Report for the
1st Half Year 2018

Interim Group Management Report of SKW Stahl-Metallurgie Holding AG for the First Half of 2018

Insolvency proceedings with debtor in possession were opened for the parent company of the SKW Stahl-Metallurgie Holding AG Group on December 1, 2017. In accordance with German law, the 2017 financial year was ended on November 30, 2017 due to the opening of insolvency proceedings on December 1, 2017, pursuant to Section 155 InsO (Insolvency Code) and a shortened financial year, which is determining for the reporting of SKW Stahl-Metallurgie Holding AG, was established. For this reason, the semiannual consolidated financial statements were prepared at the reporting date of May 31, 2018. Because the prior 2017 financial year was a shortened financial year (January 1 to November 30, 2017), the comparability of the figures is limited.

1. General economic conditions

1.1. Appreciable recovery of world trade and rising commodity prices

In its published forecasts (www.imf.org), the International Monetary Fund (IMF) predicts that the global economy will grow at a rate of 3.9% in 2018, thereby confirming the forecast published in April 2018. Therefore, the global economy will grow at a somewhat more dynamic rate in 2018 than in 2017 (+3.8%). As before, albeit with somewhat less influence than assumed in April 2017, the realization of this forecast will also depend on the further pro-cyclical economic policy course of the new U.S. administration. Among the advanced economies, major exporters like Germany, Japan, the United Kingdom and the United States contributed strongly to the recovery of exports. Among emerging-market and developing countries, the recovery and thus growth were especially strong in Asia, i.e. primarily in China and India.

Consumer price inflation has increased visibly with the rise of oil prices since September 2017. Core rates of inflation, from which fuel and food prices are excluded, remain generally low. Therefore, a recovery appears to be underway in the advanced economies, while emerging-market and developing countries appear to bottom out.

It is therefore assumed that global financing conditions will remain generally accommodative in the years 2018-2019. A further loosening of lending conditions, especially in the euro currency zone, will probably offset the expected, gradual increase in long-term interest rates, while the normalization of monetary policy in the United States and the United Kingdom will probably not have greater effects on the volatility of financial markets. According to the baseline forecast, most emerging-market countries will encounter accommodative financing conditions, i.e. higher base interest rates accompanied by prolonged risk appetite on the part of investors, with the exception of some vulnerable economies.

The IMF sees growth of +2.4% in the Eurozone in 2018, slightly higher than the level of 2017 (+2.3%). It expects the US economy to expand by a faster rate of +2.9%. The aggregate growth of all the industrialized nations is still estimated at 2.5%. Developing and emerging-market countries together are expected to achieve a growth rate of 4.9% in 2018, with China's economic output growing by 6.6%, modestly slower than in the preceding years. While India can expect its economic growth to accelerate (+7.4%), subdued growth of 2.3% is predicted for Brazil; however, this latter forecast is dependent on the recent developments surrounding the Presidential election in October, although it is expected that the forecast will prove largely true over the course of the coming months. Russia's economic output is expected to grow modestly by 1.7% over the strengthened prior year.

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.

Demand in the worldwide steel market has recovered. According to the World Steel Association, global crude steel production rose by 6.6% in the first half of 2018 compared to the corresponding prior-year period, reaching 729.2 million tons as of May 31, 2018. In addition, the capacity utilization rate in the crude steel production of the countries tracked by the industry association was 77.7% in May 2018, that being 4.2 percentage points higher than in May 2017. In the international steel markets, moreover, prices remained on a comparably high level as a result of anti-dumping measures in various regions and the higher, extremely volatile iron ore, coking coal and steel scrap prices in the first six months of the past financial year. This global positive trend was also supported by local demand in China and by the concurrent announcement of the Chinese government to achieve already in 2018 the capacity reduction of 150 million tons that had been announced for 2020. 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; this problem is not solved simply because capacity utilization is at a higher level now than in the prior-year period.

The import tariffs imposed by the United States in late March are a new source of uncertainty involving considerable risks because larger quantities could be diverted from the sealed-off U.S. market to the EU. After another extension, the EU was exempted from the measures until June 1, 2018. In the absence of an agreement is reached in the negotiations with the United States, the 25% import tariffs will also take effect on steel imports from the EU as of June 1, 2018. In response to the steel import tariffs imposed by U.S. President Trump, the EU Commission commenced a safeguard clause procedure on March 26, 2018 in order to avert damage to the EU steel industry from trade diversions. The interactive effects on transatlantic steel good flows are difficult to assess at the present time; therefore, a conclusive assessment of this subject can only be made after the third quarter of 2018.

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 (especially Ukraine and India). 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 positive. Rising prices for steel products since the beginning of the year have enabled steel manufacturers to widen their margins, which was urgently needed. Furthermore, the key indicators for the first half of 2018 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. Because the announced capacity adjustments are primarily intended to meet environmental targets, they mainly affect inefficient and obsolete small and micro production sites; this initiated reduction of heavy industry in favor of new technologies is considered to be challenging because the employees must be maintained. 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 2018.

→ In the United States (including Canada), the key market for the SKW Metallurgie Group, steel production has stabilized since the end of the third quarter of 2016. Steel production has recovered in terms of both production quantities and capacity utilization rates. Production in the first half of 2018 rose by 2.7% from the level of the prior-year comparison period. In addition to 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, the rise of steel production continues (+2.4%). 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. These tendencies will presumably be exacerbated by the trade dispute and the failed negotiations with the United States, leading to the imposition of 25% import tariffs on steel imports from the EU, beginning on June 1, 2018.

- The development of Brazil's steel industry (+1.4%) in the first months of financial year 2018 was more stable 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 precisely in 2017. There were justifiable doubts concerning the sustainability of this trend at the time because economists had little hope that the Brazilian economy would recover anytime soon. The uncertainties surrounding the country's future economic policy direction resulting from the upcoming Presidential election have begun to manifest in the form of strikes and the recent proposals of the biggest Brazilian unions and their "action plan against the social and economic crisis."

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 fading. Consequently, steel production is 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.

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 vs. primary metallurgy or electro-steel plant). A shift toward electro-steel plant production would have a greater impact on the primary metallurgy business (desulfurization). Such a shift can be observed only in parts of the North America region at this time.

2. Structure of the Group

2.1. Consolidation group

There was a small change in the consolidation group of the SKW Metallurgie Group between November 30, 2017 and May 31, 2018.

One company was removed from the consolidation group following the liquidation and cancellation of SKW Stahl-Metallurgie Holding AG's direct investment in SKW Hong Kong Co. Ltd., with its registered head office in Hong Kong, China, effective March 2, 2018.

Therefore, the SKW Metallurgie Group, the highest-level parent company of which is SKW Stahl-Metallurgie Holding AG, comprised six (PY: seven) fully consolidated direct subsidiaries of SKW Stahl-Metallurgie Holding AG (including three in Germany and one each in France, the United States and Brazil) and 10 fully consolidated indirect subsidiaries (excluding the three inactive indirect subsidiaries in Germany) at May 31, 2018. As part of the SKW Group's portfolio streamlining measures, one indirect subsidiary in Germany is being liquidated.

At May 31, 2018, 19 companies – as compared to 20 companies previously – (18 subsidiaries and the parent company) in 13 countries were fully consolidated in the SKW Metallurgie Group.

The Indian company Jamipol Ltd., in which the SKW Metallurgie Group still holds a roughly one-third equity interest, is still accounted for at equity in the SKW Metallurgie Group.

2.2. Shareholder structure

The Group's shareholder structure underwent only one notable, lasting change in the reporting period and afterwards:

Following the notifications of June 13, 2018, one relating to the attribution of the holdings of MCGM GmbH, and the others by Messrs. Jochen Beutgen, Olaf Gantenbrink and Johannes Ebert, who notified the company that they have entered into a pool agreement with La Muza Inversiones SICAV, S.A., 17.45% of voting rights are mutually attributed to this pool; La Muza Inversiones SICAV, S.A. itself holds 9.93% of voting rights directly.

Otherwise, the Company is not aware of any shareholder holding 10% or more of the Company's share capital compared to the annual financial statements at November 30, 2017.

2.3. Annual general meeting 2018

Based on the authorization pursuant to Section 122 (3) AktG granted by resolution of the Munich Local Court of March 19, 2018, MCGM GmbH, Munich, and La Muza Inversiones SICAV, S.A., Madrid, Spain, convened as shareholders an annual general meeting of the company on Friday, May 18, 2018 at 10:00 a.m. in Kaufmanns Casino, Odeonsplatz 6, Galeriestraße entrance, 80539 Munich.

The following resolutions were adopted at this meeting in terms of content, and not necessarily in the order given:

1. Removal of the former Supervisory Board members Dr. Peter Ramsauer, Mr. Volker Stegmann and Mr. Titus Weinheimer;

2. Reduction of the Supervisory Board to four members and amendment of Article 7 para. 1 of the Articles of Incorporation;

3. Special election of a Supervisory Board member, Dr. Eva Nase, lawyer and partner with P+P Pöllath + Partners, Munich, Germany, who resigned her seat already with effect as of July 10, 2018, and special election of Mr. Estanislao Urquijo to the Supervisory Board;

4. Amendment of the Articles of Incorporation with respect to majority requirements for resolutions of the annual general meeting (Article 7 para. 4, Article 17 para. 4 of the Articles of Incorporation);

5. Non-ratification of the actions of the Executive Board in financial year 2016 (Dr. Kay Michel);

6. Ratification of the actions of Supervisory Board members in financial year 2016, with the exception of the Supervisory Board members who were removed or resigned in this annual general meeting .

3. Company and business developments

3.1. Revenues well above expectations in the first half of 2018

In a by and large appreciably improved market environment, which is still, however, characterized by global surplus capacities and trade policy uncertainties, the SKW Metallurgie Group generated very good revenues of EUR 139.8 million in the first half of financial year 2018 (H1-2017: EUR 137.3 million). The strong performance of the U.S. market made an especially important contribution to this result.

The total revenues generated by the SKW Metallurgie Group to date surpass the expectations for the first six months of 2018 and prospectively also those for the full year 2018 (full-year guidance including the contribution of the non-core business of Quab Chemicals: revenues of at least EUR 270 million).

3.2. Gross profit margin crimped by rising commodity costs, falls below 30%

Particularly in a raw materials-intensive business like that of the SKW Metallurgie Group, revenue numbers 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 2018, the gross profit margin of 28.3% – calculated on the basis of a EUR 99.8 million cost of materials (PY: EUR 94.1 million) – was less than the prior-period figure (31.9%) for the first time in years. This negative change resulted from the currently massive pressure on prices in the customer industries of SKW and the considerably higher commodity costs, which can be concurrently passed on to customers only to a limited degree. Nonetheless, SKW was able to successfully offset the decrease in some high-margin product lines with efficiency gains, especially for standard products, and therefore largely stabilize the gross profit margin.

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

The SKW Metallurgie Group generated total operating income of EUR 2.7 million in the first six months of 2018 (after EUR 6.2 million in the comparison period) and incurred other operating expenses of EUR 22.3 million (after EUR 23.5 million in the comparison period).

In the current 2018 financial year, other operating income has been influenced by foreign currency gains; in the 2017 comparison period, it had been influenced by two events, which were already described in detail in the “Events after the reporting date” section of the 2016 Annual Report: the 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), and the final settlement of the legal disputes with the former Executive Board members with respect to the 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 in the amount of approximately EUR 2.0 million, which was recognized in profit or loss. Otherwise, this item was affected by foreign currency income in the amount of EUR 1.3 million (PY: EUR 1.1 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 1.5 million (PY: EUR 2.1 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 16.9 million were reduced by 11.1% from the prior-period comparison figure (EUR 19.0 million), despite the 4.8% increase in the production quantity. Adjusted for the production quantity, i.e. assuming the same production quantity as in the comparison period, personnel expenses would have been EUR 16.1 million, and therefore EUR 2.9 million less than the prior-period 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 2018 was EUR 3.7 million, which was less than the prior-period comparison figure (H1-2017: EUR 7.9 million) despite the stringent implementation of the internal continuous improvement program ReMaKe. 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 were recognized in other operating income in 2017, and for restructuring expenses (H1-2018: EUR 2.5 million; H1-2017: EUR 1.8 million), as well as the unrealized currency effects included in other operating income and expenses (H1-2018: EUR -0.3 million; H1-2017: EUR -1.0 million), the EBITDA for the first half of 2018 comes to EUR 6.5 million (H1-2017: EUR 6.8 million).

Thus, this adjusted operating indicator largely confirms the original full-year guidance of an adjusted EBITDA of approximately EUR 15 million. The company is sticking with this forecast despite the recent developments in the trade dispute between the United States on the one hand and EU and China on the other hand, as well as the unrest in the Brazilian market; assuming a sustainably positive development of basic operating conditions, SKW continues to expect a substantial increase in operating EBITDA in the second half of 2018. That being said, the goals stated in the guidance for 2018 appear to be considerably more ambitious now than at the start of the financial year.

3.5. Good start in the first half and turnaround achieved

The depreciation and amortization of the SKW Metallurgie Group amounted to EUR 2.9 million in the first six months of 2018 (H1-2017 EUR 3.0 million). This amount of depreciation and amortization is considered to be a good indicator of the regular depreciation and amortization that can be expected in the coming periods. The results of the SKW Metallurgie Group were not reduced by impairments either in the prior six-month comparison period or in the current reporting period.

Mathematically, the financial result for the first six months of 2018 amounted to EUR -2.6 million (comparison value H1-2017: EUR -5.6 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 no longer within EBITDA, but within the net interest income/expenses of EUR 0.2 million (PY: EUR -2.9 million). Adjusted for this effect, net interest expenses amounted to EUR -2.8 million, largely unchanged from the prior-period comparison figure (EUR -2.7 million).

The tax expenses of the SKW Metallurgie Group amounted to EUR -0.6 million in the first half of 2018 (H1-2017: EUR 1.0 million). However, the SKW Metallurgie Group is still affected by the different earnings reported in different tax jurisdictions. For example, expenses incurred in Germany and Russia cannot be set off against income in the United States 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. In addition, it should be mentioned that the change in U.S. federal tax rates has given rise to (non-cash) income from the remeasurement of tax provisions in the amount of roughly EUR 1.3 million in the current financial year 2018.

The consolidated net loss after taxes of the consolidation group relevant for the present semiannual financial statements amounted to EUR -1.2 million (PY: EUR -1.7 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 EBITDA adjustments described above and the effects of unrealized exchange rate changes within intragroup financing on net interest expenses. After making these adjustments, the adjusted consolidated period result for the first half of 2018 comes to EUR 1.6 million, as compared to the prior-period figure of EUR 0.1 million.

The consolidated net loss is attributable in part to the shareholders of SKW Stahl-Metallurgie Holding AG and in part to the non-controlling interests in those subsidiaries in which the SKW Metallurgie Group is not the sole shareholder.

Fully consolidated Group companies are the following:

→ 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 0.1 million of the consolidated net loss is attributable to these non-controlling interests (H1-2017: EUR 0.5 million). An amount of EUR -1.3 million is attributable to the shareholders of SKW Stahl-Metallurgie Holding AG in the reporting period. The number of SKW Metallurgie shares outstanding was unchanged at 6,544,930. This yields consolidated earnings per share (EPS) of EUR -0.20 (PY: EUR -0.33).

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 statement of financial position at May 31, 2018 compared to November 30, 2017:

ASSETS IN EUR'000	05/31/2018	11/30/2017
Noncurrent assets	51,235	50,119
Current assets	96,673	90,261
thereof cash and cash equivalents	12,242	11,234
Total assets	**147,908**	**140,380**

EQUITY AND LIABILITIES IN EUR'000	05/31/2018	11/30/2017
Equity	-9,518	-5,997
Noncurrent liabilities	14,458	15,806
thereof noncurrent financial liabilities	2,891	3,031
Current liabilities	142,968	130,571
thereof current financial liabilities	91,001	87,400
Total equity and liabilities	**147,908**	**140,380**

In the first six months of 2018, the total assets of the SKW Metallurgie Group increased modestly by 5.4%, from EUR 140.4 million to EUR 147.9 million.

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 only rose by EUR 5.2 million, from EUR 37.8 million to EUR 43.0 million, due to the 4.8% production quantity increase and the accompanying 1.9% revenue increase. This corresponds to an increase of 13.8% and reflects the currently difficult situation that credit insurers in particular are very restrictive and restrained in the granting of credit limits for operating companies not directly affected by the insolvency, causing above-average capital tie-up within the Group in order to prefinance the growing volume of business, due to the planned insolvency proceedings of the parent company; this situation can realistically be expected to ease at the earliest only after the conclusion of the planned insolvency proceedings.

→ Cash and cash equivalents rose by EUR 1.0 million, from EUR 11.2 million to EUR 12.2 million.

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

→ Accumulated other comprehensive income declined by EUR 2.7 million, from EUR -74.0 million to EUR -76.5 million; the main reasons for this decrease were the negative consolidated net loss attributable to the majority shareholders in the amount of EUR 1.3 million, the negative currency translation changes recognized in equity (EUR 1.3 million) and the adjustment of actuarial losses from previous reductions of the actuarial interest rate that resulted from the settlement with the former Executive Board Chairwoman.

→ The Other obligations increased by EUR 3.9 million, from EUR 14.4 million to EUR 19.3 million, largely due to the interest expenses of the major creditor Speyside Equity to be accrued in connection with the planned insolvency proceedings.

→ The pension obligations rose by EUR 0.2 million, from EUR 7.8 million to EUR 8.0 million; this balance sheet item pertains to Group companies in Germany, France and to a lesser extent in Japan.

→ Trade payables rose by EUR 5.7 million, from EUR 25.4 million to EUR 31.1 million, mostly due to the higher revenues and the associated increase in purchased materials, as well as the higher necessary prefinancing expenses compared to the prior year.

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 May 31, 2018 and later.

Moreover, the above-mentioned indicators do not include pension commitments of EUR 8.0 million (November 30, 2017: EUR 7.8 million).

The net financial debt of the SKW Metallurgie Group rose modestly from EUR 79.2 million to EUR 81.7 million at May 31, 2018.

Besides the amount of net financial debt, the maturity is also significant: Both at the reporting date of May 31, 2018 and at the comparison date of November 30, 2017, the drawdowns under the loan agreement with the major creditor Speyside Equity, 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. Significantly positive cash flow

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

EUR'000s	12/01/2017-05/31/2018	01/01/-06/30/2017
Consolidated net income/loss	-1,238	-1,692
Gross cash flow	-368	-676
Cash inflow/outflow from operating activities	2,158	-1,676
Cash inflow/outflow from investing activities	-4,403	112
Cash inflow/outflow from financing activities	3,351	-1,903
Change in cash and cash equivalents[1]	-1,008	-3,876
Change in cash and cash equivalents at end of period[2]	12,242	10,918

Based on the negative consolidated net loss, the SKW Metallurgie Group generated a slightly negative gross cash flow (rounded EUR -0.4 million; H1-2017: EUR -0.7 million) due to significant cash-effective, non-recurring restructuring expenses of EUR 2.5 million (PY: EUR 1.8 million). The cash flow from operating activities (also known as net cash flow) indicates the cash flow generated in operating activities during the period under consideration. It is calculated as the balance of gross cash flow and changes in working capital (in the broader sense, understood here to mean the sum of lines 11 to 20 of the cash flow statement, or the difference of the sub-total lines 10 and 21 of the cash flow statement). These changes in working capital (in the broader sense) amounted to EUR 2.5 million (PY: EUR -1.0 million) in the reporting period. The higher cash inflow from working capital resulted in part from the circumstance that it was necessary to establish provisions for expenses related to the insolvency plan of the parent company, such as trustee and interest expenses, for the reporting period, which had a liquidity-relieving effect.

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

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 2018 (EUR 2.2 million) was considerably higher, by EUR 3.9 million, than the prior-period comparison figure (EUR -1.7 million).

Working capital (in the narrower sense) is composed of inventories, trade receivables and trade payables. The changes in these items led to a cash flow of EUR -4.9 million in the reporting period (H1-2017: EUR -3.5 million). Therefore, the cash flow resulting from changes in working capital (in the narrower sense) in the first half was EUR -1.4 million higher 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.

In the first half of 2018, 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 2018 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 0.8 million (PY: EUR 1.4 million), the operational cash flow from operating activities was again significantly positive.

At EUR -5.8 million, the cash outflow from investing activities was considerably higher than the prior-period comparison figure (EUR -1.9 million). This amount basically comprises maintenance investments, which were nearly unchanged from the comparison figure and were also on the level of depreciation and amortization, as well as renewal investments, which were jointly borne in South America in the amount of EUR 3.6 million in the first half of 2018 in conjunction with a major customer; the cash inflows from the sale of the property, plant and equipment of the U.S. specialty magnesium division of ESM Group Inc. in December 2017 are presented as an offsetting item. The cash flows from operating activities and from investing activities yield a free cash flow of EUR -2.2 million (PY: EUR -2.3 million).

4. Segment report

As part of the ReMaKe program, the SKW Metallurgie Group has played a stronger role in management of its operating entities 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 from one source.

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 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.

Additional details of the segment report are described in the following:

→ The segment report is organized by regions with respect to 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.

→ 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.

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

The 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), but 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 in 2017, 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:

- At EUR 66.0 million, the total revenues generated in the **“North America”** segment were slightly lower than the prior-period comparison figure of EUR 67.5 million. However, the corresponding segment EBITDA declined substantially by 34.4%, from EUR 3.2 million (H1-2017) to EUR 2.1 million (H1-2018). This decline was in line with expectations and reflects the situation of a (temporarily) changed product mix. On the one hand, the desulfurization business was extremely robust and surpassed expectations in the reporting period, although it is a relatively low-margin business: and on the other hand, the cored wire business, which had generated considerably higher margins in the past, suffered from the worsened market conditions.

→ In the **"Europe and Asia"** segment, the total first half revenues of EUR 47.5 million were significantly higher than the prior-period comparison figure (EUR 42.5 million). The corresponding segment EBITDA rose modestly from EUR 1.5 million in the prior period to EUR 1.6 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 high degree. In addition, margin pressure was successfully countered by means of dynamically adjusting the product range.

→ Unfortunately, the business performance of the **"South America"** segment is completely dependent on macroeconomic conditions in Brazil and has suffered from the uncertainties surrounding the upcoming Presidential election in October 2018. This segment generated total revenues of EUR 11.4 million in the first six months of 2018, that being 16.8% less than the prior-period comparison figure (H1-2017: EUR 13.7 million). The EBITDA declined disproportionately from EUR 2.7 million (H1-2017) to EUR 1.9 million (H1-2018). The reason for this highly regrettable development, which occurred in spite of comparable advantages and an advantageous exchange rate, was the completely unclear future direction of Brazilian economic policy, along with sector developments in the steel market resulting from the economic policy measures of the U.S. government.

→ 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 15.6 million in the first half of 2018 (H1 2017: EUR 14.9 million) and an EBITDA of EUR 0.8 million (H1-2017: EUR 0.4 million). The earnings increase in 2018 was mainly caused by the non-recurrence of the additional costs incurred in 2017 in relation to 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 in the comparison period, in line with the EBITDA for the first half of 2018. In interpreting these numbers, it should be remembered that most of the restructuring expenses for the overall Group (H1-2018: EUR 2.5 million; H1-2017: EUR 1.8 million) were incurred by the Group parent company.

5. Further optimization of the number of employees

As always, well trained and highly motivated employees are an important prerequisite for the business success of the SKW Metallurgie Group. As a result of restructuring measures, optimization measures and adjustments to reflect the current state of the steel industry, the worldwide number of employees at May 31, 2018 was 569, little changed from the 559 employees at June 30, 2017; compared to November 30, 2017, the number of employees increased by 16 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. Again in 2017, the Group updated the risk inventory conducted and updated at the end of 2017 in the form of quarterly risk reports. These updates did not lead to any significant changes or new risks compared to the 2017 Risk Report. Nonetheless, we wish to point out the following risks again:

Risks of debt financing

The financial situation of the SKW Metallurgie Group was initially stabilized in January 2015 by the conclusion of a syndicated loan agreement for up to EUR 86 million, with a term lasting until the beginning of 2018. This syndicated loan agreement covers 100% (aside from overdraft facilities) of the borrowing needs of SKW Stahl-Metallurgie Holding AG and some of the borrowing needs of the SKW Metallurgie Group. Due to the steel crisis that commenced during the course of 2015, supplementary agreements (particularly including waivers) were necessary as a result of the non-fulfillment of financial covenants stipulated in the loan agreement. In the first quarter of 2017, a standstill agreement was concluded, which confirmed that the syndicated loan agreement will continue to be available as a financing instrument until January 31, 2018, with only market-customary adjustments. At the same time, a fundamental financial restructuring of the SKW Metallurgie Group was agreed in order to assure the Group's financing also beyond January 31, 2018.

After Speyside S.à.r.l. purchased the receivables under the syndicated loan agreement, it entered into a "Restructuring Loan Agreement" with the Company on December 14, 2017 for an amount of approx. EUR 35 million, plus an amount corresponding to the total interest accrued under the syndicated loan agreement in the time from October 17, 2017 to the date of effect of the restructuring loan agreement. The restructuring loan agreement is subject to the condition precedent of the legally effective confirmation of the plan and the purchase of all new shares, and thus 100% of the Company's shares, by Speyside S.à.r.l. Thanks to this restructuring loan agreement, the Company will have sufficient liquidity during the term of the agreement, i.e. until December 31, 2020, to settle all liabilities expected to fall due during this time period (including the liabilities toward the insolvency creditors to be settled during this time under the terms of this insolvency plan). Therefore, the implementation of this insolvency plan will ensure the future financing of the Company.

Nonetheless, it must be pointed out that the implementation of any future plan is fraught with uncertainties. Parts of the planned financial restructuring measures depend on the cooperation of third parties (shareholders, other stakeholders and investors), which cannot be influenced by SKW Stahl-Metallurgie Holding AG. In the event of a significant negative variance from the planned business performance and/or the unsuccessful implementation of operational measures under the ReMaKe program and/or a failure of the financial restructuring 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. Thus, the successful restructuring of the SKW Metallurgie Group and the separate company SKW Stahl-Metallurgie Holding AG is mainly dependent on the successful implementation of the insolvency plan. A foreseeable or actual failure of the insolvency plan would entail the extraordinarily high risk that the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG would no longer be assured, making it unavoidable for the company to enter into regular insolvency proceedings.

Positive going-concern forecast for SKW no longer applicable as of September 12, 2017

On September 8, 2017, SKW Stahl-Metallurgie Holding AG received applications for additions to the agenda of the annual general meeting planned for October 10, 2017 in accordance with Section 122 (2) AktG. The applicant was MCGM GmbH, Munich, together with other shareholders of the Company. The Managing Director of MCGM GmbH, Dr. Olaf Marx, is also a member of the Supervisory Board of SKW Stahl-Metallurgie Holding AG. The Executive Board and all other five Supervisory Board members of the Company emphatically reject the applications for additions to the agenda. In particular, the Executive Board and all other five Supervisory Board members of the Company consider the cash capital increase proposed in the request for agenda additions to be unsuitable for achieving the urgently necessary, extensive reduction of the debt of SKW Stahl-Metallurgie Holding AG and the SKW Group.

Considering that the applicants filing the request for agenda additions together hold more than 10% of the Company's share capital and the presence at past annual general meetings has only been around 35%, and the fact that the registration status for the annual general meeting scheduled for August 31, 2017 (which was not held) was even lower, the Executive Board had to assume that the applicants would vote against the management's proposals for the debt-to-equity swap by Speyside Equity, and therefore that the proposed financial restructuring resolutions would not receive the necessary three quarters' majority in the annual general meeting of October 10, 2017.

Consequently, the positive going-concern forecast for SKW Stahl-Metallurgie Holding AG is no longer applicable and the insolvency ground of over-indebtedness has taken effect. The Executive Board promptly undertook extensive efforts within the legally stipulated three-week period to permanently solve the over-indebtedness and thus prevent an application for insolvency proceedings.

Insolvency court grants SKW's application for protection against creditors and (provisional) debtor in possession

These efforts were ultimately unsuccessful because no viable and promising alternative offers for a financial restructuring of the Company could be found. Consequently, the Executive Board of SKW Stahl-Metallurgie Holding AG was forced to file an application for insolvency proceedings with debtor in possession with the competent Munich Local Court on September 27, 2017; as the competent insolvency court, the Munich Local Court appointed Dr. jur. Christian Gerloff, partner with the law firm Gerloff Liebler Rechtsanwälte in Munich, as the provisional trustee of SKW Stahl-Metallurgie Holding AG, and ordered provisional debtor in possession with protection from creditors on September 28, 2017.

As expected, the competent insolvency court opened insolvency proceedings against the assets of SKW Stahl-Metallurgie Holding AG on December 1, 2017. At the same time, the court appointed the attorney Dr. Christian Gerloff (Gerloff Liebler Rechtsanwälte, Munich) as the trustee.

As the competent insolvency court, the Munich Local Court also scheduled a meeting for July 23, 2018 to discuss and vote on the insolvency plan.

These uncertainties related to financing and the planned insolvency proceedings, together with the current equity situation and the related credit rating of SKW Stahl-Metallurgie Group, could 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 May 31, 2018 compared to the statements made on opportunities and risks in the 2017 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 May 31, 2018 and before the time of preparation of the present interim report:

→ Action for declaratory judgment filed by the sole Executive Board member

At the request of shareholders, an annual general meeting of the Company was held on May 18, 2018, during which the appointment of a new Supervisory Board was resolved, among other things. After that, the Supervisory Board removed the sole Executive Board member Dr. Michel from his office for cause and concurrently terminated his employment contract without notice for cause, without specifying the cause in either case. In addition, the Chairman of the Supervisory Board, Dr. Marx, was appointed as a member of the Company's Executive Board for one year as the deputy of the sole Executive Board member, pursuant to Section 105 (2) AktG. Subsequently, the trustee, Dr. Gerloff, refused to grant his required consent for the removal from office and the appointment pursuant to Section 276a InsO. Thereupon, the Executive Board asked the Supervisory Board to state that both the removal from office and the termination of the employment agreement are thus invalid. Because the Supervisory Board did not respond to that request, the Executive Board, represented by the Supervisory Board, sued the Company for a declaratory judgment to this effect before the Munich I Regional Court on June 22, 2018. The court has scheduled an oral hearing for October 11, 2018.

→ Action for a preliminary injunction against the sole Executive Board member

On June 4, 2018, the newly appointed Supervisory Board (as explained above) asked the Executive Board to present certain documents related to the purchase of receivables by Speyside or the Company's consent for this. Because the Executive Board refused this request with reference to the reduced authorities of the Supervisory Board under insolvency proceedings pursuant to Section 276a InsO, the Company, represented by the Supervisory Board, obtained a preliminary injunction to this effect against the Executive Board by date of June 11, 2018. The Executive Board appealed this judgment. After a detailed discussion of the factual and legal circumstances at the hearing on 12 July 2018, it was decided to announce a decision on 31 July 2018.

→ Insolvency Plan: Discussion and voting meeting

On July 4, 2018, the Munich Local Court – Insolvency Court – scheduled a meeting to review subsequently registered claims, discuss the insolvency plan and the voting rights of the creditors, and then vote on the insolvency plan, for July 23, 2018, 10:00 a.m., Munich Local Court – Insolvency Court– Infanteriestraße 5, 80797 Munich, court room 202, 2nd floor.

In accordance with Section 235 (3) sentence 4 InsO, SKW Stahl-Metallurgie Holding AG as the "debtor" has published the insolvency plan, together with annexes, presented to and deposited with the competent insolvency court for the parties' inspection pursuant to Section 234 InsO. This information is digitally viewable and retrievable at https://www.skw-steel.com/de/ir-press/insolvenzplan.html.

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

As usual, the Forecast Report for the year 2018, which was published in the 2017 Annual Report, referred to the full year 2018 and therefore did not include explicit statements concerning the first six months of 2018. Subject to certain assumptions and definitions, the forecast called for revenues of approximately EUR 270 million and an adjusted EBITDA of at least EUR 15 million in the core business for the full year 2018.

The actually reported values confirm the full-year forecasts made at the time insofar as the revenues generated in the reporting period were nearly proportionate to the full-year revenue forecast and the adjusted EBITDA generated in the first six months of 2018 was slightly less than the forecast, for seasonal reasons.

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 the operating EBITDA forecast in the guidance for financial year 2018 appears to be attainable. Contrary to the view expressed with confidence in the first quarter of 2018, however, it should be emphasized that the attainment of the 2018 guidance appears to be extremely ambitious as a result of geopolitical developments such as the trade war between the United States of America on the one hand and the People's Republic of China and the European Union on the other hand, as well as the economic-policy uncertainties surrounding the Presidential elections in the key market of Brazil, and it is most probable that the full-year result will be modestly higher than the corresponding prior-year.

To achieve this necessary 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.

Notwithstanding the foregoing statements, it should be emphasized that financial year 2017 was ended as a result of the conclusion of the currently provisional insolvency proceedings with debtor in possession and the related opening of the current insolvency plan proceedings with debtor in possession, and therefore the 2017 financial year ended as a shortened financial year on November 30, 2017. The same will happen in the 2018 reporting period if the insolvency proceedings are concluded in fewer than 12 months; in such a case, a new shortened fiscal year would be established.

9. Disclosure pursuant to Section 37w (5) WpHG

The present semiannual financial report and semiannual management report were not reviewed by an independent auditor.

10. 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), July 26, 2018

SKW Stahl-Metallurgie Holding AG
Executive Board

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

Interim Financial Statements (condensed) of SKW Stahl-Metallurgie Holding AG for the first half of 2018

Consolidated Income Statement From December 1, 2017 to May 31, 2018 and From March 1 to May 31, 2018

EUR thousand	Q1-2 2018	Q1-2 2017*	Q2 2018	Q2 2017*
Revenues	139,833	137,262	74,869	67,094
Change in inventories of finished and semi-finished goods	-657	524	45	-268
Internal production capitalized	-12	33	0	17
Other operating income	2,867	6,249	1,532	1,101
Cost of materials	-99,782	-94,074	-54,311	-46,014
Personnel expenses	-16,870	-19,040	-8,549	-9,519
Other operating expenses	-22,269	-23,495	-11,247	-11,666
Income from associated companies	560	473	468	249
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**3,670**	**7,932**	**2,807**	**994**
Depreciation, amortization and impairments of intangible assets and property, plant and equipment	-2,882	-2,972	-1,489	-1,848
Earnings before interest and taxes (EBIT)	**788**	**4,960**	**1,318**	**-854**
Interest income and similar income	147	153	66	58
Interest expenses and similar expenses	-2,988	-2,864	-1,552	-1,497
Other financial result	211	-2,928	1,144	-2,673
Earnings before taxes (EBT)	**-1,842**	**-679**	**976**	**-4,966**

* The prior-year values were adjusted to reflect the classification of SKW Quab as continuing operations.

Consolidated Income Statement From December 1, 2017 to May 31, 2018 and From March 1 to May 31, 2018

EUR thousand	Q1-2 2018	Q1-2 2017*	Q2 2018	Q2 2017*
→ Income taxes	604	-1,013	152	-145
Consolidated period net loss/ net income	**-1,238**	**-1,692**	**1,128**	**-5,111**
thereof attributable to shareholders of SKW Stahl-Metallurgie Holding AG	-1,283	-2,172	1,026	-5,267
thereof non-controlling interests	45	480	102	156
	-1,238	-1,692	1,128	-5,111
Consolidated earnings per share (EUR)**	**-0.20**	**-0.33**	**0.16**	**-0.80**

* The prior-year values were adjusted to reflect the classification of SKW Quab as continuing operations.

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

Statement of Comprehensive Income from December 1, 2017 to May 31, 2018 and from March 1 to May 31, 2018

EUR thousand	Q1 2018	Q1 2017*	Q1 2018	Q1 2017*
Consolidated period net loss/ net income	**-1,238**	**-1,692**	**1,129**	**-5,112**
Items that will not be subsequently reclassified to profit or loss				
Change in actuarial gains and losses from defined benefit pension commitments	-163	298	-163	-127
Other comprehensive income from associated companies, not recognized in profit or loss	15	-6	18	4
Items that will be subsequently reclassified to profit or loss				
Other comprehensive income/ loss from associated companies, to be subsequently recognized in profit or loss	0	18	0	0
Currency differences	-1,868	-677	-1,101	-1,423
Other comprehensive income	-2,016	-367	-1,246	-1,546
Total comprehensive income	**-3,254**	**-2,059**	**-117**	**-6,658**
thereof attributable to shareholders of SKW Stahl-Metallurgie Holding AG	**-2,708**	**-2,031**	**243**	**-6,236**
thereof attributable to non-controlling interests	-546	-28	-360	-422
thereof attributable to non-controlling interests	-26	1,264	-422	865

* The prior-year values were adjusted to reflect the classification of SKW Quab as continuing operations.

Consolidated Balance Sheet at May 31, 2018

ASSETS in EUR thusand	05/31/2018	11/30/2017
Noncurrent assets		
Intangible assets	10,811	11,433
Property, plant and equipment	32,800	31,239
Interests in associated companies	5,296	5,061
Other noncurrent assets	989	981
Deferred tax assets	1,339	1,405
Total noncurrent assets	**51,235**	**50,119**
Current assets		
Inventories	35,690	32,353
Trade receivables	38,365	30,746
Income tax refund claims	4,977	6,317
Other current assets	5,399	6,610
Cash and cash equivalents	12,242	11,234
Assets held for sale	0	3,001
Total current assets	**96,673**	**90,261**
Total assets	**147.908**	**140,380**

EQUITY AND LIABILITIES in EUR thousand	05/31/2018	11/30/2017
Equity		
Subscribed capital	6,545	6,545
Additional paid-in capital	50,741	50,741
Accumulated other comprehensive income	-76,500	-73,792
	-19,214	**-16,506**
Non-controlling interests	9,696	10,509
Total equity	**-9,518**	**-5,997**
Noncurrent liabilities		
Pension obligations	7,971	7,805
Noncurrent liabilities from finance leases	27	50
Noncurrent financial liabilities	2,891	3,031
Deferred tax liabilities	3,347	4,705
Other noncurrent liabilities	222	215
Total noncurrent liabilities	**14,458**	**15,806**
Current liabilities		
Other current provisions	1,159	1,381
Current liabilities from finance leases	46	46
Current financial liabilities	91,001	87,400
Trade payables	31,099	25,363
Income tax liabilities	384	840
Other current liabilities	19,279	15,425
Liabilities related to assets held for sale	0	116
Total current liabilities	**142,968**	**130,571**
Total equity and liabilities	**147.908**	**140,380**

Consolidated Statement of Changes in Equity at May 31, 2018

EUR thousand	Subscribed capital	Share premium	Other comprehensive income	Consolidated equity of majority shareholders	Non-controlling interests	Total equity
Balance at 01/01/2017	**6,545**	**50,741**	**-73,112**	**-15,826**	**10,382**	**-5.444**
Consolidated period net loss	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 income 2017	**0**	**0**	**-2,031**	**-2,031**	**-28**	**-2.059**
Dividend payments	0	0	0	0	-571	-571
Balance at 06/30/2017	**6,545**	**50,741**	**-75,143**	**-17,857**	**9,783**	**-8.074**
Balance at 12/01/2018	**6,545**	**50,741**	**-73,792**	**-16,506**	**10,509**	**-5.997**
Consolidated period net income	0	0	-1,283	-1,283	45	-1.238
Currency differences	0	0	-1,277	-1,277	-591	-1.868
Income and expenses recognized in equity (excluding currency differences)	0	0	-148	-148	0	-148
Total comprehensive income 2018	**0**	**0**	**-2,708**	**-2,708**	**-546**	**-3.254**
Dividend payments	0	0	0	0	-267	-267
Balance at 05/31/2018	**6,545**	**50,741**	**-76,500**	**-19,214**	**9,696**	**-9.518**

Consolidated Cash Flow Statement for the period fromDecember 1, 2017 to May 31, 2018

EUR thousand		Q2/2018	Q2/2017*
1.	Consolidated period net loss	-1,238	-1,692
2.	Write-ups/ write-downs of noncurrent assets	2,882	2,972
3.	Increase/ decrease in pension provisions	96	-1,941
4.	Result from associated companies	-560	-473
5.	Result from disposal of noncurrent assets	-61	-1,890
6.	Result from currency translation	267	3,854
7.	Result from deferred taxes	-1,182	-53
8.	Expenses from value adjustments of inventories and receivables	-3	57
9.	Other non-cash expenses and income	-569	-1,510
10.	**Gross cash flow**	**-368**	**-676**
	Changes in working capital		
11.	Increase/ decrease in current provisions	118	-328
12.	Increase/ decrease in inventories (after down payments received)	-3,057	-7,039
13.	Increase/ decrease in trade receivables	-7,547	3,207
14.	Increase/ decrease in other receivables	1	1
15.	Increase/ decrease in income tax assets	1,107	134
16.	Increase/ decrease in other assets	774	912
17.	Increase/ decrease in trade payables	5,693	345
18.	Increase/ decrease in other liabilities	-514	295
19.	Increase/ decrease in other equity and liabilities	5,547	734
20.	Currency translation effects in operating activities	404	-523
21.	**Cash inflow (+)/ outflow (-) from operating activities**	**2,158**	**-1,676**

* The prior-year figures were adjusted to reflect the classification of SKW Quab as continuing operations.

Consolidated Cash Flow Statement
for the period from December 1, 2017 to May 31, 2018

EUR thousand	Q2/2018	Q2/2017*
22. Cash inflows from disposal of noncurrent assets	1,357	163
23. Cash outflows for investments in noncurrent assets	-5,760	-1,925
24. Cash inflows from the sale of equity interests	0	1,874
25. Cash inflow (+)/ outflow (-) from investing activities	**-4,403**	**112**
26. Decrease in liabilities from finance leases	-23	-23
27. Profit distributions to non-controlling interests	-267	-571
28. Cash inflows from the borrowing of bank liabilities	3,807	6,830
29. Cash outflows for the repayment of bank liabilities	-166	-8,139
30. Cash inflow (+)/ outflow (-) from financing activities	**3,351**	**-1,903**
31. Cash and cash equivalents at beginning of period	11,234	14,794
32. Change in cash and cash equivalents	1,106	-3,467
33. Currency translation of cash and cash equivalents	-98	-409
34. Cash and cash equivalents at end of period	**12,242**	**10,918**

* The prior-year figures were adjusted to reflect the classification of SKW Quab as continuing operations.

Notes to the condensed consolidated interim financial statements at May 31, 2018

A. Basic accounting principles

SKW Stahl-Metallurgie Holding AG prepared the condensed consolidated interim financial statements at May 31, 2018 pursuant to Section 37y No. 2 in conjunction with Section 37w WpHG (German Securities Trading Act) in accordance with International Accounting Standard (IAS) 34. The same accounting methods applied in the preparation of the consolidated financial statements at November 30, 2017 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 and had been adopted by the European Commission for application in the European Union at the time of preparation of the condensed consolidated interim financial statements. To the knowledge and belief of the Management, the present semiannual financial report includes all customary, regularly applicable adjustments required to ensure an appropriate presentation of the Group's financial position, cash flows and financial performance. The consolidated accounting principles and methods applied were explained in the notes to the consolidated financial statements at November 30, 2017 (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 November 30, 2017. 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 2018, 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 at November 30, 2017.

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 at November 30, 2017. The same accounting and computation methods applied in the 2017 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.

B. Group of consolidated companies and consolidation methods

At the reporting date, the group of consolidated companies consisted of 20 (previously: 21) fully consolidated companies and one company accounted for by the equity method.

The change compared to November 30, 2017 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 November 30, 2017.

The consolidation methods applied have not changed since the 2017 consolidated financial statements.

C. Financial position, cash flows, and financial performance

Statement of financial position

The total assets of the SKW Metallurgie Group amounted to EUR 147,908 thousand at May 31, 2018 (November 30, 2017: EUR 140,380 thousand). This was EUR 7,528 thousand higher than the prior-period comparison figure.

On the assets side, this change mainly reflected the EUR 7,619 thousand increase in trade receivables, the EUR 3,337 thousand increase in inventories, and the EUR 1,008 thousand increase in cash and cash equivalents.

As in the prior year, noncurrent assets mainly consisted of property, plant and equipment in the amount of EUR 32,800 thousand, or 22.2% of total assets (November 30, 2017: EUR 31,239 thousand or 22.3% of total assets), and intangible assets in the amount of EUR 10,811 thousand, or 7.3% of total assets (November 30, 2017: EUR 11,433 thousand or 8.1% of total assets).

As in the comparison period, the main items of current assets are inventories in the amount of EUR 35,690 thousand, or 24.1% of total assets (November 30, 2017: EUR 32,353 thousand or 23.0% of total assets) and trade receivables in the amount of EUR 38,365 thousand, or 25.9% of total assets (November 30, 2017: EUR 30,746 thousand or 21.9% of total assets).

Equity (including non-controlling interests) declined from the prior-period comparison figure and amounted to EUR -9,518 thousand at the reporting date (November 30, 2017: EUR -5,997 thousand). Thus, the equity ratio worsened from -4.3% of total assets compared to the prior period to -6.4% in the reporting period.

Compared to the prior-period figure, there was a modest increase in pension obligations by EUR 166 thousand to EUR 7,971 thousand (November 30, 2017: EUR 7,805 thousand), mainly due to the adjustment of the actuarial interest rate for pensions to bring it in line with the market interest rate. The actuarial interest rate was modestly lower than the corresponding rate at November 30, 2017. The resulting actuarial loss was recognized directly in equity, not in profit or loss.

Compared to November 30, 2017, trade payables rose by EUR 5,736 thousand to EUR 31,099 thousand in the first half of 2018 (EUR 25,363 thousand). The sum of inventories and trade receivables less trade payables increased by EUR 5,220 thousand, from EUR 37,736 thousand to EUR 42,956 thousand, particularly due to the increase in receivables. In addition, the current financial liabilities of EUR 91,001 thousand were EUR 3,601 thousand higher than the prior-period comparison figure (November 30, 2017: EUR 87,400 thousand).

Consequently, the sum of noncurrent and current liabilities rose in total by EUR 11,049 thousand, from EUR 146,377 thousand at November 30, 2017 to EUR 157,426 thousand at May 31, 2018.

Additional information about financial instruments

In this section, we provide a comprehensive overview of the significance of financial instruments for the SKW Metallurgie Group and provide additional information about items of the statement of financial position that include financial instruments.

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

	05/31/2018		11/30/2017	
EUR'000	Carrying amount	Carrying amount	Carrying amount	Market value
Financial assets				
Loans and receivables	39,363	39,363	33,506	33,506
Financial assets held for trading	0	0	96	96
Derivative financial instruments (with hedge accounting)	52	52	0	0
Financial liabilities				
Financial liabilities at amortized cost	127,397	127,397	116,363	116,363
Derivative financial instruments not designated as hedging instruments (no hedge accounting)	60	60	122	122

The classifications of individual asset items according to the valuation categories and classes at May 31, 2018 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 05/31/2018	Amortized cost	Amortized cost	Fair value with no effect on profit or loss	Fair value through profit or loss	Fair value 05/31/2018
Other assets	998	998	0	0	0	998
Trade receivables	38,365	38,365	0	0	0	38,365
Derivatives not designated as hedging instruments (no hedge accounting)	52	0	0	0	52	52

The corresponding classifications at November 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 11/30/2017	Amortized cost	Amortized cost	Fair value with no effect on profit or loss	Fair value through profit or loss	Fair value 11/30/2017
Other assets	2,760	2,760	0	0	0	2,760
Trade receivables	30,746	30,746	0	0	0	30,746
Derivatives not designated as hedging instruments (no hedge accounting)	96	0	0	0	96	96

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

The classifications of individual liabilities according to the valuation categories and classes at May 31, 2018 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 05/31/2018	Amortized cost	Fair value	Fair value 05/31/2018
Financial liabilities	93,892	93,892	0	93,892
Trade payables (excluding PoC)	30,776	30,776	0	30,776
Other liabilities	2,729	2,729	0	2,729
Derivatives not designated as hedging instruments (no hedge accounting)	60	0	60	60

The corresponding classifications at November 30, 2017 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 11/30/2017	Amortized cost	Fair value	Fair value 11/30/2017
Financial liabilities	90,431	90,431	0	90,431
Trade payables (excluding PoC)	25,150	25,150	0	25,150
Other liabilities	781	781	0	781
Derivatives not designated as hedging instruments (no hedge accounting)	122	0	122	122

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

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

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

The classifications of financial assets and liabilities measured at market value according to the three levels of the fair value hierarchy at May 31, 2018 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	52	0	52
Financial liabilities measured at market value				
Derivative financial instruments	0	60	0	60

The comparison values at November 30, 2017 were as follows:

EUR'000	Level 1	Level 2	Level 3	Total
Financial assets measured at market value				
Derivative financial instruments	0	96	0	96
Financial liabilities measured at market value				
Derivative financial instruments	0	122	0	122

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 139,833 thousand in the first half of 2018, reflecting a moderate increase of EUR 2,571 thousand or 1.9% over the comparison figure (EUR 137,262 thousand). The revenue increase over the comparison figure resulted mainly from higher demand for the company's products among steel producers. The significantly higher increase in material costs by EUR 5,708 or 6.1% can be attributed to the generally higher procurement prices.

Consequently, the gross profit, defined as the sum of revenues, changes in inventory, internal production capitalized, and material costs, decreased by EUR 4,363 thousand, from EUR 43,745 thousand in the comparison figure to EUR 39,382 thousand in the reporting period. At 28.2%, the gross margin – defined as the ratio of gross profit to revenues – was likewise lower than the prior-period comparison figure (31.9%).

The EUR 3,382 thousand decrease in other operating income to EUR 2,867 thousand in the reporting period (PY: EUR 6,249 thousand) resulted from the non-recurring effects included in the prior-period comparison figure, such as 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 comparison period between the company and its former Executive Board members.

The currency translation gains presented within other operating income in the amount of EUR 1,683 thousand (PY: EUR 1,515 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 -1,880 thousand in the first half of 2018 (PY: EUR -2,516 thousand). Netting with the currency translation gains yields a negative net currency translation effect of EUR -197 thousand in the reporting period, as compared to a negative net currency translation effect of EUR -1,001 thousand in the comparison period.

The personnel expenses of EUR -16,870 thousand were less than the prior-period comparison figure (EUR -19.040 thousand).

The other operating expenses of EUR -22,269 thousand were EUR -1,226 thousand less than the prior-period comparison figure (EUR -23,495 thousand). This decrease resulted in part from exchange rate effects, but particularly also from the EUR -483 thousand increase in outbound freight, which rose to EUR -6,606 thousand (PY: EUR -6,123 thousand), and the EUR -172 thousand increase in legal and consulting expenses, which rose to EUR -3,834 thousand (PY: EUR -3,662 thousand).

The financial result of EUR -2,630 thousand generated in the first half 2018 was EUR -3,009 thousand higher than the prior-period figure (EUR -5,639 thousand). The other financial result included expenses and income from currency translation differences in the amount of EUR 177 thousand in the reporting period and EUR -2,928 thousand in the comparison period. Barring these currency translation effects, the net balance of interest expenses and income would have been EUR -2,807 thousand in the reporting period and EUR -2,711 thousand in the comparison period.

The consolidated net loss for the first half of 2018 amounted to EUR -1,238 thousand, as compared to a consolidated net loss of EUR -1,692 thousand in the comparison period. The share of the consolidated result attributable to non-controlling interests was EUR 45 thousand in the reporting period, as compared to EUR 481 thousand in the prior-period comparison period. The difference between the consolidated result in both periods (EUR 454 thousand) is mainly attributable to the lower gross margin (EUR -4,363 thousand), the improved other financial result (EUR 3,139 thousand), and the improved tax result (EUR 1,617 thousand).

Statement of cash flows

The consolidated net loss for the first half of 2018 amounted to EUR -1,238 thousand (comparison period: EUR -1,692 thousand). The gross cash flow of EUR -368 thousand in the reporting period was higher than the prior-period figure of EUR -676 thousand.

The SKW Metallurgie Group Working generated a cash inflow in working capital of EUR 2,526 thousand in the first half of 2018 (PY: cash outflow of EUR -1,000 thousand). Therefore, the SKW Metallurgie Group generated a cash inflow from operating activities of EUR 2,158 thousand, as compared to a cash outflow from operating activities of EUR 1,676 thousand in the comparison period.

The cash outflow from current investing activities amounted to EUR -4,403 thousand in the reporting period, which was considerably higher than the comparison-period amount (cash inflow of EUR -1,763 thousand) after adjusting 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 SKW Metallurgie Group generated a cash inflow of EUR 3,351 thousand from financing activities in the reporting period (PY: cash outflow of EUR -1,903 thousand). The borrowings (cash inflows) resulted in part from the use of overdraft facilities to finance day-to-day operations and in part from the borrowing of loans to finance investments.

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

→ Interest payments of EUR -318 thousand (PY: EUR -901 thousand)

→ Income taxes paid of EUR -300 thousand (PY: EUR -974 thousand)

→ Income tax refunds of EUR 284 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 the 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 this segment. 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:

12/2017-05/2018 in EUR'000	North America	Europe and Asia	South America	Other operating segments	Other non-operating segments and holding	Consolidation	Group
Revenues							
External revenues	65,867	47,214	11,350	15,402	0	0	139,833
Internal revenues	135	305	0	156	0	-596	0
Total revenues	**66,001**	**47,519**	**11,350**	**15,558**	**0**	**-596**	**139,833**
Income from associated companies	-	-	-	-	560	-	560
EBITDA	**2,060**	**1,633**	**1,929**	**758**	**-2,890**	**180**	**3,670**
Depreciation and amortization	-978	-527	-478	-716	-75	0	-2,772
Impairments	-8	0	-81	-19	0	0	-108
EBIT	**1,074**	**1,106**	**1,370**	**23**	**-2,965**	**180**	**788**
Dividends from subsidiaries	0	0	0	0	615	-615	0
Profit transfer	0	0	0	638	-638	0	0
Interest income	0	5	142	0	1,340	-1,340	147
Interest expenses	-1,361	-2	-882	-228	-3,992	3,477	-2,988
Other financial result	-785	778	0	2,278	4,907	-6,967	211
Earnings before taxes	**-1,072**	**1,887**	**630**	**2,711**	**-733**	**-5,265**	**-1,842**
Income taxes							604
Consolidated period net loss							**-1,238**
Balance sheet at 05/31/2018							
Assets							
Segment assets	62,019	40,737	27,305	27,410	81,485	-96,344	142,612
Shares in associated companies	-	-	-	-	5,296	-	5,296
Group assets							**147,908**
Liabilities							
Segment liabilities	63,291	20,936	13,101	17,388	77,039	-34,329	157,426
Consolidated liabilities							**157,426**
Acquisitions of property, plant and equipment and intangible assets 12/2017-05/2018	**798**	**592**	**4,193**	**133**	**0**	**0**	**5,716**

The prior-period segment information is 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	67,353	41,441	13,719	14,749	0	0	137,262
Internal revenues	105	1,031	0	164	0	-1,300	0
Total revenues	**67,458**	**42,472**	**13,719**	**14,913**	**0**	**-1,300**	**137,262**
Income from associated companies	-	-	-	473	-	-	473
EBITDA	**3,175**	**1,471**	**2,739**	**-4**	**621**	**-70**	**7,932**
Depreciation and amortization	-809	-619	-631	-750	-79	0	-2,888
Impairments	0	0	-84	0	0	0	-84
EBIT	**2,366**	**852**	**2,024**	**-754**	**542**	**-70**	**4,960**
Dividends from subsidiaries	0	0	0	0	6,284	6,284	0
Profit transfer	0	0	0	302	-302	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	**305**	**1,347**	**2,092**	**-587**	**3,648**	**-7,484**	**-679**
Income taxes							-1,013
Consolidated period net income							**-1,692**
Balance sheet at 06/30/2017							
Assets							
Segment assets	57,709	35,793	25,803	27,763	61,414	-77,370	131,022
Shares in associated companies	-	-	-	5,555	-	-	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 01-06/2015	**647**	**368**	**313**	**570**	**8**	**0**	**1,906**

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 2017.

F. Contingent assets and liabilities

No significant changes occurred in the contingent assets and liabilities in the reporting period compared to the 2017 consolidated financial statements.

G. Important events after the reporting date

The following transactions and events of particular importance for the SKW Metallurgie Group became known after the close of the reporting period on May 31, 2018 and before the time of preparation of the present interim report:

→ Action for declaratory judgment filed by the sole Executive Board member

At the request of shareholders, an annual general meeting of the Company was held on May 18, 2018, during which the appointment of a new Supervisory Board was resolved, among other things. After that, the Supervisory Board removed the sole Executive Board member Dr. Michel from his office for cause and concurrently terminated his employment contract without notice for cause, without specifying the cause in either case. In addition, the Chairman of the Supervisory Board, Dr. Marx, was appointed as a member of the Company's Executive Board for one year as the deputy of the sole Executive Board member, pursuant to Section 105 (2) AktG. Subsequently, the trustee, Dr. Gerloff, refused to grant his required consent for the removal from office and the appointment pursuant to Section 276a InsO. Thereupon, the Executive Board asked the Supervisory Board to state that both the removal from office and the termination of the employment agreement are thus invalid. Because the Supervisory Board did not respond to that request, the Executive Board, represented by the Supervisory Board, sued the Company for a declaratory judgment to this effect before the Munich I Regional Court on June 22, 2018. The court has scheduled an oral hearing for October 11, 2018.

→ Action for a preliminary injunction against the sole Executive Board member

On June 4, 2018, the newly appointed Supervisory Board (as explained above) asked the Executive Board to present certain documents related to the purchase of receivables by Speyside or the Company's consent for this. Because the Executive Board refused this request with reference to the reduced authorities of the Supervisory Board under insolvency proceedings pursuant to Section 276a InsO, the Company, represented by the Supervisory Board, obtained a preliminary injunction to this effect against the Executive Board by date of June 11, 2018. The Executive Board appealed this judgment. After a detailed discussion of the factual and legal circumstances at the hearing on 12 July 2018, it was decided to announce a decision on 31 July 2018.

→ Insolvency Plan: Discussion and voting meeting

On July 4, 2018, the Munich Local Court – Insolvency Court – scheduled a meeting to review subsequently registered claims, discuss the insolvency plan and the voting rights of the creditors, and then vote on the insolvency plan, for July 23, 2018, 10:00 a.m., Munich Local Court – Insolvency Court– Infanteriestraße 5, 80797 Munich, court room 202, 2nd floor.

In accordance with Section 235 (3) sentence 4 InsO, SKW Stahl-Metallurgie Holding AG as the "debtor" has published the insolvency plan, together with annexes, presented to and deposited with the competent insolvency court for the parties' inspection pursuant to Section 234 InsO. This information is digitally viewable and retrievable at https://www.skw-steel.com/de/ir-press/insolvenzplan.html.

H. Shareholder structure

The following holdings of SKW Metallurgie shares were subject to the notification requirement of the Securities Trading Act (WpHG) at May 31, 2018 (i.e. 3% or moreof total voting rights):

Artificial persons:

Name	Registered head office	Holding	Holding equals	Date	Comments
Baden-Württem-bergische Ver-sorgungsanstalt für Ärzte, Zahnärzte und Tierärzte	Tübingen, Germany	369,559	5.65%	July 2, 2016	Additional notification of LBBW Asset Management due to attribution
Alois Berger	Germany	210,000	3.21%	June 8, 2017	
La Muza Inversiones	Madrid, Spain	393,184	9.93%	June 26, 2017	Additional notification of Banco Sabadell due to attribution

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 May 31, 2018 and at the time of preparation of the present consolidated financial statements (due to the attribution of the voting rights of MCGM GmbH to Dr. Olaf Marx).

Munich (Germany), July 26, 2018

SKW Stahl-Metallurgie Holding AG
The Executive Board

Dr. Kay Michel
CEO

Notes to the statements

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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 2018

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