2016

SKW Stahl-Metallurige Holding AG

TABLE OF CONTENTS

Introduction by the CEO

Dear shareholders,

After being confronted with a massive downturn of the global steel industry in 2015, we predicted that this crisis would bottom out in 2016 and prepared our company to survive this phase without harm.

Unfortunately, our forecast proved to be more than accurate in the course of last year. By the autumn of 2016, the decline in steel production that began in 2015 accelerated unexpectedly to an extent that exceeded our forecasts. At the same time, price pressure and margin erosion intensified in key market segments. Moreover, the negative trend of prices for our core materials, which is a crucial indicator for our company as a supplier to the steel industry, continued unabated. Prices in some material categories neared historical lows during the course of 2016. Early signs of an end to this dramatic development only appeared in the fourth quarter, as the steel industry has recovered somewhat, particularly in our key market of North America, and our business has exhibited a positive development since this time.

Amid this difficult environment, it was all the more important for us to make substantial progress in the further development of our ReMaKe restructuring and efficiency enhancement program and speed up the implementation of our measures. By the end of 2016, we achieved roughly EUR 16 million of the total, permanent EBITDA contribution to be made by our ReMaKe 2.0 program in the amount of roughly EUR 20 million, which helped to offset the effects of lower revenues and shrinking profit margins. In addition, our subsidiaries exhibited great flexibility in adapting to the changed market conditions, thereby making up for the volume declines resulting from lower demand and other factors by increasing their market shares.

Thanks to these countermeasures, our team generated an operating EBITDA of EUR 11.9 million (2015: EUR 13.2 million), thereby surpassing the 2016 consolidated EBITDA forecast of slightly over EUR 10 million, despite the worsened conditions of the steel crisis. This result was achieved on sharply lower revenues of EUR 228 million, as compared to EUR 264 million in 2015, although the tonnage produced and sold was only about 4% less than the corresponding prior-year figure. Finally, we freed up another EUR 2 million in proceeds as part of the complex negotiations on the final, extensive solution of our Bhutan divestment in 2017; in accordance with the applicable IFRS rules, this result can only be recognized in the first quarter of the current year.

In summary, I repeat that the headwinds facing SKW in 2016 were even greater than expected in our forecasts. Nonetheless, our team managed to exceed our own guidance thanks to excellent operational countermeasures. This accomplishment distinguishes us from many companies in the steel suppliers industry that experienced greater declines in unit sales and earnings last year. Thus, SKW has made great strides in its operational, performance-enhancing restructuring program.

What other events were of critical importance in financial year 2016?

The statement of financial position of the parent company SKW Stahl-Metallurgie Holding AG at December 31, 2016 shows that the company's equity has worsened to negative EUR -23.4 million. Also in the consolidated statement of financial position, equity has since turned negative, at EUR -5.4 million, even including the positive share of non-controlling interests. Since I was appointed to the Executive Board in April 2014, the Group's equity has fallen by around EUR 120 million and the parent company's equity has fallen by around EUR 116 million. All the entries included in these figures resulted from the resolution of the SKW Group's inherited burdens, with which you are familiar.

While we have already implemented some key milestones in our operational restructuring program, as mentioned above, corrective measures are urgently needed on the equity and liabilities side of the statement of financial position in the context of financial restructuring, in order to adapt to the above-mentioned impairments and strengthen the capital base of the Group and its parent company. We have repeatedly referred to this necessity in the past.

In this context, we achieved a breakthrough with the three financing banks, in that our syndicated loan agreement will still be available to us, subject to only market-customary adjustments, through January 31, 2018, and the financial covenants and minimum principal payments will be suspended during this time. In this context, SKW is striving to implement a comprehensive financial restructuring plan consisting of three main elements:

- Debt redemption by selling assets, primarily in the area of peripheral activities,
- The fundamental willingness of the financing banks to agree to a conditional waiver of claims,
- A substantial cash capital increase to which shareholders will be granted subscription rights.

By means of these measures, we are striving to reduce the SKW Metallurgie Group's debt to an economically viable level in relation to its profitability, which we regard as an indispensable prerequisite for the strategic and operational development of the company and for obtaining appropriate follow-on financing.

Now that we have concluded this agreement with the lenders, we have an opportunity this year to strengthen the Group's capital and thus financially support the Group's restructuring, in addition to the operational repositioning of the Group. Besides selling peripheral activities, our clear preference is to find a strategic partner with which to develop our business and strengthen our competitive position by realizing synergy potential. In particular, the SKW Metallurgie Group will strive to actively participate in the coming market consolidation in the steel suppliers industry as a relevant player, so that we can return to creating value for our shareholders after the lean period of operational consolidation.

After one full year of refinancing negotiations, we wish to thank our lenders for their acceptance of our plan. We are working very hard as a team to take advantage of this opportunity. We now have the chance to completely heal our company within a crisis-struck environment. However, I would also like to note that the planned sale of businesses and the accompanying negotiations with potential anchor investors must first be implemented in an expedient manner conformant with the planned results, and this is by no means certain in the current market environment.

During the course of 2016, the implementation of the measures described above was seriously hampered by a so-called "stakeholders' crisis," which led to severe disruptions and legal disputes within the Supervisory Board of SKW Stahl-Metallurgie AG in the second quarter. This crisis unnecessarily tied up the company's time and financial resources and endangered the implementation of restructuring measures. It should go without saying that the constructive work of the company's boards is a crucial success factor particularly for a company in the midst of a complex restructuring situation, as we are. Therefore, the SKW management team was very relieved when the Supervisory Board members reached an agreement in the best interests of the SKW Metallurgie Group and that the Supervisory Board has since resumed its professional and effective work under new leadership.

What can we say about the medium-term forecast for the SKW Group based on the business performance in 2016?

Fortunately, there are numerous signs that steel production is picking up again in our core markets. We have observed a positive trend of business in nearly all segments since the fourth quarter of last year and this trend has continued in the early months of the current year. Particularly in our key market of North America, the "America first" initiatives of the new President have fueled a clear upward trend of steel production. However, it remains to be seen if these trends are sustainable, especially considering the complex situation of our company at the present time.

Therefore, our business plan is still based on the conservative scenario described below.

We expect that steel production in our core markets will remain stagnant in 2017; a resumption of modest growth can only be expected in 2018, followed by moderate growth in 2019. Even in these two years, however, steel production in the company's core markets will probably not reach the level of 2014, according to our forecast.

On this basis, we expect to generate revenues of approximately EUR 230 million in our core business in 2017, roughly at the level of 2016. Positive impulses in the overall market are expected to offset the anticipated drop in business volumes in the South American market, especially in 2017. We expect consolidated revenues to return to a level of approximately EUR 260 million by the year 2019.

On this basis, we budgeted the following operating EBITDA. Due to the expected sharp deterioration of the South America segment, EBITDA will remain flat at around EUR 9 million in 2017, or roughly the same EBITDA generated in 2016 after adjusting for the business units held for sale. Based on the market forecast presented above and the additional potential we intend to realize with our ReMaKe improvement program, we will strive to increase EBITDA to approximately EUR 15 million in 2019.

As mentioned before and explained in detail in the Management Report, the foregoing revenue and earnings forecasts refer to the core business of the SKW Group. The contributions of the business units currently being held for sale as part of the refinancing plan were eliminated for this purpose.

Dear shareholders,

Despite the successes we achieved, the Group's business performance in 2016 is far from satisfactory. However, the foregoing outlook for the subsequent years (which does not include the more positive possibilities for the development of the market and prices of raw materials) proves that we have a very promising chance to achieve a comprehensive restructuring of the company, in combination with the refinancing plan described above.

Therefore, I wish to ask for your continued trust and support in the name of the entire management team. Having achieved demonstrable successes in the operational repositioning of the company, we must now take the utterly necessary step of adapting the company's capital base to current conditions. We are working hard on this and hope to make constructive proposals to you on this subject at the annual general meeting planned for July 6, 2017.

In closing, I wish to take this opportunity to thank all employees throughout the world for their tremendous exertions to master the crisis encountered in 2016. We have succeeded in forging from numerous individual companies a global team with a strong identity that is focused on the Group's success. This team has developed a shared vision of how we wish to emerge strengthened from the current crisis. Considering the challenges faced by our customers in the steel industry, basic operating conditions will not improve in the coming year. However, as a global market leader in primary and secondary metallurgy, SKW is ideally prepared to successfully participate in the coming industry consolidation as an active partner in this market environment and ultimately create lasting value for our shareholders.

Sincerely yours,

Kay Michel

Supervisory Board Report

Dear shareholders,

The past fiscal year was characterized by the continuation of SKW Metallurgie Group's reorganization and financial restructuring in the context of the still difficult basic conditions in the steel and capital markets.

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

In fiscal year 2016, the Supervisory Board of SKW Stahl-Metallurgie Holding AG (the Company) supervised the Executive Board on an ongoing basis and provided it with advice and support in accordance with the applicable laws, the Articles of Incorporation and the bylaws, based on reports by the Executive Board, joint meetings and resolutions adopted by written circular.

The activities by the Supervisory Board and its committees were focused on restructuring and refinancing the Company and SKW Metallurgie Group, particularly including the adoption of a comprehensive refinancing plan for the Company in coordination with the restructuring expert and the financing banks with the aim of strengthening the Company's equity base. Other activities were focused on corporate strategy, business growth and other accounting issues.

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 the lack of distributable profit, it was determined that there was no need for a profit utilization proposal for the annual general meeting in 2016.

The disagreements between members of the Supervisory Board after the annual general meeting of May 10, 2016, which seriously impaired the proper corporate governance of the Company and even led to a legal dispute between the board members, were amicably settled in the middle of the year 2016, so that the proper work of the Supervisory Board was assured again thereafter.

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 2016.

It shall be outlined that after intense negotiations a settlement agreement could be reached such terminating several law suits with the former members of the Executive Board Ms. Kolmsee und Mr. Ertl. In particular they referred to officer's liability claims with regard to former expansion projects in Bhutan and Sweden. The Supervisory Board is confident, that the settlement agreement will also be approved by the shareholders'assembly.

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 business planning and strategic development, on the course of business and the Group's situation, including budget development, the risk situation and risk management, and in particular on individual projects.

At the regular in-person 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 in-person meetings. The Chairman of the Supervisory Board was in regular contact with the Executive Board and the other members of the Supervisory Board both in and outside of the Supervisory Board meetings, and was kept informed about 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 business planning (particularly including financial, investment and human resources planning), the course of business (particularly including revenues and the Group's and the Company's economic situation) and on transactions that could be of material importance to the Company's profitability or liquidity (see Section 90 (1) AktG);

- Approving the transactions of the Executive Board which required approval, if any;

- Questioning the Executive Board in the Supervisory Board's meeting on the reports presented, current developments and pending decisions, and agreeing on the most important KPIs to measure short- and medium-term business success;

- Holding discussions between the Chairman of the Supervisory Board and members of the Executive Board on various issues and posing questions to the Executive Board as part of these discussions on current developments and pending decisions;

- Receipt of the report by the internal auditors, also concerning the risk management system and compliance report;

- Review of the separate single-entity financial statements, the consolidated financial statements and the combined management report prepared by the Executive Board, and questioning the members of the Executive Board on this subject (see below).

The committees of the Supervisory Board continued their work in the year under review, subject to the changes described below. The purpose of the committees is to ensure that the Supervisory Board performs its tasks efficiently, in addition to ensuring that the related requirements of the German Corporate Governance Code are upheld. As in the past, the committees held regular meetings timed to be close to the meetings of the Supervisory Board. In some cases, in-person meetings were supplemented with meetings conducted by telephone. All of the members of the respective committees regularly attended the respective committee meetings. In addition, the committees' chairmen report to the Supervisory Board on their committee's work in each subsequent meeting and separately between meetings.

In summary, the Supervisory Board was involved in all important strategic business decisions and discussed and examined these decisions in detail, and approved them, when required. Members of the Executive Board regularly attended the meetings of the Supervisory Board. Only discussions of internal topics of 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 and its committees

In January 2016, Mr. Tarun Somani was initially appointed to the Company's Supervisory Board by way of judicial appointment. The judicial appointment was made at the request of the Executive Board and with the support of the Supervisory Board. It had become necessary because Dr. Hans Liebler resigned his mandate as a Supervisory Board member with effect from November 30, 2015.

Supervisory Board elections were held at the Company's annual general meeting of May 10, 2016 because the terms of office of five Supervisory Board members ended upon the close of this general meeting and one Supervisory Board member (Ms. Jutta Schull) had resigned her mandate at the close of this general meeting.

In the general meeting, the candidates Dr. Olaf Marx, Dr. Peter Ramsauer and Mr. Volker Stegmann, proposed by the shareholder MCGM GmbH, and Messrs. Titus Weinheimer und Tarun Somani, proposed by the management, received the required majority of 2/3s of the votes cast, as required by the Company's Articles of Incorporation. However, the election of a sixth Supervisory Board member failed to meet this majority requirement, so that the Supervisory Board with only five members did not have the composition required by the Articles of Incorporation. On June 9, 2016, therefore, Dr. Alexander Kirsch was judicially appointed at the proposal of the Company for a term of office lasting until the next general meeting.

Mr. Titus Weinheimer held the office of Supervisory Board Chairman until the Company's general meeting of May 10, 2016. The Vice Chairman was Mr. Jochen Martin. In the period from May 23, 2016 to June 28, 2016, Dr. Olaf Marx was the Supervisory Board Chairman and Mr. Volker Stegmann was the Vice Chairman. Since August 8, 2016, Mr. Volker Stegmann has held the Chairman's position and Dr. Alexander Kirsch the Vice Chairman's position.

For reasons of efficiency and for the sake of avoiding potential conflicts of interest, a new committee, the Refinancing Committee, was formed on December 8, 2016 to deal with the critical issues of refinancing with debt and/or equity and the implementation of the restructuring plan. Mr. Stegmann is likewise the Chairman and Dr. Alexander Kirsch is the Vice Chairman of the Refinancing Committee. Other members are Dr. Peter Ramsauer and Mr. Titus Weinheimer.

There were no personnel changes in the Audit Committee in the year under review. For reasons of efficiency, however, the newly constituted Supervisory Board after the general meeting of May 10, 2016 resolved not to establish an Audit Committee again.

There were no personnel changes in the Personnel Committee or Nominating Committee. Following the general meeting, however, these two committees and the Strategy Committee were not established again.

The Supervisory Board discussed in detail and agreed with the sole Executive Board member on the contractual terms and conditions of his employment contract, his target achievement in the reporting year and the setting of targets for the subsequent years. In addition, the Supervisory Board extensively and carefully reviewed whether the Company should be run by a sole Executive Board member until further notice, answered this question in the affirmative and on this basis – after careful negotiation, consideration and review of the terms and conditions – extended Dr. Michel's term of office until June 30, 2020.

According to the requirements of the German Corporate Governance Code, the Supervisory Board must consider diversity as a criterion when filling board and management positions; in particular, it must strive to give appropriate consideration to women. Given the context of the currently difficult basic conditions for SKW Metallurgie Group, however, professional qualifications must have top priority.

Audit of the separate and consolidated financial statements

The separate financial statements and the consolidated financial statements as of December 31, 2016 and the combined management report, including the accounting function, were audited by the appointed auditors KPMG AG Wirtschaftsprüfungsgesellschaft, Munich (Germany), which issued 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 financial statements meeting of March 21, 2017. The Chairman 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 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 independent auditor, and approved the separate and consolidated financial statements on March 21, 2017. The separate financial statements were thus adopted.

Corporate governance

The Supervisory Board constantly complies with and monitors the implementation of the standards of responsible and effective corporate governance set forth in the German Corporate Governance Code, as well as current legislative changes 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 and any deviations.

The Executive Board and the Supervisory Board issued the annual declaration of conformity pursuant to Section 161 AktG on December 20, 2016. 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 14 meetings in the year under review, of which eight were regular in-person meetings and six were held by telephone. The meetings were regularly held with all members participating. In addition, two resolutions were adopted by written circular. The Audit Committee and the Personnel Committee each held one in-person meeting in the past financial year. The Nominating Committee and the Refinancing Committee each held two in-person meetings. The Strategy Committee did not hold a meeting. Also the meetings of the Committees were regularly held with all members participating.

The Supervisory Board thanks both the former members of the Supervisory Board and the Executive Board member 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 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.

Munich, March 2017
Volker Stegmann
Chairman of the Supervisory Board

Corporate Governance Report

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, Munich (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 Company has been managed also in the business year 2016 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 in the medium-term future are both good options. 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 has proved to be advantageous up to now for the group. 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. 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 sets an annual 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.

3. 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.

4. 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 restructuring.

5. Committees – Item 5.3. GSGC Deviating from item 5.3.2. und 5.3.3. GSCG the Supervisory Board does not establish an Audit or Nomination Committee. The Supervisory Board with six members is not that large that committees are absolutely mandatory to maintain an efficient workflow of the Board as requested by the the GSCG. On the contrary the past proved that matters were treated in the committee and repeatedly in the board which lead to higher costs and time consumption. Given the size of SKW group it lacks a degree of detail of matters which usually induce creation of committees in order to increase efficiency. Last but not least nomination of committee members and its chairman because of differing views in the Board would cause remarkable difficulties.

Deviating from the prepositions above in December 2016 the Supervisory Board was forced to establish a refinancing committee because of more and more interests collisions of board members who are potential investors thus subject to a conflict of interest being therefore excluded in certain matters from deliberations and resolutions in the board. Such committee is supposed to maintain the objective, diligent und efficient workflow of the board in refinancing matters. The refinancing committed is responsible to evaluate and approve all relevant matters of refinancing by equity or debt as well measures that are rooted in an aligned refinancing concept.

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 2016 and interim report for the third quarter 2016 in December 2016. The delay was due to the prorogation of the waiver by the banks involved in the syndicated loan agreement until December 15, 2016 und negotiations based on that for a refinancing taking until December 2016. Their successful conclusion in December 2016 was a prerequisite for the audited review of the interim statement for the first half of 2016 under the premises of a going concern, such analogously for the interim statement for the third quarter 2016.

Munich (Germany), December 20, 2016

SKW Stahl-Metallurgie Holding AG

The Executive Board

Dr. Kay Michel

For the Supervisory Board

Volker Stegmann (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, 2016), 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:

As of the reporting date (December 31, 2016), the Supervisory Board was composed of the following members elected by the general meeting of shareholders, namely Mr. Volker Stegmann (Chairman), Dr. Alexander Kirsch (Vice Chairman), Dr. Olaf Marx, Dr. Peter Ramsauer, Mr. Tarun Somani und Mr. Titus Weinheimer

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 May 10, 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.

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, Germany, has been appointed as the new review auditor of the consolidated financial statements as at June 30, 2016 and annual audit 2016. Information on the auditor's fee can be found in Note D.42 to the consolidated financial statements. Johannes Hanshen has been the Chief Auditor. The auditor rotation has been in due course and is part of the custody of neutrality and independence of the group.

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.

The Supervisory Board of SKW Stahl-Metallurgie Holding AG is casted solemnly by men. Due consideration is also given to the Company's international activities. All members of the Supervisory Board possess international experience; one of the Supervisory Board resides permanently in the United States, a second permanently in the Republic of India. 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 is currently considering the introduction of 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 minimum one women. Top priority, however, is always the professional qualification of the proposed candidates.

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

Executive and Supervisory Board holdings of Company shares

During the year under review, the Company received no (formerly) Directors' Dealings (since 3. Juli 2016 so-called: Managers' Transactions).

Accordingly, the **total number of Company shares held by members of the Executive Board and Supervisory Board as of the reporting date (December 31, 2016)** is as follows:

Name	Dr. Kay Michel	Dr. Olaf Marx (Shares owned through Dr. Marx beherrschte MCGM GmbH)
Function	Sole member of the Executive Board	Member of the Supervisory Board (from May 23,.2016 to June 6, 2016 Chairman of the Supervisory Board)
No. of shares	20,000	147.988

As of December 31, 2015, therefore, a total of **167,988** 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 2016.

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 2016 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 of SKW Stahl-Metallurgie Holding AG and the SKW Metallurgie Group

1. Business and framework conditions

1.1. Moderate economic growth in 2016

According to International Monetary Fund estimates published in January 2017, the world economy expanded by +3.1% in 2016 (PY: +3.2%). The developed economies grew at a rate of 1.6%, emerging-market and developing countries at a rate of 4.1% in 2016.

There were considerable differences within these blocks of countries. The Eurozone economy expanded at a moderate rate of 1.7%, mainly driven by the Eurozone countries of central and northern Europe. Among the larger industrialized nations, the U.S. economy also expanded (+1.6%). Japan's economy stagnated with growth of only +0.9%.

Among the emerging-market and developing countries, China and India continued their role as growth engines, with growth rates of 6.7% and 6.6%, respectively. The Brazilian economy weakened considerably, posting a 3.5% contraction in 2016. Under the weight of trade sanctions imposed in the wake of the Ukraine crisis coupled with unusually low commodity prices, Russia's economic output contracted by 0.6% in 2016.

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 rises only minimally in 2016, disproportionate decline in Brazil

As in prior years, the SKW Metallurgie Group generated about 90% of its revenues with customers in the steel industry in 2016. SKW Metallurgie Group offers these customers a broad portfolio of technologically advanced products and services, especially 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 increased only by 0.8% from the prior year to reach 1,628.5 million tons in 2016. With a nearly unchanged world market share of almost 50%, China is the biggest steel nation by far. 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 2016 and 2015), the European Union (primarily for cored wire products) and Brazil. Whereas steel production in the 28 EU countries declined by only 2.3% to 162.3 million tons and steel production in the United States declined by only 0.3% to 104.8 million tons, there was a marked decline in steel production in Brazil. In this important steel market, also for the SKW Metallurgie Group, production fell by 9.2% to 30.2 million tons.

1.3. Markets for SKW Metallurgie's core products develop in line with the general development of the steel industry

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 almost 10% of its revenues with customers outside the steel industry in 2016. Most 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. Due to the application of the accounting regulations of IFRS 5, the revenues generated on Quab products are no longer presented in the reported revenue numbers.

The other revenues generated with non-steel customers involve products that are technologically related to products for the steel industry (e.g. cored 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. General decline in prices of raw materials

Prices of key raw materials for the production of cored wires (calcium silicon, calcium, iron titanium, etc.) declined anywhere from 10% to 20% in 2016. Particularly in the case of the very important raw material calcium silicon, the price declined further by roughly 20% from the already low level at the beginning of the year to reach a historically low level.

On the other hand, the price of magnesium, which is important for pig iron desulphurization, recovered somewhat in the reporting period, despite massive fluctuations during the course of the year.

2. SKW Metallurgie Group continues to systematically implement the ReMaKe restructuring program

In 2016, the Executive Board of the SKW Metallurgie Group moved forward with the systematic implementation of the "ReMaKe" restructuring program developed in 2014, which has evolved further to become a continuous improvement program. 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.

When implementation commenced in 2014, ReMaKe centered 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 sale of the Bhutanese subsidiary, which is in insolvency proceedings; the sale should be completed in early 2017.

The targeted implementation of the **second module** (efficiency enhancement in the core business) led to substantially positive effects on operating EBITDA. Thus, ReMaKe prevented much worse results for the SKW Metallurgie Group that would have otherwise resulted from the steel crisis.

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. SKW Metallurgie Group also sees considerable market potential also in Europe (including Russia), particularly in the area of primary metallurgy. The SKW Metallurgie Group will take steps to permanently improve its market position in all relevant high-volume markets.

3. Organization and corporate structure

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

SKW Stahl-Metallurgie Holding AG, which had its registered office in Unterneukirchen (Germany) at the beginning of the reporting period before moving it to Munich (Germany) in the middle of the year, is the parent company of the global SKW Metallurgie Group. The Group's parent company does not itself market products in the target markets; instead, all customer relationships are managed solely by the operational subsidiaries. The Group's parent company SKW Stahl-Metallurgie Holding AG consistently fulfils its role of actively coordinating the activities of the group.

The governing bodies of the company are the annual general meeting (of 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 May 10, 2016. The distributable profit of SKW Stahl-Metallurgie Holding AG was not sufficient to allow for the payment of a dividend in 2016 (for financial year 2015); 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 member Dr. Dirk Markus and the proposed re-election of the former Supervisory Board member Reto Garzetti.

Supervisory Board:

The composition of the company's Supervisory Board and the Chairman position underwent changes in 2016. At the reporting date, the Company's Supervisory Board was composed of Mr. Volker Stegmann (Chairman), Dr. Alexander Kirsch (Vice Chairman) and (in alphabetical order) Dr. Olaf Marx, Dr. Peter Ramsauer, Mr. Tarun Somani and Mr. Titus Weinheimer.

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.

Executive Board:

During the financial year and at the reporting date, the Company's Executive Board was composed of Dr. Kay Michel as the sole member.

Consolidation group:

At the reporting date, SKW Metallurgie Group, the highest-ranking company of which is the Group's parent company, comprised the seven fully consolidated direct subsidiaries of SKW Stahl-Metallurgie Holding AG (PY: seven) and 12 (PY: 13) fully consolidated indirect subsidiaries.

The investment in the Indian joint venture Jamipol, the investment in the Bhutanese joint venture, which is under insolvency proceedings, and the 90%- investment in SKW Quab Chemicals Inc. were classified as held-for-sale units and are shown in accordance with IFRS 5 at the reporting date.

These figures do not include an indirect investment in Turkey, which is in liquidation, and the German SKW Technology companies that were liquidated in financial year 2016. All three of these latter companies are of subordinate importance for the Group.

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

As in prior years, the Company's share capital is divided into 6,544,930 registered shares. During 2016, the price of the SKW Metallurgie share ranged between EUR 1.90 (low for the year) on November 9, 2016 and the high for the year of EUR 4.87 on May 2, 2016 (both XETRA closing prices). The closing price of the SKW Metallurgie share at the end of 2016 was EUR 3.07, which corresponds to a market capitalization of approximately EUR 20 million at the reporting date. The average daily XETRA trading volume for the SKW Metallurgie share was 10,981 shares in 2016.

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 is published on www.skw-steel.com (Investor Relations => Financial Reports) and is included in the Corporate Governance section of our annual report, to which reference is made in accordance with legal requirements. In addition, the Declaration of Conformity pursuant to Section 161 AktG is available to the public at www.skw-steel.com (Investor Relations => Corporate Governance).

4.2. Declarations pursuant to Sections 289 (4) and 315 (4) HGB

Unless otherwise stated, the following disclosures are valid for the full financial 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 and Market Abuse Regulation. 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.

First Holding GmbH, Munich (Germany), holds 10.75% of the shares in SKW Stahl-Metallurgie Holding AG. As of the reporting date, aside from this shareholding, the Executive Board is not aware of any shareholdings equal to or greater than 10% of voting rights.

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 financial year 2016 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 May 10, 2016, 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 9, 2021. A subscription right must be granted to the shareholders. An exclusion of the subscription right is not possible. This authorization has not been utilized to date; it remains in effect as before.

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.

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 employment contract in effect with the sole Executive Board member Dr. Kay Michel at the time of preparation of this management report also includes a market-standard change-of-control clause.

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 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, burnt lime or burnt lime in combination with magnesium. Combinations of these methods are also possible. 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. In South America and India, desulphurization is primarily conducted on the basis of calcium carbide at this time. All of these methods are used in Europe.

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.

5.2. Secondary metallurgy: Affival cored wires for improving raw steel

High-quality cored wire for secondary metallurgy is an important product group of the SKW Metallurgie Group. In the "secondary metallurgy" production step, cored wires are used to improve the casting ability and the precisely adjustable insertion of chemicals. Cored wires are mainly used for chemicals with a much lower specific weight than steel, for which direct insertion using other methods is uneconomical. Inserting a cored wire enriched with precisely specified chemicals into the molten steel is a technologically demanding process that introduces 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 be used for tube production 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. 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 technologies, some of which are protected by patents, 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, low-cost raw materials is essential to the success of the SKW Metallurgie Group. For this purpose, the Group has established a Sourcing CoE (Centre of Excellence) to bundle all key sourcing activities. This has significantly increased the efficiency of raw materials procurement.

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 working with multiple strategic partners as a means of countering the risk of dependency on only a few producers or a single producing country.

Aside from secured access to the desulphurization reagents magnesium and calcium carbide, the cost of these materials is the most important factor on the procurement side. 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 with the aid of a Group-owned procurement unit in the People's Republic of China, which is by far the most important producer of this raw material. The Group also places a high priority on the economic development of magnesium-based desulphurization mixtures with the goal of globally enhancing its competitiveness.

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, longer-lasting 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.

Changes in the prices of the raw materials processed by SKW Metallurgie Group are an important factor influencing the Group's revenues and ultimately its earnings as well. The crucially important influence on profit margins is explained in the following: Although there is some positive correlation between procurement and sales prices, some products are priced as a percentage mark-up on the cost of the raw material, so that the absolute margin goes down when prices fall. In the case of index-based raw materials procurement, negative margin effects can also result from falling prices due to the declining price differential of admixed products. Conversely, rising raw material prices produce positive effects.

5.4. Closeness to customers and global production

The Group as a whole places a high value on local presence, closeness to customers and individual customer wishes. These factors guarantee global success. The optimized production methods, globally deployed innovative technologies and global product range that result from the Group's global presence benefit both customers and the SKW Group locally.

Manufacturing costs in the factories of the SKW Metallurgie Group are particularly influenced by material costs. Personnel costs and depreciation of production equipment are considerably less significant. 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.

5.5. Corporate Governance – Focus on finalizing the restructuring program in response to the crisis as the basis for future 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 financial year 2016. In this context, managerial indicators of long-term shareholder value, meaning the preservation and creation of value for the Group's owners, are an important factor already now. The Group strives to offer an attractive return on capital employed, both through share price appreciation and dividends. As in prior years, this longer-term goal was overridden in financial year 2016 by the necessary restructuring measures, mainly resulting from past burdens and from the downturn of the steel industry since 2015. A resumption of dividend payments can only be expected after the current crisis is overcome and the financial restructuring planned for financial year 2017 has been successfully implemented.

SKW Metallurgie Group continues to pursue the operational goal of being <u>the</u> leading global quality supplier to steel producers in the segments of primary and secondary metallurgy which it serves. Within this spectrum of expertise, SKW Metallurgie Group will continue to systematically broaden its value chain (e.g. by expanding its offering of solutions for the global steel industry). As before, the Group strives to enhance its competitiveness in standard products and differentiate itself from competitors by offering specialty products that create value-added for customers. In particular, the Group focuses constantly on realizing additional business volumes by exploiting brand synergies and cross-selling potential and by means of stepped-up sales initiatives as part of the ReMaKe continuous improvement program.

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

6.1. SKW Metallurgie Group counters the steel crisis with strategic restructuring successes

The business performance of the SKW Metallurgie Group in financial year 2016 was influenced in part by the negative, external factor represented by the considerable slowdown in demand for steel products since the middle of 2015 and in part by the positive results of the continued implementation of the ReMaKe program.

All Group entities continued in 2016 to successfully implement the individual projects of the ReMaKe restructuring program that was initiated in financial year 2014 and has since been repeatedly enhanced. These projects made a positive contribution of EUR 16.1 million to EBITDA in financial year 2016. 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 performance of financial indicators and a much more strained liquidity situation for the SKW Metallurgie Group in financial year 2016.

6.2. Streamlining of the Group portfolio and consolidation of Group companies and assets held for sale according to IFRS 5

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 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.

As part of the refinancing plan agreed with the lenders, measures were taken in 2016 to divest the Group of additional units. In the present financial statements, therefore, the companies and assets stated below are classified as „assets held-for-sale“ according to IFRS 5.

The 90% investment in SKW Quab Chemicals Inc. does not belong to the Group’s core business and does not exhibit any appreciable synergies with the Group companies that operate close to the steel market. Therefore, this investment is a primary candidate for divestment.

The Bhutanese Group company filed for insolvency proceedings in December 2015. Nonetheless, an agreement was reached towards the end of 2016 to sell the SKW Metallurgie Group’s 51% investment in this company to the minority shareholder; this transaction should be completed in early 2017. Already in the prior-year financial statements, this company was no longer fully consolidated, despite the majority investment held, due to the loss of control; the loss of control remains in effect.

Finally, an approximate asset in a 30% participation in the Indian joint venture Jamipol Ltd. is likewise shown in accordance with IFRS 5 as “asset held for sale”.

6.3. Revenue performance dependent on the state of the steel industry and the development of material prices

In the full year 2016, the SKW Metallurgie Group generated revenues of EUR 228.5 million, that being 13.4% less than the prior-year figure (EUR 263.7 million). This decline is particularly attributable to the global steel crisis, the decline of material prices (leading to a roughly EUR 30 million revenue drop in North America) and currency translation effects (weaker U.S. dollar).

The change in inventories of finished and semi-finished goods was EUR -1.4 million in financial year 2016 (PY: EUR -7.3 million). The reason for this considerable change was the systematic reduction of unnecessary inventories as part of the emphatically pursued working capital management approach.

6.4. Continued 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 prices 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 154.0 million (PY: EUR 171.4 million), the SKW Metallurgie Group kept this ratio nearly unchanged at 32.0% in 2016, as compared to the high prior-year value of 32.2%. This performance can be attributed to several factors. First, the newly introduced global procurement unit (Sourcing CoE) has already achieved some reductions in material costs; and second, manufacturing costs and processes have been systematically optimized on the basis of established ReMaKe measures. This combination of measures was positively influenced by the generally positive development of the Group’s product mix in the direction of higher-margin products and by unbudgeted, temporary additional sales in markets in which higher-margin products could be sold, especially in South America. In addition, the favorable currency developments in the U.S.D and BRL generated a certain tailwind in the fourth quarter of the year.

6.5. Further reduction in personnel expenses

The personnel expenses of EUR 35.8 million were 9.0% less than the prior-year figure of EUR 39.4 million; this reduction is all the notable considering the EUR 0.7 million expended on severance awards in financial year 2016, as compared to EUR 0.3 million in the prior year. Essentially, the cost reductions were achieved through the consistent implementation of personnel measures under the ReMaKe program, as well as efficiency enhancements and process optimization measures in the manufacturing facilities in the United States and Europe, in proportion to the respective shares of consolidated revenues. South America had already reported considerable successes with the implementation of optimization measures in 2015; in financial year 2016, the success of these measures can be seen in the fact that the annual average 7%-8% personnel cost increases prescribed by law were almost entirely offset by ReMaKe measures (please refer to Section 10.1 for information on the development of workforce numbers).

6.6. Other operating result

The other operating results of EUR 6.6 million were less than the prior-year figure of EUR 8.3 million. In financial year 2016, this decline is mainly attributable to fewer exchange rate effects in the amount of EUE 2.8 Mio. (PY:EUR 4.1 Mio.).

The other operating expenses of EUR 40.2 million were considerably less than the prior-year figure of EUR 50.7 million. One of the main reasons for this decrease was the EUR 7.5 million increase in the provision for an antitrust fine (including interest) on the books of a German Group company in the prior year; the adjustment of this provision in financial year 2016 only gave rise to an expense of EUR 0.1 million.

Furthermore, the line item of “legal and consulting expenses” rose from EUR 6.4 million to EUR 8.7 million due to the complex situation of the SKW Metallurgie Group and some of its Group companies at the present time; thanks to cost optimization measures, the expenses for outgoing freight and other transport costs were reduced from EUR 10.6 million to EUR 8.9 million, even though tonnage declined by only 4%.

At EUR 1.0 million, the income from associated companies (here: from the Indian joint venture Jamipol) roughly remained at the level of the prior year. Due to the equity holding of roughly 30%, this income is still accounted for in accordance with IFRS 5 in the profit and loss statement.

6.7. Stated EBITDA still positive despite the steel crisis

SKW Metallurgie Group was able to keep its earnings before interest, taxes, depreciation and amortization calculated according to IFRS (calculated or “stated” EBITDA) positive at EUR 4.7 million (PY: EUR 4.2 million), despite the steel crisis. 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.

Both in the reporting period and in the prior year, the stated EBITDA included several non-operating non-recurring effects.

They are as follows:

- Unrealized net currency income: EUR 1.0 million (2015: EUR 1.4 million)
- Increase in the provision for an antitrust fine plus accrued interest (EUR 7.5 million) in 2015. The comparable expense in 2016 was EUR 0.1 million.
- Significant restructuring expenses were incurred in financial year 2016, which amounted to EUR 8.1 million (PY: EUR 2.5 million) at the EBITDA level.

After adjusting EBITDA for all the named non-recurring effects[1], the adjusted guidance-relevant operating EBITDA came to EUR 11.9 million (PY: EUR .2 million).

6.8. Steel crisis in the United States leads to impairment losses

The depreciation, amortization and impairments recognized in the reporting period (EUR 12.5 million) were nominally less than the prior-year figure (EUR 13.3 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 assets in the United States, due to the steel crisis.

6.9. Reduced interest expenses thanks to the low level of interest rates

The net interest expenses of EUR 5.6 million were considerably lower than the prior-year figure (EUR 6.3 million). The main reasons for the amount of expenses in both years and the decline in the reporting period are non-recurring effects (interest-like expenses) related to the replacement of the previous financing 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. Given the Group's credit standing, the interest expenses are basically appropriate for the level of debt held and the benefit of the generally low level of interest rates is only modest.

Significant non-cash foreign currency items result from the measurement of intragroup loans in the SKW Metallurgie Group. In the Group's earlier financial statements, such items led to substantial non-operating fluctuations in EBITDA. To enhance transparency (and in accordance with IFRS accounting principles), the SKW Metallurgie Group now presents these items beneath EBITDA as the "Other financial result." The corresponding income amounted to EUR 2.1 million in financial year 2016 and EUR 7.3 million in financial year 2015.

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

Tax expenses in 2016 (EUR 1.2 million) were considerably less than the prior-year figure (EUR 6.0 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 were incurred even though earnings before taxes were negative at the Group level (in both 2016 and 2015).

[1] For the financial year 2016, the adjusted guidance-relevant operating EBITDA has additionally been adjusted by the release of non-operative provisions (EUR -2.0) and by the EBITDA of the discontinued business unit SKW Quab (EUR +2.0 Mio.)

6.11. Consolidated annual result from continuing and discontinued operations

In accordance with IFRS, the consolidated annual result after taxes from continuing operations (EUR -12.4 million; PY: EUR -14.2 million) is presented separately from the consolidated profit from discontinued operations (after taxes) in the amount of EUR 0.5 million (PY: EUR 5.5 million). The total consolidated annual result of EUR -11.9 million (PY: EUR -8.7 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 (IFRS 5)
- SKW-Tashi Metals & Alloys Private Ltd. (Bhutan): under insolvency, loss of control in 2015 (IFRS 5)
- The SKW Technology companies (Germany): liquidation completed in financial year 2016

The number of SKW Metallurgie shares was 6,544,930 in 2016, unchanged from 2015. This yields negative earnings per share (EPS) from continuing operations of EUR -1.97 (PY: EUR -1.35).

6.12. 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). Another key advantage of the regional approach besides the enhanced transparency, particularly with regard to regional market developments and exchange rate effects, is the additional 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 organization and reporting structure. Beginning with the 2015 financial statements, therefore, the SKW Metallurgie Group aligned the segment report 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 and the assessment of exchange rate factors. As in prior years, activities are assigned to segments on the basis of Group companies because there are still no Group companies whose activities are divided among different segments.

The current reportable segments of the SKW Metallurgie Group comprise the following activities:

- SKW North America: the "SKW North America" segment is composed of the management entity "SKW North America" introduced in financial year 2014. This entity comprises the two U.S. 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 "SKW Europe and Asia" segment is composed of all the Group's cored wire companies that do not belong to "SKW North America." These include the French cored wire company Affival SAS; Affival SAS, the Group's largest cored wire factory, produces cored wire predominantly for the European market (excluding Russia). They also include the subsidiaries of Affival SAS, which produce cored wire products in Russia, South Korea and PR China for their respective regional markets.
- SKW South America: The "SKW 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. This company also distributes the cored wire products of Affival SAS as an agent.
- Other and Holding Company: The "SKW 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. In accordance with IFRS 5, the numbers of this company are included neither in segment revenues nor in segment EBITDA.
        - 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 desulphurization market in Europe, a reorganization of this company is expected; therefore, it is assigned to the "Other" segment until further notice.
    - 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).
        - 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.

- 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 2016 is described in the following:

In the “**North America**” segment, total revenues declined from EUR 155.7 million (2015) to EUR 125.9 million (2016) and EBITDA declined correspondingly from EUR 4.0 million (2015) to EUR 3.0 million (2016).

The main reason for these declines was the continuing crisis of the U.S. 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) compared to 2014/early 2015, coupled with the substantial erosion of material prices and selling prices. Any positive effects of the economic programs of U.S. President Trump will primarily affect the business performance in 2017.

In the “**Europe and Asia**” segment, the total revenues of EUR 73.6 million were slightly less than the corresponding prior-year figure (EUR 79.9 million). The revenue trend was subdued in most sub-markets, particularly in Western Europe; in Russia, on the other hand, the sales initiatives of the SKW Metallurgie Group yielded positive results in the form of rising revenues.

The segment’s reported EBITDA of EUR 4.1 million was about 20% higher than the prior-year figure (EUR 3.4 million), despite the lower revenues.

The “**South America**” segment sells most of its products in Brazil. In this country, domestic product and steel production both declined further in 2016; accordingly, segment revenues fell from EUR 25.7 million to EUR 23.0 million. Apart from the macroeconomic situation, industry-specific competition intensified further in 2016. Thanks to active counter-measures, segment EBITDA was kept at the level of EUR 4.4 million (PY: EUR 6.7 million) despite the dramatic deterioration of the Brazilian market (-9.2%).

Due to the IFRS 5-conformant classification of SKW Quab Chemicals Inc., the segment result of the “**Other and Holding**” segment only includes the following significant non-operating company, SKW Stahl-Metallurgie Holding AG, the individual results of which are presented in Section 7.

6.13. Consolidated statement of financial position: Equity after non-controlling interests slightly negative for the first time

The most important items of the statement of financial position of the SKW Metallurgie Group as of December 31, 2016, compared to the prior-year reporting date are presented in the table below:

ASSETS	12/31/2016	12/31/2015
	EUR'000	EUR'000
Noncurrent assets	40,005	56,937
Current assets	105,942	92,064
thereof assets held for sale	21,087	0
thereof cash and cash equivalents	14,276	11,353
Total assets	145,947	149,001

EQUITY AND LIABILITIES	12/31/2016	12/31/2015
	EUR'000	EUR'000
Equity	-5,444	6,140
Noncurrent liabilities	18,410	20,782
thereof noncurrent financial liabilities	1,857	1,908
Current liabilities	132,981	122,079
thereof liabilities held for sale	8,840	0
thereof current financial liabilities	83,933	73,111
Total equity and liabilities	145,947	149,001

The total assets of the SKW Metallurgie Group (December 31, 2016: EUR 146.0 million) were nearly unchanged from the prior-year figure (EUR 149.0 million).

Noncurrent assets declined from EUR 56.9 million to EUR 40.0 million, mainly due to reclassifications necessitated by IFRS 5, as well as the unscheduled impairments recognized in the assets of a U.S. subsidiary due to the steel crisis.

Current assets rose from EUR 92.1 million to EUR 105.9 million, mainly due to the classification of all assets held for sale (IFRS 5) as current assets, which made it necessary to reclassify noncurrent assets totaling EUR 13.8 million.

On the equity and liabilities side, asset impairments decreased the equity item of "Other comprehensive income" from EUR -60.0 million to EUR -73.1 million.

The share of non-controlling interests in equity increased from EUR 8.8 million to EUR 10.4 million. Despite these non-controlling interests, the consolidated equity of EUR -5.4 million was slightly negative for the first time (PY: EUR 6.1 million). Aside from the development of earnings in 2016, this development can also be attributed to valuation effects because the actuarial discount factor applied to the Group's pension obligations has declined steadily as a result of the persistently low level of interest rates, leading to a EUR - 5.0 million deduction from equity in financial year 2016 (PY: EUR - 4.2 million).

The total liabilities presented in the consolidated statement of financial position increased in the reporting period (December 31, 2016: EUR 151.4 million; December 31, 2015: EUR 142.9 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 85.8 million at December 31, 2016, as compared to EUR 75.0 million at December 31, 2015. After netting with cash and cash equivalents, net financial liabilities amounted to EUR 71.5 million (2014: EUR 62.7 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.

Based on their maturity, most of the Group's financial liabilities were classified as "current" at the reporting date (as in the prior year). This particularly includes the entire drawdown under the syndicated loan agreement. This drawdown was classified as current in 2016 because the syndicated loan was due in less than one year at the time of preparation of the present management report. In the prior year, waiver negotiations were still ongoing with the financing banks at the time of preparation of the management report.

The equity ratio (including non-controlling interests) is negative (PY: 4.1%).

Operating net working capital in the narrower sense (defined as inventories plus trade receivables, less trade payables) amounted to EUR 36.6 million at the reporting date and was therefore considerably less than the corresponding prior-year figure (EUR 45.2 million). This decrease was caused in part by lower revenues in 2016, but also in part by the further successes of the working capital optimization program initiated in 2015, which had the effect of freeing up funds totaling EUR 6.8 million in 2016.

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

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

EUR'000	01/01-12/31/2016	01/01-12/31/2015
Consolidated net loss	-11,937	-8,652
Gross cash flow	-4,324	1,756
Cash inflow/ outflow from operating activities	-3,528	3,054
Cash inflow/ outflow from investing activities	-5,506	-5,816
Cash inflow/ outflow from financing activities	11,846	-2,883
Change in cash and cash equivalents *	3,441	-6,619
Cash and cash equivalents at end of period	14,794	11,353

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

Starting from the consolidated financial year net loss resulting from the steel crisis (consolidated earnings from continuing operations: EUR -12.4 million; 2015: EUR -14.2 million), the SKW Metallurgie Group generated a negative gross cash flow of EUR -4.3 million in 2016 (PY: EUR 1.8 million) due to the imputation of non-cash items (particularly depreciation, amortization and impairments of noncurrent assets: EUR 12.5 million, 2015: EUR 13.3 million) and the deduction of restructuring expenses in the amount of EUR 8.1 million (PY: EUR 2.5 million).

Net working capital in the broader sense was further optimized in 2016; in total, funds of EUR 0.8 million were released, whereas in the prior year the capital commitment had been reduced by EUR 1.3 million. Barring the cash outflow of EUR 7.8 million to the provision for the EU antitrust fine, the cash inflow from working capital changes in the broader senses would have been much higher in the reporting period.

Related to current assets in the narrower sense (inventories, trade receivables and trade payables), the capital commitment was even reduced by EUR 6.8 million in 2016, as compared to the prior year when it was optimized by EUR 5.8 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 -3.5 million, the cash flow from operating activities was considerably less than the prior-year figure (2014: EUR 3.1 million), particularly due to the cash outflow for the EU antitrust fine, as well as expenses related to the ReMaKe restructuring program. Adjusted for these effects, the cash inflow from operating activities would have been positive at EUR 12.4 million; this underscores the operational strength of the SKW Metallurgie Group even in the midst of the steel crisis.

At EUR 5.5 million, the cash outflow from investing activities was close to the prior-year figure (EUR 5.8 million). In both the reporting period and the prior year, investing activities mainly consisted of maintenance investments; the prior-year figure included a remaining payment of EUR 0.5 million from the sale of the former Swedish Group company that was effected in late 2014.

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 -9.0 million in 2016 (PY: EUR -2.7 million). The substantially lower free cash flow in the reporting period resulted particularly from the cash outflow for the payment of the EU antitrust fine and from restructuring costs recognized as expenses. 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 and the Supervisory Board cannot be expected to submit a dividend proposal again to the annual general meeting in either the short term or the medium term.

As part of its financing activities, the SKW Metallurgie Group increased its gross financial liabilities by an amount of EUR 11.8 million in 2016; this increase in financial liabilities resulted mainly from the conversion into payments of the guarantees filed with the EU Commission and from the increase in cash and cash equivalents.

Total cash and cash equivalents increased from EUR 11.4 million at the beginning of the period to EUR 14.8 million at the end of the period.

6.15. Significant changes in key financial performance indicators compared to the prior-year forecast

In the combined Management Report for 2015, which was published in March 2016, 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 2016. Based on the conditions and assumptions applied at that time, the Executive Board predicted consolidated revenues of at least EUR 250 million and consolidated operating EBITDA of slightly more than EUR 10 million, including Quab in both cases.

The revenue forecast was approximately met (revenues including Quab: EUR 248.6 million).

The operating EBITDA forecast was surpassed (operating EBITDA including Quab: EUR 11.9 million). This success is mainly creditable to the cost optimization resulting from the rigorous implementation of ReMaKe measures, despite the immense margin pressure in financial year 2016. In addition to the lower manufacturing and structural costs resulting from these measures, the newly introduced global procurement department (Sourcing CoE) produced some early successes in the area of material costs. This combination of measures was aided by the overall favorable development of the Group product mix in the direction of higher-margin products during the year and by unbudgeted, short-notice additional sales in markets in which products with higher margins could be sold. These additional sales were not done primarily out of necessity, but were instead conducted with returning customers, suggesting that the attractiveness of the Group's products and the Group's reliability as a business partner, which have been emphasized as core messages in the Group's marketing activities, were honored and ultimately also rewarded.

6.16. The liquidity of the SKW Metallurgie Group is currently assured

SKW Stahl-Metallurgie Holding AG and its subsidiaries possessed sufficient liquidity at all times in financial year 2016. The Group's liquidity is particularly secured by the syndicated loan agreement concluded at the start of 2015 (with a term until the start of 2018) for an amount of up to EUR 86 million (of which EUR 46 million as an amortizing loan). This syndicated loan agreement satisfies the external financing needs of SKW Stahl-Metallurgie Holding AG (aside from overdraft facilities) and most of the external financing needs of the SKW Stahl-Metallurgie Group. With respect to this syndicated loan agreement, it was agreed in the first quarter of 2017 that this financing instrument will be available until January 31, 2018, with only customary adjustments and a waiver of cancellation, and that financial covenants and minimum principal payments will be suspended during this time.

The parent company and the syndicated lenders also agreed on a fundamental financial restructuring plan, under which the SKW Metallurgie Group will make its own financial contribution to debt repayment by selling non-core activities. The plan also calls for a substantial capital increase, which shareholders will be entitled to subscribe, and a conditional waiver of claims by the financing banks.

The SKW Stahl-Metallurgie Group continues to systematically implement the ReMaKe restructuring program initiated in 2014, which it has since developed into a continuous improvement program. As is known, this restructuring program is a comprehensive strategic restructuring project covering all entities of the Group, which aims to permanently increase the revenues, earnings and cash flows of the SKW Metallurgie Group. Numerous supporting operational measures are expected to make a positive contribution to improving the liquidity situation in 2017 and beyond.

The Executive Board considers it highly probable that this plan will be successfully implemented in 2017, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG also beyond January 31, 2018, so that the consolidated and separate financial statements as of December 31, 2016 can be prepared under the assumption of a positive going-concern forecast. This view of the Executive Board is supported by a turnaround appraisal prepared by a renowned management consulting firm.

Nonetheless, it must be pointed out that the implementation of any future plan is fraught with uncertainties. Parts of the planned financial restructuring measures depend on the cooperation of third parties (shareholders, other stakeholders and investors), who cannot be influenced by the SKW Stahl-Metallurgie Group. In the event of a significant negative variance from the planned business performance and/or the unsuccessful implementation of operational measures under the ReMaKe program and/or a failure of the financial structuring plan or the inability to obtain financing to replace the syndicated loan agreement, the liquidity of the Company and the Group would no longer be assured. In this case, the going-concern status of the Company and the Group would be endangered. Therefore, the future status of a going concern beyond January 31, 2018 will depend on the successful implementation of the aforementioned financial restructuring plan. Even before January 31, 2018, a foreseeable or actual failure of the financial restructuring plan would entail the risk that the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG would no longer be assured, meaning that the going-concern status of the Company and the Group would be endangered.

6.17. Global financing structure

Within the SKW Metallurgie Group, financing is furthermore 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) are 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 hedge 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 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 2016 were the Euro as the reporting currency and the U.S. dollar. Other important currencies for the Group were those of the non-euro countries in which the Group conducted business in 2016 (Brazil, PR 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 2017 and beyond, although this forecast is contingent on the successful implementation of the financial restructuring plan (see Section 6.16.).

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 a publicly-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 financial year 2016 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 optimization of financing structures.

The Company held direct equity investments in seven (PY: seven) companies, including three in Germany, at the reporting date.

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 mainly manages an internally leased property within the Group. 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 has not generated any revenues itself to date. The stated revenues of EUR 2.8 million in financial year 2016 (PY: EUR 2.7 million) consist of Group cost allocations. Due to the changed definition of revenues according to the Accounting Guideline Implementing Act (BilRUG) (Section 277 (1) HGB new version), this income is presented within revenues for the first time in financial year 2016 (also in the prior-year comparison figure) and not within other operating income, as the prior year.

The remaining operating income amounted to EUR 2.4 million in financial year 2016 (PY: EUR 8.9 million). The figure for 2016 includes income from the charging of costs to affiliated companies and the figure for 2015 includes other operating income arising from the restructuring of the equity investment portfolio (EUR 7.0 million from the merger of two French companies).

At 14, the average number of employees at December 31, 2016 was slightly less than the prior-year number (15). The Company hired and retained highly qualified employees in 2016; the Company's proven attractiveness in the labor market is an important, although not continuously monitored non-financial performance indicator for the parent company SKW Stahl-Metallurgie Holding AG.

At EUR 3.1 million, the personnel expenses of SKW Stahl-Metallurgie Holding AG were little changed from the prior-year figure (EUR 3.2 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. Impairments ("impairments of noncurrent financial assets") were recognized in the amount of EUR 14.9 million in financial year 2016 (PY: EUR 6.9 million) due to the steel crisis particularly in the United States.

The other operating expenses of SKW Stahl-Metallurgie Holding AG amounted to EUR 10.2 million in financial year 2016 (PY: EUR 8.7 million). Besides currency effects, the other operating expenses also include significant legal and consulting expenses. The high proportion of this kind of expense is mainly 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 0.7 million; PY: EUR 0.4 million) and the dividend payments collected from the other direct subsidiaries, in this case the Brazilian subsidiary Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A and SKW Quab, which is held via SKW Metallurgie USA. This income amounted to EUR 1.8 million (PY: EUR 4.0 million).

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 (income from loans of noncurrent financial assets totaling EUR 2.0 million; 2015: EUR 1.9 million) and interest expenses to banks (including guarantee fees and other interest-like expenses) in the total amount of EUR 4.4 million (PY: EUR 7.1 million).

At EUR -22.2 million, the result from ordinary activities before taxes yielded by the above-mentioned items was below the level of the prior-year figure (EUR -8.4 million), particularly due to the higher impairments of noncurrent financial assets.

As in the prior years, the tax result of SKW Stahl-Metallurgie Holding AG was of minor importance. Therefore, the rounded financial year net loss (earnings after taxes) of SKW

Stahl-Metallurgie Holding AG was equal to the above-mentioned result from ordinary activities in both 2016 and 2015.

At EUR -82.9 million, the accumulated loss of SKW Stahl-Metallurgie Holding AG was higher than the prior-year figure (EUR -60.8 million) due to the net loss incurred in 2016. Given its importance for the Company's ability to pay dividends, the 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 financial year 2016, as in the prior year. Following the finalization of the Company's restructuring, the short-term restoration of the ability to pay dividends remains the central income-related and financial position-related managerial indicator for the parent company SKW Stahl-Metallurgie Holding AG. The goal of the planned financial restructuring is for SKW Stahl-Metallurgie Group to re-attain its investment-grade status. This goal will be achieved once the ratio of net debt to operating EBITDA reaches 2.5 to 3.5; at this level, it will be financially feasible to pay a dividend again after servicing the Company's debt (see Section 6.16).

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 73.4 million and were therefore slightly higher than the prior-year figure (EUR 69.3 million). Noncurrent assets (EUR 45.1 million; PY: EUR 61.1 million) were mainly composed of interests in affiliated companies and loans to affiliated companies. A strategic partner (natural person) holds an equity interest of 34% in Tecnosulfur (Brazil); otherwise, all direct equity investments were held in full by SKW Stahl-Metallurgie Holding AG at the reporting date.

In total, current assets amount to EUR 4.1 million and were therefore only slightly less than the prior-year figure (EUR 6.4 million). The most important items of current assets are receivables due from affiliated companies and cash on hand and cash in sight deposits.

With respect to equity, a loss of more than half of share capital occurred already in the financial statements for 2015; in accordance with Section 92 of the German Stock Corporations Act (AktG), the Executive Board was required to convene a general meeting immediately in 2016 to formally announce this loss. In addition, the Company's equity remains completely depleted; it was necessary to present a deficit not covered by equity in the amount of EUR 23.4 million in the financial statements for 2016 (PY: EUR 1.2 million).

Provisions (2016: 8.1 million; 2015: EUR 7.4 million) included an amount of EUR 3.5 million (2015: EUR 3.4 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, annual adjustments are still made to these provisions, particularly due to actuarial conditions (e.g. changes in the level of interest rates).

The liabilities of SKW Stahl-Metallurgie Holding AG consisted particularly of liabilities due to banks, which amounted to EUR 64.6 million, at the reporting date, that being higher than the prior-year figure (EUR 58.1 million). This increase was mainly due to the heightened need for liquidity to finance the restructuring expenditures of EUR 4.2 million and the expenses of EUR 3.2 million incurred in connection with the cash pool agreement in effect with the subsidiary SKW Stahl-Metallurgie GmbH, which was terminated and wound down during the year.

The Group's parent company SKW Stahl-Metallurgie Holding AG disposed of sufficient liquidity at all times in 2016, particularly thanks to the syndicated loan agreement concluded in January 2015 for an amount of up to EUR 86 million (original term: until January 31, 2018). This syndicated loan agreement satisfies 100% of the external financing needs of SKW Stahl-Metallurgie Holding AG (aside from overdraft facilities) and most of the external financing needs of the SKW Stahl-Metallurgie Group. As a result of the steel crisis that began in 2015, it was necessary to conclude supplementary agreements (particularly including waivers of termination rights) in view of the non-fulfillment of the financial covenants stipulated in the loan agreement. A standstill agreement concluded in the first quarter of 2017 confirmed that the syndicated loan agreement will still be available, subject only to customary market adjustments, until January 31, 2018. Concurrently with this agreement, the parties agreed on a fundamental financial restructuring of the SKW Metallurgie Group (see Section 6.16) in order to assure the Group's financing also beyond January 31, 2018. The Executive Board considers it highly probable that this plan and the related assumptions will be successfully implemented in 2017, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG also beyond January 31, 2018. This view of the Executive Board is supported by a turnaround appraisal prepared by a renowned management consulting firm.

Nonetheless, it must be pointed out that the implementation of any future plan is fraught with uncertainties. Parts of the planned financial restructuring measures depend on the cooperation of third parties (shareholders, other stakeholders and investors), who cannot be influenced by the SKW Stahl-Metallurgie Holding AG. In the event of a significant negative variance from the planned business performance and/or the unsuccessful implementation of operational measures under the ReMaKe program and/or a failure of the financial structuring plan or the inability to obtain financing to replace the syndicated loan agreement, the liquidity of the Company and the Group would no longer be assured. In this case, the going-concern status of the Company and the Group would be endangered. Therefore, the future status of a going concern of the SKW Stahl-Metallurgie Group and the Stahl-Metallurgie Holding AG beyond January 31, 2018 will depend on the successful implementation of the aforementioned financial restructuring plan. Even before January 31, 2018, a foreseeable or actual failure of the financial restructuring plan would entail the risk that the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG would no longer be assured, meaning that the going-concern status of the Company and the Group would be endangered.

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 secure 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"), which is increasingly engaged in the development of material and manufacturing solutions to improve the Group's profitability, in addition to developing new products and solutions. By further intensifying its R&D activities and integrating them by operating segments on a Groupwide basis, the SKW Metallurgie Group bolsters its claim of worldwide technology leadership in all applications of primary and secondary metallurgy.

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, among others. 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, Authorization 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

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 financial year 2016, the SKW Metallurgie Group had 559 employees worldwide (PY: 652). 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 mere staff numbers (heads) and full-time equivalents separately. 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, 2016 (excluding the companies accounted for in accordance with IFRS 5) is presented in the table below:

Segment / Country	Total	Prior Year
North America segment:		
USA & Canada	222	274
Mexico	14	14
South America segment:		
Brazil	117	136
Europe and Asia segment:		
France	128	137
Russia	19	21
East Asia	39	45
Other and Holding segment:		
Germany	20	25
Total	**559**	**652**

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 endeavor, 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.

10.1. 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 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.

In addition, the Executive Board successfully began to introduce a success-dependent compensation system based on a uniform, Groupwide bonus system in 2016. Under this system, goals based in particular on the Group's central financial performance indicators EBITDA and ROCE (return on capital employed), supplementary regional financial performance indicators and personal performance indicators (dependent on the employee's position in the corporate hierarchy) are defined at the beginning of the financial year, along with the maximum bonus.

10.2. 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 2016. Therefore, all members of the Supervisory Board represent the shareholders and there are no employee representatives on this board.

Employee and labor union representative bodies were in place in some subsidiaries of the SKW Metallurgie Group in 2016, 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 2016 and 2015, 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.

10.3. Positive work environment

There is a low degree of employee turnover among permanent employees of the SKW Metallurgie Group, despite the exceptional situation the Company finds itself in as a result of the steel crisis. Even in the midst of this crisis, 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.

10.4. 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 2016 are presented in the following (Compensation Report):

a) 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.

In total, the following amounts were expended on the compensation of the Supervisory Board in financial year 2016:

In euro thousands	Fixed compensation*	Attendance fees	Total
Armin Bruch	5	4	9
Reto Garzetti	5	2	7
Dr. Alexander Kirsch	8	6	14
Jochen Martin	6	3	9
Dr. Olaf Marx	11	7	18
Dr. Peter Ramsauer	8	6	14
Jutta Schull	5	3	8
Tarun Somani	12	6	18
Volker Stegmann	14	9	23
Titus Weinheimer	16	13	29
Total	90	59	149

*Provisions for the activity of the Supervisory Board in 2016; these amounts will be paid in 2017.

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 2016, 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 of the Company. 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 favor of Supervisory Board members in 2016.

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.

b) Executive Board

As a fundamental rule, the compensation of the members of the Executive Board is always compliant with the statutory requirements and recommendations of the German Corporate Governance Code applicable to appropriateness. In particular, Executive Board compensation 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 include, for example, 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.

The Executive Board was composed of Dr. Kay Michel (CEO) as the sole member in financial year 2016.

His 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; In-kind compensation consists of the company cars made available to Executive Board members also for private use. The Company also pays certain the occupational-specific insurance premiums and assumes the cost of other, smaller in-kind benefits; these expenditures are either not counted as income or they are taxed at a flat rate in accordance with the German Income Tax Act. In financial year 2016, 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 the Executive Board and the Supervisory Board, as mentioned above. 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 central financial performance indicators EBITDA and ROCE (return on capital employed) and the Executive Board members' personal performance, at the beginning of the financial 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 financial year. Due to the Company's special situation (restructuring and turnaround phase), the Supervisory Board still considers it possible, sensible and expedient to waive the multiyear assessment base (within the meaning of Section 87 (1) (3) AktG).

In addition, a customary change-of-control clause conformant with the recommendations of the German Corporate Governance Code has been agreed with Dr. Michel.

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 Directors of the non-consolidated company Jamipol; Jamipol paid attendance fees for the board meetings attended in financial year 2016, but these amounts have no longer gone to the members of the Group Executive Board since 2014.

No expenses were incurred in financial year 2016 for Executive Board compensation for financial year 2015.

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

The following total amounts were expended for Executive Board compensation in financial year 2016 (the non-cash benefit is presented for in-kind compensation):

EUR'000	Dr. Kay Michel
Fixed compensation	380*
In-kind compensation (company car)	13
Allowances for healthcare and nursing care insurance	4
Variable compensation for 2016	562 (provision for disbursement in 2017)
Total	959

* Including the pension component, which included a cash settlement of EUR 80 thousand for Dr. Michel.

c) 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 for Mr. Ertl 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; the Company pays the premiums for the insurance against insolvency. No pension benefits were payable in financial year 2016. Calculated in accordance with the German Commercial Code (HGB), the expenses incurred in 2016 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 12 thousand, of which EUR 8 thousand for Ms. Kolmsee and EUR 4 thousand for Mr. Ertl; calculated in accordance with IFRS, these expenses amounted to EUR 123 thousand, of which EUR 83 thousand for Ms. Kolmsee and EUR 40 thousand for Mr. Ertl.

The settlement amount (HGB) for the pension commitment to Mr. Ertl and his survivors was EUR 1,165 thousand at the reporting date (PY: EUR 1,159 thousand).

The settlement amount (HGB) for the Company's pension commitment to Ms. Kolmsee and her survivors was EUR 2,326 thousand at the reporting date (PY: EUR 2,318 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.

Independently of his pension commitments, in 2016 Mr. Ertl asserted a claim to a final payment under the earlier long-term incentive (LTI) system for the years 2010 to 2013. A renewed legal review found that this claim is at least doubtful from the standpoint of the SKW Metallurgie Group; nonetheless, for reasons of caution and in view of the imponderables associated with a possible judicial dispute, the Company found it advisable to recognize a provision for this matter in the amount of EUR 130 thousand.

11. Continuous monitoring of selected financial and non-financial performance indicators

The Group's management relies mainly on financial performance indicators to manage the SKW Stahl-Metallurgie Group.

The most important financial performance indicators are consolidated revenues and operating EBITDA. Other financial performance indicators are free cash flow, ROCE, gross profit margin and net financial assets.

Consolidated revenues calculated in accordance with IFRS accounting principles are an essential performance indicator for the Group's management. This indicator serves to determine the Group's market share and is indicative of the Group's relative growth in a given market.

A high level of profitability is another central target and measurement value for the Group's management. The main indicator for this purpose is operating EBITDA, which we use to compare our profitability with that of competitors. Operating EBITDA is defined as earnings before interest, taxes, depreciation and amortization, including impairments and reversals of impairments where applicable, adjusted for non-cash foreign currency effects and expenses related to the ReMaKe turnaround and restructuring plan.

Based on this comparison, historical developments and budget plans, we calculate a revenue target and an operating EBITDA target.

All financial performance indicators are planned and continuously monitored in the Group and in the Group companies, with the exception of ROCE in the latter case. We measure variances between planned and actually achieved targets at the Group level and in all local companies on a monthly basis. Key performance indicators are analyzed on a monthly and quarterly basis. We also regularly review the detailed business plan on the basis of available monthly and quarterly results and forecast the specific business performance.

Non-financial performance indicators are mainly used in relation to employees, research and development, production and corporate social responsibility. To monitor the Group's performance in these areas, we track indicators such as productivity, yields and accident frequency. None of these indicators is monitored continuously for purposes of managing the Group.

12. Events after the reporting date

At the end of January/beginning of February 2017, an agreement was concluded with the banks participating in the syndicated loan. This agreement assures the Group's financing until January 31, 2018; further details can be found in Section 6.16.

Shortly before the end of the reporting period, an external buyer agreed to purchase the 51% investment held by SKW Stahl-Metallurgie Holding AG in the Bhutanese company SKW-Tashi, the carrying amount of which is classified as no longer recoverable, for a positive purchase price in early 2017; the purchase price was collected in full by the publication date.

SKW Stahl-Metallurgie Holding AG, represented in this case by its Supervisory Board, has sued two former members of its Executive Board for damages of an amount in the multi-digit millions, based on their liability as members of the executive board. After protracted negotiations, a settlement of this matter was reached in March 2017. This settlement generates cash income of roughly EUR 3.35 million and other financial relief effects of roughly EUR 2 million for the Company. However, this settlement is pending, subject to the approval of the annual general meeting planned for July 6, 2017. As a fixed element of the business plan, the cash inflows generated from the D&O settlement will be used to pay down some of the Group's loan obligations within the scope of the financial restructuring plan. As part of this settlement, the aforementioned pension commitments toward Mrs. Kolmsee were cut in half.

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, 2016 and the preparation of the present Management Report.

13. Report on risks and opportunities

13.1. 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. The probability of occurrence (PO) is ranked as follows: "low" (0% < PO <= 10%, "moderate" (10% < PO <= 30%), "high" (30% < PO <= 50%) and "very high" (50% < PO <= 100%).

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 opportunities." 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. The following quantitative threshold values are used to assess the degree of risk or opportunity: "Extraordinary risk " (EUR -55,000 thsd <= X < EUR -5,000 thsd), "above-average risk " (EUR -5,000 thsd <= X < EUR -2,500 thsd), "medium risk" (EUR -2,500 thsd <= X < EUR -1,000 thsd) and "small risk " (EUR -1,000 thsd <= X <= EUR 0 thsd). Opportunities are similarly categorized as follows: "small opportunity" (EUR 0 thsd < X <= EUR 1,000 thsd), "medium opportunity" (EUR 1,000 thsd < X <= EUR 2,500 thsd), "above-average opportunity " (EUR 2,500 thsd < X <= EUR 5,000 thsd) and "extraordinary opportunity (EUR 5,000 thsd < X <= EUR 15,000 thsd).

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.

13.2. Description of specific 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).

a) 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. It is relevant to note in this context that a merger of the European production facilities of the Tata Group (especially in Wales and the Netherlands) with those of the ThyssenKrupp Group (in Germany) is currently being discussed; so far, the high pension burdens of the Welsh location have stood in the way of a deal.

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.

In the United States, the election of President Trump should fundamentally lead to a strengthening of domestic demand, which would be positive for the companies of the SKW Metallurgie Group. On the negative side, consideration must also be given to the possible effects of the announced punitive tariffs, particularly for Mexico and Brazil. Furthermore, a drastic change in China policy could certainly cause serious upheaval. That being said, the political and economic effects of the change of power in the United States could not be completely understood at the time of preparation of the present Management Report.

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 frequently 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, an intensification of research and development activities and the globalization of procurement in order to countering local competition with reduced production costs. 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 behavior 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 combine. 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 importance for the Group. 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. Also in the case of index-based purchases of raw materials, negative margin effects can result from falling prices due to the diminished price advantages of admixed products. In some markets, finally, 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. The production quantities of the 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.

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.

All things considered, therefore, the economic risk can be seen as a moderate, medium risk in consideration of the market positioning and market trends.

b) 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 desulphurization; therefore, the substitution of one technique (e.g. calcium carbide-based desulphurization) with another (e.g. magnesium-based desulphurization) would not fundamentally threaten the Group's business model. Only the KR technology employed primarily in Japan, which does not require any other desulphurization chemicals besides burnt lime, could pose a risk if the use of this technology becomes more widespread. However, SKW deems this risk to be very minor because it considers the injection-based technologies to be superior and the complexity of the KR technology will prevent it from spreading further. There is no known mature technology that could completely replace pig iron desulphurization as a production step in steel making. The only conceivable alternative would be to produce pig iron through direct reduction, which would not require desulphurization; 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 desulphurization, is not feasible particularly due to the limited availability of high-quality (single-type) scrap. 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). Cored wires could also possibly be replaced with the direct addition of granules in the future. However, such a development would only affect peripheral areas of the product portfolio.

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 aluminum 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.

Thus, this is a small risk with minor effects if it materializes.

c) Risks of the restructuring and turnaround process

The SKW Metallurgie Group began implementation of the ReMaKe program in 2014 and extended this program in 2016 by adding a package of additional or revised initiatives and measures. This program was updated on multiple occasions, ultimately leading to a financial restructuring agreement with the syndicated lenders (see Section 6.16). This involves inherent risks that possibly could lead to a failure of the turnaround or refinancing plan; these risks are detailed below.

i. The modules of the operational restructuring program are not implemented and advanced consistently enough within the planning period, so that the expected earnings and liquidity effects are not achieved;
ii. The financial restructuring measures are not implemented consistently within the planning period;
iii. The loss of management and employee capacities for the necessary implementation of measures, which would endanger the adequate and dedicated implementation organization;
iv. A drastic contraction of sales markets – resulting perhaps from a recession that cannot be entirely ruled out – occurs beyond what has been planned for to date;
v. Unforeseen developments in the tax assessment of the financial restructuring measures.

Another substantial risk associated with the list above is that the measures taken in connection with the financial restructuring lead to higher costs than planned.

Independently of the foregoing, there is a small risk that moderately higher-than-planned expenses are incurred for ReMaKe measures.

d) 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 all 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. Therefore, this small risk is deemed to be minor on the whole.

e) 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, there is a moderate dependency on key personnel. Furthermore, employee turnover risk is high due to the Company's exceptional situation in the restructuring phase.

f) External financing risks

The financial situation of the SKW Metallurgie Group was stabilized initially in January 2015 with the signing of a syndicated loan agreement for up to EUR 86 million, with a term until the beginning of 2018. This syndicated loan agreement covers 100% (aside from overdraft facilities) of the external financing needs of SKW Stahl-Metallurgie Holding AG and most of the external financing needs of the SKW Metallurgie Group. As a result of the steel crisis that began in 2015, it was necessary to conclude supplementary agreements (particularly including waivers of termination rights) in view of the non-fulfillment of the financial covenants stipulated in the syndicated loan agreement. A standstill agreement concluded in the first quarter of 2017 confirmed that the syndicated loan agreement will still be available, subject only to customary market adjustments, until January 31, 2018. Concurrently with this agreement, the parties agreed on a fundamental financial restructuring of the SKW Metallurgie Group (see Section 6.16) in order to assure the Group's financing also beyond January 31, 2018. The Executive Board considers it highly probable that this plan and the related assumptions will be successfully implemented, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG also beyond January 31, 2018. This view of the Executive Board is supported by a turnaround appraisal prepared by a renowned management consulting firm.

Nonetheless, it must be pointed out that the implementation of any future plan is fraught with uncertainties. Parts of the planned financial restructuring measures depend on the cooperation of third parties (shareholders, other stakeholders and investors), who cannot be influenced by the SKW Stahl-Metallurgie Holding AG. In the event of a significant negative variance from the planned business performance and/or the unsuccessful implementation of operational measures under the ReMaKe program and/or a failure of the financial structuring plan or the inability to obtain financing to replace the syndicated loan agreement, the liquidity of the Company and the Group would no longer be assured. In this case, the going-concern status of the Company and the Group would be endangered. Therefore, the future going-concern status of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG beyond January 31, 2018 is mainly dependent on the successful implementation of the aforementioned financial restructuring plan and operational measures. Even before January 31, 2018, a foreseeable or actual failure of the financial restructuring plan would entail an extraordinarily high risk that the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG would no longer be assured, meaning that the going-concern status of the Company and the Group would be endangered.

This uncertainty, the current equity situation and the related credit rating of SKW Stahl-Metallurgie Group may have negative effects on the assessments of bilateral business relationships.

g) Other financial and currency risks

The SKW Metallurgie Group is still dependent on assured, long-term 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. The syndicated loan agreement in effect until January 31, 2018 assures the SKW Metallurgie Group of adequate external financing, particularly for the remainder of the plan year 2017. 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 exceeds the existing credit lines. Risks related to external financing beyond January 31, 2018 are described in the preceding paragraph; indirectly, such liquidity risks can also result from unexpected interest rate increases affecting the assured, long-term external financing.

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 U.S. 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 is generated in U.S. dollars, also in 2017. 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 2016 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.

Although outstanding receivables and default risks are constantly monitored by the Group companies and are secured in part by commercial credit insurance, it is additionally necessary to secure receivables through letters of credit and indemnity bonds in some cases. By this means, default risk within the SKW Metallurgie Group can be kept rather low. Moreover, the receivables due from contractual partners are not so great that they would represent extraordinary risk concentrations.

The predominantly small risks described in this section are deemed to be minor.

h) 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 moderate risk that employees or even senior officers could violate applicable law, either due to ignorance or by deliberate intent. To lower such risks to the level of small 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.

i) Legal and litigation risks of the SKW Metallurgie Group

In the course of 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.

- A civil action brought by Gigaset AG (plaintiff) against SKW Stahl-Metallurgie Holding AG and its subsidiary SKW Stahl-Metallurgie GmbH ("SKW GmbH") (both defendants) is currently pending before the Munich Higher Regional Court.

  Gigaset is demanding payment of EUR 6.8 million plus interest.

  The civil action originated with the European Commission's decision to impose a fine in 2009. By decision of July 22, 2009 (COMP/F/39.396 – Calcium carbide and magnesium-based reagents for the steel and gas industries), the European Commission imposed a fine totaling EUR 13.3 million on SKW AG and SKW GmbH (the Company and SKW Stahl-Metallurgie GmbH bearing joint and several liability together with ARQUES Industries AG (now Gigaset AG); whereby Gigaset AG is liable for a maximum amount of EUR 12.3 million); joint and several liability of SKW Stahl-Metallurgie GmbH together with Evonik Degussa GmbH and AlzChem Hart GmbH for EUR 1.04 million (since paid by Evonik Degussa GmbH to the European Commission); the cumulative joint and several liability of the companies is limited to EUR 13.3 million).

  Following the imposition of the fine, Gigaset AG paid a partial amount of EUR 6.6 million (plus interest of approx. EUR 0.2 million) to the European Commission. To avert execution, the SKW companies furnished bank guarantees for the remaining amount of EUR 6.7 million.

On October 1, 2009, the SKW companies had filed an action with the European Court against the European Commission's decision to impose the fine, but lost the case in first instance (judgment of the European Court dated January 23, 2014, Rs T-384/09). The SKW companies then filed an appeal with the European Court of Justice ("ECJ"). The ECJ dismissed the appeal filed by the SKW companies with final effect in its judgment of June 16, 2016 (Rs C-154/14 P). On August 31, 2016, the Company paid an amount of EUR 7,847,260.27 to the European Commission, which the latter confirmed in its letter of September 2, 2016, in which it also released the guaranteeing banks from their liability. This ended the litigation conducted by the SKW companies as plaintiffs.

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 reversed aside the judgment of the Munich Higher Regional Court and referred the matter back to the Munich Higher Regional Court for a renewed decision and instructed it to examine a number of other facts (including, for example, the individual contributions of causation and fault, the economic benefit derived from the contravention and the economic capacity of the joint and several debtors). The Munich Higher Regional Court has set July 13, 2017 as the date of the oral hearing and granted the parties an opportunity to present written arguments in advance.

The outcome of the proceeding cannot be foreseen. In the Company's opinion, however, the considerations of the German Federal Supreme Court did not seriously deteriorate the legal position of the SKW Metallurgie companies and particularly SKW Stahl-Metallurgie Holding AG. Therefore, as the Company's lawyers are of the opinion that it is still more likely that the SKW Companies will win this case, it was decided not to make any provisions.

- In relation to the purchase of shares in Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A by the subsidiary of SKW Stahl-Metallurgie Holding AG at the time, which has merged with 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 non-competition clause and for stalling the arbitration proceeding. The arbitration proceeding had been suspended at the instigation of the previous shareholders, who did not acknowledge the competence of the arbitration tribunal and wanted 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. However, the actions brought by the previous shareholders on this subject have all been dismissed, so that the arbitration proceeding is now being continued. A provision was recognized at the reporting date to account for the risk arising from another claim asserted by Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A. Nonetheless, the Company also expects that it will be able to be partially successful with its own counter-claims.

- Following the completion of a customs and tax audit in 2015, the competent tax authority levied a fine of 53,894,328.20 Mexican pesos (approximately USD 2.6 million on the basis of an exchange rate of 20.5) against Affimex Cored Wire S de RL de CV (Mexico), a subsidiary of Affival Inc., for alleged violations of customs and tax regulations in the process of importing goods to Mexico in the period from January 2011 to April 2014.

  The Company believes that the fine is unlawful and has therefore filed an action for annulment with the competent tax court. At the moment, the Company is still negotiating the amount of security to be furnished. A provision has not yet been recognized for this matter because the Company’s attorneys believe it is more likely than not that the Company will prevail.

- In a statement of claim dated July 5, 2015 brought before Traunstein Regional Court, SKW Stahl-Metallurgie Holding AG asserted a claim against Mrs. Ines Kolmsee and Mr. Gerhard Ertl, another former member of the Company’s Executive Board, for damages under D&O liability of approx. EUR 55 million.

  The background to the claim is the Company’s allegation that the defendants did not exercise the due care of prudent and conscientious Executive Board members when setting up the joint venture SKW-Tashi Metals & Alloys Private Ltd. to operate a calcium silicon plant in the Kingdom of Bhutan and when purchasing a calcium carbide plant in Sundvall, Sweden. It is alleged that the erroneous decision to carry out the two projects has caused the Company to sustain considerable capital losses, and the Company seeks to have these losses compensated through this action. In their statement of defense, the defendants dispute the validity of the claims in full.

In order to explore the possibility of an amicable settlement of the dispute, the Traunstein Regional Court ordered the suspension of the civil proceeding for damages by resolution of August 4, 2016, at the request of the parties. After protracted negotiations, a settlement of this matter was reached in March 2017 (see Section 11.). However, this settlement is pending, subject to the approval of the annual general meeting planned for July 6, 2017. Therefore, it is uncertain whether this legal dispute can be settled without an additional cost burden for the Company, despite the amicable agreement that has been reached.

Based on the current assessment, there are no litigation risks that could be classified as high-risk either individually or cumulatively.

13.3. 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 of noncurrent financial assets in the amount of EUR 14.8 million in 2016, 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 a term until 2018. It was agreed in the first quarter of 2017 that the syndicated loan agreement will still be available as a financing instrument until January 31, 2018, subject to only customary market adjustments. Concurrently with this agreement, the parties agreed on a fundamental financial restructuring of the SKW Metallurgie Group (see Section 6.16) in order to assure the Group's financing also beyond January 31, 2018. The Executive Board considers it highly probable that this plan and the related assumptions will be successfully implemented in 2017, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG also beyond January 31, 2018. At the time of preparation of the present Management Report, however, adequate liquidity to ensure the continuation of the business activities of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG beyond January 31, 2018 was not assured. Therefore, the going-concern status of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG beyond January 31, 2018 is dependent on the successful implementation of the aforementioned refinancing plan. Even before January 31, 2018, a foreseeable or actual failure of the financial restructuring plan could give rise to the risk that the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG would no longer be assured.

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), the following other business strategy risks in particular have been identified for SKW Stahl-Metallurgie Holding AG. The risks described below include all discernible significant risks at the present time. Other risks and uncertainties that are currently not known to the Company or which the Company considers to be insignificant at the present 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 the liabilities of its 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 financial year 2016. 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

Within the scope of 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 liabilities 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 a subsidiary to issue a guarantee (in favor of the lending bank) for a loan taken out by the subsidiary, which 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.

13.4. Overall assessment of risks

An overall assessment of risks yields the conclusion that the current risks to both the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG were limited both individually and cumulatively at the time of preparation of the present combined Management Report, and that the continued operation of the Group and the Company as a going concern is only threatened by the possible failure of the financial restructuring plan (see Section 6.16).

No other risks threatening the continued operation as a going concern are discernible.

13.5. Report on opportunities: 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.

a) Opportunities presented by a faster recovery of markets for raw materials and steel

The sensitivity of the SKW Group's earnings to changes in raw material prices is significant. In the opinion of SKW, the prices of key raw materials are currently at historically low levels in many cases. A rise in these material prices to the mid-range level of 2014 would significantly improve earnings. Furthermore, steel production too is currently at a relatively low level, especially in SKW's core market of the United States. Growth impulses resulting (for example) from new policies in the United States would have a positive effect on the Group's earnings. In particular, it should be mentioned that a revival of the fracking industry would have a tremendous effect on the production of steel pipes. Moreover, the production of steel for the pipeline industry requires disproportionately more cored wire injection and would therefore have a positive effect on SKW's earnings for this reason alone.

b) Opportunities arising from ReMaKe – Increased integration of the Group

The ReMaKe program creates an opportunity for the SKW Metallurgie Group to increase its efficiency by optimizing 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. Toward the end of financial year 2016, the nucleus was formed for a "SKW Europa" through the closer integration of the German sales company SKW Stahl-Metallurgie GmbH and the French Affival SAS. This creates the opportunity to become a meaningful competitor again in the European desulphurization market.

c) 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.

d) 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 the ReMaKe program 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 attractive chances and opportunities in this market, due to its size and technological development.

e) 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.

13.6. Financial reporting-related control systems

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, i.e. German Commercial Code regulations in the case of the Group's parent company SKW Stahl-Metallurgie Holding AG, 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 the 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.

Within the financial reporting process of the parent company, various monitoring measures are employed to ensure that the established controls allow for the preparation of separate financial statements conformant with the applicable regulations, with the goal of reliable financial reporting and the compliance of all activities with applicable laws and guidelines.

14. Forecast Report 2017: Steel crisis to be countered by the successes of ReMaKe

14.1. Global economic growth to accelerate somewhat in 2017

In the forecasts published at www.imf.org, the International Monetary Fund (IMF) predicts that the global economy will expand by 3.4% in 2017, and thus at a somewhat faster rate than in 2016 (+3.1%). The realization of this forecast will also depend on the economic policies of the new U.S. administration.

The IMF predicts that a Eurozone growth of +1.6%, whereas the U.S. economy is expected to grow at a faster rate of +2.3%. Total economic growth of the industrialized nations is estimated at 1.9%. Developing and emerging-market countries in total are expected to grow at a rate of 4.5% in 2017, with China's economic output expanding by 6.5% and thus again more slowly than in preceding years. Whereas India can expect strong economic growth (+7.2%), only minimal growth of 0.2% is predicted for Brazil. Russia's economy is expected to grow only by 1.1% compared to 2016.

14.2. No steel market growth planned for 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 analyzed in the fourth quarter of 2016, as the basis for predicting the future development of this market and the effects on SKW Metallurgie. The SKW Metallurgie Group anticipates the following, conservatively estimated market development. Demand for steel in the core markets will remain stagnant in 2017; modest growth can only be expected to resume in 2018, followed by moderate growth in 2019.

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 favorable exchange rates and pronounced price differentials 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 2017, leading to further closures of steel mills. Modestly increasing production leading to the reopening of some steel mills is expected only in 2018 and beyond. Based on current knowledge, the core market of Europe will then also exhibit a positive development.

In summary, therefore, the Executive Board expects that basic operating conditions will remain tense for the SKW Metallurgie Group in 2017. Steel production is expected to recover by 2019, but will remain at a level below 2014. The share of Chinese steel production and tariff measures taken by importing nations will have a decisive, controlling influence on the forecast development.

We also do not expect any lasting upheavals in the markets for raw materials. We expect that it will be possible to pass on to the market most of the recent, substantial price increases in the raw materials relevant for the Group and that competition will remain intense. In addition, we expect that our ReMaKe measures and operational advances will counteract the negative cost effects resulting from a strengthening of the Brazilian currency.

A key prerequisite for the realization of the expected development of our core managerial indicators is the absence of any further escalation of geopolitical crises and that the economic effects of the future policies of the United States, the slowing of Chinese growth and the effects of the Brexit referendum remain manageable.

14.3. 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, it is expected that steel manufacturers will continue to pass on their margin pressure to suppliers. 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.

14.4. Executive Board's estimation of the financial performance and cash flows of the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG in 2017 – 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 financial year 2017, 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; exceptions are described 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 financial year 2017. The exchange rate between the euro as the Group reporting currency and the U.S. 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 2017 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., which is consolidated in accordance with IFRS 5, is not included in the forecast; the same applies for the contributions of the minority investment in the Indian company. Possible new companies to be consolidated in the future (e.g. as a result of strategic partnerships) 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 foreign exchange positions presented within other operating income and other operating expenses are not included in the forecast. Due to the fact that most of these items were reclassified to the financial result, the expected amounts will be considerably less than they were in the prior year.

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 financial year 2017 and subsequent years, which is supported by the Supervisory Board.

Compared to 2016, 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 2017. 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 2017 forecast.

14.5. Executive Board's estimation of the financial performance and cash flows of the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG in 2017 – General assertions about the forecast year 2017

The Executive Board's estimation of the performance of the SKW Metallurgie Group in 2017 is condensed into the following general assertions:

- The Executive Board of the SKW Metallurgie Group anticipates stagnant unit sales in 2017, despite the countermeasures initiated under the ReMaKe program, as a result of the continuing steel crisis. Assuming constant exchange rates, the Executive Board expects to generate revenues of approximately EUR 230 million. A stagnation or modest 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, although production volumes have improved since the fourth quarter of 2016. In addition, lower revenues and above all lower profit margins due to competition are expected in the "South America" segment, due to the lower demand resulting from the general economic conditions, the expected price erosion in Brazil due to competition and a shift in revenue volumes toward lower-margin products. Relatively constant or possibly even slighter higher revenues resulting from sales-focused ReMaKe measures are expected in the "Europe and Asia" segment.
- Despite the positive early signs appearing primarily in the U.S. market and the first positive effects of the ReMaKe program, the Executive Board of the SKW Metallurgie Group expects operating EBITDA (as defined in Sections 13.2. and 13.4.) to be around EUR 9 million in financial year 2017 (2016: EUR 8.9 million[2]), due to the further deterioration of basic market conditions, based on the regional developments described 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 2017 is condensed into the following general assertion:

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 financial year result (negative euro amount in the lower single-digit millions) for the Group's parent company SKW Stahl-Metallurgie Holding

[2] In order to allow better comparison of the Guidance 2017, the operating EBITDA 2016 was adjusted by the contribution of SKW Quab (EUR 2.0 Mio.).

AG in the forecast year 2017. Consequently, the performance indicator "accumulated loss" at December 31, 2017 is expected to be even worse than the accumulated loss at December 31, 2016, and thus less than zero again, unless the stakeholders make suitable capital contributions to the equity of SKW Stahl-Metallurgie Holding AG within the scope of the financial restructuring plan (see Section 13.3). All other things being equal (e.g. assuming no capital measures), a negative financial year result of SKW Stahl-Metallurgie Holding AG in 2017 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 impossible for the Company to pay a dividend in 2017 for the year 2016.

14.6. Capital markets guidance for 2017 and beyond

Fortunately, a number of indicators are pointing to a revival of steel production in our core markets. The first signs emerged in the fourth quarter of last year and have continued in the first months of the current year. However, it remains to be seen if this trend is sustainable. Especially considering SKW's difficult situation, therefore, the Management has based its business plan on the conservative scenario described in the following.

SKW Metallurgie anticipates a stagnant volume of steel production in 2017, followed by a moderate increase in the years 2018 and 2019. Even in these two years, however, the expected volume of steel production in the Company's core markets will not reach the level of 2014, according to our forecast.

On this basis, the Company expects to generate revenues in 2017 at the level of 2016 (approximately EUR 230 million). Positive impulses affecting the overall market will be offset particularly by the expected downturn of the South American market. We expect consolidated revenues to rise again to a level of approximately EUR 260 million by the year 2019.

Therefore, we expect operating EBITDA to develop as follows. It will decline to approximately EUR 9 million in 2017 (2016: EUR 8.9 million), due to the expected deterioration of the South America segment. For the subsequent years, we expect operating EBITDA to rise to approximately EUR 15 million in 2019, based on the market forecast presented above and the additional potential we intend to exploit through our ReMaKe improvement program.

This guidance is subject to the definitions and assumptions described above (see Sections 13.2. and 13.4.). The forecasts for steel production and raw materials prices are particularly relevant for the attainment of the planned business performance. The successful implementation of the ReMaKe program measures is equally important. The assumptions are based on constant exchange rates. The additional potential arising from the implementation of strategic growth measures, the synergistic advantages arising from the successful implementation of the financial restructuring plan and any additional external potential arising from the development of the steel market and raw materials prices are not included in the forecast.

15. Responsibility statement of the legal representatives

15.1. Consolidated financial statements of the SKW 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, 2016 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.

15.2. 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, 2016 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.

Munich (Germany), March 21, 2017

SKW Stahl-Metallurgie Holding AG

The Executive Board

Dr. Kay Michel

Consolidated Financial Statements

- Consolidated income statement
- Reconciliation to comprehensive income
- Consolidated balance sheet
- Consolidated statement of changes in equity
- Consolidated cash flow statement

SKW Stahl-Metallurgie Holding AG, Munich
Consolidated Income Statement
for the period from January 1 to December 31, 2016

	Note	2016 EUR'000	2015** EUR'000
Revenues	**1**	228,462	263,680
Change in inventories of finished and semi-finished goods	**17**	-1,402	-7,311
Internal production capitalized	**13**	12	73
Other operating income	**2**	6,632	8,299
Cost of materials	**3**	-153,999	-171,429
Personnel expenses	**4**	-35,840	-39,396
Other operating expenses	**5**	-40,205	-50,708
Income from associated companies	**6**	1,085	964
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**4,745**	**4,172**
Amortization of intangible assets and depreciation of property, plant and equipment	**7**	-12,543	-13,341
Earnings before interest and taxes (EBIT)		**-7,798**	**-9,169**
Interest and similar income	**8**	327	530
Interest and similar expenses	**9**	-5,908	-6,873
Other financial result	**9**	2,132	7,312
Earnings before taxes (EBT)		**-11,247**	**-8,200**
Income taxes	**10**	-1,183	-6,003
Earnings from continuing operations (after taxes)		**-12,430**	**-14,203**
Earnings before taxes (EBT) from discontinued operations		554	5,352
Income taxes for discontinued operations		-61	199
Earnings from discontinued operations (after taxes)		493	5,551
Consolidated net loss for the year		**-11,937**	**-8,652**
Thereof share of SKW Stahl-Metallurgie Holding AG shareholders			
- in earnings from continuing operations	**11**	-13,347	-14,636
- in earnings from discontinued operations		485	5,795
		-12,862	-8,841
Thereof share of non-controlling interests		925	189
		-11,937	-8,652

	Note	2016 EUR'000	2015** EUR'000
Earnings per share from continuing operations (EUR)*	**12**	**-2.04**	**-2.24**
Earnings per share from discontinued operations (EUR)*	**12**	**0.07**	**0.89**
Consolidated earnings per share (EUR)*	**12**	**-1.97**	**-1.35**

* Diluted earnings per share correspond to basic earnings per share.

** The prior-year values were adjusted to reflect the retroactive classification of SKW Quab as discontinued operations and an error correction (see also Section C "Measurement and recognition principles."

Reconciliation to comprehensive income

SKW Stahl-Metallurgie Holding AG, Munich

Statement of Comprehensive Income / for the period from January 1 to December 31, 2016

	2016 EUR'000	2015* EUR'000
Consolidated net loss for the year	**-11,937**	**-8,652**
Items that will not be subsequently reclassified to profit or loss		
Change in actuarial gains and losses from defined benefit pension commitments	-810	383
Deferred taxes on items that will not be subsequently reclassified to profit or loss	0	0
Other comprehensive income from associated companies	6	0
Items to be subsequently reclassified to profit or loss		
Net investment in a foreign operation	0	-20
Unrealized gains / losses from derivatives (hedge accounting)	0	220
Deferred taxes on items to be subsequently reclassified to profit or loss	-254	-53
Currency changes	1,892	-6,436*
Other comprehensive income	**834**	**-5,906**
Total comprehensive income	**-11,103**	**-14,558**
Thereof shareholders of SKW Stahl-Metallurgie Holding AG	*-13,153*	*-10,844*
Thereof non-controlling interests	*2,050*	*-3,714*

* The prior-year values were adjusted; see also Section C "Measurement and recognition principles."

SKW Stahl-Metallurgie Holding AG, Munich
Consolidated Statement of Financial Position as of December 31, 2016

ASSETS	Note	12/31/2016	12/31/2015 [1,2]	01/01/2015 [1]
		EUR'000	EUR'000	EUR'000
Noncurrent assets				
Intangible assets	**13**	9,934	16,469	24,966
Property, plant and equipment	**14**	28,004	33,961	36,095
Interests in associated companies	**15**	0	4,146	3,476
Other noncurrent assets	**19**	884	550	478
Deferred tax assets	**16**	1,183	1,811	1,681
Total noncurrent assets		**40,005**	**56,937**	**66,696**
Current assets				
Inventories	**17**	28,252	36,823	43,552
Trade receivables	**18**	30,140	33,532	39,104
Income tax assets	**19**	5,730	4,910	4,570
Other current assets	**19**	6,457	5,446	6,615
Cash and cash equivalents	**20**	14,276	11,353	17,972
Assets held for sale	**21**	21,087	0	0
Total current assets		**105,942**	**92,064**	**111,813**
Total assets		**145,947**	**149,001**	**178,509**

[1] Interests in associated companies adjusted for a correction of the inclusion of currency differences from prior periods; see also Section C "Measurement and recognition principles."

[2] Adjusted for a reclassification of current securities that do not meet the definition of cash and cash equivalents according to IAS 7; see also Section C "Measurement and recognition principles."

EQUITY AND LIABILITIES	Note	12/31/2016	12/31/2015 [1, 2]	01/01/2015 [1]
		EUR'000	EUR'000	EUR'000
Equity	**22**			
Subscribed capital		6,545	6,545	6,545
Share premium		50,741	50,741	50,741
Other comprehensive income		-73,112	-59,959	-22,326
		-15,826	**-2,673**	**34,960**
Non-controlling interests		10,382	8,813	-12,662
Total equity		**-5,444**	**6,140**	**22,298**
Noncurrent liabilities				
Pension obligations	**24**	10,114	9,143	9,241
Other noncurrent provisions	**25**	3,672	3,718	3,429
Noncurrent liabilities under finance leases	**26**	93	139	185
Noncurrent financial liabilities	**27**	1,857	1,908	6,907
Deferred tax liabilities	**16**	2,439	5,643	4,740
Other noncurrent liabilities	**29**	235	231	256
Total noncurrent liabilities		**18,410**	**20,782**	**24,758**
Current liabilities				
Other current provisions	**25**	1,910	11,225	5,777
Current liabilities under finance leases	**26**	46	46	46
Current financial liabilities	**27**	83,933	73,111	77,142
Trade payables	**28**	21,807	25,148	32,809
Income tax liabilities		162	419	1,153
Other current liabilities	**29**	16,283	12,130	14,526
Liabilities related to assets held for sale	**21**	8,840	0	0
Total current liabilities		**132,981**	**122,079**	**131,453**
Total equity and liabilities		**145,947**	**149,001**	**178.509**

[1] Interests in associated companies adjusted for a correction of the inclusion of currency differences from prior periods; see also Section C "Measurement and recognition principles."

[2] Adjusted for a reclassification of current securities that do not meet the definition of cash and cash equivalents according to IAS 7; see also Section C "Measurement and recognition principles."

SKW Stahl-Metallurgie Holding AG, Munich
Consolidated Statement of Changes in Equity as of December 31, 2016

Notes 21

Euro thousands	Subscribed capital	Share premium	Other comprehensive income	Consolidated equity of majority shareholder	Non-controlling interests	Total equity
Balance at Jan. 1, 2015	**6,545**	**50,741**	**-20,184**	**37,102**	**-12,662**	**24,440**
Adjustment			-2,142	**-2,142**	0	**-2,142**
Balance at Jan. 1, 2015 (adjusted)	6,545	50,741	-22,326	**34,960**	-12,662	**22,298**
Consolidated net loss for the year	-	-	-8,841	**-8,841**	189	**-8,652**
Currency differences	-	-	-2,533	**-2,533**	-3,903	**-6,436**
Income and expenses recognized in equity (excluding currency differences)	-	-	530	**530**	0	**530**
Comprehensive income 2015	***-***	***-***	***-10,844***	***-10,844***	***-3,714***	***-14,558***
Change of 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**	**-59,959**	**-2,673**	**8,813**	**6,140**
Balance at Jan. 1, 2016	**6,545**	**50,741**	**-59,959**	**-2,673**	**8,813**	**6,140**
Consolidated net loss for the year	-	-	-12,862	**-12,862**	925	**-11,937**
Currency differences	-	-	-767	**767**	1,125	**1,892**
Income and expenses recognized in equity (excluding currency differences)	-	-	-1,058	**-1,058**	0	**-1,058**
Total comprehensive income 2016	***-***	***-***	***-13,153***	***-13,153***	***2,050***	***-11,103***
Dividend payments	-	-	0	**0**	-481	**-481**
Balance at Dec. 31, 2016	**6,545**	**50,741**	**-73,112**	**-15,826**	**10,382**	**-5,444**

Consolidated cash flow statement

SKW Stahl-Metallurgie Holding AG, Munich
Consolidated Statement of Cash Flows
for the period from January 1 to December 31, 2016

		01/01/2016 – 12/31/2016 EUR'000	01/01/2015 – 12/ 31/2015* EUR'000
1.	Consolidated net loss for the year	-11,937	-8,652
2.	Earnings from discontinued operations (after taxes)	-493	5,551
3.	Consolidated earnings from continuing operations	-12,430	-14,203
4.	Write-ups/ write-downs of noncurrent assets	12,542	13,342
5.	Increase/ decrease in pension provisions	302	425
6.	Earnings from associated companies	-689	-479
7.	Gain/ loss on disposal of noncurrent assets	-60	-116
8.	Gain/ loss from currency translation	-3,036	-7,494
9.	Gain/ loss from deferred taxes	-554	927
10.	Expenses from value adjustments of inventories and receivables	888	1,043
11.	Other non-cash expenses and income	-1,287	1,173
12.	**Gross cash flow**	**-4,324**	**1,756**
	Changes in working capital		
13.	Increase/ decrease in current provisions	-8,418	-1,124
14.	Increase/ decrease in inventories (after advance payments received)	6,788	5,109
15.	Increase/ decrease in trade receivables	1,952	5,478
16.	Increase/ decrease in other receivables	2	3
17.	Increase/ decrease in income tax assets	38	-1,305
18.	Increase/ decrease in other assets	-826	-317
19.	Increase/ decrease in trade payables	-1,877	-4,788
20.	Increase/ decrease in other liabilities	-576	-1,010
21.	Increase/ decrease in other equity and liabilities	2,210	2,092
22.	Currency translation effects in operating activities	-490	-1,786
23.	Operating cash flow from discontinued operations	1,993	-1,054
24.	**Cash inflow (+)/ outflow (-) from operating activities**	**-3,528**	**3,054**
25.	Proceeds on disposal of noncurrent assets	307	273
26.	Payments for investments in noncurrent assets	-4,133	-5,990
27.	Proceeds on the sale of previously consolidated companies, less cash transferred	0	500
28.	Cash flow from investing activities for discontinued operations	-1,680	-599
29.	**Cash inflow (+)/ outflow (-) from investing activities**	**-5,506**	**-5,816**
30.	Decrease in liabilities under finance leases	-46	-46
31.	Dividend payments to non-controlling interests	-481	-1,600
32.	Receipts from the borrowing of bank loans	12,818	62,218
33.	Payments for repayment of bank liabilities	-2,120	-63,455
34.	Currency translation effects in financing activities	-109	0
35.	Cash flow from financing activities for discontinued operations	1,784	0

36. Cash inflow (+)/ outflow (-) from financing activities	**11,846**	**-2,883**

37. Cash and cash equivalents at beginning of period	11,353	17,972
38. Change in cash and cash equivalents	2,812	-5,645
39. Currency translation of cash and cash equivalents	629	-974
40. Cash and cash equivalents at end of period	**14,794**	**11,353**
- Thereof cash and cash equivalents in discontinued operations	518	0

* The prior-year values were adjusted to reflect the retroactive classification of SKW Quab as discontinued operations and an error correction; see also Section C "Measurement and recognition principles."

Notes to the Consolidated Financial Statements

A. General information and presentation of the consolidated financial statements
B. Group of consolidated companies and consolidation methods
C. Measurement and recognition principles
D. Notes on the balance sheet and income statement and further information
E. Subsidiaries and associates

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 Prinzregentenstraße 68, 81675 Munich, Germany, and is registered with the Local Court in Munich (HRB 226715).

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,” “Other Operating Segments” and “Other Non-operating Segments 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 financial year 2016 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 financial year beginning on January 1, 2016:

- Amendments to IAS 19 (2011) (Employee benefits)
- Annual Improvements (Cycle 2010-2012)
- 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)
- Amendments to IFRS 10, IFRS 12 and IAS 28 (Investment Entities – Applying the Consolidation Exception)
- IFRS 14 (Regulatory Deferral Accounts)

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. The application of this amendment did not have an effect on the consolidated financial statements of the SKW Metallurgie Group.

The published “Annual Improvements to IFRS, 2010-2012 Cycle” clarify 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 at the revaluation date.
- IAS 24: Expanded definition of related parties to include so-called management entities, and related disclosure obligations.

IFRS 2 (Share-based Payment): The amendment clarifies the definition of vesting conditions by adding separate definitions for performance conditions and service conditions to Appendix A of the Standard. According to the clarification, a performance condition is a vesting condition that requires both the completion of a specified period of service and the fulfilment of specified performance targets with the period of service. The performance targets are defined by reference to the entity's activities or the value of its equity instruments (including shares and warrants). They can relate either to the performance of the entity as a whole or to some part of the entity or even individual employees. In contrast to a performance condition, a service condition only requires the completion of a specified period of service without reference to performance targets. If the employee leaves the entity before completing this period of service, the vesting condition is not fulfilled. With respect to the definition of market conditions, it was further clarified that market conditions are not only performance conditions that depend on the market price or value of the entity's equity instruments, but also performance conditions that depend on the market price or value of the equity instruments of another entity of the same group. The amendment is prospectively applicable to share-based payments for which the grant date is on or after July 1, 2014. The amendment has no effect on the consolidated financial statements of the SKW Metallurgie Group.

IFRS 3 (Business Combinations): The wording of IFRS 3.40 was changed so that reference is now made only to contingent consideration incurred in connection with a business combination and meeting the definition of a financial instrument, and the reference to "other applicable IFRSs" was deleted. Furthermore, the amendment to IFRS 3.58 and the consequential amendments to IFRS 9, IAS 39 and IAS 37 now require that all contingent classification not classified as an equity instrument must be measured at fair value in subsequent periods and all resulting effects must be recognized in profit or loss. The amendment is prospectively applicable to all business combinations for which the acquisition date is on or after July 1, 2015. The amendment has no effect on the consolidated financial statements of the SKW Metallurgie Group.

IFRS 8 (Operating Segments): The following clarifications were added to IFRS 8. With respect to the aggregation of operating segments into reportable segments, the judgments made by management in the identification of reportable segments must be disclosed. A reconciliation of segment assets with the corresponding amounts in the statement of financial position is only required if information about segment assets is also part of the financial information that is regularly reported to the chief operating decision maker. This information is presented in the segment report of the SKW Metallurgie Group.

IFRS 13 (Fair Value Measurement): An amendment of the “Basis for Conclusions” of IFRS 13 clarifies that the IASB did not intend for the amendments to IFRS 9 und IAS 39 resulting from IFRS 13 to eliminate the option of not discounting current receivables and liabilities to present value when the discounting effect is immaterial. The SKW Metallurgie Group does not discount current receivables and liabilities to present value.

IAS 16 (Property, Plant and Equipment) / IAS 38 (Intangible Assets): The amendment clarifies the method for determining the amount of accumulated depreciation or amortization at the valuation date when the revaluation model according to IAS 16.35 or IAS 38.80 is applied. The transitional rules specify that the amendment need only be applied to revaluations performed in annual periods that occur on or after the date of first-time application, and to revaluations performed in the immediately preceding period. The amendment has no effect on the consolidated financial statements of the SKW Metallurgie Group.

IAS 24 (Related Party Disclosures): The amendment expands the definition of “related parties” to include entities that provide key management personnel services, either themselves or through one of their affiliated companies, to the reporting entity even when there is no other relationship between the two entities according to the definition of IAS 24 (so-called “management entities”). According to the newly inserted paragraph 18A, separate disclosures must be made in respect of expenses recognized by the reporting entity for the services provided by the management entity. By contrast, the reporting entity is not required to make disclosures according to IAS 24.17 for the compensation paid by the management entity to employees who perform management duties at the reporting entity. The amendment has no effect on the consolidated financial statements of the SKW Metallurgie Group.

Amendments to IAS 16 (Property, Plant and Equipment) and IAS 41 (Agriculture: Bearer Plants): The amendments to IAS 16 and IAS 41 clarify that plants must be measured at cost at the time when they mature – analogously to internally produced plant and equipment – and after that, they can be measured in accordance with either the cost model or the revaluation model according to IAS 16. It will no longer be permitted to measure them in accordance with IAS 41 in the future. In the transition to the new rule, such plants may be measured at fair value as so-called “deemed costs.” The reporting entity is not required to make the disclosures required by IAS 8.28 (f) for the current period. The amendment has no effect on the consolidated financial statements of the SKW Metallurgie Group.

Amendments to IFRS 11 (Joint Arrangements) – Accounting for acquisitions of interests in joint operations: The amendments to IFRS 11 clarify that acquisitions and subsequent acquisitions of interests in joint operations that constitute a business according to the definition of IFRS 3 “Business Combinations” must be accounted for in accordance with the principles for the accounting treatment of business combinations in IFRS 3 and other applicable IFRSs, provided that they do not conflict with the guidance in IFRS 11. The amendments do not apply if the reporting entity and the parties invested in it are under the common control of the same highest-level controlling entity. The new rules are prospectively applicable to acquisitions of interests that occur in a reporting period that begins on or after January 1, 2016. The amendments have no effect on the consolidated financial statements of the SKW Metallurgie Group.

Amendments to IAS 16 (Property, Plant and Equipment) and IAS 38 (Intangible Assets) – Clarification of acceptable methods of depreciation and amortization: The purpose of the amendments is to clarify what methods of depreciation and amortization of property, plant and equipment and intangible assets are acceptable. In general, it states that the starting point for determining an acceptable amortization method for intangible assets is always the determination of the principal factor limiting the use of that asset. This factor can be a time-based limitation of use, a limitation of the quantity of units produced or a pre-specified amount of revenues. However, the IASB also states that another basis should be used it if better reflects the pattern of consumption of the intangible asset. With respect to both property, plant and equipment and intangible assets, it is further clarified that a reduction in selling prices of the goods and services produced with the asset could be indicative of the economic obsolescence of that asset and therefore a reduction of the economic use potential of the assets required for production. The amendments have no effect on the consolidated financial statements of the SKW Metallurgie Group.

Annual Improvements of IFRS, cycle 2012-2014: These affect the following Standards:

- • IFRS 5 (Noncurrent Assets Held for Sale and Discontinued Operations)
- • IFRS 7 (Financial Instruments: Disclosures)
- • IAS 19 (Employee Benefits)
- • IAS 34 (Interim Financial Reporting)

IFRS 5 (Noncurrent Assets Held for Sales and Discontinued Operations): The amendments clarify that a direct reclassification from “held for sale” to “held for distribution to owners” does not lead to the discontinuation of the associated classification, presentation and measurement regulations of IFRS 5. The measurement rules of IFRS 5.27-29 to be applied only in those cases in which the criteria for classification as "held for sale" or "held for distribution to owners" are no longer met and there is no direct exchange between the two categories. These measurement rules now explicitly also apply to assets (or disposal groups) that were previously classified as "held for distribution to owners." This clarification has no effect on the consolidated financial statements of the SKW Metallurgie Group.

IFRS 7 (Financial Instruments): The amendments clarify that servicing agreements under which the selling entity still retains a share of the rewards or risks inherent in the performance of the sold receivables represent a continuing involvement according to the definition of IFRS 7. Another clarification pertains to the application of the amendments to IFRS 7 (Financial Instruments): Disclosures: Netting of financial assets and financial liabilities. It is clarified that the amendments to IFRS 7 do not give rise to explicit disclosure obligations for interim financial reports. However, the additional disclosures must be made in condensed interim financial reports according to IAS 34 if they are required by IAS 34. This clarification has no effect on the consolidated financial statements of the SKW Metallurgie Group.

IAS 19 (Employee Benefits): With the publication of these amendments, the IASB clarified that the depth of the market for high quality corporate bonds must be assessed on a "currency basis," so that in the Eurozone, for example, corporate bonds from the entire Eurozone must be included in the assessment. If an entity determines that there is no liquid market for high quality corporate bonds on the basis of the currency zone, government bonds must be used instead. Also in this case, the applicable currency zone must be considered. This clarification has no effect on the consolidated financial statements of the SKW Metallurgie Group.

IAS 34 (Segment Reporting): IAS 34.16A requires that entities make certain disclosures in the notes to the interim report if they are not made "elsewhere in the interim report." The IASB has now clarified that information presented "elsewhere in the interim report" can be information that is found either elsewhere in the same interim report or in other documents to which the interim report refers. The prerequisite for the latter, however, is that the other documents are accessible to the users of the interim report at the same time and under the same conditions as the interim report itself. The new rules are prospectively or retrospectively applicable, depending on the amendment. This clarification has no effect on the consolidated financial statements of the SKW Metallurgie Group.

Amendments to IAS 1 (Presentation of Financial Statements) within the scope of the Disclosure Initiative: The amended standard published at the end of 2014 presents the following proposals for amending IAS 1 within the scope of the Disclosure Imitative.

Materiality and aggregation of line items

The amendments to IAS 1 are intended to emphasize the concept of materiality more clearly in order to address application problems in practice. The purpose of the clarification is to filter out immaterial information from the IFRS financial statements while also promoting the presentation of relevant information. Further to the attainment of this goal, it is first clarified that the concept of materiality applies to all components of the IFRS financial statements, explicitly including the notes. This is meant to prevent the offloading of irrelevant information from other parts of the financial statements to the notes. As a corollary to this rule, it is clarified that immaterial information need not be presented separately if the presentation of such information is not explicitly required in an IFRS. Nonetheless, an assessment must be made as to whether additional disclosures are required beyond the explicitly required disclosures in order to give the users a better understanding of the entity's financial position, financial performance and cash flows. Furthermore, the information presented in the financial statements should not be obscured by the aggregation of relevant with irrelevant information or the aggregation of material line items of a different nature of function.

Subtotals

According to IAS 1.55 and 1.85, additional subtotals must be presented in the statement of financial position and the statement of comprehensive income if they are relevant for understanding the entity's financial position, financial performance and cash flows. When such subtotals are used, the newly added IAS 1.55A and 1.85A state that they may only be comprised of line items recognized and measured in accordance with IFRS, they must be presented in a clear and understandable manner, they must be consistent from period to period, and they may not be presented with more prominence than the subtotal and totals that are explicitly required in the IFRSs.

Structure of the notes

IAS 1.114 states that "an entity (...) should normally present the notes (…)in a stated order, which enables the users to understand the financial statements and compare them with those of other entities." To counter the somewhat widely held view in practice that IAS 1.114 prescribes a certain format of the notes because it uses the word "normally," the wording of IAS 1.114 was changed and alternatives to the previous exemplary structure of the notes were presented. For example, the structure can be determined on the basis of the relevance of specific information for an understanding of the entity's financial position, financial performance and cash flows or for objective reasons, so that all information pertaining to assets measured at fair value can be presented in the same section. It also explicitly states that the understandability and comparability of IFRS financial statements should be considered when determining the order of the notes.

Disclosures regarding accounting policies

In connection with the obligation to disclose significant accounting policies and the resulting question of what is deemed to be “significant,” the IASB decided to eliminate the examples presented in IAS 1.120 and to add clarifications instead. Accordingly, entities should consider the nature of their business activity and the methods by which users expect information to be presented when determining the accounting policies to be disclosed.

Equity method

Additional rules concerning the presentation of the entity’s share of other comprehensive income (OCI) from associates and joint ventures in the statement of comprehensive income were added to IAS 1.82A. This clarifies that income from associates and joint ventures must be presented as a separate line item in the statement of comprehensive income, broken down only by whether the amount will or will not be reclassified (recycled) to profit or loss in the future. This change in the wording of IAS 1.82A clarifies that income from associates and joint ventures does not need to be broken down by type of expenses or income.

The options arising from the amendment of presentation rules have been considered and applied in the consolidated financial statements of the SKW Metallurgie Group; however, this did not materially change the presentation of the consolidated financial statements.

IAS 27 (Separate Financial Statements– Equity Method in Separate Financial Statements)

As a result of this amendment, investments in subsidiaries, joint ventures and associated may not also be accounted for by the equity method in the IFRS separate financial statements. The amendment has no effect on the consolidated financial statements of the SKW Metallurgie Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 (Investment Entities – Applying the Consolidation Exception): In the amendments to these Standards, the IASB clarifies the exemption from the obligation to prepare consolidated financial statements according to IFRS 10.4 (a) also applies to parent companies that are themselves subsidiaries of an investment entity. The amendments also clarify that an investment entity must measure at fair value through profit or loss all subsidiaries which themselves meet the definition criteria of an investment entity. This rule applies also when the subsidiaries provide investment-related services. The amendments also clarify that a non-investment entity that applies the equity method to account for an investment entity as an associate or joint venture in its consolidated financial statements is permitted to retain the fair value measurement of subsidiaries applied by the associate or joint venture. In addition, an amendment added to IFRS 12 (Disclosures of Interests in Other Entities) clarifies that investment entities that measure their subsidiaries at fair value fall within the scope of IFRS 12. This amendment has no effect on the consolidated financial statements of the SKW Metallurgie Group.

IFRS 14 (Regulatory Deferral Accounts)

IFRS 14 is conceived as a limited-scope interim standard that offers a temporary solution for entities that are subject to price regulation but have not yet transitioned to IFRS. The amendment has no effect on the consolidated financial statements of the SKW Metallurgie Group.

The following Standards are to be applied for the first time in annual periods beginning on or after

January 1, 2018:

- IFRS 9 (Financial Instruments)
- IFRS 15 (Revenue from Contracts with Customers)
- IFRS 4 (Insurance Contracts)
- IAS 40 (Transfers of Investment Property)
- IFRIC 22 (Foreign Currency Transactions and Advance Consideration)
- Annual Improvements (cycle 2012-2014)

IFRS 9 (Financial Instruments): 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. The SKW Metallurgie Group has set up an IFRS working group to implement IFRS 9 in the SKW Metallurgie Group. The tasks have been systematized in a project plan composed of five project phases. Phase 1 “Awareness and Implementation Strategy” has been completed and the project is currently in Phase 2 “Analysis of Effects.” Because Phase 2 “Analysis of Effects” has not yet been completed, a reliable estimate of the quantitative effects arising from the application of IFRS 9 on the SKW Metallurgie Group is not yet possible. According to the current status of the project, the extent of the effects to result from the changes and the implementation thereof in the areas of classification and measurement and hedge accounting are deemed to be less significant, whereas the effects of the changes in the areas of impairment and expanded disclosure obligations are deemed to be significant.

IFRS 15 (Revenue from Contracts with Customers): The IASB published the new Standard IFRS 15 (Revenue from Contracts with Customers) on May 28, 2014. The Standard sets out rules specifying when and in what amount revenues are to be recognized. IFRS 15 supersedes IAS 18 (Revenue), IAS 11 (Construction Contracts) and a number of revenue-related Interpretations. According to IFRS 15, revenues must be recognized when the customer attains control of the agreed goods and services and can derive benefits from them. The transfer of material rewards and risks, which had been determining according to the previous rules of IAS 18 (Revenue), is no longer the decisive factor. The new Standard prescribes a five-step model in which the contract with the customer and the separate performance obligations included therein must first be identified. After that, the transaction price of the contract with the customer must be identified and allocated to the individual performance obligations. As the next step under the new model, revenue is recognized for each performance obligation in the amount allocated to it as soon as the agreed service is provided or the customer attains control of it. Specified criteria must be applied to distinguish between recognition at a point in time and recognition over time. Voluntary early application is permitted. The SKW Metallurgie Group has set up an IFRS working group to implement IFRS 15 in the SKW Metallurgie Group. The tasks have been systematized in a project plan composed of five project phases. Phase 1 “Awareness and Implementation Strategy” has been completed and the project is currently in Phase 2 “Analysis of Effects.” Because Phase 2 “Analysis of Effects” has not yet been completed, a reliable estimate of the quantitative effects arising from the application of IFRS 15 on the SKW Metallurgie Group is not yet possible. However, the SKW Metallurgie Group does not expect it to have a significant quantitative effect on the recognition of revenues.

Amendments to IFRS 4 (Insurance Contracts): In the time until the future new Standard on the accounting treatment of insurance contracts (IFRS 17) is issued, the amendments to IFRS 4 provide two voluntary options for avoiding the potential accounting consequences of the divergence of the first-time application dates of IFRS 9 and the future IFRS 17. Under the first option, entities may reclassify some of the income and expenses arising from qualifying assets from profit or loss to other comprehensive income. This is the so-called overlay approach. Under the second option, entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4 may be granted a temporary exemption from applying IFRS 9. This is called the deferral approach. The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. The SKW Metallurgie Group assumes that the amendments will not have an effect on the consolidated financial statements of the SKW Metallurgie Group.

Amendments to IAS 40 (Transfers of Investment Property): The amendments made to Transfers of Investment Property (Amendments to IAS 40) are the following:

- Paragraph 57 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

- The list of evidence in paragraph 57(a) – (d) was designated as a non-exhaustive list of examples instead of the previous exhaustive list.

Early application is permitted. An entity applies the amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is also permitted if that is possible without the use of hindsight. The SKW Metallurgie Group assumes that the amendments will not have an effect on the consolidated financial statements of the SKW Metallurgie Group.

IFRIC 22 (Foreign Currency Transactions and Advance Consideration): The IASB published the IFRIC 22 "Foreign Currency Transactions and Advance Consideration' developed by the IFRS Interpretations Committee in order to clarify the accounting for transactions that include the receipt or payment of consideration in a foreign currency. The Interpretation addresses transactions or parts of transactions denominated in a foreign currency when the following criteria are met:

- Consideration is denominated or priced in a foreign currency;

when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income

- The entity recognizes an asset or liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income; and

- The prepayment asset or deferred income liability are non-monetary.

The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Voluntary early application is permitted. The SKW Metallurgie Group assumes that the new rules will not have a material effect on the consolidated financial statements.

Annual Improvements (cycle 2014-2016): The International Accounting Standards Board (IASB) has published the final amendments as part of the Annual Improvements (cycle 2014-2016) to the matters examined in this cycle. Three Standards are affected by these amendments:

- Amendments to IFRS 1 (First-time Adoption of IFRS)
- Amendments to IFRS 12 (Disclosure of Interests in Other Entities)
- Amendments to IAS 28 (Investments in Associates and Joint Ventures)

Amendments to IFRS 1 (First-time Adoption of IFRS): Deletion of short-term exemptions in paragraphs E3–E7 from IFRS 1 because they have served their intended purpose.

Amendments to IFRS 12 (Disclosure of Interests in Other Entities): Clarification of the scope of the Standard by specifying that the disclosure obligations of the Standard are applicable to an entity's interests per paragraph 5 which are classified as held for sale, held for distribution or discontinued operations in accordance with IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations, with the exception of the interests stated in paragraphs B10–B16,.

Amendments to IAS 28 (Investments in Associates and Joint Ventures): Clarification that the elective option of measuring an investment in an association or joint venture that is held by an entity that is a venture capital organization or other qualifying entity at fair value through profit or loss is available upon initial recognition of every investment in an associate or joint venture on an investment-by-investment basis.

The amendments to IFRS 1 and IAS 28 are applicable in reporting periods that begin on or after January 1, 2018, and the amendments to IFRS 12 are applicable in reporting periods that begin on or after January 1, 2017. The SKW Metallurgie Group assumes 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:

- Clarification of IFRS 15 (Revenue from Contracts with Customers)

- IFRS 16 (Leases)
- Amendments to IFRS 2 (Share-based Payment)
- Amendments to IAS 12 (Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses)
- Amendments to IAS 7 (Statement of Cash Flows – Disclosure Initiative)
- Amendments to IFRS 10 (Consolidated Financial Statements) and IAS 28 (Investments in Associates)

Clarifications of IFRS 15 (Revenue from Contracts with Customers): Already in April 2016, the IASB published clarifications of IFRS 15 that pertain to the following topics: identifying performance obligations and assessing separability in the contract context, classification as principal vs. agent and revenues from licensing. In addition, two further simplifications were added for the first-time application of the Standard. The clarifications must be applied for the first time in annual periods beginning on or after January 1, 2018. Voluntary early application is permitted.

IFRS 16 (Leases): On January 13, 2016, the IASB published the new Standard IFRS 16 on accounting for leases. IFRS 16 supersedes 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 rewards 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 compensation, 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 financial 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. The SKW Metallurgie Group has set up an IFRS working group to implement IFRS 16 in the SKW Metallurgie Group. The tasks have been systematized in a project plan composed of five project phases. Phase 1 “Awareness and Implementation Strategy” has been completed and the project is currently in Phase 2 “Analysis of Effects.” Because Phase 2 “Analysis of Effects” has not yet been completed, a reliable estimate of the quantitative effects arising from the application of IFRS 16 on the SKW Metallurgie Group is not yet possible.

Amendments to IFRS 2 (Share-based payment): The amendments to IFRS 2 involve the following clarifications and changes:

Accounting for cash-settled share-based payment transactions that include a performance condition

Until now, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

Share-based payments settled net of tax withholdings

IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net of tax withholdings is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

Accounting for the modification of share-based payment transactions from cash-settled to equity-settled

Until now, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- On such modifications, the original liability recognized in respect of the cash-settled share-based payment is derecognized and the equity-settled share-based payment is recognized at the modification date fair value to the extent services have been rendered up to the modification date.
- Any difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately.

The SKW Metallurgie Group assumes that the amendments will not have an effect on the consolidated financial statements of the SKW Metallurgie Group.

Amendments to IAS 12 (Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses): On January 19, 2016, 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 assumes that the new rules will not have a material effect on its consolidated financial statements.

Amendments to IAS 7 (Statement of Cash Flows – Disclosure Initiative): 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 users 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 according to the definition of IAS 7. The new regulations must be applied for the first time in annual periods beginning on or after January 1, 2017. Voluntary early application is permitted. The SKW Metallurgie Group assumes that the new rules will not have a material effect on its consolidated financial statements and will necessitate a disclosure in the notes.

Amendments to IFRS 10 (Consolidated Financial Statements) and IAS 28 (Investments in Associates): On September 14, 2014, the IASB published amendments to IFRS 10 and IAS 28 concerning the sale or contribution of assets between an investor and an associate or joint venture. Due to the amendments of December 2015, the date of effect of the amendments has been postponed indefinitely. The SKW Metallurgie Group assumes 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 at December 31, 2016 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 control 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 Group company 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 at 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.

Please refer to the List of Shareholdings in Section E. for information on subsidiaries not included in the consolidated financial statements.

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 at 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 financial year 2016:

- The German subsidiaries SKW Technology GmbH & Co. KG and SKW Technology Management GmbH were deconsolidated at September 30, 2016.

Therefore, the group of consolidated companies has declined by two companies compared to December 31, 2015 to a current total of 22 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, 2016, 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 in 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 financial year net income, contingent assets and liabilities, and other financial commitments.

The material 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. The shares in this company were accounted for as assets held for sale in accordance with IFRS 5.

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:

Company	Shareholdings and voting rights of non-controlling interests		Share of profit or loss attributable to non-controlling interests		Cumulative non-controlling interests	
	12/31/2016	12/31/2015	2016	2015	12/31/2016	12/31/2015
	%	%	EUR'000	EUR'000	EUR'000	EUR'000
"South America" segment						
Tecnosulfur S/A. Brazil	33.33%	33.33%	919	1,232	5,505	4,237

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

In euro thousands	Tecnosulfur S/A, Brazil	
	12/31/2016	12/31/2015
Current assets	10,640	8,338
Noncurrent assets	17,581	14,327
Current liabilities	5,123	4,424
Noncurrent liabilities	6,579	5,529
Share of equity attributable to shareholders of the parent company	11,014	8,475
Share of equity attributable to non-controlling interests	5,505	4,237

	2016	2015
Revenues	22,954	25,731
Expenses	-20,195	-22,034
Financial year net income/loss	**2,759**	**3,697**
Share of financial year net income/loss attributable to shareholders of the parent company	1,840	2,465
Share of financial year net income/loss attributable to non-controlling interests	919	1,232
Total financial year net income/loss	**2,759**	**3,697**
Share of other comprehensive income attributable to shareholders of the parent company	2,217	-3,064
Share of other comprehensive income attributable to non-controlling interests	1,108	-1,531
Total other comprehensive income	**3,325**	**-4,595**
Share of total comprehensive income attributable to shareholders of the parent company	4,057	-599
Share of total comprehensive income attributable to non-controlling interests	2,027	-299
Comprehensive income	**6,084**	**-898**
Dividends paid to non-controlling interests	-466	-1,600
Net cash flows from operating activities	3,620	5,768
Net cash flows from investing activities	-720	-613
Net cash flows from financing activities	-2,712	-6,387
Total net cash flows	**188**	**-1,232**

Discontinued operations / Assets held for sale

The SKW Metallurgie Group successfully completed the negotiations with the lenders under the syndicated loan agreement on February 1, 2017, thereby laying the cornerstone for the implementation of the announced financial restructuring. The SKW Metallurgie Group will use this agreement first to continue operational performance enhancement under the ongoing "ReMaKe" program, and second to implement a comprehensive financial restructuring program, one key element of which is the "sale of assets" (predominantly peripheral activities). In this connection, the U.S. subsidiary SKW Quab Chemicals Inc., which distributes specialized chemical reagents known as cationizing reagents to the paper and hygiene industry, is presented as discontinued operations and measured at amortized cost in the 2016 consolidated financial statements . This company had been assigned to the "Other Non-Operating Segments."

Furthermore, the interests in SKW Tashi Metals & Alloys Private Ltd. in Bhutan, which no longer belongs to the group of consolidated companies, are presented as an asset held for sale. The company had been presented as discontinued operations in 2015 and deconsolidated at December 31, 2015.

The interests in the associated company Jamipol Ltd. in India are presented as an asset held for sale and measured at amortized cost because they are assigned to the "sale of assets" (predominantly peripheral activities) element of the restructuring program agreed with the banks.

In accordance with IFRS 5, the assets and liabilities of the company SKW Quab Chemicals Inc. are presented as discontinued operations and the equity investments in SKW Tashi Metals & Alloys Private Ltd. and Jamipol Ltd. are presented as noncurrent assets held for sale and measured accordingly. They are presented as follows:

- The results of SKW Quab Chemicals Inc. are no longer presented within the respective income statement items in the reporting period and prior period, but are presented separately as "Earnings from discontinued operations." There is no effect on other comprehensive income (OCI) in the statement of comprehensive income.

- The assets and liabilities of SKW Quab Chemicals Inc. and those of the equity investments in SKW Tashi Metals & Alloys Private. Ltd. and Jamipol Ltd. are presented separately as “held for sale” in the statement of financial position. The comparison figures were not adjusted.

- In the cash flow statement for 2016 and 2015, the results and contributions of SKW Quab Chemicals Inc. 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.

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 made. Amortization of intangible assets and depreciation of property, plant and equipment attributable to the segment are presented as segment amortization/depreciation.

Going concern

In preparing the financial statements, the Management of the SKW Metallurgie Group operated on the assumption of a going concern, based on the information presented in the following.

SKW Stahl-Metallurgie Holding AG and its subsidiaries possessed adequate liquidity at all times in the reporting period. The Group’s liquidity is secured particularly by the syndicated loan agreement concluded in early 2015 (with a term until early 2018) for an amount of up to EUR 86 million (of which EUR 46 million is an amortizing loan). This syndicated loan agreement satisfies the external financing needs of SKW Stahl-Metallurgie Holding AG (aside from overdraft facilities) and most of the external financing needs of the SKW Stahl-Metallurgie Group. With respect to this syndicated loan agreement, it was agreed in the first quarter of 2017 that this financing instrument will be available until January 31, 2018, with only customary adjustments and a waiver of cancellation, and that financial covenants and minimum principal payments will be suspended during this time.

At the same time, the parent company and the syndicated lenders also agreed on a fundamental financial restructuring plan, under which the SKW Metallurgie Group will make its own financial contribution to debt repayment by selling peripheral activities. The plan also calls for a substantial capital increase, which shareholders will be entitled to subscribe, and a conditional waiver of claims by the financing banks.

The SKW Stahl-Metallurgie Group continues to systematically implement the ReMaKe restructuring program initiated in 2014, which it has since developed into a continuous improvement program. As is known, this restructuring program is a comprehensive strategic restructuring project covering all entities of the Group, which aims to permanently increase the revenues, earnings and cash flows of the SKW Metallurgie Group. Numerous supporting operational measures are expected to make a positive contribution to improving the liquidity situation in financial year 2017 and beyond.

The Executive Board considers it highly probable that this plan will be successfully implemented in 2017, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG also beyond January 31, 2018, so that the consolidated and separate financial statements at December 31, 2016 can be prepared under the assumption of a positive going-concern forecast. This view of the Executive Board is supported by a turnaround appraisal prepared by a renowned management consulting firm.

Nonetheless, it must be pointed out that the implementation of any future plan is fraught with uncertainties. Parts of the planned financial restructuring measures depend on the cooperation of third parties (shareholders, other stakeholders and investors), which cannot be influenced by the SKW Stahl-Metallurgie Group. In the event of a significant negative variance from the planned business performance and/or the unsuccessful implementation of operational measures under the ReMaKe program and/or a failure of the financial structuring plan or the inability to obtain financing to replace the syndicated loan agreement, the liquidity of the Company and the Group would no longer be assured. In this case, the going-concern status of the Company and the Group would be endangered. Therefore, the future status of a going concern beyond January 31, 2018 will depend on the successful implementation of the aforementioned financial restructuring plan. Even before January 31, 2018, a foreseeable or actual failure of the financial restructuring plan would entail the risk that the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG would no longer be assured, meaning that the going-concern status of the Company and the Group would be endangered.

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 at the reporting date to the total estimated contract costs at the reporting date. Construction contracts accounted for using the percentage of completion method are measured according to the contract costs incurred at 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.

The presentation of currency translation expenses and income in the consolidated income statement was changed in financial year 2016. The changed classification affects expenses and income arising from the valuation of foreign currency balances or currency translation losses and gains that arise from the netting of foreign currency items. To the extent that the underlying balances represent receivables and liabilities under loans and interest, or bank balances and liabilities, they are now presented within net interest income/expenses instead of within other operating expenses and income (and thus in EBITDA) as before. Currency translation effects resulting from trade receivables and other receivables and liabilities are still presented within other operating expenses and income (and thus in EBITDA). The prior-year consolidated income statement was also prepared in accordance with this presentation method.

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 at 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 annually 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 financial 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 at 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 at the beginning of the lease term that the lessee will obtain ownership, 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 lessee's benefit.

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

Inventories

Inventories are measured at the lower of cost and net realizable value. Cost includes material unit costs and manufacturing unit costs, as well as the overheads attributable to production (based on standard operating capacity). Costs are calculated using weighted averages. The net realizable value is the estimated selling price less the costs for marketing, sales and distribution. If the reasons for 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 measured 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. There are no such assets in the SKW Metallurgie Group.

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 is considered 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 CGUs or a group of CGUs that will obtain synergistic benefits from the acquisition. These units 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 or a group of CGUs 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 CGUs or a group of CGUs 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 net after taxes 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 at 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 at every reporting date. Under the projected unit credit method, the pensions and vested benefits known at 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) at 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 plans are recognized as an expense and as a liability at 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 at 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		**12/31/2016**	**12/31/2015**	**2016**	**2015**
Brazil	BRL	3.4305	4.3117	3.8557	3.7004
Bhutan	BTN	71.5935	72.0215	74.3665	71.1939
China (PR)	CNY	7.3202	7.0608	7.3521	6.9732
Hong Kong	HKD	8.1751	8.4376	8.5912	8.6012
India	INR	71.5935	72.0215	74.3665	71.1939
Japan	JPY	123.4000	131.0700	120.1900	134.3117
Canada	CAD	1.4188	1.5116	1.4660	1.4185
Mexico	MXN	21.7719	18.9145	20.6716	17.6152
Russia	RUB	64.3000	80.6736	74.1481	68.0707
Sweden	SEK	9.5525	9.1895	9.4701	9.3532
South Korea	KRW	1,269.36	1,280.7800	1,284.11	1,256.4975
Turkey	TRY	3.7072	3.1765	3.3438	3.0254
USA	USD	1.0541	1.0887	1.1068	1.1095

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. There is no such capital in the SKW Metallurgie Group.

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. Grants totaling EUR 128 thousand were included in other operating income in 2016 (PY: EUR 128 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 at 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, financial performance and cash flows.

In financial year 2016, the SKW Metallurgie Group deemed the goodwill allocated to the ESM Group Inc. to be part of the SKW Metallurgie Group and determined that it was necessary to recognize an impairment. The goodwill was allocated to the two cash-generating units (CGUs) ESM Group Inc. and ESM Metallurgical Products Inc. Thus, the impairment test of goodwill was conducted on the basis of a group of CGUs. In this case, the impairment test was conducted in a two-step approach. In the first step, the assets or the CGUs were tested for impairment before the allocation of goodwill, insofar as there were indications of an impairment according to IAS 36. If an impairment is discovered, it is allocated to the individual assets in accordance with IAS 36 until the recoverable amount of the individual asset or a value of 0 is reached. In the next step, an impairment test of the group of CGUs including the allocated goodwill is conducted.

Please refer to Section D.13 "Intangible assets" for more information on this subject.

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. The total value adjustment charged on trade receivables at December 31, 2016 amounted to EUR 139 thousand (PY: EUR 645 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 at 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

As the SKW Metallurgie Group has operating activities and generates income in many countries, it is subject to a wide range of tax legislation in a large number of tax jurisdictions. This means that key assessments are required in order to determine the Group's global tax liabilities. Although Management believes that it has made a reasonable estimate of tax uncertainties, no assurance can be given that the actual outcome of these tax uncertainties is congruent with the original estimate. Any differences could have an 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, with the use of estimates. As a result, it may be necessary to adjust the amount of a provision as a result of new developments and changes in the estimates. Changes to estimates and assumptions over time can have a material 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.24, 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.

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 at 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.

Adjustment of prior-year figures to correct errors

In the 2015 comparison figures, the deconsolidation result of SKW Tashi Metals & Alloys Private Limited in the amount of EUR 6,036 thousand was reclassified from other operating income to earnings from discontinued operations, in accordance with IAS 8.41.

In addition, the carrying amount of the investment in the associated company Jamipol Ltd. was adjusted. The carrying amount of this investment was reduced by EUR 2,199 thousand. This was a correction of the inclusion of currency differences in the carrying amount of the investment in prior periods. The offsetting entry was made to the currency changes account in equity. The comparison figures were adjusted accordingly. After the adjustment according to IAS 8.41, the interests in associated companies at December 31, 2015 were changed by EUR -2,199 thousand to EUR 4,146 thousand (previously: EUR 6,345 thousand) and other comprehensive income was changed by EUR -2,199 thousand to EUR -59,959 thousand (previously: EUR -57,760 thousand). In accordance with these changes, the carrying amount of the investment was also changed at January 1, 2015 by EUR -2,142 thousand to EUR 3,476 thousand (previously: EUR 5,618 thousand) and other comprehensive income was changed by EUR -2,142 thousand to EUR -22,326 thousand (previously: EUR -20,184 thousand).

In addition, investments that had been presented in cash and cash equivalents were reclassified to other assets in accordance with IAS 8.41. At December 31, 2015, other current assets were increased by EUR 925 thousand to EUR 5,446 thousand (previously: EUR 4,521 thousand) and cash and cash equivalents were decreased accordingly by EUR 925 thousand to EUR 11,353 thousand (previously: EUR 12,278 thousand). As a result of this reclassification, the 2015 comparison figure for other assets in the statement of cash flows was adjusted by EUR 925 thousand from EUR 608 thousand to EUR -317 thousand, and the 2015 comparison figure for cash and cash equivalents at the end of the period was adjusted by EUR 925 thousand from EUR 12,278 thousand to EUR 11,353 thousand.

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

In accordance with IFRS 5.33, earnings from discontinued operations related to the sale of the subsidiary SKW Quab Chemicals Inc., are presented as a separate amount in the income statement (see also Section D.11 "Share of consolidated net income/loss attributable to non-controlling interests.". 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 U.S. and Bhutanese companies.

Earnings from discontinued operations are calculated as follows:

In euro thousands	2016	2015
Revenues	20,059	28,120
Expenses	-19,506	25,679
Earnings before taxes from discontinued operations	554	5,352
Income taxes	-61	199
Earnings from discontinued operations	493	5,551

1. Revenues

The consolidated revenues of EUR 228,462 thousand (PY: EUR 263,680 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 35 thousand (PY: EUR 0 thousand).

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

In euro thousands	2016	2015
Total costs incurred and profits recognized (less any losses recognized)	3,838	3,956
Advance payments received	4,044	4,034
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 216 thousand (PY: EUR 80 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:

In euro thousands	2016	2015
Income from exchange rate changes	2,780	4,931
Income from the derecognition of liabilities	2,777	1,701
Insurance settlements	189	15
Research grants	128	128
Income from the reversal of value adjustments on receivables	98	277
Income from the disposal of noncurrent assets	60	116
Income from refunds of payroll taxes and similar taxes	0	43
Miscellaneous operating income	600	1,088
Total	**6,632**	**8,299**

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:

In euro thousands	2016	2015
Raw materials and supplies	138,119	155,997
Purchased goods	13,543	13,580
Purchased services	325	286
Other	2,012	1,566
Total	**153,999**	**171,429**

The cost of materials included an amount of EUR 675 thousand (PY: EUR 203 thousand) from value adjustments on items of inventory.

4. Personnel expenses

Personnel expenses break down as follows:

In euro thousands	2016	2015
Wages and salaries	27,694	30,547
Social security contributions and pension expenses	8,146	8,849
Total	**35,840**	**39,396**

Personnel expenses were less than the prior-year figure as a result of the smaller workforce.

5. Other operating expenses

Other operating expenses break down as follows:

In euro thousands	2016	2015
Outbound freight/ transport costs	8,945	10,587
Legal and consulting expenses	8,897	6,386
Administrative expenses	4,785	4,896
Expenses for land and buildings	2,579	2,721
Marketing and entertainment expenses	2,144	3,045
Expenses from exchange rate changes	1,870	3,933
Repairs and maintenance	1,487	1,432
Commissions	1.470	1.776
Insurance	1,044	2,191
Costs of the audit of financial statements	789	487
Research and development (material costs)	381	446
Occupational safety	377	369
Cost taxes France (“contribution économique territoriale”)	303	319
Temporary staff	259	314
Costs of waste processing and disposal	140	61
Value adjustments on receivables	139	649
EU antitrust proceedings	114	7,469
Losses on disposal of noncurrent assets	2	26
Miscellaneous expenses	4,480	3,601
Total	**40,205**	**50,708**

The EUR 10,503 thousand decrease 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 1,085 thousand (PY: EUR 964 thousand) related exclusively to the company Jamipol Ltd., Jamshedpur (India).

7. Amortization and depreciation

Please refer to Sections D. 13 “Intangible assets” and D. 14 “Property, plant and equipment” for information on the development of amortization and depreciation and impairments of intangible assets and property, plant and equipment in financial year 2016.

8. Interest and similar income

Of the total interest and similar income, an amount of EUR 327 thousand (PY: EUR 530 thousand) consisted of interest on current account balances.

9. Interest expenses and similar expenses and other financial result

The breakdown of interest and similar expenses is presented in the table below:

In euro thousands	**2016**	**2015**
Interest on liabilities due to banks	3,702	3,997
Other interest expenses	1,024	439
Expenses from the application of the effective interest method	590	469
Waiver fees and standstill agreements	241	247
Guarantee fees	192	298
Commitment fees for credit lines	159	664
Prepayment penalties	0	759
Total	**5,908**	**6,873**

All interest expenses were incurred on financial liabilities that are not measured at fair value.

The breakdown of the other financial result is presented in the table below:

In euro thousands	**2016**	**2015**
Expenses from unrealized currency translation differences	-579	-5,902
Expenses from realized currency translation differences	-5	-6

Income from unrealized currency translation differences	2,542	13,211
Income from realized currency translation differences	44	9
Net currency translation differences arising from the consolidation of liabilities	130	0
Total	**2,132**	**7,312**

In the prior year, expenses from currency translation differences in loan receivables and liabilities were presented within other operating expenses and the income from the currency translation differences in these line items was presented within other operating income. These effects were reclassified to the other financial result for the sake of greater stringency and enhanced transparency. The prior-year figures were adjusted to reflect this reclassification according to IAS 8.

10. Income taxes

The breakdown of income tax expenses is presented in the table below:

In euro thousands	**2016**	**2015**
Current income tax expenses/income	1,737	5,077
Deferred tax expenses	858	1,651
Deferred tax income	-1,412	-725
Total deferred tax expenses/income	-554	926
Total tax expenses/income	**1,183**	**6,003**

The current tax expenses presented in the table is the net balance of current tax expenses and income. Before netting, this figure includes non-period tax expenses of EUR 31 thousand (PY: non-period tax income of EUR 38 thousand).

Deferred tax expenses include EUR 3,725 thousand (PY: EUR 4,471 thousand) resulting from the change in the value adjustments of deferred tax assets recognized in respect of tax credits and temporary differences.

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 financial year 2016 (PY: 32.94%).

In euro thousands	2016	2015
Earnings from continuing operations before income taxes	-11,247	-8,200
Income tax rate	32.94%	32.94%
Expected tax income	-3,705	-2,701
Tax increases due to measurement of deferred tax assets	3,725	4,471
Tax increases due to non-tax-deductible expenses	2,648	6,761
Effects of different foreign tax rates	-580	-1,434
Non-period tax expenses	31	20
Tax reductions due to tax-exempt income	0	-3,578
Tax increases/ reductions due to withholding taxes and tax credits	-497	1,980
Other tax effects	-439	484
Stated tax expenses	**1,183**	**6,003**
Effective tax rate	-10.52%	-73,21%

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

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

In euro thousands	2016	2015
Earnings from continuing operations (after taxes)	-13,347	-14,636
Earnings from discontinued operations (after taxes)	485	5,795
Share of earnings attributable to non-controlling interests	925	189
Consolidated net loss	**-11,937**	**-8,652**

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 financial year 2016 are presented in the table below:

		2016	2015
Consolidated net loss	EUR'000	-11,937	-8,652
Correction for non-controlling interests	EUR'000	925	189
Consolidated net loss attributable to shareholders of SKW Stahl-Metallurgie Holding AG	**EUR'000**	**-12,862**	**-8,841**
Correction for earnings from discontinued operations attributable to shareholders of SKW Stahl-Metallurgie Holding AG	EUR'000	-485	-5,795
Earnings from continuing operations attributable to shareholders of SKW Stahl-Metallurgie Holding AG	**EUR'000**	**-13,347**	**-14,636**
Weighted average shares outstanding in the reporting period	thousands	6,545	6,545
Earnings per share	**EUR**	**-1.97**	**-1.35**
Earnings per share from discontinued operations	**EUR**	**0.07**	**0.89**
Earnings per share from continuing operations	**EUR**	**-2.04**	**-2.24**

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

13. Intangible assets

Development costs of EUR 0 thousand (PY: EUR 58 thousand) incurred in connection with various projects were capitalized in financial year 2016.

As in the prior year, the capitalized internal production of EUR 12 thousand (PY: EUR 73 thousand) consisted entirely of development costs in 2016.

On the Group level, R&D expenses of EUR 1,384 thousand were recognized as expenses in 2016 (PY: EUR 1,696 thousand). This amount consisted of personnel expenses in the amount of EUR 977 thousand (PY: EUR 1,224 thousand) material costs in the amount of EUR 381 thousand (PY: EUR 446 thousand) and depreciation, amortization, and impairments in the amount of EUR 26 thousand (PY: EUR 26 thousand).

Intangible assets exhibited the following development in financial year 2016:

In euro thousands	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 01/01/2016	**3,721**	**27,846**	**8,189**	**13,939**	**1,649**	**7,110**	**62,454**
Currency translation	64	2,581	1,262	1,394	47	1,504	6,852
Acquisitions	152	193	0	0	0	2,006	2,351
Reclassifications	254	0	0	0	-208	0	46
Balance at 12/31/2016	**4,191**	**30,620**	**9,451**	**15,333**	**1,488**	**10,620**	**71,703**
Depreciation and amortization at 01/01/2016	**-2,827**	**-24,082**	**-7,546**	**-5,523**	**-1,145**	**-7,093**	**-48,216**
Currency translation	-57	-2,643	-1,168	-514	-40	-1,453	-5,875
Acquisitions	-317	-3,895	-282	-2,270	-26	-888	-7,678
Reclassifications	0	0	0	0	0	0	0
Balance at 12/31/2016	**-3,201**	**-30,620**	**-8,996**	**-8,307**	**-1,211**	**-9,434**	**-61,769**
Net carrying amount at 12/31/2016	**990**	**0**	**455**	**7,026**	**277**	**1,186**	**9,934**

Two of 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 desulphurization 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 desulphurization. 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:

In euro thousands	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 Metal & Alloys Private Ltd., for which insolvency proceedings have commenced.

Impairments of goodwill

Goodwill is allocated to the cash generating units (CGUs) or groups of 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 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 or groups of 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. There were indications of a possible impairment of the goodwill of ESM already at June 30, 2016. These indications resulted from the fact that the drop in demand in ESM's sales markets was much greater than the published statistics suggested. That is because ESM's products are used to an above-average degree in the production of high-quality steel grades of the kind used in pipe production for the oil and gas industry (including shale gas production). These sub-markets, in turn, contracted by a much greater degree than other sub-markets in financial year 2016.

The goodwill of ESM was allocated to the ESM sub-group excluding its Chinese subsidiary ESM Tianjin Co. Ltd. This sub-group still includes the U.S. ESM Group Inc. and its Canadian subsidiary ESM Metallurgical Products Inc. These two companies are separate CGUs. They were combined into a group for purposes of the impairment test. The impairment test conducted at June 30, 2016 found that it was necessary to recognize an impairment equal to the full goodwill of ESM.

To calculate the value in use of the ESM CGU at June 30, 2016, a growth rate of 1.5% (PY: 1.5%) was set for the perpetual annuity and the discount rate after taxes was set at 8.4% (PY: 8.7%). The weighted average cost of capital employed was determined on the basis of a risk-free interest rate of 3.2% (PY: 2.7%) 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 cash flows were based on a detailed five-year plan and were extrapolated on the basis of the growth rate for the perpetual annuity. The resulting value in use was less than the carrying amount at June 30, 2016 and was therefore written down completely in the amount of EUR 3,702 thousand. The impairment is attributable to the "North America" segment.

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 2,170 thousand at December 31, 2016 (PY: EUR 4,488 thousand), which pertained exclusively to the "ESM" brand name (North America segment). 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 of the "ESM" brand name were the same as those applied in the impairment test of the goodwill of the "ESM" CGU. A royalty rate before taxes of 0.35% (PY:

0.5%) was applied as the royalty rate adjusted for the regional market and competition conditions. The recoverable amount was determined to be EUR 2,631 thousand.

A growth rate of 6.0% (PY: 6.0%) and a discount rate of 16.1% (PY: 17.6%) were applied for the impairment test of the “Tecnosulfur” brand name. The royalty rates applied were the royalty rates before taxes, after adjusting for market and competition conditions, of 2.5% (PY: 2.5%). The valuation was conducted on the basis of a detailed five-year planning period.

Assuming a royalty rate of 2.24%, a discount rate of 17.2% or a growth rate of 2.7%, the recoverable amount of the “Tecnosulfur” brand would have been equal to the carrying amount. Further changes (lower royalty rate, higher interest rate or lower growth rate) would have necessitated an impairment.

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. Amortization of EUR 100 thousand was charged in 2016.

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

In euro thousands	**2016**	**2015**
Goodwill		
ESM Group Inc.		
Carrying amount at 01/01	3,764	7,339
Impairments	-3,702	-4,338
Subsequent acquisition costs	0	0
Other changes (e.g. currency translation)	-62	763
Carrying amount at 12/31	**0**	**3,764**
Tecnosulfur		
Carrying amount at 01/01	0	0
Impairments	-193	-132
Subsequent acquisition costs	193	132
Other changes (e.g. currency translation)	0	0
Carrying amount at 12/31	**0**	**0**
Total goodwill at 12/31	**0**	**3,764**

Brand names		
ESM Group Inc.		
Carrying amount at 01/01	4,754	7,850
Impairments	-2,170	-3,926
Subsequent acquisition costs	0	0
Other changes (e.g. currency translation)	47	830
Carrying amount at 12/31	**2,631**	**4,754**
Tecnosulfur		
Carrying amount at 01/01	3,245	4,991
Impairments	0	-562
Subsequent acquisition costs	0	0
Other changes (e.g. currency translation)	833	-1,184
Carrying amount at 12/31	**4,078**	**3,245**
SKW Stahl-Metallurgie Holding AG		
Carrying amount at 01/01	417	0
Current amortization	-100	-83
Acquisition costs	0	500
Carrying amount at 12/31	**317**	**417**
Total brand names at 12/31	**7,026**	**8,416**

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.

14. Property, plant and equipment

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

In euro thousands	Land	Buildings, including buildings on non-owned	Technical equipment, plant and machinery	Other equipment, operational and office	Advance payments and assets under construction	Total
Acquisition costs at 01/01/2016	**4,078**	**13,721**	**47,453**	**6,901**	**4,596**	**76,749**
Currency translation	253	1,132	3,967	450	5	5,807
Acquisitions	83	97	614	198	834	1,826
Disposals	0	-3	-2,666	-425	-915	-4,009
Reclassifications	187	633	2,969	147	-3,982	-46
Balance at 12/31/2016	**4,601**	**15,580**	**52,337**	**7,271**	**538**	**80,327**
Depreciation and amortization at 01/01/2016	**-1,725**	**-8,823**	**-31,344**	**-5,752**	**-801**	**-48,445**
Currency translation	-19	-603	-1,777	-352	-3	-2,754
Acquisitions	-44	-452	-3,905	-462	0	-4,863
Disposals	0	-1	2,534	405	801	3,739
Reclassifications	0	0	0	0	0	0
Balance at 12/31/2016	**-1,788**	**-9,879**	**-34,492**	**-6,161**	**-3**	**-52,323**
Net carrying amount at 12/31/2016	**2,813**	**5,701**	**17,845**	**1,110**	**535**	**28,004**

Property, plant and equipment included leased tangible assets in the amount of EUR 219 thousand (PY: EUR 287 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 131 thousand (PY: EUR 145 thousand) and technical plant and equipment accounted for EUR 88 thousand (PY: EUR 142 thousand). Furthermore, property, plant and equipment worth EUR 7,220 thousand (PY: EUR 6,243 thousand) have been pledged to local banks as collateral for loans.

Impairments of property, plant and equipment

Within the scope of the impairment test conducted at June 30, 2016, indications of a possible impairment were discovered in the ESM Group Inc. CGU. In the first step, the recoverable amount for the CGU was calculated on the basis of the value in use. According to the results of the impairment tests, the values in use are significantly less than the carrying amounts of this CGU, meaning that the recoverable value of the plant and equipment cannot be demonstrated on the basis of the cash flows expected to result from continued use. An alternative calculation of the recoverable amount based on fair value less costs to sell was not conducted. Any impairment would be allocated to the assets of the CGU in a second step (IAS 36.104); according to IAS 36.105, however, the recognition of an impairment loss may not lead to a reduction of the asset to a value below its fair value less costs to sell or its value in use. Therefore, the recoverable amounts of the individual assets were determined.

The fair values of the individual assets were determined from the following sources:

- Appraisals of land and buildings by external experts, some of which were available in current versions for financial year 2016, while others from prior years were updated. The appraisals were mainly based on the comparative value method. The values were considerably higher than the carrying amounts.
- Comparative values in markets (e.g. markets for used trucks) that are similar to those of the asset being tested. These values were considerably higher than the carrying amounts.
- Expected cash flows from individual assets according to the income approach. Already concluded contracts with third parties that purchase goods or services produced with these individual assets were used as an estimation basis. For calculating the values in use, a growth rate of 1.5% was applied for the perpetual annuity and a discount factor after taxes of 8.4% was applied. The weighted average cost of capital rate applied was based on a risk-free interest rate of 2.4% and a market risk premium for equity of 6.0%. In addition, a beta factor derived from the respective peer group and its capital structure was applied. Also in this case, the calculated values were considerably higher than the carrying amounts.

In the “ESM“ CGU, therefore, no impairments were recognized in property, plant and equipment with a carrying amount of EUR 4,536 thousand. An impairment of EUR 1,454 thousand was recognized in the remaining items of property, plant and equipment. In addition, impairments of EUR 888 thousand were recognized in intangible assets. The impairments are attributable to the “North America” segment.

At December 31, 2016, the Group was contractually committed to purchase tangible assets in the amount of EUR 186 thousand (PY: EUR 132 thousand).

As in the prior year, no borrowing costs were capitalized in the Group in 2016.

The prior-year development of property, plant and equipment is presented in the table below:

In euro thousands	Land	Buildings, including buildings on non-owned	Technical equipment, plant and machinery	Other equipment, operational and office	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 pertained to 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 and as an asset held for sale. Due to the amount of the investment, no influence was exerted on the change of the Group's reporting date. It was consolidated on the basis of the results reported by the company for the 12-month period ended December 31, 2016. This company's performance numbers exhibited the following development in its financial year (April 1 to March 31), which differs from the Group's financial year:

In euro thousands	**2016**	**2015**
Revenues	35,478	47,592
Financial year net income from continuing operations	2,695	4,197
Financial year net income from discontinued operations	0	0
Financial year net income	2,695	4,197
Other comprehensive income	0	0
Total comprehensive income	**2,695**	**4,197**

Current assets	12,611	15,263
Noncurrent assets	7,606	5,230
Total assets	**20,217**	**20,493**

Equity	16,708	13,826
Current liabilities	2,855	6,041
Noncurrent liabilities	654	626
Total equity and liabilities	**20,217**	**20,493**

Jamipol Ltd. had contingent liabilities of EUR 881 thousand at the end of its financial year (PY: EUR 766 thousand).

The interests in associated companies exhibited the following developments in the reporting period:

In euro thousands	**2016**	**2015**
Balance at 01/01	**4,147**	**3,476**
Group's share of net income	1,085	964
Exchange rate differences	689	316
Income taxes	-102	-124

Dividends collected	-439	-485
Balance at 12/31	**5,380**	**4,147**

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

In euro thousands	**2016**	**2015**
Net assets of the associated company at March 31	16,708	13,826
Shareholding percentage of the SKW Metallurgie Group	30.22%	30.22%
Group share of net assets at March 31	5,380	4,178
Equity adjustment	824	-31
Carrying amount of the investment in Jamipol Ltd. at 12/31	**5,380**	**4,147**

16. Deferred tax assets and liabilities

The deferred tax assets presented at December 31, 2016 resulted from deferred tax assets in respect of temporary differences between the IFRS carrying amounts and the tax bases. Based on the planned results for financial year 2016, an amount of EUR 907 thousand (PY: EUR 2,638 thousand) is to be classified as usable in the short term.

Deferred tax assets and liabilities are netted when they are owed by and to the same tax authority and pertain to the same taxpayer.

At December 31, 2016, deferred tax assets and liabilities resulted from the following line items of the statement of financial position:

In euro thousands	**Deferred tax assets**		**Deferred tax liabilities**	
	12/31/2016	**12/31/2015**	**12/31/2016**	**12/31/2015**
Intangible assets	0	0	2,552	4,071
Property, plant and equipment	136	121	1,246	2,775
Financial assets	66	287	0	2,269
Inventories	306	357	0	2
Other assets	1,259	1,045	0	165
Pension provisions	161	1,864	0	0
Other provisions	73	316	0	191
Miscellaneous liabilities	543	991	2	387
Tax loss carryforwards	0	1,047	0	0
Gross amount	**2,544**	**6,028**	**3,800**	**9,860**
Netting	-1,361	-4,217	-1,361	-4,217
Stated amounts	**1,183**	**1,811**	**2,439**	**5,643**

No deferred tax assets were recognized in respect of tax loss carryforwards totaling EUR 53,520 thousand because not enough taxable profits to use the deferred tax assets are expected within the planning period of 2017 to 2021. In the case of companies with a history of losses, moreover, IAS 12.35 states that deferred taxes may be recognized in respect of tax loss carryforwards only when there are substantial and convincing indications of sufficient taxable profits in the future against which the tax loss carryforwards can be applied. The as yet unused tax losses for which no deferred tax assets were recognized are non-forfeitable. The as yet unused tax losses for which no deferred tax assets were recognized, will forfeit in the amount of EUR 216 thousand in the coming five years, and in the amount of EUR 8,985 in the coming ten to fifteen years, respectively.

Deferred taxes in respect of temporary differences pertained to interests in subsidiaries and interests in joint ventures were not recognized in the amount of EUR 333 thousand (PY: EUR 790 thousand), in accordance with IAS 12.39.

17. Inventories

Inventories break down as follows:

In euro thousands	**12/31/2016**	**12/31/2015**
Raw materials and supplies	12,931	16,450
Finished goods and merchandise	13,520	16,208
Advance payments made	41	7
Goods in transit	1,760	4,158
Total	**28,252**	**36,823**

Inventories are measured at the lower of cost or net realizable value at the reporting date. Inventories of EUR 4,104 thousand (PY: EUR 11,221 thousand) were measured at the net realizable value. By way of adjustment to market prices, value adjustments in the amount of EUR 750 thousand (PY: EUR 137 thousand) and reversals of value adjustments in the amount of EUR 108 thousand (PY: EUR 102 thousand) were recognized in inventories in the reporting year.

At the reporting date, inventories of EUR 7,145 thousand (PY: EUR 3,232 thousand) were assigned as security by means of loan agreements.

The inventory consumption recognized in cost of materials amounted to EUR 154,641 thousand in financial year 2016 (PY: EUR 171,464 thousand).

18. Trade receivables

Trade receivables break down as follows:

In euro thousands	12/31/2016	12/31/2015
Receivables before value adjustments	30,279	34,023
Reversals of value adjustments	0	154
Value adjustments	-139	-645
Carrying amount of receivables	**30,140**	**33,532**

At the reporting date, trade receivables included no receivables under long-term construction contracts and no receivables due from the associated company Jamipol Ltd.

At the reporting date, receivables in the amount of EUR 709 thousand (PY: EUR 3,631 thousand) were assigned as security under loan agreements. Value adjustments of EUR 139 thousand (PY: EUR 645 thousand) were charged against trade receivables in 2016. At December 31, 2016, trade receivables in the amount of EUR 11,292 thousand (PY: EUR 18,518 thousand) were past due, but not yet reduced by value adjustments.

19. Other assets

Other assets break down as follows:

In euro thousands	12/31/2016		12/31/2015	
	Current	Noncurrent	Current	Noncurrent
Other financial assets				
Derivative financial instruments	133	0	101	0
Securities investments	2,004	0	925	0
Other financial assets	0	884	0	550
Other non-financial assets				
Income taxes	5,730	0	4,910	0
Other tax assets	1,208	0	1,463	0
Accrual	2,381	0	2,600	0
Prepayments on purchases of raw materials	197	0	129	0
Security deposit claims	149	0	68	0
Insurance claims	0	0	6	0
Miscellaneous non-financial assets	384	0	154	0
Total	**12,186**	**884**	**10,356**	**550**

The other financial and non-financial assets included numerous smaller items. Impairments of EUR 0 thousand (PY: EUR 64 thousand) were recognized in other assets in 2016. As in the prior year, no other assets were past due but not yet reduced by impairments at December 31, 2016. At

December 31, 2016, other assets in the amount of EUR 0 thousand (PY: EUR 135 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 an original term of no more than three months. Cash and cash equivalents amounted to EUR 14,276 thousand (PY: EUR 11,353 thousand).

21. Assets held for sale

The group of assets classified as held for sale in accordance with IFRS 5 (asset and liabilities directly related to them) comprised the following line items:

In euro thousands	**12/31/2016**
Assets held for sale	
Intangible assets	1,925
Property, plant and equipment	6,526
Noncurrent financial assets	5,380
Deferred tax assets	19
Inventories	2,458
Trade receivables	3,863
Other current assets	398
Cash and cash equivalents	518
Total	**21,087**
Liabilites directly related to assets held for sale	
Noncurrent financial liabilities	505
Deferred tax liabilities	2,287
Current financial liabilities	2,036
Trade payables	3,275
Income tax liabilities	516
Other current liabilities	221
Total	**8,840**

Assets held for sale include financial assets in the amount of EUR 3,863 thousand. The carrying amount is the amortized cost and is equal to the fair value.

Liabilities related to assets held for sale include financial assets in the amount of EUR 5,820 thousand. The carrying amount is the amortized cost and is equal to the fair value.

22. 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 May 10, 2016, a new Authorized Capital of EUR 3.272.465 was established for the issuance of new shares in exchange for cash capital contributions in the time until May 9, 2021. This authorization has not been utilized to date.

Treasury shares

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

Other comprehensive income

Other comprehensive income exhibited the following development:

In euro thousands	12/31/2015	Change 2016	12/31/2016
Retained earnings	-40,070	-16,834	-56,904
Change in actuarial gains and losses under defined benefit pension commitments	-4,182	-811	-4,993
Net investment in a foreign operation	-309	0	-309
Currency translation difference	-16,397	5,473	-10,924
Taxes on income and expenses recognized directly in equity	999	-981	18
Total	**-59,959**	**-13,153**	**-73,112**

Currency translation differences

The gain of EUR 5,473 thousand (PY: EUR -6,379 thousand) in financial year 2016 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), and from the EUR 2,199 thousand adjustment of the carrying amount of the investment in Jamipol Ltd. At the reporting date, equity included a loss of EUR -309 thousand (PY: EUR -309 thousand) from currency translation differences from net investments in foreign operations, unchanged from the prior year because these loans are no longer classified in accordance with IAS 21.15. The reserve will remain in effect until the underlying companies are disposed of. The reserve includes EUR 50 thousand (PY: EUR 50 thousand) resulting from a loan in KRW granted by Affival S.A.S. to Affival Korea, and EUR -359 thousand (PY: EUR -359 thousand) resulting 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 financial year 2016.

23. Additional disclosures on capital management

The Group's liquidity is secured particularly by the syndicated loan agreement concluded in early 2015 (with a term until early 2018) for an amount of up to EUR 86 million (of which EUR 46 million is an amortizing loan). This syndicated loan agreement satisfies the external financing needs of SKW Stahl-Metallurgie Holding AG (aside from overdraft facilities) and most of the external financing needs of the SKW Stahl-Metallurgie Group. With respect to this syndicated loan agreement, it was agreed in the first quarter of 2017 that this financing instrument will be available until January 31, 2018, with only customary adjustments and a waiver of cancellation, and that financial covenants and minimum principal payments will be suspended during this time.

Therefore, the managerial indicators applied for capital management, i.e. the equity ratio, the interest coverage ratio and the ratio of net financial debt to EBITDA, are not tied to fixed value limits. '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.

In euro thousands	12/31/2016	12/31/2015*	Change in %
Equity	**-5,444**	**6,140**	**-184.9%**
As % of total capital	-4.0	4.0	
Current liabilities	132,981	122,079	
Noncurrent liabilities	18,410	20,782	
Debt capital	**151,391**	**142,861**	
As % of total capital	104	96	
Total capital (equity plus debt capital)	**145,947**	**149,001**	**-2.0%**
Net financial debt/EBITDA	15.07	15.26	
Interest coverage ratio	0.00	0.00	

**Excluding the IFRS 5 presentation of SKW Quab Chemicals Inc*.

At the same time, the parent company and the syndicated lenders also agreed on a fundamental financial restructuring plan, under which the SKW Metallurgie Group will make its own financial contribution to debt repayment by selling peripheral activities. The plan also calls for a substantial capital increase, which shareholders will be entitled to subscribe, and a conditional waiver of claims by the financing banks.

The SKW Stahl-Metallurgie Group continues to systematically implement the ReMaKe restructuring program initiated in 2014, which it has since developed into a continuous improvement program. As is known, this restructuring program is a comprehensive strategic restructuring project covering all entities of the Group, which aims to permanently increase the revenues, earnings and cash flows of the SKW Metallurgie Group. Numerous supporting operational measures are expected to make a positive contribution to improving the liquidity situation in financial year 2017 and beyond.

The Executive Board considers it highly probable that this plan will be successfully implemented in 2017, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG also beyond January 31, 2018, so that the consolidated and separate financial statements at December 31, 2016 can be prepared under the assumption of a positive going-concern forecast. This view of the Executive Board is supported by a turnaround appraisal prepared by a renowned management consulting firm.

24. 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 in Germany are based on works agreements or on single-contract agreements and are designed as defined benefit plans. They pertain exclusively to former Executive Board members and employees. 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 35 “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 offset only to a slight extent 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 10,114 thousand (PY: EUR 9,143 thousand), is divided among the following companies in particular:

- SKW Stahl-Metallurgie Holding AG: EUR 6,167 thousand (PY: EUR 5,404 thousand)
- SKW Stahl-Metallurgie GmbH: EUR 3,158 thousand (PY: EUR 2,866 thousand)
- Affival S.A.S.: EUR 717 thousand (PY: EUR 813 thousand)

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

In euro thousands	**12/31/2016**	**12/31/2015**
Present value of funded defined benefit obligations	932	1,029
Fair value of plan assets	-215	-215
Funding status	**717**	**814**
Present value of unfunded defined benefit obligations	9,397	8,329
Net liability for defined benefit obligations	**10,114**	**9,143**
Effect of asset ceiling	0	0
Amount presented in the statement of financial position	**10,114**	**9,143**

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

In euro thousands	Present value of obligations	Fair value of plan assets	Total	Effect of asset ceiling	Total
Balance at 01/01/2015	**9,449**	**-208**	**9,241**	**0**	**9,241**
Current service cost	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
Effects of asset ceiling not resulting from interest rates	-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
Balance at 12/31/2015	**9,358**	**-215**	**9,143**	**0**	**9,143**
Current service costs	95	0	95	0	95
Interest expenses / (income)	211	0	211	0	211
Past service cost/ effects of plan settlements and curtailments	0	0	0	0	0
	306	***0***	***306***	***0***	***306***
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	919	0	919	0	919
Experience-based gains	-113	4	-109	0	-109
Effects of asset ceiling not resulting from interest rates	0	0	0	0	0
	806	***0***	***806***	***0***	***806***
Effect of currency translation differences	4	0	4	0	4
Contributions:					
Employer	0	0	0	0	0
Pension plan beneficiaries	0	0	0	0	0
Pension payments	-145	0	-145	0	-145
Balance at 12/31/2016	**10,329**	**-215**	**10,114**	**0**	**10,114**

The expected pension expenses for 2017 are estimated at EUR 255 thousand.

Assumptions

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

In %	12/31/2016		12/31/2015	
	Germany	France	Germany	France
Discount rate	1.90	1.90	2.30	1.90
Salary increase	2.00	1.75	2.00	1.75
Pension increase	1.30	0.00	1.30	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		
		Closing balance (EUR'000)	Change (EUR'000)	Change (%)
Discount rate	Increased by 0.25 % points	9,536	-578	-5.7%
	Decreased by 0.25 % points	10,739	625	6.2%
Salary increase	Increased by 0.5 % points	10,177	63	0.6%
	Decreased by 0.5 % points	10,057	-57	-0.6%
Pension increase	Increased by 0.5 % points	10,352	238	2.3%
	Decreased by 0.5 % points	9,900	-214	-2.1%
Pension mortality	Increased by 20 % points	10,695	581	5.7%

Composition of plan assets

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

	12/31/2016		12/31/2015	
	EUR'000	**%**	**EUR'000**	**%**
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**	**215**	**100.0**
Bonds	*215*	*100.0*	*215*	*100.0*
Other	0	0.0	0	0.0
Cash	0	0.0	0	0.0
Total plan assets	**215**	**100.0**	**215**	**100.0**

The actual income earned on plan assets was EUR 4 thousand (PY: EUR 4 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, 2016, the average term of the defined benefit obligation was 21.7 years. Expected pension payments in the next five years amount to EUR 786 thousand.

In addition, expenses of EUR 10 thousand (PY: EUR 9 thousand) were incurred for defined contribution plans in 2016.

25. Other provisions

Other provisions exhibited the following development:

In euro thousands	01/01/2016	Utilization	Appropria-tion	Reversal for lack of utilization	Currency translation differences	12/31/2016
Provision for EU antitrust proceeding	8,474	-8,474	0	0	0	0
Restructuring provision	513	-326	0	-178	0	9
Provision for case of fraud involving CaSi procurement Bhutan	75	-20	0	0	0	55
Provision for health insurance proceeding	1,000	0	0	-1,000	0	0
Provision for arbitration proceeding	680	0	0	-680	0	0
Provision for consulting	697	0	64	-10	0	751
Tax provisions	2,682	0	268	0	722	3,672
Miscellaneous other provisions	822	0	733	-559	99	1,095
Total	**14,943**	**-8,820**	**1,065**	**-2,427**	**821**	**5,582**

Of the total other provisions at December 31, 2016, EUR 1,910 thousand (PY: EUR 11,225 thousand) are short-term and the cash outflow is expected within one year. The remaining amount of EUR 3,672 thousand (PY: EUR 3,718 thousand) consists of noncurrent provisions, for which the cash outflow is expected in a period of two to five years.

26. Obligations under finance leases

In the 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 are presented in the table below:

In euro thousands	Total future minimum lease payments	Discount	Present value 12/31/2016
Due in up to 1 year	50	-4	46
Due in 1 – 5 years	96	-3	93
Due in > 5 years	0	0	0
Total	**146**	**-7**	**139**

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

In euro thousands	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**

27. Financial liabilities

Financial liabilities of EUR 85,790 thousand (PY: EUR 75,019 thousand) consist entirely of liabilities to banks.

The interest rate on financial liabilities falls within a range of between 0.0275% and 4.95% (PY: 1.02 % and 4,95 %) per annum. The range results from the different interest rates for the various underlying currencies used for financing. Both the lower end and the upper end of the range result from the interest terms for financing in EUR.

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

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

In euro thousands	12/31/2016	12/31/2015
EUR	71,013	58,449
USD	9,699	11,840
BRL	2,342	2,253
CNY	1,093	1,133
JPY	1,013	954
KRW	630	390
Total	**85,790**	**75,019**

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

In euro thousands	12/31/2016			12/31/2015		
	<1 year	1 -5 years	> 5 years	< 1 year	1 – 5 years	> 5 years
Liabilities due to banks	84,010	1,780	0	73,111	1,902	6
Financial liabilities	**84,010**	**1,780**	**0**	**73,111**	**1,902**	**6**

In terms of maturity, most of the financial liabilities are classified as "current" at the reporting date, as they were in the prior year. The context for the reporting year is that the Company was in breach of the financial covenants under the syndicated loan agreement as of September 30, 2015. As a result, the financing banks were entitled to terminate the loan at any time. With respect to this syndicated loan agreement, it was agreed in the first quarter of 2017 that this financing instrument will be available until January 31, 2018, with only customary adjustments and a waiver of cancellation, and that financial covenants and minimum principal payments will be suspended during this time. Consequently, the portion of the Group's financial liabilities attributable to this agreement were to be classified as current at the reporting date, for accounting reasons.

28. Trade payables

Trade payables amounted to EUR 21,807 thousand at the reporting date (PY: EUR 25,148 thousand). This figure includes liabilities under construction contracts in the amount of EUR 216 thousand (PY: EUR 80 thousand). Current trade payables are carried at their nominal or repayment amount and are due in full within one year.

29. Other liabilities

Other liabilities break down as follows:

In euro thousands	12/31/2016		12/31/2015	
	Current	Noncurrent	Current	Noncurrent
Other financial liabilities				
Outstanding invoices	3,187	0	1,372	0
Interest liabilities	1,087	0	635	0
Derivative financial instruments	115	0	232	0
Miscellaneous other liabilities	0	0	0	0
	4,389	**0**	**2,239**	**0**

Other non-financial liabilities				
Wages and salaries	4,164	0	4,071	24
Other taxes	2,581	0	2,935	0
Subsequent acquisition liabilities	1,851	0	1,300	0
Social security contributions	1,104	0	1,124	0
Healthcare benefits	186	0	122	0
Advance payments received	147	8	11	4
Occupational accident insurance	62	0	63	0
Miscellaneous other liabilities	1,799	227	265	203
	11,894	**235**	**9,891**	**231**
Total	**16,283**	**235**	**12,130**	**231**

30. 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, installation and commissioning of the insertion equipment at the customer's facility.

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

However, the segment report is based on the cross-product management system, so that the segments essentially represent regions. The uniform management system makes it possible to realize synergistic effects particularly in procurement and sales. Activities that are not part of the core business are summarized in the “Other and Holding” segment, as before.

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. One Chinese subsidiary that supplies these American companies is likewise assigned 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 comprises the business activity in Latin America.

Other operating segments

This segment comprises the other operating activities that do not belong to the core business of the Group. This segment is dominated by the activity of SKW Stahl-Metallurgie GmbH, which mainly distributes powder and granules for the iron desulfurization and secondary metallurgy solutions.

Other non-operating segments and holding

This segment comprises the non-operating activities that do not belong to the core business and generate no revenues with third parties. It also comprises the expenses for corporate headquarters and the income it generates from providing services to subsidiaries.

Consolidation

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

Segment assets

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

The segments break down as follows in the reporting period:

01-12/2016 In euro thousands	North America	Europe and Asia	South America	Other operating segments	Other non-operating segments and holding	Consolidation	Group
Revenues							
External revenues	**125,161**	**72,888**	**22,951**	**7,462**	**0**	**0**	**228,462**
Internal revenues	688	686	2	265	0	-1,641	0
Total revenues	**125,849**	**73,574**	**22,953**	**7,727**	**0**	**-1,641**	**228,462**
Income from associated companies	0	0	0	0	1,085	0	1,085
EBITDA	**2,969**	**4,072**	**4,395**	**2,604**	**-9,365**	**70**	**4,745**
Scheduled depreciation and amortization	-1,865	-1,158	-936	-8	-159	0	-4,125
Impairments	-8,216	0	-193	-10	1	0	-8,418
EBIT	**-7,112**	**2,914**	**3,266**	**2,586**	**-9,522**	**70**	**-7,798**
Dividends from subsidiaries	0	529	0	64	1,653	-2,246	0
Profit transfer	0	0	0	-732	732	0	0
Interest income	0	1,270	299	52	1,904	-3,198	327
Interest expenses	-3,628	-184	-153	-764	-4,052	2,873	-5,908
Other financial result	-4	890	0	381	-136	1,001	2,132
Earnings before taxes	**-10,744**	**5,419**	**3,412**	**1,587**	**-9,421**	**-1,500**	**-11,247**
Income taxes							-1,183
Earnings from continuing operations (after taxes)							**12,430**
Earnings before taxes from discontinued operations							554
Income taxes on discontinued operations							-61
Earnings from discontinued operations (after taxes)							**493**
Consolidated net loss							**11,937**
Statement of financial position at 12/31/2016							
Assets							
Segment assets	59,511	40,666	28,221	15,305	82,480	-80,236	145,947
Interests in associated companies	0	0	0	0	0	0	0
Group assets	59,511	40,666	28,221	15,305	82,480	-80,236	145,947
Liabilities							
Segment liabilities	63,037	21,179	11,703	13,488	64,966	-23,716	151,390
Group liabilities							**151,390**

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Investments in property, plant and equipment and intangible assets in 01-12/2016	**2,693**	**538**	**783**	**20**	**35**	**0**	**4,069**

The segment assets of discontinued operations amounted to EUR 15,707 thousand and the segment liabilities amounted to EUR 8,840 thousand in 2016.

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

01-12/2015 **In euro thousands**	**North America**	**Europe and Asia**	**South America**	**Other operating segments**	**Other non-operating segments and holding**	**Consolidation**	**Group**
Revenues							
External revenues	153,598	77,269	25,727	7,086	0	0	263,680
Internal revenues	2,111	2,622	3	267	0	-5,003	0
Total revenues	**155,709**	**79,891**	**25,730**	**7,353**	**0**	**-5,003**	**263,680**
Income from associated companies	0	0	0	946	18	0	964
EBITDA	**3,986**	**3,419**	**6,663**	**-3,310**	**-6,113**	**-473**	**4,172**
Scheduled depreciation and amortization	-1,759	-1,143	-935	-7	-204	0	-4,048
Impairments	-8,264	0	-694	-2	-333	0	-9,293
EBIT	**-6,037**	**2,276**	**5,034**	**-3,319**	**-6,650**	**-473**	**-9,169**
Dividends from subsidiaries	0	0	0	0	4,045	-4,045	0
Profit transfer	0	0	0	-439	439	0	0
Interest income	0	1,810	399	80	1,866	-3,625	530
Interest expenses	-4,222	-325	-264	-274	-5,414	3,625	-6,873
Other financial result	0	-769	0	0	8,081	0	7,312
Earnings before taxes	**-10,259**	**2,992**	**5,169**	**-3,952**	**2,368**	**-4,518**	**-8,200**
Income taxes							-6,003
Earnings from continuing operations (after taxes)							**-14,203**
Earnings before taxes from discontinued operations							5,352
Income taxes on discontinued operations							199
Earnings from discontinued operations (after taxes)							**5,551**
Consolidated net loss							**-8,652**
Statement of financial position at 12/31/2015							
Assets							
Segment assets	75,724	36,702	22,665	19,144	72,135	-81,515	144,855
Interests in associated companies	0	0	0	0	6,345	0	6,345
Group assets	75,724	36,702	22,665	19,144	78,480	-81,515	151,200
Liabilities							
Segment liabilities	67,868	20,297	9,953	17,242	52,751	-25,250	142,861
Group liabilities							**142,861**

Investments in property, plant and equipment and intangible assets in 01-12/2015	**4,006**	**999**	**630**	**0**	**516**	**0**	**6,151**

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

The segment results include the following significant non-cash items:

- North America:
  - i) Reversal of provisions: EUR 984 thousand (PY: EUR 0 thousand)
  - ii) Write-downs on inventories EUR -393 thousand (PY: EUR 0 thousand)
  - iii) Deferred taxes: EUR 775 thousand (PY: EUR -714 thousand)
- Europe and Asia:
  - i) Currency translation expenses and income EUR 850 thousand (PY: EUR -1,027 thousand)
  - ii) Deferred taxes: EUR -625 thousand (PY: EUR -11 thousand)
- South America:
  Expenses for personnel-related provisions: EUR -603 thousand (PY: EUR -747 thousand)
- Other operating segments
  - i) Reversal of provisions: EUR 677 thousand (PY: EUR 1,376 thousand)
- Other non-operating segments and holding
  - i) Reversal of provisions: EUR 843 thousand (PY: EUR 0 thousand)

The breakdown of revenues by product group in the reporting period and the comparison period is presented in the table below:

In euro thousands	**2016**	**2015**
Cored wire	122,437	141,593
Powder and granules	106,025	122,087
Total	**228,462**	**263,680**

The breakdown of revenues in the reporting year by country and country group is presented in the table below. Revenues are assigned to countries according to the customer's registered office and according to the registered office of the selling unit. Noncurrent assets are assigned to segments on the basis of the registered office of the respective company.

In euro thousands	External revenues (customer's registered office)	External revenues (company's registered office)	Noncurrent assets*
USA and Canada	128,867	122,307	13,665
EU excl. Germany	33,712	52,074	4,912
Brazil	21,963	22,951	17,581
Germany	13,022	7,462	492
Japan	7,032	6,846	33
Russia and Ukraine	4,299	4,229	340
Mexico	2,346	2,722	694
PR China	873	2,424	199
Rest of World	16,348	7,447	877
Total	**228,462**	**228,462**	**38,822**

* Excluding deferred taxes and financial instruments.

The corresponding prior-year segment information is as follows:

In euro thousands	External revenues (customer's registered office)	External revenues (company's registered office)	Noncurrent assets*
USA and Canada	159,490	149,414	27,805
EU excl. Germany	33,241	55,875	5,405
Brazil	24,730	25,727	14,327
Germany	11,048	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	19,680	8,393	1,049
Total	**263,680**	**263,680**	**50,430**

* Excluding deferred taxes and financial instruments.

In 2016, revenues exceeding 10% of total revenues were generated with one single customer (PY: two customers). Revenues of EUR 54,957 thousand (PY: EUR 61,073 thousand) were generated with this customer in the North America, South America and Other and Holding segments.

31. 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 sub-divided into cash flows from operating activities, investing activities and financing activities, in accordance with IAS 7.

Cash and cash equivalents in the amount of EUR 14,794 thousand (PY: EUR 11,353 thousand) correspond to the line item of “Cash and cash equivalents” in the statement of financial position, which is composed of cash on hand and current bank balances.

The cash flow statement starts with consolidated net income. The gross cash flow of EUR -4,324 thousand (PY: EUR 1,756 thousand) shows the excess of income over expenses before any utilization of funds. The item “Earnings from associated companies” totaling EUR -689 thousand (PY: EUR -479 thousand) results from the distribution collected in the reporting period in the amount of EUR 397 thousand (PY: EUR 485 thousand), less the equity investment result from the Indian production company Jamipol Ltd. totaling EUR 1,085 thousand (PY: EUR 964 thousand). The cash flow from operating activities also included the change in working capital that resulted in a cash inflow of EUR 796 thousand (PY: EUR 1,298 thousand). As a result, the cash outflow from operating activities totaled EUR -3,528 thousand (PY: EUR 3,054 thousand).

After the cash outflow from investing activities in the amount of EUR -5,506 thousand (PY: EUR -5,816 thousand), the SKW Metallurgie Group reported a free cash flow after investments of EUR -9,034 thousand in the reporting period (PY: EUR -2,762 thousand).

Bank loans of EUR 12,818 thousand (PY: EUR 62,218 thousand) were taken out for financing. At the same time, bank loans of EUR 2,120 thousand (PY: EUR 63,455 thousand). were repaid. The remaining cash flow after the measures described above, which amounted to EUR 2,812 thousand (PY: EUR -5,645 thousand), corresponds to the change in cash and cash equivalents since the prior year.

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

- Interest expenses of EUR 4,041 thousand (PY: EUR 4,310 thousand)
- Interest income of EUR 8 thousand (PY: EUR 2 thousand)
- Income taxes paid of EUR 2,309 thousand (PY: EUR 3,896 thousand)
- Income tax refunds of EUR 1,584 thousand (PY: EUR 425 thousand)

32. Other financial commitments

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

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

In euro thousands	**12/31/2016**	**12/31/2015**
Rental and leasing commitments, due:		
within one year	1,954	2,486
between two and five years	3,530	5,384
in more than five years	0	0
	5,484	**7,870**
Maintenance, service and licensing agreements, due:		
within one year	138	97
between two and five years	97	10
in more than five years	0	0
	235	**107**
Other commitments	**5,853**	**6,221**

The other financial liabilities totaling EUR 5,853 thousand (PY: EUR 6,221 thousand) mainly concern purchasing commitments under supply agreements in the amount of EUR 186 thousand (PY: EUR 132 thousand), guarantees issued in the amount of EUR 2,106 thousand (PY: EUR 2,087 thousand), and contractual commitments in the amount of EUR 216 thousand (PY: EUR 543 thousand). There are also guarantees related to financing in the amount of EUR 3,345 thousand (PY: EUR 3,459 thousand). Contingent rental payments totaling EUR 369 thousand (PY: EUR 393 thousand) were included in the result for financial year 2016.

33. Contingent assets and liabilities

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

- On July 12, 2011, SKW Stahl-Metallurgie Holding AG issued a guarantee in favor of the minority shareholder Tecnosulfur Sistema di Tratamento S.A. to secure 66.67% of a loan liability for the repayment of which the minority shareholder had issued a personal guarantee for the full amount. This loan was used by Tecnosulfur Sistema di Tratamento S.A. to invest in a sinter plant. If the loan obligations are not fulfilled by this affiliated company, SKW Stahl-Metallurgie Holding AG will be proportionally liable to the extent of its equity investment (66.67%) for the guarantee amount of EUR 1.6 million by virtue of the guarantee issued under the syndicated loan agreement. The risk of execution is very low because the financial resources of Tecnosulfur Sistema di Tratamento S.A. and its future maturity-matched operating results represent sufficient potential to repay the loan.

- One of the syndicate banks issued a loan collateral guarantee in favor of Eksportfinans ASA for part of the financing of the low-shaft furnace of SKW-Tashi Metals & Alloys Private Ltd. in Bhutan. Due to the financial woes of SKW-Tashi Metals & Alloys Private Ltd. and the resulting failure to pay the loan installments when due, Eksportfinans ASA executed this loan collateral guarantee in the amount of USD 222 thousand and charged it to SKW Stahl-Metallurgie Holding AG by way of recourse. It still amounts to USD 310 thousand (including interest). Because SKW-Tashi Metals & Alloys Private Ltd. notified its insolvency to the competent Bhutanese court and applied for insolvency proceedings under local law on December 19, 2015, the full execution of the loan collateral guarantee is very probable.

- In connection with a financing agreement between SKW Tashi Metals & Alloys Private Ltd. and Eksportfinans ASA in 2009, SKW Stahl-Metallurgie GmbH undertook vis-à-vis SKW Tashi Metals & Alloys Private Ltd. to purchase a certain quantity of CaSi semiannually, so as to enable the latter to fulfill its financial obligations vis-à-vis Eksportfinans ASA. Because SKW-Tashi notified its insolvency to the competent Bhutanese court and applied for insolvency proceedings under local law on December 19, 2015, it is rather improbable that SKW Stahl-Metallurgie GmbH will still be asked to fulfill its purchasing obligation. In any case, given the limited quantities agreed, the purchase could be handled by SKW Stahl-Metallurgie GmbH in the normal course of business.

- A cash pooling agreement was in effect between SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH until July 6, 2016. The Company is jointly and severally liable vis-à-vis the financing banks for any obligations that resulted from the cash pooling agreements until the cancellation date.

- SKW Stahl-Metallurgie Holding AG, SKW Stahl-Metallurgie GmbH (the “SKW Metallurgie companies”) and Gigaset AG (formerly ARQUES Industries AG) are jointly and severally liable for an antitrust fine imposed by the EU Commission in the total amount of EUR 13.3 million (although Gigaset AG is only liable for EUR 12.3 million). By judgment of June 16, 2016, the European Court of Justice completely dismissed the appeal filed by the SKW Metallurgie companies in the first instance, thereby affirming that the fine is lawful. The SKW Metallurgie companies fulfilled their payment obligation in due time on August 31, 2016, so that the provision formed for this liability in the amount of EUR 7.15 million was almost completely utilized. Already in 2010, Gigaset AG had filed an action to claim repayment from the SKW Metallurgie companies of the portion of the jointly and severally imposed fine which it had paid to the EU Commission (EUR 6.6 million), by way of settlement among joint and several debtors. Gigaset AG has not been successful with this action to date. After the proceeding was suspended by the now competent Munich Higher Regional Court (after having been sent back to that court by the German Federal Supreme Court) until a judgment is rendered in the appeal before the European Court of Justice (see above), the proceeding was resumed on July 22, 2016. The oral hearing will take place on July 13, 2017. The Company still considers it highly probable that Gigaset AG’s claim will be dismissed.

- In connection with the acquisition of interests in Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A by a former subsidiary of SKW Stahl-Metallurgie Holding AG that merged with Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, the former shareholders claim an amount in excess of the second purchase price tranche 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 according to the share purchase agreement on July 19, 2013, asking the tribunal to declare that they owe no further payments to the former shareholders by reason of the earn-out clause contained 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 payment claims for violation of a no-competition clause and for delaying the arbitration proceeding. The arbitration proceeding had been discontinued by action of the former shareholders because they regard the arbitration tribunal as lacking jurisdiction and would like to have the question of the amount of the second purchase price tranche payable under the earn-out clause to be clarified by the ordinary courts. However, the actions brought by the former shareholders on this subject have all been dismissed, so that the arbitration proceeding is now being continued. An appropriate liability was recognized at the reporting date to account for a further claim by Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A. Nonetheless, the Company expects that it will also be able to assert its own counter-claims, in part.

Contingent assets

The following contingent assets existed in the SKW Metallurgie Group at the reporting date:

- In a 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 under D&O liability in the amount of about EUR 55 million. The background of the lawsuit is the Company’s allegation that the defendants failed to exercise the care of a responsible and conscientious Executive Board member in creating SKW-Tashi Metals & Alloys Pte. Ltd. to operate 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 financial losses, the compensation of which the Company is demanding in this lawsuit. The defendants’ statement of defense is not yet available; however, it can be assumed that the defendants will completely dispute the validity of the claims.

  In order to explore the possibility of an amicable settlement of this dispute, the Traunstein Regional Court ordered the suspension of the civil proceeding for damages by resolution of August 4, 2016, at the request of the parties. After protracted negotiations, a settlement of this matter was reached in March 2017. However, the settlement is pending, subject to the approval of the annual general meeting planned for July 6, 2017. It is therefore uncertain whether this matter can be brought to a conclusion without an additional cost burden for the Company, despite the amicable settlement of the legal dispute.

34. Governing bodies of the Company

Supervisory Board

Volker Stegmann, Baldham (Germany) Supervisory Board Chairman of Concordia Versicherungs-Gesellschaft Chairman of the Supervisory Board since August 8, 2016 (member of the Supervisory Board since May 10, 2016, Vice Chairman of the Supervisory Board from May 23, 2016 to August 8, 2016)
Dr. Alexander Kirsch, Munich (Germany) Investment Manager Pari Group Vice Chairman of the Supervisory Board since August 8, 2016 (member of the Supervisory Board since June 9, 2016)
Dr. Olaf Marx, Munich (Germany) Managing Partner of MCGM GmbH Member of the Supervisory Board (since May 10, 2016) (Chairman of the Supervisory Board from May 23, 2016 to June 28, 2016)
Dr. Peter Ramsauer, Traunwalchen (Germany) Member of the German Federal Parliament Member of the Supervisory Board (since May 10, 2016)
Tarun Somani, New Delhi (India) Investment Manager Somani Group Member of the Supervisory Board (since December 30, 2015; re-elected on May 10, 2016)
Titus Weinheimer, New York, NY (USA) Chief Operating Officer and General Counsel of nH2 Ltd. (formerly NanoHoldings LLC), Member of the Supervisory Board (since June 10, 2008; Chairman of the Supervisory Board in the time from June 10, 2008 to May 10, 2016)
Armin Bruch, Erzhausen (Germany) Independent entrepreneur Member of the Supervisory Board (from June 15, 2009 to May 10, 2016)
Reto A. Garzetti, Zurich (Switzerland) Board of Directors of SE Swiss Equities AG Member of the Supervisory Board (from June 9, 2015 to May 10, 2016)

Jochen Martin, Munich (Germany) AFINUM Management GmbH, Partner Vice Chairman of the Supervisory Board (from June 15, 2009 to May 10, 2016)
Jutta Schull, Frankfurt am Main (Germany) Managing Director of BJS Composites GmbH Member of the Supervisory Board (from January 14, 2014 to May 10, 2016)

Executive Board

Dr. Kay Michel, Bensheim (Germany) Dipl.-Ing., sole member of the Executive Board (member of the Executive Board since April 1, 2014)

Supervisory Board

In January 2016, Mr. Tarun Somani was initially appointed to the Company's Supervisory Board by way of judicial appointment. The judicial appointment was made at the request of the Executive Board and with the support of the Supervisory Board. It had become necessary because Dr. Hans Liebler resigned his mandate as a Supervisory Board member with effect from November 30, 2015. Supervisory Board elections were held at the Company's annual general meeting of May 10, 2016 because the terms of office of five Supervisory Board members ended upon the close of this general meeting and one Supervisory Board member (Ms. Jutta Schull) had resigned her mandate at the close of this general meeting.

In the general meeting, the candidates Dr. Olaf Marx, Dr. Peter Ramsauer and Mr. Volker Stegmann proposed by the shareholder MCGM GmbH and Messrs. Titus Weinheimer und Tarun Somani proposed by the management received the required majority of 2/3s of the votes cast, as required by the Company's Articles of Incorporation. However, the election of a sixth Supervisory Board member failed to meet this majority requirement, so that the Supervisory Board with only five members did not have the composition required by the Articles of Incorporation. On June 9, 2016, therefore, Dr. Alexander Kirsch was judicially appointed at the proposal of the Company for a term of office lasting until the next general meeting.

Mr. Titus Weinheimer held the office of Supervisory Board Chairman until the Company's general meeting of May 10, 2016. The Vice Chairman was Mr. Jochen Martin. In the period from May 23, 2016 to June 28, 2016, Dr. Olaf Marx was the Supervisory Board Chairman and Mr. Volker Stegmann was the Vice Chairman. Since August 8, 2016, Mr. Volker Stegmann has held the Chairman's position and Dr. Alexander Kirsch the Vice Chairman's position.

For reasons of efficiency and for the sake of avoiding potential conflicts of interest, a new committee, the Refinancing Committee, was formed on December 8, 2016 to deal with the critical issues of refinancing with debt and/or equity and the implementation of the restructuring plan. Mr. Stegmann is likewise the Chairman and Dr. Alexander Kirsch is the Vice Chairman of the Refinancing Committee. Other members are Dr. Peter Ramsauer and Mr. Titus Weinheimer.

There were no personnel changes in the Audit Committee in the year under review. For reasons of efficiency, however, the newly constituted Supervisory Board after the general meeting of May 10, 2016 resolved not to establish an Audit Committee again.

There were no personnel changes in the Personnel Committee or Nominating Committee. Following the general meeting, these two committees and the Strategy Committee were not established again.

The Company is not legally obligated to appoint employee representatives to the Supervisory Board and also does not voluntarily submit to co-determination, so that the Supervisory Board was composed exclusively of shareholder representatives in the reporting period, as in prior periods.

The Supervisory Board met for a total of 14 meetings in the year under review, of which eight were regular in-person meetings and six were held by telephone. The meetings were regularly held with all members participating. In addition, two resolutions were adopted by written circular. The Audit Committee and the Personnel Committee each held one in-person meeting in the past financial year. The Nominating Committee and the Refinancing Committee each held two in-person meetings. The Strategy Committee did not hold a meeting.

Further mandates held by the members of SKW Stahl-Metallurgie Holding AG in financial year 2016

Volker Stegmann, Supervisory Board Chairman of Concordia Versicherungs-Gesellschaft, resident in Baldham (Germany), Chairman of the Supervisory Board
(since May 10, 2016)

Company	Function
Concordia Versicherungs-Gesellschaft auf Gegenseitigkeit, Hannover	Supervisory Board Chairman
Concordia oeco Lebensversicherungs-AG, Hanover	Member of the Supervisory Board
Concordia Krankenversicherungs-AG, Hanover	Member of the Supervisory Board
Concordia Rechtsschutz-Versicherungs-AG, Hanover	Member of the Supervisory Board

The mandates on the Supervisory Boards of Concordia oeco Lebensversicherungs-AG, Concordia Krankenversicherungs-AG, Concordia Rechtsschutz-Versicherungs-AG are intragroup mandates of the same corporate group led by Concordia oeco Lebensversicherungs-AG as the group's parent company.

Dr. Alexander Kirsch, Investment Manager Pari Group
resident in Munich (Germany), Vice Chairman of the Supervisory Board
(since June 9, 2016)

Company	Function
Centrosolar America, Inc., Scottsdale (AZ), USA	Member of the Board (Non-Executive)
euromicron AG, Frankfurt, Germany	Member of the Supervisory Board

Dr. Olaf Marx, Managing Partner der MCGM GmbH
resident in Munich, (Germany), member of the Supervisory Board
(since May 10, 2016)

No further mandates in German Supervisory Boards or comparable boards in Germany or abroad.

Dr. Peter Ramsauer, Member of the German Federal Parliament
resident in Traunwalchen, (Germany), member of the Supervisory Board
(since May 10, 2016)

Company	Function
Münchner Hypothekenbank eG, Munich	Member of the Supervisory Board
Aebi Schmidt Holding AG, Frauenfeld, Switzerland	Member of the Board of Directors
Gothaer Versicherungsbank VVaG, Cologne	Member of the Council of Entrepreneurs

Tarun Somani, Investment Manager Somani Group
resident in New Delhi (India)

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 mandates on the Boards of Directors of Northern Exim Pvt. Ltd., Somani Housing Private Limited and Indoit Real Estates Limited are internal mandates of the same corporate group.

Titus Weinheimer, Chief Operating Officer and General Counsel of nH2 Ltd. (formerly NanoHoldings LLC), resident in New York, NY (USA)

Company	Function
nH2 Ltd.	Member of the Board of Directors
NirVision LLP	Member of the Board of Directors
Safewater Nano Pte. Ltd. (Singapore)	Member of the Board of Directors
Safe Water Innovations Pty. Ltd. (India)	Member of the Board of Directors
Toth Information Systems Inc.	Member of the Board of Directors
nVerPix LLP	Member of the Board of Directors

The aforementioned mandates on the Boards of Directors of NirVison LLP, Safewater Nano Pte. Ltd., Safe Water Innovations Pty. Ltd., Toth Information Systems Inc. and nVerPix LLP are internal mandates of the same corporate group, with nH2 Ltd. as the group's parent company.

The mandates on the Board of Directors of Safe Water Innovations Pty. Ltd. and Toth Information Systems Inc. have been held since March 15, 2017.

The mandate on the Board of Directors of nVerPix LLP ended on March 15, 2017.

Jochen Martin, AFINUM Management GmbH, Partner, resident in Munich (Germany), Vice Chairman of the Company's Supervisory Board (until May 10, 2016)

Company	Function
Alfmeier Präzision SE, Treuchtlingen	Member of the Board of Directors

Armin Bruch, independent entrepreneur, resident in Erzhausen (Germany)
(until May 10, 2016)

Company	Function
HCS GmbH, Frankfurt	Member of the Advisory Board

Jutta Schull, Head of the Cathodes and Furnace Linings Business Unit at SGL Carbon GmbH until June 30, 2015; Managing Director of BJS Composites GmbH since July 1, 2015, resident in Frankfurt am Main (until May 10, 2016)

No further mandates on German Supervisory Boards or comparable boards in Germany or abroad.

Reto A. Garzetti, Board of Directors of SE Swiss Equities AG, Zurich, CH, resident in Zurich (Switzerland)
(until May 10, 2016)

Company	Function
SE Swiss Equities AG, Zurich, CH	Member of the Board of Directors
Siegfried Holding AG, Zofingen, CH	Member of the Board of Directors
AGI AG für Isolierungen, Dällikon, CH	Member of the Board of Directors
HFS Helvetic Financial Services AG, Wollerau CH	Member of the Board of Directors
HPI Helvetic Financial Investments AG, Wollerau, CH,	Member of the Board of Directors
Occlutech Holding AG, Schaffhausen, CH	Member of the Board of Directors
Neugass Kino AG, Zurich, CH	Member of the Board of Directors
Altura Investments Limited, Cayman Island	Member of the Board of Directors
Piora AG, Zug, CH	Member of the Board of Directors
Silver Reel Pictures AG, Zug, CH	Member of the Board of Directors
Peach Property Group AG, Zurich, CH	Member of the Board of Directors

The aforementioned mandates on the Boards of Directors of HPI Helvetic Financial Investments AG and HFS Helvetic Financial Services AG are internal mandates of the same corporate group. The same applies for the aforementioned mandates on the Boards of Directors of Piora AG and Silver Reel Pictures AG and the Board of Directors of Altura Investments Limited.

<u>Further mandates of members of the Executive Board of SKW Stahl-Metallurgie Holding AG in financial year 2016</u>

Dr. Michel was the Managing Director of ProValue Management GmbH in financial year 2016. Aside from that, he did not hold any mandates outside the SKW Metallurgie Group in the reporting period.

In addition, Dr. Michel held the following mandates within the SKW Metallurgie Group in the reporting period:

- Affival Inc., Chairman of the Board of Directors
- Affival SAS, Chairman of the Board of Directors
- SKW Quab Chemicals Inc., Member of the Board of Directors
- SKW Metallurgie USA Inc., Member of the Board of Directors
- ESM Group Inc., 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 Metallurgie Asia Pte. Ltd., Chairman of the Board of Directors

35. Compensation of the governing bodies

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

In accordance with the statutory requirements, details of the compensation of the Supervisory Board and Executive Board in financial year 2016 are presented in the following.

I. Supervisory Board:

The compensation of Supervisory Board members does not include compensation components geared to business performance; instead, it is divided into an annual fixed compensation and attendance fees.

The annual fixed compensation amounts to 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 each attended meeting of the full Supervisory Board. Each committee member receives an attendance fee of EUR 1 thousand for each attended committee meeting; the committee Chairman receives 1.5 times that amount. Accordingly, the following total amounts were expended for Supervisory Board compensation in financial year 2016:

In euro thousands	**Fixed compensation***	**Attendance fees**	**Total**
Armin Bruch	5	4	9
Reto Garzetti	5	2	7
Alexander Kirsch	8	6	14
Jochen Martin	6	3	9
Olaf Marx	11	7	18
Peter Ramsauer	8	6	14
Jutta Schull	5	3	8
Tarun Somani	12	6	18
Volker Stegmann	14	9	23
Titus Weinheimer	16	13	29
Total	**90**	**59**	**149**

**Provisions for the activity of the Supervisory Board in 2016; amounts to be disbursed in 2017.*

In accordance with Article 12 of the Company's Articles of Incorporation, Supervisory Board members are reimbursed for necessary expenditures in addition to the compensation presented above. In the reporting period, these expenditures consisted of travel and hospitality expenses, which were reimbursed at the maximum amount allowed under German income tax law (EUR 136 thousand).

As in prior years, the Company assumed the expenses for a D&O insurance policy protecting the members of the Executive Board and Supervisory Board, as well as other senior officers of the Company, in financial year 2016. In accordance with the rules of the German Corporate Governance Code, the D&O insurance features a deductible of 10% of any claim, up to one and one half times the fixed annual compensation for each member of the Executive Board and the Supervisory Board.

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

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

All payments to members of the Supervisory Board included value-added tax, where applicable, and any income tax deductions were withheld.

II. Executive Board:

As a rule, the compensation of the members of the Executive Board is always conformant with the appropriateness requirements of law and the German Corporate Governance Code and is particularly oriented to the tasks and individual contributions of each Executive Board member to the Group's overall success. Other benchmarks considered for this purpose include, for example, 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.

In financial year 2016, the Executive Board was composed exclusively of Dr. Kay Michel (CEO).

His compensation consists of 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 consists of the company car made available to Executive Board members also for private use. The Company also assumes certain occupational-specific insurance premiums and the expenses of additional, smaller in-kind benefits; these expenses are either not counted as income or taxed at a flat rate in accordance with the German Income Tax Act. In financial year 2016, 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 officers of the Company. In accordance with Section 93 (2) Sentence 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, as mentioned above. 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 central performance indicators EBITDA und ROCE ("Return on Capital Employed") and personal performance, at the beginning of the financial 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 financial year. Due to the Company's exceptional situation (restructuring and turnaround phase), the Supervisory Board still considers it possible, sensible and expedient to waive the multiyear assessment base (within the meaning of Section 87 (1) Sentence 3 AktG).

In addition, a market-customary agreement has been concluded with Dr. Michel for the event of a change of control resulting from a takeover offer, which is conformant with the recommendations of the German Corporate Governance Code.

The affected companies do not pay compensation to members of the Group Executive Board for mandates held with consolidated subsidiaries. Members of the Group's Executive Board also serve on the Board of Directors of the non-consolidated company Jamipol; Jamipol paid attendance fees for board meetings attended in financial year 2016, but these amounts have no longer gone to the members of the Group's Executive Board since 2014.

No expenses were incurred in financial year 2016 for Executive Board compensation for financial year 2015.

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

The following total amounts were expended for Executive Board compensation in financial year 2016 (the non-cash benefit is presented for in-kind compensation):

In euro thousands	**Dr. Kay Michel (full year)**
Fixed compensation	380*
In-kind compensation (company car)	13
Allowances for healthcare and nursing care insurance	4
Variable compensation for 2016	562
Total	**959**

** Including the pension component, which included a cash settlement of EUR 80 thousand for Dr. Michel in financial year 2016.*

III. <u>Former members of the Supervisory Board and Executive Board:</u>

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 protection against insolvency. No pension benefits were payable in financial year 2016. Calculated in accordance with the German Commercial Code (HGB), the expenses incurred in 2016 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 12 thousand, of which EUR 8 thousand for Ms. Kolmsee and EUR 4 thousand for Mr. Ertl; calculated in accordance with IFRS, these expenses amounted to EUR 123 thousand, of which EUR 83 thousand for Ms. Kolmsee and EUR 40 thousand for Mr. Ertl.

The settlement amount (HGB) for the pension commitment to Mr. Ertl and his survivors was EUR 1,165 thousand at the reporting date (PY: EUR 1,159 thousand).

The settlement amount (HGB) for the Company's pension commitment to Ms. Kolmsee and her survivors was EUR 2,326 thousand at the reporting date (PY: EUR 2,318 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.

Independently of his pension commitments, in 2016 Mr. Ertl asserted a claim to a final payment under the earlier long-term incentive (LTI) system for the years 2010 to 2013. A renewed legal review found that this claim is at least doubtful from the standpoint of the SKW Metallurgie Group; nonetheless, for reasons of caution and in view of the imponderables associated with a possible judicial dispute, the Company found it advisable to recognize a provision for this matter in the amount of EUR 130 thousand.

36. Dealings with 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 influence on each other or by the same third party, or by control, significant 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 influence 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 affiliated 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, joint ventures and persons who have a significant influence on the financial and business policy of the SKW Metallurgie Group, including close family members or intermediate companies. Because no single shareholder held a commensurate number of shares in fixed ownership at December 31, 2016, no single shareholder was able to exert a significant influence on the financial and business policy of the SKW Metallurgie Group and could therefore not be defined as a related party within the meaning of IAS 24.''

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 notification obligation exist according to IAS 24 in the reporting year 2016:

Dealings with related companies

The SKW Metallurgie Group conducts no business dealings with associated, non-consolidated subsidiaries.

In the year under review there were no business transactions with **Jamipol Ltd**., which is consolidated at equity, aside from this company's dividend payment. SKW Metallurgie Asia Ltd. also participated in the dividends of Jamipol Ltd. due to its investment in Jamipol Ltd. In 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** conducted business dealings with both CJ Locações e Transportes Ltda. and Gustavo França Fonseca Paixão – ME. These two companies are owned by close family members of the non-controlling shareholder and managing director of Tecnosulfur. An amount of EUR 85 thousand (PY: EUR 82 thousand) was expended for passenger transport and courier services rendered by CJ Locações e Transportes Ltda. and expenses of EUR 89 thousand (PY: EUR 0 thousand) were incurred for IT services rendered by Gustavo França Fonseca Paixão – ME in the reporting period.

Dealings with related persons

Supervisory Board:

As described in Section D. 34 "Governing bodies of the Company," some members of the Supervisory Board also held mandates with companies outside of the SKW Metallurgie Group. SKW Stahl-Metallurgie Holding AG maintains normal business relationships of a minor extent with some of these external companies, under market-customary terms and conditions.

The compensation granted to members of the Supervisory Board for their activity is described in Section D. 35 "Compensation of governing bodies."

Executive Board:

The payments made by SKW Stahl-Metallurgie Holding AG to members of the Executive Board are described in full in the Section D.35 "Compensation of governing bodies."

The pension commitment to former members of the Executive Board and their survivors amounted to EUR 3,491 thousand (PY: EUR 3,477 thousand) at the reporting date.

37. Employees

The SKW Metallurgie Group had an average total of 584 employees in financial year 2016 (PY: 875). In most countries there is no longer a statutory distinction between industrial and non-industrial employees. The average number of employees includes 311 industrial employees (PY: 532), 269 commercial employees (PY: 335) and 4 apprentices (PY: 8).

At the reporting date, there were 562 employees (PY: 655), which included 296 industrial employees (PY: 361), 266 commercial employees (PY: 290) and 0 apprentices (PY: 4).

38. 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 in 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.

In euro thousands	**12/31/2016**		**12/31/2015**	
	Carrying amount	**Market value**	**Carrying amount**	**Market value**
Financial assets				
Loans and receivables	33,058	33,058	35,026	35,026
Financial assets held for trading (derivatives without hedge accounting)	133	133	101	101
Financial liabilities				
Financial liabilities at amortized cost	112,968	112,968	103,521	103,521

Derivative financial instruments without hedging effect (no hedge accounting)	115	115	232	232

The individual asset items presented in the statement of financial position are reconciled with the valuation categories and classes in euro thousands at December 31, 2016 in the table below:

ASSETS	Valuation per IAS 39					
	Loans and receivables		Assets held to maturity	Available-for-sale financial assets	Financial assets measured at fair value through profit or loss	
	Carrying amount per statement of financial position 12/31/2016	Amortized cost	Amortized cost	Fair value recognized in equity	Fair value through profit or loss	Fair value 12/31/2016
Other assets	2,898	2,898	0	0	0	2,898
Trade receivables	30,140	30,140	0	0	0	30,140
Derivatives without hedging effect (no hedge accounting)	133	0	0	0	133	133

The prior-year values in thousand euros at December 31, 2015 are presented in the table below:

ASSETS	Valuation per IAS 39					
	Loans and receivables		Assets held to maturity	Available-for-sale financial assets	Financial assets measured at fair value through profit or loss	
	Carrying amount per statement of financial position 12/31/2015	Amortized cost	Amortized cost	Fair value recognized in equity	Fair value through profit or loss	Fair value 12/31/2015
Other assets	1,494	1,494	0	0	0	1,494
Trade receivables	33,532	33,532	0	0	0	33,532
Derivatives without hedge effect (no hedge accounting)	101	0	0	0	101	101

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 at December 31, 2016.

LIABILITIES	**Valuation per IAS 39**			
	Carrying amount per statement of financial position 12/31/2016	**Financial liabilities measured at amortized cost**	**Financial liabilities at fair value through profit or loss**	**Fair value 12/31/2016**
		Amortized cost	**Fair value**	
Financial liabilities	85,790	85,790	0	85,790
Trade payables (excluding PoC)	21,591	21,591	0	21,591
Other liabilities	5,587	5,587	0	5,587
Derivatives without hedging effect (no hedge accounting)	115	0	115	115

The prior-year values at December 31, 2015 are presented in euro thousands in the table below:

LIABILITIES	Valuation per IAS 39			
	Carrying amount per statement of financial position 12/31/2015	Financial liabilities measured at amortized cost	Financial liabilities at fair value through profit or loss	Fair value 12/31/2015
		Amortized cost	Fair value	
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

The carrying amount of 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 at 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 equal to 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 at December 31, 2016:

In euro thousands	Level 1	Level 2	Level 3	Total
Financial assets measured at market value				
- Derivative financial instruments	0	133	0	133
Financial liabilities measured at market value				
- Derivative financial instruments	0	115	0	115

The prior-year values at December 31, 2015 are presented in the table below:

In euro thousands	Level 1	Level 2	Level 3	Total

Financial assets measured at market value				
- Derivative financial instruments	0	101	0	101
Financial liabilities measured at market value				
- Derivative financial instruments	0	232	0	232

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 interest rate swaps 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.

In euro thousands	12/31/2016	12/31/2015
Loans and receivables	473	451
Financial assets held to maturity	0	0
Available-for-sale financial assets	0	0
Derivatives without hedging effect	0	-147
Financial liabilities measured at amortized cost	-120	-75

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.

39. Derivative financial instruments

In the context of risk management, derivative financial instruments can be used to limit the risks mainly arising from exchange and interest rate fluctuations and credit risks. As a rule, derivative financial instruments are used to hedge recognized or non-recognized underlying transactions and serve to reduce exchange rate and interest risks.

The fair values of the derivative financial instruments employed by the Group are presented in the table below:

In euro thousands	Fair value 12/31/2016	Fair value 12/31/2015
Assets		
Currency derivatives without hedging effect (no hedge accounting)	133	101
Liabilities		
Currency derivatives without hedging effect (no hedge accounting)	115	232

Derivatives with hedging effect

There were no hedging relationships according to IAS 39 (Hedge Accounting) at the reporting date.

Derivatives without a hedge effect

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 and interest swaps.

40. 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, 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 has 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 in financial 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 as well as 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 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 financial 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):

In euro thousands	**Average exchange rates 2016 -10 %**	**Average exchange rates 2016**	**Average exchange rates 2016 +10%**
Revenues	263,660	248,521	236,135
EBITDA	7,195	6,771	6,424
Financial year net loss	-13,166	-11,937	-10,932

The effect of changes in the USD exchange rate on equity is presented in the table below (simulation of average exchange rates and closing exchange rates at the reporting date):

In euro thousands	**Exchange rates 2016 -10 %**	**Exchange rates 2016**	**Exchange rates 2016 +10 %**
Equity	-1,081	-5,444	-9,013

In case of changes in the BRL exchange rate (Brazilian real) (The table shows the values for the SKW Group without considering IFRS 5):

In euro thousands	**Average exchange rates 2016 -10 %**	**Average exchange rates 2016**	**Average exchange rates 2016 +10 %**
Revenues	251,072	248,521	246,435
EBITDA	7,259	6,771	6,371
Financial year net loss	-11,631	-11,937	-12,188

The effect of changes in the BRL exchange rate on equity are presented in the table below (simulation of average exchange rates and closing exchange rates):

In euro thousands	**Exchange rates 2016 -10 %**	**Exchange rates 2016**	**Exchange rates 2016 +10 %**
Equity	-3,627	-5,444	-6,931

In case of changes in all Group currencies (The table shows the values for the SKW Group without considering IFRS 5.):

In euro thousands	Average exchange rates 2016 -10 %	Average exchange rates 2016	Average exchange rates 2016 +10 %
Revenues	269,523	248,521	231,339
EBITDA	7,914	6,771	5,836
Financial year net loss	-12,632	-11,937	-11,369

The prior-year effects of changes in all Group currencies are presented in the table below:

In euro thousands	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
Financial year net loss	2,521	-8,652	-17,797

The effect of changes in Group currencies on equity are presented in the table below (simulation of average exchange rates and closing exchange rates):

In euro thousands	Exchange rates 2016 -10 %	Exchange rates 2016	Exchange rates 2016 +10 %
Equity	2,088	-5,444	-11,607

The prior-year effects of these changes are presented in the table below (simulation of average exchange rates and closing exchange rates):

In euro thousands	Exchange rates 2015 -10 %	Exchange rates 2015	Exchange rates 2015 +10 %
Equity	8,561	8,339	7,004

Effects of translation-related currency risks

Many Group entities are located outside the Eurozone. Because the reporting currency of the SKW Metallurgie Group is the euro, the financial statements of these companies are translated to euros in the consolidated financial statements. The translation-related effects that arise when the value of net asset items translated into euros changes 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 liquidity in the international money and capital markets in different currencies – mostly in euros and US dollars – and with different maturities. The resulting financial liabilities and cash investments are exposed to interest rate risks in part. 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 at December 31, 2016. The interest expenses presented 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 at December 31, 2016, 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 financial year net income/loss, other comprehensive income, and thus equity:

In euro thousands	**Change of all interest rate curves at December 31, 2016**	
	+100 basis points	**-100 basis points**
Financial year net income/loss	-939	837
Other comprehensive income	0	0
Equity	**-939**	**837**

The prior-year results of this analysis are presented in the table below:

In euro thousands	Change of all interest rate curves at December 31, 2015	
	+100 basis points	-100 basis points
Financial year net income/loss	-522	302
Other comprehensive income	0	0
Equity	**-522**	**302**

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. Default risk (credit risk) is the unexpected loss of cash or income. This arises when the counterparty is no longer able to meet its obligations when due, when the assets serving as collateral lose value or when projects in which the SKW Metallurgie Group invests are not successful. Therefore, the maximum risk of default is the positive fair value of the financial instrument in question. In order to minimize default risks, the SKW Metallurgie Group only enters into financial instruments for financing purposes with counterparties that have very good credit ratings.

In its operating activities, the Group companies continuously monitor outstanding amounts and default risks and secure some of them with commercial credit insurance. In addition, letters of credit and indemnity bonds are used to secure some receivables. Therefore, the SKW Metallurgie Group's default risk can be regarded as rather low. Moreover, the receivables due from contractual partners are not so great that they would represent extraordinary risk concentrations. Value adjustments are charged to account for default risks.

Trade receivables totaling EUR 139 thousand (PY: EUR 645 thousand) were value-adjusted in 2016 and other receivables totaling EUR 0 thousand (PY: EUR 64 thousand) were value-adjusted in 2016. Of the total trade receivables of EUR 30,140 thousand (PY: EUR 33,532 thousand), receivables totaling EUR 11,292 thousand (PY: EUR 18,518 thousand) were past due but not value-adjusted, and receivables totaling EUR 696 thousand were value-adjusted and have a total carrying amount after value adjustments of EUR 12 thousand.

The due dates of past-due, but not value-adjusted trade receivables are presented below:

In euro thousands	< 90 days	90 to 180 days	180 to 360 days	> 360 days	Total
12/31/2016	11,210	82	0	0	11,292
12/31/2015	18,398	88	29	3	18,518

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 2016 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, due to the insufficient availability of cash and cash equivalents. Managing liquidity risk, which entails the proper allocation of resources and the protection of the SKW Metallurgie Group's financial independence, is one of the central tasks of SKW Stahl-Metallurgie Holding AG. The SKW Metallurgie Group limits this risk by means of 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 and its subsidiaries possessed sufficient liquidity at all times in financial year 2016. The Group's liquidity is particularly secured by the syndicated loan agreement concluded at the start of 2015 (with a term until the start of 2018) for an amount of up to EUR 86 million (of which EUR 46 million is an amortizing loan). This syndicated loan agreement satisfies the external financing needs of SKW Stahl-Metallurgie Holding AG (aside from overdraft facilities) and most of the external financing needs of the SKW Stahl-Metallurgie Group. With respect to this syndicated loan agreement, it was agreed in the first quarter of 2017 that this financing instrument will be available until January 31, 2018, with only customary adjustments and a waiver of cancellation, and that financial covenants and minimum principal payments will be suspended during this time.

The parent company and the syndicated lenders also agreed on a fundamental financial restructuring plan, under which the SKW Metallurgie Group will make its own financial contribution to debt repayment by selling peripheral activities. The plan also calls for a substantial capital increase, which shareholders will be entitled to subscribe, and a conditional waiver of claims by the financing banks.

The SKW Stahl-Metallurgie Group continues to systematically implement the ReMaKe restructuring program initiated in 2014, which it has since developed into a continuous improvement program. As is known, this restructuring program is a comprehensive strategic restructuring project covering all entities of the Group, which aims to permanently increase the revenues, earnings and cash flows of the SKW Metallurgie Group. Numerous supporting operational measures are expected to make a positive contribution to improving the liquidity situation in 2017 and beyond.

The Executive Board considers it highly probable that this plan will be successfully implemented in 2017, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG also beyond January 31, 2018, so that the consolidated and separate financial statements as of December 31, 2016 can be prepared under the assumption of a positive going-concern forecast. This view of the Executive Board is supported by a turnaround appraisal prepared by a renowned management consulting firm.

Nonetheless, it must be pointed out that the implementation of any future plan is fraught with uncertainties. Parts of the planned financial restructuring measures depend on the cooperation of third parties (shareholders, other stakeholders and investors), who cannot be influenced by the SKW Stahl-Metallurgie Group. In the event of a significant negative variance from the planned business performance and/or the unsuccessful implementation of operational measures under the ReMaKe program and/or a failure of the financial structuring plan or the inability to obtain financing to replace the syndicated loan agreement, the liquidity of the Company and the Group would no longer be assured. In this case, the going-concern status of the Company and the Group would be endangered. Therefore, the future status of a going concern beyond January 31, 2018 will depend on the successful implementation of the aforementioned financial restructuring plan. Even before January 31, 2018, a foreseeable or actual failure of the financial restructuring plan would entail the risk that the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG would no longer be assured, meaning that the going-concern status of the Company and the Group would be endangered.

The following table shows all the contractually fixed payments for redemptions, repayments and interest arising from the financial liabilities recognized at December 31, 2016, 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 the terms at December 31, 2016.

In euro thousands	< 30 days	30 - 90 days	90 - 180 days	180 < days < 360	1 - 2 years	3 - 5 years	> 5 years	Total
Liabilities due to banks	15,108	94	2,246	11,576	70,117	6,526	5,866	111,533
Trade payables (excluding construction contracts)	20,375	885	66	266	0	0	0	21,592
Liabilities under finance leases	46	93	0	0	0	0	0	139
Other liabilities	1,106	1,106	0	216	0	0	0	2,428
Derivate financial instruments without hedging effect	115	0	0	0	0	0	0	115

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:

In euro thousands	< 30 days	30 - 90 days	90 - 180 days	180 < days < 360	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

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 shareholders and analysts. The net liquidity and net financial debt is the result of the total cash and cash equivalents and current available-for-sale financial assets, less the liabilities due to banks and liabilities due to other third parties presented in the statement of financial position.

Net financial debt in the reporting period and prior year is presented in the table below:

In euro thousands	12/31/2016	12/31/2015
Cash and cash equivalents	14,276	12,278
Total liquidity	**14,276**	**12,278**
Current financial liabilities	83,933	73,111
Noncurrent financial liabilities	1,857	1,908
Total financial liabilities	**85,790**	**75,019**
Net financial debt	**-71,514**	**-62,741**

The financial resources of the SKW Metallurgie Group comprise cash and cash equivalents, current available-for-sale financial assets 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 for loan liabilities throughout the entire reporting period.

41. Significant events after the reporting date

At the end of January/beginning of February 2017, an agreement was concluded with the banks participating in the syndicated loan. This agreement assures the Group’s financing until January 31, 2018.

SKW Stahl-Metallurgie Holding AG, represented in this case by its Supervisory Board, has sued two former members of its Executive Board for damages of an amount in the multi-digit millions, based on their liability as directors and officers. After protracted negotiations, a settlement of this matter was reached in March 2017. This settlement generates cash income of roughly EUR 3.35 million and other financial relief effects of roughly EUR 2 million for the Company. However, this settlement is pending, subject to the approval of the annual general meeting planned for July 6, 2017. As a fixed element of the business plan, the cash inflows generated from the D&O settlement will be used to pay down some of the Company's loan obligations within the scope of the financial restructuring plan. As part of this settlement, the aforementioned pension commitments toward Ms. Kolmsee were cut in half.

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, 2016 and the preparation of the present Management Report.

42. Shareholder structure and voting rights notifications

Shareholder structure

There were four holdings of SKW Metallurgie shares subject to the notification obligation as per the German Securities Trading Act (3% or more of total voting rights) at December 31, 2016.

First Holding GmbH, Munich (Germany), held 703,784 shares (= 10.75%) and is therefore the biggest shareholder of SKW Stahl-Metallurgie Holding AG. The natural person Dr. Klemens Joos is subject to the notification obligation for this shareholding. The corresponding voting rights notification (>10%, <15%) was made on June 24, 2016, at that time for 14.09%. The following three other shareholdings of legal entities are subject to the notification obligation:

Name	Registered office	Holding	Percentage	Date	Comments
Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte	Tübingen, Germany	369,559	5.65%	July 2, 2016	Additional report by LBBW Asset Management due to attribution
SE Swiss Equities AG	Zurich, Switzerland	303,820	4.64%	May 12, 2016	
La Muza Inversiones	Madrid, Spain	240,322	3.67%	October 18, 2014	Additional report by Banco Sabadell due to attribution; holding per August 4, 2016: 4.43%

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The shareholdings only refer to the stated date; any possible subsequent changes must only be reported if a reporting threshold within the meaning of the Wertpapierhandelsgesetz (German Securities Trading Act) is reached or crossed.

The stated holdings may include attributable voting rights according to the German Securities Trading Act. As the same voting rights may, 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, 2016 and on the date of preparation of the present consolidated financial statements.

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 2016 are published on the Company's website at https://www.skw-steel.com/de/ir-press-2/aktionaersstruktur.html. When notifications are corrected during the reporting period, the corrected version is shown.

43. Auditor's fee

The auditors' fee charged in 2016 totaled EUR 399 thousand (PY: EUR 245 thousand) and related to audit services in the amount of EUR 271 thousand and tax advisory services in the amount of EUR 128 thousand.

44. 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, Munich (Germany) and the subsidiary SKW Stahl-Metallurgie GmbH, Unterneukirchen (Germany) for the entire reporting year, and in particular at 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 release regulations set forth in Section 264 (3) of the HGB are 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, Munich (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 release regulations set forth in Section 264b of the HGB are used for the subsidiary SKW Stahl-Metallurgie GmbH for the reporting year.

45. Declaration of Conformity for financial year 2016

The Executive and Supervisory Boards of SKW Stahl-Metallurgie Holding AG have issued the annual Declaration of Conformity in accordance 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) December 20, 2016. At 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.

46. Disclosures pursuant to IAS 10.17

The present consolidated financial statements were completed on March 21, 2017 and will be forwarded immediately to the Supervisory Board for approval, together with the combined Management Report.

E. Subsidiaries and associates

Fully consolidated subsidiaries (at December 31, 2016)

Name	**Registered Office**	**Shareholding 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, Hong Kong (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 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

Associated companies (at December 31, 2016):

Name	Registered Office	Shareholding in %
Jamipol Ltd	Jamshedpur, India	30.22

Non-consolidated companies (at December 31, 2016):

Name	Registered Office	Shareholding in %
SKW La Roche de Rame SAS (3)	La Roche de Rame, France	100
SKW-Tashi Metals & Alloys Private Limited	Phuentsholing, Bhutan	51

(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).
(4) In liquidation (not consolidated due to subordinate importance for the Group).

There were no changes in the shareholdings compared to the prior year.

The Executive Board issued the declarations required by the German Commercial Code (Section 264 (2) Sentence 3 HGB) ("Responsibility Statement") on both the separate financial statements of SKW Stahl-Metallurgie Holding AG and the consolidated financial statements of the SKW Metallurgie Group for financial year 2015 and published them in the Federal Gazette and filed them with the Commercial Register on June 6, 2016. The Executive Board issued the declarations required by the German Securities Trading Act ("Responsibility Statement") on the semi-annual report of the SKW Metallurgie Group for the first half of financial year 2016 and filed them with the Commercial Register. The Executive Board will issue the declarations required by the German Commercial Code ("Responsibility Statement") on both the separate financial statements of SKW Stahl-Metallurgie Holding AG and the consolidated financial statements of the SKW Metallurgie Group for financial year 2016 concurrently with the signing of the said financial statements and will publish these declarations together with the said financial statements in the Federal Gazette and file them with the Commercial Register.

Munich (Germany), March 21, 2017

SKW Stahl-Metallurgie Holding AG

The Executive Board

Dr. Kay Michel

Member of the Executive Board

16. Independent Auditors' Report

To SKW Stahl-Metallurgie Holding AG, Munich

We have audited the consolidated financial statements prepared by the SKW Stahl-Metallurgie Holding AG, comprising the balance sheet, the income statement, reconciliation to comprehensive income, statement of changes in equity, cash flow statement and the notes to the financial statements, together with the report on the position of the Company and the Group for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company`s management. Our responsibility is to express an opinion on the consolidated financial statements and on the report on the position of the Company and the Group based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the report on the position of the Company and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and report on the position of the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The report on the position of the Company and the Group is consistent with the consolidated financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying our opinion, we draw attention to the comments of the Board of Management in Section 6.16 and 13.2f of the report on the position of the Company and the Group.

This specifies that the agreements on the financial restructuring of the Company have been reached and accompanying operating measures have been taken in order to ensure financing beyond January 31, 2018.

The measures for financial restructuring mainly include:

- the sale of peripheral activities
- waiver of receivables on the part of banks
- cash inflow from the capital increase to be conducted

Parts of the intended restructuring measures depend on the collaboration of third parties (shareholders, other stakeholders and investors) and thus are not within the scope of influence of SKW Stahl-Metallurgie Holding AG.

In the case of a significant deviation from the planned business performance, the failure to materialize of operative measures from the ReMaKe program and/or a breakdown in the plans for financial restructuring, the liquidity of the Company and the Group may no longer be ensured. As a consequence, the ability of the Company and Group to continue as a going concern is significantly dependent on the successful implication of the aforementioned package of refinancing and measures.

Munich, March 23, 2017

KPMG AG

Wirtschaftsprüfungsgesellschaft

Prof. Dr. Grottel	Hanshen
(CPA) Wirtschaftsprüfer	(CPA) Wirtschaftsprüfer

17. Financial Calender

May 19, 2017

- Publication of business figures first quarter 2017

July 6, 2017

in Munich, Germany

- Annual General Meeting

August 18, 2017

- Publication of business figures first half year 2015

18. Contacts

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19. Imprints

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Senior Vice President Finance

20. 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, Munich (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, employ-ees, etc.).

SKW Stahl-Metallurgie Holding AG’s group brand that is used externally is “SKW Metallurgie”. For this reason “SKW Metallurgie” and “SKW Metal-lurgie 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, 2017 and is available at www.skw-steel.com to download free of charge.

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