Annual Report 2015

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TO OUR SHAREHOLDERS

Dear Shareholders,

Last year in this letter I painted a fundamentally optimistic picture of the future of the SKW Metallurgie Group. At that time, the massive effects of legacy issues had been revealed for the first time, and the restructuring process was about to begin. Roughly 12 months later, I can reaffirm this fundamentally optimistic assessment, even though the desired improvement in the Group's business performance did not succeed in many places in 2015, due to the influence of external factors. Despite the measures we have taken, we suffered considerable setbacks, which are also reflected in the company's share price. The significant recovery of SKW Metallurgie's share price in the first half of the year came to a sudden end in August. You are entitled to an honest and unvarnished explanation of this development, and I am glad to provide it in the following.

The past fiscal year 2015 can be divided into two parts. After launching ReMaKe as the comprehensive program to restructure SKW Metallurgie and conduct a strategic reorientation of our core business already in 2014, we implemented this program in a consistent and disciplined manner. Besides repositioning the operating business as part of the ReMaKe program, we also focused our efforts on securing external financing. At the start of 2015, we established a new financing basis by signing a new syndicated loan agreement for up to EUR 86 million. The operating results for the first quarter of 2015 indicated that the course we had adopted was beginning to yield success. We increased our first-quarter revenues over the first quarter of 2014 and improved both the gross profit margin and EBITDA. All this can be credited to ReMaKe, although exchange rate effects were supportive as well.

In the further course of the year, however, it became increasingly obvious that the global steel industry – particularly in North America – was in the midst of a massive downturn. This development visibly impacted our results for the first six months and forced us to drastically revise our full-year forecasts in August. We had to contend with strong headwinds in the second half of 2015. Steel production in the U.S. market, which is extremely important for SKW Metallurgie, plunged by more than 10% from the prior-year period. A key reason for this decline was the substitution of domestic products with aggressively priced imports, especially from China. Moreover, the collapse in steel pipe production for the oil and gas and fracking industry was even more severe than the decline of the overall steel market. This development was a direct result of collapsing energy prices. In this important market segment for the SKW Metallurgie Group, we encountered volume decreases of up to 30%. At the present time, global steel markets are generally plagued by excess capacities, price pressures, and margin erosion. Suppliers to steelmakers are affected to a similar degree.

This crisis arrived at the worst possible time for us. My team and I were dealing with a group of companies that were in dire need of restructuring in many areas. We quickly identified the weak points and promptly proceeded to implement the necessary measures. But halfway through the implementation process, we sailed into a storm that has buffeted the entire steel and steelmaker supplier industry with immense force ever since.

Considering these circumstances, it was a positive development at least that we surpassed our revised Groupwide EBITDA forecast for 2015. On the Group level, we generated an operating EBITDA of EUR 14.8 million (2014: EUR 15.5 million) on revenues of EUR 286 million (2014: EUR 306 million).

Allow me to summarize: SKW Metallurgie's business performance in 2015 was unsatisfactory, despite the first positive contributions of the ReMaKe program. Our restructuring successes were voided in many ways by the steel market crisis. This crisis persists and it will not let up in the short term.

What does this mean for SKW Metallurgie in the current fiscal year and beyond?

We anticipate strong, and even increasingly strong headwinds in 2016. We expect that the steel sector will undergo a modest recovery only starting in fiscal year 2017. This makes it all the more important for us to implement and expand our programs and measures. We must place the utmost priority on continuing to stormproof the Group and guiding it through the crisis. This will require enormous efforts this year as well. However, we are convinced that they will pay off once steel production volumes in key markets rise again in the medium and long term.

The extended version of our restructuring program known as ReMaKe 2.0, which commenced in the fall of 2015, entails a comprehensive package of measures which we have already begun to implement operationally since the start of 2016. The goal of ReMaKe 2.0, once fully implemented, is to generate an additional, sustainable EBITDA contribution of almost EUR 20 million per year within the next three years, mainly through cost optimization measures, but also by increasing unit sales and growing market shares. However, we can also expect that the continuous margin erosion resulting from extreme price pressure will offset somewhat more than half of these gains.

For the current year 2016, when we expect the crisis to reach a bottom, we must expect further revenue declines. Therefore, we anticipate that operating EBITDA will be only slightly higher than the threshold of EUR 10 million. For the sake of clarity, it should be noted that our forecasts are based on certain assumptions, including (for example) the planned implementation of the ReMaKe program and the assumption that the steel industry will develop in line with our expectations.

We expect business to recover in the following year, as reflected in our medium-term forecasts. We expect that revenues in 2017 will rise roughly to the level of 2014 (about EUR 300 million). We expect revenues in 2018 to be roughly 5% higher than in 2017. Operative earnings in the coming year should amount to the EUR 20 million range; for 2018, a further increase is expected. This positive earnings development will be supported in no small part by the increasingly effective results of ReMaKe 2.0.

Coming back to fiscal year 2015, we must note that the equity of the parent company SKW Stahl-Metallurgie Holding AG has been completely depleted due to the serious legacy issues, including a significantly higher provision for the antitrust proceeding with which you are familiar. Due to the circumstances, we have moved up the annual general meeting that was originally planned for June to early May. There we will formally announce the loss of more than half of the share capital according to Section 92 (1) of the German Stock Corporations Act (AktG) and explain the reasons in detail. The Executive Board and Supervisory Board are currently exploring options for strengthening the capital base of the Group and its parent company SKW Stahl-Metallurgie Holding AG, which is a necessity.

We are also conducting negotiations with our financing banks with the goal of adjusting the syndicated loan agreement to reflect market conditions and our restructuring plan. As we have already announced, the financial covenants stipulated in the syndicated loan agreement were not completely fulfilled in October 2015. Preserving access to credit and the willingness of banks to finance our restructuring are critical to the company's survival as a going concern. We hope to complete these negotiations in the second quarter, and we are confident that we will be able to come up with a solution that is acceptable to all parties.

Dear shareholders,

I am well aware of the fact that we are currently far from attaining our original goals, due to the steel crisis. Attaining these goals will take more time and considerably more effort than we (and I personally) expected. That being said, there is no cause for despair. We have a strong global market position, our products have strong differentiation potential, and there are practically no technological substitutes for them. Furthermore, we can and will take advantage of growth opportunities in numerous markets in the medium and long term. And finally, our core business is operationally profitable. We are generating liquidity there even in the midst of the current industry crisis. We will build on these strengths to shape a positive future for our Group.

Despite these setbacks, I wish to ask you as owners of our company to trust us and continue to support us. I know this is no small request, given the Group's business performance last year and the grimmer forecast for 2016. From talking with many of you, I know that you are concerned and even disappointed. Therefore, I wish to thank you personally for your trust and for the many valuable suggestions and tips you have provided.

Let us embark together on the path before us. I promise you that we will continue to do everything possible to guide SKW Metallurgie through the steel crisis and ultimately return it to a successful course.

I also wish to take this occasion to express my special gratitude to our employees. I am impressed with the commitment and willingness of our employees around the world to work hard and turn things around under the toughest conditions. I am confident not only because I am convinced that the fundamental demand for SKW Metallurgie remains intact and that we are increasingly setting ourselves apart from the competition in a positive way. Rather, my tremendous confidence is rooted in the team spirit of our Group. I am convinced that by working hard together, we will survive this crisis and use it as an opportunity to be successful again in the medium-term future.

Yours sincerely,

Kay Michel (CEO)

Supervisory Board Report

Dear Shareholders,

The past fiscal year was characterized by the continuation of SKW Metallurgie Group's end-to-end strategic reorientation in the context of worsening structural conditions in the steel and capital markets.

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

In fiscal year 2015, 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 legal environment, the Articles of Incorporation and the bylaws, based on reports by the Executive Board, joint meetings and resolutions passed by votes conducted by circular.

Activities by the Supervisory Board and its committees focused on restructuring the Company and SKW Metallurgie Group, corporate strategy, business growth, accounting issues and strengthening the Company's equity base.

In view of the substantial impairments in the prior year, the Supervisory Board has actively insisted throughout the entire fiscal year that the Executive Board critically assess all of SKW Metallurgie Group's business activities and based on that, introduce countermeasures for the new strategic orientation.

At the meeting of the Supervisory Board dealing with the annual financial statements in the reporting year, the annual and consolidated financial statements for fiscal year 2015 were analyzed extensively; due to a lack of profit for the year, it was determined that there was no need for a proposal for appropriation of distributable profit at the regular 2016 General Meeting.

However, in order to strengthen the Company's equity base, the Supervisory Board and the Executive Board recommended a substantial cash capital increase with subscription right to the regular 2016 General Meeting, which adopted it. In light of the significantly changed structural conditions in the steel and capital markets in the second half of 2015, the Supervisory Board and Executive Board carefully considered all of the economic and legal aspects and found that the business basis underlying the capital increase no longer existed, with the result that the capital increase was not carried out.

This was also influenced to a considerable degree by declining steel production in the U.S. and other negative effects of the global steel economy, meaning that the Executive Board's forecast for the entire year had to be adjusted during the financial year. This occurred in close consultation with the Supervisory Board.

Moreover, the Supervisory Board was intensely involved in the Executive Board's preparation of the separate single-entity and consolidated financial statements for financial year 2015. The separate financial statements disclosed a loss of more than half of the share capital as defined by Section 92 (1) AktG (German Stock Corporation Law), which had made it necessary to call a General meeting without undue delay.

Throughout the year under review, the Supervisory Board regularly dealt with the issues of litigation, compliance, financial control and the risk management system.

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

The Executive Board promptly and regularly provided the Supervisory Board with extensive information, both in writing and verbally, on all issues relevant to the Company's forecasting and its strategic further development, on 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 SKW Metallurgie Group, the members of the Supervisory Board were provided with the most comprehensive picture possible of the Group's situation and current events. In addition, where necessary any current priority issues were dealt with, including in conference calls and through votes conducted by circular, if their urgency required this. In order to be better able to assess the economic position of 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 chairperson of the audit committee and the other members of the Supervisory Board both in and outside of 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) AktG);

→ Approving legal transactions by the Executive Board which required approval, if any;

→ Addressing questions to the Executive Board in the Supervisory Board's meeting on the reports presented, current developments and pending decisions, and coming to 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 posing questions to 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 and compliance report;

→ Review of the annual financial statements prepared by the Executive Board, the consolidated financial statements and the combined management report, and questioning the members of the Executive Board on these publications (see below).

The four committees of the Supervisory Board continued their work unchanged in the year under review. Mr. Weinheimer is the Chairman of the HR and Nomination Committees. Dr. Markus chaired the Audit Committee until his departure (see below), after which his position was taken on by Mr. Martin. The Strategy Committee, which is assisting the Executive Board in the strategic reorientation, is chaired by Ms. Schull. The purpose of the committees is 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 committees regularly attended the respective committee meetings. In addition, the committees' chairpersons report to the Supervisory Board on their committee's work in each subsequent meeting as well as between the meetings.

In summary, the Supervisory Board was involved in all key strategic company decisions, discussed and examined these decisions in detail, and – when appropriate – approved them. Members of the Executive Board regularly attended the meetings of the Supervisory Board. Only discussions on internal topics for the Supervisory Board and issues concerning the Executive Board were held in the absence of the Executive Board.

Changes to the Executive and Supervisory Boards

Dr. Markus resigned his seat as a regular member of the Supervisory Board effective February 28, 2015. Upon recommendation of the Supervisory Board and the Executive Board, the regular General Meeting of the Company elected Mr. Reto A. Garzetti as his successor.

Dr. Liebler resigned his seat as a regular member of the Supervisory Board effective November 30, 2015. Upon recommendation of the Supervisory Board and the Executive Board, the competent court appointed Mr. Tarun Somani as his successor on January 14, 2016.

Executive Board member Ms. Kauper left the Company voluntarily effective October 31, 2015, in order to accept new professional challenges. Since November 1, 2015, the Company has been led by Dr. Michel as the sole Director until further notice.

The Supervisory Board and the Directors discussed in detail and agreed on the latter group's employment/engagement contracts. The same procedure was applied to target achievement in the reporting year and the setting of objectives for future years. In addition, the Supervisory Board extensively and carefully reviewed whether the Company should be run by a sole Director until further notice, and answered the question in the affirmative.

According to the requirements in the German Corporate Governance Code, the Supervisory Board must consider diversity as a criterion when filling executive and management positions; in particular it must ensure that women are considered to a sufficient extent. Given the context of the currently difficult structural conditions of SKW Metallurgie Group, however, professional qualifications must have top priority.

Audit of the separate and consolidated financial statements

The annual financial statements and the consolidated financial statements as of December 31, 2015 and the combined management report, including the bookkeeping system, were audited by the appointed auditors Deloitte&Touche GmbH, Wirtschaftsprüfungsgesellschaft, of 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 meetings to discuss the financial statements on March 14, 2016 and on March 23, 2016. The chairperson of the Audit Committee provided the Supervisory Board with detailed information on its review of the separate and consolidated financial statements at that meeting. 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, concurred with the results of the audit by the auditor, and approved the separate and consolidated financial statements on March 23, 2016. The annual financial statements are thus adopted.

Corporate Governance

The Supervisory Board constantly complies with and monitors the implementation of the German Corporate Governance Code standards for responsible and effective corporate governance, as well as current changes to the law and preceding developments. The members of the Supervisory Board fulfilled and continue to fulfill the independence requirements of the German Corporate Governance Code. In addition, the Executive Board regularly reports to the Supervisory Board on the status of compliance with the Corporate Governance Code.

The Executive Board and the Supervisory Board updated the prior year's declaration of conformity on February 27 and November 3, 2015. In addition, they issued the annual declaration of conformity pursuant to Section 161 AktG on December 16, 2015. All of these documents were then made permanently accessible to shareholders on the Company's web site. Express reference is made to the updates and to the declaration of conformity; further details can be found in the corporate governance report and in the combined management report, which are both 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 six meetings in fiscal year 2015, of which four were regular on-site meetings. In addition to the on-site meetings, the Supervisory Board met in two conference calls. The meetings were generally held with all members participating. In addition, six resolutions were passed by votes conducted by circular.

The Audit Committee met three times in on-site meetings in the past financial year. In addition to the members of the committee, select meetings were attended by the Executive Board members and in some cases the Chairperson of the Supervisory Board; the external and internal auditors also attended select meetings.

The Nominating Committee met twice in on-site meetings and passed one resolution by circulating voting papers. The Strategy Committee met once in an on-site meeting, while the HR Committee did not hold a meeting.

The Supervisory Board thanks both the former members of the Supervisory Board and the members of the Executive Board for their trustworthy and constructive cooperation, and underscores once again its recognition of their work.

The Supervisory Board would also particularly like to thank all of its employees; their renewed great dedication and commitment make a major contribution to SKW Metallurgie Group's success each year, including when the economic times are less than easy.

Unterneukirchen (Germany), March 2016

Titus Weinheimer
Chairman of the Supervisory Board

Corporate Governance Report

Responsible management and control geared to long-term value creation

Corporate governance refers to the responsible management and control of the company, geared to long-term value creation. Efficient cooperation between the Executive Board and Supervisory Board, clear rules, upholding shareholders' interests, and openness and transparency in cor¬porate communication are key aspects of good corporate governance. SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany) adheres to the guidelines set forth in Section 161 of the German Stock Corporations Act (AktG) both internally and externally, and understands corporate governance to be a process to be constantly further developed and improved.

The, 2015 declaration of conformity with the corporate governance code which is required by Section 161 AktG and has been made permanently accessible to shareholders online at www.skw-steel.com after its signing in December 2015 reads as follows:

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

The Executive Board and Supervisory Board 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 AktG:

The Company's Executive Board and Supervisory Board issued their last (updated) declaration of conformity set forth in Section 161 of the AktG on November 3, 2015. The following declaration refers to the German Corporate Governance Code in the version dated June 24, 2014 for the period from December 22, 2014 to May 4, 2015, and to the new version of the German Corporate Governance Code dated May 5, 2015 for the period as of May 5, 2015 (both "DCGC").

The Company's Executive Board and Supervisory Board declare that they have conformed with all the recommendations of the GSGC Government Commission to date, with the exceptions detailed below, in the time since the Declaration of Conformity dated December 22, 2014 (with due regard to the subsequent updates), and that they intend to do so in the future as well. This does not necessarily apply to the extent that exceptions can be attributed exclusively to changes made to the GCGC during a year.

1. Number of Executive Board members – Item 4.2.1 para. 1 GCGC

Item 4.2.1 para. 1 DCGK states that the Executive Board should be composed of more than one person and should have a Chairman or Speaker.

The previous second Executive Board member Sabine Kauper left the company at her own wish effective October 31, 2015 to take on new career challenges. Since November 1, 2015, the Company has been managed by Dr. Kay Michel as the sole Executive Board member until further notice. As a matter of principle, the Company believes that maintaining this situation or appointing a new Executive Board member in charge of finance (and the other areas of responsibility previously assigned to Ms. Kauper) in the medium-term future are both good options. These options will be analyzed in the context of an analysis of a reorganization of the holding company of SKW Metallurgie Group, which is currently being conducted. In any case, appointing a new Executive Board member in the near term is not necessary because Dr. Michel possesses *in-depth knowledge of finance from his previous activities. The deliberately small size or lean structure of the management levels of the SKW Metallurgie Group compared to other companies means that there is currently no option of filling an Executive Board position internally. In the past, moreover, the company has mastered comparable situations without a problem. Not the least of reasons speaking against the appointment of a new Executive Board member is the cost savings in the current difficult situation of the SKW Metallurgie Group. This position is further supported by the fact that the SKW Metallurgie Group has for many years declared an exception to Item 5.1.2 GCGC (see Item 5 below) in that it does not conduct long-term succession planning for the Executive Board.*

2. Change of performance targets or comparison parameters – Item 4.2.3 para. 2 sub-para. 8 GCGC

Item 4.2.3 para. 2 sub-para. 8 DCGK states that retroactively changing the performance targets or comparison parameters for the variable compensation components of the Executive Board is to be excluded.

Whereas the employment contracts of the Company's Executive Board members do not stipulate a retroactive change of performance targets, the Supervisory Board decided to retroactively adjust the performance targets applied for measuring the variable compensation of Ms. Kauper for fiscal year 2014, by way of exception. At the beginning of fiscal year 2014, the Supervisory Board established performance targets for the variable compensation of Ms. Kauper on a basis that was no longer relevant due to the Company's difficult economic situation and the resulting need to recognize considerable impairment losses in the interim financial statements as of June 30, 2014. Because Ms. Kauper successfully obtained funding, prepared a restructuring plan, and initiated restructuring measures in this difficult economic situation, an appropriate variable compensation different from the original performance targets will be granted to Ms. Kauper for fiscal year 2014, with due regard to the agreed target compensation and her performance.

3. Benefit commitments based on the intended benefit level - Item 4.2.3 Para. 3 GSGC

Item 4.2.3 Para 3 GSGC stipulates that the Supervisory Board must define the respective intended benefit level – taking the length of service on the Executive Board into consideration – and that it must consider the resulting 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 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 give preference to defined contribution pension models over defined benefit models in the future. Thus, the Company differs from the recommendation in item 4.2.3 para. 3 GCGC.

4. Templates for Executive Board compensation - Item 4.2.5 para. 3 and 4 GSGC

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

These template tables are highly complex, and as a result do not provide the reader with any additional information value, in our view. 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 compensation report such that it presents transparent, comprehensible, and comprehensive information on the Executive Board's compensation.

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

In contrast to Item 5.1.2 para. 1 sentence 2 GSGC, 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 ongoing strategic reorientation.

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

In contrast to Item 7.1.2 Sentence 4 GSGC, it was only possible to publish the interim report for the first half of 2015 on 21 August 2015. The delay was due to the preparations for a cash capital increase around that time, particularly including the preparation of an offering prospectus, which is subject to numerous legal and accounting-related requirements. Therefore, the requirements to be fulfilled in preparing the semiannual financial statements were more complex and extensive than usual, making it impossible to publish the interim report within the prescribed period.

Unterneukirchen (Germany), December 16, 2015

SKW Stahl-Metallurgie Holding AG

The Executive Board
Dr. Kay Michel

For the Supervisory Board
Titus Weinheimer (Chairman)

Modern management and control structure

As a German Aktiengesellschaft (stock corporation), the Company maintains a dual management and control structure. Structural details on the work of the Executive and Supervisory Boards are defined in the rules of procedure for the Executive Board and the rules of procedure 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. As of the reporting date (December 31, 2015), the Executive Board is composed of Dr. Kay Michel as the sole member of the Executive Board.

The Supervisory Board advises the Executive Board and supervises its management activity. In accordance with the Articles of Incorporation, it was composed of six members in the reporting period:

→ Current composition: As of the reporting date (December 31, 2015), the Supervisory Board was composed of five members elected by the general meeting of shareholders, namely Ms. Jutta Schull and in alphabetical order Messrs. Armin Bruch, Reto Garzetti, Jochen Martin (Vice Chairman), and Titus Weinheimer (Chairman). In addition, it was proposed to the competent judge in December 2015 to appoint Mr. Tarun Somani to the Supervisory Board (replacing Dr. Liebler, who resigned his seat as of November 30, 2015). The judge granted this request (notice received in January 2016) and appointed Mr. Somani as a member of the Company's Supervisory Board until the next general meeting of shareholders.

→ Changes to the composition in the reporting period: In the course of the reporting period, two members resigned from the Supervisory Board, namely Dr. Dirk Markus and Dr. Hans Liebler. They were succeeded by Messrs. Reto Garzetti and Tarun Somani.

SKW Metallurgie Group was not co-determined in the reporting period; thus, all members of the Supervisory Board are representatives of the shareholders. The work of the full Supervisory Board was supported by committees in their respective areas of responsibility. The current composition of the committees is published at http://www.skw-steel.com/konzern/aufsichtsrat-der-skw-stahl-metallurgie-holding/.

Additional details about the work of the Supervisory Board and its committees can be found in the Report of the Supervisory Board.

Additional information on the members of the Executive Board and Supervisory Board, particularly including information on the mandates they hold on the supervisory bodies of other companies, can be found in the notes to the consolidated financial statements.

The general meeting of shareholders was convened once during the year under review, namely the regular general meeting held on June 9, 2015 in Munich, Germany. The general meeting resolves on the content of the Company's Articles of Incorporation, among other things; it has delegated to the Supervisory Board the authority to make only editorial changes to the Articles of Incorporation.

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, Germany, has been appointed as the auditor of the consolidated financial statements since the 2010 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 Chief Auditor since the 2010 financial statements.

Diversity is an important guiding principle for the SKW Metallurgie Group

The SKW Metallurgie Group takes a positive view of diversity. A major element of diversity is the appropriate participation of both sexes.

At the SKW Metallurgie Group, the principle of diversity fundamentally applies to all countries and all positions, including the Executive Board and Supervisory Board.

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

The Supervisory Board of SKW Stahl-Metallurgie Holding AG is not co-determined and is therefore composed of shareholder representatives only.

As of June 2009, the Supervisory Board of SKW Stahl-Metallurgie Holding AG is composed of six members (with brief interruptions due to resignations when the vacant positions were not filled immediately), including one woman. Therefore, women have accounted for 16.67% of the Supervisory Board since 2009. Due consideration is also given to the Company's international activities. All members of the Supervisory Board possess international experience; the Chairman of the Supervisory Board resides permanently in the United States. 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 resolved in March 2016 to introduce term limits for its members.

The Supervisory Board has set itself the goal of presenting proposals on the election of Supervisory Board members to the general meeting of shareholders that are designed in such a way as to at least preserve the status achieved with respect to the aspects stated in the German Corporate Governance Code, particularly including the participation of women. All Supervisory Board positions in the SKW Metallurgie Group will be re-elected in 2016 (with the exception of Ms. Schull, whose mandate will continue); the corresponding election proposals of the Management were not yet formulated at the time of preparation of the present report.

The SKW Metallurgie Group will continue to report regularly on the implementation of its diversity goals.

Executive Board holdings of Company shares

During the year under review, the Company received notices pursuant to Section 15a WpHG (Directors' Dealings) from the Executive Board Chairman Dr. Kay Michel (sole member of the Executive Board as of November 1, 2015). These are published online at http://www.skw-steel.com/investor-relations/pflichtmitteilungen/directors-dealings/.

Accordingly, the total number of Company shares held by members of the Executive Board and Supervisory Board as of the reporting date (December 31, 2015) is as follows:

Name	Function	No. of shares
Dr. Kay Michel	Sole member of the Executive Board	20.000

As of December 31, 2015, therefore, a total of 20,000 SKW Metallurgie shares were held by members of the Executive Board and Supervisory Board. This is below the 1% limit defined in Item 6.3 of the German Corporate Governance Code, and this limit was also not exceeded at any time in fiscal year 2015.

Compensation 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 2015 is presented in the Management Report.

Further information on corporate governance in the SKW Metallurgie Group

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

Current developments and important information such as ad hoc disclosures, the financial calendar, press releases, and information about the general meeting are continuously made available on the Company's website 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 2015

1. Business and framework conditions

1.1. Moderate economic growth in 2015

Developments in 2015 were characterized by falling prices for crude oil and other commodities, major shifts in currency markets (weakening of the euro against the US dollar; strengthening of the euro against the Brazilian real and the Russian rouble), and recurring conflicts in the Middle East, including the related migration movements. According to International Monetary Fund estimates published in January 2016, the world economy expanded by 3.1% in 2015 (PY: 3.4%). The developed economies grew at a rate of 1.9%, emerging-market and developing countries at a rate of 4.0% in 2015.

There were considerable differences within each one of these blocks of countries. The Eurozone economy expanded at a moderate rate of 1.5%, mainly driven by the Eurozone countries of central and northern Europe. Among the larger industrialized nations, the US economy in particular registered appreciable growth of 2.5%. Japan's economy stagnated with growth of only 0.6%.

Among the emerging-market and developing countries, China and India continued their role as growth engines, with growth rates of 6.9% and 7.3%, respectively. The Brazilian economy weakened considerably, posting a 3.8% contraction in 2015. Under the weight of trade sanctions imposed in the wake of the Ukraine crisis coupled with falling commodity prices, Russia's economic output contracted by 3.7% in 2015.

The central banks of the industrialized nations basically continued to pursue expansive monetary and low interest-rate policies to stimulate the global economy; base interest rates in the United States and the Eurozone were actually close to zero. In some cases, banks have been forced to pay negative interest on their deposits.

1.2. Steel production declines in 2015, disproportionate decrease in the United States

As in prior years, the SKW Metallurgie Group generated about 90% of its revenues with customers in the steel industry in 2015. SKW Metallurgie Group offers these customers a broad portfolio of technologically advanced products and services, primarily for primary and secondary metallurgy. For most of these products, the quantities demanded by steel manufacturers are mainly dependent on the quantity of steel they produce. On the other hand, the price of steel is less important for the SKW Metallurgie Group because steel demand has little price elasticity in the short term, so that the effects of the steel price on production quantities are minor. The profit situation of steel manufacturers, which is also affected by the price of steel, can have indirect effects on the SKW Metallurgie Group. For example, customers facing profit pressure may demand changes in terms and conditions, or the credit quality of receivables due from customers of the SKW Metallurgie Group could deteriorate. Because steel manufacturers keep only insignificant quantities of the SKW Metallurgie Group's products in stock, changes in steel production quantities quickly lead to changes in demand for the Group's products.

According to the World Steel Association, global steel production declined by 2.8% to 1,622.8 million tons in 2015. With a nearly unchanged world market share of 49.5%, China is still the biggest single market by far; in contrast to prior years, steel production in China declined by 2.3% in 2015, despite the continued moderate growth of the Chinese economy and rising exports. Geographically, the SKW Metallurgie Group currently has only a negligible presence in China (in production, with a magnesium procurement unit and a smaller cored wire production unit). The most important sales markets for the SKW Metallurgie Group were the United States (accounting for more than 50% of consolidated revenues in both 2015 and 2014), the European Union (primarily for cored wire products), and Brazil. Whereas steel production in the 28 EU countries declined by only 1.8% to 166.2 million tons, and steel production in Brazil declined by only 1.9% to 33.2 million tons, there was a marked decline in steel production in the United States. In this, the world's fourth largest steel market, production fell by 10.5% to 78.9 million tons in 2015. This decline can be attributed to the increased substitution of domestic steel for imports as a result of the strong US dollar, and falling steel demand in the oil and gas industry (including shale gas production) in the wake of lower commodity prices.

In its own particular sales markets in the United States, the SKW Metallurgie Group encountered an even greater drop in demand than the published statistics would suggest. That is because SKW Metallurgie's products are used more in the production of high-quality steel varieties of the kind employed in the oil and gas industry (including shale gas production). These sub-markets experienced a disproportionately large decline in 2015.

1.3. The markets for SKW Metallurgie's products follow the lead of customers' industries

The development of markets for primary and secondary metallurgy products and solutions is essentially dependent on the development of markets for high-quality and higher-quality steel production. The more steel is produced, the more primary and secondary metallurgy products are needed. The demand for primary and secondary products is also influenced by the technical process employed to produce steel (e.g. blast furnace vs. electro-steel plant) and the ingredients used in the process (e.g., quality levels of the coal and coke products used).

As in the prior year, the SKW Metallurgie Group generated about 10% of its revenues with customers outside the steel industry in 2015. Roughly half of these revenues are generated on "Quab" specialty chemicals, which are mainly sold to producers of industrial starch (intermediate product used in papermaking); to a lesser extent, "Quab" specialty chemicals are also used in the extraction of raw materials from shale gas. The other half of revenues generated with non-steel customers involve products that are technologically related to products for the steel industry (e.g. core wire for the copper and foundry industries).

The development of these customer industries, which influence the sales quantities of SKW Metallurgie products outside the steel industry, is essentially dependent on macroeconomic trends.

1.4. Long-term assurance of external financing for the SKW Metallurgie Group is the subject of ongoing negotiations

An essential element of the external financing of the SKW Metallurgie Group is a syndicated loan granted by three leading German banks for a total amount of up to EUR 86 million. As detailed in Section 6.14., a waiver of special termination rights resulting from the non-fulfillment of financial covenants stipulated in the loan agreement was agreed against payment of a fee. The waiver was initially agreed for the time until May 31, 2016; this period of time will be used for negotiations on adjustments to the financial covenants in line with market conditions. The Executive Board considers it highly probable that these ongoing negotiations will be concluded with an acceptable result for all parties in the time until May 31, 2016, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG at least until 2018, so that the consolidated financial statements as of December 31, 2015 can be prepared under the assumption of a positive going-concern forecast. At the time of preparing the present Management Report, however, it was not assured that the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG will have enough liquidity to continue their operations beyond May 31, 2016. Any significant changes to the syndicated loan agreement, and certainly the complete termination of that agreement would pose an existential threat to the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG. Therefore, the status of a going concern in 2016 and 2017 will depend on the successful conclusion of the aforementioned negotiations.

2. SKW Metallurgie Group implements extended restructuring program ReMaKe 2.0

In 2015, the Executive Board of the SKW Metallurgie Group moved forward with the systematic implementation of the “ReMaKe” restructuring program developed in 2015. ReMaKe is a comprehensive, strategic reorientation program covering all units of the Group, the goal of which is to sustainably increase the revenues, earnings, and cash flow of the SKW Metallurgie Group. It was redeveloped into the more comprehensive program ReMaKe 2.0 towards the end of 2015.

When implementation commenced in 2014, ReMaKe centred on three modules: first, the quick restructuring of peripheral activities and activities generating negative cash flows (business restructuring); second, efficiency enhancement in the core business (efficiency management); and third, growth in key markets.

→ The first module has been largely completed; this success was particularly achieved through the sale of the Swedish subsidiary in late 2014 and the discontinuation of all cash payments by the Group’s parent company and other Group companies to the Bhutanese subsidiary (“stop the bleeding”), which filed for insolvency proceedings in December 2015 and is fully deconsolidated in the present financial statements. In

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addition, the Chinese Group company ESM Tianjin was converted from a production unit to a procurement and trading unit during the course of 2015. A structured sale process was initiated for the profitable non-core company SKW Quab Chemicals Inc. in 2015; however, this process was suspended as a result of a change in the situation of submitted bids.

→ The targeted implementation of the second module (efficiency enhancement in the core business) led to substantial increases in revenues and particularly operating EBITDA in 2015. These gains were blunted by the significant drop in steel demand, particularly in the United States, during the course of the year. Nonetheless, ReMaKe clearly prevented much worse results for the SKW Metallurgie Group that would have otherwise resulted from the massive decline in steel production in 2015.

→ With regard to the third module of ReMaKe (growth in key markets), it remains the goal of the SKW Metallurgie Group to successfully offer the SKW Metallurgie Group's complete product portfolio for primary and secondary metallurgy in all key steel-producing countries. Consequently, the importance of specific geographical markets for the SKW Metallurgie Group will change and the Group will increase its market presence in fast-growing emerging-market countries. In a first step, the Group will focus particularly on India's high-volume steel market, which is growing at an above-average rate. Moreover, the SKW Metallurgie Group expects to benefit from the expected increase in the proportion of pig iron production employing desulphurization products, in order to meet quality standards. SKW Metallurgie Group also sees considerable market potential also in Europe (including Russia), particularly in the area of primary metallurgy. Finally, the SKW Metallurgie Group will take steps to permanently improve its market position in high-volume Asian markets (including China).

The steel industry weakened considerably during the course of 2015; the first appreciable improvement is expected to occur in 2017 at the earliest. In order to actively counter these new challenges, the Executive Board of the SKW Metallurgie Group adopted a new program, "ReMaKe 2.0", in the fourth quarter of 2015. The new program is more far-reaching than the original ReMaKe program, and adapted to the new circumstances.

At the time of preparing the present Management Report, the operational implementation of ReMaKe 2.0 had already begun. This comprehensive program is backed by concrete measures and detailed controlling tools. The goal of this program, once fully implemented, is to generate an additional, sustainable earnings contribution of nearly EUR 20 million over the next three years, primarily through cost optimization measures, but also sales quantity increases to a smaller extent. SKW Metallurgie anticipates that it will encounter a negative external effect equal to more than half this amount, mainly caused by the persistent margin erosion resulting from extreme price pressure in key markets. ReMaKe 2.0 has been under development by the SKW Metallurgie Group's Management since the autumn of 2015; it has been elaborated with the help of an acclaimed management consulting firm since the end of 2015. Those elements of the original ReMaKe program (also known as ReMaKe 1.0 since the introduction of ReMaKe 2.0) that have not yet been completely implemented were incorporated into the new ReMaKe 2.0 program.

3. Organization and corporate structure

3.1. SKW Stahl-Metallurgie Holding AG as the parent company providing operational coordination

SKW Stahl-Metallurgie Holding AG, with its registered office in Unterneukirchen (Germany) and another location in Munich (Germany), is the parent company of the global SKW Metallurgie Group. The Group's parent company does not itself market products in the core markets; instead, all customer relationships are managed solely by the operating subsidiaries. The Group's parent company SKW Stahl-Metallurgie Holding AG actively coordinates the activities of the Group companies. The transformation of the Group's parent company from a financial holding company to an operational holding company that actively coordinates the activities of the subsidiaries was initiated in 2014 and continued in 2015.

The governing bodies of the company are the annual general meeting (shareholders), the Supervisory Board elected by the annual general meeting (Supervisory Board members are appointed by judicial order only in exceptional cases), and the Executive Board appointed by the Supervisory Board.

Annual general meeting:

The annual general meeting of shareholders was held in Munich (Germany) on June 9, 2015. The distributable profit of SKW Stahl-Metallurgie Holding AG was not sufficient to allow for the payment of a dividend in 2015 (for fiscal year 2014); therefore, no dividend resolution was adopted. The Management's proposals were approved with the respectively required majority votes, with the exception of the proposed ratification of the actions of the former Supervisory Board members Dr. Liebler and Dr. Markus.

Supervisory Board:

The composition of the company's Supervisory Board underwent the following changes in 2015:

→ Dr. Dirk Markus resigned his mandate with effect from February 28, 2015, for time reasons. The annual general meeting elected Mr. Reto Garzetti as his successor on June 9, 2015.

→ Dr. Hans Liebler resigned his mandate with effect from November 30, 2015, for time reasons. At the company's request, the competent judge appointed Mr. Tarun Somani as his successor by date of December 30, 2015 (received in January 2016). His initial term of office will last until the next annual general meeting.

The mandates of all Supervisory Board members with the exception of Ms. Jutta Schull will end at the annual general meeting planned for May 10, 2016.

In accordance with the company's Articles of Association, the Supervisory Board is composed of six members, as before. The Supervisory Board of SKW Stahl- Metallurgie Holding AG is not co-determined. The Chairman is Mr. Titus Weinheimer, the Vice Chairman Mr. Jochen Martin. The work of the Supervisory Board is supported by committees.

Executive Board:

At the reporting date, the Company's Executive Board was composed of Dr. Kay Michel as the sole member. Ms. Sabine Kauper, who had belonged to the Company's Executive Board as Chief Financial Officer since January 2014, left the Company at her own wish on October 31, 2015.

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Consolidation group:

SKW Metallurgie Group, the highest-ranking company of which is the Group's parent company, comprises the seven fully consolidated direct subsidiaries of SKW Stahl-Metallurgie Holding AG presented in Section 7, as well as (at the reporting date) 13 fully consolidated indirect subsidiaries (excluding the three inactive indirect subsidiaries in Germany and Turkey that are under liquidation). The group of consolidated companies underwent the following changes in fiscal year 2015:

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

→ During the course of fiscal year 2015, two French companies (Affival SAS and the non-operationally-active intermediate holding company SKW France SAS) were merged to form Affival SAS, reducing the number of fully consolidated companies by one.

→ In December 2015, a company was formed in Singapore as a new intermediate holding company (particularly for the purpose of coordinating the business in India), increasing the number of fully consolidated companies by one.

→ As explained in Section 6.3., the Bhutanese Supervisory Board is no longer fully consolidated.

At December 31, 2015, therefore, 24 companies (23 subsidiaries and the parent company) in 13 countries were fully consolidated in the SKW Metallurgie Group.

As in the prior year, a French company under liquidation and the Indian joint venture Jamipol, in which the SKW Metallurgie Group still holds a roughly one-third equity interest (unchanged from the prior year), were not fully consolidated.

It remains the goal of the SKW Metallurgie Group to reduce the complexity of the Group's structure. Further to this goal, the liquidation of inactive companies in Germany and Turkey was continued in 2015. These measures are expected to be completed in the first half of 2016.

3.2. Performance of the SKW Metallurgie share amidst a difficult environment

As in prior years, the Company's share capital is divided into 6,544,930 registered shares. During 2015, the price of the SKW Metallurgie share ranged between EUR 3.11 (low for the year) on September 29, 2015 and the high for the year of EUR 6.90 on April 14, 2015 (both XETRA closing prices). The closing price of the SKW Metallurgie share at the end of 2015 was EUR 3.62, which corresponds to a market capitalization of approximately EUR 23.9 million at the reporting date. The average daily XETRA trading volume for the SKW Metallurgie share was 12,200 shares in 2015.

4. Mandatory disclosures under the German Commercial Code (HGB)

4.1 Declaration pursuant to Section 289a HGB

As in prior years, the Corporate Governance Declaration pursuant to Section 289a HGB will be published on www.skw-steel.com (Investor Relations => Financial Reports), to which reference is made in accordance with legal requirements.

4.2 Declarations pursuant to Section 289 (4) and Section 315 (4) HGB

Unless otherwise stated, the following disclosures are valid for the full fiscal year, and particularly also for the reporting date.

The subscribed capital of SKW Stahl-Metallurgie Holding AG is composed of 6,544,930 no-par common shares (registered shares), each representing an imputed share of capital equal to EUR 1.00. There are no different share classes. The Company has not issued shares endowed with special rights. The Company holds no treasury shares.

The shares are freely transferrable within the scope of legal provisions, as a general rule. Insiders in particular are subject to the legal restrictions set out in the German Securities Trading Act. Based on these provisions, SKW Stahl-Metallurgie Holding AG and other Group companies have also entered into contractual agreements (e.g. employment contracts) to restrict the transferability of the parent company's shares by insiders.

At the reporting date, the Executive Board was not aware of any shareholdings equal to or greater than 10% of voting rights. After the reporting date, but before the preparation of the present Management Report, Dr. Olaf Marx notified the Company on February 3, 2016 that he held shares (including attributable shares) representing 12.03% of the share capital of SKW Stahl-Metallurgie Holding AG.

To the extent that employees hold shares of capital, they exercise their voting rights like any other shareholder, barring other, express statutory provisions to the contrary. Otherwise, voting rights are restricted only by the law, as in the case of treasury shares according to Section 71b AktG, for example.

The members of the Executive Board are appointed (subject to their consent) and dismissed by the Supervisory Board. The Executive Board manages the Company in accordance with applicable laws and regulations, the Company's Articles of Association, and the Executive Board's rules of procedure.

It was not permissible at any time in fiscal year 2015 for the Company to buy back Company shares and therefore such buy-backs were not conducted.

With respect to Authorized Capital, the annual general meeting of June 8, 2011 authorized the Executive Board to increase the Company's share capital, with the consent of the Supervisory Board, by a total of up to EUR 3,272,465 through the issuance of new shares against cash capital contributions on one or more occasions in the time until May 30, 2016. A subscription right must be granted to the shareholders in all cases. An exclusion of the subscription right is not possible. This authorization has not been utilized to date; it remains in effect as before. Independently of this

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Authorized Capital (authorization resolution), the annual general meeting of June 9, 2015 resolved a capital increase of up to 100% (direct resolution). In the ad-hoc announcement of October 2, 2015, the Company announced the decision of the Executive Board and Supervisory Board, reached after careful review, not to carry out this capital increase due to the considerably worsened framework conditions in the steel market and capital markets (lack of basis).

In accordance with Article 11 of the Company's Articles of Association, the Supervisory Board is authorized to resolve changes to the Articles of Association "that only affect the wording." Otherwise, the annual general meeting must resolve amendments to the Articles of Association.

At the reporting date, no agreements related to the event of a change of control subsequent to a takeover offer were in effect with members of the Executive Board.

The syndicated loan agreement concluded in January 2015 includes termination options in the event of a change of control (direct or indirect control of more than 30% of the shares or voting rights in SKW Stahl-Metallurgie Holding AG).

The Company has not entered into indemnity agreements for the event of a pure takeover offer.

No further agreements within the meaning of (8) and (9) of Sections 289 (4) and 315 (4) HGB, respectively, were in effect at the reporting date.

5. SKW Metallurgie products are known throughout the world for competitiveness and high quality

5.1. Primary metallurgy: technology leadership in all methods of pig iron desulphurization

An important primary metallurgical step in the production of pig iron in the blast furnace (preliminary stage of steel production) is pig iron desulphurization. The purpose of this step is to precipitate the naturally occurring sulphur out of the coking coal in order to improve the metallurgical properties of the unrefined iron.

Pig iron desulphurization can be conducted on the basis of calcium carbide, magnesium, or burnt lime. Combinations of these materials, so-called co-injections or tri-injections, are also possible (and technologically superior in many cases). Regional preferences have arisen on the basis of historical development; for example, desulphurization is primarily conducted on the basis of magnesium and limestone in North American blast furnaces, but primarily on the basis of burnt lime in Japanese blast furnaces.

SKW Metallurgie Group possesses in-depth technological expertise in all three methods of pig iron desulphurization and is therefore one of the few suppliers that can offer raw materials and expertise in pig iron desulphurization for all known methods.

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5.2. Secondary metallurgy: Affival cored wires for high-quality steel grades

High-quality cored wire for secondary metallurgy is an important product group of the SKW Metallurgie Group. In the "secondary metallurgy" production step, precisely adjusted doses of specialty chemicals are injected into the raw steel to produce the desired quality-improving properties for specialized steel applications. Cored wire is one of the leading commonly used methods for this secondary metallurgical treatment. Inserting a cored wire enriched with precisely specified specialty chemicals into the molten steel is a technologically demanding process for introducing the necessary additives in an efficient and environmentally friendly manner. For example, Affival cored wires can be used to produce steel that can be rolled out in especially thin sheets or that can withstand extreme temperatures particularly well. Such steel varieties are used in oil and gas production (including shale gas production) and in automobile manufacturing, for example. Affival production facilities are located in France, the People's Republic of China, Russia, and South Korea, as well as in the United States and Mexico, as part of the organizational unit SKW North America. In addition, a distribution company in Japan supports the further expansion of the Group's business in the East Asia region. The mastery of leading, patent-protected steel refining technologies is a unique selling proposition for Affival compared to competing cored wire suppliers; it is also a non-financial key performance indicator for the entire SKW Metallurgie Group.

5.3. Secure global supply of raw materials

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

For the procurement of key raw materials (e.g. calcium carbide, calcium metal, and ferroalloys) used in the production of cored wire, the Group's Management pursues a strategy of maintaining multiple strategic alliances as a means of countering the risk of dependency on only a few producers or a single producing country.

On the procurement side, magnesium and calcium carbide are the most important desulphurization reagents. The Group maintains strong relationships with reliable suppliers of both these raw materials. Due to limited transportability, input materials based on calcium carbide are procured locally for the most part; magnesium is procured primarily in the PR China, which is by far the most important market for this raw material.

The supply of raw materials used in the production of Quab specialty chemicals (primarily epichlorhydrin and trimethylamine) is secured by appropriate long-term master agreements.

At all Group companies, the high quality of all purchased raw materials is assured by the careful selection of suppliers and by regular sample testing by experts. As a result, no significant supply bottlenecks of raw materials for the SKW Metallurgie Group are foreseeable. The volatility of raw material prices is managed by means of appropriate clauses in the Group's contracts with suppliers and customers; moreover, customer demand is relatively price-inelastic in the short term. While changes in the prices of the raw materials processed by the SKW Metallurgie Group are indeed an important factor influencing the Group's revenues, they do not have a material effect on the Group's earnings in the short term because revenues and material costs change by roughly equal amounts.

5.4. Global production and direct proximity to customers

Unlike most of its competitors, the SKW Metallurgie Group pursues a global strategy both in production and sales. Furthermore, the Group as a whole places a high value on local presence, closeness to customers, and individual customer wishes. As before, the transportability of carbide-based pig iron desulphurization reagents is limited, for which reason it would not make sense to supply all countries from a single location. Manufacturing costs in the factories of the SKW Metallurgie Group are particularly influenced by material costs, personnel costs, and depreciation of production equipment. Due to the fact that the procurement prices of some raw materials fluctuate widely in many years, production costs are also subject to considerable fluctuation, even in the absence of changes to the underlying processes. The production capacity of the SKW Metallurgie Group's factories in the core business can be adjusted to suit changes in demand. In the cored wire factories, for example, production capacity can be adjusted by scheduling or unscheduling additional production steps and/or lines. In fiscal year 2015, the market-driven adjustments of production capacities also included workforce adjustments.

5.5. Corporate governance – Focus on long-term value enhancement

All companies of the SKW Metallurgie Group are managed and evaluated on the basis of uniform criteria. In this regard, the Group's parent company particularly intensified the operational management and coordination of subsidiaries in fiscal year 2015. The long-term development of shareholder value, meaning the preservation and creation of value for the Group's owners, is an important objective in this context. The Group strives to offer an attractive return on capital employed, both through share price appreciation and dividends. This longer-term goal was overridden in fiscal year 2015 by the additionally necessary restructuring measures, mainly resulting from past burdens and from the downturn of the steel industry in 2015. A resumption of dividend payments can only be expected after the current crisis is overcome.

SKW Metallurgie Group continues to pursue the operational goal of being the leading global quality supplier to steel producers in primary and secondary metallurgy. SKW Metallurgie Group will continue to systematically broaden its value chain (e.g. by expanding its offering of services for the global steel industry). The Group strives to enhance its competitiveness in standard products and differentiate itself from competitors even more by offering specialty products that create value-added for customers. In particular, the Group continues to focus on realizing additional business volumes by exploiting brand synergies and cross-selling potential and by means of stepped-up sales initiatives as part of ReMaKe 2.0.

6. Financial performance, financial position, and cash flows of the SKW Metallurgie Group

6.1. SKW Metallurgie Group is reaping the first fruits of its strategic reorientation

The business performance of the SKW Metallurgie Group in fiscal year 2015 was influenced by the negative, external factor represented by the considerable slowdown in demand for steel products starting in the middle of the year, and by the positive effects emanating from the successful implementation of the ReMaKe program and the subsequent ReMaKe 2.0 program.

All Group entities continued in 2015 to successfully implement the individual elements of the ReMaKe program initiated in fiscal year 2014. These measures laid the groundwork for a sustainable improvement of the profitability of the SKW Metallurgie Group; without them, the collapse of steel production would have led to a much worse financial performance of the SKW Metallurgie Group in fiscal year 2015.

The grave crisis currently gripping the steel industry was not foreseeable when ReMaKe was rolled out in 2014. Starting in the autumn of 2015, the expanded program ReMaKe 2.0 was developed as an answer to the current market trends and presented in detail in January 2016. In the context of this program expansion and in order to secure debt financing, it was necessary to update the existing restructuring report. This update confirmed the Executive Board's positive going-concern forecast.

6.2 Non-cash non-recurring effects in the separate financial statements prepared in accordance with German Commercial Code regulations necessitate a formal report to the annual general meeting.

In an ad-hoc notice dated January 28, 2016, the Executive Board announced the loss of more than half the share capital of the Group's parent company according to Section 92 AktG and stated that a general meeting of shareholders would be called immediately.

This development did not result from the Group's direct operating activities, but is primarily attributable to three non-cash non-recurring effects in the separate financial statements of the Group's parent company, which are prepared in accordance with the regulations of the German Commercial Code (HGB).

→ At one Group company which is linked to the Group's parent company by means of a profit/loss transfer agreement, it was necessary to increase the provision for an antitrust fine by EUR 7.3 million to account for heightened risks. This increase also affected the consolidated financial statements in the same amount as the HGB financial statements (income statement: other operating expenses).

→ At one Group company which is linked to the Group's parent company by means of a profit/loss transfer agreement, an impairment reversal effect of EUR 7.5 million (after taxes) resulted from the reclassification of an investee in connection with the Group's growth strategy for the

Indian market. This development had no effect on the consolidated financial statements.

→ Due to the steel crisis in the United States, it was necessary to apply risk-adjusted plan figures in the impairment tests of a U.S. Group company. Subsequently, it was necessary to adjust the investment carrying amounts and to a lesser extent the carrying amounts of intragroup loans (total effect: EUR 6.9 million) in the separate financial statements of the Group's parent company. Based on the results of these impairment tests, the carrying amounts of intangible assets were adjusted by an amount of EUR 6.7 million in the consolidated financial statements.

6.3. Streamlining of the Group's portfolio and deconsolidation of the Bhutanese Group company

In 2014, the Executive Board resolved not to continue the vertical integration strategy propagated by the former Executive Board and to divest the Group of overall cash-negative peripheral activities.

As part of this plan, the SKW Metallurgie Group sold its Swedish subsidiary SKW Metallurgy Sweden AB to an outside buyer for a positive purchase price already in 2014. SKW Metallurgy Sweden AB was deconsolidated already in the prior year and is treated as "discontinued operations" in the 2014 comparison figures.

Measures were undertaken in 2015 to divest the Group also of the Bhutanese Group company and the profitable peripheral business of Quab speciality chemicals. Therefore, these two Group companies were classified as "assets held for sale" in accordance with IFRS 5 for the first time in the 2015 semi-annual financial statements.

→ The Bhutanese Group company filed for insolvency proceedings in December 2015; the conditions for a loss of control according to IFRS and therefore for deconsolidation are met. The deconsolidation was effected in the present financial statements.

→ Attractive offers were initially submitted in connection with the structured sale process for SKW Quab Chemicals Inc. For overarching reasons (e.g. one potential buyer having decided to exit the chemicals business), some of these offers were withdrawn. In the firm opinion of the Executive Board, the remaining offers did not reflect the company's economic value and therefore the sale process was suspended in the interest of preserving value for the shareholders. Therefore, this company is no longer accounted for according to IFRS 5, but is fully consolidated again in the present financial statements.

Consequently, the numbers of the Bhutanese Group company (including the 2014 comparison numbers and the numbers of the Swedish Group company) are no longer included in the individual income and expense items of the income statement, but are presented on aggregate (pro rata temporis) in the line item "Earnings from discontinued operations (after taxes)." For this reason, the 2014 comparison numbers presented in the present income statement and Management Report may differ from those published in the prior-year Management Report and consolidated financial statements.

For the reasons mentioned above (Bhutan, Sweden, Quab), there may also be differences from and between the numbers published in the quarterly financial statements.

6.4. Revenue performance dependent on the development of the steel industry

In the full year 2015, the SKW Metallurgie Group generated revenues of EUR 285.5 million, that being 6.8% less than the prior-year figure (EUR 306.3 million). This decline was much less pronounced than the drop in

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steel production, particularly in the United States (double-digit decline). In this key market, the Group companies of the SKW Metallurgie Group experienced revenue declines of up to 30% in local currency terms, which were additionally caused by the disproportionate decline in steel pipe production due to the collapse of oil prices. Amidst this crisis, the SKW Metallurgie Group was able to prevent a greater decrease in earnings in fiscal year 2015 for three main reasons:

→ SKW Metallurgie Group proactively countered this negative development by means of the cost-optimizing and sales quantity-increasing components of the ReMaKe program.

→ The development of revenues varied by quarter. Whereas the revenues generated in the first quarter of 2015 were considerably higher than the revenues generated in the first quarter of 2014, steel production declined drastically in the further course of the year, particularly in the United States. As a result, the revenues generated in the second to fourth quarters were less than the respective year-ago figures, despite the countermeasures taken under the ReMaKe program.

→ A significant portion of revenues are generated in US dollars; due to currency translation effects arising from the strong US dollar, the euro amounts presented in the euro-denominated consolidated income statement are higher than the corresponding US dollar amounts.

The change in inventories of finished and semi-finished goods was EUR -7.4 million in fiscal year 2015 (PY: EUR 0.7 million). The reason for this considerable change was the systematic reduction of unnecessary inventories and therefore tied-up capital at the US subsidiary Affival Inc. (part of SKW North America).

6.5. High gross profit margin underscores the Group's operating strength

Particularly in a raw materials-intensive business like that of the SKW Metallurgie Group, revenues can be influenced simply by changes in the cost of raw materials and by the corresponding adjustment of sale prices, even though the operating performance may not have changed. Therefore, the gross profit margin (gross margin) is a much more meaningful indicator. In the SKW Metallurgie Group, the gross profit margin (gross margin) is defined as the ratio of the difference between the total operating performance and the cost of materials to revenues. With material costs of EUR 187.1 million (PY: EUR 210.0 million), the SKW Metallurgie Group increased this ratio slightly from the high prior-year value of 31.7% to 31.9% in 2015, despite intense margin pressure, thanks to the consistent implementation of the ReMaKe program.

6.6. Personnel expenses reduced

The personnel expenses of EUR 40.1 million were less than the prior-year figure of EUR 42.0 million, particularly as a result of the personnel measures taken in connection with ReMaKe. As a matter of principle, the compensation of the SKW Metallurgie Group's employees includes a high proportion of variable compensation components, through which employees participate in the economic success of their Group company and/or the overall Group. Two countervailing effects were behind the EUR 1.9 million decrease in personnel expenses:

→ The workforce was adjusted as part of the ReMaKe program (e.g. USA/Canada from 302 to 274 at the reporting date) and personnel expenses were reduced.

→ Unavoidable compensation increases in Brazil and measures to upgrade employee qualifications in selected key areas were countervailing factors.

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At EUR 27.6m, other operating income was considerably higher than the prior-year figure (EUR 11.4 million). This increase resulted mainly from higher unrealized income from exchange rate fluctuations (EUR 16.4 million in 2015, as compared to EUR 6.1 million in 2014) and from non-cash non-recurring effects arising from the deconsolidation of the Bhutanese Group company (gross deconsolidation income: EUR 6.1 million; 2014: EUR 0). However, the deconsolidation of the Bhutanese Group company also gave rise to additional expenses, mainly for legal costs and for the proportional joint liability of SKW Stahl-Metallurgie Holding AG for an external loan granted to the Bhutanese Group company. Netted with these expense items, the gross consolidation income amounted to EUR 4.8 million, including EUR 3.7 million in income statement items and EUR 1.1 million in currency effects recognized in equity.

The other operating expenses of EUR 60.8 million were considerably higher than the prior-year figure (EUR 49.5 million). The main reason for this increase was the EUR 7.3 million adjustment to the provision for an antitrust fine (including interest) on the books of a German Group company, to account for heightened risks. Other operating expenses also include unrealized currency translation expenses, which amounted to EUR 8.8 million in fiscal year 2015 (PY: EUR 3.2 million). After consideration of these unrealized currency effects, the overall net currency effect (net balance of expenses and income) came to EUR +7.6 million in 2015, as compared to EUR +2.9 million in 2014. Other operating expenses also include the item of “legal and consulting costs”. Despite the complex situation of the SKW Metallurgie Group and some of its Group companies at the present time, these expense items were reduced by EUR 0.7 million in 2015 (from EUR 7.2 million to EUR 6.5 million).

The income from associated companies (here: from the Indian joint venture Jamipol) declined slightly from EUR 1.3 million in 2014 to EUR 1.0 million in 2015.

6.7. Stated EBITDA rises despite the steel crisis

SKW Metallurgie Group increased its earnings before interest, taxes, depreciation, and amortisation calculated according to IFRS (calculated or “stated” EBITDA) modestly from EUR 18.4 million to EUR 18.8 million. As in prior years, the stated EBITDA of the Group and the individual Group companies is an important financial performance indicator which the Executive Board employs in the management of the overall Group and the individual Group entities. As described in Section 6.6., stated EBITDA included significant unrealized net currency effects (presented within other operating expenses and other operating income) both in 2015 and in 2014. Total unrealized net currency effects amounted to EUR +7.6 million in 2015 (PY: EUR +2.9 million). Adjusted for these currency effects, EBITDA (before adjusting for extraordinary expenses and income) came to EUR 11.2 million in 2015 and EUR 15.5 million in 2014.

EBITDA included two non-cash, non-recurring effects in 2015:

→ First, income was recognized on the deconsolidation of the Group company in Bhutan (net EUR 3.7 million).

→ A countervailing effect was the increase in the provision for an antitrust fine plus accrued interest (EUR 7.3 million), to account for heightened risks.

Adjusting EBITDA for all non-recurring effects mentioned above yields an adjusted operating EBITDA of EUR 14.8 million in 2015 (PY: EUR 15.5 million).

6.8. Depreciation, amortisation and impairments, and net interest income/expenses

The depreciation, amortisation, and impairments recognized in 2015 (EUR 14.7 million) were nominally less than the prior-year figure (EUR 38.5 million), but were still considerably higher than the customary amount for the SKW Metallurgie Group (approx. EUR 1 million per quarter; fluctuations are mainly attributable to exchange rate changes). The higher figure resulted from impairment losses recognized on the basis of impairment tests of intangible assets in the United States, due to the steel crisis.

The interest expenses of EUR -7.0 million were significantly higher than the prior-year figure (EUR -4.4 million), primarily as a result of non-recurring effects (interest-like expenses) related to the replacement of the previous funding instruments (master loan agreement and promissory note loans) in early 2015 with a syndicated loan agreement for an amount of up to EUR 86 million and the adjustments made to this agreement during the term against payment of a fee, as well as the higher interest rates which the SKW Metallurgie Group was required to pay due to the non-fulfillment of financial covenants, which too resulted from the steel crisis.

6.9. Tax expenses characterized by little set-off capability between jurisdictions

Tax expenses in 2015 (EUR 5.8 million) were considerably less than the prior-year figure (EUR 7.6 million). However, the SKW Metallurgie Group is still affected by the different earnings reported in different tax jurisdictions. For example, expenses incurred in Germany and Russia cannot be set off against income in the United States, France, and Brazil in the short term, for which reason tax expenses are incurred even though earnings before taxes were negative on the Group level (as in 2015).

In accordance with IFRS, the consolidated net income/loss after taxes from continuing operations is netted with the earnings from discontinued activities (after taxes); the latter position, which comprised the results of the Bhutanese Group company in 2015 (plus SKW Metallurgy Sweden AB in 2014), amounted to EUR -0.5 million (PY: EUR -49.3 million). The total consolidated net loss of EUR -8.7 million (PY: EUR -81.0 million) calculated as the sum of continuing and discontinued operations is attributable in part to the shareholders of SKW Stahl-Metallurgie Holding AG, and in part to non-controlling interests in those subsidiaries in which the SKW Metallurgie Group does not hold 100% of the equity. These are the following Group companies:

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

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

→ In liquidation: SKW Technology companies (Germany)

→ Under insolvency and deconsolidated: SKW-Tashi Metals & Alloys Private Ltd. (Bhutan)

In total, EUR 0.2 million is attributable to these non-controlling interests (2014 EUR -21.7 million).

EUR -8.8 million (including EUR -0.2 million from discontinued operations) is attributable to the shareholders SKW Stahl-Metallurgie Holding AG. The number of SKW Metallurgie shares was 6,544,930 in 2015, unchanged from 2014. This yields negative earnings per share (EPS) from continuing operations of EUR -1.31 (PY: EUR -4.36).

6.10. Segment report

As part of the ReMaKe program, the SKW Metallurgie Group strengthened the management of its operating entities (SKW Stahl-Metallurgie Holding AG as the parent company coordinating the activities of the Group companies) and also aligned it more closely with the regions (across Group companies and products). A key advantage of the regional approach is the additional sales cross-selling potential that can be tapped by offering the SKW Metallurgie Group's entire portfolio of products and services to all major steel mills.

According to IFRS, segments are to be formed on the basis of the enterprise's operating divisions, as determined by the enterprise's internal organisation and reporting structure. Therefore, the SKW Metallurgie Group has introduced geographical segments in accordance with its new, regionalized internal management system. This new segment report format is more transparent particularly with regard to regional market developments, the evaluation of the effects of measures taken under ReMaKe 2.0, and the assessment of exchange rate factors.

The following changes resulted from the conversion of the segment report format:

→ Previously, segments were formed on the basis of products ("Powder and Granules", "Cored Wire", and "Other").

→ Beginning with the present financial statements, segments are formed on the basis of geographical regions ("North America", "Europe and Asia", "South America", and "Other and Holding").

→ All Group companies are assigned to one segment only, as before. Thus, there are no companies that are divided among different segments.

The new reportable segments of the SKW Metallurgie Group are composed of the following activities:

→ **SKW North America**: the "North America" segment is composed of the management entity "North America" introduced in fiscal year 2014. This entity comprises the two US companies Affival Inc. (cored wire products) and ESM Group Inc. (powder and granules), including their respective subsidiaries. These subsidiaries consist of a cored wire factory in Mexico, a production facility for powder and granules in Canada, and a magnesium procurement unit in PR China.

→ **SKW Europe and Asia:** The "Europe and Asia" segment is composed of all the Group's cored wire companies that do not belong to "North America". These include the French cored wire company Affival SAS; this, the Group's largest cored wire factory produces cored wire primarily for the European market (excluding Russia), also for selected overseas customers (particularly in Japan). They also include the subsidiaries of Affival SAS, which produce cored wire products in Russia, South Korea, and the PR China for their respective regional markets.

→ **SKW South America:** The "South America" segment is composed of the Brazilian company Tecnosulfur S.A., which produces and markets metallurgical powders and granules particularly for the South American market.

→ **SKW Other and Holding Company:** The "Other and Holding" segment consists of the following companies:

  → **Operating companies:**

    → SKW Quab Chemicals Inc.: This company is assigned to "Other" because it is not part of the core business of the SKW Metallurgie Group. It produces specialty chemicals in the United States, which are used in the production of industrial starch as an intermediate product used in the papermaking industry, in cosmetics production, and in fracking, and markets them worldwide.

- → SKW Stahl-Metallurgie GmbH: This is a trading unit for powders and granules that is primarily active in the European market. In connection with the implementation of strategic growth initiatives for the pig iron desulphurisation market in Europe, a reorganisation of this company is expected; therefore, it is assigned to the “Other” segment until further notice.

- → SKW Metallurgie Group currently holds about 30% of the equity in the Indian company Jamipol, for which reason no revenues are consolidated, and EBITDA is only consolidated at equity; Jamipol’s at-equity EBITDA is likewise assigned to the “Other and Holding Company” segment.

→ **Non-operating companies:**

- → The German company SKW Stahl-Metallurgie Holding AG is the parent company of the SKW Metallurgie Group. As a holding company, it generates no revenues; in accordance with its defined task, its EBITDA is typically negative (aside from special cases such as high currency translation gains).

- → The “Other and Holding Company” segment also includes various small companies in several countries, which either operate only as intermediate holding companies or are completely inactive.

The development of the four segments in 2015 is presented in the following.

In the **“North America”** segment, total revenues declined from EUR 166.8 million (2014) to EUR 155.7 million (2015) and EBITDA declined from EUR 10.9 million (2014) to EUR 4.0 million (2015).

The main reason for this decline was the massive downturn of the US steel industry, and particularly the sharp drop in demand for the grades of steel used in pipe manufacturing for the oil and gas industry (including shale gas production). Due to the higher-quality steel grades used in this sector, it accounts for a disproportionately high share of revenues and particularly earnings of the US cored wire company. In local currency terms, the decreases in revenues and EBITDA resulting from the market situation are even more pronounced than in euro terms, as the reporting currency; moreover, the segment results included a negative EBITDA contribution of EUR 1.8 million due to the write-down of a receivable in connection with the deconsolidation of the Bhutanese Group company.

In the **“Europe and Asia”** segment, the total revenues of EUR 79.9 million were slightly less than the corresponding prior-year figure (EUR 84.2 million). The decline was mostly attributable to lower intragroup revenues (reduced sales to North America). External revenues, which were largely unchanged from the prior year, were influenced by several countervailing effects:

- → The additional sales potential identified as part of ReMaKe initiatives had the effect of stabilising or even increasing revenues in certain submarkets.

- → As a result of growing steel exports from the PR China, a major customer of this segment in South Korea reduced its production and consequently purchased much less cored wire from the segment (revenue decline in South Korea).

- → In most countries of the European Union, steel production decreased slightly in 2015 (trend of revenue declines).

The segment’s reported EBITDA fell considerably from EUR 6.0 million in 2014 to EUR 3.4 million in 2015. The two main reasons for this imputed decline of EUR 2.6 million are as follows:

→ Segment EBITDA includes unrealized net currency gains that were EUR 2.3 million less in 2015 than in 2014.

→ The above-mentioned revenue declines in South Korea led to an EBITDA decline of EUR 1.0 million.

Adjusted for these two effects, segment EBITDA was EUR 0.7 million higher than the respective prior-year figure, thanks to the early successes of the ReMaKe program.

Despite deteriorating market conditions during the course of the year, the **"South America"** segment posted only a small decline in total revenues (from EUR 29.0 million to EUR 25.7 million), due exclusively to exchange rate effects. Thanks to the active countermeasures taken as part of ReMaKe, the segment's EBITDA actually rose from EUR 6.0 million (2014) to EUR 6.7 million (2015), despite a worsening of the BRL/EUR exchange rate.

The earnings of the **"Other and Holding"** segment included the following main results:

→ **Operating companies:**

→ SKW Quab Chemicals Inc.: This company generated total revenues of EUR 21.9 million in 2015 (PY: EUR 26.4 million) an EBITDA of EUR 1.0 million (PY: EUR 1.1 million).

→ **Non-operating companies:**

→ Details on the separate financial statements of SKW Stahl-Metallurgie Holding AG are presented in Section 7.

6.11. Consolidated statement of financial position: Equity remains positive despite the crisis

The most important items of the statement of financial position of the SKW Metallurgie Group as of December 31, 2015 and the prior-year reporting date are presented in the table below:

ASSETS in EUR thousand	Dec. 31, 2015	Dec. 31, 2014
Non-current assets	59,136	68,838
Current assets	92,064	111,813
Thereof cash and cash equivalents	12,278	17,972
Total assets	**151,200**	**180,651**

EQUITY AND LIABILITIES in EUR thousand	Dec. 31, 2015	Dec. 31, 2014
Equity	8,339	24,440
Non-current liabilities	19,782	24,758
Thereof non-current financial liabilities	1,908	6,907
Current liabilities	123,079	131,453
Thereof current financial liabilities	73,111	77,142
Total equity and liabilities	**151,200**	**180,651**

The total assets of the SKW Metallurgie Group declined considerably by EUR 29.5 million from EUR 180.7 million in 2014 to EUR 151.2 million in 2015.

Noncurrent assets declined from EUR 68.8 million to EUR 59.1 million, mainly due to impairments of intangible assets due to the steel crisis (intangible assets at December 31, 2015: EUR 16.5 million; December 31, 2014: EUR 25.0 million).

Current assets fell to EUR 92.1 million (PY: EUR 111.8 million). The main reasons for this decrease were the successful effects of the Groupwide program to optimize net working capital and the development of cash and cash equivalents (December 31, 2015: EUR 12.3 million; December 31, 2014: EUR 18.0 million).

On the equity and liabilities side, the deconsolidation of the Bhutanese Group company and the above-mentioned impairments caused the item of “other comprehensive income” to decline by EUR 37.6 million, from EUR -20.2 million to EUR -57.8 million.

The share of non-controlling interests in equity improved considerably from EUR -12.7 million to EUR 8.8 million, mainly due to the deconsolidation of the Bhutanese joint venture. After the liquidation of the SKW Technology companies, which is expected to be completed in the near future, consolidated non-controlling interests will remain only in the Brazilian Group company (33%) and in SKW-Quab Chemicals Inc. (10%).

As a result of the foregoing, consolidated equity declined by EUR 16.1 million from EUR 24.4 million to EUR 8.3 million. It should be emphasized here that the equity of the SKW Metallurgie Group is still positive, despite the negative equity of the Group’s parent company.

The total liabilities presented in the consolidated statement of financial position (noncurrent and current liabilities) also declined considerably (December 31, 2015: EUR 142.9 million; December 31, 2014: EUR 156.2 million).

Financial liabilities make up a significant portion of liabilities presented in the statement of financial position. The sum of noncurrent and current liabilities is defined as gross financial liabilities, which came to EUR 75.0 million at December 31, 2015, as compared to EUR 84.0 million at December 31, 2014. After netting with cash and cash equivalents, net financial liabilities amounted to EUR 62.7 million (2014: EUR 66.0 million). By definition, neither gross financial liabilities nor net financial liabilities include those parts of credit facilities that have not yet been drawn down, or only in the form of guarantees, nor do they include pension obligations. Both gross and net financial liabilities are key financial performance indicators for the SKW Metallurgie Group.

The main reason for the decrease in financial liabilities was the deconsolidation of the Bhutanese Group company, including its financial liabilities. With the exception of a joint liability for EUR 0.6 million, which is already accounted for in the present financial statements, neither the Group’s parent company nor any other Group company is obligated to indemnify creditors for any possible non-payment of interest and principal by the Bhutanese company, which is currently in insolvency proceedings.

In terms of maturity, most of the Group’s financial liabilities were classified as “current” at the reporting date, as in the prior year. With respect to 2015, this circumstance resulted from the fact that the Company has been in breach of the financial covenants under the syndicated loan agreement since September 30, 2015. As a result, the financing banks were entitled to terminate the loan agreement at any time, but waived this right against payment of a fee. Further negotiations with the banks are pending. Consequently, the share of the Group’s financial liabilities attributable to these credit facilities was to be technically classified as “current”.

The equity ratio (including non-controlling interests) of 5.5% was 8.0 percentage points less than the prior-year figure (PY: 13.5%), mainly due to the deconsolidation of the Bhutanese company and the impairments recognized as a result of the steel crisis.

Operating net working capital in the narrower sense (defined as inventories plus trade receivables, less trade payables) amounted to EUR 45.2 million at the reporting date, below the level of the prior year (EUR 49.8 million). The main reason for this decrease (aside from the deconsolidation of the Bhutanese Group company) was the early successes of the working capital optimisation program.

6.12. SKW Metallurgie Group generates positive cash flow from operating activities, despite the steel crisis

Key positions of the consolidated cash flow statement are presented in the table below:

EUR thousand	Jan. 1 - Dec. 31, 2015	Jan. 1 - Dec. 31, 2014
Consolidated fiscal year net income/loss	-8,652	-80,995
Gross cash flow	1,651	9,594
Cash inflow/ outflow from operating activities	4,012	6,008
Cash inflow/ outflow from investing activities	-5,816	-5,246
Cash inflow/ outflow from financing activities	-2,883	7,214
Change in Cash and cash equivalents*	-5,694	7,299
Cash and cash equivalents at end of period	12,278	17,972

*Including effects of the currency translation of cash and cash equivalents

Starting from the consolidated fiscal year net loss resulting from the steel crisis (consolidated earnings from continuing operations: EUR -8.2 million; 2014: EUR -31.7 million), the SKW Metallurgie Group generated a positive gross cash flow of EUR 1.7 million in 2015 (PY: EUR 9.6 million) due to the imputation of non-cash items (particularly depreciation, amortisation, and impairments of noncurrent assets: EUR 14.7 million; 2014: EUR 38.5 million).

Net working capital in the broader sense was further optimized in 2015, freeing up resources of EUR 2.4 million, as compared to the prior year when the capital commitment had been increased by EUR 3.6 million. In terms of current assets in the narrower sense (inventories, trade receivables, and trade payables), the capital commitment was even reduced by EUR 5.2 million, as compared to the prior year when it was increased by EUR 10.1 million.

The cash flow from operating activities (also called net cash flow) indicates the cash surplus generated through operating activities in the given period. It is calculated as the net balance of gross cash flow and changes in net working capital (in the broader sense).

At EUR 4.0 million, the cash flow from operating activities was only slightly less than the prior-year figure (2014: EUR 6.0 million). This positive cash flow generated in spite of the steel crisis reflects the successes of the ReMaKe program and the fundamental operating strength of the SKW Metallurgie Group.

At EUR 5.8 million, the cash outflow from investing activities was close to the prior-year figure (EUR 5.2 million). In both the reporting period and the prior year, investing activities mainly consisted of maintenance investments.

Free cash flow is calculated as the sum of cash flows from operating activities and investing activities. In simplified terms, it indicates the amount that is technically available for debt repayments and dividend payments.

SKW Metallurgie Group generated a free cash flow of EUR -1.8 million in 2015 (PY: EUR 0.8 million). Not considering growth investments, the SKW Metallurgie Group expects to generate a positive free cash flow in the medium term. To the extent that free cash flow is not used for growth investments, it will be used to pay down net financial liabilities. Therefore, the Executive Board cannot be expected to submit a dividend proposal to the annual general meeting in either the short term or the medium term.

As part of its financing activities, the SKW Metallurgie Group reduced its gross financial liabilities by a net amount of EUR 1.2 million in 2015. These repayments, coupled with the above-mentioned slightly negative free cash flow and dividend payments to non-controlling interests (EUR 1.6 million; PY: EUR 0.7 million) are the main reasons for the change in cash and cash equivalents (EUR 18.0 million at the start of the period; EUR 12.3 million at the end of the period).

6.13. Key changes in financial performance indicators compared to the prior-year forecast

In the combined Management Report for 2014, which was published in March 2015, the Executive Board presented its forecasts for the development of the financial performance and cash flows of the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG in 2015. Based on the prevailing conditions at that time, the Executive Board predicted moderate gains in both revenues and EBITDA.

Due to the significant changes that occurred during the course of the year (particularly including the decline of steel production, especially in the United States), the Executive Board updated its forecasts for the Group's financial performance indicators in the shortened interim financial statements as of June 30, 2015, which were subjected to a critical review by the independent auditor. Based on the prevailing conditions at that time, the Executive Board predicted that both revenues and EBITDA would be markedly lower in 2015 than the respective prior-year figures. Excluding Quab (IFRS 5 at that time), it was stated that full-year EBITDA could be as low as EUR 11.8 million.

These forecasts proved correct with respect to revenues (middle single-digit percentage decrease).

The forecasts also proved correct with respect to operating EBITDA (operating EBITDA without Quab: EUR 13.7 million). The stepped-up implementation of the ReMaKe program and the launch of the extended program ReMaKe 2.0 made it possible to achieve a result above the worst-case scenario predicted at the time.

6.14. The liquidity of the SKW Metallurgie Group is currently secured

SKW Stahl-Metallurgie Holding AG and its subsidiaries possessed sufficient liquidity at all times in fiscal year 2015. The Group's liquidity is particularly secured by the syndicated loan agreement concluded at the start of 2015 (with maturity until the start of 2018) for an amount of up to EUR 86 million (of which EUR 46 million as an amortising loan). This syndicated loan agreement contains agreements on key financial ratios, so-called financial covenants. Some of these financial covenants have not been fulfilled since the end of the third quarter 2015. This unexpected development can be attributed first to the fact that the massive downturn in the steel industry could not be completely made up despite active countermeasures, and second to the fact that some exchange rates relevant for the SKW Metallurgie Group (primarily BRL/EUR) developed in a way that was unforeseeable.

Failure to fulfill the agreed covenants entitles the lenders to terminate the loan without notice. At the Company's request, the financing banks agreed in October 2015 to issue a waiver against payment of a fee for the time until February 29, 2016; on March 1, 2016, this waiver was extended against payment of a fee for the time until May 31, 2016. A key basis for this waiver was a restructuring report containing a positive going-concern forecast. The time until May 31, 2016 will be used to conduct negotiations with the banks with the goal of adapting the financial covenants to the intervening developments in the steel industry ("steel crisis") in line with market conditions, and thus renegotiating the basic conditions of the loan agreement. The assurance of this financing is critical to the continued going-concern status of SKW Stahl-Metallurgie Holding AG and the SKW Metallurgie Group after June 1, 2016.

The Executive Board considers it highly probable that these ongoing negotiations will be concluded with an acceptable result for all parties by May

31, 2016, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG at least until 2018, so that the consolidated financial statements as of December 31, 2015 can be prepared under the assumption of a positive going-concern forecast. At the time of preparing the present Management Report, however, it was not assured that the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG will have enough liquidity to continue their operations beyond May 31, 2016. Any significant changes to the syndicated loan agreement, and certainly the complete termination of that agreement would pose an existential threat to the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG. Therefore, the status of a going concern in 2016 and 2017 will depend on the successful conclusion of the aforementioned negotiations.

6.15. Global financing structure

Within the SKW Metallurgie Group, financing is still provided in the form of intragroup loans, particularly loans extended by the Group's parent company to other Group companies.

Currency risks in the operating business (transaction risks) have been reduced by means of natural hedging, i.e. by concurrently buying and selling foreign currency instruments in the same currency. At certain times, moreover, Group companies have hedged the uncovered positions discernible in the respective foreign currency plan. The risks assumed by the Group in connection with derivative financial transactions are minor. SKW Metallurgie Group employs derivative financial instruments for the sole purpose of hedging business transactions; thus, the Group does not engage in financial speculation. Instead, the primary goal of hedging activities is to hedge that part of transactional currency risk that cannot be hedged by means of natural hedging. Furthermore, the new syndicated loan agreement provides options for hedging currency risks by way of bilateral lines of credit in different currencies than the euro.

The currency translation risks arising from the translation of the financial numbers of subsidiaries in different currency zones than the Eurozone into the euro as the Group's reporting currency are currently not hedged.

The most important currencies by far for the Group in 2015 were the euro as the reporting currency and the US dollar. Other important currencies for the Group were those of the non-euro countries in which the Group conducted business in 2015 (Brazil, China, India, Japan, Canada, Mexico, Russia, and South Korea).

Within the SKW Metallurgie Group, both the parent company and most subsidiaries dispose of their own credit lines with banks, although the majority of external borrowing by volume is procured by the Group's parent company and passed through to the subsidiaries in the form of intragroup loans, where applicable. Most of the credit lines of the subsidiaries serve to finance current assets and are therefore structured as maturity-matching short-term loans.

Therefore, both the parent company and each and every subsidiary disposed of sufficient liquidity at the time of preparation of the present Management Report. The Company expects that this will also be the case in the further course of 2016 and beyond, although this forecast is dependent on reaching a positive outcome in the currently ongoing negotiations with the Group's main lenders (see Section 6.14.).

7. SKW Stahl-Metallurgie Holding AG – Separate financial statements according to HGB

7.1. Financial performance of the Group's parent company

SKW Stahl-Metallurgie Holding AG is the parent company of the SKW Metallurgie Group. It is an exchange-listed holding company that coordinates the operations of the Group companies. Therefore, its financial position, cash flows, and financial performance are significantly determined by the economic situation of its subsidiaries and associates. The Company is a stock corporation organized under German law. Its shares are traded in the Prime Standard segment (the segment with the strictest transparency requirements) of the Stock Exchange in Frankfurt/M. (Germany), both in the XETRA system and over-the-counter in other exchanges. The performance of the separate parent company SKW Stahl-Metallurgie Holding AG in fiscal year 2015 was determined by the development of the Group's operating subsidiaries and lower-tier subsidiaries of varying degrees. As in prior years, the parent company SKW Stahl-Metallurgie Holding AG provided extensive advisory services to the other Group companies; they related particularly to the successful ReMaKe program for the strategic reorientation of the entire Group, and the extended version of this program known as ReMaKe 2.0.

The following changes occurred in the equity investment portfolio of SKW Stahl-Metallurgie Holding AG in 2015:

- → Two French Group companies (the lower-tier subsidiary Affival SAS and the subsidiary SKW France SAS) were merged into the subsidiary Affival SAS in 2015.
- → As described in detail in Section 6.3., the Bhutanese subsidiary is no longer fully consolidated. This Company filed for insolvency proceedings in December 2015.

As a result of these changes, the Company held direct equity investments in seven (PY: eight) companies, including three in Germany, at the reporting date (excluding the deconsolidated company in Bhutan).

The subsidiaries Affival S. A. S. (France), SKW Stahl-Metallurgie GmbH (Germany) and SKW Metallurgie USA Inc. (USA) each have several direct and indirect subsidiaries, which are therefore lower-tier subsidiaries of SKW Stahl-Metallurgie Holding AG. In addition, SKW Verwaltungs GmbH (Germany) maintains an "Accredited Representative Office" in Russia, which manages an internally leased property within the Group, in particular. The other subsidiaries of SKW Stahl-Metallurgie Holding AG do not hold equity investments in other companies (aside from a 1% investment of SKW Service GmbH in the Turkish Group company that is wholly owned by the Group and is undergoing liquidation).

By reason of its function as a holding company, the parent company does not generate any revenues itself. Its other operating income amounted to EUR 11.6 million in fiscal year 2015 (PY: EUR 23.4 million). As in the prior year, this item mainly consisted of income from Group cost allocation agreements with subsidiaries and other costs charged to Group companies. In the prior year, considerable, albeit non-cash income was additionally generated on currency translation effects (2015: EUR 0.9 million; 2014: EUR 12.7 million). Additional other operating income resulted from the restructuring of the investment portfolio, including EUR 7.0 million from the merger of two French companies in 2015 and EUR 7.7 million from the disposal of the direct investment in SKW Quab Chemicals Inc. in 2014.

At 15, the number of active employees (including the Executive Board) at December 31, 2015 was slightly less than the prior-year number (December 31, 2014: 17). The Company hired and retained highly qualified employees in 2015; the Company's proven attractiveness in the labour market is an important non-financial performance indicator for the parent company SKW Stahl- Metallurgie Holding AG.

The personnel expenses of SKW Stahl-Metallurgie Holding AG declined considerably to EUR 3.2 million in 2015 (PY: EUR 4.1 million). Personnel expenses comprise both the compensation of Executive Board members, which is described in detail in the Compensation Report, and the compensation of employees who are not directors and officers of the Company.

Depreciation and amortization are typically insignificant items for the parent company SKW Stahl-Metallurgie Holding AG (depreciation and amortization in both 2015 and 2014: EUR 0.2 million). In addition to scheduled depreciation and amortization, impairments of investment carrying amounts were recognized in the total amount of EUR 6.5 million in 2015, due to the steel crisis in the United States (additionally EUR 0.4 million in impairments of intragroup loans). Impairments of EUR 63.2 million were recognized in 2014.

The other operating expenses of SKW Stahl-Metallurgie Holding AG amounted to EUR 8.7 million in 2015 (PY: EUR 36.0 million, including a loss of EUR 16.2 million on the disposal of SKW Metallurgy Sweden AB). Besides currency effects, the other operating expenses also include significant legal and consulting expenses. The high proportion of this kind of expense is a reflection of the complex restructuring and turnaround situation and the Company's involvement in several complex legal disputes.

The income from equity investments of the parent company SKW Stahl-Metallurgie Holding AG includes the results of the profit/loss transfer agreement with the German subsidiary SKW Stahl-Metallurgie GmbH (EUR 0.4 million; PY: EUR -3.6 million) and the dividend payments collected from the other direct subsidiaries. In the group of direct subsidiaries, only the Brazilian subsidiary Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A paid a dividend in 2015, in the amount of EUR 4.0 million (PY: EUR 2.1 million).

In the prior year, SKW Quab Chemicals Inc. paid a dividend of EUR 0.1 million and SKW France S. A. S. (now Affival S. A. S.) paid a dividend of EUR 10.3 million. The main reason why the French subsidiary did not pay a dividend in 2015 was because one of its subsidiaries (the US cored wire company) encountered a massive decline in earnings due to the drop in steel demand in the oil and gas industry (including shale gas production).

The financial income generated by the parent company SKW Stahl-Metallurgie Holding AG is composed particularly of interest income from the intragroup financing of subsidiaries and lower-tier subsidiaries (EUR 2.0 million; 2014: EUR 4.5 million) and interest expenses to banks (including guarantee fees and other interest-like expenses) in the total amount of EUR 7.1 million (PY: EUR 3.0 million).

At EUR -8.4 million, the result from ordinary activities yielded by the above-mentioned items was nominally higher than the prior-year figure (EUR -70.1 million). However, these nominal numbers were influenced by the above-mentioned impairment losses and other non-recurring effects.

As in the prior years, the tax result of SKW Stahl-Metallurgie Holding AG was of minor importance. Therefore, the rounded fiscal year net loss (earnings after taxes) of SKW Stahl-Metallurgie Holding AG was equal to the above-mentioned result from ordinary activities in both 2015 and 2014.

At EUR -60.8 million, the accumulated loss of SKW Stahl-Metallurgie Holding AG was greater than the prior-year figure (EUR -52.4 million), due to the net loss incurred in 2015. Given its importance for the Company's ability to pay dividends, the distributable profit or accumulated loss is still the central, long-term financial performance indicator for the parent company SKW Stahl-Metallurgie Holding AG. Due to the accumulated loss, no dividend can be paid for fiscal year 2015, as in the prior year. The medium-term restoration of the ability to pay dividends remains the central income-related objective of the parent company SKW Stahl-Metallurgie Holding AG.

7.2. Financial position and cash flows of the Group's parent company

The total assets of the parent company SKW Stahl-Metallurgie Holding AG amounted to EUR 69.3 million at the reporting date, nearly unchanged from the prior-year figure (EUR 71.9 million). Noncurrent assets (EUR 61.1 million; PY: EUR 60.7 million) were mainly composed of interests in affiliated companies (EUR 30.7 million; PY: EUR 30.3 million) and loans to affiliated companies (EUR 29.9 million; PY: EUR 30.3 million). A strategic partner holds an equity interest of less than 50% in both Tecnosulfur (Brazil) and the deconsolidated SKW-Tashi Metals & Alloys Private Ltd. (Bhutan); otherwise, all direct equity investments were held in full by SKW Stahl-Metallurgie Holding AG at the reporting date.

In total, current assets declined from EUR 11.0 million to EUR 6.4 million. The most important items of current assets are receivables due from affiliated companies (EUR 3.2 million; PY: EUR 5.9 million) and cash on hand and cash in sight deposits (EUR 3.0 million; PY: EUR 4.4 million).

With respect to equity, a loss of more than half of share capital occurred in 2015; in accordance with Section 92 of the German Stock Corporations Act (AktG), the Executive Board is required to convene a general meeting immediately to formally announce this loss. In addition, the Company's equity was completely depleted, making it necessary to recognize a deficit not covered by equity in the amount of EUR -1.2 million; in the prior year, equity amounted to EUR 7.2 million.

Provisions (2015: 7.4 million; 2014: EUR 5.9 million) included an amount of EUR 3.4 million (2014: EUR 2.7 million) in pension provisions, which related to two former Executive Board members, and to a lesser extent a former employee. Although all three beneficiaries no longer work for the Company, actuarial conditions (particularly the low level of interest rates) necessitated a EUR 0.7 million increase in pension provisions in 2015.

The liabilities of SKW Stahl-Metallurgie Holding AG consisted particularly of liabilities due to banks, which amounted to EUR 58.1 million at the reporting date, that being slightly higher than the prior-year figure (EUR 54.5 million).

The Group's parent company SKW Stahl-Metallurgie Holding AG disposed of sufficient liquidity at all times in 2015, particularly thanks to the syndicated loan agreement concluded in January 2015 for an amount of up to EUR 86 million (maturity: until the start of 2018). This syndicated loan agreement contains agreements on key financial ratios, so-called financial covenants. As mentioned in the consolidated interim financial statements at September 30, 2015 some of these financial covenants were not fulfilled as of this reporting date. This unexpected development can be attributed first to the fact that the massive downturn in the steel industry could not be completely made up despite active countermeasures, and second to the fact that some exchange rates relevant for the SKW Metallurgie Group (primarily BRL/EUR) developed in a way that was unforeseeable.

Failure to fulfill the agreed covenants entitles the lenders to terminate the loan without notice. At the Company's request, the financing banks agreed in October 2015 to issue a waiver against payment of a fee for the time until February 29, 2016; after the end of the reporting period, but before the preparation of the present Management Report, this waiver was extended against payment of a fee for the time until May 31, 2016. A key basis for this waiver was a restructuring report containing a positive going-concern forecast. The period of time until May 31, 2016 will be used to conduct negotiations with the goal of adapting the financial covenants to the intervening developments in the steel industry ("steel crisis") in line with market conditions and thus renegotiating the basic conditions of the loan agreement. The assurance of this financing is critical to the continued going-concern status of SKW Stahl-Metallurgie Holding AG and the SKW Metallurgie Group after June 1, 2016.

The Executive Board considers it highly probable that these ongoing negotiations will be concluded with an acceptable result for all parties by May 31, 2016, thereby assuring the financing particularly of the parent company SKW Stahl-Metallurgie Holding AG at least until 2018, so that the separate financial statements as of December 31, 2015 can be prepared on the assumption of the positive going-concern forecast for SKW Stahl-Metallurgie Holding AG. At the time of preparing the present Management Report, however, it was not assured that the parent company SKW Stahl-Metallurgie Holding AG will have enough liquidity to continue its operations beyond May 31, 2016. Any significant changes to the syndicated loan agreement, and certainly the complete termination of that agreement would pose an existential threat to the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG. Therefore, the status of a going concern in 2016 and 2017 will depend on the successful conclusion of the aforementioned negotiations.

7.3. Financial reporting process of the Group's parent company

An adequate and orderly financial reporting process is of great importance to SKW Stahl-Metallurgie Holding AG; this process also includes the financial reporting-related components of the Internal Control System (ICS). However, the day-to-day business of the Group's parent company SKW Stahl-Metallurgie Holding AG is characterized by a low degree of standardization. Consequently, relatively few transactions are conducted, but they mostly pertain to complex individual matters. Otherwise, the financial reporting system of the Group's parent company is integrated with the Groupwide financial reporting-related control system described in Section 12.6.

8. Research and development activities secures the Group's future viability

As in prior years, intense research and development (R&D) activities are still strategically important unique selling propositions for the SKW Metallurgie Group. The Group's R&D activities serve to enhance the sophisticated technical advice provided to customers and to develop new products. For this reason, research and development activities are of great importance to the SKW Metallurgie Group. SKW Metallurgie Group has organized its R&D activities within a cross-border, cross-company network ("Innotech").

By further intensifying its R&D activities and integrating them by operating segment on a Groupwide basis, the SKW Metallurgie Group strives to fulfill its enhanced claim of worldwide technology leadership in all applications of primary and secondary metallurgy. In total, the SKW Metallurgie Group recognized R&D expenses of EUR 1.7 million in 2015 (PY: EUR 1.5 million).

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9. Corporate social responsibility for the environment, people, and society

SKW Metallurgie Group is committed to the guiding principle of securing equal quality of life for current and future generations through a course of development in which ecological, economic, and social considerations are integrated in a sustainable manner. Sustainable business is a core element of the business policy of the SKW Metallurgie Group, one that contributes to the goal of securing the Company’s long-term success. Under this sustainability approach, equal consideration is given to the factors of environment, people, and society, as well as economic success. The minimization of environmental risks and burdens is an important non-financial key performance indicator throughout the SKW Metallurgie Group. In general, the Group understands environmental protection not as a limitation, but as an opportunity for responsible business conduct.

The raw materials used in production and the finished products of the SKW Metallurgie Group are transported worldwide; for the most part, outside shipping companies are used for this purpose. The Group chooses its logistical partners carefully; however, the responsibility for environmental threats that could occur in transport lies with the shipping company, as a rule. SKW Metallurgie Group gives preference to environmentally friendly modes of transport such as rail transport and maritime transport over road transport; in this way, it makes a contribution to reducing the carbon dioxide emissions of road transport, and thus to global climate protection.

As a globally leading specialty chemicals company, the SKW Metallurgie Group continues to participate actively in the European REACH process. REACH (which stands for “Registration, Evaluation, Authorisation and Restriction of CHemicals”) is based on a Directive of the European Union (EC 1907/2006) that entered into force on June 1, 2007. The goal of REACH is to enhance the protection of human health and the environment through the improved and earlier identification of the intrinsic properties of chemical substances. Another goal of REACH is to enhance the innovation capacity and competitiveness of the EU chemicals industry.

10. Motivated employees as a success factor

10.1. Highly international workforce

The abilities and commitment of the Group's employees are crucial to the success of the SKW Metallurgie Group. At the end of fiscal year 2015, the SKW Metallurgie Group had 655 employees worldwide (excluding the investment in India, which is accounted for at equity). A comparison with the prior-year workforce is not informative due to the changes in the consolidation group. About 97% of employees work outside of Germany; most employees are full-time workers.

Due to the small number of part-time workers, the Group does not state its workforce in terms of full-time equivalents. In principle, the Group takes a positive attitude to part-time work, also for the sake of a healthy work-family balance.

Most employees working in the production facilities are industrial workers.

The breakdown of employees by country and segment at December 31, 2015 (excluding the deconsolidated Bhutanese company) is presented in the table below:

Segment / Country	Total	Prior Year
North America segment:		
USA & Canada	274	302
Mexico	14	10
South America segment:		
Brazil	136	125
Europe and Asia segment:		
France	137	137
Russia	21	9
East Asia	45	54
Other and Holding Company segment:		
Germany	25	25
USA	3	3
Total	**655**	**665**

A significant percentage of the SKW Metallurgie Group's workforce is located in the USA and Canada. In these countries, a particularly strong emphasis is placed on a non-discriminatory work environment; this topic is also gaining importance in Europe. Therefore, the "equal-opportunity employer" principle is very important throughout the SKW Metallurgie Group. Accordingly, the SKW Metallurgie Group hires and promotes its employees on the basis of qualifications and performance, irrespective of legal requirements. The SKW Metallurgie Group takes a positive view of diversity in its workforce.

An important aspect of diversity is the equal treatment of male and female employees. The SKW Metallurgie Group strives to ensure that both sexes are represented on all functional and hierarchical levels. In this endeavour, however, the Group must also consider the degree to which female job applicants are available in the market for certain job profiles (e.g. university degree in metallurgy or a comparable subject). In this respect, the SKW Metallurgie Group's situation can be characterized as follows:

→ Industrial positions (production workers) are staffed by men in many cases.

→ Higher-level functions with a strong technical orientation (e.g. metallurgical applications engineers) are likewise staffed by men for the most part because very few female applicants are available for such positions.

→ In all other positions, both sexes are represented appropriately in the SKW Metallurgie Group.

The SKW Metallurgie Group strives to further improve the diversity of its workforce, particularly with respect to the appropriate representation of both sexes.

10.2. Market-oriented compensation systems

The compensation systems for the SKW Metallurgie Group's employees are conformant with applicable laws and regulations and appropriate for the market practices of each country. In the European countries, the collective wage agreements for the chemical industry apply to some employees. The benefits granted to employees in accordance with legal requirements and the other contractual or voluntary benefits granted are also conformant with market standards in each country. In particular, the SKW Metallurgie Group promotes the employees' participation in healthcare and pension plans, in some cases beyond the legally required minimum standards. For example, some of the current and former employees of the German, Japanese, and French Group companies, as well as two former members of the Executive Board, are covered by an employer-financed pension system. The commitments granted in this connection are covered by pension provisions.

10.3. Trustful cooperation with employees

SKW Stahl-Metallurgie Holding AG as the parent company of the SKW Metallurgie Group was not legally required to maintain a codetermination system, nor did it voluntarily maintain such a system in 2015. Therefore, all members of the Supervisory Board represent the shareholders and there are no employee representatives on this board.

Employee and labour union representative bodies were in place in some subsidiaries of the SKW Metallurgie Group in 2015, in accordance with the national laws in the respective country; there was no employee representative body in the parent company SKW Stahl-Metallurgie Holding AG. Cooperation with the local employee representative bodies is characterized by mutual understanding and solutions that uphold the interests of both sides. In both 2015 and 2014, there were no speaker committees within the meaning of the German Executive Staff Committee Act, nor any other body representing executive staff in the SKW Metallurgie Group.

Occupational safety, also beyond the minimum standards of law, is a matter of great importance to the SKW Metallurgie Group. In general, the work atmosphere in the SKW Metallurgie Group is characterized by mutual respect and trust. Great value is placed on direct access to supervising managers, short decision paths, and a high degree of work autonomy.

10.4. Positive work environment

There is a low degree of employee turnover among permanent employees of the SKW Metallurgie Group. The strong affinity of employees with the SKW Metallurgie Group as an important non-financial key performance indicator confirms the success of the philosophy of the Group Executive Board and local management that an attractive work environment creates satisfied employees, who represent an important competitive advantage for the Group. Well trained employees are an essential success factor for the SKW Metallurgie Group. Therefore, the training and continuing education of the entire workforce, including senior managers, is an important part of the corporate philosophy of the entire SKW Metallurgie Group.

10.5. Compensation of the Supervisory Board and Executive Board (Compensation Report)

All compensation structures in the SKW Metallurgie Group, including those of employees and the Executive Board and Supervisory Board, are guided by the principles of appropriateness and performance.

In accordance with legal requirements, details of the compensation of the Supervisory Board and Executive Board in 2015 are presented in the following (Compensation Report):

I. Supervisory Board

The compensation of Supervisory Board members includes no compensation components that are dependent on the business performance of the Group. Instead, their compensation is divided into fixed compensation and attendance fees.

The annual fixed compensation is EUR 12 thousand for each member of the Supervisory Board; the Chairman receives 1.5 times, and the Vice Chairman receives 1.25 times this amount.

Attendance fees are paid for in-person meetings. Each Supervisory Board member receives an attendance fee of EUR 1 thousand for every meeting of the full Supervisory Board. Each committee member receives an attendance fee of EUR 1 thousand for every meeting of Supervisory Board committees; the Chairman receives 1.5 times this amount. Accordingly, the following total amounts were expended on Supervisory Board compensation in fiscal year 2015:

EUR thousand	Fixed compensation	Attendance fees	Total
Armin Bruch	12	9	21
Reto Garzetti	7	6	13
Dr. Hans Liebler (until 11/30)	11	4	15
Dr. Dirk Markus (until 02/28)	2	0	2
Jochen Martin	15	9.5	24.5
Jutta Schull	12	5.5	17.5
Titus Weinheimer	18	6.5	24.5
Total	**77**	**40.5**	**117.5**

*Provisions for the activity of the Supervisory Board in 2015; these amounts will be paid in 2016.

In accordance with Article 12 of the Company's Articles of Association, the necessary expenditures of Supervisory Board members are reimbursed in addition to the compensation presented above. In 2015, these expenditures consisted of travel and entertainment costs, which were reimbursed at the maximum rates allowed by the German Income Tax Act.

As in prior years, the Company assumed the costs of a D&O insurance policy that covers members of the Executive Board and Supervisory Board and other senior managers. In accordance with the rules of the German Corporate Governance Code, a deductible of 10% of any claim, up to an amount equal to one and a half times the fixed annual compensation, was agreed as part of the D&O insurance policy for the members of both the Executive Board and the Supervisory Board.

No advances, loans or contingent liabilities were extended in favour of Supervisory Board members in 2015.

The Company has made no pension commitments to members of the Supervisory Board and their survivors.

Any applicable value-added tax is paid in addition to, and any income tax withholdings are deducted from all payments to Supervisory Board members.

II. Executive Board

In 2015, the Executive Board was composed of Dr. Kay Michel (CEO), as well as Ms. Sabine Kauper (CFO) until October 31, 2015.

The compensation of the members of the Executive Board is oriented to the tasks and individual contributions of each Executive Board member to the Group's overall success. Other benchmarks considered for this purpose were the size and activity of the Company, its economic and financial condition, and the amount and structure of Executive Board compensation at comparable companies. Agreements with Executive Board members for the event of an early termination of Executive Board activity completely fulfilled the requirements of the German Corporate Governance Code at the reporting date.

At the reporting date, no agreements were in effect with Executive Board members for the event of a change of control resulting from a takeover offer.

As a matter of principle, Executive Board compensation comprises both non-success-dependent and success-dependent components.

The non-success-dependent compensation includes the annual fixed compensation, which is established for the full term of the Executive Board member's appointment, calculated pro rata temporis for every started calendar year, and paid every month as a salary. In addition, Executive Board members receive in-kind compensation, which is established in the amount of the individually taxable values and to which every member is entitled in the same amount, as a general rule. In-kind compensation mainly consists of the company car made available to Executive Board members also for private use, for which each Executive Board member pays tax individually, and the occupational-specific insurance premiums, which were either not counted as income or taxed at a flat rate in accordance with the German Income Tax Act. In fiscal year 2015, the Company particularly assumed the expenses for a D&O insurance that protects the members of the Executive Board and Supervisory Board, as well as other senior managers of the Company. In accordance with Section 93 (2) (3) AktG and the provisions of the German Corporate Governance Code, a deductible of 10% of any claim, up to an amount equal to one and a half times the fixed annual compensation, was agreed as part of the D&O insurance policy for the members of both the Executive Board and the Supervisory Board. Due to their exemption from obligatory participation in the statutory pension and unemployment insurance scheme, no contributions to the statutory pension and unemployment insurance scheme are deducted from the compensation of Executive Board members; therefore, the Company also does not pay the corresponding employer contributions.

The success-dependent compensation of the Executive Board is based on a Groupwide management bonus system. In the framework of this system, targets are defined particularly with respect to the Group's financial performance indicators and the Executive Board members' personal performance, at the beginning of the fiscal year; in addition, a maximum bonus amount is defined. The degree of target attainment and therefore the bonus amount are determined at the end of the fiscal year. Due to the Company's special situation (restructuring and turnaround phase), the Supervisory Board considers it possible and expedient to waive the multiyear assessment base (within the meaning of Section 87 (1) (3) AktG) for fiscal year 2015.

In connection with the departure of Ms. Kauper from the Company's Executive Board, the Company entered into a termination agreement with her. Under this agreement, all claims of Ms. Kauper for the year 2015 were conclusively determined; all compensation components are presented below.

The affected companies do not pay compensation to members of the Group Executive Board for mandates held with consolidated subsidiaries. Members of the Group Executive Board also serve on the board of the non-consolidated company Jamipol; Jamipol paid attendance fees for board meetings attended in fiscal year 2015, but these amounts have no longer gone to the members of the Group Executive Board since 2014.

No expenses were incurred in fiscal year 2015 for Executive Board compensation for fiscal year 2014.

Beyond the detailed information on the compensation of the Company's Executive Board members, no advances, loans or contingent liabilities were extended in favour of Executive Board members.

The following total amounts were expended for Executive Board compensation in fiscal year 2015 (the non-cash benefit is presented for in-kind compensation):

EUR thousand	Dr. Kay Michel (full year)	Sabine Kauper***	Total
Fixed compensation	380*	233*	613
In-kind compensation (company car)	13	6	19
Employer's contributions to healthcare and nursing care insurance	4	3	7
Variable compensation for 2015**	455	275	730
Total	**852**	**517**	**1,369**

* Including the pension component, which included a cash settlement of EUR 80 thousand for Dr. Michel and life insurance premiums of EUR 80 thousand for Ms. Kauper in 2015.
** Paid partially in advance for Ms. Kauper in accordance with the termination agreement discussed in the text, otherwise a provision for Dr. Michel and Ms. Kauper (to be paid in 2016).
*** Member of the Executive Board until October 31, 2015; the total compensation presented here refers to the compensation for 2015 as per the termination agreement.

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III. Former members of the Supervisory Board and Executive Board

The Company has extended pension commitments to the former Executive Board members Ines Kolmsee and Gerhard Ertl. The beneficiaries are entitled to a lifelong old-age pension from the time when they complete their 62nd year of life. The Company increases current pension benefits by 1% per year in accordance with the requirements of law. No further adjustment is made. The pension commitment includes the option of early retirement starting from the 60th year of life (in which case the pension benefit is reduced accordingly), as well as disability and survivor's benefits. The pension commitments are contractually vested. Insofar as the statutory vesting conditions are also met, the pension commitments are protected against the Company's insolvency by the Pension Protection Fund (Pensions-Sicherungs-Verein); the Company pays the premiums for the insurance against insolvency. No pension benefits were payable in fiscal year 2015. Calculated in accordance with the German Commercial Code (HGB), the expenses incurred in 2015 for the pensions of former Executive Board members (excluding incidental expenses such as the actuarial report, contributions to the Pension Protection Fund, etc.) amounted to EUR 689 thousand, of which EUR 469 thousand for Ms. Kolmsee and EUR 220 thousand for Mr. Ertl; calculated in accordance with IFRS, these expenses amounted to EUR 118 thousand, of which EUR 80 thousand for Ms. Kolmsee and EUR 38 thousand for Mr. Ertl.

The settlement amount (HGB) for the pension commitment to Mr. Ertl and his survivors was EUR 1,159 thousand at the reporting date (PY: EUR 938 thousand).

The settlement amount (HGB) for the Company's pension commitment to Ms. Kolmsee and her survivors was EUR 2,318 at the reporting date (PY: EUR 1,850 thousand).

The SKW Metallurgie Group has made no pension commitments to any other former members of the Company's Executive Board and Supervisory Board and their survivors.

11. Important events after the reporting date

On March 1, 2016, the banks participating in the syndicated loan agreement agreed, at the Company's request and on the basis of a restructuring report containing a positive going-concern forecast, to extend the waiver of termination under the extraordinary termination right resulting from the non-fulfillment of contractually agreed financial covenants for the time until May 31, 2016 (original date: February 29, 2016).

The judgment of the European Court of Justice on the antitrust fine mentioned in Section 12, which had been expected at the start of 2016, had not yet been issued at the time of preparation of the present Management Report.

Otherwise, no events of particular importance for the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG became known in the time between the end of the reporting period on December 31, 2015 and the preparation of the present Management Report.

12. Report on opportunities and risks

12.1. Professional management of risks and opportunities

The SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG as the holding company attach great importance to the continuous recognition and evaluation of opportunities and risks and takes appropriate measures where applicable to optimally exploit opportunities and limit risks. Opportunities and risks are integral aspects of business activity, also for the SKW Metallurgie Group. Naturally, the Group's future business development is associated with both risks and opportunities. The risk policy is to exploit existing opportunities and to limit risks through the use of appropriate instruments and to maintain an at least neutral risk position. Risk management is also conducted with the aid of a value-driven management approach and active management of the Group by the Group's parent company. At the SKW Metallurgie Group, risk management is organized as a comprehensive system covering all the Company's activities and areas, which comprises a systematic approach based on the elements of risk identification, analysis, assessment, control, documentation and communication, and particularly consists of the elements described in the following. The early risk detection system of the SKW Metallurgie Group comprises a detailed Risk Handbook and a software tool tailored specifically to the Group's needs. This assures both early detection and solution-oriented analysis of risks and makes it easier to immediately take appropriate measures. Risk classification and the assessment of individual risk types are conducted on a uniform, quantitative basis throughout the Group, except in specific cases when the quantification of qualitative risks is not meaningfully possible. Risks are presented in order of their relative importance on the basis of a ranking. The ranking of risks is determined with reference to the probability of occurrence and the potential effects on the attainment of forecasts or goals. All key goals are ranked or classified according to their importance in a risk summary. In aggregating similar risks into categories, the Group may utilize the internal risk classification system employed for risk management purposes; the risk management system assigns risks to the categories of "Operations", "Finance", "Market-related and other external risks and chances", and "Legal risks and chances". The SKW Metallurgie Group pursues a risk-averse business strategy and attempts to minimize the probability of occurrence and amount of risks. To the extent that gross risks cannot be minimized or not economically minimized, net risks are reduced (e.g. by means of insurance coverage), to the extent possible and economically sensible. In addition, the Group employs an information system to ensure that the governing bodies of the Group's parent company are promptly notified of risk developments. As part of this system, risk management information is regularly reported to the Executive Board, which promptly forwards relevant information to the Supervisory Board. Once an individual risk is identified, it must be reported immediately when the corresponding threshold value is passed. This triggers an immediate notification (in documented form to the competent Executive Board member (or sole Executive Board member) and to the internal risk manager). At the SKW Metallurgie Group, all risk management rules and processes are reviewed regularly and adapted when necessary by an internal risk manager. Gross risks and net risks, as well as opportunities, are monitored under the risk management system of the SKW Metallurgie Group. The consolidation group for risk management purposes is the same as the consolidation group for financial reporting purposes.

12.2. Presentation of the individual risks of the SKW Metallurgie Group

Based on the comprehensive risk management system of the SKW Metallurgie Group and the analysis of external sources (e.g. forecasts of economic research institutions and industry associations), the following business-strategy risks in particular have been identified for SKW Stahl-Metallurgie Holding AG and its Group companies in total (SKW Metallurgie Group). The risks described below include all discernible material risks at the current time. Other risks and uncertainties that are currently not known to the Executive Board or which the Executive Board considers to be immaterial at the current time could also cause considerable harm to the Group's business operations and produce adverse effects on the overall prospects and the financial position, cash flows, and financial performance of the SKW Metallurgie Group. Moreover, the risks described in this report are gross risks; in the case of some risk factors, the net risk is considerably less than the gross risk due to the implementation of suitable measures (e.g. insurance coverage). Unless otherwise indicated (e.g. attribution of legal topics to certain Group companies), the opportunities and risks described below always pertain to all Group companies and segments, especially considering that all operating Group companies except SKW Quab generate most of their revenues with customers in the same industry (steel industry).

Economic risks

The SKW Metallurgie Group is dependent on the development of general economic conditions and quantity-affecting cyclicity of its specific customer industry. The general economic situation and the development of the Group's markets directly affect the demand for the Group's products and the Group's business situation. At the present time, the macroeconomic situation of the European Union and particularly the Eurozone is still beset with risks. These risks are particularly pronounced in the Mediterranean Eurozone countries like Cyprus, Greece, Italy, and France. With regard to steel production in the European Union, attention must be given to the risk of consolidation of production sites; particularly relevant in this regard is the risk of closure of production sites with which the SKW Metallurgie Group generates disproportionately high revenues. With regard to China, attention must be given to the risk that Chinese steel production increases in quantitative and/or qualitative terms, and/or domestic steel demand declines, so that Chinese steel products would be increasingly substituted for the products of domestic manufacturers in countries outside of China. The specific risk to the SKW Metallurgie Group lies in the fact that it currently generates considerably less revenues with Chinese steel mills than with the steel mills of other countries. With regard to Russia, attention must be given to the risk that the current political and economic crisis would lead to more serious economic consequences, making it impossible for the Russian Group company to attain its revenue and earnings targets.

The customer industries of the SKW Metallurgie Group are subject to economic fluctuations that also have a direct effect on the Group. For example, customers could be lost as a result of insolvencies, for example, without leading to a commensurate increase in demand among other customers (risk of lost revenues). It is also possible that customers reduce the volume of goods they buy from the SKW Metallurgie Group due to the aggressive pricing policies of local competitors, for example. While such local competitors offer lower-quality products, their prices are lower than those of the SKW Metallurgie Group's products. The SKW Metallurgie Group counters this risk by intensifying its sales activities, particularly by way of a holistic sales approach taken by all Group companies. Some Group companies generate most of their revenues with relatively few large customers, so that the loss of such a customer or a change in the customer's payment behaviour could have considerable effects on the respective Group company. The SKW Metallurgie Group as a whole generates about 20% of its revenues with a single customer company. Otherwise, the SKW Metallurgie Group is not significantly dependent on individual customers; the distribution of revenues is monitored on a regular basis. The SKW Metallurgie Group monitors and assesses every customer relationship individually; there are no Groupwide standards for payment reminder periods or payment terms, for example.

Price risks are of less importance to the Group because there is usually a positive correlation between procurement prices and sales prices. Some products, however, are priced with a percentage margin on the raw material price, and therefore the absolute margin declines in the case of falling prices. In some markets, moreover, there is also a risk that margins could come under pressure due to intense price competition, despite the superior quality of the SKW Metallurgie Group's products.

The products manufactured and distributed by the SKW Metallurgie Group primarily in Europe, the Americas (NAFTA countries and Brazil), and some Asian countries at the present time are used (directly or indirectly) almost exclusively in the steelmaking industry (with the exception of the products of SKW Quab). The production quantities of the (higher-quality) steel grades that are relevant to the SKW Metallurgie Group depend in turn on the demand for high-quality steel products in the automobile, shipbuilding, and mechanical engineering industries, and in plant engineering for the chemical and petrochemical industries; oil and gas production (including shale gas production) is particularly relevant to the Group.

In the Quab segment, the Group produces additives for the production of industrial starch, which is used primarily in the papermaking industry. Although many predicted that the increased use of electronic communications would put an end to, or at least reduce the use of paper, this prediction has not proved true to date. This can be explained in part by the fact that a significant percentage of paper production is used not in communication, but in packaging and hygiene products, for example. Another customer industry for Quab products is the bodycare products industry, where Quab's products are used in shampoos, conditioners, and shower gels. This industry is also relatively crisis-resistant and is growing considerably in emerging-market countries like India and China. Furthermore, the growing use of fracking technology to extract shale gas created additional uses for Quab's specialty chemicals in the last few years; in this area, Quab is exposed to the risk of reduced competitiveness of fracking due to falling energy prices and as a result of growing environmental concerns and protests.

The economic success of the SKW Metallurgie Group is also determined in part by its successes in research and development. In this context, attention must be given to the risk that when patents expire, the previously protected techniques may be employed by competitors or even by customers, which could put pressure on the Group's profit margins (which are already under pressure due to market conditions). The SKW Metallurgie Group minimizes this risk by means of active patent management: Whenever possible and advisable, expiring patents are prolonged. The Group also obtains patents for new research, thereby securing new technological advantages that could potentially offset the economic effects associated with the expiration of non-prolongable old patents.

The steel industry as the Group's most important customer industry is characterized by global federations; procurement functions are also being increasingly centralized. As described in the report on opportunities, the SKW Metallurgie Group perceives this development as an opportunity, but there is also a risk that the Group's sales quantities and margins could come under pressure and that it would no longer be impossible to uphold regional differences in prices and other terms, despite the appropriateness of such differences due to different transport costs, for example.

Legal topics related to the Bhutanese company

Beyond the topics discussed in the present annual report (particularly the joint liability of SKW Stahl-Metallurgie Holding AG for EUR 0.6 million in relation to an external loan granted to the Bhutanese company), neither SKW Stahl-Metallurgie Holding AG nor one of its Group companies is subject to any joint liability or obligation to make additional capital contributions to the insolvent Bhutanese Group company.

The arbitration tribunal of the International Chamber of Commerce (ICC) would be competent to hear any possible legal disputes with the joint venture partner. The SKW Metallurgie Group will not hesitate to represent the legitimate interests particularly of SKW Stahl-Metallurgie Holding AG and its shareholders before that tribunal when appropriate, regardless of whether such a proceeding is sought by the joint venture partner or by the SKW Metallurgie Group. Based on the information available at the present time, adequate provisions have been recognized to account for arbitration proceedings that are expected to occur with a probability of more than 50%.

Substitution risks

Substitution of the Group's products with another technology is currently deemed to be unlikely. The Group supplies raw materials and services for all currently known techniques of pig iron desulphurisation; therefore, the substitution of one technique (e.g. calcium carbide-based desulphurisation) with another (e.g. magnesium-based desulphurisation) would not fundamentally threaten the Group's business model. There is no known mature technology that could completely replace pig iron desulphurisation as a production step in steel making. The only conceivable alternative would be to produce pig iron through direct reduction, which would not require any desulphurisation; low-cost energy could help this method gain traction. However, the SKW Metallurgie Group is also developing products for direct reduction, so that the Group's business model would not be threatened, although direct effects on individual locations cannot be ruled out. Producing all needed steel exclusively from scrap, which would also not require any desulphurisation, is not feasible particularly due to the limited availability of high-quality steel. Also in secondary metallurgy, no known mature technology can achieve a comparable result without the use of materials marketed by the SKW Metallurgie Group. Even though cored wires could be replaced with lances, the products offered by the SKW Metallurgie Group would still be needed (as filler material) and furthermore, lance technology is inferior to cored wire technology (e.g. maintenance intensity).

In the automobile industry, there is a trend towards lighter materials for the sake of reducing weight and saving fuel. While the use of materials such as carbon or aluminium is growing, they can be used as a substitute for steel only in part (e.g. in niche markets such as small-series race cars). Instead, previously used steel grades are being replaced with high-tensile steel products; this trend towards higher steel qualities will further increase demand for the quality products of the SKW Metallurgie Group because higher steel qualities entail a greater need for SKW Metallurgie's products, all other things being equal. Based on the current state of the art, moreover, the substitution of steel with other ready-for-series-production materials in other central application areas (e.g. bridge building) is not foreseeable.

Risks of the restructuring and turnaround process

The SKW Metallurgie Group began implementation of the ReMaKe program in 2014 and extended this program in 2015 by adding a package of initiatives and measures known as ReMaKe 2.0. Despite early successes, there is a risk that the program's objectives will not be attained, or not completely, or not on time. The actuation of this risk could have effects on the Group's access to credit (e.g. due to breaches of financial covenants, for example). There is also a risk that greater-than-planned expenditures could be incurred for ReMaKe 2.0.

Procurement risks

The secure supply of high-quality raw materials is essential to the success of the SKW Metallurgie Group. Even though the SKW Metallurgie Group currently regards the prompt supply of every required raw materials at fair market prices as secured, there is a risk that the situation in the relevant procurement markets could change to the detriment of the SKW Metallurgie Group. Possible price increases for raw materials could be largely passed on to customers through price adjustments. Because the price elasticity of demand for the products of the SKW Metallurgie Group is relatively small in the short term, higher prices for the SKW Metallurgie Group's products as a result of higher prices for raw materials would not lead to significant changes in demand quantities in the short term. As part of a general, ongoing effort, the Group develops relationships with other suppliers in order to avoid excessive dependence on one or few sources of raw materials. Nevertheless, there is a risk that the Group would not be able to procure sufficient quantities of certain raw materials at appropriate prices at the desired time and place. The procurement markets for some raw materials needed by the SKW Metallurgie Group are characterized by oligopolistic structures, which strengthen the market power of suppliers of raw materials. However, a continuation of the vertical integration strategy pursued in the past cannot be justified, given the risks mentioned above. Ultimately, no significant supply bottlenecks for the raw materials needed by the SKW Metallurgie Group are foreseeable. Possible limitations on the supply of raw materials from a given source can expectedly be made up through alternative procurement channels.

Personnel risks

The success of the SKW Metallurgie Group is highly dependent on its employees in management positions and in key technological positions. Highly qualified employees are needed in both these areas. Due to its lean structure and dependence on key persons in some areas, the Group is generally dependent on key personnel. Throughout the SKW Metallurgie Group, there is a risk that the change process initiated by the new Executive Board and the heightened operational coordination of Group companies by the parent company would not be supported by some employees, which could result in a higher rate of staff turnover.

Borrowing risks, especially in connection with the ongoing negotiations on the syndicated loan agreement

The financial situation of the SKW Metallurgie Group was stabilized in January 2015 with the signing of a syndicated loan agreement for up to EUR 86 million, with maturity until the start of 2018. This syndicated loan agreement covers 100% (aside from overdrafts) of the borrowing needs of SKW Stahl-Metallurgie Holding AG and most of the borrowing needs of the SKW Metallurgie Group. The credit line is currently not completely drawn down and is sufficient to finance all foreseeable transactions in 2016 and 2017.

The loan agreements of the SKW Metallurgie Group (particularly including the syndicated loan agreement) contain agreements on key financial indicators, so-called financial covenants, the details of which are regularly adapted to current developments by agreement of the parties. Financial covenants serve the purpose (among others) of adjusting the interest rate to fair market levels (“margin step-up”). In case of failure to fulfill certain financial covenants, moreover, the creditors are entitled to an extraordinary termination right. In this connection, the following important event occurred in fiscal year 2015: The financial statements at September 30, 2015 did not fulfill the financial covenants for the first time, due to the development of exchange rates, which the Group cannot influence, and the much weaker-than-planned market conditions in the steel industry.

At the Company’s request, the financing banks agreed in October 2015 to issue a waiver against payment of a fee for the time until February 29, 2016; after the end of the reporting period, but before the preparation of the present Management Report, this waiver was extended against payment of a fee for the time until May 31, 2016. A key basis for this waiver was a restructuring report containing a positive going-concern forecast. The period of time until May 31, 2016 will be used to conduct negotiations with the goal of adapting the financial covenants to the intervening developments in the steel industry (“steel crisis”), in line with market conditions.

The Executive Board expects considers it highly probable that these ongoing negotiations will be concluded with an acceptable result for all parties by May 31, 2016, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG at least until 2018. At the time of preparing the present Management Report, however, it was not assured that the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG will have enough liquidity to continue their operations beyond May 31, 2016. Any significant changes to the syndicated loan agreement, and certainly the complete termination of that agreement would pose an existential threat to the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG. Therefore, the status of a going concern in 2016 and 2017 will depend on the successful conclusion of the aforementioned negotiations.

Other financial and currency risks

The SKW Metallurgie Group is still dependent on assured external financing. The great majority of this external financing is procured by the parent company SKW Stahl-Metallurgie Holding AG and passed on to subsidiaries in the form of intragroup loans as needed. Assuming the continuation of the syndicated loan agreement, the SKW Metallurgie Group disposes of adequate external financing, particularly for the remainder of the plan year 2016 and 2017, when only a small amount of net additional financing (aside from the utilization of guarantees) will be needed, based on information available at the present time. However, the Group is still exposed to a theoretical liquidity risk if (for example) expected cash flows fail to materialize, or if they fluctuate to a greater degree than expected, or if the need for liquidity is greater than expected and cannot be obtained beyond the existing credit lines.

By reason of its international structures, the SKW Metallurgie Group is exposed to foreign currency risks to a considerable extent. The most important currencies for the Group by far are the reporting currency of the euro and the US dollar. An unexpected change in the exchange rate between these two currencies could have significant effects on the SKW Metallurgie Group because a significant percentage of Group revenues are generated in US dollars, also in 2016. The SKW Metallurgie Group employs forward exchange transactions or other financial derivatives for the sole purpose of hedging business transactions; thus, the Group does not engage in financial speculation. Instead, the primary goal of hedging activities is to hedge that part of transactional currency risk that cannot be hedged by means of natural hedging. In 2015 and particularly as of the reporting date, the Group employed financial instruments only to a minor extent. No additional risks of importance were incurred as a result of these financial instruments, which were only used to hedge transactional currency risks. Ultimately, financial derivatives are of minor importance for the financial position, cash flows, and financial performance of the SKW Metallurgie Group.

Compliance risks

The SKW Metallurgie Group trades (purchases and sells) numerous products in numerous jurisdictions around the world. Given the fact that the SKW Metallurgie Group also conducts business particularly in countries with complex, constantly evolving regulations, it is exposed to the risk particularly that it would not implement or react appropriately to regulations in a timely manner throughout the Group. As a general rule, every enterprise is exposed to the risk that employees or even senior officers could violate applicable law, either due to ignorance or by deliberate intent. To minimize such risks, the SKW Metallurgie Group has implemented a comprehensive compliance program under the leadership of SKW Stahl-Metallurgie Holding AG as the Group's parent company.

Legal and litigation risks of the SKW Metallurgie Group

In connection with its ordinary business activities, the SKW Metallurgie Group is involved in a number of legal cases, both in court and out of court. Those legal and litigation risks that do not fall within the scope of ordinary business activities, by reason of the subject matter or the amounts involved, at the reporting date are described in the following.

→ According to the fine decision of the EU Commission of July 22, 2009, SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH are jointly and severally liable for payment of a fine in the maximum amount of EUR 13.3 million (joint and several liability of SKW Stahl-

Metallurgie Holding AG, SKW Stahl-Metallurgie GmbH and Gigaset AG (formerly ARQUES Industries AG), although Gigaset AG is liable for a maximum amount of EUR 12.3 million; and joint and several liability of SKW Stahl-Metallurgie GmbH together with Evonik Degussa GmbH and AlzChem AG (formerly AlzChem Hart GmbH) for an amount of EUR 1.04 million). In coordination with the EU Commission, SKW Stahl-Metallurgie GmbH furnished bank guarantees for a total amount of EUR 6.7 million (50% of the maximum fine) plus interest, in order to avert legal enforcement measures. On this basis, Gigaset AG sued SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH as joint and several debtors, seeking payment of the amount already paid by Gigaset AG to the EU Commission in 2010. Gigaset AG lost this case in the first instance. The competent Munich I Regional Court dismissed the action of Gigaset AG in full by judgment of July 13, 2011 and also ruled that "in the inner relationship, the fine is to be borne by the plaintiff [Gigaset AG] alone." The appeal filed by Gigaset AG with the Munich Higher Regional Court was also dismissed in full by judgment of February 9, 2012. Making reference additionally to the grounds for the decision of the Regional Court's judgment, the Munich Higher Regional Court noted in its judgment that "not the defendants [SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH], but the plaintiff [Gigaset AG] [is required] to bear the fine". Gigaset AG appealed this judgment to the Federal Supreme Court. In 2014, the Federal Supreme Court initially referred some questions of this legal dispute to the European Court of Justice for a preliminary decision. By judgment of June 3 , 2014, however, the Federal Supreme Court withdrew its request for the European Court of Justice to issue a preliminary decision and at the renewed oral proceeding before the Federal Supreme Court on November 18, 2014 issued a judgment in this matter which set aside the judgment of the Munich Higher Regional Court and referred the matter back to the Munich Higher Regional Court for a renewed decision. From the Company's perspective, however, the Federal Supreme Court's deliberations at the time did not worsen the litigation position of the SKW Metallurgie companies with respect to the settlement of the joint and several liability between the SKW Metallurgie companies on the one hand and Gigaset AG on the other hand. In parallel with the aforementioned proceedings, SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH have been petitioning the European Court of Justice to reduce the amount of the fine which is the matter in dispute in the proceeding with Gigaset. By judgments of January 23, 2014, the General Court of the European Union dismissed the fine reduction actions of SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH against the EU Commission in full, and that of Gigaset AG for the most part. The action of Gigaset AG was granted only insofar as the fine imposed against Gigaset AG was reduced to EUR 12.3 million. The judgment of the General Court against the SKW Metallurgie companies is not yet final because these companies filed an appeal with the European Court of Justice on April 2, 2014. The judgment of the first instance is expected in early 2016, but had not yet been issued at the time of preparation of the present Management Report. The prospects for success of the action against the fine decision and public sources on the economic situation of Gigaset AG were re-evaluated in connection with the preparation of the separate financial statements of the Group's parent company and the consolidated financial statements of the Group. As a result, the existing provision was increased by EUR 7.3 million, from EUR 1.0 million to EUR 8.3 million, to account for heightened risks as of December 31, 2015. In summary, the SKW Metallurgie Group considers the amount of the provision recognized in respect of a possible fine to be appropriate and sufficient. No cash outflow is expected beyond the furnished guarantees, which are completely covered by existing lines of credit.

→ In relation to the purchase of shares in Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, the previous shareholders are claiming an amount in excess of the second purchase price tranche that was paid in 2012 (so-called "earn-out"). To clarify this matter, Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A and SKW Stahl-Metallurgie Holding AG filed an action for a negative declaratory judgment with the competent arbitration tribunal on July 19, 2013, asking the tribunal to find that they owe no further payments to the previous shareholders by reason of the earn-out clause stipulated in the share purchase agreement. At the same time, Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A and SKW Stahl-Metallurgie Holding AG are asserting claims for violation of a no-competition clause and for stalling the arbitration proceeding. The arbitration proceeding has since been suspended at the instigation of the previous shareholders, who do not acknowledge the competence of the arbitration tribunal and would like to have the question of the amount of the second purchase price tranche to be paid under the earn-out clause clarified by the regular courts. The plaintiffs oppose this view. After seizing the arbitration tribunal, the previous shareholders also sought to obtain a kind of “compulsory execution order “ against Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, based on the alleged enforceability of the earn-out clause in the share purchase agreement on the calculation of the second purchase price tranche. After further appeals were filed, the competent Brazilian appellate court is currently deciding all pending proceedings between the parties. Sufficient provisions have been recognized in the SKW Metallurgie Group to account for this matter.

Risks of goods procurement

The SKW Metallurgie Group is reliant upon the quality and reliability of its suppliers. Despite careful selection and monitoring, there is a risk that suppliers could commit criminal acts to the detriment of the SKW Metallurgie Group or its customers, or that suppliers or their products would otherwise prove to be unsuitable in retrospect.

12.3. Specific risks of the Group’s parent company SKW Stahl-Metallurgie Holding AG

Holding companies like SKW Stahl-Metallurgie Holding AG are subject to the risk that the shares they hold in their portfolio companies and their intragroup loans could lose value. Such risks arise particularly when the actual business performance deviates from plan assumptions, despite careful planning, or when reviews and updates of business plans result in substantial deviations from the original planning status. As described in Section 7, the holding company SKW Stahl-Metallurgie Holding AG found it necessary to recognize impairments in the value of the shares held in its portfolio companies and intragroup loans, due to the steel crisis. No further need for impairments is discernible at the present time.

Holding companies are also subject to the risk of not being able to secure sufficient financing to ensure the continuation of their business activities. The Company countered this risk in January 2015 by signing a syndicated loan agreement for up to EUR 86 million with maturity until 2018.

As described in Section 12.2. (Group risks), the lending banks agreed to issue a waiver against payment of a fee of their right to declare an extraordinary termination due to the failure to fulfill financial covenants as a result of the steel crisis. This waiver will remain in effect until May 31, 2016. This period of time will be used to conduct negotiations with the goal of adapting the financial covenants to the intervening developments in the steel industry (“steel crisis”), in line with market conditions.

The Executive Board considers it highly probable that these ongoing negotiations will be concluded with an acceptable result for all parties by May 31, 2016, thereby assuring the financing particularly of the parent company SKW Stahl-Metallurgie Holding AG at least until 2018. At the time of preparing the present Management Report, however, it was not assured that the parent company SKW Stahl-Metallurgie Holding AG will have enough liquidity to continue its operations beyond May 31, 2016. Any

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significant changes to the syndicated loan agreement, and certainly the complete termination of that agreement would pose an existential threat to the parent company SKW Stahl-Metallurgie Holding AG. Therefore, the status of a going concern in 2016 and 2017 will depend on the successful conclusion of the aforementioned negotiations.

Based on the comprehensive risk management system of the SKW Metallurgie Group, which also covers the parent company SKW Stahl-Metallurgie Holding AG, and the analysis of external sources (e.g. forecasts of economic research institutions and industry associations), the following other business-strategy risks in particular have been identified for SKW Stahl-Metallurgie Holding AG. The risks described below include all discernible material risks at the current time. Other risks and uncertainties that are currently not known to the Company or which the Company considers to be immaterial at the current time could also cause considerable harm to the Group's business operations and produce adverse effects on the overall prospects and the financial position, cash flows, and financial performance of SKW Stahl-Metallurgie Holding AG.

Economic risks

SKW Stahl-Metallurgie Holding AG is dependent on the economic success of its subsidiaries and lower-tier subsidiaries because the Company does not itself generate significant income outside the SKW Metallurgie Group. In specific cases, moreover, the Group's parent company is explicitly jointly liable for liabilities of the subsidiaries and for their continued operation. In addition, SKW Stahl-Metallurgie Holding AG has extended loans to its subsidiaries to a significant extent. The Company counters these risks by coordinating and monitoring its subsidiaries and lower-tier subsidiaries; the Group's parent company intensified the active, operational coordination of the Group's activities in fiscal year 2015. Furthermore, the Company always seeks to be the sole shareholder or at least the majority shareholder (directly or indirectly) of its direct and indirect investees (historical exception: joint venture in India).

Compliance risks

As a general rule, every enterprise is exposed to the risk that employees or even senior officers could violate applicable law, either due to ignorance or by deliberate intent. To minimize such risks, the SKW Metallurgie Group implemented a comprehensive compliance program under the leadership of SKW Stahl-Metallurgie Holding AG as the Group's parent company already in 2010; this program also covers SKW Stahl-Metallurgie Holding AG as the parent company.

Legal and litigation risks of the parent company SKW Stahl-Metallurgie Holding AG

In connection with its ordinary business activities, SKW Stahl-Metallurgie Holding AG is involved in a number of legal cases, both in court and out of court. Those legal and litigation risks that do not fall within the scope of ordinary business activities, by reason of the subject matter or the amounts involved, at the reporting date are described in the following.

→ According to the fine decision of the EU Commission of July 22, 2009, SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH are jointly and severally liable for payment of a fine in the maximum amount of EUR 13.3 million (joint and several liability of SKW Stahl-Metallurgie Holding AG, SKW Stahl-Metallurgie GmbH and Gigaset AG (formerly ARQUES Industries AG), although Gigaset AG is liable for a maximum amount of EUR 12.3 million; and joint and several liability of SKW Stahl-Metallurgie GmbH together with Evonik Degussa GmbH and AlzChem AG (formerly AlzChem Hart GmbH) for an amount of EUR 1.04 million). The further details as they relate to SKW Stahl-Metallurgie Holding AG are the same as those presented for the SKW Metallurgie Group in Section 12.2. – "Legal and litigation risks".

→ In relation to the purchase of shares in Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, the previous shareholders are claiming an amount in excess of the second purchase price tranche that was paid in 2012 (so-called “earn-out”). The further details as they relate to SKW Stahl-Metallurgie Holding AG are the same as those presented for the SKW Metallurgie Group in Section 12.2. – “Legal and litigation risks”.

→ SKW Stahl-Metallurgie Holding AG undertook in a profit/loss transfer agreement to indemnify possible losses of its subsidiary SKW Stahl-Metallurgie GmbH; in addition, the Company 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 with the minority shareholder of an affiliated company to issue a guarantee (in favour of the lending bank) for a loan taken out by the affiliated company. The subsidiary used this loan to invest in a sinter plant. If the subsidiary fails to fulfill its loan obligations, SKW Stahl-Metallurgie Holding AG will be proportionately liable (66.67%) under the guarantee (for an amount of EUR 2.8 million). The subsidiary’s financial situation is such that the risk of utilization is very low.

12.4. Overall assessment of risks

The syndicated loan agreement for an amount of up to EUR 86 million (including an amortising loan for EUR 46 million) with maturity until the start of 2018 that was signed at the start of 2015 is the main element of external financing for both SKW Stahl-Metallurgie Holding AG and the SKW Metallurgie Group. As described in Sections 12.2. (Group) and 12.3 (parent company), the financing under the syndicated loan agreement is assured in the previous amount until May 31, 2016.

The Executive Board considers it highly probable that the ongoing negotiations with the lenders will be concluded with an acceptable result for all parties by May 31, 2016, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG at least until 2018. At the time of preparing the present Management Report, however, it was not assured that the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG will have enough liquidity to continue its operations beyond May 31, 2016. Any significant changes to the syndicated loan agreement, and certainly the complete termination of that agreement would pose an existential threat to the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG. Therefore, the status of a going concern in 2016 and 2017 will depend on the successful conclusion of the aforementioned negotiations.

12.5. Opportunities report: Identifying and seizing opportunities

The Executive Board of the SKW Metallurgie Group considers it important not to view risks in isolation, but always in conjunction with the opportunities inherent in the Group’s business activities. In particular, the Executive Board sees the following opportunities in its future business activities.

Opportunities arising from ReMaKe – Increased integration of the Group

The ReMaKe program (extended to ReMaKe 2.0 at the end of fiscal year 2015) creates an opportunity for the SKW Metallurgie Group to increase its efficiency by optimising structures and processes, develop new areas of business, and tap new strategic sales markets. Under the ReMaKe program, the SKW Metallurgie Group began in 2014 to integrate the Group entities that had previously operated with a high degree of autonomy. This integration has proceeded the furthest in North America so far and will be applied successively to other regions in the future.

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

In the future, international steel companies will increasingly cluster their suppliers according to international delivery possibilities. This trend will create an additional growth opportunity for the SKW Metallurgie Group, due to its international presence. Thanks to the SKW Metallurgie Group's extensive technical expertise and strong focus on research and development, it is well equipped to position itself much more clearly as an international know-how partner to global steel companies. This opportunity will be strengthened by the fact that some competitors are still local players which do not conduct comparable research and development, to the knowledge of the SKW Metallurgie Group.

New, fast-growing markets as an opportunity for the SKW Metallurgie Group

In some emerging-market countries (particularly India), steel production will grow at an above-average rate in both quantitative and qualitative terms in the coming years, in the estimation of the SKW Metallurgie Executive Board. As part of the third module of ReMaKe (growth in key markets) and ReMaKe 2.0 since the end of 2015, the SKW Metallurgie Group sees good chances to expand its market position in India.

Although the Chinese market is the world's largest by a wide margin, it is characterized by substantial excess capacities and price pressures. While production is expected to stagnate in the medium term, the world market leader SKW Metallurgie nevertheless expects to take advantage of interesting chances and opportunities in this market, due to its size and technological development.

Despite the current crisis situation, Russia is still a market that presents above-average growth opportunities for the SKW Metallurgie Group in the medium term.

Margin growth through innovative products

Increased sales of higher-quality and therefore higher-margin products should counter the persistent margin pressure and so boost the Group's EBITDA margin in the coming years. Moreover, the Group's international research and development team is working to further improve the product quality and production efficiency of various other Group products. These two focal points of research and development should lead to a further increase in profit margins, first through the possibility of charging higher sales prices (based on cost savings for the customer) and second through further cost reductions within the SKW Metallurgie Group. However, this focus on profit margins will not obviate the need for high-volume sales, which form the basis for economies of scale.

Claim for damages against former Executive Board members

Represented in this case by its Supervisory Board, SKW Stahl-Metallurgie Holding AG has sued two former members of its Executive Board for damages. This represents an opportunity to collect cash income if the case is decided in favour of the Company.

12.6. Control systems as they relate to financial reporting

An adequate and orderly financial reporting process is of great importance to SKW Stahl-Metallurgie Holding AG; this process also includes the financial reporting-related components of the Internal Control System (ICS). Besides preparing financial statements in accordance with the respectively applicable national accounting regulations, financial statements are also prepared for every Group company in accordance with IFRS, as the basis for Group consolidation. A uniform Groupwide IT system and an accounting handbook prepared by Group headquarters are employed for this purpose. To ensure uniform Groupwide recognition and measurement principles, the SKW Metallurgie Group has developed accounting guidelines for the monthly, quarterly, and annual financial statements. Based on these guidelines, the companies included in the consolidated financial statements prepare separate financial statements in which the parent company's recognition and measurement principles are applied, as the basis for preparing the consolidated financial statements. In particular, Group headquarters has established a binding calendar for the preparation of financial statements and specified reporting structures. This arrangement fundamentally ensures completeness and comparability of the subsidiaries' financial statements. The reports of the Group companies are entered into a standardized, web-based consolidation software system featuring a uniform chart of accounts. The conversion from the subsidiaries' accounting systems is usually performed manually. The software system conducts plausibility checks and consistency checks to ensure completeness and accuracy. The consolidation of liabilities, expenses, and income is performed automatically. The system automatically posts any netting differences that arise. Consolidation entries are monitored and adjusted when necessary. The methods implemented in the system to limit access rights are used to map the different responsibilities. The SKW Metallurgie Group takes care to appoint highly qualified and experienced employees to key positions of financial reporting and risk management. English is established as the common language of the Group, as a means of avoiding translation or comprehension problems among the Group's worldwide locations.

13. Forecast Report 2016: Steel crisis to be countered by the successes of ReMaKe 2.0

13.1. Global economic growth expected to accelerate somewhat in 2016

In the forecasts published at www.imf.org, the International Monetary Fund (IMF) predicts that the global economy will expand by 3.4% in 2016, and thus at a somewhat faster rate than in 2015 (3.1%). Despite continued uncertainties resulting from geopolitical issues such as the Syria crisis and the difficult economic situation of numerous commodity-exporting and commodity-producing countries, the continued pursuit of low interest rate policies and the sharply lower petroleum prices in importing countries should have a positive effect on economic output.

The IMF predicts that Eurozone growth will accelerate to 1.7%, whereas the US economy is expected to grow at a faster rate of 2.6%. Total economic growth of the industrialized nations is estimated at 2.1%. Developing and emerging-market countries in total are expected to grow at a rate of 4.3% in 2016, with China's economic output expanding by 6.3%, and thus again more slowly than in preceding years. Whereas India can expect strong economic growth (7.5%), Brazil's economy is expected to contract by 3.5%. Under the weight of tough economic sanctions and plunging commodity prices, Russia's economy is expected to contract by 1.0% compared to 2015.

13.2. Steel industry expects an appreciable recovery only in 2017

The steel industry accounts for most of the demand for the SKW Metallurgie Group's products. Therefore, the development of the steel industry is an important indicator of market conditions for the Group. In collaboration with key customers of the Group and acclaimed steel market experts, the market was thoroughly analysed in the fourth quarter of 2015, as the basis for predicting the future development of this market and the effects on SKW Metallurgie. Based on this analysis, the SKW Metallurgie Group expects that worldwide steel demand will remain weak in 2016; modest market growth can be expected only in 2017 and beyond. Based on current information, worldwide steel demand and production are expected to grow at a slow rate of about 1.5% per year through 2018.

The outlook for steel demand in SKW Metallurgie's core markets is mixed. The US market is weakened at first by the continuing decline in investments in oil and gas production, despite positive prospects in other customer industries (mainly the construction industry, automobile industry, mechanical engineering). The oil and gas market is expected to bottom out at a low level only in 2016/17, so that demand can be expected to return to the 2014 level only in 2018 at the earliest. Furthermore, the other core market of Brazil is under heavy pressure (-0.9% in 2016) due to pessimistic macroeconomic expectations. Steel demand is expected to be largely stable in Europe, although prices and domestic production quantities will remain under pressure.

On the production side, excess capacities will lead to further structural changes. In the medium term, experts predict that excess capacities will increase further in China (approx. 260 million tons per year of effective excess capacity in 2020), and that low-cost Chinese exports will continue to flood the markets of other countries, due to favourable exchange rates and pronounced price spreads between the world's regions. For the Group's core markets, this will lead to rising imports at the expense of domestic production. Two of SKW Metallurgie's three core markets (USA and Brazil) will remain weak in 2016 (-1% and -3.3% declines, respectively, in 2016), leading to further closures of steel mills. Increasing production leading to the reopening of steel mills is expected only in 2017 and beyond. Based on current knowledge, the core market of Europe will remain relatively flat (+0.7%).

In summary, therefore, the Executive Board anticipates a further deterioration of basic market conditions for the SKW Metallurgie Group in 2016. Starting in 2017, steel production is expected to recover to roughly the level of 2015.

The development of other relevant industries for the SKW Metallurgie Group's specialty products (e.g. the starch industry as buyer of Quab products) is closely correlated with the general development of the global economy. If the forecasts of modestly accelerating global economic growth prove true, demand from these industries can also be expected to increase.

13.3. Key indicators for the SKW Metallurgie Group

The development of the steel industry, particularly in the segment of high-quality and ultra-high-quality steel varieties, is an important external indicator for the demand for SKW Metallurgie's steel-related products, which account for most of the Group's business. Aside from the general development of steel production, the downturn in the oil and gas industry is particularly relevant to SKW Metallurgie's unit sales quantities, due to the Group's disproportionate exposure to this sector. By contrast, a long-term trend of improving steel qualities is predicted for the emerging-market countries, which will have a positive effect on the Group's unit sales quantities.

As before, the gross profit margin is a useful internal indicator of the SKW Metallurgie Group's performance. Considering the persistently difficult state of the steel industry, steel manufacturers can be expected to pass on some of the margin pressure to their suppliers. The EBITDA margins of steel manufacturers currently range from 8% to 12%, and they will attempt to further reduce the procurement costs of consumable materials, which account for 7% of influenceable costs (except personnel). The SKW Metallurgie Group does not have order books in the traditional sense; although customer contracts are typically long-term, individual quantities and specifications are called off on a short-term basis.

13.4. Executive Board's estimation of the financial performance and cash flows of the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG in 2016 – assumptions and preconditions

The Executive Board considers the expert estimation of the future development of general economic conditions and the steel industry described in Sections 13.1-13.2 to be the most probable scenario.

Other factors taken into consideration include the forecasts of the senior management teams of the operating Group companies (the parent company SKW Stahl-Metallurgie Holding AG does not conduct operations itself), the business forecasts of key customers, and the assessments of an acclaimed management consulting firm.

In its forecast for fiscal year 2016, the Executive Board expects that the SKW Metallurgie Group will continue to operate as a going concern. All generally known opportunities and risks (including legal risks) discussed in the report on opportunities and risks, as well as all known contingent assets and liabilities, were taken into consideration in preparing the forecast, as a general rule; exceptions are presented in the following. The risks presented in the report on opportunities and risks also include exchange rate effects, including (for example) currency translation effects arising from the translation of the revenues of Group companies that do not prepare their financial statements in euros to the euro as the Group reporting currency. In this regard, the Executive Board of the SKW Metallurgie Group anticipates continued volatility in the global currency markets for some of the important currencies for the SKW Metallurgie Group in fiscal year 2016. The exchange rate between the euro as the Group reporting currency and the US dollar and the Brazilian real are particularly important for the Group. If actual exchange rate developments differ from the forecasts of the SKW Metallurgie Group, that could cause the actual numbers for 2016 to differ from the plan numbers; depending on their intensity, these differences could affect EBITDA by an amount in the single-digit millions (either up or down, depending on the actual development of exchange rates).

The forecast of the SKW Metallurgie Group is particularly based on the following assumptions and definitions:

- → The forecast is based on the current composition of the Group. Therefore, SKW Quab Chemicals Inc. is included in the forecast even though it is not part of the Group's core business. The Bhutanese company, which is deconsolidated in the present financial statements, remains deconsolidated; the Group company in Sweden was sold already in 2014. Possible new companies to be consolidated in the future (e.g. as a result of acquisitions related to the growth strategy) are also not included in the forecast.

- → Possible cash inflows or outflows related to the legal dispute with Gigaset AG on the settlement of the parties' joint and several liability for an antitrust fine and possible cash inflows from the claim for damages against former Executive Board members are also not included in the forecast, and were not included in prior-year forecasts either.

- → The non-cash FX positions presented within other operating income and other operating expenses, which result mainly from intragroup receivables and payables, are not included in the forecast.

The SKW Metallurgie Group is considering the possibility of presenting at least some of the non-cash FX positions that were formerly presented within EBITDA within net interest income/expenses in future financial statements. If this change is made, it will no longer be necessary to adjust EBITDA for these effects.

Assumptions regarding the procurement and sales prices of important products for the SKW Metallurgie Group are also applied in the Executive Board's business plan. Generally speaking, procurement prices and sales prices are positively correlated, meaning that the effects of price fluctuation on the SKW Metallurgie Group are limited, given the low degree of price elasticity of demand in relevant markets. Nevertheless, consideration was given to the expected decline in prices and the resulting effect on gross profit margins. Moreover, significant deviations of market prices from the prices assumed in drawing up the business plan could have effects on the forecasts of the SKW Metallurgie Group in certain situations.

The assessments stated in the present Forecast Report (e.g. concerning the expected development of the steel industry) are conformant with the Group's other capital market communications and with the Group's restructuring and turnaround plan for fiscal year 2016 and subsequent years, which is supported by the Supervisory Board.

Compared to 2015, the Executive Board does not anticipate any significant changes in the non-financial performance indicators stated in the present Management Report (Group: technology leadership, minimization of environmental risks, low degree of staff turnover among permanent employees; parent company: attractiveness of the Group's parent company as an employer) in 2016. As in prior years, the non-financial performance indicators are measured and reported only on a qualitative basis and not on a quantitative basis.

Actual developments, particularly resulting from the opportunities and risks described in the Risk Report, may differ in both a positive and a negative way from the Executive Board's forecasts, both for the SKW Metallurgie Group and for SKW Stahl-Metallurgie Holding AG as the parent company. In particular, a high degree of target attainment for the measures and efficiency enhancements planned as part of the ReMaKe program are vital to the fulfillment of the 2016 forecast.

13.5. Executive Board's estimation of the financial performance and cash flows of the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG in 2016 – general statements about the forecast year 2016

The Executive Board's estimation of the performance of the SKW Metallurgie Group in 2016 is condensed into the following general statements:

→ The Executive Board of the SKW Metallurgie Group anticipates lower unit sales in 2016, despite the countermeasures initiated under the ReMaKe 2.0 program, as a result of the steel crisis. Assuming constant exchange rates, the Executive Board expects to generate revenues of an amount between EUR 250 million and EUR 270 million. This decrease is expected to result in part from the development of the "North America" segment, based on the expectations for the North American steel industry (production volumes and factory closures) described in Section 13.2. In addition, lower revenues are expected in the "South America" segment as well, due to the lower demand resulting from the general economic conditions and the expected price erosion in Brazil. Relatively constant or possibly even slighter higher revenues (thanks to ReMaKe 2.0) are expected in the "Europe and Asia" segment.

→ Despite the first positive effects of the ReMaKe 2.0, the Executive Board of the SKW Metallurgie Group expects EBITDA (as defined in Sections 13.2. and 13.4.) to come out at slightly more than EUR 10 million in the crisis year 2016, due to the further deterioration of basic market conditions, based on the regional developments stated in the revenue forecast. All operating entities of the SKW Metallurgie Group are expected to generate positive EBITDA contributions.

The Executive Board's estimation of the performance of the parent company SKW Stahl-Metallurgie Holding AG in 2016 is condensed into the following general statement:

Combined Management Report
1. Business and framework conditions
2. SKW Metallurgie Group implements extended restructuring program ReMaKe 2.0
3. Organization and corporate structure
4. Mandatory disclosures under the German Commercial Code (HGB)
5. SKW Metallurgie products are known throughout the world for competitiveness and high quality
6. Financial performance, financial position, and cash flows of the SKW Metallurgie Group
7. SKW Stahl-Metallurgie Holding AG – Separate financial statements according to HGB
8. Research and development activities secures the Group's future viability
9. Corporate social responsibilty
10. Motivated employees as a success factor
11. Important events after the reporting date
12. Report on opportunities and risks
13. Forecast Report 2016
14. Responsibility statement of the legal representatives

As in prior years, the operating result of the Group's parent company SKW Stahl-Metallurgie Holding AG is determined by the income from Group cost allocation agreements under which particularly the consulting and management services provided by the Group parent company to the subsidiaries are compensated at fair market terms, and from dividend and interest payments of the subsidiaries. The Executive Board of SKW Stahl-Metallurgie Holding AG expects that this income (particularly including lower intragroup dividends compared to prior years) will lead to a slightly negative fiscal year result (negative euro amount in the lower single-digit millions) for the Group's parent company SKW Stahl-Metallurgie Holding AG in the forecast year 2016. Consequently, the performance indicator "net result" at December 31, 2016 is expected to be even less than the net result at December 31, 2015, and thus less than zero again. All other things being equal (e.g. assuming no capital measures), a negative fiscal year result of SKW Stahl-Metallurgie Holding AG in 2016 would mean that the equity of the Group's parent company will remain negative and the deficit not covered by equity will increase further.

Consequently, the Executive Board of the Group's parent company SKW Stahl-Metallurgie Holding AG believes it will be nearly impossible for the Company to pay a dividend in 2017 for the year 2016.

13.6. Capital markets guidance for 2017 and beyond

In 2017, SKW Metallurgie expects the volume of steel production to return to the level of the crisis year 2015. A further slight increase is expected in 2018, although in both years the expected steel production in the Company's core markets will remain well below the level of 2014.

Based on this scenario for the steel industry, the successes of the ReMaKe 2.0 program, which will have its full effect starting in 2018, will make it possible for the SKW Metallurgie Group to increase its earnings again in 2017 and beyond.

Specifically, the Company expects to generate revenues in 2017 that are roughly on the level of 2014 (approx. EUR 300 million per year). A further, roughly 5% increase in revenues is expected in 2018.

In both years (2017 and 2018), the SKW Metallurgie Group expects to generate an EBITDA in the range of approximately EUR 20 million per year. This positive earnings development will be made possible by the successes of ReMaKe 2.0, which are expected to more than offset the expected strong margin pressure and cost increases.

Generally speaking, the same definitions and assumptions applied in the guidance for 2016 (see Sections 13.2. and 13.4.) apply also for the guidance for 2017 and 2018. In particular, the attainment of the goals of the ReMaKe program and the above-mentioned expectations for steel production are key planning assumptions for the 2017/2018 guidance. As described in Section 13.4., the Group's guidance is also based on the assumption of constant exchange rates. Moreover, the additional potential that could result from the implementation of possible strategic growth measures is not included in the 2017/2018 guidance.

14. Responsibility statement of the legal representatives

14.1. Consolidated financial statements of the Metallurgie Group

I hereby certify, to the best of my knowledge and in accordance with applicable financial reporting principles, that the consolidated financial statements as of December 31, 2015 present a true and fair view of the financial position, cash flows, and financial performance of the Group, and that the Group Management Report, which is combined with the parent company's Management Report, presents a true and fair view of the Group's business performance, including the results and situation of the Group, and that it accurately describes the principal opportunities and risks of the Group's anticipated future development.

14.2. Separate financial statements of SKW Stahl-Metallurgie Holding AG

I hereby certify, to the best of my knowledge and in accordance with applicable financial reporting principles, that the separate financial statements as of December 31, 2015 present a true and fair view of the financial position, cash flows, and financial performance of the Company, and that the parent company's Management Report, which is combined with the Group Management Report, presents a true and fair view of the Company's business performance, including the results and situation of the Company, and that it accurately describes the principal opportunities and risks of the Company's anticipated future development.

Unterneukirchen (Germany), March 11, 2016

SKW Stahl-Metallurgie Holding AG
The Executive Board

Dr. Kay Michel

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement for the period from January 1 to December 31, 2015

EUR thousand	Notes	2015	2014
Revenues	1	285,530	306,307
Change in inventories of finished and semi-finished goods	17	-7,376	748
Internal production capitalized	13	73	138
Other operating income	2	27,555	11,431
Cost of materials	3	-187,050	-210,008
Personnel expenses	4	-40,080	-41,951
Other operating expenses	5	-60,821	-49,500
Income from associated companies	6	964	1,251
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**18,795**	**18,416**
Amortization of intangible assets and depreciation of property, plant and equipment	7	-14,691	-38,455
Earnings before interest and taxes (EBIT)		**4,104**	**-20,039**
Interest and similar income	8	530	317
Interest and similar expenses	9	-7,020	-4,352
Earnings before taxes (EBT)		**-2,386**	**-24,074**
Income taxes	10	-5,804	-7,585
Earnings from continuing operations (after taxes)		**-8,190**	**-31,659**
Earnings before taxes (EBT) from discontinued operations		-462	-44,106
Income taxes for discontinued operations		0	-5,230
Earnings from discontinued operations (after taxes)		-462	-49,336
Consolidated net loss for the year		**-8,652**	**-80,995**
Thereof shareholders of SKW Stahl-Metallurgie Holding AG			
in earnings from continuing operations	11	-8,568	-28,541
in earnings from discontinued operations		-236	-30,796
		-8,804	-59,337
Thereof non-controlling interests		152	-21,658
		-8,652	**-80,995**
Earnings per share from continuing operations (in EUR)*	12	**-1.31**	**-4.36**
Earnings per share from discontinued operations (in EUR)*	12	**-0.04**	**-4.71**
Consolidated earnings per share (EUR)*	12	**-1.35**	**-9.07**

* Basic earnings per share correspond to diluted earnings per share

Financial Statements

Statement of comprehensive income from January 1 to December 31, 2015

EUR thousand	2015	2014
Consolidated net loss for the year	**-8,652**	**-80,995**
Items that will not be subsequently reclassified to profit or loss		
Change in actuarial gains and losses from defined benefit pension commitments	383	-2,856
Deferred taxes on items that will not be subsequently reclassified to profit or loss	0	471
Items that will be subsequently reclassified to profit or loss		
Net investments in a foreign operation	-20	1,715
Unrealized gains/ losses from derivatives (hedge accounting)	220	-236
Currency changes	-6,379	1,517
Deferred taxes on items that will be subsequently reclassified to profit or loss	-53	70
Other comprehensive income	**-5,849**	**681**
Total comprehensive income	**-14,501**	**-80,314**
Thereof shareholders of SKW Stahl-Metallurgie Holding AG	-10,787	-56,589
Thereof non-controlling interests	-3,714	-23,725

Consolidated statement of financial position as of December 31, 2015

Assets in EUR thousand	Notes	Dec. 31, 2015	Dec. 31, 2014
Noncurrent assets			
Intangible assets	13	16,469	24,966
Property, plant and equipment	14	33,961	36,095
Interests in associated companies	15	6,345	5,618
Other noncurrent assets	19	550	478
Deferred tax assets	16	1,811	1,681
Total noncurrent assets		**59,136**	**68,838**
Current assets			
Inventories	17	36,823	43,552
Trade receivables	18	33,532	39,104
Income tax assets	19	4,910	4,570
Other current assets	19	4,521	6,615
Cash and cash equivalents	20	12,278	17,972
Total current assets		**92,064**	**111,813**
Total assets		**151,200**	**180,651**

Equity and Liabilities in EUR thousand	Notes	Dec. 31, 2015	Dec. 31, 2014
Equity	21		
Subscribed capital		6,545	6,545
Share premium		50,741	50,741
Other comprehensive income		-57,760	-20,184
		-474	37,102
Non-controlling interests		8,813	-12,662
Total equity		**8,339**	**24,440**
Noncurrent liabilities			
Pension obligations	23	9,143	9,241
Other noncurrent provisions	24	3,718	3,429
Noncurrent liabilities under finance leases	25	139	185
Noncurrent financial liabilities	26	1,908	6,907
Deferred tax liabilities	16	5,643	4,740
Other noncurrent liabilities	28	231	256
Total noncurrent liabilities		**20,782**	**24,758**
Current liabilities			
Other current provisions	24	11,225	5,777
Current liabilities under finance leases	25	46	46
Current financial liabilities	26	73,111	77,142
Trade payables	27	25,148	32,809
Income tax liabilities		419	1,153
Other current liabilities	28	12,130	14,526
Total current liabilities		**122,079**	**131,453**
Total equity and liabilities		**151,200**	**180,651**

Consolidated statement of changes in equity as of December 31, 2015

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, 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
Currency differences	-	-	3,584	3,584	-2,067	1,517
Income and expenses recognized in equity (excluding currency differences)	-	-	-836	-836	0	-836
Total comprehensive income 2014	**-**	**-**	**-56,589**	**-56,589**	**-23,725**	**-80,314**
Dividend payments	-	-	0	0	-726	-726
Balance at Dec. 31, 2014	**6,545**	**50,741**	**-20,184**	**37,102**	**-12,662**	**24,440**
Balance at Jan. 1, 2015	**6,545**	**50,741**	**-20,184**	**37,102**	**-12,662**	**24,440**
Consolidated net loss for the year	-	-	-8,804	-8,804	152	-8,652
Currency differences	-	-	-2,513	-2,513	-3,866	-6,379
Income and expenses recognized in equity (excluding currency differences)	-	-	530	530	0	530
Total comprehensive income 2015	**-**	**-**	**-10,787**	**-10,787**	**-3,714**	**-14,501**
Change in consolidated group	-	-	-26,789	-26,789	26,789	0
Dividend payments	-	-	0	0	-1,600	-1,600
Balance at Dec. 31, 2015	**6,545**	**50,741**	**-57,760**	**-474**	**8,813**	**8,339**

Consolidated cash flow statement for fiscal year 2015

Notes 30 EUR thousand		Jan. 1, 2015 - Dec. 31, 2015	Jan. 1, 2014 - Dec. 31, 2014
1.	Consolidated net loss for the year	-8,652	-80,995
2.	Earnings from discontinued operations (after taxes)	+462	+49,336
3.	Consolidated earnings from continuing operations	-8,190	-31,659
4.	Write-ups/write-downs of noncurrent assets	14,691	38,455
5.	Increase/decrease in pension provisions	425	565
6.	Income/expenses from associated companies	-479	-872
7.	Gain/loss on disposal of noncurrent assets	-116	-267
8.	Gain/loss from currency translation	-7,493	-2,978
9.	Gain/loss from deferred taxes	595	3,125
10.	Expenses from value adjustments on inventories and receivables	1,043	3,614
11.	Other non-cash expenses and income	1,175	-389
12.	**Gross cash flow**	**1,651**	**9,594**
	Changes in working capital		
13.	Increase/decrease in current provisions	-1,124	5,407
14.	Increase/decrease in inventories (after advance payments received)	6,202	2,343
15.	Increase/decrease in trade receivables	5,898	553
16.	Increase/decrease in other receivables	3	-6
17.	Increase/decrease in income tax assets	-1,305	617
18.	Increase/decrease in other assets	2,060	502
19.	Increase/decrease in trade payables	-6,864	-12,981
20.	Increase/decrease in other liabilities	-777	-19
21.	Increase/decrease in other equity and liabilities	1,677	-1,154
22.	Currency translation effects in operating activities	-2,388	2,152
23.	Operating cash flow from discontinued operations	-1,021	-1,000
24.	**Net cash provided by (+)/used in (-) operating activities**	**4,012**	**6,008**

Notes 30 EUR thousand	Jan. 1, 2015 - Dec. 31, 2015	Jan. 1, 2014 - Dec. 31, 2014
25. Proceeds on disposal of noncurrent assets	273	641
26. Payments for investments in noncurrent assets	-6,551	-3,864
27. Proceeds on the sale of previously consolidated companies, less cash transferred	500	-651
28. Cash flow from investing activities for discontinued operations	-38	-1,372
29. Cash inflow (+)/outflow (-) from investing activities	**-5,816**	**-5,246**
30. Decrease in liabilities under finance leases	-46	0
31. Dividend payments to non-controlling interests	-1,600	-726
32. Repayment of loans from third parties	-	-74
33. Receipts from borrowing of bank loans	62,218	9,352
34. Payments for repayment of bank liabilities	-63,455	-1,321
35. Cash flow from financing activities for discontinued operations	0	-17
36. Cash inflow (+)/outflow (-) from financing activities	**-2,883**	**7,214**
37. Cash and cash equivalents at beginning of period	17,972	10,673
38. Change in cash and cash equivalents	-4,687	7,976
39. Currency translation of cash and cash equivalents	-1,007	-677
40. Cash and cash equivalents at end of period	**12,278**	**17,972**
Thereof cash and cash equivalents in discontinued operations	0	284

NOTES TO THE STATEMENTS

Notes to the consolidated financial statements for fiscal year 2015

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 (stock corporation) 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 record no. 17037).

Shares of the Company have been included in the Prime Standard segment of the Deutsche Börse stock exchange since December 1, 2006.

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

The consolidated financial statements are denominated in euros (EUR), the reporting currency. Unless otherwise stated, the figures stated in the notes to the consolidated financial statements are in thousands of euros (euro thousands). Rounding may give rise to differences in the tables in the notes to the consolidated financial statements.

The consolidated income statement is prepared according to the cost summary method. The items in the consolidated statement of financial position 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 noncurrent.

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

The SKW Metallurgie Group's consolidated financial statements are supplemented by a separate presentation of additional key components of financial position, cash flows and financial performance. These components include the Group's reportable segments: "North America", "Europe and Asia", "South America" and "Other and Holding".

SKW Stahl-Metallurgie Holding AG prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements of the SKW Metallurgie Group were prepared in accordance with the International Financial Reporting Standards (IFRS) as they 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 in fiscal year 2014 according to EU regulations were applied. The consolidated financial statements also include the additional disclosures required by Section 315a (1) of the German Commercial Code (HGB) and the German Stock Corporations Act (AktG). The consolidated financial statements were prepared on the basis of the going-concern principle.

Standards and Interpretations published by the IASB and adopted as European law

Application of the following Standards of the IASB and IFRIC, which have been adopted as European law, was mandatory for the first time in the fiscal year beginning on January 1, 2015:

→ IFRIC 21 (Levies)
→ Annual Improvements (Cycle 2011-2013)

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 recognized as liabilities in the financial statements. Application of the interpretation is mandatory in fiscal years beginning on or after January 1, 2014; however, earlier application is permitted. Application of this Interpretation will not have an effect on the consolidated financial statements of the SKW Metallurgie Group.

The IASB has published the Cycle 2011-2013, which clarifies the following Standards and topics:

→ IFRS 1: Effective IFRSs.
→ IFRS 3: Exceptions to the scope for joint arrangements and recognition of contingent consideration in connection with business combinations.
→ IFRS 8: Information on the aggregation of operating segments and the requirement of a reconciliation statement for segment assets.
→ IAS 40: Interrelationship between IFRS 3 and IAS 40 for classification as investment property or owner-occupied.

The application of these changes will have no material effect on the consolidated financial statements.

The following Standards are to be applied for the first time in fiscal years beginning on or after February 1, 2015:

→ Amendments to IAS 19 (2011) (Employee benefits)
→ Annual Improvements (Cycle 2010-2012)

The IASB published an amendment to IAS 19 (2011) (Employee benefits) in November 2013. The amendment adds an option to the Standard regarding the accounting treatment of defined benefit pension obligations in which employees (or third parties) participate by way of mandatory contributions. Retrospective application of this amendment is mandatory for the first time in fiscal years beginning on or after February 1, 2015. Earlier application is permitted. The SKW Metallurgie Group believes that application of this amendment will not have a material effect on the consolidated financial statements.

The following amendments to Standards must be applied for the first time to fiscal years beginning on or after January 1, 2016:

- IAS 16 and IAS 41 (Agriculture: Bearer Plants)
- IFRS 11 (Acquisitions of Interests in Joint Operations)
- IAS 16 and IAS 38 (Clarification of Acceptable Methods of Depreciation and Amortization)
- Annual Improvements (cycle 2012-2014)
- IAS 1 (Presentation of Financial Statements)
- IAS 27 (Application of the Equity Method in Separate Financial Statements)

Application of the amendments has no material effect on the consolidated financial statements.

The IASB has published the Cycle 2010-2012, which clarifies the following Standards and topics:

- IFRS 2: Definition of vesting conditions
- IFRS 3: Exceptions to the scope for joint arrangements and recognition of contingent consideration in connection with business combinations.
- IFRS 13: Scope of the so-called portfolio exception and option to dispense with discounting to present value in the fair value measurement of short-term receivables and payables, if the effect of not discounting is immaterial.
- IAS 16 and IAS 38: Revaluation method - Restatement of accumulated amortization and depreciation as of the revaluation date.
- IAS 24: Expanded definition of related parties to include so-called management entities, and related disclosure obligations.

SKW Metallurgie Group believes that the new rules will not have a material effect on the consolidated financial statements.

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

Application of the following accounting Standards and amendments 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 14 (Regulatory Deferral Accounts)
- IFRS 15 (Revenue Recognition)
- IFRS 10 and IAS 28 (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)
- IFRS 10, IFRS 12 and IAS 28 (Changes with regard to investment companies)
- IFRS 16 (Leases)
- IAS 12 (Income Taxes)
- IAS 7 (Statement of Cash Flows)

As part of the IASB project to replace IAS 39 Financial Instruments: Disclosure and Measurement, IFRS 9 (Financial Instruments) was published in 2009. IFRS 9 changes the recognition and measurement rules for financial assets, including various hybrid contracts. It employs 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 prescribes 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, measurement and derecognition of financial liabilities. In November 2013, the IASB adopted the final rules for hedge accounting, and thus completed a further sub-project in the total of three revision phases to IFRS 9. Endorsement of IFRS 9 is expected in the second half of 2016. The European Financial Reporting Advisory Group has postponed its recommendation to endorse IFRS in the EU in order to take more time to evaluate the results of the IASB project to improve accounting for financial instruments. A reliable estimate of the effects of application of IFRS 9 on the SKW Metallurgie Group can only be made when a detailed analysis has been performed.

The IASB published IFRS 14, Regulatory Deferral Accounts on January 30, 2014. This Standard allows companies preparing IFRS financial statements according to IFRS 1, First-time Application of International Financial Reporting Standards, to continue using 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 to continue using their previous accounting methods. Voluntary application ahead of time is permitted. The new Standard will not have an effect on the SKW Metallurgie Group because 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 permitted. A reliable estimate of the effects of application of IFRS 15 on the SKW Metallurgie Group can only be made when a detailed analysis has been performed. This analysis is expected to be concluded in the course of 2016.

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 rules will not have a material effect on its consolidated financial statements.

The IASB published its Annual Improvements (2012-2014 cycle) on September 25, 2014. The changes and clarifications pertain to a considerable number of different IFRS standards. Voluntary application ahead of time is permitted.

On December 18, 2014 the IASB published changes to IAS 1, Presentation of Financial Statements. The changes aim to overcome obstacles that the preparing entities have in exercising discretionary judgement when presenting the financial statements.

The IASB published changes to IFRS 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 arising in connection with the application of the exception to consolidation for investment companies. The SKW Metallurgie Group believes that the amendments will not have an effect on the consolidated financial statements.

On January 13, 2016, the IASB published the new Standard IFRS 16 on accounting for leases. IFRS 16 replaces IAS 17 Leases as well as the accompanying interpretations (IFIRC 4, SIC 15, and SIC 27).

The new Standard requires a completely new approach to accounting for lease contracts, particularly for lessees. While the decisive factor for accounting for a lease at the lessee under IAS 17 was the transfer of material opportunities and risks of the leased property, in the future every lease must be accounted for in the lessee's statement of financial position as a financing transaction. Accounting for previous operating leases will have a considerable effect on the lessee's statement of financial position and related key indicators such as debt ratio, EBITDA, etc., and can thus require an adjustment to covenants in loan agreements or to employee remuneration, for example.

For lessors, on the other hand, the accounting regulations have remained largely unchanged with regard to the continuing requirement of classifying leases. However, there are differences in detail, for instance in subleases and sale-and-lease back transactions.

The Standard is required to be applied for the first time in fiscal years beginning on or after January 1, 2019. Voluntary application ahead of time is permitted insofar as IFRS 15 is also already being applied at this time. IFRS can be applied optionally either entirely retrospectively within the meaning of IAS 8 or with modified retrospective application based on the transitional rules defined in the standard.

A reliable estimate of the effects of applying IFRS 16 to the SKW Metallurgie Group can only be carried out once a detailed analysis has been carried out.

On January 19, the IASB published amendments to IAS 12, Income Taxes, that include clarifications of the issue of recognizing deferred tax assets on temporary differences from unrealized losses. The SKW Metallurgie Group believes that the new rules will not have a material effect on its consolidated financial statements.

The IASB published final amendments to IAS 7, Statement of Cash Flows, on January 29, 2016. The IASB's goal is to improve the information communicated to the readers of financial statements with regard to a company's financing activities. The new recognition obligations (including a reconciliation statement between the opening and closing values in the statement of financial position) focus on debts that generate payment flows currently or in the future that must be assigned to the financing activity of a company within the meaning of IAS 7. The new regulations must be applied for the first time in fiscal years beginning on or after January 1, 2017. Voluntary application ahead of time is permitted. The SKW Metallurgie Group believes that the new rules will not have a material effect on its consolidated financial statements.

B. Group of consolidated companies and consolidation methods

SKW Stahl-Metallurgie Holding AG's consolidated financial statements as of December 31, 2015 comprise the separate financial statements of the Group's parent company and the separate 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 fulfills all of the following elements:

- The parent company exercises power over the Group company;
- It is exposed or holds 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, the existence and effect of potential voting rights that can currently be exercised or converted are taken into account, if necessary. 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 as of 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 subsidiaries not included in the consolidated financial statements may not exceed 10% of the consolidated total amount of 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 applied to assess the materiality of a company for the consolidated group. For example, not including these companies may not have a significant effect on segment earnings or consolidated net income, nor result in the non-consideration of other material trends.

In accordance with IFRS 10 (Consolidated Financial Statements) in conjunction with IFRS 3 (Business Combinations), the capital of subsidiaries is consolidated by offsetting the carrying amount of the interest with the subsidiary's revalued equity on the date of acquisition (revaluation method). The acquisition of business operations is accounted for using the acquisition method. The consideration transferred in a business combination is to be measured at fair value, which represents the sum of fair values of the assets acquired, the liabilities assumed 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 of the acquisition date. As a rule, the costs associated with a business combination are recognized as expenses when they are incurred. Upon initial consolidation, the identifiable assets, liabilities and contingent liabilities are measured at their respective fair values at the acquisition date, regardless of the scope of non-controlling interests.

Goodwill is defined as the amount by which the sum of the consideration transferred, the amount of all non-controlling interests in the acquired company, and the fair value of the equity interest previously held by the acquirer in the acquired company exceeds the net of the acquisition date amounts of identifiable assets acquired and liabilities assumed. If after review the Group's share of the fair value of the identifiable net assets acquired is greater than the sum of consideration transferred, the amount of the non-controlling interests in the acquired company, and the fair value of the equity interest previously held by the acquirer in the acquired company (if present), the difference must be recognized immediately in profit or loss.

The earnings of the subsidiaries acquired or sold during the course of a year are recognized or no longer recognized in the consolidated income statement from the date when the possibility to exercise control begins or ends.

The following changes occurred to the group of consolidated companies in fiscal year 2015:

- By virtue of a merger agreement dated April 30, 2015, SKW France SAS, Solesmes/France, a wholly-owned subsidiary of SKW Stahl-Metallurgie Holding AG, was merged into its wholly-owned French subsidiary Affival SAS, Solesmes/France, with retroactive effect to January 1, 2015.
- In December 2015, SKW Metallurgie Asia Pte. Ltd., a company in Singapore, was founded as a new intermediate holding company, so that the number of fully consolidated companies increased by one.
- The Bhutanese subsidiary SKW Tashi Metals & Alloys Pte. Ltd. was deconsolidated as of 12/18/2015.

Therefore, the group of consolidated companies has declined by one company compared to December 31, 2014 to a current total of 24 fully consolidated companies. The list of subsidiaries and associated companies can be found in Section E of these notes.

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 shares of consolidated equity and consolidated net income attributable to non-controlling interests are shown separately from the shares attributable to the shareholders of the parent company.

The reporting 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 accounted for by the equity method based on the last available financial statements dated March 31, 2015, after adjustments.

Associates

Associated companies are companies over which the Group has significant influence but does not control; as a general rule, it holds between 20% and 50% of voting rights. Investments in associates are accounted for by the equity method and initially measured at cost. The difference between the cost of the interests acquired in associated companies and the SKW Metallurgie Group's share of these companies' net assets is initially allocated to adjustments from the fair value measurement of the net assets acquired. An excess amount is recognized as goodwill. Goodwill arising on the acquisition of an associated company is included in the carrying amount of the associated company and is not subject to scheduled amortization; instead, 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 recognized in the income statement and the share of changes to reserves is recognized in the Group's consolidated reserves. The accumulated changes after the acquisition are set off against the carrying amount of the investment.

As a rule, associated companies are assessed for materiality using the same method as for subsidiaries, though limited to the criteria of fiscal year net income, contingent assets and liabilities, and other financial commitments.

The significant associated company Jamipol Ltd. sells desulfurization products to Indian steel producers and is included in the consolidated financial statements by application of the equity method.

Discontinued operations

As part of the Group's realignment, the Swedish subsidiary SKW Metallurgy Sweden AB was sold with effect as of November 19, 2014. It had been assigned to the "Other and Holding" segment.

In the second quarter of 2015, SKW Metallurgie Group initiated the sale of the U.S. subsidiary SKW Quab Chemicals Inc. This company sells special chemical reagents known as cationizing reagents to the paper and hygiene industry, and was assigned to the "Other and Holding" segment. Therefore, the company was classified and accounted for as discontinued operations in the semi-annual report and in the financial statements for the third quarter of 2015, in accordance with IFRS 5. The initiated sale process was completed in the fourth quarter of 2015. Therefore, the company is not classified and accounted for as discontinued operations according to IFRS 5 in the financial statements as of December 31, 2015.

Also in the second quarter of 2015, the decision was made to terminate the Group's investment in SKW Tashi Metals & Alloys Pte. Ltd. in Bhutan. The strategy of backwards integration that had been initiated by the previous Executive Board will no longer be pursued. SKW Tashi Metals & Alloys Pte. Ltd. produces and sells calcium silicide (CaSi), and had been assigned to the "Other and Holding" segment.

The assets and liabilities of SKW Tashi Metals & Alloys Pte. Ltd. are classified and accounted for as noncurrent assets held for sale and discontinued operations in accordance with IFRS 5. They are presented in the financial statements as follows:

→ The company's results are no longer presented within the respective income statement items of the income statement for the reporting period and prior year, but are presented separately in "Earnings from discontinued operations";

→ The assets and liabilities of SKW Tashi Metals & Alloys Pte. Ltd. were presented separately as "held for sale" in the statement of financial position; they are no longer included in the comprehensive statement of financial position as of the reporting date following disposal in the course of deconsolidation. The comparison figures were not adjusted because the conditions for the separate presentation of this company were not fulfilled as of the prior-year reporting date. With respect to the company SKW Metallurgy Sweden AB, no changes were necessary because this company was not included in the statement of financial position as of the reporting dates for fiscal year 2015 and fiscal year 2014;

→ In the cash flow statement for 2015 and 2014, the results and contributions of SKW Tashi Metals & Alloys Pte. Ltd. to the Group's cash flows are presented separately as cash flows from discontinued operations.

→ The segment report reflects the contributions to the Group results of the segments from continuing operations. The results of discontinued operations are presented in separate line items.

Information on subsidiaries

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

	Shareholdings and voting rights of non-controlling interests		Share of profit or loss attributable to non-controlling interests		Cumulative non-controlling interests	
Company	Dec. 31, 2015	Dec. 31, 2014	2015	2014	Dec. 31, 2015	Dec. 31, 2014
	%	%	EUR thousand	EUR thousand	EUR thousand	EUR thousand
"South America" segment						
Tecnosulfur S/A. Brazil	33.33%	33.33%	1,232	-2,992	4,237	6.415

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

EUR thousand	Tecnosulfur S/A, Brazil	
	Dec. 31, 2015	Dec. 31, 2014
Current assets	8,338	11,477
Noncurrent assets	14,327	20,353
Current liabilities	4,424	5,253
Noncurrent liabilities	5,529	7,331
Share of equity attributable to shareholders of the parent company	8,475	12,831
Share of equity attributable to non-controlling interests	4,237	6,415
	2015	2014
Revenues	25,731	28,963
Expenses	-22,034	-37,941
Fiscal year net income/loss	**3,697**	**-8,978**
Share of fiscal year net income/loss attributable to shareholders of the parent company	2,465	-5,986
Share of fiscal year net income/loss attributable to non-controlling interests	1,232	-2,992
Total fiscal year net income/loss	**3,697**	**-8,978**
Share of other comprehensive income attributable to shareholders of the parent company	-3,064	484
Share of other comprehensive income attributable to non-controlling interests	-1,531	242
Total other comprehensive income	**-4,595**	**726**
Share of total comprehensive income attributable to shareholders of the parent company	-599	-5,502
Share of total comprehensive income attributable to non-controlling interests	-299	-2,750
Comprehensive income	**-898**	**-8,252**
Dividends paid to non-controlling interests	-1,600	-711
Net cash flows from operating activities	5,768	7,286
Net cash flows from investing activities	-613	-1,829
Net cash flows from financing activities	-6,387	-4,053
Total net cash flows	**-1,232**	**1,404**

Segment report

For purposes of the segment report, the Group's operating divisions are structured according to their internal organizational and reporting structure. The segment report is prepared in accordance with the recognition and measurement methods of the underlying IFRS consolidated financial statements. Intra-segment consolidations were eliminated. Amortization of intangible assets and depreciation of property, plant and equipment attributable to the segment are presented as segment amortization/depreciation.

Going concern

When preparing the financial statements, the management of the SKW Metallurgie Group assumes that the Company will continue as a going concern given the context described below.

In connection with the syndicated loan of January 23, 2015, for EUR 86,000 thousand with a three-year term, the Company made an undertaking to its creditors to comply with certain covenants. A violation of these covenants gives creditors an extraordinary cancellation right. The covenants were not complied with for the first time at September 30, 2015, particularly due to currency developments that could not be influenced and the significant collapse in the global steel economy. A waiver of cancellation against consideration was agreed upon with the creditors and extended to May 31, 2016, after the reporting date. The material basis for this waiver was an expert certificate on reorganization with a positive forecast regarding continuation of the business as a going concern. The Executive Board assumes that a conclusion of the ongoing negotiations by May 31, 2016, is highly probable, with a result acceptable to all parties involved, thus guaranteeing the financing of the SKW Metallurgie Group and the separate company SKW Stahl-Metallurgie Holding AG at least until 2018. Therefore, the consolidated financial statements as of December 31, 2015, are to be prepared under the assumption of a positive forecast regarding continuation of the business as a going concern.

Nevertheless, sufficient liquidity for continuing the business activities of the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG beyond May 31, 2016, is not entirely secured at the time these consolidated financial statements are prepared. Significant changes or even a complete cancellation of the syndicated credit agreement would represent a danger to the continued existence of the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG. Therefore, the continuation of the Company as a going concern for 2016 and 2017 depends on the successful conclusion of the negotiations described above.

C. Measurement and recognition principles

The separate financial statements of the companies included in the consolidated financial statements are based on uniform recognition and measurement policies. The main recognition and measurement methods applied in the preparation of these consolidated financial statements are presented below.

Recognition of revenues and expense

Revenues are measured at the fair value of the consideration received or to be 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 when the significant risks and rewards of ownership have been transferred to the purchaser, provided that the seller retains neither continuing managerial involvement nor effective control over the goods sold, and when the amount of revenues can be measured reliably, it is sufficiently probable that economic benefits will flow to the seller, the costs incurred or to be incurred in respect of the sale can be measured reliably, and the collectability of the receivable can be assumed. Revenues from the rendering of services are recognized when the service has been rendered, the amount of revenues can be measured reliably, it is probable that economic benefits will flow to the seller, the stage of completion at the reporting date can be measured reliably, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. The degree of completion of the service is measured based on the service rendered as a percentage of the total service to be rendered. No revenues are recognized if there are material risks regarding receipt of the consideration or a possible return of the goods. In addition, revenues are measured after deduction of sales deductions such as bonuses, discounts, rebates or taxes connected with the sale.

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

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 contract costs incurred as of the reporting date to the total estimated contract costs as of the reporting date. Construction contracts accounted for using the percentage of completion method are measured according to the contract costs incurred as of the reporting date plus the proportionate profits resulting from the percentage of completion reached. After deduction of advance payments received, these revenues are presented in the statement of financial position as receivables or as liabilities if the balance is negative. 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 outcome of a construction contract cannot be estimated reliably, the probably attainable revenues are recognized only to the extent of 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 contract costs will exceed contract revenues, the anticipated loss is recognized immediately as an expense.

Financial result

Interest expenses and interest income are recognized in profit or loss on an accrual basis and by application of the effective interest rate method. Interest income is accrued on the basis of principal outstanding and the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash receipts over the term of the financial asset to the net carrying amount of the asset.

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

Borrowing costs

Borrowing costs are capitalized in the Group if a substantial period is required to produce an asset in order to ready it 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 funds which are not borrowed specifically to finance the acquisition, construction or production of a qualifying asset (general pool), the amount of borrowing costs to be capitalized is determined by multiplying the expenditures for the acquisition, construction or manufacture by the capitalization rate to the extent that the expenditures were not already financed with funds borrowed specially to finance the acquisition, construction or manufacture of the qualifying asset. This capitalization rate is the weighted average of the borrowing costs for this type of funds borrowed by the SKW Metallurgie Group during the period of acquisition, construction or manufacture of the qualifying asset, provided that the funds were not borrowed specifically for the creation of a qualifying asset. The Group did not capitalize any borrowing costs in 2015 or 2014.

Income taxes

Income tax expenses are the total of current tax expenses and deferred taxes.

Current 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 current tax expenses is calculated based on the applicable tax rates or the tax rates that applied up to the reporting date.

Deferred taxes are recognized in respect of the anticipated tax deductions and charges resulting from differences between the carrying amounts of assets and liabilities in the IFRS financial statements and the corresponding tax bases. In addition, deferred taxes can result from consolidation and from tax loss carry-forwards when recovery is probable. Deferred tax liabilities and deferred tax assets are recognized in respect of all taxable temporary differences when it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference results from non-tax-deductible goodwill or the initial recognition of other assets and liabilities (other than in a business combination) that result from transactions which affect neither taxable income nor net income for the period. Deferred tax assets and liabilities are offset only if the deferred tax amounts are levied by the same taxing authority 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 reverse in the foreseeable future.

The carrying amount of deferred taxes is reviewed each year on the reporting date and reduced if it is no longer probable that there will be sufficient taxable income to recover the deferred taxes either in full or in part. Deferred taxes are measured on the basis of already enacted tax rates that will apply on the date of settlement of the liability or realization of the asset. As a rule, deferred taxes are recognized in profit or loss, with the exception of items that are recognized directly in equity or in other comprehensive income.

Intangible assets

Intangible assets with finite useful lives are measured at cost and amortized on a straight-line basis over their useful lives. Useful lives (generally three to fifteen years) are reviewed regularly and adjusted if necessary to reflect future expectations.

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

Intangible assets with indefinite useful lives, such as goodwill and unfinished development work, are measured at cost and subjected to an annual impairment test, as well as additional impairment tests at other dates when there are indications of possible impairment. Impairment losses are presented within depreciation, amortization and impairments.

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

When there are indications of impairment, 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 charged on a straight-line basis over a useful life that is generally determined in a uniform manner depending on the following categories:

→ Patents, utility models, trademarks, publishing rights, copyrights, benefit rights: Term of the respective right
→ Company logos, ERP software and Internet domain names: 5 years
→ Copyrighted software: 3 years
→ Customer base: 3 - 15 years
→ Technology: 3 - 15 years

Property, plant and equipment

All items of property, plant and equipment are measured at cost less accumulated 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 fiscal year in which they are incurred.

Land is not subject to scheduled depreciation. For all other items of property, plant and equipment, depreciation is charged on a straight-line basis and costs are depreciated to the residual value over the anticipated useful lives 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 residual values and economic useful lives are reviewed as of each reporting date and adjusted accordingly. If the carrying amount of an asset exceeds its estimated recoverable amount, it is written down to the latter amount immediately. Gains and losses from the disposal of assets are calculated as the difference between the sale proceeds and the carrying amount and recognized in profit or loss.

Leases

Leases are classified as finance leases if according to the conditions of the lease substantially all of the risks and rewards incident to ownership are transferred to the lessee. All other leases are classified as operating leases.

When economic ownership is attributable to a Group company (finance leases), rented or leased assets are capitalized at the present value of the lease payments or the lower fair value according to IAS 17, and are depreciated over 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 recognized as a liability under finance leases in the statement of financial position. The lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the 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 were lessees only.

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 write-downs in prior periods no longer apply, assets are written up to the amount of their original acquisition or production cost.

Trade receivables

Trade receivables are initially measured at fair value and subsequently measured at amortized cost less value adjustments. Value adjustments are charged on trade receivables if there is objective evidence that it will not be possible to collect the due receivable in full. The amount of the value adjustment is the difference between the carrying amount of the receivable and the present value of the estimated future cash flows from this receivable, discounted using the original effective interest rate. The value adjustment is recognized as expense. Value adjustments are reversed when the reasons for value adjustments made in prior periods no longer exist. Value adjustments and reversals of value adjustments are recognized directly by means of derecognition or recognition of the receivable.

Cash and cash equivalents

Cash and cash equivalents are measured at cost and comprise cash, demand deposits, other highly liquid current financial assets with an original maximum maturity of three months, and current account overdrafts. Current account overdrafts are presented as current financial liabilities under liabilities due to banks in the statement of financial position.

Financial assets

Financial assets are sub-divided 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 were classified as held for trading from the outset, and financial assets that were designated upon initial recognition as a financial asset to be measured at fair value through profit or loss. A financial asset is assigned to this category if it was fundamentally acquired with the intention to sell it in the short term, or if the financial asset was so designated 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 presented as current assets if they are either held for trading or will probably be realized within twelve months of the reporting date. Changes in the fair value of assets in this category are recognized in profit or loss in the period in which they arise.

The SKW Metallurgie Group does not exercise the option to assign 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 quoted on an active market. They are initially measured at fair value and subsequently measured at amortized cost in accordance with the effective interest method, less impairments. If they are due in more than twelve months, they are presented as noncurrent assets. They are presented as current assets if they are due in less than twelve months from the reporting date or if they are due in more than twelve months, if they are regularly realized in the normal course of 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 them 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 assigned to this category or which were not assigned to any of the other categories shown. They are presented within noncurrent assets to the extent that the Management does not intend to sell them within twelve months of the reporting date.

All purchases and sales 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 measured at fair value plus transaction costs. They are derecognized when the rights to payments from the investment have expired or been transferred, and the Group has transferred substantially all the risks and rewards incident to ownership. Subsequent to initial recognition, available-for-sale financial assets and assets in the category “fair value through profit or loss” are measured at fair value.

Realized and unrealized gains and losses arising from changes in the fair value of assets in the category “at fair value through profit and loss” are recognized in profit or loss in the period in which they arise. Unrealized gains from changes in the fair value of securities in the “available-for-sale” category are recognized in equity. When securities in the “available-for-sale” category are sold or impaired, the accumulated fair value changes recognized in equity are reclassified to profit or loss as gains or losses from financial assets. Financial assets for which there is no right of recourse are derecognized on the date when the rights to payments under the asset are cancelled or transferred, and thus on the date when substantially all of the risks and rewards incident to ownership are transferred.

Impairment of financial assets

The carrying amounts of financial assets not recognized at fair value through profit or loss are reviewed at each reporting 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 payments of interest or principal, 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 indication of impairment. A reduction is considered to be significant if it is at least 20% of the acquisition costs, and continued if the reduction lasts for more than six months.

The amount of the impairment of a financial asset measured at amortized cost is the difference between the carrying amount and the present value of the anticipated future cash flows, discounted using the original effective interest rate for the financial asset. Impairments are recognized as expenses. If the amount of the impairment declines in subsequent periods as a result of events that objectively occur after the date when the impairment was recognized, the impairment is reversed and recognized in profit or loss. However, asset values are not reinstated to a value in excess of amortized cost.

If the reduction in the fair value of an available-for-sale financial asset was previously recognized directly in other comprehensive income (accumulated under equity), this impairment is reclassified from equity and recognized as an expense as soon as there is an objective indication of impairment. The amount of the impairment is the difference between the acquisition cost (less any redemptions and amortization) and the current fair value, less any impairments recognized in the past as expenses for the financial asset. In the event of equity instruments classified as available for sale, an impairment recognized as an expense in the past is not derecognized. Any increase in the fair value is recognized in other comprehensive income after the impairment has been recognized. Reversals of impairments of debt instruments that objectively occurred after the date when the impairment was recognized are recognized in profit or loss.

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 substantially all the risks and rewards incident to ownership to a third party. If the SKW Metallurgie Group neither transfers substantially all the risks and rewards incident to ownership nor retains them but continues to control transferred asset, the remaining portion of the assets and a corresponding liability are recognized in the amount of the sums that may possibly have to be paid. When substantially all the risks and rewards incident to ownership of a transferred financial asset are retained, the SKW Metallurgie Group continues to recognize the financial asset and also recognizes a secured loan for the consideration received.

When a financial asset is fully derecognized, the difference between the carrying amount and the sum of consideration received or to be received and all the accumulated gains and losses recognized in other comprehensive income are recognized in profit and loss.

Impairments

On every reporting date, the SKW Metallurgie Group reviews the carrying amounts of its intangible assets and property, plant and equipment to ascertain whether there are any indications that they may be impaired. In this case, the recoverable amount of the respective asset is identified in order to determine the extent of any impairment loss that may need to be recognized. The recoverable amount is the higher of the fair value less selling costs or the value in use. The value in use corresponds to the present value of the anticipated future cash flows. A fair market interest rate before taxes 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 attributed.

Goodwill resulting from company acquisitions is attributed to the identifiable groups of assets (cash-generating units) that will obtain synergistic benefits from the acquisition. These groups represent the lowest reporting levels in the Group at which goodwill is monitored by the Management for internal control purposes. The recoverable amount of a cash generating unit that includes goodwill is reviewed regularly for impairment once a year and also at other dates if there are indications of a possible impairment.

If the recoverable amount of an asset is lower than its carrying amount, an impairment loss is recognized in profit or loss immediately. In the event of impairments recognized in connection with cash-generating units that include goodwill, the first step is to reduce the goodwill. If the impairment exceeds the carrying amount of goodwill, the difference is allocated proportionately to 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 an impairment has been recognized the asset or cash-generating unit is found to have a higher recoverable amount at a later date, the impairment is reversed up to the recoverable amount as a maximum. The reversal amount is limited to the amortized carrying amount which would have resulted if the asset had not been impaired in the past. The reversal of an impairment is recognized in profit or loss. Goodwill impairments may not be reversed.

Equity

Ordinary shares are classified as equity. Expenses directly connected with the issuance of new shares or options are recognized directly in equity as a deduction from the issue proceeds.

Provisions

Provisions are recognized when the Group has a current legal or constructive obligation resulting from a past event and it is more likely than not that the settlement of this obligation will lead to an outflow of resources, and the amount of the provision can be estimated reliably. The amount of the provision is the best estimate of the expenditure required to settle the present obligation as of the reporting date. Reimbursements expected from third parties are not netted, but presented as a separate asset if it is virtually certain that they will be received. If the interest effect is material, the provision is discounted to present value using market interest rates.

A provision for restructuring expenses is only recognized if the general recognition criteria for provisions and the application of these criteria to restructuring expenses are fulfilled.

Employee benefits

Pension obligations

The actuarial valuation of the pension obligation under the company pension plan is based on the projected unit credit method prescribed by IAS 19 (Employee Benefits). An actuarial valuation is conducted as of every reporting date. Under the projected unit credit method, the pensions and vested benefits known as of the reporting date, as well as the anticipated future increases in salaries and pensions, are taken into account. These assumptions may change and must be estimated as their future development cannot be predicted. Any actuarial gains or losses between the pension obligations so calculated or plan assets and the current present value of the pension obligations or market value of plan assets at the end of the year are recognized directly in equity under other comprehensive income. It is not permitted to reclassify actuarial gains and losses recognized in other comprehensive income to profit or loss in subsequent periods. In addition, the difference between the anticipated net interest result and the actual result is also recognized directly in equity under other comprehensive income. The interest portion of the appropriation to provisions included in the pension expenses (interest accrued on the liability and on the plan assets by application of the actuarial interest rate) is presented as a net figure (net interest result) in the income statement. The provision for pensions presented in the statement of financial position (net pension obligation) represents the present value of the defined benefit obligation (DBO) as of the reporting date less the fair value of plan assets, if necessary in consideration of the asset ceiling rules.

Termination benefits

Termination benefits are paid when an employee is dismissed with a settlement payment or if an employee receives a redundancy payment in return for voluntary redundancy. The Group recognizes termination benefits when they are covered by the related restructuring costs or when it can no longer withdraw its offer of termination benefits. Payments due more than twelve months after the reporting date are discounted to present value.

Profit participation and bonus plans

Bonus payments and profit participation plan are recognized as an expense and as a liability as of the reporting date. The Group recognizes a provision in cases when there is a contractual obligation or past business practice results in a constructive obligation.

Foreign currencies

Functional currency

The items presented in the financial statements of every 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 transaction date. Monetary items are translated at the closing rate on the reporting date. Gains and losses resulting from the settlement of such transactions and from currency translation of monetary assets and liabilities denominated in foreign currencies at the closing rate are recognized in the income statement. Non-monetary items are translated at the exchange rate on the transaction date. Currency translation differences are recognized in accordance with the method for the recognition of gains and losses arising on revaluation.

Group companies

Income statement and statement of financial position items of all Group companies which have a functional currency that is not the same as the (Group's) reporting currency are translated to the (Group's) reporting currency as follows:

a) Assets and liabilities are translated for each reporting date at the closing rate; in contrast, equity items are 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):

		Closing Exchange Rate		Average Exchange Rate	
EUR 1		Dec. 31, 2015	Dec. 31, 2014	2015	2014
Bhutan	BTN	72.0215	76.7190	71.1939	81.0406
Brazil	BRL	4.3117	3.2207	3.7004	3.1211
China (PR)	CNY	7.0608	7.5358	6.9732	8.1857
Hong Kong	HKD	8.4376	9.4170	8.6012	10.3025
India	INR	72.0215	76.7190	71.1939	81.0406
Japan	JPY	131.0700	145.2300	134.3117	140.3061
Canada	CAD	1.5116	1.4063	1.4185	1.4661
Mexico	MXN	18.9145	17.8679	17.6152	17.6550
Russia	RUB	80.6736	72.3370	68.0707	50.9518
Sweden	SEK	9.1895	9.3930	9.3532	9.0985
South Korea	KRW	1.280.7800	1.324.8000	1.256.4975	1.398.1424
Turkey	TRY	3.1765	2.8320	3.0254	2.9065
USA	USD	1.0887	1.2141	1.1095	1.3285

Financial liabilities

Financial liabilities comprise liabilities to banks, liabilities from derivative financial instruments and trade payables. 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 accordance with the definition in IAS 32, equity is only present from the company's perspective if there is no obligation to redeem capital or deliver other financial assets. Redemption obligations for company assets can arise if a shareholder or non-controlling interest holds a right of termination and if the exercise of this right gives rise to an equalization claim against the company. Any such capital provided by non-controlling interests is recognized as a liability even if it is regarded as equity under national regulations.

Current items have a remaining term of up to one year, noncurrent items have a remaining term of more than one year.

Other financial liabilities at amortized cost

Other financial liabilities are measured at fair value upon initial recognition, including transaction costs that can be directly attributed to the acquisition of the financial liability. In subsequent periods, other liabilities are measured at amortized cost. For current liabilities, this corresponds to the repayment or settlement amount. Noncurrent liabilities and financial liabilities are measured at amortized cost according to the effective interest rate method. Liabilities under finance leases are measured at the present value of the minimum lease payments.

Financial liabilities at fair value through profit or loss

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value until they are derecognized. Gains and losses arising from changes in fair value are expensed in the period in which they occur. Gains and losses include both realized gains and losses that result when the financial liabilities are sold, as well as unrealized gains and losses that result from the continued recognition of financial liabilities.

The SKW Metallurgie Group does not exercise the option to assign 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 to compensate the guarantee beneficiary for a loss resulting from the failure of a specified debtor to fulfill his payment obligations according to the conditions of the debt instrument.

Liabilities under financial guarantees are measured at fair value when received. If they are not measured at fair value through profit and loss, they are measured in subsequent periods as 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 originally recognized amount carried, less (where applicable) the accumulated utilization determined in accordance with the income recognition guidelines set out above.

Derecognition of financial liabilities

The SKW Metallurgie Group derecognizes financial liabilities when the Group’s corresponding obligations have been settled, cancelled, or expired. The difference between the carrying amount of the derecognized financial liability and the consideration received or to be received is recognized in 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 in connection with current business activities, as well as investing and financing 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 must be disclosed separately are measured at fair value through profit and loss, both upon initial recognition and in subsequent periods. Gains and losses from change in fair value are recognized in profit or loss immediately.

If derivative financial instruments are used to hedge risks from future cash flows or to hedge items of the statement of financial position, 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, they can be classified as fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation.

In the case of a fair value hedge which is used to hedge assets and liabilities in the statement of financial position or fixed contractual obligations which are not recognized in the financial statements, the hedge is measured at fair value and fair value changes are recognized directly in profit or loss. Changes in the fair values of the hedged assets, liabilities or fixed contractual obligations which result from the hedged risk are also recognized in profit or loss. In the event of a perfect hedge, the fluctuations in fair value recognized in profit or loss 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 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 measured at fair value without affecting the income statement in accordance with general recognition rules, the changes in fair value resulting from the hedged risk are recognized in profit or loss. The SKW Metallurgie Group does not currently use fair value hedges.

In the case of cash flow hedges, future changes in cash flows from assets and liabilities presented in the statement of financial position 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 recognized directly in equity under other comprehensive income (accumulated other comprehensive income). The reclassification from equity to profit or loss is done in the same period in which the underlying transaction is also recognized in profit or loss. If the hedge later results in the recognition of a non-financial asset (e.g., property, plant and equipment or inventories), the fair value changes previously recognized in equity change the carrying amount of the non-financial asset on this date. The remaining ineffective portion of the derivative resulting 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 profit or loss when the hedged underlying transaction is recognized in profit or loss. If the originally hedged underlying transaction is no longer expected to occur, the accumulated non-realized gains and losses recognized in equity up 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 items in the balance sheet. The effects recognized in profit or loss from the translation of the statement of financial position items are thus offset by the fluctuations in the fair value of the derivatives, also recognized in profit or loss.

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

Government grants

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 recognized 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 recognized as other operating income in the periods in which the expenses are incurred that are to be compensated for by the subsidy. In 2015 other operating income includes grants of EUR 128 thousand (PY: EUR 147 thousand).

Estimates and the use of discretion in the preparation of the financial statements

In preparing the consolidated financial statements, assumptions must be made and estimates must be used to a certain extent. These affect the amount and presentation of the assets and liabilities, income and expenses and contingent liabilities presented in the financial statements in the period under review. The assumptions and estimates are based on assumptions grounded in the knowledge available at the time. 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 operating environment. Developments in the underlying conditions that differ from the assumptions and which are outside the management's sphere of influence may cause in the actual amounts to differ 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 recognized in the consolidated statement of financial position as a result of acquisitions. Upon the first-time consolidation of an acquisition, all identifiable assets, liabilities and contingent liabilities are measured 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 reporting date. As a rule, land, buildings and operating equipment are valued based on independent surveys whereas marketable securities are measured at their exchange-listed 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 indications 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, affected 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 effect 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 effect on the financial position and results of operations. In fiscal year 2015 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 reporting date, the SKW Metallurgie Group must estimate if there are any indications 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 conducts impairment tests annually and additionally when there are indications 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.

Trade receivables and other receivables

Value adjustments 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, 2015 the total impairment of trade receivables totalled EUR 645 thousand (PY: 1,299 thousand).

Recognition of revenues from 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 reporting date. As a rule, this is the ratio of the contract-based costs incurred by the reporting 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 recognizes 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 instalments. The Group recognizes a liability for all ongoing construction contracts with a debit balance with customers for which the total invoices for instalments 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

Since 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 effect on tax liabilities and deferred taxes in the respective period in which the issue is finally resolved.

On each reporting 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 may 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, to 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 effect 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 effect 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 reporting 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 income statement and statement of financial position, and other disclosures

In accordance with IFRS 5.33, earnings from discontinued operations related to the sale of the subsidiary SKW Metallurgy Sweden AB in 2014 and the deconsolidation of the subsidiary SKW Tashi Metals & Alloys Pte. Ltd. in 2015 are presented as a separate amount in the income statement (see Note 11. below). In order to accurately present the prior-year earnings from discontinued operations in accordance with IFRS 5.34, the respective prior-year comparison figures in the other items of the income statement were adjusted by deducting the contributions of the Swedish and Bhutanese companies.

Earnings from discontinued operations are calculated as follows:

EUR thousand	2015	2014
Revenues	6,270	31,763
Expenses	-6,732	-75,869
Earnings before taxes from discontinued operations	-462	-44,106
Income taxes	0	-5,230
Earnings from discontinued operations	-462	-49,336

1. Revenues

The consolidated revenues of EUR 285,530 thousand (PY: EUR 306,307 thousand) were generated mainly on sales of merchandise and services. The breakdown of revenues by countries and groups of countries is presented in Section D. 29 Segment Report.

The revenues included revenues from long-term construction contracts in the amount of EUR 0 thousand (PY: EUR 830 thousand).

The following disclosures are made with regard to projects in progress at the reporting date:

EUR thousand	2015	2014
Total costs incurred and profits recognized (less any losses recognized)	3,956	3,276
Advance payments received	4,034	3,369
Amounts retained by customers	0	0

At the reporting date, construction contracts showing a credit balance due from customers amounted to EUR 0 thousand (PY: EUR 0 thousand), and those showing a debit balance due to customers amounted to EUR 80 thousand (PY: EUR 102 thousand). Construction contracts showing a credit balance are presented within trade receivables, and those showing a debit balance are presented within trade payables.

2. Other operating income

Other operating income breaks down as follows:

EUR thousand	2015	2014
Income from exchange rate changes	18,151	7,902
Income from the deconsolidation of SKW Tashi Pte. Ltd.	6,036	-
Income from the derecognition of liabilities	1,701	1,264
Income from the reversal of value adjustments on receivables	277	3
Research grants	128	147
Income from the disposal of noncurrent assets	116	267
Income from refunds of wage taxes and similar taxes	43	161
Insurance settlement	15	118
Income from the deconsolidation of SKW Sweden AB	-	613
Recoveries on charged-off receivables	0	254
Miscellaneous operating income	1,088	702
Total	**27,555**	**11,431**

Income from exchange rate changes was reduced by the reclassification of currency translation effects of EUR 102 thousand from equity to profit or loss in connection with the deconsolidation of SKW Tashi Pte. Ltd. in 2015. The deconsolidation profit includes an expense on disposal of the shares of EUR 2,685 thousand.

The income from the deconsolidation of SKW Sweden AB in 2014 included an amount of EUR 11 thousand that was reclassified from the currency reserve in equity to profit or loss.

Miscellaneous operating income consisted of numerous smaller items taken over from the separate financial statements of consolidated Group companies.

3. Cost of materials

The cost of materials breaks down as follows:

EUR thousand	2015	2014
Raw materials and supplies	168,173	192,099
Purchased goods	13,580	11,999
Purchased services	3,029	2,294
Other	2,268	3,616
Total	**187,050**	**210,008**

The cost of materials included an amount of EUR 203 thousand (PY: EUR 2,428 thousand) from value adjustments on items of inventory.

4. Personnel expenses

Personnel expenses break down as follows:

EUR thousand	2015	2014
Wages and salaries	31,013	32,383
Social security contributions and pension expenses	9,067	9,568
Total	**40,080**	**41,951**

Personnel expenses were less than the prior-year figure as a result of the smaller workforce, particularly due to the deconsolidation of SKW Tashi.

5. Other operating expenses

Other operating expenses break down as follows:

EUR thousand	2015	2014
Outbound freight/ transport costs	12,298	13,333
Expenses from exchange rate changes	9,919	4,614
Provision for EU antitrust proceedings (fine)	7,469	0
Legal and consulting costs	6,526	7,225
Administrative expenses	5,104	4,809
Marketing and entertainment expenses	3,045	2,631
Expenses for land and buildings	2,973	2,849
Repairs and maintenance	2,325	2,148
Insurance	2,325	1,038
Commissions	1,845	2,218
Value adjustments on receivables	649	1,548
Operational safety	549	478
Restructuring costs	0	1,216
Costs of the audit of financial statements	507	459
Research and development (material costs)	446	475
Costs of waste processing and disposal	441	395
Cost taxes France (“contribution économique territoriale”)	319	340
Temporary staff	314	349
Losses on disposal of noncurrent assets	26	19
Miscellaneous expenses	3,741	3,356
Total	**60,821**	**49,500**

The EUR 11,321 thousand increase in other operating expenses resulted mainly from the provision for the probable fine under the EU antitrust proceeding, and from currency translation expenses.

Miscellaneous expenses consisted of numerous smaller items from the companies consolidated at the reporting date.

6. Income from associated companies

The income from associated companies in the amount of EUR 964 thousand (PY: EUR 1,251 thousand) related exclusively to the company Jamipol Ltd., Jamshedpur (India). SKW Stahl-Metallurgie GmbH contributed this investment as an in-kind capital contribution to its newly founded subsidiary SKW Metallurgie Asia Pte. Ltd. in 2015.

7. Amortization and depreciation

Please refer to Sections D. 13 and D. 14 for information on the development of amortization and depreciation and impairments of intangible assets and property, plant and equipment in fiscal year 2015.

8. Interest and similar income

The interest and similar income of EUR 530 thousand (PY: EUR 317 thousand) consisted mainly of interest on current accounts, in the amount of EUR 413 thousand (PY: EUR 307 thousand).

9. Interest and similar expenses

Interest and similar expenses break down as follows:

EUR thousand	2015	2014
Interest on liabilities due to banks	4,144	2,870
Prepayment penalties	759	0
Commitment fees for credit lines	664	172
Guarantee fees	270	259
Waiver fees and standstill agreements	247	349
Miscellaneous interest expenses	936	702
Total	**7,020**	**4,352**

All interest expenses were incurred on financial liabilities that are not measured at fair value. Interest expenses included expenses of EUR 469 thousand (PY: EUR 137 thousand) that resulted from the application of the effective interest method to liabilities.

10. Income taxes

Income tax expenses break down as follows:

EUR thousand	2015	2014
Current tax expenses/ income	5,209	4,460
Deferred tax expenses	1,651	6,954
Deferred tax income	-1,056	-3,829
Total deferred tax expenses/ income	595	3,125
Total tax expenses/ income	**5,804**	**7,585**

The current tax expenses presented in the table are the net balance of current tax expenses and income. This item included non-period tax expenses (after netting) of EUR 38 thousand (PY: tax income from other periods of EUR 99 thousand).

The reconciliation statement below presents the differences between the actual and expected tax expenses. Expected income tax expenses are calculated by multiplying earnings before income taxes by the Group income tax rate. This income tax rate includes the German corporation tax, the solidarity surtax, and the trade tax. It was unchanged at 32.94% in fiscal year 2015 (PY: 32.94%).

Tax effects of valuation adjustments and recognition corrections (totalling EUR 4,471 thousand (PY: EUR 20,217 thousand) result from the failure to capitalize deferred taxes on loss carryforwards and temporary differences as well as opposite losses retroactively claimed for tax purposes.

EUR thousand	2015	2014
Earnings from continuing operations before income taxes	-2,386	-24,074
Income tax rate	32.94%	32.94%
Expected tax expenses (-: income)	-786	-7,930
Tax increases/ reductions due to measurement of deferred tax assets	4,471	20,217
Tax increases due to non-tax-deductible expenses	4,774	3,900
Effects of different foreign tax rates	-1,410	-2,538
Non-period tax income/ expenses	38	-99
Tax reductions due to tax-exempt income	-3,578	0
Tax increases/ reductions due to withholding taxes and tax credits	1,980	35
Other tax effects	315	-6,000
Recognized tax expenses/ income	**5,804**	**7,585**
Effective tax rate	-243.25%	-31.51%

11. Share of consolidated net income/ loss attributable to non-controlling interests

The consolidated net loss (PY: net loss) breaks down as follows:

EUR thousand	2015	2014
Earnings from continuing operations (after taxes)	-8,568	-28,541
Earnings from discontinued operations (after taxes)	-236	-30,796
Share of earnings attributable to non-controlling interests	152	-21,658
Consolidated net loss	**-8,652**	**-80,995**

The earnings from discontinued operations related to the company SKW Tashi Pte. Ltd., Bhutan, in which the Group holds a minority interest of 49%.

12. Earnings per share

Earnings per share (EPS) are calculated by dividing the consolidated net income/loss attributable to shareholders of the parent company by the weighted average number of shares outstanding during the reporting period. The earnings per share based on the consolidated net income/ loss and the earnings from continuing operations in fiscal year 2015 are presented in the table below:

		2015	2014
Consolidated net loss	EUR thousand	-8,652	-80,995
Correction for non-controlling interests	EUR thousand	-152	21,658
Consolidated net loss attributable to shareholders of SKW Stahl-Metallurgie Holding AG	**EUR thousand**	**-8,804**	**-59,337**
Correction for earnings from discontinued operations attributable to shareholders of SKW Stahl-Metallurgie Holding AG	**EUR thousand**	**236**	**30.796**
Earnings from continuing operations attributable to shareholders of SKW Stahl-Metallurgie Holding AG	**EUR thousand**	**-8,568**	**-28,541**
Weighted average shares outstanding in the reporting period	000	6,545	6,545
Earnings per share	**EUR**	**-1.35**	**-9.07**
Earnings per share from discontinued operations	**EUR**	**-0.04**	**-4.71**
Earnings per share from continuing operations	**EUR**	**-1.31**	**-4.36**

Diluted earnings per share are equal to basic earnings per share.

13. Intangible assets

Development costs of EUR 58 thousand (PY: EUR 179 thousand) incurred in connection with various projects were capitalized in fiscal year 2015. Most of the capitalized development costs were incurred by Affival S.A.S.

As in the prior year, the capitalized internal production of EUR 73 thousand (PY: EUR 138 thousand) consisted entirely of development costs in 2015.

On the Group level, R&D expenses of EUR 1,696 thousand were recognized as expenses in 2015 (PY: EUR 1,543 thousand). This amount consisted of personnel expenses in the amount of EUR 1,224 thousand (PY: EUR 1,024 thousand), material costs in the amount of EUR 446 thousand (PY: EUR 475 thousand), and depreciation, amortization, and impairments in the amount of EUR 26 thousand (PY: EUR 44 thousand).

Intangible assets exhibited the following development in fiscal year 2015:

EUR thousand	Franchises, industrial property rights, and similar rights and assets	Goodwill	Customer base	Brand name	Internally generated intangible assets	Other intangible assets	Total
Acquisition costs at 01/01/2015	**3,544**	**28,060**	**15,289**	**13,932**	**1,632**	**9,043**	**71,500**
Currency translation	-76	-346	-436	-493	147	-1,593	-2,797
Acquisitions	235	132	150	500	58	51	1,126
Disposals	-78	0	0	0	-14	0	-92
Disposals from the consolidation group	-127	0	0	0	0	-343	-470
Reclassifications	223	0	0	0	-174	-49	0
Balance at 12/31/2015	**3,721**	**27,846**	**15,003**	**13,939**	**1,649**	**7,109**	**69,267**
Depreciation and amortization at 01/01/2015	**-2,711**	**-20,721**	**-11,939**	**-1,091**	**-1,044**	**-9,028**	**-46,534**
Currency translation	71	1,109	482	139	-116	1,591	3,276
Acquisitions	-288	-4,470	-670	-4,571	-25	0	-10,024
Disposals	14	0	0	0	0	0	14
Disposals from the consolidation group	127	0	0	0	0	343	470
Reclassifications	-40	0	0	0	40	0	0
Balance at 12/31/2015	**-2,827**	**-24,082**	**-12,127**	**-5,523**	**-1,145**	**-7,094**	**-52,798**
Net carrying amount at 12/31/2015	**894**	**3,764**	**2,876**	**8,416**	**504**	**15**	**16,469**

The disposals of intangible assets from the consolidation group pertain to the deconsolidation in December 2015 of SKW Tashi Pte. Ltd., at which insolvency proceedings have been commenced.

Two of the three brand names are intangible assets with indefinite useful lives. They include the brand name “Tecnosulfur” and the brand name “ESM.” Use of the “Tecnosulfur” brand name depends on the market in which the hot metal desulfurization products are sold. Because it can be assumed on the basis of current knowledge that these brand names can be used for a very long period of time, even though the time period is not determinable, the useful lives of the brand names are regarded as indefinite. Use of the “ESM” brand name depends on the technology employed for hot metal desulfurization. Because the useful life of this technology is not determinable on the basis of current knowledge, the useful life of this brand name is likewise regarded as indefinite. The third brand name is the “SKW” brand with a useful life of five years.

The prior-year development is presented in the table below:

EUR thousand	Franchises, industrial property rights, and similar rights and assets	Goodwill	Customer base	Brand name	Internally generated intangible assets	Other intangible assets	Total
Acquisition costs at 01/01/2014	**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
Acquisitions	679	1,476	-	-	179	-	2,334
Disposals	0	-	-	-	-5	-	-5
Disposals from the consolidation group	-411	-	-	-	-	-34	-445
Reclassifications	0	-	-	-	-	-	0
Balance at 12/31/2014	**3,544**	**28,060**	**15,289**	**13,932**	**1,632**	**9,043**	**71,500**
Depreciation and amortization at 01/01/2014	**-2,054**	**0**	**-8,525**	**0**	**-895**	**-7,651**	**-19,125**
Currency translation	-100	-643	-785	-11	-119	-241	-1,899
Acquisitions	-968	-20,078	-2,629	-1,080	-35	-1,170	-25,960
Disposals	0	-	-	-	5	-	5
Disposals from the consolidation group	411	-	-	-	-	34	445
Reclassifications	0	-	-	-	-		0
Balance at 12/31/2014	**-2,711**	**-20,721**	**-11,939**	**-1,091**	**-1,044**	**-9,028**	**-46,534**
Net carrying amount at 12/31/2014	**833**	**7,339**	**3,350**	**12,841**	**588**	**15**	**24,966**

The disposals from the consolidation group relate to the sale of SKW Metallurgy Sweden AB in November 2014.

Impairments of goodwill

Goodwill is allocated to the cash generating units (CGUs) that derive synergies from the combination. This is the lowest level at which goodwill is monitored for internal management purposes (IAS 36.80 (a)). The full Executive Board is responsible for managing and supervising business operations. Because supervision of goodwill is performed on the level of legal entities, the impairment test of goodwill is also conducted on this level.

The identified CGUs are not larger than any operating segment determined in accordance with IFRS 8 (IAS 36.80 (b)).

Given the absence of an available fair value less costs of disposal, the recoverable amount is measured as the value in use determined in accordance with the discounted cash flow method. Planned cash flows from the bottom-up Five-Year Plan are used for this purpose. The value in use is calculated on the basis of the expected inflation rate in the respective country and an estimated revenue growth rate; for this purpose, both past data and the expected market performance are considered.

The development of the goodwill of ESM Group Inc. and Tecnosulfur in the reporting period and prior year is presented below. The annual impairment test of goodwill conducted at the end of the reporting period found that it was necessary to recognize impairments mainly at ESM.

The ESM CGU consists of the sub-group ESM without its Chinese subsidiary ESM Tianjin Co. Ltd., i.e. the U.S. ESM Group Inc. and its Canadian subsidiary ESM Metallurgical Products Inc., which has conducted a portion of the business activity identified in the original purchase price allocation since 2014.

To calculate the value in use of the ESM CGU in the regular cycle and therefore at December 31, 2015, a growth rate of 1.5% (PY: 2.0%) was set for the perpetual annuity and the discount rate before taxes was set at 13.9% (PY: 12.0%). The weighted average cost of capital employed was determined on the basis of a risk-free interest rate of 2.7% (PY: 2.5%) and a market risk premium for equity of 6.0% (PY: 6.0%). In addition, consideration was given to a beta factor derived from the respective peer group and its capital structure. Because the value in use determined in this way was less than the carrying amount at December 31, 2015, an impairment of EUR 4.3 million was recognized. Whereas the value in use had been higher than the carrying amount at the prior-year reporting date, impairments of EUR 10,102 thousand had already been recognized during the course of 2014. Other valuation scenarios at the reporting date found that with a discount rate before taxes of 12.4% would not have made it necessary to recognize impairments in goodwill. Likewise, if the growth rate for the perpetual annuity were to be more than 3.4% it would not be necessary to recognize an impairment in goodwill.

Therefore, the impairment recognized in the goodwill of Tecnosulfur resulted from an increase in the earn-out obligation vis-à-vis the earlier shareholders and therefore the goodwill according to a recalculation performed in 2015. This increase in goodwill was recognized not in the carrying amount, but in profit or loss because it had already been determined in 2014 that the goodwill of Tecnosulfur was nil.

To calculate the value in use of Tecnosulfur in the regular cycle and therefore at December 31, 2015, a growth rate of 6% (PY: 6%) was set for the perpetual annuity and the discount rate before taxes was set at 22.5% (PY: 20.9%). The weighted average cost of capital employed was determined on the basis of a risk-free interest for Brazil of 16.5% (PY: 12.6%) and a market risk premium for equity of 6.0% (PY: 6.0%). In addition, consideration was given to a beta factor derived from the respective peer group and its capital structure. The value in use so determined was higher than the carrying amount at December 31, 2015 (at the prior-year reporting date); however, impairments of EUR 9,976 thousand had already been recognized during the course of 2014. Other valuation scenarios at the reporting date found that even a discount rate before taxes of 30.7% (PY: 29.9%) or a growth rate for the perpetual annuity of 0% (PY: 0%) would not make it necessary to recognize further impairments of goodwill.

Impairments of brand names

Based on the annual impairment tests of the brand name "ESM" capitalized in connection with the acquisition of the ESM sub-group and the brand name "Tecnosulfur" capitalized in connection with the acquisition of Tecnosulfur, it was necessary to recognize total impairments of EUR 4,488 thousand at December 31, 2015 (PY: EUR 1,080 thousand) because the recoverable amount was less than the carrying amount in both cases. Details on the development of the brand names at both companies since the prior year are presented below.

To determine the recoverable amounts of both brand names, the net selling price less costs to sell was calculated by application of the relief-from-royalty method. The valuation parameters applied for the growth rate and discount rate were the same as those applied in the impairment tests of goodwill. The royalty rates applied were the royalty rates before taxes, after adjusting for market and competition conditions, of between 0.5% and 2.5% (PY: between 0.5% and 2.5%).

SKW Stahl-Metallurgie Holding AG purchased the brand name "SKW" for EUR 500 thousand in early 2015. It is amortized over a period of five years, EUR 83 thousand pro-rated in 2015.

Prior to the recognition of impairments, the carrying amounts of assets with indefinite useful lives were allocated to cash-generating units as follows:

EUR thousand	2015	2014
Goodwill		
ESM Group Inc.		
Carrying amount at 01/01	7,339	16,193
Impairments	-4,338	-10,102
Subsequent acquisition costs	0	0
Other changes (e.g. currency translation)	763	1,248
Carrying amount at 12/31	**3,764**	**7,339**
Tecnosulfur		
Carrying amount 01/01	0	8,144
Impairments	-132	-9,976
Subsequent acquisition costs	132	1,476
Other changes (e.g. currency translation)	0	356
Carrying amount at 12/31	**0**	**0**
Total goodwill at 12/31	**3,764**	**7,339**
Brand names		
ESM Group Inc.		
Carrying amount at 01/01	7,850	7,250
Impairments	-3,926	-352
Subsequent acquisition costs		0
Other changes (e.g. currency translation)	830	952
Carrying amount at 12/31	**4,754**	**7,850**
Tecnosulfur		
Carrying amount at 01/01	4,991	5,630
Impairments	-562	-728
Subsequent acquisition costs	0	0
Other changes (e.g. currency translation)	-1,184	89
Carrying amount at 12/31	**3,245**	**4,991**
SKW Stahl-Metallurgie Holding AG		
Carrying amount at 01/01	0	0
Current amortization	-83	0
Acquisition costs	500	0
Carrying amount at 12/31	**417**	**0**
Total brand names 12/31	**8,416**	**12,841**

The recoverable amount of the "ESM" CGU for goodwill amounted to EUR 29,779 thousand and of the "Tecnosulfur" CGU for the brand to EUR 3,245 thousand.

The corresponding impairment losses are recognized within EBITDA and for the "ESM" CGU, they result from the fact that its markets suffered a significantly stronger decline in demand than the published statistics had led us to expect. The reason is that its products are used to an above-average degree for high-quality steel types such as those used in pipe manufacturing for the oil and gas industry (including raw material extraction from shale gas). In turn, these sub-markets collapsed to an above-average degree in the reporting year. The "Technosulfur" CGU was also affected by the significant weakening in the steel business in 2015 and the related decline in steel production.

14. Property, plant and equipment

Property, plant and equipment exhibited the following development in the reporting period:

EUR thousand	Land	Buildings, including buildings on non-owned land	Technical equipment, plant and machinery	Other equipment, operational and office equipment	Advance payments and assets under construction	Total
Acquisition costs at 01/01/2015	**4,303**	**19,901**	**87,533**	**7,581**	**3,859**	**123,177**
Currency translation	-87	-836	1,358	204	226	865
Acquisitions	0	599	2,902	191	2,005	5,697
Disposals	-17	0	-268	-32	-1,074	-1,391
Disposals from the consolidation group	0	5,670	31,348	1,048	-296	-38,362
Reclassifications	0	3	116	5	-124	0
Balance at 12/31/2015	**4,199**	**13,997**	**60,293**	**6,901**	**4,596**	**89,986**
Depreciation and amortization at 01/01/2015	**-1,594**	**-14,128**	**-64,117**	**-6,146**	**-1,097**	**-87,082**
Currency translation	-48	234	-2,791	-250	0	-2,855
Acquisitions	-132	-671	-3,480	-420	-2	-4,705
Disposals	0	0	237	16	2	255
Disposals from the consolidation group	0	5,670	31,348	1,048	296	38,362
Reclassifications	0	0	0	0	0	0
Balance at 12/31/2015	**-1,774**	**-8,895**	**-38,803**	**-5,752**	**-801**	**-56,025**
Net carrying amount at 12/31/2015	**2,425**	**5,102**	**21,490**	**1,149**	**3,795**	**33,961**

The disposals from the consolidation group relate to SKW Tashi Metals & Alloys Pte. Ltd., which was deconsolidated in 2015.

Property, plant and equipment included leased tangible assets in the amount of EUR 287 thousand (PY: EUR 397 thousand), which are attributable to the Group as the beneficial owner due to the substance of the underlying leases ("finance leases"). Of this total number, buildings accounted for EUR 145 thousand (PY: EUR 159 thousand) and technical plant and equipment accounted for EUR 142 thousand (PY: EUR 238 thousand). Furthermore, tangible assets worth EUR 6,243 thousand (PY: EUR 47,508 thousand) have been pledged to local banks as collateral for loans. The year-on-year change is primarily due to the disposal of SKW Tashi from the Group.

The depreciation, amortization, and impairment losses include extraordinary expenses for value adjustments of EUR 336 thousand that relate primarily to a piece of real estate in Russia.

At December 31, 2015, the Group was contractually committed to purchase tangible assets in the amount of EUR 132 thousand (PY: EUR 143 thousand).

As in the prior year, no borrowing costs were capitalized in the Group in 2015.

EUR thousand	Land	Buildings, including buildings on non-owned land	Technical equipment, plant and machinery	Other equipment, operational and office equipment	Advance payments and assets under construction	Total
Acquisition costs at 01/01/2014	**4,405**	**18,743**	**87,105**	**6,967**	**4,038**	**121,258**
Currency translation	202	1,169	8,574	732	353	11,030
Acquisitions	18	197	2,656	340	1,806	5,017
Disposals	-125	-1	-1,420	-390	-243	-2,179
Disposals from the consolidation group	-207	-230	-9,985	0	-1,527	-11,949
Reclassifications	10	23	603	-68	-568	0
Balance at 12/31/2014	**4,303**	**19,901**	**87,533**	**7,581**	**3,859**	**123,177**
Depreciation and amortization at 01/01/2014	**-198**	**-4,731**	**-27,248**	**-4,910**	**-183**	**-37,270**
Currency translation	-49	-834	-6,526	-632	-65	-8,106
Acquisitions	-1,554	-8,793	-41,422	-990	-2,376	-55,135
Disposals	0	0	1,129	351	0	1,480
Disposals from the consolidation group	207	230	9,985	0	1,527	11,949
Reclassifications	0	0	-35	35	0	0
Balance at 12/31/2014	**-1,594**	**-14,128**	**-64,117**	**-6,146**	**-1,097**	**-87,082**
Net carrying amount at 12/31/2014	**2,709**	**5,773**	**23,416**	**1,435**	**2,762**	**36,095**

The disposals from the consolidation group in the prior year related to the sale of SKW Metallurgy Sweden AB in November 2014.

Considerable impairments of property, plant and equipment were recognized in connection with a strategic reorientation in 2014. They related mainly to SKW Metallurgy Sweden AB, which was deconsolidated in November 2014, and SKW-Tashi Metals & Alloys Pte. Ltd., which was deconsolidated in 2015.

15. Interests in associated companies

The equity interest (30.22% of share capital) in the associated company Jamipol Ltd., Jamshedpur (India), is accounted for by the equity method. It was consolidated on the basis of the results reported by the company for the 12-month period ended December 31, 2015. This company's performance numbers exhibited the following development in its fiscal year (April 1 to March 31), which differs from the Group's fiscal year:

TEUR	2015	2014
Revenues	47,592	37,179
Fiscal year net income from continuing operations	4,197	3,541
Fiscal year net income from discontinued operations	0	0
Fiscal year net income	4,197	3,541
Other comprehensive income	0	0
Total comprehensive income	**4,197**	**3,541**
Current assets	15,263	11,720
Noncurrent assets	5,230	4,608
Total assets	**20,493**	**16,328**
Equity	13,826	10,849
Current liabilities	6,041	4,904
Noncurrent liabilities	626	575
Total equity and liabilities	**20,493**	**16,328**

Jamipol Ltd. had contingent liabilities of EUR 766 thousand at the end of its fiscal year (PY: EUR 642 thousand).

The interests in associated companies exhibited the following development in its fiscal year:

EUR thousand	2015	2014
Balance at 01/01	**5,618**	**4,290**
Proportionate net income	964	1,251
Exchange rate differences	372	529
Income taxes	-124	-73
Dividends collected	-485	-379
Balance at 12/31	**6,345**	**5,618**

The summarized financial information of Jamipol Ltd. is reconciled with the carrying amount of this investment as follows:

EUR thousand	2015	2014
Net assets of the associated company	15,769	13,611
Shareholding percentage of the SKW Metallurgie Group	30.22%	30.22%
Proportionate net assets	4,765	4,113
Currency translation differences	1,580	1,505
Carrying amount of the investment in Jamipol Ltd. at 12/31	**6,345**	**5,618**

16. Deferred tax assets and liabilities

The deferred tax assets presented at December 31, 2015 resulted from deferred tax assets recognized in respect of temporary differences between the IFRS carrying amounts and the tax bases. Based on the plan results for fiscal year 2016, an amount of EUR 2,638 thousand (PY: EUR 2,415 thousand) can be classified as current assets.

Deferred tax assets and liabilities are netted when they are due from and to the same tax authority and pertain to the same tax creditor.

The deferred tax assets and liabilities as of December 31, 2015 resulted from the following items of the statement of financial position:

	Deferred tax assets		Deferred tax liabilities	
EUR thousand	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Intangible assets	0	0	4,071	5,829
Property, plant and equipment	121	947	2,775	2,316
Financial assets	287	286	2,269	0
Inventories	357	1,415	2	0
Other assets	1,045	945	165	79
Pension provisions	1,864	226	0	0
Other provisions	316	82	191	0
Other liabilities	991	1,266	387	2
Tax loss carry-forwards	1,047	0	0	0
Gross amount	**6,028**	**5,167**	**9,860**	**8,226**
Netting	-4,217	-3,486	-4,217	-3,486
Carrying amount	1,811	**1,681**	5,643	**4,740**

No deferred tax assets were recognized in respect of deductible temporary differences in the amount of EUR 2,452 thousand and loss carry-forwards in the amount of EUR 57,158 thousand because sufficient taxable income against which such deferred tax assets could be used is not expected within the planning period 2016 to 2020. In accordance with IAS 12.35, moreover, deferred taxes were recognized in respect of loss carry-forwards in the case of companies with a history of losses only if there was convincing, substantive evidence that there will be sufficient taxable income in the future against which such loss carry-forwards can be applied. EUR 1,022 thousand of the tax losses not yet used for which no deferred tax claim was capitalized will lapse in the next one to five years, and EUR 680 thousand in the next five to ten years.

In accordance with IAS 12.39, deferred tax assets of EUR 790 thousand (PY: EUR 820 thousand) were not recognized in respect of temporary differences related to interests in subsidiaries and interests in joint ventures.

17. Inventories

Inventories break down as follows:

EUR thousand	Dec. 31, 2015	Dec. 31, 2014
Raw materials and supplies	16,450	19,932
Finished goods and merchandise	16,208	17,539
Advance payments made	7	47
Goods in transit	4,158	6,034
Total	**36,823**	**43,552**

Inventories are measured at the lower of cost or net realizable value at the reporting date. Inventories of EUR 11,221 thousand (PY: EUR 13,334 thousand) were measured at the net realizable value. By way of adjustment to market prices, value adjustments in the amount of EUR 137 thousand (PY: EUR 3,006 thousand) and reversals of value adjustments in the amount of EUR 102 thousand (PY: EUR 143 thousand) were recognized in inventories in the reporting year.

At the reporting date, inventories of EUR 3,232 thousand (PY: EUR 21,001 thousand) were assigned as security by means of loan agreements.

The inventory consumption recognized in cost of materials amounted to EUR 187,085 thousand in fiscal year 2015 (PY: EUR 212,872 thousand).

18. Trade receivables

Trade receivables break down as follows:

EUR thousand	Dec. 31, 2015	Dec. 31, 2014
Receivables before value adjustments	34,023	40,400
Reversals of value adjustments	154	3
Value adjustments	-645	-1,299
Carrying amount of receivables	**33,532**	**39,104**

Under factoring agreements, trade receivables were sold to participating banks on a revolving basis through the end of 2014. The Group ceased its factoring activity at December 31, 2014, so that the SKW Metallurgie Group was not subject to any further obligations under factoring agreements at December 31, 2015.

At the reporting date, trade receivables included receivables under long-term construction contracts in the amount of EUR 0 thousand (PY: EUR 0 thousand) and receivables due from the associated company Jamipol Ltd. in the amount of EUR 0 thousand (PY: EUR 2 thousand).

At the reporting date, receivables in the amount of EUR 3,631 thousand (PY: EUR 17,629 thousand) were assigned as security under loan agreements. Value adjustments of EUR 645 thousand (PY: EUR 1,299 thousand) were charged against trade receivables in 2015. At December 31, 2015, trade receivables in the amount of EUR 18,518 thousand (PY: EUR 12,165 thousand) were past due, but not yet reduced by value adjustments.

19. Other assets

Other assets break down as follows:

	Dec. 31, 2015		Dec. 31, 2014	
EUR thousand	Current	Noncurrent	Current	Noncurrent
Other financial assets				
Derivative financial instruments	101	0	321	0
Bank balances in blocked account	0	0	231	0
Other financial assets	0	550	0	478
Other non-financial assets				
Income taxes	4,910	0	4,570	0
Other tax assets	1,463	0	1,198	0
Accrual	2,600	0	3,775	0
Insurance claims	6	0	331	0
Prepayments on purchases of raw materials	129	0	0	0
Purchase price receivable	0	0	500	0
Other non-financial assets	222	0	259	0
	9,431	**550**	**11,185**	**478**

The other financial and non-financial assets included numerous smaller items. Impairments of EUR 64 thousand (PY: EUR 680 thousand) were recognized in other assets in 2015. As in the prior year, no other assets were past due but not yet reduced by impairments at December 31, 2015. At December 31, 2015, other assets in the amount of EUR 135 thousand (PY: EUR 231 thousand) were not available to the SKW Metallurgie Group because they were deposited as security.

20. Cash and cash equivalents

This item comprises cash on hand and cash in banks with maturity of no more than three months. Cash and cash equivalents amounted to EUR 12,278 thousand (PY: EUR 17,972 thousand).

21. Equity

Subscribed capital

At the reporting date, the Group's share capital amounted to EUR 6,544,930 and was divided into 6,544,930 no-par registered shares, each worth an imputed amount of EUR 1.00. Every share grants one vote unless the voting right is restricted by legal provisions. The number of fully paid-in shares is equal to the number of shares outstanding.

Share premium

The share premium of EUR 50,741 thousand comprises the issue premium and the costs of the 2009 capital increase in the amount of EUR 691 thousand, which were not recognized in profit or loss.

Authorized capital

By resolution of the annual general meeting of June 8, 2011, a new Authorized Capital of EUR 3.272.465 was established for the possible issuance of new shares in the time until May 30, 2016. This authorization has not been utilized to date.

Treasury shares

There is no authorization to purchase treasury shares (own shares). Accordingly, the Company holds no treasury shares.

Other comprehensive income

Other comprehensive income exhibited the following development:

EUR thousand	Dec. 31, 2014	Change 2015	Dec. 31, 2015
Retained earnings	-5,425	-34,645	-40,070
Change in actuarial gains and losses under defined benefit pension commitments	-4,565	383	-4,182
Net investment in a foreign operation	659	-968	-309
Unrealized gains/ losses under derivatives (hedge accounting)	-220	220	0
Currency translation difference	-11,685	-2,513	-14,198
Taxes on income and expenses recognized directly in equity	1,052	-53	999
	-20,184	**-37,576**	**-57,760**

Currency translation differences

The loss of EUR -6,379 thousand (PY: gain of EUR 1,517 thousand) in fiscal year 2015 resulted mainly from changes in the exchange rate of the euro (EUR) to the U.S. dollar (USD), to the Japanese yen (JPY), to the South Korean won (KRW), and the Brazilian real (BRL). At the reporting date, equity included a loss of EUR -308 thousand (PY: gain of EUR 1,064 thousand) from currency translation differences from net investments in foreign operations. From this amount, EUR 0 thousand (PY: EUR 1,353 thousand) resulted from USD loans granted by SKW Stahl-Metallurgie Holding AG to SSKW-Tashi Metals and Alloys Pte. Ltd., EUR 50 thousand (PY: EUR 70 thousand) resulted from a loan in KRW granted by Affival S.A.S. to Affival Korea, and EUR -359 thousand (PY: EUR -359 thousand) resulted from a USD loan granted by Affival Inc. to Affimex Cored Wire S. de R. L. de C.V.

Dividend proposal

Due to the accumulated loss of SKW Stahl-Metallurgie Holding AG determined in accordance with the principles of the German Commercial Code (HGB), no dividend can be paid for fiscal year 2015.

22. Additional disclosures on capital management

The SKW Metallurgie Group is obligated to maintain a strong financial profile with sufficient financial flexibility to enable the Group to attain its growth and portfolio optimization goals and implement the adopted restructuring program ReMaKe 2.0. The credit rating of the SKW Metallurgie Group, which is influenced by its capital structure, profitability, ability to generate cash, diversification in terms of products and geographical markets, and its competition situation, contributes to the preservation of a strong financial profile. The main control parameters employed in capital management are the equity ratio, the interest coverage ratio, and the ratio of net financial debt to EBITDA. The SKW Metallurgie Group strives for an equity ratio of 10%, an interest coverage ratio greater than 3.0, and net financial debt/ EBITDA of less than 3.5. The first goal of capital management is to ensure that the Group can continue to fulfill all its financial obligations, and the second goal is to achieve a long-term increase in the company's value. The Group's equity, total assets, interest coverage ratio, and net financial debt/EBITDA at the end of the reporting period and the prior year are presented in the table below.

EUR thousand	Dec. 31, 2015	Dec. 31, 2014	Change in %
Equity	**24,440**	**105,480**	-76%
As % of total capital	6%	14%	
Current liabilities	122,079	131,453	
Noncurrent liabilities	20,782	24,758	
Debt capital	**142,861**	**156,211**	-9%
As % of total capital	94%	86%	
Total capital (equity plus debt capital)	**180,651**	**255,145**	-29%
Net financial debt/EBITDA	3.34	3.78	
Interest coverage ratio	0.58	n.a.	

The Group's equity in fiscal year 2015 was 66% less, and the debt capital was 9% less than the respective prior-year figures. In all, this led to a higher percentage of total capital represented by debt capital in fiscal year 2015 than in fiscal year 2014. In line with the increase in the debt capital ratio, the equity ratio declined markedly from 14% to 6%, mainly due to the impairments recognized and the collapse of the steel market in the core markets of the SKW Metallurgie Group.

23. Pension obligations

The SKW Metallurgie Group maintains both defined contribution plans and defined benefit plans for the eligible employees of its companies in Germany, France, and Japan.

The company pension plans for employees in Germany are based on works agreements or on single-contract agreements and are designed as defined benefit plans. The amount of pension benefits owed is determined on the basis of the number of service years and the assessment ceiling of the statutory pension insurance. The income of the last 24 or 36 months prior to retirement is applied as pension-eligible income.

The pension plans in France are based on the regional and national agreements of the French metallurgical industry and are designed as defined benefit plans. Various criteria, including the employees' length of service with the company, are considered for this purpose. Until 1988, moreover, the French companies had voluntarily committed to a survivor's pension. The amount of pension benefits owed is determined on the basis of the number of service years and the employee's position within the company. The income of the last 12 months prior to retirement is applied as pension-eligible income.

For employees in Japan, the SKW Metallurgie Group maintains both defined contribution plans and defined benefit plans for all eligible employees of the subsidiary Affival KK. Under the defined benefit plan, a fixed amount is paid to a bank account every month. Upon leaving the company, the beneficiary receives a one-time payment. In addition to the pension benefit, the plan also offers a disability benefit and a survivor's benefit, among others. The pension benefit under the defined benefit plan consists of a one-time capital payment, which is paid upon reaching the retirement age, as a general rule. The capital payment is guaranteed on the basis of the last paid salary and the years of service with the company upon retirement. The defined benefit plan also provides disability, accident protection, and survivor's benefits, among others.

Please refer to Section 34, Compensation of the Governing Bodies, for information on the compensation system for the Executive Board of the SKW Metallurgie Group.

By reason of these pension plans, the SKW Metallurgie Group is customarily 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 under the plan is calculated by application of a discount rate that is determined on the basis of the yields of top-rated, fixed-interest corporate bonds. If the return on plan assets is less than this interest rate, the plan will be underfunded.

Interest rate risk:

A decline in the bond interest rate would lead to an increase in plan liabilities, although this would be partially offset by the higher return on the fixed-income debt instruments in which the plan is invested.

Longevity risk:

The present value of the defined benefit obligation under the plan is calculated on the basis of the best possible estimate of the death probabilities of the participating employees, both during and after termination of the employment relationship. An increase in the life expectancy of participating employees would lead to an increase in the plan liability.

Concentration risk:

The plan assets are invested exclusively in a certain class of assets, namely fixed-income securities. This leads to a concentration of bond market risks for these plans.

Salary risk:

The present value of the defined benefit obligation under the plan is calculated on the basis of the future salaries of the participating employees. Therefore, salary increases for the participating employees would lead to an increase in the plan liability.

A total of four Group companies recognize provisions for pensions. The total amount of these provisions, EUR 9,143 thousand (PY: EUR 9,241 thousand), is divided among the following companies in particular:

- SKW Stahl-Metallurgie Holding AG: EUR 5,404 thousand (PY: EUR 5,533 thousand)
- SKW Stahl-Metallurgie GmbH: EUR 2,866 thousand (PY: EUR 2,834 thousand)
- Affival S.A.S.: EUR 813 thousand (PY: EUR 726 thousand)

The present value of defined benefit obligations is reconciled with the provisions recognized in the statement of financial position as follows:

EUR thousand	Dec. 31, 2015	Dec. 31, 2014
Present value of funded defined benefit obligations	1,029	1,043
Fair value of plan assets	-215	-208
Funding status	**814**	**835**
Present value of unfunded defined benefit obligations	8,329	8,406
Net liability for defined benefit obligations	**9,143**	**9,241**
Effect of asset ceiling	0	0
Amount presented in the statement of financial position	**9,143**	**9,241**

The net liability for defined benefit obligations exhibited the following development in the reporting period and the prior year:

EUR thousand	Present value of the obligations	Fair value of plan assets	Total	Effect of asset ceiling	Total
Balance at 01/01/2014	**6,068**	**-202**	**5,866**	**0**	**5,866**
Current service cost	340	0	340	0	340
Interest expenses/ (-income)	226	0	226	0	226
Past service cost/ effects of plan settlements and curtailments	0	0	0	0	0
	566	**0**	**566**	**0**	**566**
Remeasurements					
Losses on plan assets, excluding amounts already recognized in interest income	0	-7	-7	0	-7
Gains resulting from the change of demographic assumptions	0	0	0	0	0
Gains resulting from the change of financial assumptions	2,855	0	2,855	0	2,855
Experience-based gains	3	1	4	0	4
	2,858	**-6**	**2,852**	**0**	**2,852**
Effect of currency translation differences	0	0	0	0	0
Contributions:					
Employer	0	0	0	0	0
Pension plan beneficiaries	0	0	0	0	0
Pension payments	-43	0	-43	0	-43
Balance at 12/31/2014	**9,449**	**-208**	**9,241**	**0**	**9,241**

↓

EUR thousand	Present value of the obligations	Fair value of plan assets	Total	Effect of asset ceiling	Total
Current service costs	121	0	121	0	121
Interest expenses / (-income)	199	0	199	0	199
Past service cost/ effects of plan settlements and curtailments	0	0	0	0	0
	320	**0**	**320**	**0**	**320**
Remeasurements					
Losses on plan assets, excluding amounts already recognized in interest income	0	-4	-4	0	-4
Gains resulting from the change of demographic assumptions	0	0	0	0	0
Gains resulting from the change of financial assumptions	-237	0	-237	0	-237
Experience-based gains	-105	0	-105	0	-105
Non-interest effects due to the asset ceiling	-37	-3	-40	0	-40
	-379	**-7**	**-386**	**0**	**-386**
Effect of currency translation differences	5	0	5	0	5
Contributions:					
Employer	0	0	0	0	0
Pension plan beneficiaries	0	0	0	0	0
Pension payments	-37	0	-37	0	-37
Settlement	0	0	0	0	0
Balance at 12/31/2015	**9,358**	**-215**	**9,143**	**0**	**9,143**

The expected pension expenses for 2016 are estimated at EUR 305 thousand.

Assumptions

Provisions for pensions and similar obligations are measured annually as of the reporting date using actuarial methods. The actuarial obligations for the pension plans were calculated on the basis of the following assumptions.

	Dec. 31, 2015		Dec. 31, 2014	
in %	Germany	France	Germany	France
Discount rate	2.30	1.90	2.15	1.80
Salary increase	2.00	1.75	2.00	1.75
Pension increase	1.30	0.00	1.25	0.00

Age-specific and gender-specific turnover probabilities were applied as the actuarial basis for measuring the employee turnover rate. In Germany, the Heubeck Mortality Tables 2005 G were applied in measuring the pension provision, whereas in France country-specific biometric probabilities were applied. The assumed discount factors reflect the interest rates paid at the reporting date for top-ranked, industrial bonds of matching maturity and currency.

Sensitivity analysis

The sensitivity analysis presented in the following section analyses in each case the effect of a change in one of the assumptions, with the other assumptions remaining unchanged compared to the original calculation. Thus, possible correlation effects between the individual assumptions are disregarded.

The sensitivity of defined benefit obligations to the central actuarial assumptions is presented in the table below:

Present value of obligations	Change of actuarial assumptions	Effect on defined benefit obligations		
		Ending balance (EUR thousand)	Change (EUR thousand)	Change in %
Discount rate	Increased by 0.25% points	8,634	-509	-5.6%
	Decreased by 0.25% points	9,708	565	6.2%
Salary increase	Increased by 0.5% points	9,219	76	0.8%
	Decreased by 0.5% points	9,073	-70	-0.8%
Pension increase	Increased by 0.5% points	9,352	209	2.3%
	Decreased by 0.5% points	8,953	-190	-2.1%
Life expectancy (longevity risk)	Decreased by 20% points	9,622	479	5.2%

Composition of plan assets

The plan assets, which pertain exclusively to the pension plan in France, are invested as follows:

	Balance at Dec. 31, 2015		Balance at Dec. 31, 2014	
	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
Real estate	0	0.0	0	0.0
Investment funds	215	100.0	208	100.0
Bonds	215	100.0	208	100.0
Other	0	0.0	0	0.0
Cash	0	0.0	0	0.0
Total plan assets	**215**	**100.0**	**208**	**100.0**

The actual income earned on plan assets was EUR 4 thousand (PY: EUR 7 thousand). The plan assets consist of a fund launched exclusively for the purpose of servicing the pension obligations. This fund is managed by Capreval Groupe Malakoff Médéric. The expected return is equal to the expected interest to be earned by the fund.

At December 31, 2015, the average term of the defined benefit obligation was 21.8 years. Expected pension payments in the next five years amount to EUR 766 thousand.

In addition, expenses of EUR 9 thousand (PY: EUR 8 thousand) were incurred for defined contribution plans in 2015.

24. Other provisions

Other provisions exhibited the following development:

EUR thousand	01/01/2015	Utilization	Appropriation	Reversal for lack of utilization	Currency translation differences	12/31/2015
Provision for EU antitrust proceeding	1,070	-65	7,469	,		8,,474
Restructuring provision	1,216	-209		-494		513
Provision for litigation with Homeland Security	1,647	-1,803			156	0
Provision for case of fraud involving CaSi procurement Bhutan	267	-142		-50		75
Provision for health insurance proceeding	0	0	981	0	19	1,000
Provision for arbitration proceeding	0	0	680	0	0	680
Provision for consulting	0	0	697	0	0	697
Tax provisions	3,286	0	265	0	-869	2,682
Miscellaneous other provisions	1,720	-606	521	-385	-428	822
	9,206	**-2,825**	**10,613**	**-929**	**-1,122**	**14,943**

For further details on the provision for the EU antitrust proceedings, see Section 32 Contingent assets and liabilities.

In connection with Project “ReMaKe”, which was initiated in 2014, a restructuring provision was created that is linked to measures. The restructuring expense primarily includes staff expenses for settlement payments and costs in connection with terminating contracts, including termination costs for lease agreements, resulting in connection with carrying out the individual measures.

An arbitration proceeding with the minority shareholder may occur in the context of SKW Tashi Metal & Alloys Pte. Ltd.’s insolvency application. The arbitration tribunal of the International Chamber of Commerce (ICC) would have jurisdiction for possible legal disputes with the joint venture partner.

Of the total other provisions as of December 31, 2015, EUR 11,225 thousand are short-term (PY: EUR 5,777 thousand) and the cash outflow is expected within one year. The remaining amount of EUR 3,718 thousand (PY: EUR 3,429 thousand) are noncurrent provisions, for which the cash outflow is expected in a period of two to five years.

25. Obligations from finance leases

In the 2015 reporting period, the Group's property, plant and equipment included vehicles for which the Group is the economic owner due to the design of the underlying leases (finance leases).

The Group's lease obligations for finance leasing in the reporting year can be found in the table below:

EUR thousand	Total future minimum lease payments	Discount	Present value 12/31/2015
Due in up to 1 year	51	-5	46
Due in 1 - 5 years	146	-7	139
Due in > 5 years	0	0	0
Total	**197**	**-12**	**185**

The corresponding prior-year figures are presented in the table below:

EUR thousand	Total future minimum lease payments	Discount	Present value 12/31/2014
Due in up to 1 year	53	-7	46
Due in 1 - 5 years	198	-13	185
Due in > 5 years	0	0	0
Total	**251**	**-20**	**231**

26. Financial liabilities

Financial liabilities of EUR 75,019 thousand (PY: 84,049 thousand) result entirely from liabilities to banks.

Interest on financial liabilities falls within a range between 1.02% and 4.95% (PY: 1.88% to 15.00%) per year. The range results from the various interest rates for the various underlying currencies for the financing. Both the lower end and the upper end of the range result from the interest conditions for financing in EUR.

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

Financial liabilities are broken down by currency in the table below:

EUR thousand	Dec. 31, 2015	Dec. 31, 2014
EUR	58,449	55,616
USD	11,840	19,099
JPY	954	861
KRW	390	377
CNY	1,133	1,062
BTN	0	3,156
BRL	2,253	3,878
Total	**75,019**	**84,049**

Financial liabilities are broken down by residual terms in the table below:

	Dec. 31, 2015			Dec. 31, 2014		
EUR thousand	< 1 Year	1 - 5 Years	> 5 Years	< 1 Year	1 - 5 Years	> 5 Years
Liabilities due to banks	73,111	1,902	6	77,142	6,780	127
Financial liabilities	**73,111**	**1,902**	**6**	**77,142**	**6,780**	**127**

Regarding maturities, a majority of the debt at the reporting date of the reporting year as well as the prior year are classified as "short-term". The context for the reporting year is that the Company had violated financial covenants of the syndicated loan contract starting September 30, 2015. This led to the financing banks having a right to terminate at any time, which was excluded by means of a purchased additional agreement (waiver). Further negotiations with the banks are pending. The result was that the Group's debt attributable to this contract had to be technically classified as short-term.

27. Trade payables

The trade payables amount to EUR 25,148 thousand on the reporting date (PY: EUR 32,809 thousand). These include liabilities from construction contracts of EUR 80 thousand (PY: EUR 102 thousand). Short-term trade payables are carried at their nominal or repayment amount and are due in full within one year.

28. Other liabilities

Other liabilities break down as follows:

	Dec. 31, 2015		Dec. 31, 2014	
EUR thousand	Short-term	Long-term	Short-term	Long-term
Other financial liabilities				
Outstanding invoices	1,372	0	1,767	0
Interest liabilities	635	0	856	0
Derivative financial instruments	232	0	422	0
Miscellaneous other liabilities	0	0	0	0
	2,239	**0**	**3,045**	**0**
Other non-financial liabilities				
Wages and salaries	4,071	24	5,258	18
Other taxes	2,935	0	1,754	0
Social security contributions	1,124	0	1,148	0
Subsequent acquisition liabilities	1,300	0	1,588	0
Liabilities under factoring	0	0	568	0
Healthcare benefits	122	0	301	0
Occupational accident insurance	63	0	195	0
Advance payments received	11	4	64	46
Miscellaneous other liabilities	265	203	605	192
	9,891	**231**	**11,481**	**256**
Total	**12,130**	**231**	**14,526**	**256**

29. Segment report

The Group's primary products remain cored wire and powder and granules.

Cored wire is wire filled with specialty chemicals for 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 placing it in operation.

Powder and granules are used for hot metal desulfurization. The services offered also include advising customers on selecting and implementing suitable desulfurization solutions and the use of secondary metallurgical additives for the refining process.

The segment reporting was adjusted to the management information system, which was modified at the end of 2015. In contrast to the earlier segmentation, which particularly differentiated the business with cored wire from powder and granules, now the new cross-product management is taking into account, so that the segments essentially represent regions. Unified management makes it possible to realize synergistic effects particularly in procurement and sales. Activities that are not part of our core business continue to be summarized in the "Other and Holding" segment.

The most important variable in segment management is EBITDA; the other information is used to convert the pre-tax earnings into consolidated earnings.

North America

The North America segment summarizes the activities that are managed from North America. Therefore, one Chinese subsidiary that supplies these American companies is likewise allocated to this segment.

Europe and Asia

This segment comprises the jointly managed activities on the European and Asian markets; they are coordinated by the French company.

South America

This segment summarizes the business activity in Latin America.

Other and Holding

This segment summarizes the other activities that do not belong to the core business of the Group. This includes SKW Quab Chemicals Inc., which produces and sells special chemical reagents designated as cationized in over 40 countries. SKW Quab Chemicals Inc. is a financial investment and is not operationally managed by the Group's management. In addition, the Group holding company and other companies falling outside the core business are included in this segment.

Consolidation

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

Segment assets

The segment assets correspond to all of the assets of the respective segment; the investments in associated companies are shown separately. The segment liabilities correspond to all of the liabilities of the respective segment.

The segments break down as follows in the reporting period:

2015 in EUR thousand	North America	Europe and Asia	South America	Other and Holding	Consolidation	Group
Revenues						
External revenues	153,598	77,269	25,727	28,936	0	285,530
Internal revenues	2,111	2,622	3	267	-5,003	0
Total revenues	**155,709**	**79,891**	**25,730**	**29,203**	**-5,003**	**285,530**
Income from associated companies	-	-	-	964	-	964
EBITDA	**3,986**	**3,419**	**6,663**	**5,200**	**-473**	**18,795**
Scheduled depreciation and amortization	-1,759	-1,143	-935	-1,560	0	-5,397
Impairments	-8,264	0	-694	-336	0	-9,294
EBIT	**-6,037**	**2,276**	**5,034**	**3,304**	**-473**	**4,104**
Dividends from subsidiaries	0	0	0	4,045	-4,045	0
Profit transfer	0	0	0	0	0	0
Interest income	0	1,810	399	1,946	-3,625	530
Interest expenses	-4,222	-325	-264	-5,834	3,625	-7,020
Earnings before taxes	**-10,259**	**3,761**	**5,169**	**3,461**	**-4,518**	**-2,386**
Income taxes						-5,804
Earnings from continuing operations (after taxes)						**-8,190**
Earnings before taxes from discontinued operations						-462
Income taxes on discontinued operations						0
Earnings from discontinued operations (after taxes)						**-462**
Consolidated net loss						**-8,652**
Statement of financial position						
Assets						
Segment assets	75,724	36,702	22,665	91,279	-81,515	144,855
Interests in associated companies	-	-	-	6,345	-	6,345
Group assets						**151,200**
Liabilities						
Segment liabilities	67,868	20,297	9,953	69,993	-25,250	142,861
Group liabilities						**142,861**
Current capital expenditures (property, plant and equipment, intangible assets)	**4,006**	**999**	**630**	**1,077**	**0**	**6,712**

The corresponding prior-year segment information is presented in the table below:

2014 in EUR thousand	North America	Europe and Asia	South America	Other and Holding	Consolidation	Group
Revenues						
External revenues	164,401	78,850	28,963	34,093	0	306,307
Internal revenues	1,356	5,346	0	524	-7,226	0
Total revenues	**165,757**	**84,196**	**28,963**	**34,617**	**-7,226**	**306,307**
Income from associated companies	-	-	-	1,251	-	1,251
EBITDA	**10,864**	**5,986**	**5,990**	**-5,459**	**1,035**	**18,416**
Scheduled depreciation and amortization	-2,277	-1,163	-1,658	-1,375	0	-6,473
Impairments	-14,849	-5	-12,905	-4,223	0	-31,982
EBIT	**-6,262**	**4,818**	**-8,573**	**-11,057**	**1,035**	**-20,039**
Dividends from subsidiaries	0	3,637	0	12,864	-16,501	0
Profit transfer	0	0	0	0	0	0
Interest income	0	1,928	276	4,506	-6,393	317
Interest expenses	-3,614	-350	-509	-6,272	6,393	-4,352
Earnings before taxes	**-9,876**	**10,033**	**-8,806**	**41**	**-15,466**	**-24,074**
Income taxes						-7,585
Earnings from continuing operations (after taxes)						**-31,659**
Earnings before taxes from discontinued operations						-44,106
Income taxes on discontinued operations						-5,230
Earnings from discontinued operations (after taxes)						**-49,336**
Consolidated net loss						**-80,995**
Statement of financial position						
Assets						
Segment assets	89,223	39,258	31,830	146,053	-131,331	175,033
Interests in associated companies	-	-	-	5,618	-	5,618
Group assets						**180,651**
Liabilities						
Segment liabilities	70,513	25,937	12,584	122,160	-74,983	156,211
Group liabilities						**156,211**
Current capital expenditures (property, plant and equipment, intangible assets)	**2,083**	**1,033**	**1,839**	**800**	**0**	**5,755**

Segment assets and investments are classified according to the registered office of the respective company.

The segment results include the following material items with no effect on the cash flow:

→ **North America:**
i) Value adjustments on receivables: EUR -1,800 thousand (PY: EUR -580 thousand)
ii) Write-downs on inventories EUR 0 thousand (PY: EUR -1,512 thousand)
iii) Deferred taxes: EUR -764 thousand (PY: EUR +1,555 thousand)

→ **Europe and Asia:**
i) Currency translation expenses and income: EUR -1,027 thousand (PY: EUR -3,162 thousand)
ii) Value adjustments on receivables: EUR -413 thousand (PY: EUR -196 thousand)

→ **South America:**
Provisions for staff: EUR 747 thousand (PY: EUR 77 thousand)

→ **Other and Holding**
i) Currency translation expenses and income: EUR 3,932 thousand (PY: EUR 231 thousand)
ii) Reversal of provisions: EUR 1,376 thousand (PY: EUR 241 thousand)

Revenues by product group break down as follows in the reporting period and comparison period:

EUR thousand	2015	2014
Cored wire	141,593	129,495
Power and granules	122,087	150,409
Special chemicals to neutralize electrical charges (Quab)	21,850	26,403
Total	**285,530**	**306,307**

The following section shows revenues in the reporting year by country and country group. Revenues are assigned to countries according to the customer's location and according to the location of the selling unit. Noncurrent assets are allocated to segments on the basis of the registered office of the respective company.

EUR thousand	External revenues (customer's registered office)	External revenues (company's registered office)	Noncurrent assets*
USA and Canada	175,523	171,264	27,805
EU-27 excl. Germany	34,658	55,875	5,405
Brazil	24,730	25,727	14,327
Germany	11,542	7,086	724
Japan	7,294	7,029	5
Russia and Ukraine	3,836	3,900	313
Mexico	3,714	3,998	586
PR China	647	2,258	216
Rest of World	23,586	8,393	1,049
Total	**285,530**	**285,530**	**50,430**

* Excluding deferred taxes and financial instruments.

The corresponding prior-year segment information is as follows:

EUR thousand	External revenues (customer's registered office)	External revenues (company's registered office)	Noncurrent assets*
USA and Canada	185,566	185,099	32,237
EU-27 excl. Germany	37.108	56.520	5.280
Brazil	27,965	28,963	20,353
Germany	12,806	7,691	872
Japan	7,092	7,048	7
Russia and Ukraine	2,945	3,106	366
Mexico	4,642	4,742	567
PR China	1.013	2.939	205
Rest of World	27,170	10,199	1.174
Total	**306,307**	**306,307**	**61,061**

* Excluding deferred taxes and financial instruments.

In 2015, revenues exceeding 10% respectively were earned with two individual customers (PY: one). Revenues of EUR 61,073 thousand (PY: EUR 56,179 thousand) were earned with one of these customers in the segments North America, South America, and Other and Holding. Revenues of EUR 28,606 thousand were earned with the other customer (PY: EUR 24,878 thousand) in the North America segment.

30. Cash flow statement

The cash flow statement shows how the SKW Metallurgie Group's cash and cash equivalents changed in the reporting 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 in the amount of EUR 12,278 thousand (PY: EUR 17,972 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 1,651 thousand (PY: EUR 9,594 thousand) shows the excess of income over expenses before any utilization of funds. The item "earnings from associated companies" totaling EUR -479 thousand (PY: EUR -872 thousand) results from the disbursement received in 2015 of EUR 485 thousand (PY: EUR 379 thousand) less the shareholding(s) result for 2015 from the Indian production company Jamipol Ltd. totaling EUR 964 thousand (PY: EUR 1,251 thousand). The cash flow from operating activities also included the change in working capital, that resulted in a cash inflow of EUR -2,361 thousand (PY: cash outflow of EUR -3,586 thousand). As a result, the cash flow from operating activities totaled EUR 4,012 thousand (PY: EUR 6,008 thousand).

After the cash outflow from investing activities in the amount of EUR -5,816 thousand (PY: EUR -5,246 thousand) the SKW Metallurgie Group recorded a free cash flow after investments for the year under review of EUR -1,804 thousand (PY: EUR +762 thousand).

Bank loans of EUR 62,218 thousand were taken out for financing (PY: EUR 9,352 thousand). At the same time, bank loans of EUR 63,455 thousand (PY: EUR 1,321 thousand) were repaid. The remaining cash flow after the measures described, which amounted to EUR -4,687 thousand (PY: EUR +7,976 thousand), corresponds to the change in cash and cash equivalents as against the previous year.

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

- → Interest expenses of EUR 4,436 thousand (PY: EUR 4,423 thousand)
- → Interest income of EUR 2 thousand (PY: EUR 31 thousand)
- → Income tax paid of EUR 3,903 thousand (PY: EUR 3,965 thousand)
- → Income tax refunds of EUR 575 thousand (PY: EUR 864 thousand)

31. Other financial commitments

On the reporting date, there were other financial commitments, particularly from rental agreements and operating leases for buildings. Other obligations arose from operating leases for operating and office equipment and also from freight cars.

Total future payments are broken down by due date in the table below:

EUR thousand	Dec. 31, 2015	Dec. 31, 2014
Rental and leasing commitments, thereof due:		
within one year	2,486	2,419
between two and five years	5,384	6,585
in more than five years	0	375
	7,870	**9,379**
Maintenance, service and licensing agreements, thereof due:		
within one year	97	221
between two and five years	10	52
in more than five years	0	0
	107	**273**
Other commitments	**6,221**	**7,807**

The other financial liabilities totaling EUR 6,221 thousand (PY: EUR 7,807 thousand) mainly concern purchasing commitments from supply agreements for SKW Stahl-Metallurgie GmbH in the amount of EUR 393 thousand (PY: EUR 292 thousand), EUR 2,677 thousand (PY: EUR 2,327 thousand) of guarantees issued by Affival S.A.S. and contractual commitments in the amount of EUR 67 thousand (PY: EUR 921 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 2,869 thousand (PY: EUR 4,050 thousand). Conditional rental payments were included in earnings for business year 2015 in the amount of EUR 393 thousand (PY: EUR 438 thousand).

32. Contingent assets and liabilities

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

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) as security 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 competent Munich Regional Court 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 Munich Higher Regional Court in its ruling dated February 9, 2012. While also referring to the reasons for the decision by the Regional Court, in its ruling, the Higher 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 filed an appeal to this ruling with 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 decision dated June 3, 2014, the BGH then withdrew its request for a preliminary decision from the European Court of Justice, and after again hearing oral arguments before the BGH on November 18, 2014, it issued a ruling on this issue in which the panel of judges reversed the ruling by Munich Higher Regional Court and returned the issue to Munich Higher Regional Court for a new decision. In a ruling dated February 23, 2015, the Munich Higher Regional Court suspended this proceeding until the decision on the appeal before the ECJ (see below). However, the Company does not believe that the BGH’s considerations will cause a massive deterioration in the SKW companies’ position and particularly that of SKW Stahl-Metallurgie Holding AG in this litigation.

In parallel to this, both SKW companies are continuing to try to obtain a reduction in the penalty decision on which the litigation with Gigaset AG is based, before the European Court of Justice. In rulings dated January 23, 2014, the European Court rejected the suits by the SKW Metallurgie companies 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 Metallurgie companies is not yet legally enforceable, as they submitted an appeal in this regard to the European Court of Justice on April 2, 2014. On September 3, 2015, the closing petitions of the Public Prosecutor in this appeal proceeding were published, recommending rejection of the appeal. The closing petitions are used by the ECJ as a recommendation for a decision, which the ECJ usually (but by far not always) follows. A decision by the ECJ on the issue of whether the penalty decision of the EU Commission must be reversed can be expected at the beginning of 2016.

For reasons of consistency, a provision in the amount of EUR 7.15 million (plus interest as well as court costs and attorney fees) was created at SKW Stahl-Metallurgie GmbH as a precaution as of December 31, 2015, in consideration of the legal and factual arguments against the SKW Metallurgie companies having the full obligation to pay the penalty, but also the imponderability of any future recourse efforts against Gigaset AG. Insofar as any utilization of the litigation guarantee provided by SKW Stahl-Metallurgie GmbH by the EU Commission should occur, the EU Commission can partially take recourse against SKW Stahl-Metallurgie Holding AG due to the joint and several liability of the SKW companies.

The ruling of the European Court of Justice regarding the penalty order under antitrust law, which was expected at the beginning of 2016, had not yet been pronounced at the time these notes to the consolidated financial statements were prepared.

The following contingent assets existed in the SKW Metallurgie Group at the reporting date:

By complaint dated July 5, 2015, SKW Stahl-Metallurgie Holding AG filed suit before the Traunstein Regional Court against Ms. Ines Kolmsee and an additional former member of the Executive Board of the Company, Mr. Gerhard Ertl, due to claims for damages arising from integrated company liability in the amount of about EUR 55 million.

The context of the lawsuit is the Company's complaint that the defendants are alleged to have failed to exercise the due diligence of a responsible and conscientious executive board member in creating the joint venture SKW-Tashi Metals & Alloys Pte. Ltd. for operation of a calcium silicide factory in the Kingdom of Bhutan and in acquiring a calcium carbide factory in Sundvall, Sweden. Due to the incorrect decision to carry out both projects, the Company suffered substantial losses of assets, whose replacement the Company is requesting in this lawsuit. The defendants' response to the complaint has not yet been received; however, it can be assumed that the defendants will contest the justification of the claims in their entirety. The outcome of the suit is uncertain. It is likewise uncertain whether the dispute can be settled amicably and thus can be ended without an additional cost burden on the Company, or whether the Company will collect a certain amount of money in excess thereof.

33. Governing bodies of the company

Supervisory Board	Executive Board
Titus Weinheimer, New York, NY (USA) NanoHoldings LLC, Chief Operating Officer und General Counsel Chairman of the Supervisory Board (since 06/10/2008, re-elected on 06/15/2009 and on 06/08/2011)	**Dr. Kay Michel, Bensheim (Germany)** Dipl.-Ing., Chairman of the Executive Board
Jochen Martin, München (Germany) AFINUM Management GmbH, Partner Vice Chairman of the Supervisory Board (since 06/15/2009, re-elected on 06/08/2011)	**Sabine Kauper, Merching (Germany)** Dipl.-Betriebswirt (FH), member of the Executive Board (responsible for finance) (until 10/31/2015)
Armin Bruch, Erzhausen (Germany) independent entrepreneur Member of the Supervisory Board (since 06/15/2009, re-elected on 06/08/2011))	
Reto A. Garzetti, Zürich (Switzerland) Board of Directors of SE Swiss Equities AG Member of the Supervisory Board (since 06/09/2015)	
Dr. Dirk Markus, London (United Kingdom) Aurelius AG, Chairman of the Executive Board Member of the Supervisory Board (from 06/04/2009 to 02/28/2015)	
Dr. Hans Liebler, Gräfelfing (Germany) Lenbach Capital GmbH, Managing Partner Member of the Supervisory Board (from 01/01/2014 to 11/30/2015)	
Jutta Schull, Frankfurt am Main (Germany) Managing Director of BJS Composites GmbH Member of the Supervisory Board (since 01/14/2014)	
Tarun Somani, New Delhi (India) Somani Group, Investment manager Member oft he Supervisory Board (from January 2016)	

Supervisory Board

Dr. Markus resigned from his office effective February 28, 2015. Upon recommendation of the Supervisory Board and the Executive Board, the Company’s regular General Meeting elected Mr. Reto A. Garzetti as his successor in the reporting year. Dr. Liebler resigned his office as a member of the Supervisory Board effective November 30, 2015. On application by the Executive Board, which was supported by the Supervisory Board, the competent court appointed Mr. Tarun Somani as his successor from January 2016 onwards.

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

The following staffing changes occurred in the Audit Committee in the reporting year: On March 17, 2015, Mr. Martin took over the chairmanship of Audit Committee from the departing Dr. Markus, and Mr. Bruch joined the Audit Committee in place of Dr. Markus. Mr. Garzetti succeeded Dr. Liebler as a member of the Audit Committee starting June 9, 2015.

On the Nomination Committee, Ms. Schull joined and Mr. Martin left on June 9, 2015.

There were no staffing changes on the HR Committee and the Strategy Committee.

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 six meetings in fiscal year 2015, of which four were regular on-site meetings and two meetings were held by conference call. The meetings are generally held with all members participating. In addition, six resolutions were passed by circulating the voting papers. The Audit Committee met a total of three times in on-site meetings. The Nomination Committee met twice on-site in fiscal year 2015 and passed one resolution by circulating the voting papers. The Strategy Committee met once on site, and the HR Committee did not meet.

Further mandates held by the members of SKW Stahl-Metallurgie Holding AG's Supervisory Board in fiscal year 2015

→ Titus Weinheimer, Chief Operating Officer and General Counsel of NanoHoldings LLC, resident in New York, NY (USA), Chairperson of the Company's Supervisory Board since 06/10/2008

Company	Function
Safewater Pte. Ltd. (Singapore)	Member of the Board of Directors (since 11/06/2015)
nVerPix LLP	Member of the Board of Directors (since 07/01/2015)
NirVision LLP	Member of the Board of Directors (since 07/01/2015)

→ Jochen Martin, AFINUM Management GmbH, Partner, resident in München (Germany), Vice Chairperson of the Company's Supervisory Board

No other seats were held on German Supervisory Boards or comparable German or foreign bodies.

→ Armin Bruch, independent entrepreneur, resident in Erzhausen (Germany)

Company	Function
HCS GmbH, Frankfurt (formerly Haltermann Holding GmbH, Schifferstadt)	Member of the Advisory Board

→ Jutta Schull, until 06/30/2015 Head of Business Unit Cathodes and Furnace Linings at SGL Carbon GmbH, resident in Frankfurt am Main; since 07/01/2015 Managing Director of BJS Composites GmbH, resident in Frankfurt am Main

No other seats were held on German Supervisory Boards or comparable German or foreign bodies.

→ Dr. Dirk Markus, Chairman of the Executive Board of Aurelius AG, resident in London (United Kingdom) (until 02/28/2015)

Company	Function
Publicitas Holding AG, Zürich (Switzerland)	President of the Board of Directors
Berentzen-Gruppe Aktiengesellschaft, Haselünne (Germany)	Member of the Supervisory Board
Compagnie de Gestion et de Prêts (France)	Board of Directors until 02/26/2015

The aforementioned seats on the Supervisory Boards of Publicitas Holding AG, Berentzen-Gruppe Aktiengesellschaft and Compagnie de Gestion et de Prêts are internal mandates of the Aurelius Group.

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

Company	Function
Augusta Technologie AG, München	Member of the Supervisory Board / Vice Chairman (until 01/19/2015)
Grammer AG, Amberg	Member of the Supervisory Board
Washtec AG, Augsburg	Member of the Supervisory Board
Autowerkstattgroup N.V., Maastricht (NL)	Member of the Supervisory Board

→ Reto A. Garzetti, Member of the Board of Directors of SE Swiss Equities AG, Zürich, Switzerland, resident in Zürich (Switzerland)

Company	Function
SE Swiss Equities AG, Zürich, Switzerland	Member of the Board of Directors
Siegfried Holding AG, Zofingen, Switzerland	Member of the Board of Directors
AGI AG für Isolierungen, Dällikon, Switzerland	Member of the Board of Directors
Meili Peter Architekten AG, Zürich, Switzerland	Member of the Board of Directors (until 11/30/2015)
HFS Helvetic Financial Services AG, Wollerau Switzerland	Member of the Board of Directors
HPI Helvetic Financial Investments AG, Wollerau, Switzerland,	Member of the Board of Directors
Occlutech Holding AG, Schaffhausen, Switzerland,	Member of the Board of Directors
Neugass Kino AG, Zürich, Switzerland	Member of the Board of Directors
Altura Investements Limited, Cayman Island	Member of the Board of Directors
Piora AG, Zug, Switzerland,	Member of the Board of Directors
Silver Reel Pictures AG, Zug, Switzerland	Member of the Board of Directors
Peach Property Group AG, Zürich, Switzerland	Member of the Board of Directors (since 04/01/2015)

The aforementioned seats on the Boards of Directors of HPI Helvetic Financial Investments AG and HFS Helvetic Financial Services AG are internal mandates of that corporate group. The same applies to the aforementioned seats on the Boards of Directors of Piora AG, Silver Reel Pictures AG, and Altura Investments Ltd.

→ Tarun Somani, Investmentmanager Somani Group, resident in New Delhi-110 001 (India) (from Januar 2016)

Company	Function
Indo German International Pvt. Ltd., New Delhi	Chairman
Somani Kuttner India (P) Ltd., New Delhi	Chairman
Mechel Somani Carbon Private Limited, New Delhi	Chairman
Emergent Global Edu & Services Limited, New Delhi	Chairman
Northern Exim Pvt. Ltd., New Delhi	Director
Indoit Real Estates Limited, New Delhi	Director
Somani Housing Private Limited, New Delhi	Director
Indo International Trading FZCO, Dubai	Director

The aforementioned seats on the Boards of Directors of Northern Exim Pvt. Ltd., Somani Housing Private Limited and Indoit Real Estates Limited are internal mandates of one corporate group.

Further mandates held by the members of SKW Stahl-Metallurgie Holding AG's Executive Board in fiscal year 2015

In the reporting period, Ms. Kauper performed the following mandates 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 SKW Metallurgie Group, the members of the Executive Board held the following mandates in the reporting period.

Dr. Kay Michel

→ Affival Inc., Chairman of the Board of Directors
→ Affival SAS, Chairman of the Board of Directors (starting 11/30/2015)
→ 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
→ Jamipol Ltd., Member of the Board of Directors
→ Tecnosulfur Sistema de Tratamento de Metais Liquidos S/A, Member of the Board of Directors
→ SKW Tashi Metals & Alloys Private Ltd., Chairman of the Board of Directors
→ SKW Metallurgie Asia Pte. Ltd., Chairman of the Board of Directors (starting 12/17/2015)
→ SKW France S.A.S., Chairman/Legal Representative (until 06/3/2015)

Sabine Kauper

→ Affival Inc., Member of the Board of Directors (until 10/28/2015)
→ SKW Quab Chemicals Inc., Member of the Board of Directors (until 10/28/2015)
→ SKW Metallurgie USA Inc., Member of the Board of Directors (until 10/28/2015)
→ ESM Group Inc., Member of the Board of Directors (until 10/28/2015)
→ SKW Stahl-Metallurgie GmbH, Geschäftsführerin (until 10/28/2015)
→ SKW Verwaltungs GmbH, Geschäftsführerin (until 10/28/2015)
→ SKW Service GmbH, Geschäftsführerin (until 10/28/2015)
→ Jamipol Ltd., Member of the Board of Directors (until 10/27/2015)
→ Tecnosulfur Sistema de Tratamento de Metais Liquidos S/A, Member of the Board of Directors (until 11/15/2015)
→ SKW Tashi Metals & Alloys Private Ltd., Member of the Board of Directors (until 10/31/2015)

34. Compensation of the Governing 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 compensation for the Executive and Supervisory Boards. According to the statutory requirements, the following section discloses the details of compensation for the Supervisory and Executive Boards in the year under review below:

I. Supervisory Board:

Compensation for members of the Supervisory Board does not include any components that are based on corporate figures, and it is much rather the case that this is broken down into annual fixed compensation and attendance fees. The annual fixed compensation totals EUR 12 thousand for each member of the Supervisory Board; the Chairperson receives 1.5 times this amount, and his deputy receives 1.25 times this amount.

Attendance 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, the following amounts were expended in total for Supervisory Board compensation in fiscal year 2015:

EUR thousand	Fixed Compensation*	Attendance Fees	Total
Armin Bruch	12	9	21
Reto Garzetti	7	6	13
Dr. Hans Liebler	11	4	15
Dr. Dirk Markus	2	0	2
Jochen Martin	15	9.5	24.5
Jutta Schull	12	5.5	17.5
Titus Weinheimer	18	6.5	24.5
Total	**77**	**40.5**	**117.5**

*Provisions for Supervisory Board compensation in 2015; payment was made in 2016.

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 compensation as shown above. During the reporting period 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 reporting year 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 compensation.

There are no advances, loans or contingent assets 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 reporting year, the Executive Board comprised Dr. Kay Michel (CEO) and, until October 31, 2015, Ms. Sabine Kauper (CFO).

Compensation 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 cash flows and the amount and structure of executive board compensation 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 reporting date.

There were no agreements on the reporting 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 compensation fundamentally comprises performance-related and non-performance related components.

The non-performance related compensation includes the annual fixed compensation, 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 compensation, 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 compensation. 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.

The performance-related compensation of the Executive Board is based on a Group-wide executive bonus system. Within the framework of this system, goals are defined at the beginning of the fiscal year, particularly with regard to the Group's financial key indicators as well as personal performance; at the same time, a maximum bonus is set. At the end of the fiscal year, the degree of goal achievement is calculated, and thus also the bonus amount. Due to the special situation of the Company (restructuring and reorganization phase), the Supervisory Board of the Company considers waiving a multi-year measurement basis (within the meaning of Section 87 (1) Sentence 3 AktG) for fiscal year 2015 to be possible and expedient.

A termination agreement was reached with Ms. Kauper in connection with her exit from the Company's Executive Board. As part of this agreement, all of Ms. Kauper's claims for the year 2015 were conclusively determined. All compensation components are described below.

No compensation 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 attendance fees for participation in each of the Board meetings in 2015. These payments have no longer been given to the members of the Group's Executive Board since 2014.

No expenses were incurred in reporting year 2015 for the compensation of the Executive Board in fiscal year 2014.

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

In total, the following amounts were expended for Executive Board compensation in fiscal year 2015 (the monetary benefit is presented in the case of in-kind compensation):

EUR thousand	Dr. Kay Michel (full year)	Sabine Kauper***	Total
Fixed compensation	380*	233*	613
In-kind compensation (company car)	13	6	19
Contributions to healthcare and nursing care insurance	4	3	7
Variable compensation for 2015**	455	275	730
Total	**852**	**517**	**1,369**

*Including the pension component; in the reporting year, this comprised a cash settlement for Dr. Michel of EUR 80 thousand and contributions to a life insurance policy for Ms. Kauper of EUR 80 thousand.
** For Ms. Kauper, partially premature pursuant to the termination agreement explained above, otherwise a provision for Dr. Michel and Ms. Kauper; disbursement will occur in 2016.
*** Member of the Executive Board until October 31, 2015. The compensation shown refers to the compensation for the year 2015 according to the termination agreement.

III. Former members of the Supervisory and Executive Boards:

The Company has made benefit commitments 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 vested. 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 2015 (HGB) totaled EUR 689 thousand, of which EUR 469 thousand was for Ms. Kolmsee and EUR 220 thousand was for Mr. Ertl. According to IFRS, these figures totaled EUR 118 thousand, of which EUR 80 thousand for Ms. Kolmsee and EUR 38 thousand for Mr. Ertl.

The fulfillment amount (HGB) for the Company's benefit commitment for Mr. Ertl and his survivors totaled EUR 1,159 thousand on the reporting date (PY: EUR 938 thousand).

The fulfillment amount (HGB) for the Company's benefit commitment for Ms. Kolmsee and her survivors totaled EUR 2,381 thousand on the reporting date (PY: EUR 1,850 thousand).

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

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 investees, associated companies, business combinations 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, 2015, 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 intermediate 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. The following related parties with a reporting requirement exist according to IAS 24 in the reporting year 2015:

Related companies

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.

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 investment in Jamipol Ltd. During the reporting period, Jamipol Ltd's Board of Directors also included individuals who held executive functions in the SKW Metallurgie Group in the reporting year; Jamipol Ltd. paid the respective persons a small compensation for their activities on the Board of Directors.

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 82 thousand (PY: EUR 103 thousand) were spent for passenger transport and courier services rendered by CJ Locações e Transportes Ltda. in the reporting year.

Related persons

→ Supervisory Board:

As stated under Section D.33 “Governing 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 compensation granted to the members of the Supervisory Board for their activities is described in Section 34, Compensation of the Governing Bodies.

→ Executive Board:

SKW Stahl-Metallurgie Holding AG’s payments to members of the Executive Board have been stated above in full in Section 34, Compensation of the Governing Bodies.

On the balance sheet date there was a benefit commitment in the amount of EUR 3,477 thousand (PY: EUR 2,788 thousand) for former members of the Executive Board and their surviving dependents.

36. Employees

The SKW Metallurgie Group had an average total of 875 employees in fiscal year 2015 (PY: 950 employees). In most countries there is no longer a statutory distinction between industrial and non-industrial employees. The average number of employees include 532 industrial employees (PY: 618), 335 commercial employees (PY: 323) and 8 apprentices (PY: 9).

On the reporting date, there were 655 employees (PY: 888), which included 361 industrial employees (PY: 557), 290 commercial employees (PY: 306) and 4 apprentices (PY: 5).

37. Additional information about financial instruments

This section provides a comprehensive overview of the significance of financial instruments for the SKW Metallurgie Group and provides additional information on items on the statement of financial position that include financial instruments.

The market values and carrying amounts of financial assets and liabilities are presented in the table below.

	Dec. 31, 2015		Dec. 31, 2014	
EUR thousand	Carrying amount	Market value	Carrying amount	Market value
Financial assets				
Assets held to maturity	550	550	478	478
Loans and receivables	33,551	33,551	39,657	39,657
Financial assets held for trading	101	101	321	321
Available-for-sale financial assets	0	0	0	0
Derivative financial instruments (with hedge accounting)	0	0	0	0
Financial liabilities				
Financial liabilities at amortized cost	103,521	103,521	120,500	120,500
Derivative financial instruments without hedging effect (no hedge accounting)	232	232	202	202
Derivative financial instruments with hedging effect (with hedge accounting)	0	0	220	220

The stated 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.

In the table below, the individual asset items presented in the statement of financial position are reconciled with the valuation categories and classes in euro thousands as of December 31, 2015 in the table below:

Assets	Valuation per IAS 39					
		Loans and advances	Assets held to maturity	Available-for-sale financial assets	Financial assets at fair value through profit or loss	
	Carrying amount per statement of financial position 12/31/2015	Amortized cost	Amortized cost	Fair value not recognized directly in equity	Fair value recognized directly in equity	Fair value 12/31/2015
Other assets	569	19	550	0	0	569
Receivables under construction contracts	0	0	0	0	0	0
Trade receivables	33,532	33,532	0	0	0	33,532
Derivatives without hedging effect (no hedge accounting)	101	0	0	0	101	101

The prior-year values in thousand euros as of December 31, 2014 are presented in the table below:

Assets	Valuation per IAS 39					
		Loans and advances	Assets held to maturity	Available-for-sale financial assets	Financial assets at fair value through profit or loss	
	Carrying amount per statement of financial position 12/31/2014	Amortized cost	Amortized cost	Fair value not recognized directly in equity	Fair value recognized directly in equity	Fair value 12/31/2014
Other assets	1,031	552	479	0	0	1,031
Receivables under construction contracts	0	0	0	0	0	0
Trade receivables	39,104	39,104	0	0	0	39,104
Derivatives without hedging effect (no hedge accounting)	321	0	0	0	321	321

In the table below, the individual items of equity and liabilities presented in the statement of financial position are reconciled with the valuation categories in euro thousands as of December 31, 2015. Derivatives employed for hedging purposes are also presented although they do not belong to a valuation category per IAS 39:

Equity and liabilities	Valuation per IAS 39			
		Financial liabilities measured at amortized cost	Financial liabilities at fair value through profit or loss	
	Carrying amount per statement of financial position 12/31/2015	Amortized cost	Fair value	Fair value 12/31/2015
Financial liabilities	75,019	75,019	0	75,019
Trade payables (excluding PoC)	25,068	25,068	0	25,068
Other liabilities	3,434	3,434	0	3,434
Derivatives without hedging effect (no hedge accounting)	232	0	232	232
Derivatives with hedging effect (with hedge accounting)	0	0	0	0

The prior-year values as of December 31, 2014 are presented in euro thousands in the table below:

Equity and liabilities	Valuation per IAS 39			
		Financial liabilities measured at amortized cost	Financial liabilities at fair value through profit or loss	
	Carrying amount per statement of financial position 12/31/2014	Amortized cost	Fair value	Fair value 12/31/2014
Financial liabilities	84,048	84,048	0	84,048
Trade payables (excluding PoC)	32,708	32,708	0	32,708
Other liabilities	3,744	3,744	0	3,744
Derivatives without hedging effect (no hedge accounting)	202	0	202	202
Derivatives with hedging effect (with hedge accounting)	220	0	0	220

The carrying amount of the trade receivables and other short-term 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 reporting 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 influenced both by the residual term of an option and by other determining factors, e.g. the current level and volatility of the underlying exchange rate or the underlying base rate.

Derivative financial instruments are measured using market data that is obtained from recognized market data providers.

In the case of trade payables and other short-term 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.

In the table below, financial assets and liabilities measured at market value are assigned to the three levels of the fair value hierarchy as of December 31, 2015:

EUR thousand	Level 1	Level 2	Level 3	Total
Financial assets measured at market value				
Derivative financial instruments	-	101	-	101
Financial liabilities measured at market value				
Derivative financial instruments	-	232	-	232

The prior-year values as of December 31, 2014 are presented in the table below:

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 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 net gains and losses on financial instruments are broken down by valuation category in the table below. Profit-or-loss effects of derivatives employed for hedging purposes are not presented because such derivatives do not belong to any one of the valuation categories of IAS 39:

EUR thousand	Dec. 31, 2015	Dec. 31, 2014
Loans and receivables	451	167
Financial assets held to maturity	0	946
Available-for-sale financial assets	0	0
Derivatives without hedging effect	-147	196
Financial liabilities measured at amortized cost	-75	39

The net result from the category "Loans and receivables" results primarily from value adjustments on trade receivables as well as exchange gains and losses from foreign currency receivables. The gains and losses from changes in the fair values of currency and interest rate derivatives that do not satisfy the requirements of IAS 39 for hedge accounting are included in the category "Derivatives without hedging effect." The category "Financial liabilities measured at amortized cost" comprises interest expenses on financial liabilities as well as exchange rate gains and losses from foreign currency liabilities.

38. Derivative Finanzinstrumente

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 fair values of the derivative financial instruments employed by the Group are presented in the table below:

EUR thousand	Fair value Dec. 31, 2015	Fair value Dec. 31, 2014
Assets		
Currency derivatives without hedging effect (no hedge accounting)	101	321
Interest rate derivatives employed as cash flow hedge	0	0
Total	**101**	**321**
Liabilities		
Currency derivatives without hedging effect (no hedge accounting)	232	202
Interest rate derivatives employed as cash flow hedge	0	220
Total	**232**	**422**

Derivatives with hedging effect

There is hedge accounting within the meaning of IAS 39 to hedge interest rate risks from noncurrent liabilities. The Group hedged its future cash flows from a noncurrent 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 hedge accounting has lapsed due to the loss of the underlying transaction (replaced financing) and the effective portion of the fluctuations in the fair value of these derivatives in the amount of EUR 220 thousand, which was previously recognized in equity, has been reversed with an effect on income.

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, interest caps, and interest swaps.

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 Executive Board. 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 significantly from these 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 significantly from these on account of the actual changes in global markets. In particular, in reality currency differences correlate with other parameters, while in contrast the sensitivity analysis assumes that all other parameters remain constant (ceteris paribus).

The effects on revenues, EBITDA, and fiscal year net income/loss are summarized in the following tables:

In case of changes in the USD exchange rate (U.S. dollars) (The table shows the values for the SKW Group without considering IFRS 5.):

EUR thousand	Average exchange rates 2015 -10 %	Average exchange rates 2015	Average exchange rates 2015 +10%
Revenues	311,003	291,899	276,089
EBITDA	30,412	18,884	9,452
Consolidated fiscal year net loss/net income	13,922	-8,652	-16,458

The effect of changes in the USD exchange rate on equity is presented in the table below (simulation of average exchange rates and exchanges rates as of the reporting date):

EUR thousand	Exchange rates 2015 -10%	Exchange rates 2015	Exchange rates 2015 +10%
Equity	3,771	8,339	13,922

In case of changes in the BRL exchange rate (Brazilian real) (The table shows the values for the SKW Group without considering IFRS 5.):

EUR thousand	Average exchange rates 2015 -10 %	Average exchange rates 2015	Average exchange rates 2015 +10%
Revenues	294,659	291,899	289,461
EBITDA	19,612	18,884	18,289
Consolidated fiscal year net loss	-8,254	-8,652	-8,977

The effect of changes in the BRL exchange rate on equity are presented in the table below (simulation of average exchange rates and exchanges rates as of the reporting date):

EUR thousand	Exchange rates 2015 -10%	Exchange rates 2015	Exchange rates 2015 +10%
Equity	9,739	8,339	7,194

In case of changes in all Group currencies (The table shows the values for the SKW Group without considering IFRS 5.):

EUR thousand	Average exchange rates 2015 -10 %	Average exchange rates 2015	Average exchange rates 2015 +10%
Revenues	317,216	291,800	270,990
EBITDA	32,470	18,884	7,764
Consolidated fiscal year net loss/net income	2,521	-8,652	-17,797

The prior-year effects of changes in all Group currencies are presented in the table below:

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
Consolidated fiscal year net loss	-87,716	-80,995	-75,492

The effect of changes in Group currencies are presented in the table below (simulation of average exchange rates and exchanges rates as of the reporting date):

EUR thousand	Exchange rates 2015 -10%	Exchange rates 2015	Exchange rates 2015 +10%
Equity	8,561	8,339	7,004

The prior-year effects of these changes are presented in the table below (simulation of average exchange rates and exchanges rates as of the reporting date):

EUR thousand	Exchange rates 2014 -10%	Exchange rates 2014	Exchange rates 2014 +10%
Equity	28,517	24,440	21,104

→ 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 caps and swaps) on December 31, 2015. 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 is based on the assumption of a parallel shift of +100/-100 basis points in the interest rate curves for all interest rates as of December 31, 2015, in order to calculate the effect on the fair values of unhedged variable-yield financial instruments and interest rate derivatives. Such a parallel shift would result in the following opportunities (positive value) and risks (negative value) for the fiscal year net income/loss, other comprehensive income, and thus equity:

EUR thousand	Change of all interest rate curves as of December 31, 2015	
	+100 basis points	-100 basis points
Fiscal year net income/loss	-522	302
Other comprehensive income	0	0
Equity	**-522**	**302**

The prior-year results of this analysis are presented in the table below:

EUR thousand	Change of all interest rate curves as of December 31, 2014	
	+100 basis points	-100 basis points
Fiscal year net income/loss	-250	-250
Other comprehensive income	77	-528
Equity	**-173**	**-278**

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. In addition, letters of credit and default guarantees are used to hedge some receivables. As a result, the SKW Metallurgie Group's default risk can be seen as relatively 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. As of December 31, 2015, the maximum default risk for the trade receivables was 32,872 thousand, and for all other items, the carrying amount.

The value of the hedges for financial instruments that are classified as trade receivables totaled EUR 0 thousand (PY: EUR 105 thousand).

In 2015, trade payables of EUR 645 thousand (PY: EUR 1,299 thousand) and other receivables in the amount of EUR 64 thousand (PY: EUR 680 thousand) were impaired. Of the trade receivables of EUR 33,532 thousand (PY: EUR 39,104 thousand), receivables totaling EUR 18,518 thousand (PY: EUR 12,165 thousand) were overdue but had not been written down and receivables totaling EUR 1,816 were impaired and have a carrying amount after impairment of EUR 268 thousand.

The due dates of past-due, but not value-adjusted trade receivables are presented below:

EUR thousand	< 90 days	90 to 180 days	180 to 360 days	> 360 days	Total
Dec. 31, 2015	18,398	88	29	3	18,518
Dec. 31, 2014	11,906	54	178	27	12,165

There are no indicators that the debtors for these receivables will not meet their payment obligations. In addition, no interest receivables (PY: EUR 0 thousand) are due in 2015 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.

SKW Stahl-Metallurgie Holding AG concluded a new syndicated credit agreement with a three-year term in the amount of EUR 86,000 thousand on January 23, 2015. The syndicated credit agreement comprises two tranches. The first tranche in the amount of EUR 40,000 thousand is to be used as working capital and replaces the credit lines under the former master credit agreement in the same amount. The second tranche of the syndicated credit agreement in the amount of EUR 46,000 thousand is a repayment loan which will primarily be used to repay the promissory note loan and other financial liabilities. The repayment loan also includes mandatory repayments. As part of the syndicated credit agreement, collateral has been provided in the form of 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.

At the end of September 30, 2015, the covenants were not complied with for the first time. The reasons for this are currency developments that could not be influenced, as well as the significant collapse in the global steel economy. A waiver of cancellation against consideration was applied for on October 2, which included a waiver of compliance with the financial key indicators until February 29, 2016, and non-assertion of the related rights. The creditors consented to the waiver of cancellation on October 23, 2015; for a fee, it was extended on March 1, 2016, until May 31, 2016. The material basis for this waiver was an expert certificate on reorganization with a positive forecast regarding continuation of the business. The period until May 31, 2016, will be used for negotiations with the banks with the goal of adjusting the agreements on financial key indicators ("Financial Covenants") to the developments in the steel industry that have occurred in the meantime (the "Steel Crisis") at market terms and thus to renegotiate the framework for the financing. Securing this financing is critical to the continued existence of the companies SKW Stahl-Metallurgie Holding AG and the SWK Metallurgie Group from June 1, 2016.

The Executive Board assumes that a conclusion of the ongoing negotiations by May 31, 2016, is highly probable, with a result acceptable to all parties involved, thus guaranteeing the financing of the SKW Metallurgie Group and the separate company SKW Stahl-Metallurgie Holding AG at least until 2018. Therefore, the consolidated financial statements as of December 31, 2015, should be prepared under the assumption of a positive forecast regarding the continued existence of the Company. Nevertheless, sufficient liquidity for the continuation of the business activities of the SKW Metallurgie Group and the separate company SKW Stahl-Metallurgie Holding AG beyond May 31, 2016, is not completely secured at the time these notes to the consolidated financial statements are prepared. Significant changes or even complete cancellation of the syndicated credit agreement would represent a danger to the continued existence of the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG. Therefore, the continuation of the Company as a going concern for 2016 and 2017 depends on the successful conclusion of the negotiations described above.

As of December 31, 2015, the SKW Metallurgie Group had lines of credit totaling EUR 60,844 thousand (PY: EUR 71,691 thousand), of which EUR 20,928 thousand were still freely available as of the reporting 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, 2015, including derivative financial instruments with a negative fair value. Non-discounted cash outflows are 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, 2015.

2015 in EUR thousand	< 30 days	30 - 90 days	90 - 180 days	180 - 360 days	1 - 2 years	3 - 5 years	> 5 years	Total
Liabilities due to banks	7,867	865	1,062	6,277	69,567	5,500	4,541	95,679
Trade payables (excluding construction contracts)	20,733	4,258	77	0	0	0	0	25,068
Liabilities under finance leases	12	11	12	11	93	46	0	185
Other liabilities	1,372	0	0	0	80	0	0	1,452
Derivate financial instruments without hedging effect	232	0	0	0	0	0	0	232
Derivative financial instruments without hedge accounting	175	27	0	0	0	0	0	202

The cash flow risk in the table is limited only to cash outflows. In the case of current draw-downs from credit lines, the cash flows are assigned to the term of the credit lines.

The corresponding prior-year figures and interest are presented in the table below:

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 due to banks	14,479	55,599	1,315	11,322	7,776	9,158	0	99,649
Trade payables (excluding construction contracts)	30,892	1,728	88	0	0	0	0	32,708
Liabilities under finance leases	4	8	12	23	184	0	0	231
Other liabilities	986	845	0	0	0	0	0	1,831
Derivative financial instruments without hedging effect	175	27	0	0	0	0	0	202
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 statement of financial position.

Net financial debt in the reporting period and prior year is presented in the table below:

EUR thousand	Dec. 31, 2015	Dec. 31, 2014
Cash and cash equivalents	12,278	17,972
Total liquidity	**12,278**	**17,972**
Current financial liabilities	73,111	77,142
Noncurrent financial liabilities	1,908	6,907
Total financial liabilities	**75,019**	**84,049**
Net financial debt	**-62,741**	**-66,077**

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. Important events after the reporting date

On March 1, 2016, the banks participating in the syndicated credit agreement agreed to extend the waiver of cancellation for the extraordinary possibility of cancellation that arose due to non-compliance with contractually agreed financial key indicators until May 31, 2016 (original deadline: February 29, 2016) upon request of the Company and based on an expert certificate on reorganization with a positive forecast regarding continuation of the business.

Otherwise, after the end of the reporting year on December 31, 2015, there were no transactions and events of significance to the SKW Metallurgie Group and the separate company SKW Stahl-Metallurgie Holding AG that occurred before the notes to these financial statements went to print.

41. Shareholder structure and voting rights notifications

Shareholder structure

Holdings of SKW Metallurgie shares subject to the reporting requirement as per the German Securities Trading Act (3% or more of total voting rights) as of December 31, 2015 are presented in the table below. No single shareholder held an interest of 10% or more as of the reporting date.

Legal entities:

Name	Registered office	Holding	Share of equity held	Date	Comments
La Muza Inversiones	Madrid, Spain	240,322	3.67%	09/18/2014	
LBBW Asset Management Investmentgesell-schaft mbH	Stuttgart, Germany	331,599	5.067%	09/23/2010	
SE Swiss Equities AG	Zürich, Switzerland	328,820	5.024%	03/23/2015	

The voting rights notification of MCGM GmbH, München (Germany) published in December 2015 was replaced retroactively in February 2016 by a notice from another entity required to notify (correction report).

Private individuals:

Name	Holding	Share of equity held	Date	Comments
Dr. Olaf Marx	329,000	5.03%	12/17/2015	After the reporting date, but still prior to preparation of these notes to the consolidated financial statements, an increase to 12.03% (including assigned holdings)
Gerd Schepers	201,453	3.08%	02/10/2015	Fell below the minimum threshold after the reporting date, but still prior to preparation of these notes to the consolidated financial statements

After the reporting date, but still prior to preparation of these notes to the consolidated financial statements, an additional private individual provided notice of holdings initially in excess of 3%, then over 5%:

Name	Holding	Share of equity held	Date
Dr. Klemens Joos	422,855	6.46%	02/02/2016

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 holdings stated can include attributable voting rights according to the German Securities Trading Act. As the same voting rights can, in certain cases, be assigned to more than one person, these voting rights may be included in more than one voting rights notification.

The members of the Executive and Supervisory Boards together held less than 1% of SKW Metallurgie's shares on December 31, 2015 and on the date these consolidated financial statements were prepared.

Voting rights notifications

In accordance with Section 160 (1) Sentence 1 No. 8 of the German Stock Corporations Act (AktG), the voting rights notifications received in 2015 are presented below in the original wording:

The voting rights notification of MCGM GmbH, München (Germany) published in December 2015 was replaced retroactively in February 2016 by a notice from another entity required to notify (correction report).

Legal entities:

La Muza Inversiones, SICAV, SA, Madrid (Spain):

→ A voting rights notification received in early January 2015 was published on January 9, 2015, but it refers to September 18, 2014 and was therefore already addressed in the 2014 consolidated financial statements.

SE Swiss Equities AG, Zürich (Switzerland):

→ Notification as of February 5, 2015:
In accordance with Sec. 21 (1) WpHG, SE Swiss Equities AG, Zurich (Switzerland) notified us that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 3% on February 5, 2015, and represented 3.025% of equity (equals 198,000 voting rights) on this date.

→ Notification as of March 23, 2015:
In accordance with Sec. 21 (1) WpHG, SE Swiss Equities AG, Zurich (Switzerland) notified us that its share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 5% on March 23, 2015, and represented 5.024% of equity (equals 328,820 voting rights) on this date.

Note: The corrected version published on March 25, 2015 is presented here; a preliminary version had been published on March 23, 2015.

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

→ Notification as of November 26, 2015:

1. Details of the issuer: SKW Stahl-Metallurgie Holding AG, Rathausplatz 11, 84579 Unterneukirchen, Germany
2. Reason for notification: Other reason: Notification of holdings pursuant to Section 41 (4f) WpHG
3. Details of person subject to the notification obligation: Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Tübingen (Germany)
4. Different name of shareholders with 3% or more of voting rights: none
5. Date on which threshold was reached or crossed: 11/26/2015
6. Total positions:
   - Percentage of voting rights: new: 0.00%; last notification: 5.94%
   - Share of instruments: new: 0.00%
   - Total shares: new: 0.00%
   - Total number of voting rights: 6,544,930
7. Details of voting rights held (Sections 21 et seq. WpHG):
   - ISIN: DE000SKWM021
   - Number of directly attributed voting rights (Section 21 WpHG): 0
   - Number of indirectly attributed voting rights (Section 22 WpHG): 0
   - Total attributed voting rights: 0
   - Percentage of directly attributed voting rights (Section 21 WpHG): 0.00%
   - Percentage of indirectly attributed voting rights (Section 22 WpHG): 0.00%
   - Total percentage of attributed voting rights: 0.00%
8. Information in relation to the person subject to the notification obligation within the meaning of Section 25 (1) No. 1 WpHG: Person subject to the notification obligation (3.) is not controlled and does not itself control any other persons subject to the notification obligation holding directly or indirectly an interest in the (underlying) issuer (1.).

Note: Receipt and publication of the notification occurred in January 2016, but relates to the year 2015. The reason for the notification was not a change in the shares held, but rather a change in law.

Landkreis Biberach (and Kreissparkasse Biberach), Biberach/Riss (Germany):

→ Notification as of November 26, 2015:

1. Details of the issuer: SKW Stahl-Metallurgie Holding AG, Rathausplatz 11, 84579 Unterneukirchen, Germany
2. Reason for notification: Other reason: Notification of holdings pursuant to Section 41 (4f) WpHG
3. Details of person subject to the notification obligation: Landkreis Biberach, Biberach an der Riss (Germany)
4. Different name of shareholders with 3% or more of voting rights: none
5. Date on which threshold was reached or crossed: 11/26/2015
6. Total positions:
   - Percentage of voting rights: new: 0.00%; last notification: 3,07 %
   - Share of instruments: new: 0.00%
   - Total shares: new: 0.00%
   - Total number of voting rights: 6,544,930
7. Details of voting rights held (Sections 21 et seq. WpHG):
   - ISIN: DE000SKWM021
   - Number of directly attributed voting rights (Section 21 WpHG): 0
   - Number of indirectly attributed voting rights (Section 22 WpHG): 0
   - Total attributed voting rights: 0
   - Percentage of directly attributed voting rights (Section 21 WpHG): 0.00%
   - Percentage of indirectly attributed voting rights (Section 22 WpHG): 0.00%
   - Total percentage of attributed voting rights: 0.00%
8. Information in relation to the person subject to the notification obligation within the meaning of Section 25 (1) No. 1 WpHG: Complete

chain of subsidiaries beginning with the highest controlling person or the highest controlling company:
- Landkreis Biberach, voting rights: -
- Kreissparkasse Biberach, voting rights: 0.00%

Note: Receipt and publication of the notification occurred in January 2016, but relates to the year 2015. The reason for the notification was not a change in the shares held, but rather a change in law.

Private individuals:

Mr. Gerd Schepers:

→ Notification as of February 10, 2015:
In accordance with Sec. 21 (1) WpHG, Mr. Gerd Schepers, Singapore, notified us that his share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, exceeded the threshold of 3% on February 10, 2015, and represented 3.08% of equity (equals 201,453 voting rights) on this date.

Mr. Johannes Gruber:

→ Notification as of March 11, 2015:
In accordance with Sec. 21 (1) WpHG, Mr. Johannes Gruber, Austria, notified us that his share of voting rights in SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), ISIN DE000SKWM021, fell below the threshold of 3% on March 11, 2015, and represented 2.70% of equity (equals 176,592 voting rights) on this date. Of this number, 2.63% (equals 172,362 voting rights) is to be attributed to this person in accordance with Sec. 22 (1) (1) (1).

Dr. Olaf Marx:

→ Notification as of December 17, 2015:

1. Details of the issuer: SKW Stahl-Metallurgie Holding AG, Rathausplatz 11, 84579 Unterneukirchen, Germany
2. Reason for notification: Acquisition/sale of shares with voting rights
3. Details of person subject to the notification obligation: Dr. Olaf Marx
4. Different name of shareholders with 3% or more of voting rights: none
5. Date on which threshold was reached or crossed: 12/17/2015
6. Total positions:
   - Percentage of voting rights: new: 5,03 %
   - Share of instruments: new: 0.00%
   - Total shares: new: 5.03%
   - Total number of voting rights: 6,544,930
7. Details of voting rights held (Sections 21 et seq. WpHG):
   - ISIN: DE000SKWM021
   - Number of directly attributed voting rights (Section 21 WpHG): 139,000
   - Number of indirectly attributed voting rights (Section 22 WpHG): 190,000
   - Total attributed voting rights: 329,000
   - Percentage of directly attributed voting rights (Section 21 WpHG): 2.12%
   - Percentage of indirectly attributed voting rights (Section 22 WpHG): 2.90%
   - Total percentage of attributed voting rights: 5.03%
8. Information in relation to the person subject to the notification obligation within the meaning of Section 25 (1) No. 1 WpHG: Complete chain of subsidiaries beginning with the highest controlling person or the highest controlling company:
   - Dr. Olaf Marx, voting rights: -
   - MCGM GmbH, voting rights: 0.00 %

42. Auditor's fee

The auditors' fee charged in 2015 totaled EUR 245 thousand (PY: EUR 145 thousand) and relates exclusively to audit services in the amount of EUR 183 thousand and other consulting services in the amount of EUR 62 thousand.

43. Use of Sections 264 (3) and 264b 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 reporting year, and in particular on the reporting date as a result of the profit and loss transfer agreement concluded on January 1, 2007. The disclosures in the Federal Gazette specified in Section 264 (3) of the HGB 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 reporting year.

44. Declaration of Conformity for fiscal year 2015

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 on the German Corporate Governance Code" and published this permanently on the Company's Internet site (www. skw-steel.com) on December 16, 2015. On the reporting 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. Disclosures pursuant to IAS 10.17

These consolidated financial statements were completed on March 11, 2016 and were passed on to the Supervisory Board for approval without delay, together with the combined management report.

E. Subsidiaries and associated companies

Fully consolidated subsidiaries (as of December 31, 2015)

Name	Registered Office	Interest in %
Affimex Cored Wire S. de R.L. de C.V.	Manzanillo, Colima, Mexico	100
Affival Inc.	Williamsville, New York, USA	100
Affival KK	Tokyo, Japan	100
Affival Korea Co Ltd.	Dangjin, South Korea	100
Affival Mexican Holdings LLC	Wilmington, Delaware, USA	100
Affival SAS	Solesmes, France	100
Affival Vostok OOO	Kolomna, Russia	100
Cored Wire Servicios S. de R.L. de C.V.	Manzanillo, Colima, Mexico	100
ESM Group Inc..	Wilmington, Delaware, USA	100
ESM Metallurgical Products Inc.	Nanticoke, Ontario, Canada	100
ESM (Tianjin) Co. Ltd.	Tianjin, PR China	100
SKW Çelik Metalürji Üretim Ticaret Ve Sanayi Limited Sirketi (3)	Taksim, Beyoglu, Turkey	100
SKW Hong Kong Co Ltd.	Hong Kong, Hongkong (SAR of PR China)	100
SKW Metallurgie Asia Pte. Ltd.	Singapore, Republic of Singapore	100
SKW Metallurgie USA Inc.	Wilmington, Delaware, USA	100
SKW Quab Chemicals Inc.	Wilmington, Delaware, USA	90
SKW Service GmbH	Unterneukirchen, Germany	100
SKW Stahl-Metallurgie GmbH (1)	Unterneukirchen, Germany	100
SKW Technology GmbH & Co. KG (3)	Tuntenhausen, Germany	51
SKW Technology Management GmbH (3)	Tuntenhausen, Germany	51
SKW Verwaltungs GmbH (2)	Unterneukirchen, Germany	100
Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A	Sete Lagoas, Minas Gerais, Brazil	66.67
Tianjin Hong Long Metals Co. Ltd.	Tianjin, PR China	100

1. Profit/loss transfer agreement with SKW Stahl-Metallurgie Holding AG.
2. SKW Verwaltungs GmbH maintains an “accredited representative office” in Russia.
3. In liquidation (still consolidated).

Associated company (as of December 31, 2015):

Name	Registered Office	Interest in %
Jamipol Ltd	Jamshedpur, India	30.22

Non-consolidated companies (as of December 31, 2015):

Name	Registered Office	Interest in %
SKW La Roche de Rame SAS (4)	La Roche de Rame, France	100
SKW-Tashi Metals & Alloys Private Limited	Phuentsholing, Bhutan	51

4. In liquidation (not consolidated due to subordinate importance for the Group).

There were no changes in the interests in the prior year.

The Executive Board declaration required by the German Commercial Code (Sec. 264 (2) (3) HGB) ("financial statements oath") on the subject of the separate financial statements of SKW Stahl-Metallurgie Holding AG and the consolidated financial statements of SKW Metallurgie Group for fiscal year 2014 was issued by the Executive Board and published in the Federal Gazette and filed with the Company Register on May 05, 2015 (consolidated financial statements) and April 30, 2015 (separate financial statements).

The Executive Board declaration required by the German Securities Trading Act (WpHG) ("financial statements oath") on the subject of the semiannual report of SKW Metallurgie Group for the first half of fiscal year 2015 was issued by the Executive Board and filed with the Company Register.

The Executive Board declaration required by the German Commercial Code ("financial statements oath") on the subject of the separate financial statements of SKW Stahl-Metallurgie Holding AG and the consolidated financial statements of SKW Metallurgie Group for fiscal year 2015 was issued by the Executive Board concurrently with the signing of the said financial statements and published together with the said financial statements in the Federal Gazette and filed with the Company Register.

Unterneukirchen (Germany), March 11, 2016

SKW Stahl-Metallurgie Holding AG
The Executive Board

K. Michel

Dr. Kay Michel
Executive Board

FURTHER INFORMATION

Independent Auditors’ Report

Wir haben den von der SKW Stahl-Metallurgie Holding AG, Unterneukirchen, aufgestellten Konzernabschluss – bestehend aus Gewinn- und Verlustrechnung sowie Gesamtergebnisrechnung, Bilanz,

Eigenkapitalveränderungsrechnung, Kapitalflussrechnung und Anhang – sowie den mit dem Lagebericht der Gesellschaft zusammengefassten Konzernlagebericht für das Geschäftsjahr vom 1. Januar bis 31. Dezember 2015 geprüft. Die Aufstellung von Konzernabschluss und zusammengefasstem Konzernlagebericht nach den International Financial Reporting Standards (IFRS), wie sie in der EU anzuwenden sind, und den ergänzend nach § 315a Abs. 1 HGB anzuwendenden handelsrechtlichen Vorschriften liegt in der Verantwortung des Vorstands der Gesellschaft. Unsere Aufgabe ist es, auf der Grundlage der von uns durchgeführten Prüfung eine Beurteilung über den Konzernabschluss und über den Konzernlagebericht abzugeben.

Wir haben unsere Konzernabschlussprüfung gemäß § 317 HGB unter Beachtung der vom Institut der Wirtschaftsprüfer festgestellten deutschen Grundsätze ordnungsmäßiger Abschlussprüfung vorgenommen. Danach ist die Prüfung so zu planen und durchzuführen, dass Unrichtigkeiten und Verstöße, die sich auf die Darstellung des durch den Konzernabschluss unter Beachtung der anzuwendenden Rechnungslegungsvorschriften und durch den Konzernlagebericht vermittelten Bildes der Vermögens-, Finanz- und Ertragslage wesentlich auswirken, mit hinreichender Sicherheit erkannt werden. Bei der Festlegung der Prüfungshandlungen werden die Kenntnisse über die Geschäftstätigkeit und über das wirtschaftliche und rechtliche Umfeld des Konzerns sowie die Erwartungen über mögliche Fehler berücksichtigt. Im Rahmen der Prüfung werden die Wirksamkeit des rechnungslegungsbezogenen internen Kontrollsystems sowie Nachweise für die Angaben in Konzernabschluss und Konzernlagebericht überwiegend auf der Basis von Stichproben beurteilt. Die Prüfung umfasst die Beurteilung der Jahresabschlüsse der in den Konzernabschluss einbezogenen Unternehmen, der Abgrenzung des Konsolidierungskreises, der angewandten Bilanzierungs- und Konsolidierungsgrundsätze und der wesentlichen Einschätzungen des Vorstands sowie die Würdigung der Gesamtdarstellung des Konzernabschlusses und des Konzernlageberichts. Wir sind der Auffassung, dass unsere Prüfung eine hinreichend sichere Grundlage für unsere Beurteilung bildet.

Unsere Prüfung hat zu keinen Einwendungen geführt.

Nach unserer Beurteilung aufgrund der bei der Prüfung gewonnenen Erkenntnisse entspricht der Konzernabschluss der SKW Stahl-Metallurgie Holding AG, Unterneukirchen, den IFRS, wie sie in der EU anzuwenden sind, und den ergänzenden nach § 315a Abs. 1 HGB anzuwendenden handelsrechtlichen Vorschriften und vermittelt unter Beachtung dieser Vorschriften ein den tatsächlichen Verhältnissen entsprechendes Bild der Vermögens-, Finanz- und Ertragslage des Konzerns. Der Konzernlagebericht steht in Einklang mit dem Konzernabschluss, vermittelt insgesamt ein zutreffendes Bild von der Lage des Konzerns und stellt die Chancen und Risiken der zukünftigen Entwicklung zutreffend dar.

Ohne diese Beurteilung einzuschränken, weisen wir pflichtgemäß auf die Ausführungen des Vorstands in Abschnitt 1.4 „Langfristige Sicherung der Fremdfinanzierung des SKW Metallurgie Konzerns derzeit in Verhandlung“ sowie im Rahmen der Chancen- und Risikoberichterstattung sowie der Prognoseberichterstattung im zusammengefassten Lagebericht in Bezug auf die bestehenden Finanzierungsrisiken der SKW Stahl-Metallurgie Holding AG und des SKW Metallurgie Konzerns hin. Dort wird ausgeführt, dass durch den mehrfachen Financial-Covenants-Bruch des im Januar 2015 abgeschlossenen Konsortialkreditvertrags den kreditgebenden Banken ein vertragliches Sonderkündigungsrecht erwachsen ist. Deswegen hat der Vorstand mit den beteiligten Banken einen temporären entgeltlichen Kündigungsverzicht bis zum 31. Mai 2016 vereinbart. Der Vorstand befindet sich in laufenden Verhandlungen mit den finanzierenden Kreditinstituten mit dem Ziel der Fortführung des bestehenden Kreditvertrags für den Zeitraum ab dem 1. Juni 2016 unter erleichterten Bedingungen. Wie der Vorstand darstellt, ist die Unternehmensfortführung damit für die Jahre 2016 und 2017 vom erfolgreichen Abschluss der vorgenannten Verhandlungen abhängig. Der Vorstand geht nach derzeitigem Stand der Verhandlungen davon aus, dass die Verhandlungen mit den Kreditgebern bis zum 31. Mai 2016 erfolgreich abgeschlossen werden und somit die Finanzierung der SKW Stahl-Metallurgie Holding AG mindestens bis Anfang 2018 (Laufzeit des ursprünglichen Vertrags) gewährleistet wird. Sofern die Verhandlungen nicht erfolgreich abgeschlossen werden können, wären die SKW Stahl-Metallurgie Holding AG und der SKW Metallurgie Konzern konkret im Bestand gefährdet. Der Vorstand weist im Lagebericht ferner darauf hin, dass ein Abweichen von den der Unternehmensplanung zugrunde liegenden Prämissen signifikante Auswirkungen auf die Fähigkeit der Gesellschaft und des Konzerns zur Fortführung der Unternehmenstätigkeit haben könnte.

München, den 23. März 2016

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

gez. Aumann	gez. Tauber
Wirtschaftsprüfer	Wirtschaftsprüferin

Financial Calendar 2016 (remaining)

May 10, 2016

in München, Germany

→ Annual General Meeting

August 12, 2016

→ Publication of business figures first half year 2015

Regarding the publication of the figures for the first and third quarters of 2016, the SKW Metallurgie Group will evaluate the legal and stock exchange amendments that came into force in late 2015; details on future reporting on the first quarter and the third quarter will be published in in the second quarter of 2016.

Details re Analysts' Event according to § 53 BörsO FWB will be announced in the course of the year 2016.

May be subject to change.

Contacts

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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 24, 2016 and is available at www.skw-steel.com to download free of charge.

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