# Report for the 2nd Quarter 2016

skw. metallurgie

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# Interim management report for the SKW Stahl-Metallurgie Holding AG Group for the first half of 2016



## 1. General economic conditions

### 1.1. Global economy exhibits subdued positive growth

In its forecasts published at www.imf.org, the International Monetary Fund (IWF) predicts that the global economy will grow at a rate of 3.4% in 2017, and thus somewhat more dynamically than in 2016 (+3.1%). However, the realization of this forecast will also depend on the economic policies of the new US administration.

The IMF sees growth of +1.6% in the Eurozone and expects the US economy to expand by a faster rate of +2.3%. The aggregate growth of all the industrialized nations is estimated at 1.9%. Developing and emerging-market countries together will achieve a growth rate of 4.5% in 2016, with China's economic output growing by 6.5%, again slower than in the preceding years. While India can expect its economic growth to accelerate (+7.2%), only minimal growth of 0.2% is predicted for Brazil. Russia's economic output is expected to grow by only 1.1% over the prior year.

### 1.2. Worldwide steel production contracted in the reporting period; modestly positive development in the United States

The SKW Metallurgie Group generates most of its revenues with customers in the steel industry; the vast majority of revenues generated with other customer industries involve Quab specialty chemicals. The SKW Metallurgie Group offers its customers in the steel industry a broad portfolio of technologically advanced products and services, mainly 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 directly 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. However, the profit situation of steel manufacturers, which is also determined 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.

According to the World Steel Association, global steel production declined by 1.9% to 794,849 million tons in the first half of 2016, compared to the prior-year period. China is still the world's largest producer by far, with a world market share of approx. 50%, as before. A growing share of Chinese steel production cannot be sold in the home market. Moreover, it will not be possible in the short term to appreciably and sustainably adapt production volumes in China to the level of domestic demand. Consequently, large quantities of steel produced by Chinese surplus capacities are being offered in the world market at low prices. The export pressure from China will only be relieved when Chinese production capacities are taken off the market and particularly if actual production quantities are reduced. Based on profitability and environmental concerns, experts believe that such a production capacity adjustment could take place in China, but only in the medium term. In the Company's estimation, the steel being exported from China to Western countries is increasingly of good, competitive quality, therefore intensifying the price pressure on Western steel producers. This growing pressure on Western steel makers is also leading to increased price pressure on their suppliers, including the SKW Metallurgie Group.

Geographically, the SKW Metallurgie Group continues to focus on the sales markets of USA/North America (accounting for more than 50% of the Group's revenues in both 2016 and 2015), the European Union (primarily for the "Cored Wires" segment at the present time), and Brazil. The SKW Metallurgie Group currently has only a negligible value-added share of the steel produced in China.

The development of steel production in the main sales regions of the SKW Metallurgie Group was mixed in the first half of 2016:

→ In the United States, the key market for the SKW Metallurgie Group, steel production stabilized on a low level (minimal increase of 0.2%). The protective tariffs imposed on dumping exports contributed to this result.

→ Steel production in the EU declined by a much greater margin than expected (-6.1%); the reasons for this development are the subdued macroeconomic development in some EU countries and the effect of dumping imports, against which only hesitant action was taken in the first half of 2016.

→ The drop in steel production in Brazil (-13.0%) was much worse than expected due to the difficult macroeconomic situation in that country. Contrary to the expectations of some experts, the Summer Olympics did not lead to an economic trend reversal. The Brazilian economy was burdened in the reporting period by additional uncertainties related to the since clarified internal political situation (impeachment proceedings against the President).

In some countries, steel consumption and steel production are becoming increasingly decoupled. In particular, China's net exports (and therefore the net imports of countries and regions like South Korea, North America, and Europe) are growing substantially.

## 1.3. The markets for SKW Metallurgie's core products follow the lead 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 steel, especially for high-quality and higher-quality steel grades. The more steel is produced, the more primary and secondary metallurgy products are needed. Steel manufacturers keep an insignificant quantity of the SKW Metallurgie Group's products in stock. The demand for primary and secondary products is also influenced by the technical process employed to produce steel (e.g. blast furnace with primary metallurgy vs. electric arc furnace without primary metallurgy) and the ingredients used in the process (e.g., quality levels of the coal and coke products used).

# 2. Structure of the Group



The **annual shareholders' meeting** of SKW Stahl-Metallurgie Holding AG was held in Munich (Germany) on May 10, 2016. As explained already in the combined management report at December 31, 2015, the equity of the separate company SKW Stahl-Metallurgie Holding AG was completely depleted at December 31, 2015; therefore, a loss equal to more than half of the share capital was reported to the shareholders in accordance with Section 92 para. 1 AktG (German Stock Corporations Act). In addition, the following resolutions (among others) were adopted in accordance with the management's proposals at the annual shareholders' meeting of May 10, 2016:

→ Change of auditor: Beginning with the present consolidated semiannual financial statements, the Company's separate and consolidated financial statements (including the auditor's review of the consolidated semiannual financial statements) will be audited by the auditing firm Wirtschaftsprüfungsgesellschaft KPMG, Munich (Germany).

→ The "Authorized Capital 2011," which would have expired anyway on May 30, 2016, was replaced with the "Authorized Capital 2016." Both sets of Authorized Capital are identical in terms of the economic substance; in particular, the Executive Board is still authorized to increase the Company's share capital by up to 50%, with the consent of the Supervisory Board.

→ The Company's registered office was moved from Unterneukirchen (Germany) to Munich (Germany). This resolution was implemented after the annual shareholders' meeting. Most function areas of SKW Stahl-Metallurgie Holding AG had already been relocated in prior years.

With regard to the Company's **Supervisory Board** (which is not subject to codetermination rules), the terms of office of all members expired by reason of regular expiration and the resignation of Ms. Jutta Schull.

The annual shareholders' meeting elected the following gentlemen as members of the Supervisory Board:

→ Dr. Olaf Marx

→ Dr. Peter Ramsauer

→ Mr. Tarun Somani

→ Mr. Volker Stegmann

→ Mr. Titus Weinheimer

The sixth member required by the Company's Articles of Incorporation was not elected because no candidate received the prescribed majority of votes. The competent Registry Court appointed Dr. Alexander Kirsch as the sixth member of the Supervisory Board in early June.

The Supervisory Board first elected the members Dr. Olaf Marx as Chairman and Mr. Volker Stegmann as Vice Chairman. In August 2016, Mr. Volker Stegmann was unanimously elected as Chairman and Dr. Alexander Kirsch as Vice Chairman.

The **consolidation group** of the SKW Metallurgie Group did not change between December 31, 2015 and June 30, 2016. At June 30, 2016, therefore, the SKW Metallurgie Group, the highest-level parent company of which is SKW Stahl-Metallurgie Holding AG, comprised seven fully consolidated direct subsidiaries of SKW Stahl-Metallurgie Holding AG (including three in Germany and one each in France, the United States, Hong Kong, and Brazil) and 13 fully consolidated indirect subsidiaries (excluding the three inactive indirect subsidiaries in Germany and Turkey that are under liquidation).

As of June 30, 2016, 24 companies (23 subsidiaries and the parent company) in 13 countries were fully consolidated in the SKW Metallurgie Group. The liquidation of the two SKW Technology companies was completed in September 2016.

As in the prior period, the Bhutanese joint venture, which is in bankruptcy proceedings, and the Indian company Jamipol, in which the SKW Metallurgie Group still holds about one third of the equity, are not fully consolidated in the SKW Metallurgie Group. Jamipol is consolidated at equity.

The Group's **shareholder structure** underwent significant changes in the first half of 2016 and beyond. At the time of preparation of the present management report, the Company's biggest shareholder was First Holding GmbH, Munich (Germany), with a holding of 10.75%. That company's Managing Director Dr. Klemens Joos is responsible for reporting the company's holdings.

Otherwise, the Company is not aware of any shareholder holding 10% or more of the Company's share capital.

# 3. Business developments

## 3.1. Revenues in line with expectations in the first half of 2016

The SKW Metallurgie Group generated revenues of EUR 125.0 million in the first half of 2016. Although this figure was less than the revenues generated in the first half of 2015 (EUR 153.0 million), it was in line with expectations (full-year guidance: revenues of at least EUR 250 million).

## 3.2. Gross profit margin remains above 30%

Particularly in a raw materials-intensive business like that of the SKW Metallurgie Group, revenues can be influenced simply by changes in the cost of raw materials and by the corresponding adjustment of sale prices, even though the operating performance may not have changed. Therefore, the gross profit margin (gross margin) is a much more meaningful indicator. In the SKW Metallurgie Group, the gross profit margin (gross margin) is defined as the percentage of revenues represented by the difference between the total operating performance (sum of revenues, changes in inventory, and internal production capitalized) and the cost of materials. In the first half of 2016, the gross profit margin of 32.5% – calculated on the basis of a EUR 84.1 million cost of materials (PY: EUR 103.1 million) – was only slightly less than the strong prior-period figure of 33.4%. The change was particularly due to warehouse effects. If the gross profit margin is calculated not on the basis of the total operating performance, but on the basis of revenues, it came to 32.8% for the first half of 2016 (H1-2015: 32.6%). This development must be seen as a success insofar as the decrease in some high-margin product lines in the reporting period was offset by higher unit sales of standard products. This development was particularly driven by the fact that the higher-quality products also achieved efficiency ranges in manufacturing and cost management due to unusually low commodity prices across the board, which led to a quantitative expansion of simpler products.

In the past, the other operating income and expenses of the SKW Metallurgie Group were substantially influenced by currency translation effects (mainly unrealized), particularly with regard to intragroup loans and other intragroup dealings (other financial result H1-2016: EUR -0.1 million; H1-2015: EUR 6.2 million). Although intragroup dealings are basically eliminated by consolidation in the preparation of the consolidated financial statements, currency effects can still show up in the consolidated income statement when the affected Group companies keep their books in different currencies. For example, the parent company, which keeps its books in the euro as the Group reporting currency, extended a U.S.-denominated loan to a subsidiary that keeps its books in U.S. dollars. Changes in the EUR/USD exchange rate lead to effects in the parent company's income statement, which are not offset by a corresponding position in the subsidiary's income statement, so that the position on the books of the parent company makes its way into the consolidated income statement even after the consolidation process.

As announced, the SKW Metallurgie Group enhanced the transparency of the stated currency translation results in accordance with the options allowed by IFRS accounting standards by presenting all foreign currency effects (thus particularly including currency translation effects related to intercompany loans) as part of net interest income/expenses, which is itself presented as part of the financial result, beginning with the present consolidated interim financial statements. Regardless of the presentation, moreover, the amount of these unrealized currency translation effects was below the level of prior years, all other things being equal, because significant effects resulted from the Group company in Bhutan in the prior years. However, the Bhutanese company has since been deconsolidated and the Group's remaining claims against this company are deemed to have no value at the reporting date (June 30, 2016) due to the lack of an insolvency dividend to issue from the application for bankruptcy proceedings.

Even under the new structure, however, some currency translation effects remain within other operating income and expenses, including effects resulting from the measurement of sight deposits and from intragroup trading and the corresponding payment obligations in foreign currencies, for example.

Total operating income in the first half of 2016 amounted to EUR 3.4 million (after EUR 5.7 million in H1-2015) and total other operating expenses amounted to EUR 21.3 million (after EUR 25.1 million in H1-2015). Other operating expenses particularly include variable, revenue-dependent cost components (such as shipping costs and sales commissions) in the operating Group companies, as well as legal and consulting expenses.

Thanks to the optimization measures implemented as part of ReMaKe 2.0, personnel expenses in the first half of 2016 (EUR 19.0 million) were 9% less than the corresponding figure for the comparison period (EUR 20.8 million).

## 3.3. Adjusted EBITDA above guidance: ReMaKe measures are taking effect and yielding positive EBITDA contributions

The stated EBITDA of the SKW Metallurgie Group for the first six months of 2016 amounted to EUR 4.3 million, which was considerably less than the prior-period figure (H1-2015: EUR 11.5 million). However, the stated EBITDA value is not a very useful indicator of the Group's operating performance in this period.

After adjusting for restructuring expenses (H1-2016: EUR 4.0 million; H1-2015: 1.8 million) and the currency translation effects included in other operating income and expenses (H1-2016: EUR -0.2 million; H1-2015: -1.2 million), adjusted EBITDA for the first half of 2016 came to EUR 8.1 million (H1-2015: EUR 12.1 million).

This adjusted operating indicator clearly confirms the full-year guidance of an adjusted EBITDA of at least EUR 10 million.

## 3.4. Steel crisis leads to impairments of intangible assets in the United States

The amortization, depreciation, and impairments of the SKW Metallurgie Group amounted to EUR 10.8 million (H1-2015: EUR 2.9 million). in the first half of 2016 (H1-2015: EUR 2.9 million). The substantial EUR 7.9 million increase over the comparison figure can be attributed almost entirely to additional impairments of intangible assets (goodwill and brand name) resulting from the steel crisis and to impairments of property, plant and equipment. All these impairments pertain to a subsidiary in the United States. All other things being equal, the amount of amortization, depreciation, and impairments remaining after adjusting for this effect (approx. EUR 3.0 million every half year) can be seen as a good indicator of the regular amortization, depreciation, and impairments that can be expected in the coming periods.

Mathematically, the financial result for the first six months of 2016 amounted to EUR -2.7 million (H1-2015: net interest income of EUR +2.9 million). As explained in the discussion of other operating income and expenses, this decrease can be attributed to the fact that the mostly unrealized currency translation effects of intragroup financial dealings are now presented within net interest income/expenses, as opposed to EBITDA.

Adjusted for this effect, net interest expenses came to EUR -2.6 million in the reporting period (H1-2015: EUR -3.3 million). The main reason for the improvement of net interest income/ expenses were extraordinary expenses in H1-2015 (e.g. prepayment penalties for creditors of the earlier promissory note loan) related to the funding arrangement based on the syndicated loan agreement concluded in January 2015.

The tax expenses of the SKW Metallurgie Group amounted to EUR 0.9 million in the first half of 2016 (H1-2015: EUR 2.7 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 and Brazil, for which reason tax expenses are incurred even though earnings before taxes were negative on the Group level (H1-2016: EUR -9.2 million; H1-2015: EUR +11.5 million). On a positive note, tax expenses were reduced from the first half of last year (H1-2016: EUR -0.9 million; H1-2015: EUR -2.7 million).

The consolidated net loss after taxes of the consolidation group relevant for the present semiannual financial statements amounted to EUR -10.1 million (PY: EUR 7.5 million). This result 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 is not the sole shareholder. These are the following fully consolidated Group companies:

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

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

→ SKW Technology companies (Germany): in liquidation at the reporting date; share of non-controlling interests: 49% in every case; liquidation completed in September 2016.

In total, EUR 0.5 million is attributable to these non-controlling interests (H1-2015: EUR -0.1 million). An amount of EUR -10.6 million, all of which from continuing operations, is attributable to the shareholders of SKW Stahl-Metallurgie Holding AG in the reporting period (H1-2015: EUR 7.6 million, thereof from continuing operations: EUR 8.1 million). The number of SKW Metallurgie shares outstanding was unchanged at 6,544,930. This yields consolidated earnings per share (EPS) of EUR -1.62 (PY: EUR 1.15).

## 3.5. Maturity of financial debt: loan terms adjusted only after the reporting date

The following table shows the most important items of the SKW Metallurgie Group's balance sheet at June 30, 2016 and at December 31, 2015:

| Assets in EUR'000 | 06/30/2016 | 12/31/2015 |
|---|---|---|
| Non-current assets | 53,338 | 56,937 |
| Current assets | 89,735 | 92,064 |
| thereof cash and cash equivalents | 17,442 | 11,353 |
| **Total assets** | **142,073** | **149,001** |
| | | |
| Equity and Liabilities EUR'000 | | |
| Equity | -3,767 | 6,140 |
| Non-current liabilities | 24,562 | 20,782 |
| thereof non-current financial liabilities | 3,160 | 1,908 |
| Current liabilities | 121,278 | 122,079 |
| thereof current financial liabilities | 77,617 | 73,111 |
| **Total assets** | **142,073** | **149,001** |

The balance sheet total of the SKW Metallurgie Group declined modestly from EUR 149.0 million to EUR 142.1 million in the first half of 2016.

The principal changes on the assets side were the following:

→ Working capital optimization: The SKW Metallurgie Group optimized the sum of inventories and trade receivables by EUR 9.4 million, from EUR 70.4 million to EUR 61.0 million, naturally also as a result of the development of revenues.

→ By contrast, cash and cash equivalents rose by EUR 6.0 million, from EUR 11.4 million to EUR 17.4 million.

→ As a result of the steel crisis, it was necessary to adjust the value of intangible assets, as mentioned above; this balance sheet item declined by EUR 5.7 million, from EUR 16.5 million to EUR 10.8 million.

The principal changes on the equity and liabilities side were the following:

→ Accumulated other comprehensive income declined by EUR 10.7 million, from EUR -60.0 million to EUR -70.7 million; the main reasons were the negative consolidated result, which is particularly attributable to impairment losses, and the change in the discount factor applied in the measurement of pension provisions, the effect of which is recognized directly in equity. Whereas consolidated equity (as opposed to the equity of the Group's parent company) was still positive as of December 31, 2015, equity has now been depleted also on the Group level (consolidated equity as of June 30, 2016: EUR -3.8 million; December 31, 2015: EUR +6.1 million).

→ Pension obligations rose by EUR 1.9 million, from EUR 9.1 million to EUR 11.0 million, particularly due to the necessary adjustments recognized in equity resulting from the change of the discount factor; this balance sheet item pertains to the Group companies in Germany, France, and to a minor extent Japan.

→ Trade payables declined by EUR 3.8 million, from EUR 25.1 million to EUR 21.3 million, mainly as a result of the lower revenues and the associated decrease in purchased materials, as well as optimization measures and exchange rate effects to a smaller extent.

Gross financial debt and net financial date are the key indicators used to analyze the financial position and cash flows of the SKW Metallurgie Group. Gross financial debt is defined as the sum of noncurrent and current financial liabilities. Net financial debt is defined as gross financial debt less cash and cash equivalents.

Accordingly, **neither one** of these indicators includes those parts of credit facilities that are not yet drawn down or only in the form of guarantees. In particular, the figures as of June 30, 2016 do not yet include the redemption of guarantees deposited with the European Commission at August 31, 2016, based on a court judgment of June 2016. This redemption was charged against the syndicated loan in the third quarter of 2016, which caused financial debt to rise by the same amount. As a result of this conversion, the total amount of issued guarantees in the SKW Metallurgie Group has fallen to a low level, so that guarantees will only play a minor role in the analysis of the debt situation of the SKW Metallurgie Group in the future.

Moreover, the above-mentioned indicators do not include pension commitments of EUR 11.0 million (December 31, 2015: EUR 9.1 million).

Thus defined, the net financial debt of the SKW Metallurgie Group rose modestly from EUR 62.7 million to EUR 63.3 million as of June 30, 2016.

Besides the amount of net financial debt, the maturity is also significant: Both at the reporting date of June 30, 2016 and at the comparison date of December 31, 2015, the drawdowns under the syndicated loan agreement, which represents the principal instrument for the Group's gross financial debt, and the guarantees furnished by the Group are classified as "current" for technical reasons.

## 3.6. Very positive cash flow despite the steel crisis

The following table shows important items of the consolidated statement of cash flows:

| EUR'000 | 01.01.-06/30/2016 | 01.01.-06/30/2015 |
|---|---|---|
| Consolidated annual earnings from continuing operations | -10,134 | 7,485 |
| Gross cash flow | 582 | 5,263 |
| Cash flow from operating activities | 2,925 | -5,745 |
| Cash flow from investing activities | -2,452 | -2,070 |
| Cash flow from financing activities | 5,206 | 49 |
| Change in cash and cash equivalents[1] | 6,089 | -7,810 |
| Cash and cash equivalents – end of period, continuing activities | 17,442 | 10,162 |

Starting from a considerably negative consolidated result for the first half of 2016, which was particularly due to impairment losses, the SKW Metallurgie Group generated a modestly positive gross cash flow (EUR 0.6 million rounded; H1-2015: EUR 5.3 million), despite significant cash-affecting, non-recurring restructuring expenses of EUR 4.0 million (PY: EUR 1.8 million). The cash flow from operating activities (also known as net cash flow) indicates the cash flow generated in operating activities during the period under consideration. It is calculated as the balance of gross cash flow and changes in working capital (in the broader sense, understood here to mean the sum of lines 13 to 23 of the cash flow statement, or the difference of the sub-total lines 12 to 24 of the cash flow statement). These changes in working capital (in the broader sense) amounted to EUR 2.3 million in the first half of 2016 (PY: EUR -11.0 million). Thus, the cash inflow



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

from working capital optimization measures was improved substantially by EUR 2.3 million in the first half of 2016 (PY: EUR -11.0 million). Thus, the cash inflow from working capital optimization measures was improved substantially by EUR 13.3 million. In this regard, however, it must be noted first that the comparison figure was decreased by non-operating, exceptional effects (e.g. payment for the settlement with the U.S. Customs Office in the amount of USD 2 million in the first quarter of 2015, for which a provision had been recognized), and second that the revenues were higher and therefore more operating current assets were needed, all other things being equal.

As a result of the above-mentioned effects on the change in working capital (in the broader sense), the cash flow from operating activities in the first half of 2016 (EUR 2.9 million) was considerably higher, by EUR 8.6 million, than the corresponding figure for the first half of last year (EUR -5.7 million).

Working capital (in the narrower sense) is composed of inventories, trade receivables, and trade payables. The changes in these items led to a cash flow of EUR 5.3 million in the reporting period (H1-2015: EUR -5.3 million). Thus, the cash flow resulting from changes in working capital (in the narrower sense) was considerably higher, by EUR 10.6 million, than the prior-period comparison figure, and also very positive (= cash inflow). This positive development can be attributed both to the effects of lower revenues and to the implementation of the corresponding ReMaKe measures.

In the reporting period, the changes in working capital (in both the narrower and the broader sense) remained within fluctuation margins that have been normal for the SKW Metallurgie Group to date. Nonetheless, the SKW Metallurgie Group continues to pursue the working capital optimization initiative that was begun in financial year 2015 in order to further reduce working capital (lower capital tie-up as a percentage of revenues) in the remainder of financial year 2016 and also to further reduce the fluctuation margin, to the extent that it is not induced by corresponding revenue fluctuations. Largely avoiding currency translation effects and presenting them separately are among the measures being taken to reduce the fluctuation margin.

At EUR -2.5 million, the net cash outflow for investing activities was slightly higher than the prior-period comparison figure (EUR -2.1 million); this difference resulted almost entirely from a cash inflow of EUR 0.5 million in H1-2015 from the sale of the Swedish Group company in 2014 and the absence of such an effect in the first half of 2016. Adjusted for this exceptional effect, investments (essentially maintenance investments) were nearly unchanged ("Payments for investments in noncurrent assets": EUR 2.5 million; H1-2015: EUR 2.6 million) and were also on the level of depreciation and amortization.

The cash flows from operating activities and from investing activities yielded a free cash flow of EUR -0.5 million in the reporting period (H1-2015: EUR -6.6 million). Despite the steel crisis, therefore, the Group generated an only slightly negative free cash flow; in other words, it would have been possible to finance all investments from the Group's cash flow if it were not for the restructuring expenses of EUR 4.0 million (PY: EUR 1.8 million).

# 4. Segment report

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

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. Therefore, the SKW Metallurgie Group has introduced geographical segments in accordance with its new, regionalized internal management system (for the first time in the consolidated financial statements as of December 31, 2015). This new segment report format is more transparent particularly with regard to regional market developments, the evaluation of the effects of measures taken under ReMaKe 2.0, and the assessment of exchange rate factors. The following changes resulted from the conversion of the segment report format:

→ Up to and including the report for the first nine months of 2015, segments were formed on the basis of products ("Powder and Granules," "Cored Wire," and "Other").

→ Beginning with the consolidated financial statements as of December 31, 2015, segments are formed on the basis of geographical regions ("North America," "Europe and Asia," "South America," and "Other and Holding Company").

→ Beginning with the present semiannual financial statements, the numbers of the operationally active companies (SKW Quab Chemicals Inc. and SKW Stahl-Metallurgie GmbH), on the one hand, and those of the non-operationally active companies (mainly SKW Stahl-Metallurgie Holding AG), on the other hand, are presented separately in the "Other and Holding" segment, for the sake of enhanced transparency.

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

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

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

→ **Europe and Asia:** The "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; this company's cored wire factory, the Group's largest, produces cored wire primarily for the European market (excluding Russia), also for selected overseas customers (particularly in Japan, distributed via the local subsidiary). This segment also comprises the subsidiaries of Affival SAS, which produce cored wire products in Russia, South Korea, and the PR China for their respective regional markets.

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

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

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- Operating companies:
  - SKW Quab Chemicals Inc.: This company is assigned to “Other” because it is not part of the core business of the SKW Metallurgie Group. It produces specialty chemicals in the United States, which are used in the production of industrial starch as an intermediate product used in the papermaking industry, in cosmetics production, and in fracking, and markets them worldwide.
  - SKW Stahl-Metallurgie GmbH: This is a trading unit for powders and granules that is primarily active in the European market. In connection with the implementation of strategic growth initiatives for the pig iron desulfurization market in Europe, a reorganization of this company is expected; therefore, it is assigned to the “Other” segment pending further developments.
  - 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 operating part of the “Other and Holding Company” segment.

- Non-operating companies:
  - The German company SKW Stahl-Metallurgie Holding AG is the parent company of the SKW Metallurgie Group. As a holding company, it generates no revenues; in accordance with its defined task, its EBITDA is typically negative (aside from special cases such as high currency translation gains).
  - The “Other and Holding Company” segment also includes various small companies in several countries, which either serve only as intermediate holding companies or are completely inactive.

The results of the reportable segments in the reporting period are detailed in the following:

→ In the **North America** segment, total revenues declined from EUR 81.8 million (H1-2015) to EUR 64.9 million (H1-2016), and EBITDA declined from EUR 4.9 million (H1-2015) to EUR 3.0 million (H1-2016). These declines were in line with expectations and reflected the situation of the North American steel industry.

→ In the **Europe and Asia** segment, the total revenues of EUR 37.2 million were less than the corresponding figure for H1-2015 (EUR 43.4 million). The EBITDA of this segment decreased accordingly from EUR 2.8 million in H1-2015 to EUR 1.4 million in the reporting period. The main reason for these declines was the disproportionately sharp contraction of the European steel industry.

→ The business performance of the **South America** segment was particularly influenced by the macroeconomic developments in Brazil. Accordingly, total revenues declined from EUR 14.4 million to EUR 10.2 million, and EBITDA declined from EUR 3.8 million to EUR 2.0 million. The declines also manifested in local currency terms, but were not as pronounced.

→ The result of the **“Other and Holding”** segment is composed of the results of two operating companies, on the one hand, and the results of the Group parent company and other non-operating companies, on the other hand:

- The two operating companies SKW Quab Chemicals Inc. and SKW Stahl-Metallurgie GmbH generated total revenues of EUR 13.5 million in the reporting period (H1-2015: EUR 16.0 million) and an EBITDA of EUR 1.0 million (H1-2015: EUR 2.1 million).

- The Group parent company SKW Stahl-Metallurgie Holding AG and the other non-operating companies assigned to this segment do not generate revenues, by definition, and usually post a negative EBITDA, which amounted to EUR -3.2 million in the reporting period (PY: EUR -2.2 million). In interpreting these numbers, it should be remembered that most of the restructuring expenses (H1-2016: EUR 4.0 million; H1-2015: 1.8 million) were incurred by the Group parent company.

# 5. Further optimization of the number of employees

As always, well trained and highly motivated employees are an important prerequisite for the business success of the SKW Metallurgie Group. As a result of restructuring measures, optimization measures, and adjustments to reflect the current state of the steel industry, the worldwide number of employees at June 30, 2016 was 586, below the corresponding figure at June 30, 2015 (614; excluding the Bhutanese Group company that has since been deconsolidated).

# 6. Report on opportunities and risks

The SKW Metallurgie Group attaches great importance to the continuous detection and evaluation of opportunities and risks, in order to take suitable measures to optimally exploit opportunities and limit risks. In both the first and second quarters of 2016, the Group updated the risk inventory conducted and updated as of December 31, 2015 in the form of the quarterly risk reports. These updates led to the following significant changes and new risks compared to the 2015 Risk Report.

## Risks of external financing

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 prognosis. 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.

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.

Significant changes were made to the composition and Chairman's position of the Supervisory Board in the reporting period and afterwards. These changes have since given rise to risks for the Company. At the time of preparation of the present management report, however, these issues can be said to have been resolved.

With regard to the European cartel proceeding (concerning the years 2004-2007; notice of fine in 2009), the European Court of Justice issued a non-appealable judgment in June 2016. Based on this judgment, the matter was definitively settled in the external relationship with the European Commission after the reporting date, but before the preparation of the present interim management report. An appropriately funded provision had been recognized already at an earlier reporting date and there was no further significant effect on earnings.

A potential settlement among the joint and several debtors SKW Metallurgie Group and the previous Group parent company Gigaset AG, Munich (Germany), at the time ARQUES Industries AG, Starnberg (Germany) is still being pursued. The SKW Metallurgie Group continues to believe that the claims of Gigaset AG, which have already been dismissed by two lower courts, are unfounded and therefore there will be no cash payment to Gigaset AG. On the contrary, the SKW Metallurgie Group is maintaining its counter-claim against Gigaset AG as the former Group parent company at the time.

The Financial Reporting Enforcement Panel (FREP) conducted a routine audit of the 2013 financial statements of the SKW Metallurgie Group. This audit was completed after the close of the reporting period, but before the preparation of the present interim management report (see "Events after the reporting date"). No further FREP audits of the SKW Metallurgie Group are pending.

Apart from the foregoing, there were no significant changes in the Risk Report as of June 30, 2016 compared to the statements made on opportunities and risks in the 2015 Annual Report.

# 7. Events after the reporting date

The following transactions and events of particular importance for the SKW Metallurgie Group became known after the close of the reporting period on June 30, 2016 and before the time of preparation of the present interim report:

- Tensions between key stakeholders, particularly including legal disputes between individual members of the Supervisory Board that extended beyond the reporting date of June 30, 2016, were resolved amicably and in the Company's best interests after the close of the reporting period on June 30, 2016 and before the preparation of the present interim management report.

- By date of August 30, 2016, the Federal Financial Services Supervisory Office (BaFin) issued a ruling in connection with a routine audit conducted by the Financial Reporting Enforcement Panel (FREP), ordering the Group to publish the errors discovered in that audit in relation to the 2013 consolidated financial statements published in March 2014. These findings were published in early September 2016. The findings do not have significant effects on the current financial reporting of the SKW Metallurgie Group because most of them were already included in the financial reporting for the 2014 semiannual financial statements and most of the remaining findings have already been resolved by the financial reporting conducted in the meantime.

- After the end of the reporting period, an agreement was reached to sell SKW Stahl-Metallurgie Holding AG's 51% investment in the Bhutanese company SKW-Tashi, the carrying amount of which has been written down to zero, to an external buyer for a positive purchase price in early 2017.

- 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; please refer to the section "Risks of external financing" for details.

- 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.

Management report

# 8. Forecast report

## 8.1. Comparison of forecasts made in the prior period with actual developments

As usual, the Forecast Report for the year 2016 that was published in the 2015 Annual Report referred to the full year 2016 and therefore did not include explicit statements concerning the first half of 2016. Subject to certain assumptions and definitions, the forecast called for revenues of at least EUR 250 million and an adjusted EBITDA of at least EUR 10 million for the full year 2016.

The actually reported values confirm the full-year forecasts made at the time insofar as the revenues generated in the first half of 2016 represent one half the full-year revenue forecast and the adjusted EBITDA generated in the first half of 2016 represents more than half the forecast amount.

The Executive Board of the SKW Metallurgie Group continues to systematically implement the ongoing efficiency enhancement program (continuous improvement program) "ReMaKe 2.0." Key elements of this program include comprehensive efficiency enhancements, increased collaboration between individual Group entities to realize cross-selling effects, the business performance in regional markets, and new technology and application areas. As another goal, revenues in Asia are to be increased substantially in the medium term. The successes of this program are meant to offset and in some cases more than offset exogenous developments, particularly including the consequences of the ongoing steel crisis.

Despite the performance in Europe, which was worse than predicted in March 2016, the SKW Metallurgie Group is standing by the forecasts made in the 2015 Annual Report, in view of the solid semiannual results, and expects revenues of at least EUR 250 million and an adjusted EBITDA (adjusted for currency effects and restructuring costs) of at least EUR 10 million for the full year, subject to the assumptions and definitions at the time.

# 9. Responsibility Statement of the Executive Board ("balance sheet oath")

I hereby certify to the best of our knowledge that the consolidated financial statements prepared in accordance with the applicable financial reporting principles for the interim reporting of consolidated financial statements and in accordance with German required accounting standards present a true and fair view of the financial position, cash flows, and financial performance of the Group, and that the Group 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 development in the remainder of the financial year.

Munich (Germany), March 20, 2017
SKW Stahl-Metallurgie Holding AG
The Executive Board

Dr. Kay Michel
Sole member of the Executive Board (CEO)

# Consolidated income statement for the periods from January 1 – June 30, 2016 and April 1 – June 30, 2016

| EUR thousand | Q1-2 2016 | Q1-2 2015 | Q2 2016 | Q2 2015 |
|---|---|---|---|---|
| Revenues | 125,041 | 152,960 | 60,850 | 72,220 |
| Change in inventories of finished and semi-finished goods | -304 | 1,269 | -1,110 | -1,208 |
| Internal production capitalized | 33 | 33 | 17 | 17 |
| Other operating income | 3,431 | 5,671 | 2,275 | 3,832 |
| Cost of materials | -84,077 | -103,133 | -39,917 | -47,024 |
| Personnel expenses | -19,047 | -20,796 | -9,592 | -10,241 |
| Other operating expenses | -21,278 | -25,138 | -10,428 | -13,913 |
| Income from associated companies | 461 | 618 | 257 | 406 |
| **Earnings before interest, taxes, depreciation and amortization (EBITDA)** | **4,260** | **11,484** | **2,352** | **4,089** |
| Amortization, depreciation, and impairments of intangible assets and property, plant and equipment | -10,764 | -2,902 | -9,410 | -1,404 |
| **Earnings before interest and income taxes (EBIT)** | **-6,504** | **8,582** | **-7,058** | **2,685** |
| Interest income and similar income | 159 | 343 | 76 | 30 |
| Interest and similar expenses | -2,778 | -3,643 | -1,415 | -1,458 |
| Other financial result | -109 | 6,192 | 1,338 | -3,851 |
| **Earnings before taxes (EBT)** | **-9,232** | **11,474** | **-7,059** | **-2,594** |
| Income taxes | -902 | -2,709 | -610 | -548 |
| **Earnings from continuing operations (after taxes)** | **-10,134** | **8,765** | **-7,669** | **-3,142** |
| Earnings before taxes (EBT) from discontinued operations | 0 | -1,280 | 0 | -1,359 |
| Income taxes for discontinued operations | 0 | 0 | 0 | 0 |
| **Earnings from discontinued operations (after taxes)** | **0** | **-1,280** | **0** | **-1,359** |
| **Consolidated net loss/income for the year** | **-10,134** | **7,485** | **-7,669** | **-4,501** |
| thereof attributable to shareholders of SKW Stahl-Metallurgie Holding AG | | | | |
| Earnings from continuing operations | -10,595 | 8,063 | -7,918 | -3,446 |
| Earnings from discontinued operations | 0 | -503 | 0 | -776 |
| | **-10,595** | **7,560** | **-7,918** | **-4,222** |
| thereof attributable to non-controlling interests | 461 | -75 | 249 | -279 |
| | **-10,134** | **7,485** | **-7,669** | **-4,501** |
| Earnings per share from continuing operations (EUR)* | -1.62 | 1.23 | -1.21 | -0.53 |
| Earnings per share from discontinued operations (EUR)* | 0.00 | -0.08 | 0.00 | -0.12 |
| Consolidated earnings per share (EUR)* | -1.62 | 1.15 | -1.21 | -0.65 |

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

# Statement of comprehensive income for the periods from January 1 – June 30, 2016 and April 1 – June 30, 2016

| EUR thousand | Q1-2 2016 | Q1-2 2015 | Q2 2016 | Q2 2015 |
|---|---|---|---|---|
| **Consolidated net income/loss for the period** | **-10,134** | **7,485** | **-7,669** | **-4,501** |
| Items that will not be reclassified subsequently to profit or loss | | | | |
| Change in actuarial gains and losses from defined benefit pension commitments | -1,700 | 577 | -425 | 2,035 |
| Deferred taxes on items that will not be subsequently reclassified to profit or loss | 0 | 0 | 0 | 0 |
| Items that will be subsequently reclassified to profit or loss | | | | |
| Net investment in a foreign operation | 0 | 22 | 0 | -90 |
| Unrealized gains/losses on derivatives (hedge accounting) | 0 | 220 | 0 | 0 |
| Deferred taxes on items that will be reclassified subsequently to profit or loss | -1 | -73 | -1 | 0 |
| Currency differences | 2,394 | -4,932 | 1,159 | 1,150 |
| **Other comprehensive income** | **693** | **-4,186** | **733** | **3,095** |
| **Total comprehensive income** | **-9,441** | **3,299** | **-6,936** | **-1,406** |
| thereof attributable to shareholders of SKW Stahl-Metallurgie Holding AG | -10,705 | 5,910 | -7,801 | -2,207 |
| thereof attributable to non-controlling interests | 1,264 | -2,611 | 865 | 801 |

# Consolidated balance sheet as of June 30, 2016

| Assets in EUR thousand | 06/30/2016 | 12/31/2015* |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | 10,774 | 16,469 |
| Property, plant and equipment | 33,652 | 33,961 |
| Interests in associated companies | 5,358 | 4,146 |
| Other non-current assets | 900 | 550 |
| Deferred tax assets | 1,654 | 1,811 |
| **Total non-current assets** | **52,338** | **56,937** |
| | | |
| **Current assets** | | |
| Inventories | 32,033 | 36,823 |
| Trade receivables | 28,964 | 33,532 |
| Income tax refund claims | 4,719 | 4,910 |
| Other current assets | 6,577 | 5,446 |
| Cash and cash equivalents | 17,442 | 11,353 |
| **Total current assets** | **89,735** | **92,064** |
| **Total assets** | **142,073** | **149,001** |



* Interests in associated companies were adjusted for a correction of the inclusion of currency differences from prior periods.

* Cash and cash equivalents were adjusted for the reclassification of securities that do not meet the definition of cash and cash equivalents according to IAS 7.

| Equity and Liabilities in EUR thousand | 06/30/2016 | 12/31/2015* |
|---|---|---|
| **Equity** | | |
| Subscribed capital | 6,545 | 6,545 |
| Share premium | 50,741 | 50,741 |
| Other comprehensive income | -70,664 | -59,959 |
| | -13,378 | -2,673 |
| Non-controlling interests | 9,611 | 8,813 |
| **Total equity** | **-3,767** | **6,140** |
| | | |
| **Non-current liabilities** | | |
| Pension obligations | 10,984 | 9,143 |
| Other non-current provisions | 3,451 | 3,718 |
| Obligations from finance leases | 116 | 139 |
| Non-current financial liabilities | 3,160 | 1,908 |
| Deferred tax liabilities | 5,631 | 5,643 |
| Other non-current liabilities | 240 | 231 |
| **Total non-current liabilities** | **23,582** | **20,782** |
| | | |
| **Current liabilities** | | |
| Other current provisions | 11,500 | 11,225 |
| Current liabilities under finance leases | 46 | 46 |
| Current financial liabilities | 77,617 | 73,111 |
| Trade payables | 21,256 | 25,148 |
| Income tax liabilities | 493 | 419 |
| Other current liabilities | 11,346 | 12,130 |
| **Total current liabilities** | **122,258** | **122,079** |
| **Total equity and liabilities** | **142,073** | **149,001** |

Financial Statements



* Interests in associated companies were adjusted for a correction of the inclusion of currency differences from prior periods.

* Cash and cash equivalents were adjusted for the reclassification of securities that do not meet the definition of cash and cash equivalents according to IAS 7.

# Consolidated statement of changes in equity as of June 30, 2016



| EUR thousand | Subscribed Capital | Share premium | Other comprehensive income | Consolidated equity of majority shareholders | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| **Balance at 01/01/2015** | **6,545** | **50,741** | **-20,184** | **37,102** | **-12,662** | **24,440** |
| Adjustment | - | - | -2,142 | -2,142 | 0 | -2,142 |
| Balance at 01/01/2015 (adjusted) | 6,545 | 50,741 | -22,326 | 34,960 | -12,662 | 22,298 |
| Consolidated net loss for the period | - | - | 7,560 | 7,560 | -75 | 7,485 |
| Currency changes | - | - | -2,396 | -2,396 | -2,536 | -4,932 |
| Income and expenses recognized in equity (excluding currency differences) | - | - | 746 | 746 | 0 | 746 |
| **Total comprehensive income 2015** | **-** | **-** | **5,910** | **5,910** | **-2,611** | **3,299** |
| Dividend payments | - | - | 0 | 0 | -1,216 | -1,216 |
| **Balance sheet at 06/30/2015** | **6,545** | **50,741** | **-16,416** | **40,870** | **-16,489** | **24,381** |
| | | | | | | |
| **Balance at 01/01/2016** | **6,545** | **50,741** | **-59,959** | **-2,673** | **8,813** | **6,140** |
| Consolidated net loss for the period | - | - | -10,595 | -10,595 | 461 | -10,134 |
| Currency differences | - | - | 1,591 | 1,591 | 803 | 2,394 |
| Income and expenses recognized in equity (excluding currency differences) | - | - | -1,701 | -1,701 | 0 | -1,701 |
| **Total comprehensive income 2016** | **-** | **-** | **-10,705** | **-10,705** | **1,264** | **-9,441** |
| Dividend payments | - | - | - | - | -466 | -466 |
| **Balance at 06/30/2016** | **6,545** | **50,741** | **-70,664** | **-13,378** | **9,611** | **-3,767** |

# Consolidated cash flow statement for the period from January 1 to June 30, 2016

| | EUR thousand | 01/01/2016 - 06/30/2016 | 01/01/2015 - 06/30/2015* |
|---|---|---|---|
| 1. | Consolidated net loss/income for the year | -10,134 | 7,485 |
| 2. | Earnings from discontinued operations (after taxes) | 0 | 1,280 |
| 3. | Consolidated earnings from continuing operations | -10,134 | 8,765 |
| 4. | Write-ups/write-downs of noncurrent assets | 10,764 | 2,902 |
| 5. | Increase/decrease in pension provisions | 156 | 164 |
| 6. | Earnings from associated companies | -461 | -618 |
| 7. | Gain/loss from disposal of noncurrent assets | -27 | -8 |
| 8. | Gain/loss from currency translation | -27 | -6,664 |
| 9. | Gain/loss from deferred taxes | 54 | -183 |
| 10. | Expenses from value adjustments of inventories and receivables | 209 | 146 |
| 11. | Other non-cash expenses and income | 48 | 759 |
| **12.** | **Gross cash flow** | **582** | **5,263** |
| | **Changes in working capital** | | |
| 13. | Increase/decrease in current provisions | -280 | -1,857 |
| 14. | Increase/decrease in inventories (after down payments received) | 4,759 | -3,476 |
| 15. | Increase/decrease in trade receivables | 4,619 | -269 |
| 16. | Increase/decrease in other receivables | 1 | 2 |
| 17. | Increase/decrease in income tax refund claims | 809 | -797 |
| 18. | Increase/decrease in other assets | -815 | 1,589 |
| 19. | Increase/decrease in trade payables | -4,029 | -1,542 |
| 20. | Increase/decrease in other liabilities | -240 | -189 |
| 21. | Increase/decrease in other equity and liabilities | -2,199 | -3,588 |
| 22. | Current translation effects in operating activities | -282 | -748 |
| 23. | Operating cash flow from discontinued operations | 0 | -133 |
| **24.** | **Cash inflow (+)/ outflow (-) from operating activities** | **2,925** | **-5,745** |

↓



* Cash and cash equivalents were adjusted for the reclassification of securities that do not meet the definition of cash and cash equivalents according to IAS 7.

| EUR thousand | 01/01/2016 - 06/30/2016 | 01/01/2015 - 06/30/2015* |
|---|---|---|
| 25. Proceeds on disposal of noncurrent assets | 60 | 27 |
| 26. Payments for investments in noncurrent assets | -2,512 | -2,560 |
| 27. Proceeds on the sale of previously consolidated companies, less cash transferred | 0 | 500 |
| 28. Cash flow from investing activities for discontinued operations | 0 | -37 |
| | **-2,452** | **-2,070** |
| **29. Cash inflow (+)/ outflow (-) from investing activities** | | |
| 30. Decrease in liabilities under finance leases | -23 | -23 |
| 31. Dividend payments to non-controlling interests | -233 | -1,216 |
| 32. Proceeds from the borrowing of bank loans | 7,675 | 59,068 |
| 33. Payments for the repayment of bank loans | -2,213 | -57,780 |
| 34. Cash flow from financing activities for discontinued operations | 0 | 0 |
| | **5,206** | **49** |
| **35. Cash inflow (+)/ outflow (-) from financing activities** | | |
| 36. Cash and cash equivalents at beginning of period | 11,353 | 17,972 |
| 37. Change in cash and cash equivalents | 5,679 | -7,766 |
| 38. Currency translation of cash and cash equivalents | 410 | -44 |
| **39. Cash and cash equivalents at end of period** | **17,442** | **10,162** |
| thereof cash and cash equivalents in discontinued operations | 0 | 18 |



* Cash and cash equivalents were adjusted for the reclassification of securities that do not meet the definition of cash and cash equivalents according to IAS 7.

# Notes to the the consolidated interim financial statements at June 30, 2016

## A. Basic accounting principles

SKW Stahl-Metallurgie Holding AG prepared the condensed consolidated interim financial statements at June 30, 2016 pursuant to Section 37y No. 2 in conjunction with Section 37w WpHG (German Securities Trading Act) in accordance with International Accounting Standard (IAS) 34. The same accounting methods applied in the preparation of the consolidated financial statements at December 31, 2015 were applied in the preparation of the condensed consolidated interim financial statements. In addition, IAS 34 (Interim Financial Reporting) was applied in the preparation of the condensed consolidated interim financial statements. SKW Stahl-Metallurgie Holding AG applied all International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) that were in effect at the time of preparation of the condensed consolidated interim financial statements and had been adopted by the European Commission for application in the European Union. To the knowledge of the Management, the present semiannual financial report includes all customary, regularly applicable adjustments required to ensure an appropriate presentation of the Group's financial position, cash flows and financial performance. The consolidated accounting principles and methods applied were explained in the notes to the consolidated financial statements at December 31, 2015 (Section C. "Key recognition and measurement principles"); these notes can be found on the Internet at http://www.skw-steel.com. The condensed consolidated interim financial statements should be read in combination with the consolidated financial statements at December 31, 2015. Unless otherwise indicated, all figures are stated in euro thousands.

With regard to the disclosures required under new or revised accounting standards for which application is mandatory in the time since financial year 2016 in the present interim report, please refer to the explanations in Section A. "General information and presentation of the consolidated financial statements" of the notes to the consolidated financial statements at December 31, 2015.

With regard to the estimation methods applied, reference is made to the explanations provided in Section C. "Key recognition and measurement principles" of the notes to the consolidated financial statements at December 31, 2015. The same accounting and computation methods applied in the 2015 consolidated financial statements were applied in the preparation of the present financial statements.

Starting in financial year 2016, the presentation of currency translation expenses and income in the consolidated income statement was changed. The changed classification pertains to expenses and income arising from the measurement of foreign currency-denominated items and currency translation losses and gains arising from the netting of foreign currency-denominated items. Receivables and liabilities resulting from loans and interest, bank deposits and liabilities due to banks are presented within net interest income/expenses, instead of within other operating expenses and income (and thus in EBITDA) as before. Currency translation effects arising from trade receivables and other receivables and liabilities are still presented other operating expenses and income (and thus in EBITDA). The consolidated income statement for the comparison period was also prepared in accordance with this presentation method. This changed classification reduced the prior-period EBITDA by a total of EUR 6,167 thousand and increased the prior-period net interest income/expenses by the same amount compared to the first six months of last year.

Rounding practices may result in differences in the tables presented in the notes to the consolidated financial statements.

The operating business of SKW Metallurgie Group is not subject to significant seasonal fluctuations. Nonetheless, the comparability of interim periods may be influenced by maintenance measures performed by customers and by active inventory management in the steel mills. However, such measures are not performed in the same quarters year after year.

## Assumptions regarding the going-concern status

The semiannual financial statements were prepared on the assumption of a going concern.

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.



# B. Group of consolidated companies and consolidation methods

The group of consolidated companies consisting of 24 fully consolidated companies and one company accounted for by the equity method (see Section E. of the notes to the consolidated financial statements at December 31, 2015) has not changed since December 31, 2015.

The consolidation methods applied have not changed since the 2015 consolidated financial statements.

# C. Financial position, cash flows and financial performance

## Impairment tests

Due to the weak state of the steel industry in North America and the related adjustments to the business plan, the goodwill and trademark of the U.S. cash-generating unit (CGU) ESM were subjected to an impairment test.

The goodwill of ESM was allocated to the ESM sub-group excluding its Chinese subsidiary ESM Tianjin Co. Ltd. The sub-group includes the U.S. ESM Group Inc. and its Canadian subsidiary ESM Metallurgical Products Inc, as before. Both companies are independent CGUs. They are aggregated into a group for purposes of the goodwill impairment test.

### Impairments of goodwill

Because the fair value less costs of disposal is not available for goodwill, the recoverable amount was determined by calculating the value in use according to the discounted cash flow method. The planned cash flows from the current financial year forecast that was updated in June 2016 and the business plan for future periods were applied for this purpose. The value in use was determined on the basis of the expected national inflation rate and an estimated revenue growth rate; both historical data and the expected market performance were applied for this purpose.

To calculate the value in use, a growth rate of 1.5% (2015: 1.5%) was applied as the perpetuity value and a discount rate after taxes of 8.4% (2015: 8.7%) was applied. The weighted average cost of capital was determined on the basis of a risk-free interest rate of 2.4% (2015: 2.7%) and a market price premium for equity of 6.0% (2015: 6.0%). In addition, a beta factor derived from the respective peer group and the capital structure of that peer group were also taken into account.

Based on the impairment test at June 30, 2016, it was necessary to recognize an impairment equal to the entire goodwill of ESM in the amount of EUR 3,672 thousand. The impairment is attributable to the "North America" segment.

### Impairments of property, plant and equipment

Within the scope of the impairment test conducted at June 30, 2016, indications of a possible impairment of property, plant and equipment 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 and an impairment test was conducted at the level of individual assets.

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.

Notes to the statements

The fair values of the individual assets were determined from the following sources (Level 3 valuations):

→ 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 the expected cash flows. 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 4,793 thousand. An impairment of EUR 1,637 thousand was recognized in the remaining items of property, plant and equipment. In addition, impairments of EUR 688 thousand were recognized in intangible assets. The impairments are attributable to the “North America” segment.

### Impairments of trademarks

To determine the recoverable amount, the net selling price less costs of disposal was calculated by application of the relief-from-royalty method. The valuation parameters applied for the growth rate and discount factor were the same as those applied for the impairment test of goodwill. An adjusted royalty rate before taxes of 0.35% (PY: 0.5%), adapted to the regional market and competition conditions, was applied as the royalty rate.

Based on the impairment test of the “ESM” brand name capitalized in connection with the acquisition of the ESM sub-group, it was necessary to recognize an impairment of EUR -2,057 thousand at June 30, 2016.

The impairments recognized in property, plant and equipment and intangible assets in the reporting period are summarized in the table below:

| | EUR’000 |
|---|---|
| Goodwill | -3,735 |
| Trademark | -2,057 |
| ERP system | -688 |
| **Intangible assets** | **-6,480** |
| Plant and machinery | -1,334 |
| Other property, plant and equipment | -303 |
| **Property, plant and equipment** | **-1,637** |
| **Total** | **-8,117** |

The allocation of impairments to operating segments is detailed in the segment report.

The carrying amounts of assets with indefinite useful lives in the cash-generating units exhibited the following development in the reporting period:

| EUR thousand | ESM | Tecnosulfur | Total |
|---|---|---|---|
| **Goodwill** | | | |
| Carrying amount 01/01/2016 | 3,764 | 0 | 3,764 |
| Impairments | -3,672 | -63 | -3,735 |
| Subsequent acquisition costs | 0 | 63 | 63 |
| Other changes (e.g. currency translation) | -92 | 0 | -92 |
| **Carrying amount 06/30/2016** | 0 | 0 | 0 |
| | | | |
| **Trademark** | | | |
| Carrying amount 01/01/2016 | 4,754 | 3,245 | 7,999 |
| Impairments | -2,057 | 0 | -2,057 |
| Current amortization charges | 0 | 0 | -50 |
| Other changes (e.g. currency translation) | -102 | 652 | 550 |
| **Carrying amount 06/30/2016** | 2,595 | 3,897 | 6,492 |

## Statement of financial position

The balance sheet total of the SKW Metallurgie Group amounted to EUR 142,073 thousand at June 30, 2016 (December 31, 2015: EUR 149,001 thousand). This was EUR 6,928 thousand less than the prior-period comparison figure.

On the assets side, this change mainly reflected the impairments of intangible assets and property, plant and equipment recognized at the reporting date, which are explained above.

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 amounted to EUR 4,146 thousand (previously EUR 6,345 thousand) and other comprehensive income amounted to EUR 59,959 thousand (previously EUR -57,760 thousand) at December 31, 2015.

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 now amounted to EUR 5,446 thousand (previously EUR 4,521 thousand) and cash and cash equivalents amounted to EUR 11,353 thousand (previously EUR 12,278 thousand).

As in the prior year, the main items of current assets are inventories, which amounted to EUR 32,033 thousand or 22.5% of the balance sheet total at the reporting date (December 31, 2015: EUR 36,823 thousand or 24.7% of the balance sheet total) and trade receivables, which amounted to EUR 28,964 thousand or 20.4% of the balance sheet total at the reporting date (December 31, 2014: EUR 33,532 thousand or 22.5% of the balance sheet total).

Equity (including non-controlling interests) amounted to EUR -2,688 thousand at the reporting date (December 31, 2015: EUR 6,140 thousand). As in the prior year, no dividend was paid to the shareholders of SKW Stahl-Metallurgie Holding AG in 2016. The equity ratio declined from 4.1% of the balance sheet total in the prior period to -2.7% in the reporting period.

Trade payables declined by EUR 3,892 thousand to EUR 21,256 thousand in the first half of 2016 (December 31, 2015: EUR 25,148 thousand). The sum of inventories and trade receivables less trade payables declined by EUR 5,466 thousand, from EUR 45,207 thousand at December 31, 2015 to EUR 39,741 thousand. This decline was mainly attributable to the EUR 4,790 thousand decrease in inventories.

The EUR 1,841 thousand increase in pension obligations to EUR 10,984 thousand (December 31, 2015: EUR 9,143 thousand) resulted mainly from the adjustment of the discount rate for pensions to reflect the market rate of interest. The discount factor was lowered from 2.3% at December 31, 2015 to 1.5% at June 30, 2016; the resulting actuarial loss of EUR 1,700 thousand was recognized directly in equity, with no effect on profit or loss.

The sum of noncurrent and current liabilities rose by EUR 2,979 thousand, from EUR 142,861 thousand at December 31, 2015 to EUR 145,840 thousand at June 30, 2016.

## Additional information about financial instruments

In this section, we provide a comprehensive overview of the importance of financial instruments for the SKW Metallurgie Group and provide additional information about balance sheet items that contain financial instruments.

The carrying amounts and market values of financial assets and financial liabilities are presented in the table below:

| | 06/30/2016 | | 12/31/2015 | |
|---|---|---|---|---|
| EUR thousand | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets** | | | | |
| Assets held to maturity | 0 | 0 | 0 | 0 |
| Loans and receivables | 29,921 | 29,921 | 34,101 | 34,101 |
| Financial assets held for trading | 33 | 33 | 101 | 101 |
| Available-for-sale financial assets | 0 | 0 | 0 | 0 |
| Derivative financial instruments (with hedge accounting) | 0 | 0 | 0 | 0 |
| | | | | |
| **Financial liabilities** | | | | |
| Financial liabilities at amortized cost | 103,714 | 103,714 | 103,521 | 103,521 |
| Derivative financial instrument without financial hedging effect (no hedge accounting) | 75 | 75 | 232 | 232 |
| Derivative financial instruments with financial hedging effect (with hedge accounting) | 0 | 0 | 0 | 0 |

The classifications of individual asset items according to the valuation categories and classes at June 30, 2016 are presented in the table below:

| Assets in EUR thousand | Valuation according to IAS 39 | | | | | |
|---|---|---|---|---|---|---|
| | | Loans and receivables | Assets held to maturity | Available-for-sale financial assets | Financial assets at fair value through profit and loss | |
| | Carrying amount 06/30/2016 | Amortized cost | Amortized cost | Fair value taken directly to equity | Fair value through profit and loss | Fair value 06/30/2016 |
| Other assets | 957 | 957 | 0 | 0 | 0 | 957 |
| Receivables under long-term construction contracts | 0 | 0 | 0 | 0 | 0 | 0 |
| Trade receivables | 28,964 | 28,964 | 0 | 0 | 0 | 28,964 |
| Derivatives without financial hedging effect (no hedge accounting) | 33 | 0 | 0 | 0 | 33 | 33 |

The corresponding classifications at December 31, 2015 were as follows:

| Assets in EUR thousand | Valuation according to IAS 39 | | | | | |
|---|---|---|---|---|---|---|
| | | Loans and receivables | Assets held to maturity | Available-for-sale financial assets | Financial assets at fair value through profit and loss | |
| | Carrying amount 12/31/2015 | Amortized cost | Amortized cost | Fair value taken directly to equity | Fair value through profit and loss | Fair value 12/31/2015 |
| Other assets | 569 | 569 | 0 | 0 | 0 | 569 |
| Receivables under long-term construction contracts | 0 | 0 | 0 | 0 | 0 | 0 |
| Trade receivables | 33,532 | 33,532 | 0 | 0 | 0 | 33,532 |
| Derivatives without financial hedging effect (no hedge accounting) | 101 | 0 | 0 | 0 | 101 | 101 |

The carrying amounts of trade receivables and other current receivables are equal to the respective fair values.

The classifications of individual liabilities according to the valuation categories and classes at June 30, 2016 are presented in the table below:

| Equity and liabilities in EUR thousand | Valuation according to IAS 39 | | | |
|---|---|---|---|---|
| | | Financial liabilities measured at amortized cost | Financial liabilities at fair value through profit or loss | |
| | Carrying amount 06/30/2016 | Amortized cost | Fair value | Fair value 06/30/2016 |
| Financial liabilities | 80,777 | 80,777 | 0 | 80,777 |
| Trade payables (excl. PoC) | 21,190 | 21,190 | 0 | 21,190 |
| Other liabilities | 1,747 | 1,747 | 0 | 1,747 |
| Derivatives without a financial hedging effect (no hedge accounting) | 75 | 0 | 75 | 75 |
| Derivatives with a financial hedging effect (with hedge accounting) | 0 | 0 | 0 | 0 |

The corresponding classifications at December 31, 2015 were as follows:

| Equity and liabilities in EUR thousand | Valuation according to IAS 39 | | | |
|---|---|---|---|---|
| | | Financial liabilities measured at amortized cost | Financial liabilities at fair value through profit or loss | |
| | Carrying amount 12/31/2015 | Amortized cost | Fair value | Fair value 12/31/2015 |
| Financial liabilities | 75,019 | 75,019 | 0 | 75,019 |
| Trade payables (excl. PoC) | 25,068 | 25,068 | 0 | 25,068 |
| Other liabilities | 3,434 | 3,434 | 0 | 3,434 |
| Derivatives without a financial hedging effect (no hedge accounting) | 232 | 0 | 232 | 232 |
| Derivatives with a financial hedging effect (with hedge accounting) | 0 | 0 | 0 | 0 |

The fair value of forward exchange transactions was calculated on the basis of the mean spot exchange rate on the reporting date, with due regard for the forward premium or forward discount for the respective duration of the contract compared to the contracted forward exchange rate. In the case of currency options, recognized models such as the Black-Scholes model, for example, were applied to determine the option price. The fair value of an option is influenced not only by the remaining life of the option, but also by other factors such as the current amount and volatility of the underlying exchange rate or underlying base interest rate, for example.

The valuation of derivative financial instruments was based solely on market data obtained from recognized providers of market data.

The carrying amounts of trade payables and other current liabilities were equal to the corresponding fair values. In the case of liabilities bearing variable interest, the carrying amounts were equal to the corresponding fair values.

The classifications of financial assets and liabilities measured at market value according to the three levels of the fair value hierarchy at June 30, 2016 are presented in the table below:

| EUR thousand | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets measured at market value | | | | |
| Derivative financial instruments | - | 33 | - | 33 |
| Financial liabilities measured at market value | | | | |
| Derivative financial instruments | - | 75 | - | 75 |

The comparison values at December 31, 2015 were as follows:

| EUR thousand | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets measured at market value | | | | |
| Derivative financial instruments | - | 101 | - | 101 |
| Financial liabilities measured at market value | | | | |
| Derivative financial instruments | - | 232 | - | 232 |

The levels of the fair value hierarchy and the application thereof to assets and liabilities are described in the following:

→ Level 1: Quoted prices in active markets for identical assets or liabilities,

→ Level 2: Inputs other than quoted prices that are observable directly (e.g. prices) or indirectly (e.g. derived from prices), and

→ Level 3: Inputs applicable to assets and liabilities that are not based on observable market data.

On the assets side, forward exchange transactions and on the liabilities side, interest rate swaps and forward exchange transactions are classified as Level-2 derivative financial instruments.

## Income statement

To improve the comparability of the reporting period and prior-year period, the comparison figures in the income statement have been adjusted for the figures from discontinued operations, in accordance with IFRS 5. The profit/loss from discontinued operations stated in the comparison figures from 2015 pertains to SKW Tashi Alloys & Metals Pte. Ltd., which was deconsolidated at the end of 2015.

The SKW Metallurgie Group generated revenues of EUR 125,041 thousand in the first half of 2016, reflecting a substantial decrease of -18.3% from the comparison figure for the first half of 2015 (EUR 152,960 thousand). The decrease in revenues from the comparison figure was mainly caused by the weak state of the steel market in North America and exports by Chinese steel producers to the sales markets of the SKW Metallurgie Group. Due to the massive overproduction of steel in China, surplus steel is being exported at low prices. However, the revenue decline was also accompanied by a -18.5% decrease in material costs from the comparison figure, so that the gross profit, defined as the sum of revenues, changes in inventory, internal production capitalized and material costs as a percentage of revenues, declined by EUR 10,436 thousand, from EUR 51,129 thousand in the prior-year period to EUR 40,693 thousand in the reporting period.

The gross profit margin, defined as the gross profit as a percent of revenues, declined slightly to 32.5% in the reporting period compared to the comparison period (33.4%). In the comparison period, the gross profit included an inventory increase of EUR 1,269 thousand, whereas it included an inventory decrease of EUR 304 thousand in the reporting period.

The other operating income of EUR 3,431 thousand (PY: EUR 5,671 thousand) resulted mainly from currency translation gains in the amount of EUR 1,691 thousand (PY: EUR 3,769 thousand) and from the reversal of provisions in the amount of EUR 1,036 thousand (PY: EUR 1,191 thousand).

The currency translation gains presented within other operating income are offset by the currency translation losses presented within other operating expenses (including currency effects resulting from the consolidation of liabilities). Currency translation losses amounted to EUR -1,513 thousand in the first half of 2016 (PY: EUR -2,617 thousand). Netting with the currency translation gains yields a positive net currency translation effect of EUR 178 thousand in the reporting period, as compared to EUR 1,152 thousand in the comparison period.

The other operating expenses of EUR -21,278 thousand were EUR 3,860 thousand less than the comparison figure (EUR -25,138 thousand). Aside from the above-mentioned currency translation effects, this change resulted mainly from lower selling expenses (particularly for shipping and commissions), which declined in line with revenues, and lower costs for legal counsel.

The personnel expenses of EUR -19,047 thousand were less than the prior-period figure of EUR -20,796 thousand.

The financial result of EUR -2,728 thousand EUR -5,621 thousand less than the prior-period figure (EUR 2,892 thousand). The other financial result in the comparison period included expenses and income from currency translation differences in the amount of EUR -109 thousand and EUR 6,192 thousand, respectively. Barring these currency translation effects, the net balance of interest expenses and income would have been EUR -2,719 thousand in the reporting period and EUR -3,300 thousand in the comparison period; the interest burden was less in the reporting period than in the comparison period.

The consolidated net loss for the first half of 2016 amounted to EUR -10,134 thousand, as compared to consolidated net income of EUR 7,485 thousand in the comparison period. The share of the consolidated result attributable to non-controlling interests was EUR 461 thousand in the reporting period, as compared to EUR -75 thousand in the prior-year comparison period. The difference between the consolidated result in both periods (EUR -17,619 thousand) is mainly attributable to impairment losses (EUR -8,117 thousand) and the lower currency translation result (EUR -7,143 thousand) compared to the prior-year period.

## Statement of cash flows

The consolidated net loss for the first half of 2016 amounted to EUR -10,134 thousand (H1-2015: consolidated net income of EUR 7,485 thousand). The gross cash flow of EUR 582 thousand in the reporting period was substantially less than the prior-period figure of EUR 5,263 thousand.

The SKW Metallurgie Group Working generated a cash inflow of EUR 1,418 thousand (PY: cash outflow of EUR -11,008 thousand) in working capital (change of gross cash flow to cash flow from operating activities). Therefore, the SKW Metallurgie Group generated a cash inflow of EUR 2,000 thousand from operating activities, as compared to a cash outflow of EUR -5,745 thousand from operating activities in the comparison period.

In accordance with IAS 8.41, certain investments were reclassified from cash and cash equivalents to other assets and the prior-period figures were adjusted accordingly; see also the notes to the statement of financial position. After the adjustment according to IAS 8.41, the increase/decrease in other assets amounted to EUR 1,589 thousand (previously EUR 2,514 thousand), the cash inflow/outflow from operating activities amounted to EUR -5,745 thousand (previously: EUR -4,820 thousand), the change in cash and cash equivalents amounted to EUR -7,766 thousand (previously: EUR 6,841 thousand) and cash and cash equivalents at the end of the period amounted to EUR 10,162 thousand (previously: EUR 11,087 thousand) at June 30, 2015.

The cash outflow from investing activities amounted to EUR -2,452 thousand in the reporting period, as compared to EUR -2,070 thousand in the prior-year period.

The SKW Metallurgie Group generated a cash inflow of EUR 5,206 thousand from financing activities in the reporting period (PY: cash inflow of EUR 49 thousand). The cash inflows mainly consisted of payments received under the syndicated loan agreement concluded in January 2015; the cash outflows mainly consisted of redemption payments at the Brazilian subsidiary Tecnosulfur and redemption payments associated with the syndicated loan.

The cash flow from operating activities in the reporting period included the following payments:

→ Interest paid of EUR -901 thousand (PY: EUR -1,547 thousand)

→ Interest received of EUR 0 thousand (PY: EUR 1 thousand)

→ Income taxes paid of EUR -974 thousand (PY: EUR -2,293 thousand)

→ Income tax refunds of EUR 1,020 thousand (PY: EUR 149 thousand)

# D. Segment report

EBITDA is the most important financial indicator for managing the operating segments; other information is applied to reconcile earnings before taxes with consolidated net income/loss.

The SKW Metallurgie Group manages its worldwide activities on the basis of geographical regions. The profit indicator by which the segments are managed is EBITDA, which accords with the consolidated financial statements. Other information is applied to reconcile the earnings before taxes with consolidated net income/loss. All product groups and services of the SKW portfolio are offered in the segments, as a general rule; depending on the industry circumstances and market needs, both primary and secondary metallurgy products are distributed.

## North America

All business activities managed from North America are bundled within the North America segment. A Chinese subsidiary that supplies products to the U.S. companies is also assigned to this segment.

## Europe and Asia

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

## South America

This segment comprises the business activities in Latin America; they are coordinated by the Brazilian subsidiary.

## Other operating segments

The other operating activities that do not belong to the Group's core business are bundled within this segment. This segment is mainly characterized by the activity of SKW Quab Chemicals Inc., which produces and distributes special chemical reagents (referred to as cationizing reagents) in more than 40 countries.

## Other non-operating segments and holding

This segment comprises the non-operating activities beyond the core business that do not generate revenues with third parties, as well as the expenses for the Group's headquarters and the income it earns from providing services to the subsidiaries.

## Consolidation

The consolidation of business dealings between the segments is presented in the consolidation column. The revenues generated between the segments are priced at intercompany transfer prices, which are mainly based on the resale price method.

## Segment assets

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

To clarify the presentation of the segment report, the segments have been divided into operating and non-operating segments for the first time in the present interim report. The comparison figures were adjusted accordingly.

The activities of the segments in the reporting period are presented in the table below:

| 01-06/2016 in EUR'000 | North America | Europe and Asia | South America | Other operating segments | Other non-operating segments and holding | Consolidation | Group |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| External revenues | 64,820 | 36,635 | 10,214 | 13,372 | 0 | 0 | 125,041 |
| Internal revenues | 63 | 530 | 2 | 119 | 0 | -714 | 0 |
| **Total revenues** | **64,883** | **37,165** | **10,216** | **13,491** | **0** | **-714** | **125,041** |
| Income from associated companies | - | - | - | - | 461 | - | 461 |
| **EBITDA** | **3,022** | **1,382** | **1,982** | **986** | **-3,217** | **95** | **4,260** |
| Depreciation and amortization | -858 | -591 | -425 | -691 | -82 | 0 | -2,647 |
| Impairments | -8,054 | 0 | -63 | 0 | 0 | 0 | -8,117 |
| **EBIT** | **-5,880** | **791** | **1,494** | **295** | **-3,299** | **95** | **-6,504** |
| Dividends collected from subsidiaries | 0 | 398 | 0 | 0 | 1,716 | -2,114 | 0 |
| Profit transfer | 0 | 0 | 0 | 110 | -110 | 0 | 0 |
| Interest income | 0 | 643 | 153 | 74 | 883 | -1,594 | 159 |
| Interest expenses | -1,912 | -86 | -75 | -266 | -2,033 | 1,594 | -2,778 |
| Other financial result | 24 | 451 | 0 | 0 | -584 | 0 | -109 |
| **Earnings before taxes** | **-7,768** | **2,197** | **1,572** | **213** | **-3,427** | **-2,019** | **-9,232** |
| Income taxes | | | | | | | -902 |
| **Earnings from continuing operations (after taxes)** | | | | | | | **-10,134** |
| Earnings before taxes from discontinued operations | | | | | | | - |
| Income taxes of discontinued operations | | | | | | | - |
| **Earnings from discontinued operations (after taxes)** | | | | | | | **-** |
| **Consolidated net loss** | | | | | | | **-10,134** |
| Statement of financial position at 06/30/2016 | | | | | | | |
| Assets | | | | | | | |
| Segment assets | 59,411 | 36,152 | 26,846 | 29,527 | 62,353 | -77,573 | 136,715 |
| Interests in associated companies | - | - | - | - | 6,437 | - | 6,437 |
| **Group assets** | | | | | | | **143,152** |
| Liabilities | | | | | | | |
| Segment liabilities | 60,451 | 18,296 | 12,484 | 22,915 | 53,346 | -21,586 | 145,840 |
| **Group liabilities** | | | | | | | **145,840** |
| **Acquisitions of property, plant and equipment in 01-06/2016** | **1,324** | **142** | **423** | **483** | **10** | **0** | **2,382** |

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

| 01-06/2015 in EUR'000 | North America | Europe and Asia | South America | Other operating segments | Other non-operating segments and holding | Consolidation | Group |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| External revenues | 81,128 | 41,655 | 14,407 | 15,770 | 0 | 0 | 152,960 |
| Internal revenues | 625 | 1,709 | 4 | 239 | 0 | -2,577 | 0 |
| **Total revenues** | **81,753** | **43,364** | **14,411** | **16,009** | **0** | **-2,577** | **152,960** |
| Income from associated companies | - | - | - | 618 | - | - | 618 |
| **EBITDA** | **4,934** | **2,780** | **3,781** | **2,059** | **-2,190** | **120** | **11,484** |
| Depreciation and amortization | -898 | -597 | -540 | -669 | -123 | 23 | -2,804 |
| Impairments | 0 | 0 | -96 | -2 | 0 | 0 | -98 |
| **EBIT** | **4,036** | **2,183** | **3,145** | **1,388** | **-2,313** | **143** | **8,582** |
| Dividends collected from subsidiaries | 0 | 843 | 0 | 0 | 3,129 | -3,972 | 0 |
| Profit transfer | 0 | 0 | 0 | -374 | 374 | 0 | 0 |
| Interest income | 0 | 954 | 230 | 28 | 1,067 | -1,936 | 343 |
| Interest expenses | -2,237 | -129 | -151 | -264 | -2,798 | 1,936 | -3,643 |
| Other financial result | -1 | 468 | 1 | 0 | 5,724 | 0 | 6,192 |
| **Earnings before taxes** | **1,798** | **4,319** | **3,225** | **778** | **5,183** | **-3,829** | **11,474** |
| Income taxes | | | | | | | -2,709 |
| **Earnings from continuing operations (after taxes)** | | | | | | | **8,765** |
| Earnings before taxes from discontinued operations | | | | | | | -1,280 |
| Income taxes of discontinued operations | | | | | | | 0 |
| **Earnings from discontinued operations (after taxes)** | | | | | | | **-1,280** |
| **Consolidated net loss** | | | | | | | **7,485** |
| Statement of financial position at 06/30/2015 | | | | | | | |
| Assets | | | | | | | |
| Segment assets | 92,834 | 44,104 | 27,893 | 23,866 | 77,667 | -94,382 | 171,982 |
| Interests in associated companies | - | - | - | 6,663 | - | - | 6,663 |
| **Group assets** | | | | | | | **178,645** |
| Liabilities | | | | | | | |
| Segment liabilities | 72,478 | 28,278 | 12,326 | 16,509 | 54,761 | -32,230 | 152,122 |
| **Group liabilities** | | | | | | | **152,122** |
| **Acquisitions of property, plant and equipment in 01-06/2015** | **966** | **471** | **241** | **447** | **505** | **-43** | **2,587** |

# E. Dealings with related companies and persons

There were no significant dealings with related companies and persons in the reporting period that would have led to a significantly changed presentation of the financial position, cash flows and financial performance compared to the 2015 consolidated financial statements.

# F. Contingent assets and liabilities

## Contingent assets

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

By statement of claim dated July 5, 2015, SKW Stahl-Metallurgie Holding AG asserted a claim for damages based on directors' and officers' liability in the amount of approximately EUR 55 million against Ms. Ines Kolmsee and another former member of the Company's Executive Board, Mr. Gerhard Ertl, before the Traunstein Regional Court.

The background for this claim is the Company's allegation that the defendants failed to exercise the care of prudent and conscientious directors in establishing the joint venture SKW-Tashi Metals & Alloys Private Ltd. to operate a calcium silicon plant in the Kingdom of Bhutan and in acquiring a calcium carbide plant in Sundsvall, Sweden. The claim alleges that the Company incurred substantial financial losses as a result of the faulty decision to carry through with the two projects, and seeks compensation of these losses. The defendants completely deny the merits of these claims.

The proceeding is currently suspended, at the request of the parties, to allow for settlement talks. The outcome of the proceeding is uncertain. It is also uncertain whether the dispute can be settled amicably without further cost to the Company, or even whether the Company will still collect a certain amount of money.

## Contingent liabilities

The following contingent liabilities existed within the SKW Metallurgie Group at the reporting date:

Fine in the total amount of EUR 13.3 million levied by the EU Commission against SKW Stahl-Metallurgie Holding AG, SKW Stahl-Metallurgie GmbH ("the SKW Metallurgie companies") and Gigaset AG as joint and several debtors, for violation of cartel law.

By judgment of June 16, 2016, the European Court of Justice as the final instance completely dismissed the appeal against the fine lodged by the

SKW Metallurgie companies. Thus, this fine levied by the EU Commission against the SKW Metallurgie companies has been definitively upheld and can no longer be appealed. The SKW Metallurgie companies met their payment obligation in due time by August 31, 2016. This payment consumed the full amount of the EUR 8.5 million provision recognized in respect of this liability.

Gigaset AG (formerly ARQUES Industries AG) filed a legal action already in 2010 to obtain compensation from the SKW Metallurgie companies of that part of the fine imposed with joint and several liability which it paid to the EU Commission (EUR 6.6 million). Gigaset AG has not been successful with this claim to date. The now competent Munich Higher Regional Court had initially suspended this proceeding (after it was referred back to this court by the Federal Supreme Court) pending the judgment in the appeal proceeding before the European Court of Justice (see above) and has since resumed the proceeding by resolution of July 22, 2016. The Company still believes that it is more probable than not that Gigaset AG's claim will be dismissed.



# G. Important events after the reporting date

The following transactions and events of particular importance for the SKW Metallurgie Group became known after the close of the reporting period on June 30, 2016 and before the time of preparation of the present interim report:

- Tensions between key stakeholders, particularly including legal disputes between individual members of the Supervisory Board that extended beyond the reporting date of June 30, 2016, were resolved amicably and in the Company's best interests after the close of the reporting period on June 30, 2016 and before the preparation of the present interim management report.

- By date of August 30, 2016, the Federal Financial Services Supervisory Office (BaFin) issued a ruling in connection with a routine audit conducted by the Financial Reporting Enforcement Panel (FREP), ordering the Group to publish the errors discovered in that audit in relation to the 2013 consolidated financial statements. These findings were published in early September 2016. The findings do not have significant effects on the current financial reporting of the SKW Metallurgie Group.

- After the end of the reporting period, an agreement was reached to sell SKW Stahl-Metallurgie Holding AG's 51% investment in the Bhutanese company SKW-Tashi, the carrying amount of which has been written down to zero, to an external buyer for a positive purchase price in early 2017.

- Additional agreements related to the syndicated loan agreement were signed after the end of the reporting period. In particular, it was agreed in the first quarter of 2017 that this financing instrument will basically 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 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 present semiannual financial statements at June 30, 2016 can be prepared under the assumption of a positive going-concern forecast. 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.

→ SKW Stahl-Metallurgie Holding AG, represented in this case by its Supervisory Board, has sued two former members of its Executive Board for damages. This matter was settled in the interest of the Company in March 2017. This settlement generates cash income for the Company of roughly EUR 3.2 million. At the time of preparation of these notes, this agreement on the settlement negotiations with the parties was pending, subject to the approval of the annual general meeting planned for July 6, 2017. If the shareholders approve it, the cash inflows generated from the settlement of D&O liability will be applied to repaying loan liabilities as part of the Company's financial restructuring plan. In addition, the Supervisory Board members resolved in a regularly convened meeting on March 21, 2017 that a former Executive Board member must waive a significant portion of his pension commitments due to the Company's general financial situation.

# H. Shareholder structure

The following holdings of SKW Metallurgie shares were subject to the notification requirement of the Securities Trading Act (WpHG) at June 30, 2016 (3% or more of total voting rights):

## Artificial persons:

| Name | Registered office | Holdings | As percent of total shares | Date | Comments |
|---|---|---|---|---|---|
| La Muza Inversiones | Madrid, Spain | 240,322 | 3.67% | 09/18/2014 | |
| SE Swiss Equities AG | Zurich, Switzerland | 303,820 | 4.64% | 05/12/2015 | |
| Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte | Tübingen, Germany | 369,559 | 5.65% | 07/02/2016 | Additional notification by LBBW Asset Management due to attribution |

## Natural persons:

| Name | Holdings | As percent of total shares | Date | Comments |
|---|---|---|---|---|
| Dr. Klemens Joos/Dr. Olaf Marx | 921,988 | 14.09% | 06/24/2016 | |

The voting rights notification of the shareholder Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte refers to July 2, 2016, a date after the close of the reporting period, but before the preparation of the present interim financial statements. It was necessitated by a legislative change that took effect at this time. Given the unchanged notification requirement of LBBW Asset Management, it can be assumed in terms of content that Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte also held the stated number of shares at the reporting date of June 30, 2016.

After the close of the reporting period, but before the preparation of the present interim financial statements, a voting rights notification concerning the threshold crossing of September 18, 2014 was received from Banco Sabadell on August 9, 2016. This was an additional notification of the holdings of La Muza Inversiones due to attribution.

The holdings of the shareholders Dr. Olaf Marx and Dr. Klemens Joos presented in the table refer to the status on the reporting date of June 30, 2016. After the close of the reporting period, but before the preparation of the present interim financial statements, the voting trust agreement with First Holding GmbH, Munich (Germany), which is represented by Dr. Joos, was terminated, so that Dr. Marx (for MCGM) is no longer subject to the notification requirement. Dr. Joos' notification (for First Holding) still falls within the notification range of more than 10% and less than 15%.

The stated holdings refer only to the stated dates; any subsequent changes would be subject to the notification requirement only if such a change would cause the holdings to rise above or fall below a notification threshold according to the WpHG.

The stated holdings may include attributable voting rights according to the WpHG. Because the same voting rights are attributed to more than one person in certain cases, such voting rights may be included in more than one voting rights notification.

The members of the Executive Board and Supervisory Board together held less than 1% of SKW Metallurgie shares both at June 30, 2016 and at the time of preparation of the present consolidated financial statements.

Munich (Germany), March 20, 2017

SKW Stahl-Metallurgie Holding AG

The Executive Board

Dr. Kay Michel

# Review Report



We have reviewed the condensed interim consolidated financial statements of SKW Stahl-Metallurgie Holding AG, comprising the consolidated balance sheet, consolidated income statement, reconciliation to comprehensive income, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated statements,– together with the interim Group management report, for the period from January 1 to June 30, 2016, that are part of the semi-annual financial report according to § 37 w WpHG [„Wertpapierhandelsgesetz“: „German Securities Trading Act“]. The preparation of the condensed interim consolidated financial statements in accordance with International Accounting Standard IAS 34 „Interim Financial Reporting“ as adopted by the EU, and of the interim Group management report in accordance with the requirements of the WpHG applicable to interim Group management reports, is the responsibility of the Company’s management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim Group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with IAS 34, „Interim Financial Reporting“ as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor’s report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with IAS 34, „Interim Financial Reporting“ as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Without qualifying our opinion, we draw attention to the comments of the Board of Management in the interim Group management report.

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 20, 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
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# Disclaimer and Notes



This report contains statements about forthcoming developments that are based on currently available information and that entail risks and uncertainties. This may result in deviations between the actual situation in the future and the forward-looking statements. These risks and uncertainties include, for example, unpredictable changes in political and economic conditions, particularly in the steel and paper industry, the competitive situation, interest and currency risks, technological development as well as other risks and unexpected circumstances. SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany) and its group companies do not accept any responsibility to update such forward-looking statements.

When reference is made in this report to groups of people who factually or potentially include both genders (such as “shareholders” or “employees”) or when gender neutral references are made to a single person (such as “the responsible officer”), the report usually only quotes one gender. This is solely done in the interest of improved readability (translator’s note: in most instances this only applies to the German original, since there are no distinct terms in English for male or female shareholders, experts, employees, etc.).

SKW Stahl-Metallurgie Holding AG’s group brand that is used externally is “SKW Metallurgie”. For this reason “SKW Metallurgie” and “SKW Metallurgie Group” are used in this report.

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

This is the English translation of the German original of this report; in case of any discrepancies the German version prevails. In addition, for technical reasons (e.g., the conversion of electronic formats) there may be differences between the accounting documents included in this report and those submitted to the electronic company register.

For several cities quoted in this report, different names and/or transcriptions into the Latin alphabet are in use. The use of a certain name or transcription is for information only and is not intended to imply any political statement. Maps that may be contained in this report are for illustration only and are not intended to induce any political statements, such as the legitimacy of borders. In this report, the term “China” refers to the PR of China without its two Special Administrative Regions. In this report, the term “Hong Kong” refers to the PR of China’s Special Administrative Region of Hong Kong.

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

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