1]

PR China:
Tianjin Hong Long[1]
ESM[1] (magnesium
reagents internal)
Bhutan: SKW-Tashi[2]
(calcium silicon internal).
also cored wire
production in future

ness benefits from this versatility since we can adjust our production capacity when the demand changes. For instance, by setting up or suspending additional production shifts. Thanks to our six different cored wire plants on three continents and, soon a seventh cored wire production site in Bhutan (to service the Indian market), we are in a position to select the optimal production site for each customer. This means that the customer not only receives his order via the fastest route, but also at the best possible final price, since we can reduce the resulting duty and freight charges to a minimum. This not only saves costs, it also benefits the environment. And, since we produce in different currency zones our investors enjoy a natural buffer against transactional exchange rate fluctuations.

[1] Segment "Cored Wire"
[2] Segment "Powder and Granules"
[3] Segment "Other"





We have made ourselves at home in emerging markets

The demand for steel will continue to rise, especially in the emerging markets of Brazil, Russia, India, China, and in the NAFTA countries. With our continuous, on-site presence we have already secured the pole position.

Few materials have the same high recycling rate such as steel. Here, ecology and economy come together; especially when it comes to steel that is produced from scrap and requires quality, secondary metallurgical products such as those produced by the SKW Metallurgie Group.

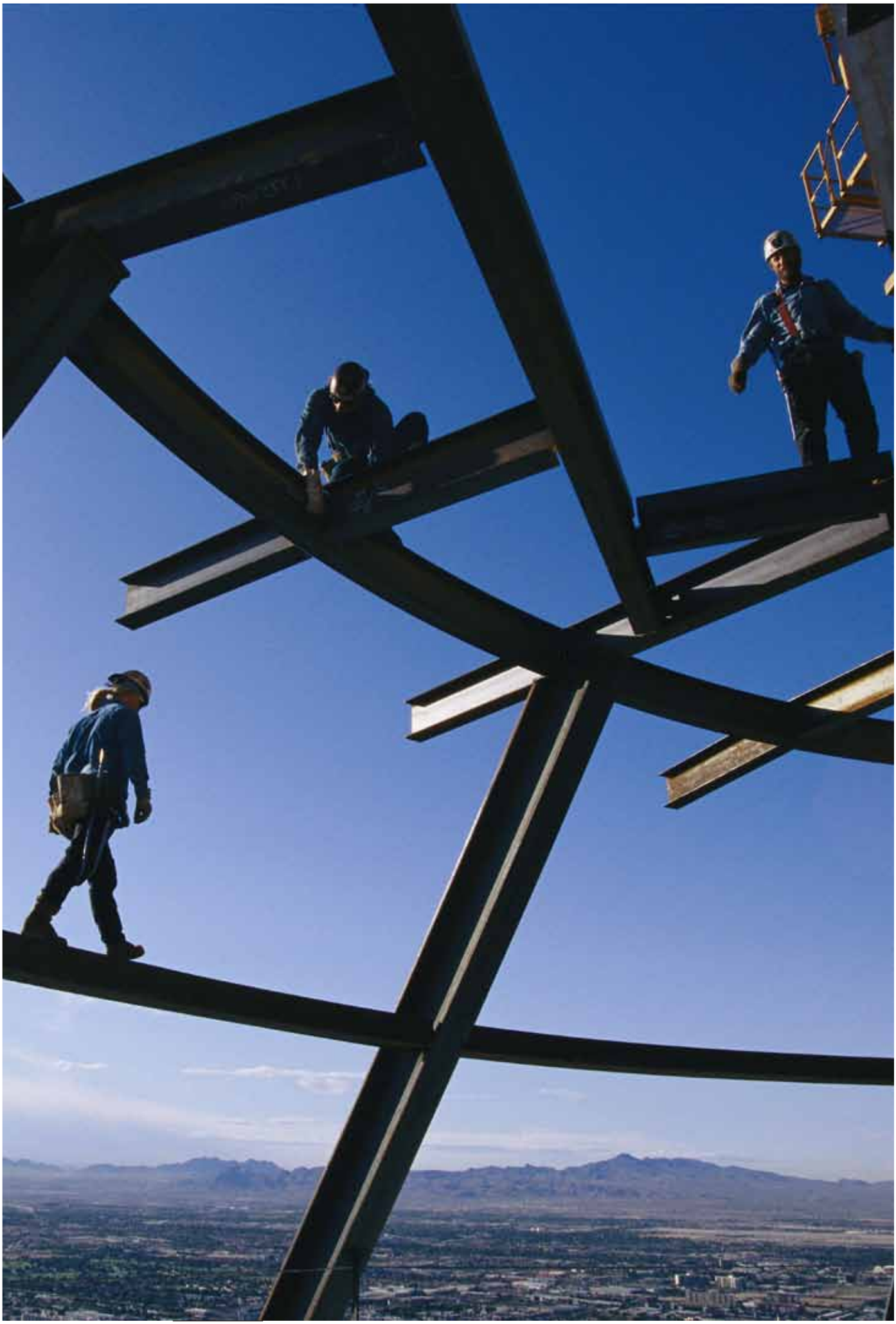
Capturing growth markets in good time.

This is crucial as the global leader with expertise, years of experience and continued expansion.

Regardless of how good our solutions are, if they do not reach the customer, we have not fulfilled our task. With a dedicated sales team at every site we ensure that this never happens. Reliable and lasting partnerships are central to our success as we continue striving to provide our customers with real added value. Which we do, and with great success. Some customers have put their trust in the SKW Metallurgie Group for more than two decades - a claim that many a marriage cannot make.

But, what does the subject of marriage have to do with sales security? Quite a lot, actually. As in a marriage, it is essential to be able to rely on each other at any time. There has to be trust, an intuitive understanding of each other and the ability to work together toward one goal. These all make up mutually beneficial partnership. We place great value on partnerships at at the SKW Metallurgie Group since our technically sophisticated solutions are irreplaceable. On the contrary: especially in the automotive industry, more and more special steels are being used to reduce weight, without compromising on the product characteristics. We embrace such tasks. The more specialized the request, the greater the likelihood that we can offer the best solution.

Even though the SKW Metallurgie Group has numerous reliable customer relationships, we are always eager to realize new additional sales opportunities and overcome new challenges on behalf of our clients. Within this context, emerging markets in particular, play a large role since there is not only an ever increasing demand for more and more steel in Brazil, Russia, India, China and Mexico but the demand for high quality steel continues to rise. In addition to the emerging markets, the United States and Canada are



Performace that shows, for example in Brazil

Tecnosulfur

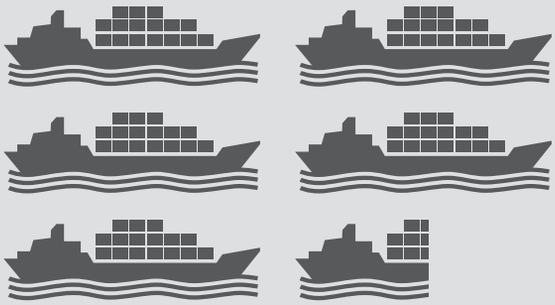
662 000

Tons of product delivered to date – enough to fill 26,500 trucks

Tecnosulfur

120 000 000

Tons of hot metal has been treated with our products – which is what 545 ULCS (Ultra Large Container Ships) weigh

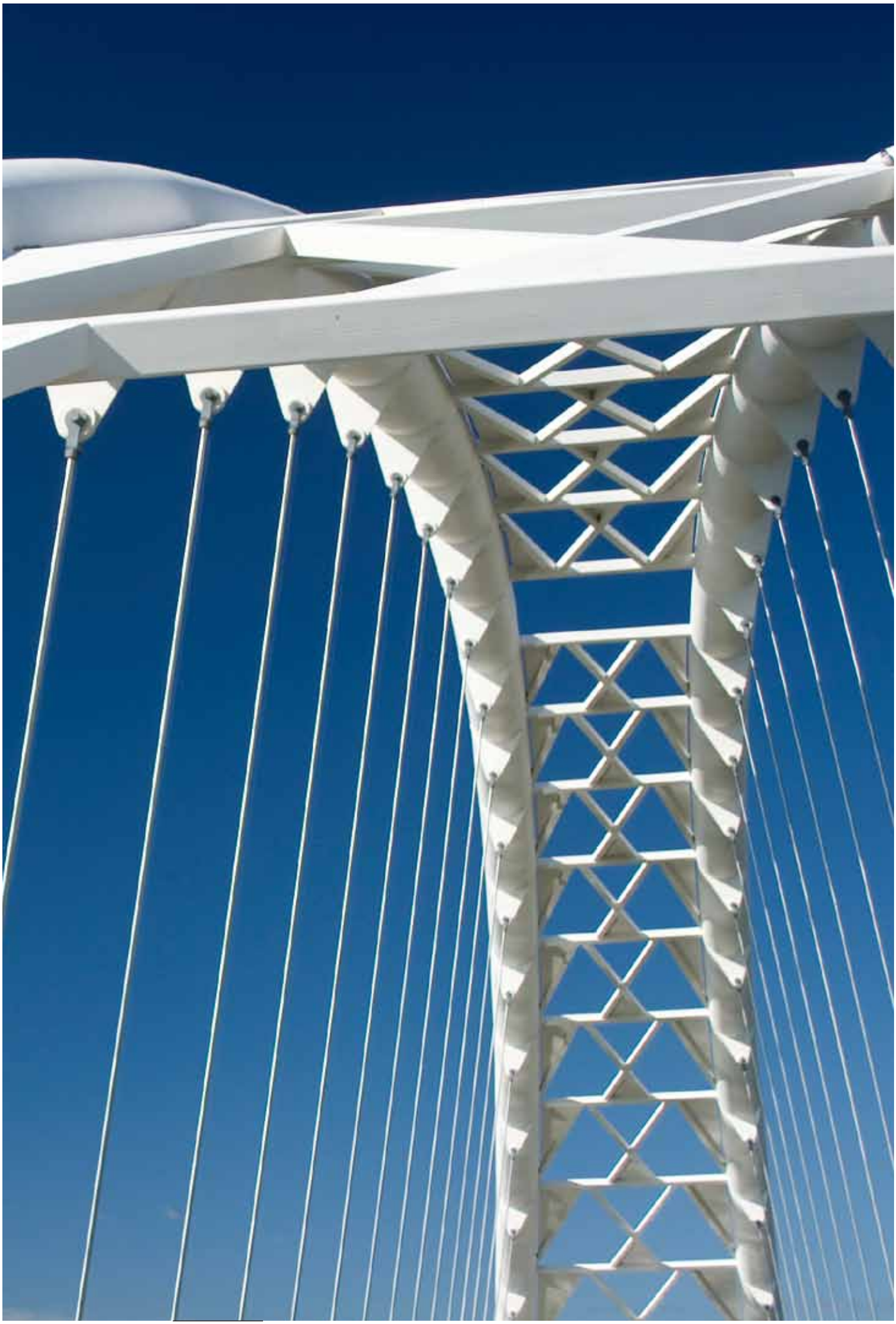


experiencing a strong upsurge in re-industrialization due to the increasing use of shale gas. With our own plants in all these regions, we are ideally positioned to serve this growing demand with our high quality product solutions. Add to this that the SKW Metallurgie Group also benefits from the trend towards more sustainability: hardly any material has such a high recycling rate as steel. And, since steel recovered from scrap metal tends to contains more impurities, our secondary metallurgical solutions are especially in demand.

Our global sales (and distribution) network, our high quality products and first-class advice not only benefit our customers, our shareholders also get the best of both worlds: participation in the long-term growth of emerging markets while simultaneously benefiting from German legal and balance sheet security.

Hiring the right people because only the best will do.

If you want to be the global leader in your field, you will need the best people. And then of course, nurture their talents and expertise.



Generating real added value for our customers

through our unique research and development
together with the confidence to pass on our knowledge.

The SKW Metallurgie Group has only achieved its phenomenal success through its highly motivated and productive employees. We are well aware of the contribution that our employees have made to make the SKW Metallurgie Group what it is today: the world's leading provider of high-quality cored wires for the steel industry as well as the most trusted company in the provision of advanced and sophisticated solutions for the desulphurization of hot metal. Not only are we aware of the importance of our employees, we also recognize their individual performance and support them in achieving their personal goals. We are proud of our low employee turnover and we believe that our staff are content with being part of our global team. We welcome diversity in our workforce and strongly believe that we can all learn from each other. Our staff know that we employ and promote people based solely on qualifications, performance and ability. Personal characteristics such as gender, age, religion, sexual orientation, disability, nationality or race play no role.

Our employees appreciate this to such a great extent that they willingly contribute all their expertise and experience to our company, sharing knowledge with each other to the benefit of the entire group. An example of this was in 2011 where an international expert worked for several months in Bhutan to ensure the consistent application of Western environmental and safety standards in our new plant, in this country.

Highly qualified and experienced leadership and management personell

France

7%

of the team are in Research & Development

USA

28

years of average industry experience in the Affival Inc. management team

Europe

25%

of the team are academics, engineers, and technicians

It is essential that we continually learn and improve our knowledge base and skills. Our research and development programmes encompass an average of 15 employees around the world and this forms a unique aspect of our group since only through cutting edge R&D can we provide our customers with advanced solutions and the development of new, high-margin products. In 2012 we held approximately 200 patents and trademarks worldwide to secure the intellectual property of our company while constantly maintaining and expanding our portfolio.

It is for all these reasons that our clients can rely on our experience and the stability of our core workforce. Clients can also rest assured that we are constantly working on improved fulfilment of even their toughest requirements through our on-going research and development. The result is strong partnerships, loyal customers, stable orders and products that ensure profitability; something our shareholders are also happy to be able to rely on.

TO OUR SHAREHOLDERS

skw. metallurgie

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Dear shareholders and business partners,

Fiscal year 2012 was characterized by the reserved growth in the global steel industry, our most important customer industry, as well as operations going live in our new SKW Metallurgie production facilities, in particular in Bhutan and Russia.

Global steel production (without China) in 2012 was at around the same level as in 2011. In the individual quarters and individual geographic markets that are key for our group, steel production was, however, still lower than in the previous year (in particular in the European Union, but also in Brazil). At the same time, competition increased substantially on the Brazilian metallurgy market. As a result, the SKW Metallurgie Group was not quite able to reach last year's record-breaking revenue figures; however, it still recorded the second best result in the group's history at EUR 404.6 million. Our EBITDA in 2012 totaled EUR 20.8 million; the downturn compared to last year's record figure of EUR 31.7 million is due, inter alia, to the fact that in the previous year's figure an amount of EUR 8.8 million (bargain purchase Sweden and reversal of provisions in connection with an EU fine) was due to non-cash one-off factors (comparable reporting year effects: EUR 0,4 million).

Earnings growth in 2012 was also characterized by the start of production in our new plants, in particular in Bhutan and Russia. In Sweden, the investment backlog that was already recognized when we purchased the plant in 2011 and which was reflected in the purchase price has been further reduced. The expansion of our activities with sintered synthetic slag in Brazil was also completed in 2012, which significantly increased our production capacity for this innovative secondary metallurgy product.

The SKW Metallurgie Group is one of the most globalized listed companies in Germany. About 98% of our employees work outside Germany, we now operate 18 plants in eleven countries (including Jamipol) on four continents, and we only record about 5% of our revenues in Germany. This allows you, dear shareholders, to add geographic diversification to your investment portfolio, and to participate in an optimum manner in growth of emerging nations in Asia and Latin America, as well as in the re-industrialization of North America.

As a result, the Executive and Supervisory Boards intend to propose to the Annual General Meeting to pay a dividend of EUR 0.50 per dividend-entitled share, unchanged year-on-year.

Fiscal year 2012 characterized by new plants going live

In strategic terms, fiscal year 2012 was characterized by the preliminary conclusion of our globalization strategy. We have already expanded successfully into Latin America with new plants in Mexico (since 2008) and Brazil (since 2009), and we continued this expansion in 2012 in Brazil by opening our new production line (at the existing location) for sintered synthetic slag for secondary metallurgy.

However, 2012 was also characterized by our vertical integration. We have started production in Bhutan (around one third of our requirements for calcium silicon) and optimized production in Sweden (100% of our requirements for calcium carbide in Europe). This will primarily reinforce the group's own supplies of raw materials.

In addition we are also expanding our cored wire business, in particular in geographic terms: our new cored wire plant in Russia is perfectly positioned to offer increasingly demanding steel manufacturers in CIS states Affival quality. We aim to use the plant in Bhutan to supply the high-growth Indian market with cored wire in future.

The bulk of our group's expansion and investment phase has thus been completed. In 2013 we will much rather be focusing on further optimizing the structures in our growing group, and further improving our profitability, including via our new locations. Capital expenditure in 2013 will be significantly lower than in the last three years, which will result in a positive free cash flow being generated. This will be specifically used to further reduce our net financial debt, and for attractive dividend proposals.

Optimism for 2013 and beyond

We are taking a positive view of fiscal year 2013. However, we cannot fully escape what is, in some cases, reserved growth in the steel industry, our most important customer industry. Steel production is not yet expected to recover significantly in the European Union in 2013. Irrespective from the steel economy, earnings in fiscal year 2013 will still be characterized by increased EBITDA contributions from our strategic growth projects.

In total we believe that there will be an increase in operating EBITDA in 2013, as well as a slight improvement in consolidated revenues; however, it will only be possible to reach the record-breaking figures from 2011 if the economy is positive. We are aiming for a renewed substantial increase in EBITDA for fiscal year 2014 – assuming a recovery in the global economy.

Focus on increasing enterprise value

In 2012, the price of SKW Metallurgie's shares was between EUR 11.38 (low) and the high for the year of EUR 16.38 (XETRA in each case). At the end of the year, SKW Metallurgie's shares closed at EUR 13.30, which corresponds to a market capitalization of approx. EUR 87.0 million. Our shares performed more strongly than the benchmark SDAX for most of 2012; however, we were still disappointed by the performance of SKW Metallurgie's share price. We are convinced that the SKW Metallurgie Group is excellently positioned in both strategic and operational terms for 2013 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 2013

SKW Stahl-Metallurgie Holding AG
The Executive Board

Ines Kolmsee
CEO

Oliver Schuster

Reiner Bunnenberg

Reiner Bunnenberg Ines Kolmsee Oliver Schuster

SKW Metallurgie's Shares

Stock markets defy difficult environment

Although the underlying conditions caused a high level of insecurity, in particular as a result of the debt crisis in Europe ("Euro crisis"), 2012 was a very successful year on the stock markets for most of the key exchanges. In view of excellent corporate figures and positive expectations, the year got off to a very promising start for investors. The stock markets initially booked strong profits, with the DAX30 lifting by around one fifth to more than 7,100 points through to the middle of March. However, this performance then slumped abruptly as the Euro crisis heightened. Discussions surrounding Greece's continued membership in the Eurozone the expansion of the crisis to cover additional countries (Italy and Spain in particular) through to the end of the Euro in its current form resulted in a steep downturn, which caused the German lead index DAX30 to fall below 6,000 points. The European Central Bank only turned things around in June with massive intervention. Investors started investing in equities again to a greater extent - also as a result of the lack of alternative investments due to the extremely low interest rates. In September, the DAX30 climbed back over the 7,000 point threshold. In November, discussions surrounding the possible economic consequences of the so-called fiscal cliff in the USA caused a brief slump. Once at least temporary agreement had been found for this problem, the stock markets put in a small closing rally. Many stock exchanges closed trading on December 28, 2012 close to their annual highs. The DAX30 was up over the 12-month period by more than 25% to 7,612 points, and the small-cap index SDAX, which also includes shares of SKW Stahl-Metallurgie Holding AG, was up by 17% to 5,249 points. The key European index EuroStoxx50 lifted by 11% to 2,636 points at the end of 2012.

SKW Metallurgie's share price increased by more than 17%

SKW Metallurgie's shares also enjoyed positive performance during 2012 and outperformed the SDAX index (to which it also belongs) on almost every single stock market day in the year (see figure two pages ahead).

The previous year 2011 closed the year at a reserved price of EUR 11.35. However, this starting figure was exceeded throughout the whole of 2012; the stock market year closed with a listing of EUR 13.30 per SKW Metallurgie share. This corresponds to respectable growth of 17.2% within one year; taking into account the dividend of EUR 0.50 meant that investors in shares of SKW Metallurgie were even able to increase their capital by 21.6% (from EUR 11.35 to EUR 13.80). During the year the price moved in a relatively narrow corridor of between EUR 11.38 (January 9, 2012) and EUR 16.30 (March 19, 2012). On the date this report was prepared (start of March 2013), SKW Metallurgie's share price had stabilized and was between and was between EUR 13 and EUR 14.

Market capitalization follows price performance

As the number of SKW Metallurgie shares has been constant at 6,544,930 no-par value shares since the end of 2009, the market capitalization has exclusively followed the price performance. In view of the 17.2% increase in the share price in 2012, the company's market capitalization has also risen from around EUR 74.3 million at the end of 2011 to EUR 87.0 million on December 31, 2012.

The average daily trading volume was lower in 2012 at around 12,100 shares per day compared to 16,300 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 addition, a lower trading volume points towards a stable investor base with an increasing proportion of long-term investors.

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 102nd place in terms of market capitalization and 95th place for trading volume at the end of 2012. 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%

The SKW Metallurgie Group's shares continue to be 100% held in free float. The largest single investor on December 31, 2012 was "Mellinckrodt 1", a fund registered in Luxembourg, which reported a share of 10.01% in the SKW Metallurgie Group as of December 28, 2012. With the exception of short-term trading stocks as part of the 2009 capital increase, this is the first time since the full exit of the former ARQUES Industries AG in July 2007 that a single shareholder has held an interest of more than 10% in SKW Metallurgie. Additional large shareholders are still LBBW Asset Management Investmentgesellschaft, having notified a holding between 5% and 10% (as of the time of the notification: 5.1%), and Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte with a then reported shareholding of 3.2% on the balance sheet date. Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte increased its holding to a reported 5.94%, however still before this report was prepared. The EQMC/N+1 Group, which is based in Spain, reported holdings of between 5% and 10% in each case for three of its units during 2012. However, when analyzing the notifications of voting rights we must note that the same share package can be included in more than one notification due to allocations. In addition, the percentages only have to be updated if a threshold (3%, 5%, 10%) has been reached, exceeded or no longer met. Changes between two thresholds (e.g., an increase from 5.01% to 9.99%) do not have to be reported.

In total, 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 held less than 1% of SKW Metallurgie's shares, as described in detail in the Corporate Governance Report.

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. Information for the general public regarding major shareholders is primarily provided - irrespective of the transition from bearer to registered shares - via the notifications of voting rights according to the WpHG; key changes to shareholdings of members of the Executive and Supervisory Boards (so-called directors' dealings) also carry a reporting requirement.

KPIs for SKW Metallurgie's shares

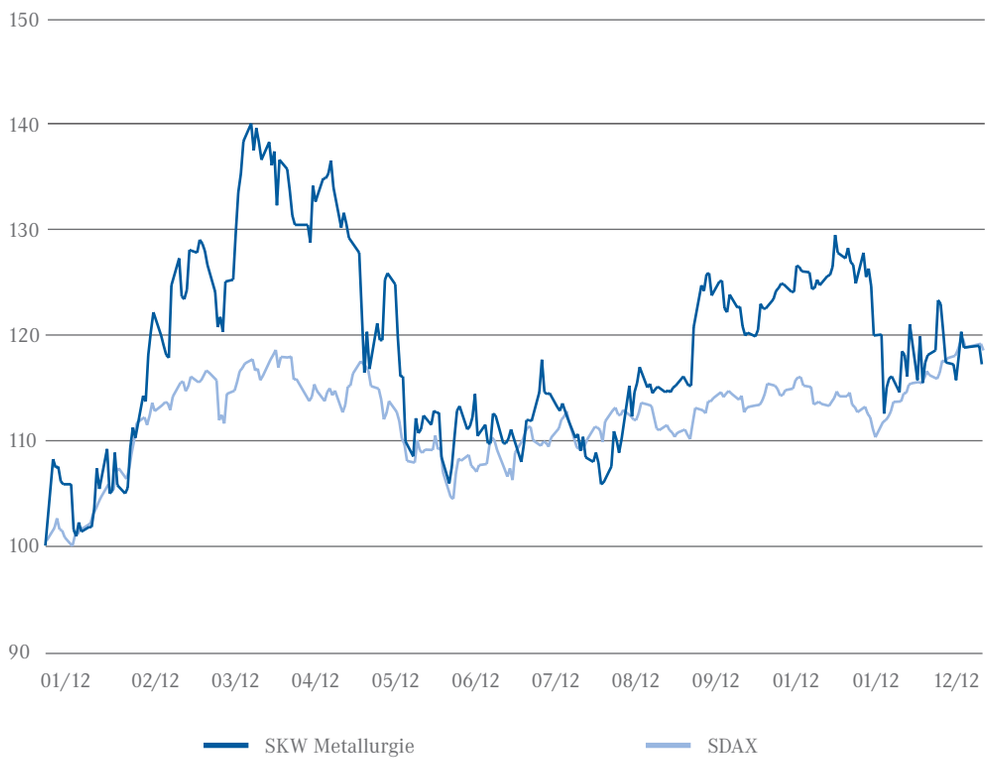
	2012	2011
Number of shares (Dec. 31)	6,544,930	6,544,930
Highest price (XETRA)	EUR 16.30	EUR 20.50
Lowest price (XETRA)	EUR 11.38	EUR 11.11
Closing price at year-end (XETRA)	EUR 13.30	EUR 11.35
Market capitalization at year-end	EUR 87.0 Mio.	EUR 74.3 Mio.
Share turnover per day (average)	approx. 12,100	approx. 16,300
Earnings per share	EUR 0.65	EUR 1.86
Dividend per dividend-entitled share*	EUR 0.50 (proposal to Annual General Meeting)	EUR 0.50

*Dividends are paid, in each case, in the following year after the corresponding resolution by the Annual General Meeting, i.e., for 2011 and 2012 shown here the dividends will be paid in 2012 and 2013.

Master data for SKW Metallurgie's shares (as of Dec. 31, 2012)

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

SKW Metallurgie share price to SDAX, indexed from January 3 to December 30, 2012



Dividend continuity planned for 2012

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. However, fiscal year 2012 was characterized by start-up costs for the new plants and macroeconomic challenges on the key markets for the SKW Metallurgie Group. In spite of this, the Executive and Supervisory Boards intend to make a proposal to the 2013 Annual General Meeting to pay a dividend of EUR 0.50 per dividend-entitled share for fiscal year 2012. This dividend is stable year-on-year. Assuming that the number of dividendentitled 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 2012, this thus gives a dividend return of 3.8%.

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 the third quarter of 2011. Since then, the management has known more about the breakdown of the shareholdings. Accordingly, in 2012 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, we visited institutional investors in Frankfurt/Main and other German cities, in the United Kingdom, and in other European financial centers (e.g., Paris, Madrid, Brussels (Bruxelles/Brussel), Geneva (Genève), Vienna (Wien), Milan (Milano)). In addition, the SKW Metallurgie Group talked with numerous investors at the Equity Forum in Frankfurt/Main (Germany), where the annual analysts' conference was also held.

As part of quarterly reporting and as part of the annual financial statements, the SKW Metallurgie Group regularly offers investors and analysts conference calls to discuss corporate figures. The consolidated financial statements for 2011 were presented at the financials press conference in München (Germany) on March 23, 2012; the 2012 financial statements will be presented on March 22, 2013.

The SKW Metallurgie Group is also increasingly using the Internet as a key medium for up-to-the-minute communication with all investor groups. The group's bilingual web site was fully redesigned at the start of 2011, and it has been updated and further developed during the course of 2012. All of the company's capital markets publications can be found online at www.skw-steel.com. In addition, of course you can contact the SKW Metallurgie Group's investor relations department directly at any time:

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Christian Schunck
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Supervisory Board Report

Dear Shareholders,

After having reached our best ever performance for revenues and EBITDA in fiscal year 2011, the yardstick we had to meet in 2012 was particularly high. In spite of this, however, the SKW Metallurgie Group started 2012 with great optimism, which was based, in particular, on a flourishing steel market in Brazil and the USA. However, as 2012 progressed, growth in steel production on these markets slowed, and in some cases it even fell. The start-up costs for the new SKW Metallurgie plants (in particular in Bhutan and Sweden) were an additional challenge as these were higher than expected. In addition, the positive impact on earnings recorded in 2011 from the bargain purchase in the amount of EUR 2.6 million did not have a comparable position in 2012. With revenues of EUR 404.6 million and EBITDA of EUR 20.8 million, fiscal year 2012 lagged our expectations substantially, and can thus not be regarded as having been satisfactory.

In view of the difficult economic environment, the SKW Metallurgie Group also used the year under review to set the points for the company's long-term success, and thus to further adjust the strategic orientation. The focus was placed, in particular, on further internationalization (in particular in high-growth emerging markets), developing new, high-tech products and services, and vertical integration (backward integration):

- During the year under review, a new production line for sintered synthetic slag was opened in Brazil, thus multiplying the production capacity for this innovative secondary metallurgy product. In particular this will serve the high-growth Latin American market.

- New technologies for hot metal desulfurization are being developed, in particular in the research company SKW Technology. This company had its first full fiscal year in 2012 and researches innovative methods together with a German technology partner under the management of the SKW Metallurgie Group. These methods have the potential to redefine standards in hot metal desulfurization in view of efficiency, effectiveness, security and environmental acceptability.

- Since going public, the SKW Metallurgie Group has constantly worked on the vertical integration of the raw materials magnesium, calcium carbide (in particular of the European market) and calcium silicon. During the year under review, the SKW Metallurgie Group reached this objective for the first time, and now has its own supply of all three raw materials (for calcium silicon as planned around one third of its own requirements). Vertical integration is not an end in itself, it increases the security of supply and independence from oligopolistic supplier structures, and it also increases the depth of the value chain and thus the EBITDA margin.

Activities of the Supervisory Board

The Supervisory Board's activities in the year under review were characterized by the new production facilities in the SKW Metallurgie Group, optimizing the borrowing structure, and further developing the group's future strategic orientation.

The Supervisory and Executive Boards met for a multi-day strategy meeting (from July 2 to 4 in Sweden), and the Supervisory Board members had the opportunity to view the plant in Sundsvall, which has been restructured since being acquired in 2011. Its technology has also been reworked. The Supervisory Board members were also able to form their own picture of the state of technology there and also the progress that restructuring is making. In this context, the other new production facilities in the SKW Metallurgie Group in Russia and Bhutan were also discussed in detail, as was the expansion of the plant in Brazil. The more research and development-oriented new companies in the USA and Germany that were formed in 2011, as well as their current and future projects, were also discussed during this meeting.

In addition, in the first quarter of 2012 the Supervisory Board supported the implementation of a group-wide borrowing structure. With the exception of extraordinary cases (such as loans from development banks), since the first quarter a large part of the SKW Metallurgie Group's borrowing requirements have been secured via promissory note loans with a volume of EUR 45 million and a framework credit agreement of up to an additional EUR 40 million with congruent maturities, at competitive conditions. In this regard, the strong demand for all tranches of the promissory note loan evidences the fact that institutional investors regard the SKW Metallurgie Group as offering high financial creditworthiness.

In addition, a new CFO was also appointed in the year under review: Mr. Oliver Schuster was appointed as of March 1, 2012. However, the key consultations and decisions in this regard already took place at the end of 2011, as already reported last year.

In addition to the issues stated explicitly above, 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.

The meeting to discuss the financial statements on March 18, 2013 focused on the analysis of the separate and consolidated financial statements as of December 31, 2012 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 also in constant contact with the members of the Executive Board regarding individual issues.

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 for all of the issues, 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.

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 group's and company's economic situation) and on transactions that could be of material importance to the company's profitability or liquidity (see Section 90 (1) 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 were held in the absence of the Executive Board.

Meetings and resolutions of the Supervisory Board in 2012

The Supervisory Board held six meetings in 2012. Four of these meetings were regular face-to-face meetings (on March 19, 2012, June 14, 2012, September 26, 2012 and December 13, 2012) and one off-site meeting spanned almost three day (July 2-4, 2012 in Sweden) and one was held by telephone (May 14, 2012). With the exception of the telephone meeting, all of the members of the Supervisory Board attended all of the meetings. In addition, the Supervisory Board passed four resolutions by circulating the voting papers.

The company's auditors also participated in the meeting on March 19, 2012 to discuss the financial statements for fiscal year 2011 according to Section 171 (1) of the AktG.

Work in the Supervisory Board Committees

As was already the case in fiscal year 2011, the three committees formed after the Annual General Meeting in 2011 (Audit, Nomination and Remuneration committee (now HR committee)) also continued to remain in force unchanged in 2012. The committees were formed to efficiently perform the Supervisory Board's tasks and according to the requirements of the German Corporate Governance Code, and prepare resolutions for the Supervisory Board and topics to be addressed during the Supervisory Board's plenary meetings. As was also the case in the past, as a rule, the committees hold regular meetings, which are timed to be close to the meetings of the Supervisory Board, and these are supplemented by telephone meetings during periods in which there are increased discussion and audit requirements. All of the members attended all of the committee meetings in each case. In addition, the committees' chairpersons report to the Supervisory Board on the committee's work in the following meeting in each case, and also between the meetings.

Audit committee

The audit committee met four times in the past fiscal year. There were three face-to-face meetings (on March 19, 2012, September 26, 2012 and December 12, 2012) and one telephone meeting (November 6, 2012). In addition to the members of the committee, select meetings were attended by the CEO (who is also responsible for risk management and internal auditing, which was discussed in detail in the audit committee), and the CFO attended these meetings, and the auditor and the internal auditor employed by the company also attended select meetings.

During the year under review, 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 augmenting 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 publication of the invitation and agenda for the Annual General Meeting on June 14, 2012, a proposal was made to the plenary Supervisory Board for the election of the auditor for fiscal year 2012. After the Annual 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 2012. 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/HR committee

The remuneration committee (now the HR Committee) held five face-to-face meetings in fiscal year 2012 (on March 19, 2012, June 14, 2012, 3-4 July, 2012, September 26, 2012 and December 13, 2012) as well as three telephone meetings (July 26, 2012, October 12, 2012, and October 31, 2012). During the year under review the committee dealt with defining target achievement for the individual targets agreed for the past fiscal year as well as defining the individual targets to apply for the current fiscal year for the members of the Executive Board. In addition, the committee dealt with any further developments of the remuneration system for the Executive Board which could be pertinent, in particular in view of the discussions surrounding further changes in the German Corporate Governance Code regarding the requirements for executive board remuneration.

Nomination committee

The nomination committee did not hold any meetings last fiscal year, as there was no need for the committee to meet after the election of the Supervisory Board members at the General Meeting on June 8, 2011 for a period of five years in fiscal year 2012.

Corporate Governance

The Supervisory Board constantly observes 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 members of the Supervisory Board fulfill and fulfilled the independence requirements of the German Corporate Governance Code. As a result of the renewed approval, which has been given separately in each case, by the company's Supervisory Board (in line with the requirements of Section 114 of the AktG resolved on March 19, 2012 and July 3-4, 2012), the law firm Strasburger & Price LLP, with whom the Chairman of the Supervisory Board also worked in the year under review, advised US subsidiaries of the SKW Metallurgie Group. The legal consulting services in connection with the respective mandates related, in each case, to special questions concerning the individual operating units under US law, and were generally not performed by the Chairman of the Supervisory Board himself, but by the law firm Strasburger & Price LLP. The consulting services thus provided are not part of the obligations of a member of the Supervisory Board and are significantly greater than the obligations of a member of the Supervisory Board. As a result, this did not result in any conflicts of interest within the meaning of the German Corporate Governance Code (GCGC).

The Executive Board reports to the Supervisory Board on an ongoing basis on the status of upholding the 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 13, 2012 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). In addition, the Executive and Supervisory Boards reported to the 2012 Annual General Meeting on a change to the remuneration for the Supervisory Board, changing to exclusively fixed remuneration, which was resolved by the Annual General Meeting with a majority of more than 99% of votes cast.

The proposal to the Annual General Meeting was made in anticipation of the changes made by the Government Commission in the GCGC 2012 in Item 5.4.6 para. 2 of the GCGC 2010. The regulation which now applies for the Supervisory Board members applies retroactively to the remuneration for calendar year 2012. The remuneration regulation was also changed to cover the entire fiscal year 2012 with the aim of keeping administrative effort to a minimum. In addition, the Executive and Supervisory Boards believe that this form of remuneration is better suited to take into account the Supervisory Board's controlling function, irrespective of the company's short-term success.

Further details can be found in the corporate governance report and in the combined management report, which are also published in the annual report.

Changes in the Supervisory Board and the Executive Board

After the unanimous decision by the Supervisory Board in its meeting dated December 20, 2011 to appoint Mr. Oliver Schuster as the new CFO, Mr. Schuster started his first period of office for the SKW Metallurgie Group on March 1, 2012. There were no other changes to the Executive Board in the period under review.

After the Annual General Meeting on June 8, 2011 elected the Supervisory Board with its current members for a further period of five years with its current members, and in its meeting directly after the Annual General Meeting the Supervisory Board confirmed Mr. Titus Weinheimer as Chairman and Mr. Jochen Martin as Deputy Chairman, there were no changes to the Supervisory Board in the year under review. Only the actual activities of the remuneration committee were taken into account in that its name was changed to the "HR committee" in the Supervisory Board meeting on December 12, 2012, to correspond to its actual activities.

Audit of the separate and consolidated financial statements

The annual financial statements and the consolidated financial statements as of December 31, 2012 and the combined management report including the bookkeeping system were audited by the appointed auditors Deloitte&Touche GmbH, Wirtschaftsprüfungsgesellschaft, Rosenheimer Platz 4, 81669 München (Germany) and were issued with an unqualified audit opinion. The audit committee was kept 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 18, 2013. The chairman of the audit committee provided the plenary meeting of the Supervisory Board on March 18, 2013 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 18, 2013. 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 2012 in its meeting on March 18, 2013, after reviewing and weighing up all of the arguments for this proposal. It believes that the proposed dividend of EUR 0.50 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 once again like to praise its excellent work. In particular, we would also like to thank all of the employees whose great dedication and commitment have again 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 2013

Titus Weinheimer
Chairman 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 2012.

The 2012 declaration of conformity with the corporate governance code within the meaning of Section 161 of the AktG has been made permanently accessible to shareholders online at www.skw-steel.com since it was signed in December 2012 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 20, 2011. The following declaration refers to the version of the German Corporate Governance Code (hereinafter "GCGC 2010") in the version dated May 26, 2010 for the period from December 21, 2011 to June 14, 2012, and from June 15, 2012 the new version of the German Corporate Governance Code dated May 15, 2012 (hereinafter "GCGC 2012").

The company's Executive and Supervisory Boards declare that, during the course of the remainder of fiscal year 2011 and in the course of fiscal year 2012 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 2012 and in fiscal year 2013.

No long-term successor planning for the Executive Board – Item 5.1.2 para. 1 sentence 2 of the GCGC 2010 and GCGC 2012

In contrast to Item 5.1.2 para. 1 sentence 2 of the GCGC 2010 and GCGC 2012, 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.

Remuneration for the Supervisory Board No performance-related remuneration components - Item 5.4.6 para. 2 of the GCGC 2010

The Executive and Supervisory Boards made a proposal to the 2012 Annual General Meeting to change the remuneration for the Supervisory Board, and thus pre-empted the changes made by the Government Commission in the GCGC 2012 in Item 5.4.6 para. 2 of the GCGC 2010. The regulation which now applies for the Supervisory Board members now only includes fixed remuneration and applies to the remuneration for calendar year 2012. As a result, in the period from January 1, 2012 to June 14, 2012 there was a difference to Item 5.4.6 para 2. of the GCGC 2010. The remuneration regulation was changed to cover the entire fiscal year 2012 with the aim of keeping administrative effort to a minimum. The Executive and Supervisory Boards believe that this form of remuneration is better suited to take into account the Supervisory Board's controlling function, irrespective of the company's short-term success. The retrospective change to remuneration for the Supervisory Board was resolved by the Annual General Meeting with a majority of more than 99% of votes cast.

München (Germany), December 13, 2012

SKW Stahl-Metallurgie Holding AG

For the Executive Board

Ines Kolmsee
(CEO)

For the Supervisory Board

Titus Weinheimer
(Chairman of the Supervisory Board)

State-of-the-art management and control structure

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

The members of the Executive Board are appointed by the members of the Supervisory Board and manage the group under their own responsibility. At the start of the fiscal year, the Executive Board comprised two members, Ines Kolmsee (CEO) and acting CFO and Reiner Bunnenberg (COO). Mr. 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 during the fiscal year: the nomination committee, the audit committee and the HR 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 Annual General Meeting of shareholders met once during the year under review, for the Annual General Meeting on June 14, 2012 in München, Germany. The Annual 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 sexes.

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) 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 Annual 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. There were no elections for the Supervisory Board on the agenda for the Annual General Meeting in 2012; the periods of office of all of the members of the Supervisory Board end in 2016.

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 received notices within the meaning of Section 15a of the WpHG (Directors' Dealings) from the Executive Board Member Reiner Bunnenberg. According to the company's LTI program (details are presented in the remuneration report), Mr. Bunnenberg acquired 3,008 shares of SKW Metallurgie AG on the capital market in May 2012.

As a result, the entire shareholdings of the Executive and Supervisory Boards on December 31, 2012 were as follows:

Name	Position	Number of shares
Ines Kolmsee	CEO	14,652
Reiner Bunnenberg	Member of the Executive Board	3,008
Dr. Dirk Markus	Member of the Supervisory Board	2,300

As a result, on the balance sheet date, a total of 19,960 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.

Remuneration report

As a result of changes to the German Corporate Governance Code that took effect in 2012, the remuneration report is no longer part of the Corporate Governance report. The corresponding report for fiscal year 2012 is made in the management report.

Information on stock option programs and similar incentive systems

Through to the middle of 2012, 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. Since then (version dated May 15, 2012), this information is only required in the corporate governance report if corresponding information is not provided anywhere else in the financial statements, in particular in the notes to the consolidated financial statements.

Irrespective of this change in the reporting structure, as of December 31, 2012 there were no stock option programs or other incentive systems in the SKW Metallurgie Group that are linked to the share price or dividends. This applies to the members of the Executive Board, members of the Supervisory Board, and also employees of SKW Stahl-Metallurgie Holding AG. Former members of these groups of persons and the corresponding groups of persons at the group companies did not have any stock option programs or other incentive systems in the SKW Metallurgie Group that are linked to the share price or dividends as of December 31, 2012.

Further information on corporate governance at SKW Metallurgie

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

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

COMBINED MANAGEMENT REPORT

skw. metallurgie

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Combined management report of SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, and the SKW Metallurgie Group for fiscal year 2012

1. Business and underlying conditions

1.1. Global economy characterized by major insecurities in 2012

Economic development influenced by sovereign debt crisis

In 2012 the global economy was strongly characterized by the sovereign debt crisis in Europe and, in the second half of the year, by an economic cooldown in key economies. According to calculations by the International Monetary Fund (IMF), the global economy grew by 3.2% in 2012. However, this growth was weaker than in the previous year[1] (+3.9%) and was also weaker than had been forecast at the start of the year under review. The downturn in the EU reflects, in particular, the tense situation in Southern European peripheral countries. The IMF identified negative growth for the entire Eurozone for 2012 of -0.4%. The fact that the crisis has heightened caused countries such as Italy (-2.1%) and Spain (-1.4%) to slide even deeper into recession. The core Euro countries fared slightly better in comparison: France recorded a “black zero”, and Germany recorded GDP growth of 0.9%. The IMF identified 2.3% higher economic output in the USA than in 2011; Japan improved by 2%. As a result, economies in industrialized nations recorded economic growth of 1.3% in 2012 on the whole. However, the figures for economic growth in the USA were depressed, in particular in the second half of the year, by the uncertainty surrounding possible tax increases and additional budget policy cuts as part of the discussions surrounding the fiscal cliff.

The lower growth and the insecurities in key industrialized nations also slowed the pace of growth in emerging and developing nations, which only recorded growth of 5.1% according to the IMF’s figures. China’s economy recorded growth of 7.8%, despite the slowdown in the upswing that could also be seen there, and proved that it is still robust. The remaining BRIC countries of Brazil (up 1.0%), Russia (up 3.6%), and India (up 4.5%) were not quite able to keep up.

In industrialized nations the base rates remained at historic low levels in 2012. However, in emerging nations some central banks have already started to tighten the interest screw again slightly. Whereas inflation was relatively moderate in industrialized nations at 1.9%, it totaled 6.1% in emerging nations. Exchange rates continued to be subject to fluctuation in 2012 as a result of the uncertain economic environment. The EUR/USD exchange rate remained relatively stable over the year at around USD 1.30 for EUR 1; however, there were substantial fluctuations during the year. Commodities prices proved to be mostly stable for all commodities in 2012. The general global uncertainty surrounding further economic developments and the development of new deposits meant that the prices for energy commodities mostly closed 2012 at the same level as at the start of the year.

1. The previous year’s figures have been taken from the most recent IMF and Worldsteel publications. As IMF and Worldsteel constantly update their statistics, the figures shown here may differ slightly from the figures quoted in the previous year’s report.

1.2. Slight increase in steel production in 2012 despite difficult environment

The SKW Metallurgie Group records around 90% of its consolidated revenues with customers in the steel industry. Sales of the SKW Metallurgie Group's high-quality products focus on producing high and higher quality steel. The group's operating growth (in particular the quantities sold) depends on the quantity of steel produced and not the steel price.[2] 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 group's products. In geographic terms, steel production in the European Union, Brazil and the USA is particularly relevant; the SKW Metallurgie Group recorded more than 80% of its consolidated revenues on these markets in the year under review and in the previous year.

As was the case in the previous year, global steel production reflected global economic growth. The higher demand from emerging nations caused the quantity of steel produced worldwide to increase according to information from the Worldsteel Association[3] by 1.2% compared to the previous year to 1,548 million tons; without the People's Republic of China, however, there was around zero growth in steel production. As a result, the pace of growth was substantially lower than in 2011 (+6.2%). At the start of 2012, experts were still optimistic and were also forecasting solid growth for 2012. However, the increase in the Euro sovereign debt crisis and the slowdown in demand in China meant that steel production was hardly able to increase at all, in particular in the second half of the year.

Global steel production (without China) approximately on 2011 level

In regional terms, demand for steel also mostly reflected economic developments. Whereas a total of 4.7% less steel was produced in the European Union in 2012 than in 2011, the robust economic situation in Northern America caused a 2.5% increase in production quantities year-on-year. On this market, steel demand was primarily driven by strong construction activities, the oil and gas industry and the upswing in the automotive industry. However, the first half of the year was significantly stronger for North American steel production compared to the second half of 2012 (with a substantial downturn in the fourth quarter).

The People's Republic of China continued to play the leading role in steel production. The largest steel producing nation, which accounts for 46.3% of global production, increased the quantity produced by 3.1% in 2012. As soon as the transformation process in China has progressed further (e.g., with regard to corporate governance), the Chinese sales market will also become increasingly important for the SKW Metallurgie Group. Of all the BRIC countries, which together account for 58% of global steel production, the steel industry in India (+4.3%) and Russia (+3.1%) enjoyed positive growth. In contrast, Brazil suffered from delays in major projects, and its exports also suffered from a strong Real; steel production in Brazil was down 1.5% in 2012 compared to 2011.

Without emerging nations, steel production in absolute figures in 2012 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 2001 for the foreseeable future. At present, in North America additional industrial stimuli can be observed from the increased production of shale gas.

2. The indirect impact of the steel price, e.g. from the price elasticity of demand, is also minor.
3. The association's brand is "Worldsteel" (in one word).

Outside the steel sector, the SKW Metallurgie Group also supplies other customer groups with technically demanding solutions, for which the expertise is linked to solutions for the steel industry. Examples include cored wire for the copper and foundry industries (expertise from the production of cored wire for the steel industry can be used here), calcium carbide products for the gas industry and special magnesium for aviation. In addition, SKW Metallurgie's Quab subsidiary also supplies producers of industrial starches (a pre-product for paper production), hygiene products and also the shale gas industry with cationic reagents.

Development in these customer industries was, on the whole, in line with the general economy, and was thus relatively stable year-on-year in industrialized nations.

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

SKW Metallurgie Group: Sales correlate positively with steel production volume in target markets

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 lower than in the previous year – driven by the reserved growth in steel production described above.

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.

Prices for the group's key products were similar to the previous year on average. Generally, 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; however, this does not impact the prices that can be recorded externally for cored wire.

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

In terms of margins, in 2012 start-up costs were incurred for the new plants (in particular in the first half of the year). Compared to 2011, there were also distortions caused by 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, which was launched in previous years, brought positive results in 2012. In particular the modernization of the calcium carbide production facility in Sweden, which was acquired in 2011 with a substantial investment backlog, and the start of regular operations in the new plants (expansion of existing facilities in Brazil and the USA and new facilities in Russia and Bhutan) have been brought forward to a substantial extent during the year under review, and have been mostly concluded, so that as a rule regular operations are expected for all of the production locations in 2013. As a result, the EBITDA contribution from the new plants, which was still negative in 2012, will be substantially better in 2013.

SKW Metallurgie globally: 18 production sites in eleven countries

With now 18 production locations in eleven countries (including the Indian joint venture Jamipol with two production locations), the SKW Metallurgie Group is not primarily perceived as being a German, but as a global company. For instance, the media rank the SKW Metallurgie Group as being one the most globalized German companies: For example around 98% of the workforce is employed abroad and the entire production is located outside Germany – more than for any other company in the DAX30, MDAX, TecDAX and SDAX indices. In 2012, with the exception of modernization investments focusing on Sweden, capital expenditure mostly comprised purchase price payments for the acquisition of a two-thirds interest in the Brazilian company Tecnosulfur in 2009.

A substantially lower amount of capital expenditure is planned for 2013. This mostly relates to maintenance and modernization investments focusing on optimizing the plant in Sweden. A comparatively low level of capital expenditure is possible, as the group does not plan to build or acquire new production facilities in 2013, and SKW Metallurgie's production facilities are in a good technical condition. As a result of this low level of capital expenditure, a positive free cash flow is planned for 2013, and this will, for example, form the basis for a further reduction in net financial debt and the dividend proposal for 2013 (disbursement in 2014).

The operating focus in 2013 will be much rather on running the plants built or acquired through to 2012 in SKW Metallurgie's regular operations. As a result the new plants will provide substantially higher contributions to earnings in 2013 than was the case in 2012; however, the situation will remain tense for the Swedish company as a result of its focus on the challenging Western European market.

Of the growth projects implemented over the past few years, Bhutan (new construction of a calcium silicon furnace and option for 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 highly qualified staff is limited. As a result, the learning curve that the SKW Metallurgie Group went through up until the year under review was relatively pronounced. In the third quarter of 2012, the Bhutanese group company made positive contributions to EBITDA for the first time since starting production; the Executive Board is forecasting profitable regular operations for 2013. 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 (supply of calcium silicon to existing cored wire plants, e.g., in the USA or France).

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 desulfurization and secondary metallurgy). In addition to products for the steel market, the group also produces, in particular, Quab specialty chemicals, and mostly sells these to producers of industrial starch for paper production and also to the shale gas industry and manufacturers of hygiene products. Additional sales markets outside the steel industry including the foundry and copper industries. SKW Metallurgie develops specialized cored wires for both of these industries. Another key customer industry outside the steel sector is the gas industry, which uses calcium carbide to produce acetylene. In addition, the SKW Metallurgie Group is a successful provider of specialty magnesium for applications outside steel production. In contrast to Quab products, which do not have any direct relationship with the SKW Metallurgie Group's steel-related core business, the other divisions named 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 2011 Annual General Meeting of the company's shareholders was held in München (Germany) on June 14, 2012. The Executive and Supervisory Boards resolved to make a proposal to the 2012 Annual General Meeting (i.e., for fiscal year 2011) 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 Annual General Meeting.

Attractive dividend proposal of EUR 0.50 per share

With regard to fiscal year 2012, the Executive and Supervisory Boards intend to make a proposal to the 2013 Annual General Meeting to pay a unchanged pre-tax dividend of EUR 0.50 for each entitled share which is to be paid on the banking day following the Annual General Meeting.

There were no elections for the Supervisory Board on the agenda of the 2012 Annual General Meeting. The composition of the Supervisory Board thus remained unchanged for the whole fiscal year, and 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 was an unchanged number of three committees during the fiscal year: the audit committee, the HR (previously: 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.

At the start of 2012 the Executive Board comprised Ines Kolmsee (CEO) and Reiner Bunnenberg (COO). Mr. Oliver Schuster joined the group's Executive Board as CFO with effect from March 1, 2012. The CFO's tasks had been performed by the CEO for a 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" represents "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 is unchanged year-on-year in fiscal year 2012. The total number of consolidated group companies thus amounted to an unchanged 27 on December 31, 2012 (26 subsidiaries and the parent company), in 14 countries. In addition, a French company which is being liquidated and the Indian joint venture Jamipol, in which the SKW Metallurgie Group holds an interest of around one third, were also not fully consolidated.

The number of SKW Metallurgie's production facilities (without the Jamipol joint venture with two plants in India) did not change in the year under review and continues to total 16 plants (including one facility with production by two group companies) in 10 countries.

SKW Metallurgie shares 100% in free float

The group's shareholder structure continues to be characterized by being held in free float: However, within the free float according to Deutsche Börse's definition there has been one shareholder (Mellinckrodt 1 fund) which has held an interest of more than 10% in the share capital of SKW Stahl-Metallurgie Holding AG, which has remained unchanged since the capital increase in 2009. With the exception of trading stocks held by banks as part of the 2009 capital increase, since the full exit of the former ARQUES Industries AG in July 2007 no single shareholder has held an interest of more than 10% in the SKW Metallurgie Group.

3.2. SKW Metallurgie's share price stronger than the SDAX during the year

The company's share capital comprises an unchanged 6,544,930 registered shares.

In 2012, the price of SKW Metallurgie's shares was between EUR 11.38 (low) and the high for the year of EUR 16.38 (XETRA in each case). As shown in the Shares section of this annual report,[4] the share price performance for SKW Metallurgie's shares mostly outperformed the SDAX index for most of the year. At the end of the year, SKW Metallurgie's shares closed at EUR 13.30, which corresponds to a market capitalization of approx. EUR 87.0 million on the balance sheet date.

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. The Shares section of the annual report is not part of the audited combined management report.

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

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

Successful change to registered shares in 2011

The subscribed capital of SKW Stahl-Metallurgie Holding AG is composed of 6,544,930 no-par value shares, each with a notional interest of EUR 1.00 in the share capital. In 2011 the company changed the former bearer shares to registered shares 1:1 upon a resolution by the Annual General Meeting. There are no other different share types. The company has not issued any shares with special rights. The company does not hold any treasury shares.

The shares are freely transferable[5] to the extent permitted by law. A minimum holding period has only been agreed for shares acquired or held by members of the Executive Board as part of their LTI (Long Term Incentive) remuneration component.

On December 28, 2012 the fund Mellinckrodt 1 reported that it holds an interest of 10.01% (participating interests of between 10% and 15% are possible without requiring a further notification). The Executive Board is not aware of any other equity interest which reaches or exceeds 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.

The members of the Executive Board are appointed (subject to their acceptance) 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 the authorized capital, the Annual General Meeting on June 8, 2011 authorized 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. This authorization was not used in the year under review; it remains in place unchanged.

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.[6] In all other respects, the Annual 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

5. 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).

6. 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 Annual General Meeting's fundamental responsibility for changes to the articles of association.

offer. At the start of 2012, agreements were concluded regarding credit lines and a promissory note loan, which also include regulations on a possible change of control. The company has not made any agreements for compensation in the event of a simple acquisition offer. On the balance sheet date, there are no other agreements within the meaning of No. 8 and No. 9 of Section 289 (4) and Section 315 (4) of the HGB.

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

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 high-end 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. Cored wire is the best technology for this secondary metallurgy treatment. Adding this kind of 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, Russia 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 the PR of China, where products are primarily produced for the respective local market and sold under local brand names (Affimex and Tianjin Hong Long Metals).

In addition, the Cored Wire segment includes the new SKW Metallurgie production facility in Bhutan. Calcium silicon is the primary product produced at this facility, and it takes the place of raw materials that were previously procured from external sources by the existing cored wire plants. In addition, in future cored wire production will be linked to the Bhutanese SKW Metallurgie plant in order to refine the calcium silicon produced there into cored wire, and thus in particular to supply the high-growth market in India.

5.2. Powder and Granules segment: Method-comprehensive 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).

SKW Metallurgie Group: Leading global supplier in hot metal desulfurization - across methods

- In Europe, the Powder and Granules segment includes the operating group companies SKW Stahl-Metallurgie GmbH (Germany) and SKW Metallurgy Sweden AB (Sweden). 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. At the start of 2011, the group's procurement situation for carbide-based hot metal desulfurization in Europe was reinforced substantially thanks to the newly acquired calcium carbide plant in Sweden; since then it has been possible to produce the total quantity of calcium carbide that the two companies require to cover customer requirements (both the steel and also the gas industry) in the group's own plant.

- The SKW Stahl-Metallurgie Group also includes the joint venture Jamipol Ltd., Jamshedpur, India, which has two production facilities in India and is the clear market leader on the Indian market for carbide-based hot metal desulphurization. Since SKW Metallurgie's interest in Jamipol is less than 50%, the Indian company operates under its own brand ("Jamipol") on the market.

- The Brazilian company Tecnosulfur uses the Tecnosulfur brand to supply its products, primarily to steel plants on the Brazilian market. These products include, in particular, highly demanding technical solutions for hot metal desulphurization, and it is the leading provider in its product segments on the Brazilian market. In addition, in the year under review Tecnosulfur increased its production capacity for sinterized synthetic slag, an innovative product for secondary metallurgy. On the whole, the Brazilian SKW Metallurgie subsidiary is ideally positioned to benefit from Brazil's growth.

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

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

The Quab brand is positioned 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 taking the new a calcium silicon oven in Bhutan into regular operations in the year under review. In a typical year for both production and sales, in future the SKW Metallurgie Group will produce around one third of its requirements for calcium silicon in Bhutan.

Vertical integration secures raw material supply

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

- 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 since the start of 2011 in the form of the furnace in Sweden. 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 raw material 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

In contrast to most of its competitors, the SKW Metallurgie Group pursues a global approach for both its production and sales. At the same time, the entire group attaches great value to a local presence, customer proximity and individual customer wishes. For cored wire in particular, the most favorable respective production facility is chosen for specific customer requests. 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 fiscal year 2012, the expansion of production capacity was mostly completed. The largest single investment in the year under review (payment of the remaining purchase price for Tecnosulfur) impacted the balance sheet, but not technical production.

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 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 People's Republic of 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 is also allocated to the Powder and Granules segment.

The production costs in the plants of the SKW Metallurgie Group are primarily determined by the cost of materials, and also personnel expenses and the depreciation of production equipment. Since the procurement prices for some raw materials fluctuate wildly in some years, 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.

Quality remains an important USP for the SKW Metallurgie Group

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. Ensuring a secure supply of raw materials continues to be part of the group's strategy. Although no larger investments are planned over the short time, the group will continue to consistently expand its value chain (e.g., by expanding its service offerings) 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 Group stays on track despite difficult environment

Business in 2012 was clearly characterized by reserved growth in revenue and earnings compared to the previous year for the SKW Metallurgie Group. The most important operating driver was the change in steel production, in particular on the sub-markets of the EU and Brazil that are particularly important for the SKW Metallurgie Group. These even fell in some cases during the year under review; in addition, in particular the first six months of 2012 were depressed by significant start-up costs for the new plants.

Fiscal year 2012 influenced by reserved steel economy and start-up costs of new plants

At an EBITDA level a comparison with the previous year is made more difficult due to non-cash one-off factors in 2011 in the amount of EUR 8.8 million. These related to the reversal of the EU provision in the amount of EUR 6.2 million as well as the reversal of the difference on the liabilities side from the acquisition of the calcium carbide plant in Sweden in the amount of EUR 2.6 million (however, this bargain purchase was offset by one-off expenses from restructuring the plant). After adjustment for these one-off factors, EBITDA in 2011 totaled EUR 22.9 million; the comparable 2012 figure (comparable reversal of provision in the amount of EUR 0.4 million) amounted to EUR 20.4 million. The difference of EUR 2.5 million is explained in particular by the difficult economic environment.

These strategic activities are part of the stronger focus on higher-margin products and services 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 future 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).

In the Powder and Granules segment, 2012 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.

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 the first quarter of 2012 steel production still increased by 2.4%, then a substantial slowdown to -1.5% for the year as a whole).

Demand in the fourth quarter is usually weaker (production at steel plants is typically lower in the Christmas period), and this was particularly clear in the year under review.

Non-operating issues, such as unrealized currency translation effects, may occur irregularly during the course of the year and lead to fluctuations in earnings.

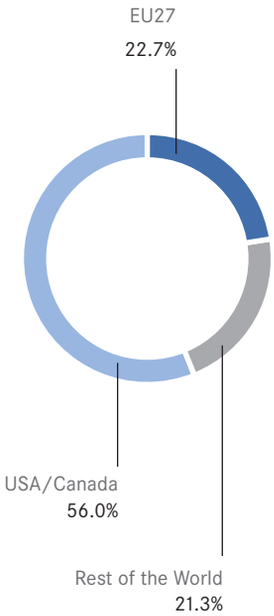
With effect from February 1, 2011 the Swedish group company, which has formed part of the group since the end of 2010, acquired a calcium carbide plant in Sweden; this plant's figures are included on a pro rata basis in the consolidated income statement for 2011 (i.e., for eleven months).

In fiscal year 2012 there were no changes to the group of consolidated companies.

Accordingly, the figures from fiscal year 2012 and 2011 can be compared with each other.

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 transitioned to regular operations in 2012, with the result that significant contributions to revenues are expected from 2013. In the case of Bhutan, only the sales of cored wire to India will contribute to revenues from third parties, as the bulk of calcium silicon production will be sold to other group companies (in particular the Affival group of companies).

REVENUES WORLDWIDE



6.2. Revenues in line with expectations

During the year under review, the SKW Metallurgie Group recorded revenues in excess of EUR 404.6 million, which are thus up lower than the previous year's figure of EUR 428.9 million. This downturn is due, on the sales side, in particular to the lower steel production on the relevant sub-markets (EU: -4.7%, Brazil: -1.5%).

In geographic terms, in 2012 (in terms of location of the customer, and not the supplying unit) 22.7% (previous year: 21.7%) of external revenues (translated to euros)[7] were recorded with customers in EU countries. The USA and Canada accounted for 56.0% (previous year: 52.6%).

Other countries, mostly emerging and developing nations, accounted for 21.3% (previous year: 25.7%).

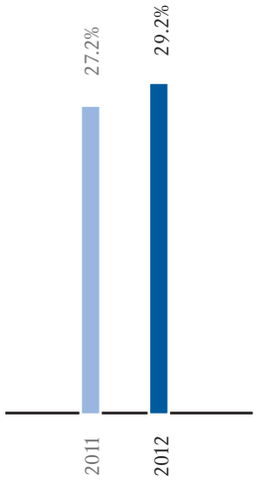
The group's strategy continues to be to increase the proportion of revenues it records in high-growth countries and emerging nations, without reducing its absolute revenues in other countries. Over the medium term, the group's target is to record at least one third of its revenues in high-growth countries and emerging nations. In addition, the dynamic growth in the shale gas sector in North America and the continent's resulting reindustrialization means that further absolute growth in revenues is also expected for North America.

7. 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.

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.

6.3. Substantial increase in gross profit margin underscores the group's operating strength

GROSS PROFIT MARGIN



The SKW Metallurgie Group's business demands the use of large quantities of raw materials, and in this type of business any change in the costs of raw materials and corresponding adjustments to selling prices can affect revenues, without this necessitating any change in operating performance. A much more meaningful figure for the SKW Metallurgie Group in this regard is the gross profit margin (gross margin).[8]

During the year under review, the SKW Metallurgie Group increased this figure significantly once again – with costs of materials totaling EUR 286.5 million (previous year: EUR 310.4 million) - as a result of its consistent orientation towards high-margin products to 29.2% compared to 27.6% in the previous year. However, the downturn in the cost of materials is due to the lower revenues: Changes to the quantities sold (quantity component) result in a proportionate change in the absolute cost of materials; in addition, fluctuations in the price of raw materials are passed on, with the result that in terms of prices the absolute cost of materials and revenues run in parallel in many cases.

6.4. Staff participate in business growth

Personnel expenses totaled EUR 46.8 million in the year under review, and were higher than in the previous year (EUR 44.0 million). This is due in particular to currency translation and standard salary trends. The SKW Metallurgie Group continues to be characterized by a high proportion of variable remuneration components, which allow employees to participate in "their" group's economic growth. Total wages increased by EUR 3.3 million, and this exclusively benefited employees on location; personnel expenses at the group's parent company even fell by EUR 0.5 million (net change in personnel expenses: EUR 2.8 million).

At EUR 11.1 million, other operating income in the year under review was substantially above the previous year (EUR 18.4 million). This is mostly due to the fact that the figures for 2011 include non-cash one-off factors totaling EUR 8.8 million: the reversal of the difference on the liabilities side from the acquisition of the calcium carbide plant in Sweden in the amount of EUR 2.6 million (bargain purchase) and the reversal of the provision for a possible fine in the amount of EUR 6.2 million; the reporting year only showed an equivalent reversal of provisions in the amount of EUR 0.4 million. Adjusted for these extraordinary effects, the other operating income in the reporting year was EUR 1.1 million above the previous year.

A key component of other operating income is changes in exchange rates. In the year under review these totaled EUR 8.3 million (2011: EUR 5.9 million) of which EUR 4.5 million were not realized. Sundry other operating income in the year under review totaled EUR 2.8 million (2011: EUR 3.7 million without the two one-off, non-cash factors detailed above).

8. The gross profit margin (gross margin) is the difference between sales and the cost of materials in relation to sales. The costs of materials can also be caused by change in finished goods and work in progress or own work capitalized. However, these items are comparatively small at the SKW Metallurgie Group, with the result that the results of the simple definition it has selected (calculated based on revenues) generally only differs from that from a calculation based on total operating revenue by a few decimal places after rounding.

Other operating expenses in the year under review totaled EUR 62.9 million, at around the same level as in the previous year (EUR 61.5 million).

Other operating expenses include, in particular, expenses from foreign currency translation totaling EUR 7.0 million in the year under review (previous year: EUR 8.5 million) of which EUR 4.7 million was not realized.

If the currency gains are netted with the currency losses, this results in net foreign currency gains of EUR 1.3 million (previous year: net foreign currency losses of EUR 2.6 million). The net currency effect realized totaled just EUR +0.1 million in the year under review (previous year: EUR -0.7 million), which is due to the SKW Metallurgie Group's excellent currency management.

With regard to the new plants, 2012 was characterized by start-up costs, which are typical of new plants shortly before the start of production. These relate in particular to the new production facilities in Bhutan and Russia. The plant in Sweden was acquired and not newly built; however, as a result of the plant's condition when it was bought (investment backlog, which led to a correspondingly low purchase price - negative in view of the assets transferred), start-up costs were also incurred here, as substantial restructuring work had to be performed. These start-up costs relate to various items above EBITDA, in particular the cost of materials and other operating expenses.

Income from the Indian joint venture company Jamipol totaled EUR 1.0 million, up slightly year-on-year (EUR 0.9 million).

6.5. EBIT higher than comparable figure from previous year

EBITDA and EBIT of 2011 entail EUR 8.8 mill. non-cash one-off effects

EBITDA totaled EUR 20.8 million and was thus lower than the previous year's figure (EUR 31.7 million; highest EBITDA in the group's history) and also lower than the capital market's forecast (so-called guidance) which anticipated EBITDA of between EUR 22 million and EUR 24 million. A more detailed analysis shows differentiated developments: Although all of the key indicators have improved in North America despite weakening in the second half of the year, the group companies in Europe and, in some cases in Brazil, contributed significantly less to the consolidated results than had been expected in the year under review. This is a direct consequence of the reserved steel production as well as the intense competition in these countries. This difficult macroeconomic situation was heightened by start-up costs, in particular in Bhutan (primarily in the first half of the year) and Sweden.

A further key reason for the downturn in the amount of EUR 10.9 is to be found in two non-cash one-off factors in the amount of EUR 8.8 million in 2011. In that year, the reversal of the difference on the liabilities side from the acquisition of the calcium carbide plant in Sweden in the amount of EUR 2.6 million was offset by one-off expenses from restructuring this plant. In addition, earnings in 2011 were impacted by the reversal of the provision for a possible fine in the amount of EUR 6.2 million; in 2012, this was met by a comparable reversal of provisions in the amount of only EUR 0.4 million.

As forecast, the expansion projects in the SKW Metallurgie Group caused the importance of interest, amortization, depreciation and non-controlling interests (formerly minority interests) to increase compared to previous years.

Amortization and depreciation are characterized by two contrary developments:

When new plants are taken into operation, as a rule amortization and depreciation starts for these plants. For the plants taken into operation during the course of the year this means:

- In 2011 this amortization and depreciation is not included.
- In 2012, amortization and depreciation was only incurred on a pro rata basis (from being taken into operation).
- In 2013 this amortization and depreciation will be charged for the full year for the first time, which means that ceteris paribus this will be higher in 2013 than was the case in 2012.

In addition, during the year under review the amortization of an asset capitalized as part of the acquisition of a company (PPA) ended, which led to a substantial downturn in amortization/depreciation.

Additional upward or downward 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.).

Depreciation significantly below previous year

In total, the amortization of intangible assets and depreciation of property, plant and equipment of EUR 10.5 million is significantly lower than the previous year's figure of EUR 13.3 million. This is due, in particular, to the end of the amortization period for an intangible asset.

As a result, EBIT is lower than the previous year's figure at EUR 10.3 million (EUR 18.4 million).

After adjustment for the non-cash one-off factors detailed above in the amount of EUR 8.8 million, the comparable EBIT in 2011 totaled EUR 9.6 million. In 2012 EBIT totaling EUR 10.3 million (comparable: EUR 9.9 million, since in 2012 there was a comparable reversal of provisions in the amount of EUR 0.4 million) was recorded. As a result, on a comparable level, EBIT in the year under review is still higher than in the previous year.

Interest expenses were substantially higher than the previous year's figure at EUR 4.4 million (EUR 2.5 million). This increase, despite a continued low level of interest rates, is due to currency translation effects and also the following reasons:

- Average financial debt in the year under review was higher than in 2011.
- In the first quarter, one-off expenses similar to interest were included from the optimization of borrowing in the amount of EUR 0.7 million in connection with the issue of a promissory note loan. Here, the liquidation of an interest rate swap must be mentioned that was due, in particular, to refinancing. This had an impact of USD 656 thousand.

Interest income continues to be at a low level, as was the case in the previous year.

Earnings before taxes (EBT) of EUR 6.1 million were significantly lower year-on-year (EUR 16.2 million), which is due, however, to non-cash one-off factors in the previous year in the amount of EUR 8.8 million (year 2012: EUR 0.4 million) and the higher interest charges.

6.6. Attractive dividend proposal stands for continuity and solidity

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 extraordinary effects, and in 2012 it totaled just 30.9%. The typical amount of the tax rate is characterized, in particular, by the fact that a significant proportion of the SKW Metallurgie Group's profits are recorded in countries such as Brazil, the USA and Japan, which results in a high tax rate for the company's profits in an international comparison when all of the income taxes are accumulated (e.g. federal taxes, taxes by individual federal states, etc.).

During the year under review, the SKW Metallurgie Group recorded absolute income tax expense of EUR 1.9 million (previous year: EUR 4.4 million).

After interest, taxes, amortization and depreciation the SKW Metallurgie Group thus recorded consolidated net income for the year of EUR 4.2 million (previous year: EUR 11.8 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 that had not yet commenced operational activities in the year under review, 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 -0.1 million (previous year: EUR -0.4 million) is to be allocated to these non-controlling interests (previously: minority interests).

EUR 4.3 million is due to the parent company's shareholder, and thus lower than the previous year's profits of EUR 12.2 million.

The number of SKW Metallurgie shares did not change in 2012 and 2011 and totaled 6,544,930. The proportion of the consolidated earnings due to the parent company of EUR 4.3 million (previous year: EUR 12.2 million) as the numerator and the number of shares mentioned above as the denominator thus gives arithmetic earnings per share (EPS) of EUR 0.65 (previous year: EUR 1.86).

Based on this result, the Executive and Supervisory Boards will make a proposal to the Annual General Meeting to disburse a dividend of EUR 0.50 per dividend-entitled share for fiscal year 2012. This dividend thus has a constant absolute amount.

6.7. Segment reporting

SKW Metallurgie brand signifies dividend continuity

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 D.29).

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

- External sales in the Cored Wire segment were lower year-on-year at EUR 183.7 million (EUR 202.1 million) as a result of the lower production volumes at key steel plants. EBITDA for the entire segment totaled EUR 6.6 million and was thus also not able to reach the previous year's figure of EUR 7.6 million.

- Annual revenues with non-group customers in the Powder and Granules segment totaled EUR 192.7 million (previous year: EUR 197.3 million) and have fallen only slightly. Segment EBITDA fell significantly from EUR 26.8 million to EUR 13.5 million; adjusted for non-cash one-off factors from 2011 in the amount of EUR 8.8 million (reporting year: EUR 0.4 million), the comparable figure amounted to EUR 18.0 million (reporting year: EUR 13.1 million); the remaining downturn in the amount of EUR 4.9 million is due, in particular, to the economy. 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.

Sales to the steel industry approximately on a par in both core segments

- 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 28.1 million in 2012, slightly lower than the previous year's figure of EUR 29.5 million, with the result that there is still 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, compared to the previous year:

ASSETS IN EUR thousand	Dec. 31, 2012	Dec. 31, 2011
Non-current assets	166,698	163,308
Current assets	132,392	152,440
thereof cash and cash equivalents	25,330	10,382
Total assets	**299,090**	**315,748**

EQUITY AND LIABILITIES IN EUR thousand	Dec. 31, 2012	Dec. 31, 2011
Equity	121,890	128,356
Non-current liabilities	79,054	57,510
thereof non-current financial liabilities	58,466	34,753
Current liabilities	98,146	129,882
thereof current financial liabilities	40,774	53,562
Total equity and liabilities	**299,090**	**315,748**

The SKW Metallurgie Group's total assets fell in fiscal year 2012 from EUR 315.7 million to EUR 299.1 million. This downturn is mostly due to an optimization of working capital (e.g., reduction in inventories by EUR 10.2 million and in trade receivables by EUR 22.9 million). The reduction in trade receivables is due, in the amount of EUR 9.2 million, to the sale of receivables as part of factoring agreements.

On the equity and liabilities side, in particular other current liabilities fell by EUR 9.8 million. This is due, in particular, to a subsequent acquisition liability, which was paid in full in 2012; further details can be found in Note D.28 of the notes to the consolidated financial statements. In addition, smaller changes in almost all of the balance sheet items are due to currency translation effects (translation at closing rate).

Constant equity ratio indicates financial solidity

Equity (including non-controlling interests) also fell slightly year-on-year to EUR 121.9 million (EUR 128.4 million), in particular as a result of the currency translation effects included in other earnings.

As total assets and equity changed proportionately during the year under review, the equity ratio (including non-controlling interests) remained practically constant at 40.8% (previous year: 40.7%) and thus continues to be at a very solid level (target corridor: between 30% and 50%). In addition to the equity ratio, net financial debt[9] is a key performance indicator for the SKW Metallurgie Group. This figure totaled EUR 73.9 million on December 31, 2012 (previous year: EUR 77.9 million) and has thus fallen by EUR 4.0 million. Initial successes can be seen here from the objective that has been pursued since mid-2012 to reduce net financial debt; this success was recorded in particular in the fourth quarter by optimizing working capital.

The operating working capital – defined as inventories plus trade receivables less trade liabilities – totaled EUR 56.4 million on the balance sheet date and is thus significantly lower than the previous year's level (EUR 82.5 million). This reduced working capital is a substantial success for the continued optimization of working capital in the SKW Metallurgie Group. This means that the SKW Metallurgie Group optimized the turnover rate for its working capital (net current assets on the balance sheet date divided by annual revenues) once again; in the year under review this indicator totaled 0.14 (previous year: 0.19).

On the assets side, non-current assets (2012: EUR 166.7 million; 2011: EUR 163.3 million) include, in particular, intangible assets, property, plant and equipment and deferred tax assets. The increase in property, plant and equipment (from EUR 85.3 million to EUR 92.8 million) is mostly due to the completion of the new plants.

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 fell slightly as already mentioned. The key changes in borrowing include a clear absolute downturn (total of current and non-current liabilities from EUR 187.4 million to EUR 177.2 million), and optimized congruent maturities for financial debt. As a result, investment and growth projects that are financed using borrowing now, as a rule, have long-term financing, and current assets now, as a rule, have short-term financing. In figures, the SKW Metallurgie Group has reduced its current financial liabilities from EUR 53.6 million by EUR 12.8 million to EUR 40.8 million, whereas non-current financial liabilities increased from EUR 34.8 million by EUR 23.7 million to EUR 58.5 million.

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

Non-current liabilities also include deferred tax liabilities of EUR 13.5 million (previous year: EUR 15.7 million). Detailed information on these liabilities is provided in Note D.16 of the notes to the consolidated financial statements.

Other liabilities (mostly current) fell substantially from EUR 27.0 million to EUR 16.7 million. This is mostly due to the removal of a subsequent acquisition liability.

Provisions have not changed significantly year-on-year and (including pension commitments) these total EUR 8.5 million (previous year: EUR 8.3 million).

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 Swedish currencies is also important.

The future development of the group's net assets will primarily be influenced by taking the growth projects into regular operations.

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

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

EUR thousand	Jan. 1 - Dec. 31, 2012	Jan. 1 - Dec. 31, 2011
Consolidated net income for the year	4,183	11,788
Gross cash flow	8,737	16,479
Cash flow from operating activities	30,416	6,114
Cash flow from investing activities	-22,370	-33,869
Cash flow from financing activities	7,252	27,287
Change in cash and cash equivalents	14,948	-574
Cash and cash equivalents - end of period	25,330	10,382

Positive free cash flow achieved

Based on consolidated net income for the year of EUR 4.2 million (previous year: EUR 11.8 million), during the year under review the group recorded a gross cash flow of EUR 8.7 million (previous year: EUR 16.5 million). Under non-cash expenses, amortization and depreciation fell from EUR 13.3 million to EUR 10.5 million, which is due, in particular to the end of the amortization period for an intangible asset. The bargain purchase from the acquisition of the calcium carbide furnace in Sweden of EUR 2.6 million was also non-cash in 2011 (2012: EUR 0). In addition, in the year under review, a significantly higher amount was expensed for impairment on inventories and receivables than was the case in the previous year (2012: EUR 3.4 million; 2011: EUR 0.4 million).

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. This is calculated as the balance of the gross cash flow and changes in working capital and totaled EUR 30.4 million in the year under review (previous year: EUR 6.1 million). During the previous year, working capital was increased by EUR 10.4 million, and in 2012 (in particular in the fourth quarter of 2012), the SKW Metallurgie Group optimized its working capital, and thus generated proceeds of EUR 21.7 million. The

10. Including impact of currency translation on cash and cash equivalents

changes in working capital relate to all of the key items of current assets, in particular inventories as well as receivables and trade payables.

Investment phase completed for the time being

Net cash used in investing activities totaled EUR 22.4 million during the year under review (previous year: EUR 33.9 million). During the year under review, EUR 8.0 million of this amount (EUR 2.1 million) related to subsequent purchase price payments for the acquisition of a two-thirds interest in the Brazilian company Tecnosulfur.

The cash flow from financing activities in the year under review (net funds drawn down: EUR 7.3 million) was significantly higher than the previous year's figure (net funds drawn down: EUR 27.3 million). A key difference is the substantially lower net drawdown of liabilities to banks in the year under review (down by EUR 20.5 million to EUR 10.9 million compared to the previous year (EUR 31.4 million)).

Cash and cash equivalents at the start of the year amounted to EUR 10.4 million (previous year: EUR 11.0 million) and included cash on hand and current bank balances. The change in cash and cash equivalents (including currency translation) totaled EUR 14.9 million (increase) compared to EUR -0.6 million in the previous year (reduction), thus resulting in cash and cash equivalents at the end of the period of EUR 25.3 million (previous year: EUR 10.4 million).

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

The SKW Metallurgie Group's equity ratio (including non-controlling interests) totaled 40.8% (previous year: 40.7%) on the balance sheet date.

The SKW Metallurgie Group's borrowing on the balance sheet date includes loans from government development banks (e.g., BDMG in Brazil) and 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 D.26); 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 2013 and 2014.

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 agreements on key financial indicators for several of the SKW Metallurgie Group's credit agreements – so-called financial covenants. The participants regularly adjust the details of these to current developments. The company has agreed with banks to temporarily discontinue the review of a financial indicator on December 31, 2012. The Executive Board believes that there will probably not be a breach of financial covenants in 2013.

6.11. Global financial structure

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 the period under review, the equity ratio (including non-controlling interests) totaled 40.8% (previous year: 40.7%). 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 were 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 confirmed in the first quarter of 2012 with the high demand for the promissory note loan issued by the SKW Metallurgie Group for the first time. EUR 40 million was initially offered for subscription for this loan. 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. In addition, in the fiscal year, a new master credit agreement with a volume of up to EUR 45 million with a multi-year term was signed with four leading banks.[11]

Promissory note loan successfully placed

Exchange rate risks arising from the group's operating activities (transaction risk) have been 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. At the start of the year under review, the future cash flows from long-term financing (interest rate risk) were still hedged using an interest rate swap; however, this was 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 significance. 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 those parts of transactional currency risk that cannot be covered by natural hedging.

Currency conversion risks (so-called translation risks)[12] that result from the translation of financials from subsidiaries in non-eurozone countries to the group's currency (Euro) are not hedged. In 2012, 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, Canada, Sweden and Russia).

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. In terms of volume, a large proportion of the group's external borrowing is procured by the parent company and passed on as required using intra-group loans to the subsidiaries. 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.

11. During the course of the fiscal year, the master credit agreement was streamlined and on the balance sheet date it included three banks and a volume of up to EUR 40 million.

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

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 (joint-stock corporation) under German law. During the year under review, its shares were traded on the Prime Standard (segment with the highest transparency requirements) of the Frankfurt Stock Exchange in Frankfurt/Main (Germany) in the XETRA trading system and OTC 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 2012 was characterized by the growth of the group's subsidiaries and second-tier subsidiaries. Their expansion was successfully continued to a provisional conclusion during the year under review, and also as described at 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 with direct participation in three domestic (German) and three foreign 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. Hong Kong (Special administrative region of Hong Kong) in the People's Republic of 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.[13] The other subsidiaries of SKW Stahl-Metallurgie Holding AG do not hold participating interests in other companies.[14]

As a result of its role as a financial holding company, the parent company does not generate any own revenues. Other operating income in the year under review totaled EUR 5.2 million (previous year: EUR 4.6 million). This includes the foreign currency translation result as well as income from group transfer agreements with subsidiaries as well as other oncharged costs.

The number of active employees on the balance sheet date (including the Executive Board) has increased from 15 (2011) to 18; if considering various employees changing between group companies, the workforce has remained practically constant. During the year under review, the company was able to hire several highly qualified employees to fill positions that had become vacant as a result of fluctuation. This proves that the company is attractive on the labor market, and this is a key non-financial performance indicator.

SKW Stahl-Metallurgie Holding AG's personnel expenses fell to EUR 3.1 million (previous year: EUR 3.5 million). These personnel expenses include remuneration for the members of the Executive Board[15] as well as remuneration for employees who are not representatives of the company's executive bodies.

Reduced bonuses for members of the Executive Board lead to a reduction of personnel expenses at the parent company

In addition to minor depreciation, the single-entity financial statements for SKW Stahl-Metallurgie Holding AG include other operating expenses of EUR 6.1 million (previous year: EUR 5.0 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 for SKW France S.A.S (interim holding company for the group's cored wire plants, excluding Bhutan) in the amount of EUR 8.0 million (previous year: EUR 7.0 million) and Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A in the amount of EUR 0.9 million (previous year: EUR 2.1). 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 48 thousand (previous year: EUR 2.3 million).

The financial result for the year in 2012 was EUR 0.8 million (previous year: EUR 1.0 million). The earnings side includes, in particular, interest income from the intra-group financing of subsidiaries and second-tier subsidiaries (EUR 3.9 million compared to EUR 2.4 million in the previous year). The expense side includes, in particular, interest expenses for banks (including guarantee commission and other expenses similar to interest) in the amount of EUR 3.0 million (previous year: EUR 1.4 million). The increased bank interest is due, in particular, to an increase in the company's

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

14. SKW Service GmbH holds a 1% interest in the Turkish group company, which is wholly owned by the group.

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

bank loans. The funds drawn down are primarily used to finance the SKW Metallurgie Group's high-growth projects.

Earnings from ordinary operating activities totaled EUR 5.5 million and are substantially lower than the previous year's earnings of EUR 8.2 million.

Taking into account the low tax result, net income for the year for SKW Stahl-Metallurgie Holding AG (earnings after taxes) in the year under review totaled EUR 5.5 million (previous year: EUR 8.1 million).

SKW Stahl-Metallurgie Holding AG's net retained profits totaled EUR 12.4 million and were significantly higher than in the previous year (EUR 10.2 million). Net retained profits include the net income and also the profit carried forward from the previous year in the amount of EUR 10.2 million (previous year: EUR 5.3 million), netted with the dividend payment.

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 2013 Annual General Meeting for 2012.

7.2. Dividend proposal stands for continuity

The Executive and Supervisory Boards want to make a proposal to the Annual General Meeting for fiscal year 2012 (payment in 2013) to pay a dividend of EUR 0.50 per dividend-entitled share (previous year: EUR 0.50).

Company proposes attractive dividend

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 2012 (for fiscal year 2011). Assuming an unchanged number of 6,544,930 dividend-entitled shares, the dividend proposed by the Managing and Supervisory Board means that, if this is accepted by the Annual General Meeting, EUR 3.3 million will, in turn, be disbursed as a dividend.

7.3. Net assets at the group's parent company

Continously high financial solidity of corporate parent

The total assets of the parent company SKW Stahl-Metallurgie Holding AG amounted to EUR 145.3 million as of December 31, 2012 and thus increased significantly compared to the previous year (EUR 119.9 million). The equity ratio as of the balance sheet date was 49.5% (previous year: 58.1%). 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 75.3 million to EUR 96.1 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 36.4 million to EUR 42.8 million. Of this total EUR 29.5 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 carrying amount of the other participating interests has not changed.

A strategic partner 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)[16] otherwise all of the direct participating interests are wholly owned by SKW Stahl-Metallurgie Holding AG.

Loans to affiliated companies on the balance sheet date totaled EUR 52.8 million and were thus up by EUR 14.6 million compared to the previous year (EUR 38.2 million).

Current assets increased substantially from EUR 44.5 million to EUR 49.0 million. The key items of current assets include receivables from affiliated companies, which increased significantly from EUR 40.7 million to EUR 48.2 million. It also includes cash and cash equivalents (cash in hand, bank balances) which fell from EUR 1.3 million in the previous year to EUR 0.8 million.

The company's equity totals EUR 72.0 million (previous year: EUR 69.7 million). Provisions remained at roughly the previous year's level at EUR 3.4 million (previous year: 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 42.6 million to EUR 68.7 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 3.1 million to EUR 0.6 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 42.6 million to EUR 68.7 million). In spite of this, however, the Executive Board believes that the group's parent company's financial position remains 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 accounting-based control system described in Section 12.6.

16. This partner is a member of the management (private individual) for SKW Quab Chemicals Inc. and Tecnosulfur), and at SKW-Tashi 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

Reasearch and development remain important USPs for the SKW Metallurgie Group

Research and development are key strategic unique selling points for the SKW Metallurgie Group and helps 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 headquarters in Germany There were seven employees (of whom two hold doctorates) on the balance sheet date in the group's research center alone, who work closely together with laboratories, external research institutions and customers.

During 2007, the innovative Affival product, PapCal (which has already been launched successfully), was further developed within this network according to customer specifications in order to make it useable for additional applications. The globally patented PapCal cored wire, is only marketed under the premium product brand "Affival," whose 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.

Research and development activities in the Cored Wire segment are not restricted to cored wire itself, they also encompass innovations in additive technology.

In order to reinforce and further develop the SKW Metallurgie Group's technology competence in innovative hot metal desulphurization methods, during the year under review and also in 2013 significant funds were and will be invested in the German research company SKW Technology.

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

In the year under review, the group prepared applications for patents and trademark rights worldwide as well as filing applications for them and additionally protecting them in order to protect the group's intellectual property as comprehensively as possible. The SKW Metallurgie Group's portfolio comprised around 200 patents and other intellectual property items in 2012. The group's technological competence includes, in particular, 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.

New SKW Metallurgie plant in Bhutan: Consequent application of Western standards in environment and safety

At the SKW Metallurgie Group's new plant in Bhutan, key environmental and safety standards are consistently applied. A manager with international experience worked in Bhutan to set up SHEQ (safety, health, environment, quality) in 2011; the structures put in place in 2011 have been further developed since then by experienced employees in this plant. Minimizing environmental risks and environmental impact is a key, non-financial performance indicator in the entire 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 watercraft where possible, thus contributing to the reduction of CO_2 emissions from road transport and thus global environmental protection.

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

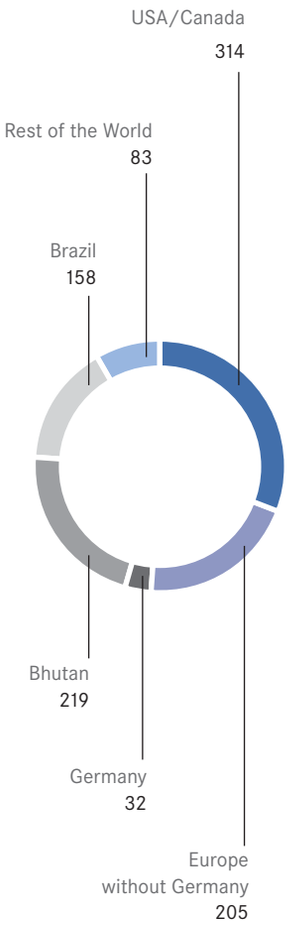
The SKW Metallurgie Group is a leading global specialty chemicals group, and actively participates in the European REACH process. REACH is based on a European Union regulation (EC 1907/2006) on chemicals and their safe use which came into effect on June 1, 2007 and stands for Registration, Evaluation,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

On the whole, 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

EMPLOYEES WORLDWIDE



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

At the end of the fiscal year, the SKW Metallurgie Group (without the Indian company Jamipol) had 1,011 employees (previous year: 1,025). Of this total around 98% are employed in countries other than Germany. Most of the employees work full time.[17] However, the group is fundamentally amenable to the concept of part-time employment, also for a better balance between work and family life. The majority of employees at the production sites are industrial workers.

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

Region / Segment	Cored Wire	Powder and Granules	Other	Total
USA and Canada	76	235	3	314
Mexico	22	0	0	22
Brazil	0	158	0	158
Germany	0	12	20	32
France	140	0	0	140
Sweden	0	54	0	54
Russia	11	0	0	11
Bhutan	219	0	0	219
East Asia (without Bhutan)	38	23	0	61
Total	**506**	**482**	**23**	**1,011**

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 regardless of any legal provisions, the SKW Metallurgie Group hires and promotes staff based on their qualifications and their achievements and does not discriminate in any way. The SKW Metallurgie Group promotes the equal treatment of the genders and is in favor of a diverse workforce.

A key diversity aspect is equal opportunities for both genders. The German lobby group FidAR (Frauen in die Aufsichtsräte – Women on Supervisory Boards) published a list of all 160 German companies in stock market indices, showing the percentage of women in the managing and supervisory boards (without employee representatives). The SKW Metallurgie Group has held one of the top places in this ranking for several years, and, in particular, it is the only company in that 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 genders are reasonably represented at all levels. However, this also takes into account whether there are female applicants available on the market with corresponding qualifications (e.g., metallurgy graduates or similar).

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

10.2. Market-oriented compensation systems

Employees of the SKW Metallurgie Group are compensated in line with the law and 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.

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.

SKW Metallurgie Group appreciates social care for its employees

In the USA, a large number of employees are offered additional 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 voluntary in some cases for employers. The SKW Metallurgie Group offers health insurance to many of its US employees, underscoring its responsibility to its employees. All the costs arising from this for the group are incurred directly and do not lead to unsecured obligations in future periods. Further details of the provisions for pensions can be found in the notes to the consolidated financial statements in Note D.23.

10.3. Trusting partnership with employees

SKW Stahl-Metallurgie Holding AG is the parent company of the SKW Metallurgie Group, and in the year under review it was not subject to co-determination because it was not subject to the general co-determination acts as a result of its employee numbers, nor were any of the German group companies an iron or steel producing operation within the meaning of the Montanmitbestimmungsgesetz. The company did not voluntarily participate in any co-determination in 2012 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 active 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 existing local 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. Particular value is attached to direct access to superiors, short decision-making paths and a high level of autonomous work.

10.4. Employees participate directly in corporate earnings

Most employees receive additional performance-related payments in line with corresponding statutory or contractual provisions, and thus participate directly in the commercial success of their respective group 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. The earlier share-price based remuneration components for members of the Executive Board and some select employees (phantom stock program) has expired. The fact that the workforce spans a large number of jurisdictions and language zones 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 low (under 10% in 2012 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 or the German RWTH Aachen. 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. Executive Board measured by results

The compensation structures in the entire SKW Metallurgie Group are governed by the principles of appropriateness, performance and transparency. This primarily applies to compensation for the Executive Board and Supervisory Board. The Supervisory and Executive Boards have consciously not used the statutory option to not disclose the Executive Board's remuneration in detail with the permission of the Annual General Meeting.

Good corporate governance serves as focal point

In line with excellent corporate governance and according to the statutory requirements, the SKW Metallurgie Group discloses the details of remuneration for the Supervisory and Executive Boards in the year under review below (remuneration report):

I. Supervisory Board:

The remuneration of the members of the Supervisory Board was modernized in anticipation of the changes made by the Government Commission in the GCGC 2012 in Item 5.4.6 para. 2 of the GCGC via a resolution by the Annual General Meeting on June 14, retroactively from January 1, 2012, which was passed with a large majority.

The new remuneration model exclusively includes fixed remuneration components and is thus broken down into annual fixed remuneration and meeting fees.

The annual fixed remuneration totals EUR 12 thousand for each member of the Supervisory Board; the Chairman receives 1.5 times this amount, his deputy receives 1.25 times this amount. Meeting fees are only paid for face-to-face meetings. For participating in meetings of the entire Supervisory Board, each member of the Supervisory Board receives a meeting fee of EUR 1 thousand. For participating in meetings of the committees, each member of the committee receives a meeting fee of EUR 1 thousand; the Chairman receives 1.5 times this amount. According to the new model for the Supervisory Board's remuneration, in 2012 expenses for the Supervisory Board's remuneration totaled the following:

Competitive remuneration structures for the Supervisory Board

EUR thousand	Fixed remuneration	Meeting fees	Total
Armin Bruch	12	10	22
Sabine Kauper	12	8	20
Dr, Dirk Markus	12	15	27
Jochen Martin	15	9	24
Dr, Christoph Schlünken	12	5	17
Titus Weinheimer	18	15	33
Total	**81**	**62**	**143**

For fiscal year 2011, the remaining payments made in 2012 were still processed as shown in the 2011 remuneration report.

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

In addition, the company bore the cost of D&O insurance, which protects members of the Managing and Supervisory Boards and other company executives. 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 works also advise the SKW Metallurgie Group on individual questions. According to Section 114 of the AktG, the Supervisory Board discusses and passes resolutions on the individual mandates in question in each case, prior to consultations starting, and in the absence of the Chairman of the Supervisory Board. As a result, in fiscal year 2012 there were no consulting mandates with the group's parent company, but only individual consultations for US subsidiaries.

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), Oliver Schuster (CFO) and Reiner Bunnenberg (COO). Mr. Schuster's activities as a member of the company's Executive Board commenced on March 1, 2012. As a result, he received remuneration for ten months for 2012 (pro rata basis); the other members of the Executive Board were members of the Board for the entire fiscal year.

The SKW Metallurgie Group has a modern, future-oriented remuneration system for its Executive Board.

Annual General Meeting has approved executive remuneration system with significant majority of votes

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. In so doing, the remuneration system for the Executive Board has followed the requirements of the Act on the Suitability of Executive Board Remuneration (VorstAG), was approved by the Annual General Meeting on June 9, 2010 (Section 120 (4) of the AktG, also known as "say on pay") and has had an unchanged structure since then.

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. Agreements with the Executive Board members in connection with any premature end of their activities as a Board member fully meet the requirements of the German Corporate Governance Code.

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.

The Executive Board's remuneration comprises performance-related and non-performance related components. The non-performance related remuneration includes the annual fixed remuneration, which is defined for the entire term of the respective member of the Executive Board, and is calculated for each partial calendar year on a pro rata basis and paid monthly as a salary. In addition, an extraordinary payment was made to Mr. Schuster for the first year of his activities. In addition, the members of the Executive Board receive non-cash remuneration, which is carried in the taxable amount and which is due equally to each member. This mostly relates to the company car which the Executive Board members can also use privately and on which the Executive Board members each individually pay tax, as well as to job-related insurance premiums that either do not constitute income under German income tax law, or which are subject to lump-sum taxation. As a result, the company bore the cost of D&O insurance, which protects members of the Managing and Supervisory Boards and other company executives. 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. Contributions to statutory pension and unemployment insurance are not deducted for the members of the Executive Board as they are exempted from the obligation for statutory pension and unemployment insurance.

The performance-related remuneration comprises components, which are referred to as the short-term incentive (STI) and long-term incentive (LTI) in line with their nature as an incentive. Meeting targets is capped for all of the performance-related remuneration components, and is only paid if a minimum target is met. Performance-related remuneration components are paid once per year after the level to which targets have been reached has been ascertained for the past fiscal year by the Supervisory Board during the annual meeting to discuss the financial statements.

High proportion of remuneration depends on success

With regard to the performance-related remuneration components which reoccur every year, collective and individual targets are agreed each year. The collective targets for all members of the Executive Board are equal and are based on earnings and cash flow (EBT and the 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.

Remuneration from the LTI is based on the degree to which targets are reached for the forecast return on capital employed (ROCE) over three years. The LTI has been set up as an annual rolling incentive with tranches of three years in each case. At least 50% of the LTI net payout must be held or invested in SKW Metallurgie shares on the payout date by each member of the Executive Board. These shares must be held for at least two years.

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 (Ines Kolmsee and Reiner Bunnenberg); Jamipol paid this group of people remuneration of INR 20,000 in fiscal year 2012 (corresponds to around EUR 275).

For fiscal year 2011, the remaining payments made in 2012 were still processed as shown in the 2011 remuneration report.

Over and above the details on the remuneration for the company's Executive Board, there are no advances, loans or liabilities in favor of the members of the Executive Board.

In 2012, the following amounts were spent on remuneration for the Executive Board (without the pension commitments detailed below; the taxable benefit is shown for the non-cash remuneration).

EUR thousand	Ines Kolmsee	Oliver Schuster from March 1, 2012	Reiner Bunnenberg	Total
Fixed compensation	350	165	150	665
Non-cash compensation (company car)	11	10	7	28
Subsidy to healthcare and nursing care insurance	3	3	3	9
Short-term incentive (STI)	79	28	34	141
Long-term incentive (LTI)	267	95	114	476
Total	**710**	**301**	**308**	**1,319**

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 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 expenses for remuneration for the Executive Board totaled EUR 278 thousand in 2012 according to the HGB, of which EUR 227 was for active members of the Executive Board, and according to IFRS this totaled EUR 231 thousand, of which EUR 226 thousand was for active members of the Executive Board. However, this amount not only takes the vested entitlements in 2012 into account, but also factors such as interest expenses.

III. Former members of the Supervisory and Executive Boards:

An amount of EUR 250 thousand was paid to Mr. Gerhard Ertl, a former member of the Executive Board, in the year under review according to the contractual prohibition on competition as detailed above in Section "II. Executive Board".

This fulfillment amount (HGB) for Mr. Ertl and his survivors totaled EUR 764 thousand on the balance sheet date (previous year: EUR 713 thousand). There are no other benefit commitments to former members of the company's Executive or Supervisory Boards or their surviving dependents.

11. Report on events after the balance sheet date

After the end of the year under review on December 31, 2012, there have been no transactions and events of significance to the SKW Metallurgie Group and the separate company SKW Stahl-Metallurgie Holding AG which occurred before this combined management report was compiled.

No events after balance sheet day to be disclosed

12. Report on opportunities and risks

12.1. Professional risk and opportunity management for the highest level of transparency

The SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG attach 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.

SKW Metallurgie Group emphasizes professional risk management

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.

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. 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 or qualitative aspects.

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

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

12.2. Presentation of individual risks for the SKW Metallurgie Group

As a result of the SKW Metallurgie Group's extensive risk management system and the evaluation of various sources outside the company (e.g. forecasts by economic research institutes), in particular the business policy risks detailed below were identified for SKW Stahl-Metallurgie Holding AG and its group companies (SKW Metallurgie Group). The order in which the risks are presented in the following section does not reflect the weighting or importance of the individual risks or the likelihood of their occurrence. The listed risks include all material risks that are currently identifiable. Other risks and uncertainties that are not currently known to the group or that the group currently considers to be immaterial could also have a significant impact on the group's operations and a long-term detrimental effect on the business prospects and the net assets, financial position and results of operations of the SKW Metallurgie Group. In addition, the risks are presented as gross risks; however, the respective net risk for some of the risk factors is significantly lower than the gross risk thanks to suitable activities (e.g., insurance).

Economic risk

SKW Metallurgie Group 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, for example as a result of insolvencies. It is also possible that customers could reduce their volume of business with the SKW Metallurgie Group, for example as a result of aggressive price policies by local competitors. 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 increase 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 SKW Metallurgie quality products inseparably belong together

The products that the SKW Metallurgie Group produces and sells, mostly in Europe, the Americas (NAFTA countries and Brazil) and in some Asian countries, in its two core segments of Cored Wire and Powder and Granules, are – either directly or indirectly – used almost exclusively in the steel-producing industry. Demand from the steel industry to the SKW Metallurgie Group is primarily driven by demand for high-quality steel products by the automotive, shipping and mechanical engineering industries and plant engineering for the chemical and petrochemical industries.

In the Quab segment, the group manufactures additives for the production of industrial starch that are mainly used in the paper industry. Although the emergence of electronic communication was predicted to bring an end to or at least a decline in the use of paper, this has proved not to be the case. In contrast, revenues in the paper industry have increased, roughly in line with the growth of the general economy. This is also explained by the fact that a significant proportion of paper products is not used for communication but, for example, for packaging or hygiene products. Another customer industry for Quab products is the personal care products markets, where Quab is used in shampoos, conditioners and shower gels. This industry is also relatively resistant to economic slowdowns, and is posting sharp growth in emerging economies such as India and China.

The economic success of the SKW Metallurgie Group is also determined by its research and development success. In this connection, there is a risk that patents may expire, with the previously protected methods then being used by competitors or customers themselves, resulting in a deterioration in the group's margins. The SKW Metallurgie Group minimizes this risk with active patent management: Expiring patents are extended if this is reasonable and possible. At the same time, the group registers new research results as patents and thus creates new technology advantages which compensate for old patents, which it may not be possible to extend.

Using other technology as a substitute for the group's products is not regarded as being very likely: The group supplies raw materials and services for all of the currently known technologies for hot metal desulphurization; substituting one technology (e.g., calcium carbide-based hot metal desulphurization) with another (e.g., magnesium-based hot-metal desulphurization) thus does not pose a risk to the group's business model. There is no known mature technology which could entirely replace hot metal desulphurization as a production stage in steel production. This could only concern the production of raw iron by direct reduction, where no hot metal desulphurization is required; this method could become more important as a result of lower priced energy from shale gas. However, the SKW Metallurgie Group also develops products for direct reduction, which means that the group's business model is by no means in danger.

Producing the entire requirements for steel just using scrap, which also does not require any hot metal desulphurization, will fail, in particular due to the limited availability of top quality scrap.

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 as higher steel quality goes hand in hand with higher requirements for SKW Metallurgie's 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

Procurement risks further reduced by vertical integration

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, which includes the central component of a calcium silicon furnace with an annual capacity of approx. 8,000 tons, in future the SKW Metallurgie Group will manufacture around one third 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 important to developing supplier relationships with providers outside of Europe due to a possible reduction in the production output of the sole supplier within Europe.

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

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

Magnesium procurement was secured over the long-term in 2007 thanks to 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 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 there it may not be possible to receive sufficient quantities of specific raw materials at sufficient prices at the desired time in the desired place. For some of the raw materials that the SKW Metallurgie Group requires, the markets have oligopolistic structures, which reinforces the strength 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 success factor for 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 and the country's low level of industrialization mean that there is limited highly qualified staff available, in particular with regard to certain special qualifications. Hiring employees from other countries is subject to challenges posed by the market and administrative rules.

A significant portion of the SKW Metallurgie Group's workforce is employed in the USA. According to the customs and underlying statutory conditions on this market, health insurance for part of the employees in the USA is provided by the employer. In the event of accidents or illnesses with exceptionally high treatment costs, there may be significant financial charges, including for the employer. The further development of this risk also depends on the outcome of the healthcare reform which is currently the subject of heated debate in politics in the USA.

Financial risk

The group's financial position is sound, which can mainly be seen in its moderate net financial debt as of the balance sheet date in the amount of EUR 73.9 million. Despite this, the company is exposed to financial risk, and in particular currency and raw material 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 D.38 and D.39 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.

SKW Metallurgie Group is active in numerous currency areas

The most important currencies for the group by far are 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 2013 and 2014 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, Japanese Yen, South Korean Won, Mexican Peso, Russian Ruble, Brazilian Real, Swedish Crown and Chinese Renminbi. Some of these currencies (e.g., the South Korean Won, Indian Rupee and Brazilian Real) are subject to relatively sharp fluctuations in exchange rates.

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

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

The SKW Metallurgie Group relies on long-term borrowing and – to finance its working capital – current borrowing. In this regard, in particular agreements are concluded with well-known banks for a specific amount of credit which the group can use if required. This category included, in particular, the master credit agreement concluded at the start of 2012 with a volume of up to EUR 45 million.[18] In addition, at the start of 2012 the SKW Metallurgie Group issued a promissory note loan with a total volume of EUR 45 million, which has mostly replaced existing borrowing.

There are agreements on key financial indicators for several of the SKW Metallurgie Group's credit agreements – so-called financial covenants. The participants regularly adjust the details of these to current developments. Violating these financial covenants gives creditors an extraordinary cancellation right.

18. During the course of the fiscal year, the master credit agreement was streamlined and on the balance sheet date it included three banks and a volume of up to EUR 40 million.

Compliance risks

The SKW Metallurgie Group engages in global trading (purchasing and sales) with a large number of products in a large number of jurisdictions. The SKW Metallurgie Group's trade relationships also include countries with complex sets of rules, which are subject to constant change, there is, in particular, the risk of not implementing these regulations throughout the group in good time or processing these.

Forward-looking compliance programme implemented

As a rule, there is a risk for all enterprises that employees or even executive bodies could violate the law either through a lack of knowledge or willfully. The SKW Metallurgie Group has implemented an end-to-end compliance program, headed by SKW Stahl-Metallurgie Holding AG as the group's parent company, in order to minimize these risks.

Based on the alleged violation of antitrust law with several companies coordinating their behavior in connection with marketing calcium carbide powder and magnesium granules, the European Commission issued penalty notices in July 2009, including against SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH, which include, in each case, joint liability with non-group companies (former parent companies of SKW Stahl-Metallurgie GmbH). The maximum possible fine which the SKW Metallurgie Group would have had to bear totaled EUR 13.3 million (joint 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 liability SKW Stahl-Metallurgie GmbH together with Evonik Degussa GmbH and AlzChem AG (formerly: AlzChem Hart GmbH) in the amount of EUR 1.04 million; cumulative joint liability by SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH limited to 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 contributed bank guarantees with a total amount of EUR 6.7 million (50% of the maximum fine) to defer foreclosure measures. This amount was carried as a provision at the subsidiary SKW Stahl-Metallurgie GmbH through to 2011 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 I fully rejected the suit filed by Gigaset AG in its ruling dated July 13, 2011 and in addition it decided that "the monetary fine 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 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 also ascertained that "it is not the defendant [SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH] that has to bear the monetary fine, 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 fine of EUR 13.3 million that was set from Gigaset AG. Gigaset AG has used the opportunity of filing an appeal against this decision with the Federal Supreme Court. However, to date only correspondence has been exchanged in this instance. According to rulings by the first

instances, however, a cash outflow for SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH has become so improbable 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.

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

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.

In 2011 the SKW Metallurgie Group was the victim of criminal schemes by suppliers from China; in particular inferior quality goods were delivered. Court proceedings are still pending in this regard; no additional economic impact is expected on the SKW Metallurgie Group.

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 from China. There was property damage; as far as the SKW Metallurgie Group is aware, no people were injured in this explosion. If this concerns material supplied by the SKW Metallurgie Group - which had still not been conclusively clarified on the date this management report was prepared -, 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. It cannot yet be foreseen whether there will be a conflict with this customer or a third party in this connection. The amount of any value under dispute in such a case cannot yet be estimated. As a reasonable provision has been formed as a purely precautionary measure, a negative impact on earnings in future is fairly improbable from this issue.

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 facilities in Russia and Bhutan). 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 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, 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

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; a large proportion of personnel expenses is also variable). 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 possible renewed economic crisis, with a correspondingly more major impact on earnings indicators. The Executive Board will follow general economic developments closely and will put corresponding activities in place if required in order to optimize the group's earnings. 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

Continously high proportion of variable costs (above EBITDA)

The SKW Metallurgie Group increased its production portfolio by adding furnace processes (production of calcium carbide in Sweden and calcium silicon in Bhutan) as part of its strategic backward integration. 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 two 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 metallurgy 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 (e.g., approval of plants by the German testing association TÜV-Süd).

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 have not currently been identified as being relevant for the company. The SKW Metallurgie Group's risk management system, which also includes the single-entity company SKW Stahl-Metallurgie Holding AG, as well as evaluations from sources outside the company (such as forecasts by economic research institutes) has, 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 risk

SKW Stahl-Metallurgie Holding AG strives for exclusive or at least majority ownership of the group in all group companies

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. In addition in individual cases there is explicit joint liability by the parent company for subsidiaries' liabilities. 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).

Compliance risks

As a rule, there is a risk for all enterprises that employees or even executive bodies could violate the law either through a lack of knowledge or willfully. The SKW Metallurgie Group implemented an end-to-end compliance program in 2010, headed by SKW Stahl-Metallurgie Holding AG as the group's parent company, in order to minimize these risks.

In connection with the fine imposed by the European Commission against SKW Stahl-Metallurgie Holding AG and its subsidiary SKW Stahl-Metallurgie GmbH due to the violation of antitrust law for calcium carbide and magnesium, the risk estimate has changed fundamentally as a result of the ruling passed in March 2012 by the Upper Regional Court in München. Since then, the risk of the company being called upon is regarded as being very low; details are included in the group Risk Report.

12.4. Overall assessment of risks

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.

No risks identified that could endanger continuation of business

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 production) and Russia (cored wire production for CIS countries), which will start regular production from 2013. In addition, the group wants to use its experience to become the leading provider in this country for secondary metallurgy (planned: to supply India with cored wire from Bhutan). In Brazil, the SKW Metallurgie Group significantly increased its capacities for sintered synthetic slag at the existing production facility This is an innovative product for secondary metallurgy and this increase helps to serve the high demand from customers in Brazil and other Latin American countries.

As a result of the transfer of these expansion projects into regular operations, 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 chances through enhanced value chain

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 further increased its real net output ratio by developing or acquiring its own raw material production also for other substances. This will not only allow a medium-term increase in EBITDA margins, but also reinforces the group's independence from external suppliers. This relates, in particular, to calcium silicon (a key raw material for cored wire production; new SKW Metallurgie production facility in Bhutan) and calcium carbide (a key raw material for hot metal desulphurization in the Powder and Granules segment; new SKW Metallurgie production facility in Sweden). 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 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 (so-called value-based pricing) between customers and the Affival group of companies, which belongs to the SKW Metallurgie Group, 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 (due to cost savings at the customer) and partly through further cost reduction at the SKW Metallurgie Group.

12.6. Accounting-related control systems

High standards of group-wide accounting and control standards

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

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

There is a management information system to make sure that the executive bodies of the parent company receive up-to-the-minute information. This system's standard reports include a weekly report (in particular on revenues and liquidity) and a more extensive monthly report. As part of these reports the risk management information stored in the system is reported 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 accounting and risk management positions. English is the group's common language to ensure that there are no problems with translation or communication world wide.

Corporate language English ensures global communication

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, an Internal Audit department was set up throughout the group in 2011. This department reports directly to the CEO.

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

13. Forecast: SKW Metallurgie looks to 2013 and 2014 with cautious optimism

13.1. Moderate global economic growth expected for 2013

Reserved optimism for global economy

The International Monetary Fund (IMF) is forecasting the global economy to grow by 3.5% in 2013. The bulk of this growth is forecast for the second half of the year. The largest factor with a negative impact is the sovereign debt crisis in the eurozone. As there are no sustainable methods to solve the crisis, economic growth of -0.2% is expected for the eurozone. However, the IMF believes that the situation in Europe will improve slightly in the second half of 2013. In total, experts believe that the effects of the debt issues in Europe will continue to have a perceptible impact on the global economy. If the USA succeeds in tackling the insecurities with regard to its budget consolidation, economic output is set to increase by 2.0% there. Industrialized nations can expect growth of 1.4%. The global economy will once again be driven by emerging and developing nations (up 5.5%). China's economy (up 8.2%) is expected to benefit from economic stimuli from the new government. In India too, where the gross domestic product is set to lift by 5.9%, the economic reforms that have been announced there will have a positive effect. Brazil's economy should be able to link in to the growth rates in prior years in 2013, up 3.5%, after weak growth in the previous year. Russia's economy is set to grow by 3.7%.

Despite the anticipated step-by-step improvements in the Euro sovereign debt problems, there is still a great deal of uncertainty surrounding a sustained and successful solution to the crisis. If, in contrast to expectations, the financial situation in individual eurozone countries should deteriorate, substantial effects on the global economy and corresponding differences to the current forecasts cannot be ruled out.

13.2. Steel industry expects step-by-step upswing in 2013

The majority of demand for the SKW Metallurgie Group's products stems from the steel industry. As a result, its growth plays a key role in the company's operating business. Subject to an easing in the situation in Europe, moderate impact from the resolved fiscal programs in the USA, and a recovery in the Chinese economy, the Worldsteel Association is forecasting demand for steel to increase step-by-step during 2013. Based on Worldsteel's forecasts for steel consumption, a 3.2% increase in global steel consumption is expected, taking this figure to a record-breaking 1,598 million tons. In the European Union, growth of 2.4% is forecast for 2013, following a downturn in steel production in 2012. However, Worldsteel still believes that demand for steel in the eurozone will be at a low level, with continued major differences between core and peripheral countries. Growth of 3.6% is forecast for NAFTA countries, the most important sales market for the SKW Metallurgie Group. Emerging markets will continue to play a leading role for steel demand in 2013; however, this will relativize somewhat. Steel consumption is expected to increase by 3.7% here. China will continue to dominate the world of steel, with forecast growth of 3.1%. As statements by industry experts are based on a publication from October 2012, forecasts are expected to be adjusted, at the latest, in the second quarter of 2013.

Growth in the other industries relevant for the SKW Metallurgie Group's special products - the copper and foundry industries, the gas industry and parts of 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.

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 produced are reflected practically one to one in demand for products that the SKW Metallurgie Group develops and sells. Due to the fact that emerging economies are less well equipped in terms of infrastructure and long-term consumer goods compared to industrial nations, substantial growth in steel production can also be expected for these countries in the coming years.

Steel production remains important indicator for the SKW Metallurgie Group

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. 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 2013 and 2014

The Executive Board believes that the expert opinions detailed above on the future growth of the overall economy and the steel industry as being the most probable scenario. This results in the following forecast for the SKW Metallurgie Group and the top level group company SKW Stahl-Metallurgie Holding AG for 2013 and 2014:

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. This relates, in particular, to the Swedish group company, whose products are primarily sold on the European market for technical reasons. In Brazil, irrespective of macroeconomic developments, competition has become more intense for key sales markets for the SKW Metallurgie Group. During the remainder of 2013 and 2014, 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 tackling new geographic markets in CIS countries and India, as well as via the development of new products (e.g., for DRI processes). The new plant in Bhutan will mostly supply the group and will thus generate practically no 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. EBITDA will also be driven by the new plants, which were characterized by start-up costs in 2012.

In terms of the balance sheet, the Executive Board is expecting a reduction in net financial debt in 2013 and 2014 as a result of the preliminary completion of the group's expansion.

The Executive Board believes that operating 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. The Cored Wire segment is expected to benefit to an above average extent from the positive impetus as a result of the removal of start-up costs and from the new plant in Bhutan.

Increase in EBITDA expected

In terms of products, the SKW Metallurgie Group will also focus on innovative, higher-margin products and services that offer significant added value for customers in 2013 and 2014.

The Executive Board believes that the group's top-level parent company, SKW Stahl-Metallurgie Holding AG will record net retained profits in 2013 and 2014 which will allow an attractive dividend to be paid. The future financial situation of the top-level parent company SKW Stahl-Metallurgie Holding AG is determined by income from the group transfer agreements and by dividends from subsidiaries to the group's parent company SKW Stahl-Metallurgie Holding AG. As a result, the future financial situation of the group's parent company SKW Stahl-Metallurgie Holding AG depends on the future earnings of its subsidiaries and second-tier subsidiaries, which, in turn, depend on the volume of production in the steel industry in the geographic markets they serve, as described above.

Unterneukirchen (Germany), March 11, 2013

SKW Stahl-Metallurgie Holding AG
The Executive Board

Ines Kolmsee
CEO

Oliver Schuster

Reiner Bunnenberg

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Consolidated income statement for the period from January 1 to December 31, 2012

EUR thousand	Notes	2012	2011
Revenues	1	404,608	428,925
Change in finished goods and work in progress finished goods and merchandise		119	-752
Own work capitalized		118	65
Other operating income	2	11,103	18,401
Cost of materials	3	-286,523	-310,374
Personnel expenses	4	-46,820	-43,987
Other operating expenses	5	-62,850	-61,474
Income from associated companies	7	1,010	904
EBITDA		**20,765**	31,708
Amortization of intangible assets and depreciation of property, plant and equipment	6	-10,457	-13,302
EBIT		**10,308**	18,406
Interest and similar income	8	139	346
Interest and similar expenses	9	-4,393	-2,523
EBT		**6,054**	16,229
Income taxes	10	-1,871	-4,441
Consolidated net income for the year		**4,183**	11,788
Thereof shareholders of SKW Stahl-Metallurgie Holding AG	11	4,257	12,191
Thereof non-controlling interests		-74	-403
Earnings per share (in EUR)*	12	**0.65**	1.86

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

Reconciliation to comprehensive income from January 1 to December 31, 2012

EUR thousand	2012	2011
Consolidated net income for the year	**4,183**	11,788
Net investments in a foreign operation	374	-361
Unrealized gains/losses from derivatives (hedge accounting)	447	274
Exchange rate fluctuations	-7,566	-2,089
Taxes on other result	-174	-107
Other result	**-6,919**	-2,283
Total result	**-2,736**	9,505
Thereof shareholders of SKW Stahl-Metallurgie Holding AG	-1,267	10,195
Thereof non-controlling interests	-1,469	-690

Consolidated balance sheet as of December 31, 2012

Assets in EUR thousand	Notes	Dec. 31, 2012	Dec. 31, 2011
Non-current assets			
Intangible assets	13	52,389	58,146
Property, plant and equipment	14	92,816	85,297
Interests in associated companies	15	4,793	4,514
Other non-current assets	19	536	623
Deferred tax assets	16	16,164	14,728
Total non-current assets		**166,698**	**163,308**
Current assets			
Inventories	17	54,904	65,100
Trade receivables	18	39,949	62,848
Income taxes	19	5,839	3,564
Other assets	19	6,370	10,546
Cash and cash equivalents	20	25,330	10,382
Total current assets		**132,392**	**152,440**
Total equity and liabilities		**299,090**	**315,748**

Equity and Liabilities in EUR thousand	Notes	Dec. 31, 2012	Dec. 31, 2011
Equity	21		
Subscribed capital		6,545	6,545
Share premium		50,741	50,741
Other comprehensive income		48,923	53,462
		106,209	110,748
Non-controlling interests		15,681	17,608
Total equity		**121,890**	**128,356**
Non-current liabilities			
Pension obligations	23	3,584	3,363
Other non-current provisions	25	2,787	2,415
Obligations from finance leases	24	22	0
Non-current financial liabilities	26	58,466	34,753
Deferred tax liabilities	16	13,535	15,743
Other non-current liabilities	28	660	1,236
Total non-current liabilities		**79,054**	**57,510**
Current liabilities			
Other provisions	25	2,174	2,482
Obligations from finance leases	24	36	0
Current financial liabilities	26	40,774	53,562
Trade payables	27	38,450	45,462
Income taxes		709	2,614
Other current liabilities	28	16,003	25,762
Total current liabilities		**98,146**	**129,882**
Total equity and liabilities		**299,090**	**315,748**

Consolidated statement of changes in equity as of December 31, 2012

Note 21 EUR thousand	Subscribed capital	Share premium	Other comprehensive income	Consolidated equity of majority shareholders	Non-controlling interests	Total equity
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**
Balance at Jan. 1, 2012	**6,545**	**50,741**	**53,462**	**110,748**	**17,608**	**128,356**
Consolidated net income for the year	0	0	4,257	4,257	-74	4,183
Exchange rate fluctuations	0	0	-5,232	-5,232	-2,334	-7,566
Income and expense carried under equity (without exchange rate changes)	0	0	-292	-292	939	647
Total result 2012	**0**	**0**	**-1,267**	**-1,267**	**-1,469**	**-2,736**
Dividend payment	**0**	**0**	**-3,272**	**-3,272**	**-458**	**-3,730**
Balance as of Dec. 31, 2011	**6,545**	**50,741**	**48,923**	**106,209**	**15,681**	**121,890**

Consolidated cash flow statement for fiscal year 2012

Note 30 EUR thousand		Jan. 1, 2012 - Dec. 31, 2012	Jan. 1, 2011 - Dec. 31, 2011
1.	Consolidated net income for the year	**4,183**	11,788
2.	Write-ups/write-downs of non-current assets	10,457	13,302
3.	Increase/decrease in provisions for pensions	221	472
4.	Income from associated companies	-572	-338
5.	Result from the disposal of non-current assets	-13	-477
6.	Result from currency conversion	**-1,215**	1,865
7.	Result from deferred taxes	**-3,381**	-3,134
8.	Own work capitalized	-118	-65
9.	Expenses from impairment of inventories and receivables	3,361	385
10.	Income from the reversal of negative differences	0	-,2,563
11.	Capitalization of interest on borrowing	-1,233	-1,016
12.	Other non-cash income and expense	-2,953	-3,740
13.	**Gross cash flow**	**8,737**	16,479
	Change in working capital		
14.	Increase/decrease in other provisions	64	-4,669
15.	Increase/decrease in inventories (after advance payments received)	10,042	-10,503
16.	Increase/decrease in trade receivables	19,989	-5,758
17.	Increase/decrease in other receivables	63	4
18.	Increase/decrease in trade receivables	-2,274	-1,647
19.	Increase/decrease in other assets	3,870	-242
20.	Increase/decrease in trade payables	-7,011	6,072
21.	Increase/decrease in other liabilities	-1,936	1,825
22.	Increase/decrease in other equity and liabilities	-1,128	4,553
23.	**Net cash provided by (+)/used in (-) operating activities**	**30,416**	6,114
24.	Income from the disposal of assets	529	1,418
25.	Payments for investments in non-current assets	-14,860	-30,623
26.	Payments for investments in current assets from acquisitions	0	-2,585
27.	Downstream purchase price paid for corporate acquisitions	-8,039	-2,079
28.	**Net cash provided by (+)/used in (-) investing activities**	**-22,370**	-33,869
29.	Increase/decrease in liabilities from finance leases	58	-27
30.	Dividend payment - SKW Stahl-Metallurgie Holding AG	-3,272	-3,272
31.	Dividend payments to non-controlling interests	-458	-63
32.	Payments for the repayment of loans to third parties	0	-735
33.	Income from taking out bank loans	35,978	32,453
34.	Payments for the repayment of bank loans	-25,054	-1,069
35.	**Net cash provided by (+)/used in (-) financing activities**	**7,252**	27,287
36.	Cash and cash equivalents – start of period	10,382	10,956
37.	Change in cash and cash equivalents	15,298	-468
38.	Currency translation for cash and cash equivalents	-350	-106
39.	**Cash and cash equivalents - end of period**	**25,330**	10,382

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Notes to the consolidated financial statements for fiscal year 2012

A. GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

SKW Stahl-Metallurgie Holding AG in Unterneukirchen (Germany), or "SKW Metallurgie" or the "Company" is an Aktiengesellschaft (joint-stock company) under German law and the parent company of the SKW Metallurgie Group. 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 Metallurgie Group mostly comprise the acquisition, production and sale of chemical additives for hot metal desulfurization and steel refining as well as the associated technical application support for steel plants in these areas. In addition, it also produces and sells specialty chemicals for the production of industrial starch and bodycare products.

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

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

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

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

All of the IFRSs and IASs and interpretations of the IFRS Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC) that were binding for fiscal year 2012 were upheld. The consolidated financial statements also include further information required under the Section 315a (1) of the Handelsgesetzbuch (HGB – German Commercial Code) and the Aktiengesetz (AktG – German Joint-stock Companies Act). The consolidated financial statements were prepared based on the going concern principle.

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 fiscal years starting on January 1, 2012, and the European Union has endorsed these to become European law:

→ Amendments to IFRS 7, Financial Instruments: Disclosures – Transfer of Financial Assets

In the current fiscal year, the SKW Metallurgie Group applies this amendment to IFRS 7 "Disclosures – Transfer of Financial Assets". The changes augment the disclosure requirements for transactions connected with the transfer of financial assets in order to create improved transparency with regard to presentation of the risk situation.

During the fiscal year, trade receivables were transferred to a bank for cash. As the SKW Metallurgie Group has transferred the material opportunities and risks in connection with these receivables, the respective receivables were removed from the balance sheet. The corresponding disclosures in the notes for the transfer of trade receivables were made under application of the amended IFRS 7. In line with the transition requirements for IFRS 7, the SKW Metallurgie Group does not provide any comparable information for the information in the notes.

The following standards are to be applied for the first time in fiscal years starting on or after July 1, 2011:

→ Amendments to IFRS 1, Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The amendments to IFRS 1 include two changes. The first change replaces the reference to a fixed changeover date "January 1, 2004" with "the date of the transition to IFRS". The second change provides application guidelines as to how to proceed when presenting financial statements that conform to IFRS if a company was not able to uphold the IFRS requirements for a period as its functional currency was subject to severe hyperinflation.

The following standards are to be applied for the first time in fiscal years starting on or after January 1, 2012:

→ Amendments to IAS 12, Income Taxes: Deferred Tax: Recovery of Underlying Assets.

As a result of the change to IAS 12, an exceptional regulation is introduced to the standard to regulate IAS 12.51 for investment properties measured at fair value. IAS 12.51 stipulates that deferred taxes are to be measured at the tax consequence that is to be expected from the expected manner of recovery of the underlying asset (or liability). For investment properties measured at fair value, deferred tax assets and liabilities are to be measured based on the tax consequences of a sale according to a new paragraph 51C in contrast to the previous regulation, unless the accounting party provides clear

evidence that they plan to realize the carrying amount of the asset in full via its use. The new regulation is primarily of importance for countries in which the use and sale of such assets are subject to different taxation. Application of this amendment does not have any impact on the consolidated financial statements for the SKW Metallurgie Group.

The following standards are to be applied for the first time in fiscal years starting on or after July 1, 2012:

- Amendment to IAS 1, Presentation of Financial Statements: Presentation of Other Comprehensive Income.

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 July 1, 2012, earlier application is permitted. The SKW Metallurgie Group does not currently believe that, with the exception to the changed presentation set out above, this will have any further consequences for the presentation of the income statement and the other comprehensive income.

The following standards are to be applied for the first time in fiscal years starting on or after January 1, 2013:

- IAS 19 (2011) (Employee Benefits)

- Amendments to IFRS 7 (Offsetting of Financial Assets and Liabilities)

- IFRS 13 (Fair Value Measurement)

- IFRC 20 (Stripping Costs in the Production Phase of a Surface Mine)

IASB published IAS 19 Employee Benefits in June 2011. The revised IAS 19 eliminates the corridor method, and therefore demands that an entity recognize 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. It is permitted to apply it ahead of time. The SKW Metallurgie Group will apply the revised pronouncement from fiscal year 2013. The amended IAS 19 requires retroactive application and presentation of the impact from first time application on the opening balance sheet. The main impact will be that the removal of the corridor method, which the SKW Metallurgie Group has used in the past, will mean that the actuarial losses of EUR 1,835 thousand that were not recognized in the past, will increase pension obligations and will cause a corresponding reduction in equity.

The IASB has revised the regulations for the netting of financial assets and financial liabilities and published the results on December 16, 2011 in the form of Amendments to IFRS 7, Financial Instruments: Disclosures. The changes to IFRS 7 demand that information is provided on offsetting rights and associated agreements (e.g. collateral requirements) in an implementable master offset-

ting agreement or a corresponding agreement. The information must be provided retroactively for all comparable periods. The SKW Metallurgie Group believes that application of the amendments in IFRS 7 could lead to more detailed information in future with regard to the offsetting of financial assets and liabilities.

In May 2011 the IASB published the new standard IFRS 13 Fair Value Measurement. IFRS include 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 will lead to additional disclosures in the notes.

IFRIC 20 is based on stripping costs that result during the production phase of a surface mine. According to the interpretation, the stripping costs (stripping activity) which create improved access to ore, are recorded as non-current assets if specific criteria have been met. In contrast, ongoing stripping costs are to be carried under IAS 2. The asset from stripping activity is understood as being an increase in or improvement to an existing asset, and is classified as being tangible or intangible, depending on the nature of the asset for which the stripping activity increases the benefits. IFRIC 20 is to be applied for fiscal years beginning on or after January 1, 2013. The interpretation spans transitional regulations for first-time applicants. Application of IFRIC 20 is mandatory for stripping costs which were incurred in the earliest presented comparable period. The SKW Metallurgie Group believes that IFRIC 20 will not have any impact on the consolidated financial statements, as the group does not perform any of the activities described.

The following standards are to be applied for the first time in fiscal years starting on or after January 1, 2014:

- Amendments to IAS 32 (Offsetting of Financial Assets and Liabilities)
- IFRS 10 (Consolidated Financial Statements)
- IFRS 11 (Joint Arrangements)
- IFRS 12 (Disclosure of Interests in Other Entities)
- IAS 27 (2011) (Separate Financial Statements)
- IAS 28 (2011) (Interests in Associated Companies and Joint Ventures)

The IASB has revised the regulations for the netting of financial assets and financial liabilities and published the results on December 16, 2011 in the form of Amendments to IAS 32, Financial Instruments: Disclosures. The amendments to IAS 32 clarify existing problems for application with regard to the conditions for offsetting financial assets and liabilities. In particular the amendments clarify the meaning of the terms “current enforceable right for offsetting” and “simultaneous realization

and fulfillment". The SKW Metallurgie Group believes that application of the amendments in IAS 32 could lead to improved presentation in future with regard to the offsetting of financial assets and liabilities.

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).

Amendments to IFRS 10, IFRS 11 and IFRS 12 were published in June 2012, in order to clarify the regulation of specific transitional guidelines for first-time application. Application of the five new standards, including the changes to the transitional guidelines is mandatory for fiscal years beginning on or after January 1, 2014. Earlier application is permitted, if all five standards are applied at the same time. The SKW Metallurgie Group is currently still reviewing the impact from application on the consolidated financial statements and will define the exact date of application after a corresponding analysis.

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 amended standards is mandatory for companies in the EU for fiscal years beginning on or after January 1, 2014. 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 what the impact from application will be on the consolidated financial statements of the SKW Metallurgie Group, as a corresponding analysis has not yet been completed.

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 the SKW Metallurgie Group believes that these will not have any material impact on the SKW Metallurgie Group's consolidated financial statements:

- Annual improvements 2011 (various standards and interpretations)
- Amendments to IFRS 1 (Government Loans)
- IFRS 9 (2010) (Financial Instruments)
- Amendments to IFRS 10, IFRS 12 and IAS 27 (Investment Companies)

The 2011 annual improvements encompass a large number of changes to various standards. The changes are to be applied for fiscal years beginning on or after January 1, 2013. The amendments affect the following standards:

- IFRS 1 First-time Application of International Financial Reporting Standards
- IAS 1 Presentation of Financial Statements
- IAS 16 Property, Plant and Equipment
- IAS 32 Financial Instruments: Presentation
- IAS 34 Interim Reporting

IFRS 1 clarified that it is possible, under certain conditions, to apply IFRS 1 repeatedly, and that first-time applicants of IFRS may apply the regulations of IAS 23, Borrowing Costs, from the date of the transition to IFRS or from an earlier date according to IAS 23.28. IAS 1 demands that enterprises prepare a third balance sheet as of the start of the comparable period, if accounting and valuation methods are applied retroactively or if balance sheet items have been adjusted or reclassified retroactively. The changes to IAS 1 clarify that an obligation to prepare the third balance sheet only applies if the retroactive adjustments have a material impact on the information in the third balance sheet. In addition, it clarifies that no information has to be provided in the notes on the third balance sheet. The changes in IAS 16 clarify that replacement parts, replacement equipment and maintenance equipment are to be classified as property, plant and equipment if they meet the definition criteria for this. Otherwise they are to be treated as inventories. The changes to IAS 32 clarify that income taxes in connection with disbursements to holders of an equity instrument and in connection with the costs of an equity transaction are to be treated according to IAS 12. The change to IAS 34 brings this standard into line with IFRS 8, Business Segments. This clarifies that the disclosure of segment assets and liabilities in the interim report is only required if this is also part of regular reporting to the primary decision maker in the company, and that there have been major changes in this regard since the last published annual financial statements.

The amendments to IFRS 1 (Government Loans) introduces a new exception to what is fundamentally retrospective application of the IFRS by first-time applicants. Accordingly, the regulation in IAS 20.10A applies. This states that government loans that are granted at an interest rate that is lower than the market rate must be carried according to the regulations of IAS 39 (or in future IFRS 9) and thus at their fair value, and prospectively for government loans with lower interest rates that are granted on or after the transition date. For government loans that already exist on the transition date, the valuation can thus be performed based on the previous accounting standards for the IFRS opening financial statements. Voluntary retrospective application is permitted, to the extent that information was already available on the fair values of loans granted earlier when these were carried in the financial statements for the first time.

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. IFRS 9, which was amended in October 2010, also includes regulations on the classification and valuation of financial liabilities and their derecognition. 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. However, a reliable estimate of the impact of application of IFRS 9 can only be made when a detailed analysis has been performed.

In October 2012 the IAS published changes to IFRS 10, IFRS 12 and IAS 28 in “Investment Entities”, which relate to accounting for investment companies. The changes include a definition of investment entities and as a rule they exclude such investment entities from the obligation to consolidate subsidiaries under IFRS 10; instead these are to be recognized in income at fair value. In addition, information must be provided in the notes for investment entities. The changes are to be applied for fiscal years beginning on or after January 1, 2014, earlier application is permitted. At present, the SKW Metallurgie Group does not currently believe that the changes are relevant to the SKW Metallurgie Group.

B. GROUP OF CONSOLIDATED COMPANIES AND CONSOLIDATION METHODS

SKW Stahl-Metallurgie Holding AG's consolidated financial statements as of December 31, 2012 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 re-assessed, the proportion of the fair value of the acquired identifiable net assets attributable to the group is larger than the amount of the compensation transferred, the amount of the non-controlling interests in the acquired company and the fair value of the equity interest previously held by the acquiring parts in the acquired company (if present), the excess amount is to be recognized in income immediately as profit.

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

There were no sales or acquisitions of companies in the SKW Metallurgie Group in fiscal year 2012.

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.

The balance sheet dates of the companies included in consolidation are the same as that of the parent company.

The group of consolidated companies has not changed compared to December 31, 2011 and can be seen 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. Investment in associates are equity-accounted and are initially carried at cost. The difference between the costs of the interests in associated companies and the SKW Metallurgie Group's interests in these companies' net assets is initially allocated to adjustments from the measurement of the acquired net assets at fair value. The excess amount is goodwill. The goodwill which results from the acquisition of an associated company is included in the carrying amount of the associated company and is not subject to scheduled amortization, but rather the entire carrying amount of the associated company is tested for impairment. The group's share of the profits and losses of associated companies is recorded from the date of the acquisition in the income statement, the share of changes to reserves is recorded under consolidated reserves. The accumulated changes after the acquisition are offset against the book value of the interest.

Jamipol Ltd. was included in the consolidated financial statements at equity. The foundation for this is the interim financial statements prepared as of the group's balance sheet date.

Segment reporting

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

C. 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 expenses

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

Financial result

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

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

Borrowing costs

Borrowing costs are capitalized in the group if a substantial period is required to produce an asset, in order to ready this for its intended use. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset must be capitalized as part of the cost of that asset. In the case of borrowing which is taken out not to specifically finance the acquisition, the construction or the production of a qualified asset (general borrowing), the amount of the borrowing costs to be capitalized is to be determined by multiplying the expenses for the acquisition, the construction or the manufacture with the borrowing cost rate to the extent that the expenses were not already financed using borrowing taken out specially to finance the acquisition, the construction or the manufacture of the qualified asset. This borrowing cost rate is the weighted average of the borrowing costs for this type of credit at the SKW Metallurgie Group that existed during the period of the acquisition, the construction or the manufacture of the qualified asset and is not taken out especially for the creation of a qualified asset.

Income taxes

Income tax expenses are the total of 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 is 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 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 differ-

ence 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 using the straight line method. Useful lives (generally three to fifteen years) 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 scope 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 scope of IAS 36.

Amortization is according to the straight line method over a useful life that is generally determined in a uniform manner according to the following categories:

- 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
- Customer base: 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 as cost 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 items of property, plant and equipment, 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 installations: 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 group companies 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 applies, 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 twelve months of the balance sheet date.

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

Realized and unrealized gains and losses arising from the change in the fair value of assets in the category "recognizable in income at their respective fair value" are recognized in income in the period in which they arise. Non-realized gains from changes to the fair value of 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 reduction is considered to be significant if it is at least 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 expense as soon as there is an objective indication of impairment. The amount of the impairment corresponds to the difference between the acquisition costs (less any repayments and amortization) and the actual fair value, less any write-downs recognized as expenses in the past for the financial asset. 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 with 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 provisions 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 are 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 insurance. 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 twelve 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

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). In 2012 the functional currency was changed from BTN (Bhutanese Ngultrum) to USD (US dollars) for the subsidiary SKW-Tashi Metals & Alloys Private Limited, as the USD is the currency with the greatest influence on the selling prices for the goods produced.

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	
EUR 1		Dec. 31, 2012	Dec. 31, 2011	2012	2011
Bhutan	BTN	72,5600	68,7130	68,5973	64,8446
Brazil	BRL	2,7036	2,4159	2,5084	2,3255
People's Republic of China	CNY	8,2207	8,1588	8,1052	9,0020
Hong Kong	HKD	10,226	10,0510	9,9663	10,8399
India	INR	72,5600	68,7130	68,5973	64,8446
Japan	JPY	113,6100	100,2000	102,4919	111,0198
Canada	CAD	1,3137	1,3215	1,2842	1,3762
Mexico	MXN	17,1845	18,0512	16,9029	17,2782
Russia	RUB	40,3295	41,7650	39,9262	40,8778
Sweden	SEK	8,5820	8,9120	8,7041	9,0287
South Korea	KRW	1,406,2300	1,498,6900	1,447,6913	1,541,3653
Turkey	TRL	2,3551	2,4432	2,3135	2,3367
US	USD	1,3194	1,2939	1,2848	1,3924

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 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 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 cash flow hedge (interest rate swap) used to hedge interest rate risks was removed in 2012. 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. In 2012 other operating income includes grants of EUR 100 thousand, carried under other operating income.

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 are to 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 identified. 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 is 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 adequate, 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 2012 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, 2012 the total impairment of trade receivables totaled EUR 2,911 thousand (previous year: EUR 16 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.

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

1. Revenues

The group's revenues of EUR 404,608 thousand (previous year: EUR 380,820 thousand) relate mostly 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 (Item 29). Revenues include order-based income from non-current construction contracts totaling EUR 1,883 thousand (previous year: EUR 287 thousand).

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

EUR thousand	Dec. 31, 2012	Dec. 31, 2011
Aggregate amount of costs incurred and recognized profits (less recognized losses) to date	4,741	11,111
Advance payments received	5,883	11,848
Amounts retained by customers	0	0

On the balance sheet date there were construction contracts with a credit balance from customers totaling EUR 7 thousand (previous year: EUR 1,503 thousand) and with a debit balance from customers totaling EUR 1,130 thousand (previous year: EUR 2,304 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

Other operating income is broken down as follows:

EUR thousand	2012	2011
Income from the derecognition of liabilities	1,054	6,351
Income from exchange rate fluctuations	8,291	5,909
Income from the disposal of non-current assets	15	35
Income from writing up receivables	0	0
Income from insurance	136	2,597
Income from service agreement with the associated company Jamipol	46	46
Income from oncharged electricity costs	311	0
Income from payments received from receivables written off	132	0
Income from the reversal of negative differences (bargain purchase)	0	2,563
Other operating income	1,118	900
Total	**11,103**	**18,401**

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

3. Cost of materials

The cost of materials is broken down as follows:

EUR thousand	2012	2011
Raw materials, consumables and supplies	249,929	251,792
Goods purchased	30,671	53,034
Services purchased	2,918	2,611
Other	3,005	2,937
Total	**286,523**	**310,374**

The cost of materials primarily relates to the Cored Wire segment at an amount of EUR 133,126 thousand (previous year: EUR 140,728 thousand) and the Powder and Granules segment in the amount of EUR 132,436 thousand (previous year: EUR 147,105 thousand).

4. Personnel expenses

Personnel expenses relates to the following items:

EUR thousand	2012	2011
Wages and salaries	35,346	32,943
Social security contributions, expenses for pension plans	11,474	11,044
Total	**46,820**	**43,987**

Personnel expenses primarily relate to the Cored Wire segment at an amount of EUR 14,322 thousand (previous year: EUR 13,544 thousand) and the Powder and Granules segment in the amount of EUR 28,560 thousand (previous year: EUR 26,278 thousand).

5. Other operating expenses

Other operating expenses are broken down as follows:

EUR thousand	2012	2011
Outgoing freight/transport costs	18,530	16,745
General and administrative expenses	4,891	4,878
Commissions	4,199	5,534
Expenses for land and buildings	2,911	2,335
Expenses from exchange rate fluctuations	6,998	8,509
Tax on costs in France (taxe professionelle)	317	342
Consulting costs	3,511	3,334
Marketing and entertainment expenses	3,206	3,043
Loss from the disposal of assets	1	0
Write-downs on receivables	3,163	340
Research and development (material costs)	375	468
Repairs and maintenance	3,702	3,272
Insurance	1,740	1,357
Temporary staff	318	380
Operating safety	464	428
Expenses for fraud when purchasing raw materials in China	316	1,758
Non-period obligations from raw materials purchases	0	1,385
Other expenses	8,208	7,366
Total	**62,850**	**61,474**

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 1,010 thousand (previous year: EUR 904 thousand) results solely from the company Jamipol Ltd., Jamshedpur (India).

8. Interest and similar income

Other interest and similar income of EUR 139 thousand (previous year: EUR 346 thousand) mostly results from the interest on current bank balances of EUR 81 thousand (previous year: EUR 204 thousand).

9. Interest and similar expenses

The interest and similar expenses of EUR 4,393 thousand (previous year: EUR 2,523 thousand) results from liabilities to banks of EUR 3,088 thousand (previous year: EUR 2,162 thousand), expenses for the reversal of the interest rate swap for the ESM Group Inc. totaling EUR 511 thousand (previous year EUR 0 thousand), commission for the provision of credit lines with banks in the amount of EUR 192 thousand (previous year: EUR 192 thousand) guarantee commission totaling EUR 218 thousand (previous year: EUR 166 thousand) and interest on other liabilities in the amount of EUR 384 thousand (previous year: EUR 121 thousand). These include, in full, financial liabilities not measured at fair value. Interest expense includes expenses of EUR 252 thousand (previous year: 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 1,871 thousand carried in the year under review (previous year: EUR 4,441 thousand) is broken down as follows:

EUR thousand	2012	2011
Deferred tax expense/income	5,252	7,574
Deferred taxes	3,152	3,780
Deferred tax assets	-6,533	-6,913
Total deferred tax assets/liabilities	-3,381	-3,133
Total income tax expense/income	**1,871**	**4,441**

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 285 thousand (previous year: EUR -36 thousand).

The following reconciliation statement shows the differences between the tax expenses recognized and the anticipated tax expenses. The expected income tax expense arises from the earnings before taxes multiplied by the group's income tax rate. This income tax rate includes German corporation tax, the solidarity surcharge and trade tax, and totaled 29.69% in the year under review as was the case in the previous year.

EUR thousand	2012	2011
Earnings before taxes	6,054	16,229
Income tax rate	29.69%	29.69%
Anticipated income taxes	1,798	4,818
Tax allocations and settlements	-1,432	-71
Other tax effects taken directly to equity	999	-779
Impact of different income tax rates	1,042	491
Non-period tx income	-284	36
Income from associated companies	-285	-263
Other tax effects	33	209
Recognized tax expense/income	**1,871**	**4,441**
Effective tax rate	30.91%	27.36%

11. Non-controlling interests in consolidated earnings

The consolidated net income for the period of EUR 4,183 thousand (previous year: EUR 11,788 thousand) includes non-controlling interests of EUR -74 thousand (previous year: EUR -403 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. Earnings per share for the reporting period amounted to EUR 0.65 per share.

EUR thousand	2012	2011
Consolidated earnings in EUR thousand	4,183	11,788
Adjusted by: Non-controlling interests in EUR thousand	74	403
Earnings attributable to shareholders of SKW Stahl-Metallurgie Holding AG in EUR thousand	4,257	12,191
Weighted average number of shares in circulation in the period under review in thousand	6,545	6,545
Earnings per share in EUR	**0.65**	**1.86**

Diluted earnings per share correspond to basic earnings per share.

13. Intangible assets

During the year, development costs totaling EUR 121 thousand (previous year: EUR 189 thousand) were capitalized. The development costs were capitalized at Affival S.A.S and relate to various projects.

During the year, own work capitalized in the amount of EUR 118 thousand (previous year: EUR 65 thousand was due in full to development costs (previous year: EUR 65 thousand).

Total R&D expenses of EUR 1,443 thousand were recognized in income by the group (previous year: EUR 2,031 thousand). Of this total EUR 978 thousand is due to personnel expenses (previous year: EUR 1,520 thousand), EUR 375 thousand (previous year: EUR 468 thousand) is due to material costs and EUR 90 thousand (previous year: EUR 43 thousand) is due to amortization and depreciation.

Intangible assets changed as follows during the fiscal year:

EUR thousand	Concessions, industrial and similar rights and assets	Goodwill	Customers	Brand name	Internally generated intangible assets	Other intangible assets	Total
Acquisition costs at Jan. 1, 2012	**2,487**	**27,677**	**16,702**	**15,319**	**1,771**	**11,315**	**75,271**
Currency translation	-26	-1,174	-1,016	-957	-23	-1,027	-4,223
Exits from group	0	0	0	0	0	0	0
Additions	184	0	0	0	121	1	306
Disposals	0	0	0	0	-131	0	-131
Revaluations from purchase price allocation	0	-83	0	0	0	0	-83
Reclassifications	245	0	0	0	-245	0	0
Balance at Dec. 31, 2010	**2,890**	**26,420**	**15,686**	**14,362**	**1,493**	**10,289**	**71,140**
Amortization/depreciation on Jan. 1, 2012	**-1,171**	**0**	**-6,453**	**0**	**-1,026**	**-8,475**	**-17,125**
Currency translation	14	0	389	0	17	831	1,251
Additions	-433	0	-1,705	0	-82	-788	-3,008
Disposals	0	0	0	0	131	0	131
Revaluations from purchase price allocation	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0
Balance at Dec. 31, 2012	**-1,590**	**0**	**-7,769**	**0**	**-960**	**-8,432**	**-18,751**
Net carrying amount on Dec. 31, 2012	**1,300**	**26,420**	**7,917**	**14,362**	**533**	**1,857**	**52,389**

The revaluation from the purchase price allocation in the amount of EUR -83 thousand for goodwill relates to the reduction 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 are sold for hot metal desulphurization. It is to be assumed that it will be possible to use these markets for a very long time according to current information, however it is not possible to determine the period of use. The useful life of the brand thus has to be viewed as being indefinite. Use of the “ESM” brand depends on the technology used for hot metal desulfurization. As the useful life of this technology cannot be determined according to current knowledge, the useful life of the brand is also to be regarded as indefinite.

The year-on-year change is as follows:

EUR thousand	Concessions, industrial and similar rights and assets	Goodwill	Customers	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 on 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 on Dec. 31, 2011	**1,316**	**27,677**	**10,249**	**15,319**	**745**	**2,840**	**58,146**

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, 2012	Dec. 31, 2011
ESM Group Inc.		
Goodwill	16,925	17,259
Brand name	7,579	7,729
Tecnosulfur S/A		
Goodwill	9,495	10,417
Brand name	6,783	7,591

Goodwill impairment

The annual impairment testing performed on December 31, 2012 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 (as was the case in the previous year) 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 of companies comprises the US ESM Group Inc. as well as its subsidiaries ESM Metallurgical Products Inc. in Canada and ESM Tianjin Co. Ltd. in China. The recoverable amount was determined by calculating the value in use using the discounted cash flow method. The projected cash flows from the bottom-up five-year plan were used. The value in use is generally calculated on the basis of expected inflation for the country and the estimated sales growth rate. Both past data and the forecast market performance were used in this calculation. In calculating the value in use, the perpetuity included a growth rate of 2% (previous year: 2%) and a pre-tax discount rate of 10.95% (previous year: 12.91%). This rate for the total cost of capital used is based on the risk-free interest rate of 2.94% (previous year: 2.91%) and a risk premium on equity of 6.0% (previous year: 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, 2012 (as was the case on the previous year's balance sheet date). In addition, valuation scenarios were conducted, in which even a pre-tax discount rate of 14.25% (previous year: 21.22%) and an assumed 1% (previous year: 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% (previous year: 3%) and a pre-tax discount rate of 17.21% (previous year: 19.63%). The 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 1.34 (previous year: 1.46) was used as the country risk coefficient (Brazil/Germany). The risk-free interest rate for Germany is 2.12%, (previous year: 2.39%) the market risk premium for equity is 6.0% (previous year: 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, 2012 (as was the case on 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 21.86% (previous year: 27.48%) and an assumed 1% (previous year: 1%) growth rate in the perpetuity would not lead to any goodwill impairment.

Brand name impairment

As of December 31, 2012, 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 was the case in the previous year), 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. The valuation parameters used for the growth rate and discount rate are identical with those used to calculate the impairment of goodwill.

Intangible assets that are of material importance for the financial statements

There are no individual intangible assets that are of material importance for the financial statements.

14. Property, plant and equipment

Property, plant and equipment changed as follows during the fiscal year:

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, 2012	**4,898**	**10,884**	**46,369**	**7,456**	**41,836**	**111,443**
Currency translation	-134	-767	-2,384	-236	-170	-3,691
Additions to consolidated group	0	0	0	0	0	0
Additions	0	3,861	3,552	487	9,962	17,862
Disposals	0	0	-69	-245	0	-314
Revaluations from purchase price allocation	0	-153	0	0	0	-153
Reclassifications	-18	5,678	37,943	513	-44,116	0
Balance at Dec. 31, 2012	**4,746**	**19,503**	**85,411**	**7,975**	**7,512**	**125,147**
Amortization/depreciation on Jan. 1, 2012	**-93**	**-3,738**	**-18,230**	**-4,034**	**-51**	**-26,146**
Currency translation	3	262	623	144	-2	1,030
Additions	-70	-844	-5,525	-1,019	0	-7,458
Disposals	0	0	44	199	0	243
Revaluations from purchase price allocation	0	0	0	0	0	0
Reclassifications	0	0	1	-1	0	0
Balance at Dec. 31, 2012	**-160**	**-4,320**	**-23,087**	**-4,711**	**-53**	**-32,331**
Net carrying amount on Dec. 31, 2012	**4,586**	**15,183**	**62,324**	**3,264**	**7,459**	**92,816**

The property, plant and equipment of includes leased property, plant and equipment of EUR 385 thousand (previous year: EUR 485 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 187 thousand is due to buildings (previous year: EUR 201 thousand), and EUR 198

thousand is due to technical equipment (previous year: EUR 284). In addition, of the property, plant and equipment EUR 6,853 thousand (previous year: EUR 9,450 thousand) has been provided as loan collateral to local banks.

As of December 31, 2012, the SKW Metallurgie Group had contractual obligations for the purchase of property, plant and equipment totaling EUR 478 thousand (previous year: EUR 5,086 thousand).

In 2012, borrowing costs of EUR 910 thousand (previous year: EUR 1,279 thousand) were capitalized at SKW-Tashi Metals & Alloys for the low shaft furnace. The borrowing rate used to determine the amount which can be capitalized totaled 6.42% (previous year: 6.42%) for borrowing. This was taken out especially for the procurement of the qualified asset and 3.79% (previous year: 4.05%) 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, 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 on 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 al-location	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 on Dec. 31, 2011	**4,805**	**7,146**	**28,139**	**3,422**	**41,785**	**85,297**

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, 2012. During the fiscal year from April 1, 2011 to March 31, 2012, this company recorded revenues of EUR 25,718 thousand (previous year: EUR 20,922 thousand) and annual net income of EUR 2,826 thousand (previous year: EUR 2,949 thousand), translated using the average rate of exchange for 2012. Total assets in the financial statements as of March 31, 2012

amounted to EUR 11,733 thousand (previous year: EUR 7,894 thousand), equity totaled EUR 9,522 thousand (previous year: 7,539 thousand) and liabilities totaled EUR 1,922 thousand (previous year: EUR 355 thousand). On the date this company's fiscal year ended, Jamipol Ltd. had contingent liabilities of EUR 393 thousand (previous year: EUR 415 thousand).

The at-equity-approach was applied as follows in fiscal year 2012:

EUR thousand	2012	2011
Balance at Dec. 31	**4,514**	**4,703**
Proportionate net income	1,010	904
Currency translation differences	-222	-448
Income taxes	-71	-79
Profit distribution received	-438	-566
Balance at Dec. 31	**4,793**	**4,514**

16. Deferred tax assets and liabilities

The deferred tax assets carried as of December 31, 2012 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 8,694 thousand (previous year: EUR 4,612 thousand). Taking into account the forecast results for fiscal year 2013, this means that EUR 926 thousand (previous year: EUR 664 thousand) can be used over the short term.

The deferred tax assets and liabilities as of December 31, 2012 result from the following balance sheet items:

	Deferred tax assets		Deferred tax liabilities	
EUR thousand	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
Intangible assets	3,568	4,985	9,425	11,731
Property, plant and equipment	161	57	3,672	4,132
Financial Assets	509	436	0	0
Inventories	727	1,013	3	7
Other assets	1,215	68	1,431	599
Provisions for pensions	248	266	0	0
Other provisions	444	482	0	0
Other liabilities	2,093	3,503	499	-32
Tax loss carryforwards	8,694	4,612	0	0
Gross amount	**17,659**	**15,422**	**15,030**	**16,437**
Netting	-1,495	-694	-1,49	-694
Carrying amount	**16,164**	**14,728**	**13,535**	**15,743**

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 years 2013 - 2017. No deferred taxes are formed for outside basis differences.

17. Inventories

Inventories break down as follows:

EUR thousand	Dec. 31, 2012	Dec. 31, 2011
Raw materials, consumables and supplies	31,955	34,437
Finished goods and merchandise	20,005	23,593
Advance payments made	18	948
Goods in transit	2,926	6,122
Total	**54,904**	**65,100**

In each case, inventories are measured at the lower of cost and the net realizable price on the balance sheet date. Inventories totaling EUR 670 thousand (previous year: EUR 2,067 thousand) are carried at their net realizable price.

EUR 24,285 thousand of inventories (previous year: EUR 31,496 thousand) is due to Cored Wire, and EUR 27,932 thousand (previous year: EUR 29,200 thousand) is due to Powder and Granules. Of the total inventories of EUR 54,904 thousand (previous year: EUR 65,100 thousand), inventories of EUR 6,752 thousand (previous year: EUR 27,839 thousand) are assigned collateral as part of master loan agreements in the USA, Mexico and Bhutan. During the year under review, inventories were written down due to adjustments in market prices in the amount of EUR 199 thousand (previous year: EUR 165 thousand), and write-ups were performed in the amount of EUR 116 thousand (previous year: EUR 120 thousand).

18. Trade receivables

Trade receivables are broken down as follows:

EUR thousand	Dec. 31, 2012	Dec. 31, 2011
Receivables before write-downs	42,860	62,864
Write-ups	0	0
Amortization/depreciation	-2,911	-16
Carrying amount of receivables	**39,949**	**62,848**

The SKW Metallurgie Group has concluded factoring agreements with various banks in which it has agreed that revolving trade receivables can be sold. As of December 31, 2012, the SKW Metallurgie Group sold trade receivables with a nominal value of EUR 9,230 thousand under these agreements and fully derecognized these. The sale of receivables resulted in expenses of EUR 52 thousand in the year under review. The SKW Metallurgie Group has an undertaking to cover initial losses in the amount of EUR 212 thousand and has set up a reserve account in a corresponding amount in this regard, which is carried under other financial assets.

Trade receivables on the balance sheet date (EUR 39,949 thousand; previous year: EUR 62,848 thousand) include receivables from construction contracts of EUR 7 thousand (previous year: EUR 1,503 thousand). The carrying amount of the receivables is due to Cored Wire in the amount of EUR 18,950 thousand (previous year: EUR 27,958 thousand) and Powder and Granules in the amount of EUR 17,441 thousand (previous year: EUR 30,828 thousand). Of the total amount of trade receivables, EUR 5,096 thousand has been transferred as collateral in master credit agreements. In addition, trade receivables include receivables from the associate Jamipol Ltd. in the amount of EUR 30 thousand (previous year: EUR 47 thousand). In 2012, trade receivables of EUR 2,911 thousand (previous year: EUR 16 thousand) were impaired. On December 31, 2012 there were overdue trade receivables that had not yet been written down in the amount of EUR 12,617 thousand (previous year: EUR 34,602 thousand).

19. Other assets

Other assets include the following amounts:

EUR thousand	Dec. 31, 2012 current	Dec. 31, 2012 non-current	Dec. 31, 2011 current	Dec. 31, 2011 non-current
Other financial assets				
Derivative financial instruments	28	0	125	0
Loans to third parties	0	182	0	516
Bank balance in locked account	212	0	2,721	0
Other non-financial assets				
Income taxes	5,839	0	3,564	0
Other tax receivables	1,504	0	2,073	0
Prepaid expenses	3,386	0	2,559	0
Insurance receivables	0	0	1,315	0
Advance payment for customs and import taxes	459	0	0	0
Other receivables	781	354	1,753	107
	12,209	**536**	**14,110**	**623**

Other receivables include a large number of individual items with low amounts from the consolidated companies. In 2012, other assets of EUR 252 thousand (previous year: EUR 324 thousand) were impaired. On December 31, 2012 there were overdue other assets that had not yet been written down in the amount of EUR 0 thousand (previous year: EUR 276 thousand). On December 31, 2012 other assets in an amount of EUR 212 were not available for the SKW Metallurgie Group, as these have been deposited in a locked account in connection with factoring agreements.

20. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current bank balances with an original term of max. three months. EUR 3,719 thousand of this (previous year: EUR 2,874 thousand) relates to the Cored Wire segment, EUR 20,639 thousand (previous year: EUR 6,007 thousand) to the Powder and Granules segment, EUR 972 thousand to the Other segment (previous year: EUR 1,501 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, each with a pro rata amount of EUR 1.00 per share. Each share has one vote, unless voting rights are restricted due to statutory provisions. The number of fully paid in shares is the number of issued shares.

Share premium

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

Authorized capital

By way of a resolution by the Annual General Meeting on June 8, 2011, new authorized capital of EUR 3,272,465.00 was created for the opportunity of issuing new shares through to May 30, 2016.

Treasury shares

The company did not hold any treasury shares on the balance sheet date. There was no authorization to acquire treasury shares in 2012.

Other comprehensive income

Other comprehensive income developed as follows:

EUR thousand	Dec. 31, 2011	Change 2012	Dec. 31, 2012
Retained earnings	52,768	+1,050	53,818
Net investments in a foreign operation	253	-630	-377
Unrealized gains/losses from derivatives (hedge accounting)	-447	+447	0
Differences from currency conversion	714	-5,232	-4,518
Taxes on income and expenses carried directly under equity	174	-174	0
	53,462	**-4,539**	**48,923**

Currency translation adjustments

The loss totaling EUR 7,566 thousand in the period under review mostly resulted from changes in the exchange rates of the euro (EUR) to the US dollar (USD), the Japanese yen (JPY) and the South Korean won (KRW), the Bhutanese ngultrum (BTN) and the Brazilian real (BRL). Furthermore, equity includes a loss from translation differences from net investments in foreign operations in the amount of EUR 54 thousand. These result from loans in USD (EUR 443 thousand), which were issued by

SKW Stahl-Metallurgie Holding AG to SKW-Tashi Metals and Alloys Private Limited, and also to a loan in KRW (EUR -138 thousand) which was issued by Affival S.A.S. to Affival Korea, and a loan in USD (EUR -359 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 want to make a proposal to the Annual 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 2012 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

The SKW Metallurgie Group 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 in particular 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, 2012 and 2011:

EUR thousand	Dec. 31, 2012	Dec. 31, 2011	Change in %
Equity	121,890	128,356	-5 %
As a % of total capital	41 %	41 %	
Current liabilities	98,146	129,882	
Non-current liabilities	79,054	57,510	
Liabilities	**177,200**	**187,392**	-5 %
As a % of total capital	59 %	59 %	
Total capital (equity plus borrowing)	299,090	315,748	-5 %
Net debt/EBITDA	3.56	2.46	

Equity decreased by 5% year-on-year in 2012. In addition, borrowing decreased by 5% year-on-year in 2012. Overall, in fiscal year 2012 this led to an unchanged ratio borrowing to total capital of 59% compared to 2011. In addition, the equity ratio totaled 41%, unchanged year-on-year.

23. Pension obligations

Provisions for pensions were recognized at a total of five group companies. In particular, the total provision of EUR 3,584 thousand (previous year: EUR 3,363 thousand) is due to the following companies:

- SKW Stahl-Metallurgie Holding AG: EUR 1,621 thousand (previous year: EUR 1,353 thousand)
- SKW Stahl-Metallurgie GmbH: EUR 1,386 thousand (previous year: EUR 1,275 thousand)
- Affival S.A.S.: EUR 438 thousand (previous year: EUR 446 thousand)

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

EUR thousand	2012	2011
Projected unit credit Jan. 1.	4,375	3,709
Ongoing service cost	255	375
Interest expenses	196	172
Pension payments	-94	-85
Compensation	0	0
Actuarial gains/losses	1,127	187
Past service cost	0	0
Currency translation	-168	17
Projected unit credit Dec. 31	**5,691**	**4,375**

The anticipated pension expenses for 2013 are estimated at EUR 556 thousand.

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

EUR thousand	2012	2011
Fair value fund asset Jan. 1	197	193
Expected return on fund asset	6	3
Pension payments	0	0
Actuarial gains/losses	0	1
Plan compensations	-3	0
Fair value fund asset Dec. 31	**200**	**197**

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 3 thousand (previous year: EUR 4 thousand). The plan assets consist of a fund set up by the company to serve its pension obligations. This is managed externally by an insurance company. The expected return is equal to the interest anticipated from the fund.

EUR thousand	Dec. 31, 2012	Dec. 31, 2011
Plans covered by fund assets	200	197
Plans not covered by fund assets	5,491	4,178
Projected unit credit Dec. 31	**5,691**	**4,375**

EUR thousand	Dec. 31, 2012	Dec. 31, 2011
Cash value of the pension commitments	5,691	4,375
Unrecognized actuarial gains	-1,835	-734
Fair value of plan assets	-200	-197
Past service costs not yet carried	-72	-81
	3,584	**3,363**

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

EUR thousand	2012	2011
Ongoing service cost	255	375
Interest on anticipated pension commitments	196	172
Amortisation of actuarial gains/losses	28	-16
Past service cost	12	11
Actuarial income from plan assets	6	-3
Total pension expenses	**497**	**539**

The calculation is based on the following actuarial assumptions:

	Dec. 31, 2012		Dec. 31, 2011	
EUR thousand	Germany	France	Germany	France
Discounted rate	3.80%	3.10%	5.00%	4.3o%
Development of salaries	2.0%	3.0%	2.0 - 2.5%	2.5%
Development of pensions	1.0 - 1.25%	0.0%	1.25%	1.3%
Anticipated return on plan assets	n/a	1.5%	n/a	1.3%

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 -303 thousand, and a change of -0.25 percentage points would lead to a change in the projected unit credit of EUR +327 thousand.

EUR thousand	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2012
Projected unit credit	1,935	2,226	3,709	4,375	5,691
Fair value of plan assets	185	188	193	197	200
Gains or losses from the plans	1,750	2,038	3,516	4,178	5,491

The adjustments based on experience were as follows:

EUR thousand	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2012
Adjustments based on past experience – pension liabilities	-109	-6	-198	-123	-29
Adjustments based on past experience – plan assets	0	0	-2	-1	0

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

	Portfolio structure	
EUR thousand	Dec. 31, 2012	Dec. 31, 2011
Shares	0 %	0 %
Fixed-income securities	100 %	100 %
Real estate/other	0 %	0 %
Total	**100 %**	**100 %**

In addition, in 2012, expenses for defined contribution plans were incurred in the amount of EUR 151 thousand (previous year: EUR 149 thousand).

24. Obligations from finance leases

In the 2012 reporting period, the group's property, plant and equipment included vehicles for 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 year under review can be found in the table below:

EUR thousand	Total future minimum lease payments	Discount amount	Present value Dec. 31, 2012
Residual term of up to 1 year	41	5	36
Residual term 1 - 5 years	26	4	22
Residual term > 5 years	0	0	0
Total	**67**	**9**	**58**

The group did not have any lease obligations for finance leasing in the previous year.

25. Other provisions

Other provisions changed as follows:

EUR thousand	As of Jan. 1, 2012	Addition to consolidated group	Take-up	Addition	Reversal due to lack of use	Reclassification	Currency translation differences	As of Dec. 31, 2012
Provision for EU antitrust proceedings	6,650	0	-75	0	-375	0	0	50
Provision for fraud when purchasing raw materials in China	0	0	-743	210	0	0	29	356
Tax provisions	1,788	0	0	679	0	0	-299	2,771
Miscellaneous other provisions	1,128	0	-428	3,009	-1,875	0	-68	1,784
	9,566	**0**	**-1,246**	**3,898**	**-2,250**	**0**	**-338**	**4,961**

Miscellaneous other provisions include various items, such as provisions for vacation pay, 13th month's salaries, and employee profit participation in the amount of EUR 353 thousand (previous year: EUR 363 thousand) and bonus provisions in the amount of EUR 1,107 thousand (previous year: EUR 1,637 thousand, carried under other liabilities).

Of the total other provisions as of December 31, 2012, EUR 2,174 thousand are current (previous year: EUR 2,482 thousand) and the cash outflow is expected within one year. The remaining amount of EUR 2,787 thousand (previous year: EUR 2,415 thousand) are non-current provisions, for which the cash outflow is expected in a period of two to five years.

26. Financial liabilities

Financial liabilities of EUR 99,240 thousand (previous year: EUR 88,315 thousand) result from liabilities to banks of EUR 99,166 thousand (previous year: EUR 88,241 thousand) and from liabilities to third parties in the amount of EUR 74 thousand (previous year: EUR 74 thousand).

Interest on financial liabilities is in a bandwidth of between 1.011% and 13.0% (previous year: 1.52% to 13.0%) 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.

There were no violations of loan conditions during the period under review that relate to any defaults on interest and redemption payments.

The composition of financial liabilities by currency is:

EUR thousand	Dec. 31, 2012	Dec. 31, 2011
EUR	60,402	48,175
USD	28,143	30,639
JPY	1,100	1,996
KRW	356	334
CNY	973	981
BTN	1,678	742
BRL	6,585	5,448
TRL	3	0
Total	**99,240**	**88,315**

The remaining terms of liabilities are:

	Dec. 31, 2012			Dec. 31, 2011		
EUR thousand	< 1 Year	1 – 5 Years	> 5 Years	< 1 Year	1 – 5 Years	> 5 Years
Liabilities to banks	39,324	40,745	11,528	53,562	30,288	4,391
Liabilities to other third-parties	1,450	5,505	688	0	74	0
Financial debt	**40,774**	**46,250**	**12,216**	**53,562**	**30,362**	**4,391**

27. Trade payables

The trade accounts payable of EUR 38,450 thousand (previous year: EUR 45,462 thousand) as of the balance sheet date were to third parties. These include liabilities from construction contracts of EUR 1,130 thousand (previous year: EUR 2,304 thousand). Current trade payables are carried at their nominal or repayment amount and are due in full within one year.

28. Other liabilities

Other liabilities are broken down as follows:

	Dec. 31, 2012		Dec. 31, 2011	
EUR thousand	current	non-current	current	non-current
Other financial liabilities				
Derivative financial instruments	48	0	276	444
Other non-financial liabilities				
Social security contributions	1,474	0	1,304	0
Wages and salaries	4,555	21	6,069	21
Interest liabilities	1,004	0	132	1
Advance payments received	540	0	68	0
Other taxes	1,372	0	2,226	0
Outstanding invoices	1,283	0	1,310	0
Liability from White Martins contract	0	0	1,303	0
Downstream acquisition liabilities	788	0	8,611	0
Liabilities from finance leases	794	430	931	712
Healthcare payments	553	0	183	0
Employee accident insurance	599	0	634	0
Legal and consulting costs	493	0	349	0
Miscellaneous other liabilities	2,500	209	2,366	58
Total	**16,003**	**660**	**25,762**	**1,236**

The downstream liabilities from acquisitions include a conditional purchase price liability in the amount of EUR 788 thousand (previous year: EUR 6,873 thousand).

29. Segment reporting

The segments described below correspond to the SKW Metallurgie Group's internal organizational and reporting structure. Segment deferrals take into account the group's different products and services and are based on the steel production process. The SKW Metallurgie Group's products and services are used in two process stages within this process: In hot metal desulfurization in which various powders and granules are used, and also in steel refining, which is conducted using cored wire. As a result, three reporting segment have been identified within the SKW Metallurgie Group:

Cored Wire:

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

Powder and Granules:

The Powder and Granules segment bundles all of the production and sales functions for hot metal desulfurization. The Powder and Granules segment supports its customers in producing top-quality end products thanks to its highly reliable deliveries, flexibility and far-reaching service. At the same time, it advises customers on the selecting and implementing suitable desulfurization solutions and in the use of secondary metallurgical additives for the refining process.

Other:

The Other segment includes the business activities of SKW Quab Chemicals Inc., which sells special cationizing chemical reagents in more than 40 countries, and also the group's management including intra-group services. SKW Quab Chemicals Inc's business activities constitute a business segment. However, as this does not meet certain thresholds by itself it does not carry a reporting requirement, and is thus included in the Other segment.

The reported segment assets correspond to all of the assets of the respective segment, and only the interests in associated companies are shown separately. The reported segment liabilities correspond to all of the liabilities of the respective segment.

Consolidation:

Consolidation includes the consolidation of business relationships between the segments. Revenues between the segments are performed at intragroup prices which as mostly based on the re-sale method.

Segment reporting in 2012 is as follows:

2012 in EUR thousand	Cored Wire	Powder and Granules	Other	Consolida-tion	Group
Revenues					
Third-party revenues	183,754	192,734	28,120	0	404,608
Internal revenues	1,221	11,306	0	-12,527	0
Total revenues	**184,975**	**204,040**	**28,120**	**-12,527**	**404,608**
Income from associated companies	0	1,010	0	0	1,010
EBITDA	**6,641**	**13,469**	**655**	**0**	**20,765**
Scheduled amortization/depreciation	-2,853	-6,205	-1,399	0	-10,457
Non-scheduled amortization/ depreciation	0	0	0	0	0
EBIT	**3,788**	**7,264**	**-744**	**0**	**10,308**
Dividends from subsidiaries	0	0	8,896	-8,896	0
Transfer of profit	0	-48	48	0	0
Interest income	64	78	3,868	-3,871	139
Interest expenses	-2,410	-2,825	-3,029	3,871	-4,393
Earnings before taxes	**1,442**	**4,469**	**9,039**	**-8,896**	**6,054**
Income taxes					-1,871
Consolidated net income for the year					**4,183**
Balance sheet					
Assets					
Segment assets	103,041	167,735	164,934	-141,413	294,297
Interests in associated companies	0	4,793	0	0	4,793
Consolidated assets					**299,090**
Equity and liabilities					
Segment liabilities	82,322	110,729	83,792	-99,643	177,200
Consolidated liabilities					**177,200**
ongoing capital expenditure (property, plant and equipment, intangible assets)	7,010	10,500	426		17,936

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

2011 in EUR thousand	Cored Wire	Powder 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**	**-3,880**	**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	18,883	597		30,294

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.

Geographic segment reporting is as follows:

2012 in EUR thousand	Third-party revenues (customer's location)	Third-party revenues (supplier's location)	Non-current assets*
Germany	20,303	9,513	5,692
EU 27 without Germany	71,482	98,070	14,071
USA and Canada	226,424	228,693	47,865
Japan	8,912	8,764	16
Brazil	32,030	34,798	39,923
Mexico	6,533	6,547	620
Russia and Ukraine	5,017	2,502	840
People's Republic of China	1,230	3,127	330
Rest of world	32,677	12,594	34,662
Total	**404,608**	**404,608**	**144,019**

* without deferred taxes and financial instruments

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

2011 in EUR thousand	Third-party revenues (customer's location)	Third-party revenues (supplier's location)	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

There are relationships with a single customer which accounts for revenues of EUR 58,852 thousand (previous year: EUR 80,264 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 350 thousand (previous year: EUR 106 thousand) in the amount of EUR 25,330 thousand (previous year: EUR 10,382 thousand) correspond to the balance sheet item "Cash and cash equivalents", which is composed of cash and current bank balances.

The cash flow statement starts with consolidated net income. The gross cash flow of EUR 8,737 thousand (previous year: EUR 16,479 thousand) shows the excess of income over expenses before any utilization of funds. The item "earnings from associated companies" totaling EUR 572 thousand (previous year: EUR 338 thousand) stems from the net income from participating interests in 2012 from the Indian production company Jamipol Ltd. in the amount of EUR 1,010 thousand (previous year: EUR 904 thousand) less the disbursement received in 2012 totaling EUR 438 thousand (previous year: EUR 566 thousand). The cash flow from operating activities also included the change in working capital that resulted in a cash inflow of EUR 21,679 thousand (previous year: EUR 10,365 thousand). As a result, the cash flow from operating activities totaled EUR 30,416 thousand (previous year: EUR 6,114 thousand).

After the cash outflow from investing activities in the amount of EUR -22,370 thousand (previous year: EUR -33,869 thousand), which is mostly due to the investments in property, plant and equipment for the projects in Bhutan and Sweden, the SKW Metallurgie Group recorded a free cash flow for the year under review of EUR 8,046 thousand (previous year: EUR -27,755 thousand).

Bank loans of EUR 35,978 thousand (previous year: EUR 32,453 thousand) were taken out for financing. At the same time, bank loans of EUR 25,054 thousand (previous year: EUR 1,069 thousand) were repaid. The remaining cash flow after the measures described, which amounted to EUR 15,298 thousand (previous year: 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 3,196 thousand (previous year: EUR 1,459 thousand) and interest received of EUR 80 thousand (previous year: EUR 24 thousand). Income taxes totaling EUR 8,606 thousand (previous year: EUR 3,241 thousand) were paid, there were no income tax refunds.

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 are as follows, listed in order of due dates:

EUR thousand	Dec. 31, 2012	Dec. 31, 2011
Rental and leasing commitments due		
within one year	2,392	1,826
between two and five years	5,404	5,071
after five years	2,211	2,952
Maintainance, service, and licence contracts due		
within one year	214	264
between two and five years	5	240
after five years	0	24
Other commitments due	**4,988**	**23,886**

The other financial liabilities totaling EUR 4,988 thousand (previous year: EUR 23,886 thousand) mostly stemmed from purchasing commitments from supply agreements in the amount of EUR 102 thousand (previous year: EUR 9,200 thousand) for SKW Stahl-Metallurgie GmbH, EUR 3,281 thousand (previous year. EUR 3,486 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 1,059 thousand) for SKW Stahl Metallurgie Holding AG. Conditional rental payments were included in earnings for fiscal year 2012 in the amount of EUR 392 thousand (previous year: EUR 302 thousand).

32. Contingent receivables and liabilities

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

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 fiscal year 2005, the Department of Homeland Security of the US federal 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 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 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 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 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 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. Gigaset AG has used the opportunity of filing an appeal against this decision with the Federal Supreme Court. However, to date only correspondence has been exchanged in this instance. According to rulings by the first instances, however, a cash outflow for SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH has become so improbable that the provision formed in the amount of EUR 6.7 million had to be reversed with the exception of any lawyers' costs that are still to be expected.

SKW Stahl-Metallurgie GmbH

One of SKW Stahl-Metallurgie GmbH's customers informed 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) Strasburger Price LLP, Attorney Chairman of the Supervisory Board (from June 10, 2008, reelection on June 15, 2009 and June 8, 2011)	**Ines Kolmsee, Tutzing (Germany)** Engineering graduate, CEO (May 25, 2006 to August 15, 2006 sole member of the Executive Board, CEO from August 16, 2006)
Jochen Martin, München (Germany) AFINUM Management GmbH, Partner Deputy Chairman of the Supervisory Board (from June 15, 2009, reelection on June 8, 2011)	**Reiner Bunnenberg, München (Germany)** Engineering graduate, Member of the Executive Board (COO) (since January 1, 2011)
Armin Bruch, Erzhausen (Germany) SGL Carbon SE, member of the Executive Board Member of the Supervisory Board (since June 15, 2009)	**Oliver Schuster, München (Germany)** Business administration graduate, Member of the Executive Board (CFO) (since March 1, 2012)
Sabine Kauper, Merching (Germany) CFO/CRO focusing on finance with Management Link GmbH, München, Member of the Supervisory Board (since June 15, 2009)	
Dr. oec. Dirk Markus, Feldafing (Germany) Aurelius AG, CEO, Member of the Supervisory Board (since June 4, 2009)	
Dr. rer. nat. Christoph Schlünken, Sulzbach-Rosenberg (Germany) BYK-Chemie GmbH, CEO Member of the Supervisory Board (since June 4, 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 Annual 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 Annual General Meeting on June 9, 2011, which resolves on its ratification for the first fiscal year after the start of its period of office. This period does not include the fiscal 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 Annual General Meeting. As part of the Annual General Meeting on June 9, 2011, all of the members of the Supervisory Board stood for reelection and were appointed by the Annual General Meeting as a result of the changes to the Articles of Incorporation also resolved by this Annual 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 five face-to-face meetings and one telephone meeting. In addition, four 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 face-to-face meetings. Mr. Martin was only not able to participate in the telephone meeting; however, he was informed of all of the issues dealt with without delay.

The Supervisory Board formed three committees. An Audit Committee and a Nomination Committee have been in place since 2009. In addition, a Remuneration Committee was put in place in 2010. This committee has now been renamed as the "HR Committee" in line with the committee's actual activities.

There were no changes to the members in the individual committees. 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 three face-to-face meetings and one telephone meeting. All of the members participated in all of these meetings.

During the year under review, the members of the remuneration/HR committee were Titus Weinheimer (Chairman), Armin Bruch and Dr. Dirk Markus. This committee held one face-to-face meeting and three 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 did not meet during the year under review.

Further mandates held by the members of SKW Stahl-Metallurgie Holding AG's Supervisory Board in fiscal year 2012

- 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), AFINUM Management GmbH, partner, residing in München (Germany), Deputy Chairman of the company's Supervisory Board

Board of Directors/Advisory Council	Registered office
EPP Professional Publishing Group GmbH (Chairman)	München (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 (to March 31, 2012)	Racibórz (Poland)
SGL CARBON S.p.A. (since April 27, 2012)	Milan (Italy)
SGL CARBON S.A.	La Coruña (Spain)
SGL CARBON SDN BHD	Banting (Malaysia)
SGL Tokai CARBON Ltd. (CEO)	Shanghai (PR China)

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

Board of Directors/Advisory Council	Registered office
Haltermann Holding GmbH (since June 1, 2012)	Schifferstadt (Germany)

→ Sabine Kauper (business administration graduate), CFO/CRO focusing on finance with Management Link GmbH, München, residing in Merching (Germany)

Supervisory Board	Registered office
Kapsch Traffic Com AG (Member of the Supervisory Board)	Wien (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 (Germany)
Berentzen-Gruppe Aktiengesellschaft	Haselünne (Germany)
Lotus AG (Chairman)	Grünwald (Germany)
SMT Scharf AG (Chairman)	Hamm (Germany)
Hanse Yachts AG	Grünwald (Germany) from December 13, 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, 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 (to November 2012) and since November 2012 Chairman of the management of BYK-Chemie GmbH, residing in Sulzbach-Rosenberg (Germany)

Board of Directors/Advisory Council	Registered office
Eckart Suisse S.A. (Chairman of the Board of Directors) to October 31, 2012	Vetroz (Switzerland)
Eckart Aluminium Corporation (Chairman of the Board) to October 31, 2012	Louisville (USA)
Eckart America Corporation (Chairman of the Board) to October 31, 2012	Painesville (USA)
Eckart Italia s. r. l. (Chairman of the Board), to October 31, 2012	Rivanazzano (Italy)
Eckart Zhuhai Co. Ltd. (Chairman of the Board), to October 31, 2012	Zhuhai City (PR China)
Eckart Asia Ltd., to October 31, 2012	Hong Kong (Chinese special administrative region of Hong Kong)
Eckart Shanghai Co. Ltd., to October 31, 2012	Shanghai (PR China)
Eckart Benelux B.V., to October 31, 2012	Uden (The Netherlands)
Eckart France SAS, to October 31, 2012	Saint-Ouen (France)
Eckart UK Ltd., to October 31, 2012	Ampthill, Bedfordshire (United Kingdom)
Eckart Finland OY, to October 31, 2012	Pori (Finland)
BYK Japan KK (Member of the Board), since November 1, 2012	Tokyo (Japan)
BYK USA Inc. (Member of the Board), since November 1, 2012	Wallingford (USA)

These memberships in foreign supervisory bodies which are comparable with German Supervisory Boards are mandates within the ALTANA Group, to which ECKART GmbH and BYK-Chemie also belong.

Further mandates held by the members of SKW Stahl-Metallurgie Holding AG's Executive Board in fiscal year 2012

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

→ Umicore S.A., registered office in Bruxelles/Brussel (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. Schuster 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

- Affimex Cored Wire S. de R.L. de C.V., Chairman of Board of Directors
- Affival Inc., Chairman of Board of Directors
- Cored Wire Servicios S. de R.L. de C.V., Chairman of Board of Directors
- ESM Group Inc., Chairman of Board of Directors
- ESM Special Metals & Technology Inc., Member of Board of Directors
- Jamipol Ltd., Member of Board of Directors
- SKW France S.A.S., President
- SKW Hong Kong Co. Ltd., Chairman
- SKW Metallurgie USA, Inc., President
- SKW Quab Chemicals Inc., Vice President
- SKW Service GmbH, Managing Director
- SKW-Tashi Metals & Alloys Private Ltd., Chairman of Board of Directors
- SKW Verwaltungs GmbH, Managing Director
- Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, Chairman of Board of Directors

Reiner Bunnenberg

- ESM Group Inc., Member of Board of Directors
- ESM Special Metals and Technology Inc., Member of Board of Directors
- Jamipol Ltd., Member of Board of Directors
- SKW Celik Metalürji Üretim Ticaret Ve Sanayi Limited Sirketi, Managing Director
- SKW Hong Kong Co. Ltd., Member of Board of Directors
- SKW Metallurgie USA Inc., Member of Board of Directors
- SKW Metallurgy Sweden AB
- SKW Quab Chemicals Inc., Member of Board of Directors
- SKW Service GmbH, Managing Director
- SKW Stahl-Metallurgie GmbH, Managing Director
- SKW-Tashi Metals & Alloys Private Ltd., Member of Board of Directors
- SKW Technology Management GmbH
- SKW Verwaltungs GmbH, Managing Director

Oliver Schuster

- SKW-Tashi Metals & Alloys Private Ltd., Member of Board of Directors (since March 31, 2012)

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 combined management report.

35. Related parties

According to IAS 24 (Related Party Disclosures), people and enterprises that control the reporting enterprise or which are controlled by it, must be stated to the extent that these are not already included in the consolidated financial statements of the SKW Metallurgie Group as a consolidated company. There is control if a shareholder holds more than half of the voting rights in SKW Stahl-Metallurgie Holding AG, or can impact the financial and business policy of the SKW Metallurgie Group, for example as a result of contractual agreements.

In addition, the disclosure requirements under IAS 24 include transactions with participating interests, joint ventures and persons who have a significant influence on the financial and business policy of the SKW Metallurgie Group, including close family members or interim companies. A significant influence on the financial and business policy of the SKW Metallurgie Group could also be assumed if a package of shares of SKW Stahl-Metallurgie Holding AG has a fixed owner. The largest single shareholder of SKW Stahl-Metallurgie Holding AG on the balance sheet date is the fund Mellinckrodt 1, which reported that it held an interest of 10.01% on December 28, 2012. This participating interest, and thus 100% of shares of SKW Stahl-Metallurgie Holding AG are classified by Deutsche Börse as being held in free float. As a result, none of the shares of SKW Stahl-Metallurgie Holding AG has a fixed owner and there are thus no shareholders who could be regarded as being related parties as a result of their shareholding.

In addition, the disclosure requirements under IAS 24 also cover all persons in key positions in the company and their close family members or interim companies. For the SKW Metallurgie Group, this relates to the members of the Management and Supervisory Board.

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 parties (companies):

The SKW Metallurgie Group has standard business relationships with associated, non-consolidated subsidiaries. Transactions with these companies have a minor extent, with the exception of the dividend payment by Jamipol Ltd.; they result from normal business operations and were concluded at arm's-length conditions.

There were no material transactions between group companies and the French SKW La Roche de Rame (i. l.) during fiscal year 2012.

Transactions by group companies with Jamipol Ltd., which is carried at equity, were to be allocated in full to ordinary business activities for the participating interests, and were concluded at arm's length conditions. 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. 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; there were receivables from this company of EUR 30 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 2008; Jamipol Ltd. paid the respective persons a small remuneration for their activities on the Board of Directors.

Various group companies (in particular SKW-Tashi Metals & Alloys Private Limited and SKW Stahl-Metallurgie Holding AG) had relationships with companies that belong to the Tashi Group, the non-controlling shareholder of SKW-Tashi Metals & Alloys Private Limited in the year under review. This relates to ordinary business relationships to a small extent and at standard market conditions. Only purchases by SKW-Tashi Metals & Alloys Private Limited with the companies Bhutan Carbide & Chemical Limited and Bhutan Ferro Alloys Limited, which both belong to the Tashi Group, had a larger scope The expenses resulting in the period under review of EUR 434 thousand and the liabilities on the balance sheet date to Bhutan Carbide & Chemical Ltd. in the amount of EUR 109 thousand mostly relate to the procurement of raw materials for production.

The group company Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A has relationships with CJ Locações e Transportes Ltda., Ergo Solutions Fisioterapia, Ergonomia e Ginástica Laboral Ltda. and MS Máquinas e Equipamentos Ltda. The first two of these companies are owned by close family members of the non-controlling shareholder and managing director of Tecnosulfur. The R&D manager of Tecnosulfur is behind MS Máquinas e Equipamentos Ltda. EUR 129 thousand was spent on 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. MS Máquinas e Equipamentos Ltda. has rented various construction machines to Tecnosulfur at an expense of EUR 3 thousand.

The research and development-oriented joint venture company between SKW Stahl-Metallurgie GmbH and Krause Maschinenbau GmbH, SKW Technology GmbH & Co. KG, is consolidated as a majority participation. This company does not have any own employees and its activities relate to the original areas of activity of the shareholders, and both shareholders of SKW Technology GmbH & Co. KG each provide the inherent performance of their field of activity and goods required for operations to this company. All of the transactions are performed at arm's length conditions. SKW Technology GmbH & Co. KG had expenses for rent and interest of EUR 48 thousand to Krause Maschinenbau GmbH in 2012. The liabilities from loans and interest to Krause Maschinenbau GmbH totaled EUR 78 thousand on December 31, 2012. In 2012, property, plant and equipment of EUR 524 thousand was acquired from Krause Maschinenbau GmbH.

Related parties (individuals):

Supervisory Board:

As stated under Note 33 Executive bodies of the company, members of the Supervisory Board also held mandates with companies outside the SKW Metallurgie 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.

The US law firm Strasburger Price LLP, which employs the Chairman of the Supervisory Board, performed individual mandates for US subsidiaries of the SKW Metallurgie Group in the year under review. These were approved in each case by the Supervisory Board according to the provisions of Section 114 of the AktG, and were performed at arm's length conditions. In the year under review expenses of EUR 102 thousand were incurred in this regard by two US group companies.

The remuneration granted to the members of the Supervisory Board for their activities is described in the Remuneration Report.

Executive Board:

SKW Stahl-Metallurgie Holding AG's payments to members of the Executive Board have been stated above in full in the Remuneration Report.

On the balance sheet date there was a benefit commitment for a former member of the Executive Board and his surviving dependents.

36. Employees

The SKW Metallurgie Group had an average total of 1,004 employees in fiscal year 2012 (previous year: 979 employees). In most countries there is no longer a statutory distinction between industrial and non-industrial employees. The average number of employees include 628 industrial employees (previous year: 650), 368 commercial and technical employees (previous year: 321) and 8 apprentices (previous year: 8). On the balance sheet date, there were 1,011 employees (previous year: 1,025). Of this total, 626 were industrial employees (previous year: 667), 378 were commercial and technical employees (previous year: 350) and there were 7 apprentices (previous year: 8).

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, 2012		Dec. 31, 2011	
EUR thousand	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
Assets held to maturity	355	355	244	244
Loans and receivables	40,137	40,137	67,045	67,045
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	28	28	125	125
Financial liabilities				
Financial liabilities at amortized cost	141,316	141,316	146,039	146,039
Derivative financial instruments with no hedge accounting	48	48	277	277
Derivative financial instruments with hedge accounting	0	0	443	443

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, 2012 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, 2012	Amortized cost	Amortized cost	Fair value taken directly to equity	Fair value through profit and loss	Fair value Dec. 31, 2012
Other assets	543	188	355	0	0	543
Receivables from construction contracts	7	7				7
Trade receivables	39,942	39,942	0	0	0	39,942
Derivatives without hedge accounting	28	0	0	0	28	28

The figures for the previous year as of December 31, 2011 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, 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
Receivables from construction contracts	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 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, 2012 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, 2012	Amortized cost	Fair value	Fair value Dec. 31, 2012
Financial debt	99,240	99,240	0	99,240
Trade payables	38,450	38,450	0	38,450
Other liabilities	3,626	3,626	0	3,626
Derivatives without hedge accounting	48	0	48	48
Derivatives with hedge accounting	0	0	0	0

The figures for the previous year as of December 31, 2011 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, 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 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.

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, 2012:

EUR thousand	Stage 1	Stage 2	Stage 3	Stage 4
Financial assets measured at market value				
Derivative financial instruments	-	28	-	28
Financial liabilities measured at market value				
Derivative financial instruments	-	48	-	48

The figures for the previous year as of December 31, 2011 are as follows:

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 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 and liabilities side.

The following table shows the net gains and losses from financial instruments by valuation category. This does not include any impact on earnings from derivatives with hedge accounting, as these do not belong to any of the valuation categories under IAS 39.

EUR thousand	Dec. 31, 2012	Dec. 31, 2011
Loans and receivables	-2,164	294
Held-to-maturity financial assets	-38	0
Available-for-sale financial assets	0	0
Derivatives without hedge accounting	95	-120
Financial liabilities measured at amortized cost	79	-18

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 realized or unrealized 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, 2012	Fair value Dec. 31, 2011
Assets		
Currency derivatives without hedge accounting	28	125
Interest rate derivatives in cash flow hedge	0	0
Total	**28**	**125**
Equity and liabilities		
Currency derivatives without hedge accounting	48	277
Interest rate derivatives in cash flow hedge	0	443
Total	**48**	**720**

Derivatives with hedge accounting

There was no hedge accounting within the meaning of IAS 39 as of December 31, 2012. The interest rate swap as part of a cash flow hedge from long-term financing (interest rate risk) was reversed in 2012. The fair value of this derivative financial instrument which existed on the reversal date was carried in the income statement and recognized in profit and loss in the amount of EUR -511 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 2012 -10%	Average exchange rates 2012	Average exchange rates 2012 +10%
Revenues	440,602	404,608	375,159
EBITDA	22,980	20,765	18,953
Net income	4,430	4,183	3,981

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

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 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 2012 -10%	Rates 2012	Rates 2012 +10%
Equity	+14,965	0	-12,245

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

EUR thousand	Rates 2011 -10%	Rates 2011	Rates 2011 +10%
Equity	+12,717	0	-10,404

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 no interest rate derivative (interest rate swap) on December 31, 2012.

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, 2012 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, 2012	
	+100 basis points	-100 basis points
Equity	-642	+642

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

EUR thousand	Change in all interest rate curves as of December 31, 2011	
	+100 basis points	-100 basis points
Equity	–409	+415

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 his 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 and factoring. In addi-

tion, 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 2012, trade payables of EUR 2,911 thousand (previous year: EUR 16 thousand) and other receivables in the amount of EUR 252 thousand (previous year: EUR 324 thousand) were impaired. Of the trade receivables of EUR 39,949 thousand (previous year: EUR 62,848 thousand), receivables totaling EUR 12,617 thousand (previous year: EUR 34,602 thousand) were overdue but had not been written down.

The maturities of the overdue trade accounts receivable that have not been written down are as follows:

EUR thousand	< 90 days	90 to 180 days	180 to 360 days	> 360 days	Total
Dec. 31, 2012	11,976	173	143	325	**12,617**
Dec. 31, 2011	32,899	951	213	539	**34,602**

There are no indicators that the debtors for these receivables will not meet their payment obligations. In addition, no interest receivables (previous year: EUR 0 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. Since the first quarter a large part of the SKW Metallurgie Group's borrowing requirements have been secured via promissory note loans with a volume of EUR 45 million and a framework credit agreement of up to an additional EUR 40 million with congruent maturities, at competitive conditions. The Executive Board does not have any indicators that these banks could terminate or limit their business relationships with the SKW Metallurgie Group. As of December 31, 2012, the SKW Metallurgie Group had lines of credit totaling EUR 69,399 thousand (previous year: EUR 78,560 thousand), of which EUR 15,767 thousand were still freely available on the balance sheet date. 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, 2012, 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, 2012.

2012 in EUR thousand	< 30 days	30 - 90 days	90 - 180 days	180 < days < 360	1 - 2 years	3 - 5 years	> 5 years	Total
Liabilities to banks	14,396	17,415	16,585	4,385	9,046	22,742	24,766	109,335
Financial liabilities to other third-parties	0	688	0	764	1,378	0	0	2,830
Trade accounts payable (without construction contracts)	27,956	7,752	974	571	67	0	0	37,320
Finance lease liabilities	0	9	9	18	22	0	0	58
Other liabilities	1,885	890	0	5	0	0	0	2,780
Derivative financial instruments without hedge accounting	46	2	0	0	0	0	0	48
Derivative financial instruments with hedge accounting	0	0	0	0	0	30	0	0

The cash flow risk in the table is limited to cash outflows.

The following table shows a corresponding overview for the previous year 2011, including interest.

2011 in EUR thousand	< 30 days	30 - 90 days	90 - 180 days	180 < days < 360	1 - 2 years	3 - 5 years	> 5 years	Total
Liabilities to banks	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 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, as reported in the balance sheet.

EUR thousand	Dec. 31, 2012	Dec. 31, 2011
Cash and cash equivalents	25,330	10,382
Total liquidity	**25,330**	**10,382**
Current financial liabilities	40,774	53,562
Non-current financial liabilities	58,466	34,753
Total financial liabilities	**99,240**	**88,315**
Net debt	**-73,910**	**-77,933**

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. In the expiring tranche, 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 was measured using the average closing price of the shares in XETRA trading weighted with the trading volume over a period of 20 trading days.

The following table shows the changes in stock options:

	Number of subscription rights 2012
Amount at start of year	1,500
Granted during fiscal year	0
Subscription rights exercised during the fiscal year	0
Subscription rights lapsed/forfeited during the fiscal year	1,500
Amount at year end	**0**
Thereof exercisable	0

The total expenses in 2012 for the employee stock option program totaled EUR 0 thousand (previous year: EUR 0 thousand). The provision on the balance sheet dated amounted to EUR 0 thousand (previous year: EUR 0 thousand) due to the expiration of the program.

41. Key events after the balance sheet date

After the end of the year under review on December 31, 2012, no transactions and events of significance to the group occurred before this management report was prepared.

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, 2012:

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	As of January 11, 2013 increase to 388,625 (5.94%)
N más Uno IBG, S.A.	Madrid, Spain	360,051	5.50%	November 7, 2012	
N más Uno Asset Management, SGIIC, S.A.	Madrid, Spain	360,051	5.50%	November 7, 2012	
EQMC Europe Development Capital Fund plc.	Dublin, Ireland	336,340	5.14%	November 16, 2012	
Mellinckrodt 1	Luxemburg-Strassen, Luxembourg	654,915	10.01%	December 28, 2012	

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, 2012.

Notification of voting rights

The notifications of voting rights are 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):

Notification as of Sept. 28, 2011:

Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte (Pension authority for medical doctors, dentists, and veterinarians in the State of Baden-Württemberg), Tübingen (Germany), informed us according to § 21 section 1 WpHG that on September 28, 2011, their voting share in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 3% and on that day amounted to 3.21% (corresponds to 210,000 voting rights).

EQMC Europe Development Capital Fund plc., Dublin (Ireland):

Notification as of November 16, 2012:

EQMC Europe Development Capital Fund plc, Dublin (Ireland), informed us according to sec. 21 para. 1 WpHG that on November 16, 2012, their voting share in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 5% and on that day amounted to 5.14% (corresponding to 336,340 voting rights).

Notification as of June 8, 2012:

EQMC Europe Development Capital Fund plc, Dublin (Ireland), informed us according to § 21 section 1 WpHG that on June 8, 2012, their voting share in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 3% and on that day amounted to 3.12% (corresponds to 204,374 voting rights).

LBBW Asset Management Investmentgesellschaft mbH, Stuttgart (Germany):

Notification as of September 23, 2010:

LBBW Asset Management Investmentgesellschaft mbH, Stuttgart (Germany), informed us according to § 21 section 1 WpHG (German Act on Equity Trading) that on September 23, 2010, their voting share in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM013, exceeded the threshold of 5% and on that day amounted to 5.067% (corresponds to 331,599 voting rights).

Thereof, 5.067% (corresponds to 331,599 voting rights) are attributable according to § 22 section 1 sent. 1 no. 6 WpHG (German Act on Equity Trading).

LRI Invest S.A., Munsbach (Luxembourg):

The company received notifications of voting rights during the year from LRI Invest S.A., which were all withdrawn during the remainder of the fiscal year.

Mellinckrodt 1, Luxemburg-Strassen, Luxembourg), (formerly Munsbach, Luxembourg):

Notification as of December 28, 2012:

Mellinckrodt 1, Luxemburg-Strassen (Luxembourg), informed us according to § 21 section 1 WpHG that on December 28, 2012, their voting share in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 10% and on that day amounted to 10.01% (corresponds to 654,915 voting rights).

Important information:

→ This notification was only made after the balance sheet date, however it relates to fiscal year 2012:

→ As a participating interest of >10% was reported, the notification of voting rights according to Section 21 (1) of the WpHG was supplemented by a notice according to Section 27a of the WpHG, which is worded as follows:

Mellinckrodt 1, Luxemburg-Strassen (Luxembourg), announced according to § 27a WpHG that their voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 10% on December 28, 2012 and at that date amounted to 10.01% (654,915 voting rights).

In this context, Mellinckrodt 1, Luxemburg-Strassen (Luxembourg), made the following statements, as required by § 27a section 1 WpHG:

1. The investment is not intended to implements strategic goals, but rather to obtain trade gains as defined by the Act. Mellinckrodt 1 does not pursue short-term trade strategies, but rather acts as a long-term investor.

2. An increase of the shareholding is possible, if in the judgment of Mellinckrodt 1 such increase contributes to obtaining additional trade gains as defined by the Act.

3. Mellinckrodt 1 does not intend to influence the staffing of any administrative, management, or supervisory boards of SKW Stahl-Metallurgie Holding AG in any other way than in the framework of regular shareholder rights - e. g., by voting at shareholder meetings.

4. Mellinckrodt 1 does not long for any significant changes in the capital structure of SKW Stahl-Metallurgie Holding AG, in particular not for any changes related to the ratio of debt to equity nor the dividend policy.

5. The acquisition of voting rights was carried out with own funds of Mellinckrodt 1 SICAV. There was no debt incurred especially to finance the acquisition of those voting rights.

Notification as of June 1, 2012:

Mellinckrodt 1 Sicav, Munsbach (Luxembourg), informed us according to § 21 section 1 WpHG that on June 1, 2012, their voting share in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 5% and on that day amounted to 5.004% (corresponds to 327,532 voting rights).

Notification as of May 4, 2012:

Mellinckrodt 1 Sicav, Munsbach (Luxembourg), informed us according to § 21 section 1 WpHG that on May 4, 2012, their voting share in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 3% and on that day amounted to 3.06% (corresponds to 200,397 voting rights).

N más Uno IBG, S. A., Madrid (Spain), and Nmás1 Asset Management, SGIIC, S. A., Madrid (Spain):

Notification as of November 7, 2012:

N más Uno IBG, S. A., Madrid (Spain), informed us according to sec. 21 para. 1 WpHG that on November 7, 2012, their voting share in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 5% and on that day amounted to 5.50% (corresponds to 360,051 voting rights).

Thereof, 5.50% (corresponding to 360,051 voting rights) are attributable according to sec. 22 para. 1 sent. 1 no. 6 in connection with sent. 2 (name of shareholder(s) holding directly 3% voting rights or more which are attributed to N más Uno IBG, S. A.: EQMC Europe Development Capital Fund plc).

Nmás1 Asset Management, SGIIC, S. A., Madrid (Spain), informed us according to sec. 21 para. 1 WpHG that on November 7, 2012, their voting share in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 5% and on that day amounted to 5.50% (corresponds to 360,051 voting rights).

Thereof, 5.50% (corresponding to 360,051 voting rights) are attributable according to sec. 22 para. 1 sent. 1 no. 6 (name of shareholder(s) holding directly 3% voting rights or more which are attributed to Nmás1 Asset Management, SGIIC, S. A.: EQMC Europe Development Capital Fund plc).

Notification as of February 3, 2012:

N más Uno IBG, S.A., Madrid (Spain), informed us according to §§ 21 section 1, 22 section 1 sent. 1 no. 6 WpHG that on February 3, 2012, their voting share in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 3% and on that day amounted to 3.174% (corresponds to 207,714 voting rights). Thereof, 3.174% (207,714 voting rights) were attributed according to § 22 section 1 sent. 1 no. 6 WpHG.

Davon wurden 3,174% (207.714 Stimmrechte) nach § 22 Abs. 1 Satz 1 Nr. 6 WpHG zugerechnet.

N más Uno IBG, S.A., Madrid (Spain), informed us according to §§ 21 section 1, 22 section 1 sent. 1 no. 6 WpHG that on February 3, 2012, their voting share in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 3% and on that day amounted to 3.174% (corresponds to 207,714 voting rights).

Thereof, 3.174% (207,714 voting rights) were attributed according to § 22 section 1 sent. 1 no. 6 WpHG.

Universal-Investment-Gesellschaft, Frankfurt/M. (Germany):

Notification as of January 5, 2012:

Universal-Investment-Gesellschaft, Frankfurt/M. (Germany), informed us according to §§ 21 section 1, 22 section 1 sent. 1 no. 6 WpHG that on January 5, 2012, their voting share in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, fell below the threshold of 3% and on that day amounted to 2.88% (corresponds to 188,761 voting rights).

Thereof, 0.96% (63,000 voting rights) were held directly, and 1.92% (125,761 voting rights) were attributed according to § 22 section 1 sent. 1 no. 6 WpHG (special fund).

43. Auditors' fees

The auditors' fees for the fiscal year totaled EUR 165 thousand (previous year: EUR 160 thousand) and relates exclusively to audit services for the year under review. In addition, during the year under review, a subsequent payment of EUR 37 thousand (previous year: EUR 12 thousand) was made to the auditors for the previous year for audit services.

44. Use of Sections 264 (3) and 264b 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 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. 4a 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.

The conditions of Section 264b of the HGB have been or will be fulfilled between the parent company SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany) and the subsidiary SKW Technology GmbH & Co. KG, Tuntenhausen, (Germany) as soon as the documents to be published are available. According to Section 264b Sentence 1 No. 3a of the HGB, we herewith state that the option offered in Section 264b of the HGB is used for the subsidiary SKW Stahl-Metallurgie GmbH for the year under review.

45. Declaration of conformity for fiscal year 2012

The Executive and Supervisory Boards of SKW Stahl-Metallurgie Holding AG have issued the annual declaration of conformity in line with Section 161 of the Aktiengesetz (AktG – German Joint Stock Companies Act) on the recommendations of the "Government Commission German Corporate Governance Code" and published this on the company's Internet site (www.skw-steel.com) on December 13, 2012. On the balance sheet date, SKW Stahl-Metallurgie Holding AG complied with all of 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. Information within the meaning of IAS 10.17

These consolidated financial statements were completed on March 11, 2013 and were passed on to the Supervisory Board for approval without delay, together with the combined management report.

E. SUBSIDIARIES AND ASSOCIATES

Fully consolidated subsidiaries (as of December 31, 2012)

"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 S/A	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, 2012)

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

Non-consolidated subsidiaries (as of December 31, 2012)

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.

The declaration required by the Handelsgesetzbuch (HGB - German Commercial Code, Section 264 (2) Sentence 3 of the HGB) by the Executive Board ("balance sheet oath") on the financial statements of SKW Stahl-Metallurgie Holding AG, and on the consolidated financial statements of the SKW Metallurgie Group for fiscal year 2011 was issued by the Executive Board and published on April 25, 2012 in the electronic federal gazette (from April 1, 2012: Federal Gazette) and registered in the company register.

The declaration required by the Wertpapierhandelsgesetz (WpHG - German Securities Trading Act) by the Executive Board ("balance sheet oath") on the semi-annual report of the SKW Metallurgie Group for the first half of fiscal year 2012 was issued by the Executive Board registered in the company register.

The declaration required by the Handelsgesetzbuch (HGB - German Commercial Code, Section 264 (2) Sentence 3 of the HGB) by the Executive Board ("balance sheet oath") on the financial statements of SKW Stahl-Metallurgie Holding AG, and on the consolidated financial statements of the SKW Metallurgie Group for fiscal year 2012 will be issued by the Executive Board simultaneously with the signing of the stated financial statements and published in the Federal Gazette and registered in the company register.

Unterneukirchen (Germany), March 11, 2013

SKW Stahl-Metallurgie Holding AG
The Executive Board

Ines Kolmsee
CEO

Oliver Schuster

Reiner Bunnenberg

FURTHER INFORMATION

skw. metallurgie

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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, 2012 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 2013

SKW Stahl-Metallurgie Holding AG
The Executive Board

Ines Kolmsee
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 2012. 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, March 11, 2013

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

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

Financial Calendar 2013 (remaining)

May 15, 2013

→ Publication of business figures first quarter 2012

June 11, 2013

in München, Germany

→ Annual General Meeting

August 14, 2013

→ Publication of business figures first half year 2012

November 15, 2013

→ Publication of business figures first nine months 2012

November 2013

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.

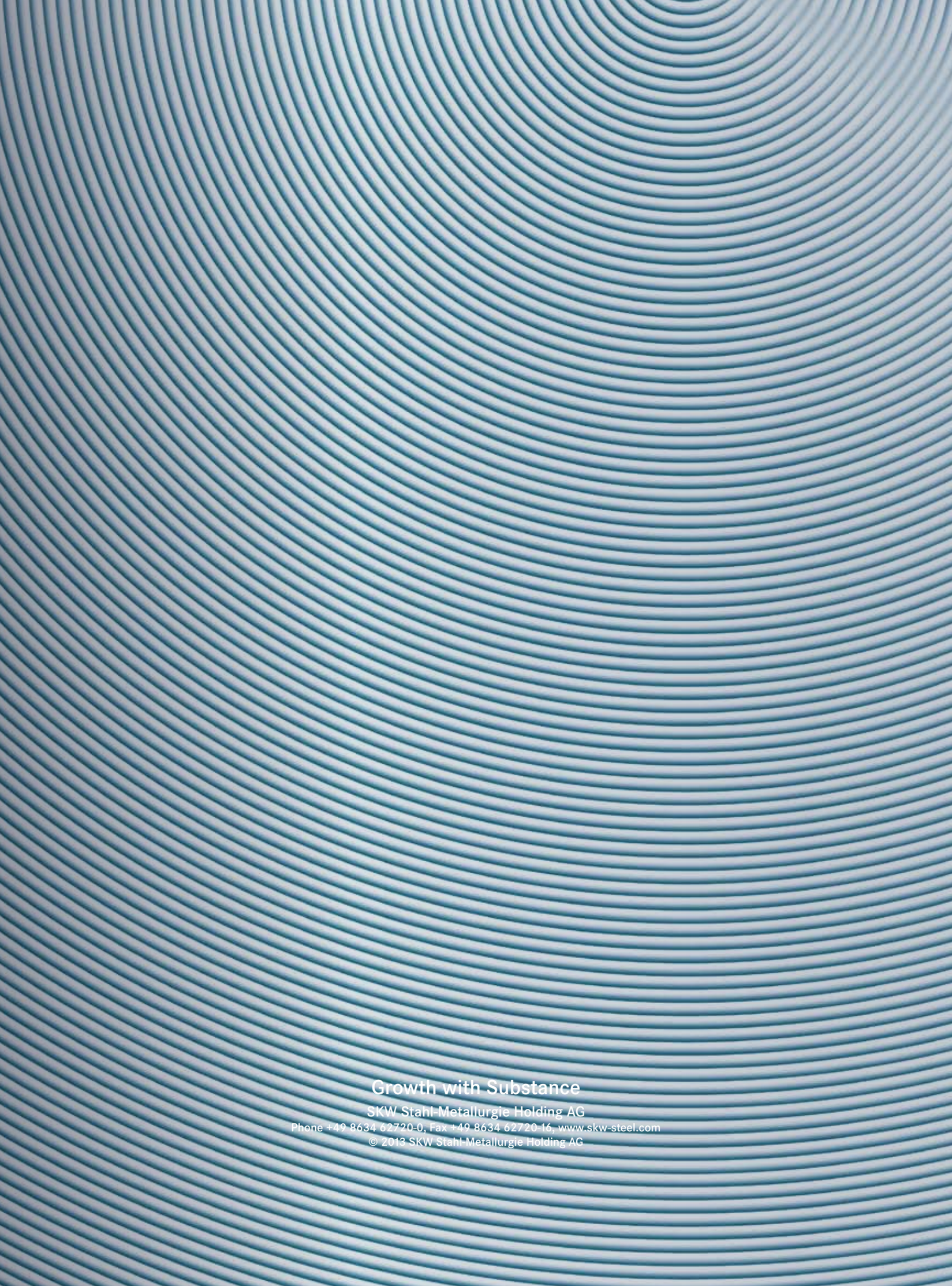
Names such as “SKW Metallurgie”, “Quab” and “SDAX” that are used in this report may be registered trademarks whose use by third parties for their purposes could infringe the rights of the proprietors.

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 Joint Stock Companies Act) without any further information relate to the German acts of law in their respective applicable version.

This report was published on March 22, 2013 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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