annual report 2014

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TO OUR SHAREHOLDERS

Dear Shareholders,

I would really have liked to present you with this, the first annual report since I took office as your Company's CEO, under different circumstances - for myself but in particular for you. Fiscal year 2014 will go down in our Group's history books as a very painful one. We were forced to initiate an end-to-end restructuring program. In this context, we had to reduce the Company's equity radically. This caused our share price to fall to a record low level. What exactly happened?

I started working for SKW Stahl-Metallurgie Holding AG on 1 April, 2014 and our Supervisory Board gave me the clear task to improve the Group's profitability sustainably. Even given this clear target, back then I had no idea that I would have to report to you, just four months later, on massive write-downs and thus losses in the double-digit millions range.

During the first few weeks and months in my new position, a picture presented itself little by little to my colleague on the Executive Board, Sabine Kauper, and me, which was simply unimaginable for any of the people responsible for the Company today. As you know, we had to make extraordinary write-downs of EUR 84.0 million when preparing the consolidated interim financial statements as of June 30, 2014 which were reviewed by our auditors, as the result of impairment testing. A significant portion of this figure related to our international activities in Bhutan and Sweden, which had been driven in the past with major capital injections as part of the strategy of vertical integration and with very optimistic expectations for business. In addition, write-downs on intangible assets were necessary for two companies in our core business due to deterioration in income.

I am very aware that these are substantial impairment charges for a group of our size, and that it is very hard for people outside our Company to understand this. Let me assure you that the situation I found myself facing also shocked me in many respects. I have never experienced anything like this at any point in my professional career, which now spans more than thirty years. I cannot provide you with a satisfactory answer at present as to the question for deeper causes - my activities have to focus on the question of how the Company will continue. At the same time, this very question has also been posed elsewhere, and we are already working hard, in the interests of our shareholders, to find an answer.

Our appraisal showed that it was necessary to change the Group's course, which also offers us major opportunities. Short-term measures were urgently required in the first instance, to stop further bleeding the Company of funds. For example, this included the immediate end to the cash outflows from the Group's parent company SKW Stahl-Metallurgie Holding AG and other group companies to the Bhutanese joint venture and, in November 2014, the successful sale of SKW Metallurgy Sweden AB to a buyer outside the Group. You can find detailed information on these and other activities which we put in place last year in this annual report. However, my focus, as the person primarily responsible for our Company's growth, is on future-oriented activities. What direction have we taken?

Despite having to work through the problems created in the past, which was certainly not pleasant, I would like to highlight one issue: Our core business is working and our operations create sustainable profits. The SKW Metallurgie Group operates in an attractive, secure market segment and holds a strong global position which we will continue to expand. The steel industry, to which we supply the vast majority of our products, depends on the economy. Exchange rate fluctuations also impact international groups such as ours - sometimes going one way, sometimes the other. At the same time, the global steel market is huge and growing at sound rates, in emerging economies in particular. We have introduced a fundamental strategic

reorientation program in order to continue to play a leading role in this attractive market segment in future, and to generate comfortable margins for our shareholders and to ensure our Group's continued existence.

We are working full steam to improve the performance of the entire Group. Having taken the emergency measures described above, as part of our ReMaKe project will activate the potential present in the Group but which has not yet been sufficiently used to increase our efficiency. For example, we have integrated our metallurgy companies in North America into a single organization and placed these under uniform management. Previously several companies were working mainly independently of each other in the same geographical markets in this region. In future we will meet our customers with a uniform market presence. This does away with unnecessary double structures and has created the organizational conditions required for the Group's units to profit from each other and, at the end of the day, to sell more products to our customers.

The Group's borrowing has also been placed back on a solid footing thanks to my colleague Sabine Kauper's strong, highly professional dedication. We would like to thank our lending banks for their support of our Company in this crisis-ridden situation and for placing their trust in our concept for the future.

It is clear: Our first priority was to catch up on the homework that had been neglected in the past, in order to prevent a crisis from hitting our Company. You don't win any medals by doing that, but you create the fundamental conditions needed to future-proof the Group. So where do we see the SKW Metallurgie Group's future?

We have had to reassess the Group's previous strategy of vertical integration, due to the enormous losses. In the Executive Board, we believe that we do not need to produce the pre-products for metallurgy (calcium silicon and calcium carbide) ourselves. We have neither a significant price nor quality advantage on these markets; in addition we were not able to identify any excessive dependencies on individual suppliers. A key factor for the SKW Metallurgie Group's future is much rather that we need to continue to grow in our key geographical markets in our core areas of primary and secondary metallurgy. A remarkable issue here is that we are either not at all or not yet sufficiently present on key markets right now. In addition, our aim has to be to offer the full range of the SKW Metallurgie Group's products in all of the key steel-producing nations. We will pay particular attention to improving our direct presence on the Indian market in the first instance. The steel market in this country is enjoying above-average growth, in particular for high and higher quality steels. We also believe that there is substantial additional potential for growth in Europe including Russia, and in particular for primary metallurgy. Over the medium term the Group must strive to improve its position step by step and sustainably in China and other high-volume Asian markets.

We want to continue to invest in the healthy parts of our Company. We will proceed with sound judgments and focus on our core business. We will have to evaluate the path we select to process the market to a greater extent on a case-by-case basis. In this regard, we are implementing several very concrete concepts and that is why I am convinced that that we will be able to position your SKW Metallurgie Group even more effectively and profitably on international markets.

2014 was truly a shocking year and I hope that by providing you, dear shareholders, with this information I have been able to instill your confidence regarding our Company's ability to grow in the future. Thank you very much for remaining loyal to us. We would be very pleased if you would join us along this path into the future that we have described above. This path certainly won't be easy, however we would love to take you with us along the way, in dialogue with you, and request your support for our future strategic decisions.

Our customers and business partners can expect the SKW Metallurgie Group to change for the better, and to be an even more innovative and reliable partner in future than it was in the past.

Of course our employees deserve a special vote of thanks - making the changes that have been necessary to date has demanded a high degree of flexibility and an immense amount of work. At the end of the day, it is our team that creates the SKW Metallurgie Group's identity and success on our markets. Now, working together as a team, we can successfully move on along the difficult path we have taken.

Yours sincerely,

Dr. Kay Michel (CEO)

Supervisory Board Report

Dear Shareholders,

The past fiscal year was characterized by the SKW Metallurgie Group's end-to-end strategic reorientation.

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

In fiscal year 2014 the Supervisory Board of SKW Stahl-Metallurgie Holding AG (the Company) monitored the Executive Board on an ongoing basis and provided it with advice and support in line with the law, the Articles of Incorporation and the bylaws, based on reports by the Executive Board, joint meetings and resolutions passed by circulating the voting papers.

Activities by the Supervisory Board and its committees focused on business growth, accounting issues and corporate strategy, in particular the Company's strategic reorientation.

In view of deteriorating KPIs and substantial differences to forecast, since the end of 2013 and throughout the entire fiscal year the Supervisory Board has actively insisted that the newly appointed members of the Executive Board critically assess all of the SKW Metallurgie Group's business activities, and to take countermeasures based on the outcome.

A key issue was the significant need for impairment, and the Supervisory Board dedicated itself to this issue after in-depth preparatory discussions with the Executive Board in an extraordinary meeting. As part of the fundamental analysis of the SKW Metallurgie Group's activities, the Executive Board ascertained and presented to the Supervisory Board that the strategy of vertical integration to supply the Group with its own raw materials should be discontinued from both a strategic and profit-related perspective, and that far more conservative business growth can be expected at individual group companies than had previously been forecast. As a result, extraordinary write-downs totaling EUR 84 million had to be made on June 30, 2014; the bulk of these write-downs related to property, plant and equipment in Bhutan and Sweden and intangible assets, as well as impairment of deferred tax assets. However, we must note that these extraordinary write-downs are not cash effective and thus neither had a direct impact on the Group's operating business nor its cash and cash equivalents.

Given this background, the Executive Board also initiated an extensive strategic restructuring program ("ReMaKe"), which was approved by the Supervisory Board. PricewaterhouseCoopers was engaged as a consultant, and coupled with close coordination with the financing banks and the auditor this program aims to secure the Group's revenues and earnings over the medium term, and to ensure a sustained positive free cash flow. As part of this program, the Group's activities in the USA, Brazil, Russia and Bhutan were subjected to a critical review. In addition, the Supervisory Board has urged the Executive Board to reinforce the Group's executive positions.

The impairment also meant that the Company was not able to meet certain financial covenants that had been agreed in the current financing agreements, which means that the lenders can cancel these agreements. After a so-called stand-still agreement, it was possible to agree a fundamental refinancing with the financing banks at the start of 2015 with a three-year syndicated credit agreement for EUR 86 million. The Supervisory Board was closely involved in this process.

In addition, in the year under review all of the shares in SKW Metallurgy Sweden AB were sold to the AlzChem Group, which is in line with the SKW Metallurgie Group's new strategy which includes no longer pursuing the strategy of vertical integration.

The Supervisory Board regularly dealt with the issues of litigation, compliance, financial control and the risk management system.

In addition, after receiving in-depth legal advice, the Supervisory Board resolved to assert claims for damage compensation against certain former members of the Executive Board.

In the Supervisory Board's meeting to review the annual financial statements in fiscal year 2014 it reviewed in detail the consolidated financial statements for fiscal year 2013 and the proposal for the appropriation of net profits to be made to the 2014 General Meeting. In view of the differences to forecast which could be seen as well as the deteriorating financial indicators, the Supervisory Board, together with the Executive Board made a proposal to the General Meeting that no dividend should be paid for fiscal year 2013. The General Meeting approved this proposal.

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

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 individual projects.

At the regular on-site meetings of the Supervisory Board of the SKW Metallurgie Group the members of the Supervisory Board are provided with the most comprehensive picture possible of the Group's situation and current events. In addition, where necessary any current priority issues that required attention were dealt with, also in conference calls and by circulating voting papers if this was required due to their urgency. In order to be better able to 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. Strategic issues, developments and forecasts were discussed regularly by the Supervisory Board in its regular on-site meetings. The Chairperson of the Supervisory Board was in regular contact with the Executive Board, the CEO of the audit committee and the other members of the Supervisory Board both in and outside the Supervisory Board meetings, and was kept informed on current developments in the business situation and key transactions. Committee members were also in regular contact with each other and with the members of the Executive Board on individual issues.

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

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

→ Approving legal transactions by the Executive Board which require approval;

→ Questions 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 Chairperson 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;

→ Receipt of the report by the internal auditors, also concerning the risk management system;

→ 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 (see below).

The three committees which have existed for several years - Audit Committee, Nomination Committee and HR Committee continued their work unchanged in the year under review. Mr. Weinheimer is the Chairperson of the HR and Nomination Committees, Dr. Markus chairs the Audit Committee Furthermore, in the year under review, the Supervisory Board initiated a Strategy Committee headed by Ms. Schull. It is intended to accompany the Executive Board on strategic matters, and in particular support re the implementation of the ReMaKe Program. The committees aim to ensure that the Supervisory Board performs its tasks efficiently, in addition to ensuring that the requirements of the German Corporate Governance Code in this regard are upheld. For example, the committees prepare resolutions for the Supervisory Board and topics to be addressed during the Supervisory Board's plenary meetings. As in the past, as a rule, the committees hold regular meetings, which are timed to be close to the meetings of the Supervisory Board. In some cases on-site meetings are complemented by conference calls. All of the members of the respective committee regularly attended the respective committee meetings. 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.

To summarize: 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.

Changes to the Executive and Supervisory Boards

The Company's General Meeting appointed Dr. Hans Liebler as the successor for Dr. Schlünken and Ms. Jutta Schull as the successor for Ms. Kauper in the Supervisory Board.

Ms. Kauper had already joined the Company's Executive Board on January 1, 2014 where she is responsible for finance. Ms. Kolmsee left the Executive Board as of March 31, 2014 and her position was taken over by Dr. Kay Michel, who is now CEO. The Executive Board now once again comprises two members. The Supervisory Board and the Directors discussed in detail and agreed the latters' employment/engagement contracts. The same applies for how targets were achieved and objectives for the years to come.

According to the requirements in the German Corporate Governance Code, the Supervisory Board must consider diversity as a criterion when occupying executive and management positions, and in particular it must ensure that women are considered to a sufficient extent.

Audit of the separate and consolidated financial statements

The annual financial statements and the consolidated financial statements as of December 31, 2014 and the combined management report including the bookkeeping system were audited by the appointed auditors Deloitte&Touche GmbH, Wirtschaftsprüfungsgesellschaft, Rosenheimer Platz 4, 81669 Munich (Germany) and were issued with an unqualified audit opinion. The Audit Committee was kept informed during the course of the audit and key items were discussed. The corresponding audit documents were presented to the Supervisory Board in good time prior to the meeting to discuss the financial statements on March 17, 2015. The chairperson of the Audit Committee provided the Supervisory Board with detailed information on their 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 17, 2015. The annual financial statements are thus adopted.

Corporate Governance

The Supervisory Board constantly observes the implementation of the German Corporate Governance Code standards for responsible and effective corporate governance and current changes to the law and advance developments. The members of the Supervisory Board fulfill and fulfilled the independence requirements of the German Corporate Governance Code. The Executive Board regularly reports to the Supervisory Board 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 22, 2014 and then made it permanently accessible to shareholders on the Company's web site. Express reference is made to the declaration of conformity, further details can be found in the corporate governance report and in the combined management report, which are also published in the annual report.

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

The Supervisory Board met for a total of eight meetings in fiscal year 2014, of which four were regular on-site meetings. In addition to the on-site meetings, the Supervisory Board met in a further three on-site meetings and one conference call. The meetings are generally held with all members participating. In addition, four resolutions were passed by circulating the voting papers.

The Audit Committee met twice in on-site meetings and once in a conference call in the past fiscal year. In addition to the members of the committee, select meetings were attended by the CFO and in some cases the Chairperson of the Supervisory Board, and the auditor and the internal auditor also attended select meetings.

The HR Committee met twice in fiscal year 2014, the Nomination Committee and the Strategy Committee each met once.

The Supervisory Board thanks both the former members of the Supervisory Board and the new members of the Executive Board for their trustworthy and constructive work, and underscores once again its recognition of their work. In particular, the Supervisory Board would also like to thank all of the employees, whose great dedication and commitment each year make a major contribution to the SKW Metallurgie Group's success even in times that are not always easy in economic terms.

Unterneukirchen (Germany), March 2015

Titus Weinheimer
Chairperson of the Supervisory Board

Corporate Governance Report

Management and control geared to long-term value added

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

The following 2014 declaration of conformity with the corporate governance code is required by Section 161 of the AktG and has been made permanently accessible to shareholders online at www.skw-steel.com after its signing in December:

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 to Section 161 of the AktG on December 17, 2013. The following declaration refers to the German Corporate Governance Code in the version dated June 13, 2013 for the period from December 17, 2013 to June 23, 2014, and from June 24, 2014 to the new version of the German Corporate Governance Code dated June 24, 2014 (both "GCGC").

The Company's Executive and Supervisory Boards declare that, during the course of the remainder of fiscal year 2013 and in the course of fiscal year 2014 to date, they have conformed with all of the recommendations of the GCGC Government Commission to date, with the exceptions detailed below, and that they intend also to do for the remainder of fiscal year 2014 and for fiscal year 2015.

1. Benefit commitments based on the intended benefit level - Item 4.2.3 Para. 3 of the GCGC

Item 4.2.3 Para 3 of the GCGC stipulates that the Supervisory Board must define the respective intended benefit level - taking the duration of membership in the Executive Board into consideration - and that it must consider the resulting derived annual and long-term expenses for the Company.

As the definition of defined benefits hardly applies since the period of the mandate cannot be reliably anticipated, the Supervisory Board is convinced that, due to these uncertainties, implementing the recommendations of Item 4.2.3 Para. 3 of the GCGC is not in the Company's interest. The Supervisory Board therefore prefers the defined contribution model and annually sets a contribution for the members of the Executive Board which is not derived from a pre-defined benefit level. The Supervisory Board believes this method to be significantly more transparent, and will prefer defined contribution pension models to defined benefit models in the future. Thus, the Company differs from the recommendation in item 4.2.3 para. 3 of the GCGC.

2. Templates for Executive Board remuneration - Item 4.2.5 para. 3 and 4 of the GCGC

Item 4.2.5 para. 3 and 4 of the GCGC stipulate that, from fiscal year 2014 onwards, the remuneration report must present specific information on the Executive Board's remuneration using the tables in the appendix to the GCGC as templates.

These template tables are highly complex, and as a result, in our view, do not provide the reader with any additional information value. In particular it is not possible to verify the distinction between the contents of the respective tables for Item 4.2.5 para. 3 first bullet point of the GCGC and that in the second bullet point. As a result, the Company will not use these templates but will present the information in the remuneration report such that this provides in a transparent, comprehensible and comprehensive way information on the Executive Board's remuneration.

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

In contrast to Item 5.1.2 para. 1 sentence 2 of the GCGC, there are currently no long-term succession plans for members of the Executive Board. The Company's size limits possibilities for internal succession to the Executive Board. In addition, succession plans do not appear either fitting or necessary given the ages of the current members of the Executive Board, the developments in filling positions on the Executive Board in fiscal year 2014 and the strategic reorientation.

4. Publication of interim reports within 45 days of the end of the reporting period - Item 7.1.2 Sentence 4 of the GCGC

In contrast to Item 7.1.2 Sentence 4 of the GCGC it was only possible to publish the interim report for the first half of 2014 on 28 August 2014. This was due to extensive impairment testing required according to International Financial Reporting Standards as part of the preparation of the interim report. The tests led to substantial extraordinary impairments. In addition, a strategic reorientation program was launched. These two activities impacted the presentation of the Company's financial statements and its earnings in numerous ways. Given this background, it was not possible to publish the interim report within the prescribed period.

Munich (Germany), December 22, 2014

SKW Stahl-Metallurgie Holding AG

For the Executive Board *For the Supervisory Board*

An update, published in February 2015, can be found online at **www.skw-steel.com > Investor Relations > Corporate Governance.**

State-of-the-art management and control structure

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

The members of the Executive Board are appointed by the members of the Supervisory Board and manage the Group under their own responsibility. Since April 1, 2014, the Executive Board has comprised Dr. Kay Michel as CEO and Ms. Sabine Kauper as CFO.

The Supervisory Board advises the Executive Board and monitors its management. During the year under review, the Supervisory Board comprised six members: Jutta Schull (from January 14, 2014) and, in alphabetical order, Armin Bruch, Dr. Hans Liebler, Dr. Dirk Markus, Jochen Martin (Deputy Chairperson), and Titus Weinheimer (Chairperson). During the year under review there was no employee co-determination in the SKW Metallurgie Group; all the members of the Supervisory Board are thus shareholder representatives. Ms. Schull and Dr. Liebler were appointed by the responsible court of register with effect from January 2014 after two former members of the Executive Board had resigned their offices as of December 31, 2014. The court appointment ended with the General Meeting on June 3, 2014, which voted to confirm Ms. Schull's and Dr. Liebler's membership of the Supervisory Board. Dr. Markus resigned his office with effect from February 28, 2015.

There were three committees in the year under review (nomination committee, audit committee, personnel committee), which each support the Supervisory Board's work in their respective area. Each committee comprises 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 of other companies, can be found in the notes to the consolidated financial statements.

The General Meeting of shareholders met once during the year under review, for the Ordinary General Meeting on June 3, 2014 in Munich, Germany. The General Meeting resolves, for example, on the Company's Articles of Incorporation, it has delegated to the Supervisory Board authority to make only editorial changes to the Articles.

Since the 2010 closing, Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, Germany, has been appointed as the auditor for the consolidated financial statements. Information on the auditor's fee can be found in Note D. 42 to the consolidated financial statements. Robert Aumann has been the Head Auditor since the 2010 financial statements.

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. Since going public, SKW Stahl-Metallurgie Holding AG had at least one female member of its Executive Board. During the year under review, women accounted for 100% of the Executive Board (Q1), and then 50% (since April 1, 2014).

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 - it comprises shareholder representatives only.

Since June 2009, SKW Stahl-Metallurgie Holding AG's Supervisory Board has comprised six members, including one woman (with a brief transitional period in January 2014 - Ms. Kauper left the Supervisory Board on December 31, 2013 and Ms. Schull was not appointed until January 14, 2014). 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 Chairperson of the Supervisory Board resides permanently in the USA. The Supervisory Board has set an age limit (70) for its members, and pays particular attention to ensure that potential conflicts of interests are disclosed or avoided entirely.

The Supervisory Board has set itself the target of structuring proposals to the General Meeting for elections to the Supervisory Board so that the level which has been reached according to the aspects detailed in the German Corporate Governance Code, in particular concerning participation of women, is at least upheld. There were only elections for the Supervisory Board on the agenda for the General Meeting in 2014 because the court-appointed replacement candidates had to be confirmed in office. Of the two members of the Supervisory Board thus confirmed in office, one member is a woman.

The SKW Metallurgie Group will report regularly on the implementation of its diversity objectives.

Executive and Supervisory Boards participate in the company

During the year under review, the Company received notices according to Section 15a of the WpHG (Directors' Dealings) from the CEO Dr. Kay Michel. These are published online at http://www.skw-steel.com/investor-relations/pflichtmitteilungen/directors-dealings.

As a result, the entire shareholdings of the Executive and Supervisory Boards on December 31, 2014 were as follows:

Name	Position	Number of shares
Dr. Kay Michel	CEO	11,211
Dr. Dirk Markus*	Member of the Supervisory Board	2,300

*Member of the Supervisory Board until February 28, 2015

As a result, as of December 31, 2014, a total of 13,511 shares of SKW Metallurgie were held by members of the Executive and Supervisory Boards. The 1% threshold according to Item 6.3. of the German Corporate Governance Code was thus not reached and was not reached at any time in fiscal year 2014.

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 2014 can be found in the management report.

Further information on corporate governance in the SKW Metallurgie Group

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 diary, press releases and information on the General Meeting are made available on an ongoing basis on the Company's Web site www.skw-steel.com.

COMBINED MANAGEMENT REPORT

Combined management report of SKW Stahl-Metallurgie Holding AG, Unterneukirchen, Germany, and the SKW Metallurgie Group for fiscal year 2014

1. Business and underlying conditions

1.1. Geopolitical tensions slow global economic growth in 2014

As was already the case in the previous year, experts from the International Monetary Fund (IMF) were again forced to downscale their forecasts for the global economy over the course of the year in view of increased economic risks. In particular insecurities regarding the impact of the conflict between Ukraine and Russia and repeated upsurges in the conflict in the Middle East have depressed growth. On the whole, the global economy grew by +3.3% in fiscal year 2014 - the same amount as in the previous year. Developed economies recorded growth of 1.8%, emerging and developing nations recorded growth of 4.4%.

There were substantial differences within the blocks of countries. Euro countries grew moderately by 0.8% after the recession in 2013. The German economy once again expanded at an above average rate (+1.5%), although it was also perceptibly depressed as a result of the restrictions on trade with Russia. From the IMF's perspective the desire for reform is not strong enough, and this slowed growth in France (+0.4%); in contrast Italy once again had to accept that its economy is falling (-0.4%), the economy in Spain improved by 1.4%, however this was starting from a very low level. Among the major industrialized nations, only the USA was able to grow significantly (+2.4%); the IMF even had to upscale its forecasts during the course of the year. Japan's economy stagnated at +0.1%.

Within the developing and emerging nations, China is driving growth at 7.4%. In the other BRIC countries, India recorded solid growth at 5.8%. Perspectives for Brazil have clouded significantly since 2014, and for this year only marginal growth of 0.1% was reached. The Russian economy is suffering greatly under the sanctions imposed against the country as a result of the crisis in Ukraine and thus only grew slightly by 0.6% in 2014.

In order to stimulate the global economy, central banks in industrialized nations retained their expansive monetary and low interest policies employed in previous years, and in Euro countries the base rate even approached the zero percent mark. Even negative interest rates had to be accepted for bank deposits at the end of the year. While inflation in industrialized nations of 1.4% was low, as had been expected, inflation in emerging nations was significantly higher at 5.4%. Oil prices in particular came under pressure in 2014. These slumped by 41% since the start of July.

Exchange rates continued to be volatile in 2014. The US dollar was strong, and gained substantially in value against the Euro. At the start of the year, one Euro cost USD 1.378, compared to just USD 1.217 at the end of the year.

1.2. Slight growth in steel production in the year under review

As in previous years, the SKW Metallurgie Group once again recorded between 85-90% of its revenues with customers in the steel industry. The SKW Metallurgie Group offers these customers a broad range of technologically demanding products and services, in particular for primary and secondary metallurgy. The quantities demanded by steel producers for most of these products depend, primarily, on the amount of steel produced. In contrast, the price of steel is less important for the group, as demand for steel has a low level of price elasticity over the short term, and the impact the price of steel has on the quantities produced is low. Steel manufacturers' earnings can have an indirect impact on the SKW Metallurgie Group, for example if customers' tense earnings lead to increased requests for conditions to be changed or to a lower credit rating for the SKW Metallurgie Group's receivables from the customer. The amount of stocks of the SKW Metallurgie Group's products held by steel producers is not significant.

According to information from World Steel Association, in 2014 global steel production grew by 1.2% in total year-on-year to 1,661.5 million tons. China continues to be the largest single market accounting for 49.5% of the global market; in contrast to previous years production growth slowed in China in 2014 despite the generally positive growth in the Chinese economy to a moderate 0.9%.

In geographical terms, the SKW Metallurgie Group is only present in China to a negligible extent (primarily with supply operations for the Group). During the year under review the focus was still on the sales markets in the USA (more than 50% of consolidated revenues in the year under review and in the previous year, the European Union (primarily for the Cored Wire segment) and Brazil. While the 28 EU countries recorded an increase in production quantities by 1.7% in the year under review to 169.2 million tons, and the USA recorded growth of 1.7% to 88.3 million tons, the quantity of steel produced in Brazil fell by 0.7% to 33.9 million tons.

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

As a rule, growth on the markets for primary and secondary metallurgy products and solutions follows growth on the markets for high and higher-quality steel production: The more steel is produced, the more primary and secondary metallurgy products are required. There is an additional impact on demand for primary and secondary metallurgy products depending on the technical methods used (e.g., blast furnace versus electric steel plants) and which additives are used to produce steel (e.g., quality stages for the carbons used).

The SKW Metallurgie Group records an unchanged 10-15% of its revenues with customers outside the steel industry. This relates, roughly 50:50 to "Quab" specialty chemicals, which are mostly sold to producers of industrial starch (pre-product for paper production) and to products that are technologically related to the products for the steel industry (e.g., cored wire for the copper and casting industries). The development of these customer industries and, as a result, sales of SKW Metallurgie's products outside the steel industry, are mainly in line with the general economic trends.

2. Strategic repositioning for the SKW Metallurgie Group

During the year under review, the SKW Metallurgie Group's new Executive Board implemented an end-to-end project, which spans all of the Group's units, to reorient the Group's strategy. This aims to sustainably increase the SKW Metallurgie Group's revenues, earnings and cash flow. This end-to-end project includes three areas: the rapid restructuring of peripheral areas and areas with a negative cash flow (business Restructuring), increasing efficiency in the existing core business (efficiency Management) and growth in Key markets. Each of these three elements is covered by the acronym "ReMaKe".

During the year under review, ReMaKe recorded success in the following areas in particular:

→ The rapid restructuring of peripheral areas and areas with negative cash flows and the associated move away from the previous strategy of vertical integration has been as good as completed ("stop the bleeding"). This includes the successful sale of SKW Metallurgy Sweden AB to a company outside the Group and the immediate end to the cash outflows for the Group's parent company and other group companies in the Bhutanese joint venture. The Chinese magnesium processing unit ESM Tianjin will be transformed into a procurement and trading unit during the course of 2015. In addition, during the year under review closure has been initiated for smaller peripheral areas which are not future-proof in their previous form (the "SKW Technology" companies in Germany, the group company in Turkey, ESM-SMT as an independent company).

→ Increasing efficiency in the existing core business during the year under review included, in particular, organizationally establishing SKW North America, into which all of the metallurgical group companies in NAFTA countries are to be integrated. This includes, in particular, Affival Inc. and ESM Group Inc. The new unit will be managed by a joint management team, even if no corresponding changes are to be made under company law. This organizational integration will create a uniform brand presence under the umbrella brand "SKW Metallurgie" for the first time in North America, and an integrated sales approach, focusing on cross selling has been put in place. In addition, gains in administrative efficiency will also be made in future.

ReMaKe will also change the fundamental economic parameters in the SKW Metallurgie Group from fiscal year 2015 as set out in Chapter 1 ("Business and underlying conditions"):

→ The strategic reorientation in the existing core business will mean that the SKW Metallurgie Group can free itself from its direct dependence on the growth in steel production. An increase in steel production will, ceteris paribus, also continue to have a positive influence on the SKW Metallurgie Group, however the Group is increasingly developing opportunities to realize revenues and earnings independently of growth in steel production and beyond as a result of the ReMaKe activities.

→ The SKW Metallurgie Group believes that growth on key markets (as the third ReMaKe module) will change the importance of individual geographical markets. The aim is to successfully offer the full range of the SKW Metallurgie Group's products for primary and secondary metallurgy in all of the key steel-producing nations. Particular attention will be paid to India in the first instance. The steel market in this country is enjoying above-average growth (in particular for high and higher quality

steels). The SKW Metallurgie Group also believes that there is still substantial additional market potential in Europe (including Russia), in particular for primary metallurgy. Finally, the Group must strive to sustainably improve its position on the high-volume Asian markets (including China) step by step.

The new Executive Board started its period of office with an in-depth analysis of all of the Group's units. In order to prepare for the consolidated interim financial statements as of June 30, 2014 and to add granularity to and implement the first ReMaKe module (rapid restructuring of peripheral areas and areas with negative cash flows) extensive impairment testing was performed. These impairment tests were not able to fully confirm the former carrying amounts, in particular with regard to intangible assets and the property, plant and equipment in Bhutan and the former subsidiary in Sweden. As a result, as will be discussed in section 6.2, significant extraordinary impairment in the amount of EUR 83.5 million was required.

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) with a further office in Munich (Germany) is the parent company of the global SKW Metallurgie Group. 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 parent company SKW Stahl-Metallurgie Holding AG actively controls the Group. In particular during the year under review, the Group drove the change in its parent company from a financial holding company to an operating holding company which actively manages the subsidiaries.

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.

→ General Meeting: The 2013 Ordinary General Meeting of the Company's shareholders was held in Munich (Germany) on June 3, 2014. The Executive and Supervisory Boards made a proposal to the General Meeting for 2014 (i.e., for fiscal year 2013) not to pay any dividends. The shareholders approved this resolution for the appropriation of profits with a large majority. All of the other proposals made by management, with the exception of the proposal for the ratification of the Executive Board members in office in 2013 were approved with the respective requisite majorities.

→ Supervisory Board:

→ In January 2014 the SKW Metallurgie Group announced the following changes in the composition of its Supervisory Board: After two members of the Supervisory Board left the body on 31 December 2013, the responsible judge at the local court appointed Jutta Schull and Dr. Hans Liebler as new members of the Company's Supervisory Board. The membership of Ms. Schull and Dr. Liebler was initially limited to the Company's next general meeting, in June 2014. This General Meeting confirmed the appointment of Ms. Schull and Dr. Liebler in their offices in a vote.

→ In fiscal year 2014 there were no further changes to the Supervisory Board. After the end of the year under review, however prior to the preparation of this management report, Dr. Dirk Markus informed us that he was resigning from his office in the Company's Supervisory Board on 28 February 2015.

→ The Company's Supervisory Board continues to comprise six members in line with the articles of incorporation. On the date this Management Report was prepared, the resignation of Dr. Dirk Markus means that one position in the Company's Supervisory Board is vacant; the Supervisory Board is still in quorum with five members for a transitional period. The General Meeting on 9 June 2015 will appoint a successor for Dr. Markus. The Supervisory Board of SKW Stahl-Metallurgie Holding AG is not co-determined. It is chaired by Titus Weinheimer, who is deputized by Jochen Martin. The Supervisory Board's work is supported by committees, which each comprise three members.

→ Executive Board: On the balance sheet date the Company's Executive Board comprised Dr. Kay Michel (CEO) and Ms. Sabine Kauper (CFO). Dr. Michel has been a member of the Company's Executive Board since April 1, 2014; Ms. Kauper has been a member since January 1, 2014. The former CEO Ines Kolmsee left the Group as of March 31, 2014.

→ The SKW Metallurgie Group, which is headed by the Group's parent company, includes the direct participating interests held by SKW Stahl-Metallurgie Holding AG presented in Chapter 7 and also (on the balance sheet date) 16 fully consolidated indirect participating interests. The resulting group of consolidated companies changed as follows during the year under review:

→ On December 31, 2013 the SKW Metallurgie Group comprised 27 consolidated companies (26 subsidiaries and the parent company) in 14 countries.

→ On January 1, 2014, two US subsidiaries were merged, which means that the number of consolidated group companies fell by one.

→ This figure was reduced by another one company as a result of the sale of SKW Metallurgy Sweden AB in November 2014.

→ On December 31, 2014 the SKW Metallurgie Group thus comprised 25 fully consolidated companies (24 subsidiaries and the parent company) in 13 countries.

→ In addition, a French company which is being liquidated and the Indian joint venture Jamipol, in which the SKW Metallurgie Group continues to hold an interest of around one third, were again not fully consolidated.

→ The SKW Metallurgie Group's goal is still to reduce complexity in the Group's structure. In this regard, preparations were started to liquidate some non-operating companies during the year under review. In particular, as already reported, in the second quarter the Group decided to liquidate SKW Technology GmbH & Co KG and SKW Technology Management GmbH, both based in Tuntenhausen (Germany). The group company in Turkey is also to be liquidated after its material asset (an undeveloped plot) was sold to a party outside the Group during the year under review.

3.2. SKW Metallurgie Group is a strong umbrella brand

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".

At a product level, to date the Group has pursued a multi-brand strategy; the "SKW Metallurgie" brand was only used for a small proportion of its business activities (in particular primary metallurgy in Europe). The Group's entire brand strategy will be reworked and further developed during the course of 2015. One of the aims is to establish and reinforce "SKW Metallurgie" as a global premium umbrella brand for metallurgy. At the end of 2014, all of the group companies active in primary and secondary metallurgy in NAFTA countries were integrated into the SKW North America organization under the "SKW Metallurgie" brand. In order to further reinforce this brand, the SKW Metallurgie Group believes that it will be able to acquire the domains www.skw.de and www.skw.com as well as brand rights to "SKW Metallurgie" which had previously been used under license for a purchase price in the middle triple digit kEUR range in the first half of 2015 (however after preparation of this management report).

3.3. SKW Metallurgie Group in a difficult environment

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

In 2014, the price of SKW Metallurgie's shares was between EUR 3.50 (low) and the high for the year of EUR 13.87 (XETRA closing prices in each case).

At the end of the year, SKW Metallurgie's shares closed at EUR 3.80, which corresponds to a market capitalization of approx. EUR 24.9 million on the balance sheet date. The significant fall in the share price over the course of the year resulted, in particular, after the extraordinary impairment was published on June 30, 2014. This resulted as part of the Group-wide ReMaKe project and is discussed in Chapter 6.

On the date this management report was prepared the share price had increased to around EUR 5.50, which corresponds to a market capitalization of EUR 36 million.

3.4. Culture shift in the SKW Metallurgie Group

Fiscal year 2014 was characterized by far-reaching changes for the SKW Metallurgie Group. All of the Group's units will be managed more intensively by the parent company, which will no longer act as a pure financial holding company, but which will actively manage its subsidiaries and their operating targets and workflows via a Group-wide Executive Committee which is composed of the subsidiaries' executives. The Group's culture and communication are characterized by their openness, transparency and clearly delegated responsibilities. The organizational and corporate culture will be consistently geared to the new principles.

4. Mandatory information according to the Handelsgesetzbuch (HGB - German Commercial Code)

4.1 Declaration according to Section 289a of the HGB

The declaration on corporate governance within the meaning of Section 289a of the HGB has been published online at www.skw-steel.com (Investor Relations => Financial Reports), as was also the case in previous years, and reference is made to this according to the statutory requirements.

4.2 Information on equity in accordance with Section 289 (4) and Section 315 (4) of the HGB

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

→ The subscribed capital of SKW Stahl-Metallurgie Holding AG is composed of 6,544,930 no-par value (registered) shares, each with a notional interest of EUR 1.00 in the share capital. 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 to the extent permitted by law[1].

→ The Executive Board is not aware of any equity interests which reach or exceed 10% of voting rights.

→ If employees participate in equity, they exercise their voting rights as all other shareholders, if there is not an express statutory regulation to the contrary.

→ Otherwise, voting rights are only restricted by law, e.g., in the case of treasury shares within the meaning of Section 71b of the AktG.

→ Subject to their acceptance, the members of the Executive Board are appointed and dismissed by the Supervisory Board. The Executive Board manages the Company in accordance with the law and the Articles of Association and within the scope of the Executive Board bylaws.

→ It was not possible to buy back treasury shares at any time in fiscal year 2014.

→ With regard to the authorized capital, the 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.[2] In all other respects, the General Meeting resolves on changes to the Articles of Association.

→ On the balance sheet date, no agreements had been concluded with the members of the Executive Board for the event of a change of control resulting from an acquisition offer.

1. 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).
2. This responsibility is delegated to the Supervisory Board through application of Section 179 (1) Sentence 2 of the AktG. This does not restrict the General Meeting's fundamental responsibility for changes to the Articles of Association.

→ At the start of 2012, agreements were concluded regarding credit lines (in particular a master credit agreement with three German banks in the initial amount of EUR 45 million, later EUR 40 million) and a promissory note bond, which also include regulations on a possible change of control. This master credit agreement no longer existed on the date this management report was prepared; most of the promissory note bonds detailed above no longer existed on the date this management report was prepared; the remainder are expected to be liquidated in the near future.

→ The new syndicated credit agreement concluded after the balance sheet date, however prior to preparation of this management report includes opportunities for cancellation in the event of a change of control (direct or indirect control of more than 30% of shares or voting rights in SKW Stahl-Metallurgie Holding AG).

→ 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. SKW Metallurgie's products stand for excellent quality – worldwide

The SKW Metallurgie Group continues to have three segments: Cored Wire, Powder and Granules and Other. The operating activities in the Other segment include business with Quab specialty chemicals, which are mainly used by manufacturers of industrial starch, who in turn mainly supply the paper industry and are also increasingly involved in producing energy. During the course of 2015 the Group's segments will be reviewed and adjusted if necessary, in particular in view of the Group's strategic reorientation.

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

The "Cored Wire" segment offers high-quality cored wire for secondary metallurgy. 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 automobile production.

Affival is produced at sites in France, the USA, Russia and South Korea; the Cored Wire unit in the USA (Affival Inc.) was integrated into the SKW North America organizational unit during the year under review. In addition a sales company in Japan assists the Group's further expansion into Asia.

Affival's mastery of leading, patent-protected technologies is a USP in cored wire competition, and at the same time it is a non-financial performance indicator[3] for the entire SKW Metallurgie Group.

The Cored Wire segment also includes cored wire production facilities in Mexico and the People's Republic of China. The facility in Mexico primarily produces products for the local market, however China supplies regional markets with products based on extruded calcium.

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

The "Powder and Granules" segment includes the following areas:

→ In North America, the group company ESM, which forms part of the organizational unit SKW North America, produces high-quality products for hot metal desulphurization (mostly magnesium-based) and granular products for secondary metallurgy and includes these products in customer-oriented solutions. In addition, ESM holds a leading position as a producer of complementary equipment for the steel industry. ESM is also a successful provider of caster maintenance, metallurgical engineering and maintenance services and specialty magnesium for non-metallurgical applications.

→ The Brazilian company Tecnosulfur supplies its products primarily to steel plants on the Brazilian market. These products include, in particular, highly demanding technical solutions for hot metal desulphurization (primarily based on calcium carbide), and it is the leading provider in its product segments on the Brazilian market. In addition, Tecnosulfur has substantial production capacities for synthetic slag, an innovative product for secondary metallurgy. On the whole, the Brazilian SKW Metallurgie subsidiary is ideally positioned to benefit from growth in Brazil and Latin America. In future, the sintered synthetic slag will also be sold on markets outside Latin America.

→ In Europe, the Powder and Granules segment now only comprises the sales unit SKW Stahl-Metallurgie GmbH after the sale of the Swedish group company in November 2014. The Swedish company SKW Metallurgy Sweden AB, which formed part of the Powder and Granules segment until its sale in November 2014 has been deconsolidated in these annual financial statements and is carried as discontinued operations.

The Indian joint venture Jamipol Ltd., which belongs to the "Powder and Granules" segment is carried at equity. With its two production facilities in India, the Indian joint venture is by far the market leader in the Indian market for carbide-based hot metal desulphurization.

5.3. Other segment: Innovative Quab specialty chemicals

The Quab brand is used to sell high-quality specialty chemicals to neutralize electrical charges, mostly to the producers of industrial starches whose products, in turn, are used to produce high-quality paper products. Additional customer industries include suppliers for the shale gas industry and for 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.

3. Non-financial performance indicators in the SKW Metallurgie Group and at SKW Stahl-Metallurgie Holding AG are not recorded regularly based on quantities.

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. The Group no longer believes that vertical integration, the strategy pursued in the past in particular with calcium carbide production in Sweden and calcium silicon production in Bhutan, is necessary in this regard.

→ In acquiring the key raw materials (for example calcium silicon, ferroalloys) 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.

→ The Powder and Granules segment's procurement activities are focused on ensuring the supply of magnesium and calcium carbide. There are reliable supply relationships with dependable suppliers for both raw materials. Calcium carbide-based pre-products are mostly procured locally due to the limited possibilities to transport these; magnesium is primarily procured in the People's Republic of China, which is by far the most important market for this raw material.

→ 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 experts ensure that the raw materials acquired in all segments are of a high quality.

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

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.

Carbide-based hot metal desulphurization materials are limited in their transportability which would make it impractical to supply all countries from only one site.

The production costs in the plants of the SKW Metallurgie Group are primarily determined by the cost of materials, 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 the plants for the SKW Metallurgie Group's core business 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 Sweden (to November 2014) and Bhutan, which no longer form part of the Group's core business, the issue of capacity utilization plays a greater role for technical reasons, as capacity cannot be adjusted as flexibly in these locations

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. During the year under review, in this connection in particular the operating management and control of the subsidiaries by the Group's top level parent company was intensified. 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 medium and long term to offer the owners an attractive return on the capital employed both via the share price performance and also via the dividend. During the year under review, these long-term objectives were overshadowed by the necessary write-downs in the amount of EUR 83.5 million which caused the share price to fall. It is expected that dividend payments will be started again over the medium term.

In operating terms, the SKW Metallurgie Group is continuing to pursue its target of becoming the global top quality supplier for steel producers in primary and secondary metallurgy. The SKW Metallurgie Group will also continue to consistently expand its value chain (e.g., by expanding its service offerings for the global steel industry) and by increasing its focus on higher-margin products, which also create corresponding added value for customers. Over the medium term additional attention will be paid to realizing business volume resulting from brand synergies and corresponding cross-selling potential.

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

6.1. SKW Metallurgie Group initiates strategic reorientation

Business in 2014 for the SKW Metallurgie Group was characterized by the need to develop a sustainable reorganization concept from the second quarter of 2014. An expert opinion on the reorganization was required, and this confirmed the Executive Board's positive forecast as a going concern.

The business approach had to be reviewed in 2014, activities were initiated to boost efficiency, and paths were sought and found for the entire Group's strategic reorientation. These activities are summarized in the Group-wide ReMaKe project (see chapter 2).

The knowledge gained from and the results of the ReMaKe project made it necessary to perform impairment tests including external experts, and the new Executive Board had these tests performed together with the financial statements for the second quarter (as of June 30, 2014). This led to extraordinary write-downs in the substantial amount of EUR 83.5 million in fiscal year 2014; of the entire amount only EUR 2.8 million influence EBITDA (mainly from the revaluation of inventories). These extraordinary write-downs have had a substantial impact on the SKW Metallurgie Group's financials on the balance sheet date. Further details are presented in subchapter 6.2.

In operating terms, in 2014 the Executive Board largely succeeded in stopping the bleed, and towards the end of the year under review the Group

recorded a slightly better EBITDA with an upwards tendency with growing revenues.

6.2. Non-cash one-off factors: Substantial impairment

As part of the strategic reorientation of the SKW Metallurgie Group, the new Executive Board fundamentally reviewed the entire Group's portfolio after April 1, 2014. This process was concluded for the time being when the interim financial statements as of June 30, 2014 were published. The key results of this analysis are:

→ The SKW Metallurgie Group has solid core business, which will be reinforced and expanded in future.

→ On the other hand, over the past few years loss-making activities have depressed the SKW Metallurgie Group. These are to be found in non-core activities and have mostly resulted from the vertical integration strategy.

→ The Executive Board has initiated a program to boost efficiency and restructure the Group entitled ReMaKe ("Business Restructuring – Efficiency Management – Growth in Key Markets"). This is dedicated to developing core business and finding solutions for non-core areas. Details of the ReMaKe project can be found in Chapter 2.

→ The Executive Board's reviews resulted in significantly more conservative business growth and forecasts for individual group companies compared to previous forecasts.

→ Given this background, the Executive Board has resolved to no longer drive the vertical integration strategy, and to evaluate all of the possible options for the affected group companies.

As a result of these points, extraordinary write-downs were required. These result, in particular, from the amended estimates for business growth for individual group companies. These extra-ordinary write-downs totaled EUR 84.0 million on June 30, 2014, of which EUR 2.7 million were recognized in EBITDA. Of this amount EUR 10.5 million concern the discontinued operations in Sweden (of which EUR 0 not recognized in EBITDA). As of December 31, 2014 the extra-ordinary write-downs totaled EUR 83.5 million, of which EUR 2.8 million were recognized in EBITDA. This change is mostly due to changes in exchange rates.

These extraordinary write-downs related in particular to the following items:

→ Property, plant and equipment in Bhutan (production facility for calcium silicon, Cored Wire segment) and Sweden (production facility for calcium carbide for the European market, Powder and Granules segment; sold in November 2014) were written off in full as a result of the anticipated income and cash flows over the forecast period.

→ Additional extraordinary write-downs of property, plant and equipment in the Powder and Granules segment related to the SKW Technology companies, for which liquidation was initiated in the period under review, and the former US subsidiary ESM-SMT (special magnesium), at the US subsidiary ESM Group Inc. The write-downs for the former ESM-SMT resulted from the fact that an anticipated major project with a non-steel industry customer failed to materialize.

→ In the Other segment extraordinary write-downs were required for SKW Verwaltungs GmbH (property in Russia).

In addition, corrections were required for the carrying amounts for goodwill and other intangible assets. These relate, in particular to the Brazilian group company Tecnosulfur and the US group company ESM (now part of the SKW North America organizational unit), both in the Powder and

Granules segment. The Brazilian subsidiary continues to make substantially positive contributions to consolidated earnings. However, as a result of the changed situation on the market, both for suppliers of raw materials and also for competitors, these contributions will be lower than had been expected in the past. The business forecasts for the ESM group had to be adjusted due to factors including new negotiations for contracts with key accounts and additional changes to the market environment.

By definition, the depreciation of property, plant and equipment and the amortization of intangible assets is non-cash. As a result the amortization and depreciation did not have and does not have any direct impact on the group's liquidity. However, as a further consequence, on June 30, 2014 financial indicators which had been agreed in credit agreements were breached, which resulted in a waiver and stand-still agreement (see subchapter 6.14). As a result, all of the former non-current financial liabilities were to be classified as current on the balance sheet date; as a result of the new syndicated credit agreement concluded in January 2015 maturities are expected to match again in the interim financial statements as of March 31, 2015.

No further extraordinary amortization/depreciation is expected in the foreseeable future.

6.3. Successful adjustment of the portfolio of participating interests

In November 2014 the SKW Metallurgie Group sold its Swedish subsidiary SKW Metallurgy Sweden AB to a purchaser outside the Group. This adjustment to the portfolio of participating interests was a successful milestone in the implementation of ReMaKe (rapid restructuring of peripheral areas and areas with a negative cash flow) and marks a move away from the previous strategy of vertical integration. SKW Metallurgy Sweden AB has been deconsolidated in these annual financial statements and is carried as discontinued operations. In the income statement, this means that the contributions made by SKW Metallurgy Sweden AB to the individual income and expense items are included neither in fiscal year 2014 nor in 2013. Instead these are carried under "earnings from discontinued operations (after taxes)" as a total figure (for 2014 on a pro rata basis until the sale). As a result, the comparable figures for 2013 in the income statement in this management report differ from those published in the previous year's management report and consolidated financial statements, which still included figures from SKW Metallurgy Sweden AB.

6.4. Revenues in Q4 higher than in previous year

Revenues for the SKW Metallurgie Group fell in the first nine months of the year under review by EUR 8.8 million compared to the first nine months of the previous year. In contrast, revenues in the operatively strong fourth quarter of 2014 were EUR 4.0 million higher than in the previous year.

Taken over the year as a whole, this development means that despite the positive revenue growth in the second half of 2014 it was not possible to fully compensate for the lower revenues in the first half of 2014 and that the SKW Metallurgie Group's revenues in the year under review of EUR 316.0 million were thus down 1.5% compared to the previous year (EUR 320.8 million). This downturn is due, in particular, to the lower revenues in North America. In addition to the exceptionally harsh winter in the North East of North America in 2013/2014, some North American customers changed their ordering behavior in the year under review; however, the SKW Metallurgie Group is confident that it will be able to win the lost quantities and margins back over the medium term as part of ReMaKe.

The Group's revenues and those from its individual group companies continue to be key financial performance indicators which the Executive Board uses to manage the entire Group and individual group units. Of the factors included in calculations for revenues, sales volumes are the most impor-

tant indicator; however this can only be measured and compared comprehensibly in quantitative terms at a product level and not aggregated for the entire Group or an individual group company.

The change in finished goods and work in progress totaled EUR 0.8 million in the year under review (previous year: EUR -0.8 million). Own work capitalized was only of a minor amount in the year under review, as was also the case in the previous year.

6.5. Increase in gross profit margin underscores the group's operating strength

The SKW Metallurgie Group's business demands the use of large quantities of raw materials, and in this type of business any change in the costs of raw materials and corresponding adjustments to selling prices can affect revenues, without this necessitating any change in operating output. As a result, a much more meaningful figure for the SKW Metallurgie Group is the gross profit margin (gross margin).[4]

During the year under review, the SKW Metallurgie Group increased this figure significantly – with costs of materials totaling EUR 217.3 million (previous year: EUR 222.0 million) - as a result of its consistent orientation to high-margin products to 31.5% compared to 30.6% in the previous year. The improvement in the gross profit margin would have been even more substantial if no write-downs had needed to be made for stocks of materials as part of the extraordinary write-downs (see sub-chapter 6.2). This meant a one-off additional charge to cost of materials of EUR 2.4 million.

6.6. Employees participate in corporate earnings

Personnel expenses totaled EUR 42.9 million in the year under review, and were higher than in the previous year (EUR 39.7 million). This is due in particular to extraordinary factors such as compensation payments and leave of absence in connection with the strategic reorientation, and to changes in bonus payments. During the year under review, the SKW Metallurgie Group continued to be characterized by a high proportion of variable remuneration components, which allow employees to participate in the economic growth of their group company and/or the entire group.

At EUR 12.6 million, other operating income in the year under review was clearly above the previous year (EUR 6.3 million). This is due mainly to higher income from exchange rate fluctuations (EUR 9.2 million in the year under review compared to EUR 2.6 million in the previous year).

Other operating expenses in the year under review totaled EUR 53.2 million, slightly lower than in the previous year (EUR 51.1 million).

Other operating expenses include, in particular, expenses from foreign currency translation totaling EUR 4.7 million in the year under review (previous year: EUR 4.4 million).

These exchange rate effects lead to a net currency translation effect (balance of income and expense) of EUR 4.5 million in the year under review compared to EUR -1.8 million in the previous year. The majority of these net currency translation effects are unrealized effects, i.e., not cash-effective.

Income from associated companies (here: from the Indian joint venture Jamipol) improved from EUR 1.0 million (2013) to EUR 1.3 million in 2014.

4. The gross profit margin (gross margin) is defined at SKW as the ratio of total operating revenue minus costs of material to revenues.

6.7. Disclosed EBITDA up by 18%

The SKW Metallurgie Group improved its EBITDA (IFRS) by 18% from EUR 14.8 million to EUR 17.5 million.

The disclosed EBITDA for the Group and its individual group companies continues to be a key financial performance indicator which the Executive Board uses to manage the entire group and individual group units.

As set out in sub-chapter 6.6, in both the year under review and also in the previous year the disclosed EBITDA includes key currency translation effects (included in other operating expenses and other operating income). The total net currency translation effects amounted to EUR +4.5 million in the year under review (previous year: EUR -1.8 million). After adjustment for these currency translation effects, EBITDA (before adjustment for extraordinary expenses) amounted to EUR 13.0 million in 2014 and EUR 16.6 million in 2013.

In contrast to this net currency translation effect, in the year under review EBITDA included extraordinary one-off effects, in particular the part of the extraordinary write-downs reflected in EBITDA (see sub-chapter 6.2) and one-off expenses in connection with the strategic reorientation (ReMaKe project). Finally, substantial external costs resulted when preparing the concept for ReMaKe and validating the necessary write-downs. In total, in the year under review there were extraordinary one-off factors totaling EUR -8.8 million (comparable expenses in the previous year, e.g. for extraordinary provisions for legal issues: EUR -3.5 million).

Adjusting the disclosed EBITDA for all of these extraordinary effects results in operating EBITDA of EUR 21.8 million in the year under review, and which was thus on a par with the previous year (EUR 20.1 million). This means that the foundations have been laid for operatively turning the Group around.

6.8. Amortization/depreciation and net interest

Amortization and depreciation in the year under review (EUR 70.8 million) are due to the extraordinary write-downs discussed in sub-chapter 6.2 in the amount of EUR 63.4 million (in particular with regard to the assets of the subsidiary in Bhutan and intangible assets). In contrast, the scheduled, currency translation-adjusted amortization and depreciation fell as a result of the extraordinary write-downs. This effect is due in particular to the fact that property, plant and equipment in Bhutan were written off in full, with the result that there was no more depreciation on these assets from the third quarter of 2014.

Net interest was at the same level as in the previous year (2014: EUR -4.7 million; 2013: EUR -4.6 million).

6.9. Tax expenses characterized by one-off factors

Tax expenses for the year under review (EUR 11.4 million; previous year: EUR 3.3 million) concern extraordinary write-downs of deferred tax assets in the amount of EUR 6.6 million. These were incurred in connection with the write-downs discussed in sub-chapter 6.2 as a result of impairment testing. Tax expenses for the operating activities totaled EUR 4.8 million (previous year: EUR 3.3 million) and have thus increased by EUR 1.5 million.

According to IFRS, consolidated earnings from continuing operations are netted with earnings from discontinued operations (after taxes). In these consolidated financial statements the latter item concerns SKW Metallurgy Sweden AB with an amount of EUR -11.6 million (compared to EUR -0.2 million in 2013). The consolidated net loss for the year in the amount of EUR -81.0 million (previous year: EUR -3.2 million) is allocated to the shareholders of SKW Stahl-Metallurgie Holding AG, and to non-controlling interests for the subsidiaries in which the SKW Metallurgie Group does

not hold a 100% interest. These are the following fully-consolidated group companies:

→ Tecnosulfur (Brazil): Non-controlling interests: 33.3%

→ Quab (USA): Non-controlling interests: 10%

→ SKW-Tashi (Bhutan): Non-controlling interests: 49%

→ SKW Technology companies: in liquidation

EUR -21.7 million was due to these non-controlling interests (2013: EUR -1.5 million). A key reason for the downturn in earnings due to third-party interests is the theoretical participation by the minority shareholder in the extraordinary write-down for the Bhutanese company.

EUR -49.3 million is attributable to shareholders of SKW Stahl-Metallurgie Holding AG (of which EUR -11.6 million from discontinued operations).

The number of SKW Metallurgie shares did not change in 2014 and 2013 and totaled 6,544,930. This results in earnings per share (EPS) from continued operations of EUR -7.29 (previous year: EUR -0.24).

No dividend can be disbursed for fiscal year 2014.

6.10. Segment reporting

The SKW Metallurgie Group comprised three segments in the period under review. The breakdown into these segments is in line with the previous year. During the course of 2015 the Group's segments will be reviewed and adjusted if necessary, in particular in view of the Group's strategic reorientation.

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

→ External sales in the Cored Wire segment were up slightly year-on-year at EUR 161.3 million (EUR 159.0 million). Segment EBITDA (EUR 10.4 million) was slightly above previous year (2013: EUR 10.0 million) as well, despite the substantial downturn in the contribution to EBITDA from the Russian group company due to the political crisis in Russia.

→ Annual revenues with non-Group customers in the Powder and Granules segment were down by EUR 10.7 million to EUR 128.4 million (previous year: EUR 139.1 million), which is due in particular to lower sales in North America in the year under review. This downturn in sales was due to the weather (particularly harsh winter 2013/2014 in North America) and also the margins and quantities recorded with key accounts in North America came under pressure. Segment EBITDA increased (in particular due to exchange rates) from EUR 6.9 million to EUR 8.2 million in the year under review. 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 and is included in EBITDA, however not in the segment's revenue figures.

→ The Other segment includes SKW Quab Chemicals Inc., which runs the operating Quab business, and also the top-level group company SKW Stahl-Metallurgie Holding AG and additional German companies which perform central group functions and thus do not generate any revenues. Revenues with Quab specialty chemicals totaled EUR 26.4 million in the year under review, lower than the previous year's figure (EUR 22.7 million). Quab business continues to make a substantially positive contribution to EBITDA. Disclosure of EBITDA for the entire segment is not particularly meaningful in the Other segment, as the positive earnings from Quab business are netted with the typically negative contribution to EBITDA from central Group units.

6.11. Development of the balance sheet characterized by extraordinary write downs

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, 2014	Dec. 31, 2013
Non-current assets	68,838	145,771
Current assets	111,813	109,374
thereof cash and cash equivalents	17,972	10,673
Total assets	**180,651**	**255,145**

EQUITY AND LIABILITIES in EUR thousand	Dec. 31, 2014	Dec. 31, 2013
Equity	24,440	105,480
Non-current liabilities	24,758	69,469
thereof non-current financial liabilities	6,907	54,150
Current liabilities	131,453	80,196
thereof current financial liabilities	77,142	20,333
Total equity and liabilities	**180,651**	**255,145**

The SKW Metallurgie Group's total assets fell substantially by EUR 74.4 million in fiscal year 2014 from EUR 255.1 million to EUR 180.7 million. Of this downturn, EUR 83.5 million is due to the extraordinary write-downs, which had to be performed as a result of impairment testing and are detailed in sub-chapter 6.2.

The carrying amount of non-current assets fell from EUR 145.8 million to EUR 68.8 million; the carrying amount of current assets remained on a par with the previous year at EUR 111.8 million (EUR 109.4 million).

Although, under current assets, inventories fell from EUR 47.7 million to EUR 43.6 million, at the same time the SKW Metallurgie Group held EUR 7.3 million more cash and cash equivalents on the balance sheet date than in the previous year.

On the equity and liabilities side the write-downs detailed above led to a reduction in consolidated equity by EUR 81.1 million (of which EUR 56.6 million was a reduction in "Other accumulated equity" and EUR 24.5 million was a reduction in third-party interests in equity).

The liabilities also carried on this side of the balance sheet (current and non-current liabilities) only increased slightly in total (2014: EUR 156.2 million; 2013: EUR 149.7 million). However, this total amount includes several material, partially contradictory effects:

→ The SKW Metallurgie Group's gross financial debt[5] increased by EUR 9.5 million from EUR 74.5 million to EUR 84.0 million. Over and above the amount, the maturities also shifted substantially: As a result of the fact that the refinancing agreements were not concluded before January 2015, financial liabilities for the Group's parent company SKW Stahl-Metallurgie Holding AG had to be technically qualified as "current" as of December 31, 2014. On the date this management report was prepared the conclusion of the new syndicated credit agreement, which has a three-year term, means that maturities in the financial statements are congruent again, after all of SKW Stahl-Metallurgie Holding AG's financial liabilities technically had had to be presented as being current.

→ In contrast to the increase in financial liabilities, trade payables fell by EUR 8.7 million (from EUR 41.5 million to EUR 32.8 million).

→ In addition, as a result of the ongoing period of low interest rates, the carrying amount for pension commitments has been increased by EUR 3.4 million in line with the market.

As equity fell to a significantly greater amount than total assets as a result of the extraordinary write-downs (see sub-chapter 6.2), the equity ratio (including non-controlling interests) was down 27.9 percentage points year-on-year to 13.5% (previous year: 41.3%). The SKW Metallurgie Group aims to increase its equity ratio again.

In addition to the equity ratio, net financial debt[6] is a key performance indicator for the SKW Metallurgie Group. This figure totaled EUR 66.0 million on December 31, 2014 (previous year: EUR 63.8 million) and has increased only slightly year-on-year.

Operating net working capital in the closer sense – defined as inventories plus trade receivables less trade liabilities – totaled EUR 49.8 million on the balance sheet date and is thus higher than the previous year's level (EUR 44.6 million). This is mainly due to the fact that trade payables were down by EUR 8.7 million. This downturn was due, in particular, to the shift in payments made close to the balance sheet date and the deconsolidation of SKW Metallurgy Sweden AB.

5. Both gross and net financial debt do not include, by definition, the portions of credit lines which have not been used or which are only used with guarantees.
6. Net financial debt is defined as the amount by which financial liabilities exceed cash and cash equivalents.

6.12. SKW Metallurgie Group generates positive cash inflow from operating activities

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

EUR thousand	Jan. 1 - Dec. 31, 2014	Jan. 1 - Dec. 31, 2013
Consolidated net result	-80,995	-3,209
Gross cash flow	8,026	8,758
Cash flow from operating activities	3,012	20,366
Cash flow from investing activities	-5,246	-5,115
Cash flow from financing activities	8,839	-28,537
Change in cash and cash equivalents[7]	7,299	-14,657
Cash and cash equivalents - end of period	17,972	10,673

Based on consolidated net results for the year with significant non-cash one-off factors, the SKW Metallurgie Group recorded a significantly positive gross cash flow of EUR 8.0 million in the year under review (previous year: EUR 8.8 million).

Cash flow from operating activities (also net 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 gross cash flow and changes in working capital (in the wider sense).

Credit control was adjusted during the year under review as part of the Group's reorientation; in particular the use of factoring (sale of the SKW Metallurgie Group's trade receivables) was terminated in full through to the date this management report was prepared, and payment scheduling for payments close to the balance sheet date was restructured. In this connection funds of EUR 12.5 million (previous year: EUR -3.4 million) were expended for changes in the amount of trade payables, and a total of EUR 5.0 million was expended for changes in working capital. In the previous year, working capital was reduced by EUR 11.6 million.

As a result of the one-off effects detailed above for changes in working capital, cash flow from operating activities was positive in the year under review, however this differs substantially from the previous year (2014: EUR 3.0 million; previous year: EUR 20.4 million).

Net cash used in investing activities totaled EUR 5.2 million during the year under review, on a par with the previous year (EUR 5.2 million). During the year under review and in the previous year this mostly comprised maintenance investments.

This resulted in a free cash flow for the SKW Metallurgie Group of EUR -2.2 million in the year under review (previous year: EUR 15.3 million). This negative free cash flow is primarily due to the one-off factors due to the Group's reorganization already mentioned for trade payables as well as the one-off expenses in connection with the Group's strategic reorientation detailed in sub-chapter 6.5. The SKW Metallurgie Group is forecasting a positive free cash flow for 2015 and thereafter - without considering investments in growth projects - in line with the expert opinion on the Group's reorientation. This is to be used to repay net financial debt to the extent that it is not used for investments in growth projects.

As part of its financing activities, the SKW Metallurgie Group received EUR 8.8 million from drawing down net credit. This was primarily used to finance the increase in cash and cash equivalents by EUR 7.3 million (cash and cash equivalents December 31, 2014: EUR 18.0 million; December 31, 2013: EUR 10.7 million).

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

6.13. Major changes to key financial indicators compared to the previous year's forecast

In the combined management report 2013, which was published in March 2014, the Executive Board in office at that time presented its assessment at that time of the financial position and results of operations of the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG for 2014. The Executive Board in office at the time forecast a moderate increase in EBITDA and a reduction in net financial debt. The EBITDA disclosed in the year under review was down 18% compared to the previous year; net financial debt was up by EUR 2.2 million.

As a result of the significant changes during the year (in particular as a result of the extraordinary write-downs required as of June 30, 2014, see sub-chapter 6.2) the Executive Board updated its forecasts for financial performance indicators in the condensed consolidated interim financial statements, which were reviewed by an auditor, on June 30, 2014. Now the SKW Metallurgie Group's Executive Board expected revenues for fiscal year 2014 to be down slightly compared to the 2013 figures, and for EBITDA to be down substantially compared to the 2013 figures.

The forecasts made were accurate concerning revenues. With regard to EBTIDA, unforeseeable changes in exchange rates, in particular the EUR/USD exchange rate led to disclosed EBITDA for fiscal year 2014 not being lower than, but EUR 2.7 million higher than in fiscal year 2013. After adjustment for the net currency translation effect resulting from these unforeseeable changes in exchange rates (see sub-chapter 6.7), EBITDA for fiscal year 2014 was lower than in fiscal year, 2013 as had been forecast.

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

SKW Stahl-Metallurgie Holding AG and its subsidiaries had sufficient liquidity at all times during the year under review after initially concluding a waiver agreement and then a standstill agreement with regard to the financial indicators that had been agreed in the former master credit agreement (financial covenants) in order to negotiate and conclude the new syndicated credit agreement (concluded in January 2015).

SKW Stahl-Metallurgie Holding AG and its fully consolidated subsidiaries also have sufficient liquidity for all foreseeable transactions in 2015 and 2016 and thereafter. As a result, the Group has ensured that the SKW Metallurgie Group and its group companies are a going concern for 2015, 2016 and beyond.

However, the Bhutanese group company has negative equity and a high level of debt as mentioned in Chapter 12 (risk report). If there should be any further negative developments for the Bhutanese group company, e.g. as a result of unforeseen production downtime, both the Bhutanese company's ability to pay and also its continued existence would no longer be certain without support from other group companies. As the top-level group company, SKW Stahl-Metallurgie Holding AG is not, as a rule, subject to any obligations to provide the Bhutanese group company with additional equity or additional intra-group loans. There is only an agreement to provide collateral for credit to the Norwegian export subsidy bank Eksportfinans by SKW Stahl-Metallurgie Holding AG for part of the financing of the low-shaft furnace for SKW-Tashi Metals & Alloys Private Ltd. in Bhutan in the amount of USD 735 thousand. The risk of this being used is currently regarded as being unlikely.

In particular the syndicated credit agreement concluded at the start of 2015 (which runs until the start of 2018) in the amount of EUR 86 million (of which EUR 46 million as a repayment loan) serves to secure the Group's

liquidity. This agreement provides sufficient funds to refinance the previous master credit agreement and the previous promissory note loans until maturity in each case.

A possible outflow of funds in connection with EU antitrust proceedings would also not endanger the Group's liquidity, as the bank deposits deposited with the European Commission (in the amount of EUR 6.7 million) have been 100% covered with lines of credit since 2009. In addition, the SKW Metallurgie Group is continuing not to forecast an outflow of funds in this regard.

So-called financial covenants have been agreed for several of the SKW Metallurgie Group's credit agreements, in particular also including the syndicated credit agreement concluded at the start of 2015. The Executive Board believes that the forecast course of business in 2015 and beyond will not breach the financial covenants.

The SKW Metallurgie Group's borrowing has been concluded under terms in line with the market in the respective country. Changes to the general interest rate level may also lead to changes in the average interest rate of the SKW Metallurgie Group.

6.15. Changes to the borrowing structure in the year under review

The SKW Metallurgie Group's borrowing from third parties is mainly based on financial liabilities entered into by the Group's parent company. The key elements of this borrowing are a promissory note loan with a volume of EUR 45.0 million, a master credit line with three German banks for a total of EUR 40.0 which expires in March 2015 and a further credit line of EUR 5.0 million with another German bank.

During the year under review, there were the following material developments in this connection: The financial indicators as of June 30, 2014 were not sufficient to meet the financial covenants with borrowers as a result of the extraordinary write-downs set out in sub-chapter 6.2. In particular there was a breach of covenant for the master credit agreement (violation of financial indicators). In this regard, the banks affected agreed to a written waiver on August 13, 2014, which was initially valid through to September 30, 2014. On September 30, 2014 the SKW Metallurgie Group concluded a so-called "stand-still" agreement with the banks involved. This has a limited term through to January 31, 2015. As a result of these agreements, sufficient liquidity was available at all times during the year under review, and as a result the Executive Board regarded the Group as a going concern at all times.

A three-year syndicated credit agreement arranged by Commerzbank AG and Norddeutsche Landesbank Girozentrale for EUR 86 million was signed with the arrangers and a further German bank on January 23, 2015. The funds from this syndicated credit agreement are to be used, for example, to fully refinance the previous master credit agreement, the bilateral credit line for EUR 5.0 million and all of the promissory note lines becoming due. On the date this management report was prepared, all of the promissory note loans (total volume: EUR 45 million) had either already been repaid, or repayment is to be expected in the short term.

The new syndicated credit agreement provides the SKW Metallurgie Group with sufficient funding, and latitude is being created which will benefit further growth and associated capitalization activities. The new syndicated credit agreement thus secures liquidity and the going concern for the remainder of 2015 and for 2016 and beyond.

6.16. Global financial structure

To secure SKW Metallurgie's financial stability and flexibility, the Group aims to strike a balance between equity and borrowing.

→ The SKW Metallurgie Group's borrowing was restructured in January 2015 with a syndicated credit agreement in the amount of EUR 86 million (credit line) with a three-year term. The new financing instrument has created the planning security with regard to borrowing (subject to certain conditions stated in the credit agreement) through to the start of 2018. In addition to the syndicated credit agreement there also continues to be a minor amount of local borrowing. This relates, in particular, to group companies outside Germany.

→ In order to increase its equity ratio and to procure cash for the planned reinforcement of its core business areas in Europe and in India in particular, the SKW Metallurgie Group will review corresponding opportunities on the equity markets in the remainder of 2015.

→ There will continue to be financing within the SKW Metallurgie Group using intra-group loans, in particular loans from the parent company to group companies.

Exchange rate risks arising from the Group's operating activities (transaction risk) were reduced by natural hedging, e.g. by entering into same foreign-currency purchase and sale transactions. Group companies also hedged any exposure arising from the relevant foreign-currency forecasts at specific points. The risks entered into for the Group with derivative financial instruments are of a minor size. The SKW Metallurgie Group uses derivative financial instruments exclusively to hedge transactions, it 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. In addition, the new syndicated credit agreement offers opportunities to hedge exchange rate risks using bilateral credit lines in currencies other than the Euro.

The translation risks[8] that result from the translation of financials from subsidiaries in non-Eurozone countries to the Group's currency (euros) are not currently hedged. In 2013, 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 had operating companies in the year under review (Brazil, China, India/Bhutan (factual currency union), Japan, Canada, Mexico, Russia, Sweden and South Korea).

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.

At the bottom line, on the date when this management report was prepared sufficient borrowing was available for both the parent company and also for each individual subsidiary. The financing situation is only tense for the Bhutanese group company due to the current low selling price for calcium silicon. However, the current financial forecast does not assume gaps in liquidity for the Bhutanese group company in 2015.

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

7. SKW Stahl-Metallurgie Holding AG – Annual 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 are determined, to a significant extent, by the economic situation of its participating interests.

The Company is an Aktiengesellschaft (stock corporation) under German law. Its shares are traded on the Prime Standard (segment with the highest transparency requirements) of the Frankfurt Stock Exchange in Frankfurt/Main (Germany) in the XETRA trading system and on other stock exchanges.

At SKW Stahl-Metallurgie Holding AG, fiscal year 2014 was characterized by the development of the Group's subsidiaries and second-tier subsidiaries.

As discussed in sub-chapter 6.2, significant extraordinary write-downs had to be made at some of these companies (in particular the group company in Bhutan and the now-sold group company in Sweden). This also led to significant write-downs in SKW Stahl-Metallurgie Holding AG's individual business, in particular for the carrying amounts of its participating interests (EUR 19.9 million) and intra-group receivables (EUR 43.3 million). In particular, all of SKW Stahl-Metallurgie Holding AG's receivables from the Bhutanese group company had to be written off in full as it is not anticipated that it will be possible to collect these. The intra-group receivables relate, in particular, to intra-group loans and unpaid interest on these loans.

The consulting activities, which the parent company SKW Stahl-Metallurgie Holding AG performs for the other group companies, were at an unchanged high level in the year under review. These related, in particular, to the successful launch of the ReMaKe project for the entire Group's strategic reorientation (see chapter 2).

During the year under review, there were the following changes to SKW Stahl-Metallurgie Holding AG's portfolio of participating interests:

→ The Company sold its subsidiary SKW Metallurgy Sweden AB, Sundsvall (Sweden) on November 19, 2014 to a purchaser outside the Group as part of its strategic reorientation (no-longer forcing vertical integration).

→ In addition, SKW Stahl-Metallurgie Holding AG's 90% interest in SKW Quab Chemicals Inc., Wilmington DE (USA) was transferred to SKW Metallurgie USA Inc., Wilmington DE (USA) in December 2014. This company is a wholly owned participating interest held by SKW Stahl-Metallurgie Holding AG with the aim of consolidating the Group's US activities in a joint interim holding company. The value of the interests transferred was identified based on an external indicative valuation; the transfer led to one-off income for SKW Stahl-Metallurgie Holding AG in the amount of EUR 7.7 million in the year under review.

As a result, the Company held direct investments in eight companies (previous year: ten). 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, People's Republic of China)

→ SKW Metallurgie USA 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)

SKW France S.A.S. (France), SKW Stahl-Metallurgie GmbH (Germany) and SKW Metallurgie USA Inc. (USA) each 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.[9] The other subsidiaries of SKW Stahl-Metallurgie Holding AG do not hold participating interests in other companies.[10] In addition, the Group intends to merge SKW France S.A.S. with its subsidiary Affival S.A.S. in 2015 within its French participating interests.

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 23.4 million (previous year: EUR 4.1 million). In both the year under review and also in the previous year this included the foreign currency translation result as well as income from group transfer agreements with subsidiaries as well as other charges passed on. In addition, in the year under review income in the amount of EUR 7.7 million was recorded from the disposal of SKW Quab Chemicals Inc. as a directly-held participating interest (previous year: EUR 0).

The number of active employees on the balance sheet date (including the Executive Board) totals 17 (20) and is slightly lower than in the previous year. During the year under review, the Company was able to hire several highly qualified employees. This proves that the Company is attractive on the labor market, and is a key non-financial performance indicator for SKW Stahl-Metallurgie Holding AG as a separate entity.

SKW Stahl-Metallurgie Holding AG's personnel expenses increased substantially in the year under review to EUR 4.1 million (previous year: EUR 2.6 million). These personnel expenses include remuneration for two members of the Executive Board as set out in detail in the remuneration report[11], as well as remuneration for employees who are not representatives of the Company's executive bodies. This increase in the Company's personnel expenses mostly relates to variable remuneration components and is due, in particular, to hiring highly qualified employees with corresponding salaries.

In cases where employees are deployed abroad, the personnel costs for the top-level group company are passed on to the respective group company. As a result of staff cuts in connection with the strategic reorientation, expenses for leave of absence were incurred in the amount of EUR 0.5 million (previous year: EUR 0).

Amortization and depreciation generally only play a minor role for SKW Stahl-Metallurgie Holding AG as a separate entity (scheduled amortiza-

9. 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.
10. SKW Service GmbH holds a 1% interest in the Turkish Group company, which is wholly owned by the Group.
11. Remuneration for members of the Supervisory Board is not recorded as personnel expenses, but as other operating expenses.

tion/depreciation in both the year under review and also the previous year: EUR 0.2 million).

During the year under review, a significant amount of extraordinary write-downs were incurred over and above scheduled amortization and depreciation (2014: EUR 63.2 million; 2012: EUR 0). In particular, the carrying amounts of the participating interests for the group company in Bhutan and the former group company in Sweden, sold in November 2014, and also all of the loans to and receivables from these companies had to be written off in full for the first time as of June 30, 2014. In addition, the carrying amount of the two-thirds participating interest in the Brazilian group company had to be adjusted from EUR 30.3 million to EUR 13.1 million, as the impairment tests performed using external experts for all three of these direct subsidiaries as of June 30, 2014 could no longer confirm the previous carrying amounts. As a result, these interests had to be written down to their lower fair values.

SKW Stahl-Metallurgie Holding AG's other operating expense totaled EUR 36.0 million in the year under review, thereof EUR 16.2 million expenses from the deconsolidation of SKW Metallurgy Sweden AB (other operating expenses previous year: EUR 3.6 million). The remaining amount of EUR 19.8 million include currency translation effects and in particular one-off expenses in connection with the strategic reorientation in the amount of EUR 3.6 million, for which there were no corresponding items in the previous year.

Net income from participating interests for the parent company SKW Stahl-Metallurgie Holding AG includes the absorption of losses from the subsidiary SKW Stahl-Metallurgie GmbH (EUR -3.6 million; previous year: EUR -1.7 thousand), and also dividend payments for the other direct subsidiaries. The following three of these direct subsidiaries paid a dividend in the year under review:

- SKW France S. A. S. (interim holding for all material companies in the Cored Wire segment) of EUR 10.3 million (previous year: EUR 8.0 million).
- Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A in the amount of EUR 2.1 million (previous year: EUR 1.9 million)
- SKW Quab Chemicals Inc. in the amount of EUR 0.1 million (previous year: EUR 0.1 million)

The financial result for SKW Stahl-Metallurgie Holding AG as a separate entity was EUR 1.4 million (previous year: EUR 2.5 million). The earnings side includes, in particular, interest income from the intra-group financing of subsidiaries and second-tier subsidiaries (EUR 4.5 million compared to EUR 5.1 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 2.6 million).

Earnings from ordinary operating activities resulting from the above items (excluding extraordinary write-downs) totaled EUR -70.1 million and are substantially lower than the previous year's earnings of EUR 8.6 million. Without these extraordinary write-downs (and expenses in connection with the Swedish subsidiary sold in November 2014) in the amount of EUR 79.4 million, and including one-off income in the amount of EUR 7.7 million from the intra-group reallocation of the participating interest in SKW Quab Chemicals Inc., SKW Stahl-Metallurgie Holding AG's earnings from ordinary operating activities would have increased from EUR 8.6 million to EUR 10.1 million.

SKW Stahl-Metallurgie Holding AG's tax result continues to be of minor importance. The write-downs performed at Group level (IFRS) for deferred tax assets that relate to SKW Stahl-Metallurgie Holding AG do not impact the HGB separate financial statements.

As a result annual net income (earnings after taxes, rounded) for SKW Stahl-Metallurgie Holding AG corresponds to its earnings from ordinary operating activities in both the year under review and in the previous year.

SKW Stahl-Metallurgie Holding AG's net loss for the year totaled EUR -52.4 million as a result of the extraordinary write-downs detailed above, and was significantly lower than in the previous year (profit of EUR 17.7 million).

As a result of its importance for the Company's ability to pay dividends, the net profit/loss is the key financial performance indicator for SKW Stahl-Metallurgie Holding AG as a single entity. The combined management report for 2013, which was published in March 2014, had forecast net retained profits which would have allowed a dividend to be paid (disbursement in 2015). However, this forecast did not hold true as a result of the extraordinary write-downs set out above. It is much rather the case that the Company recorded a substantial net loss.

No dividend can be disbursed for fiscal year 2014 as a result of this net loss. In the previous year (net retained profits: EUR 17.7 million) the General Meeting voted with a large majority to follow the management's proposal not to pay a dividend.

Re-creating the ability to pay dividends remains the central income-related indicator for the single entity SKW Stahl-Metallurgie Holding AG.

7.2. Net asset and financial position of the Group's parent company

Total assets of the parent company SKW Stahl-Metallurgie Holding AG amounted to EUR 71.9 million as of December 31, 2014 and thus fell significantly compared to the previous year (EUR 134.1 million). The primary reason for this was the substantial extraordinary write-downs discussed in sub-chapter 7.1, which resulted in a substantial net loss.

On the assets side, non-current assets (in particular participating interests in and loans to affiliated companies) fell year-on-year from EUR 114.2 million to EUR 60.7 million; this downturn is due in particular to these extraordinary write-downs as a result of impairment testing.

The carrying amounts for interests in affiliated companies (as part of non-current assets) on the balance sheet date fell from EUR 47.0 million to EUR 30.3 million. This downturn is mainly due to the disposal of SKW Metallurgy Sweden AB and SKW Quab Chemicals Inc as direct participating interests held by SKW Stahl-Metallurgie Holding AG as well as the write-downs detailed above for the participating interest in the Brazilian company Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A (partial write-down) and SKW-Tashi Metals & Alloys Private Ltd. (full write-down). In contrast, the carrying amount of the participating interest in SKW Metallurgie USA Inc. increased as a result of the addition of the 90% interest in SKW Quab Chemicals Inc.

Strategic partners[12] hold interests of less than 50% in both SKW-Tashi Metals & Alloys Private Ltd. (Bhutan) and Tecnosulfur (Brazil). All of the other directly-held participating interests were wholly owned by SKW Stahl-Metallurgie Holding AG on the balance sheet date.

Loans to affiliated companies on the balance sheet date totaled EUR 30.3 million and were thus down by EUR 36.9 million compared to the previous year (EUR 67.2 million). This downturn is mostly due to the extraordi-

12. This partner is a member of the management (private individual) for Tecnosulfur, and at SKW Tashi this partner is a Bhutanese joint venture partner of the SKW Metallurgie Group (legal entity).

nary write-downs of loans to the Bhutanese and the former Swedish group company that was sold in November 2014.

Current assets fell from EUR 19.4 million to EUR 11.0 million. The most important item under current assets is receivables from affiliated companies, which fell from EUR 18.7 million to EUR 5.9 million (due to factors including the extraordinary write-downs detailed in sub-chapter 7.1).

On the equity and liabilities side, the Company recorded equity of EUR 7.2 million (previous year: EUR 77.3 million). This downturn is mostly due to the net loss of EUR 52.4 million (previous year: net profits of EUR 17.7 million) as a result of the extraordinary write-downs. The equity ratio of SKW Stahl-Metallurgie Holding AG as a single entity fell correspondingly from 57.6% (December 31, 2013) to 10.0% (December 31, 2014).

Provisions were higher than in the previous year at EUR 5.9 million (previous year: EUR 3.2 million). These relate, in particular, to provisions for pensions (2014: EUR 2.7 million; 2013: EUR 2.2 million), other personnel related provisions (2014: EUR 1.6 million; 2013: EUR 0.3 million), and provisions for fees and services not yet invoiced (2014: EUR 1.4 million; 2013: EUR 0.7 million.

SKW Stahl-Metallurgie Holding AG's liabilities include, in particular, liabilities to banks. These totaled EUR 54.5 million on the balance sheet date and are thus on a par with the figure on December 31, 2013 (EUR 53.2 million).

The top-level group company SKW Stahl-Metallurgie Holding AG had sufficient liquidity at all times during the year under review after initially concluding a waiver agreement and then a standstill agreement with regard to the financial indicators that had been agreed in the former master credit agreement (financial covenants) in order to negotiate and conclude the new syndicated credit agreement.

This syndicated credit agreement was concluded in January 2015 in the amount of EUR 86 million and secures liquidity for SKW Stahl-Metallurgie Holding AG until the start of 2018 (subject to the condition that the contractually agreed conditions and financial covenants are upheld). This agreement provides sufficient funds to refinance the previous master credit agreement and the previous promissory note loans until maturity in each case.

7.3. Accounting processes at the Group's parent company

SKW Stahl-Metallurgie Holding AG attaches great value to a proper accounting process. This includes the accounting-related elements in the internal control system (ICS). However, day-to-day business of the group parent company SKW Stahl-Metallurgie Holding AG is characterized by a low level of standardization. That means that although the number of transactions is relatively low, most of them relate to complex individual issues. Otherwise, accounting at the Group's parent company is included in the Group-wide accounting-based control system described in sub-chapter 12.6.

8. Research and development to future-proof the group

Strong research and development (R&D) is a key strategic unique selling point for the SKW Metallurgie Group and helps to enhance the technically demanding consulting for customers and to develop new products. That is why the SKW Metallurgie Group continues to attach a high degree of importance to research and development.

The SKW Metallurgie Group has organized its research and development in a cross-country and cross-company network. In research activities for the Affival Group in France, there were eight (previous year: seven) full-time employees (of whom two are doctors) on the balance sheet date, and they work closely together with laboratories, external research institutions and customers.

During the year under review, a particular focus was placed on further developing HDx (high density) cored wire. Research and development activities in the Cored Wire segment are not restricted to cored wire alone, they also encompass innovations in additive technology.

During the year under review, a multi-day, group-wide, pan-segment R&D conference was held.

The SKW Metallurgie Group has a stronger claim to being a global technology leader for primary and secondary metallurgy applications thanks to the further intensification of its R&D activities and integrating these throughout its divisions.

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.

Minimizing environmental risks and environmental impact is a key, non-financial performance indicator in the whole SKW Metallurgie Group. On the whole, the Group sees environmental protection not as a restriction, but as an opportunity to implement responsible corporate action.

Raw materials for the production and finished products of the SKW Metallurgie Group are transported worldwide. The carriers employed for this are predominantly outside the Group. The Group carefully selects its logistic partners, but the fundamental responsibility for environmental perils that may arise from transportation lies with the transport companies. The SKW Metallurgie Group prefers environmentally-friendly forms of transport, such as rail or vessel where possible, thus contributing to the reduction of CO2 emissions from road transport and thus global environmental protection. The significant need for electricity for the plant in Bhutan is covered from a source outside the Group. However, the plant procures the vast majority of its electricity from hydroelectric power plants, which helps to protect the environment

The SKW Metallurgie Group is a leading global specialty chemicals group, and continues to actively participate 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, Authorisation and Restriction of Chemicals. 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.

10. Motivated Employees as a Success Factor

10.1. Highly international employee structure

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

At the end of the fiscal year, the SKW Metallurgie Group (without the discontinued operations in Sweden which accounted for 52 employees as of December 31, 2013, and also without the participating interest in India which is consolidated at equity) had 888 employees (previous year: 1.010, including the Swedish Group company which was still consolidated at that time). Of this total around 863 or 97% are employed in countries other than Germany. Most of the employees work full time.[13] 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 December 31, 2014, employees were distributed across the segments and regions as follows:

Region/Segment	Cored Wire	Powder and Granules	Other	Total
USA and Canada	86	216	3	305
Mexico	10	0	0	10
Brazil	0	125	0	125
Germany	0	8	17	25
France	137	0	0	137
Russia	9	0	0	9
East Asia (without Bhutan)	32	22	0	54
Bhutan	223	0	0	223
Total	**497**	**371**	**20**	**888**

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

13. 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.

Group hires and promotes staff based on their qualifications and their achievements. The SKW Metallurgie Group also takes a positive stance in favor of a diverse workforce.

A key diversity aspect is equal opportunities for both sexes.

→ As a result, 50% of the members of the SKW Metallurgie Group's Executive Board have been women since 1 April 2014 (January 1 - March 31, 2014: 100%; 2013 as a whole 33% women).

→ Since 2009 there has always been one woman on the Supervisory Board.

Below the Executive and Supervisory Boards, the SKW Metallurgie Group also pays attention to ensure that both sexes are reasonably represented at all levels. However, this also takes into account whether there are female applicants available on the market with corresponding qualifications (e.g., metallurgy graduates or similar). All in all, the situation at the SKW Metallurgie Group can be described as follows:

→ In many cases, industrial employees (production) are men.

→ 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.

→ There is a mix of both sexes for all of the other positions in the SKW Metallurgie Group.

The SKW Metallurgie aims to further improve the diversity of its workforce and, in particular, to include both sexes to a reasonable extent.

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, Japanese and French group companies' employees and two former 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.

10.3. Trusting partnership with employees

SKW Stahl-Metallurgie Holding AG is the SKW Metallurgie Group's parent company and was not subject to statutory co-determination in the year under review. The Company did not voluntarily participate in any co-determination in 2014 either. At the end of the day, this means that all of the members of the Supervisory Board represent the shareholders and there are no shareholder representatives in this body.

Some employee and union representatives were appointed at some of the subsidiaries in the SKW Metallurgie Group in the year under review in accordance with the respective national provisions. Cooperation with existing local committees is marked by mutual understanding and solutions in the interests of both parties.

In the year under review and in the previous year in the SKW Metallurgie Group 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 body for senior managers.

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. The cultural transition initiated by the new Executive Board underscores these values to an even greater extent (see sub-chapter 3.4).

10.4. Positive working environment

The turnover among permanent and regular staff in the SKW Metallurgie Group is low, although there were some major changes in the workforce during the year under review as a result of the strategic reorientation at some Group companies (e.g., in Germany). The high affinity of the workforce to the SKW Metallurgie Group is a key non-financial performance indicator, and confirms the philosophy pursued by the Executive Board and local management 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. The continued and further education of the entire workforce, including management, is an integral part of the SKW Metallurgie Group's corporate philosophy.

10.5. Remuneration for the Supervisory and Executive Boards (remuneration report)

All of the compensation structures in the SKW Metallurgie Group are governed by the principles of appropriateness and performance. This relates to both the compensation structures for employees and also the remuneration for the Executive and Supervisory Boards.

According to the statutory requirements, the following section discloses the details of remuneration for the Supervisory and Executive Boards in the year under review below (remuneration report):

I. Supervisory Board:

Remuneration for members of the Supervisory Board does not include any remuneration components that are based on corporate figures, and it is much rather the case that this is 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 Chairperson receives 1.5 times this amount, his deputy receives 1.25 times this amount.

Meeting fees are only paid for on-site 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 Chairperson receives 1.5 times this amount. Accordingly, in 2014 expenses for the Supervisory Board's remuneration totaled the following:

EUR thousand	Fixed compensation*	Meeting fees	Total
Armin Bruch	12	10	22
Dr. Hans Liebler	12	9	21
Dr. Dirk Markus	12	10	22
Jochen Martin	15	10	25
Jutta Schull	12	7	19
Titus Weinheimer	18	11.5	29.5
Total	**81**	**57.5**	**138.5**

*Provisions for Supervisory Board activities in 2014; payment made in 2015

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, in the year under review as was also the case in previous years, 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.

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:

During the year under review the Executive Board comprised Dr. Kay Michel (since April 1, 2014; CEO) and Ms. Sabine Kauper (CFO). During the first quarter of 2014 Ms. Ines Kolmsee was also a member of the Executive Board.

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 met the requirements of the German Corporate Governance Code on the balance sheet date.

There were no agreements on the balance sheet date with the members of the Executive Board for the event of a change of control resulting from an acquisition offer.

The Executive Board's remuneration fundamentally comprises performance-related and non-performance related components.

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

is carried in the individual taxable amount and which, as a rule, is due equally to each member. This mostly relates to the company cars which the Executive Board members can also use privately. The Executive Board members each individually pay tax on this company car, as well as job-related insurance premiums that either do not constitute income under German income tax law, or which are subject to lump-sum taxation. In particular, the Company bore the cost of D&O insurance, which protects members of the Managing and Supervisory Boards and other company executives. According to Section 93 (2) Sentence 3 of the AktG and 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; as a result the corresponding employer contributions do not apply.

As a rule, 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.

→ In particular due to the changes in the Executive Board in fiscal year 2014 and the strategic reorientation of the entire Group, agreements were reached for fiscal year 2014 that differ from this system (STI and LTI). As part of Dr. Kay Michel's appointment as CEO on April 1, 2014, a guaranteed bonus of EUR 295 thousand was agreed for the short fiscal period 2014. With regard to Ms. Sabine Kauper, the Supervisory Board resolved to pay a guaranteed bonus of EUR 295 thousand for fiscal year 2014.

→ The Supervisory Board has the right to grant extraordinary remuneration in addition to these guaranteed bonus payments for extraordinary performance. These payments are capped at 75% of the maximum variable remuneration. No such extraordinary remuneration was paid in 2014.

→ A termination agreement was reached with Ms. Kolmsee in connection with her exit from the Company's Executive Board. As part of this agreement, bonus entitlements (STI and LTI) for 2014 were compensated via the payment of a lump-sum amount of EUR 95 thousand.

No remuneration was paid to members of the Group's Executive Board by consolidated subsidiaries for mandates with these companies. The Board of the non-consolidated company Jamipol also includes members of the Group's Executive Board. Jamipol paid meeting fees for participation in each of the Board meetings in 2014. These payments are no longer made to the members of the Group's Executive Board since 2014.

No expenses were incurred in fiscal year 2014 for the remuneration of the Executive Board in fiscal year 2013. In 2014, EUR 75 was paid to the former Executive Board member Gerhard Ertl for remuneration for fiscal year 2011.

Over and above these 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 total, in 2014, the following amounts were spent on remuneration for the Executive Board (the non-cash benefit is shown for the non-cash remuneration):

EUR thousand	Ines Kolmsee (to March 31, 2014)	Dr. Kay Michel (from April 1, 2014)	Sabine Kauper (full year)	Total
Fixed compensation	87.5	305*	200	592.5
Non-cash compensation (company car)	3.6	10.5	14.1	28.2
Subsidy to healthcare and nursing care insurance	0.9	4.5	4	9.4
Variable remuneration for 2014:	95	295	295	685
Total	**187**	**615**	**513.1**	**1,315.1**

*Including Cash compensation for the retirement benefit component (EUR 80 thousand)

This table does not include the payment made to Mr. Ertl for fiscal year 2011. It also does not include the expenses for the benefit payments detailed below for the former members of the Executive Board Ines Kolmsee and Gerhard Ertl as well as for the Executive Board member Sabine Kauper.

→ There is an employer-financed company pension scheme for the former Executive Board members Ines Kolmsee and Gerhard Ertl. 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 are contractually non-lapsable. 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. No benefit payments had to be made in the year under review. The expenses (without incidental costs such as expert opinions on retirement benefits, contributions to the Mutual Insurance Association etc.) for benefits for former members of the Executive Board in 2014 (HGB) totaled EUR 505 thousand, of which EUR 399 thousand was for Ms. Kolmsee and EUR 106 thousand was for Mr. Ertl. According to IFRS these figures totaled EUR 372 thousand, of which EUR 330 thousand for Ms. Kolmsee and EUR 42 thousand for Mr. Ertl.

→ From fiscal year 2014, retirement benefits for new members of the Executive Board are regulated differently. As a rule, the Company pays a percentage of the maximum total remuneration for the respective entitled member of the Executive Board each year to an insurance company with which a corresponding pension policy has been concluded for retirement benefits in favor of the respective member of the Executive Board. Expenses for Ms. Kauper in this regard totaled EUR 80 thousand in the year under review. In the case of Dr. Michel, in line with the regulations in his employment agreement the amount due to retirement benefits (of EUR 80 thousand in the year under review) is paid in cash; this amount is thus shown as part of his fixed remuneration in the above table.

III. Former members of the Supervisory and Executive Boards:

The litigation with the former member of the Executive Board Gerhard Ertl has not yet been terminated. However, Mr. Ertl no longer has any claims against the Company over and above the benefit commitments, which continue to remain in force. This fulfillment amount (HGB) for the benefit com-

mitment for Mr. Ertl and his survivors totaled EUR 938 thousand on the balance sheet date (previous year: EUR 832 thousand).

The fulfillment amount (HGB) for the Company's benefit commitment for Ms. Kolmsee who was a member of the Company's Executive Board through to March 31, 2014, and her survivors totaled EUR 1,850 thousand on the balance sheet date (previous year: EUR 1,451 thousand).

There are no benefit commitments by the SKW Metallurgie Group to the other former members of the Company's Executive and Supervisory Board and their surviving dependents.

11. Report on events after the balance sheet date

The SKW Metallurgie Group signed a three-year syndicated credit agreement arranged by Commerzbank AG and Norddeutsche Landesbank Girozentrale for EUR 86 million on January 23, 2015. The funds from the syndicated credit agreement will be used for example, to refinance the former master credit agreement and promissory note loans that are becoming due. The new syndicated credit agreement provides the SKW Metallurgie Group with sufficient funding, and latitude is being created which will benefit further growth and associated capitalization activities.

After the end of the year under review, however prior to the preparation of this management report, Dr. Dirk Markus informed us that he was resigning from his office in the Company's Supervisory Board on 28 February 2015.

On the balance sheet date, a US Group company was involved in proceedings with the US customs authority ("US customs proceedings"). A provision was formed in this regard in the previous year in the amount of USD 2 million. After the end of the fiscal year, however prior to the date this management report was prepared, an agreement was signed which ends these proceedings against a payment, which equals the provision.

Otherwise, after the end of the year under review on December 31, 2014, there were no transactions and events of significance to the SKW Metallurgie and the separate company SKW Stahl-Metallurgie Holding AG Group which occurred before this management report went to print.

12. Report on Opportunities and Risks

12.1. Professional risk and opportunity management

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.

At the SKW Metallurgie Group, opportunities and risk are an accepted element of corporate activity. By its very nature, 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 and achieving at least a neutral risk position. Risks are also to be managed using a value-oriented management approach and active management of the Group by its parent company.

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.

The risk management system of the SKW Metallurgie Group includes a detailed risk manual (Guideline for Risk Management - Risk Management 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 using quantitative aspects; qualitative risks are also valued in quantitative terms.

There is also an information system to make sure that the executive bodies of the parent company (including the Executive Committee) receive information without delay. As part of this system risk management information 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 as soon as the respective risk exceeds a threshold. An immediate notice is thus initiated (in documented form to the responsible member of the Executive Board and to the internal Risk Manager).

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. In particular, as part of the Group's strategic reorientation, the Group's risk management system was subjected to a critical review and optimized where necessary. There is also an internal staff department "Internal Auditing" at SKW Stahl-Metallurgie Holding AG which has Group-wide responsibility.

Gross and net risks as well as opportunities are recorded in the SKW Metallurgie Group's risk management system. The risk consolidation group corresponds to the consolidation group for accounting purposes.

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 and industry associations), in particular the business policy risks detailed below were identified for SKW Stahl-Metallurgie Holding AG and its group companies (SKW Metallurgie Group). The listed risks include all material risks that are currently identifiable. Other risks and uncertainties that are not currently known to the Group or that the Group currently considers to be immaterial could also have a significant impact on the Group's operations and a long-term detrimental effect on the business prospects and the net assets, financial position and results of operations of the SKW Stahl-Metallurgie Group. Although the risks are presented as gross risks in this report the respective net risk for some of the risk factors is significantly lower than the gross risk thanks to suitable measures (e.g., insurance). Unless it can be taken from context (e.g., allocation of legal issues to specific group companies and thus to specific segments), the opportunities and risks stated always relate to the two main segments (Cored Wire and Powders and Granules) as both of these segments record the majority of their revenues with the same customer industry (steel industry).

Economic risk

The SKW Metallurgie Group is dependent on macroeconomic development and the cyclical nature of quantities in its specific customer industry. 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.

At present, in particular the macroeconomic situation in the European Union, and here in turn in particular in the Eurozone, continues to bear risks. The risks stem in particular from Mediterranean countries such as Cyprus, Greece, Italy and France. There is the risk that production locations may be consolidated for steel production in the European Union. In this connection there is the risk that locations with which the SKW Metallurgie Group records higher than average revenues could be closed.

There is a risk with regard to China that steel production in this country may increase in terms of quantity and/or quality, and that as a result Chinese steel products could force products by domestic manufacturers out of the market in countries outside China. The risk for the SKW Metallurgie Group here is that it currently records substantially lower revenues with Chinese steel plants than with steel plants in other countries.

With regard to Russia there is the risk that the current political crisis could have even greater economic consequences, which could mean that it is no longer possible to reach the sales and earnings targets for the Russian group company.

The SKW Metallurgie Group's customer industries are exposed to economic fluctuations that also affect the Group indirectly. For example customers could be lost, for example as a result of insolvencies without demand from other customers increasing directly to the same extent (counterparty risk). 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. The SKW Metallurgie Group is combating this risk by intensifying its sales activities, in particular with a holistic sales approach by all group companies.

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 the respective group

company. The SKW Metallurgie Group records around 18% of its revenues with a single customer group. SKW Metallurgie is not otherwise materially dependent on a single customer. It regularly checks to ensure that its revenues are spread.

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. However, there is the risk on individual markets that margins will come under pressure as a result of in-depth price competition despite the superior quality of the SKW Metallurgie Group's products.

The products that the SKW Metallurgie Group produces and sells, currently mainly in Europe, the two American continents (NAFTA countries and Brazil) and in some Asian countries in its two core segments of Cored Wire and Powder and Granules are – either directly or indirectly – used almost exclusively in the steel-producing industry. Production quantities in the steel industry for the (higher-quality) steel types which are important for the SKW Metallurgie Group depend, in turn, on demand for high-quality steel products in 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 modified industrial starch that are mainly used in the paper industry. Although the emergence of electronic communication was predicted to bring an end to or at least a decline in the use of paper, this has proved not to be the case to date. 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. As a result of the spread of "fracking" technology to obtain energy, additional areas of deployment for Quab specialty chemicals have been developed over the past few years. Here there is the risk that fracking becomes less competitive due to lower energy prices and as a result of increasing concerns and protests with regard to environmental protection issues.

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.

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.

Continued operation of the low-shaft furnace in Bhutan

Through to the date these consolidated financial statements were prepared, no activities were resolved or put in place with regard to Bhutan that would lead to application of IFRS 5 (Non-current assets held for sale and discontinued operations).

There is the risk for calcium silicon, the main product for the SKW Metallurgie plant in Bhutan, that prices may fluctuate and that these cannot be influenced by the SKW Metallurgie Group and that this is not exclusively due to costs changing. Such price fluctuations could be due to the increased entry of Chinese suppliers on the global market. As a result, the margins that the SKW Metallurgie Group can record from its calcium silicon production could also fluctuate.

The facility in Bhutan is located outside of urban conurbations and is thus exposed to particular challenges in hiring and retaining highly-qualified personnel.

There is an increased climatic risk (monsoons) in Bhutan and also in the Indian regions adjoining Bhutan through which the majority of the physical raw materials are transported, and also the products from the SKW Metallurgie plant. This means that restrictions are possible, for example with regard to the electricity supply, IT connections and transport. The political and legal situation in Bhutan and the agreements with the joint venture partner are complex, which results in additional risks for the SKW Metallurgie Group. The Bhutanese company currently has negative equity and a high level of debt. If there should be any further negative developments, e.g. as a result of unforeseen production downtime, both the Bhutanese company's ability to pay and also its continued existence would no longer be certain. In addition, there is a currency translation risk (exchange rate fluctuations and the risk of restricted convertibility), as the majority of the Bhutanese company's current revenues are recorded in INR, however part of the liabilities have to be paid in EUR or USD.

Substitution risks

Using other technology as a substitute for the group's products is not currently 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 fundamentally 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 not in danger, even if it cannot be ruled out that individual locations may be hit.

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. It is possible that lances could be used instead of cored wire. In addition, however, the products offered in this regard by the SKW Metallurgie Group (as fillers) are required for these lances, and in addition lance technology is inferior to cored wire technology (e.g. intensity of maintenance).

A shift to lighter materials can be seen in the automotive industry in order to save weight and thus fuel. Although materials such as carbon or aluminum are exhibiting growth, they will only substitute steel to a minor extent in automotive production (e.g., on niche markets and racing cars produced in small series). 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.

Risks from the restructuring process

During the year under review the SKW Metallurgie Group started to implement its ReMaKe project. Despite initial successes, there is the risk that the project's objectives are not met or not fully met, or that these are not met on time. There is also the risk that higher expenses are incurred for ReMaKe than planned. A further milestone for ReMaKe in the year under review was the organizational integration of group units which had previously worked autonomously, in particular in North America. This will allow substantial synergies to be realized, in particular for sales. Despite this, there is the risk that introducing the new structure in North America may require a transitional period that is longer than planned, and/or that it is not possible to realize the synergies to the planned extent.

Procurement risk

A secure supply of high-quality raw materials is essential to the success of the SKW Metallurgie Group. Even if the SKW Metallurgie Group believes that its on-time supplies of all of the raw materials that it needs at prices in line with the market are secure, there is still the risk that the situation on the relevant procurement markets may change to the SKW Metallurgie Group's disadvantage.

It is usually 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.

However, even these risks are not sufficient to justify pursuing the strategy of vertical integration that was in place in the past.

All in all no significant bottlenecks 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

The SKW Metallurgie Group's success is dependent to a large extent on its employees in management positions and also in key technological positions. Highly qualified employees are required for both areas. The Group's streamlined structure and the personalized nature of some elements of its business mean that it is dependent on key employees.

There is the risk throughout the entire SKW Metallurgie Group that the process of transition initiated by the new Executive Board as well as the increased operational management of the group companies by the parent company may not be borne out by some employees, and that there is thus increased employee fluctuation.

Financial and exchange rate risks

The SKW Metallurgie Group's financial situation was sustainably stabilized in January 2015 when a syndicated credit agreement in the amount of EUR 86 million with a three-year term (to the start of 2018) was concluded. In addition, the new syndicated credit agreement offers opportunities to hedge exchange rate risks using bilateral credit lines in currencies other than the Euro.

During the second half of the year transitional agreements had to be reached with the financing banks as a result of breaches of covenant before concluding this refinancing agreement (for details see sub-chapter 6.14). The breaches of covenant resulted from the extraordinary write-downs required in June 30, 2014 and detailed in Chapters 6 (consolidated financial statements) and 7 (annual financial statements), although these write-downs did not have any direct impact on liquidity since they were not cash-effective.

Despite the forecasting security through to 2018 which resulted due to the new syndicated credit agreement the SKW Metallurgie Group still requires long-term secure borrowing. This borrowing is mainly procured by the parent company SKW Stahl-Metallurgie Holding AG and passed on to the subsidiaries via intra-group loans as required. As a result of the new syndicated credit agreement the SKW Metallurgie Group has sufficient borrowing; this applies in particular for the remainder of 2015 and for 2016, for which no significant additional net requirements for borrowing can be recognized. In spite of this, there is a theoretical liquidity risk, for example if anticipated cash flows do not result, or if these fluctuate to a greater than expected extent, or if liquidity requirements are greater than expected and these exceed the existing credit lines. The SKW Metallurgie Group has sufficient liquidity if business is in line with the forecast.

There are agreements on key financial indicators for several of the SKW Metallurgie Group's credit agreements – so-called financial covenants. This applies in particular to the new syndicated credit agreement). The participants regularly adjust the details of these to current developments. Financial covenants are used, for example, to adjust the level of interest in line with the market (margin step-up). If certain financial indicators are not upheld, the lender also has an extraordinary right to cancel the agreement. This is the case, in particular, for the syndicated credit agreement concluded in January 2015 with regard to gearing, interest coverage and the economic equity ratio. In addition the SKW Metallurgie Group continues to be in a restructuring situation with a restructuring plan and defined restructuring activities. If it is not possible to successfully implement these measures, violations of the agreed financial covenants cannot be ruled out.

As a result of its international structures, the SKW Metallurgie Group is exposed to exchange rate risks to s substantial extent. By far the most important currencies for the Group are its reporting currency (euro) and the

US dollar. An unexpected change in the exchange rate between these two currencies can have a significant impact on the SKW Metallurgie Group since it is likely that a substantial proportion of the Group's sales in 2015 will also be generated in US dollars.

The SKW Metallurgie Group only uses financial instruments such as currency forwards or other financial derivatives to hedge its basic operating business. 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. During the year under review, and on the balance sheet date in particular, the Group only used financial instruments to a minor extent. This did not result in any important additional risks; it is much rather the case that exchange rate risks for transactions were hedged. As a result, financial derivatives are of minor importance for the SKW Metallurgie Group's net assets, financial position and results of operations.

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 or processing these regulations throughout the Group in good time.

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.

Legal and litigation risks for the SKW Metallurgie Group

As part of its ordinary operating activities, the SKW Metallurgie Group is involved in a large number of court and out-of-court legal issues. The following section sets out the legal and litigation risks on the balance sheet date which do not fall under ordinary business activities due to their reasons and/or amount:

→ SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH are liable according to the EU Commission's penalty decision dated July 22, 2009 for the payment of a penalty of EUR 13.3 million (joint and several liability by SKW Stahl-Metallurgie Holding AG, SKW Stahl-Metallurgie GmbH and Gigaset AG (formerly: ARQUES Industries AG) with Gigaset AG being liable for a maximum amount of EUR 12.3 million; joint and several liability by SKW Stahl-Metallurgie GmbH together with Evonik Degussa GmbH and AlzChem AG (formerly: AlzChem Hart GmbH) in the amount of EUR 1.04 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) to defer enforcement activities. On this basis, in 2010 Gigaset AG sued SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie jointly for payment of the amount already paid by Gigaset AG to the EU Commission. Gigaset AG lost this litigation in the first instance. The responsible Regional Court Munich I fully rejected the suit filed by Gigaset AG in its ruling dated July 13, 2011 and in addition it decided that "the monetary penalty is to be borne internally solely by the plaintiff [Gigaset AG]". The objection filed by Gigaset AG was also rejected by the Upper Regional Court Munich in its ruling dated February 9, 2012. While also referring to the reasons for the decision by the Regional Court, in its ruling, the Upper Regional Court Munich also ascertained that "it is not the defendant [SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH] that has to bear the monetary penalty, but the plaintiff [Gigaset AG]". Gigaset AG objected to this ruling at the German Supreme Court (Bundesgerichtshof - BGH). In fiscal year 2014

the BGH initially presented some individual issues from this litigation to the European Court of Justice for a preliminary decision. In its resolution dated June 3, 2014 the BGH then withdrew its request for a preliminary decision from the European Court of Justice, and after a renewed verbal hearing at the BGH on November 18, 2014 it issued a ruling on this issue in which the senate revoked the ruling by Munich Upper Regional Court and returned the issue to Munich Upper Regional Court for a renewed decision to be taken. However, the Company does not believe that the BGH's considerations will impair the SKW Metallurgie companies' position in this litigation. In parallel to this, SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH are continuing to try to have the penalty notice reduced on which the litigation with Gigaset AG is based at the European Court of Justice. In a ruling date January 23, 2014 the Court of the European Union rejected in full the suits by SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH against the EU Commission to reduce the penalty in their entirety, and by Gigaset to a material extent. The suit by Gigaset AG was only accepted to the extent that the penalty imposed against Gigaset AG was reduced to EUR 12.3 million. As a result, as a precautionary measure, SKW Stahl-Metallurgie GmbH formed a provision of EUR 1.0 million plus any costs for legal advice retroactively as of December 31, 2013. The ruling by the Court of the European Union against the SKW Metallurgie companies is not yet legally enforceable, as these submitted an objection in this regard to the European Court of Justice on April 2, 2014. The exact outcome of the proceedings cannot yet be foreseen. In summary, the SKW Metallurgie Group continues to believe that the amount of the provision in this regard for a possible penalty is reasonable and sufficient, and it is not expecting an outflow of funds over the short term.

→ As presented in the report on events after the balance sheet date (Chapter 11), there were US customs proceedings on the balance sheet date. However, these had been ended on the date this management report was prepared against payment in the amount of the provision (USD 2 million). As a result there is no further risk in this regard for the SKW Metallurgie Group.

→ The former shareholders of Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A are demanding an amount for the acquisition of the interest in Tecnosulfur SA which exceeds the second tranche of the purchase price paid in 2012 (so-called earn-out). In order to clarify this issue, Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A and SKW Stahl-Metallurgie Holding AG filed a negative application for declaratory judgment with the responsible arbitration tribunal on July 19, 2013, in order to ascertain that they do not owe the former shareholders any further payments due to the earn-out clause in the purchase agreement. At the same time, Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A and SKW Stahl-Metallurgie Holding AG are asserting claims from the violation of the ban on competition and filibustering the arbitration proceedings. The arbitration proceedings have now been interrupted at the instigation of the former shareholder. The arbitration tribunal does not believe that this shareholder is responsible, and wants to have the issue of the amount of the second tranche of the purchase price to be paid clarified with the ordinary courts. The plaintiff objects to this. In addition, the former shareholders have tried to initiate a type of "compulsory enforcement proceedings" against Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A. This is based on the purported enforceability of the earn-out clause in the purchase agreement with regard to calculations for the second tranche of the purchase price. Because further objections have been raised, the responsible Brazilian court will now decide on all of the proceedings pending between the parties. The SKW Metallurgie Group has formed sufficient provisions for this issue.

→ The Bhutanese group company is currently involved in litigation with a German engineering company for financial receivables for building one of the components of the SKW Metallurgie Group's Bhutanese pro-

duction facility. The SKW Metallurgie Group believes that it is unlikely that the plaintiff will prevail, and thus estimates that the risk of the SKW Metallurgie Group being called upon is low. The SKW Metallurgie Group has formed sufficient provisions for this issue.

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.

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 risk that the shares they hold in companies and their intra-group loans may have to be written down. Such risks exist in particular if, despite careful planning, actual business growth differs from the forecast or if reviews and updates to forecasts result in substantial differences to the previous forecast. As described in Chapter 7, the single entity SKW Stahl-Metallurgie Holding AG had to perform substantial write-downs for the value of participating interests it holds and intra-group loans. No requirements for write-downs in excess of this amount can currently be recognized.

In addition, there is the risk for holding companies that there may not be sufficient financing available to continue the business activities. The Company combated this risk in January 2015 when a syndicated credit agreement in the amount of EUR 86 million with a three-year term (to the start of 2018) was concluded.

It is much rather the case that the SKW Metallurgie Group's risk management system, which also includes the single-entity company SKW Stahl-Metallurgie Holding AG, as well as evaluations from sources outside the Company (such as forecasts by economic research institutes) have identified the following business policy risks for SKW Stahl-Metallurgie Holding AG. 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 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. In addition SKW Stahl-Metallurgie Holding AG has issued loans to subsidiaries to a significant extent. The Company combats this risk by controlling and monitoring its subsidiaries and second-tier subsidiaries. During the year under review the active management of the Group by its top-level parent company was substantially intensified. In addition, the Company attaches great importance to being (directly or indirectly) the sole or at least majority owner of its direct and indirect participating interests (historical exception: joint venture 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. SKW Stahl-Metallurgie Holding AG is also covered by this program as a separate entity.

Legal and litigation risks for the single entity SKW Stahl-Metallurgie Holding AG

As part of its ordinary operating activities, SKW Stahl-Metallurgie Holding AG is involved in a large number of court and out-of-court legal issues. The following section sets out the legal and litigation risks on the balance sheet date which do not fall under ordinary business activities due to their reasons and/or amount:

- SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH are liable according to the EU Commission's penalty decision dated July 22, 2009 for the payment of a penalty of EUR 13.3 million (joint and several liability by SKW Stahl-Metallurgie Holding AG, SKW Stahl-Metallurgie GmbH and Gigaset AG (formerly: ARQUES Industries AG) with Gigaset AG being liable for a maximum amount of EUR 12.3 million; joint and several liability by SKW Stahl-Metallurgie GmbH together with Evonik Degussa GmbH and AlzChem AG (formerly: AlzChem Hart GmbH) in the amount of EUR 1.04 million. For further details the comments made in sub-chapter 12.3 - section "Legal and litigation risks" apply to both the SKW Metallurgie Group and also SKW Stahl-Metallurgie Holding AG.

- The former shareholders of Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A are demanding an amount for the acquisition of the interest in Tecnosulfur SA which exceeds the second tranche of the purchase price paid in 2012 (so-called earn-out). For further details the comments made in sub-chapter 12.3 - section "Legal and litigation risks" apply to both the SKW Metallurgie Group and also SKW Stahl-Metallurgie Holding AG.

- In a profit and loss transfer agreement, SKW Stahl-Metallurgie Holding AG has undertaken to absorb possible losses by its subsidiary SKW Stahl-Metallurgie GmbH. In addition the Company has agreed to joint and several liability for a future pension for a former managing director of its subsidiary SKW Stahl-Metallurgie GmbH.

- On July 12, 2011 SKW Stahl-Metallurgie Holding AG agreed a guarantee with the minority shareholder for an affiliated company for a loan that had been taken out. This loan was used by the subsidiary for investment in sintering equipment. If the subsidiary does not fulfill its obligations from the loan, SKW Stahl-Metallurgie Holding AG is responsible on a pro-rata basis (66.67%) as part of the guarantee (in the amount of EUR 2.8 million). The risk that this will be used is very low due to the subsidiary's financial position.

- The Company has made a declaration to SKW-Tashi Metals & Alloys Private Ltd. to only recall its receivables if sufficient liquidity is available. This relates to receivables which had been fully written off in the year under review.

- There is an agreement to provide collateral for credit to the Norwegian export subsidy bank Eksportfinans for part of the financing of the low-shaft furnace for SKW-Tashi Metals & Alloys Private Ltd. in Bhutan in the amount of USD 735 thousand. The risk of this being used is currently regarded as being unlikely.

12.4. Overall assessment of risks

In an overall assessment of the risks set out above, we can ascertain 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 on the date this combined management report was prepared. There is no evidence of any risks that could endanger the Group's or Company's existence.

12.5. Opportunities Report: Recognizing and leveraging opportunities

The SKW Metallurgie Group's Executive Board believes that it is important for risks not to be viewed in insolation, but always together with the opportunities that result from the Group's business activities.

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

Opportunities from ReMaKe - increased group integration

The ReMaKe project (see Chapter 2) gives the SKW Metallurgie Group the opportunity to boost its efficiency by optimizing structures and workflows, developing new business and increasingly penetrating new strategic sales markets. In particular, as part of its ReMaKe project, during the year under review the SKW Metallurgie Group started to integrate group units which had previously acted largely autonomously, in North America in particular. A uniform market presence as "SKW North America" will allow substantial synergies to be realized, in particular for sales.

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

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 international presence 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 have local operations in some cases and, as far as the SKW Metallurgie Group is aware, they do not perform comparable research and development work.

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

In some emerging economies (in particular in India) steel production is also set to post above-average growth over the next few years in the opinion of the SKW Metallurgie Group's Executive Board. As part of the third stage of the ReMaKe project (growth on key markets) the SKW Metallurgie Group believes that expanding its market position in India could bring substantial opportunities.

Steel production in the People's Republic of China is also in a phase of growth, both in absolute terms and also in view of its share of the global market. Over the medium term, this country will also offer interesting opportunities which the global market leader SKW Metallurgie can use.

Despite the current crisis situation, Russia too is a market which offers above-average opportunities for growth for the SKW Metallurgie Group.

Margin growth through innovative products

In both the Cored Wire and also the Powder and Granules segment, the intensified sale of higher value and thus margin products is set to increase the gross and EBITDA margins over the next few years.

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 margins, 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

SKW Stahl-Metallurgie Holding AG attaches great value to a proper accounting process. This includes the accounting-related elements in the internal control system (ICS). In addition to the respective national accounting 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.

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 (IFRS) 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 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.

In order to reinforce preventative activities and to intensify downstream controls, there is also an internal staff department "Internal Auditing" at SKW Stahl-Metallurgie Holding AG. This department has group-wide responsibility.

13. Forecast 2015: SKW Metallurgie with cautious optimism

13.1. Pace of growth in the global economy to increase slightly in 2015

On its web site www.imf.org, the International Monetary Fund (IMF) has published forecasts that the global economy will grow by 3.5% in 2015 and thus at a faster pace than in 2014 (+3.3%). Despite the continued insecurities as a result of geopolitical issues such as the crisis in Ukraine/Russia and the ongoing high debt in many countries, the continued policy of low interest rates and, increasingly, the far lower prices for oil will have a positive impact on economic output. The IMF is forecasting growth to increase to +1.2% for the Eurozone. At +3.6%, growth in the US economy will be substantially stronger. Growth in industrialized nations is estimated at 2.4% in total. Emerging and developing nations are expected to grow by 4.3% in 2015, with China's economic output set to grow by 6.8% and thus once again at a slower pace than in previous years. While India can expect its economy to gain pace (+6.3%), growth in Brazil will be rather reserved (0.3%). Russia's economic output is even set to fall by 3.0% compared to the previous year as a result of the massive economic sanctions.

13.2. Steel industry can expect stable growth in 2015.

The majority of demand for the SKW Metallurgie Group's products will again stem from the steel industry in 2015. As a result, its growth is a key indicator for the underlying economic conditions for the Group. The World Steel Association is forecasting constant growth in demand for steel compared to the previous year of 2.0% (apparent steel use). This demand for steel correlates closely to steel production, for which the World Steel Association does not publish any forecasts.

In geographical terms, growth of 2.9% is forecast for 2015 in the European Union. Growth of 2.2% in steel demand is forecast for NAFTA countries, currently the most important sales market for the SKW Metallurgie Group; in Central and Southern America (including the key markets of Brazil and Mexico for the SKW Metallurgie Group) growth of 3.4% is forecast. As a result of existing structural problems, political instabilities and volatile financial markets, steel consumption in emerging nations is expected to increase moderately by just 1.7%. In China, the world's leading steel nation, the substantially slower upwards trend in 2014 will continue with an increase in demand of just 0.8%. Current forecasts from industry experts are from October 2014; an update is expected in the second quarter of 2015 and thus after this management report has been prepared.

Growth in the other industries relevant for the SKW Metallurgie Group's special products (such as the starch industry as a customer for Quab products) is also closely linked to the general growth in the global economy. If the forecasts for slight increase in the pace of global economic growth prove to be correct, demand in these industries is also expected to increase.

13.3. Key indicators for the SKW Metallurgie Group

A key 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 growth of the steel industry, in particular for high and higher-value steels. The fact that emerging economies are less well equipped in terms of infrastructure and long-term consumer goods compared to industrial nations, substantial growth in steel production can also be expected for these countries in the coming years.

A meaningful internal indicator for the performance of the SKW Metallurgie Group continues to be the gross margin. The Group does not have any order books in the traditional sense. Though a large number of customer contracts are concluded for the long term, individual quantities and specifications are called up over 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 2015 - assumptions and conditions

The Executive Board believes that the expert opinions detailed in sub-chapters 13.1-13.2 on the future growth of the overall economy and the steel industry as being the most probable scenario. In addition, the forecast also includes the forecasts made by the management of the Group's operating companies; the Group's parent company SKW Stahl-Metallurgie Holding AG does not have its own operations.

In its forecast for 2015 as a whole, the Executive Board assumes that the Group is a going concern, and has used its current composition as the basis.

The Executive Board has included all known opportunities and risks as presented in the opportunities and risk report, as well as legal risks and contingent liabilities and receivables.

The risks presented in the report on opportunities and risks also include exchange rate risks; one example of this is translation effects when converting revenues from group companies which do not prepare their accounts in euros to the Group's currency of euros.

In this connection, the Executive Board of the SKW Metallurgie Group expects that the volatility on the global currency markets in fiscal year 2015 will continue for some of the key currencies for the SKW Metallurgie Group. The exchange rate between euros (the Group's reporting currency) and the US dollar is of particular importance. If the actual changes in exchange rates differ from the SKW Metallurgie Group's forecasts, there may be corresponding differences in the actual figures for 2015 compared to the forecasts. The intensity of these differences can have an impact on EBITDA in the single-digit million euro range (both positive and negative, depending on the direction of the change in exchange rates).

The Executive Board also bases its forecast on assumptions on buying and selling prices for the key products for the SKW Metallurgie Group. As a rule, there is a positive correlation in the SKW Metallurgie Group between purchasing and selling prices, which means that given the low price elasticity of demand which prevails on the relevant markets the impact of price fluctuations is limited for the SKW Metallurgie Group. In spite of this, however, significant changes in market prices compared to the prices on which the forecast is based could impact the SKW Metallurgie Group's forecasts in certain situations.

With regard to its gross margin, the SKW Metallurgie Group aims to continue the positive growth by continuing to focus on high-margin divisions and products, and improving the quality of its margin via active supply

chain management, as well as corresponding packages of measures as part of the ReMaKe project. The anticipated improvement in the gross margin is in the low single-digit percentage point range.

The Executive Board also includes foreseeable extraordinary factors in its forecasts. No such factors could be foreseen for 2015 on the date this management report was prepared.

The Executive Board has focused its forecasts on EBITDA and sales (as a key factor for revenues).

Forecasts for revenues (as the product of sales, selling price and, in the case of revenues in foreign currencies, the exchange rate) only play a minor role in the management of the SKW Metallurgie Group.

The two key reasons for the comparatively low meaningfulness of revenues in the SKW Metallurgie Group are:

→ Price changes in SKW Metallurgie's selling prices are based to a substantial amount on passing on fluctuations in the prices of raw materials bought in externally. As the SKW Metallurgie Group does not maintain large inventories of the raw materials it requires, or perform futures transactions, by definition the costs of material change to the same extent, which means that the gross income and all of the positions carried under this item in the income statement are not affected by these fluctuations in selling prices which only map changes in raw materials (and thus also revenues, ceteris paribus). No significant price elasticity of demand can be recognized over the short term, which means that changes in market prices do not induce any material changes in the quantities demanded.

→ Changes in exchange rates for revenues mostly lead to non-cash translation effects. This means that if exchange rates change, the consolidated revenues disclosed in euros may change by a significant amount without these changes being reflected in income per se. This also applies accordingly to all of the other items of the income statement and for the balance sheet.

The estimates made in the forecast (e.g., on probable growth in the steel industry) are in line with the remainder of the Group's communication with the capital markets, and with the Group's restructuring plan which the Supervisory Board passed for fiscal year 2015.

In the case of the non-financial performance indicators detailed in this management report (Group: technology leadership for cored wires, minimizing environmental risks, low fluctuation in core staff; Single entity: parent company's attractiveness as an employer), the Executive Board is not forecasting any major changes in 2015 compared to 2014. The non-financial indicators will continue to only be recorded and reported in quality-based terms, and not in terms of quantity.

In the case of both the overall statement for the SKW Metallurgie Group and also for SKW Stahl-Metallurgie Holding AG as a single-entity company, actual developments may differ, in particular as a result of the opportunities and risks described in the opportunities and risk report, both positively and negatively compared to the forecasts made by the Executive Board.

13.5. 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 2015 - overall statement on forecast year 2015

Compiled to form an overall statement, we can express the following estimate by the Executive Board for the SKW Metallurgie Group (based on the Group's current composition) for 2015:

→ The Executive Board of the SKW Metallurgie Group is forecasting moderate sales growth in 2015 and thus - assuming constant prices and exchange rates, moderate revenue growth in the low single-digit percentage range.

→ The Executive Board of the SKW Metallurgie Group is forecasting positive growth in operating results with increased EBITDA in 2015 compared to 2014 (of a single-digit million euro amount) - in particular due to positive impetus from the ReMaKe project. If, during 2015 as a whole, and in particular on the balance sheet dates, there are unexpected fluctuations in the exchange rates which apply to the SKW Metallurgie Group (in particular the USD/EUR exchange rate), the disclosed EBITDA may be higher or lower than this estimate in the low single-digit million euro range, in particular as a result of non-realized net currency translation effects.

Compiled to form an overall statement, this results in the following estimate by the Executive Board for the Group's parent company SKW Stahl-Metallurgie Holding AG for 2015:

The operating results for the Group's parent company SKW Stahl-Metallurgie Holding AG continues to be determined by the income from agreements to pass on charges within the Group, which are used, for example, to compensate the consulting and management services provided by the parent company for the subsidiaries in line with market prices and also for dividend and interest payments by the subsidiaries. SKW Stahl-Metallurgie Holding AG's Executive Board believes that this income will result in positive net income for the Group's parent company SKW Stahl-Metallurgie Holding AG in the middle single-digit euro range in 2015. As a result the performance indicator "net profit/loss" as of December 31, 2015 will be higher than the net profit/loss on December 31, 2014, however, it will be less than zero due to the amount of the net loss on December 31, 2014.

As a result, the Executive Board of the Group's top-level parent company SKW Stahl-Metallurgie Holding AG believes that the Company will not be able to pay a dividend for 2015 in 2016.

14. Responsibility statement

14.1. SKW Metallurgie Group consolidated financial statements

To the best of our knowledge, we declare that, according to the principles of proper consolidated reporting applied, the consolidated financial statements as of December 31, 2014 provide a true and fair view of the Group‘s net assets, financial position and results of operations, that the group management report presents the Group‘s business including the results and the Group‘s position such as to provide a true and fair view and that the major opportunities and risks of the Group‘s anticipated growth for the remaining fiscal year are described.

14.2. SKW Stahl-Metallurgie Holding AG’s annual financial statements

To the best of our knowledge, we declare that, according to the principles of proper reporting applied, the financial statements as of December 31, 2014 provide a true and fair view of the Company’s net assets, financial position and results of operations, that the group management report presents the Company’s business including the results and position such as to provide a true and fair view and that the major opportunities and risks of the Company’s anticipated growth for the remaining fiscal year are described.

Unterneukirchen (Germany), March 16, 2015

SKW Stahl-Metallurgie Holding AG
The Executive Board

Dr, Kay Michel
CEO

Sabine Kauper

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement for the period from January 1 to December 31, 2014

EUR thousand	Notes	2014	2013
Revenues	1	316,038	320,846
Change in finished goods and work in progress	17	771	-750
Own work capitalized	13	138	98
Other operating income	2	12,649	6,341
Cost of materials	3	-217,349	-221,963
Personnel expenses	4	-42,860	-39,701
Other operating expenses	5	-53,150	-51,055
Income from associated companies	6	1,251	1,002
EBITDA		**17,488**	**14,818**
Amortization of intangible assets and depreciation of property, plant and equipment	7	-70,824	-9,971
EBIT		**-53,336**	**4,847**
Interest and similar income	8	317	86
Interest and similar expenses	9	-4,968	-4,668
EBT		**-57,987**	**265**
Income taxes	10	-11,373	-3,322
Earnings from continuing operations (after taxes)		**-69,360**	**-3,057**
Earnings from discontinued operations (after taxes)		-11,635	-152
Consolidated net loss for the year		**-80,995**	**-3,209**
Thereof shareholders of SKW Stahl-Metallurgie Holding AG			
in earnings from continuing operations	11	-47,702	-1,540
in earnings from discontinued operations		-11,635	-152
		-59,337	-1,692
Thereof non-controlling interests		-21,658	-1,517
Earnings per share from continuing operations (in EUR)*	12	**-7.29**	**-0.24**
Earnings per share from discontinued operations (in EUR)*	12	**-1.78**	**-0.02**
Consolidated earnings per share (EUR)*	12	**-9.07**	**-0.26**

* Basic earnings per share correspond to diluted earnings per share

Reconciliation to comprehensive income from January 1 to December 31, 2014

EUR thousand	2014	2013
Consolidated net loss for the year	**-80,995**	**-3,209**
Items that will not be reclassified subsequently to profit or loss		
Change in actuarial gains and losses from defined benefit pension commitments	-2,856	114
Deferred taxes on items that will not be subsequently reclassified to profit or loss	471	-30
Items that will be reclassified subsequently to profit or loss		
Net investments in a foreign operation	1,715	-679
Unrealized gains/losses from derivatives (hedge accounting)	-236	16
Exchange rate fluctuations	1,517	-7,557
Deferred taxes on items that will be reclassified subsequently to profit or loss	70	-5
Other result	**681**	**-8,141**
Total result	**-80,314**	**-11,350**
Thereof shareholders of SKW Stahl-Metallurgie Holding AG	-56,589	-7,926
Thereof non-controlling interests	-23,725	-3,424

Consolidated balance sheet as of December 31, 2014

Assets in EUR thousand	Notes	Dec. 31, 2014	Dec. 31, 2013
Non-current assets			
Intangible assets	13	24,966	45,454
Property, plant and equipment	14	36,095	83,988
Interests in associated companies	15	5,618	4,290
Other non-current assets	19	478	516
Deferred tax assets	16	1,681	11,523
Total non-current assets		**68,838**	**145,771**
Current assets			
Inventories	17	43,552	47,682
Trade receivables	18	39,104	38,421
Income taxes	19	4,570	5,253
Other assets	19	6,615	7,345
Cash and cash equivalents	20	17,972	10,673
Total current assets		**111,813**	**109,374**
Total assets		**180,651**	**255,145**

Equity and Liabilities in EUR thousand	Notes	Dec. 31, 2014	Dec. 31, 2013
Equity	21		
Subscribed capital		6,545	6,545
Share premium		50,741	50,741
Other comprehensive income		-20,184	36,405
		37,102	93,691
Non-controlling interests		-12,662	11,789
Total equity		**24,440**	**105,480**
Non-current liabilities			
Pension obligations	23	9,241	5,866
Other non-current provisions	24	3,429	2,929
Obligations from finance leases	25	185	0
Non-current financial liabilities	26	6,907	54,150
Deferred tax liabilities	16	4,740	6,272
Other non-current liabilities	28	256	252
Total non-current liabilities		**24,758**	**69,469**
Current liabilities			
Other current provisions	24	5,777	3,643
Current obligations from finance leases	25	46	19
Current financial liabilities	26	77,142	20,333
Trade payables	27	32,809	41,500
Income taxes		1,153	468
Other current liabilities	28	14,526	14,233
Total current liabilities		**131,453**	**80,196**
Total equity and liabilities		**180,651**	**255,145**

Consolidated statement of changes in equity as of December 31, 2014

Notes 21 EUR thousand	Subscribed capital	Share premium	Other comprehensive income	Consolidated equity of majority shareholders	Non-controlling interests	Total equity
Balance at Jan. 1, 2013	**6,545**	**50,741**	**47,603**	**104,889**	**15,681**	**120,570**
Consolidated net loss for the year	-	-	-1,692	-1,692	-1,517	-3,209
Exchange rate fluctuations	-	-	-5,650	-5,650	-1,907	-7,557
Income and expense carried under equity (without exchange rate changes)	-	-	-584	-584	0	-584
Total result 2013	**-**	**-**	**-7,926**	**-7,926**	**-3,424**	**-11,350**
Dividend payments	-	-	-3,272	-3,272	-468	-3,740
Balance as of Dec. 31, 2013	**6,545**	**50,741**	**36,405**	**93,691**	**11,789**	**105,480**
Balance at Jan. 1, 2014	**6,545**	**50,741**	**36,405**	**93,691**	**11,789**	**105,480**
Consolidated net loss for the year	-	-	-59,337	-59,337	-21,658	-80,995
Exchange rate fluctuations	-	-	3,584	3,584	-2,067	1,517
Income and expense carried under equity (without exchange rate changes)	-	-	-836	-836	0	-836
Total result 2014	**-**	**-**	**-56,589**	**-56,589**	**-23,725**	**-80,314**
Dividend payments	-	-	0	0	-726	-726
Balance as of Dec. 31, 2014	**6,545**	**50,741**	**-20,184**	**37,102**	**-12,662**	**24,440**

Consolidated cash flow statement for fiscal year 2014

Notes 30 EUR thousand		Jan. 1, 2014 - Dec. 31, 2014	Jan. 1, 2013 - Dec. 31, 2013
1.	Consolidated net loss for the year	-80,995	-3,209
2.	Less earnings from discontinued operations (after taxes)	+11,635	+152
3.	Earnings from continuing operations	-69,360	-3,057
4.	Write-ups/write-downs of non-current assets	70,824	9,971
5.	Increase/decrease in provisions for pensions	519	573
6.	Income from associated companies	-872	-331
7.	Result from the disposal of non-current assets	-267	-413
8.	Result from currency conversion	-3,955	2,801
9.	Result from deferred taxes	6,914	-1,672
10.	Expenses from impairment of inventories and receivables	4,612	616
11.	Other non-cash income and expense	-389	270
12.	**Gross cash flow**	**8,026**	**8,758**
	Change in working capital		
13.	Increase/decrease in current provisions	2,633	1,611
14.	Increase/decrease in inventories (after advance payments received)	5,331	7,385
15.	Increase/decrease in trade receivables	1,351	202
16.	Increase/decrease in other receivables	-7	-2
17.	Increase/decrease in receivables from income taxes	613	655
18.	Increase/decrease in other assets	336	-1,169
19.	Increase/decrease in trade payables	-12,527	3,422
20.	Increase/decrease in other liabilities	400	-404
21.	Increase/decrease in other equity and liabilities	-2,317	-1,586
22.	Cash flow from operating activities from discontinued operations	-827	1,542
23.	**Net cash provided by (+)/used in (-) operating activities**	**3,012**	**20,414**

Notes 30 EUR thousand	Jan. 1, 2014 - Dec. 31, 2014	Jan. 1, 2013 - Dec. 31, 2013
24. Income from the disposal of assets	641	934
25. Payments for investments in non-current assets	-3,924	-4,432
26. Proceeds from the sale of previously consolidated companies less cash and cash equivalents disposed of	-651	0
27. Cash flow from investing activities - discontinued operations	-1,312	-1,665
28. Net cash provided by (+)/used in (-) investing activities	**-5,246**	**-5,163**
29. Decrease in liabilities from finance leases	0	-39
30. Dividend payments to shareholders of the parent company	0	-3,272
31. Dividend payments to non-controlling interests	-726	-468
32. Repayments of loans from third parties	-74	0
33. Receipts from taking out bank loans	12,045	709
34. Repayments of bank loans	-2,406	-25,467
35. Net cash provided by (+)/used in (-) financing activities	**8,839**	**-28,537**
36. Cash and cash equivalents – start of period	10,673	25,330
37. Change in cash and cash equivalents	6,605	-13,286
38. Currency translation for cash and cash equivalents	694	-1,371
39. Cash and cash equivalents - end of period	**17,972**	**10,673**
of which cash and cash equivalents for discontinued operations	0	780

NOTES TO THE STATEMENTS

Notes to the consolidated financial statements for fiscal year 2014

A. General information and presentation of the consolidated financial statements

SKW Stahl-Metallurgie Holding AG in Unterneukirchen (Germany), or "SKW Metallurgie" or the "Company" is an Aktiengesellschaft (public limited company) under German law 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 have been included in Deutsche Börse's Prime Standard since December 1, 2006.

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

The consolidated financial statements are denominated in euros (EUR), the reporting currency. As a rule, the information on the amounts in the consolidated notes 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.

The consolidated income statement is prepared according to the nature of expense method. The items in the consolidated balance sheet are classified by maturity. Assets and liabilities with a term of less than one year are classified as current. Assets and liabilities with a term of more than one year are classified as non-current.

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

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

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 the International Financial Reporting

Standards (IFRS) which 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) for which application was mandatory according to EU regulations for business year 2014 were upheld. The consolidated financial statements also include further information required under the Section 315a (1) of the Handelsgesetzbuch (HGB – German Commercial Code) and the Aktiengesetz (AktG – German Public Limited Companies Act). The consolidated financial statements were prepared based on the going concern principle.

Accounting pronouncements published by the IASB and adopted as European law

Application of the following standards from the IASB and IFRIC was mandatory for the first time for business years starting on January 1, 2014, and the European Union has endorsed these to become European law:

IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements), IFRS 12 (Disclosure of Interests in Other Entities), and the subsequent changes to IAS 27 (Separate Financial Statements) and also IAS 28 (Investments in Associates and Joint Ventures).

IFRS 10 regulates which companies are to be included in the consolidated financial statements using an end-to-end control concept. IFRS 11 regulates accounting for joint arrangements and in so doing it links in to the type of rights and obligations resulting from the arrangement. IFRS 12 regulates the extensive disclosure requirements for all types of participating interests in other companies.

Application of IFRS 10 and 11 does not have any impact on the consolidated financial statements for the SKW Metallurgie Group. IFRS 12 bundles the information in the notes for subsidiaries, joint arrangements, associated companies and/or non-consolidated structured units in a single standard. IFRS 12 has basically led to much farther reaching information in the SKW Metallurgie Group's consolidated financial statements.

→ Amendments to IAS 32 (Offsetting Financial Assets and Financial Liabilities)

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: presentation. 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 does not believe that this change will impact the consolidated financial statements as the SKW Metallurgie Group does not disclose any financial assets and liabilities for which netting is permissible.

→ Amendments to IAS 36 (Impairment of Assets)

In May 2013 the IASB published changes to the disclosure information in IAS 36 with its "Recoverable Amount for Disclosures for Non-Financial Assets (Amendments to IAS 36)". In these changes, the IASB implements its original intention that information on the recoverable amount, which is identified based on fair value less selling costs, is only to be provided for non-financial assets for which impairment or a recovery was recorded in the current reporting period. In addition, the information to be provided in the notes has been adjusted for cases when the recoverable amount was determined based on fair value less selling costs. The additional information required by this change in disclosure requirements is included in the SKW Metallurgie Group's consolidated financial statements.

→ Amendment to IAS 39 (Novations of Derivatives and Continuation of Hedge Accounting)

In June 2013, the IASB published changes to IAS 39 "Financial Instruments" with its "Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)". This change means that a change in the contractual partner for a hedge instrument to a central counterparty due to legal or regulatory requirements does under certain conditions not cause the end of the hedge relationship. These changes do 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, 2014:

→ Amendments to IAS 19 (2011) (Employee benefits)
→ IFRIC 21 (Levies)
→ Annual improvements (cycle 2010-2012)
→ Annual improvements (cycle 2011-2013)

The IASB published an amendment to IAS 19 (2011) (Employee benefits) in November 2013. The amendment adds an option to the standard with regard to accounting for defined benefit pension commitments, in which employees (or third parties) participate via mandatory contributions. Application of this amendment is mandatory for the first time for business years beginning on or after January 1, 2014 - either in advance or retrospectively depending on the respective change. Voluntary application ahead of time is possible. The SKW Metallurgie Group believes that application of the amendment will not have any impact on the consolidated financial statements.

IFRIC 21 deals with the issue of accounting for levies imposed by the government which do not constitute income taxes within the meaning of IAS 12 Income Taxes, and in particular it clarifies when obligations to pay such levies are to be included as liabilities in the financial statements. Application of the interpretation is mandatory for business years beginning on or after January 1, 2014, however earlier application is permitted. The SKW Metallurgie Group believes that application of the interpretation will not have any impact on the consolidated financial statements.

The IASB has published the cycle 2010-2012 and 2011-2013. This clarifies the following standards and issues:

→ IFRS 1: Applicable IFRS
→ IFRS 2: Definition of vesting conditions
→ IFRS 3: Exceptions to the scope of joint arrangements and accounting for contingent consideration in connection with joint ventures.
→ IFRS 8: Information on merging segments and the requirements for a reconciliation statement for segment assets
→ IFRS 13: Scope of the so-called portfolio exception and waiver of discounting measurement at fair value of current receivables and liabilities if the effect is minor.
→ IAS 16 and IAS 38: Revaluation method - identification of accumulated amortization and depreciation on the revaluation date.
→ IAS 24: Definition of related parties expanded to include so-called management entities and regulation of associated disclosures in the notes.
→ IAS 40: Connection between IFRS 3 and IAS 40 for classification as investment property or owner-occupied.

Application of the new regulations is mandatory for the first time for business years beginning on or after January 1, 2014 - either in advance or retrospectively depending on the respective change. Voluntary application ahead of time is possible. The SKW Metallurgie Group believes that application of the amendments will not have any impact on the consolidated financial statements.

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:

- IFRS 9 (Financial Instruments)
- IFRS 11 (Acquisitions of Interests in Joint Operations)
- IFRS 14 (Regulatory Deferral Accounts)
- IFRS 15 (Revenue Recognition)
- IAS 16 and IAS 38 (Clarification of Acceptable Methods of Depreciation and Amortization)
- IAS 16 and IAS 41 (Agriculture: Bearer Plants)
- IAS 27 (Application of the Equity Method in Separate Financial Statements)
- IFRS 10 and IAS 28 (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)
- Annual improvements (cycle 2012-2014)
- IAS 1 (Presentation of Financial Statements)
- IFRS 10, IFRS 12 and IAS 28 (Changes with regard to Investment Companies)

As part of the IASB project to replace IAS 39 Financial instruments: Disclosure and measurement, in 2009 IFRS 9 (Financial Instruments) was published. 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. In November 2013, the IASB passed the final regulations for hedge accounting, and thus completed a further subproject in the total of three transition phases to IFRS 9. The IASB has not yet stated a date for the mandatory application of IFRS 9 and the regulations it includes on hedge accounting. The European Financial Reporting Advisory Group has 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. A reliable estimate of the impact of application of IFRS 9 for the SKW Metallurgie Group can only be made when a detailed analysis has been performed.

The IASB published changes to IFRS 11, Joint Arrangements, on May 6, 2014. This clarifies that acquisitions and additional purchases of interests in joint activities which constitute business operations within the meaning of IFRS 3 are business combinations and must be accounted for according to the principles for accounting for business combinations in IFRS 3 and other applicable IFRSs to the extent that these do not conflict with the regulations of IFRS 11. The new regulations apply prospectively for acquisitions of interests in reporting periods starting on or after 1 January, 2016. Earlier application is allowed. The SKW Metallurgie Group believes that application of the new regulations will not have any material impact on its consolidated financial statements.

The IASB published IFRS 14, Regulatory Deferral Accounts on January 30, 2014. The regulations in this standard mean that companies preparing IFRS financial statements according to IFRS 1, First-time Application of International Financial Reporting Standards, are able to continue to use so-called regulatory deferral accounts that they have used in application of their former national accounting standards in connection with price-regulated activities in their IFRS financial statements, and that they can continue to use their previous accounting methods. Voluntary application ahead of time is possible. The new standard will not have any impact on the SKW Metallurgie Group, as the SKW Metallurgie is not applying IFRS for the first time.

The IASB published the new standard IFRS 15 (Revenue Recognition) on May 28, 2014. This standard regulates when and in what amount revenues must be recognized. IFRS 15 replaces IAS 18, Revenues, IAS 11, Construction Contracts and several revenue-related interpretations. Voluntary application ahead of time is possible. A reliable estimate of the impact of application of IFRS 15 for the SKW Metallurgie Group can only be made when a detailed analysis has been performed.

On May 12, 2014 the IASB published changes to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. These changes aim to clarify which methods are appropriate for the depreciation of property, plant and equipment and the amortization of intangible assets. Voluntary application ahead of time is possible. The SKW Metallurgie Group believes that application of the new regulations will not have any material impact on its consolidated financial statements.

The IASB published changes to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture on June 30, 2014, for accounting for so-called bearer plants. These changes mean that bearer plants that are no longer subject to significant biological change can be covered by IAS 16 which means that they are to be accounted for in line with property, plant and equipment. Earlier application of the new regulations is allowed. The SKW Metallurgie Group believes that application of the new regulations will not have any material impact on its consolidated financial statements.

The IASB published changes to IAS 27 Separate Financial Statements June on August 12, 2014. As a result of the changes, participating interests in subsidiaries, joint ventures and associated companies can be accounted for using the equity method in future in separate financial statements (IFRS). Voluntary application ahead of time is possible. The SKW Metallurgie Group believes that application of the new regulations will not have any material impact on its consolidated financial statements.

On September 11, 2014, the IASB published changes to IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associates and Joint Ventures. The changes clarify that, in the case of transactions with an associated company or joint venture, the extent to which gains and losses are recognized depends on whether the assets sold or contributed constitute business operations. The SKW Metallurgie Group believes that application of the new regulations will not have any material impact on its consolidated financial statements.

The IASB published its annual improvements (2012-2014 cycle) on September 25, 2014. The changes and clarifications relate to a large number of different IFRS standards. Voluntary application ahead of time is possible. The SKW Metallurgie Group believes that application of the amendments/clarifications will not have any impact on the consolidated financial statements.

On December 18, 2014 the IASB published changes to IAS 1, Presentation of Financial Statements. The changes aim to overcome obstacles that the preparing parties have in exercising discretionary judgement when presenting the financial statements. The SKW Metallurgie Group believes that application of the new regulations will not have any material impact on its consolidated financial statements.

The IASB published changes to IFS 10, Consolidated Financial Statements, IFRS 12, Disclosure of Interests in Other Entities, and IAS 28, Investments in Associates and Joint Ventures on December 18, 2014. The changes address issues resulting in connection with application of the exception to consolidation for investment companies. The SKW Metallurgie Group believes that the amendments will not have any impact on the consolidated financial statements.

B. Group of consolidated companies and consolidation methods

SKW Stahl-Metallurgie Holding AG's consolidated financial statements as of December 31, 2014 comprise the annual financial statements of the top-level group company and the financial statements of the subsidiaries included in the Group.

According to IFRS 10.7 subsidiaries (investees) are all companies that are either directly or indirectly controlled by the parent company. That means if and only if the parent company has all of the following elements:

- The parent company has power over the group company;
- It is exposed to a risk from rights to variable returns from its involvement with the group company;
- It can use its power over the investee to affect the amount of the group company's returns.

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 parent company. They are deconsolidated on the date on which control ends.

The consolidated financial statements include all subsidiaries unless they are not material from the perspective of an operating segment or the Group according to the following assessment: The total of all of the subsidiaries not included in the consolidated financial statements may not exceed 10% of the consolidated total amount of the total assets, revenues, annual earnings and contingent receivables and liabilities as well as other financial liabilities. If this 10% threshold is exceeded, the SKW Metallurgie Group reviews which companies are to be included in the consolidated financial statements while considering the long-term development of the participating interest. In addition to the quantity-based criteria, quality-based criteria are also used to assess the materiality of a company for the consolidated group. As a result, not including these companies must not have any significant impact on the segment or consolidated annual earnings nor lead to other material trends remaining unconsidered.

Subsidiaries' capital is consolidated according to IFRS 10 (Consolidated 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 possibility to exercise control.

There were the following changes to the group of consolidated companies in fiscal year 2014:

→ As of January 1, 2014, the wholly-owned US group company ESM Special Metals & Technologies Inc. was merged with its parent company ESM Group Inc.

→ On November 19, 2014, SKW Stahl-Metallurgie Holding AG sold a 100% interest in the Swedish company SKW Metallurgy Sweden AB to the AlzChem Group. The sold company produces and sells calcium carbide for the European market.

The group of consolidated companies has thus fallen by two companies compared to December 31, 2013 to a current total of 25 fully consolidated companies, without changing the interests of non-controlling shareholders. The list of subsidiaries and associated companies can be found in Section E of these notes.

In addition, after April 1, 2014 the SKW Metallurgie Group's new Executive Board fundamentally reviewed the entire Group's portfolio. This led to a strategic reorientation of the Group in order to enable a rapid return to profitable, on-track growth. The Executive Board's reviews have resulted in significantly more conservative business growth and forecasts for individual group companies compared to previous forecasts. Given this background, the Executive Board has resolved to no longer drive the vertical integration strategy, and to evaluate all of the possible options for the affected group companies. In this context, extraordinary write-downs are included in the consolidated financial statements as of December 31, 2014. These result, in particular, from the amended estimates for business growth for individual group companies. Further details can be found in Sections C.13 Intangible assets and C.14 Property, plant and equipment.

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 portions of consolidated equity and consolidated annual earnings due to non-controlling interests are 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. There is only an exception with regard to the company Jamipol Ltd., which is included in the consolidated financial statements using the equity method based, on the last available financial statements dated March 31, 2014 while considering adjustments.

Associates

Associated companies are companies over which the Group has a key influence but it does not control; as a rule it holds between 20% and 50% of voting rights. Investments in associates are accounted for at equity and 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. From the date of acquisition onwards, the Group's share of profits and losses of associated companies is recorded 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.

As a rule, associated companies are assessed for materiality using the same method as for subsidiaries, however restricted to the criteria of annual earnings, contingent liabilities and liabilities and other financial obligations.

The associated company Jamipol Ltd., which is of material size, sells desulphurization products to Indian steel producers and is included in the consolidated financial statements using the equity method.

Discontinued operations

As part of the Group's reorientation, the Executive Board sold the Swedish subsidiary SKW Metallurgy Sweden AB with effect from November 19, 2014. SKW Metallurgy Sweden AB produces calcium carbide and sells this to customers in the steel and gas industry.

As a result, the earnings of the Swedish subsidiary are disclosed separately in the consolidated income statement as "earnings from discontinued operations (after taxes)", including for the comparable period. In the consolidated cash flow statement, the cash flows from the Swedish subsidiary are disclosed separately in each case as cash flows from discontinued operations from operating, investing and financial activities, also for the comparable period. Segment reporting shows the contributions made by the segments to the consolidated earnings from continuing operations, in each case without the Swedish subsidiary SKW Metallurgy Sweden AB.

The sale of SKW Sweden Metallurgy AG led to the following disposals of assets and liabilities from the Group:

EUR thousand	Nov. 19, 2014
Property, plant and equipment	0
Inventories	4,171
Trade receivables	2,864
Income taxes	59
Other current assets	160
Cash and cash equivalents	651
Assets sold	**7,905**
Trade payables	3,725
Other current liabilities	2,820
Liabilities in connection with sold assets	**6,545**

Information on subsidiaries

The following section presents details of the subsidiaries which are not wholly owned, and in which there are material non-controlling interests:

	Participation and voting rights for non-controlling interest		Gain/loss due to non-controlling interests		Accumulated non-controlling interests	
Company	Dec. 31, 2014	Dec. 31, 2013	2014	2013	Dec. 31, 2014	Dec. 31, 2013
	%	%	EUR thousand	EUR thousand	EUR thousand	EUR thousand
"Cored Wire" segment						
SKW Tashi Pte. Ltd., Bhutan	49%	49%	-18,541	-1,973	-25,356	-4,462
"Powder and Granules" segment						
Tecnosulfur S/A, Brazil	33.33%	33.33%	-2,992	523	6,415	10,213

The following table presents summarized financial information for the subsidiaries which are not wholly owned and in which there are material non-controlling interests:

EUR thousand	SKW Tashi Pte. Ltd., Bhutan		Tecnosulfur S/A, Brazil	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Current assets	4,227	7,910	11,477	11,851
Non-current assets	0	30,200	20,353	32,319
Current liabilities	9,651	20,553	5,253	3,044
Non-current liabilities	46,322	26,662	7,331	10,483
Interest in equity allocable to shareholders of the parent company	-26,391	-4,643	12,831	20,430
Interest in equity allocable to non-controlling shareholders.	-25,356	-4,462	6,415	10,213
	2014	2013	2014	2013
Revenues	10,637	7,872	28,963	31,057
Other expenses	-48,476	-11,898	-37,941	-29,488
Net loss/net income for the year	**-37,839**	**-4,026**	**-8,978**	**1,569**
Proportion of the net loss/net income due to shareholders of the parent company	-19,298	-2,053	-5,986	1,046
Proportion of the net loss/net income due to non-controlling shareholders	-18,541	-1,973	-2,992	523
Total net loss/net income for the year	**-37,839**	**-4,026**	**-8,978**	**1,569**
Proportion of other result due to shareholders of the parent company	-2,450	197	484	-4,151
Proportion of other result due to non-controlling shareholders	-2,353	189	242	-2,074
Total other result	**-4,803**	**386**	**726**	**-6,225**
Proportion of total result due to shareholders of the parent company	-21,748	-1,856	-5,502	-3,105
Proportion of total result due to non-controlling shareholders	-20,894	-1,784	-2,750	-1,551
Total result	**-42,642**	**-3,640**	**-8,252**	**-4,656**
Dividends paid to to non-controlling shareholders	0	0	-711	-436
Net cash flows from operating activities	-247	423	7,286	4,941
Net cash flows from investing activities	-57	-26	-1,829	-1,460
Net cash flows from financing activities	573	-541	-4,053	-3,210
Total net cash flows	**269**	**-144**	**1,404**	**271**

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. Intra-segment consolidations were eliminated in consolidation. Amortization of intangible assets and depreciation of property, plant and equipment belonging to the segment are 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 expense

Revenues are measured at the fair value of the compensation paid or received and correspond to the amounts that would be received for goods and services in the course of normal business. Revenues from the sale of goods are recognized as soon as the significant risks and rewards 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 flow, 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.

Long-term construction contracts

Revenues and expenses from long-term construction contracts are accounted for using the percentage of completion method. The percentage of completion is given by the ratio of the costs from the contract incurred by the balance sheet date to the total estimated costs from the contract on the balance sheet date. Construction contracts accounted for using the percentage of completion method are measured according to the contract-

based costs incurred by the balance sheet date plus the proportionate profits resulting from the percentage of completion reached. These revenues less advance payments received are carried in the balance sheet under receivables, 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 not taken out specifically to finance the acquisition, construction or production of a qualifying asset (general borrowing), the amount of borrowing costs to be capitalized is determined by multiplying the expenses for the acquisition, construction or 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, construction or manufacture of the qualifying 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 acquisition, construction or manufacture of the qualifying asset and is not taken out especially for the creation of a qualifying asset. In 2014 and in 2013 the Group did not capitalize any borrowing costs.

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 taxable income. 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 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 bases. In addition, deferred taxes can result from consolidation as well as on tax losses carried forward for which recognition is probable. Deferred tax liabilities and deferred tax assets are recorded for all taxable temporary differences for which it is probable that taxable gains will be available for which the deductible temporary differences can be used. These assets and liabilities are not carried if the temporary difference results from non-tax deductible goodwill or the

initial inclusion (with the exception of business combinations) of other assets and liabilities that result from transactions which affect neither taxable income nor 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.

Deferred tax liabilities that result from temporary differences connected with interests in subsidiaries and associated companies are recognized 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.

The carrying amount of 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 of settlement of the liability or realization of the asset. As a rule, deferred taxes are recognized in income, with the exception of items that are booked directly under equity or in other comprehensive income.

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 capitalized within the meaning of IAS 38, the development costs are recorded as expenses in the period in which they are incurred.

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

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

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

Amortization is according to the straight line method over a useful life that is 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
- Customers: 3 – 15 years
- Technology: 3 – 15 years

Property, plant and equipment

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

Plots of land are not subject to scheduled depreciation. For all other 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 equipment: 3 – 10 years
- Machinery and equipment: 2 – 15 years
- Operating equipment: 4 – 10 years
- Office equipment: 3 – 10 years

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

Leases

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

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

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

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

During the period under review, there were both operating and finance leases in the Group, group companies only being lessees.

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 impairments in previous periods no longer apply, assets are written up to the amount of their original acquisition or manufacturing costs.

Trade receivables

Trade accounts receivable are initially recorded at fair value and subsequently valued at amortized cost less impairment. Impairment is recognized for trade accounts receivable if there is objective evidence that it will not be possible to collect the due receivable in full. The amount of the impairment is the difference between the book value of the receivable and the present value of the estimated future cash flow from this receivable, dis-

counted 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 are measured at cost and 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 transferred the significant 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 values after initial recognition.

Realized and unrealized gains and losses arising from the change in the fair value of assets in the category "at fair value through profit and loss" 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 indications 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 falls in subsequent periods as a result of events that objectively occur after the date the impairment was recognized, the impairment is released to 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 other comprehensive income (accumulated under 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 the majority of all of the risks and oppor-

tunities associated with ownership to a third party. If the SKW Metallurgie Group neither transfers the significant 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 the significant 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. If the impairment exceeds the carrying amount of 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, whereby 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.

A provision for restructuring costs is only carried if the general recognition criteria for provisions and their interpretation for restructuring are fulfilled. A provision for restructuring was formed in the amount of EUR 1,216 thousand in connection with the "ReMaKe" project which was initiated during the summer of 2014. This is based on the activities and the restructuring expenses mainly comprise personnel expenses for compensation payments and costs in connection with the end of contracts including cancellation costs for rental agreements that result in connection with executing the respective activities.

Employee benefits

Pension obligations

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 taken directly to equity directly under other comprehensive income. Recognizing the actuarial gains and losses carried under other comprehensive income in income in subsequent periods is not permitted. In addition, the difference between the anticipated net interest result and the actual result is also to be taken directly to equity under other comprehensive income. The interest for the allocation to provisions included in the pension expenses (interest on debt and plan assets with the interest rate) is shown as a net figure (net interest result) in the income statement. The provision for pensions carried in the balance sheet (net pension obligation) 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 necessary considering the regulations on the asset ceiling.

Termination benefits

Termination benefits are paid if an employee is dismissed with a compensation payment or if an employee receives a redundancy payment in return for voluntary redundancy. The Group records termination benefits if this is either covered by the associated restructuring costs or if it can no longer withdraw its offer of compensation payments. Payments 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.

Foreign currencies

Functional currency

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

Transactions and balances

Foreign currency transactions are translated to the reporting entity's functional currency using the exchange rates on the date of the transaction. Monetary items are translated at the closing rate on the balance sheet date. 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 kept in the books at the exchange rate of the transaction date. 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 in other comprehensive income (accumulated under equity).

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

		Exchange rate on balance sheet date		Average exchange rate	
EUR 1		Dec. 31, 2014	Dec. 31, 2013	2014	2013
Bhutan	BTN	76.7190	85.3660	81.0406	77.9300
Brazil	BRL	3.2207	3.2576	3.1211	2.8687
People's Republic of China	CNY	7.5358	8.3491	8.1857	8.1646
Hong Kong	HKD	9.4170	10.6933	10.3025	10.3016
India	INR	76.7190	85.3660	81.0406	77.9300
Japan	JPY	145.2300	144.7200	140.3061	129.6627
Canada	CAD	1.4063	1.4671	1.4661	1.3684
Mexico	MXN	17.8679	18.0731	17.6550	16.9641
Russia	RUB	72.3370	45.3246	50.9518	42.3370
Sweden	SEK	9.3930	8.8591	9.0985	8.6515
South Korea	KRW	1,324.8000	1,450.9300	1,398.1424	1,453.9121
Turkey	TRY	2.8320	2.9605	2.9065	2.5335
USA	USD	1.2141	1.3791	1.3285	1.3281

Financial 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 financial liabilities at amortized cost".

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 under 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 financial 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 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 expensed in the period in which they arise. Gains and losses include both realized gains and losses that result when the financial liabilities are sold and unrealized gains and losses that result from the continued inclusion of the financial liabilities 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 his payment obligations according to 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, fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation can be distinguished.

In the case of a fair value hedge which is used to hedge assets and liabilities in the balance sheet or fixed contractual obligations which are not included in the accounts, the hedge is carried at fair value and changes in the fair value in this regard are recognized immediately in income. Changes in the fair values of the hedged assets, liabilities or fixed contractual obligations which result from the hedged risk are also recognized in income. In the event of a perfect hedge, the fluctuations in fair value recognized in income in the underlying transaction and hedge completely balance each other out. If the asset or liability is carried at amortized cost according to general accounting principles, 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 according to general accounting principles at fair value without affecting the income statement, the changes in fair value resulting from the hedged risk are recognized in income. 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 under other comprehensive income (accumulated under equity). The reclassification from equity to the income statement is performed in the period in which the underlying transaction is also recognized in income. If the hedge later results in a non-financial asset being carried (e.g., property, plant and equipment or inventories), on this date the fluctuations in fair value previously carried in equity change the carrying amount of the non-financial asset. The remaining ineffective portion of the derivative stemming from the determination of the effectiveness of the hedge is recognized immediately in the consolidated income statement.

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

The SKW Metallurgie Group uses a cash-flow hedge to hedge against the risk from changes in interest rates. The underlying hedge transaction is an interest rate swap. 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 are thus offset by the fluctuations in the fair value of the derivatives, also 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 2014 other operating income includes grants of EUR 147 thousand, carried under other operating income (previous year: EUR 173 thousand).

Estimates and the use of discretion as part of accounting

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

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

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

Accounting for acquisitions

Goodwill is carried in the consolidated balance sheet as a result of acquisitions. Upon first time consolidation of an acquisition, all identifiable assets, liabilities and contingent liabilities are carried at their fair values on the acquisition date. One of the most important estimates in this regard is determining the respective fair values of these assets and liabilities on the balance sheet date. As a rule, land, buildings and operating equipment are valued based on independent surveys whereas marketable securities are carried at their stock market prices. If intangible assets are identified, either independent surveys by a third-party surveyor are used or the fair value is determined internally using suitable valuation techniques (these are generally based on the forecast for the total future anticipated cash flow) depending on the type of 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 must be identified in this regard. This is the higher of the fair value less selling costs and the value in use. The value in use is determined using adjustments and estimates with regard to the forecast for and discounting of the future cash flow. The cash flow forecast based on these estimates is, for example, impacted by factors such as the successful integration of acquired companies, volatility on the capital markets, interest rate developments, fluctuations in exchange rates and anticipated economic growth. Discounted cash flows are based on five-year forecasts, which are based on financial forecasts. Forecasting cash flows takes past experience into account and is based on the best estimate of future growth made by the Company's management. Cash flows beyond the forecast period are extrapolated using individual growth rates. The most important assumptions on which the identification of fair value, less selling costs, and the value in use are based include estimated growth rates, weighted average rates for the cost of capital and tax rates. These estimates and the underlying methods can have a significant impact on the respective values and finally on the amount of possible impairment of 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 2014 the SKW Metallurgie Group appraised the current economic performance of the cash generating unit ESM Group Inc. and of Tecnosulfur S/A - the level at which the SKW Metallurgie Group reviews goodwill - as part of the SKW Metallurgie Group, and ascertained that impairment was required. For further information see Section D.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 underlying economic 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 which Management has identified reverse or if the assumptions and estimates prove to be incorrect. For further information see Section D.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. For further information see Section D.13, Intangible assets.

Receivables from goods and services and other receivables

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 based on assessments by external rating agencies. As of December 31, 2014 the total impairment of trade receivables totaled EUR 1,299 thousand (previous year: EUR 2,911 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 contract-based costs incurred by the balance sheet date to the estimated total costs of the contract, unless this would lead to a distortion in presentation of the percentage of completion. Payments for differences in the total contract, subsequent receivables and premiums are included in the income from the contract. 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 contract-based costs that are expected to be refunded. Contract 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 is immediately recognized as an expense. For further information see Section D.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, for example, to assess tax advantages that result from the tax strategies available and 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 Sections D.10, Income taxes and D.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 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 Section D.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 Section D.23, Other provisions.

Fair value measurement and valuation methods

Some of the SKW Metallurgie Group's assets and liabilities are measured at fair value for financial reporting purposes. In order to determine the fair value of assets and liabilities, the SKW Metallurgie Group uses observable market data as far as possible. If such input parameters for level 1 are not available, the fair values in levels 2 and 3 are measured using discounted cash flow analyses based on generally recognized valuation methods. A key input parameter here is the interest rate, which takes into account the default risk for the counterparty.

The following section shows the key discretionary judgments which the SKW Metallurgie Group uses when applying the Company's accounting and valuation methods. This presentation does not include such discretionary judgments that include estimates.

Discount rate to determine the carrying amount of defined benefit obligations

The interest rate used for discounting the SKW Metallurgie Group's defined benefit obligations is based on the returns that can be recorded for top-quality, fixed-interest corporate bonds on the market on the balance sheet date. Substantial discretion is required when determining the criteria used in selecting the corporate bonds which form the basic set from which the return curve is derived. The key criteria used in selecting these corporate bonds include the issuing volume of the bonds, the bond quality and identifying outliers that are not taken into account.

D. Notes on the balance sheet and income statement and further information

We have disclosed the earnings from discontinued operations in connection with the sale of the subsidiary SKW Metallurgy Sweden AB in 2014 in a separate item in the income statement according to IFRS 5.33 (see Section D.11 below). In order to also accurately portray the earnings from discontinued operations in the previous year's figures according to IFRS 5.34, the respective comparable figures for the previous year for the other items of the income statement have been adjusted for the contributions from the Swedish company.

Earnings from discontinued operations are calculated as follows:

EUR thousand	2014	2013
Revenues	22,032	26,516
Other expenses	-32,225	-27,214
Earnings before taxes from discontinued operations	-10,193	-698
Income taxes	-1,442	546
Earnings from discontinued operations	-11,635	-152

1. Revenues

The Group's revenues of EUR 316,038 thousand (previous year: EUR 320,846 thousand) relate mainly to the sale of goods and services. With regard to their breakdown into countries and country groups please refer to Section D.29 Segment reporting.

The breakdown of revenues by product group corresponds to the breakdown of revenues by segments (D.29). Revenues include order-based income from long-term construction contracts totaling EUR 830 thousand (previous year: EUR 1,013 thousand).

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

EUR thousand	2014	2013
Aggregate amount of costs incurred and recognized profits (less recognized losses) to date	3,276	3,305
Advance payments received	3,369	3,370
Amounts retained by customers	0	0

On the balance sheet date there were construction contracts with a credit balance from customers totaling EUR 0 thousand (previous year: EUR 0 thousand) and with a debit balance from customers totaling EUR 102 thousand (previous year: EUR 63 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	2014	2013
Income from exchange rate fluctuations	9,187	2,566
Income from the derecognition of liabilities	1,264	408
Deconsolidation income from the disposal of SKW Sweden AB	613	-
Income from the disposal of non-current assets	267	439
Payments received for written-off receivables	254	96
Insurance compensation	175	1,606
Income from payroll tax refunds and similar payments	161	0
Research grants	147	134
Income from the sale of scrap and other non-useable raw materials	38	149
Income from writing up receivables	3	224
Income from refunds from customers in the previous year for discounts incorrectly retained	0	190
Other operating income	540	529
Total	**12,649**	**6,341**

Deconsolidation income from the disposal of SKW Sweden AB includes EUR 11 thousand which was recognized in income from the currency translation reserve under equity.

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	2014	2013
Raw materials, consumables and supplies	198,224	208,481
Goods purchased	11,999	8,670
Services purchased	2,294	2,345
Other	4,832	2,467
Total	**217,349**	**221,963**

The cost of materials includes expenses in connection with the ReMaKe project in the amount of EUR 2,428 thousand (write-downs for inventories). The cost of materials primarily relates to the Cored Wire segment at an amount of EUR 114,959 thousand (previous year: EUR 116,415 thousand) and the Powder and Granules segment in the amount of EUR 82,432 thousand (previous year: EUR 89,144 thousand).

4. Personnel expenses

Personnel expenses relate to the following items:

EUR thousand	2014	2013
Wages and salaries	33,119	30,610
Social security contributions, expenses for pension plans	9,741	9,091
Total	**42,860**	**39,701**

Personnel expenses include expenses in connection with the ReMaKe project in the amount of EUR 321 thousand. Personnel expenses relate to the Cored Wire segment with EUR 15,488 thousand (previous year: EUR 14,264 thousand) and the Powder and Granules segment with EUR 22,097 thousand (previous year: EUR 21,897 thousand).

5. Other operating expenses

Other operating expenses are broken down as follows:

EUR thousand	2014	2013
Outbound freight/transport costs	13,496	13,330
Legal and consulting costs	7,470	3,453
General and administrative expenses	5,105	5,219
Expenses from exchange rate fluctuations	4,669	4,396
Expenses for land and buildings	2,978	2,633
Repairs and maintenance	2,864	2,538
Marketing and entertainment expenses	2,631	2,885
Commission	2,301	3,577
Write-downs on receivables	1,979	123
Insurance	1,281	1,395
Provision for restructuring	1,216	-
Operating safety	504	519
Costs of capital increase	493	402
Research and development (material costs)	475	434
Temporary staff	466	659
Cost taxes France (“contribution économique territoriale”)	340	279
Loss from the disposal of assets	21	0
Provision for EU antitrust proceedings (fine)	0	1,000
Expenses for fraud when purchasing raw materials in China	0	86
Other expenses	4,850	8,127
Total	**53,150**	**51,055**

Other operating expenses increased in connection with the ReMaKe project initiated in the summer of 2014 mainly as a result of expenses for legal and consulting costs in the amount of EUR 6,138 thousand and the formation of a provision for restructuring in the amount of EUR 1,216 thousand. Expenses for restructuring mostly comprise personnel expenses for compensation payments and costs in connection with the end of contracts including cancellation costs for rental agreements that result in connection with executing the respective activities. Other expenses include a large number of individual items with low amounts from the companies consolidated on the balance sheet date.

6. Income from associated companies

Income from associated companies of EUR 1,251 thousand (previous year: EUR 1,002 thousand) is due exclusively to Jamipol Ltd., Jamshedpur, India.

7. 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 Sections D.13 and 14.

8. Other interest and similar income

Other interest and similar income in the amount of EUR 317 thousand (previous year: EUR 86 thousand) mostly results from the interest on current bank balances of EUR 307 thousand (previous year: EUR 52 thousand).

9. Interest and similar expenses

Interest and similar expenses are broken down as follows:

EUR thousand	2014	2013
Interest on liabilities to banks	3,485	3,896
Guarantee commission	259	215
Commitment fees for credit lines	172	151
Waiver fees and stand-still agreements	349	76
Other interest expenses	703	330
Total	**4,968**	**4,668**

Interest expenses include expenses in connection with the ReMaKe project in the amount of EUR 153 thousand. Interest expenses include, in full, financial liabilities not measured at fair value. Interest expense includes expenses of EUR 137 thousand (previous year: EUR 251 thousand) from application of the effective interest rate method for liabilities.

10. Income taxes

The income tax expense of EUR 11,373 thousand carried in the year under review (previous year: EUR 2,776 thousand) is broken down as follows:

EUR thousand	2014	2013
Effective tax expense/income	4,459	4,994
Deferred tax expense	10,743	1,948
Deferred tax income	-3,829	-3,620
Sub-total of deferred tax expense/income	6,914	-1,672
Total tax expense/income	**11,373**	**3,322**

The deferred tax expense of EUR 21,176 thousand (previous year: EUR 234 thousand) results from the change in impairment of deferred tax assets on losses carried forwards, tax credits and temporary differences.

The figure shown in the table as the effective tax expense is the net figure for effective tax expenses and tax income. This includes non-period tax income/expense totaling EUR 99 thousand (previous year: EUR 15 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 32,94% in the year under review (previous year: 29.69%). The increase in the tax rate is due to an increase in the average trade tax assessment rate.

EUR thousand	2014	2013
Earnings before taxes	-57,987	265
Income tax rate	32.94%	29.69%
Anticipated tax expense	-19,101	78
Tax additions/reductions due to valuation of deferred tax assets on losses carried forward	21,176	780
Tax additions due to non-tax deductible expenses	3,900	1,803
Effects from different foreign tax rates	1,687	684
Non-period tax income/expense	-99	15
Tax reductions due to tax-free income	0	-653
Tax additions/reductions due to withholding taxes and tax credits	35	554
Other tax effects	3,775	61
Recognized tax expense/income	**11,373**	**3,322**
Effective tax rate	-19.61%	1,253.58%

11. Non-controlling interests in consolidated earnings

The consolidated net loss of EUR -80,995 thousand (previous year: EUR -3,209 thousand) is broken down as follows:

	2014	2013
Earnings from continued operations	-47,702	-1,540
Earnings from discontinued operations	-11,635	-152
Other shareholders' interests	-21,658	-1,517
Consolidated net loss for the year	**–80,995**	**-3,209**

Earnings from discontinued operations relate to SKW Metallurgy Sweden AB which was sold in November 2014 and is thus no longer part of the Group. Since the company sold was wholly owned by SKW Stahl-Metallurgie Holding AG this sale does not impact other shareholders' interests.

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 period under review were calculated as follows (in each case for consolidated earnings and also for earnings from continuing operations):

	2014	2013
Consolidated net loss in EUR thousand	-80,995	-3,209
Correction of non-controlling interests in EUR thousand	21,658	1,517
Consolidated earnings attributable to shareholders of SKW Stahl-Metallurgie Holding AG in EUR thousand	**-59,337**	**-1,692**
Correction for earnings from discontinued operations	**11,635**	**152**
Earnings from continued operations attributable to shareholders of SKW Stahl-Metallurgie Holding AG in EUR thousand	**-47,702**	**-1,540**
Weighted average number of shares in circulation in the period under review in thousand	6,545	6,545
Earnings per share in EUR	**-9.07**	**-0.26**
Earnings per share from discontinued operations (in EUR)	**-1.78**	**-0.02**
Earnings per share from continuing operations (in EUR)	**-7.29**	**-0.24**

Basic earnings per share correspond to diluted earnings per share.

13. Intangible assets

During the year, development costs totaling EUR 179 thousand (previous year: EUR 95 thousand) were capitalized. The development costs were capitalized at Affival S.A.S and relate to various projects. In 2014 as was also the case in 2013 own work capitalized, totaling EUR 138 thousand (previous year: (previous year: EUR 98 thousand), was due in full to development costs.

Total R&D expenses of EUR 1,543 thousand were recognized in income by the Group (previous year: EUR 1,404 thousand). Of this total EUR 1,024 thousand is due to personnel expenses (previous year: EUR 881 thousand), EUR 475 thousand (previous year: EUR 434 thousand) are material costs and EUR 44 thousand (previous year: EUR 89 thousand) are amortization and depreciation.

Intangible assets changed as follows during the business 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, 2014	**3,250**	**24,337**	**14,106**	**12,880**	**1,304**	**8,702**	**64,579**
Currency translation	26	2,247	1,183	1,052	154	375	5,037
Additions	679	1,476	-	-	179	-	2,334
Disposals	0	-	-	-	-5	-	-5
Disposals from the consolidated group	-411	-	-	-	-	-34	-445
Reclassifications	0	-	-	-	-	-	0
Stand am Dec. 31, 2014	**3,544**	**28,060**	**15,289**	**13,932**	**1,632**	**9,043**	**71,500**
Amortization/depreciation on Jan. 1, 2014	**-2,054**	**0**	**-8,525**	**0**	**-895**	**-7,651**	**-19,125**
Currency translation	-100	-643	-785	-11	-119	-241	-1,899
Additions	-968	-20,078	-2,629	-1,080	-35	-1,170	-25,960
Disposals	0	-	-	-	5	-	5
Disposals from the consolidated group	411	-	-	-	-	34	445
Reclassifications	0	-	-	-	-		0
Balance at Dec. 31, 2014	**-2,711**	**-20,721**	**-11,939**	**-1,091**	**-1,044**	**-9,028**	**-46,534**
Net carrying amount on Dec. 31, 2014	**833**	**7,339**	**3,350**	**12,841**	**588**	**15**	**24,966**

The disposals of intangible assets from the consolidated group relates to the sale of SKW Metallurgy Sweden AB in November 2014.

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

The comparable schedule of intangible assets 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, 2013	**2,890**	**26,420**	**15,686**	**14,362**	**1,493**	**10,289**	**71,140**
Currency translation	-52	-2,083	-1,580	-1,482	-50	-1,590	-6,837
Additions	165	0	0	0	95	1	261
Disposals	0	0	0	0	0	0	0
Disposals from the consolidated group	0	0	0	0	0	0	0
Reclassifications	247	0	0	0	-234	2	15
Balance at Dec. 31, 2013	**3,250**	**24,337**	**14,106**	**12,880**	**1,304**	**8,702**	**64,579**
Amortization/depreciation On Jan. 1, 2013	**-1,590**	**0**	**-7,769**	**0**	**-960**	**-8,432**	**-18,751**
Currency translation	28	0	804	0	39	1,294	2,165
Additions	-436	0	-1,560	0	-30	-513	-2,539
Disposals	0	0	0	0	0	0	0
Disposals from the consolidated group	0	0	0	0	0	0	0
Reclassifications	-56	0	0	0	56	0	0
Balance at Dec. 31, 2013	**-2,054**	**0**	**-8,525**	**0**	**-895**	**-7,651**	**-19,125**
Net carrying amount on Dec. 31, 2013	**1,196**	**24,337**	**5,581**	**12,880**	**409**	**1,051**	**45,454**

Goodwill impairment

Goodwill is allocated to the cash generating units which are to obtain benefits from synergies from the acquisition. This is the lowest unit at which goodwill is monitored for internal management purposes (IAS 36.80 (a)). The entire Executive Board is responsible for managing and monitoring business activities. As goodwill is monitored at the level of the legal units, impairment testing for goodwill is also performed at this level.

As a rule, the identified CGUs are not larger than a business segment in each case according to IFRS 8 (IAS 36.80 (b)).

As of June 30, 2014 as a result of sustainably lower expectations for earnings, which led to a material adjustment to the forecasts for the CGUs (triggering event) goodwill for the ESM sub-group and Tecnosulfur S/A was written down in the total amount of EUR 20,078 thousand. This was recognized in income.

There were no further requirements for write-downs in connection with the annual impairment testing for the acquired goodwill at the end of the year. The changes in goodwill for ESM Group Inc. and Tecnosulfur, which are both allocated to the Powder and Granules segment, are shown below in a year-on-year comparison.

The ESM cash generating unit comprises the ESM sub-group without its Chinese subsidiary ESM Tianjin Co. Ltd. i.e., the US ESM Group Inc. and its subsidiary ESM Metallurgical Products Inc. in Canada, which recently took over part of the business activities identified in the original purchase price allocation. As a result of the available fair value less selling costs 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 as of June 30, 2014 the perpetuity included a growth rate of 2% and a pre-tax discount rate of 13.67%. The rate used for the total cost of capital is based on the risk-free interest rate of 3.17% and a risk premium on equity of 6.0%. Taking these assumptions into account, impairment expenses of EUR 10,102 thousand were included in fiscal year 2014. In calculating the value in use in the regular cycle and thus as of December 31, 2014 the perpetuity included a growth rate of 2% (previous year: 2%) and a pre-tax discount rate of 12.0% (previous year: 11.28%). The rate used for the total cost of capital is based on the risk-free interest rate of 2.5% (previous year: 4.0%) and a risk premium on equity of 6.0% (previous year: 5.8%). 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, 2014 (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 21.5% (previous year: 12.52%) and an assumed zero (previous year: 1.15%) 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 five-year plan newly drawn up as of June 30, 2014 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 as of June 30, 2014 the perpetuity included a growth rate of 6% and a pre-tax discount rate of 20.76%. The rate used for the total cost of capital is based on the risk-free interest rate for Brazil of 12.19% and a market risk premium on equity of 6.0%. Taking these assumptions into account, impairment expenses of EUR 9,976 thousand were included in fiscal year 2014. In calculating the value in use in the regular cycle and thus as of December 31, 2014 the perpetuity included a growth rate of 6% (previous year: 3%) and a pre-tax discount rate of 20.9% (previous year: 19.74%). The rate used for the total cost of capital is based on the

risk-free interest rate for Brazil of 12.6% and a market risk premium on equity of 6% (previous year: 6.0%). 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 greater than the carrying amount on December 31, 2014 (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 29.9% (previous year: 21.67%) and an assumed 0% (previous year: 0%) growth rate in the perpetuity would not lead to any goodwill impairment.

Brand name impairment

As of December 31, 2014, 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, resulted in the need for impairment in the amount of EUR 1,080 thousand, as in both cases the recoverable amount was lower than the carrying amount. Details on the development of brand names for both companies are given below in a year-on-year comparison.

For both brand names, the recoverable amount was determined by identifying the net realizable value less selling costs 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. The pre-tax royalty rate of between 0.5% and 2.5% (previous year: between 0.75% and 2.5%) adjusted for market and competitive conditions were used as license rates.

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	2014	2013
Goodwill		
ESM Group Inc.		
Carrying amount Jan. 1	16,193	16,925
Non-scheduled impairment	-10,102	0
Subsequent acquisition costs	0	0
Other changes (e.g. conversion)	1,248	-732
Carrying amount Dec. 31	**7,339**	**16,193**
Tecnosulfur		
Carrying amount Jan. 1	8,144	9,073
Non-scheduled impairment	-9,976	0
Subsequent acquisition costs (IFRS 3 2004)	1,476	697
Other changes (e.g. conversion)	356	-1,626
Carrying amount Dec. 31	**0**	**8,144**
Total goodwill, Dec. 31	**7,339**	**24,337**
Brand names		
ESM Group Inc.		
Carrying amount Jan. 1	7,250	7,578
Non-scheduled impairment	-352	0
Subsequent acquisition costs	0	0
Other changes (e.g. conversion)	952	-328
Carrying amount Dec. 31	**7,850**	**7,250**
Tecnosulfur		
Carrying amount Jan. 1	5,630	6,784
Non-scheduled impairment	-728	0
Subsequent acquisition costs	0	0
Other changes (e.g. conversion)	89	-1,154
Carrying amount Dec. 31	**4,991**	**12,880**
Total brand names, Dec. 31	**12,841**	**5,630**

The carrying amounts of goodwill and brand names correspond to the recoverable amounts at the end of fiscal year 2014 and are allocated to the Powder and Granules segment.

The corresponding expenses from the extraordinary write-downs are carried below EBITDA as impairment expenses.

14. Property, plant and equipment

The sale of SKW Metallurgy Sweden AB in November 2014 led to the disposals of property, plant and equipment from the consolidated group as presented below.

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

EUR thousand	Land	Buildings including buildings on third-party land	Technical plant and machinery	Other equipment, operating and office equipment	Prepayments and assets under construction	Total
Acquisition costs at Jan. 1, 2014	**4,405**	**18,743**	**87,105**	**6,967**	**4,038**	**121,258**
Currency translation	202	1,169	8,574	732	353	11,030
Additions	18	197	2,656	340	1,806	5,017
Disposals	-125	-1	-1,420	-390	-243	-2,179
Disposals from the consolidated group	-207	-230	-9,985	0	-1,527	-11,949
Reclassifications	10	23	603	-68	-568	0
Balance at Dec. 31, 2014	**4,303**	**19,901**	**87,533**	**7,581**	**3,859**	**123,177**
Depreciation on Jan. 1, 2014	**-198**	**-4,731**	**-27,248**	**-4,910**	**-183**	**-37,270**
Currency translation	-49	-834	-6,526	-632	-65	-8,106
Additions	-1,554	-8,793	-41,422	-990	-2,376	-55,135
Disposals	0	0	1,129	351	0	1,480
Disposals from the consolidated group	207	230	9,985	0	1,527	11,949
Reclassifications	0	0	-35	35	0	0
Balance at Dec. 31, 2014	**-1,594**	**-14,128**	**-64,117**	**-6,146**	**-1,097**	**-87,082**
Net carrying amount on Dec. 31, 2012	**2,709**	**5,773**	**23,416**	**1,435**	**2,762**	**36,095**

Property, plant and equipment includes leased property, plant and equipment of EUR 397 thousand (previous year: EUR 285 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 159 thousand is due to buildings (previous year: EUR 173 thousand), and EUR 238 thousand is due to technical equipment (previous year: EUR 112 thousand). In addition, of the property, plant and equipment EUR 47,508 thousand (previous year: EUR 1,523 thousand) has been provided as loan collateral to local banks.

As a result of the strategic reorientation, it was necessary to write down certain items of property, plant and equipment in fiscal year 2014. In the case of property, plant and write downs are generally performed at an individual valuation level to the extent that these can generate their own cash inflows. If this allocation is not possible, they are allocated at CGU level. The delimitation of CGUs is in line with the requirements of IAS 36.66 et seqq., which identifies the smallest group of assets that generates cash inflows that are mostly independent of the cash inflows from other assets. CGUs are identified based on SKW's business activities. A bottom-up approach is used to assess which assets should be combined because they generate products which are sold to bring about independent cash inflows.

Considering the structure of the business activities into legal units with pure product groups, the legal groups constitute the respective relevant CGU, as independent cash inflows can only be allocated to these units. The level below the legal units (e.g., machine or production units) cannot be identified as a CGU, as no independent cash inflows can be allocated to these units.

Two CGUs, SKW Metallurgy Sweden AB, which was sold in November, and SKW-Tashi Metals and Alloys Private Ltd. were forced to make write downs on property, plant and equipment of EUR 39,780 in the summer of the past year due to changes to the CGUs' forecasts.

The recoverable amount for SKW Metallurgy Sweden AB, which belongs to the Powder and Granules segment, was determined by calculating the value in use using the discounted cash flow method. In so doing, the projected cash flows from the one-year plan which was newly drawn up as of June 30, 2014 were used, as the negative business growth had included a disinvestment with one year. 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, no perpetuity including a growth rate was used, but a pre-tax discount rate of 12.5%. This rate for the total cost of capital used is based on the risk-free interest rate for Sweden of 2.5%, a market risk/default premium on equity of 10% and its former capital structure. Taking these assumptions into account, a recoverable amount of zero and corresponding impairment of EUR 9,379 thousand were taken into account.

In the case of SKW-Tashi Metals and Alloys Pte. Ltd., which belongs to the Cored Wire segment, the recoverable amount was determined by calculating the fair value less selling costs using the discounted cash flow method (input factors on level 3). The projected cash flows from the bottom-up five-year plan newly drawn up as of June 30, 2014 were used. The fair value less selling costs 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. No perpetuity was used to calculate the fair value less selling costs, as it was already clear as part of the medium-term forecast that the company's financing structure and its anticipated cash flows from operating activities meant that the value of perpetuity would be around zero. A pre-tax discount rate of 27.45% was used for the calculation. The rate used for the total cost of capital is based on the risk-free interest rate referenced for India of 1.5% and a market risk premium on equity of 7.0%, plus a risk premium for the country risk, the restrictions on transferring capital and inflation of 10.3%. In addition, a beta factor derived from the respective peer group and this

group's capital structure are taken into account. Taking these assumptions into account, a recoverable amount of zero and corresponding impairment of EUR 30,401 thousand were taken into account. A review of this impairment on the balance sheet date did not lead to a write-up.

Further impairment in fiscal year 2014 related to a plot of land with buildings belonging to the Cored Wire segment for Affival Vostok OOO in Russia in the amount of EUR 2,477 thousand, in order to be able to account for the property at the recoverable amount of EUR 923 thousand. The need to adjust these amounts to the recoverable amount is based on the findings from an external expert opinion which was commissioned. This means that the recoverable amount was identified by calculating fair value less selling costs (input factors at level 2).

As of December 31, 2014, the SKW Metallurgie Group had contractual obligations for the purchase of property, plant and equipment totaling EUR 143 thousand (previous year: EUR 253 thousand).

As was the case in the previous year, in 2014 the Group did not capitalize any borrowing costs.

The comparable schedule of property, plant and equipment is as follows:

EUR thousand	Land	Buildings including buildings on third-party land	Technical plant and machinery	Other equipment, operating and office equipment	Prepayments and assets under construction	Total
Acquisition costs at Jan. 1, 2013	**4,746**	**19,503**	**85,411**	**7,975**	**7,512**	**125,147**
Currency translation	-322	-1,344	-5,802	-528	-277	-8,273
Additions	0	133	1,403	235	4,067	5,838
Disposals	-19	-82	-1,074	-264	0	-1,439
Disposals from the consolidated group	0	0	0	0	0	0
Reclassifications	0	533	7,167	-451	-7,264	-15
Balance at Dec. 31, 2013	**4,405**	**18,743**	**87,105**	**6,967**	**4,038**	**121,258**
Depreciation on Jan. 1, 2013	**-160**	**-4,320**	**-23,087**	**-4,711**	**-53**	**-32,331**
Currency translation	11	467	1,732	357	7	2,574
Additions	-68	-836	-6,647	-831	-137	-8,519
Disposals	19	8	754	225	0	1,006
Disposals from the consolidated group	0	0	0	0	0	0
Reclassifications	0	-50	0	50	0	0
Balance at Dec. 31, 2013	**-198**	**-4,731**	**-27,248**	**-4,910**	**-183**	**-37,270**
Net carrying amount on Dec. 31, 2013	**4,207**	**14,012**	**59,857**	**2,057**	**3,855**	**83,988**

15. Interests in associated companies

The shares (30.22% of share capital) in the associate Jamipol Ltd., Jamshedpur (India) are carried using the equity method. This company is included based on the results reported by this company for the twelve-month period ending on December 31, 2014. This company's financials developed as follows during its fiscal year, which differs from the Group's fiscal year (April 1 to March 31):

EUR thousand	2014	2013
Revenues	37,179	31,674
Net income for the year from continued operations	3,541	3,471
Net income for the year from discontinued operations	0	0
Net income	3,541	3,471
Other result	0	0
Total result	**3,541**	**3,471**
Current assets	11,720	8,784
Non-current assets	4,608	3,828
Total assets	**16,328**	**12,612**
Equity	10,849	7,776
Current liabilities	4,904	4,661
Non-current liabilities	575	175
Total equity and liabilities	**16,328**	**12,612**

On the date this company's fiscal year ended, Jamipol Ltd. had contingent liabilities of EUR 642 thousand (previous year: EUR 679 thousand).

Interests in associated companies changed as follows during the business year:

EUR thousand	2014	2013
Balance at Jan. 1	**4,290**	**4,793**
Proportionate net income	1,251	1,002
Currency translation differences	529	-740
Income taxes	-73	-94
Profit distribution received	-379	-671
Balance at Dec. 31	**5,618**	**4,290**

The summarized financial information presented reconcile to the carrying amount of the participating interest in Jamipol Ltd. in the SKW Metallurgie consolidated financial statements as follows:

EUR thousand	2014	2013
Associated company's net assets	13,611	10,026
Participating interest by SKW Metallurgie Group	30.22%	30.22%
Currency translation adjustments	1,505	1,260
Carrying amount of participating interest in Jamipol Ltd.	5,618	4,290

16. Deferred tax assets and liabilities

The deferred tax assets carried as of December 31, 2013 result from deferred tax assets on temporary differences between the carrying amounts under IFRS and in the tax base. Taking into account the forecast results for fiscal year 2015, this means that EUR 2,415 thousand can be used over the short term (previous year: EUR 1,842 thousand).

Deferred tax assets and liabilities are netted if they are for the same tax authority and relate to the same tax creditor.

The deferred tax assets and liabilities as of December 31, 2014 result from the following balance sheet items:

	Deferred tax assets		Deferred tax liabilities	
EUR thousand	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Intangible assets	0	1,752	5,829	7,652
Property, plant and equipment	947	2,820	2,316	2,944
Financial assets	286	428	0	0
Inventories	1,415	1,005	0	2
Other assets	945	844	79	7
Provisions for pensions	226	1,229	0	0
Other provisions	82	484	0	0
Other liabilities	1,266	692	2	98
Tax loss carryforwards	0	6,700	0	0
Gross amount	**5,167**	**15,954**	**8,226**	**10,703**
Netting	-3,486	-4,431	-3,486	-4,431
Carrying amount	1,681	**11,523**	4,740	**6,272**

No deferred tax assets were formed for deductible temporary differences in the amount of EUR 1,980 thousand and losses carried forwards totaling EUR 31,227 thousand as no sufficient taxable income is expected in the forecast period from 2015 to 2019 to allow the deferred tax assets to be used. In the case of companies with a history of losses, according to IAS 12.35 no deferred taxes are carried for losses carried forwards if there are no convincing, substantial indicators that there will be sufficient taxable income in future that will allow these losses carried forwards to be used.

Deferred taxes for temporary differences in connection with interests in subsidiaries and interests in joint ventures in the amount of EUR 820 thousand (previous year: EUR 2,316 thousand) were not carried according to IAS 12.

17. Inventories

EUR thousand	Dec. 31, 2014	Dec. 31, 2013
Raw materials, consumables and supplies	19,932	24,401
Finished goods and merchandise	17,539	17,633
Advance payments made	47	45
Goods in transit	6,034	5,603
Total	**43,552**	**47,682**

In each case, inventories are measured at the lower of cost and the net realizable price on the balance sheet date. Inventories totaling EUR 13.334 (previous year: EUR 914 thousand) are carried at their net realizable price. During the year under review, inventories were written down due to adjustments in market prices in the amount of EUR 3.006 thousand (previous year: EUR 500 thousand), and write-ups were performed in the amount of EUR 143 thousand (previous year: EUR 47 thousand).

Inventories totaling EUR 220,212 thousand were consumed in the year under review (previous year: EUR 222,416 thousand). These are included in the cost of materials and recognized in income.

EUR 25,555 thousand of inventories (previous year: EUR 22,838 thousand) is due to Cored Wire, and EUR 14,833 thousand (previous year: EUR 22,388 thousand) is due to Powder and Granules.

Of the total inventories of EUR 43,552 thousand (previous year: EUR 47,682 thousand), inventories of EUR 21,001 thousand (previous year: EUR 6,042 thousand) are assigned collateral as part of loan agreements in the USA Mexico and Bhutan.

18. Trade receivables

Trade receivables are broken down as follows:

EUR thousand	Dec. 31, 2014	Dec. 31, 2013
Receivables before write-downs	40,400	38,326
Write-ups	3	218
Amortization/depreciation	-1,299	-123
Carrying amount of receivables	**39,104**	**38,421**

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, 2014, the SKW Metallurgie Group sold trade receivables with a nominal value of EUR 6,428 thousand (previous year: EUR 10,110 thousand) under these agreements and fully derecognized these. The sale of receivables resulted in expenses of EUR 67 thousand in the year under review (previous year: EUR 92 thousand). The SKW Metallurgie Group has an undertaking to cover initial losses in the amount of EUR 231 thousand (previous year: EUR 160 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 include receivables from construction contracts of EUR 0 thousand (previous year: EUR 0 thousand) and receivables from the associated company Jamipol Ltd in the amount of EUR 2 thousand (previous year: EUR 19 thousand).

The carrying amount of the receivables is due to Cored Wire in the amount of EUR 20,700 thousand (previous year: EUR 18,968 thousand) and Powder and Granules in the amount of EUR 15,547 thousand (previous year: EUR 16,404 thousand).

On the balance sheet date, trade receivables in the amount of EUR 17,629 thousand (previous year: EUR 5,096 thousand) have been transferred as collateral in credit agreements. In 2014, trade receivables of EUR 1,299 thousand (previous year: EUR 123 thousand) were impaired. On December 31, 2014 there were overdue trade receivables that had not yet been written down in the amount of EUR 12,165 thousand (previous year: EUR 10,927 thousand).

19. Other assets

Other assets include the following amounts:

EUR thousand	Dec. 31, 2014 current	Dec. 31, 2014 non-current	Dec. 31, 2013 current	Dec. 31, 2013 non-current
Other financial assets				
Derivative financial instruments	321	0	74	0
Loans to third parties	0	0	0	0
Bank balance in locked account	231	0	160	0
Other financial receivables	0	478	8	516
Other non-financial assets				
Income taxes	4,570	0	5,253	0
Other tax receivables	1,198	0	1,349	0
Prepaid expenses	3,775	0	2,757	0
Insurance receivables	331	0	1,505	0
Advance payment purchase of raw materials	0	0	919	0
Purchase price receivable	500	0	0	0
Other non-financial receivables	259	0	573	0
	11,185	**478**	**12,598**	**516**

Other receivables include a large number of individual items with low amounts from the consolidated companies. In 2014, other assets of EUR 680 thousand (previous year: EUR 0 thousand) were impaired. On December 31, 2014 and in the previous year there were no overdue assets that had not yet been written down. On December 31, 2014 other assets in an amount of EUR 231 thousand (previous year: EUR 160 thousand) 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 up to three months. Of the total cash and cash equivalents of EUR 17,972 thousand (previous year: EUR 10,673 thousand), EUR 5,210 thousand (previous year: EUR 1,508 thousand) relate to the Cored Wire segment, EUR 8,274 thousand (previous year: EUR 8,483 thousand) to the Powder and Granules segment, EUR 4,488 thousand to the Other segment (previous year: EUR 682 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 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. This authorization has not been used to date.

Treasury shares

There was no authorization to acquire treasury shares. The Company thus does not hold any treasury shares.

Other comprehensive income

Other comprehensive income developed as follows:

EUR thousand	Dec. 31, 2013	Change 2014	Dec. 31, 2014
Retained earnings	48,811	-54,236	-5,425
Change in actuarial gains and losses from defined benefit pension commitments	-1,709	-2,856	-4,565
Net investments in a foreign operation	-1,056	1,715	659
Unrealized gains/losses from derivatives (hedge accounting)	16	-236	-220
Differences from currency conversion	-10,168	-1,517	-11,685
Taxes on income and expenses carried directly under equity	511	541	1,052
	36,405	**-56,589**	**-20,184**

Currency translation adjustments

The loss totaling EUR 1,517 thousand in the period under review (previous year: EUR -7,557 thousand) mainly resulted from changes in the exchange rates of the euro (EUR) to the US dollar (USD), the Japanese yen (JPY) the South Korean won (KRW), and the Brazilian real (BRL). Furthermore, equity includes a loss from translation differences from net investments in foreign operations in the amount of EUR 1,064 thousand (previous year: EUR -774 thousand). In the amount of EUR 1,353 thousand (previous year: EUR -336 thousand) these result from loans in USD which were issued by SKW Stahl-Metallurgie Holding AG to SKW-Tashi Metals and Alloys Private

Limited of EUR 70 thousand (previous year: EUR -79 thousand), and also to a loan in KRW from Affival S.A.S. to Affival Korea, and in the amount of EUR -359 thousand (previous year: EUR -359 thousand) to a USD loan which was issued by Affival Inc. to Affimex Cored Wire S. de R. L. de C.V.

Dividend proposal

As a result of the net loss recorded by SKW Stahl-Metallurgie Holding AG according to the principles of the German Commercial Code (HGB) no dividend will be paid for fiscal year 2014.

22. Additional information on capital management

SKW Metallurgie has an obligation to maintain a strong financial profile that allows the Group to achieve its growth and portfolio optimization goals through financial flexibility. The SKW Metallurgie Group's credit rating 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 ratio of net financial debt to EBITDA. The SKW Metallurgie Group aims to achieve an equity ratio of around 30% with net financial 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 financial debt/EBITDA were each as follows at the end of the year under review and previous year:

EUR thousand	Dec. 31, 2014	Dec. 31, 2013	Change in %
Equity	**24,440**	**105,480**	**-76%**
As a % of total capital	14%	41%	
Current liabilities	131,453	80,196	
Non-current liabilities	24,758	69,469	
Liabilities	**156,211**	**149,665**	**5%**
As a % of total capital	86%	59%	
Total capital (equity plus borrowing)	**180,651**	**255,145**	**-29%**
Net financial debt/EBITDA	3.78	4.31	

In fiscal year 2014 equity decreased by -76% year-on-year in 2014 and borrowing increased by 5%. Overall, in fiscal year 2014 this led to a substantially higher ratio of borrowing to total capital of 59% compared to 2013. The equity ratio has fallen significantly from 41% to 14% in line with the increase in borrowing, which is mainly due to the extraordinary write-downs.

23. Pension obligations

The SKW Metallurgie Group has both defined benefit and defined contribution plans for entitled employees in its companies in Germany, France and Japan.

The Company's pension plans for employees in Germany 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 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.

In France, the retirement benefit plans are based on regional and national agreements in the French metallurgy industry and are defined-benefit plans. As a result, there are various components, which take into account factors including the employee's years of service. In addition, through to 1988 the French companies also made a voluntary commitment to a pension for surviving dependents. The amount of the benefits is governed by the number of years of service and the employee's function in the company. Benefits are based on pensionable income. This is the income in the last twelve months before entering the pension.

The SKW Metallurgie Group has both defined benefit and defined contribution plans for all of its entitled employees in Japan at the subsidiary Affival KK. As part of the defined contribution plan, a fixed amount is paid in to a bank account every month. If the beneficiary leaves the company, they receive a one-off payment. The plan includes retirement benefits and also, for example, payments upon invalidity and also benefits for surviving dependents. The benefit commitment from the defined benefit plan comprises a one-off capital payment which is paid, as a rule, when the pensionable age is reached. The capital payment is guaranteed based on the last salary paid and the years of service reached. The benefit plan also includes invalidity, accident protection and benefits for surviving dependents.

With regard to the regulations for the SKW Metallurgie Group's Executive Board please refer to the Remuneration Report.

The plans mean that the SKW Metallurgie Group is generally exposed to the following risks: Investment risk, interest rate risk, longevity risk, concentration risk and salary risk.

Investment risk:

The present value of the defined benefit obligation from the plan is identified using a discount rate that is determined by the returns on top-quality, fixed-interest corporate bonds. If income from the plan assets is lower than this interest rate, it leads to the plan being under covered.

Interest rate risk:

A reduction in the bond interest rate leads to an increase in plan liabilities, however this is partially compensated for by increased income from the investment of plan assets in fixed-interest debt instruments.

Longevity risk:

The present value of the defined benefit contribution from the plan is identified based on the best possible estimate of the mortality rates for the employees covered, both during their employment and also after the end of this employment. An increase in life expectancies for the employees covered leads to an increase in the plan liability.

Concentration risk:

The plan assets are exclusively invested in a specific asset class, namely fixed-interest securities. There is thus a concentration of bond market risks for these plans.

Salary risk:

The present value of the defined benefit obligation from the plan is identified based the future salaries of the employees covered. As a result salary increases for the employees covered lead to an increase in the plan liability.

Provisions for pensions were recognized at a total of five group companies. The total amount of the provision of EUR 9,241 thousand (previous year: EUR 5,866 thousand) relates to the following companies in particular:

- SKW Stahl-Metallurgie Holding AG: EUR 5,533 thousand (previous year: EUR 3,094 thousand).
- SKW Stahl-Metallurgie GmbH: EUR 2,834 thousand (previous year: EUR 1,989 thousand).
- Affival S.A.S.: EUR 726 thousand (previous year: EUR 645 thousand)

The present value of the defined benefit obligations can be reconciled with the provisions carried on the balance sheet as follows:

EUR thousand	Dec. 31, 2014	Dec. 31, 2013
Present value of the covered defined benefit obligation	1,043	950
Fair value of plan assets	-208	-202
Financing status	**835**	**748**
Present value of the uncovered defined benefit obligations	8,406	5,118
Net liability from defined benefit obligations	**9,241**	**5,866**
Effect from limitation of assets	0	0
Balance sheet disclosure	**9,241**	**5,866**

The net liability from defined benefit obligations developed as follows during 2013 and 2012:

EUR thousand	Present value of the obligations	Fair value of plan assets	Total	Effect from limitation of assets	Total
Balance at Jan. 1, 2013	**5,679**	**-200**	**5,479**	**0**	**5,479**
Ongoing service cost	338	0	338	0	338
Interest expense/(income)	208	-6	202	0	202
Past service cost/effects from compensation and cuts	0	0	0	0	0
	546	**-6**	**540**	**0**	**540**
Revaluations					
Losses from plan assets without amounts already included in interest income	0	4	4	0	4
Gains from changes in demographic assumptions	-1	0	-1	0	-1
Gains from changes in financial assumptions	16	0	16	0	16
Gains based on experience	-145	0	-145	0	-145
	-130	**4**	**-126**	**0**	**-126**
Effect of exchange rate differences	0	0	0	0	0
Contributions:					
Employer	0	0	0	0	0
Beneficiaries for the pension plan	0	0	0	0	0
Pension payments	-26	0	-26	0	-26
Balance at Dec. 31, 2013	**6,068**	**-202**	**5,866**	**0**	**5,866**

EUR thousand	Present value of the obligations	Fair value of plan assets	Total	Effect from limitation of assets	Total
→ Ongoing service cost	340	0	340	0	340
Interest expense/(income)	226	0	226	0	226
Past service cost/effects from compensation and cuts	0	0	0	0	0
	566	**0**	**566**	**0**	**566**
Revaluations					
Losses from plan assets without amounts already included in interest income	0	-7	-7	0	-7
Gains from changes in demographic assumptions	0	0	0	0	0
Gains from changes in financial assumptions	2,855	0	2,855	0	2,855
Gains based on experience	3	1	4	0	4
	2,858	**-6**	**2,852**	**0**	**2,852**
Effect of exchange rate differences	0	0	0	0	0
Contributions:					
Employer	0	0	0	0	0
Beneficiaries for the pension plan	0	0	0	0	0
Pension payments	-43	0	-43	0	-43
Balance at Dec. 31, 2014	**9,449**	**-208**	**9,241**	**0**	**9,241**

The anticipated pension expenses for 2015 are estimated at EUR 305 thousand.

Assumptions

Provisions for pensions and similar commitments are measured using actuarial methods annually on the balance sheet date. The actuarial obligations for the pension plans were calculated under the following assumptions.

	Dec. 31, 2014		Dec. 31, 2013	
in %	Germany	France	Germany	France
Discount rate	2.15	1.80	3.80	3.25
Salary increase	2.0	1.75	2.0	2.0
Pension increase	1.25	0.0	1.5	0.0

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.

Sensitivity analysis

The sensitivity analysis presented in the following section considers, in each case, the change in an assumption, with the other assumptions remaining unchanged compared to the original calculation, i.e., possible correlation effects between the individual assumptions are not considered.

The sensitivity of the defined benefit obligations compared to central actuarial assumptions is as follows:

Present value of the obligations	Change in actuarial assumptions	Impact on defined benefit obligations	
		Defined benefit obligations	Change in %
Discount rate	Increase by 0.25%	8,814	-4.6%
	Reduction by 0.25%	10,110	9.4%
Salary increase	Increase by 0.5%	9,543	3.3%
	Reduction by 0.5%	9,370	1.4%
Pension increase	Increase by 0.5%	9,644	4.4%
	Reduction by 0.5%	9,273	0.4%
Life expectancy (longevity risk)	Increase by 20%	9,898	7.1%

Composition of plan assets

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

	Dec. 31, 2014		Dec. 31, 2013	
	EUR thousand	%	EUR thousand	%
Equity instruments	0	0.0	0	0.0
Debt instruments	0	0.0	0	0.0
Derivatives	0	0.0	0	0.0
Basic assets	0	0.0	0	0.0
Investment fund	208	100.0	202	100.0
Bonds	208	100.0	202	100.0
Other	0	0.0	0	0.0
Cash and cash equivalents	0	0.0	0	0.0
Total plan assets	**208**	**100.0**	**202**	**100.0**

The actual income from plan assets amounts to around EUR 7 thousand (previous year: EUR 2 thousand. The plan assets consist of a fund set up by the company to serve its pension obligations. This is managed by Capreval Groupe Malakoff Médéric. The expected return is equal to the interest anticipated from the fund.

The average term of the defined benefit obligation on December 31, 2014 was 22.5 years. The pension payments expected in the coming five years total EUR 892 thousand.

In addition, in 2014, expenses for defined contribution plans were incurred in the amount of EUR 8 thousand (previous year: EUR 9 thousand).

24. Other provisions

Other provisions changed as follows:

EUR thousand	Jan. 1, 2014	Take-up	Addition	Reversal due to lack of use	Currency translation differences	Dec. 31, 2014
Provision for EU antitrust proceedings	1,230	-61	-	-99		1,070
Provision for restructuring	0		1,216			1,216
Provision for Homeland Security litigation	1,450				197	1,647
Provision for fraud when purchasing CaSi in Bhutan	372	-54		-51		267
Tax provisions	2,909		428	-70	19	3,286
Miscellaneous other provisions	611	-131	1,630	-420	30	1,720
	6,572	**-246**	**3,274**	**-640**	**246**	**9,206**

For further details of the provision for the EU antitrust proceedings see Section 32 Contingent liabilities. Of the total other provisions as of December 31, 2014, EUR 5,777 thousand are current (previous year: EUR 3,643 thousand) and the cash outflow is expected within one year. The remaining amount of EUR 3,429 thousand (previous year: EUR 2,929 thousand) are non-current provisions, for which the cash outflow is expected in a period of two to five years.

25. Obligations from finance leases

In the 2014 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	Discounting	Present value Dec. 31, 2014
Residual term of up to 1 year	53	-7	46
Residual term 1 - 5 years	198	-13	185
Residual term > 5 years	-	-	-
Total	**251**	**-20**	**231**

The corresponding figures from the previous year were as follows:

EUR thousand	Total future minimum lease payments	Discounting	Present value Dec. 31, 2013
Residual term of up to 1 year	22	-3	19
Residual term 1 - 5 years	0	0	0
Residual term > 5 years	0	0	0
Total	**22**	**-3**	**19**

26. Financial liabilities

Financial liabilities of EUR 84,049 thousand (previous year: EUR 74,483 thousand) result from liabilities to banks of EUR 84,049 thousand (previous year: EUR 74,410 thousand) and from liabilities to third parties in the amount of EUR 0 thousand (previous year: EUR 73 thousand).

Interest on financial liabilities is in a bandwidth of between 1.875% and 15.0% (previous year: 1.059% to 15.0%) per year. 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 in Bhutan.

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

Financial liabilities by currency are broken down as follows:

EUR thousand	Dec. 31, 2014	Dec. 31, 2013
EUR	55,616	52,609
USD	19,099	12,034
JPY	861	864
KRW	377	689
CNY	1,062	958
BTN	3,156	2,564
BRL	3,878	4,704
RUR	0	61
TRY	0	0
Total	**84,049**	**74,483**

Financial liabilities have the following residual terms:

	Dec. 31, 2014			Dec. 31, 2013		
EUR thousand	< 1 Year	1 – 5 Years	> 5 Years	< 1 Year	1 – 5 Years	> 5 Years
Liabilities to banks	77,142	6,780	127	20,260	43,311	10,839
Liabilities to other third-parties	0	0	0	73	0	0
Financial liabilities	**77,142**	**6,780**	**127**	**20,333**	**43,311**	**10,839**

As the refinancing agreements were concluded in January 2015, financial liabilities for SKW Stahl-Metallurgie Holding AG had to be technically qualified as “current” as of December 31, 2014.

27. Trade payables

The trade payables of EUR 32,809 thousand (previous year: EUR 41,500 thousand) were due to third parties on the balance sheet date. These include liabilities from construction contracts of EUR 102 thousand (previous year: EUR 63 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, 2014		Dec. 31, 2013	
EUR thousand	current	non-current	current	non-current
Other financial liabilities				
Outstanding invoices	1,767	0	1,550	0
Interest liabilities	856	0	959	0
Derivative financial instruments	422	0	57	0
Miscellaneous other liabilities	0	0	19	0
	3,045	**0**	**2,585**	**0**
Other non-financial liabilities				
Wages and salaries	5,258	18	4,303	18
Other taxes	1,754	0	1,305	0
Social security contributions	1,148	0	1,325	0
Downstream acquisition liabilities	1,588	0	788	0
Factoring liabilities	568	0	926	0
Healthcare payments	301	0	329	0
Employee accident insurance	195	0	586	0
Advance payments received	64	46	188	3
Liabilities from plant construction	0	0	411	0
Receivables default	0	0	567	0
Miscellaneous other liabilities	605	192	920	231
	11,481	**256**	**11,648**	**252**
Total	**14,526**	**256**	**14,233**	**252**

29. Segment reporting

The segments described below correspond to the SKW Metallurgie Group's internal organizational and reporting structure. The identification of segments takes into account the Group's different products and services and is based on the steel production process. The SKW Metallurgie Group's products and services are used in two process stages within this process: In hot metal desulphurization in which various powders and granules are used, and also in steel refining, which is conducted using cored wire. As a result, two segments with a reporting requirement have been identified for the SKW Metallurgie Group's core business:

Cored Wire

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

Powder and Granules

The Powder and Granules segment bundles all of the production and sales functions for hot metal desulphurization. The Powder and Granules 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 selecting and implementing suitable desulphurization solutions and the use of secondary metallurgical additives for the refining process.

Other

The Other segment includes those group activities which do not form part of its core business. It 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. As SKW Quab Chemicals Inc. is primarily regarded as being a financial engagement and as it is not strategically managed by the Group's management it is allocated to the Other 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 assets

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.

The segments were as follows during the period under review:

2014 in EUR thousand	Cored Wire	Powders and Granules	Other	Consolidation	Group
Revenues					
Third-party revenues	161,259	128,376	26,403		316,038
Internal revenues	155	416	69	-640	
Total revenues	**161,414**	**128,792**	**26,472**	**-640**	**316,038**
Income from associated companies		1,251			1,251
EBITDA	**10,440**	**8,211**	**-1,163**		**17,488**
Scheduled amortization/depreciation	-2,836	-3,305	-1,254		-7,395
Non-scheduled amortization/depreciation	-31,370	-29,003	-3,056		-63,429
EBIT	**-23,766**	**-24,097**	**-5,473**		**-53,336**
Dividends from subsidiaries			12,864	-12,864	0
Transfer of profit		3,602	-3,602		0
Interest income	41	283	4,497	-4,504	317
Interest expenses	-3,344	-3,012	-3,116	4,504	-4,968
Earnings before taxes	**-27,069**	**-23,224**	**5,170**	**-12,864**	**-57,987**
Income taxes					-11,373
Earnings from discontinued operations (after taxes)					**-69,360**
Earnings from discontinued operations (after taxes)					-11,635
Consolidated net loss for the year					**-80,995**
Balance sheet					
Assets					
Segment assets	67,765	100,059	134,001	-126,792	175,033
Interests in associated companies		5,618			5,618
Consolidated assets					**180,651**
Equity and liabilities					
Segment liabilities	101,514	66,203	59,632	-71,138	156,211
Consolidated liabilities					**156,211**
Ongoing capital expenditure (property, plant and equipment, intangible assets)	**2,291**	**2,743**	**237**	**0**	**5,271**

Segment assets and investments are allocated according to the respective registered office of the company. Investments are defined as in the cash flow statement.

With regard to the extraordinary write-downs please refer to the comments in Sections D.13 and 14.

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

2013 in EUR thousand	Cored Wire	Powders and Granules	Other	Consolidation	Group
Revenues					
Third-party revenues	158,968	139,199	22,679		320,846
Internal revenues	1,434	1,614	30	-3,078	0
Total revenues	**160,402**	**140,813**	**22,709**	**-3,078**	**320,846**
Income from associated companies		1,002			1,002
EBITDA	**9,967**	**6,908**	**-2,057**		**14,818**
Scheduled amortization/depreciation	-3,716	-4,756	-1,348		-9,820
Non-scheduled amortization/depreciation	-137	-14			-151
EBIT	**6,114**	**2,138**	**-3,405**		**4,847**
Dividends from subsidiaries			10,029	-10,029	0
Transfer of profit		1,650	-1,650		0
Interest income	44	50	5,028	-5,036	86
Interest expenses	-3,199	-3,667	-2,838	5,036	-4,668
Earnings before taxes	**2,959**	**171**	**7,164**	**-10,029**	**265**
Income taxes					-3,322
Earnings from discontinued operations (after taxes)					**-3,057**
Earnings from discontinued operations (after taxes)					-152
Consolidated net loss for the year					**-3,209**
Balance sheet					
Assets					
Segment assets	95,391	141,934	149,190	-135,660	250,855
Interests in associated companies		4,290			4,290
Consolidated assets					**255,145**
Equity and liabilities					
Segment liabilities	82,514	91,549	63,637	-88,035	149,665
Consolidated liabilities					**149,665**
Ongoing capital expenditure (property, plant and equipment, intangible assets)	**1,563**	**2,435**	**303**		**4,301**

The following section shows revenues in the year under review by country and country group. Revenues are allocated to countries according to the customer's location and according to the location of the selling unit. Non-current assets are allocated to the company's respective registered office.

EUR thousand	Third-party revenues (customer's office)	Third-party revenues (company office)	Non-current assets*
Germany	12,806	7,691	872
EU 27 without Germany	37,108	56,520	5,280
USA and Canada	185,566	185,099	32,237
Japan	7,092	7,048	7
Brazil	27,965	28,963	20,353
Mexico	4,642	4,742	567
Russia and Ukraine	2,945	3,106	366
People's Republic of China	1,013	2,939	205
Rest of world	36,901	19,930	1,174
Total	**316,038**	**316,038**	**61,061**

* without deferred taxes and financial instruments

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

EUR thousand	Third-party revenues (customer's office)	Third-party revenues (company office)	Non-current assets*
Germany	12,542	6,809	5,854
EU 27 without Germany	39,246	59,017	14,377
USA and Canada	189,692	189,601	43,477
Japan	7,323	7,303	9
Brazil	29,515	31,057	32,318
Mexico	3,616	3,674	536
Russia and Ukraine	3,336	3,634	651
People's Republic of China	227	1,633	230
Rest of world	35,349	18,118	31,446
Total	**320,846**	**320,846**	**128,898**

* without deferred taxes and financial instruments

There are relationships with a single customer which accounts for revenues of EUR 56,179 thousand (previous year: EUR 56,584 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 694 thousand (previous year: EUR 1.371 thousand) in the amount of EUR 17,972 thousand (previous year: EUR 10,673 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 8,026 thousand (previous year: EUR 8,758 thousand) shows the excess of income over expenses before any utilization of funds. The item "earnings from associated companies" totaling EUR -872 thousand (previous year: EUR -331 thousand) results from the disbursement received in 2014 of EUR 379 thousand (previous year: EUR 671 thousand) less the participation result for 2014 from the Indian production company Jamipol Ltd. totaling EUR 1,251 thousand (previous year: EUR 1,002 thousand). The cash flow from operating activities also included the change in working capital, that resulted in a cash outflow of EUR -5,014 thousand (previous year: cash inflow of EUR 11,656 thousand). As a result, the cash flow from operating activities totaled EUR 3,012 thousand (previous year: EUR 20,366 thousand).

After the cash outflow from investing activities in the amount of EUR -5,246 thousand (previous year: EUR -5,163 thousand) the SKW Metallurgie Group recorded a free cash flow after investments for the year under review of EUR -2,234 thousand (previous year: EUR 15,251 thousand).

Bank loans of EUR 12.045 thousand were taken out for financing (previous year: EUR 709 thousand). At the same time, bank loans of EUR 2,406 thousand (previous year: EUR 25,467 thousand) were repaid. The remaining cash flow after the measures described, which amounted to EUR 6,605 thousand (previous year: EUR -13.286 thousand), corresponds to the change in cash and cash equivalents as against the previous year.

During the period under review, the cash flow from operating activities included the following payments:

- Interest expenses of EUR 4,423 thousand (previous year: EUR 4,288 thousand)
- Interest income of EUR 31 thousand (previous year: EUR 5 thousand)
- Income taxes paid of EUR 3,965 thousand (previous year: EUR 4,250 thousand)
- Income taxes refunds of EUR 864 thousand (previous year: EUR 485 thousand)

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, 2014	Dec. 31, 2013
Rental and leasing commitments due:		
within one year	2,419	2,090
between two and five years	6,585	5,577
after more than five years	375	669
	9,379	**8,336**
Maintenance, service and license agreements, due:		
within one year	221	180
between two and five years	52	81
after more than five years	0	0
	273	**261**
Other obligations	**7,807**	**9,068**

The other financial liabilities totaling EUR 7,807 thousand (previous year: EUR 9,068 thousand) mainly concern purchasing commitments from supply agreements for SKW Stahl-Metallurgie GmbH in the amount of EUR 292 thousand (previous year: EUR 840 thousand), EUR 2,327 thousand (previous year. EUR 2,630 thousand) of guarantees issued for Affival S.A.S. and contractual commitments in the amount of EUR 921 thousand (previous year: EUR 2,397 thousand) for SKW Stahl Metallurgie Holding AG. In addition, in connection with financing for the second sintering plant at Tecnosulfur there are guarantees in the amount of EUR 4,050 thousand (previous year: EUR 4,610 thousand). Conditional rental payments were included in earnings for business year 2014 in the amount of EUR 438 thousand (previous year: EUR 413 thousand).

32. Contingent receivables and liabilities

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

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

SKW Stahl-Metallurgie Holding AG is liable according to the EU Commission's penalty decision dated July 22, 2009 for the payment of a penalty of EUR 13.3 million (joint and several liability by SKW Stahl-Metallurgie Holding AG, SKW Stahl-Metallurgie GmbH and Gigaset AG (formerly: ARQUES Industries AG) with Gigaset AG being liable for a maximum amount of EUR 12.3 million; joint and several liability by SKW Stahl-Metallurgie GmbH together with Evonik Degussa GmbH and AlzChem AG (formerly: AlzChem Hart GmbH) in the amount of EUR 1.04 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) to defer enforcement activities. In this connection, in 2010 Gigaset AG sued SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie jointly for payment of the amount already paid by Gigaset AG to the EU Commission. Gigaset AG lost this litigation in the first instance. The responsible Regional Court Munich I fully rejected the suit filed by Gigaset AG in its ruling dated July 13, 2011 and in addition it decided that "the monetary penalty is to be borne internally solely by the plaintiff [Gigaset AG]". The objection filed by Gigaset AG was also rejected by the Upper Regional Court Munich in its ruling dated February 9, 2012. While also referring to the reasons for the decision by the Regional Court, in its ruling, the Upper Regional Court Munich also ascertained that "it

is not the defendant [SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH] that has to bear the monetary penalty, but the plaintiff [Gigaset AG]". Gigaset AG objected to this ruling at the German Supreme Court (Bundesgerichtshof - BGH). In fiscal year 2014 the BGH initially presented some individual issues from this litigation to the European Court of Justice for a preliminary decision. In its resolution dated June 3, 2014 the BGH then withdrew its request for a preliminary decision from the European Court of Justice, and after a renewed verbal hearing at the BGH on November 18, 2014 it issued a ruling on this issue in which the senate revoked the ruling by Munich Upper Regional Court and returned the issue to Munich Upper Regional Court for a renewed decision to be taken. However, the Company does not believe that the BGH's considerations will cause a deterioration in the SKW companies' position in this litigation.

In parallel to this, SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH are continuing to try to get reduced the penalty notice on which the litigation with Gigaset AG is based at the European Court of Justice. In a ruling date January 23, 2014 the European Court rejected in full the suits by SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH against the EU Commission to reduce the penalty in their entirety, and by Gigaset to a material extent. The suit by Gigaset AG was only accepted to the extent that the penalty imposed against Gigaset AG was reduced to EUR 12.3 million. As a result, as a precautionary measure, SKW Stahl-Metallurgie GmbH formed a provision of EUR 1.0 million plus any costs for legal advice retroactively as of December 31, 2013. The ruling by the European Court against the SKW companies is not yet legally enforceable, as these submitted an objection in this regard to the European Court of Justice on April 2, 2014. The exact outcome of the proceedings cannot yet be foreseen. Until these proceedings have been judged by the European Court of Justice, the proceedings initiated by Gigaset, and which have been returned to the Upper Regional Court Munich for a renewed decision, are suspended.

SKW Stahl-Metallurgie Holding AG

In August 2008 SKW Stahl-Metallurgie Holding AG concluded a consulting agreement with Woodes Ltd., Singapore in connection with establishing production operations for the subsidiary SKW Tashi Metals & Alloys Private Limited. An amount of USD 1.0 million is still due to Woodes Ltd. from this consulting agreement, and a corresponding liability was carried in this amount. As a result of the Executive Board's opinion that an outflow of funds for this open item is no longer to be expected, this liability was released in full as of December 31, 2014.

33. Executive bodies of the company

Supervisory Board	Executive Board
Titus Weinheimer, New York, NY (USA) Nanoholdings LLP and Gramercy Partners GmbH , COO & Managing Director Chairperson of the Supervisory Board (from June 10, 2008, reelection on June 15, 2009 and June 8, 2011)	**Dr. Kay Michel, Bensheim (Germany)** Engineering graduate, CEO (from April 1, 2014)
Jochen Martin, München (Germany) AFINUM Management GmbH, Partner Deputy Chairperson of the Supervisory Board (from June 15, 2009, reelection on June 8, 2011)	**Sabine Kauper, Merching (Germany)** Business administration graduate, Member of the Executive Board (CFO) (from January 1, 2014)
Armin Bruch, Erzhausen (Germany) To December 31, 2013 Member of the Executive Board der SGL Carbon SE and from January 1, 2014 independent entrepreneur Member of the Supervisory Board (since June 15, 2009, reelection on June 8, 2011)	**Ines Kolmsee, Tutzing (Germany)** Engineering graduate, CEO (from August 16, 2008 to March 31, 2014)
Dr. Hans Liebler, Gräfelfing (Germany) Lenbach Capital GmbH, Managing Partner Member of the Supervisory Board (since January 1, 2014)	
Dr. Dirk Markus, London (United Kingdom) Aurelius AG, CEO Member of the Supervisory Board (from June 4, 2009 to February 28, 2015)	
Jutta Schull, Frankfurt am Main (Germany) SGL Carbon GmbH, Business Unit Head of Cathodes and Furnace Linings Member of the Supervisory Board (since January 1, 2014)	

Supervisory Board:

Since being increased from three to six members as a result of the ordinary general meeting on June 4, 2009, the Company's Supervisory Board has remained unchanged. Dr. Christoph Schlünken left the Supervisory Board on December 31, 2013. At the start of 2014 Ms. Kauper moved over to the Company's Executive Board. As a result, during the year under review and after having been appointed by the court two members were newly elected to the Supervisory Board - Dr. Liebler and Ms. Schull. Dr. Markus resigned his office with effect from February 28, 2015.

The Chairperson and the Deputy Chairperson of the Supervisory Board remain unchanged.

As the Company still does not have a statutory obligation to elect employee representatives to the Supervisory Board and as there was no voluntary co-determination, the members of the Supervisory Board in the year under review were still solely shareholder representatives.

The Supervisory Board met for a total of eight meetings in fiscal year 2014, of which four were regular on-site meetings. In addition to the on-site meetings, the Supervisory Board met in a further three on-site meetings and one conference call. The meetings are generally held with all members participating. In addition, four resolutions were passed by circulating the voting papers. The Audit Committee met twice in on-site meetings and once in a conference call in the past fiscal year. The HR Committee met twice in fiscal year 2014, the Nomination Committee met once.

Further mandates held by the members of SKW Stahl-Metallurgie Holding AG's Supervisory Board in fiscal year 2014

→ Titus Weinheimer, attorney, residing in New York, NY (USA), Chairperson 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, AFINUM Management GmbH, partner, residing in Munich (Germany), Deputy Chairperson of the company's Supervisory Board

No other supervisory board mandates or mandates for comparable German and foreign supervisory bodies

→ Armin Bruch, to December 31, 2013 Member of the Executive Board der SGL Carbon SE and from January 1, 2014 independent entrepreneur, residing in Erzhausen (Germany)

Supervisory Board/Board of Directors/ Advisory Council	Registered office
HCS GmbH, Frankfurt (formerly: Haltermann Holding GmbH, Schifferstadt)	Frankfurt (Germany)

→ Jutta Schull, Head of the BU Cathodes and Furnace Linings SGL Carbon GmbH, residing in Frankfurt am Main,

Supervisory Board/Board of Directors/ Advisory Council	Registered office
SGL CARBON Polska SA	Racibórz (Poland)

→ Dr. Dirk Markus, CEO of Aurelius AG, residing in London (United Kingdom)

Supervisory Board/Board of Directors/ Advisory Council	Registered office
Publicitas Holding AG, President of the Advisory Council (since July 28, 2014)	Zurich (Switzerland)
Berentzen-Gruppe Aktiengesellschaft	Haselünne (Germany)
SMT Scharf AG (Chairman) (to May 8, 2014)	Hamm (Germany)
Compagnie de Gestion et de Prêts (Advisory Council)	Saran (France)

The memberships set out above in the Supervisory Boards of Publicitas Holding AG, Berentzen-Gruppe Aktiengesellschaft, and Compagnie de Gestion e de Prêts are mandates within the Aurelius Group.

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

Company	Position
Augusta Technology AG, Munich	Member of the Supervisory Board/ Deputy Chairman
Grammer AG, Amberg	Member of the Supervisory Board
Washtec AG, Augsburg	Member of the Supervisory Board
J.P. Rosselet Cosmetics (Deutschland) AG, Bremen	Member of the Supervisory Board (to August 30, 2014)
Autowerkstattgroup N.V., Maastricht (NL)	Member of the Supervisory Board
Identive Inc. , Santa Ana, California, USA	Non-executive member of the board of directors (to May 22, 2014)

Further mandates held by the members of SKW Metallurgie Holding AG's Executive Board in fiscal year 2014

In the reporting period, Ms. Kauper performed the following mandate outside the SKW Metallurgie Group.

→ Kapsch Traffic Com AG with its registered office in Vienna (Austria), member of the supervisory board (appointed on August 22, 2011, reelection on September 1, 2014)

Dr. Michel did not hold any mandates outside the SKW Metallurgie Group in the year under review.

Within the Group, the members of the Executive Board held the following mandates in the reporting period:

Dr. Kay Michel

→ Affival Inc., Chairman of Board of Directors
→ SKW Quab Chemicals Inc., Member of the Board of Directors
→ SKW Metallurgie USA Inc., Member of the Board of Directors
→ ESM Group Inc., Chairman of the Board of Directors
→ SKW France S.A.S., President
→ Jamipol Ltd., Member of the Board of Directors
→ Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, Member of the Board of Directors

Sabine Kauper

→ Affival Inc., Member of the Board of Directors
→ SKW Quab Chemicals Inc., Member of the Board of Directors
→ SKW Metallurgie USA Inc., Member of the Board of Directors
→ ESM Group Inc., Member of the Board of Directors
→ SKW Stahl-Metallurgie GmbH, Managing Director
→ SKW Verwaltungs GmbH, Managing Director
→ SKW Service GmbH, Managing Director
→ Jamipol Ltd., Member of the Board of Directors
→ Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, Member of the Board of Directors

34. Remuneration of the Executive Bodies

All of the compensation structures in the SKW Metallurgie Group are governed by the principles of appropriateness and performance. This relates to both the compensation structures for employees and also the remuneration for the Executive and Supervisory Boards. According to the statutory requirements, the following section discloses the details of remuneration for the Supervisory and Executive Boards in the year under review below (remuneration report):

I. Supervisory Board:

Remuneration for members of the Supervisory Board does not include any remuneration components that are based on corporate figures, and it is much rather the case that this is 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 Chairperson receives 1.5 times this amount, his deputy receives 1.25 times this amount. Meeting fees are only paid for on-site 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 Chairperson receives 1.5 times this amount. Accordingly, in 2014 expenses for the Supervisory Board's remuneration totaled the following:

In EUR thousand	Fixed compensation*	Meeting fees	Total
Armin Bruch	12	10	22
Dr. Hans Liebler	12	9	21
Dr. Dirk Markus	12	10	22
Jochen Martin	15	10	25
Jutta Schull	12	7	19
Titus Weinheimer	18	11.5	29.5
Total	**81**	**57.5**	**138.5**

*Provisions for Supervisory Board activities in 2014; payment made in 2015

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, in the year under review as was also the case in previous years, 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 members of the Executive Board and 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. 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:

During the year under review the Executive Board comprised Dr. Kay Michel (since April 1, 2014; CEO) and Ms. Sabine Kauper (CFO). During the first quarter of 2014 Ms. Ines Kolmsee was also a member of the Executive Board. 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 met the requirements of the German Corporate Governance Code on the balance sheet date.

There were no agreements on the balance sheet date with the members of the Executive Board for the event of a change of control resulting from an acquisition offer.

The Executive Board's remuneration fundamentally comprises performance-related and non-performance related components.

The non-performance related remuneration includes the annual fixed remuneration, which is defined for the entire period that a member of the Executive Board holds their office, and is calculated for each calendar year commenced on a pro rata basis and paid monthly as a salary. In addition, the members of the Executive Board receive non-cash remuneration, which is carried in the individual taxable amount and which, as a rule, is due equally to each member. This mostly relates to the company car which the Executive Board members can also use privately. The Executive Board members each individually pay tax on this company car, as well as job-related insurance premiums that either do not constitute income under German income tax law, or which are subject to lump-sum taxation. In particular, the Company bore the cost of D&O insurance, which protects members of the Managing and Supervisory Boards and other company executives. According to Section 93 (2) Sentence 3 of the AktG and 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; as a result the corresponding employer benefits do not apply.

As a rule, 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.

→ In particular due to the changes in the Executive Board in fiscal year 2014 and the strategic reorientation of the entire Group, agreements were reached for fiscal year 2014 that differ from this system (STI and LTI). As part of Dr. Kay Michel's appointment as CEO on April 1, 2014, a guaranteed bonus of EUR 295 thousand was agreed for the short fiscal period 2014. With regard to Ms. Sabine Kauper, the Supervisory Board resolved to pay a guaranteed bonus of EUR 295 thousand for fiscal year 2014.

→ The Supervisory Board has the right to grant extraordinary remuneration in addition to these guaranteed bonus payments for extraordinary performance. These payments are capped at 75% of the maximum variable remuneration. No such extraordinary remuneration was paid in 2014.

→ A termination agreement was reached with Ms. Kolmsee in connection with her exit from the Company's Executive Board. As part of this agreement, bonus entitlements (STI and LTI) for 2014 were compensated via the payment of a lump-sum amount of EUR 95 thousand.

No remuneration was paid to members of the Group's Executive Board by consolidated subsidiaries for mandates with these companies. The Board of the non-consolidated company Jamipol also includes members of the Group's Executive Board. Jamipol paid meeting fees for participation in each of the Board meetings in 2014. These payments have no longer been given to the members of the Group's Executive Board since 2014.

No expenses were incurred in fiscal year 2014 the remuneration of the Executive Board in fiscal year 2013. In 2014, EUR 75 was paid to the former Executive Board member Gerhard Ertl for remuneration for fiscal year 2011.

Over and above these 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 total, in 2014, the following amounts were spent on remuneration for the Executive Board (the non-cash benefit is shown for the non-cash remuneration):

EUR thousand	Ines Kolmsee (to March 31, 2014)	Dr. Kay Michel (from April 1, 2014)	Sabine Kauper (full year)	Total
Fixed compensation	87.5	305*	200	592.5
Non-cash compensation (company car)	3.6	10.5	14.1	28.2
Subsidy to healthcare and nursing care insurance	0.9	4.5	4	9.4
Variable remuneration for 2014:	95	295	295	685
Total	**187**	**615**	**513.1**	**1,315.1**

*Including cash compensation for the retirement benefit component (EUR 80 thousand)

This table does not include the payment made to Mr. Ertl for fiscal year 2011. It also does not include the expenses for the benefit payments detailed below for the former members of the Executive Board Ines Kolmsee and Gerhard Ertl as well as for the Executive Board member Sabine Kauper.

→ There is an employer-financed company pension scheme for the former Executive Board members Ines Kolmsee and Gerhard Ertl. 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 are contractually non-lapsable. 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. No benefit payments had to be made in the year under review. The expenses (without incidental costs such as expert opinions on retirement benefits, contributions to the Mutual Insurance Association etc.) for benefits for former members of the Executive Board in 2014 (HGB) totaled EUR 505 thousand, of which EUR 399 thousand was for Ms. Kolmsee and EUR 106 thousand was for Mr. Ertl. According to IFRS these figures totaled EUR 372 thousand, of which EUR 330 for Ms. Kolmsee and EUR 42 thousand for Mr. Ertl.

→ From fiscal year 2014, retirement benefits for new members of the Executive Board are regulated differently. As a rule, the Company pays a percentage of the maximum total remuneration for the respective entitled member of the Executive Board each year to an insurance company, with which a corresponding pension policy has been concluded for retirement benefits in favor of the respective member of the Executive Board. Expenses for Ms. Kauper in this regard totaled EUR 80 thousand in the year under review. In the case of Dr. Michel, in line with the regulations in his employment agreement the amount due to retirement benefits (of EUR 80 thousand in the year under review) is paid in cash; this amount is thus shown as part of his fixed remuneration in the above table.

III. Former members of the Supervisory and Executive Boards:

The litigation with the former member of the Executive Board Gerhard Ertl has not yet been terminated. However, Mr. Ertl no longer has any claims against the Company over and above the benefit commitments, which continue to remain in force. This fulfillment amount (HGB) for the benefit commitment for Mr. Ertl and his survivors totaled EUR 938 thousand on the balance sheet date (previous year: EUR 832 thousand).

The fulfillment amount (HGB) for the Company's benefit commitment for Ms. Kolmsee, who was a member of the Company's Executive Board through to March 31, 2014, and her survivors totaled EUR 1,850 thousand on the balance sheet date (previous year: EUR 1,451 thousand).

There are no benefit commitments by the SKW Metallurgie Group to the other former members of the Company's Executive and Supervisory Board and their surviving dependents.

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. A person or a company is related to the reporting company if the relationship which exists between them is characterized by a possible mutual ability to exert an influence on each other or by the same third party, control, a material influence or holding key positions. For example, 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.

As a result of the consolidation principles, balances and transactions between SKW Stahl-Metallurgie Holding AG and subsidiaries and between the sister companies themselves, which all constitute related parties according to this definition, have been eliminated. This thus prevents any disclosures in this section.

In addition, the disclosure requirements under IAS 24 include transactions with participating interests, associated companies, 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. Through to December 31, 2014, SKW Stahl-Metallurgie Holding AG did not have any single shareholder with a shareholding of more than 10%. These shareholdings and also all other shareholdings of less than 10% are classified as free float by Deutsche Börse. As a result, in the entire year under review, 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 Executive and Supervisory Boards.

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

The SKW Metallurgie Group has standard business relationships with associated, non-consolidated subsidiaries. Transactions with these companies are of 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 2014.

During the year under review there were no business transactions with Jamipol Ltd., which is consolidated at equity. SKW Stahl-Metallurgie GmbH also participated in the dividends of Jamipol Ltd. in line with its participating interest in Jamipol Ltd. 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 from the companies Bhutan Carbide & Chemical Limited, Bhutan Ferro Alloys Limited, and Tashi Infocom Limited, which all belong to the Tashi Group, had a larger scope The expenses in the period under review of EUR 129 thousand (previous year: EUR 297 thousand) and the liabilities on the balance sheet date to these companies in the amount of EUR 308 thousand (previous year: EUR 175 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. These two companies are owned by close family members of the non-controlling shareholder and managing director of Tecnosulfur. EUR 103 thousand (previous year: EUR 116) were spent for passenger transport and courier services rendered 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 2 thousand (previous year: EUR 4 thousand) in the period under review.

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 employees of its own 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 no expenses for rent and interest to Krause Maschinenbau GmbH in 2014 (previous year: EUR 58 thousand). SKW Technology GmbH & Co. KG had recorded income with Krause Maschinenbau GmbH in 2014. These are broken down as follows: Income from the derecognition of financial liabilities in the amount of EUR 28 thousand, derecognition of rent liabilities of EUR 7 thousand and the sale of assets in the amount of EUR 6 thousand. The liabilities from loans and interest and others to Krause Maschinenbau GmbH totaled EUR 0 thousand (previous year: EUR 186 thousand) on December 31, 2012. The extraordinary shareholders' meeting on June 13, 2014 resolved to liquidate this company with effect from June 30, 2014.

Related parties

→ Supervisory Board:

As stated under Section D.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 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 in the amount of EUR 1,672 thousand (previous year: EUR 1,108 thousand) for a former member of the Executive Board and his surviving dependents.

36. Employees

The SKW Metallurgie Group had an average total of 950 employees in fiscal year 2014 (previous year: 1.009 employees). In most countries there is no longer a statutory distinction between industrial and non-industrial employees. The average number of employees include 618 industrial employees (previous year: 624), 323 commercial employees (previous year: 361) and 9 apprentices (previous year: 24). On the balance sheet date, there were 888 employees (previous year: 1.010). The average number of employees include 557 industrial employees (previous year: 621), 306 commercial employees (previous year: 366) and 5 apprentices (previous year: 23).

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, 2014		Dec. 31, 2013	
EUR thousand	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
Assets held to maturity	478	478	516	516
Loans and receivables	39,657	39,657	38,429	38,429
Financial assets held for trading	321	321	58	58
Available-for-sale financial assets	0	0	0	0
Derivative financial instruments (with hedge accounting)	0	0	16	16
Financial liabilities				
Financial liabilities at amortized cost	120,500	120,500	118,395	118,395
Derivative financial instruments with no hedge accounting	202	202	57	57
Derivative financial instruments with hedge accounting	220	220	0	0

The disclosed market value of the financial assets which are classified as held to maturity is given by level 3 of the fair value hierarchy. The carrying amount is used as the market value in this regard.

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, 2014 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 and loss	
	Carrying amount on the balance sheet Dec. 31, 2014	Amortized cost	Amortized cost	Fair value taken directly to equity	Fair value through profit and loss	Fair value Dec. 31, 2014
Other assets	1,031	552	479	0	0	1,031
Receivables from construction contracts	0	0	0	0	0	0
Trade receivables	39,104	39,104	0	0	0	39,104
Derivatives without hedge accounting	321	0	0	0	321	321

The figures for the previous year as of December 31, 2013 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 and loss	
	Carrying amount on the balance sheet Dec. 31, 2013	Amortized cost	Amortized cost	Fair value taken directly to equity	Fair value through profit and loss	Fair value Dec. 31, 2013
Other assets	524	8	516	0	0	524
Receivables from construction contracts	0	0	0	0	0	0
Trade receivables	38,421	38,421	0	0	0	38,421
Derivatives without hedge accounting	74	0	0	0	74	74

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, 2014 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, 2014	Amortized cost	Fair value	Fair value Dec. 31, 2014
Financial debt	84,048	84,048	0	84,048
Trade payables (without PoC)	32,708	32,708	0	32,708
Other liabilities	3,744	3,744	0	3,744
Derivatives without hedge accounting	202	0	202	202
Derivatives with hedge accounting	220	0	0	220

The figures for the previous year as of December 31, 2013 in EUR thousand 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, 2013	Amortized cost	Fair value	Fair value Dec. 31, 2013
Financial debt	74,483	74,483	0	74,483
Trade payables (without PoC)	41,500	41,500	0	41,500
Other liabilities	2,527	2,527	0	2,527
Derivatives without hedge accounting	57	0	57	57
Derivatives with hedge accounting	0	0	0	0

The carrying amount of the trade receivables and other current receivables 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 levels in the fair value hierarchy as of December 31, 2014:

EUR thousand	Level 1	Level 2	Level 3	Total
Financial assets measured at market value				
Derivative financial instruments	-	321	-	321
Financial liabilities measured at market value				
Derivative financial instruments	-	422	-	422

The figures for the previous year as of December 31, 2013 are as follows:

EUR thousand	Level 1	Level 2	Level 3	Total
Financial assets measured at market value				
Derivative financial instruments	-	74	-	74
Financial liabilities measured at market value				
Derivative financial instruments	-	57	-	57

The levels of the fair value hierarchy and their use for the assets and liabilities are as follows:

→ Level 1: Listed market prices for identical assets or liabilities on active markets.

→ Level 2: Information other than listed market prices that can be observed directly (for example prices) or indirectly (for example derived from prices) and

→ Level 3: Information for assets and liabilities that is not based on observable market data.

The Level 2 derivative financial instruments are currency forwards on the asset side and an interest rate swap and currency forwards on the liabilities side.

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

EUR thousand	Dec. 31, 2014	Dec. 31, 2013
Loans and receivables	167	443
Held-to-maturity financial assets	946	-427
Available-for-sale financial assets	0	0
Derivatives without hedge accounting	196	74
Financial liabilities measured at amortized cost	39	153

38. Derivative financial instruments

In the context of risk management, derivative financial instruments can be used to limit the risks mainly arising from exchange and interest rate fluctuations and credit risks. As a rule, derivative financial instruments are used to hedge recognized or non-recognized underlying transactions and serve to reduce exchange rate and interest risks.

The following table shows the fair values of the derivative financial instruments used in the Group:

EUR thousand	Fair value Dec. 31, 2014	Fair value Dec. 31, 2013
Assets		
Currency derivatives without hedge accounting	321	58
Interest rate derivatives in cash flow hedge	0	16
Total	**321**	**74**
Equity and liabilities		
Currency derivatives without hedge accounting	202	57
Interest rate derivatives in cash flow hedge	220	0
Total	**422**	**57**

Derivatives with hedge accounting

There is hedge accounting within the meaning of IAS 39 to hedge interest rate risks from non-current liabilities. The Group hedged its future cash flows from a non-current loan (interest rate risk) with a cash flow hedge (interest rate cap and swap). The conclusion of a new refinancing arrangement in January 2015 means that this non-current financing is carried as current financing on the balance sheet (see Section D.26, Financial liabilities). These derivatives are carried at fair value, broken down into an effective and in ineffective portion. The effective portion of the fluctuation of the fair value of these derivatives is carried directly under equity until the hedged underlying transactions are realized. The ineffective portion is recognized in income in the income statement. When the future transactions (underlying transactions) are realized, the accumulated effect in equity is reversed and recognized in income. As of December 31, 2014, hedge instruments were carried in the amount of EUR 220 thousand with negative fair values (previous year: EUR 16 thousand with positive fair values). In fiscal year 2014, the accumulated income and expenses taken directly to equity included unrealized earnings in the amount of EUR -236 thousand (previous year: EUR 16 thousand) before taxes. The maximum period for which the cash flows from future transactions are hedged is 51 months.

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 to 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 for 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 can 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.

Hedging currencies aims to fix prices on the basis of hedging rates to protect against future unfavorable currency developments. The hedging periods are generally based on the term of the hedged item. Group units are not permitted to borrow or invest funds in foreign currency for speculative reasons. Intra-Group financing and investments are preferably carried out in the respective functional currency.

The sensitivity analysis makes it possible to identify the risk items of the individual business units. It approximately quantifies the risk that can arise under the given assumptions if certain parameters are changed to a defined degree. The selected risk assessment assumes a simultaneous, parallel change in the euro against all foreign currencies in the consolidated financial statements by +10% and -10%. The potential economic impact is an estimate. This is based on the assumption that that favorable and unfavorable market changes assumed in the sensitivity analysis arise. The actual impact on the consolidated income statement may differ from these significantly on account of the actual changes in global markets. In particular, in reality currency exchange rate fluctuations correlate with other parameters. In contrast the sensitivity analysis assumes that all other parameters remain constant (ceteris paribus).

The following tables provide an overview of the impact on revenues, EBITDA and the net income/loss for the year:

In the event of changes to the exchange rate for US dollars (the table shows the figures for the SKW Group without considering IFRS 5):

EUR thousand	Average exchange rates 2014 -10 %	Average exchange rates 2014	Average exchange rates 2014 +10%
Revenues	359,101	338,070	320,850
EBITDA	18,672	17,629	16,775
Net loss for the year	-86,338	-80,995	-76,621

The following table shows the impact on equity of changes in the USD exchange rate (simulation of average and closing rates of exchange):

EUR thousand	Rates 2014 -10%	Rates 2014	Rates 2014 +10%
Equity	2,724	0	-2,228

In the event of changes to the exchange rate for BRL (the table shows the figures for the SKW Group without considering IFRS 5):

EUR thousand	Average exchange rates 2014 -10 %	Average exchange rates 2014	Average exchange rates 2014 +10%
Revenues	341,289	338,070	335,437
EBITDA	18,294	17,629	17,084
Net loss for the year	-81,993	-80,995	-80,180

The following table shows the impact on equity of changes in the BRL exchange rate (simulation of average and closing rates of exchange):

EUR thousand	Rates 2014 -10%	Rates 2014	Rates 2014 +10%
Equity	314	0	-257

In the event of changes to the exchange rate for all group currencies (the table shows the figures for the SKW Group without considering IFRS 5):

EUR thousand	Average exchange rates 2014 -10 %	Average exchange rates 2014	Average exchange rates 2014 +10%
Revenues	368,490	338,070	313,168
EBITDA	20,715	17,629	15,360
Net loss for the year	-87,716	-80,995	-75,492

The analysis in the previous year for changes in all group currencies produced the figures shown below:

EUR thousand	Average exchange rates 2013 -10 %	Average exchange rates 2013	Average exchange rates 2013 +10%
Revenues	378,642	347,362	321,769
EBITDA	16,971	15,238	13,820
Net loss for the year	-3,546	-3,209	-2,933

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 2014 -10%	Rates 2014	Rates 2014 +10%
Equity	4,077	0	-3,336

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

EUR thousand	Rates 2013 -10%	Rates 2013	Rates 2013 +10%
Equity	+12,017	0	-10,834

→ Effects of translation-related currency risks

A number of group units are outside the Eurozone. Since 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 were interest rate derivatives (interest rate cap and swap) on December 31, 2014. These were directly allocated to specific loans as cash flow hedges. In these cases there are derivatives with hedge accounting. The interest expenses carried in the income statement for the underlying transactions on which these derivatives are based and the respective interest rate derivatives show the fixed interest rate for the hedges.

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, 2014 and identifies the impact on the fair values of the unhedged financial instruments with variable interest rates and interest rate derivatives. This would

result in the opportunities (positive figure) and risks (negative figure) shown in the following table for the annual earnings, other result and thus on equity:

EUR thousand	Change in all interest rate curves as of December 31, 2014	
	+100 basis points	-100 basis points
Proportionate net income	-250	250
Other result	77	-528
Equity	**-173**	**-278**

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

EUR thousand	Change in all interest rate curves as of December 31, 2013	
	+100 basis points	-100 basis points
Proportionate net income	-485	485
Other result	-432	+461
Equity	**-917**	**+946**

Financial instruments with fixed interest rates are measured at amortized cost and thus do not bear any interest rate risk.

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 counterparty is no longer able to meet its obligations within the appropriate time frame, when the assets serving as collateral lose value or when projects in which the SKW Metallurgie Group invests are not successful. The maximum risk of default is therefore the amount of the positive fair value of the financial instrument in question. In order to minimize default risks, as a rule the SKW Metallurgie Group only uses financial instruments for financing with counterparties with excellent credit ratings.

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 or sells these in factoring. In addition, letters of credit and default guarantees are used to hedge some receivables. As a result, the SKW Metallurgie Group's default risk is very low. In addition, receivables from these contractual partners are not high enough to provide reasons for an extraordinary concentration of risks. Write-downs were made to account for the risk of default.

The value of the hedges for financial instruments that are classified as trade receivables totaled EUR 105 thousand (previous year: EUR 172 thousand).

In 2014, trade payables of EUR 1,299 thousand (previous year: EUR 123 thousand) and other receivables in the amount of EUR 680 thousand (previous year: EUR 0 thousand) were impaired. Of the trade receivables of EUR 39,104 thousand (previous year: EUR 38,421 thousand), receivables totaling EUR 26,165 thousand (previous year: EUR 10,927 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, 2014	11,906	54	178	27	12,165
Dec. 31, 2013	10,652	59	63	153	10,927

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 for 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.

Since the first quarter of 2012 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 master credit agreement of up to an additional EUR 40 million. With regard to the master credit agreement, in fiscal year 2014 (as already presented in the interim reports as of June 30, 2014 and September 30, 2014) there was a breach of covenant in fiscal year 2014 as a result of the write-downs performed. This led to the banks having a right to cancel the agreement. The banks issued a so-called waiver in this regard. In addition, a stand-still agreement was concluded with the banks for the master credit agreement on September 30, 2014 for the period through to January 31, 2015. The Company concluded the new syndicated credit agreement with a three-year term in the amount of EUR 86 million on January 23, 2015. The syndicated credit agreement comprises two tranches. The first tranche in the amount of EUR 40 million is to be used as working capital and replaces the credit lines under the master credit agreement in the same amount. The second tranche of the syndicated credit agreement in the amount of EUR 46 million is a repayment loan which will primarily be used to repay due tranches of the promissory note loan and other financial liabilities. The repayment loan also includes mandatory repayments. Collateral has been provided as part of the syndicated credit agreement. This includes pledges of shareholders' interests and a guarantor concept. In this commitment, the Company has made an undertaking to its creditors to uphold its covenants. Violating these covenants gives creditors an extraordinary cancellation right. Based on the current group forecast, the Executive Board believes that the covenants will not be breached. As of December 31, 2014, the SKW Metallurgie Group had lines of credit totaling EUR 71,691 thousand (previous year: EUR 74,293 thousand), of which EUR 30,096 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, 2014, 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, 2014.

2014 in EUR thousand	< 30 days	30 - 90 days	90 - 180 days	180 - 360 days	1 - 2 years	3 - 5 years	> 5 years	Total
Liabilities to banks	14,479	55,599	1,315	11,322	7,776	9,158	0	99,649
Financial liabilities to other third-parties	0	0	0	0	0	0	0	0
Trade accounts payable (without construction contracts)	30,892	1,728	88	0	0	0	0	32,708
Finance lease liabilities	4	8	12	23	184	0	0	231
Other liabilities	986	845	0	0	0	0	0	1,831
Derivative financial instruments without hedge accounting	175	27	0	0	0	0	0	202

The cash flow risk in the table is not limited to cash outflows. In the case of current draw-downs from credit lines, the cash flows are allocated to the term of the credit lines.

The following table shows a corresponding overview for the previous year 2013, including interest.

2013 in EUR thousand	< 30 days	30 - 90 days	90 - 180 days	180 - 360 days	1 - 2 years	3 - 5 years	> 5 years	Total
Liabilities to banks	10,072	1,737	1,906	8,328	26,798	22,805	10,207	81,853
Financial liabilities to other third-parties	74	0	0	0	0	0	0	74
Trade accounts payable (without construction contracts)	38,004	3,211	159	0	0	63	0	41,437
Finance lease liabilities	0	7	7	4	0	0	0	19
Other liabilities	938	0	0	0	0	0	0	938
Derivative financial instruments without hedge accounting	42	15	0	0	0	0	0	57

The overall analysis of liquidity and debt is determined by calculating net liquidity and net financial debt and is used for internal financial management and external communications with financial investors and analysts. The net liquidity and net financial 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.

The net financial debt changed as follows year-on-year:

EUR thousand	Dec. 31, 2014	Dec. 31, 2013
Cash and cash equivalents	17,972	10,673
Total liquidity	**17,972**	**10,673**
Current financial liabilities	77,142	20,333
Non-current financial liabilities	6,907	54,150
Total financial liabilities	**84,049**	**74,483**
Net financial debt	**-66,077**	**-63,810**

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.

40. Key events after the balance sheet date

The SKW Metallurgie Group signed a three-year syndicated credit agreement arranged by Commerzbank AG and Norddeutsche Landesbank Girozentrale for EUR 86 million on January 23, 2015. The funds from the syndicated credit agreement will be used for example, to refinance the former master credit agreement and promissory note loans that are becoming due. The new syndicated credit agreement provides the SKW Metallurgie Group with sufficient funding, and latitude is being created which will benefit further growth and associated capitalization activities. In this regard please also refer to “Liquidity risk” in Section 39.

After the end of the year under review, however prior to the preparation of this management report, Dr. Dirk Markus informed us that he was resigning from his office in the Company’s Supervisory Board on 28 February 2015.

On the balance sheet date, a US Group company was involved in proceedings with the US customs authority (“US customs proceedings”). A provision was formed in this regard in the previous year in the amount of USD 2 million. After the end of the fiscal year, however prior to the date this management report was prepared, an agreement was signed which ends these proceedings against payment of an amount which equals the provision.

Otherwise, after the end of the year under review on December 31, 2014, there were no transactions and events of significance to the SKW Metallurgie and the separate company SKW Stahl-Metallurgie Holding AG Group which occurred before the notes to these financial statements went to print.

41. 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, 2014: No individual shareholder held an interest of 10% or more on the balance sheet date.

Legal entities:

Name	Registered office	Number of shares	Shares held correspond to	Date	Remarks
Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte	Tübingen, Germany	388,625	5.94%	January 11, 2013	
Kreissparkasse Biberach	Biberach, Germany	200,803	3.0681%	March 27, 2013	Two notifications for the same shareholding
La Muza Inversiones	Madrid, Spain	240,322	3.67%	September 18, 2014	
LBBW Asset Management Investmentgesellschaft mbH	Stuttgart, Germany	331,599	5.067%	September 23, 2010	

Private individuals:

Name	Country	Number of shares	Shares held correspond to	Date	Remarks
Johannes Gruber	Austria	203,889	3.11%	October 13, 2014	

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

The 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, 2014 and on the date the notes to these financial statements were prepared.

After the end of the fiscal year, however prior to completion of these notes to the financial statements, the Company was informed of the following shareholdings:

Name	Country	Number of shares	Shares held correspond to	Date	Remarks
SE Swiss Equities AG	Zürich. Schweiz	198,000	3.025%	05,02,2015	
Gerd Schepers	Singapur	201,453	3.08%	10,02,2015	

Notification of voting rights

The notifications of voting rights for 2014 are reproduced with their original wording according to Section 160 (1) Sentence 1 No. 8 of the AktG:

Legal entities:

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

→ Notification as of May 26, 2014:
EQMC Europe Development Capital Fund plc., Dublin (Ireland) informed us, within the meaning of Section 21 (1) of the WpHG, that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021) fell below 5% on May 26, 2014, and totaled 4.89% (or 319,917 voting rights) on this date.

→ Notification as of June 11, 2014:
EQMC Europe Development Capital Fund plc., Dublin (Ireland) informed us, within the meaning of Section 21 (1) of the WpHG, that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021) fell below 3% on June 11, 2014, and totaled 2.60% (or 170,485 voting rights) on this date.

ETHENEA Independent Investors S.A. (Luxembourg):

→ Notification as of August 19, 2014:
ETHENEA Independent Investors S.A. (Luxembourg), informed us, within the meaning of Section 21 (1) of the WpHG, that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021) fell below 3% on August 19, 2014, and totaled 0% (or 0 voting rights) on this date.

N más Uno IBG, S.A., Madrid (Spain):

→ Notification as of May 30, 2014:
N más Uno IBG, S.A., Madrid (Spain) informed us, within the meaning of Section 21 (1) of the WpHG, that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021) fell below 5% on May 30, 2014, and totaled 4.76% (or 311,466 voting rights) on this date. Of this total, 4.76% (or 311,466 voting rights are attributable

according to Section 22 (1) Sentence 1 No. 6 of the WpHG (Name of shareholders which directly hold more than 3% of voting rights and which are to be allocated to N más Uno IBG, S.A., Madrid (Spain): EQMC Europe Development Capital Fund plc).

→ Notification as of June 13, 2014:
N más Uno IBG, S.A., Madrid (Spain) informed us, within the meaning of Section 21 (1) of the WpHG, that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021) fell below 3% on June 13, 2014, and totaled 2.93% (or 191,455 voting rights) on this date. Of this total, 2.93% (or 191,455 voting rights) are attributable according to Section 22 (1) Sentence 1 No. 6 of the WpHG.

Nmás1 Asset Management, SGIIC, S.A., Madrid (Spain):

→ Notification as of May 30, 2014:
Nmás1 Asset Management, SGIIC, S.A., Madrid (Spain) informed us, within the meaning of Section 21 (1) of the WpHG, that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021) fell below 5% on May 30, 2014, and totaled 4.76% (or 311,466 voting rights) on this date. Of this total, 4.76% (or 311,466 voting rights) are attributable according to Section 22 (1) Sentence 1 No. 6 (Name of shareholders which directly hold more than 3% of voting rights and which are to be allocated to Nmás1 Asset Management, SGIIC, S.A., Madrid (Spain): EQMC Europe Development Capital Fund plc).

→ Notification as of June 13, 2014:
Nmás1 Asset Management, SGIIC, S.A., Madrid (Spain) informed us, within the meaning of Section 21 (1) of the WpHG, that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021) fell below 3% on June 13, 2014, and totaled 2.93% (or 191,455 voting rights) on this date. Of this total, 2.93% (or 191,455 voting rights) are attributable according to Section 22 (1) Sentence 1 No. 6 of the WpHG.

Mellinckrodt 2, Luxembourg-Strassen (Luxembourg):

→ Notification as of June 15, 2014:
Mellinckrodt 2 SICAV, Luxembourg-Strassen (Luxembourg) informed us, within the meaning of Section 21 (1) of the WpHG, that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021) fell below 5% on July 15, 2014, and totaled 4.98% (or 325,847 voting rights) on this date.

→ Notification as of August 15, 2014:
Mellinckrodt 2 SICV, Luxembourg-Strassen (Luxembourg), informed us, within the meaning of Section 21 (1) of the WpHG, that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021) fell below 3% on August 15, 2014, and totaled 0% (or 0 voting rights) on this date.

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

→ Notification as of September 18, 2014
La Muza Inversiones, SICAV, SA, Madrid (Spain) informed us, within the meaning of Section 21 (1) of the WpHG, that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021) reached and exceeded 3% on September 18, 2014, and totaled 3.67% (or 240,322 voting rights) on this date.

Remarks: This notice was only received after the end of the year under review, however it relates to 2014.

Private individuals:

Mr. Johannes Gruber, Austria:

→ Notification as of October 13, 2014
Mr. Johannes Gruber, Austria, informed us, within the meaning of Section 21 (1) of the WpHG, that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021) exceeded 3% on October 13, 2014, and totaled 3.11% (or 203,889 voting rights) on this date. Of this total, 2.99% (or 195,889 voting rights) are attributable according to Section 22 (1) Sentence 1 No. 1.

42. Auditors' fees

The auditors' fees for the business year totaled EUR 145 thousand (previous year: EUR 128 thousand) and relates exclusively to audit services in the year under review in the amount of EUR 110 thousand and other consulting services in the amount of EUR 35 thousand.

43. 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 (second-tier 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.

44. Declaration of conformity for business year 2014

The Executive and Supervisory Boards of SKW Stahl-Metallurgie Holding AG have issued the annual declaration of conformity in line with Section 161 of the Aktiengesetz (AktG – German Public Limited Companies Act) on the recommendations of the "Government Commission German Corporate Governance Code" and published this on the Company's Internet site (www.skw-steel.com) on December 22, 2014. This declaration was updated and also published on February 27, 2015 before preparation of the financial statements had been completed. 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 points listed and justified in the declaration of conformity.

45. Information within the meaning of IAS 10.17

These consolidated financial statements were completed on March 16, 2015 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, 2014)

"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 Vostock 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 (Tianjin) Co. Ltd.	Tianjin, People's Republic of China	100
SKW Çelik Metalürji Üretim Ticaret Ve Sanayi Limited Sirketi[4]	Taksim, Beyoglu, Turkey	100
SKW Metallurgie USA Inc.	Wilmington, Delaware, USA	100
SKW Stahl-Metallurgie GmbH[1]	Unterneukirchen, Germany	100
SKW Technology GmbH & Co. KG[4]	Tuntenhausen, Germany	51
SKW Technology Management GmbH[4]	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[2]	Unterneukirchen, Germany	100

Associated companies (as of December 31, 2014)

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

Non-consolidated subsidiaries (as of December 31, 2014)

Name	Registered office	Interest in %
SKW La Roche de Rame SAS[3]	La Roche de Rame, France	100

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

The declaration required by the Handelsgesetzbuch (HGB - German Commercial Code, Section 264 (2) Sentence 3 of the HGB) by the Management 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 business year 2013 was issued by the Executive Board and published in the Federal Gazette and filed in the Company Register.

The declaration required by the Wertpapierhandelsgesetz (WpHG - German Securities Trading Act) by the Management Board ("balance sheet oath") on the semi-annual report of the SKW Metallurgie Group for the first half of business year 2014 was issued by the Management Board and filed in the Company Register.

The declaration required by the Handelsgesetzbuch (HGB - German Commercial Code, Section 264 (2) Sentence 3 of the HGB) by the Management 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 business year 2014 will be issued by the Management Board simultaneously with the signing of the stated financial statements and published in the Federal Gazette and filed in the Company Register.

Unterneukirchen (Germany), March 16, 2015.

SKW Stahl-Metallurgie Holding AG
The Executive Board

Dr. Kay Michel
CEO

Sabine Kauper

FURTHER INFORMATION

Independent Auditors' Report

We have audited the consolidated financial statements prepared by the SKW Stahl-Metallurgie Holding AG, Unterneukirchen, – comprising, the income statement and statement of comprehensive income, the balance sheet, 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 2014. 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 17, 2015

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Aumann
Wirtschaftsprüfer
[German Public Auditor]

Tauber
Wirtschaftsprüferin
[German Public Auditor]

Financial Calendar 2015 (remaining)

May 13, 2015

→ Publication of business figures first quarter 2015

June 9, 2015

in München, Germany

→ Annual General Meeting

August 14, 2015

→ Publication of business figures first half year 2015

November 13, 2015

→ Publication of business figures first nine months 2015

November 23 - 25, 2015

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 20, 2015 and is available at www.skw-steel.com to download free of charge.

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