Report for the
1st Half Year 2017

Interim Group Management Report of SKW Stahl-Metallurgie Holding AG for the First Half of 2017

1. General economic conditions

1.1. Continued momentum for the global economic recovery

In its published forecasts (www.imf.org), the International Monetary Fund (IMF) predicts that the global economy will grow at a rate of 3.5% in 2017, thereby confirming the forecast published in April 2017. Therefore, the global economy will grow at a somewhat more dynamic rate in 2017 than in 2016 (+3.2%). As before, albeit with somewhat less influence than assumed in April 2017, the realization of this forecast will also depend on the further economic policy course of the new U.S. administration. In contrast to the somewhat sluggish growth in the United States and the United Kingdom, other countries such as Japan, Canada and Europe (especially France, Germany, Italy and Spain) and the economies of Brazil, India and China supported the positive trend of the first quarter of 2017.

The IMF sees growth of +1.9% in 2017 in the Eurozone, which is at the level of 2016. It expects the US economy to expand by a faster rate of +2.3%. The aggregate growth of all the industrialized nations is still estimated at 2.0%. Developing and emerging-market countries together are expected to achieve a growth rate of 4.6% in 2017, with China's economic output growing by 6.7%, modestly slower than in the preceding years. While India can expect its economic growth to accelerate (+7.2%), only minimal growth of 0.3% is predicted for Brazil. Russia's economic output is expected to grow by only 1.4% over the prior year, when growth was slightly negative.

1.2. Worldwide steel production continues to rise; positive development continues in the USA and Brazil

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 increasingly 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, demand in the global steel market increased by 4.3% to 835,310 tons in the first half of 2017, compared to the prior-year period. In the international steel markets, moreover, prices remained on a comparably high level as a result of anti-dumping measures in various regions and sharply higher iron ore prices in the first quarter. The trend was further supported in the reporting period by the additional announcement of capacity reductions on the part of Chinese manufacturers, coupled with strong local demand. Nonetheless, it must be noted with respect to global steel production that it is still beset with major structural problems in the steel industry. Worldwide, the industry continues to struggle with excess capacities: The worldwide significant capital utilization rate is still at a low, albeit slightly improved level compared to the first half of last year.

The import situation in the European market remains tense as declining steel imports from China have been replaced with disproportionately rising imports from other countries (Ukraine, South Korea and even India), so that the import situation has not eased in terms of quantities. As a result of growing protectionism tendencies in the global steel industry, there is an additional risk of further trade diversions to the relatively open EU steel market.

Despite the current worldwide uncertainties, the change of sentiment among both steel producers and steel processors is particularly striking. For the first time in six years, most enterprises consider their economic situation to be good. Rising prices for steel products since the beginning of the year have enabled steel manufacturers to increase their margins, which was urgently needed. Furthermore, the key indicators for the first half of 2017 paint a positive picture in that crude steel production and market supply increased modestly.

China is still the world's largest producer by far, with a world market share of approximately 50%, as before. A large share of Chinese steel production cannot be sold permanently in the home market. Moreover, it has been shown in the past that it is not probable in the short term that Chinese production volumes can be appreciably and sustainably adapted to the reduced level of domestic demand. Consequently, large quantities of steel produced by Chinese surplus capacities are being offered and will be offered in the world market at low prices. The export pressure from China will only ease when actual production quantities are reduced or adapted better to local demand. Based on profitability and environmental concerns, experts believe that such a production quantity adjustment could take place in China, but only in the medium term. In SKW'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 leads in turn to rising price pressure on their suppliers, including the SKW Metallurgie Group. However, this situation also presents an opportunity for SKW to enhance the competitiveness of steel manufacturers with its higher-quality products.

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 the reporting year and previous year), 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 2017:

→ In the United States (including Canada), the key market for the SKW Metallurgie Group, steel production had stabilized on a low level by the end of the third quarter of 2016. Since this time, steel production has recovered in this region in terms of both production quantities and capacity utilization rates. Production in the first half of 2017 rose by 0.9% from the level of the prior-year comparison period. In addition to expectations for fiscal policy measures such as tax cuts, public-sector investments, etc., the protective tariffs imposed on dumping exports also contributed to this result.

- In the EU (+5.4%), last year's decline in steel production was not only halted, but reversed to a greater-than-expected degree; reasons for this development include the effect of protective trade policy measures by the EU and a subdued, though increasingly stable economic upturn. Nonetheless, it appears as though the import crisis in the EU has not been overcome, as declining steel imports from China have been offset by disproportionate increases in imports from other countries. As a result of growing protectionist tendencies in the global steel industry, the relatively open EU steel market is threatened by further trade diversion effects.

- In Brazil, the steel industry performed better (+12.4%) than had been expected given the difficult macroeconomic situation in that country. Although the biggest economy in Latin America experienced the deepest recession in the country's history, steel production exhibited a countervailing development. There are justifiable doubts concerning the sustainability of this trend because economists have little hope that the Brazilian economy will recover anytime soon.

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 rising substantially. Furthermore, the direct relationship between the development of steel production and the development of the revenues and unit sales of the SKW Metallurgie Group is increasingly changing. Consequently, changes in regional steel production in SKW's core markets are being reduced to a trend barometer and must henceforth be interpreted in the light of the regional customer structure and the development of commodity prices. As a result of this development, the business conducted by the SKW Metallurgie Group in the United States, the European Union and Brazil again fared better than the changes in steel production in those countries during the reporting period.

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 is essentially dependent on the development of produced steel volumes, especially for high-quality and higher-quality steel grades. The more steel is produced, the more primary and secondary metallurgy products are needed. Another factor influencing the quantities sold by SKW is the means by which steel is produced (blast furnace with primary metallurgy or electro-steel plant. A shift towards electro-steel plant production would have a greater impact on the primary metallurgy business (desulfurization). Such a shift cannot be observed at the present time.

2. Structure of the Group

There was a small change in the consolidation group of the SKW Metallurgie Group between December 31, 2016 and June 30, 2017.

At June 30, 2017 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 11 fully consolidated indirect subsidiaries (excluding the two inactive indirect subsidiaries in Germany and Turkey). As part of the SKW Group's portfolio streamlining measures, the direct subsidiary in Hong Kong and an indirect German subsidiary are in the process of liquidation; the subsidiary in Turkey was liquidated on April 3, 2017.

At June 30, 2017, 21 companies (20 subsidiaries and the parent company) – as compared to previously 22 companies - in 13 countries were fully consolidated in the SKW Metallurgie Group. The change from December 31, 2016 resulted from the deconsolidation of the Turkish subsidiary SKW Celik Metalürji Üretim Ticaret SLS at March 31, 2017. As mentioned already in the "Events after the reporting date" section of the consolidated financial statements for 2016, the non-consolidated Bhutanese joint venture that is in bankruptcy proceedings was sold for a price of USD 2.0 million (EUR 1.9 million).

The U.S. subsidiary SKW Quab Chemicals Inc., which distributes specialized chemical reagents to the papermaking and hygiene industry, had been measured and accounted for as discontinued operations in the consolidated financial statements for 2016 and the financial statements for the first quarter of 2017, in accordance with IFRS 5. The initiated sales process was terminated in July 2017. Consequently, the company is no longer measured and accounted for as discontinued operations in the financial statements at June 30, 2017 in accordance with IFRS 5. The company is assigned to the segment "Other Operating Segments".

The same applies to the interests in the associated company Jamipol Ltd., in which the SKW Metallurgie Group still holds about one third of the equity, which had been measured at amortized cost as an asset held for sale in the consolidated financial statements for 2016 and the financial statements for the first quarter of 2017. These interests had been assigned to the "sale of assets" pillar (mainly peripheral activities) of the restructuring plan agreed with the banks. The initiated sales process was likewise terminated in July 2017 and therefore these interests are no longer measured and presented as an asset held for sale in accordance with IFRS 5 in the financial statements at June 30, 2017, but are accounted for at equity within the SKW Metallurgie Group.

Furthermore, the sales process for the specialty magnesium business in the United States was initiated in the second quarter of 2017. This division had been assigned to the "North America" segment. Conequently, the assets and liabilities of this division are now measured and presented as discontinued operations, in accordance with IFRS.

The Group's shareholder structure underwent only four notable changes in the reporting period and afterwards:

- → Dr. Olaf Marx as the controlling shareholder (obligated to file notifications) of MCGM GmbH, Munich, notified the Company on April 4, 2017 that the shares held by La Muza Inversiones, Madrid (Spain) were attributable to him because a voting rights proxy and power of representation had been granted to him for the time until the annual general meeting to be held on August 31, 2017. Therefore, his holdings corresponded to 7.59% of the voting rights in the Company at April 4, 2017. This granting of a voting rights proxy and power of representation led to four additional notifications, raising his holdings to 14.95% of voting rights in the Company at July 27, 2017. Furthermore, Dr. Olaf Marx as the controlling shareholder (and thus subject to the notification requirement) notified MCGM GmbH, Munich, on August 8, 2017 that the holdings of Mr. Alois Berger, Ottobeuren (Germany), are also attributable to him by virtue of a voting rights proxy and power of representation granted to him until the annual general meeting of August 31, 2017. Therefore, his holdings represented 20.94% of voting rights in the Company at August 8, 2017.

- → The Company's previously biggest shareholder, First Holding GmbH, Munich (Germany), disclosed in three notifications during the reporting period (May 31, 2017, June 8, 2017 and June 13, 2017) that it had reduced its investment in the Company from previously 14.09% to 8.23%, 4.89% and finally to 2.97% at the time of preparation of the present management report. As before, Dr. Klemens Joos is subject to the notification requirement for the holdings of First Holding GmbH, as its managing director.

- → Mr. Carsten Würtz, Munich (Germany), notified the Company on June 2, 2017 that he had exceeded the reporting threshold of 3.0%. By notification of June 23, 2017, it was reported that all his holdings had been sold. His holdings represented 5.74% of voting rights in the Company from June 2, 2017 to June 23, 2017.

- → In addition, SE Swiss Equities AG based in Zurich (Switzerland) notified the Company on February 14, 2017 that its holdings had fallen below the threshold of 3% and only amounted to 2.75% of the Company's shares on this date.

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

3. Company and business developments

3.1. Revenues above expectations in the first half of 2017

Notwithstanding the necessary adjustments according to IFRS 5, the SKW Metallurgie Group generated revenues of EUR 135.6 million in the first half of 2017. This figure was considerably higher than the revenues generated in the first half of 2016 (EUR 121.8 million) and therefore exceeded expectations (full-year guidance including the contribution of the non-core business of Quab Chemicals: revenues of at least EUR 250 million).

3.2. Gross profit margin still considerably higher than 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 sales 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 six months of 2017, the gross profit margin of 32.0% – calculated on the basis of a EUR 92.7 million cost of materials (H1 2016: EUR 82.7 million) – was slightly higher than the prior-period figure of 31.9%. This positive change was achieved in spite of the massive pressure on prices in SKW's customer industries and isolated warehouse effects. SKW was able to successfully offset the decrease in some high-margin product lines with efficiency gains, especially for standard products .

3.3. Other operating result affected by SKW contributions related to the financial restructuring

The SKW Metallurgie Group generated total operating income of EUR 6.2 million in the first six months of 2017 (H1 2016: EUR 3.4 million) and incurred other operating expenses of EUR 23.5 million (H1 2016: EUR 21.2 million).

Other operating income was influenced by two events in the reporting period, which were already mentioned in the "Events after the reporting date" section of the 2016 Annual Report. The first income item of EUR 1.9 million resulted from the successful negotiation and sale of the majority interest held in SKW Tashi Metals and Alloys Pvt./Bhutan, which has been insolvent since 2015 and has since been completely written off (asset recovery); the second event influencing other operating income resulted from the final settlement of the legal disputes with the former Executive Board members Ms. Ines Kolmsee and Mr. Gerhard Ertl. Among other things, this settlement entails a waiver by the former Executive Board Chairwoman of a judicial review of the 50% reduction of her SKW Metallurgie pension entitlement by the Company to be resolved by the Supervisory Board, which led to a positive earnings effect for SKW of approximately EUR 2.0 million. Otherwise, this item was affected by foreign currency income in the amount of EUR 1.5 million (H1 2016: EUR 1.7 million).

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. Most of the reduction in other operating expenses is attributable to the rigorous implementation of the ReMaKe continuous improvement program. Even in the new format for the presentation of the foreign currency effects of intragroup dealings, foreign currency effects of EUR 2.1 million (H1 2016: EUR 1.0 million), including effects resulting from the measurement of sight deposits and from intragroup trading and the corresponding payment obligations in foreign currencies, for example, are still presented within other operating expenses.

Thanks to the optimization measures implemented as part of the ReMaKe program, the personnel expenses of EUR 18.5 million in the reporting period remained nearly unchanged from the prior-year comparison figure (EUR 18.2 million) despite the 6.2% increase in the production quantity; adjusted for the production quantity, i.e. assuming the same production quantity as in the prior-year comparison period, personnel expenses would have been EUR 17.6 million and therefore EUR 0.6 million less than the prior-year comparison figure.

3.4. Adjusted EBITDA exceeds expectations, thanks to positive market momentum and the results of ReMaKe measures

The stated EBITDA of the SKW Metallurgie Group for the first six months of 2017 amounted to EUR 8.2 million, which was considerably higher than the prior-period comparison figure (H1 2016: EUR 3.3 million). However, the stated EBITDA is not a very useful indicator of the Group's operating performance in this period until it is adjusted for non-recurring effects, non-operating effects and foreign currency effects.

After adjusting for the non-recurring effects of the "Bhutan asset recovery" and the "settlement with former Executive Board members" in the amount of EUR 3.9 million, both of which are recognized in other operating income in 2017, as well as the non-recurring income from the reversal of liabilities in the amount of EUR 1.0 million in 2016, restructuring expenses (H1 2017: EUR 1.8 million; H1 2016: EUR 3.6 million) and the unrealized currency effects included in other operating income and expenses (H1 2017: EUR -1.0 million; H1 2016: EUR +0.2 million), the EBITDA for the first half of 2017 came to EUR 7.3 million (H1 2016: EUR 5.7 million).

Thus, this adjusted operating indicator confirms the original full-year guidance of an adjusted EBITDA of approximately EUR 9 million or approximately EUR 12 million including the non-core business of Quab Chemicals; assuming a sustainably positive development of basic operating conditions, SKW continues to expect a substantial increase in operating EBITDA.

3.5. Good start in the first half of the year

The depreciation and amortization of the SKW Metallurgie Group amounted to EUR 3.0 million in the first six months of 2017 (H1-2016: EUR 2.6 million). This amount of depreciation and amortization can be seen as a good indicator of the regular depreciation and amortization that can be expected in the coming periods. In the first six months of 2016, the earnings of the SKW Metallurgie Group had been reduced by impairment losses in the amount of EUR 8.1 million. These losses were almost entirely due to a further impairment of intangible assets (in goodwill and the brand value) caused by the steel crisis at the time and by impairments of property, plant and equipment, all of which affecting a subsidiary in the United States.

Mathematically, the financial result for the first six months of 2017 amounted to EUR -5.6 million (H1 2016: EUR -2.7 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 of EUR -2.9 million (H1 2016: EUR -0.2 million), as opposed to EBITDA. Adjusted for this effect, net interest expenses amounted to EUR -2.7 million, largely unchanged from the prior-period comparison figure (EUR -2.6 million).

The tax expenses of the SKW Metallurgie Group amounted to EUR 1.0 million in the first half of 2017 (H1 2016: EUR 0.9 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. This leads to the unsatisfactory outcome that the tax rate of the SKW Metallurgie Group is not only highly volatile from year to year, but also that tax expenses are incurred at the Group level (as in the prior year) despite negative pre-tax earnings.

The consolidated net loss after taxes of the consolidation group relevant for the present semiannual financial statements amounted to EUR -1.7 million (H1 2016: EUR -10.1 million). This performance only partially reflects the successes and effects of the ReMaKe continuous improvement program and the positive economic conditions described above. For the sake of better comparability, therefore, it would be necessary to adjust this figure for the prior-period impairment losses described above and the effects of unrealized exchange rate changes within intragroup financing, in addition to the described EBITDA adjustments. After making these adjustments, the adjusted consolidated period result for the first half of 2017 comes to EUR 0.5 million, as compared to the prior-period figure of EUR -0.4 million.

The consolidated net loss 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 Sistema de Tratamento de Metais Líquidos S/A (Brazil): 33.3% non-controlling interests;
- SKW QUAB Chemicals Inc. (USA) 10% non-controlling interests.

In total, EUR 0.5 million of the consolidated net loss is attributable to these non-controlling interests (H1 2016: EUR 0.5 million). An amount of EUR -2.2 million, including EUR -1.9 million from continuing operations and EUR -0.3 million from discontinued operations, is attributable to the shareholders of SKW Stahl-Metallurgie Holding AG in the reporting period (H1 2016: EUR -10.6 million, including EUR -11.5 million from continuing operations and EUR 0.9 million from discontinued operations). The number of SKW Metallurgie shares outstanding was unchanged at 6,544,930. This yields consolidated earnings per share (EPS) of EUR -0.33 (H1 2016: EUR -1.62).

3.6. Maturity of financial debt: Credit terms to be 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, 2017 and at December 31, 2016:

ASSETS IN EUR'000	06/30/2017	12/31/2016
Noncurrent assets	49,806	40,005
Current assets	86,771	105,942
thereof cash and cash equivalents	10,918	14,276
Total assets	**136,577**	**145,947**

EQUITY AND LIABILITIES IN EUR'000	06/30/2017	12/31/2016
Equity	-8,074	-5,444
Noncurrent liabilities	18,821	18,410
thereof noncurrent financial liabilities	2,929	1,857
Current liabilities	125,830	132,981
thereof current financial liabilities	82,867	83,933
Total equity and liabilities	**136,577**	**145,947**

In the first six months of 2017, the balance sheet total of the SKW Metallurgie Group declined modestly by 6.4%, from EUR 146.0 million to EUR 136.6 million. Certain distortions between the current financial year and the comparison figures were caused by the accounting regulations of IFRS 5 because this Standard does not call for the adjustment of prior-period balance sheet items.

The principal changes on the assets side were the following:

→ Working capital optimization: Thanks to the optimization program of the SKW Metallurgie Group that was established in prior years, the sum of inventories and trade receivables minus trade payables of EUR 36.6 million only rose by EUR 3.0 million to EUR 39.6 million (1.3%), despite a 6.2% increase in the production quantity and a corresponding 11.3% increase in revenues. This corresponds to an increase of 8.2%; adjusted for the effect of the lacking IFRS 5 reclassification in the amount of EUR 3.0 million, the change amounted to EUR -0.1 million and led to a reduction of -0.2%.

→ Cash and cash equivalents declined by EUR 3.4 million, from EUR 14.3 million to EUR 10.9 million; these funds were mainly used to pay down current financial liabilities and finance restructuring expenses.

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

→ Accumulated other comprehensive income declined by EUR 1.9 million, from EUR -73.1 million to EUR -75.0 million; the main reasons for this decrease were the negative consolidated net loss attributable to the majority shareholders in the amount of EUR -2.1 million, the negative currency translation gains recognized in equity (EUR 0.2 million) and the adjustment of actuarial losses from previous reductions of the actual interest rate that resulted from the settlement with the former Executive Board Chairwoman.

→ Pension obligations were reduced by EUR 2.3 million, from EUR 10.1 million to EUR 7.8 million, particularly as a result of the reduction of the pension entitlement of the former Executive Board Chairwoman and the resulting adjustments to actuarial losses; this balance sheet item pertains to Group companies in Germany, France and to a lesser extent in Japan.

→ Trade payables rose by EUR 2.3 million, from EUR 21.8 million to EUR 24.1 million. Most of this increase is attributable to the higher revenues and the associated increase in purchased materials, as well as to a smaller extent optimization measures and exchange rate effects.

Gross financial debt and net financial debt 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. Guarantees only played a minor role in the analysis of the debt situation of the SKW Metallurgie Group at June 30, 2017 and this will be the case in the future as well.

Moreover, the above-mentioned indicators do not include pension commitments of EUR 7.8 million (December 31, 2016: EUR 10.1 million).

The net financial debt of the SKW Metallurgie Group rose modestly from EUR 71.5 million to EUR 74.9 million at June 30, 2017.

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, 2016, the drawdowns under the syndicated loan agreement, which represents the principal financing instrument for the Group's parent company and therefore parts of the Group as well, and the furnished guarantees are classified as "current" for technical reasons.

3.7. Clearly positive cash flow

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

EUR'000s	01/01-06/30/2017	01/01-06/30/2016
Consolidated net income/loss	-1,692	-10,134
Gross cash flow	912	-360
Cash inflow/outflow from operating activities	-1,676	1,953
Cash inflow/outflow from investing activities	112	-2,452
Cash inflow/outflow from financing activities	-1,903	5,206
Change in cash and cash equivalents[1]	-3,467	4,737
Change in cash and cash equivalents at end of period[2]	10,918	17,442

Based on the negative consolidated net loss, the SKW Metallurgie Group generated a slightly positive gross cash flow (rounded EUR 0.9 million; H1 2016: EUR -0.4 million) despite significant cash-effective, non-recurring restructuring expenses of EUR 1.8 million (H1 2016: EUR 3.6 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 and 24 of the cash flow statement). These changes in working capital (in the broader sense) amounted to EUR -2.6 million (H1 2016: EUR 2.3 million) in the reporting period. The higher cash outflow from working capital resulted from the necessary build-up of temporary inventory positions for largely contracted supply commitments and from negative currency effects.

Due to the above-mentioned effects of the change in working capital (in the broader sense), the cash flow from operating activities generated in the first half of 2017 (EUR -1.7 million) was EUR 3.6 million less than the prior-period comparison figure (EUR 1.9 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 -3.8 million in the reporting period (H1 2016: EUR 5.3 million). Therefore, the cash flow resulting from changes in working capital (in the narrower sense) in the first half was EUR 9.1 million less than the prior-period comparison figure. This development is attributable to the Company's current situation and the related, restrictive payment structure in procurement, in addition to the effects of the revenue recovery and the related inventory increases.

In the first half of 2017, 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, SKW Metallurgie Group will continue 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 2017 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.

Adjusting for the non-recurring, cash-effective restructuring charges of EUR 1.4 million (H1 2016: EUR 3.3 million) and the capital commitments for inventories due to the higher level of revenues in the additional amount of 2.5% or EUR 3.0 million compared to the prior period, the cash flow from operating activities was again very much positive.

1. Including the effects of currency effects of cash and cash equivalents.
2. Including cash and cash equivalents of discontinued operations

The cash flow from investing activities is influenced by two effects. First, the agreed price for the sale of the Group's majority interest in the insolvent company in Bhutan was collected in the amount of EUR 1.9 million; second, the cash outflow from investing activities in the first half in the amount of EUR -1.9 million was roughly equal to the corresponding prior-year comparison figure (EUR -2.5 million). This amount comprises investments (essentially maintenance investments), which were nearly unchanged from the comparison figure 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 -1.6 million in the reporting period (H1 2016: EUR -0.5 million). Thus, the Group generated an only slightly negative free cash flow despite the restructuring situation; in other words, nearly all investments could have been financed from operational cash flow in the absence of restructuring expenses.

4. Segment report

As part of the ReMaKe program, the SKW Metallurgie Group has played a stronger role in management of its operating entities in that SKW Stahl-Metallurgie Holding AG as the parent company is coordinating the activities of the Group companies to a greater extent and has 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 effects realized 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 internal organization and reporting structure of the SKW Metallurgie Group. Therefore, the segment report has been aligned with the new, regionalized internal management system since the consolidated financial statements at December 31, 2015. This new segment report format is more transparent particularly with regard to regional market developments, the evaluation of the effects resulting from the ReMaKe continuous improvement program, and the evaluation of exchange rate effects.

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

→ The segment report is organized by regions and continuing operations in the core business of SKW Group ("North America," "Europe and Asia," "South America," and "Other and Holding Company"); units designated as "discontinued operations" are not included in the presentation of segment results.

→ Beginning with the present semiannual financial statements, the numbers of the operationally active companies (SKW Quab Chemicals Inc. und 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 Affival KK). This segment also comprises all 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 Sistema de Tratamento de Metais Líquidos S/A, which produces and markets metallurgical powders and granules particularly for the South American market.

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

- Operating companies:
  - SKW Quab Chemicals Inc.: This company does not belong to the core business of the SKW Metallurgie Group and is therefore assigned to the "Other" segment. It produces specialty chemicals in the United States that are used in the production of industrial starch as a precursor for papermaking, cosmetics production and fracking, and distributes 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 the 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.
- 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 SKW Metallurgie Group currently holds about 30% of the equity in the Indian company Jamipol, so that revenues are not consolidated at all and EBITDA is only consolidated at equity on the Group level. This at-equity consolidated EBITDA of Jamipol is currently assigned to the non-operating part of the "Other and Holding" segment because once IFRS 5 was no longer applicable, the company was reclassified. The ultimate segment assignment of this asset will depend on the future strategic use, which is currently being discussed.
- This segment also includes various small companies in several countries that only operate 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 increased by 6,8%, from EUR 61.6 million (H1 2016) to EUR 65.8 million (H1-2017). The corresponding segment EBITDA rose by 75.0%, from EUR 2.0 million (H1 2016) to EUR 3.5 million (H1-2017). This increase was in line with expectations and reflects the situation of the extremely strong first quarter and the slightly flattening, but expectations-surpassing second quarter of the North American steel industry.

→ In the "**Europe and Asia**" segment, the total first half revenues of EUR 42.5 million were likewise significantly higher than the prior-year comparison figure (EUR 37.2 million). The corresponding segment EBITDA rose modestly from EUR 1.4 million in the prior period to EUR 1.5 million in the reporting period. The main reason for this increase was the strong recovery of the European steel industry, in which the segment participated to a disproportionately strong degree, despite heightened margin pressure.

→ Fortunately, the business performance of the "**South America**" segment was completely contrary to the macroeconomic development in Brazil. The segment generated total revenues of EUR 13.7 million, which were 50% higher than the comparison figure (H1 2016: EUR 10.2 million). The EBITDA rose disproportionately from EUR 2.0 million (H1 2016) to EUR 2.7 million (H1 2017). This extremely positive development can be credited to comparative advantages and a mix of opportunistic transactions, the repeatability of which, however, appears to be limited. For this reason, a sustainable trend in this segment can be predicted only with reservations.

→ 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 14.9 million in the first half of 2017 (H1 2016: EUR 13.5 million) and an EBITDA of EUR 3.9 million (H1 2016: EUR 1.0 million). The earnings jump in 2017 was mainly caused by internal compensation for additional costs between SKW Stahl-Metallurgie GmbH and its parent company in the amount of EUR 3.6 million. Operationally, the segment result was reduced by a production insourcing measure at Quab Chemicals Inc. This measure led to sub-optimal though supply-securing inventory management, on the one hand, and production start-up losses that needed to be compensated, on the other hand.

- 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. After adjusting for the two exceptional effects of the "Bhutan asset recovery" (EUR 1.9 million) and the reduction of the pension entitlement of the former Executive Board Chairwoman as part of a settlement (EUR 2.0 million), the parent company's EBITDA amounted to EUR -2.8 million, unchanged from the period-period comparison figure. In interpreting these numbers, it should be remembered that most of the restructuring expenses for the overall Group (H1 2017: EUR 1.8 million; H1 2016: 3.8 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, 2017 was 559, that being 586 fewer than the number at June 30, 2016; compared to December 31, 2016, the number of employees increased by 7 due to economic developments.

No employees were affected by short-time work schedules at the end of the reporting period.

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 2017, the Group updated the risk inventory conducted and updated at December 31, 2016 in the form of quarterly risk reports. These updates did not lead to any significant changes or new risks compared to the 2016 Risk Report. Nonetheless, we wish to point out the following risks again:

Risks of debt 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 (aside from overdraft facilities) satisfies the main financing needs of the Group parent company and thus smaller parts of the SKW Stahl-Metallurgie Group. It was agreed in the first quarter of 2017 that this syndicated loan agreement will be available until January 31, 2018, with only customary adjustments and a waiver of cancellation by the syndicated lenders, 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 plan for the fundamental financial restructuring of the balance sheet, 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 syndicated lenders.

The SKW Stahl-Metallurgie Group continues to systematically and continuously implement the ReMaKe restructuring program initiated back in 2014, which has since become a Groupwide continuous improvement program. As reported, this restructuring program is a comprehensive strategic restructuring project covering all entities of the Group, which aims to permanently increase the efficiency, revenues, earnings and cash flows of the SKW Metallurgie Group. Numerous supporting operational measures are expected to make a positive contribution to improving the earnings and 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 interim report at June 30, 2017 can be prepared under the assumption of a positive going-concern forecast. This view of the Executive Board is supported by the concurring assessment of a renowned management consulting firm, in that it appears probable that the basic terms of the Term Sheet in the ad-hoc report published on July 20, 2017 on the subject of the breakthrough in the efforts to achieve a sustainable balance sheet restructuring with a financial investor and the lending banks will be implemented and therefore the requirements of a positive going-concern forecast are met. This assessment was underscored by the ad-hoc announcement of August 25, 2017, which stated that concrete agreements to bolster equity and therefore achieve the balance sheet restructuring have now been reached between the Company and the investor.

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 (investors, shareholders and other stakeholders), 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 parent company and therefore 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 measures 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 parent 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.

Apart from the foregoing, there were no significant changes in the report on opportunities and risks at June 30, 2017 compared to the statements made on opportunities and risks in the 2016 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, 2017 and before the time of preparation of the present interim report:

- The Company announced in an ad-hoc announcement on July 20, 2017 that the lenders under the syndicated loan agreement (the main borrowing instrument of SKW Stahl-Metallurgie Holding AG) had reached an agreement (Term Sheet) with the financial investor Speyside Capital on the main terms of the sale of all credit claims for an amount of approx. EUR 74 million. The Executive Board of SKW Stahl-Metallurgie Holding AG also announced that it will quickly strive to reach an understanding with Speyside Capital on the main points of a plan for the further balance sheet structuring and strategic development of the SKW Metallurgie Group. In order to achieve the necessary reduction of the debt of SKW Stahl-Metallurgie Holding AG, negotiations are also being held on the potential conversion of credit claims into equity by means of a capital increase against in-kind capital contributions (debt-equity swap).

- On July 25, 2017, the Executive Board of SKW Stahl-Metallurgie Holding AG, Munich, invited the shareholders of SKW Stahl-Metallurgie Holding AG to the annual general meeting to be held on Thursday, August 31, 2017, at 11.00 a.m. (CEST) at the Haus der Bayerischen Wirtschaft, Max-Joseph-Str. 5, 80333 Munich. But, this invitation has been called off with the ad-hoc announcement from August 25, 2017 and is going to be held on October 10, 2017.

The following items were placed on the agenda:

1. Presentation of the adopted separate financial statements and the approved consolidated financial statements at December 31, 2016, together with the combined management report for SKW Stahl-Metallurgie Holding AG and the SKW Metallurgie Group, including the explanatory report on the disclosures pursuant to Sections 289 Paras. 4 and 5, 315 Para. 4 of the German Commercial Code and the Report of the Supervisory Board for financial year 2016;

2. Resolution on the ratification of the actions of the Executive Board members in financial year 2016;

3. Resolution on the ratification of the actions of the Supervisory Board members in financial year 2016;

4. Resolution on the engagement of the independent auditor of the separate and consolidated financial statements for financial year 2017 and the auditor for the possible audit review of the interim report for the first half of financial year 2017;

5. Re-election of the Supervisory Board;

6. Resolution to approve the settlement agreements with former members of the Executive Board.

→ On August 25, 2017 the company announced per ad-hoc announcement that it has agreed with Speyside Equity Industrial Europe Luxembourg S.à.r.l., Luxembourg (presently still under the name of Luxembourg Investment Company 188 S.à.r.l.), on a concept of a broad financial restructuring of SKW Metallurgy group. In order to achieve the necessary sustainable debt relief of the company, in a first step the capital will be reduced by 1:10. Secondly, Speyside Equity is to convert nominal EUR 45 million credit claims acquired from the lenders under the syndicated loan agreement (outstanding amount approximately EUR 74 million) into equity by way of a capital increase against contribution in kind (debt-equity-swap). The company assumes that the lenders and Speyside Equity will agree shortly on the binding sale of the credit claims. In the course of the capital increase against contribution in kind 12,435,367 new shares will be issued. Thereby Speyside Equity strives for a shareholding of 95% in SKW group. Speyside Equity has announced that they intend to file an application pursuant to Section 327a AktG (Squeeze out) shortly after execution of the debt-equity-swap.

For these developments, the Annual General Meeting, which was planned on August 31, 2017, was canceled and rescheduled for October 10, 2017 together with the already announced extraordinary general meeting.

The previous agenda items and new agenda items on capital measures will be placed on the new agenda.

8. Forecast report: Comparison of forecasts made in the prior period with actual developments

As usual, the Forecast Report for the year 2017, which was published in the 2016 Annual Report, referred to the full year 2017 and therefore did not include explicit statements concerning the first half of 2017. Subject to certain assumptions and definitions, the forecast called for revenues of approximately EUR 230 million and an adjusted EBITDA of at least EUR 9 million in the core business for the full year 2017.

In view of the developments regarding the financial restructuring plan and therefore the essentially still outstanding restructuring of the source-of-funds side of the balance sheet, as well as the content and terms of the Term Sheet circulated between the negotiating partners, two divestments are no longer planned. The divestments of the peripheral activities Quab Chemicals Inc. and the Indian company Jamipol Limited have been suspended indefinitely. Therefore, they are no longer presented in accordance with IFRS 5 and their contributions to revenues and EBITDA must be accounted for henceforth. As a result of this reclassification, revenues of roughly EUR 250 million and an adjusted EBITDA of at least EUR 12 million are currently expected for the full year 2017, subject to certain assumptions and definitions.

The actually reported values confirm the full-year forecasts made at the time insofar as the revenues generated in the reporting period were proportionate to the full-year revenue forecast and the adjusted EBITDA generated in the first half of 2017 exceeded the proportionate share of the forecast amount.

The SKW Metallurgie Group is now set up in an operationally efficient manner and is therefore confident of being able to take advantage of opportunities in its core markets and improve its competitive position. Assuming a sustainably positive development of all basic operating conditions, the Company predicts that it will be able to increase operating EBITDA considerably above the level of the guidance given for financial year 2017.

To achieve this increase, the Executive Board of the SKW Metallurgie Group will continue to systematically implement the “ReMaKe” continuous improvement program. Key elements of this program include comprehensive efficiency enhancements, increased collaboration between individual Group entities to realize cross-selling effects, the further business performance in regional markets, but also new technology and application areas. The successes of this program are meant to offset and in some cases more than offset exogenous developments, particularly including the consequences of the steel crisis.

9. Affirmation of the Executive Board ("responsibility statement")

I affirm to the best of my knowledge that the consolidated interim financial statements present a true and fair view of the financial position, cash flows and financial performance of the Group, in accordance with the financial reporting principles applicable to interim reports and the principles of orderly and adequate accounting, and that the Group management report presents a true and fair view of the business performance, including the business results, and situation of the Group and accurately describes the principal opportunities and risks of the expected development of the Group in the remainder of the financial year.

Munich (Germany), August 30, 2017

SKW Stahl-Metallurgie Holding AG

The Executive Board

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

Financial Statements of SKW Stahl-Metallurgie Holding AG for the first half of 2017

Consolidated income statement for the period from January 1 to June 30, 2017 and from April 1 to June 30, 2017

EUR thousand	Q1-2 2017	Q1-2 2016*	Q2 2017	Q2 2016*
Revenues	135,618	121,799	66,587	60,011
Change in inventories of finished and semi-finished goods	524	-304	-268	-1,110
Internal production capitalized	33	33	17	17
Other operating income	6,249	3,431	1,101	2,275
Cost of materials	-92,738	-82,699	-45,557	-39,380
Personnel expenses	-18,453	-18,220	-9,225	-9,196
Other operating expenses	-23,461	-21,240	-11,645	-10,418
Income from associated companies	473	461	249	257
Earnings before interest. taxes. depreciation and amortization (EBITDA)	**8,245**	**3,261**	**1,259**	**2,456**
Amortization. depreciation. and impairments of intangible assets and property. plant and equipment	-2,959	-10,707	-1,842	-9,382
Earnings before interest and income taxes (EBIT)	**5,286**	**-7,446**	**-583**	**-6,926**
Interest income and similar income	153	159	58	76
Interest and similar expenses	-2,864	-2,778	-1,497	-1,415
Other financial result	-2,928	-109	-2,673	1,338
Earnings before taxes (EBT)	**-353**	**-10,174**	**-4,695**	**-6,927**
Income taxes	-1,013	-902	-145	-610
Earnings from continuing operations (after taxes)	**-1,366**	**-11,076**	**-4,840**	**-7,537**

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* The prior-year values have been adjusted due to the IFRS 5 classification of the special magnesium business (USA) as discontinued operations and SKW Quab as continuing operations; see also Section G "Important events after the reporting date."

Consolidated income statement for the period from January 1 to June 30, 2017 and from April 1 to June 30, 2017

EUR thousand	Q1-2 2017	Q1-2 2016*	Q2 2017	Q2 2016*
→ Earnings before taxes (EBT) from discontinued operations	-326	942	-270	-132
Income taxes for discontinued operations	0	0	0	0
Earnings from discontinued operations (after taxes)	-326	942	-270	-132
Consolidated net loss/income for the year	**-1,692**	**-10,134**	**-5,110**	**-7,669**
thereof attributable to shareholders of SKW Stahl-Metallurgie Holding AG				
Earnings from continuing operations	-1,847	-11,537	-4,997	-8,050
Earnings from discontinued operations	-326	942	-270	132
	-2,173	-10,595	-5,267	-7,918
thereof attributable to non-controlling interests	481	461	157	249
	-1,692	-10,134	-5,110	-7,669
Earnings per share from continuing operations (EUR)**	**-0.28**	**-1.76**	**-0.76**	**-1.23**
Earnings per share from discontinued operations (EUR)**	**-0.05**	**0.14**	**0.04**	**0.02**
Consolidated earnings per share (EUR)**	**-0.33**	**-1.62**	**-0.80**	**-1.21**

* The prior-year values have been adjusted due to the IFRS 5 classification of the special magnesium business (USA) as discontinued operations and SKW Quab as continuing operations; see also Section G “Important events after the reporting date.”

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

Statement of Comprehensive Income for the periods from January 1 to June 30, 2017 and from April 1 to June 30, 2017

EUR thousand	Q1 2017	Q1 2016*	Q1 2017	Q1 2016*
Consolidated net loss/ income for the year	**-1,366**	**-11,076**	**-4,786**	**-8,611**
Items that will not be subsequently reclassified to profit or loss				
Change in actuarial gains and losses from defined benefit pension commitments	298	-1,700	-127	-425
Deferred taxes on items that will not be subsequently reclassified to profit or loss	0	0	0	0
Other comprehensive income/loss from associated companies, not recognized in profit or loss	-6	0	4	0
Items that will be subsequently reclassified to profit or loss				
Net investment in a foreign operation	0	0	0	0
Unrealized gains/ losses on derivatives (hedge accounting)	0	0	0	0
Deferred taxes on items that will be subsequently reclassified to profit or loss	0	-1	0	-1
Other comprehensive income/loss from associated companies, not to be subsequently reclassified to profit or loss	18	0	0	0
Currency differences	-677	2,394	-1,423	1,159
Other comprehensive income	**-367**	**693**	**-1,546**	**733**
Total comprehensive income	**-1,733**	**-10,383**	**-6,332**	**-7,878**
thereof attributable to shareholders of SKW Stahl-Metallurgie Holding AG	-1,707	-11,647	-5,910	-8,743
thereof attributable to non-controlling interests	-26	1,264	-422	865

* The prior-year values have been adjusted due to the IFRS 5 classification of the special magnesium business (USA) as discontinued operations and SKW Quab as continuing operations; see also Section G "Important events after the reporting date."

Consolidated Balance Sheet at June 30, 2017

ASSETS in EUR thusand	06/30/2017	12/31/2016
Noncurrent assets		
Intangible assets	11,092	9,934
Property, plant and equipment	31,011	28,004
Interests in associated companies	5,555	0
Other noncurrent assets	972	884
Deferred tax assets	1,176	1,183
Total noncurrent assets	**49,806**	**40,005**
Current assets		
Inventories	34,852	28,252
Trade receivables	28,831	30,140
Income tax refund claims	5,142	5,730
Other current assets	5,691	6,457
Cash and cash equivalents	10,918	14,276
Assets held for sale	1,337	21,087
Total current assets	**86,771**	**105,942**
Total assets	**136,577**	**145,947**

EQUITY AND LIABILITIES in EUR thousand	06/30/2017	12/31/2016
Equity		
Subscribed capital	6,545	6,545
Additional paid-in capital	50,741	50,741
Other comprehensive income	-75,143	-73,112
	-17,857	**-15,826**
Non-controlling interests	9,783	10,382
Total equity	**-8,074**	**-5,444**
Noncurrent liabilities		
Pension obligations	7,830	10,114
Other noncurrent provisions	3,465	3,672
Noncurrent liabilities under finance leases	70	93
Noncurrent financial liabilities	2,929	1,857
Deferred tax liabilities	4,291	2,439
Other noncurrent liabilities	236	235
Total noncurrent liabilities	**18,821**	**18,410**
Current liabilities		
Other current provisions	1,547	1,910
Current liabilities under finance leases	46	46
Current financial liabilities	82,867	83,933
Trade payables	24,114	21,807
Income tax liabilities	806	162
Other current liabilities	16,225	16,283
Liabilities related to assets held for sale	225	8,840
Total current liabilities	**125,830**	**132,981**
Total equity and liabilities	**136,577**	**145,947**

Consolidated Statement of Changes in Equity at June 30, 2017

EUR thousand	Subscribed capital	Share premium	Other comprehensive income	Consolidated equity of majority shareholders	Non-controlling interests	Total equity
Balance at 01/01/2016	**6,545**	**50,741**	**-59,959**	**-2,673**	**8,813**	**6,140**
Consolidated net loss for the year	0	0	-10,595	-10,595	461	-10,134
Currency differences	0	0	1,591	1,591	803	2,394
Income and expenses recognized in equity (excluding currency differences)	0	0	-1,701	-1,701	0	-1,701
Total comprehensive income 2016	**0**	**0**	**-10,705**	**-10,705**	**1,264**	**-9,441**
Dividend payments	0	0	0	0	-466	-466
Balance sheet at 06/30/2016	**6,545**	**50,741**	**-70,664**	**-13,378**	**9,611**	**-3,767**
Balance at 01/01/2017	**6,545**	**50,741**	**-73,112**	**-15,826**	**10,382**	**-5,444**
Consolidated net income for the year	0	0	-2,172	-2,172	480	-1,692
Currency differences	0	0	-169	-169	-508	-677
Income and expenses recognized in equity (excluding currency differences)	0	0	310	310	0	310
Total comprehensive income2017	**0**	**0**	**-2,031**	**-2,031**	**-28**	**-2,059**
Dividend payments	0	0	0	0	-571	-571
Balance sheet at 06/30/2017	**6,545**	**50,741**	**-75,143**	**-17,857**	**9,783**	**-8,074**

Consolidated Cash Flow Statement
for the period from January 1 to June 30, 2017

EUR thousand		Q2/2017	Q2/2016*
1.	Consolidated net income/loss for the year	-1,692	-10,134
2.	Earnings from discontinued operations (after taxes)	326	-942
3.	Consolidated earnings from continuing operations	-1,366	-11,076
4.	Write-ups/write-downs of noncurrent assets	2,972	10,764
5.	Increase/decrease in pension provisions	-1,941	156
6.	Earnings from associated companies	-473	-461
7.	Gain/loss from disposal of noncurrent assets	-1,890	-27
8.	Gain/loss from currency translation	3,854	-27
9.	Gain/loss from deferred taxes	-53	54
10.	Expenses from value adjustments of inventories and receivables	57	209
11.	Other non-cash expenses and income	-248	48
12.	**Gross cash flow**	**912**	**-360**
	Changes in working capital		
13.	Increase/decrease in current provisions	-328	-280
14.	Increase/decrease in inventories (after down payments received)	-7,216	4,759
15.	Increase/decrease in trade receivables	2,903	4,619
16.	Increase/decrease in other receivables	1	1
17.	Increase/decrease in income tax refund claims	134	809
18.	Increase/decrease in other assets	919	-815
19.	Increase/decrease in trade payables	553	-4,029
20.	Increase/decrease in other liabilities	295	-240
21.	Increase/decrease in other equity and liabilities	765	-2,199
22.	Current translation effects in operating activities	-523	-282
23.	Operating cash flow from discontinued operations	-91	0
24.	**Cash inflow (+)/outflow (-) from operating activities**	**-1,676**	**1,983**

* The prior-year values were adjusted due to the retroactive classification of the special magnesium business (USA) as discontinued operations and SKW Quab as continuing operations; see also Section G "Important events after the reporting date."

Consolidated Cash Flow Statement for the period from January 1 to June 30, 2017

EUR thousand	Q2/2017	Q2/2016*
25. Proceeds on disposal of noncurrent assets	163	60
26. Payments for investments in noncurrent assets	-1,925	-2,512
27. Proceeds on the sale of financial assets	1,874	0
28. Cash flow from investing activities for discontinued operations	0	0
29. Cash inflow (+)/outflow (-) from investing activities	**112**	**-2,452**
30. Decrease in liabilities under finance leases	-23	-23
31. Profit distributions to non-controlling interests	-571	-233
32. Proceeds from the borrowing of bank loans	6,830	7,675
33. Payments for the repayment of bank loans	-8,139	-2,213
34. Cash flow from financing activities for discontinued operations	0	0
35. Cash inflow (+)/outflow (-) from financing activities	**-1,903**	**5,206**
36. Cash and cash equivalents at beginning of period	14,794	11,353
thereof cash and cash equivalents in discontinued operations	0	0
37. Change in cash and cash equivalents	-3,467	4,737
38. Currency translation of cash and cash equivalents	-409	1,352
39. Cash and cash equivalents at end of period	**10,918**	**17,442**
thereof cash and cash equivalents in discontinued operations	-91	0

* The prior-year values were adjusted due to the retroactive classification of the special magnesium business (USA) as discontinued operations and SKW Quab as continuing operations; see also Section G “Important events after the reporting date.”

Notes to the condensed consolidated quarterly financial statements

A. Basic accounting principles

SKW Stahl-Metallurgie Holding AG prepared the condensed consolidated interim financial statements as of June 30, 2017 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 as of December 31, 2016 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 as of December 31, 2016 (Section C. "Key accounting and valuation 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, 2016. Unless otherwise indicated, all figures are stated in euro thousands. With regard to the disclosures concerning the new or revised accounting standards for which application is mandatory in the time since financial year 2017, reference is made to the explanations in Section A. "General information and presentation of the consolidated financial statements" of the notes to the consolidated financial statements as of December 31, 2016.

With regard to the estimation methods applied, reference is made to the explanations provided in Section C. "Key accounting and valuation principles" of the notes to the consolidated financial statements as of December 31, 2016. The same accounting and computation methods applied in the 2016 consolidated financial statements were applied in the preparation of the present financial statements.

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.

Notes to the statements

Assumptions concerning the status of a going concern

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

SKW Stahl-Metallurgie Holding AG and its subsidiaries possessed adequate funds of liquidity at any time in the reporting period. The syndicated loan agreement for an amount of up to EUR 86 million (EUR 46 million of which in the form of an amortizing loan) concluded in early 2015 (with a term until early 2018) particularly serves to ensure the Group's liquidity. This syndicated loan agreement (together with overdraft facilities) covers the borrowing needs of SKW Stahl-Metallurgie Holding AG and most of the borrowing 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 termination rights, 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 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 current shareholders will be permitted 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 that was developed in 2014, which has since been developed into a continuous improvement program. As is known, this program is a comprehensive strategic reorientation project covering all entities of the Group, which aims to permanently increase the revenues, earnings and cash flow of the SKW Metallurgie Group. Numerous supporting operational measures will 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 interim report at June 30, 2017 is to be prepared under the assumption of a going concern. This view of the Executive Board is supported by a turnaround appraisal prepared by a renowned management consulting firm, in that it appears probable that the basic terms of the Term Sheet in the ad-hoc report published on July 20, 2017 on the subject of the breakthrough in the efforts to achieve a sustainable balance sheet restructuring with a financial investor will be implemented and therefore the requirements of a positive going-concern prognosis are met.

Nonetheless, it must be pointed out that the implementation of any future plan is fraught with uncertainties. Parts of the planned financial restructuring measures depend on the cooperation of third parties (shareholders, other stakeholders and investors), who cannot be influenced by the SKW Stahl-Metallurgie Group. In the event of a significant negative variance from the planned business performance and/or a failure to implement the operational measures under the ReMaKe program and/or a failure of the financial structuring plan and/or the failure of the financial restructuring or an 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

At the reporting date, the group of consolidated companies consisted of 21 (previously: 22) fully consolidated companies and one company accounted for by the equity method.

The change compared to December 31, 2016 resulted from the deconsolidation of the liquidated Turkish subsidiary SKW Celik Metalürji Üretim Ticaret at March 31, 2017.

For additional information about the consolidation group and consolidation methods, please refer to Section B. of the notes to the consolidated financial statements at December 31, 2016.

The consolidation methods applied have not changed since the 2016 consolidated financial statements.

C. Financial position, cash flows and financial performance

Balance sheet

The balance sheet total of the SKW Metallurgie Group amounted to EUR 136,577 thousand as of June 30, 2017 (December 31, 2016: EUR 145,947 thousand). This was EUR 9,370 thousand less than the prior-period comparison figure.

On the assets side, this change mainly reflected the reversal of IFRS 5, see also Section G "Important events after the reporting date." There was also a EUR 1,309 thousand reduction in trade receivables compared to the corresponding prior-period figure, despite the positive development of market conditions, and a EUR 3,358 thousand decrease in cash and cash equivalents. By contrast, inventories rose by EUR 6,600 thousand as a result of the positive business performance in the first half.

As in the prior year, noncurrent assets mainly consisted of property, plant and equipment in the amount of EUR 31,011 thousand or 22.7% of the balance sheet total (December 31, 2016: EUR 28,004 thousand or 19.2% of the balance sheet total). The increase resulted from the reversal of IFRS 5, minus current depreciation charges.

As in the prior year, the main items of current assets are inventories, which amounted to EUR 34,852 thousand or 25.5% of the balance sheet total as of the reporting date (December 31, 2016: EUR 28,252 thousand or 19.4% of the balance sheet total), and trade receivables, which amounted to EUR 28,831 thousand or 21.1% of the balance sheet total as of the reporting date (December 31, 2016: EUR 30.140 thousand or 20.7% of the balance sheet total).

Equity (including non-controlling interests) declined from the prior-year comparison figure and amounted to EUR -8,074 thousand as of the reporting date (December 31, 2016: EUR -5,444 thousand). As in the prior year, no dividend was paid to the shareholders of SKW Stahl-Metallurgie Holding AG in 2016. Thus, the equity ratio worsened from -3.7% of the balance sheet total in the prior period to -5.9% in the reporting period.

The considerable decrease in pension obligations, which declined by EUR 2,284 thousand to EUR 7,830 thousand (December 31, 2016: EUR 10,114 thousand), resulted mainly from the settlement reached in March in the company's legal dispute with its former Executive Board members, which entailed a 50% reduction in the pension entitlement of the former Executive Board Chairwoman. For more information on this subject, please refer to Section F "Contingent assets and liabilities" of the present notes. In addition, the discount rate for pensions was adjusted in line with market conditions. It was raised slightly from 1.90% and 1.75% at December 31, 2016 to 1.95% and 2.15%, respectively. The resulting actuarial gain was recognized directly in equity, not in profit or loss.

As a result of reporting date effects and the reversal of IFRS 5, trade payables rose by EUR 2,307 thousand to EUR 24,114 thousand in the first half of 2017 (December 31, 2016: EUR 21,807 thousand). The sum of inventories and trade receivables less trade payables increased by EUR 2,984 thousand, from EUR 36,585 thousand as of December 31, 2016 to EUR 39,569 thousand, particularly due to the increase in inventories. In addition, the financial liabilities of EUR 85,796 thousand were at the level of the prior-year figure (December 31, 2016: EUR 85,790 thousand).

Therefore, the sum of noncurrent and current liabilities declined by EUR 6,740 thousand, from EUR 151,391 thousand as of December 31, 2016 to EUR 144,651 thousand as of June 30, 2017.

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:

	06/30/2017		12/31/2016	
EUR'000	Carrying amount	Carrying amount	Carrying amount	Market value
Financial assets				
Loans and receivables	30,842	30,842	33,058	33,058
Financial assets held for trading	310	310	133	133
Financial liabilities				
Financial liabilities at amortized cost	111,167	111,167	112,968	112,968
Derivative financial instruments without financial hedging effects (no hedge accounting)	211	211	115	115

The classifications of individual asset items according to the valuation categories and classes as of June 30, 2017 are presented in the table below:

EUR'000	Valuation according to IAS 39					
Financial assets		Loans and receivables	Assets held to maturity	Available-for-sale financial assets	Financial assets at fair value through profit or loss	
	Carrying amount 06/30/2017	Amortized cost	Amortized cost	Fair value with no effect on profit or loss	Fair value through profit or loss	Fair value 06/30/2017
Other assets	1,798	1,798	0	0	0	1,798
Trade receivables	28,831	28,831	0	0	0	28,831
Derivatives without a financial hedging relationship (no hedge accounting)	310	0	0	0	310	310

The corresponding classifications at December 31, 2016 are presented in the table below:

EUR'000	Valuation according to IAS 39					
Financial assets		Loans and receivables	Assets held to maturity	Available-for-sale financial assets	Financial assets at fair value through profit or loss	
	Carrying amount 12/31/2016	Amortized cost	Amortized cost	Fair value with no effect on profit or loss	Fair value through profit or loss	Fair value 12/31/2016
Other assets	2,898	2,898	0	0	0	2,898
Trade receivables	30,140	30,140	0	0	0	30,140
Derivatives without a financial hedging relationship (no hedge accounting)	133	0	0	0	133	133

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 as of June 30, 2017 are presented in the table below.

EUR'000	Valuation according to IAS 39			
Financial assets		Liabilities measured at amortized cost	Liabilities measured at fair value through profit or loss	
	Carrying amount 06/30/2017	Amortized cost	Fair value	Fair value 06/30/2017
Financial liabilities	85,796	85,796	0	85,796
Trade payables (excl. PoC)	23,888	23,888	0	23,888
Other liabilities	1,291	1,291	0	1,291
Derivatives without a financial hedging relationship (no hedge accounting)	211	0	211	211

The corresponding classifications as of December 31, 2016 were as follows:

EUR'000	Valuation according to IAS 39			
Financial assets		Liabilities measured at amortized cost	Liabilities measured at fair value through profit or loss	
	Carrying amount 12/31/2016	Amortized cost	Fair value	Fair value 12/31/2016
Financial liabilities	85,790	85,790	0	85,790
Trade payables (excl. PoC)	21,591	21,591	0	21,591
Other liabilities	5,587	5,587	0	5,587
Derivatives without a financial hedging relationship (no hedge accounting)	115	0	115	115

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 as of June 30, 2017 are presented in the table below:

EUR'000	Level 1	Level 2	Level 3	Total
Financial assets measured at market value				
Derivative financial instruments	0	310	0	310
Financial liabilities measured at market value				
Derivative financial instruments	0	211	0	211

The comparison values as of December 31, 2016 were as follows:

EUR'000	Level 1	Level 2	Level 3	Total
Financial assets measured at market value				
Derivative financial instruments	0	133	0	133
Financial liabilities measured at market value				
Derivative financial instruments	0	115	0	115

The 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

The SKW Metallurgie Group generated revenues of EUR 135,618 thousand in the first half of 2017, reflecting a considerable increase of EUR 13,819 thousand or 11.3% from the comparison figure for the first half of 2016 (EUR 121,799 thousand). The revenue increase over the comparison figure resulted mainly from higher demand for the company's products among steel producers. The 12.1% increase in the cost of materials was nearly identical to the increase in revenues.

Consequently, the gross profit, defined as the sum of revenues, changes in inventory, internal production capitalized, and material costs, – increased by EUR 4,608 thousand, from EUR 38,829 thousand in the prior period to EUR 43,437 thousand in the reporting period. At 32.0%, the gross margin – defined as ratio of gross profit to revenues - was nearly unchanged from the prior period (31.9%).

The EUR 2,818 thousand increase in other operating income to EUR 6,249 thousand in the reporting period (PY: EUR 3,431 thousand) resulted mainly from the sale of shares in SKW Tashi Metals & Alloys Private Ltd. in the amount of EUR 1,875 thousand and the reversal of a provision in the amount of EUR 2,076 thousand, which was reversed in connection with the settlement reached in the reporting period between the company and its former Executive Board members. For more information on this subject, please refer to Section F "Contingent assets and liabilities" of the present notes.

The currency translation gains presented within other operating income in the amount of EUR 1,515 thousand (PY: EUR 1,691 thousand) 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 -2,516 thousand in the first half of 2017 (PY: EUR -1,515 thousand). Netting with the currency translation gains yields a negative net currency translation effect of EUR -1,001 thousand in the reporting period, as compared to a positive net currency translation effect of EUR 176 thousand in the comparison period.

Despite the higher sales-adjusted production, the personnel expenses of EUR -18,453 thousand were at the level of the prior-year comparison figure of EUR -18,220 thousand.

The other operating expenses of EUR -23,461 thousand were EUR -2,221 thousand higher than the comparison figure (EUR -21,240 thousand). This increase resulted in part from exchange rate effects, but particularly also from the EUR -799 thousand increase in outbound freight, which rose to EUR -6,123 thousand (PY: EUR -5,324 thousand) and the EUR -306 thousand increase in legal and consulting expenses, which rose to EUR -3,662 thousand (PY: EUR -3,356 thousand).

The financial result of EUR -5,639 thousand generated in the first half of 2017 was EUR -2,911 thousand less than the prior-period figure (EUR -2,728 thousand). The other financial result included expenses and income from currency translation differences in the amount of EUR -2,928 thousand in the reporting period and EUR -109 thousand in the first half of last year. Barring these currency translation effects, the net balance of interest expenses and income would have been EUR -2,711 thousand in the reporting period and EUR -2,619 thousand in the comparison period.

The consolidated net loss for the first half of 2017 amounted to EUR -1,692 thousand, as compared to a consolidated net loss of EUR -10,134 thousand in the comparison period. The share of the consolidated result attributable to non-controlling interests was EUR 481 thousand in the reporting period, as compared to EUR 461 thousand in the prior-year comparison period. The difference between the consolidated result in both periods (EUR 8,442 thousand) is mainly attributable to the two exceptional effects of the sale of shares in SKW Tashi Metals & Alloys Private Ltd. and the reversal of a provision in the total amount of EUR 3,951 thousand, as well as the slightly improved gross margin. In the comparison period, moreover, substantial impairments totaling EUR 8,054 thousand were recognized in goodwill, property, plant and equipment and brand names.

Cash flow statement

The consolidated net loss for the first half of 2017 amounted to EUR -1,692 thousand (H1-2016: EUR -10,134 thousand). The gross cash flow of EUR 912 thousand in the reporting period was higher than the prior-period figure of EUR -360 thousand.

The SKW Metallurgie Group Working generated a cash outflow of EUR 2,588 thousand in working capital in the first half of 2017 (PY: cash inflow of EUR 2,343 thousand). Therefore, the SKW Metallurgie Group generated a cash outflow of EUR 1,676 thousand from operating activities, as compared to a cash inflow of EUR 1,983 thousand from operating activities in the comparison period.

Adjusted for the cash inflow from the sale of shares in SKW Tashi Metals & Alloys Private Ltd. in the amount of EUR 1,875 thousand, the cash outflow from current investing activities amounted to EUR 1,762 thousand in the reporting period, which was modestly higher than the prior-period figure of EUR -2,452 thousand.

The SKW Metallurgie Group generated a cash outflow of EUR 1,903 thousand from financing activities in the reporting period (PY: cash inflow of EUR 5,206 thousand). The borrowings (cash inflows) mainly resulted from the use of overdraft facilities to finance day-to-day operations; the repayments (cash outflows) mainly consisted of loan repayments in the SKW Metallurgie Group.

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

→ Interest payments of EUR -2,193 thousand (PY: EUR -901 thousand)

→ Interest receipts of EUR 124 thousand (PY: EUR 0 thousand)

→ Income taxes paid of EUR -845 thousand (PY: EUR -974 thousand)

→ Income tax refunds of EUR 695 thousand (PY: EUR 1,020 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:

01-06/2017 in EUR'000	North America	Europe and Asia	South America	Other operating segments	Other non-operating segments and holding	Consolidation	Group
Revenues							
External revenues	65,709	41,441	13,719	14,749	0	0	135,618
Internal revenues	105	1,031	0	164	0	-1,300	0
Total revenues	**65,814**	**42,472**	**13,719**	**14,913**	**0**	**-1,300**	**135,618**
Income from associated companies	0	0	0	0	473	0	473
EBITDA	**3,488**	**1,471**	**2,739**	**3,920**	**-3,303**	**-70**	**8,245**
Depreciation and amortization	-796	-619	-631	-750	-79	0	-2,875
Impairments	0	0	-84	0	0	0	-84
EBIT	**2,692**	**852**	**2,024**	**3,170**	**-3,273**	**-70**	**5,286**
Dividends collected from subsidiaries	0	0	0	0	6,284	6,284	0
Profit transfer	0	0	0	-3,622	3,622	0	0
Interest income	0	672	145	16	1,018	-1,698	153
Interest expenses	-2,062	-84	-77	-151	-3,837	3,347	-2,864
Other financial result	1	-93	0	0	-57	-2,779	-2,928
Earnings before taxes	**631**	**1,347**	**2,092**	**-587**	**3,648**	**-7,484**	**-353**
Income taxes							-1,013
Earnings from continuing operations (after taxes)							**-1,366**
Earnings before taxes from discontinued operations							-326
Income taxes of discontinued operations							0
Earnings from discontinued operations (after taxes)							**-326**
Consolidated net loss							**-1,692**
Balance sheet as of 06/30/2016							
Assets							
Segment assets	57,709	35,793	25,803	27,673	61,414	-77,370	131,022
Shares in associated companies	0	0	0	0	5,555	0	5,555
Group assets							**136,577**
Liabilities							
Segment liabilities	60,627	20,041	11,199	21,215	51,937	-28.442	136,577
Group liabilities							**136,577**
Acquisitions of property, plant and equipment and intangible assets in 01-06/2017	**647**	**368**	**313**	**570**	**8**	**0**	**1,906**

The prior-period segment information is 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	61,578	36,635	10,214	13,372	0	0	121,799
Internal revenues	63	530	2	119	0	-714	0
Total revenues	**61,641**	**37,165**	**10,216**	**13,491**	**0**	**-714**	**121,799**
Income from associated companies	0	0	0	0	461	0	461
EBITDA	**2,033**	**1,382**	**1,982**	**986**	**-3,217**	**95**	**3,261**
Depreciation and amortization	-801	-591	-425	-691	-82	0	-2,590
Impairments	-8,054	0	-63	0	0	0	-8,117
EBIT	**-6,822**	**791**	**1,494**	**295**	**-3,299**	**95**	**-7,446**
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	**-8,710**	**2,197**	**1,572**	**213**	**-3,427**	**-2,019**	**-10,174**
Income taxes							-902
Earnings from continuing operations (after taxes)							**-11,076**
Earnings before taxes from discontinued operations							942
Income taxes of discontinued operations							0
Earnings from discontinued operations (after taxes)							**942**
Consolidated net loss							**-10,134**
Balance sheet as of 06/30/2016							
Assets							
Segment assets	59,411	36,152	26,846	29,527	62,353	-77,573	136,715
Shares in associated companies	0	0	0	0	5,358	0	5,358
Group assets							**142,073**
Liabilities							
Segment liabilities	60,451	18,296	12,484	22,915	53,346	-25,419	142,073
Group liabilities							**142,073**
Acquisitions of property, plant and equipment and intangible assets in 01-06/2016	**1,324**	**142**	**423**	**483**	**10**	**0**	**2,382**

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 or financial performance compared to the consolidated financial statements for 2016.

F. Contingent assets and liabilities

Contingent assets

The following contingent assets existed within the SKW Metallurgie Group as of 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.

It was announced on March 21, 2017 that the SKW Metallurgie Group, its former Executive Board members Ines Kolmsee and Gerhard Ertl, and the D&O insurer had reached an amicable agreement on a settlement. The compromise, which is subject to an approving vote by the annual general meeting of SKW Stahl-Metallurgie Holding AG, involves no acknowledgement of a legal position by any party. The other main points are as follows:

- → The D&O insurer will pay a total of EUR 3.35 million to the SKW Metallurgie Group.
- → The former Executive Board Chairwoman will waive a review of the 50% reduction of her SKW Metallurgie pension entitlement to be resolved by the Supervisory Board, which will have a positive accounting effect of approximately EUR 2.1 million for SKW according to IFRS.
- → The company undertook to withdraw its claim for damages pending before the Traunstein Regional Court and assert no further claims against former Executive Board members.

→ The former Executive Board members will waive any potential claims for compensation under a long-term incentive program and any non-competition compensation.

The insurance benefits will be paid immediately in cash and will therefore be available as a contribution of the SKW Metallurgie Group to the reduction of its financial debt. In addition, the insurance benefits and the reduction of the pension entitlement will have a positive effect on the profit of the SKW Metallurgie Group and will therefore strengthen the Group's equity. Furthermore, the reduction of the pension entitlement will strengthen the Group's future liquidity.

At any rate, a continuation of the legal disputes would have entailed a significant litigation and cost risk for SKW in a costly court proceeding lasting years. Therefore, the Executive Board and Supervisory Board will recommend that the annual general meeting approve the settlement.

Contingent liabilities

The following contingent liabilities existed within the SKW Metallurgie Group as of 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 all 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 significant transactions and events of particular importance for the SKW Metallurgie Group became known after the close of the reporting period on June 30, 2017 and before the time of preparation of the present interim report:

Discontinued operations / Noncurrent assets held for sale

On February 1, 2017, the SKW Metallurgie Group successfully completed the negotiations with the lenders under the syndicated loan agreement and thus laid the cornerstone for implementing the announced financial restructuring. The SKW Metallurgie Group will use this agreement firstly to continue the ongoing operational performance enhancement program known as "ReMaKe" and secondly to implement a comprehensive financial restructuring based on the "sale of assets" pillar (primarily peripheral activities), among other things. In this connection, the U.S. subsidiary SKW Quab Chemicals Inc., which distributes specialized chemical reagents known as cationizing reagents to the papermaking and hygiene industry, had been measured and accounted for as discontinued operations in accordance with IFRS 5 in the consolidated financial statements for 2016 and the financial statements for the first quarter of 2017. The initiated sale process was terminated in July 2017. Therefore, the company is no longer measured and accounted for as discontinued operations in accordance with IFRS 5 in the financial statements at June 30, 2017. This company is assigned to the segment of "Other Operating segments."

In the consolidated financial statements for 2016 and the financial statements for the first quarter of 2017, the interests in the associated company Jamipol Ltd. in India had been measured at amortized cost as an asset held for sale because it was assigned to the "sale of assets" pillar (primarily peripheral activities) of the restructuring agreed with the banks. Also in this case, the initiated sale process was terminated in July 2017, so that these interests are not to be measured and accounted for as assets held for sale according to IFRS 5 in the financial statements at June 30, 2017.

Furthermore, the sale process for the special magnesium business in the United States was relaunched in second quarter of 2017. This division had been assigned to the "North America" segment. Therefore, the assets and liabilities of this division are measured and presented as discontinued operations in accordance with IFRS 5. The presentation is done as follows:

→ The earnings of this division are no longer included in the corresponding items of the consolidated income statement in the reporting period and comparison period, but are presented separately as "Earnings from discontinued operations." This reclassification had no effect on other comprehensive income in the statement of comprehensive income.

→ The assets and liabilities of the division are presented separately as "Assets held for sale" on the balance sheet. The comparison figures were not adjusted.

→ The results and contributions of this division to cash flows are presented separately as "Cash flows from discontinued operations" in the cash flow statement in the reporting period and comparison period.

→ The segment report indicates the contributions of continuing operations to the Group's results. Information on discontinued operations is presented in separate line items.

Breakthrough in efforts for financial restructuring of SKW Metallurgie Group

The Company announced in an ad-hoc announcement on July 20, 2017 that the lenders under the syndicated loan agreement (the main borrowing instrument of SKW Stahl-Metallurgie Holding AG) had reached an agreement (Term Sheet) with the financial investor Speyside Capital on the main terms of the sale of all credit claims for an amount of approx. EUR 74 million. The Executive Board of SKW Stahl-Metallurgie Holding AG also announced that it will quickly strive to reach an understanding with Speyside Capital on the main points of a plan for the further balance sheet structuring and strategic development of the SKW Metallurgie Group. In order to achieve the necessary reduction of the debt of SKW Stahl-Metallurgie Holding AG, negotiations are also being held on the potential conversion of credit claims into equity by means of a capital increase against in-kind capital contributions (debt-equity swap).

Invitation to the annual general meeting

On July 25, 2017, the Executive Board of SKW Stahl-Metallurgie Holding AG, Munich, invited the shareholders of SKW Stahl-Metallurgie Holding AG to the annual general meeting to be held on Thursday, August 31, 2017, at 11.00 a.m. (CEST) at the Haus der Bayerischen Wirtschaft, Max-Joseph-Str. 5, 80333 Munich. But, this invitation has been called off with the ad-hoc announcement from August 25, 2017 and is going to be held on October 10, 2017.

The following items were placed on the agenda:

1. Presentation of the adopted separate financial statements and the approved consolidated financial statements at December 31, 2016, together with the combined management report for SKW Stahl-Metallurgie Holding AG and the SKW Metallurgie Group, including the explanatory report on the disclosures pursuant to Sections 289 Paras. 4 and 5, 315 Para. 4 of the German Commercial Code and the Report of the Supervisory Board for financial year 2016;

2. Resolution on the ratification of the actions of the Executive Board members in financial year 2016;

3. Resolution on the ratification of the actions of the Supervisory Board members in financial year 2016;

4. Resolution on the engagement of the independent auditor of the separate and consolidated financial statements for financial year 2017 and the auditor for the possible audit review of the interim report for the first half of financial year 2017;

5. Re-election of the Supervisory Board;

6. Resolution to approve the settlement agreements with former members of the Executive Board.

Agreement on financial restructuring of SKW Metallurgy group

On August 25, 2017 the company announced per ad-hoc announcement that it has agreed with Speyside Equity Industrial Europe Luxembourg S.à.r.l., Luxembourg (presently still under the name of Luxembourg Invest-ment Company 188 S.à.r.l.), on a concept of a broad financial re-structuring of SKW Metallurgy group. In order to achieve the necessary sustainable debt relief of the company, in a first step the capital will be reduced by 1:10. Secondly, Speyside Equity is to convert nominal EUR 45 million credit claims acquired from the lenders under the syndicated loan agreement (outstanding amount approximately EUR 74 million) into equity by way of a capital in-crease against contribution in kind (debt-equity-swap). The company assumes that the lenders and Speyside Equity will agree shortly on the binding sale of the credit claims. In the course of the capital increase against contribution in kind 12,435,367 new shares will be issued. Thereby Spey-side Equity strives for a shareholding of 95% in SKW group. Speyside Equity has announced that they intend to file an application pursuant to Section 327a AktG (Squeeze out) shortly after execution of the debt-equity-swap.

Due to these developments, the Annual General Meeting, which was planned on August 31, 2017, was canceled and rescheduled for October 10, 2017 together with the already announced extraordinary general meeting.

The previous agenda items and new agenda items on capital measures will be placed on the new agenda.

H. Shareholder structure

The following holdings of SKW Metallurgie shares were subject to the notification requirement of the Securities Trading Act (WpHG) as of June 30, 2017 (i.e. 3% or more of total voting rights):

Artificial persons:

Name	Registered office	Holdings	As percent of total shares	Date	Comments
La Muza Inversiones SICAV, S.A.	Madrid, Spain	393,184	6.01%	06/26/2017	
Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte	Tübingen,Germany	369,559	5.65%	07/02/2016	

Natural persons:

Name	Registered office	Holdings	As percent of total shares	Date	Comments
Dr. Olaf Marx	Munich, Germany	655,305	20.94%	08/08/2017	Notification due to attribution of the holdings of La Munza Inversiones SICAV, S.A., Madrid, Spain, and Mr. Alois Berger due to the granting of a voting and representation proxy until the annual general meeting
Alois Berger	Ottobeuren, Germany	210,000	3.21%	06/08/2017	

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 more than 1% of SKW Metallurgie shares both at June 30, 2017 and at the time of preparation of the present consolidated financial statements.

Munich (Germany), August 30, 2017

SKW Stahl-Metallurgie Holding AG

The Executive Board

Dr. Kay Michel

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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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Report for the
1st Half Year 2017

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